

107th Annual Report
Swiss National Bank
2014

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



107th Annual Report
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2014

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Ladies and Gentlemen

The Swiss National Bank (SNB) conducts the country's monetary policy as an independent central bank, on the basis of the Federal Constitution and the National Bank Act (NBA). The first part of this *107th 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. The financial report includes the business report and the annual financial statements of the SNB, which contain the balance sheet, income statement and profit distribution, changes in equity, cash flow statement and notes.

The year 2014 presented a mixed picture. The global economy continued to recover, although growth was generally weak and unevenly distributed. Whereas the US economy increasingly gathered momentum, growth in Japan and Europe was sluggish. Geopolitical tensions related to the conflict between Russia and Ukraine, as well as the slow progress in implementing reforms, inhibited investment activity in Europe. While China continued to be a mainstay of the global economy, many other emerging economies registered only modest growth. Inflation rates around the world declined as a result of the sharp drop in oil prices.

The Swiss economy performed well in a difficult environment. At 2.0%, the expansion in real GDP in 2014 was slightly greater than in the previous year, and unemployment decreased slightly. The mortgage and real estate markets remained a focus of attention for the SNB. Acting on the SNB's proposal, the Federal Council increased the sectoral countercyclical capital buffer in January 2014. Together with the other measures taken to dampen momentum on the mortgage and real estate markets, the increase in the capital buffer helped to stabilise lending growth and ensured that imbalances on these markets hardly increased thereafter.

Monetary policy in 2014 operated in an environment in which inflation was close to zero and interest rates were very low. Against this background, the minimum exchange rate of CHF 1.20 per euro continued to be the SNB's key instrument for ensuring appropriate monetary conditions in Switzerland. Over the course of the year, there were growing signs of a divergence between the monetary policies in the US and the euro area. While the minimum exchange rate did not come under pressure initially, this changed in the final weeks of the year. On 18 December, the SNB announced the introduction of negative interest on sight deposit account balances held at the SNB by banks and other financial market participants. The aim was to increase the interest rate differential to other currencies, thereby rendering Swiss franc investments less attractive and supporting the enforcement of the minimum exchange rate. In addition, the SNB expanded the target range for the three-month Libor into negative territory.

After a brief period of calm, pressure on the minimum exchange rate increased very significantly during the first half of January 2015. Overall, the euro weakened once again, and it became evident that the minimum exchange rate could only be enforced through ongoing intervention in the foreign exchange market. This would have resulted in an uncontrollable expansion of the balance sheet, to a level that might even have been several times Swiss GDP. At an extraordinary monetary policy meeting, the SNB concluded that a minimum exchange rate of CHF 1.20 per euro had become unsustainable, and was therefore no longer justified from a monetary policy point of view. On 15 January 2015, the SNB therefore decided to discontinue the EUR/CHF minimum exchange rate. At the same time, it lowered the interest rate on sight deposit account balances to -0.75% as of 22 January 2015, and moved the target range for the three-month Libor downwards by 0.5 percentage points to between -1.25% and -0.25% .

Had it maintained the minimum exchange rate, the exceptional increase in foreign currency purchases would have meant that the SNB risked losing control of its balance sheet and, as a result, of monetary conditions, in the long term. Against the backdrop of changing international conditions, enforcement of the minimum exchange rate was no longer justifiable. Had the SNB maintained the EUR/CHF minimum exchange rate despite this realisation, it would have put the long-term fulfilment of its mandate at risk.

Once the SNB had reached this conclusion, the timing of the discontinuation had to be addressed. Swift action was necessary. Waiting and continuing to intervene in the foreign exchange market would have increased pressure on the minimum exchange rate because of the speculation that would have ensued. In the event of a later discontinuation of the minimum exchange rate following substantial further interventions, the turmoil on the financial markets would not have been any less severe and the losses on the SNB's balance sheet would have been exorbitant. The costs of maintaining the minimum exchange rate of CHF 1.20 per euro would have been out of all proportion to the benefits for the economy.

In 2014, the annual financial statements of the SNB closed with a profit of CHF 38.3 billion, following a loss of CHF 9.1 billion in the previous year. The positive annual result was mainly attributable to profits of CHF 34.5 billion on foreign currency positions and CHF 4.1 billion on gold holdings.

The allocation to the provisions for currency reserves amounts to CHF 2.0 billion. The balancing of the negative distribution reserve absorbs CHF 6.8 billion of the profit. With the remaining profit, a dividend of CHF 1.5 million shall be paid to the shareholders, and the ordinary distribution of profits of CHF 1 billion shall be made to the Confederation and the cantons. Thus, the distribution reserve after appropriation of profit would amount to CHF 28.5 billion. According to the profit distribution agreement between the Federal Department of Finance (FDF) and the SNB, the distribution to the Confederation and the cantons is increased if the distribution reserve exceeds CHF 10 billion after profit appropriation. The SNB and the FDF agreed to a supplementary distribution of CHF 1 billion, so that the total distribution to the Confederation and the cantons for 2014 will amount to CHF 2 billion.

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

Berne and Zurich, 27 February 2015

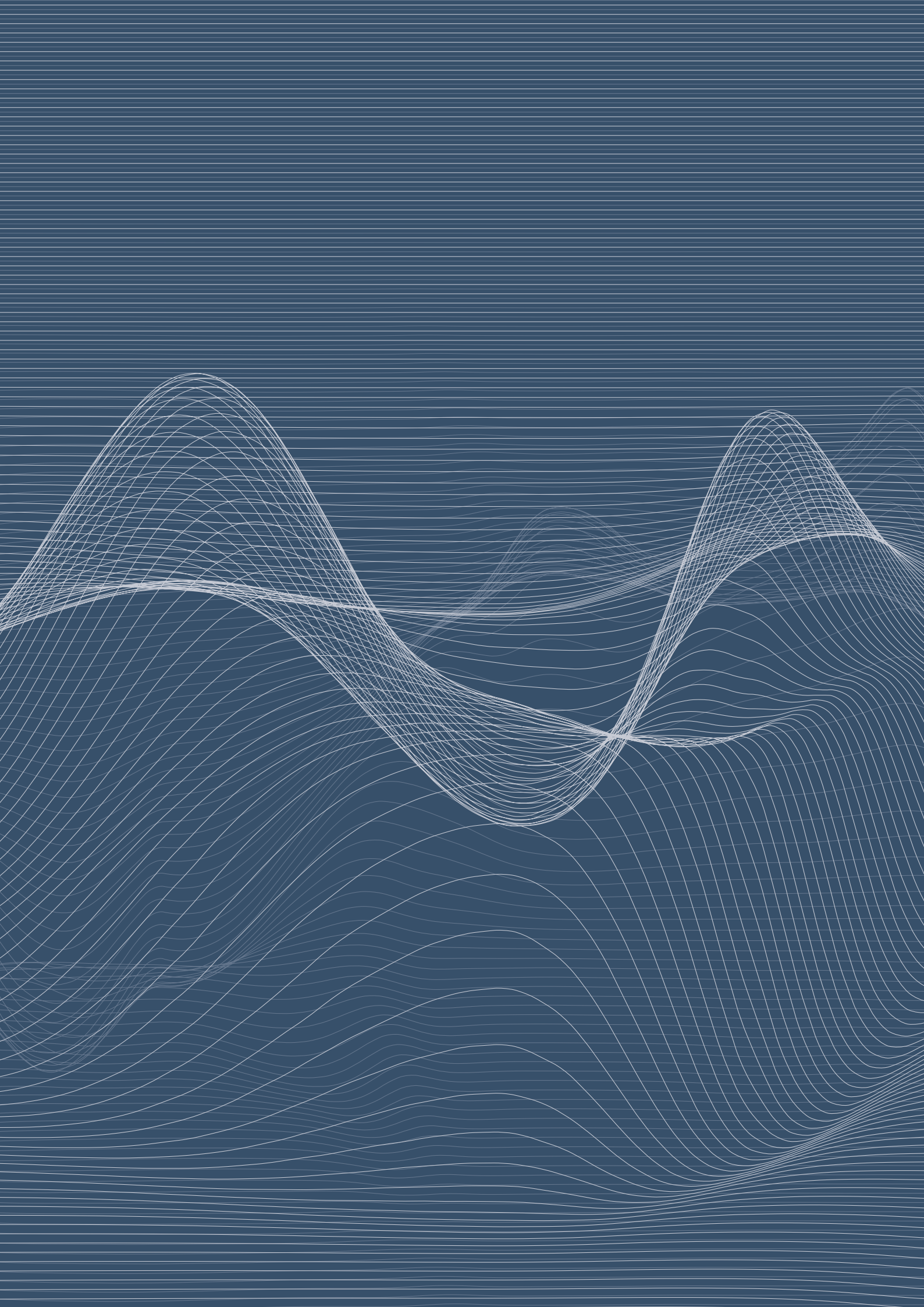


JEAN STUDER
President of the Bank Council



THOMAS J. JORDAN
Chairman of the Governing Board

<p>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.</p>	<p>Mandate</p>
<p>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 year. Deflation – i.e. a protracted decline in the price level – also breaches the objective of price stability. A medium-term inflation forecast serves as the main indicator for monetary policy decisions.</p>	<p>Price stability</p>
<p>The SNB implements its monetary policy by steering liquidity on the money market and by setting interest rates on its sight deposit accounts, thereby influencing the general interest rate level. The three-month Swiss franc Libor serves as its reference interest rate. From September 2011 to January 2015, a minimum exchange rate of CHF 1.20 per euro also applied.</p>	<p>Implementation of monetary policy</p>
<p>The SNB is entrusted with the note-issuing privilege. It supplies the Swiss economy with banknotes commensurate with demand for payment purposes. These banknotes meet high standards with respect to quality and security. It is also charged by the Confederation with the task of coin distribution.</p>	<p>Cash supply and distribution</p>
<p>Regarding cashless payment transactions, the SNB is involved in the area of payments between participants of the Swiss Interbank Clearing (SIC) system. The payments are settled in SIC via sight deposit accounts held with the SNB.</p>	<p>Cashless payment transactions</p>
<p>The SNB manages the currency reserves, the most important component of its assets. It requires currency reserves to ensure that it has room for manoeuvre in its monetary policy at all times. The level of the currency reserves is largely dictated by the implementation of monetary policy.</p>	<p>Asset management</p>
<p>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 financial market infrastructures.</p>	<p>Financial system stability</p>
<p>Together with the federal authorities, the SNB participates in international monetary cooperation and provides technical assistance.</p>	<p>International monetary cooperation</p>
<p>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 custody of securities and carries out foreign exchange transactions.</p>	<p>Banker to the Confederation</p>
<p>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.</p>	<p>Statistics</p>



Accountability report

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On 26 March 2015, the Governing Board of the Swiss National Bank (SNB) submitted its accountability report for 2014 to the Federal Assembly in accordance with art. 7 para. 2 of the National Bank Act (NBA). The report 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 the following elements: a definition of price stability, a medium-term conditional inflation forecast, and a target range for a benchmark interest rate – the three-month Libor (London Interbank Offered Rate). From 6 September 2011 to 15 January 2015, a minimum rate of CHF 1.20 per euro also applied.

The global economy continued to recover in 2014, although growth was generally weak and unevenly distributed. While momentum in the US economy increasingly gathered pace, growth in Japan and Europe was sluggish. Investor confidence was held back by the repercussions of the conflict between Russia and Ukraine, but also the hesitant implementation of reforms in Europe. Although China continued to be a pillar of the global economy, many other emerging economies registered only modest growth. Inflation rates around the world declined further as a result of the sharp drop in the oil price.

The Swiss economy continued to record stable growth. At 2.0%, the expansion in real GDP in 2014 was slightly greater than in the previous year, and unemployment decreased slightly. While exports gained momentum, growth in private consumption and investment was moderate.

The national consumer price index, having declined slightly in the previous year, remained unchanged in 2014. Thanks to the stabilising influence of the minimum exchange rate, the prices of imported goods decreased less sharply than in the two preceding years.

With domestic interest rates at zero, the minimum exchange rate of CHF 1.20 per euro continued to be the SNB's key instrument for ensuring appropriate monetary conditions. An appreciation of the Swiss franc would have endangered price stability and weighed perceptibly on the economy. However, the enforcement of the minimum exchange rate became increasingly difficult in the wake of developments in the international environment. In the course of 2014, there were growing signs of a divergence between the monetary policies in the US and the euro area. While the minimum exchange rate did not come under pressure initially, this changed in the final weeks of the year.

At its quarterly monetary policy assessments, the SNB confirmed its determination to continue enforcing the minimum exchange rate and to take further measures as required. After the monetary policy assessment in December, the EUR/CHF minimum exchange rate came under increasing pressure. The SNB had to intervene substantially in order to enforce the minimum exchange rate, and on 18 December announced the introduction of an interest rate of -0.25% on sight deposit account balances held by banks and other financial market participants at the SNB. It also expanded the target range of the three-month Libor from $0.0-0.25\%$ to between -0.75% and 0.25% , thereby extending it to its usual width of 1 percentage point. As a result, the three-month Libor moved into negative territory.

After a brief period of calm, pressure on the minimum exchange rate increased very significantly during the first half of January 2015. Overall, the euro weakened once again, and it became evident that the minimum exchange rate could only be enforced through ongoing intervention in the foreign exchange market. This would have resulted in an uncontrollable expansion of the balance sheet, to a level that might even have been several times Swiss GDP. At an extraordinary monetary policy meeting, the SNB concluded that a minimum exchange rate of CHF 1.20 per euro had become unsustainable, and was therefore no longer justified from a monetary policy point of view. On 15 January 2015, the SNB therefore decided to discontinue the EUR/CHF minimum exchange rate. At the same time, it lowered the target range for the three-month Libor by a further 0.5 percentage points, to between -1.25% and -0.25% , and adjusted the negative interest rate on sight deposit account balances to -0.75% as of 22 January 2015.

Had it maintained the minimum exchange rate, the exceptional increase in foreign currency purchases would have meant that the SNB risked losing control of its balance sheet and, as a result, of monetary conditions, in the long term. Against the backdrop of changing international conditions, enforcement of the minimum exchange rate was no longer justifiable. Had the SNB maintained the EUR/CHF minimum exchange rate despite this realisation, it would have put the long-term fulfilment of its mandate at risk.

Once the SNB had reached this conclusion, the timing of the discontinuation had to be addressed. Swift action was necessary. Waiting and continuing to intervene in the foreign exchange market would have increased pressure on the minimum exchange rate because of the speculation that would have ensued. In the event of a later discontinuation of the minimum exchange rate following substantial further interventions, the turmoil on the financial markets would not have been any less severe and the losses on the SNB's balance sheet would have been exorbitant. The costs of maintaining the minimum exchange rate of CHF 1.20 per euro would have been out of all proportion to the benefits for the economy.

On 30 November, Swiss voters and cantons firmly rejected the popular initiative 'Save our Swiss gold (gold initiative)'. The result meant that the conditions enabling the SNB to pursue a monetary policy geared towards price stability remained intact.

In 2014, the SNB continued to gear its monetary policy instruments to enforcing the minimum exchange rate of CHF 1.20 per euro. The end of the year saw the exchange rate against the euro near the minimum rate, prompting the SNB to purchase foreign currencies in its defence, which it had not done in the previous year. Purchases made towards the end of the year amounted to a total of CHF 25.8 billion.

Aside from purchasing foreign currency to enforce the minimum exchange rate, in 2014 the SNB did not implement any monetary policy-related open market operations. The money market remained amply supplied with Swiss franc liquidity. Interest rates remained close to zero, and the rate for secured call money was mostly just below zero. Following the announcement of the introduction of negative interest on sight deposit account balances at the SNB, the three-month Swiss franc Libor fell at the end of 2014 to a new low of -0.07% .

Credible benchmarks for interest and exchange rates are important for the functioning of financial markets and the implementation of monetary policy. In 2014, the SNB supported national and international reform efforts to strengthen the reference interest rates and contributed to the corresponding reports of the Financial Stability Board.

At the beginning of May, SIX Repo Ltd commenced operating a new trading platform for the Swiss money market. The SNB has since conducted its open market operations, transactions under the standing facilities, as well as auctions on behalf of the Confederation via this platform, which by the end of 2014 already had more than 150 domestic and foreign participants. SIX's new platform is an infrastructure for money market transactions that integrates trading, securities settlements and payment processing. The SNB tested the platform in 2014 using repo transactions and SNB Bills.

In 2014, the SNB redefined its criteria for collateral eligible for SNB repos to take account of the Confederation's revised Liquidity Ordinance. The redefinition ensures that all collateral eligible for SNB repos also fulfils the criteria for high-quality liquid assets according to the revised Liquidity Ordinance. This improves the quality of collateral eligible for SNB repos and creates the conditions necessary to ensure the continued existence of a liquid repo market in Swiss francs under the new liquidity provisions. The amended collateral policy and the revised Liquidity Ordinance both entered into force on 1 January 2015.

Banknote circulation in 2014 amounted to an average of CHF 62.7 billion. This once again constituted a significant rise, although the increase was weaker than in previous years. Work on the new banknote series proceeded according to plan.

Cash supply and distribution

In 2014, the Swiss Interbank Clearing (SIC) payment system settled a daily average of approximately 1.7 million transactions totalling CHF 119 billion. Year-on-year, this represents a 2.1% rise in the number of transactions and a 6.3% decline in the value. Peak days saw up to 5.1 million transactions and turnovers of up to CHF 208 billion.

Cashless payment transactions

SIC is steered by the SNB, while the system is operated by SIX Interbank Clearing Ltd, a subsidiary of SIX Group. SIX is a joint undertaking of the Swiss banks, and covers key parts of the Swiss financial market infrastructure, the Swiss value chain. In 2014, SIX Repo Ltd and SIX Interbank Clearing Ltd were merged into the SIX Securities Services division. This move served to strengthen those elements of SIX's financial market infrastructure which are of particular importance to the SNB.

Asset management

At the end of 2014, the SNB's assets totalled CHF 561 billion, which was CHF 71 billion higher than a year earlier. The value of the currency reserves rose by CHF 64 billion to CHF 541 billion year-on-year. This was the result of both valuation gains and income on currency reserves, as well as year-end purchases of foreign currency to enforce the minimum exchange rate. No new investment categories or currencies were added in 2014. Mid-year, however, an agreement was concluded with China's central bank, allowing the SNB to purchase renminbi bonds equivalent to just over CHF 2 billion on the Chinese market. Such investments are planned for 2015. Furthermore, the SNB developed the necessary guidelines in order to exercise voting rights associated with equity investments.

Financial system stability

On 22 January 2014, the Federal Council, at the proposal of the SNB, increased the sectoral countercyclical capital buffer from 1% to 2% of risk-weighted positions secured by residential property in Switzerland. In so doing, it reacted to increased imbalances on the mortgage and real estate markets. With effect from 30 June 2014, banks were obliged to hold additional capital amounting to 2% of their associated risk-weighted positions.

In its *Financial Stability Report* of June 2014, the SNB observed that the capital situation of the Swiss big banks had further improved. It welcomed this development and recommended that the big banks continue to strengthen their resilience. The SNB still regarded risks in the mortgage and real estate markets as the most serious challenge to the stability of domestically focused banks.

The SNB was involved in reviewing the 'too big to fail' regulations. It participated in the group of experts appointed by the Federal Council for the further development of the financial market strategy, whose work included an evaluation of existing regulation in this area. Although the group's assessment of the Swiss approach compared with international standards was essentially positive, it recommended additional measures to improve the resilience of systemically important banks. The SNB supported the corresponding recommendations.

The SNB supported the Swiss Financial Market Supervisory Authority (FINMA) in an analysis to compare risk-weighted assets (RWA) for capital requirements according to both the model-based and the standardised approaches. The results will flow into the recommendations made by the group of experts for the further development of the financial market strategy. The SNB recommended that the banks examine how best to publish the results of the RWA analysis, with a view to increasing transparency with regard to their risks.

The recommendations by the group of experts and the SNB on increasing transparency with regards to the big banks' risks were in line with those of the International Monetary Fund (IMF). In evaluating the Swiss financial sector within the context of its Financial Sector Assessment Program (FSAP), the IMF recommended, for instance, a further reduction in the leverage ratio at big banks, and that Switzerland take the lead in terms of establishing transparency in the financial sector.

The Banking Act gives the SNB the authority to designate banks and bank functions as systemically important, following consultation with FINMA. After conducting the requisite assessment, the SNB designated the Raiffeisen Group as systemically important in June 2014. In the preceding two years, the SNB had similarly designated Credit Suisse Group, UBS and Zürcher Kantonalbank as systemically important.

As regards the oversight of systemically important financial market infrastructures, the SNB concentrated on implementing the National Bank Ordinance's minimum requirements, which were revised in 2013. The SNB began the process of determining systemically important business processes at SIX Interbank Clearing Ltd, SIX SIS Ltd and SIX x-clear Ltd.

The SNB participates in international monetary cooperation through its representation in various institutions and bodies, working in collaboration with the Confederation and FINMA in some areas. This involves, in particular, the IMF, the Bank for International Settlements (BIS), the Financial Stability Board (FSB) and the Organisation for Economic Co-operation and Development (OECD).

Given that the financial and sovereign debt crisis has not yet been overcome, IMF lending to members in economic difficulties remained at a high level in 2014.

**International monetary
cooperation**

Within the context of its Article IV consultations, the IMF regularly reviews the economic policies of its member countries and issues recommendations. In April 2014, the IMF Executive Board concluded its Article IV consultation with Switzerland. It confirmed that Switzerland continues to pursue a stability-oriented economic policy and that it has good growth prospects. It considered the main risks to be renewed upward pressure on the Swiss franc, developments on the mortgage and real estate markets, as well as the size of the banking sector.

In July 2014, the SNB and the People's Bank of China concluded a bilateral swap agreement enabling both central banks to purchase and repurchase renminbi and Swiss francs, up to a limit of CNY 150 billion, or CHF 21 billion.

Banking services for the Confederation

The SNB provides the Confederation with banking services. Details of the services and the remuneration are laid down in a joint agreement. In 2014, the agreement was revised and converted into a framework agreement.

In 2014, on behalf of and for the account of the Confederation, the SNB issued money market debt register claims by auction amounting to CHF 35.2 billion and bonds amounting to CHF 5.3 billion. Since May 2014, these have been issued via the new SIX trading platform. The SNB also carried out roughly 94,000 payments in Swiss francs and approximately 26,000 payments in foreign currencies on behalf of 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 so doing, it works with federal government bodies, FINMA, authorities from other countries and international organisations.

Since 2014, Switzerland's balance of payments and international investment position have been compiled according to the IMF's new *Balance of Payments and International Investment Position Manual*. Additionally, the results of the expanded surveys on current accounts and financial accounts were incorporated in the published figures for the first time. Furthermore, a series of statistical publications were totally revised to take account of the revised accounting guidelines for banks, securities dealers, financial groups and financial conglomerates. At the end of December 2014, reporting institutions submitted data for the revised surveys on cashless payment transactions for the first time. In addition, as of this date, the bank lending survey was extended and converted into a regular survey.

1.1 MANDATE AND MONETARY POLICY STRATEGY

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.

Constitutional and legal mandate

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. By leading to misallocations of labour and capital, they complicate decision-making by consumers and producers. They also result in income and wealth redistributions and put the economically weak at a disadvantage.

Significance of price stability

By seeking to keep prices stable, the SNB helps to create 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. As a small open economy, Switzerland is particularly exposed to temporary price fluctuations. The SNB cannot counteract these completely.

The SNB ensures price stability by using its monetary policy operations to influence the interest rate environment and align it with 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. In addition, they often lead to a weakening in the currency, which boosts export demand. The resulting shortage of production capacity causes the price level to rise. Conversely, high interest rates lead to a shortage in the supply of money and credit, often combined with currency appreciation, thereby holding back aggregate demand. The utilisation of production capacity falls, and the upward pressure on prices weakens.

Influencing the interest rate environment

Since Switzerland is strongly integrated in the global economy, the exchange rate has a substantial influence on production and the price level. Thus, interest rates and exchange rates jointly shape monetary conditions in the economy. Since the transition to flexible exchange rates in the 1970s, the SNB has not generally influenced the exchange rate directly, but rather managed monetary conditions initially through its monetary targets, and, as of 2000, by means of its interest rate policy.

Monetary policy at zero interest rates

If interest rates are close to zero and can hardly be lowered any further, a central bank must turn to other so-called unconventional measures if it wants to further ease its monetary policy. The most important unconventional measure taken by the SNB in recent years was to set a minimum exchange rate of CHF 1.20 per euro in September 2011, which applied until January 2015.

Monetary policy strategy

In its monetary policy strategy, the SNB sets out the manner in which it intends to fulfil its statutory mandate. The strategy consists of the following three elements: a definition of price stability, a conditional inflation forecast over the subsequent three years, and a target range for the reference interest rate – the three-month Swiss franc Libor (London Interbank Offered Rate). From 6 September 2011 to 15 January 2015, the minimum exchange rate for the Swiss franc against the euro also applied.

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 this definition of price stability, the SNB seeks to achieve a slight rise over the medium term in the prices of goods and services consumed by an average Swiss household. The SNB thereby takes into account that it cannot precisely steer inflation and that the consumer price index tends to somewhat overstate inflation.

Conditional inflation forecast

The inflation forecast published quarterly by the SNB serves as the main indicator for the monetary policy decision and is a key element in communication. In focusing its monetary policy on an inflation forecast for the next three years, the SNB adopts a forward-looking stance and gives the public an indication of its long-term monetary policy intentions. Besides the inflation forecast, the SNB takes into consideration a large number of indicators of domestic and international economic and monetary developments and of financial stability for its monetary policy decisions.

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 in anticipated interest rate movements.

The SNB implements its monetary policy by fixing a target range for its reference interest rate, the three-month Swiss franc Libor. As a rule, it 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 gradually narrowed, and from August 2011, a target range of 0.0–0.25% applied. Following the introduction of negative interest on sight deposit account balances at the SNB on 18 December 2014, the National Bank expanded the target range to between –0.75% and 0.25%. It is thus back to its usual width of 1 percentage point.

Target range for three-month Libor

The Libor interest rates correspond to the trimmed mean of current interest rates at major international banks operating in London. Where previously the Libor rates were managed by the British Bankers' Association in London, at the beginning of 2014 they were placed under the administration of the stock exchange operator Intercontinental Exchange (ICE). This change was effected in connection with Libor manipulations that were discovered in summer 2012. The SNB must be able to rely on the integrity of its reference rate. It is therefore involved in national and international efforts to restore the integrity of benchmark interest rates (cf. chapter 2.2).

The minimum exchange rate against the euro served from 6 September 2011 to 15 January 2015 as an additional operational objective for the implementation of monetary policy. It was introduced in exceptional circumstances, a period of very substantial overvaluation of the Swiss franc and utmost uncertainty in the global economy and financial markets. The appreciation of the Swiss franc at the time presented a risk to the Swiss economy and carried the threat of a deflationary development. For the SNB, the minimum exchange rate was therefore an important tool with which to prevent an undesirable tightening of monetary conditions. Enforcing the minimum exchange rate, however, entailed substantial purchases of foreign currency and a huge expansion of the SNB balance sheet.

Minimum exchange rate against the euro

On 18 December 2014, the SNB announced the introduction of an interest rate of –0.25% on sight deposit account balances held by banks and other financial market participants at the SNB, in order to support the minimum exchange rate (cf. chapter 2.3). The measure makes Swiss franc investments less attractive, which generally decreases the upward pressure on the Swiss franc.

Negative interest on sight deposit accounts at the SNB

This is the first time that the SNB has used interest rates on sight deposit accounts as a monetary policy instrument to influence the interest rate level. Previously, the sight deposit accounts did not bear interest. To allow the introduction of positive or negative interest on the sight deposit accounts, the SNB adjusted its Terms of Business.

Changes to the interest rate on sight deposit accounts are especially effective when liquidity in the banking system is high. In this case, the interest rate on the money market is close to that on sight deposit account balances, since banks either hold their surplus liquidity on their sight deposit accounts at the SNB or invest it on the money market.

For some time now, interest on sight deposit accounts has served as a monetary policy instrument for many central banks, including the European Central Bank (ECB), the Bank of England (BoE) and the US Federal Reserve. While interest rates on deposit accounts at the Federal Reserve and the BoE have, until now, been invariably positive, in June 2014, for the first time, the ECB lowered its deposit rate into negative territory.

**Price stability and
financial stability**

Events during the financial crisis have shown that achieving price stability does not necessarily ensure the stability of the financial system. Financial stability is nevertheless an important prerequisite for favourable economic development and effective monetary policy implementation. If monetary policy focuses too strongly on financial stability, this does, however, entail the danger of conflicting objectives. Therefore central banks require macroprudential instruments which can be applied in a targeted manner to address imbalances that jeopardise financial stability (cf. chapter 6).

Research

In order to fulfil its mandate as a central bank, the SNB conducts its own research on monetary macroeconomics, banking and financial markets. Some of the research results are published in specialised journals. The SNB thereby exchanges knowledge with other central banks and research institutes, and to this end, it holds academic conferences and research seminars.

In 2014, the SNB sponsored a joint prize for excellence in research on monetary and international macroeconomics with the Deutsche Bundesbank and the Oesterreichische Nationalbank. It is named after the Austrian economist Carl Menger and will be awarded every two years. The prize is EUR 20,000, which is funded equally by the three central banks. On 9 September 2014, the Carl Menger Prize was awarded at the annual conference of the *Verein für Socialpolitik* (a German-speaking economists' association). Hélène Rey, a professor of economics at the London Business School, was the first recipient of the award.

1.2 INTERNATIONAL ECONOMIC DEVELOPMENTS

The global economy continued to recover in 2014, although growth was weaker than expected. Structural problems, among other things, continued to hamper economic growth in several countries. This situation was compounded by geopolitical uncertainties. Activity in the euro area and Japan was particularly weak. Momentum was also lacklustre in some of the major emerging economies such as Russia and Brazil. However, the recovery firmed in the US and the UK, and China continued to support the global economy. Against this backdrop of uneven economic development, international trade increased only slightly.

Muted and uneven global economic growth

The price of many commodities continued to fall in 2014 due to plentiful supply and modest demand. In the wake of robust expansion of crude oil production in the US, the global supply of oil, in particular, increased substantially, causing a significant drop in prices. In the second half of the year, the price of oil suddenly fell from over USD 100 per barrel to around USD 60 per barrel, following a long period of stability. This development contributed to ongoing low inflation rates worldwide.

Sharp decline in price of crude oil

Sluggish economic development in euro area

Economic activity in the euro area remained sluggish despite the stimulatory effects of a more expansionary monetary policy and a concomitantly weaker euro. Following two years of recession, real GDP rose by just 0.9% in 2014, ending the year still approximately 2% below the level recorded at the beginning of 2008, before the global economic crisis hit. Cost-cutting programmes in both the public and private sectors, as well as high unemployment, continued to weigh on domestic demand. The smouldering conflict between Ukraine and Russia added further uncertainty. While concerns about the stability of the banking system have waned since the ECB concluded its review of banks and assumed responsibility for banking supervision, lending conditions remained challenging in several countries, holding back investment spending still further. Unemployment in the euro area fell slightly but remained high until year-end (11.3%).

Disappointing growth in the largest euro area economies was a particularly significant factor. In Germany, the business climate cooled and economic growth came to a standstill at times. Italy's economy, which was characterised by high sovereign debt, the slow pace of structural reforms and a weak banking sector, remained in recession. In France, too, an inability to maintain the pace of reforms was partly responsible for the country's sluggish economic performance.

Favourable economic development in the US

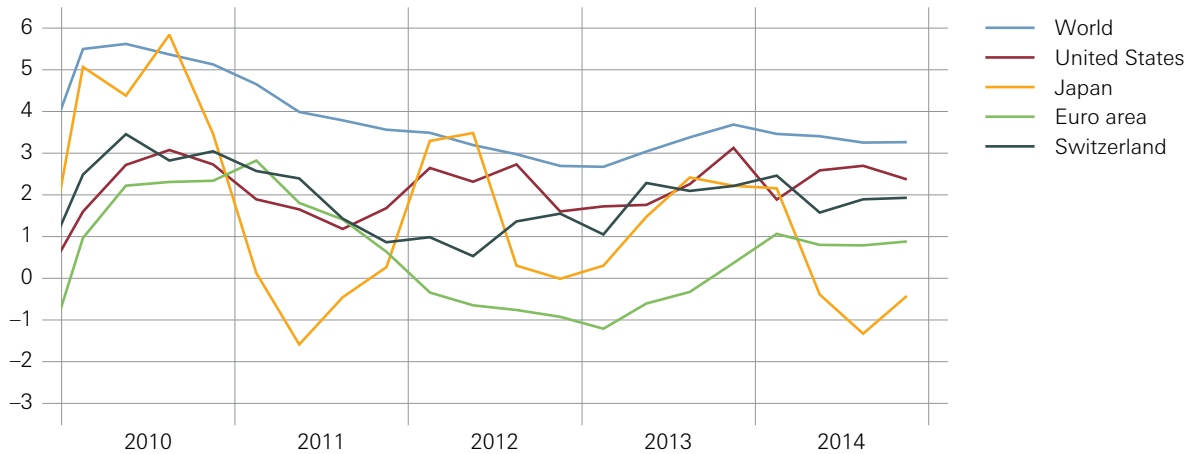
The US economy developed favourably. GDP grew by 2.4% – at much the same pace as in the previous two years. A cold snap hampered economic activity at the beginning of the year, but the economy gathered momentum thereafter, supported by gradual improvements to the financial situation of private households, less restrictive fiscal policy and ongoing expansionary monetary policy. Employment increased at an accelerated pace and the unemployment rate declined to 5.6% by year-end.

Weak economic activity in Japan

Japan's GDP stagnated in 2014, however economic output fluctuated significantly in the course of the year due to the increase in VAT, which came into effect on 1 April 2014. In November, the government postponed until April 2017 an additional VAT increase originally scheduled for October 2015 due to weak domestic demand. Supported by the depreciation of the yen, lower oil prices and the recovery on the equity market, GDP grew in the fourth quarter.

GROWTH OF GROSS DOMESTIC PRODUCT

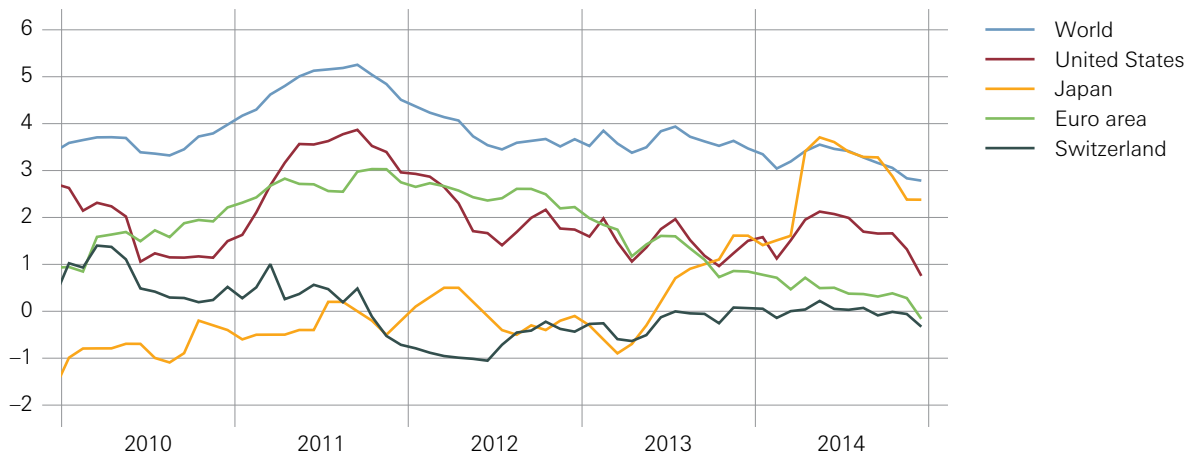
Year-on-year change in percent, in real terms



Sources: SECO, SNB, Thomson Reuters Datastream

INFLATION

Consumer prices, year-on-year change in percent



Sources: IMF, SFSO, SNB, Thomson Reuters Datastream

Developments in emerging economies

In China, positive income developments and welfare reforms supported private consumption and, in conjunction with government infrastructure projects, helped to maintain solid economic growth. Several sectors – first and foremost construction and heavy industry – nonetheless suffered from overcapacity. This was reflected in falling real estate and producer prices and in weaker investment demand overall. In India, investor confidence picked up as economic reforms got underway, while economic activity in Brazil remained modest.

Currency crisis in Russia

Russia suffered from the fall in the oil price and from economic sanctions imposed on it by the West in response to the conflict in Ukraine. The associated loss of investor confidence led to a capital outflow and eroded the value of the Russian currency. Notwithstanding the fact that Russia's central bank drastically increased its key interest rates, the rouble fell to a historical low against the US dollar at the end of the year. The last time the rouble experienced a fall of this magnitude was during the 1998/1999 financial crisis.

Low inflation in advanced economies

Inflation, as measured by the consumer price index, remained below central bank targets in most advanced economies due to persistently unsatisfactory aggregate demand and the substantially lower oil price. In the euro area, inflation declined to 0.4% on average, falling significantly short of the ECB's price stability objective of 'below, but close to 2%'. Towards the end of the year, core inflation dropped to its lowest level since the beginning of monetary union (0.7%). Inflation expectations reported in surveys and derived from financial indicators also declined.

In the US, inflation initially increased slightly, before receding again in response to falling energy prices; at 1.6%, the annual average was marginally higher than in the previous year. In Japan, inflation rose substantially following the VAT increase. However, excluding the tax effect and volatile commodity prices, inflation remained below 1% until the end of the year. Longer-term inflation expectations likewise remained below the Japanese central bank's inflation target of 2%.

Differing inflation trends in emerging economies

In China, annual inflation fell slightly, to 2.0% on average, remaining below the government target of 3.5% for 2014. Inflation in India was high until mid-year, but declined considerably thereafter due to falling food prices. In Brazil and Russia, inflation rates once again exceeded the targets set by the central banks, due in part to the depreciation of these countries' currencies.

Monetary policy in the major advanced economies remained expansionary, however there were signs that the policies being pursued were moving in opposite directions, which increasingly influenced the exchange rate situation.

Contrasting monetary policy stances in advanced economies

The Federal Reserve took its first steps towards normalising monetary policy, gradually reducing its monthly securities purchases from the beginning of the year and ultimately discontinuing the programme at the end of October. The target range for the federal funds rate has been unchanged at 0.0–0.25% since December 2008. At the end of 2014, the Federal Reserve was proceeding on the assumption that the US economy would probably continue to require lower-than-normal interest rates for some time to come – even after employment and inflation had come close to mandate-consistent levels.

Gradual tightening of monetary policy in the US

By contrast, weak economic growth and low inflation in the euro area prompted the ECB to step up monetary policy accommodation from mid-year. In June, it lowered its key interest rates, imposing a negative interest rate on its deposit facility for the first time. At the same time, it decided to support bank lending to the non-financial sector through a series of targeted longer-term refinancing operations (TLTROs). In September, it cut key interest rates again and lowered its main refinancing rate to 0.05%. It then also adopted a programme to purchase covered bonds and asset-backed securities. The prospect of persistent, very low inflation prompted the ECB to consider further easing measures at the end of the year. In January 2015, it announced a massive expansion of its asset purchase programme to include government bonds issued by member states and the EU institutions. From March 2015, the ECB and national central banks intend to purchase securities totalling EUR 60 billion per month until the ECB sees a sustained adjustment in the path of inflation that is consistent with its aim of achieving inflation rates below, but close to, 2% over the medium term.

Comprehensive monetary policy easing in euro area ...

The Bank of Japan also expanded its monetary policy and decided to increase its programme of purchasing long-maturity Japanese government bonds from JPY 60–70 trillion to JPY 80 trillion per year. This action was designed to help raise inflation expectations and lift annual inflation to 2% in the foreseeable future.

... and in Japan

China's central bank eased monetary policy in order to shore up economic growth. The central banks of Brazil and Russia, on the other hand, tightened their monetary policy stance in order to combat high inflation and prevent their respective currencies from depreciating.

Divergent monetary policy stances in emerging economies

1.3 ECONOMIC DEVELOPMENTS IN SWITZERLAND

Swiss economic development stable

Economic growth in Switzerland remained stable in 2014. According to the initial estimate by the State Secretariat for Economic Affairs (SECO), GDP increased by 2.0%, following an advance of 1.9% in 2013. Exports gained momentum, while investment saw modest growth and the pace of private consumption slowed.

The output gap, which is defined as the percentage deviation of observed GDP from estimated aggregate potential output, remained in negative territory for the sixth year in succession. Underutilisation of overall production capacity diminished slightly, however. At the end of 2014, unemployment was marginally lower than it had been a year earlier.

Slight stimulus for export industry

Having stagnated in 2013, exports picked up in 2014, thanks to increased demand, particularly from the US. Chemical and pharmaceutical products as well as precision instruments and watches made a significant contribution, while exports from many other industries also registered gains. However, this pick-up was curbed by continued weak demand from the euro area. At the end of 2014, nominal exports to the euro area were still approximately 10% lower than they were before the global financial and economic crisis in 2008.

Owing to stronger export activity, value added increased in manufacturing, having declined in the previous year; the hospitality and hotel industries also recovered slightly. The financial sector likewise supported economic growth.

Moderate growth in domestically focused industries

Industries whose main client base is in the domestic market recorded slightly less momentum than in 2013. Value added in trade and business-related services increased only minimally. In public services and healthcare, too, the pace of expansion was slower than in the previous year.

Weaker increase in domestic demand

Private consumption expenditure increased less strongly than in previous years. This was due in part to smaller income growth and lower spending on energy given the mild winter, while ongoing population growth, principally driven by immigration, was supportive. Despite favourable financing conditions and rising demand for housing and workspace linked to population growth, construction investment was only moderate.

Given the continued underutilisation of capacity and the uncertainty about the outlook for the global economy, equipment investment remained lacklustre. At the end of 2014, it was slightly above the level that had been reached before the financial and economic crisis.

REAL GROSS DOMESTIC PRODUCT

Year-on-year change in percent

	2010	2011	2012	2013	2014
Private consumption	1.6	0.8	2.8	2.2	1.0
Government consumption	0.2	2.1	2.9	1.4	1.1
Investment	4.4	4.3	2.4	1.7	1.5
Construction	3.5	2.5	2.9	1.2	0.9
Equipment	4.9	5.3	2.1	2.0	1.8
Domestic final demand	2.2	1.9	2.7	2.0	1.1
Exports of goods and services ¹	7.9	3.5	2.6	0.0	3.9
Aggregate demand¹	4.2	2.5	2.6	1.2	2.2
Imports of goods and services ¹	9.5	4.7	4.0	1.4	1.6
Gross domestic product	3.0	1.8	1.1	1.9	2.0

¹ Excluding valuables (non-monetary gold and other precious metals, precious stones and gems as well as objets d'art and antiques).

Sources: SECO, SFSO, SNB

At 1.7%, the number of employed persons increased in 2014 at a somewhat higher rate than in the preceding year. New jobs were created in the services sector in particular, while employment in manufacturing stagnated. Higher labour demand was satisfied by the growing population of working age and the higher participation rate; unemployment thus declined only marginally in the course of the year.

**Muted development
on labour market**

According to SNB estimates based on the System of National Accounts (SNA), real wages rose by 1.1%. Real wage growth as well as total labour income was thus weaker than in the previous year. Virtually unchanged over the year before, the Swiss wage index reported real wage growth of just under 1%.

**Moderate growth
in real wages**

Revision of System of National Accounts

In 2014, the Swiss Federal Statistical Office (SFSO) and the State Secretariat for Economic Affairs (SECO) aligned Switzerland's System of National Accounts (SNA) with the European System of National and Regional Accounts of 2010 (ESA 2010) as part of a comprehensive revision process.

The new standard, which contains a series of methodological changes and features an improved data basis, enables economic performance to be captured more precisely. As a result of the revision, Switzerland's nominal GDP since 1995 is around 5–6% above its former level. The main reason for this upward correction is the fact that expenditure for research and development is now recorded as investment whereas it had previously been recorded under intermediate inputs.

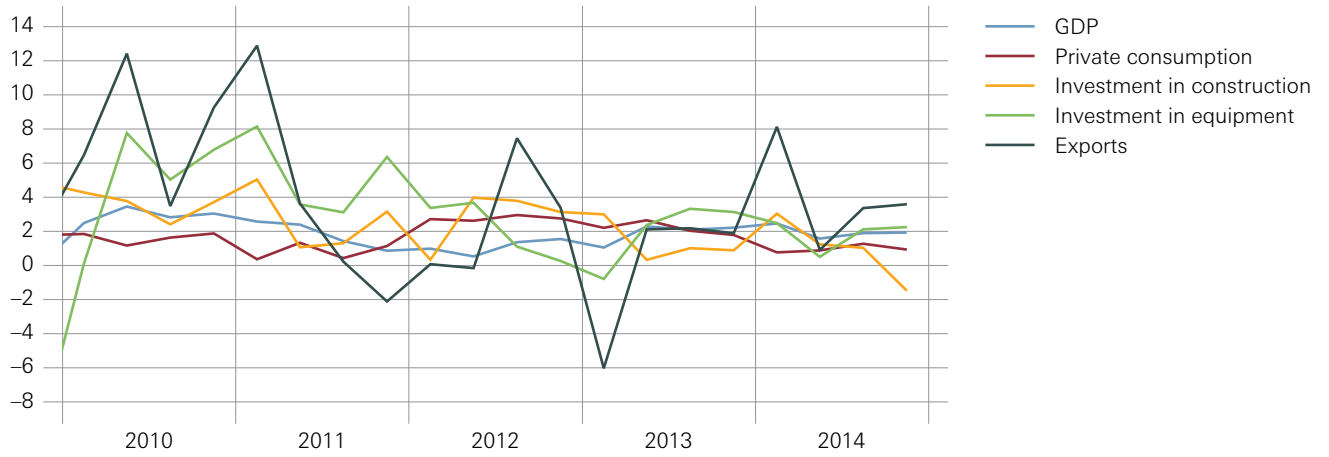
Average real GDP growth has been slightly higher since 1995. However, this has little effect on the overall economic picture. From the point of view of monetary policy, the effect of the SNA revision on the output gap (i.e. GDP development relative to potential output) is particularly important. The output gap shows how well the production factors in an economy are being utilised and plays a role in forecasting inflation. As the SNB's estimate of potential output changed virtually in line with GDP, the SNA changeover had only a minimal impact on the estimated output gap. The SNB's assessment of the economic situation thus remained unchanged.

Declining producer and import prices

In 2014, producer and import prices were 1.1% below 2013 figures, which had remained stable versus 2012. While both price indices declined in the course of the year, import prices fell more markedly than producer prices.

GROSS DOMESTIC PRODUCT AND COMPONENTS

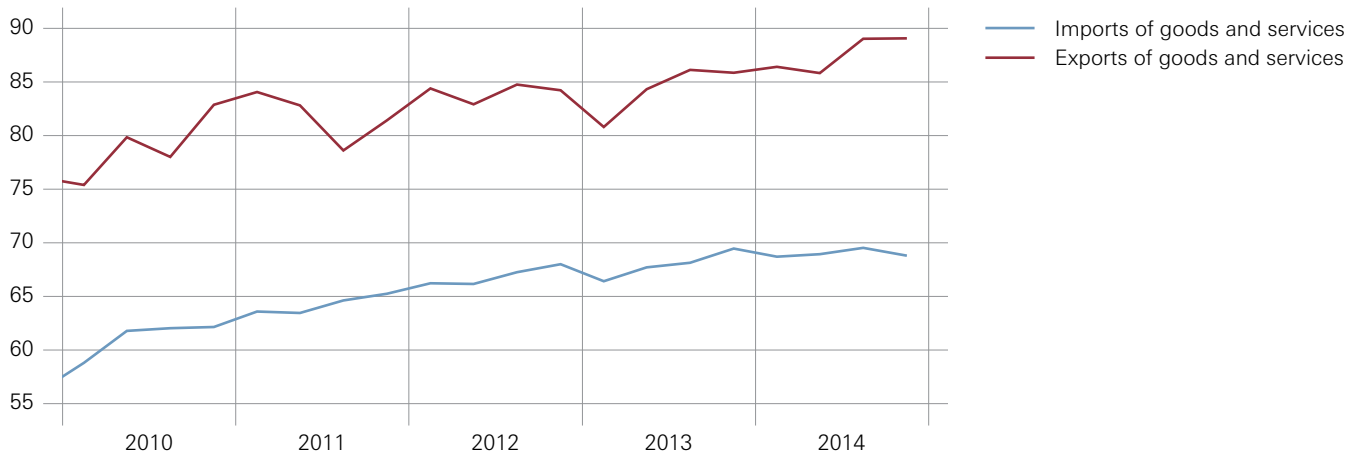
Year-on-year change in percent, in real terms



Sources: SECO, SNB

FOREIGN TRADE

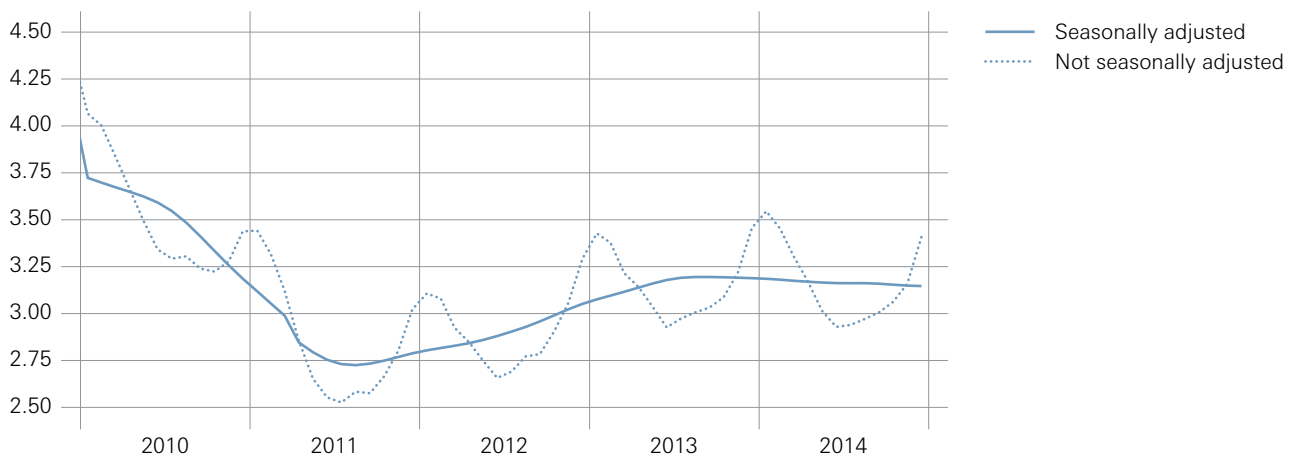
In CHF billions, in real terms, seasonally adjusted



Sources: SECO, SNB

UNEMPLOYMENT RATE

In percent



Sources: SECO, SNB

Stable consumer prices

In 2014, the annual inflation rate as measured by the national consumer price index (CPI) stood at 0.0%, up from –0.2% the year before. Thanks to the support of the minimum exchange rate against the euro, price developments remained largely stable over the past year, with inflation, excluding oil products, amounting to 0.1% in all quarters. The stabilising effect of the minimum exchange rate was felt most clearly in the price of imported goods contained in the CPI, which fell less sharply than in the two preceding years. The prices of imported goods and services (excluding oil products) decreased by an average of 1.0% in 2014, compared to an average drop of 1.8% and 4.2% in the two prior years, respectively. The prices of domestic goods, on the other hand, continued on a slight upward trajectory, rising by an average of 0.4% in the course of the year, in line with last year's figure.

NATIONAL CONSUMER PRICE INDEX AND COMPONENTS

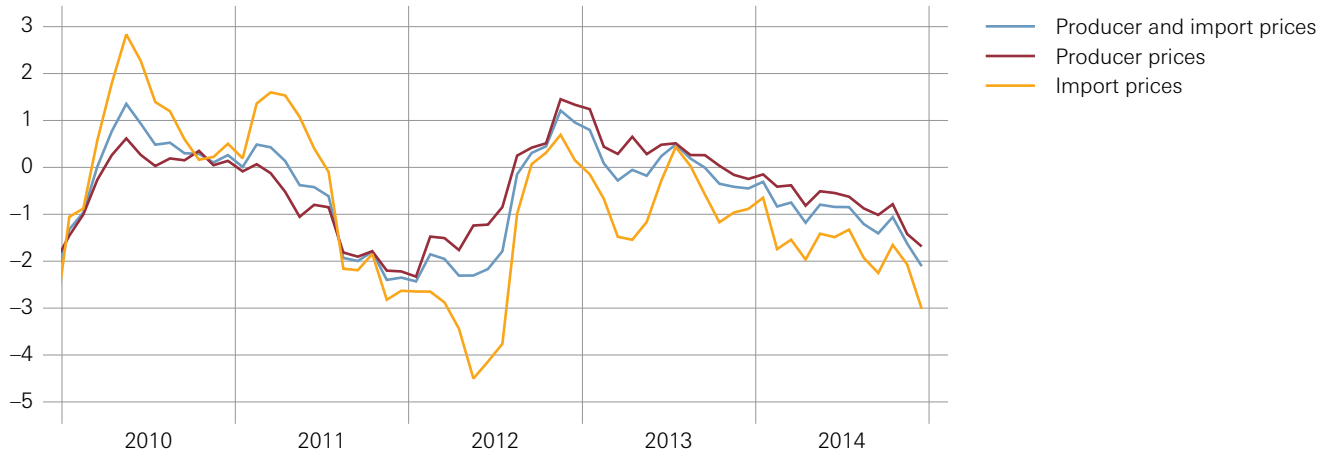
Year-on-year change in percent

	2013	2014	Q1	Q2	Q3	2014 Q4
Consumer price index, overall	–0.2	0.0	0.0	0.1	0.0	–0.1
Domestic goods and services	0.4	0.4	0.5	0.5	0.3	0.4
Goods	–0.3	0.3	0.4	0.5	0.3	0.2
Services	0.6	0.4	0.5	0.4	0.3	0.5
Private services (excluding rents)	0.5	0.4	0.3	0.3	0.3	0.6
Rents	0.4	1.2	1.4	1.2	1.1	1.1
Public services	1.0	–0.8	–0.5	–0.5	–0.9	–1.2
Imported goods and services	–1.9	–1.2	–1.5	–0.9	–0.9	–1.6
Excluding oil products	–1.8	–1.0	–1.3	–1.3	–0.7	–0.8
Oil products	–2.5	–2.4	–2.4	1.1	–1.8	–6.7
Core inflation						
Trimmed mean	0.1	0.3	0.4	0.4	0.3	0.3

Sources: SFSO, SNB

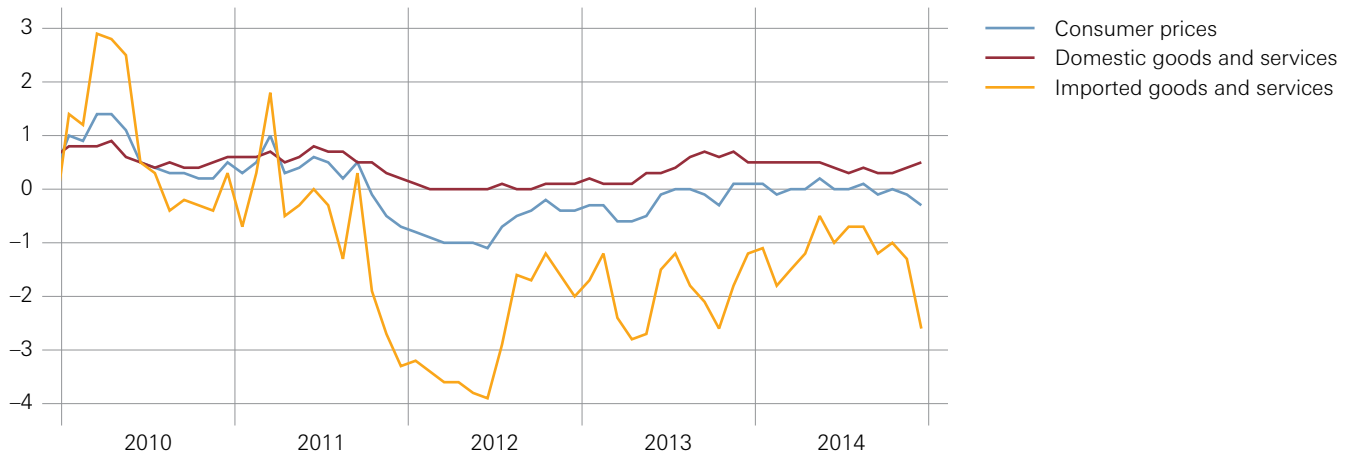
PRODUCER AND IMPORT PRICES

Year-on-year change in percent



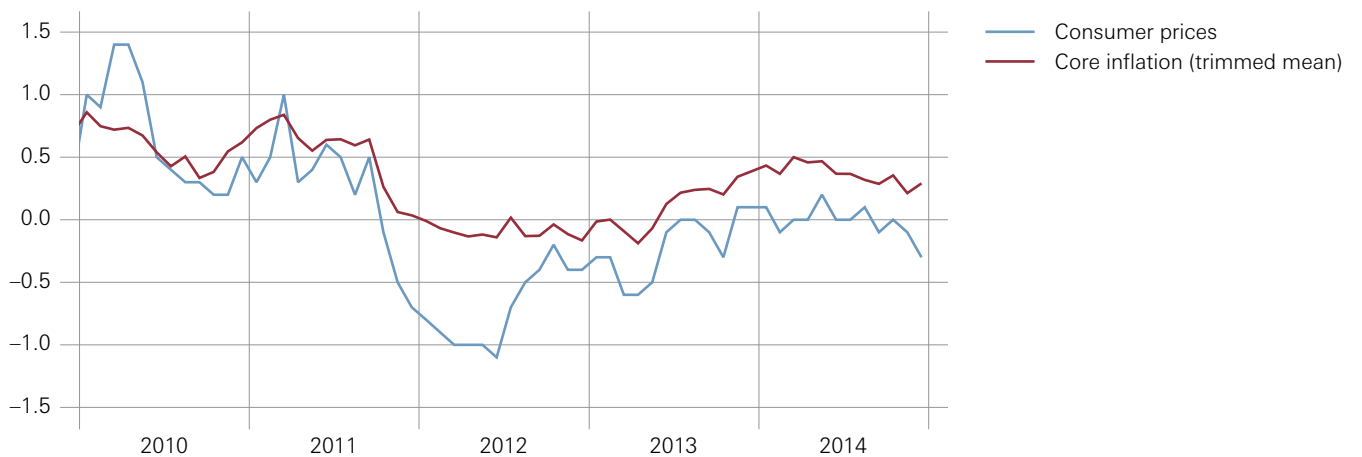
CONSUMER PRICES

Year-on-year change in percent



CORE INFLATION

Year-on-year change in percent



Low and stable core inflation

Various short-term fluctuations can have an impact on CPI inflation. In order to analyse the inflation trend, the SNB calculates the core inflation rate with the aid of a trimmed mean. The trimmed mean method involves excluding, each month, those goods with the greatest price changes compared to the same month one year earlier (15% at either end of the distribution). The core inflation rate calculated using the trimmed mean remained low and virtually unchanged over the course of 2014. The annual average stood at 0.3%, compared to 0.1% in 2013.

1.4 MONETARY POLICY IN 2014

Difficult monetary policy environment

As in previous years, monetary policy in 2014 operated in an environment in which inflation was close to zero and interest rates were very low. Therefore, the minimum exchange rate of CHF 1.20 per euro remained the SNB's key instrument for ensuring appropriate monetary conditions in Switzerland. An appreciation of the Swiss franc would have compromised price stability and significantly burdened the economy.

Over the course of the year, there were growing signs of a divergence between the monetary policies in the US and the euro area. Against this backdrop, the euro depreciated considerably against the US dollar. The Swiss franc also weakened against the dollar and gradually approached the minimum exchange rate of CHF 1.20 against the euro. In the final weeks of the year, the divergence between the monetary policies of the two currency areas became increasingly evident.

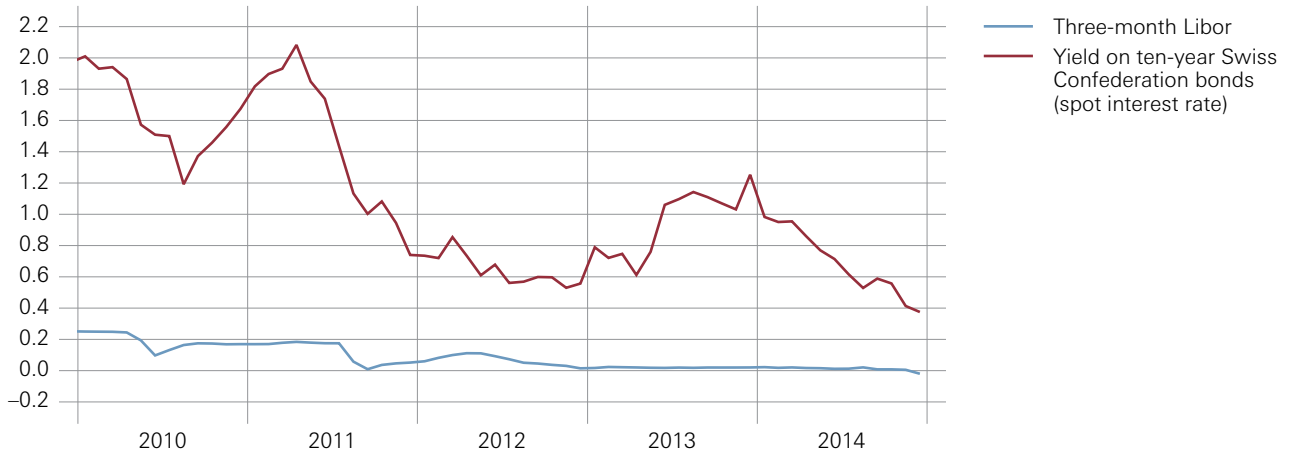
Continuation of minimum exchange rate policy

At its quarterly monetary policy assessments, the SNB confirmed its determination to enforce the minimum exchange rate, if necessary, by buying foreign currency in unlimited quantities, and to take further measures as required.

Following the monetary policy assessment of December, pressure on the EUR/CHF minimum exchange rate increased. The crisis in Russia was a further source of uncertainty. Once again, the SNB had to intervene substantially in order to enforce the minimum exchange rate. On 18 December, the SNB therefore decided to establish the preconditions for imposing an interest rate on sight deposit accounts held by banks and other financial market participants at the National Bank. It announced that, as of 22 January 2015, an interest rate of -0.25% on sight deposit account balances exceeding a given threshold would apply. The measure aimed to increase the interest rate differential to other currencies, thereby rendering Swiss franc investments less attractive and supporting the minimum exchange rate. Pressure on the minimum exchange rate was temporarily alleviated.

MONEY AND CAPITAL MARKET RATES

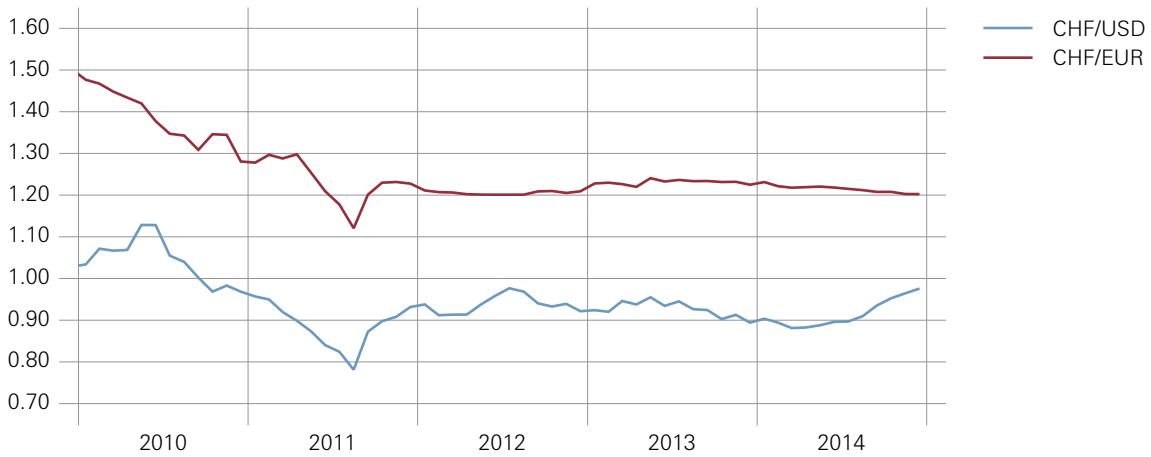
In percent



Source: SNB

EXCHANGE RATES

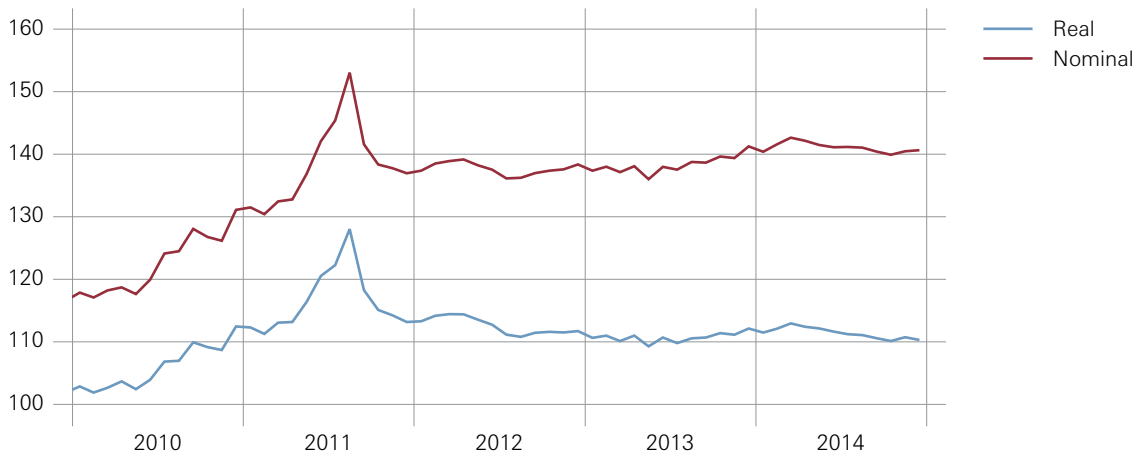
Nominal



Source: SNB

EXPORT-WEIGHTED SWISS FRANC EXCHANGE RATES

40 trading partners; index: January 1999 = 100



Source: SNB

Target range for three-month Libor

Until December, the target range for the three-month Libor was 0.0–0.25%. On 18 December, the SNB expanded it to between –0.75% and 0.25%, thereby extending the range to its usual width of 1 percentage point. Since the beginning of the year, the three-month Libor had fluctuated between 0% and 0.02%; after this expansion it fell to –0.07%. The annual average of the interest rate for secured call money (SARON) amounted to –0.01%.

Scenarios for global economy

The inflation forecast and the assessment of the domestic economy are based on a scenario for the path of the global economy. The latter continued to recover in 2014, although the revival was muted compared to past cycles. This was reflected in a subdued outlook for the economy and inflation in Switzerland. In order to take account of the risks in international economic developments, the SNB also carried out simulations of alternative scenarios.

Stable development in Switzerland

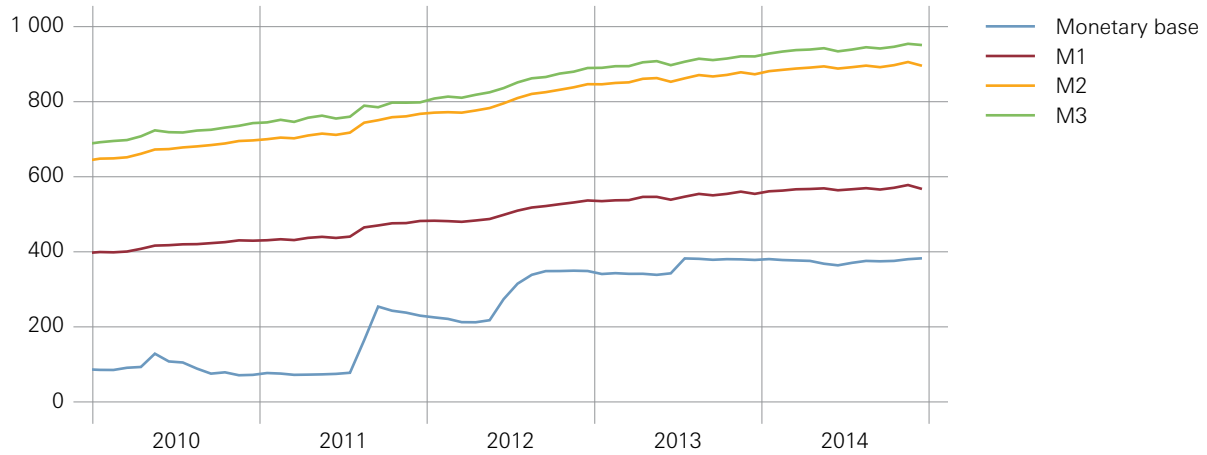
In Switzerland, the underutilisation of economic capacity gradually declined. At the beginning of the year, the SNB forecast GDP growth for 2014 of around 2%. Following an unexpectedly weak second quarter, at its monetary policy assessment in September it lowered the growth forecast to just under 1.5%. A comprehensive revision of the national accounts at the end of September saw expected GDP growth somewhat higher, without there having been any change to the underlying course of the economy. At 2.0%, the expansion in GDP in 2014 was slightly greater than in 2013 (1.9%).

Euro closer to minimum exchange rate

While the beginning of the year saw the exchange rate at CHF 1.23 against the euro, the Swiss franc appreciated in the wake of unfavourable euro area economic data. The introduction of negative interest rates by the ECB in June and a further lowering of interest rates in September resulted in another rise in the Swiss franc against the euro. In November, upward pressure on the Swiss franc increased, due to special factors like the uncertainty in advance of the popular vote on the gold initiative and the conversion of Swiss franc loans in Hungary, with the result that the Swiss franc rate against the euro was close to the minimum exchange rate. In mid-December, rapidly escalating uncertainty on the financial markets fuelled a further demand for safe investments. Following the SNB's announcement of the introduction of negative interest on sight deposit account balances, the Swiss franc temporarily weakened slightly.

LEVEL OF MONETARY AGGREGATES

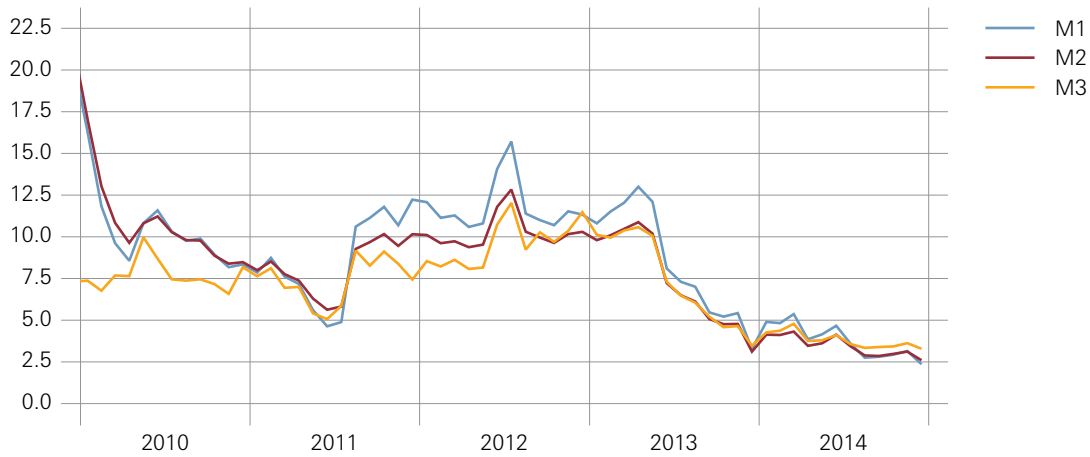
In CHF billions



Source: SNB

GROWTH OF MONETARY AGGREGATES

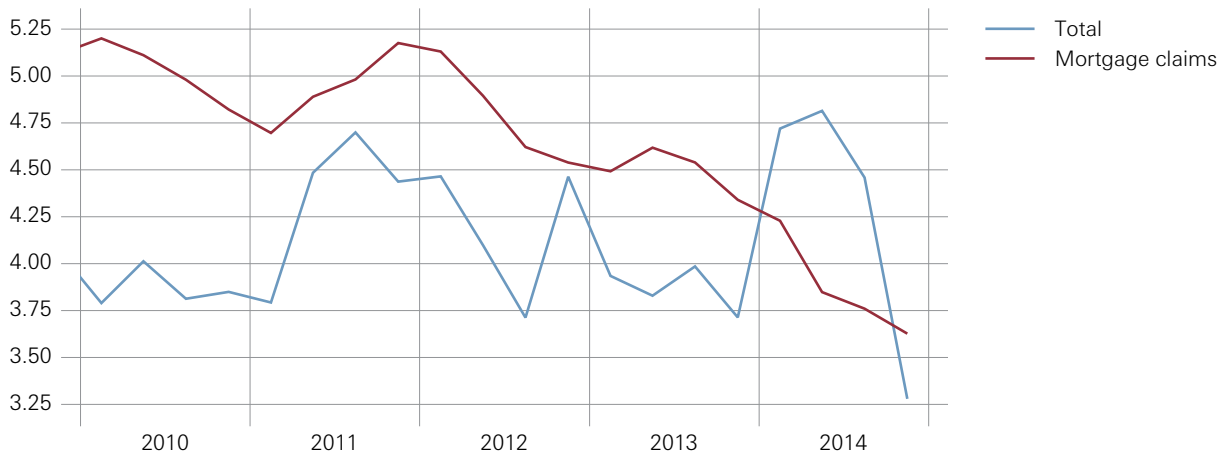
Year-on-year change in percent



Source: SNB

BANK LOANS

Year-on-year change in percent



Source: SNB

Swiss franc weakens against US dollar

Against the US dollar, the Swiss franc essentially followed the movements of the euro. At the beginning of the year it stood at CHF 0.90 per US dollar, and by March had appreciated to CHF 0.87. From July through to year-end, the Swiss franc weakened significantly, reaching CHF 0.99 per US dollar. 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, showed a similar pattern, since the fluctuations against the euro were relatively minor compared to those against other currencies.

Continual decline in long-term interest rates

Yields on ten-year Confederation bonds declined continually over the course of the year, starting at 1.25% and ending the year at 0.38%. In mid-December, they reached an all-time low of 0.32%. Since long-term interest rates on German government bonds fell even more sharply, the yield differential between German and Swiss bonds also reached historical lows. This, too, contributed to persistent upward pressure on the Swiss franc.

Inflation expectations low

The results of surveys conducted among households and companies showed that inflation expectations, while low, were similar to those of previous years. Over the course of the year, inflation expectations for 2015 declined from 1.0% to 0.2%. Medium-term inflation expectations, at around 1%, were close to the long-term average inflation rate. The survey results thus remained consistent with the SNB's definition of price stability.

Persistently high sight deposits

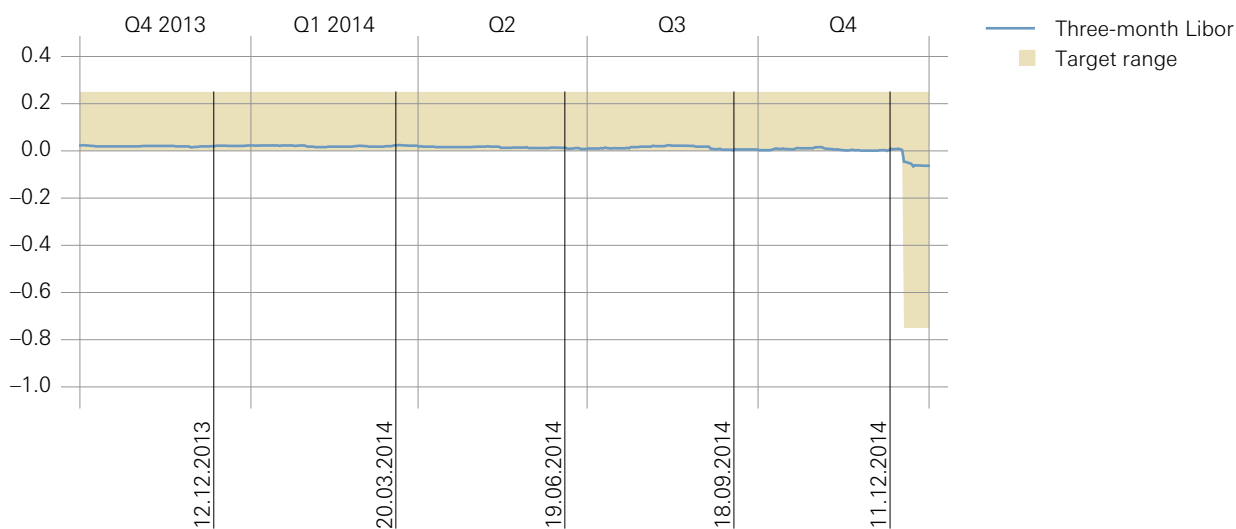
Aside from an increase in December, sight deposits at the SNB remained largely unchanged in 2014. They therefore continued to be at a very high level. In December, they averaged CHF 377.0 billion, compared to the year-back figure of CHF 365.1 billion. Given the persistent upward pressure on the Swiss franc, the high level of sight deposits helped to ensure appropriate monetary conditions.

Weaker growth in money supply

Despite the decline in long-term interest rates, the broad monetary aggregates M2 and M3 increased only moderately. In December, M2 and M3 exceeded their year-back figures by 2.7% and 3.3% respectively. Thus liquidity held by households and companies remained high – in the past often an indication of inflation risks. However, in view of the substantial demand for safe investments since the financial crisis, this is not currently an issue; in recent years, the inflation rate has been exceptionally low despite a high level of liquidity.

THREE-MONTH LIBOR

Daily values in percent, dates of monetary policy assessments



EXCHANGE RATE

Daily rates



Strong growth in lending

At an average of 4.1%, bank lending continued to increase strongly. However, growth in mortgage lending, which comprises most of bank lending, slowed slightly. Thus the imbalances on the mortgage and real estate markets, to which the SNB has repeatedly drawn attention, while not worsening in 2014, were still present (cf. chapter 6.4).

Conditional inflation forecasts in 2014

The SNB's conditional inflation forecasts showed no risk of inflation at any time during the year. All of the forecasts were based on a three-month Libor of zero over the entire forecast horizon. In December, the inflation forecast for the end of the twelve-quarter forecast horizon was only 1.0%.

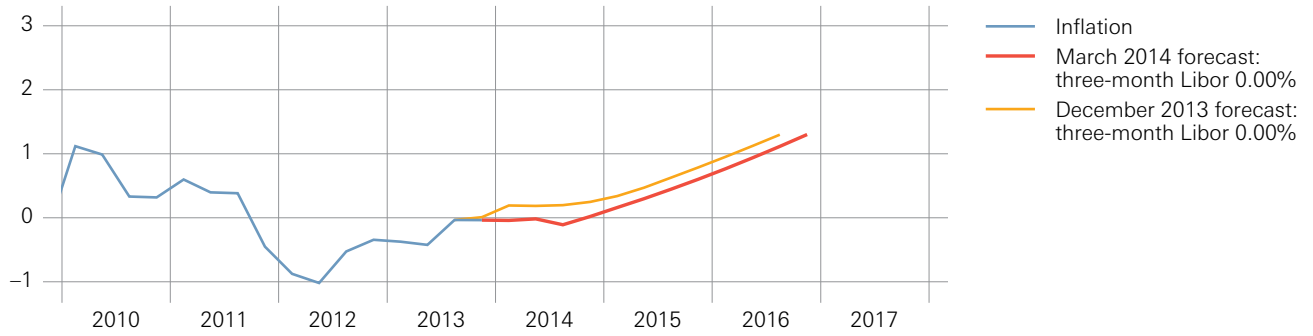
During the course of the year, the inflation forecasts published at the quarterly monetary policy assessments were continually adjusted downwards. At the March assessment, the conditional inflation forecast over the entire forecast horizon was below that presented in December 2013. Internationally declining inflation rates and the stronger Swiss franc delayed the rise of inflation into positive territory. In June, there was a slight rise in expected inflation for the current year, due to unexpectedly high inflation in May providing a higher point of departure for the forecast. By contrast, in the medium term, the modest global economic outlook and unexpectedly low inflation in the euro area led to a decline in the inflation forecast. In September, the inflation forecast was revised downwards due to the deterioration in global economic prospects and slower growth in Switzerland. Only for the first quarter of 2015 was the forecast somewhat higher than in June, due to an expected base effect from spring 2014. In December, the appreciably lower oil price pushed the forecast into negative territory for the next four quarters. Furthermore, the worldwide decline in inflation rates and the continuing subdued outlook for the euro area economy resulted in a clear downward shift in the inflation forecast.

Rejection of gold initiative

On 30 November, Swiss voters and cantons firmly rejected the popular initiative 'Save our Swiss gold (gold initiative)'. The SNB was pleased to learn of this outcome. An acceptance of the initiative would have severely constrained the SNB in fulfilling its mandate. The voting result means that the conditions enabling the SNB to pursue a monetary policy geared to price stability remain intact.

CONDITIONAL INFLATION FORECAST OF 20 MARCH 2014

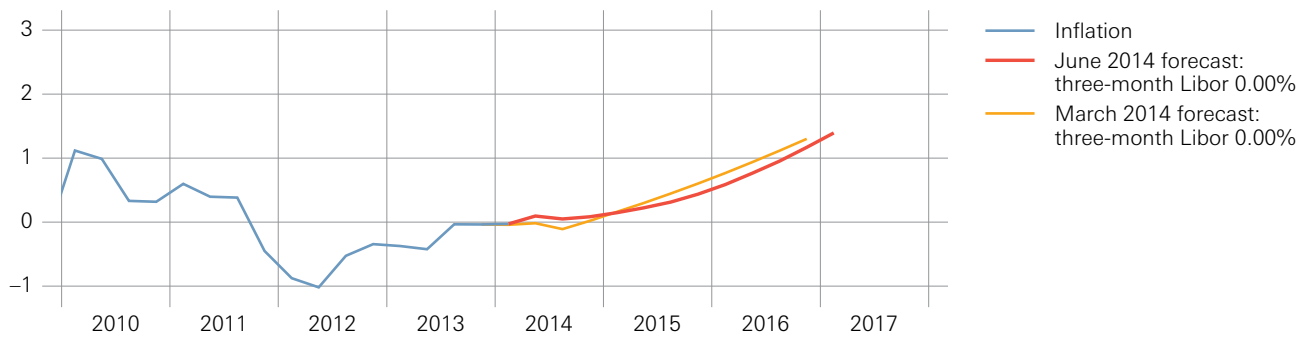
Year-on-year change in Swiss consumer price index in percent



Source: SNB

CONDITIONAL INFLATION FORECAST OF 19 JUNE 2014

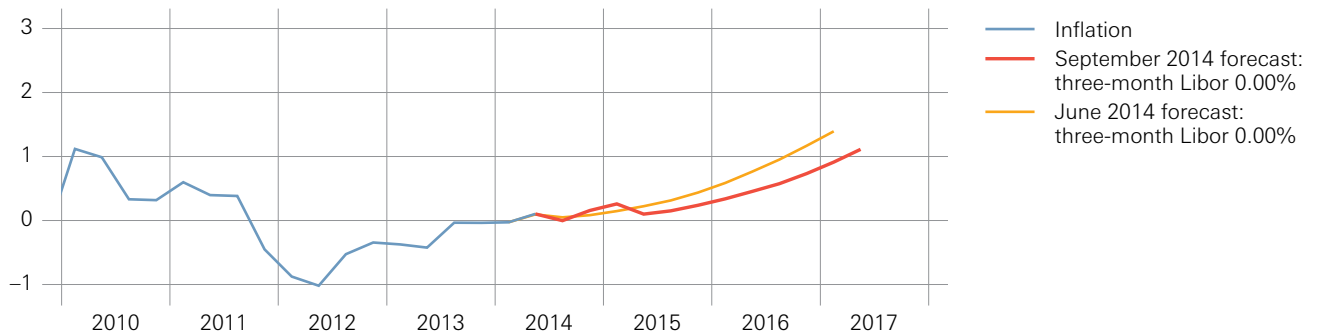
Year-on-year change in Swiss consumer price index in percent



Source: SNB

CONDITIONAL INFLATION FORECAST OF 18 SEPTEMBER 2014

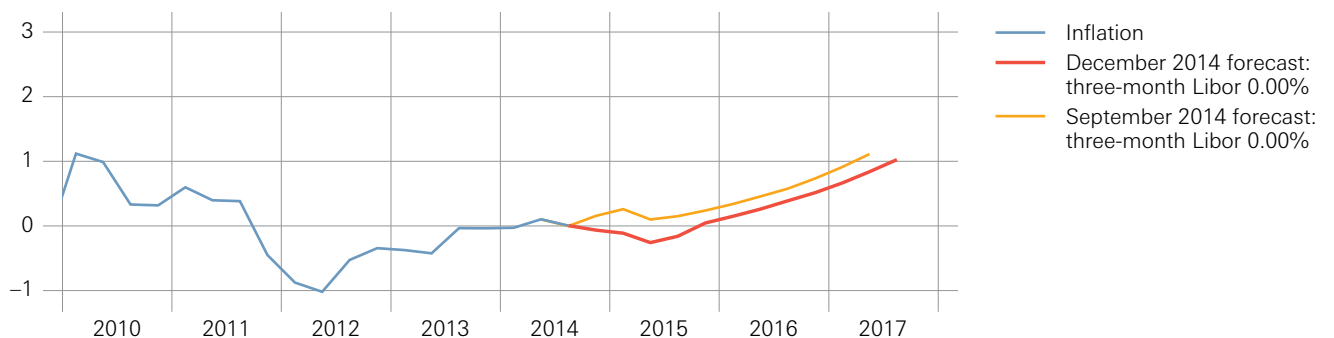
Year-on-year change in Swiss consumer price index in percent



Source: SNB

CONDITIONAL INFLATION FORECAST OF 11 DECEMBER 2014

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



Source: SNB

1.5 DISCONTINUATION OF MINIMUM EXCHANGE RATE

Change in international conditions

Over the course of 2014, there were growing signs that a US exit from a very relaxed monetary policy was drawing closer. In the euro area, by contrast, there was more evidence of a further relaxation of monetary policy. Against this backdrop, the euro depreciated considerably against the US dollar. The Swiss franc also weakened against the US dollar and gradually approached the minimum exchange rate of CHF 1.20 against the euro. For a considerable time, however, the minimum exchange rate did not come under pressure. In the final weeks of the year, the divergence between the monetary policies of the two currency areas became increasingly evident. The crisis in Russia was a further source of uncertainty. In order to enforce the minimum exchange rate, the SNB had to make substantial interventions, and on 18 December, introduced negative interest on sight deposit account balances in support of the minimum exchange rate.

Assessment of situation in January 2015

After a brief period of calm, pressure on the minimum exchange rate increased very significantly during the first half of January 2015. With the growing expectation that there would be a further substantial relaxation of monetary policy in the euro area, the euro weakened once again. It became increasingly evident that the minimum exchange rate could only be enforced through ongoing intervention in the foreign exchange market. Over these days, the amounts spent on interventions were extremely high. Further enforcement of the minimum exchange rate would only have been possible through an uncontrollable expansion of the balance sheet, to a level that might even have been several times Swiss GDP. At an extraordinary monetary policy meeting, the SNB concluded that a minimum exchange rate of CHF 1.20 per euro had become unsustainable, and was therefore no longer justified from a monetary policy point of view.

Minimum exchange rate discontinued and negative interest rate adjusted

On 15 January, the SNB therefore decided to discontinue the EUR/CHF minimum exchange rate. At the same time, it lowered the target range for the three-month Libor by 0.5 percentage points, to between -1.25% and -0.25% , and adjusted the negative interest rate on sight deposit account balances to -0.75% as of 22 January 2015. The aim of this marked interest rate reduction was to cushion the effects of the discontinuation of the minimum exchange rate and reduce the attractiveness of Swiss franc investments. The SNB also announced that it would continue to take account of the exchange rate situation in formulating its monetary policy in future, and would, if necessary, remain active in the foreign exchange market.

Had it maintained the minimum exchange rate, the exceptional increase in foreign currency purchases would have meant that the SNB risked losing control of its balance sheet and, as a result, of monetary conditions, in the long term. Against the backdrop of changing international conditions, enforcement of the minimum exchange rate was no longer justifiable. Had the SNB maintained the EUR/CHF minimum exchange rate despite this realisation, it would have put the long-term fulfilment of its mandate at risk.

Once the SNB had reached this conclusion, the timing of the discontinuation had to be addressed. Swift action was necessary. Waiting and continuing to intervene in the foreign exchange market would have increased pressure on the minimum exchange rate because of the speculation that would have ensued. In the event of a later discontinuation of the minimum exchange rate following substantial further interventions, the turmoil on the financial markets would not have been any less severe and the losses on the SNB's balance sheet would have been exorbitant. The costs of maintaining the minimum exchange rate of CHF 1.20 per euro would have been out of all proportion to the benefits for the economy.

The announcement of the SNB's decision of 15 January 2015 to discontinue the minimum exchange rate needed to come as a surprise. The functioning of foreign currency trading in Swiss francs was thereby temporarily affected. Immediately after the announcement of the decision, there was a sharp increase in volatility on foreign exchange markets. Temporarily, no reliable prices were available. However, as the day progressed, the situation gradually improved.

Market reactions

The SNB was aware that the discontinuation of the minimum exchange rate would lead to turmoil in the financial markets and to overshooting. The timing of the discontinuation was chosen to ensure that market participants would be able to adapt to the new situation as quickly as possible due to high levels of liquidity and market presence. By discontinuing the minimum exchange rate on a weekday, the risk of putting some market participants at a disadvantage could be kept to a minimum. It was also essential that no signal was given prior to the discontinuation of the minimum exchange rate, and that no information on timing should be communicated outside the SNB.

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 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.

Enforcement of minimum exchange rate and introduction of negative interest rates

From 6 September 2011 to 15 January 2015, the monetary policy instruments were geared towards safeguarding the minimum exchange rate, set at CHF 1.20 per euro. Towards the end of the year, the Swiss franc came under upward pressure, and the SNB had to enforce the minimum exchange rate by intervening on the foreign exchange market.

In order to make it less attractive to hold Swiss franc investments, thereby supporting the minimum exchange rate, the SNB decided on 18 December 2014 that sight deposit account balances of banks and other financial market participants exceeding a given threshold were to be subject to negative interest. By introducing a negative interest rate of -0.25% on sight deposits, the SNB took the three-month Libor into negative territory, lowering the target range to between -0.75% and 0.25% .

In subsequent weeks, upward pressure on the Swiss franc intensified significantly. On 15 January 2015, the SNB decided to discontinue the minimum exchange rate with immediate effect and to cease enforcing it by means of foreign currency purchases. Simultaneously, it lowered the target range for the three-month Libor by 0.5 percentage points to -1.25% to -0.25% and adjusted the interest rate on sight deposits to -0.75% .

Sight deposits at the SNB

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. 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 influences 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 DEVELOPMENTS IN THE MONEY MARKET

As a result of the systematic enforcement of the minimum exchange rate, sight deposits held at the SNB rose to CHF 387 billion by the end of 2014. The money market thus continued to enjoy substantial amounts of Swiss franc liquidity. As the minimum exchange rate was the key monetary policy instrument in 2014, the SNB did not conduct any liquidity-providing or liquidity-absorbing money market transactions for monetary policy purposes in the year under review.

High level of sight deposits

Exceptionally low money market rates

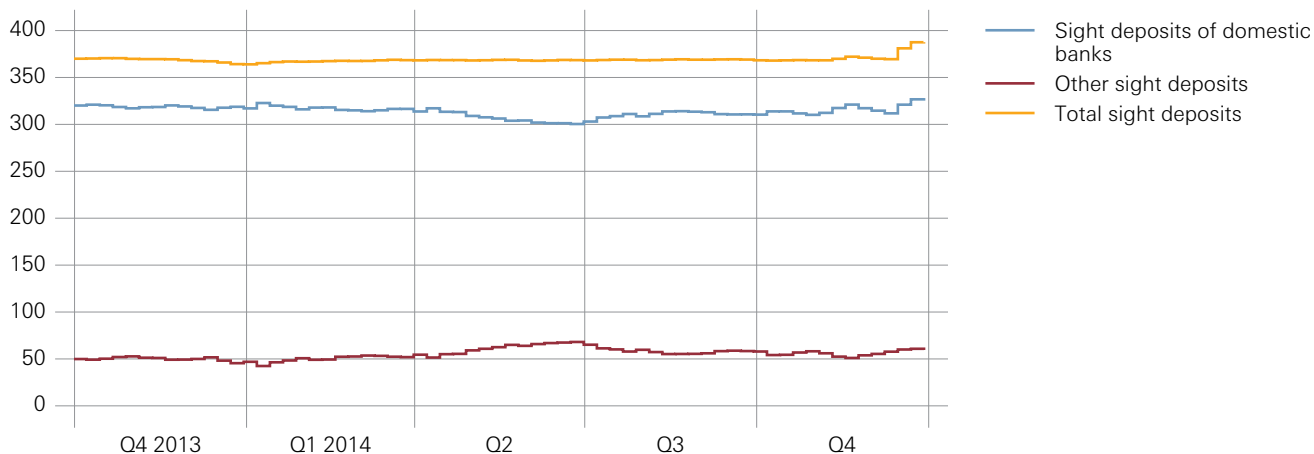
Until negative interest rates were announced on sight deposits held at the SNB in December 2014, interest rates on the Swiss franc money market had remained close to zero. Immediately after this measure was announced, the three-month Swiss franc Libor fell to a new low of -0.07% . Interest rate expectations for the Swiss franc – derived from three-month Libor futures contracts – also moved significantly below zero at the end of the year. The Swiss Average Rate Overnight (SARON), the interest rate for secured call money, was slightly into negative territory for the most part throughout the year.

Trading activity on repo market still low

With money market rates persistently low and Swiss franc liquidity still high, trading activity on the repo market remained minimal. However, activity on the secured money market did not come to a complete standstill, due to demand for high-quality securities. The increased importance of these securities is reflected in the trades on the interbank repo market which were concluded at negative repo rates.

SIGHT DEPOSITS AT THE SNB

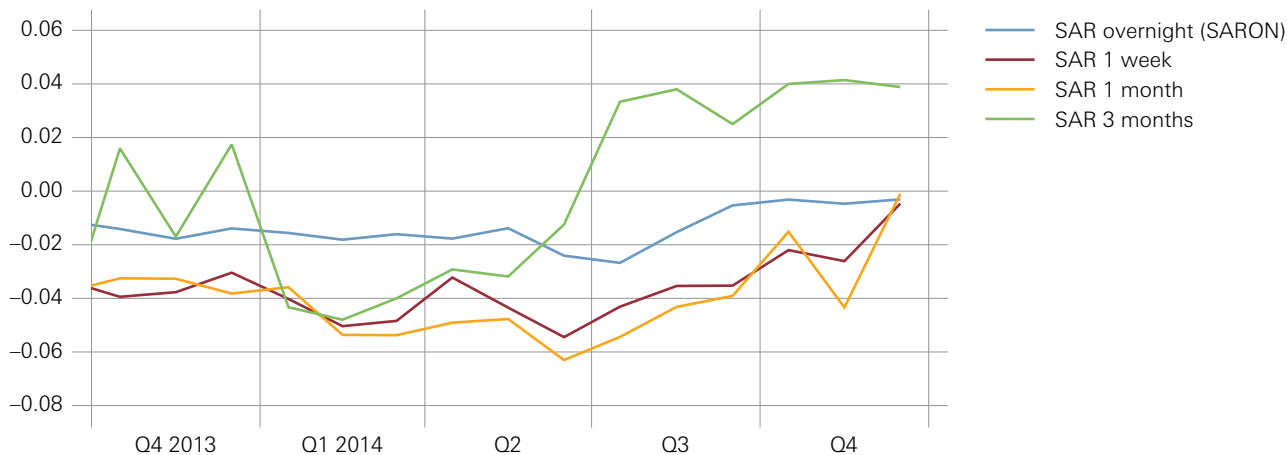
Weekly averages, in CHF billions



Source: SNB

SWISS FRANC REFERENCE RATES (SWISS AVERAGE RATES, SAR)

Monthly averages of daily figures, in percent



Source: SNB

High level of compliance with minimum reserve requirements

The eligible assets which banks hold to satisfy the statutory minimum reserve requirements, including sight deposits at the SNB, increased to an average of CHF 312 billion. The average level of compliance for the year amounted to 2169%, as compared with 2172% a year earlier (cf. chapter 2.4).

New money market infrastructure in operation

A well-functioning, secure and efficient repo market is vital for the implementation of monetary policy, as well as for market participants' access to central bank liquidity. At the beginning of May 2014, SIX Repo Ltd started operating a new trading platform for the Swiss money market. The SNB has since used this platform to conduct regular open market operations (repo transactions and issuance of SNB Bills), transactions under the standing facilities, as well as auctions on behalf of the Swiss Confederation.

By establishing a trading platform for money market operations, SIX provides an integrated infrastructure that covers trading, securities settlement and payment processing, as well as opening the way to further developments, in particular the introduction of new products. Interbank trading now mainly takes place on the new platform of SIX Repo Ltd, which already has more than 150 domestic and foreign participants. The aim is to provide an attractive infrastructure for the Swiss franc money market over the long term by continually developing the trading platform and the post-trading functions, such as collateral management.

During a three-month period starting in mid-August 2014, the SNB tested the new trading platform by conducting repo transactions and transactions with SNB Bills. These tests proved that the SNB, the counterparties and infrastructure operators were fully prepared to conduct monetary policy operations.

Efforts to reform benchmarks

In recent years, manipulations of benchmarks on interest rate and foreign exchange markets have been revealed, undermining the credibility of these benchmarks. Credible benchmarks for interest rates and foreign exchange rates are important for the smooth running of financial markets and for the implementation of monetary policy. In 2014, the Financial Stability Board (FSB), which coordinates international reform efforts, published reports on both of these areas. The SNB supported the national and international reform initiatives in the field of benchmarks and participated in the preparation of both reports.

As regards benchmark interest rates, the FSB recommended pursuing a two-pronged approach. First, it suggested that the existing interbank offered rates (Libor, Tibor and Euribor), which are based on unsecured transactions, should be further improved. Second, it proposed that efforts should be made to develop alternative benchmark interest rates for near risk-free transactions. The interbank offered rates were reviewed based on the principles of the International Organization of Securities Commissions (IOSCO). Despite making significant progress in the past two years, benchmark interest rate administrators have not yet been able to meet all the requirements set by the IOSCO, but work on the matter is ongoing. The FSB intends to publish an interim report on the reform efforts in 2015.

Improving Libor rates and developing alternatives

In order to assess the FSB proposals on benchmark interest rates in Swiss francs, the SNB conducted a survey on the Swiss franc money market at over 50 domestic and international banks. It collected data on interbank and wholesale transactions as well as on trades of money market debt securities. The results show that a purely transaction-based approach cannot be implemented as the number of transactions on the Swiss franc money market is currently too small. For this reason, the Swiss franc Libor will continue to be based on the interest rate conditions reported by the participating banks.

At national level, progress was made in the TOIS fixing, which is based on unsecured transactions in the area of call money and is used for the valuation of interest rate derivatives. On 1 October 2014, new standards were applied to the TOIS fixing, bringing it into line with international requirements; this process also resulted in a number of other enhancements, including improvements to supervisory structures and codes of conduct.

As regards foreign exchange benchmarks, the FSB proposed ways to reform the fixing of WM/Reuters, a financial service provider. The FSB report finds that liquidity on the foreign exchange market is high and – in contrast to the situation with benchmark interest rates – thus provides an adequate data basis for the calculation of foreign exchange benchmarks. The WM/Reuters fixing problem stems mainly from the fact that trading orders become heavily concentrated shortly ahead of the fixing time. This provides opportunities to manipulate the price of the fixing. The FSB recommended, inter alia, that the fixing window be widened and that various code of conduct guidelines for the execution of fixing orders be adopted.

Reforming foreign exchange fixing

Principles of collateral policy

The SNB enters into credit transactions with banks and other financial market participants, provided that the loans are covered by sufficient collateral (art. 9 NBA). This collateral protects the SNB against losses and ensures equal treatment of its counterparties. The ‘Guidelines of the Swiss National Bank on monetary policy instruments’ outline the types of securities that are eligible as collateral for SNB transactions. The criteria for securities admitted for repo transactions are detailed in the ‘Instruction sheet on collateral eligible for SNB repos’. Only securities included in the ‘List of collateral eligible for SNB repos’ are accepted. Besides securities in Swiss francs, the National Bank accepts securities in foreign currencies. By international standards, it traditionally sets high minimum requirements with regard to the marketability and credit rating of securities. This obliges banks to hold recoverable and liquid assets. In turn, this is essential if banks are to be able to refinance their operations on the money market, even under difficult conditions.

Alignment with revised Liquidity Ordinance

In 2014, the SNB adjusted its criteria for collateral eligible for SNB repos to bring them into line with the requirements of the revised Ordinance on the Liquidity of Banks (Liquidity Ordinance). This ensures that all collateral eligible for SNB repos also fulfils the criteria for high-quality liquid assets (HQLA) according to the revised Liquidity Ordinance. The revised Liquidity Ordinance and the SNB’s amended collateral policy came into effect on 1 January 2015.

Tightening of exclusion criteria

The revision focused on the exclusion of financial securities issued by financial institutions domiciled outside Switzerland or by domestic insurance companies. This means that, in addition to debt certificates issued by domestic banks, these other financial securities are excluded from the list of collateral eligible for SNB repos. This exclusion does not apply to covered bonds issued by foreign financial institutions and domestic mortgage bond institutions. Furthermore, the credit rating requirements for securities in Swiss francs were brought into line with those for securities in foreign currencies. These adjustments further increase the quality of the collateral eligible for SNB repos while ensuring that the liquidity of the repo market in Swiss francs can be maintained under the new liquidity provisions. As a result of these adjustments, the volume of collateral eligible for SNB repos declined by some CHF 270 billion. At the end of 2014, it amounted to the equivalent of CHF 9,650 billion.

With effect from 1 January 2015, the SNB also adjusted its assignment of collateral to baskets. All securities in the SNB GC Basket (collective basket) were allocated to additional baskets based on their characteristics, in line with HQLA criteria. The calculation of secured Swiss franc benchmark interest rates is still based on market data relating to repo transactions against collateral eligible for SNB repos. This interest rate curve is calculated based on the call money rate (SARON).

Reassignment of collateral

2.3 USE OF MONETARY POLICY INSTRUMENTS

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

Foreign exchange transactions

Upward pressure on the Swiss franc intensified in 2014 and, towards the end of the year, the euro approached the minimum exchange rate of CHF 1.20 per euro. In order to enforce it, the SNB conducted foreign exchange transactions and purchased foreign currency with a countervalue of CHF 25.8 billion.

The SNB continuously monitors the foreign exchange market from market opening on Sunday evening to market closing on Friday evening. The SNB's branch in Singapore facilitates round-the-clock monitoring.

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.

Foreign exchange swaps

In 2014, the SNB did not conclude any foreign exchange swaps for monetary policy purposes.

Repo transactions

In the case of liquidity-providing repo transactions, the SNB purchases securities from a bank (or other market participant admitted as a counterparty) and credits the associated sum in Swiss francs to the counterparty's sight deposit account with the SNB. At the same time, it is agreed that the SNB will resell securities of the same type and quantity at a later date. The bank 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 from 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.

There was no need to conduct repo transactions as part of open market operations in 2014, since the level of Swiss franc liquidity in the financial system was high and all monetary policy instruments were geared towards the enforcement of the minimum exchange rate.

In order to test the productive environment of the new trading platform, the SNB carried out repo transactions during a three-month period, starting in mid-August 2014.

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. 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 can carry out its open market operations in the form of auctions or bilateral transactions. Transactions on the money market are mostly 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.

One of the monetary policy instruments of the SNB is the interest rate on sight deposit accounts. The NBA authorises the SNB to keep interest-bearing and non-interest-bearing sight deposit accounts for banks and other financial market participants (art. 9 NBA). To date, the sight deposit accounts have not paid interest. The SNB's contractual relations are defined in the Terms of Business. In order to be able to introduce positive or negative interest rates on sight deposits, it announced on 18 December 2014 that it would amend its Terms of Business accordingly. The interest rate level, the exemption thresholds and other modalities are detailed in an instruction sheet.

By setting the interest rate on sight deposit accounts and defining the other conditions, the SNB influences the interest rate level on the money market. This instrument takes effect through the costs of holding liquidity, without directly changing the banks' liquidity situation.

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

Own debt certificates

In 2014, no SNB Bills were issued or repurchased for monetary policy reasons. As part of its test operations in the productive environment of the new trading platform, the SNB issued SNB Bills in four auctions between 13 October and 3 November.

**Interest on sight deposit
account balances at the SNB**

On 18 December 2014, the SNB decided to impose an interest rate of -0.25% on sight deposit account balances that exceed a given exemption threshold. This measure became effective on 22 January 2015, once the amended Terms of Business had entered into force, and following a further reduction of the interest rate to -0.75% on 15 January 2015. The SNB determines the exemption threshold individually for each account holder. For banks subject to minimum reserve requirements (cf. chapter 2.4), the exemption threshold was set at 20 times the statutory minimum reserve requirement. Holders of sight deposit accounts that are not subject to minimum reserve requirements were granted a fixed exemption threshold. The sight deposits of domestic authorities are not subject to negative interest.

The introduction of negative interest raised the cost of holding liquidity and caused the interest rate level for Swiss franc investments to decline across the board. This once again increased the interest rate differential with other countries and eased upward pressure on the Swiss franc.

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 funds received 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 further to CHF 1.5 billion, as compared with CHF 1.9 billion a year earlier.

**Liquidity-shortage
financing facility**

To bridge unexpected liquidity bottlenecks, the SNB offers a liquidity-shortage financing facility. For this purpose, it 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%. The basis for the rate is the SARON of the current bank working day. The special rate is valid until 12.00 noon of the following bank working day.

In 2014, the liquidity-shortage financing facility was hardly used. Averaged over the year, the associated volume amounted to around CHF 1 million. The limits for the liquidity-shortage financing facility amounted to CHF 38.3 billion; at the end of the year, 86 financial market participants held limits.

SUPPLYING THE MONEY MARKET WITH LIQUIDITY

Liquidity-related operations in CHF millions¹

Terms	2014	2013
Open market operations		
Repo transactions ²	–	–
Up to 3 days	–	–
4 to 11 days	+1	–
12 to 35 days	–	–
36 days to 1 year	–	–
Foreign exchange swaps ²	–	–
Up to 7 days	–	–
8 to 28 days	–	–
29 to 94 days	–	–
SNB Bills ²	–	–
7 days	+3	–
28 days	–	–
84 days	–	–
168 days	–	–
336 days	–	–
Foreign exchange transactions	+25 750	–3 111
Total	+25 754	–3 111
Standing facilities		
Intraday facility ³	+1 547	+1 858
Liquidity-shortage financing facility ²	0	0

1 A plus sign (+) indicates liquidity-providing; a minus sign (–) indicates liquidity-absorbing.

2 Average level of liquidity-providing operations outstanding at the end of the day.

3 Average daily turnover.

2.4 MINIMUM RESERVES

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

	2014 Outstanding Average	2013 Outstanding Average
Sight deposits at the SNB	312 289	300 764
Banknotes	6 490	6 427
Coins in circulation	131	110
Eligible assets	318 910	307 301
Requirement	14 706	14 150
Compliance in excess of requirement	304 204	293 151
Compliance in percent	2 169	2 172

In 2014 (between 20 December 2013 and 19 December 2014), statutory average minimum reserves amounted to CHF 14.7 billion. This is a 4% increase year-on-year. Eligible assets rose to CHF 318.9 billion on average, compared with CHF 307.3 billion a year previously. Banks exceeded the requirement by an annual average of CHF 304.2 billion; the average degree of compliance amounted to 2169% (2013: 2172%). The statutory minimum reserve requirement was met by all 262 banks.

2.5 LIQUIDITY IN FOREIGN CURRENCIES

Since October 2013, standing bilateral liquidity swap arrangements have been in place between the SNB, the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank and the US Federal Reserve. This permanent network of swap arrangements is to remain in place until further notice and allows the participating central banks, where necessary, to provide banks in their jurisdiction with liquidity in any of the relevant currencies, thus serving as a prudent liquidity backstop.

Permanent network of swap arrangements

In 2014, the SNB offered weekly repo transactions in US dollars with a term of one week, and up to April monthly repo transactions with a term of three months. There was no demand for either of these terms.

Up to year-end 2014, it was not necessary for the SNB to provide liquidity in the other foreign currencies or in Swiss francs in the context of these arrangements.

In July 2014, the SNB and the People's Bank of China (PBC) concluded a bilateral swap agreement. This swap agreement enables both central banks to purchase and repurchase renminbi and Swiss francs, up to a limit of CNY 150 billion, or CHF 21 billion. This allows liquidity in renminbi and Swiss francs to be made available to the relevant markets as required. The swap agreement is a key prerequisite for the development of a renminbi market in Switzerland. The PBC also granted the SNB an investment quota in renminbi, enabling it to invest in the Chinese bond market (cf. chapter 5.1). Through the conclusion of the bilateral swap agreement and the granting of a renminbi investment quota, collaboration between the PBC and the SNB will be strengthened. The swap agreement highlights the increasingly close ties between China and Switzerland.

Renminbi swap agreement and investment quota

2.6 EMERGENCY LIQUIDITY ASSISTANCE

SNB as lender of last resort

The SNB can act as a lender of last resort. Within the context of this emergency liquidity assistance, the SNB can provide liquidity to 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. Furthermore, 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).

3

Ensuring the supply and distribution of cash

3.1 BACKGROUND

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 (banknotes and coins) in Switzerland. It works to ensure an efficient and secure payment system. The SNB is also charged by the Swiss Confederation with the task of putting coins into circulation.

Mandate

Banknotes and coins are supplied to the economy via the two cash distribution services at the Berne and Zurich head offices, as well as 14 agencies operated by cantonal banks on behalf of the SNB. The National Bank issues banknotes and coins commensurate with demand for payment purposes, offsets seasonal fluctuations and withdraws banknotes and coins no longer fit for circulation. Local distribution and redemption of banknotes and coins are performed by commercial banks, Swiss Post and cash processing operators.

Role of the SNB

3.2 OFFICES, AGENCIES AND CASH DEPOSIT FACILITIES

In 2014, the turnover (incoming and outgoing) of the offices in Berne and Zurich amounted to CHF 105.7 billion (2013: CHF 110.1 billion). They received a total of 417.2 million banknotes (2013: 418.5 million) and 1,228 tonnes of coins (2013: 1,323 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 432.5 million banknotes (2013: 433.3 million) and 1,959 tonnes of coins (2013: 1,987 tonnes).

Turnover at offices

The 14 agencies assist the SNB offices by distributing and redeeming cash. They play an important role in ensuring the regional supply and distribution of cash. In order for the agencies to do this, the SNB provides them with cash, which remains the SNB's property.

Turnover at agencies

The agencies' turnover (incoming and outgoing) amounted to CHF 12.6 billion (2013: CHF 13.6 billion). The share of agency turnover in the SNB's overall turnover was 11.9% (2013: 12.4%).

Cash distribution services There is a growing trend for the SNB's main partners – commercial banks, Swiss Post and cash processing operators – to site their cash handling activities at fewer, centralised locations. This allows them to manage banknotes and coins more efficiently. To ensure the supply of cash in Switzerland at all times, the SNB runs cash distribution centres at the head offices in Zurich and Berne and issues regulations on the manner, place and time for the receipt and delivery of banknotes and coins. Its activities in this field are based on the Federal Act on Currency and Payment Instruments (CPIA).

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 cash processing operators deposit surplus banknotes and withdraw them as required. The corresponding bookings are made to their sight deposit accounts at the SNB. Cash deposit facilities reduce the amount of incoming and outgoing cash 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 2014, there were a total of three cash deposit facilities.

3.3 BANKNOTES

Mandate Pursuant to art. 7 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.

Banknote circulation Banknote circulation averaged CHF 62.7 billion in 2014, which was above the CHF 59.7 billion recorded a year earlier. Growth slowed in comparison to previous years. The total number of notes in circulation averaged 389.8 million (2013: 377.1 million). The increased demand for banknotes is due to the persistently low level of interest rates. The greater demand for small-denomination notes mainly reflects positive developments in private consumption.

In 2014, the National Bank put 90.3 million freshly printed banknotes (2013: 68.6 million) with a face value of CHF 7.6 billion into circulation (2013: CHF 6.4 billion), and destroyed 76.6 million damaged or recalled notes (2013: 59.2 million) with a face value of CHF 4.6 billion (2013: CHF 3.5 billion).

Issue and disposal

Approximately 2,600 counterfeit banknotes were confiscated in Switzerland in 2014 (2013: 3,700). This corresponds to seven counterfeit notes per million Swiss franc notes in circulation (2013: 10). By international standards, this is a modest figure.

Counterfeits

The SNB is committed to putting banknotes into circulation that are both innovatively designed and meet the latest technological standards. The current banknote series was unique in this respect when it was issued in the mid-1990s and fulfilled high quality standards. It still has a very high security standard today.

New banknote series

A new banknote series must meet high standards on technical aspects concerning security and production – and will have to do so for at least 15 years after its release. The new series, which is currently being developed, has suffered a number of delays, as detailed in previous years' accountability reports. The new security features, which are complex and have never before been applied to banknote design, must also stand up to the rigours of industrial production processes. In 2014, work on the new series proceeded according to plan. The issue date will be announced as soon as production of the first banknote denomination, the 50-franc note, has been completed.

NUMBER OF BANKNOTES IN CIRCULATION

In millions



- CHF 10s: **72**
- CHF 20s: **81**
- CHF 50s: **48**
- CHF 100s: **106**
- CHF 200s: **45**
- CHF 1000s: **38**

Annual average for 2014

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. In its efforts to ensure the supply of coins, the SNB is supported by Swiss Post and Swiss Federal Railways in accordance with the Coinage Ordinance.

Coin circulation

In 2014, the value of coins in circulation averaged CHF 2,961 million (2013: CHF 2,905 million), which corresponds to 5,241 million coins (2013: 5,124 million). The value of coins in circulation has increased relatively consistently by between 2% and 2.5% annually in recent years.

Storage of gold reserves

Art. 99 para. 3 of the Federal Constitution obliges the SNB to hold part of its currency reserves in gold. In spring 2013, the SNB announced that 30% of its gold is stored outside Switzerland, namely in the UK (20%) and Canada (10%), and has been for over ten years.

For the SNB, provision for emergencies has always been a relevant criterion for the geographical distribution of its gold reserves. Thus only countries with particularly stable economic and political conditions are considered for the storage of gold. Additionally, legal requirements such as immunity for central banks must be met in order that the gold can be accessed at all times. Furthermore, the locations must have liquid gold markets so that gold can be bought and sold rapidly if necessary.

The bulk of the SNB's gold reserves was acquired between 1946 and 1971, under the Bretton Woods system of fixed exchange rates which saw the US dollar pegged to gold. During this period, the SNB's gold holdings increased from 1,016 tonnes to 2,585 tonnes as a result of foreign exchange market interventions and the exchange of purchased US dollars for gold.

At the time, Swiss monetary law also applied to the storage of gold. It prescribed that a minimum coverage of 40% of banknote circulation be held as gold in Switzerland, with the SNB having to value its gold at a fixed price (parity rate). The SNB therefore aligned its gold storage with the regulations for banknote circulation, i.e. it held only as much gold as necessary in Switzerland. In 1976, the SNB made the fundamental decision to keep half the gold in Switzerland and the other half abroad in the future. However, because of the regulations, this decision could not be implemented immediately, meaning that in 1978, the majority of the gold (67%) was still in Switzerland. It was the 1978 revision of the National Bank Act (NBA) that made it possible to count gold holdings stored abroad as backing for banknotes. The SNB was then able to fulfil its objective and move gold from Switzerland abroad.

The transfer of gold from one country to another can be undertaken using gold shipments. It is, however, also possible to do so by engaging in location swaps. Gold holdings belonging to a contracting party stored in one country can be swapped for the gold reserves of another contracting party stored in a different country. Location swaps significantly reduce transport-related risks and costs. In the past, the SNB used both methods.

In 1997, gold backing for banknotes was reduced from 40% to 25% following a revision of the NBA. Two years later, the comprehensive revision of the Federal Constitution of April 1999 fundamentally changed the conditions by abolishing the formal link between the Swiss franc and gold. With the new Federal Act on Currency and Payment Instruments, which replaced the Coinage Act in May 2000, the obligation to value the SNB's gold at parity was removed. The 2003 NBA no longer contained any regulations on gold backing.

With this reform of monetary law, part of the gold reserves no longer required for monetary policy could be sold at market value. The sale of a total of 1,300 tonnes of gold, which began in May 2000, took five years to complete and mainly concerned gold held abroad. For investment policy reasons, the SNB sold a further 250 tonnes of gold in 2007 and 2008. It was once again largely gold holdings abroad that were reduced.

Today, the SNB holds 1,040 tonnes of gold. Every gold bar is catalogued using a bar marking system that enables clear identification of the National Bank's holdings. The SNB examines the gold holdings at regular intervals. No gold purchases or sales are currently planned.

4

Facilitating and securing cashless payments

4.1 BACKGROUND

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

Mandate

A large part of the cashless payment transactions in Swiss francs 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' SIC settlement accounts and are therefore equivalent to cash payments. The prerequisite for participating in SIC is the opening of an SNB sight deposit account.

Main feature of SIC

The SNB steers the SIC system and ensures that there is sufficient liquidity by granting, when necessary, intraday loans to banks against collateral. It transfers liquidity from the SIC participants' sight deposit accounts at the SNB to their settlement accounts in SIC at the start of each settlement day and transfers the turnovers from the individual settlement accounts back to the respective 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 evening before the corresponding calendar day and ends at 4.15 pm.

The SNB's role in SIC

As a systemically important financial market infrastructure, SIC is overseen by the SNB (cf. chapter 6.6).

The SNB has transferred the operation of the SIC system to SIX Interbank Clearing Ltd, a subsidiary of SIX Group Ltd (SIX). The provision of data processing services for the SIC system is laid down in an agreement between the SNB and SIX Interbank Clearing. The relationship between the SNB and the holders of sight deposit accounts is governed by the SIC giro agreement.

Operation by SIX Interbank Clearing Ltd

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

Involvement in SIC

Eligibility for SIC

The SNB grants access to the SIC system to banks, but also to other financial market participants. These include securities dealers, insurance companies and institutions which play a significant role 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 SIC. While all SIC participants must hold a sight deposit account at the SNB, some SNB sight deposit account holders are not connected to SIC.

4.2 THE SIC SYSTEM IN 2014

Transactions and turnover

In 2014, SIC settled a daily average of approximately 1.7 million transactions amounting to CHF 119 billion. Compared to the previous year, this represents a 2.1% increase in the number of transactions and a 6.3% decrease in the value of transactions. Peak days saw up to 5.1 million transactions being settled, with turnovers of up to CHF 208 billion.

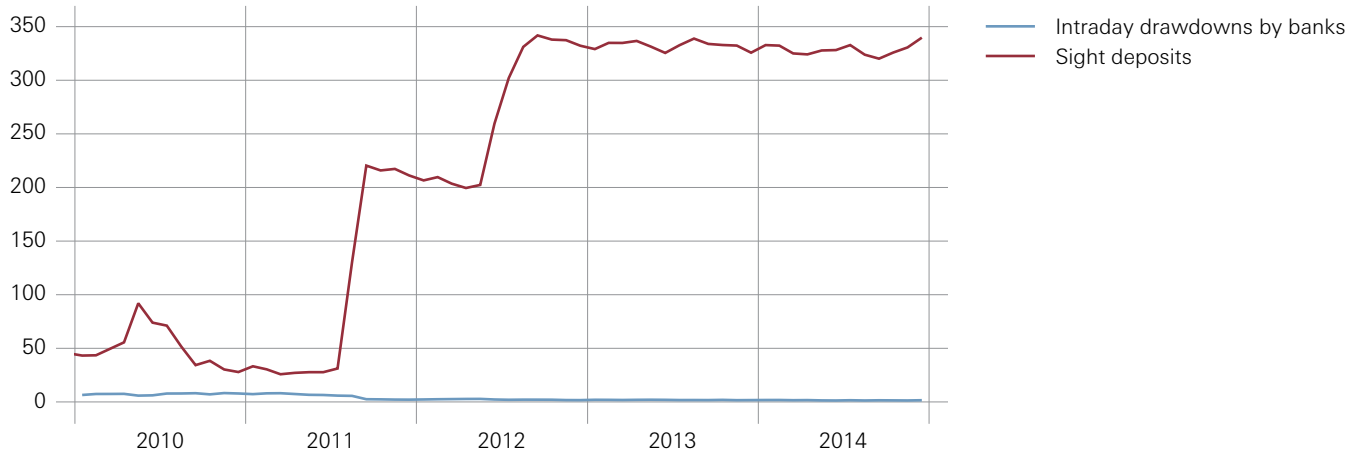
KEY FIGURES ON SIC

	2010	2011	2012	2013	2014
Number of transactions					
Daily average (in thousands)	1 542	1 585	1 628	1 673	1 708
Peak daily value for year (in thousands)	5 056	5 477	4 755	5 498	5 123
Value of transactions¹					
Average daily turnover (in CHF billions)	154	149	120	127	119
Peak daily turnover for year (in CHF billions)	357	255	228	215	208
Average value per transaction (in CHF thousands)	100	94	74	76	69
Average liquidity					
Sight deposits at end of day (in CHF millions)	50 489	101 189	272 952	332 428	328 597
Intraday facility ¹ (in CHF millions)	7 352	5 361	2 251	1 858	1 547

¹ The transaction values are based on a revised method of calculation and thus vary from the figures reported in the 2012 accountability report.

LIQUIDITY IN SIC

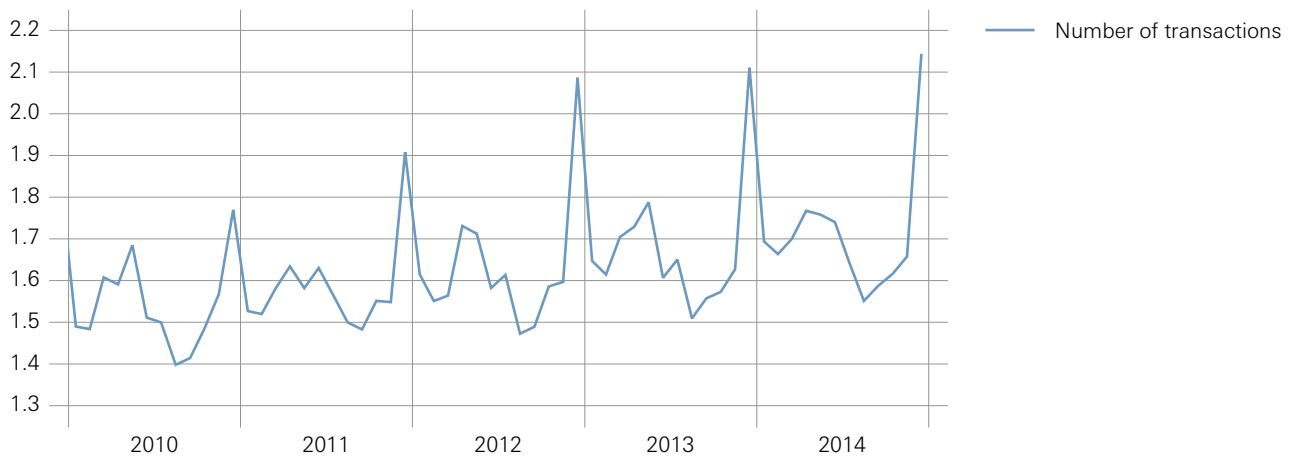
Monthly averages of daily figures, in CHF billions



Source: SNB

TRANSACTIONS IN SIC

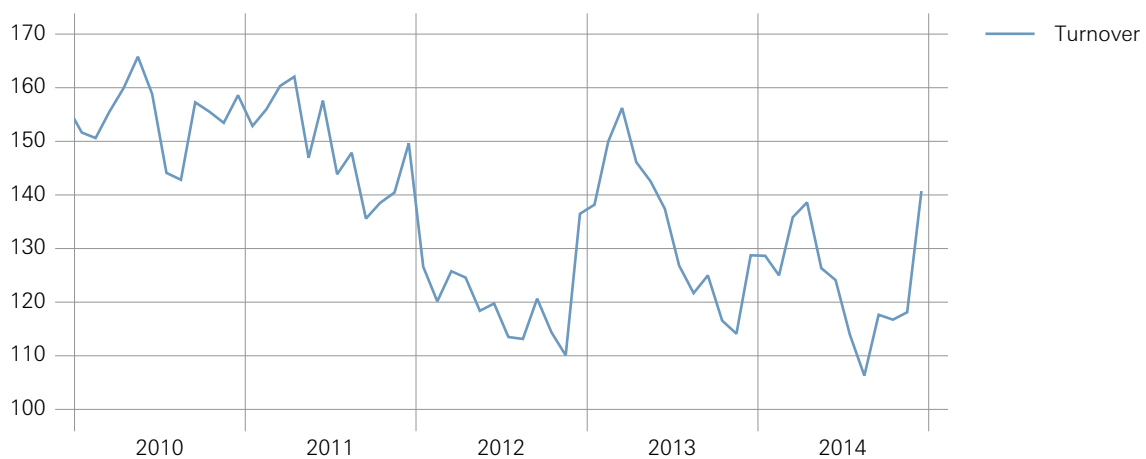
Monthly averages of daily figures, transactions in millions



Source: SNB

TURNOVER IN SIC

Monthly averages of daily figures, in CHF billions



Source: SNB

Participants in SIC

As at 31 December 2014, the SNB had 462 holders of sight deposit accounts (2013: 468). Of these, 358 participated in SIC (2013: 368). The majority of SIC participants (247) are domiciled in Switzerland (2013: 257).

4.3 DEVELOPMENTS IN SWISS FINANCIAL MARKET INFRASTRUCTURE

New IT architecture for SIC

The SIC system, which began operations in 1986, is continuously redeveloped to keep pace with technological advances. The main goal of the SIC4 project is to redesign the IT architecture of the SIC system. The introduction of SIC4 for the settlement of Swiss franc payments is planned for 2016. The project is being managed by SIX Interbank Clearing, with the involvement of the SNB and the banks.

SIC as part of 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, a company owned by around 140 financial institutions, who are also the main users of the services provided by SIX. As part of its core responsibilities, SIX covers the entire Swiss value chain, comprising securities trading (stock exchange), securities services (including securities settlement), payment services (including SIC) and financial information, independently and in the interest of its owners.

Strategic importance of Swiss value chain

A well-functioning, secure and efficient financial market infrastructure is of crucial importance to the SNB. The SNB depends on this infrastructure considerably in fulfilling its statutory mandate, particularly in providing the money market with liquidity as well as facilitating and securing cashless payments. At an organisational level, the SIX Repo Ltd and SIX Interbank Clearing Ltd units were merged into the SIX Securities Services division in 2014. The move served to strengthen the status of those elements of SIX's financial market infrastructure which are of particular importance to the SNB.

5.1 BACKGROUND AND OVERVIEW

The assets of the Swiss National Bank (SNB) fulfil important monetary policy functions. They consist largely 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).

Mandate

The SNB's currency reserves are held primarily in the form of foreign currency investments and gold. The currency reserves also include international payment instruments and the reserve position in the International Monetary Fund (IMF).

Currency reserves

The SNB 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. The level of the currency reserves is largely dictated by the implementation of monetary policy.

The financial assets in Swiss francs are made up of Swiss franc bonds and sometimes also claims from repo transactions. At the end of 2014, there were no outstanding claims from repo transactions.

**Financial assets
in Swiss francs**

Investment principles

Asset management is governed by the primacy of monetary policy and is carried out in accordance with the criteria of security, liquidity and return. Investment policy takes into consideration all central bank requirements and is based on comprehensive risk/return analyses.

The weighting of the individual investment criteria is derived from the functions of the currency reserves. Ensuring room for manoeuvre in the implementation of monetary policy requires, in particular, a high level of liquidity. The SNB therefore invests a substantial portion of its currency reserves in highly liquid foreign government bonds. The criterion of security is taken into account by structuring investments so that at least the real value is preserved over the long term. This requires sufficient returns. To improve the long-term risk/return profile, the foreign currency investments are extended to include investment categories other than government bonds. Since all investments have to be valued in Swiss francs, a certain positive return must be achieved in the local currencies to compensate for the Swiss franc's long-term upward trend. The returns enable the accumulation of provisions. Furthermore, where appropriate they allow for the financing of distributions. Therefore, as long as it is consistent with monetary policy, currency, interest rate, share price, credit and liquidity risks will be entered into selectively. Equity holdings, in particular, serve to optimise the risk/return profile of the currency reserves in the long term.

The equity portfolios are managed passively, by replicating a combination of different indices. In general, no investments are made in international mid-cap and large-cap banks and bank-like institutions, to avoid possible conflicts of interest. In addition, the SNB excludes companies which produce internationally banned weapons, seriously violate fundamental human rights or systematically cause severe environmental damage.

At the end of 2014, currency reserves amounted to CHF 541 billion. Compared to the period prior to the financial crisis, this level is high and involves both greater demands on currency reserve management as well as higher financial risk. Ensuring a broad diversification is therefore a key element in the management of currency reserve risk. The SNB makes sure that its investment activity does not impact markets and currency developments.

Innovations in 2014

No new investment categories or currencies were added in 2014. Mid-year, however, an agreement was concluded with the People's Bank of China, allowing the SNB to purchase bonds on the local Chinese market up to the amount of CNY 15 billion (just over CHF 2 billion). Such investments are planned for 2015.

In 2014, the SNB also developed the necessary guidelines for exercising voting rights associated with equity investments. It intends to limit these rights to aspects of good corporate governance.

Most of the investments are managed at the Zurich head office. Portfolios from the Asia-Pacific region are managed by internal SNB portfolio managers in the Singapore branch office, which was opened on 1 July 2013. This location also facilitates round-the-clock foreign exchange market operations. Its activities, especially trade and portfolio management, are fully integrated into the existing investment and risk control process in Switzerland.

Branch office in Singapore

5.2 INVESTMENT AND RISK CONTROL PROCESS

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 Bank Council members – supports the Bank Council in this task. It monitors risk management, in particular, and evaluates the governance of the investment process. Internal risk management reporting is addressed to the Governing Board and the Risk Committee.

Responsibilities of Bank Council and 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 borrower categories. The Governing Board decides on the composition of the currency reserves and other assets, and defines the foreign currency investment strategy. The investment strategy covers the allocation of foreign currency investments to different investment categories and currencies, and determines the scope for active management at operational level.

**Responsibilities of
Investment Committee and
Portfolio Management**

The Investment Committee, an internal body, decides on the tactical allocation of the foreign currency investments at operational level. Within the strategically prescribed ranges, it adjusts currency weightings, bond durations and allocations to the different investment categories, to take account of changed market conditions. Portfolio Management administers the individual portfolios. The majority of investments are managed internally. External asset managers are used for benchmarking the internal portfolio management. To avoid conflicts of interest, at the operational level the responsibilities for monetary policy and investment policy are largely kept separate.

**Responsibilities of
Risk Management**

The most important element for managing absolute risk is broad diversification of investments. 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 assess and manage 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. To mitigate counterparty risk, the replacement values of derivatives are usually 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 risk analyses and the results of risk management activities are submitted to the Governing Board and the Bank Council's Risk Committee in quarterly risk reports. In addition, the annual risk management report is submitted to the Bank Council.

5.3 CHANGES IN AND BREAKDOWN OF ASSETS

At the end of 2014, the SNB's assets amounted to CHF 561 billion, which was CHF 71 billion higher than one year earlier. The value of the currency reserves increased by CHF 64 billion to CHF 541 billion year-on-year. On the one hand, the increase was the result of valuation gains and income on currency reserves. On the other hand, foreign currency purchases made in the fourth quarter to enforce the minimum exchange rate contributed to this rise. Foreign exchange reserves rose by CHF 60 billion in the space of a year. The value of gold holdings climbed by CHF 4 billion. Swiss franc assets consisted of bonds to the amount of CHF 4 billion.

Changes in assets

Gold as a part of currency reserves

Gold is an important component of the National Bank's assets. Art. 99 of the Federal Constitution stipulates that the SNB hold part of its currency reserves in gold. As part of good currency reserve diversification, holding a certain proportion of gold contributes to a more balanced risk allocation. Owing to its marked fluctuations, however, gold per se is one of the riskiest assets.

The SNB's gold holdings have stood at 1,040 tonnes since 2008. In May 2014, the fourth Central Bank Gold Agreement between central banks was announced. The SNB is a signatory of this agreement, in which central banks declare that gold remains an important element of global currency reserves and that currently they do not have any plans to sell significant amounts of gold. The SNB does not intend to buy or sell gold.

At the end of 2014, the bond portfolios in the foreign currency investments contained government and quasi-government bonds as well as bonds issued by supranational organisations, local authorities, financial institutions (mainly covered bonds and comparable securities) and other companies.

Bond portfolios

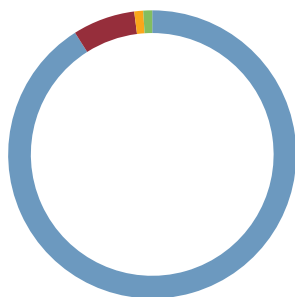
Equity portfolios

The equity portfolios in the foreign currency investments were comprised of shares from mid-cap and large-cap companies (excluding banks) in advanced economies and, to a lesser extent, shares of small-cap companies. The SNB does not engage in equity selection; it only invests passively. Thus, equities are managed according to a set of rules based on a strategic benchmark comprising a combination of equity indices in various markets and currencies. This results in a globally well-diversified equity portfolio of over 5,800 individual stocks (around 1,500 mid-cap and large-cap companies and roughly 4,300 small caps). Replicating indices ensures that there is no underweighting or overweighting at operational level in individual sectors or companies. In the long term, equity holdings contribute to both a higher potential return and a more balanced risk profile of the assets.

With the high level of equity holdings, additional measures were taken to ensure adherence to the stock exchange rules and regulatory requirements in the different countries. In addition, in 2013, the SNB decided to exclude companies which produce internationally banned weapons, seriously violate fundamental human rights, or systematically cause severe environmental damage.

BREAKDOWN OF SNB ASSETS

In percent



- Foreign currency investments **91**
- Gold reserves **7**
- Swiss franc securities **1**
- Monetary institutions **1**

Total: CHF 561 billion
At year-end 2014

The passively managed Swiss franc bond portfolio primarily contained bonds issued by the Confederation, the cantons and foreign borrowers, as well as Swiss Pfandbriefe. The duration of the portfolio was just over seven years.

Swiss franc bonds

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

	Foreign currency investments	2014 CHF bond investments	Foreign currency investments	2013 CHF bond investments
Currency allocation (in percent, incl. derivatives positions)				
CHF		100		100
EUR	46		48	
USD	29		27	
JPY	8		8	
GBP	6		7	
CAD	4		4	
Other ¹	7		6	
Investment categories (in percent)				
Investments with banks	0	–	0	–
Government bonds ²	73	40	76	37
Other bonds ³	12	60	8	63
Shares	15	–	16	–
Breakdown of fixed income investments (in percent)				
AAA-rated ⁴	63	72	70	74
AA-rated ⁴	22	27	24	26
A-rated ⁴	10	1	2	0
Other	5	–	4	–
Investment duration (years)	4.0	7.4	3.3	6.5

1 Mainly AUD, DKK, SEK, SGD, KRW, plus small holdings of other currencies in the equity portfolios.

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 was little year-on-year change in the structure of the foreign currency investments and Swiss franc bonds. The principles of currency and asset category diversification continued to be observed. Compared with the previous year, the euro share declined slightly in favour of the share of the US dollar. The distribution of ratings also changed because of a shift from sight deposits at both the European Central Bank (ECB) and the Deutsche Bundesbank to bonds, and because of the downgrading of Japan's debt rating from AA to A. The proportion of investments with a minimum rating of AA receded in favour of A-rated investments. The share of equities in foreign currency investments amounted to 15% at year-end.

5.4 ASSET RISK

Risk profile

The risk profile of assets is determined by the currency reserves. The main risk to the currency reserves is market risk, in particular risks related to exchange rates, the gold price, share prices and interest rates. In addition, there is liquidity risk as well as credit and country risks, although these are smaller than market risk. The contribution of Swiss franc bonds to total risk is negligible.

Market risk

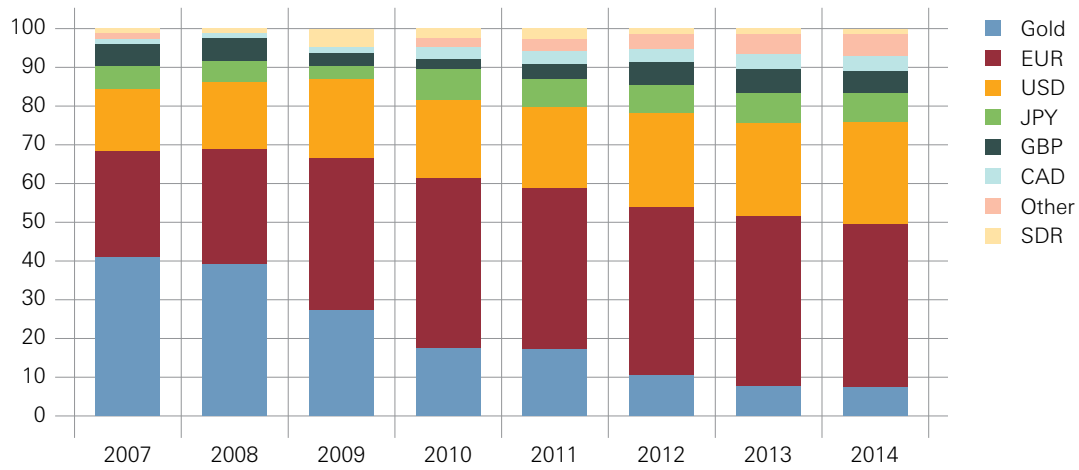
Exchange rates are the most important risk factor for the currency reserves. Fluctuations in the gold price and stock prices as well as interest rate risk are relevant as well. Even minor changes in the Swiss franc exchange rates can lead to substantial fluctuations in investment income, and thus in the SNB's capital. As a matter of principle, currency risk is not hedged against Swiss francs because the corresponding measures – e.g. forward sales of foreign currency against Swiss francs – can have a direct impact on monetary policy. To manage currency weightings within foreign currency investments, foreign exchange derivatives can also be used, however. Given an equity share of 15% and an average duration of four years for fixed income investments, the contributions of share price risk and interest rate risk to total risk were smaller by comparison. Share price risk and interest rate risk are limited through the specification of benchmarks and management guidelines. Various means, including the use of derivative financial instruments such as interest rate swaps, stock index futures and interest rate futures, are used to control these risks.

Liquidity risk

The SNB's liquidity risk arises from the possibility that, should investments in foreign currencies need to be sold, such sales could be effected only partially or after considerable price concessions, or may not be possible at all. By holding a large number of the most liquid government bonds in the major currencies – euros and US dollars – the SNB continued to ensure a high level of liquidity in its foreign currency reserves in 2014. Liquidity risk is reassessed periodically.

BREAKDOWN OF CURRENCY RESERVES AT YEAR-END

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



Source: SNB

Credit risk

Credit risk stems from the possibility that counterparties or issuers of securities may be unable or unwilling to meet their obligations. Such risks are present in the case of bonds issued by various borrowers and borrower categories. These include bonds issued by public and supranational borrowers, covered bonds and similar instruments as well as corporate bonds. For issuers of bonds, the SNB requires a minimum rating of ‘investment grade’. Exposure to individual issuers is limited by means of concentration limits. Credit risk arising from non-tradable instruments with respect to banks was very low. Replacement values of derivatives were collateralised, in accordance with the ISDA (International Swaps and Derivatives Association) agreements with counterparties. Since May 2014, the SNB has been executing most of its interest rate swaps via a central counterparty. On the one hand, this facilitates netting of offsetting positions. On the other, efficiency gains are made in the daily management of collateral.

Investments mainly took the form of government bonds; the bulk of these are in highly liquid bonds issued by euro area core countries and by the US. At the end of the year, outstanding balances at central banks amounted to just under CHF 23 billion. In all, over 85% of bonds were rated AA or higher.

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 risk, the SNB endeavours to distribute assets among a number of different depositories and countries. Gold holdings are stored according to this principle as well. In choosing a location, attention was paid to both appropriate regional diversification and easy market access. Of the 1,040 tonnes of gold, approximately 70% are held in Switzerland, some 20% at the Bank of England, and roughly 10% at the Bank of Canada. Decentralised storage of gold holdings in Switzerland and abroad ensures that the SNB has access to its gold reserves even in the event of a crisis.

Owing to strong growth in the currency reserves over the past few years, the share of equity in the balance sheet total has seen a considerable decline since 2009. At the end of 2013, this share was just under 10%. It amounted to 16% at the end of 2014. The increase was attributable to substantial profits on currency reserves in 2014. The SNB's loss-absorbing capital is composed mainly of the provisions for currency reserves and the distribution reserve. The distribution reserve serves as a buffer to help smooth the SNB's annual profit distribution. Owing to the good result, the distribution reserve, which had been negative at the end of 2013, was positive again at the end of 2014. In accordance with the profit distribution agreement between the Federal Department of Finance (FDF) and the SNB, the distribution to the Confederation and the cantons is increased if the distribution reserve after profit appropriation exceeds CHF 10 billion. This was the case in 2014. The SNB and the FDF agreed that, in addition to the regular profit distribution of CHF 1 billion, a supplementary distribution in the same amount is to be made. The strong appreciation of the Swiss franc in connection with the discontinuation of the minimum exchange rate led to a significant decline in equity at the beginning of 2015.

Balance sheet and equity

5.5 INVESTMENT PERFORMANCE

Investment performance is calculated for foreign currency investments, gold and Swiss franc bonds.

Profit on currency reserves

In 2014, the overall return on currency reserves was positive, at 8.0%. This was accounted for by both foreign currency investments (at 7.8%) and gold (at 11.4%). All components contributed to the high return on foreign currency investments. Roughly one-third of the return on investments (2.6 percentage points) was attributable to the depreciation of the Swiss franc against the investment currencies, in particular the US dollar. The remaining two-thirds (5.1 percentage points) stemmed from income and valuation gains on bonds and equities, with equities yielding twice as much as fixed income investments.

RETURN ON INVESTMENTS

Cumulated, time-weighted daily returns in percent

	Total	Gold	Currency reserves ¹			CHF bonds 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
2013	-2.5	-30.0	0.7	-2.4	3.2	-2.2
2014	8.0	11.4	7.8	2.6	5.1	7.9

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

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 (especially banks) and financial market infrastructures, can perform their functions and are able to withstand potential disturbances. It is an important prerequisite for economic development and effective monetary policy implementation.

Mandate

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 may be needed. In addition, it helps to create and implement a regulatory framework for the financial sector, and oversees systemically important financial market infrastructures.

In recent years, there has been a shift in the focus of central banks' activities in the area of financial stability, away from crisis management and towards crisis prevention. To counteract the risks that threaten the stability of the financial system, the SNB has had two macroprudential regulatory powers at its disposal since 2012, namely the authority to designate banks as systemically important and the authority to propose the activation, adjustment or deactivation of the countercyclical capital buffer (CCB). While the designation of systemically important banks is focused on combating structural risks, the CCB is geared towards addressing cyclical risks. In the context of crisis management, the SNB continues to fulfil its mandate by acting as lender of last resort where necessary. It provides emergency liquidity assistance to domestic banks whose insolvency would have a severe impact on financial system stability in cases where such banks are no longer able to refinance themselves on the market (cf. chapter 2.6).

Focus on crisis prevention

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 framework 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 Payments and Market Infrastructures (CPMI). In the oversight of cross-border financial market infrastructures, the SNB liaises closely with foreign authorities.

6.2 MAIN ACTIVITIES

Increase of CCB

When it became evident that the imbalances on the Swiss mortgage and real estate markets had increased further, even after the activation of the CCB targeted at mortgage loans financing residential property in Switzerland in February 2013, the SNB submitted a proposal to the Federal Council at the end of 2013 requesting an increase of the CCB. The Federal Council approved the proposal and increased the CCB in January 2014 from 1% to 2% of the associated risk-weighted positions.

Implementation and review of 'too big to fail' regulations

In June 2014, as part of the implementation of the existing 'too big to fail' regulations, the SNB designated the Raiffeisen Group as systemically important in accordance with the Banking Act. In addition, it participated in the review of the 'too big to fail' regulations. This included an involvement in the group of experts appointed by the Federal Council on the further development of the financial market strategy (Brunetti group of experts). The group's work focused on topics such as the regulatory process, international market access and the tax environment. It also assessed the existing 'too big to fail' regulations.

Implementation of revised minimum requirements for FMIs

Within the context of its oversight of systemically important financial market infrastructures (FMIs), the SNB focused particular attention on the implementation of the minimum requirements, which were revised in 2013. The operators of FMIs adopted a number of measures to strengthen their governance and to improve risk management and the procedures in the event of a participant's default. They also drew up recovery plans for the first time; these will be assessed by the SNB in the course of 2015.

6.3 MONITORING THE FINANCIAL SYSTEM

Within the context of monitoring the financial system, the SNB analyses developments and risks in the Swiss banking sector. Its assessment is published, in particular, in its annual *Financial Stability Report*.

Financial Stability Report

The SNB reported that risk-weighted capital ratios at domestically focused commercial banks were significantly above regulatory minimum requirements. It warned, however, that in the current environment these ratios could overestimate the actual resilience of such banks. It drew particular attention to the fact that risk-weighted capital ratios only partly reflect the growing risks on the Swiss mortgage and real estate markets and do not take account of the high level of interest rate risk and the low level of diversification of many of these banks. The SNB continued to regard risks on the mortgage and real estate markets as the most serious challenge to the stability of domestically focused banks.

Domestically focused banks

The SNB observed that the two globally active Swiss big banks had made further progress in improving their capital situation, and welcomed this development. It recommended that the big banks continue to improve their resilience and, in particular, their leverage ratios (unweighted capital ratios). It provided two reasons for this recommendation. First, the loss potential for both big banks continues to be substantial. Second, the SNB noted that although big banks' risk-weighted ratios were above average in an international comparison, the same could still not be said for their leverage ratios.

Big banks

Risk-weighted assets (RWA) are at the heart of the capital regulations for banks. The SNB has long drawn attention to the fact that RWA based on banks' internal models have lost credibility. It may be widely accepted that risks inherent in individual positions can, in principle, be more accurately quantified using banks' internal models than using the standardised approach, which prescribes standardised risk weights for specific asset classes. Yet banks' internal models and their underlying assumptions are difficult for third parties to assess and compare.

Increasing the credibility of RWA

The SNB therefore encouraged the big banks to increase transparency with regard to their risks. More specifically, it recommended that they disclose RWA according to both the model-based approach and the standardised approach. Since the standardised approach is independent of bank-specific model assumptions, it provides market participants with an additional point of reference for assessing both the level of and changes in model-based RWA. Similar to the leverage ratio, which is independent of the bank-specific and regulatory model assumptions, the standardised approach thus provides an additional means of assessing banks' capitalisation.

To compare RWA according to the model-based approach and the standardised approach, FINMA carried out an analysis with the support of the SNB. The results of the analysis will be taken into account when implementing the recommendations made by the group of experts for the further development of the financial market strategy (cf. chapter 6.5.2). The SNB recommended that the banks examine how best to publish these results. At international level, the BCBS released a package of measures for consultation, which included a proposal to increase the transparency of RWA (cf. chapter 6.7.2).

6.4 RISKS AND MEASURES RELATING TO MORTGAGE AND REAL ESTATE MARKETS

Developments until end-2013

Owing to the strong growth in lending volume and real estate prices, which has been observed for a number of years, by 2012 imbalances on the mortgage and real estate markets had already become so large that, in the SNB's view, they posed a threat to the stability of the banking system and hence to the Swiss economy. Imbalances build up when mortgage volumes or residential property prices exhibit stronger growth than fundamentals, such as income or rents, over a long period of time. In 2013, imbalances built up further, albeit at a slower pace than in the previous year and despite the fact that a series of measures had been phased in up to the beginning of 2013. These measures included the revision of the self-regulation rules for mortgage lending, the upward adjustment of risk weights for high loan-to-value mortgage loans and the activation of the CCB.

Against this background, the SNB submitted a proposal to the Federal Council, requesting that the sectoral CCB be increased from 1% to 2% of risk-weighted positions secured by residential property in Switzerland. On 22 January 2014, the Federal Council approved this proposal. Banks were obliged, with effect from 30 June 2014, to hold a buffer amounting to 2% of the associated RWA.

**Increase of CCB
in January 2014**

In September 2014, as a further measure to reduce risk on Swiss mortgage and real estate markets, a set of newly revised self-regulation rules for mortgage lending entered into force (with a transition period until January 2015). This revision mainly included stricter requirements with regard to amortisation of mortgages.

**Further revision of self-
regulation rules in 2014**

As in the previous year, a number of banks introduced measures to strengthen their capital base. This was partly in reaction to the activation of the CCB in February 2013 and the subsequent increase in January 2014. The buffer thus had a positive impact on the resilience of the banking sector.

**Resilience of banking sector
strengthened**

Both the activation and increase of the CCB as well as the additional measures introduced up to the beginning of 2013 played a role in dampening momentum on the Swiss mortgage and real estate markets. As a consequence, imbalances on these markets hardly increased in 2014.

**Imbalances hardly increased
overall**

The SNB was nevertheless unable to discern any broader-based signs of a decline in the risk appetite of banks. The decrease in the proportion of new mortgages with a high loan-to-value ratio, which has been observed since 2012, did not continue. At the same time, the risk related to affordability (loan-to-income ratio) in mortgage lending rose slightly. Moreover, interest margins narrowed once again, while banks' interest rate risk exposure continued at exceptionally and historically high levels.

No decline in risk appetite

No proposal for further CCB adjustment

After weighing up all the factors, the SNB decided not to submit a proposal to the Federal Council in 2014 for a further adjustment of the CCB. However, in the light of banks' continued high risk appetite and the fact that mortgage rates have again fallen to new lows, the SNB warned that the situation on the mortgage and real estate markets could deteriorate again. It continues to monitor developments on these markets closely, and regularly assesses the need for an adjustment of the CCB.

6.5 ADDITIONAL MEASURES TO STRENGTHEN FINANCIAL STABILITY

Purpose of 'too big to fail' regulations

6.5.1 IMPLEMENTATION OF 'TOO BIG TO FAIL' REGULATIONS

The 'too big to fail' regulations are designed to reduce the risks to the stability of the Swiss financial system emanating, in particular, from systemically important banks; as such, the regulations complement the generally applicable banking legislation. In addition, the 'too big to fail' regulations aim to ensure that the economically important functions of these banks can be maintained in the event of insolvency problems, without the need for public sector support. The revised Banking Act envisages a division of the relevant responsibilities between the SNB, FINMA and the systemically important banks.

Decrees on systemic importance

The Banking Act gives the SNB the authority to designate banks and bank functions as systemically important, following consultation with FINMA. A bank is considered to be systemically important if it performs functions in domestic loan and deposit-taking business which are essential to the Swiss economy and cannot be substituted at short notice. Other criteria such as size, risk profile and interconnectedness are also taken into consideration when deciding on systemic importance. The SNB carries out the requisite assessment as part of a formal process culminating in the issuance of a decree.

In June 2014, the SNB issued a decree designating the Raiffeisen Group as a financial group of systemic importance in accordance with the Banking Act. This was prompted by the Group's high market share in domestic loan and deposit-taking business. The SNB had already issued decrees in 2012 and 2013, designating Credit Suisse Group, UBS and Zürcher Kantonalbank as systemically important.

Systemically important banks must meet special requirements as regards capital, liquidity, risk diversification and emergency planning. The Banking Act gives FINMA the responsibility for defining the requirements on capital, liquidity and risk diversification by decree, in consultation with the SNB. In addition, FINMA informs the public about the general content of the decree and compliance with it. In turn, the systemically important bank must draw up an emergency plan and demonstrate that this plan meets the legal requirements. If the bank fails to demonstrate compliance, FINMA will order that appropriate measures be taken.

Special requirements

6.5.2 EVALUATION OF 'TOO BIG TO FAIL' REGULATIONS

The Banking Act stipulates that the Federal Council regularly assesses the status of Swiss 'too big to fail' regulations compared to international standards and their implementation. In 2014, the group of experts on the further development of the financial market strategy conducted an evaluation of the 'too big to fail' regulations. The SNB was involved in this work. The report was submitted to the Federal Council and published at the beginning of December 2014. The findings will serve as a basis for the Federal Council's statutory assessment of the 'too big to fail' regulations.

The group's assessment of the Swiss approach compared with international standards was essentially positive, and the group therefore took the view that there was no need for the regulatory model to be fundamentally revised. At the same time, it concluded that even full implementation of the existing legislation would not completely resolve the 'too big to fail' issue. It therefore recommended additional measures in order to, in particular, improve the resilience of the globally active big banks and make recovery or orderly resolution possible without costs for the taxpayer. The SNB supported the group's recommendations.

Recommendations
on additional measures

The group of experts recommended changes in, specifically, capital regulation, organisational measures and crisis prevention. With regard to capital regulation, it recommended measures to improve the calculation method for RWA, depending on the outcome of the analysis by FINMA and the SNB (cf. chapter 6.3). The group of experts also proposed that capital requirements for global systemically important banks be adjusted. The aim is to ensure that Switzerland is among the leaders internationally as regards capital regulations.

Improvements in RWA and
capital requirements

6.5.3 REGULATION OF FINANCIAL MARKET INFRASTRUCTURES AND DERIVATIVES TRADING

Collaboration on FMIA

The SNB supported the FDF in preparing the draft Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (Financial Market Infrastructure Act, FMIA). The Federal Council issued the corresponding Message in September 2014. Financial market infrastructures (FMIs) comprise stock exchanges, multilateral trading facilities, central counterparties, central securities depositories, trade repositories and payment systems. The FMIA aims to standardise the regulation of FMIs and bring it into line with market developments and international requirements. Moreover, as regards derivatives trading, it will implement the requirements set by the G20 and the recommendations issued by the FSB. Parliament will debate the draft law in the course of 2015.

Regulation of FMIs

The FMIA envisages a general licensing requirement and the creation of specially tailored licensing criteria for the various FMIs. Under the FMIA, the SNB would continue to have responsibility for designating systemically important FMIs and their systemically important business processes. It would also be authorised to set and oversee specific requirements for such FMIs. Of particular relevance for the stability of the financial system is the creation of special insolvency provisions for FMIs, as well as FINMA's obligation to draw up a resolution plan for systemically important FMIs. The SNB would be consulted by FINMA on these resolution plans.

To ensure compatibility with the FMIA, the SNB will have to revise the implementing provisions of the National Bank Ordinance (NBO) which refer to the oversight of FMIs. The work on this began in 2014.

With the advent of the FMIA, derivatives trading would be regulated for the first time. This would impose mandatory reporting, clearing and risk mitigation on derivatives market participants. Mandatory reporting aims to ensure that all derivatives transactions are reported to a trade repository. The clearing requirement stipulates that the applicable derivatives transactions must be cleared via a central counterparty. The risk mitigation requirement applies to derivatives transactions that are not cleared via a central counterparty. It contains a number of different elements, for example, the daily valuation of outstanding trades and the exchange of collateral to cover losses in the event of counterparty default. Finally, the draft FMIA sets out the legal basis for requiring market participants to conduct derivatives trading via a trading platform. However, this provision is not due to enter into force until it has also been introduced in other countries.

Regulation of derivatives trading

6.6 OVERSIGHT OF FINANCIAL MARKET INFRASTRUCTURES

6.6.1 BACKGROUND

The NBA (art. 5 and arts. 19–21) requires the SNB to oversee FMIs (payment systems, securities settlement systems, central securities depositories and central counterparties). It empowers the SNB to impose minimum requirements on the operation of FMIs that might pose a risk for the stability of the financial system. To this end, the SNB is collaborating with FINMA as well as with foreign supervisory and oversight authorities. The NBO sets out the details of the oversight of FMIs.

Mandate

At present, the FMIs 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. These are operated by SIX Interbank Clearing Ltd, SIX SIS Ltd and SIX x-clear Ltd, which are subsidiaries of SIX Group Ltd.

Focus on systemically important FMIs

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 FMIs are domiciled in the US, the UK and Germany, and 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.

Collaboration with FINMA and foreign authorities

SIX SIS and SIX x-clear both hold banking licences and are subject to prudential supervision by FINMA as well as to oversight by the SNB. Although FINMA and the SNB exercise their supervisory and oversight powers separately, they coordinate their activities. Oversight of SIC is exclusively the SNB's responsibility.

The SNB cooperates with foreign authorities in the oversight of Swiss FMIs with cross-border activities. Likewise, for the oversight of FMIs domiciled abroad, namely CLS, Eurex Clearing and LCH, the National Bank cooperates with the relevant foreign authorities. The SNB also participates 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.

High degree of compliance with minimum requirements

6.6.2 MAIN FOCUS OF OVERSIGHT

Overall, SIX Interbank Clearing, SIX SIS and SIX x-clear demonstrate a high degree of compliance with the regulatory minimum requirements. They are appropriately structured, well managed, and have adequate internal control systems. The FMIs have appropriate rules and procedures in place and satisfy the high standards with respect to information and IT security.

Implementation of increased minimum requirements

Mid-2014 saw the entry into force of the increased minimum requirements for systemically important FMIs; these were introduced during the revision of the NBO in 2013. To comply with the increased requirements, SIX Interbank Clearing, SIX SIS and SIX x-clear have implemented a number of measures.

In particular, these three FMIs strengthened their governance and, at the end of 2014, SIX SIS and SIX x-clear submitted recovery plans to the SNB for the first time. These plans show how systemically important business processes can be maintained in the event of insolvency problems or other scenarios that pose a threat to business continuity. The SNB will evaluate these plans over the course of 2015.

SIX SIS and SIX x-clear implemented measures to improve their risk management and the procedures adopted in the event of default by a participant. The measures in the area of liquidity risk management had not been fully implemented by the end of 2014. In addition, SIX x-clear introduced the procedures required by the NBO in the event of participant default. Under these procedures, the collateral and positions held by the defaulting participant for an indirect participant would be transferred to another participant indicated by the indirect participant concerned.

To assess the information and IT security of FMIs, the SNB relies mainly on external auditors. In 2014, the audits – whose scope and degree of detail are determined by the SNB – concentrated on requirements in the area of business continuity management (BCM). The audits showed that, on the whole, the measures and controls implemented by the operators of the FMIs are adequately designed in terms of minimising the effects of possible system disruptions and applying targeted solutions. The recommendations on further improvements to BCM are always implemented rapidly by the FMI operators.

BCM assessment

The SNB maintains an intensive dialogue with the operators of the FMIs subject to oversight, in order to ensure that projects impacting the business activities or the risk profile, and thereby the fulfilment of the minimum requirements, are assessed at an early stage.

Other focal points

Designation of systemically important business processes

In 2014, SNB activities included SIX SIS's direct link to TARGET2-Securities, the European securities settlement platform, which is due to go into operation in June 2015. The SNB also assessed SIX x-clear's various plans to extend its range of services and the impact on risk management. A particular focus of the SNB was the integration of the central counterparty Oslo Clearing ASA, which was acquired by SIX x-clear in May 2014 and is due to be legally integrated in 2015. The SNB assessed the impact of this integration on SIX x-clear's future compliance with the minimum requirements. It concluded that the requirements could also be met after the integration, but that SIX x-clear would have to take certain precautions in this regard.

The revised NBO stipulates that the SNB determines which business processes at FMIs are systemically important, following consultation with FINMA. Such business processes are subject to more stringent minimum requirements. A business process is considered to be systemically important if its non-availability could lead to serious losses, liquidity shortfalls or operational problems at financial intermediaries or other FMIs, or result in severe financial market disruption, and if the business process cannot be substituted by participants at short notice. In 2014, the SNB initiated the procedure for determining systemically important business processes at SIX Interbank Clearing, SIX SIS and SIX x-clear. As part of this work, it interviewed FMI operators and surveyed selected participants.

6.7 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 CPMI (cf. chapter 7.3). In 2014, in connection with the participation in the International Monetary Fund (IMF), the results of a comprehensive assessment of the Swiss financial sector were published.

6.7.1 FINANCIAL STABILITY BOARD

The FSB brings together national authorities responsible for financial stability (central banks, supervisory authorities, finance ministries), international organisations and standard-setting bodies. Switzerland is represented in the Plenary Assembly by the SNB and the FDF. The SNB is also a member of the Steering Committee. In addition, Switzerland participates in various other FSB committees and working groups. This representation is shared between FINMA, the FDF and the SNB, who collaborate closely to develop Switzerland's position.

Swiss representation in FSB

As in previous years, in 2014 the FSB addressed a broad range of topics. From a financial stability perspective, activities to resolve the 'too big to fail' issue were of central importance. The primary focus was on the development of a new minimum requirement for the total loss-absorbing capacity (TLAC) of global systemically important banks. Apart from equity capital, which absorbs losses in current operations, TLAC also includes TLAC-eligible instruments in the form of bonds. These instruments absorb losses in the event of resolution, as they are converted into equity. In November 2014, the FSB released a discussion paper on TLAC for consultation. Based on the responses received and the results of a quantitative impact study, it is planned to rework the new minimum requirement during the course of 2015 and issue it thereafter. Additional loss-absorbing capacity is an important step in enabling the orderly resolution of global systemically important banks.

Proposal on total loss-absorbing capacity

Another important topic was shadow banks, i.e. bank-like institutions in the credit market, such as hedge funds, other funds and leasing companies. By monitoring this area at global level, the FSB aims to identify early any risks emanating from the shadow banking sector. In 2014, the Board published its fourth monitoring report on the subject. The report also contained a case study on shadow banks in Switzerland, which was prepared by the SNB in collaboration with the FDF and FINMA, and provided additional data to supplement the FSB's figures. The study concluded that shadow banking involving bank-like risks plays a much smaller role in Switzerland than the FSB's published figures might suggest. In addition, the FSB completed the drafting of a number of shadow banking regulations, and oversaw their implementation. Moreover, country peer reviews were carried out on specific topics, such as money market funds.

Shadow banks

6.7.2 BASEL COMMITTEE ON BANKING SUPERVISION

The BCBS brings together high-ranking representatives of banking supervisory authorities and central banks from 27 countries. It develops recommendations and sets international standards in the area of banking supervision.

Implementation of agreed reform programme

In 2014, the BCBS focused primarily on the completion of the programme of reforms agreed in connection with the financial crisis. In this regard, the definition of the leverage ratio (unweighted capital ratio) was revised and the net stable funding ratio (structural liquidity ratio) was finalised. Moreover, the new international standard on measuring and controlling large exposures was published.

Simplicity, comparability and risk-sensitivity

Another area of activity was the drafting of measures to improve the relationship between simplicity, comparability and risk-sensitivity in the Basel capital requirements. This includes measures to reduce excessive variability in RWA caused by the use of banks' internal models. First, the standardised approaches for credit, market and operational risks will be revised in the light of experience gained during the economic and financial crisis, enabling these approaches to be used as reliable bases for comparing the results from internal models. Second, it has been decided to release for consultation a proposal on a permanent floor for RWA calculated using internal models (the floor regime). The proposed floor is designed such that RWA calculated using internal models would not fall below a fixed percentage of the RWA calculated using the standardised approaches. The aim is to ensure that the requirements for banks using internal models comply with prudential principles.

6.7.3 ASSESSMENT OF SWISS FINANCIAL SECTOR (FSAP)

Robust banking sector overall

In May 2014, the IMF published the results of a comprehensive assessment of the Swiss financial sector (under its Financial Sector Assessment Program, FSAP), which was conducted in the second half of 2013. Based on the results of stress tests, the IMF assessed the Swiss banking sector as resilient overall. The stability of the banking sector had increased markedly since the 2008/2009 global financial crisis.

In its recommendations, the IMF referred to the significance of further reforms, in the light of the challenging economic environment in Switzerland as well as the size and international reach of the Swiss financial sector. For one thing, the requirements as regards leverage ratios at big banks should be increased beyond the international minimum. For another, cooperation with foreign authorities should be continued, to enable the cross-border resolution of large banks without public sector support. The IMF also urged Switzerland to take the lead in terms of establishing transparency in the financial sector, for instance as regards banks' use of internal models to calculate risk weights to determine capital requirements. Finally, the IMF recommended that deposit insurance arrangements be strengthened.

IMF recommendations

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 and financial system and help overcome crises. As a globally integrated economy, Switzerland derives particular benefit from a stable international monetary and financial system.

Participation in different multilateral institutions

The SNB is involved in international monetary cooperation through its participation in the International Monetary Fund (IMF), the Bank for International Settlements (BIS), the Financial Stability Board (FSB, cf. chapter 6.7.1) and the Organisation for Economic Co-operation and Development (OECD). Participation in the IMF, FSB and OECD is in cooperation with the Swiss Confederation and, in the case of the FSB, particularly with the Swiss Financial Market Supervisory Authority (FINMA).

7.2 INTERNATIONAL MONETARY FUND

Participation in the IMF

The SNB contributes to IMF activities and decisions in collaboration with the Confederation. 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.

Problems in euro area remain a focal point of the IMF

In 2014, the aftershocks of the debt crisis in the euro area were again a focal point of the IMF's activities. In the context of its economic policy surveillance activities, the IMF repeatedly warned the euro area of the dangers stemming from the weak growth and increasing risks of deflation in this area. Accordingly, it recommended more vigorous efforts in implementing structural reforms as well as a continuation of monetary easing, supplemented, where necessary, by the purchase of government bonds. Within the purview of the Fund's financial support operations, Ireland and Portugal successfully exited their lending arrangements with the IMF in December 2013 and June 2014 respectively. Favourable refinancing conditions on the capital markets prompted Greece's late summer announcement of its intention to exit early from its IMF lending arrangement at the end of the year, ahead of the March 2016 expiration. Following negative responses by partners from the euro area and corresponding reactions on the capital markets, Greece ultimately abandoned this plan.

The bulk of the financial support provided by the IMF in 2014 went to Ukraine. In April, the IMF approved an extensive Stand-By Arrangement with the latter, after political turmoil and Russia's annexation of Crimea had further worsened the already difficult economic situation. In the wake of the armed conflict in eastern Ukraine and the ensuing loss of confidence, the government was unable to stabilise the economy. At the end of the year, it became clear that there was a large financing gap in the balance of payments for the next 18 months that would require further financial assistance.

Ukraine crisis

Against the backdrop of the global debt problem, the IMF resumed efforts to create a more effective framework for restructuring sovereign debt. Following its unsuccessful attempt in 2003 to establish a statutory sovereign debt restructuring mechanism, the IMF is this time pursuing a contractual, market-based approach. The IMF also performed a comprehensive review of its economic policy surveillance activities. It subsequently decided to step up its analysis of risks and spillovers, to integrate macrofinancial surveillance more effectively into the general economic policy surveillance process, and – in the light of weak growth and high debt levels in many member countries – to tailor its fiscal and structural policy recommendations even more closely to country-specific circumstances.

Other key areas of activity

The IMF and Switzerland

The IMF is the central institution for international monetary cooperation. It promotes the stability of the global monetary and financial system as well as macroeconomic and financial stability in its member countries. Its main fields of activity are economic policy surveillance, the provision of financial support to countries faced with balance of payments difficulties, and technical assistance. The IMF currently has 188 member countries.

Switzerland is jointly represented in the IMF by the Federal Department of Finance (FDF) and the SNB. 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 IMFC, the IMF's steering committee.

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 constituency's executive director, who holds one of the 24 seats on the Executive Board, the IMF's most important operational body. In future, Switzerland will share its chair on the Executive Board with Poland. The post of Swiss 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 constituency's executive director in his or her activities.

Persistently high lending

IMF lending to members in economic difficulties continued to decline in 2014, but remained at a historically high level. In the course of the year, the IMF Executive Board approved eight new regular (non-concessional) lending arrangements totalling 62.1 billion Special Drawing Rights (SDR). The two most substantial of these were the Flexible Credit Line (FCL) with Mexico – the fifth such arrangement in succession since 2009 – and the Stand-By Arrangement with Ukraine. Five lending arrangements totalling SDR 75.3 billion expired. At the end of 2014, the IMF had regular lending arrangements in 18 countries amounting to a total of SDR 122.4 billion, SDR 76.4 billion of which were accounted for by what are referred to as insurance facilities (mainly FCLs), which allow countries to access the IMF's resources on a precautionary basis. Loan commitments and outstanding loans under all current and expired arrangements amounted to SDR 173.1 billion at the end of 2014.

Special Drawing Right

For financial transactions with members, the IMF uses the Special Drawing Right (SDR) as a means of payment and unit of account. The IMF creates SDRs as needed and allocates them to member countries in proportion to their quotas. Member countries may use these SDRs directly as a means of payment for their transactions with the IMF. SDRs also represent a claim on currency reserves of other IMF member countries. Through voluntary trading arrangements (previously two-way arrangements) with a number of member countries, including Switzerland, the IMF ensures that the exchange of SDRs for currency reserves functions smoothly. The value of the SDR is based on a basket of currencies comprising the US dollar, the euro, the yen and the pound sterling. At the end of 2014, one SDR was equivalent to CHF 1.43 or USD 1.45.

The IMF can finance its lending through member country quotas and through the New Arrangements to Borrow (NAB). In 2014, total quotas amounted to SDR 238.1 billion and the NAB came to a maximum of SDR 370 billion. Of these funds, which together totalled SDR 608.1 billion, only SDR 562.9 billion was available at the end of 2014, because countries with an IMF lending arrangement or with balance of payment difficulties are not obliged to provide the IMF with funds. Of these deployable resources, the IMF was able to make over SDR 243.7 billion available for new lending at the end of 2014. The remainder was used for loan disbursements or commitments, and as liquidity buffers. In the event that available lending capacity should fall below a critical level, the IMF could have recourse to resources of SDR 286 billion from bilateral loan agreements.

IMF financing and lending capacity

The strong rise in demand for loans in the wake of the financial crisis prompted the Board of Governors in 2010 to double the quotas to SDR 476.8 billion. This doubling is part of a comprehensive package of reforms that also includes a governance reform 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. The doubling of quotas comes into effect as soon as the reform package has been ratified by a qualified majority of IMF members. The package has still not been ratified by the US Congress. Switzerland's federal parliament approved the relevant proposal in the 2012 summer session.

Quota and governance reform still pending

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 terms of Special Drawing Rights, the unit of account used by the IMF. GDP, economic and financial openness, the variability of trade and capital flows, and the level of reserve positions are all used in the formula to calculate the quota.

The quota fulfils three important functions. First, a member's quota determines the maximum amount of financial resources the member is obliged to provide to the IMF. Second the quota largely determines a member's voting power in IMF decisions. Third, 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.

Members' quotas are reviewed every five years and adjusted as required. The last review was conducted in 2010, when it was also decided to review the quota formula itself and, if necessary, revise it. This review has not yet been concluded, as the interests pursued by member countries diverge significantly.

Implications for Switzerland

For Switzerland, the proposed augmentation and realignment of the quotas 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, as part of the IMF's aim to reduce the number of executive directors representing advanced European economies, Switzerland will share its chair on the Executive Board with Poland. Each country will alternately appoint an executive director for two years. Poland will do so for the first time from November 2016. Switzerland will continue to represent the constituency in the IMFC.

Since the implementation of the quota increase requires a certain amount of time, a temporary expansion of the NAB was agreed in March 2011. As a result, the number of lenders was increased from 26 to 40 member countries, and the maximum amount of resources available for lending was extended from SDR 34 billion to SDR 370 billion. For the SNB, this meant an increase in its maximum loan commitment from SDR 1.54 billion to SDR 10.9 billion. Its share in the total, however, fell from 4.5% to 2.9%. The intention is to reduce the NAB to SDR 182 billion once the quota increase decided in 2010 has been implemented. The SNB's maximum loan commitment will then 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. Under the NAB, the IMF can currently be provided with up to SDR 370 billion in addition to its regular resources. 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 G10 countries according to an agreed distribution key. 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.

After the crisis in the euro area had grown more acute and the stability of the international currency and financial system had come under threat, IMF members at the Spring Meeting in April 2012 approved – in addition to the expansion of the NAB – an exceptional, temporary increase of IMF resources through bilateral borrowing. By the end of 2014, the IMF had entered into bilateral borrowing agreements worth over SDR 286 billion with 35 countries. An agreement originally planned with Switzerland did not materialise.

Exceptional increase of IMF resources

Concessional lending arrangements

The IMF supports low-income countries with concessional – i.e. subsidised interest – loans. In the course of the year, the IMF Executive Board approved four new concessional lending arrangements totalling SDR 511 million, while seven arrangements expired or were terminated. At the end of 2014, the IMF was providing 17 member countries with concessional lending facilities totalling SDR 2.3 billion. Loan commitments and outstanding loans under current and expired lending arrangements of this kind amounted to a total of SDR 7.2 billion.

Financing of the PRGT and Switzerland's contribution

To finance its concessional lending facilities, the IMF can avail itself of the Poverty Reduction and Growth Trust (PRGT). The PRGT's lending capacity stood at SDR 6.2 billion at the end of 2014. Switzerland has provided two loans towards the financing of the PRGT. The first loan, from 2001, amounted to SDR 250 million, was disbursed in full and has already been partly repaid. At the end of 2014, an amount of SDR 148 million (CHF 213 million) was still outstanding under this loan. The second loan, from 2011, amounted to SDR 500 million. It had not been drawn on by the IMF as at the end of 2014. Both loans to the PRGT were granted by the SNB and are guaranteed by the Confederation. Switzerland is also involved in financing the interest subsidy for these loans. This contribution is provided by the Confederation.

Switzerland's reserve position

Both Switzerland's IMF quota and the GAB and NAB contributions are funded by the SNB. The used portions of the Swiss quota and of the Swiss contribution to the NAB 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 2014, Switzerland's reserve position amounted to SDR 1.4 billion (CHF 2.0 billion), compared with SDR 1.7 billion (CHF 2.3 billion) a year earlier. This decline is due to a further fall in outstanding IMF loans in 2014.

THE SNB'S FINANCIAL COMMITMENT TO THE IMF

In CHF billions

	Maximum	End-2014 Drawn down
Quota	4.972	0.157
GAB and NAB	15.679	1.88
PRGT ¹	0.932	0.213
SDR ²	2.364	-0.313

1 With federal guarantee.

2 As part of the voluntary trading arrangement with the IMF, the SNB has committed itself to purchase (+) or sell (-) SDRs against foreign currencies (USD, EUR) up to the agreed maximum of SDR 1.644 billion (CHF 2.364 billion).

Within the context of its Article IV consultations, the IMF regularly reviews the economic policies of its member countries and issues recommendations. On 30 April 2014, the IMF Executive Board concluded the annual Article IV consultation with Switzerland. The IMF confirmed that Switzerland continues to pursue a stability-oriented economic policy and that it has good growth prospects. It considered the main risks to be renewed upward pressure on the Swiss franc, developments on the mortgage and real estate markets, as well as the size of the banking sector.

Article IV consultation

Against this backdrop, in spring the IMF recommended that the SNB keep the minimum exchange rate of CHF 1.20 per euro in place. As an additional measure, the IMF suggested that the SNB should consider imposing a negative interest rate on commercial banks' excess reserves. In the light of the risks associated with the SNB balance sheet total, the IMF advised the SNB to step up its provisions. The IMF welcomed the steps taken by the authorities to contain risks in the mortgage and real estate markets, including in particular the increase in the countercyclical capital buffer. Given the continuing imbalances in these markets, the IMF also recommended tightening existing self-regulation measures implemented by the banks as well as extending macroprudential measures – for example, in the form of instruments to reduce affordability risks.

IMF recommendations

Findings of assessment of Switzerland's financial sector (FSAP)

In addition to the regular Article IV consultation, the IMF Executive Board also discussed the results of a comprehensive evaluation of Switzerland's financial sector, which had been conducted in the second half of 2013. Participation in the IMF's Financial Sector Assessment Program (FSAP) is compulsory for countries with systemically important financial sectors and is conducted roughly every five years. Based on the results of stress tests, the IMF found the Swiss banks to be resilient overall. At the same time, it once again judged Switzerland's economic climate to be difficult, emphasised the challenges to financial stability, and referred to the significance of further reforms (cf. chapter 6.7.3).

Conference on international monetary system

In May 2014, the SNB and the IMF jointly hosted a conference on the international monetary system for the fifth time. The event brought together high-level representatives of central banks and finance ministries, as well as leading economists and economic commentators.

7.3 BANK FOR INTERNATIONAL SETTLEMENTS

BIS as bank and forum for central banks

The Bank for International Settlements (BIS) is an international organisation headquartered 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 20) on the BIS Board of Directors since its foundation in 1930.

The governors of member central banks convene for meetings every two months to discuss developments in the global economy and the international financial system, and also to guide 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 Payments and Market Infrastructures, the Committee on the Global Financial System and the Markets Committee. Participation in different groups of experts also gives the SNB the opportunity to exchange views.

Basel Committee on Banking Supervision

The Basel Committee on Banking Supervision (BCBS) serves as a platform for regular cooperation in matters of banking supervision. Its activities are described in more detail in chapter 6.7.

The Committee on Payments and Market Infrastructures (CPMI) promotes the safety and efficiency of cashless payment arrangements and market infrastructures via which financial market transactions are cleared or settled. In 2014, the CPMI published four reports. The first examines the services and the growing involvement of non-banks in retail payments. The second report analyses developments in collateral management and the associated benefits and risks. The third report examines the significance of cyber risks faced by financial market infrastructures and shows how the latter can be made more cyber-resilient. The fourth report, published jointly with the International Organization of Securities Commission (IOSCO), provides guidance to financial market infrastructures on how to develop stabilisation plans. Such plans should enable a financial market infrastructure to still provide the services critical to its participants and the financial markets in the event of a crisis jeopardising its existence.

**Committee on Payments
and Market Infrastructures**

The Committee on the Global Financial System (CGFS) monitors developments in international financial markets and analyses their impact on financial stability. In 2014, the CGFS dealt with various developments that could harm the financial system; market volatility was a recurrent topic. It issued three reports in 2014: The first report examines the potential impact of market changes on trade finance. The second report outlines the regional integration of banking systems in emerging economies and identifies the drivers of this integration. The third report addresses developments in proprietary trading by banks as well as their impact on bond markets.

**Committee on the
Global Financial System**

The Markets Committee examines current developments in money, currency, capital and commodity markets, as well as the functioning of these markets. Among the most important topics of discussion in 2014 were the reform efforts directed at the transparency and supervision of benchmarks relevant to financial markets as well as the influence of regulatory changes on the monetary policy operations of central banks. The Committee also focused on the different degrees of monetary expansion pursued by the large central banks, as well as volatility trends on financial markets.

Markets Committee

7.4 OECD

Participation

Switzerland is a founding member of the Organisation for Economic Co-operation and Development (OECD). It works in the organisation's intergovernmental committees to promote the development of relations among the 34 member countries with regard to economic, social and development policies.

Together with the federal government, the SNB represents Switzerland in the Economic Policy Committee (EPC), the Committee on Financial Markets (CMF) and the Committee on Statistics and Statistical Policy (CSSP). 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 CMF analyses ongoing developments in the international financial markets and examines regulatory issues. The CSSP drafts standards for the national accounts in coordination with other international organisations.

OECD recommendations for Switzerland

Every two years, the OECD performs a detailed analysis of the economy of every member country. The results are published in country reports. This will be the case for Switzerland at the end of 2015. Preparatory work for the report began in 2014, in close cooperation with the Confederation and the SNB. The OECD also publishes its global *Economic Outlook* twice a year, containing updated economic policy recommendations and macroeconomic assessments of every member country. In this publication, the OECD continued to rate SNB monetary policy as accommodative. It considered it likely that the ceiling on the franc will have to be maintained in order to anchor positive inflation expectations. As before, the OECD viewed the divergence between rising real estate prices and mortgage loans on the one hand and economic fundamentals on the other as posing a risk.

7.5 TECHNICAL ASSISTANCE

Upon request, the SNB provides technical assistance to other central banks. As a rule, technical assistance is provided by SNB experts themselves and includes the transfer of knowledge specific to central banks. The SNB primarily provides assistance to the central banks from the group of countries with which it forms a constituency in the IMF (cf. chapter 7.2).

Principles

As in past years, the National Bank of the Kyrgyz Republic was the main recipient of technical assistance in 2014. Priority was given to the analysis, implementation and communication of monetary policy. SNB experts also assisted the National Bank of the Kyrgyz Republic in the areas of banking operations and cash. The SNB also provided assistance to the Central Bank of Azerbaijan, another fellow constituency member, in the fields of internal auditing, financial stability and human resources. Sporadic discussions also took place with the other central banks in the constituency, covering a range of topics relevant to their operations. Outside the constituency, as part of an IMF project, the SNB assisted the National Bank of the Republic of Belarus in developing and implementing a new monetary strategy.

Main focus of technical assistance

Jointly with the IMF and the State Secretariat for Economic Affairs (SECO), in November 2014 the SNB invited central bankers from the Caucasus and Central Asia to a conference in Zurich. The aim of the conference was to initiate a monetary policy discussion forum among participating central bankers and develop it into a regular event. For the central bank representatives from the same region, the SNB conducted a seminar aimed at cash specialists. Furthermore, the SNB and the National Bank of Poland organised their eleventh joint research conference. Held in Poland on this occasion, it addressed the interplay between monetary and fiscal policy.

International events

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 2014. As in the previous year, the courses were attended by approximately 180 participants from over 80 countries.

Study Center Gerzensee

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 National Bank Act).
Remuneration for banking services	The SNB provides these banking services to the 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. In 2014, the agreement was revised and converted into a framework agreement.
Issuing activities	In 2014, the SNB issued both MMDRCs and Confederation bonds on behalf of and for the account of the Confederation. MMDRCs amounting to CHF 173.8 billion were subscribed (2013: CHF 238.6 billion), of which CHF 35.2 billion was allocated (2013: CHF 42.0 billion). The corresponding figures for Confederation bonds were CHF 9.9 billion (2013: CHF 13.7 billion) and CHF 5.3 billion (2013: CHF 6.0 billion) respectively. Since 2 May 2014, the issue of MMDRCs and Confederation bonds – effected as usual by auction – has been carried out via the new SIX trading platform.
Negative MMDRC yields continue	In 2014, money market rates on the Swiss franc money market remained at exceptionally low levels, and, in some cases, at levels well into negative territory. In this environment, MMDRC yields also persisted in the negative range. Following the SNB's announcement on 18 December 2014 of the introduction of an interest rate of –0.25% on sight deposit account balances, yields sank yet further. Taken over the whole year, yields ranged between –0.04% and –0.42%, and the lowest level was therefore under that of the previous year (–0.22%).
Payments	The SNB carried out roughly 94,000 (2013: 84,000) payments in Swiss francs and approximately 26,000 (2013: 25,000) payments in foreign currencies on behalf of the Confederation.

9

Statistics

9.1 BACKGROUND

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 financial market infrastructures, 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.

Purpose of activities in field of statistics

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 as well as operators of financial market infrastructures.

Institutions required to provide data

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.

Survey activity kept to a minimum

Under art. 16 NBA, 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.

Confidentiality and exchange of data

9.2 PRODUCTS

The SNB conducts statistical surveys in the areas of banking statistics, collective investment statistics, the balance of payments and the international investment position, as well as payment transactions. 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 over 6 million time series in the fields of banking, financial markets and economics.

Surveys and statistics

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 reports 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, 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 (IMF) Special Data Dissemination Standard (SDDS). The data include information on the monetary aggregates and the reserve assets. Key SNB balance sheet positions are also posted on the website on a monthly basis.

9.3 PROJECTS

Adjustment of standards for balance of payments and international investment position

Since 2014, Switzerland's balance of payments and international investment position have been compiled according to the IMF's new *Balance of Payments and International Investment Position Manual* (BPM6). Additionally, the results of the expanded surveys on current accounts and financial accounts appeared in the published figures for the first time.

Revision of bank accounting rules

In 2014, the Swiss Financial Market Supervisory Authority (FINMA) published its revised accounting guidelines for banks, securities dealers, financial groups and conglomerates. The accounting rules form the conceptual basis for various of the SNB's statistical surveys. It was therefore necessary to totally revise these surveys. During this revision process, care was taken to ensure that no information important to the SNB was lost. Surveys based on the new accounting rules will be conducted from the reference date of 30 November 2015 onwards.

At 31 December 2014, reporting institutions submitted data for the revised surveys on cashless payment transactions for the first time. The prime aim of the revision was to fully reflect the technological innovations of the past few years in the area of cashless payment transactions.

Cashless payment transactions

As of the end of 2014, the quarterly bank lending survey was extended. Information on the importance of market rates and interest rate curves for rates charged for various types of loan is now collected in a regular survey. Previously, the respective data was collected using a supplementary survey in accordance with art. 6 of the NBO, which was limited in terms of content and time.

Bank lending survey

In 2013, in connection with the Financial Stability Board's (FSB) Data Gaps Initiative, the SNB began transmitting data to the central data hub specially set up for the purpose and hosted by the Bank for International Settlements (BIS). Participants in this initiative are countries in which global systemically important banks are headquartered. The aim is to establish an exchange of data between these countries for better assessment of international financial stability issues. In 2014, a pilot survey assessing the consistency and indicator value of the expansion of the data collection planned for 2016 was conducted in collaboration with the banks affected.

FSB Data Gaps Initiative

Changes in the Swiss balance of payments

The changeover to the IMF's new balance of payments manual, BPM6, in 2014 was accompanied by several modifications to concepts and content. Based on the national accounts, labour and investment income is now called primary income, and current transfers is called secondary income. Instead of capital outflows and inflows, the terms net acquisition of financial assets and net incurrence of liabilities are used.

In some cases the negative or positive signs have been adjusted – normal accounting rules have been adopted. Receipts and expenses in the current account now have a positive sign, as do net acquisition of financial assets and net incurrence of liabilities in the financial account. Previously, expenses and net acquisition of financial assets had a negative sign. The adjustment means that the balance of payments is easier to read.

Various positions have been reclassified, which has had a significant impact on some balances of both goods and services. Goods trade now comprises not only foreign trade, but also trade in precious metals – especially bullion – that was previously recorded in the financial account. In addition, the merchanting business is now stated under goods trade (previously under services). Both trade in precious metals and the merchanting business are significant to Switzerland.

Finally, the surveys on current accounts have been expanded in the following two ways. First, since 2014, data have been collected on types of services that were not previously included in the statistics, including expenses for research and development as well as various business and consulting services. Second, more companies are now surveyed about their cross-border purchases and sales of services. In order to make long time series available to users, previous data have also been recalculated. For this reason, comparisons between these data and data published previously are only possible to a limited extent.

9.4 COLLABORATION

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.

Reporting institutions

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 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 2014, the group of experts gave special attention to the revision of the surveys in connection with financial flows.

Groups of experts

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

Public institutions

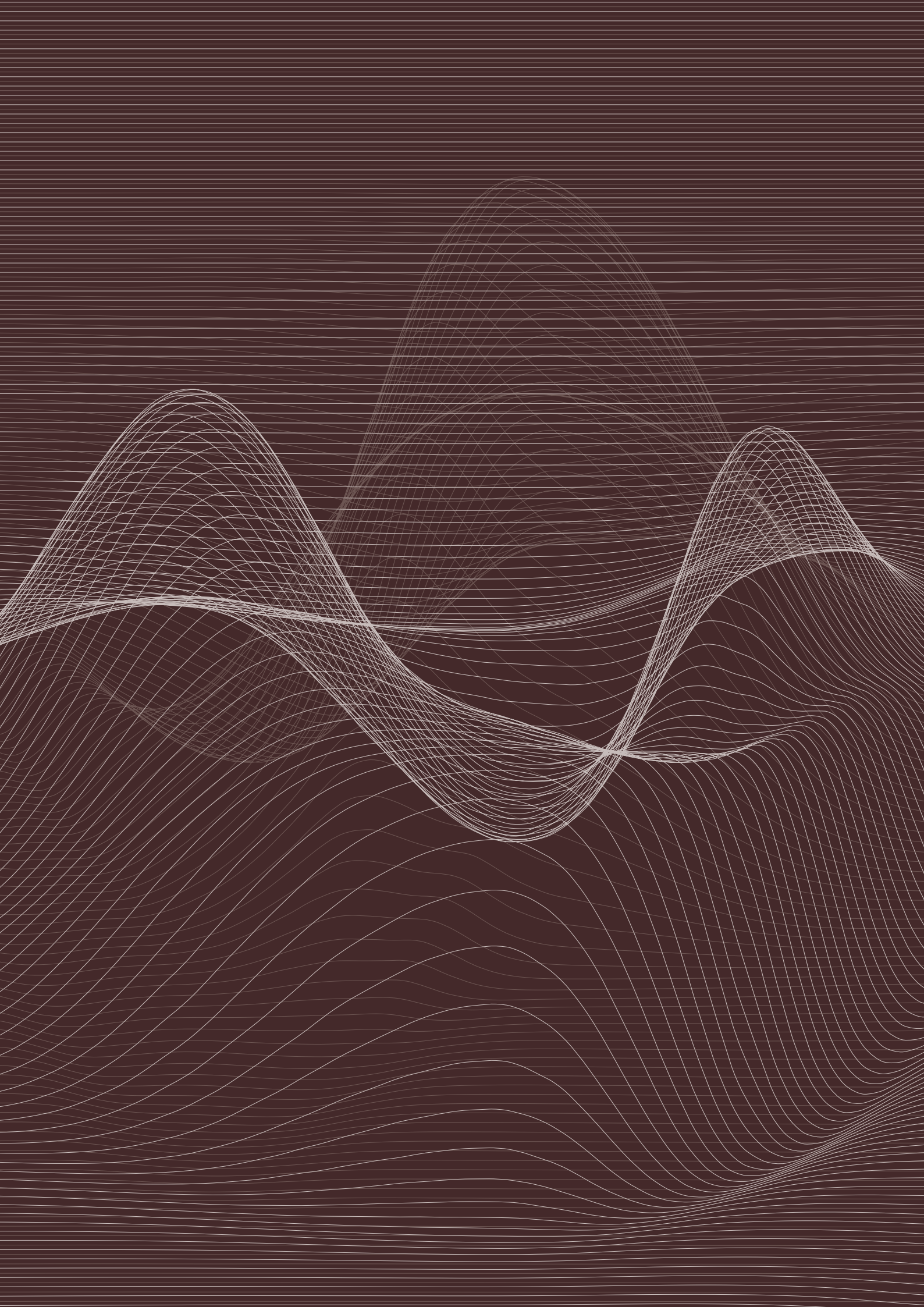
The SNB has a close working relationship with the SFSO. Reciprocal data access is governed by a data exchange agreement; this agreement also covers the collaboration between the two authorities in drawing up the Swiss financial accounts. Moreover, the SNB belongs to a number of bodies that work with 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*).

Swiss Federal
Statistical Office

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.

Federal Office for Housing

FINMA	Under the agreement with FINMA on the reciprocal exchange of data in the financial sector, the SNB collects information including data on the capital adequacy, liquidity and interest rate risk of banks and securities dealers. The year 2014 was marked by the implementation of the ‘too big to fail’ legislation’s statistical requirements under capital adequacy reporting, and data collection on the short-term liquidity coverage ratio (LCR).
Principality of Liechtenstein	The SNB also surveys Liechtenstein-based companies when preparing its balance of payments figures and its statistics on Switzerland’s international investment position. It works with the relevant authorities in Liechtenstein (the Office of Economic Affairs and the financial market supervision authority).
EU	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).
Other international organisations	In the area of statistics, the SNB works closely with the BIS, the Organisation for Economic Co-operation and Development (OECD) and the IMF. This collaboration is aimed at harmonising statistical survey methods and analyses. In 2014, the SNB participated in several international working groups concerned with closing 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 in the future.



Financial report

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Key figures for the 2014 financial year

SELECTED BALANCE SHEET FIGURES (QUARTERLY)

In CHF billions

	31.12.2014	30.09.2014	30.06.2014	31.03.2014	31.12.2013
Banknotes in circulation	67.6	62.9	62.8	62.4	65.8
Sight deposits of domestic banks	328.0	307.5	302.0	311.9	317.1
Other sight deposits ¹	50.6	49.1	49.5	48.3	36.3
Claims from Swiss franc repo transactions	-	-	-	-	-
Liabilities from Swiss franc repo transactions	-	-	-	-	-
SNB debt certificates in Swiss francs	-	-	-	-	-
Gold holdings and claims from gold transactions	39.6	38.9	39.1	38.2	35.6
Foreign currency investments	510.1	471.5	457.2	445.5	443.3
Of which, in euros	236.4	210.3	214.0	213.1	218.1
Of which, in US dollars	147.2	136.1	120.6	117.1	114.8
Provisions for currency reserves ²	54.8	54.8	54.8	51.8	51.8
Distribution reserve ²	-6.8	-6.8	-6.8	5.3	5.3

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

2 Year-end figures, before appropriation of profit in each case.

SELECTED FIGURES FROM INCOME STATEMENT (QUARTERLY AND ANNUAL RESULTS)

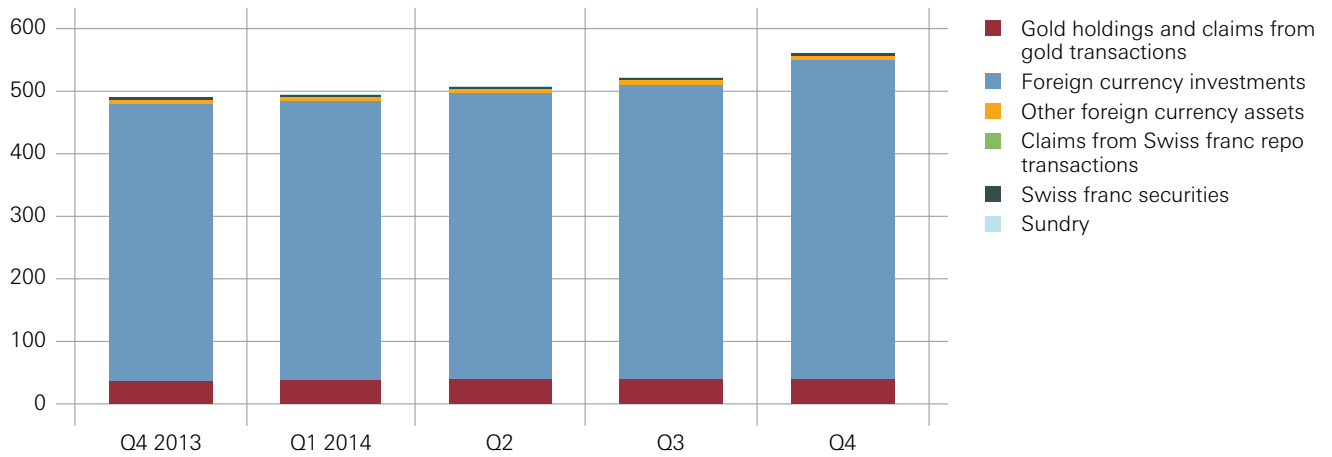
In CHF billions

	Year 2014	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Result for period ¹	38.3	9.8	12.4	11.8	4.4
Of which, net result from gold	4.1	0.7	-0.2	0.9	2.6
Of which, net result from foreign currency positions	34.5	9.2	12.6	10.9	1.7

1 For appropriation of profit, cf. p. 152.

ASSETS AT END OF QUARTER

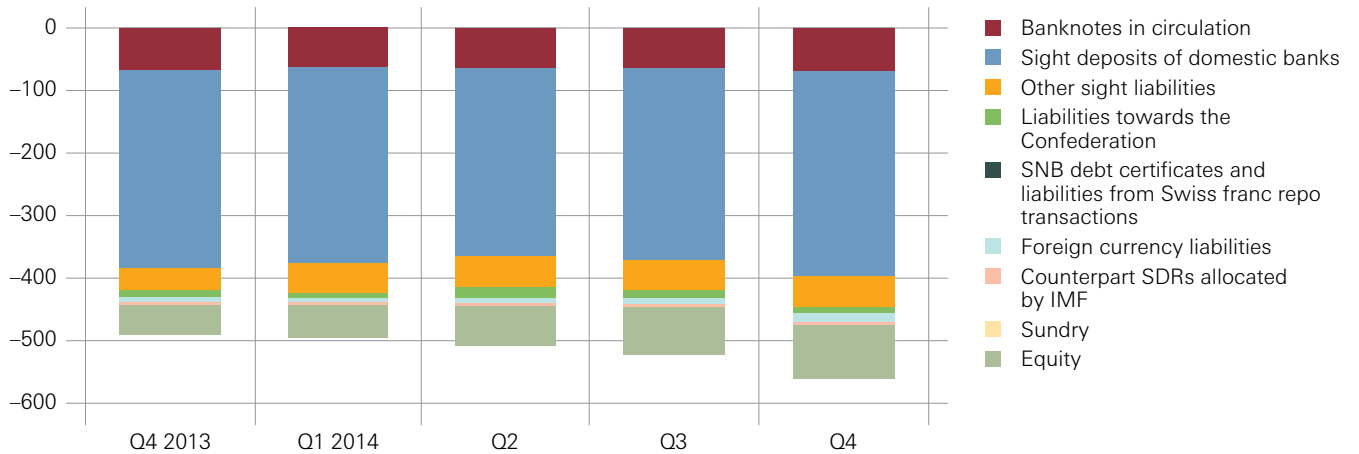
In CHF billions



Source: SNB

LIABILITIES AT END OF QUARTER

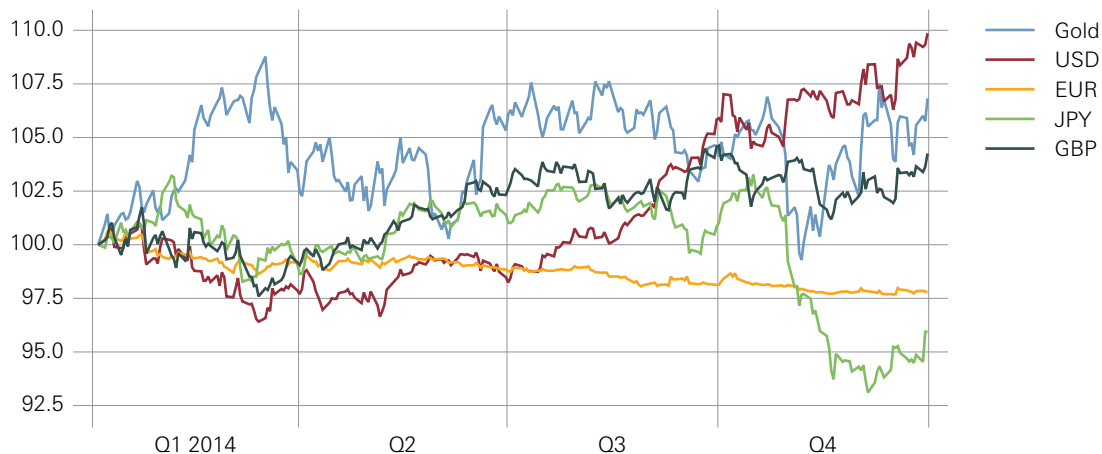
In CHF billions



Source: SNB

EXCHANGE RATES AND GOLD PRICE IN SWISS FRANCS

Index: 1 January 2014 = 100



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 and the annual financial statements together constitute the financial report of the SNB, as stipulated under Swiss company law (art. 958 Swiss Code of Obligations (CO)).

The fulfilment of the SNB's statutory mandate is explained in the accountability 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; as at 1 March 2012) and the ‘Regulations on the organisation of the Swiss National Bank of 14 May 2004’ (Organisation regulations; as at 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. Finally, the Federal Constitution 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 SNB’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 to 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 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 financial market infrastructures. 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 lays down the foundations of the SNB’s organisational structure (arts. 2, 33–48 NBA). The details of the organisational structure are governed by the ‘Organisation regulations’ issued by the Bank Council and approved by the Federal Council.

In 2013, the Federal Council issued an ordinance against excessive remuneration at listed companies. This ordinance does not apply to the SNB, since the SNB is not a corporation within the meaning of arts. 620–763 CO. Where there is leeway, the SNB implements the ordinance requirements. This applies especially to the prohibition of voting rights for corporate bodies and deposited shares, and the requirements with regard to the independent proxy and his/her powers.

1.2 SHAREHOLDERS

The majority of SNB shares are held by cantons and cantonal banks, while the remaining shares are mainly owned by private individuals. The Confederation is not a shareholder. At the end of 2014, around 52% of the shares were held by cantons and cantonal banks. The major shareholders were the Canton of Berne with 6.63% (6,630 shares), Theo Siegert (Düsseldorf) with 6.49% (6,490 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).

In 2014, the members of the Bank Council did not hold any SNB shares. According to the ‘Code of Conduct for members of the Bank Council’, Bank Council members may not hold any such shares. At 31 December 2014, a member of the Enlarged Governing Board held one SNB share.

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. For shareholders from outside the public sector, voting rights are limited to 100 shares. 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.

Shareholder rights

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. Participation rights, p. 134).

Listed registered shares	The share capital of the SNB amounts to CHF 25 million and 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) in the Domestic Standard.
Information for shareholders	Notifications to shareholders are generally communicated in writing to the address listed in the share register, and by one-off publication in the <i>Swiss Official Gazette of Commerce</i> . Shareholders only receive information which is also available to the public.
Voluntary application of provisions of ordinance against excessive remuneration at listed companies	The ordinance against excessive remuneration at listed companies does not apply to the SNB. However, it has already enabled its shareholders, using the legal room for manoeuvre and on a voluntary basis, to grant their power of attorney to the independent proxy and to instruct him/her electronically for the 2014 General Meeting of Shareholders. Additionally, the SNB has removed voting rights for corporate bodies and deposited shares.

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 located 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 office	The Singapore branch office allows the SNB to efficiently manage the Asia-Pacific part of its foreign exchange reserves. Geographical proximity to investment markets and participants in these markets, as well as the local presence of many investment banks, also allow for better understanding of the local markets and economic areas. Additionally, this location facilitates round-the-clock foreign exchange market operations.
Representative offices	The delegates for regional economic relations are responsible for monitoring economic developments and explaining the SNB's policy in the regions. To this end, in addition to the head offices in Zurich and Berne, the SNB maintains representative offices in Basel, Geneva, Lausanne, Lugano, Lucerne and St Gallen. They are supported by the Regional Economic Councils, which analyse the economic situation and the effect of monetary policy in their regions and report the results to the Governing Board. In addition, the Regional Economic Councils conduct a regular exchange of information with the delegates.

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

Agencies

1.4 CORPORATE BODIES AND RESPONSIBILITIES

The corporate bodies of the SNB are the General Meeting of Shareholders, the Bank Council, the Governing Board and the Audit Board. The composition of these bodies is described on pp. 199–200.

The General Meeting of Shareholders elects five of the Bank Council's eleven members (via separate ballot per member) and appoints the Audit Board. It approves the business report and the annual financial statements, and grants discharge to the Bank Council. Furthermore, within the context of the profit appropriation, the General Meeting of Shareholders determines the dividend. This may not exceed 6% of share capital.

General Meeting
of Shareholders

The Bank Council is the SNB's supervisory and control 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 accounting and financial control systems and its financial planning) and the approval of the budget and 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

Bank Council activities

In 2014, the Bank Council held six ordinary half-day meetings (in February, April, June, September, October and December), all of which were attended by the members of the Governing Board.

The Bank Council took note of the upcoming retirement of Jean-Pierre Danthine, Vice Chairman of the Governing Board and Head of Department II, in mid-2015, and proposed to the Federal Council that Andréa M. Maechler, Deputy Division Chief in the Global Markets Analysis Division of the International Monetary Fund in Washington, join the Board.

The Bank Council approved the level of provisions for currency reserves.

In addition, the Bank Council took note of and approved the reorganisation of the SNB, including the measures in the areas of management, organisation and processes, and also approved the revised organisational chart as at 1 July 2014. Further details can be found under 'Organisational changes' (p. 136). The organisational chart is presented on pp. 202–203.

Moreover, the Bank Council decided to re-tender the external Audit Board's mandate for the 2015–2016 term of office after ten years with the same company.

Additionally, the Bank Council approved the credit for the renovation of the head office at Bundesplatz 1 in Berne and the final accounting for the conversion of the premises in Zurich-Seefeld.

The Bank Council approved the design of the 10-franc note in the ninth banknote series.

Furthermore, the Bank Council received a report on the development and operation of the Singapore branch.

The Bank Council discussed reports submitted by the Audit Board to the Bank Council and the General Meeting of Shareholders, took note of the annual reports on financial and operational risks and on compliance, as well as the 2013 annual reports of the pension funds, prepared the 2014 General Meeting of Shareholders and approved the 2013 budget statement and the 2015 budget.

Finally, the Bank Council revised the regulations on the compensation of SNB supervisory and executive bodies, the regulations on reimbursement of travelling costs and expenses for employees, and the supplementary regulations on lump-sum representation allowances for members of the SNB Governing Board.

The Bank Council has an Audit Committee, a Risk Committee, a Compensation Committee and a Nomination Committee, each of which has three members.

Committees

The Audit Committee supports the Bank Council in monitoring accounting and financial reporting, as well as the activities of the Audit Board and the Internal Audit unit. It also assesses the adequacy and effectiveness of the internal control system (ICS), in particular regarding the processes for managing operational risk and ensuring compliance with laws, regulations and directives.

The Risk Committee assists the Bank Council in monitoring financial risks and in assessing the governance of the investment process. The Audit Committee and the Risk Committee coordinate their activities and collaborate in areas where their tasks overlap.

The Compensation Committee supports the Bank Council in determining the principles of the SNB's compensation and salary policy, and submits proposals to the Bank Council regarding the salaries of Governing Board members and their deputies.

The Nomination Committee submits proposals for election of those Bank Council members who are appointed by the General Meeting of Shareholders, and for members of the Governing Board and their deputies.

The Audit Committee held four meetings, three of which were attended by the Audit Board. The Risk Committee held two meetings. The Compensation Committee held one meeting. The Nomination Committee held six meetings.

Meetings

Executive management

The Governing Board is the SNB's highest 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. It issues 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.

Audit Board

The Audit Board examines whether the accounting records, the annual 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 Governing Board and the controlling shareholders.

PricewaterhouseCoopers Ltd (PwC) was elected as the Audit Board at the 2004 General Meeting of Shareholders for the first time, and has since been responsible for auditing the accounting records and annual financial statements of the SNB. Thomas Romer has been auditor in charge since the 2008 financial year. The role of lead auditor rotates in compliance with the term of office regulations stipulated in the Swiss Code of Obligations, at least every seven years. Auditing fees for the 2014 financial year amounted to CHF 0.3 million (2013: CHF 0.4 million, including stabilisation fund). No consulting services were provided by PwC in 2014 (2013: CHF 0.1 million).

Internal Audit

The Internal Audit 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

When remunerating the members of the Bank Council and the Enlarged Governing Board, the Bank Council is required to adhere to the Confederation'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. The Bank Council laid down the principles governing remuneration in the regulations on the compensation of SNB supervisory and executive bodies of 14 May 2004 (Compensation regulations).

Remuneration

Remuneration and compensation remitted in the year under review are listed in the tables on pp. 181–182.

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 Bank Council meetings.

Bank Council

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 a similar size and complexity, and in large federally run companies.

Executive management

Information on the remuneration for members of the Regional Economic Councils can be found on p. 181.

Regional Economic Councils

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 the Governing Board of the SNB and their deputies (Regulations on the Governing Board), members of the Governing Board and their deputies are entitled to compensation for the restrictions on their right to carry out professional activities after termination of their employment with the SNB. They cover activities of all kinds of financial intermediary for a period of six months. Consequently, compensation amounting to six months of salary is paid. A twelve-month limitation applies to activities with systemically important banks in Switzerland. If a member of the Enlarged Governing Board is not reappointed, is removed from office or is dismissed in the interest of the bank, the Bank Council may grant a severance payment amounting to a maximum of one year's salary.

Severance payments and compensation for restrictions

1.6 INTERNAL CONTROL SYSTEM

Aim and purpose	<p>The ICS comprises all the structures and processes which ensure orderly procedures for operational activities and contribute to the attainment of business goals.</p> <p>The ICS makes a major contribution towards compliance with legal requirements and internal specifications, the prudential protection of corporate assets, the prevention, reduction and disclosure of faults and irregularities, as well as ensuring that accounts are reliable and complete, that reporting is timely and dependable, and that risk management is appropriate and efficient.</p>
Elements	<p>The ICS comprises the management of financial risk, operational risk, compliance risk and risk associated with financial reporting (art. 728a para. 1 (3) CO).</p>
Organisation	<p>The ICS is divided into three levels. The three, organisationally separate levels (lines of defence) are line management, risk monitoring and internal audit.</p>
First level	<p>The first level is ensured through the line management's responsibility to provide verification of its duty of care and orderly business procedures. Organisational units define their structures and procedures so as to ensure that tasks are carried out efficiently and their objectives achieved. To this end, they specify operational goals and checking measures to manage the risks they are exposed to in their business activities.</p>
Second level	<p>The second level is risk monitoring. The units responsible advise line management in the management of its risk. They monitor and report on the appropriateness and efficacy of risk management. In addition, they make their own assessment of the risk situation. They draw up specifications and measures to limit risk, and submit corresponding proposals to SNB management.</p>
Third level	<p>Finally, at the third level, the Internal Audit unit, as an independent function, examines the appropriateness and efficacy of the ICS, pursuing an approach that is first and foremost risk-oriented.</p>

The Bank Council and, in particular, its Audit Committee and Risk Committee, assess the appropriateness and efficacy of the ICS and satisfy themselves with regard to the security and integrity of the business processes.

**Responsibilities
of Bank Council and
executive management**

The Enlarged Governing Board approves strategies for the SNB's business operations.

The Board of Deputies approves the specifications with respect to the ICS. To this end, it issues directives and specifications on operational management.

Once a year, individual ICS reports on financial, operational and compliance risks are submitted to bank management. Internal Audit's comments about the ICS on financial reporting, in accordance with art. 728a para. 1 (3) CO, are communicated to the Enlarged Governing Board and the Bank Council's Audit Committee twice a year.

Reporting

1.7 RISK MANAGEMENT

In fulfilling its statutory mandate, the SNB incurs various risks. These include financial risks in the form of market, credit, country and liquidity risks. It is also exposed to operational and compliance risks. These include personal injury, financial losses and reputational damage as a result of inadequate internal processes, incorrect reporting, the lack of or disregard of regulations and rules of conduct, technical failures and the impact of various external events.

Risks

The Bank Council oversees and monitors the conduct of business by the SNB. It is responsible for assessing risk management and monitors its implementation. The Risk Committee and the Audit Committee prepare the business agenda and support the Bank Council in overseeing risk management.

**Risk assessment
(art. 961c para. 2 CO)**

Each year, the Governing Board determines the investment strategy and issues the investment policy guidelines. In so doing, it determines the framework for the financial risks associated with the investments.

Risk strategy

The Enlarged Governing Board approves strategies for business operations and has strategic responsibility for the management of operational and compliance risks. It defines the corresponding guidelines.

Organisation with regard to financial risk

Financial risk is continuously monitored by the Risk Management unit. Each quarter, the Governing Board discusses the reports on investment activities and risk management. The detailed reports on risk management are discussed by the Risk Committee of the Bank Council, and the annual report on financial risk is also discussed by the Bank Council. Details of the investment and risk control process can be found in chapter 5 of the accountability report.

Organisation with regard to operational risk

The department heads ensure implementation of the operational risk guidelines in their organisational units. Management of operational risk is the responsibility of the line managers.

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 relevant guidelines, is responsible for their implementation throughout the SNB, and ensures 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.

Organisation with regard to compliance risk

The department heads also ensure implementation of the compliance risk guidelines in their organisational units. Management of compliance risk is the responsibility of the line managers.

The Compliance unit supports and advises executive management, line managers and staff in the avoidance of compliance risks. It carries out spot checks to monitor adherence to, and the appropriateness of, rules of conduct. In addition, it makes sure that reporting of compliance risks arising from the disregard of appropriate rules of conduct is both timely and appropriate to hierarchical levels. The Compliance unit can approach the Head of the Audit Committee or the President of the Bank Council at any time, should this prove necessary.

The SNB has extensive control mechanisms in place for the prevention or early identification of errors in financial reporting (accounting procedures and bookkeeping). This ensures that the SNB's financial position is correctly reported. Together, these controls make up the ICS for financial reporting, which is managed by the Central Accounting unit.

ICS for financial reporting
(art. 728a para. 1 (3) CO)

For audits with financial control objectives, the Internal Audit unit takes the documentation for processes of relevance to the financial statements into account. In such cases, it conducts spot checks to ascertain whether the corresponding key controls are appropriate and whether they have been performed. Internal Audit's comments about the ICS on financial reporting, in accordance with art. 728a para. 1 (3) CO, are communicated to the Enlarged Governing Board and the Bank Council's Audit Committee twice a year. Among other things, they are used by the Audit Board as a basis for its confirmation in accordance with art. 728a para. 1 (3) CO.

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

ORGANISATION OF RISK MANAGEMENT

	Oversight	Guidelines issued by	Supervision
Financial risk	Risk Committee of Bank Council and Bank Council	Governing Board	Risk Management unit
Operational risk	Audit Committee/ Risk Committee of Bank Council and Bank Council	Enlarged Governing Board	Board of Deputies, Operational Risk and Security unit
Compliance risk	Audit Committee of Bank Council and Bank Council	Bank Council and Enlarged Governing Board for codes of conduct	Executive management and line management, Compliance unit for codes of conduct
Risks in financial reporting	Audit Committee of Bank Council and Bank Council	Enlarged Governing Board	Central Accounting unit

1.8 CROSS REFERENCE TABLES

Further information on corporate governance may be found in other sections of the *Annual Report*, on the SNB website, in the NBA, in the ‘Organisation regulations’ and in the following places:

NBA (SR 951.11)	<i>www.snb.ch, The SNB, Legal basis, Constitution and laws</i>
Organisation regulations (SR 951.153)	<i>www.snb.ch, The SNB, Legal basis, Guidelines and regulations</i>
Shareholders	<i>www.snb.ch, Shareholders</i>
Participation rights	<i>www.snb.ch, Shareholders, General Meeting of Shareholders, Participation</i>
Listing in share register	<i>www.snb.ch, Shareholders, General Meeting of Shareholders, Participation</i>
Decision-making quorums	Art. 38 NBA; art. 9 Organisation regulations
General Meeting of Shareholders	Arts. 34–38 NBA; arts. 8–9 Organisation regulations
Regulations on the recognition and representation of shareholders of the Swiss National Bank	<i>www.snb.ch, The SNB, Legal basis, Guidelines and regulations</i>
Bank Council	<i>www.snb.ch, The SNB, Supervisory and executive bodies, Bank Council</i>
Members	<i>Annual Report, p. 199</i>
Nationality	Art. 40 NBA
Affiliations	<i>www.snb.ch, The SNB, Supervisory and executive bodies, Bank Council</i>
Restrictions on election and term of office	Art. 39 NBA
Initial and current election	<i>Annual Report, p. 199</i>
Internal organisation	Arts. 10 et seq. Organisation regulations
Committees	<i>www.snb.ch, The SNB, Supervisory and executive bodies, Bank Council</i>
Regulations Audit Committee, Risk Committee, Compensation Committee, Nomination Committee, Compensation regulations	<i>www.snb.ch, The SNB, Legal basis, Guidelines and regulations</i>
Delimitation of powers	Art. 42 NBA; arts. 10 et seq. Organisation regulations
Internal control system	<i>Annual Report, pp. 130–133; arts. 10 et seq. Organisation regulations</i>
Information tools	<i>www.snb.ch, The SNB, Legal basis, Guidelines and regulations</i>
Code of Conduct	<i>www.snb.ch, The SNB, Legal basis, Guidelines and regulations</i>
Remuneration	<i>Annual Report, p. 181</i>

Executive management	www.snb.ch , <i>The SNB, Supervisory and executive bodies, Governing Board/Enlarged Governing Board</i>
Regulations on the employment relationship of members of the Governing Board of the Swiss National Bank and their deputies	www.snb.ch , <i>The SNB, Legal basis, Guidelines and regulations</i>
Regulations on private financial investments and financial transactions by members of SNB management	www.snb.ch , <i>The SNB, Legal basis, Guidelines and regulations</i>
Regulations on the acceptance by members of the Enlarged Governing Board of gifts, invitations and third-party considerations	www.snb.ch , <i>The SNB, Legal basis, Guidelines and regulations</i>
Other activities and affiliations	www.snb.ch , <i>The SNB, Supervisory and executive bodies, Governing Board/Enlarged Governing Board</i>
Code of Conduct	www.snb.ch , <i>The SNB, Legal basis, Guidelines and regulations</i>
Remuneration	<i>Annual Report</i> , p. 182
Compensation regulations	www.snb.ch , <i>The SNB, Legal basis, Guidelines and regulations</i>
Federal Personnel Act	www.admin.ch , <i>Bundesrecht, Systematische Rechtsammlung, Landesrecht, 1 Staat – Volk – Behörden, 17 Bundesbehörden, 172.220 Arbeitsverhältnis, 172.220.1 Bundespersonalgesetz vom 24. März 2000 BPG)</i>
Staff	
Code of Conduct	www.snb.ch , <i>The SNB, Legal basis, Guidelines and regulations</i>
Audit Board	
Election and requirements	Art. 47 NBA
Tasks	Art. 48 NBA
Information policy	<i>Annual Report</i> , pp. 124, 204–207 as well as information for shareholders (available in German only) at www.snb.ch , <i>Shareholders, Ad hoc announcements – messaging service</i>
Corporate structure and shareholders	<i>Annual Report</i> , pp. 122–124, pp. 175–176
Head offices	Art. 3 para. 1 NBA
Ticker symbol/ISIN	SNBN/CH0001319265
Breakdown of capital	<i>Annual Report</i> , p. 175
Accounting principles	<i>Annual Report</i> , p. 156

2

Resources

2.1 ORGANISATIONAL CHANGES

Organisation

In mid-2014, departmental managements were strengthened and the organisational structure was adjusted in line with new requirements. The planning and budgeting process was optimised in several steps.

Since 1 July 2014, the departments have been made up of organisational units that report directly to divisions. Divisions encompass large specialised areas that are covered by several units. They are led by division heads, who report to the department heads.

The divisions making up Department I are the Secretariat General, Economic Affairs, International Monetary Cooperation, and Statistics. Department I also includes Legal Services, Compliance, Human Resources and Pension Benefits, and Premises and Technical Services, which are all organisational units. As before, Internal Audit also reports administratively to Department I.

In addition to the Financial Stability and Cash divisions, Department II includes the Central Accounting, Controlling, Risk Management, and Operational Risk and Security units, which report directly to the department head.

Department III comprises the Money Market and Foreign Exchange, Asset Management, Banking Operations, and Information Technology divisions, as well as the Financial Market Analysis unit and the Singapore office, which report directly to the department head.

The organisational structure is presented on pp. 202–203.

Multi-year strategic initiatives are being implemented in order to optimise the planning and budgeting process. The aim of the first strategic initiative is to continue managing available resources efficiently. The objective of the second strategic initiative is to optimise procurement. Finally, the aim of the third strategic initiative is to implement bank-wide standards for project management.

2.2 HUMAN RESOURCES

At the end of 2014, the SNB employed 868 people (including 19 apprentices), which was 36 (or 4.3%) more than in 2013. In terms of full-time equivalents, the number of employees rose by 4.7% to 776. The number of full-time equivalents averaged 763.8. Staff turnover increased to 5.8% from 5.2% a year earlier.

The fact that demand for staff was once again considerably higher can be put down to several factors. The reorientation of the Cash division, the implementation of monetary policy and the extension of tasks in Financial Stability, Statistics and International Monetary Cooperation led to a greater demand for resources. Increased capacity was required for the renovation of the head office at Bundesplatz 1 in Berne and the relocation of the Berne and Zurich computer centres. Operational management was strengthened and operational support functions were expanded.

2.3 PREMISES

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

The Berne premises are due to be totally renovated over the next five years. On 5 September 2014, the Bank Council approved the implementation of this construction project. On 23 September 2014, the City of Berne granted the necessary permit. Building work began in early February 2015. The preparation of the rented property that the majority of staff will use during the renovations was completed at the beginning of December 2014, meaning that the staff affected were able to temporarily move into the building at Laupenstrasse 18 in January 2015.

Number of staff

HUMAN RESOURCES

Number of employees



— Full-time, men **529**
— Part-time, men **63**
— Full-time, women **117**
— Part-time, women **159**

Total: 868
At year-end 2014

Information technology

2.4 INFORMATION TECHNOLOGY

The IT production systems and applications were stable in 2014. Trading applications for foreign exchange were further developed. A business activity monitoring system was introduced to monitor transactions with high value shifts. The reporting and analysis platform for the front office was extended, and a new integrated system for overseeing limits was developed for the Risk Management unit. In the context of SIC processing, various technical measures were implemented to increase the availability of the applications in the event of disruption.

The fail-over computer centre in Berne went into operation at its new premises. The preparatory work for the relocation of the productive computer centre in Zurich proceeded according to plan.

2.5 ENVIRONMENT

Environmental management

In its Charter, the National Bank undertakes to be careful in its use of natural resources. The annually published 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 emissions and lists the measures aimed at improving its environmental performance.

Electricity consumption per capita increased by 4% in 2014. One reason for the rise is the relocation to the new computer centre in Berne, which operated parallel to the Zurich computer centre for a number of months. Energy consumption for heating fell by 22% per employee. This can be put down to the mild weather.

The SNB renewed an objective agreement with the Confederation on increasing energy efficiency and reducing carbon emissions for 2013–2020.

As a contribution to climate protection, the SNB substitutes part of its natural gas consumption with biogas and also invests in energy-conscious renovations at SNB premises which it uses for its own operations. Since 2011, it has been compensating unavoidable greenhouse gas emissions through investment in climate protection projects.

3

Changes in bank bodies and management

On 25 April 2014, the General Meeting of Shareholders elected Heinz Karrer as a member of the Bank Council for the remainder of the 2012–2016 term of office, as successor to Gerold Bühler, who resigned with effect from the date of the General Meeting of Shareholders.

Bank Council

Laura Sadis is resigning from the Bank Council with effect from 31 March 2015. The SNB thanks Laura Sadis for her valuable service to the SNB over a period of almost eight years.

On 13 March 2015, the Federal Council elected Barbara Janom Steiner as the new member of the Bank Council, with effect from 1 May 2015, for the remainder of the 2012–2016 term of office.

On 25 April 2014, the General Meeting of Shareholders elected PricewaterhouseCoopers Ltd, Zurich, as the Audit Board for the 2014–2015 term of office, with Thomas Romer as auditor in charge.

Audit Board

The composition of the Governing Board and the Enlarged Governing Board remained unchanged in 2014.

**Governing Board and
Enlarged Governing Board**

Jean-Pierre Danthine announced his retirement as of 30 June 2015. He had been appointed by the Federal Council as Member of the Governing Board and Head of Department III with effect from January 2010. In April 2012, he was appointed Vice Chairman of the Governing Board and thereby also Head of Department II. The SNB thanks Jean-Pierre Danthine for his strong commitment to a stability-oriented monetary policy and for his outstanding service on behalf of the SNB over five very challenging years.

On 17 December 2014, the Federal Council appointed Fritz Zurbrügg, hitherto Member of the Governing Board, to be the new Vice Chairman of the Governing Board with effect from 1 July 2015.

Also on 17 December 2014, the Federal Council, acting on a proposal from the Bank Council, appointed Andréa M. Maechler, currently Deputy Division Chief in the Global Markets Analysis Division of the International Monetary Fund in Washington, as new Member of the Governing Board with effect from 1 July 2015.

The Bank Council made the following appointments to the position of Director:

Bank management

Andrea Siviero, Head of International Monetary Cooperation,
with effect from 1 March 2014
Martin Plenio, Head of Legal Services,
with effect from 1 July 2014
Beat Grossebacher, Head of Cash,
with effect from 1 January 2015

4

Business performance

4.1 ANNUAL RESULT

Summary

The Swiss National Bank (SNB) reported a profit of CHF 38.3 billion for the year 2014 (2013: loss of CHF 9.1 billion).

The profit on foreign currency positions amounted to CHF 34.5 billion. A valuation gain of CHF 4.1 billion was recorded on gold holdings.

For the financial year just ended, the SNB has set the allocation to the provisions for currency reserves at CHF 2.0 billion. The distributable profit remaining after this allocation is CHF 36.3 billion, which will be offset against the negative distribution reserve of CHF 6.8 billion. With the remaining profit, the dividend can be paid and the ordinary distribution of profits of CHF 1 billion can be made to the Confederation and the cantons. Thus, the distribution reserve after appropriation of profit would amount to CHF 28.5 billion. The profit distribution agreement between the SNB and the Federal Department of Finance (FDF) stipulates that the distribution will be increased for the financial year in question if the distribution reserve after profit appropriation exceeds CHF 10 billion. The SNB and the FDF agreed to a supplementary distribution of CHF 1 billion, so that the total distribution to the Confederation and the cantons for 2014 will amount to CHF 2 billion. According to the proposal to the General Meeting of Shareholders, the shareholders will receive CHF 1.5 billion in the form of dividends. The remaining profit will be allocated to the distribution reserve.

Valuation gain on gold holdings

At CHF 38,105 per kilogram, the price of gold was 11% higher than at the end of 2013 (CHF 34,195). This gave rise to a valuation gain of CHF 4.1 billion on the unchanged holdings of 1,040 tonnes of gold (2013: valuation loss of CHF 15.2 billion).

Profit on foreign currency positions

In 2014, the SNB recorded CHF 7.7 billion in interest income and CHF 1.8 billion in dividend income from foreign currency investments. The generally lower interest rate level resulted in price gains of CHF 8.7 billion on interest-bearing paper and instruments. Equity securities and instruments benefited from the favourable stock market environment and contributed CHF 4.4 billion to the net result.

Overall, exchange rate-related gains amounted to CHF 11.8 billion. Exchange rate-related losses on the euro were more than offset by gains on other investment currencies, in particular the US dollar and the pound sterling.

Taking the various other income statement elements into account, the overall result for foreign currency positions was a profit of CHF 34.5 billion (2013: CHF 3.1 billion).

Swiss franc positions recorded a profit of CHF 276.6 million overall (2013: loss of CHF 96.4 million), essentially comprising price gains of CHF 217.8 million and interest income of CHF 74.8 million.

Profit on Swiss franc positions

Operating expenses comprise banknote and personnel expenses, general overheads and depreciation on the SNB's tangible assets.

Operating expenses

Operating expenses increased by CHF 197.0 million to CHF 531.0 million. A one-off expense of CHF 156.7 million arising from a change in accounting principles for banknote stocks contributed to the increase.

On 15 January 2015, the SNB decided to discontinue the minimum exchange rate of CHF 1.20 per euro with immediate effect. This resulted in exchange rate losses on foreign currency investments and thereby to a deterioration in the SNB's earnings outlook for 2015. At present, it is not possible to make any predictions about the annual result for 2015. This decision by the SNB did not have any impact on the balance sheet, income statement or profit appropriation for 2014.

Outlook

The SNB's financial result depends largely on developments in the gold, foreign exchange and capital markets. Consequently, substantial fluctuations in the quarterly and annual results are to be expected. As the SNB has stressed on several occasions, in view of the considerable volatility in its results, it does not exclude the possibility that, in some years, profit distributions will have to be suspended completely or can only be carried out on a reduced scale.

4.2 PROVISIONS FOR CURRENCY RESERVES

Purpose	<p>In accordance with art. 30 para. 1 of the National Bank Act (NBA), the SNB sets up provisions 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.</p> <p>The SNB requires currency reserves to ensure that 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. The level of the currency reserves is dictated largely by the implementation of monetary policy.</p>
Level of provisions	<p>When setting aside provisions for currency reserves, the SNB must take into account the development of the Swiss economy (art. 30 para. 1 NBA).</p>
Allocation from 2014 annual result	<p>In its annual review, the Bank Council resolved that it would once again apply twice the average nominal GDP growth rate of the previous five years as the basis for calculating the allocation for the 2014 financial year, given the high market risks present in the SNB balance sheet. The allocation to the provisions therefore amounts to CHF 2.0 billion.</p> <p>The allocation was considerably lower than in the previous year. This is attributable to the fact that the average period for the calculation of the allocation upon which the 2014 financial year is based comprises several years with low nominal GDP growth rates. At 1.8%, average nominal GDP growth was therefore much lower than in the relevant previous period (2.9%).</p>

PROVISIONS

	Growth in nominal GDP In percent (average period) ¹	Annual allocation In CHF millions	Provisions after allocation In CHF millions
2010 ²	4.5 (2004–2008)	724.2	45 061.3
2011 ³	3.5 (2005–2009)	3 154.3	48 215.6
2012 ³	3.7 (2006–2010)	3 568.0	51 783.6
2013 ³	2.9 (2007–2011)	3 003.4	54 787.0
2014 ^{3,4}	1.8 (2008–2012)	1 972.3	56 759.3

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

3 Doubling of allocation in accordance with Bank Council resolution.

4 Growth in average nominal GDP for the period 2008–2012 is now based on the provisions of the European System of National and Regional Accounts of 2010 (ESA 2010).

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 (art. 31 NBA). If there is a net profit, this is used for distributions.

For 2014, the distributable annual result amounts to CHF 36.3 billion. The net profit is CHF 29.5 billion.

Developments in last five years

Distributable annual result and net profit/net loss

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	<p>The amount of the annual profit distribution to the Confederation and the cantons is laid down in an agreement between the 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.</p> <p>The current 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 financial year in question is increased. The amount to be distributed is agreed between the SNB and the FDF, and the cantons are informed.</p>
Distribution for 2014	For 2014, following the allocation to the provisions for currency reserves, the SNB is distributing CHF 2 billion to the Confederation and the cantons. The amount comprises the ordinary distribution of CHF 1 billion and an agreed supplementary distribution of CHF 1 billion.

Following last year's profit appropriation, the distribution reserve showed a value of CHF –6.8 billion. After the offsetting operation against the annual result and the profit appropriation for 2014, the distribution reserve will now amount to CHF 27.5 billion.

Distribution reserve

PROFIT DISTRIBUTION AND DISTRIBUTION RESERVE

In CHF millions

	2010	2011	2012	2013	2014 ³
Annual result	-20 807.1	13 028.9	5 956.1	-9 076.6	38 312.9
- Allocation to provisions for currency reserves	-724.2	-3 154.3	-3 568.0	-3 003.4	-1 972.3
= Distributable annual result	-21 531.3	9 874.7	2 388.1	-12 080.0	36 340.6
+ Distribution reserve before appropriation of profit ¹	19 032.8	-5 000.0	3 873.2	5 259.8	-6 820.2
= Net profit/net loss	-2 498.5	4 874.7	6 261.3	-6 820.2	29 520.3
- Payment of a dividend of 6%	-1.5	-1.5	-1.5	-	-1.5
- Profit distribution to Confederation and cantons	-2 500.0 ²	-1 000.0	-1 000.0	-	-2 000.0
= Distribution reserve after appropriation of profit	-5 000.0	3 873.2	5 259.8	-6 820.2	27 518.8

1 Year-end total as per balance sheet.

2 According to the former 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 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

	31.12.2014	31.12.2013	Change
Gold reserves	39 629.6	35 565.0	+ 4 064.6
Foreign currency investments	510 062.4	443 274.5	+ 66 787.9
Less: associated liabilities	-14 750.8	-8 069.3	-6 681.5
Derivatives (replacement values, net)	-40.6	16.7	-57.3
Total foreign exchange reserves ¹	495 271.0	435 221.9	+ 60 049.1
Reserve position in the IMF	2 037.3	2 295.4	-258.1
International payment instruments	4 413.8	4 293.9	+ 119.9
Total currency reserves	541 351.7	477 376.2	+ 63 975.5

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

4.5 MULTI-YEAR COMPARISON OF ASSETS AND LIABILITIES

The following summary provides an overview of the movements in key balance sheet items over the past five years.

Although the level of gold holdings remained unchanged, there were changes in value due to the significant increase in the gold price until 2012, its substantial decline in 2013, and another rise in 2014. Movements in foreign currency investments were mainly determined by monetary policy measures to counter the strong Swiss franc. During an initial phase of foreign currency purchases from March 2009 to June 2010, the balance sheet expanded substantially. In the second half of 2011, measures were taken against the strong Swiss franc, which again led to growth in the SNB balance sheet. In 2012, the minimum exchange rate was enforced by means of extensive foreign currency purchases, which led to further significant growth in the balance sheet. Foreign exchange market intervention in 2014 to support the minimum exchange rate resulted in an additional expansion.

On the assets side of the balance sheet, growth resulted mainly from the increase in foreign currency investments, which more than doubled between the end of 2010 and 2012, and increased further in 2014. In the second half of 2011, liquidity-providing repo transactions were conducted in order to ease monetary policy. As a result of the foreign currency purchases, Swiss franc liquidity grew to such an extent in 2012 that no further liquidity-providing repo transactions were concluded. The loan to the stabilisation fund was fully repaid in August 2013.

On the liabilities side of the balance sheet, monetary policy measures were mainly reflected in the rise in total sight deposit balances at the SNB (sight deposits of domestic banks and other sight deposits). Following significant increases in total sight deposit balances in 2009 and in the first half of 2010 as a result of foreign currency purchases, in the second half of 2010 liquidity was withdrawn from the market through the issuance of SNB Bills and through liquidity-absorbing repo transactions. From August 2011, liquidity-absorbing repo transactions which matured were no longer renewed due to the measures being taken to counter the strong Swiss franc. The issuance of SNB Bills was also discontinued and SNB Bills which had already been issued were repurchased on the market. As a result, total sight deposit balances again increased sharply. In 2012, the last SNB Bills fell due. At the same time, total sight deposit balances continued to rise because of the foreign currency purchases. At the end of June 2013, PostFinance obtained a banking licence and was granted the status of a bank. This change of status was evident in 2013 in an increase in the sight deposits of domestic banks and a decrease in other sight deposits. Foreign currency purchases in 2014 again led to a rise in total sight deposit balances.

YEAR-END VALUES OF BALANCE SHEET ASSETS (AGGREGATED)

In CHF millions

	2010	2011	2012	2013	2014
Gold holdings and claims from gold transactions	43 988	49 380	50 772	35 565	39 630
Foreign currency investments	203 810	257 504	432 209	443 275	510 062
Various foreign currency assets ¹	6 038	8 057	7 332	6 834	6 664
Claims from US dollar repo transactions	–	371	–	–	–
Claims from Swiss franc repo transactions	–	18 468	–	–	–
Swiss franc securities	3 497	3 675	3 757	3 690	3 978
Loan to stabilisation fund	11 786	7 645	4 378	–	–
Sundry ²	836	980	986	1 019	867
Total assets	269 955	346 079	499 434	490 382	561 202

1 Reserve position in the IMF, international payment instruments, monetary assistance loans.

2 Banknote stocks, tangible assets, participations, other assets.

YEAR-END VALUES OF BALANCE SHEET LIABILITIES (AGGREGATED)

In CHF millions

	2010	2011	2012	2013	2014
Banknotes in circulation	51 498	55 729	61 801	65 766	67 596
Sight deposits of domestic banks	37 951	180 721	281 814	317 132	328 006
Liabilities towards the Confederation	5 347	5 648	9 008	10 482	9 046
Other sight deposits ¹	5 619	30 332	78 910	36 297	50 614
SNB debt certificates in Swiss francs	107 870	14 719	–	–	–
Liabilities from Swiss franc repo transactions	13 182	–	–	–	–
Other term liabilities	–	366	–	–	–
Foreign currency liabilities ²	5 805	5 286	9 632	12 585	19 480
Sundry ³	96	162	199	129	155
Provisions for currency reserves ⁴	44 337	45 061	48 216	51 784	54 787
Share capital	25	25	25	25	25
Distribution reserve ⁴	19 033	–5 000	3 873	5 260	–6 820
Annual result	–20 807	13 029	5 956	–9 077	38 313
Total liabilities	269 955	346 079	499 434	490 382	561 202

1 Sight deposits of foreign banks and institutions, other sight liabilities.

2 Foreign currency liabilities, counterpart of SDRs allocated by the IMF.

3 Other liabilities, operating provisions.

4 Before appropriation of profit, cf. p. 152.

Annual financial statements

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Balance sheet as at 31 December 2014

ASSETS

In CHF millions

	Item in Notes	31.12.2014	31.12.2013	Change
Gold holdings	01	39 629.6	35 565.0	+ 4 064.6
Foreign currency investments	02, 29	510 062.4	443 274.5	+ 66 787.9
Reserve position in the IMF	03, 27	2 037.3	2 295.4	- 258.1
International payment instruments	04, 27	4 413.8	4 293.9	+ 119.9
Monetary assistance loans	05, 27	213.3	244.2	- 30.9
Claims from Swiss franc repo transactions	26	-	-	-
Swiss franc securities	06	3 978.3	3 689.9	+ 288.4
Banknote stocks	22	-	156.7	- 156.7
Tangible assets	07	417.4	433.1	- 15.7
Participations	08, 28	133.5	134.4	- 0.9
Other assets	09, 30	316.2	294.9	+ 21.3
Total assets		561 201.9	490 382.0	+ 70 819.9

LIABILITIES

In CHF millions

	Item in Notes	31.12.2014	31.12.2013	Change
Banknotes in circulation	10	67 595.8	65 766.4	+ 1 829.4
Sight deposits of domestic banks		328 006.2	317 131.7	+ 10 874.5
Liabilities towards the Confederation	11	9 046.4	10 481.8	- 1 435.4
Sight deposits of foreign banks and institutions		17 486.9	11 523.2	+ 5 963.7
Other sight liabilities	12	33 126.8	24 773.7	+ 8 353.1
Liabilities from Swiss franc repo transactions		-	-	-
SNB debt certificates		-	-	-
Foreign currency liabilities	13	14 753.1	8 074.0	+ 6 679.1
Counterpart of SDRs allocated by the IMF	04	4 727.2	4 510.5	+ 216.7
Other liabilities	14, 30	154.8	97.9	+ 56.9
Operating provisions	15	-	31.0	- 31.0
Equity				
Provisions for currency reserves ¹		54 787.0	51 783.6	+ 3 003.4
Share capital	16	25.0	25.0	-
Distribution reserve ¹		- 6 820.2	5 259.8	- 12 080.0
Annual result		38 312.9	- 9 076.6	+ 47 389.5
Total liabilities		561 201.9	490 382.0	+ 70 819.9

¹ Before appropriation of profit, cf. p. 152.

Income statement and appropriation of profit for 2014

INCOME STATEMENT

In CHF millions

	Item in Notes	2014	2013	Change
Net result from gold	17	4 067.4	-15 206.2	+19 273.6
Net result from foreign currency positions	18	34 487.7	3 131.6	+31 356.1
Net result from Swiss franc positions	19	276.6	-96.4	+373.0
Net result from sale of stabilisation fund	20	-	3 416.3	-3 416.3
Net result, other	21	12.1	12.1	0.0
Gross income		38 843.8	-8 742.6	+47 586.4
Banknote expenses	22	-233.6	-25.5	-208.1
Personnel expenses	23, 24	-150.2	-172.6	+22.4
General overheads	25	-109.6	-96.9	-12.7
Depreciation on tangible assets	07	-37.6	-39.0	+1.4
Annual result		38 312.9	-9 076.6	+47 389.5

APPROPRIATION OF PROFIT

In CHF millions

	2014	2013	Change
- Allocation to provisions for currency reserves	-1 972.3	-3 003.4	+1 031.1
= Distributable annual result	36 340.6	-12 080.0	+48 420.6
+ Profit/loss carried forward (distribution reserve before appropriation of profit)	-6 820.2	5 259.8	-12 080.0
= Net profit	29 520.3	-6 820.2	+36 340.5
- Payment of a dividend of 6%	-1.5	-	+1.5
- Profit distribution to Confederation and cantons	-2 000.0	-	+2 000.0
= Balance carried forward to 2015 annual financial statements (distribution reserve after appropriation of profit)	27 518.8	-6 820.2	+34 339.0

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Changes in equity

In CHF millions

	Share capital	Provisions for currency reserves	Distribution reserve	Annual result	Total
Equity as at 1 January 2013	25.0	48 215.6	3 873.2	5 956.1	58 069.9
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
Annual result				-9 076.6	-9 076.6
Equity as at 31 December 2013 (before appropriation of profit)	25.0	51 783.6	5 259.8	-9 076.6	47 991.8
Equity as at 1 January 2014	25.0	51 783.6	5 259.8	-9 076.6	47 991.8
Endowment of provisions for currency reserves pursuant to NBA		3 003.4		-3 003.4	
Release from distribution reserve			-12 080.0	12 080.0	
Distribution of dividends to shareholders				-	-
Profit distribution to Confederation and cantons				-	-
Annual result				38 312.9	38 312.9
Equity as at 31 December 2014 (before appropriation of profit)	25.0	54 787.0	-6 820.2	38 312.9	86 304.6
Proposed appropriation of profit					
Endowment of provisions for currency reserves pursuant to NBA		1 972.3		-1 972.3	
Allocation to distribution reserve			34 339.1	-34 339.1	
Distribution of dividends to shareholders				-1.5	-1.5
Profit distribution to Confederation and cantons				-2 000.0	-2 000.0
Equity after appropriation of profit	25.0	56 759.3	27 518.8	-	84 303.1

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Cash flow statement

In CHF millions

	2014	2013
Annual result	38 312.9	-9 076.6
Fund-neutral result components		
Market valuation and price gain/loss		
Gold holdings	-4 067.4	15 206.2
Interest-bearing paper and instruments in foreign currencies	-8 733.1	8 682.7
Equity securities and instruments in foreign currencies	-4 447.0	-13 678.2
Swiss franc securities	-217.8	161.9
Exchange rate gain/loss	-11 811.3	10 473.2
Accrued interest	-649.2	-88.1
Depreciation		
Banknote stocks	156.7	22.0
Tangible assets	37.6	39.0
Valuation changes on participations	0.9	7.1
Other accounts receivable and payable	-22.4	18.6
Cash flow from operating activities	8 559.8	11 767.9
Net investment in foreign currency holdings ¹	-84 954.0	-25 549.9
Net investment in Swiss franc securities	-73.7	-96.7
Liquidity-providing Swiss franc repo transactions	-	-
Liquidity-absorbing Swiss franc repo transactions	-	-
SNB debt certificates	-	-
Banknote stocks	-	-53.1
Tangible assets	-21.9	-20.5
Participations	0.1	0.1
Coins and foreign banknotes	-30.3	-40.7
Cash flow from investing activities	-85 079.8	-25 761.0
Banknotes in circulation	1 829.4	3 965.0
Liabilities towards the Confederation	-1 435.4	473.7
Distribution of dividends ²	-	-1.5
Cash flow from financing activities	394.0	4 437.2
Net increase (-) / decrease (+)	-76 126.0	-9 555.8

1 Includes foreign currency investments without sight deposits and call money, other foreign currency positions, loan to stabilisation fund and exchange rate changes.

2 The SNB transfers the profit distributions for the account of the Confederation and the cantons to the Federal Finance Administration following the ordinary General Meeting of Shareholders. The transfer is reflected under liabilities towards the Confederation and does not affect the fund.

In CHF millions

	2014	2013
Funds at beginning of period	-284 969.7	-275 413.9
Sight deposits and call money	68 458.9	85 309.7
Sight deposits of domestic banks	-317 131.7	-281 814.1
Sight deposits of foreign banks and institutions	-11 523.2	-11 958.4
Other sight liabilities	-24 773.7	-66 951.1
Funds at end of period	-361 095.7	-284 969.7
Sight deposits and call money	17 524.2	68 458.9
Sight deposits of domestic banks	-328 006.2	-317 131.7
Sight deposits of foreign banks and institutions	-17 486.9	-11 523.2
Other sight liabilities	-33 126.8	-24 773.7
Net increase (-) / decrease (+)	-76 126.0	-9 555.8

The SNB is listed on the Swiss stock exchange (SIX Swiss Exchange) in the Domestic Standard and applies the generally accepted accounting principles, Swiss GAAP FER. These principles require the publication of a cash flow statement, which in view of the SNB's central bank role is of limited informative value.

Notes to the annual financial statements as at 31 December 2014

5.1 ACCOUNTING AND VALUATION PRINCIPLES

GENERAL

Basic principles

The SNB is a special-statute joint-stock company with head offices in Berne and Zurich. This year's financial statements have been drawn up in accordance with the entire existing Swiss GAAP FER guidelines (Accounting and Reporting Recommendations) as well as the provisions of the National Bank Act (NBA) and the Swiss Code of Obligations (CO). It presents a true and fair view of the financial position, the cash flows and the results of operations of the Swiss National Bank (SNB). At its meeting of 27 February 2015, the Bank Council accepted the financial report for 2014 for submission to the Federal Council and to the General Meeting of Shareholders.

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.

The Complementary Recommendation for Listed Public Companies (FER 31), which will enter into effect as of 1 January 2015, has not been adopted early.

Changes from previous year

In line with practice at other central banks, from the 2014 financial year, acquisition and development expenses for banknotes will no longer be stated on the assets side of the balance sheet, where they were recorded as banknote stocks until 2013. Instead, all expenses arising in connection with the distribution of banknotes will now be recorded directly in the income statement under banknote expenses. This change in accounting principles resulted in a one-off depreciation of banknote stocks in the amount of CHF 156.7 million in the 2014 financial year. No adjustment will be made to the previous year's figures.

Cash flow statement

Even though the SNB can create money autonomously as a central bank, a cash flow statement is prepared in line with Swiss GAAP FER 4. Funds comprise sight deposits and call money in foreign currency forming part of foreign currency investments less Swiss franc sight deposits.

Segment information

The SNB operates exclusively as a central bank. For this reason, the annual financial statements do not include any segment information.

Consolidated financial statements

Following the sale of the stabilisation fund in 2013, the SNB no longer holds any material participating interests according to Swiss GAAP FER 30. Therefore, it does not draw up consolidated financial statements.

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

Recording of transactions

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

Accrual accounting

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.

Profit tax

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.

Transactions with related parties

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.

Foreign currency translation

BALANCE SHEET AND INCOME STATEMENT

Gold holdings consist of gold ingots, gold coins and claims on metals accounts. The gold is stored in Switzerland (roughly 70%) and abroad (roughly 30%). These holdings are stated at market value. Valuation gains and losses are reported under net result from gold.

Gold holdings

In foreign currency investments, negotiable securities (money market instruments, bonds and equities) 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. Negative interest on balances will be recorded as a reduction of interest income. Gains and losses from revaluation at market value, interest income and expenses, dividends and exchange rate gains and losses are stated under net result from foreign currency positions.

Foreign currency investments

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

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 New Arrangements to Borrow (NAB) and the General Arrangements to Borrow (GAB).

The quota is Switzerland's portion of the IMF capital, which is financed by the SNB. It is denominated in Special Drawing Rights (SDRs), the IMF's unit of account. 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 NAB and GAB, 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. Credit lines not drawn by the IMF are recorded as irrevocable lending commitments under the SNB's 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 sight deposits in SDRs with the IMF. These deposits result from the allocation of SDRs and the purchase and sale of SDRs under the voluntary trading 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 with the allocation is stated on the liabilities side of the balance sheet under counterpart of SDRs allocated by the IMF.

On the basis of the Monetary Assistance Act, Switzerland can participate in multilateral assistance operations aimed at preventing or remedying serious disruptions to the international monetary system or be involved in special funds or other IMF facilities, particularly those in favour of low-income countries. In these two cases, the Confederation can instruct the SNB to grant a loan. In return, the Confederation guarantees the SNB the interest and principal repayment on the loan.

Monetary assistance loans

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 subsidised interest rates to low-income countries. These loans are stated at nominal value inclusive of accrued interest. Interest income and exchange rate gains and losses are stated under net result from foreign currency positions.

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 Swiss franc repo transactions

Claims from repo transactions are fully backed by collateral eligible for SNB repos. They are stated at nominal value inclusive of accrued interest. Interest income is stated under net result from Swiss franc positions.

At the end of 2014, there were no outstanding claims from Swiss franc repo transactions.

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 income are stated under net result from Swiss franc positions.

Swiss franc securities

In line with practice at other central banks, from the 2014 financial year, expenses arising in connection with the distribution of banknotes will be recorded directly in the income statement under banknote expenses.

Banknote stocks

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 investments resulting in an increase in value (projects) are 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, the participation in Orell Füssli Holding Ltd is valued on the basis of pro rata equity. 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 accountability report, chapter 5.4).

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. Valuation changes are recorded in the income statement and stated under net result from foreign currency positions.

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.

**Accrued expenses
and deferred income**

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.

Banknotes in circulation

Sight deposit accounts 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 accounts are stated at nominal value. The SNB can charge either positive interest on sight deposit account balances or negative interest on balances that exceed a given exemption threshold, the level of which is to be determined by the SNB. These sight deposit accounts did not bear interest in 2014 and 2013.

**Sight deposits
of domestic banks**

The National Bank holds a sight deposit account for the Confederation. This account did not bear interest in 2014 and 2013. In addition, the Confederation may place time deposits with the SNB at market rates. The liabilities towards the Confederation are stated at nominal value.

**Liabilities towards
the Confederation**

The SNB holds sight deposit accounts for foreign banks and institutions which facilitate payment transactions in Swiss francs. These accounts are stated at nominal value. The SNB can charge either positive interest on sight deposit account balances or negative interest on balances that exceed a given exemption threshold, the level of which is to be determined by the SNB. These sight deposit accounts did not bear interest in 2014 and 2013.

**Sight deposits of foreign
banks and institutions**

The main components in the other sight liabilities item are sight deposit accounts of non-banks, accounts of active and retired staff members and of the SNB pension fund schemes. The sight deposit accounts of non-banks are stated at nominal value. The SNB can charge either positive interest on sight deposit account balances or negative interest on balances that exceed a given exemption threshold, the level of which is to be determined by the SNB. These sight deposit accounts did not bear interest in 2014 and 2013. The deposit accounts are stated at nominal value inclusive of accrued interest. Interest expenses are stated under net result from Swiss franc positions.

Other sight liabilities

Liabilities from Swiss franc 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.

At the end of 2014, there were no outstanding liabilities from Swiss franc repo transactions.

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.

At the end of 2014, there were no SNB Bills outstanding.

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 SDRs allocated to Switzerland. The counterpart item attracts interest at the same rate as the SDRs on the assets side of the balance sheet. 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.

At the end of 2014, there were no outstanding liabilities for operating provisions.

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. 153). The allocation is made as part of the profit appropriation. The Bank Council decides annually on the level of these provisions.

**Provisions for
currency reserves**

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.

Distribution reserve

The SNB's pension plans comprise two staff pension fund schemes under the defined contribution system. With effect from 1 January 2015, the two schemes were merged to form a single legal entity.

Pension fund

In accordance with Swiss GAAP FER 16, any share of actuarial surplus or deficit is shown on the assets side or reported as a liability.

On 15 January 2015, the SNB decided to discontinue the minimum exchange rate of CHF 1.20 per euro with immediate effect. This resulted in exchange rate losses on foreign currency investments and thereby to a deterioration in the SNB's earnings outlook for 2015. At present, it is not possible to make any predictions about the annual result for 2015. This decision by the SNB did not have any impact on the balance sheet, income statement or profit appropriation for 2014.

**Events after the
balance sheet date**

The SNB's financial result depends largely on developments in the gold, foreign exchange and capital markets. Consequently, substantial fluctuations in the quarterly and annual results are to be expected. As the SNB has stressed on several occasions, in view of the considerable volatility in its results, it does not exclude the possibility that, in some years, a dividend payment to shareholders and profit distributions to the Confederation and the cantons will have to be suspended completely or can only be carried out on a reduced scale.

Valuation rates

VALUATION RATES

	31.12.2014 In CHF	31.12.2013 In CHF	Change In percent
1 euro (EUR)	1.2024	1.2268	-2.0
1 US dollar (USD)	0.9923	0.8908	+11.4
100 yen (JPY)	0.8300	0.8489	-2.2
1 Canadian dollar (CAD)	0.8557	0.8384	+2.1
1 pound sterling (GBP)	1.5459	1.4736	+4.9
1 Australian dollar (AUD)	0.8113	0.7968	+1.8
100 Danish kroner (DKK)	16.1476	16.4457	-1.8
100 Swedish kronor (SEK)	12.7520	13.8411	-7.9
1 Singapore dollar (SGD)	0.7498	0.7052	+6.3
100 South Korean won (KRW)	0.0910	0.0849	+7.1
1 Special Drawing Right (SDR)	1.4377	1.3718	+4.8
1 kilogram of gold	38 105.48	34 194.73	+11.4

5.2 NOTES TO THE BALANCE SHEET AND INCOME STATEMENT

Item 01

GOLD HOLDINGS**Breakdown by type**

	31.12.2014		31.12.2013	
	In tonnes	In CHF millions	In tonnes	In CHF millions
Gold ingots	1 001.0	38 142.2	1 001.0	34 227.7
Gold coins	39.0	1 487.4	39.0	1 334.8
Claims on metal accounts	-	-	0.1	2.5
Total	1 040.0	39 629.6	1 040.1	35 565.0

FOREIGN CURRENCY INVESTMENTS

Item 02

Breakdown by investment type in CHF millions

	31.12.2014	31.12.2013	Change
Sight deposits and call money	17 524.2	68 458.9	-50 934.7
Time deposits	4 809.3	-	+4 809.3
Claims from repo transactions	14 932.0	8 069.9	+6 862.1
Money market instruments	11 263.3	2 835.5	+8 427.8
Bonds ¹	388 109.2	295 681.2	+92 428.0
Equities	73 424.4	68 229.0	+5 195.4
Total	510 062.4	443 274.5	+66 787.9

1 Of which CHF 836.4 million (2013: CHF 607.3 million) lent under securities lending operations.

Breakdown by issuer and borrower category in CHF millions

	31.12.2014	31.12.2013	Change
Governments	377 423.0	284 525.1	+92 897.9
Monetary institutions ¹	26 652.9	70 918.7	-44 265.8
Corporations	105 986.5	87 830.6	+18 155.9
Total	510 062.4	443 274.5	+66 787.9

1 BIS, central banks and multilateral development banks.

Breakdown by currency¹ in CHF millions

	31.12.2014	31.12.2013	Change
EUR	236 360.1	218 069.0	+18 291.1
USD	147 214.1	114 798.8	+32 415.3
JPY	39 310.1	35 687.2	+3 622.9
CAD	20 949.6	18 000.6	+2 949.0
GBP	34 222.7	31 417.1	+2 805.6
AUD	9 603.7	7 783.2	+1 820.5
DKK	7 235.0	4 834.9	+2 400.1
SEK	3 128.8	3 009.1	+119.7
SGD	2 892.6	2 667.9	+224.7
KRW	6 873.1	5 082.7	+1 790.4
Other	2 272.7	1 924.1	+348.6
Total	510 062.4	443 274.5	+66 787.9

1 Excluding foreign exchange derivatives.

RESERVE POSITION IN THE IMF

In CHF millions

	31.12.2014	31.12.2013	Change
Swiss quota in the IMF ¹	4 972.3	4 744.4	+ 227.9
Less: IMF's Swiss franc sight deposit balances at the SNB ²	-4 815.4	-4 398.9	-416.5
Claim from participation in the IMF	156.9	345.5	- 188.6
Loan based on New Arrangements to Borrow (NAB)	1 880.4	1 949.9	-69.5
Total reserve position in the IMF	2 037.3	2 295.4	-258.1

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

2 Corresponds to the untransferred portion of the quota.

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

	31.12.2014	31.12.2013	Change
Lending commitment ²	15 678.7	14 960.1	+ 718.6
Amount drawn	1 880.4	1 949.9	-69.5
Amount not drawn	13 798.3	13 010.2	+ 788.1

1 Maximum lending commitments totalling SDR 10,905 million, arising from liabilities from NAB and GAB, in favour of the IMF for special cases; revolving and 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.

2 Change due entirely to exchange rates.

INTERNATIONAL PAYMENT INSTRUMENTS

Item 04

In CHF millions

	31.12.2014	31.12.2013	Change
SDRs from allocation ¹	4 727.2	4 510.5	+ 216.7
SDRs purchased/sold (net)	-313.4	-216.6	-96.8
Total	4 413.8	4 293.9	+ 119.9

1 Corresponds to the IMF's allocation of SDR 3,288 million. The liability entered into with the allocation is stated in the balance sheet under counterpart of SDRs allocated by the IMF.

Details: Exchange arrangement for international payment instruments (voluntary trading arrangement)¹

In CHF millions

	31.12.2014	31.12.2013	Change
Purchase/sale commitment ²	2 363.6	2 255.2	+ 108.4
SDRs purchased	-	-	-
SDRs sold	313.4	216.6	+ 96.8
Total commitment ³	2 677.0	2 471.9	+ 205.1

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.

2 Change due entirely to exchange rates.

3 Maximum purchase commitment.

MONETARY ASSISTANCE LOANS

In CHF millions

	31.12.2014	31.12.2013	Change
Claims from PRGT loan ¹	–	–	–
Claims from interim PRGT loan ¹	213.3	244.2	–30.9
Total	213.3	244.2	–30.9

1 Poverty Reduction and Growth Trust of the IMF.

Details: Lending commitment to PRGT and interim PRGT in CHF millions

	31.12.2014	31.12.2013	Change
Lending commitment to PRGT ^{1,2}	718.9	685.9	+33.0
Amount drawn	–	–	–
Amount repaid	–	–	–
Claims	–	–	–
Amount not yet drawn	718.9	685.9	+33.0
Lending commitment to interim PRGT ^{1,2}	359.4	343.0	+16.4
Amount drawn	359.4	343.0	+16.4
Amount repaid	146.4	99.0	+47.4
Claims ³	213.3	244.2	–30.9
Amount not yet drawn	–	–	–

1 Poverty Reduction and Growth Trust; limited-term lending commitment to the IMF's trust fund amounting to SDR 500 million (PRGT) or SDR 250 million (interim PRGT); not revolving and with a federally guaranteed repayment of principal and payment of interest.

2 Change due entirely to exchange rates.

3 Including accrued interest.

SWISS FRANC SECURITIES

Item 06

Breakdown by borrower category in CHF millions

	31.12.2014	31.12.2013	Change
Governments	1 827.1	1 516.8	+310.3
Corporations	2 151.2	2 173.1	-21.9
Total	3 978.3	3 689.9	+288.4

Breakdown of *governments* borrower category in CHF millions

	31.12.2014	31.12.2013	Change
Swiss Confederation	1 070.9	858.8	+212.1
Cantons and municipalities	521.5	464.1	+57.4
Foreign states ¹	234.7	193.9	+40.8
Total	1 827.1	1 516.8	+310.3

1 Including public authorities.

Breakdown of *corporations* borrower category in CHF millions

	31.12.2014	31.12.2013	Change
Domestic mortgage bond institutions	1 109.3	937.8	+171.5
Other domestic corporations ¹	77.9	72.7	+5.2
Foreign corporations ²	964.1	1 162.6	-198.5
Total	2 151.2	2 173.1	-21.9

1 International organisations with their head office in Switzerland.

2 Banks, international organisations and other corporations.

TANGIBLE ASSETS

In CHF millions

	Land and buildings ¹	Fixed assets under con- struction	Software	Sundry tangible assets ²	Total
Historical cost					
1 January 2014	642.0	–	48.8	65.5	756.4
Additions	–	3.6	10.7	7.6	21.9
Disposals	–	–	–1.9	–2.0	–3.8
Reclassified	–	–	–	–	–
31 December 2014	642.0	3.6	57.6	71.2	774.4
Cumulative value adjustments					
1 January 2014	242.2		35.9	45.2	323.3
Scheduled depreciation	21.5		9.3	6.8	37.6
Disposals	–		–1.9	–1.9	–3.8
Reclassified	–		–	–	–
31 December 2014	263.7		43.3	50.0	357.0
Net book values					
1 January 2014	399.9	–	12.9	20.3	433.1
31 December 2014	378.3	3.6	14.3	21.2	417.4

1 Insured value: CHF 488.6 million.

2 Insured value: CHF 60.7 million.

Tangible assets from previous year in CHF millions

	Land and buildings ¹	Fixed assets under construction	Software	Sundry tangible assets ²	Total
Historical cost					
1 January 2013	642.0	–	39.5	65.5	747.0
Additions	–	–	9.8	10.7	20.5
Disposals	–	–	–0.5	–10.7	–11.2
Reclassified	–	–	–	–	–
31 December 2013	642.0	–	48.8	65.5	756.4
Cumulative value adjustments					
1 January 2013	217.5	–	28.6	49.2	295.2
Scheduled depreciation	24.7	–	7.9	6.4	39.0
Disposals	–	–	–0.5	–10.4	–10.9
Reclassified	–	–	–	–	–
31 December 2013	242.2	–	35.9	45.2	323.3
Net book values					
1 January 2013	424.6	–	11.0	16.3	451.8
31 December 2013	399.9	–	12.9	20.3	433.1

1 Insured value: CHF 488.6 million.

2 Insured value: CHF 60.7 million.

Item 08

PARTICIPATIONS

In CHF millions

	Orell Füssli ¹	BIS ²	Other	Total
Equity interest	33%	3%		
Book value as at 1 January 2013	50.6	90.2	0.8	141.6
Investments	–	–	–	–
Divestments ³	–	–	–0.1	–0.1
Valuation changes	–7.1	–	–	–7.1
Book value as at 31 December 2013	43.5	90.2	0.7	134.4
Book value as at 1 January 2014	43.5	90.2	0.7	134.4
Investments	–	–	–	–
Divestments ⁴	–	–	–0.1	–0.1
Valuation changes	–0.9	–	–	–0.9
Book value as at 31 December 2014	42.6	90.2	0.6	133.5

1 Orell Füssli Holding Ltd, whose subsidiary Orell Füssli Security Printing Ltd produces Switzerland's banknotes.

2 Interest in the BIS is held for reasons of monetary policy collaboration.

3 Interest in StabFund (GP) AG, with a share capital of CHF 0.1 million.

4 Interest in LiPro (LP) AG, with a share capital of CHF 0.1 million.

Item 09

OTHER ASSETS

In CHF millions

	31.12.2014	31.12.2013	Change
Coins ¹	204.5	174.3	+30.2
Foreign banknotes	1.1	1.0	+0.1
Other accounts receivable	15.6	36.6	–21.0
Prepayments and accrued income	3.2	4.1	–0.9
Positive replacement values ²	91.7	78.8	+12.9
Total	316.2	294.9	+21.3

1 Coins acquired from Swissmint destined for circulation.

2 Unrealised gains on financial instruments and on outstanding spot transactions (cf. item 30, p. 186).

BANKNOTES IN CIRCULATION

Item 10

Breakdown by issue in CHF millions

	31.12.2014	31.12.2013	Change
8th issue	66 427.9	64 559.2	+ 1 868.7
6th issue ¹	1 167.9	1 207.2	-39.3
Total	67 595.8	65 766.4	+ 1 829.4

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

LIABILITIES TOWARDS THE CONFEDERATION

Item 11

In CHF millions

	31.12.2014	31.12.2013	Change
Sight liabilities	8 046.4	9 481.8	-1 435.4
Term liabilities	1 000.0	1 000.0	-
Total	9 046.4	10 481.8	-1 435.4

OTHER SIGHT LIABILITIES

Item 12

In CHF millions

	31.12.2014	31.12.2013	Change
Sight deposits of non-banks ¹	32 730.3	24 399.7	+ 8 330.6
Deposit accounts ²	396.5	374.0	+ 22.5
Cheque liabilities ³	0.0	0.0	0.0
Total	33 126.8	24 773.7	+ 8 353.1

1 Clearing offices, insurance corporations, etc.

2 These mainly comprise accounts of active and retired employees, plus liabilities towards the SNB pension fund. Current account liabilities towards the latter amounted to CHF 110.2 million as at 31 December 2014 (2013: CHF 106.1 million).

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

Item 13

FOREIGN CURRENCY LIABILITIES

In CHF millions

	31.12.2014	31.12.2013	Change
Sight liabilities	2.3	4.4	-2.1
Liabilities from repo transactions ¹	14 750.8	8 069.3	+ 6 681.5
Other foreign currency liabilities	-	0.3	-0.3
Total	14 753.1	8 074.0	+ 6 679.1

1 Relating to the management of foreign currency investments.

Item 14

OTHER LIABILITIES

In CHF millions

	31.12.2014	31.12.2013	Change
Other accounts payable	10.8	11.6	-0.8
Accrued liabilities and deferred income	11.7	24.2	-12.5
Negative replacement values ¹	132.2	62.1	+ 70.1
Total	154.8	97.9	+ 56.9

1 Unrealised losses on financial instruments and on outstanding spot transactions (cf. item 30, p. 186).

OPERATING PROVISIONS

Item 15

In CHF millions

	Provisions due to reorganisation	Other provisions	Total
Book value as at 1 January 2013	4.5	1.0	5.5
Creation ¹	–	30.0	30.0
Utilisation	–3.8	–	–3.8
Release	–0.7	–	–0.7
Book value as at 31 December 2013	–	31.0	31.0
Book value as at 1 January 2014	–	31.0	31.0
Creation	–	–	–
Utilisation	–	–29.1	–29.1
Release ¹	–	–1.9	–1.9
Book value as at 31 December 2014	–	–	–

¹ On 1 January 2014, the SNB pension fund changed from a defined benefit to a defined contribution system. While the major portion of the associated costs were covered from the pension fund reserves, a one-off provision of CHF 30 million was created for the remaining sum and allocated to the 2013 financial year. The provision remaining after the costs that were borne by the SNB had been deducted, and which amounted to CHF 1.9 million, was released in 2014.

SHARE CAPITAL

Item 16

Shares

	2014	2013	2012
Share capital in CHF	25 000 000	25 000 000	25 000 000
Nominal value in CHF	250	250	250
Number of shares	100 000	100 000	100 000
Ticker symbol/ISIN ¹	SNBN/CH0001319265		
Closing price on 31 December in CHF	1 060	1 045	1 028
Market capitalisation in CHF	106 000 000	104 500 000	102 800 000
Annual high in CHF	1 150	1 200	1 179
Annual low in CHF	991	1 004	940
Average daily trading volume in number of shares	44	30	24

¹ Listed in the Domestic Standard on SIX Swiss Exchange.

Breakdown of share ownership as at 31 December 2014

	Number of shares	In percentage of shares registered
2,183 private shareholders with a total of	34 972¹	40.02
Of which 1,856 shareholders with 1–10 shares each		
Of which 293 shareholders with 11–100 shares each		
Of which 20 shareholders with 101–200 shares each ²		
Of which 14 shareholders with over 200 shares each ²		
72 public law sector shareholders with a total of	52 405	59.98
Of which 26 cantons with a total of	38 981	
Of which 22 cantonal banks with a total of	13 068	
Of which 24 other public authorities and institutions with a total of	356	
Total 2,255 registered shareholders with a total of³	87 377⁴	100.00
Registration applications pending or outstanding for	12 623	
Total shares	100 000	

1 Legal entities: 11,766 shares (13.56%); private individuals: 23,206 shares (26.74%). Private shareholders account for 21.16% of voting rights.

2 Voting rights are limited to 100 shares.

3 In 2014, the number of shareholders decreased by 37 and the number of registered shares fell by 572.

4 Of which 13,303 shares are in foreign ownership (accounting for 1.48% of voting rights).

Principal shareholders: Public law sector

	Number of shares	31.12.2014 Participation	Number of shares	31.12.2013 Participation
Canton of Berne	6 630	6.63%	6 630	6.63%
Canton of Zurich	5 200	5.20%	5 200	5.20%
Canton of Vaud	3 401	3.40%	3 401	3.40%
Canton of St Gallen	3 002	3.00%	3 002	3.00%

Principal shareholders: Private individuals¹

	Number of shares	31.12.2014 Participation	Number of shares	31.12.2013 Participation
Theo Siegert, Düsseldorf	6 490	6.49%	6 250	6.25%

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 17

Breakdown by type in CHF millions

	2014	2013	Change
Net result from changes in market value	4 067.4	-15 206.2	+19 273.6
Interest income from gold lending transactions	-	-	-
Total	4 067.4	-15 206.2	+19 273.6

NET RESULT FROM FOREIGN CURRENCY POSITIONS

Item 18

Breakdown by origin in CHF millions

	2014	2013	Change
Foreign currency investments	34 384.5	3 060.3	+31 324.2
Reserve position in the IMF	105.6	-9.0	+114.6
International payment instruments	-13.4	4.0	-17.4
Monetary assistance loans	11.1	-4.8	+15.9
Other foreign currency positions	-	81.1	-81.1
Total	34 487.7	3 131.6	+31 356.1

Breakdown by type in CHF millions

	2014	2013	Change
Interest income	7 736.0	6 939.7	+796.3
Price gain/loss on interest-bearing paper and instruments	8 733.1	-8 682.7	+17 415.8
Interest expenses	-20.8	-11.5	-9.3
Dividend income	1 795.4	1 692.0	+103.4
Price gain/loss on equity securities and instruments	4 447.0	13 678.2	-9 231.2
Exchange rate gain/loss	11 811.3	-10 473.2	+22 284.5
Asset management, safe custody and other fees	-14.4	-10.9	-3.5
Total	34 487.7	3 131.6	+31 356.1

Breakdown by overall net result by currency in CHF millions

	2014	2013	Change
EUR	6 193.0	7 347.2	-1 154.2
USD	20 158.5	1 012.4	+19 146.1
JPY	820.8	-3 060.3	+3 881.1
CAD	1 607.1	-1 475.1	+3 082.2
GBP	2 941.0	676.5	+2 264.5
AUD	794.2	-1 248.1	+2 042.3
DKK	371.7	62.5	+309.2
SEK	91.3	-31.7	+123.0
SGD	237.9	-196.9	+434.8
KRW	873.8	58.2	+815.6
SDR	103.2	-9.8	+113.0
Other	295.3	-3.3	+298.6
Total	34 487.7	3 131.6	+31 356.1

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

	2014	2013	Change
EUR	-4 079.7	3 432.5	-7 512.2
USD	14 278.8	-2 566.8	+16 845.6
JPY	-884.4	-7 883.7	+6 999.3
CAD	457.6	-1 595.4	+2 053.0
GBP	1 420.1	-139.9	+1 560.0
AUD	128.6	-1 376.9	+1 505.5
DKK	-118.1	68.7	-186.8
SEK	-247.7	-81.2	-166.5
SGD	172.6	-163.7	+336.3
KRW	452.9	-25.7	+478.6
SDR	101.1	-47.4	+148.5
Other	129.4	-93.8	+223.2
Total	11 811.3	-10 473.2	+22 284.5

NET RESULT FROM SWISS FRANC POSITIONS

Item 19

Breakdown by origin in CHF millions

	2014	2013	Change
Swiss franc securities	285.5	-88.9	+374.4
Liquidity-providing Swiss franc repo transactions	-	-	-
Liquidity-absorbing Swiss franc repo transactions	-	-	-
Liabilities towards the Confederation	-	-	-
SNB debt certificates	-	-	-
Other Swiss franc positions	-8.9	-7.5	-1.4
Total	276.6	-96.4	+373.0

Breakdown by type in CHF millions

	2014	2013	Change
Interest income	74.8	79.4	-4.6
Price gain/loss on interest-bearing paper and instruments	217.8	-161.9	+379.7
Interest expenses	-8.9	-7.5	-1.4
Trading, safe custody and other fees	-7.2	-6.4	-0.8
Total	276.6	-96.4	+373.0

NET RESULT FROM SALE OF STABILISATION FUND

Item 20

With a net contribution of CHF 3.4 billion, the sale of the stabilisation fund had a positive impact on the SNB's annual result for 2013.

Item 21

NET RESULT, OTHER

In CHF millions

	2014	2013	Change
Commission income	5.6	9.6	-4.0
Commission expenses	-5.4	-9.5	+4.1
Income from participations	5.7	2.1	+3.6
Income from real estate	4.3	6.3	-2.0
Other income	1.9	3.7	-1.8
Total	12.1	12.1	0.0

Item 22

BANKNOTE EXPENSES

The change in accounting principles for banknotes resulted in a one-off depreciation of banknote stocks in the amount of CHF 156.7 million in the 2014 financial year.

Item 23

PERSONNEL EXPENSES¹

Breakdown by type in CHF millions

	2014	2013	Change
Wages, salaries and allowances	116.7	111.1	+5.6
Social security expenses	26.6	22.3	+4.3
Other personnel expenses ²	6.9	39.3	-32.4
Total	150.2	172.6	-22.4

¹ In terms of full-time equivalents, the number of employees averaged 764 for 2014 (2013: 710).

² Various social benefits; expenses for staff development, training and recruitment; events, etc. Including, in 2013, a one-off amount of CHF 30 million for converting the SNB pension fund from a defined benefit to a defined contribution system (cf. item 15, p. 175).

Remuneration for members of the Bank Council¹ (excluding employer social security contributions)
in CHF thousands

	2014	2013	Change
Jean Studer, President ^{2,3,4}	159.0	149.2	+ 9.8
Olivier Steimer, Vice President ^{3,4}	78.4	72.8	+ 5.6
Gerold Bühler (until 25 April 2014) ^{3,5}	17.8	60.4	- 42.6
Monika Bütler ³	47.8	45.0	+ 2.8
Alfredo Gysi ⁶	50.6	50.6	-
Heinz Karrer (as of 25 April 2014) ⁵	35.6	-	+ 35.6
Daniel Lampart ⁶	50.6	52.0	- 1.4
Christoph Lengwiler ⁵	56.2	56.2	-
Shelby Robert du Pasquier ⁶	50.6	50.6	-
Laura Sadis	45.0	45.0	-
Ernst Stocker ⁵	56.2	56.2	-
Cédric Pierre Tille ⁴	59.0	45.0	+ 14.0
Total	706.8	683.0	+ 23.8

- 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 compensated at a rate of CHF 2,800 per day or CHF 1,400 per half-day.
- 2 Excluding employer contributions for pension benefits in the amount of CHF 40,010 (2013: none).
- 3 Member of Compensation Committee.
- 4 Member of Nomination Committee.
- 5 Member of Audit Committee.
- 6 Member of Risk Committee.

Remuneration for members of the Regional Economic Councils in CHF thousands

	2014	2013	Change
Chairpersons ¹	60.0	60.0	-
Members ^{2,3}	113.0	114.0	- 1.0

- 1 Remuneration per chairperson (8 persons in total): CHF 7,500 per year.
- 2 Remuneration per member (19 persons in total): CHF 6,000 per year.
- 3 Change compared to previous year due to job vacancies.

The list of Regional Economic Councils can be found on p. 201.

Remuneration for members of executive management¹ (excluding employer social security contributions) in CHF thousands

	Salaries	Miscellaneous ²	2014 Total remuneration	2013 Total remuneration	Change
Three members of the Governing Board	2 595.6	87.0	2 682.6	2 682.6	–
Thomas J. Jordan, Chairman ³	865.2	29.8	895.0	895.0	–
Jean-Pierre Danthine, Vice Chairman	865.2	28.6	893.8	893.8	–
Fritz Zurbrügg	865.2	28.6	893.8	893.8	–
Three alternate members of the Governing Board ⁴	1 343.8	62.4	1 406.2	1 386.4	+ 19.8
Total	3 939.4	149.4	4 088.8	4 069.0	+ 19.8

Remuneration for members of executive management¹ (including employer social security contributions) in CHF thousands

	Total remuneration	Employer contributions to pension plans and Old Age and Survivors' Insurance Fund	2014 Total	2013 Total	Change
Three members of the Governing Board	2 682.6	638.5	3 321.1	3 184.9	+ 136.2
Thomas J. Jordan, Chairman ³	895.0	240.0	1 135.0	1 051.7	+ 83.3
Jean-Pierre Danthine, Vice Chairman	893.8	158.5	1 052.3	1 078.3	–26.0
Fritz Zurbrügg	893.8	240.0	1 133.8	1 054.9	+ 78.9
Three alternate members of the Governing Board ⁴	1 406.2	373.3	1 779.5	1 660.3	+ 119.2
Total	4 088.8	1 011.8	5 100.6	4 845.2	+ 255.4

1 All remuneration is specified in SNB regulations (cf. also 'Corporate governance', p. 129).

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

3 Excluding remuneration in the amount of CHF 69,220 for serving as member of the Board of Directors at the BIS.

4 Excluding remuneration in the amount of CHF 19,200 for alternate member of the Governing Board for serving as member of the Board of Directors and of the Executive Board of the compensation funds for old age and survivors' insurance, disability insurance and the fund for loss of earned income (AHV/AVS; IV/AI; EO/APG).

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

Of the members of executive management, Dewet Moser, Alternate Member of the Governing Board, held one SNB share as at 31 December 2014. In accordance with the 'Code of Conduct for members of the Bank Council', members of the Bank Council may not hold shares in the SNB.

EMPLOYEE BENEFIT OBLIGATIONS^{1,2}

Item 24

Share of overfunding of pension plans³ in CHF millions

	31.12.2014	31.12.2013	Change
Overfunding in accordance with Swiss GAAP FER 26 ³	96.7	108.7	-12.0
SNB's share of overfunding	-	-	-

1 Pension fund does not have any employer contribution reserves.

2 The pension fund by-laws contain a restructuring clause. The clause will come into effect if it appears likely that the pension fund coverage ratio will drop below 100%. In such a case, a restructuring concept must be drawn up to ensure that the shortfall in coverage can be remedied within a reasonable timeframe with the support of the SNB. The restructuring clause ensures a long-term solution to the problem of a shortfall.

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

Employee benefit expenses in CHF millions

	2014	2013	Change
Employer contributions	18.1	14.3	+3.8
Change in share of overfunding	-	-	-
Employee benefit expenses as part of personnel expenses ⁴	16.2	44.3	-28.2

4 On 1 January 2014, the SNB pension fund changed from a defined benefit to a defined contribution system. While the major portion of the associated costs were covered from the pension fund reserves, a one-off provision of CHF 30 million was created for the remaining sum and allocated to the 2013 financial year. The provision remaining after the costs that were borne by the SNB had been deducted, and which amounted to CHF 1.9 million, was released in 2014.

GENERAL OVERHEADS

Item 25

In CHF millions

	2014	2013	Change
Premises	26.1	19.2	+6.9
Maintenance of mobile tangible assets and software	17.0	19.4	-2.4
Consulting and other third-party support ¹	32.1	24.9	+7.2
Administrative expenses	19.2	18.2	+1.0
Contributions ²	7.2	7.9	-0.7
Other general overheads	8.0	7.1	+0.9
Total	109.6	96.9	+12.7

1 Auditing fees for the 2014 financial year amounted to CHF 0.3 million (2013: CHF 0.4 million).

The Audit Board provided no consulting services (2013: CHF 0.1 million).

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

Item 26

5.3 NOTES REGARDING OFF-BALANCE-SHEET BUSINESS**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 amounts stated are the maximum amounts that can be drawn.

In CHF millions

	31.12.2014	31.12.2013	Change
Lending commitment	38 470.5	34 040.5	+ 4 430.0
Amount drawn	–	–	–
Amount not drawn	38 470.5	34 040.5	+ 4 430.0

Item 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 amounts stated are the maximum liabilities arising from these commitments.

Overview: Undrawn lending commitments and exchange arrangement for international payment instruments in CHF millions

	31.12.2014	31.12.2013	Change
New Arrangements to Borrow (NAB) and General Arrangements to Borrow (GAB) ¹	13 798.3	13 010.2	+ 788.1
Lending commitment to PRGT ²	718.9	685.9	+ 33.0
Total undrawn lending commitments	14 517.1	13 696.1	+ 821.0
Exchange arrangement for international payment instruments (voluntary trading arrangement) ³	2 677.0	2 471.9	+ 205.1

1 For further details, cf. item 03, p. 166.

2 For further details, cf. item 05, p. 168.

3 For further details, cf. item 04, p. 167.

OTHER LIABILITIES NOT CARRIED ON BALANCE SHEET

Item 28

In CHF millions

	31.12.2014	31.12.2013	Change
Additional funding for the BIS ¹	92.9	88.6	+ 4.3
Liabilities from long-term rental, maintenance and leasing contracts ²	87.9	61.9	+ 26.0
Contingent liabilities from procurement of banknotes	70.4	49.3	+ 21.1
Total	251.2	199.8	+ 51.4

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

2 Including leasehold interest on Metropol building in Zurich.

ASSETS PLEDGED OR ASSIGNED AS COLLATERAL FOR SNB LIABILITIES

Item 29

In CHF millions

	Book value	31.12.2014 Liabilities or amount drawn	Book value	31.12.2013 Liabilities or amount drawn
Foreign currency investments in USD	5 366.6	5 264.5	29.2	–
Foreign currency investments in EUR	6 508.6	6 128.0	7 556.5	7 260.8
Foreign currency investments in GBP	2 634.6	2 588.1	806.3	808.5
Foreign currency investments in CAD	770.1	770.1	–	–
Total¹	15 279.8	14 750.8	8 392.0	8 069.3

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

Item 30

OUTSTANDING FINANCIAL INSTRUMENTS¹

In CHF millions

	Contract value	31.12.2014		Contract value	31.12.2013	
		Replacement value Positive	Replacement value Negative		Replacement value Positive	Replacement value Negative
Interest rate instruments	11 415.3	43.6	69.0	15 123.8	64.0	53.9
Repo transactions in CHF ²	1 100.0	–	–	1 800.0	–	–
Forward contracts ¹	1 136.7	0.5	0.3	1 569.6	0.2	0.6
Interest rate swaps	2 013.9	43.0	67.2	1 139.0	63.2	53.3
Futures	7 164.6	0.0	1.5	10 615.2	0.6	0.1
Foreign exchange	4 464.8	47.3	51.8	1 946.9	14.2	4.7
Forward contracts ¹	3 897.9	47.3	50.3	1 295.8	14.2	3.8
Options	567.0	0.0	1.4	651.2	0.0	0.9
Equities/indices	1 601.8	0.8	0.1	1 013.6	0.4	0.1
Forward contracts ¹	2.2	0.1	0.1	27.6	0.1	0.1
Futures	1 599.5	0.7	0.0	986.0	0.4	–
Credit instruments	676.5	–	11.3	220.5	0.1	3.3
Credit default swaps	676.5	–	11.3	220.5	0.1	3.3
Total	18 158.4	91.7	132.2	18 304.8	78.8	62.1

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

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

FIDUCIARY INVESTMENTS

Item 31

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

	31.12.2014	31.12.2013	Change
Fiduciary investments for the Confederation	720.7	760.7	-40.0
Other fiduciary investments	6.6	4.9	+ 1.7
Total	727.3	765.7	-38.4

6

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, statement of changes in equity, cash flow statement and notes (pp. 149–187), for the year ended 31 December 2014.

Bank Council's responsibility

The Bank Council is responsible for the preparation and fair presentation of the financial statements in accordance with Swiss GAAP FER and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation 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 judgement, 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 and fair presentation 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 2014 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER, and comply with Swiss law.

Opinion

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (art. 728 CO 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 Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Bank Council.

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

PRICEWATERHOUSECOOPERS LTD

THOMAS ROMER
Audit expert
Auditor in charge

CHRISTIAN MASSETTI
Audit expert

Zurich, 27 February 2015

Proposals of the Bank Council

Proposals of the Bank Council to the General Meeting of Shareholders

At its meeting of 27 February 2015, the Bank Council accepted the financial report for 2014 for submission to the Federal Council and to the General Meeting of Shareholders.

The Audit Board signed its report on 27 February 2015.
On 13 March 2015, the Federal Council approved the financial report.

The Bank Council presents the following proposals to the General Meeting of Shareholders:

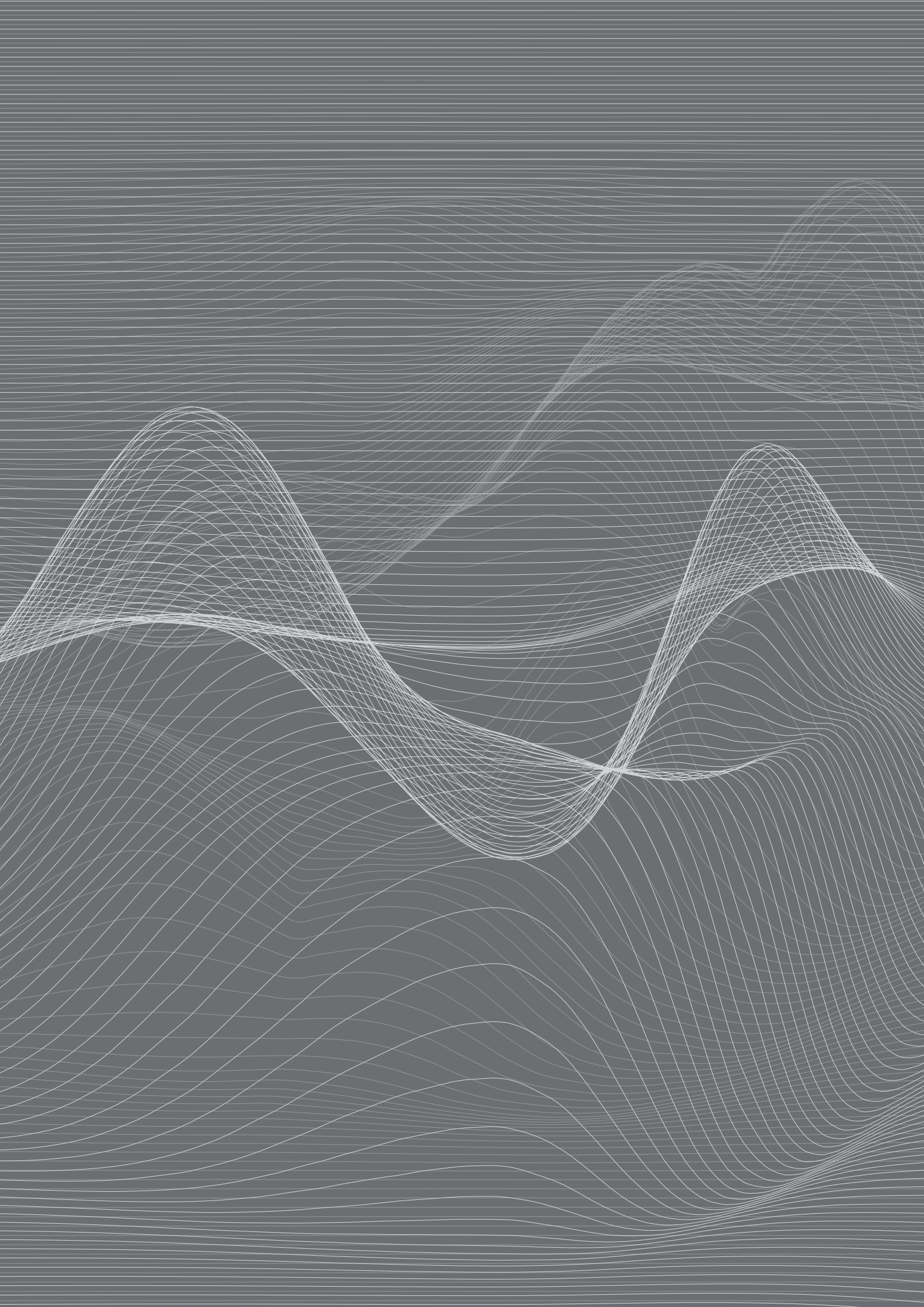
1. that the financial report for 2014 be approved;
2. that a dividend totalling CHF 1.5 million be paid to shareholders as part of the profit appropriation;
3. that the Bank Council be granted discharge;
4. that KPMG Ltd, Zurich, be appointed as the Audit Board be appointed for the 2015–2016 term of office.

APPROPRIATION OF PROFIT

In CHF millions

	2014
Annual result (art. 29 NBA)	38 312.9
– Allocation to provisions for currency reserves (art. 30 para. 1 NBA)	– 1 972.3
= Distributable annual result (art. 30 para. 2 NBA)	36 340.6
– Loss carried forward (distribution reserve before appropriation of profit)	– 6 820.2
= Net profit (art. 31 NBA)	29 520.3
– Payment of a dividend of 6% (art. 31 para. 1 NBA)	– 1.5
– Profit distribution to Confederation and cantons (art. 31 para. 2 NBA) ¹	– 2 000.0
= Balance carried forward to 2015 financial statements (distribution reserve after appropriation of profit)	27 518.8

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



Selected information

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1

Chronicle of monetary events in 2014

- January** On 22 January, the Federal Council, at the proposal of the SNB, increases the sectoral countercyclical capital buffer from 1% to 2%. The capital buffer is targeted at mortgages financing residential property in Switzerland, and is based on the associated risk-weighted positions. The deadline for compliance is 30 June (p. 85).
- March** On 7 March, the SNB reports a loss of CHF 9.1 billion, following a profit of CHF 6.0 billion in the previous year. As this loss is substantially larger than the distribution reserve, the SNB can neither pay a dividend to the shareholders nor make a profit distribution to the Confederation and the cantons for the year 2013, as stipulated in the National Bank Act and the profit distribution agreement with the Federal Department of Finance (p. 140).
- At its quarterly assessment of 20 March, the SNB decides to maintain the minimum exchange rate of CHF 1.20 per euro. It confirms that it stands ready to enforce the minimum exchange rate, if necessary, by buying foreign currency in unlimited quantities, and to take further measures as required. It leaves the target range for the three-month Libor unchanged at 0.0–0.25% (pp. 34–41).
- May** On 19 May, the SNB and other central banks announce the extension of the gold agreement. The fourth gold agreement between central banks, which applies as of 27 September, following the expiry of the current agreement, will be reviewed in five years' time (p. 73).
- June** At its quarterly assessment of 19 June, the SNB decides to maintain the minimum exchange rate of CHF 1.20 per euro. It stresses that it will continue to enforce the minimum exchange rate with the utmost determination, is prepared to buy foreign currency in unlimited quantities, if necessary, and to take further measures as required. The target range for the three-month Libor is left unchanged at 0.0–0.25% (pp. 34–41).
- On 23 June, the SNB publishes Switzerland's balance of payments and international investment position under the new BPM6 standard for the first time. The data refer to the first quarter of 2014 (p. 110).

On 7 July, the SNB publishes the redefined criteria for collateral eligible for SNB repos. The redefinition of the criteria ensures that all collateral eligible for SNB repos also fulfils the criteria for high-quality liquid assets as per the Confederation's new ordinance on bank liquidity. The changes will enter into force on 1 January 2015 (p. 50).

July

On 21 July, the SNB and the People's Bank of China sign a bilateral swap agreement. In addition, the People's Bank of China grants the SNB a renminbi investment quota, which it can use to invest part of its foreign exchange reserves in the Chinese bond market (p. 57).

On 13 August, the SNB announces that on 16 June, it had issued a decree designating the Raiffeisen Group as being of systemic importance in accordance with the Banking Act (p. 86).

August

On 9 September, the SNB, the Deutsche Bundesbank and the Oesterreichische Nationalbank's joint research prize is awarded for the first time, the recipient being Professor H el ene Rey. The prize is named after the Austrian economist Carl Menger and will be awarded once every two years to an economist in recognition of excellence in research work on monetary and international macroeconomics (p. 23).

September

At its quarterly assessment of 18 September, the SNB decides to maintain its minimum exchange rate of CHF 1.20 per euro. It will continue to enforce the minimum exchange rate with the utmost determination, to buy foreign currency in unlimited quantities for this purpose, and to take further measures immediately, if necessary. It leaves the target range for the three-month Libor unchanged at 0.0–0.25% (pp. 34–41).

On 30 November, Swiss voters reject the popular initiative 'Save our Swiss gold (gold initiative)' (p. 40).

November

December

At its quarterly assessment of 11 December, the SNB decides to maintain its minimum exchange rate of CHF 1.20 per euro. It reaffirms its intention to enforce the minimum exchange rate and renews its willingness to buy foreign currency in unlimited quantities, and to take further measures immediately if required. The target range for the three-month Libor is left unchanged at 0.0–0.25% (pp. 34–41).

On 18 December, the SNB introduces negative interest rates on its sight deposit account balances, with the aim of making it less attractive to hold Swiss franc investments, and to support the minimum exchange rate. The plan is to apply the interest rate as of 22 January 2015 at a level of –0.25%. At the same time, the target range for the three-month Libor is lowered to between –0.75% and 0.25%. The SNB emphasises its willingness to buy foreign currency in unlimited quantities, and to take further measures, if required, to enforce the minimum exchange rate (p. 54).

January 2015

On 15 January 2015, the SNB discontinues the minimum exchange rate. At the same time, it again lowers the target range for the three-month Libor by 0.5 percentage points, to between –1.25% and –0.25%, and adjusts the negative interest rate on sight deposit account balances to –0.75% as of 22 January 2015. The aim of this marked interest rate reduction is to cushion the effects of the discontinuation of the minimum exchange rate and reduce the attractiveness of Swiss franc investments. The SNB also announces that it will continue to take account of the exchange rate situation in formulating its monetary policy in future, and will, if necessary, be active in the foreign exchange market (pp. 42–43).

2

Bank supervisory and management bodies, Regional Economic Councils

as at 1 January 2015

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
* Monika Bütler	Professor of Economics at the University of St. Gallen, Member of the Compensation Committee, 2010/2012 ¹
Alfredo Gysi	Chairman of the Board of Directors at BSI Ltd, Head of the Risk Committee, 2011/2012 ¹
* Heinz Karrer	President of <i>economiesuisse</i> (Swiss Business Federation), Member of the Audit Committee, 2014 ¹
* Daniel Lampart	Chief Economist and Executive Secretary of the Swiss Federation of Trade Unions, Member 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, Head of the Audit Committee, 2012 ¹
Shelby R. 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 at www.snb.ch, *The SNB, Supervisory and executive bodies, Bank Council*.

AUDIT BOARD

(2014–2015 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.

RELEVANT AFFILIATIONS OF THE ENLARGED GOVERNING BOARD

Further relevant affiliations of the Enlarged Governing Board are listed on the SNB website at www.snb.ch, *The SNB, Supervisory and executive bodies, Enlarged Governing Board*.

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	Hans Marfurt, CEO of TRUMPF Maschinen AG, Chairperson
	Thomas Herbert, CEO of Schild AG
	Norbert Patt, CEO of Bergbahnen Engelberg-Trübsee-Titlis AG
	Sandro Alberto Vanoli, CEO of C. Vanoli Generalunternehmung AG
Eastern Switzerland	Andreas Züllig, Manager of the Hotel Schweizerhof, Lenzerheide, Chairperson
	Andreas Schmidheini, Joint owner and CEO of Varioprint Ltd
	Christoph Tobler, Member of the Board and CEO of Sefar Holding Inc.
	Franziska A. Tschudi Sauber, Delegate of the Board of Directors and CEO of Wicor Holding AG
Geneva	Patrick Pillet, Director of Pillet SA, Chairperson
	Nicolas Brunschwig, Joint owner of Brunschwig & Cie SA
	Carole Hubscher Clements, President of the Board of Caran d'Ache SA
Italian-speaking Switzerland	Lorenzo Emma, Managing Director of Migros Ticino, Chairperson
	Alessandra Alberti, Managing Director of Chocolat Stella SA
	Roberto Ballina, Member of the Board and CEO of Tensol Rail SA
Mittelland	Jean-Marc Jacot, CEO of Parmigiani Fleurier SA, Chairperson
	Stephan Maeder, Joint owner of the Bernensis Hotel AG and Managing Director of the Carlton-Europe Hotel, Interlaken
	Josef Maushart, CEO and Chairman of the Board of Fraisa Holding AG
	Peter Schmid, Head of Berne Sales Region and member of the Retail Business Unit management at Coop
Northwestern Switzerland	Stefano Patrignani, Managing Director of Migros Basel, Chairperson
	Thomas Ernst, Delegate of the Board of Directors and CEO of the ETAVIS Group
	Thomas Knopf, Delegate of the Board of Directors and CEO of Fiege Logistik (Schweiz) AG
Vaud-Valais	Paul Michellod, Director of FMV SA, Chairperson
	Hélène Béguin, Member of the Board of KPMG Holding Ltd and Head of National Market Western Switzerland at KPMG Ltd
	Aude Pugin Toker, Head of the Board and the department of finance at Apco Technologies SA
Zurich	Isabelle Welton-Lalive d'Epinay, Chief Human Resources Officer, Member of the Group Executive Committee at Zurich Insurance Group Ltd, Chairperson
	Patrick Candrian, Chief Commercial Officer and Member of the Management Board of Flughafen Zürich AG
	Valentin Vogt, Chairman of the Board of Directors at Burckhardt Compression Holding Ltd

3 Organisational chart

as at 1 January 2015

GENERAL MEETING OF SHAREHOLDERS

AUDIT BOARD

BANK COUNCIL

INTERNAL AUDIT

GOVERNING BOARD

ENLARGED GOVERNING BOARD

BOARD OF DEPUTIES

DEPARTMENT I

Secretariat General

Secretariat Supervisory and Management Bodies

Communications

Documentation

Research Coordination and Economic Education

Economic Affairs

Monetary Policy Analysis

Inflation Forecasting

Economic Analysis

International Monetary Cooperation

International Monetary Relations

Central Bank Cooperation

International Trade and Capital Flows

Statistics

Balance of Payments and Swiss Financial Accounts

Banking Statistics

Publications and Data Banks

Legal Services

Compliance

Human Resources and Pension Benefits

Human Resources

Pension Fund

Premises and Technical Services

DEPARTMENT II

Financial Stability

Banking System

Systemically Important Banks

Oversight

Cash

Specialist Support

Procurement and Central Logistics

Cash Circulation, East

Cash Circulation, West

Central Accounting

Controlling

Risk Management

Operational Risk and Security

DEPARTMENT III

Money Market and Foreign Exchange

Money Market

Foreign Exchange and Gold

Asset Management

Global Rates

Global Corporates

Banking Operations

Payment Operations

Back Office

Customer and Data Management

Information Technology

Banking Applications

Business Support Processes

Economic Information Systems

Infrastructure

Financial Market Analysis

Singapore

Publications and other resources

Unless otherwise noted, the publications and other resources are available on the SNB website at www.snb.ch, *Publications*.

ANNUAL REPORT

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

QUARTERLY BULLETIN

The *Quarterly Bulletin* contains the monetary policy report used for the Governing Board's quarterly monetary policy assessment and the report on business cycle trends from the vantage point of the delegates for regional economic relations. It 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 from the vantage point of the SNB delegates is also available as a separate online document in German, French, Italian and English.

IMPORTANT MONETARY POLICY DATA

The SNB publishes important monetary policy data on its website on a weekly basis, including the SNB's reference interest rates, the Swiss Average Rates, as well as information on the sight deposits with the SNB and the minimum reserves. The data is available 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.

BANKS IN SWITZERLAND

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

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 in autumn in German, French and English.

SWISS BALANCE OF PAYMENTS, SWITZERLAND'S INTERNATIONAL INVESTMENT POSITION, DIRECT INVESTMENT

The report on the Swiss balance of payments and Switzerland's international investment position is published once a year in August. The report on the balance of payments reviews the development of economic transactions between residents and non-residents. The report on Switzerland's international investment position describes developments in foreign assets, foreign liabilities and Switzerland's net investment position.

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 in December.

The reports are available in German, French and English.

During 2014, the balance of payments and the international investment position were aligned with the International Monetary Fund's (IMF) new international standards. For this reason and as an exception, there was no report on the balance of payments and the international investment position.

SNB ECONOMIC STUDIES, SNB WORKING PAPERS, SNB RESEARCH UPDATE

SNB Economic Studies and *SNB Working Papers* present articles on economic issues and research results at irregular intervals. They appear in one language only, as a rule in English. The *SNB Research Update*, which is published twice a year, provides an overview of the SNB's current research and information on its academic activities. It is available online, in English.

HISTORICAL TIME SERIES

The *Historical Time Series* publications examine various monetary policy themes from a long-term perspective and provide the associated data sets. They are 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 Italian and English; the German and French versions are out of print. All four language versions are available on the SNB website at www.snb.ch, *The SNB, History, Publications*.

THE SWISS NATIONAL BANK IN BERNE – AN ILLUSTRATED CHRONICLE

A chronicle of the Swiss National Bank in Berne 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 from GSK (www.gsk.ch). It is also available on the SNB website at www.snb.ch, *The SNB, History, Publications*.

THE SWISS NATIONAL BANK IN BRIEF

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

ENVIRONMENTAL REPORT

The SNB's environmental report contains data and indicators on the National Bank's 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. It is available in German and French.

SPEECHES

The members of the Governing Board give speeches on monetary policy issues. These are available at www.snb.ch, *Suggested pages, Speeches*, and are usually published in German, French or English, with a summary in all three languages.

GLOSSARY

The online glossary explains important terms from the world of finance and monetary policy. It is available in German, French, Italian and English at www.snb.ch.

QUESTIONS AND ANSWERS

The online questions and answers deal with topics of importance to the SNB. They are available in German, French, Italian and English at www.snb.ch, *General public, Questions and answers*.

ICONOMIX

iconomix is the SNB's web-based educational programme. It offers a range of teaching resources that can be either downloaded or ordered. Although it is aimed at teachers of economics and humanities at upper secondary schools, it is open to anyone interested in finding out more about the subject. iconomix is available in full in German and French, and partially in Italian and English, at www.iconomix.ch.

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 at www.snb.ch, *Publications, Publications about the SNB, The world of the National Bank*.

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

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

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

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WEBSITE

www.snb.ch

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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
BCBS	Basel Committee for Banking Supervision
BIS	Bank for International Settlements
BoE	Bank of England
BPM	Balance of Payments and International Investment Position Manual
CAD	Canadian dollar
CCB	Countercyclical capital buffer
CDS	Credit default swap
CGFS	Committee on the Global Financial System
CHF	Swiss franc
CLS	Continuous Linked Settlement
CMF	Committee on Financial Markets
CNY	Chinese yuan renminbi
CO	Swiss Code of Obligations
CPI	Consumer price index
CPIA	Federal Act on Currency and Payment Instruments
CPMI	Committee on Payments and Market Infrastructures
CSSP	Committee on Statistics and Statistical Policy
DKK	Danish krone
ECB	European Central Bank
EPC	Economic Policy Committee
ESA	European System of National and Regional Accounts
EUR	Euro
Eurostat	Statistical office of the European Union
FCL	Flexible Credit Line
FDF	Federal Department of Finance
FER	Swiss Accounting and Reporting Recommendations (Swiss GAAP FER)
FINMA	Swiss Financial Market Supervisory Authority
FMI	Financial market infrastructure
FMIA	Federal Market Infrastructure Act
FOH	Federal Office for Housing
FSAP	Financial Sector Assessment Program
GAAP	Generally Accepted Accounting Principles
GAB	General Arrangements to Borrow
GBP	Pound sterling
GDP	Gross domestic product
GP	General partner
HQLA	High-quality liquid assets
IBOR	Interbank Offered Rate (Libor, Tibor and Euribor)

ICE	Intercontinental Exchange
ICS	Internal control system
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
IOSCO	International Organization of Securities Commissions
ISDA	International Swaps and Derivatives Association
ISIN	International Securities Identification Number
JPY	Japanese yen
KRW	South Korean won
LCH	LCH Clearnet Ltd
LCR	Liquidity coverage ratio
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
PBC	People's Bank of China
PRGT	Poverty Reduction and Growth Trust (IMF)
Repo	Repurchase agreement
RWA	Risk-weighted assets
SARON	Swiss Average Rate Overnight
SDDS	Special Data Dissemination Standard
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
SNA	System of National Accounts
SR	Official Compilation of Federal Laws and Decrees
SNB	Swiss National Bank
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TLAC	Total-loss absorbing capacity
TLTROs	Targeted longer-term refinancing operations
USD	US dollar

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