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Zurich, 14 January 2011

Press release

Swiss National Bank expects annual loss of CHF 21 billion for 2010 – profit distribution to be made as planned

The sharp rise in the value of the Swiss franc, particularly against the euro and the US dollar, has resulted in a loss of some CHF 26 billion on the foreign currency positions of the Swiss National Bank (SNB) for the 2010 financial year. Owing, in particular, to valuation gains on gold (of just under CHF 6 billion), an overall loss of CHF 21 billion is expected for the parent company. The stabilisation fund will probably contribute to a better consolidated result but, for reasons of commercial law, this has no bearing on the profit distribution.

In the light of the exceptional circumstances, the SNB has decided to set the allocation to the provisions for currency reserves for the financial year just ended at CHF 0.7 billion instead of CHF 4 billion. This will allow the profit distribution of CHF 2.5 billion for the 2010 financial year to the Confederation and the cantons, and dividends of CHF 1.5 million, to be paid as planned. Despite the reduced allocation to the provisions for currency reserves, the SNB's capital base continues to be robust, also by comparison with other central banks.

The distribution reserve, which amounted to CHF 19 billion at the end of 2009, will now stand at CHF –5.0 billion after the loss, the reduced allocation to provisions and the profit distribution are taken into account. A large part of the SNB's loss for the 2010 financial year will be absorbed by the distribution reserve.

The SNB builds long-term equity capital by means of annual allocations to the provisions for currency reserves. It had planned, for the financial years 2009–2013, to increase the provisions at a rate double that of average nominal GDP growth for the preceding five years. The SNB will now allocate a reduced amount for the 2010 financial year. The continuing strength of its capital base will allow the SNB to undertake a one-off reduction in this year's allocation to the provisions for currency reserves, and make a profit distribution this spring in accordance with the existing agreement. In so doing, the SNB is taking into account the exceptional circumstances brought about by the sharp rise in the value of the Swiss franc immediately prior to the end of the year. It is thus ensuring certainty for both the Confederation and the cantons as regards their plans for the profit distribution from the SNB budgeted for 2011.

The events of the past year have highlighted the fact that an adequate capital cushion is paramount for monetary policy independence. The SNB will therefore continue to pursue its long-term strategy of increasing its equity capital on an annual basis by means of allocations to the provisions for currency reserves. Moreover, future distributable profits that remain after allocations to the provisions will first have to be offset against the negative distribution reserve. Thus, the possibility cannot be excluded that the profit distribution will have to be suspended for a certain period, and that the amount of future profit distributions will be reduced. Since, for the 2010 financial year, the SNB will once again make a profit distribution as foreseen by the agreement, the Confederation and cantons will have time to adjust to the new situation.

The fact that the distribution reserve has turned negative will make it necessary to review the distribution agreement. The review will be carried out by the Federal Department of Finance and the SNB over the course of this year.

The SNB's results depend largely on developments in the gold, foreign exchange and capital markets. For the 2009 financial year, the SNB reported a profit of CHF 10 billion. The distribution reserve was increased by CHF 6.9 billion, while the allocation to the provisions for currency reserves amounted to CHF 3.1 billion.

The detailed report on the annual financial statements with definitive figures and the results for the stabilisation fund will be released on 3 March 2011; the *Annual Report* will be published on 7 April.