



**Speech**

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**A year without dividends and profit distribution – what are the reasons?**

106<sup>th</sup> Ordinary General Meeting of Shareholders  
of the Swiss National Bank

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Swiss National Bank  
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Dear Shareholders  
Ladies and Gentlemen  
Dear Guests

Believe me when I say that I would rather choose a more inspiring topic to talk to you about today. But let us not beat around the bush. Unfortunately, the 2013 financial year will be the first time in over one hundred years that it is not possible for us, esteemed shareholders, to reward your loyalty to our institution with a dividend. For this reason, the customary agenda item covering the decision on the allocation of the net profit, i.e. the determination of the dividend, is not included in your invitation to this General Meeting of Shareholders.

It is clear to me that, for many of you, this break with our long tradition of dividends may appear difficult to comprehend. After all, a business with a balance sheet total approaching CHF 500 billion should surely be capable of earning a total dividend of CHF 1.5 million. The lack of a dividend could give rise to the suspicion that the Swiss National Bank (SNB) no longer holds its shareholders in the same esteem as in the last hundred years or so, or even that they are today viewed as burdensome and not worth taking into consideration. Allow me at this point to set the record straight immediately. This interpretation, I assure you, is completely erroneous. Now, as previously, we hold our shareholders in the highest regard. My presentation will therefore address the lack of a dividend in detail.

For the first time since the introduction of the current distribution regulation twenty years ago, we are also unable to make any distributions to the Confederation and cantons for the 2013 financial year. As a former member of Neuchâtel's cantonal government, I am only too aware that the lack of this distribution is painful for public finances. After all, as in previous years, most cantons budgeted for these receipts. Now they have to do without them completely – and this at a time when ensuring that public finances are sound, a perennial task that is never easy, is rendered even more challenging for other reasons. In the course of my presentation, I will also focus on the lack of the distributions, and on the relationship between the SNB and the cantons.

### **SNB shareholder rights unaffected by popular initiative 'against excessive remuneration'**

First, however, allow me to make certain remarks concerning a related topic which is close to my heart, and which also directly affects you as shareholders. It is an irony of fate that the lack of dividends occurred for the first time in the year that Swiss voters and cantons approved the popular initiative against excessive remuneration (the Minder initiative). As you know, the initiative increases shareholders' say in company governance, and therefore the powers of the General Meeting of Shareholders. To implement the initiative, in November 2013, the Federal Council issued an ordinance against excessive remuneration at listed companies. In principle, this ordinance is valid as of 1 January for all companies listed in accordance with the provisions of the Swiss Code of Obligations. It is possible that you also

hold shares in another company listed on the stock exchange, and have already attended its general meeting of shareholders this year. If so, you have probably noticed that the initiative against excessive remuneration and the relevant Federal Council ordinance have already influenced the agenda and proceedings of listed companies' general meetings. Thus the general meeting is now required to elect the Chairman of the Board, vote on a report detailing the financial remuneration of the Board of Directors and senior management, and determine the members of the Compensation Committee as well as the independent proxy.

You may have wondered why we have refrained from following a similar agenda at our General Meeting of Shareholders. The reason is that the SNB is not a listed company as defined by the Code of Obligations. As you know, the SNB is a special-statute joint-stock company based on the National Bank Act (NBA), and is therefore not affected by the implementation ordinance for the initiative against excessive remuneration. Incidentally, this special legal form was selected by the SNB's founders over a century ago, not least, because it ensured the newly established central bank's institutional independence in the area of monetary policy.

It is also worth noting that, according to art. 2 NBA, the applicability of the provisions of the Code of Obligations is merely subsidiary, i.e. only if the NBA does not provide otherwise. The powers of the SNB's General Meeting of Shareholders are enumerated in art. 36 NBA. Thus it remains the case that the President of the Bank Council – that is, the equivalent of a Chairman of a Board of Directors – is still, as laid down in art. 39 para. 2, appointed by the Federal Council.

The SNB's policy on compensation, in its turn, falls within the remit of the Bank Council. Under the NBA, the Bank Council is charged with responsibility for laying down the remuneration of its members and the salaries of the members of the Governing Board, as well as determining the principles governing the salaries of the rest of the staff. The compensation for senior bank management is not determined in a vacuum, but rather is guided by the Federal Council's principles governing the remuneration for senior staff, as outlined in the Federal Personnel Act. The Bank Council bases its policy on compensation predominantly on the work of the Compensation Committee, whose members are drawn from within the Bank Council. For years now, the SNB has been highly transparent concerning remuneration, since this constitutes a central element of sound corporate governance. Thus a remuneration report is included in the corporate governance section of the financial report. In addition, the notes to the annual financial statements include a detailed breakdown of the remuneration for members of the Bank Council, as well as for members of the Governing Board and their deputies. The Bank Council is also still charged with appointing the independent proxy.

Nevertheless, where it is appropriate and reasonable, the SNB also moves with the times. You have surely already noticed that this General Meeting of Shareholders differs from its predecessors not only because of the lack of a dividend. As the invitation indicates, the options regarding representation have been modernised. Those unable to attend the General

Meeting can no longer entrust the Canton of Berne, as corporate body representative, with exercising their voting rights, nor authorise the bank or asset manager holding the shares as deposit share representative. Of course, should you be unable to attend our General Meeting of Shareholders personally – which, naturally, I would greatly regret – representation is still permitted. As in the past, you can be represented by another shareholder or the independent proxy.

In addition, you can now take advantage of the internet, by ordering your admission card to the General Meeting, or Annual Report, as well as authorising and instructing the independent proxy, online. Naturally, the established paper-based approach remains available to you as well. Technological developments have also allowed us to deliver another first, namely the live streaming of this General Meeting on the SNB website. Until now, live transmissions on our website were generally restricted to the half-yearly media news conferences on monetary policy. This transmission further enhances the standing of the General Meeting, which has always been the high point of our financial year. What's more, it clearly signals to a wider audience that the General Meeting and the exchange with our shareholders is of central importance to the SNB.

### **Conditions for dividend payment not fulfilled**

As you know, and as I have mentioned already, the SNB is no ordinary company. As a special-statute joint-stock company, it is required to fulfil a public mandate in the interests of the country as a whole. This is also the reason why your rights as shareholders are restricted compared to those of the shareholders of other companies. This applies not least of all to the dividend, which is limited by the NBA to a maximum of 6% of an SNB share's nominal value of CHF 250, which corresponds to CHF 15 per share. However, these dividends cannot be paid in all cases. The prerequisite, according to the NBA, is that a distributable profit is available after the allocation to the currency reserves, taking into account the level of the distribution reserve.

Allow me to enlarge on what this means, and the mechanics of it, using last year's result. There are two large asset items in our balance sheet, namely foreign currency investments and gold holdings. The two most significant risk factors are therefore changes in the exchange rate and the gold price. In 2013, the value of gold dropped by almost a third. We therefore had to accept a substantial valuation loss of more than CHF 15 billion on our holdings. The profits on our foreign currency investments of just over CHF 3 billion could not offset this. An exceptional income item, which also amounted to more than CHF 3 billion, resulting from the sale of the stabilisation fund, was insufficient to make up the difference. If you now offset the loss on the gold against the profit on the foreign currency investments and the income from the sale of the stabilisation fund, and then include the allocation to the provisions for currency reserves of CHF 3 billion, you will arrive at more or less the annual result of CHF –12 billion. This loss also completely exhausts our reserve for future distributions of CHF 5 billion.

Consequently, no earnings remain to be paid out, in accordance with the NBA, as dividends to shareholders or as distributions to the Confederation and cantons.

Why has the legislator imposed such strict regulations in this area? They take account of the fact that a healthy balance sheet is a key prerequisite for the SNB having the room for manoeuvre, over the longer term, to devote full attention to its mandate. The legislation places substantial weight on the SNB maintaining an appropriate level of equity, or gradually building this up again, in the event that losses are incurred. The most important component of equity capital is the provisions for currency reserves. The NBA therefore obliges the SNB to set up provisions permitting it to maintain the currency reserves at the level necessary for monetary policy. The provisions have priority over dividends and distributions.

Recent years have seen our balance sheet lengthen considerably. In 2006, before the financial crisis, the balance sheet total amounted to around CHF 100 billion. Since then it has increased fivefold. The balance sheet risks have thus also risen significantly, and therefore adhering to these rules is particularly important at present to ensure that we have sufficient room for manoeuvre over the long term. Our policy on provisions takes account of this. The SNB continuously increases its provisions with substantial contributions, regardless of whether or not the year's accounting result has been favourable or otherwise. With this in mind, for 2013, the Bank Council has again decided to allocate CHF 3 billion for this purpose.

The decision not to pay the shareholders a dividend, and the consequent break with a long-standing tradition, was anything but easy for the Bank Council. We are certainly agreed that, in economic terms, for the criterion of balance sheet strength, a dividend sum of CHF 1.5 million is not a significant magnitude, in view of the current balance sheet total of almost CHF 500 billion. Nevertheless, the NBA provisions governing profit determination and distribution are crystal clear, and allow no room for interpretation. Therefore, to our deep regret, we cannot allocate any dividends. We appreciate your solidarity with our institution all the more; this is expressed through your commitment, often of many years' duration, as well as your interest in the SNB's activities, evidenced not least by your presence here today. Allow me, at this point, to extend my heartfelt thanks for this.

### **The cantons and the SNB: a close relationship from the outset**

This year the representatives of the cantons have been doubly affected by the lack of payments. As shareholders you must forego your dividends, and as federally designated recipients of the distributions you are also left empty handed. That this places the cantons in a difficult position, and has not been met with enthusiasm, is only too easy for me to appreciate. What has been decisive for the SNB, however, is that we have met with widespread understanding of the special circumstances that prevented us from making a distribution in 2013. For this, sincere thanks are due to the cantons, too. Why is it so important to me that the cantons fully understand the special situation? Since the beginning, they have had a close relationship with the SNB in many ways. At the SNB's establishment in 1907, they

relinquished their cantonal privileges concerning banknote issuance. Their compensation for this was a participation in the share capital and profits of the SNB. Accordingly, the cantons were always well represented in the SNB bodies.

In addition, there are links between the SNB's monetary policy and fiscal policy, which in Switzerland is in the hands of the cantons, to a large extent. Successful monetary policy benefits the whole economy, and therefore also the cantons. By ensuring price stability, the SNB fulfils an important prerequisite for economic growth, stable employment and the payment of taxes. Monetary policy is part of the foundation upon which Switzerland's success rests. It played a substantial role in ensuring that our country weathered the turmoil of the financial crisis so well.

Regarding the cantons' participation in the SNB's financial result, our more than one hundred year history shows, first, that the importance of our distributions for the cantons has always been subject to structural fluctuations. There have been periods in which the SNB's payments made up several percentage points of cantonal income, but also years in which it comprised only a tenth of a percent. The cantons were willing and able to handle this – also in difficult times. With this in mind, it is worth remembering, second, that the very handsome payments made between 1991 and 2010 cannot simply be taken as a basis for extrapolating future distributions. Special factors were in play during these years, like the enormous reserves accumulated over decades and the revision of the monetary constitution, which gave the SNB considerably more leeway in managing its assets. Other special factors included the transition to market price valuation, which made it possible for the SNB to reduce its gold reserves.

Third, as experience indicates, while the SNB may hold out the prospect of making a distribution, it cannot provide any absolute assurance. It also cannot guarantee that a steady flow of payments will be possible over a sustained period. While the reserve serves an important function as a buffer for future distributions, even a well-funded reserve cannot guarantee that payment is possible in all cases. Thus if market fluctuations are too strong, as in 2013, the buffer cannot absorb the effect.

For a long time now, the SNB has been warning that there is no guarantee for the distributions. Moreover, we have repeatedly drawn attention to the fact that relatively small movements in exchange rates or prices lead, in absolute terms, to large valuation changes in our balance sheet. Since our financial result is usually dominated by valuation changes, it would be inappropriate to issue earnings forecasts over the course of the year, as other companies do, and, where necessary, profit warnings. On this subject, I would like to point out that the SNB is anything but opaque with regards to its financial developments, but rather markedly transparent. It publishes interim results on a quarterly basis and even reports its balance sheet items on a monthly basis. In 2013, for example, there would have been ample possibility for anyone, on the basis of these published key figures, to realise that the drastic price correction every month was eroding the value of our gold holdings.

## **Outlook and concluding remarks**

Dear shareholders and cantonal representatives, this year has not been very uplifting from a financial point of view. So if I were in your position, I would be all the more interested in finding out more about future financial performance. Unfortunately, I must again disappoint you. I cannot provide you with any forecast for 2014. What is foreseeable is that, given the strong growth in the balance sheet over previous years, valuation changes are likely to continue to play a dominant role. Although the SNB manages a large investment portfolio, the corresponding risks have also increased substantially. In addition, current income, particularly on bonds, has for years been quite modest, due to low interest rates worldwide. What is also certain is that the Bank Council will continue to adhere to a prudent provisioning policy, centring on ensuring the SNB's room for manoeuvre over the long term.

I have demonstrated how the statutory provisions precisely define when a distribution may be made and when not. The SNB may be a very special kind of company, but even it cannot, in the long run, make funds available for distributions if they have not been earned. Only fruits that have actually grown over the course of the year can be gathered and distributed. However, this in no way implies that we are being idle. On the contrary, our investments are being diversified as much as possible over different continents, currencies and instruments, and managed with care and prudence.

I would like to conclude with a request to the cantons and shareholders. To the cantons, I appeal once again not to regard the SNB's profit distributions as automatic. To the dear shareholders, I express the wish that you will remain loyal to us, even if we were unable to convey our appreciation in the form of dividends this year. As shareholders, you demonstrate your solidarity with the goals of the SNB. In this sense, I look forward to welcoming you to the General Meeting of Shareholders again next year. Perhaps just like yourselves, I greatly hope that my topic in April 2015 will be a different one.

Now it remains only for me to extend my thanks to you, our shareholders, which I do with particular emphasis in this special year. My thanks also go to my colleagues on the Bank Council for their strong support, to the Governing Board for our excellent dialogue, as well to the SNB staff for their daily commitment in the service of our institution.

Thank you for your attention.