

# Business report

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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 of the Swiss Code of Obligations (CO)).

The fulfilment of the SNB's statutory mandate is explained in the accountability report.

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## Corporate governance

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### 1.1 BACKGROUND

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The Swiss National Bank (SNB) is a special-statute joint-stock company that is administered with the cooperation and under the supervision of the Swiss Confederation. Its organisational structure and responsibilities are governed by the National Bank Act of 3 October 2003 (NBA) and the ‘Regulations on the organisation of the Swiss National Bank of 14 May 2004’ (Organisation regulations; revised on 15 July 2011). At the SNB, statutes and regulations fulfil the function of articles of association.

#### Mandate

The SNB’s mandate is derived directly from the Federal Constitution. Under the terms of art. 99 of the Constitution, the SNB is required to pursue a monetary policy that serves the general interests of the country. In addition, the article enshrines the SNB’s independence and requires it to set aside sufficient currency reserves from its earnings, also specifying that a part of these reserves be held in gold. 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.

On 3 March 2013, Swiss voters and the cantons voted in favour of the popular initiative ‘Gegen die Abzockerei’ (‘Against rip-off salaries’). The ordinance against excessive remuneration at listed companies, with which the constitutional provision will be implemented until definitive legislation has been issued, does not apply to the SNB, since the SNB is not a corporation within the meaning of arts. 620–763 CO. A voluntary application is also not an option for most of the requirements, since the NBA contains provisions that run contrary thereto. Where there is leeway, the SNB is applying 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 powers.

## 1.2 SHAREHOLDERS

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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 2013, 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 6.25% (6,250 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 2013, the members of the Bank Council did not hold any SNB shares. According to the new ‘Code of Conduct’ for members of the Bank Council, which has been in effect since 1 January 2013, Bank Council members may not hold any such shares. At 31 December 2013, 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. 130).

**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 publication in the *Swiss Official Gazette of Commerce*. Shareholders only receive information which is also available to the public.

**Regulation on recognition and representation of shareholders**

The Bank Council approved a revision of the regulation on the recognition and representation of shareholders. Associated with this revision, the options for the representation of shareholders were limited to other shareholders and to the independent proxy. In future, corporate body and deposited share representation will no longer be possible.

### **1.3 ORGANISATIONAL STRUCTURE**

**Departments**

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

**Branch office**

On 11 July 2013, the SNB opened a branch office in Singapore, in order to more efficiently manage its foreign currency investments in Asia. This step was taken in view of the sharp expansion in foreign exchange reserves and the growing importance of Asian financial markets.

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 National Bank 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.

**Representative offices**

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

**Agencies**

Following UBS's repurchase of the stabilisation fund from the SNB on 7 November 2013, the SNB no longer constitutes a group. Consequently, the SNB will not present consolidated financial statements as at end-2013.

**Group**

#### **1.4 CORPORATE BODIES AND RESPONSIBILITIES**

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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.197–198.

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**

## Bank Council

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 activities

In 2013, the Bank Council held six ordinary half-day meetings (in March, April, June, September, October and December), all of which were attended by the members of the Governing Board.

The Bank Council revised the regulations on the Audit Committee and the Risk Committee, the regulations on the Internal Auditors, the regulations on the recognition and representation of shareholders, the regulations on the remuneration of supervisory and executive bodies, as well as the regulations on informing and consulting with SNB staff.

Furthermore, the Bank Council provided feedback to the Head of the Federal Department of Finance regarding the report by the business audit commissions of the National Council and the Council of States of 15 March 2013, which concerned the resignation of the SNB's Chairman of the Governing Board on 9 January 2012.

The Bank Council carried out a comprehensive review of the goals, strategy, organisation and activities of the SNB with regard to the internal control system (ICS).

In addition, the Bank Council examined the processes related to asset management. Moreover, it discussed the implications for the SNB of the popular initiative ‘Gegen die Abzockerei’ (‘Against rip-off salaries’).

It also approved a loan for the relocation of the SNB computer centres in Berne and Zurich.

Finally, the Bank Council passed resolutions on the level of the provisions for currency reserves, discussed the 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, made preparations for the 2013 General Meeting of Shareholders, and approved the 2012 budget statement and the 2014 budget.

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 financial reporting as well as the Audit Board and the Internal Auditors. It also assesses the adequacy and effectiveness of the 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.

**Meetings** The Bank Council's Compensation Committee met once for a half-day meeting. The Nomination Committee did not meet in 2013. The Audit Committee held four ordinary half-day meetings, three of which were attended by the Audit Board. The Risk Committee held two half-day meetings.

**Executive management** The Governing Board is the SNB's management and executive body. Its three members are appointed for a six-year term by the Federal Council on the recommendation of the Bank Council. The Governing Board is responsible in particular for monetary policy, asset management strategy, contributing to the stability of the financial system, and international monetary cooperation.

The Enlarged Governing Board is made up of the three Governing Board members and their deputies. 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 April 2004 General Meeting of Shareholders, 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. Auditing fees for the 2013 financial year amounted to CHF 0.4 million (2012: CHF 0.3 million). PwC also provided consulting services totalling CHF 0.1 million (2012: none). In addition, PwC was entrusted with auditing the stabilisation fund until its sale. Compensation for these services amounted to CHF 0.25 million in 2013 (2012: CHF 1.1 million) and were charged to the stabilisation fund.

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

## 1.5 REMUNERATION REPORT

The principles governing the remuneration of members of the Bank Council and the Enlarged Governing Board are laid down in the regulations on the compensation of SNB supervisory and executive bodies of 14 May 2004 (Compensation regulations). These regulations were issued by the Bank Council. Concerning the remuneration of members of the Governing Board and their deputies, the Bank Council is guided by the Federal Council's principles governing the remuneration and other contractual conditions for senior staff and management officers of federal enterprises and institutions, as outlined in art. 6a of the Federal Personnel Act. Remuneration and compensation remitted in the year under review are listed in the tables on pp.179–180.

Remuneration

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 similar size and complexity (medium-sized cantonal banks), and in large federally run companies.

Executive management

The members and the chairperson of the Regional Economic Councils receive annual remuneration of CHF 6,000 and CHF 7,500 respectively.

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 members of the Governing Board of the SNB and their deputies (Regulations on the Governing Board), Governing Board members and their deputies are entitled to compensation for the restrictions on their right to carry out professional activities following termination of their employment relationship with the SNB (cf. tables on Bank Council and executive management remuneration, pp. 179–180). These restrictions were tightened in the partial revision of the 'Regulations on the Governing Board', effective as of 1 January 2013. They now cover activities of all kinds of financial intermediary for a period of six months. Consequently, compensation amounting to six months of salary is paid. In addition, if members of the Enlarged Governing Board are not reappointed or are removed from office, the Bank Council may grant a severance payment amounting to a maximum of one year's salary.

Compensation for restrictions on right to carry out professional activities

## **1.6 INTERNAL CONTROL SYSTEM**

<b>Aim and purpose</b>	<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>
<b>Elements</b>	<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>
<b>Organisation</b>	<p>The ICS is divided into three levels. The three, organisationally separate levels (lines of defence) are line management, risk monitoring and internal auditing.</p>
<b>First level</b>	<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>
<b>Second level</b>	<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 the Board of Deputies.</p>
<b>Third level</b>	<p>Finally, at the third level, the Internal Auditors unit, as an independent function, examines the appropriateness and efficacy of business activities. In particular, the unit assesses the first and second levels of the ICS.</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**

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.

ICS reporting to bank management is conducted by means of individual reports on financial, operational and compliance risks, as well as the report on the implementation of the ICS in financial reporting.

**Reporting**

## **1.7 RISK MANAGEMENT**

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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)**

The 2012 annual reports on financial risk as well as on the status of the internal control system and operational risk were approved by the Bank Council at its meeting of 1 March 2013.

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 identification and monitoring of compliance risks that arise due to the disregard of appropriate rules of conduct or the lack of such rules. In addition, it makes sure that compliance reporting is both timely and appropriate to hierarchical levels. This reporting covers both the state of compliance and infringements against the rules. 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, 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 Auditors unit takes the documentation for processes of relevance to the financial statements into account. It conducts spot checks to ascertain whether key controls have been performed. The confirmations issued by the control process managers and the remarks of the Internal Auditors unit are communicated to the Enlarged Governing Board and the Audit Committee of the Bank Council once a year, and, among other things, are used by the Audit Board as a basis for its confirmation in accordance with art. 728a para. 1 (3) CO.

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, Bank Council	Governing Board	Risk Management unit
Operational risk	Audit Committee and Risk Committee of Bank Council, Bank Council	Enlarged Governing Board	Board of Deputies, Operational Risk and Security unit
Compliance risk	Audit Committee of Bank Council, Bank Council	Bank Council, Enlarged Governing Board (Code of Conduct)	Compliance unit
Risks in financial reporting	Audit Committee of Bank Council, Bank Council	Enlarged Governing Board	Central Accounting unit

## 1.8 CROSS REFERENCE TABLES

Further information on corporate governance may be found 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>
Corporate structure and shareholders	<i>Annual Report</i> , pp.118–119,174–175
Head offices	Art. 3 para. 1 NBA
Ticker symbol/ISIN	SNBN/CH0001319265
Breakdown of capital	<i>Annual Report</i> , p.173
Accounting principles	<i>Annual Report</i> , p.152
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</i> , p.197
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</i> , p.197
Internal organisation	Arts. 10 et seq. Organisation regulations
Committees	<i>www.snb.ch, The SNB, Supervisory and executive bodies, Bank Council</i>
Regulations Compensation Committee, Nomination Committee, Audit Committee, Risk 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</i> , pp.126–129; arts. 10 et seq. Organisation regulations
Information tools	<a href="http://www.snb.ch">www.snb.ch</a> , <i>The SNB, Legal basis, Guidelines and regulations</i>
Code of Conduct	<a href="http://www.snb.ch">www.snb.ch</a> , <i>The SNB, Legal basis, Guidelines and regulations</i>
Remuneration	<i>Annual Report</i> , p. 179
Audit Board	
Election and requirements	Art. 47 NBA
Tasks	Art. 48 NBA
Executive management	<a href="http://www.snb.ch">www.snb.ch</a> , <i>The SNB, Supervisory and executive bodies, Governing Board</i>
Regulations on the employment relationship of members of the Governing Board of the Swiss National Bank and their deputies	<a href="http://www.snb.ch">www.snb.ch</a> , <i>The SNB, Legal basis, Guidelines and regulations</i>
Regulations on private financial investments and financial transactions by members of SNB management	<a href="http://www.snb.ch">www.snb.ch</a> , <i>The SNB, Legal basis, Guidelines and regulations</i>
Regulations on the acceptance of gifts and invitations by members of the Enlarged Governing Board	<a href="http://www.snb.ch">www.snb.ch</a> , <i>The SNB, Legal basis, Guidelines and regulations</i>
Other activities	<a href="http://www.snb.ch">www.snb.ch</a> , <i>The SNB, Supervisory and executive bodies, Governing Board/Enlarged Governing Board</i>
Code of Conduct	<a href="http://www.snb.ch">www.snb.ch</a> , <i>The SNB, Legal basis, Guidelines and regulations</i>
Remuneration	<i>Annual Report</i> , p.180
Compensation regulations	<a href="http://www.snb.ch">www.snb.ch</a> , <i>The SNB, Legal basis, Guidelines and regulations</i>
Federal Personnel Act	<a href="http://www.admin.ch">www.admin.ch</a> , <i>Bundesrecht, Systematische Rechtsammlung, Landesrecht, 1 Staat – Volk – Behörden, 17 Bundesbehörden, 172.220 Arbeitsverhältnis</i>
Staff	
Code of Conduct	<a href="http://www.snb.ch">www.snb.ch</a> , <i>The SNB, Legal basis, Guidelines and regulations</i>
Information policy	<i>Annual Report</i> , pp.120, 202–205 as well as information for shareholders (available in German only) at <a href="http://www.snb.ch">www.snb.ch</a> , <i>Shareholders, Ad hoc announcements – messaging service</i>

# 2 Resources

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## 2.1 ORGANISATIONAL CHANGES

### Organisation

In mid-2013, the Swiss National Bank (SNB) branch office in Singapore started operations as planned, with seven members of staff, most of whom had relocated from the SNB in Switzerland. It allows for a more efficient management of foreign currency investments in Asia and facilitates round-the-clock monitoring of foreign exchange markets.

The StabFund unit was dissolved at the end of 2013 after UBS repurchased the stabilisation fund. Three of the seven staff members in the StabFund unit moved to other SNB specialist units.

## 2.2 HUMAN RESOURCES

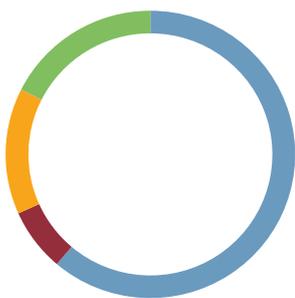
### Increased demand for staff

At the end of 2013, the National Bank employed 832 people (including 19 apprentices), which was 77 (or 10.2%) more than in 2012. In terms of full-time equivalents, the number of employees rose by 9.1% to 741.3. The number of full-time equivalents averaged 710.3. Staff turnover decreased to 5.2% from 7.9% a year earlier.

The considerably higher demand for staff can be put down to several factors. A permanent shift basis had to be introduced for the implementation of monetary policy. This measure had human resource consequences for all units involved in implementing monetary policy, IT in particular. Furthermore, additional demand for resources arose in Asset Management and Risk Management as a result of the continued high volume of currency reserves. Finally, intensive project work, especially that involved in long-term large-scale projects, such as the extensive renovations to the premises at the Berne head office, or the new banknote series, have contributed to an increase in job numbers.

### HUMAN RESOURCES

Number of employees



— Full-time, men **509**  
— Part-time, men **59**  
— Full-time, women **118**  
— Part-time, women **146**

Total: 832  
At year-end 2013

## **2.3 MODERNISATION OF PENSION FUND**

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On 1 January 2014, the SNB pension fund changed from a defined benefit to a defined contribution system. The technical interest rate was lowered from 4% to 3% at the same time. The major portion of the costs for this change 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. A restructuring clause was also introduced, which will come into effect if it is likely that the pension fund liquidity 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; it replaces the previous guaranteed return, which has not been claimed for almost 50 years.

Change to defined contribution system

## **2.4 PREMISES**

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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 extensively renovated over the next five years. In January 2013, following approval from the Bank Council and selection of the planners, it was possible to begin the project planning phase. In September 2013, Berne city council granted planning permission for the total restoration of the Berne head office. Most of the staff will move into alternative premises during the renovations. The plans to adapt these alternative premises were completed in 2013.

The SNB optimised its Zurich real estate portfolio with the acquisition of the leasehold on the Metropol building from Credit Suisse at the end of September 2012. This building is located very close to the SNB's Zurich head office, at Börsenstrasse 10. The premises were rented to the seller until the end of February 2013. The National Bank carried out the necessary structural and technical modifications before the end of the year and began moving staff into the building gradually from mid-June.

## 2.5 INFORMATION TECHNOLOGY

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The IT production systems and applications were stable in 2013. Various applications had to be extended in connection with the enforcement of the minimum exchange rate, the expansion of foreign exchange reserves and the associated broader diversification of assets, and also the need for additional analysis tools. The introduction of a new internal bank data warehouse with 6 million time series was completed in 2013 after an extensive migration process. It was decided that the SNB's fail-over computer centre will be operated from PostFinance's computer centre in Berne from 2014 for the duration of the renovations in the Berne head office. The preparatory work for this relocation, as well as for the planned relocation of the productive computer centre in Zurich in 2015 are both progressing according to plan.

## 2.6 ENVIRONMENT

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### 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 emission and lists the measures aimed at improving its environmental performance.

Electricity consumption per capita fell by 10% in 2012, the reasons for which were the closure of the Geneva branch and the increase in efficiency of the bank's computer centres. Energy consumption for heating rose by 17% per employee in 2012. This can be put down to the cold spell at the beginning of the year as well as the fact that the premises in the Seefeldstrasse 8 building in Zurich came back into operation following a renovation.

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

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The composition of the Bank Council remained unchanged in 2013.

**Bank Council**

Gerold Bühler is resigning from the Bank Council with effect from the date of the 2014 General Meeting of Shareholders.

The Swiss National Bank thanks Gerold Bühler for his valuable services to the SNB over a period of six years. Mr Bühler's services as member and as head of the Audit Committee have been particularly appreciated in the areas of accounting, auditing and compliance.

The vacancy is to be filled at the General Meeting of Shareholders.

On 26 April 2013, the General Meeting of Shareholders elected PricewaterhouseCoopers Ltd, Zurich, as the Audit Board for the 2013–2014 term of office.

**Audit Board**

The composition of the Governing Board and the Enlarged Governing Board remained unchanged in 2013.

**Governing Board and  
Enlarged Governing Board**

The Bank Council approved the following promotions to the position of Director, with effect from 1 January 2014:

**Bank management**

Katrin Assenmacher, Head of Monetary Policy Analysis  
Robert Bichsel, Head of Banking System  
Jürg Blum, Head of Systemically Important Banks  
Carlos Lenz, Head of Inflation Forecasting

# 4

## Business performance

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### 4.1 ANNUAL RESULT

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#### Summary

The Swiss National Bank (SNB) reported a loss of CHF 9.1 billion for the year 2013 (2012: profit of CHF 6.0 billion).

Valuation losses on gold holdings amounting to CHF 15.2 billion contrasted with a gain of CHF 3.1 billion on foreign currency positions and a net result of CHF 3.4 billion from the sale of the stabilisation fund.

For the financial year just ended, the SNB has set the allocation to the provisions for currency reserves at CHF 3.0 billion. The annual result remaining after this allocation is CHF –12.1 billion. As this loss is substantially larger than the CHF 5.3 billion in 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 (NBA) and the profit distribution agreement between the Federal Department of Finance (FDF) and the SNB.

#### Valuation loss on gold holdings

At CHF 34,195 per kilogram, the price of gold was 30% lower than at the end of 2012 (CHF 48,815). This gave rise to a valuation loss of CHF 15.2 billion on the unchanged holdings of 1,040 tonnes of gold (2012: valuation gain of CHF 1.4 billion).

In 2013, the SNB recorded CHF 6.9 billion in interest income and CHF 1.7 billion in dividend income from foreign currency investments. The generally higher interest rate level resulted in price losses of CHF 8.7 billion on interest-bearing paper and instruments. By contrast, equity securities and instruments benefited from the favourable stock market environment and contributed CHF 13.7 billion to the net result.

**Profit on foreign currency positions**

Overall, exchange rate-related losses amounted to CHF 10.5 billion. Exchange rate gains on the euro did not offset the losses recorded on other investment currencies, particularly on the Japanese yen and the US dollar.

Taking the various other income statement elements into account, the overall result for foreign currency positions was a profit of CHF 3.1 billion (2012: CHF 4.7 billion).

Swiss franc positions recorded a loss of CHF 96.4 million overall (2012: profit of CHF 101.1 million), essentially comprising price losses of CHF 161.9 million and interest income of CHF 79.4 million.

**Loss on Swiss franc positions**

The loan to the stabilisation fund was repaid in full on 15 August 2013.

**Sale of stabilisation fund**

The repayment of the SNB loan by the stabilisation fund was a prerequisite for the activation of the option transaction to sell the stabilisation fund to UBS. The option reference date was set at 30 September 2013, i.e. this was the date on which the economic risk passed to UBS. The contract was signed on 7 November 2013, and the transaction was completed during that same month.

At the reference date, the stabilisation fund had a net asset value of USD 6.5 billion. UBS paid a purchase price of USD 3.8 billion, corresponding to the SNB's contractual share in the stabilisation fund equity as at end-September 2013. According to the arrangements agreed in autumn 2008, the first billion of the equity went to the SNB, while the remainder – USD 5.5 billion – was divided equally between the SNB and UBS.

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.

#### Operating expenses

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

Operating expenses increased by CHF 61.9 million to CHF 334.0 million (2012: CHF 272.1 million). One contributing factor in this increase was a one-off expense of CHF 30 million for converting the SNB pension fund from a defined benefit to a defined contribution scheme.

#### Outlook

The SNB 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

In accordance with art. 30 para. 1 of the 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.

Purpose

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. At present, the level of the currency reserves is dictated directly by the implementation of monetary policy, i.e. by the enforcement of the minimum exchange rate.

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

Level of provisions

In its annual review, the Bank Council resolved that it would once again apply twice the average nominal GDP growth rate as the basis for calculating the allocation for the 2013 financial year, given the high market risks present in the SNB balance sheet. The allocation to the provisions therefore amounts to CHF 3.0 billion.

Allocation from 2013 annual result

### PROVISIONS

Developments in past five years

	Growth in nominal GDP In percent (average period) <sup>1</sup>	Annual allocation In CHF millions	Provisions after allocation In CHF millions
2009 <sup>2</sup>	3.7 (2003–2007)	3 054.9	44 337.1
2010 <sup>3</sup>	4.5 (2004–2008)	724.2	45 061.3
2011 <sup>2</sup>	3.5 (2005–2009)	3 154.3	48 215.6
2012 <sup>2</sup>	3.7 (2006–2010)	3 568.0	51 783.6
2013 <sup>2</sup>	2.9 (2007–2011)	3 003.4	54 787.0

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

2 Doubling of allocation in accordance with Bank Council resolution.

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

Distributable annual result and net profit/net loss

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 2013, the distributable annual result amounts to CHF –12.1 billion. The net loss is CHF 6.8 billion.

#### **4.3 DIVIDEND AND PROFIT DISTRIBUTION**

Dividends

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

Profit distribution to Confederation and cantons

In accordance with art. 31 para. 2 NBA, one-third of the SNB's net profit – to the extent that it exceeds the dividends – is distributed to the Confederation and two-thirds to the cantons.

Distribution agreement

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

The 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.

No distribution for 2013

For 2013, the SNB is unable either to pay a dividend to the shareholders or to make a profit distribution to the Confederation and the cantons.

Following last year's profit appropriation, the distribution reserve amounted to CHF 5.3 billion; after the offsetting operation against the annual result for 2013 it becomes negative and amounts to CHF –6.8 billion.

Distribution reserve

## PROFIT DISTRIBUTION AND DISTRIBUTION RESERVE

In CHF millions

	Distribution reserve prior to distribution <sup>1</sup>	Distributable annual profit	Net profit	Profit distribution	Distribution reserve after distribution
2009	14 634.2	6 900.1	21 534.3	2 501.5	19 032.8
2010	19 032.8	-21 531.3	-2 498.5	2 501.5 <sup>2</sup>	-5 000.0
2011	-5 000.0	9 874.7	4 874.7	1 001.5	3 873.2
2012	3 873.2	2 388.1	6 261.3	1 001.5	5 259.8
2013 <sup>3</sup>	5 259.8	-12 080.0	-6 820.2	-	-6 820.2

1 Year-end total as per balance sheet (p. 147).

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

3 In accordance with proposed appropriation of profit.

#### 4.4 CURRENCY RESERVES

The major part of the currency reserves held by the SNB consists of gold 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

	31.12.2013	31.12.2012	Change
Gold reserves	35 565.0	50 771.5	-15 206.5
Foreign currency investments	443 274.5	432 208.9	+11 065.6
Less: associated liabilities	-8 069.3	-5 012.4	-3 056.9
Derivatives (replacement values, net)	16.7	-38.5	+55.2
Total foreign exchange reserves <sup>1</sup>	435 221.9	427 158.0	+8 063.9
Reserve position in the IMF	2 295.4	2 804.2	-508.8
International payment instruments	4 293.9	4 249.2	+44.7
<b>Total currency reserves</b>	<b>477 376.2</b>	<b>484 982.8</b>	<b>-7 606.6</b>

<sup>1</sup> Holdings of and investments in convertible foreign currencies, including use of derivatives.

#### **4.5 MULTI-YEAR COMPARISON OF ASSETS AND LIABILITIES**

The tables below provide 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 and its substantial decline thereafter. Movements in foreign currency investments were mainly determined by monetary policy measures to counter the strong Swiss franc. Following 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. These caused the balance sheet total to experience a further sharp rise, before it stabilised in 2013.

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. From time to time, liquidity-providing repo transactions were conducted in order to ease monetary policy. These were suspended during the course of 2010, but were resumed in the second half of 2011. 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. In 2013, only marginal changes occurred on the assets side of the balance sheet. Foreign currency holdings remained largely unchanged. 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 sight deposits held by domestic banks with the SNB. Following significant increases in 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, sight deposits of domestic banks and other sight deposits again rose substantially. In 2012, the last SNB Bills fell due. At the same time, sight deposits continued to rise because of the foreign currency purchases. In 2013, by contrast, the breakdown of liabilities changed little. At the end of June 2013, PostFinance obtained a banking licence and was granted the status of a bank. This change of status was reflected in an increase in the sight deposits of domestic banks and a decrease in other sight deposits.

## YEAR-END VALUES OF BALANCE SHEET ASSETS (AGGREGATED)

In CHF millions

	2009	2010	2011	2012	2013
Gold holdings and claims from gold transactions	38 186	43 988	49 380	50 772	35 565
Foreign currency investments	94 680	203 810	257 504	432 209	443 275
Various foreign currency assets <sup>1</sup>	7 136	6 038	8 057	7 332	6 834
Claims from US dollar repo transactions	–	–	371	–	–
Credit balances from swap transactions	2 672	–	–	–	–
Claims from Swiss franc repo transactions	36 208	–	18 468	–	–
Swiss franc securities	6 543	3 497	3 675	3 757	3 690
Loan to stabilisation fund	20 994	11 786	7 645	4 378	–
Sundry <sup>2</sup>	846	836	980	986	1 019
<b>Total assets</b>	<b>207 264</b>	<b>269 955</b>	<b>346 079</b>	<b>499 434</b>	<b>490 382</b>

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

2 Claims against domestic correspondents, banknote stocks, tangible assets, participations, other assets.

## YEAR-END VALUES OF BALANCE SHEET LIABILITIES (AGGREGATED)

In CHF millions

	2009	2010	2011	2012	2013
Banknotes in circulation	49 966	51 498	55 729	61 801	65 766
Sight deposits of domestic banks	44 993	37 951	180 721	281 814	317 132
Other sight deposits <sup>1</sup>	5 927	5 619	30 332	78 910	36 297
Liabilities towards the Confederation	6 183	5 347	5 648	9 008	10 482
SNB debt certificates in Swiss francs	7 788	107 870	14 719	–	–
Liabilities from Swiss franc repo transactions	–	13 182	–	–	–
Other term liabilities	–	–	366	–	–
Foreign currency liabilities <sup>2</sup>	26 447	5 805	5 286	9 632	12 585
Sundry <sup>3</sup>	64	96	162	199	129
Provisions for currency reserves <sup>4</sup>	41 282	44 337	45 061	48 216	51 784
Share capital	25	25	25	25	25
Distribution reserve <sup>4</sup>	14 634	19 033	–5 000	3 873	5 260
Annual result	9 955	–20 807	13 029	5 956	–9 077
<b>Total liabilities</b>	<b>207 264</b>	<b>269 955</b>	<b>346 079</b>	<b>499 434</b>	<b>490 382</b>

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

2 SNB USD Bills, foreign currency liabilities, balancing item for SDRs allocated by the IMF.

3 Other liabilities, operating provisions.

4 Before appropriation of profit, cf. p. 148.