

# 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 Swiss Code of Obligations (CO)).

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

# 1

## 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; 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

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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 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**

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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. 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**

<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 audit.</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 SNB management.</p>
<b>Third level</b>	<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**

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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)**

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	<a href="http://www.snb.ch">www.snb.ch</a> , <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	<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 by members of the Enlarged Governing Board of gifts, invitations and third-party considerations	<a href="http://www.snb.ch">www.snb.ch</a> , <i>The SNB, Legal basis, Guidelines and regulations</i>
Other activities and affiliations	<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. 182
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 Rechtssammlung, Landesrecht, 1 Staat – Volk – Behörden, 17 Bundesbehörden, 172.220 Arbeitsverhältnis, 172.220.1 Bundespersonalgesetz vom 24. März 2000 BPG)</i>
<b>Staff</b>	
Code of Conduct	<a href="http://www.snb.ch">www.snb.ch</a> , <i>The SNB, Legal basis, Guidelines and regulations</i>
<b>Audit Board</b>	
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 <a href="http://www.snb.ch">www.snb.ch</a> , <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

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### **2.1 ORGANISATIONAL CHANGES**

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#### **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

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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

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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.

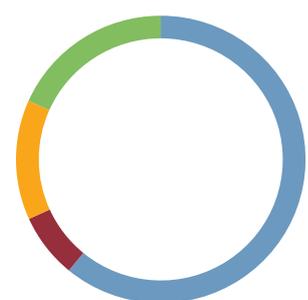
The Berne premises are due to be totally renovated over the next five years. On 5 September 2014, the Bank Council approved the implementation of this construction project. On 23 September 2014, the City of Berne granted the necessary permit. Building work began in early February 2015. The preparation 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

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#### 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**

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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**

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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 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

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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 Grossenbacher, Head of Cash,  
with effect from 1 January 2015

# 4

## Business performance

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### 4.1 ANNUAL RESULT

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#### 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**

<b>Purpose</b>	<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>
<b>Level of provisions</b>	<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>
<b>Allocation from 2014 annual result</b>	<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

## Developments in last five years

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

## Distributable annual result and net profit/net loss

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

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

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

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 <sup>1</sup>	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
<b>Total currency reserves</b>	<b>541 351.7</b>	<b>477 376.2</b>	<b>+ 63 975.5</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 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 <sup>1</sup>	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 <sup>2</sup>	836	980	986	1 019	867
<b>Total assets</b>	<b>269 955</b>	<b>346 079</b>	<b>499 434</b>	<b>490 382</b>	<b>561 202</b>

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 <sup>1</sup>	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 <sup>2</sup>	5 805	5 286	9 632	12 585	19 480
Sundry <sup>3</sup>	96	162	199	129	155
Provisions for currency reserves <sup>4</sup>	44 337	45 061	48 216	51 784	54 787
Share capital	25	25	25	25	25
Distribution reserve <sup>4</sup>	19 033	–5 000	3 873	5 260	–6 820
Annual result	–20 807	13 029	5 956	–9 077	38 313
<b>Total liabilities</b>	<b>269 955</b>	<b>346 079</b>	<b>499 434</b>	<b>490 382</b>	<b>561 202</b>

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.