

Business report

The business report provides information on organisational and operational developments as well as the financial result of the Swiss National Bank (SNB). In addition, as a company quoted on the stock exchange, the SNB publishes information on corporate governance (SIX Swiss Exchange Ltd corporate governance directive) in its business report.

The business report and the annual financial statements together constitute the financial report of the SNB, as stipulated under Swiss company law (art. 958 Swiss Code of Obligations (CO)). At the SNB, the business report fulfils the function of a management report (art. 961c CO).

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

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Corporate governance

1.1 BACKGROUND

The Swiss National Bank (SNB) is a special-statute joint-stock company that is administered with the cooperation and under the supervision of the Confederation. Its organisational structure and responsibilities are governed by the National Bank Act of 3 October 2003 (NBA; as at 1 January 2016) 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 overall 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 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 (NBO; as at 1 January 2016) issued by the SNB Governing Board.

Finally, the NBA lays down the foundations of the SNB’s organisational structure (arts. 2, 33–48). 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 of the Swiss Code of Obligations (CO). Where the NBA leaves room for manoeuvre, the SNB implements the ordinance requirements. This applies especially to the prohibition of voting rights for corporate bodies and deposited shares, as well as the requirements regarding independent proxy voting and the proxy's powers.

1.2 SHAREHOLDERS

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) under the Swiss Reporting Standard.

Listed registered shares

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 2015, 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 6.60% (6,595 shares), the Canton of Zurich with 5.20% (5,200 shares), the Canton of Vaud with 3.40% (3,401 shares) and the Canton of St Gallen with 3.00% (3,002 shares).

In 2015, 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 2015, 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. 138).

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

Independent proxy

Since the 2014 General Meeting of Shareholders, the SNB has made it possible for shareholders to grant their power of attorney and send instructions to the independent proxy also by electronic means.

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 also allows for a 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. The delegates are supported by the Regional Economic Councils, which analyse the economic situation and the effect of monetary policy in their regions and report the results to the Governing Board. In addition, the Regional Economic Councils conduct a regular exchange of information with the delegates.

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

Agencies

1.4 CORPORATE BODIES AND RESPONSIBILITIES

The corporate bodies of the SNB are the General Meeting of Shareholders, the Bank Council, the Governing Board and the Audit Board. The composition of these bodies is described on pp. 201–202.

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; five by the General Meeting of Shareholders. The Federal Council is also responsible for appointing the President and Vice President. The Bank Council oversees and controls the conduct of business by the SNB. 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'. Monetary policy does not form part of its remit; this falls to the Governing Board.

Bank Council

Bank Council activities

In 2015, the Bank Council held one ordinary full-day meeting (in February) and five ordinary half-day meetings (in April, June, September, October and December), all of which were attended by the members of the Governing Board.

The Bank Council offered its farewell to former Vice Chairman of the Governing Board Jean-Pierre Danthine in mid-2015. It drafted a proposal to the Federal Council for the appointment of Andréa M. Maechler, and welcomed her as the new member of the Governing Board with effect from 1 July 2015.

The Bank Council took note of the accountability report for 2014 submitted to the Federal Assembly and approved the financial report for 2014 for submission to the Federal Council and the General Meeting of Shareholders. Furthermore, 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 the financial and operational risks and on compliance, as well as the 2014 annual reports of the pension funds, prepared the 2015 General Meeting of Shareholders and approved the 2014 budget statement and the 2016 budget.

In addition, the Bank Council approved the project loan for the renovation of the head office at Bundesplatz 1 in Berne.

Following its approval in previous years of the new designs for the 10, 20 and 50-franc notes, the Bank Council approved the designs for the remaining 100, 200 and 1000-franc notes in the ninth banknote series.

Additionally, the Bank Council appointed new members to the Regional Economic Councils of Geneva, Northwestern Switzerland and Italian-speaking Switzerland, applicable from the 2015 General Meeting of Shareholders, and also defined the membership of the Bank Council Committees for the 2015–2016 term of office.

The Bank Council proposed to the 2015 General Meeting of Shareholders that the external Audit Board's mandate be newly awarded to KPMG Ltd for the 2015–2016 term of office.

Furthermore, the Bank Council revised the regulations on the acceptance of gifts and invitations by members of the Enlarged Governing Board as well as the regulations on the compensation of SNB supervisory and executive bodies with effect from 1 May 2016. It also took note of the revised SNB 'Code of Conduct'.

Finally, the Bank Council approved the level of provisions for currency reserves.

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 appropriateness and efficacy 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, who are elected by the Federal Council.

The Audit Committee held five meetings, four of which were attended by the Audit Board. The Risk Committee held three meetings. The Compensation Committee held two meetings. The Nomination Committee did not meet.

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 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.

KPMG Ltd was newly elected as the Audit Board at the 2015 General Meeting of Shareholders (PricewaterhouseCoopers Ltd in 2014). Philipp Rickert is the auditor in charge. Auditing fees for the 2015 financial year totalled CHF 0.3 million (2014: CHF 0.3 million). KPMG Ltd also provided consulting services in the areas of law and tax amounting to roughly CHF 30,000 (2014: none).

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 comply analogously with 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. 183–184.

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. 183.

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 all forms of financial intermediary activities for a period of six months. Consequently, compensation amounting to six months of salary is paid. A twelve-month limitation applies to activities with systemically important banks in Switzerland. If a member of the Enlarged Governing Board is not reappointed, is removed from office or is dismissed in the interest of the bank, the Bank Council may grant a severance payment amounting to a maximum of one year's salary.

Severance payments and compensation for restrictions

1.6 INTERNAL CONTROL SYSTEM

Aim and purpose	<p>The ICS comprises all the structures and processes which ensure orderly procedures for operational activities and contribute to the attainment of business goals.</p> <p>The ICS makes a major contribution towards compliance with legal requirements and internal specifications, the prudential protection of corporate assets, the prevention, reduction and disclosure of errors and irregularities, as well as ensuring that accounts are reliable and complete, that reporting is timely and dependable, and that risk management is appropriate and efficient.</p>
Elements	<p>The ICS comprises the management of financial risk, operational risk, compliance risk and risk associated with financial reporting.</p>
Organisation	<p>The ICS is divided into three levels. The three, organisationally separate levels (lines of defence) are line management, risk monitoring and internal audit.</p>
First level	<p>The first level is ensured through the line management's responsibility to provide verification of its duty of care and orderly business procedures. Organisational units define their structures and procedures so as to ensure that tasks are carried out efficiently and their objectives achieved. To this end, they specify operational goals and control measures to manage the risks they are exposed to in their business activities.</p>
Second level	<p>The second level is risk monitoring. The units responsible (Operational Risk and Security, Compliance, and Risk Management) advise line management in the management of risk in their units. 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 executive management.</p>
Third level	<p>Finally, at a third, independent level, the Internal Audit unit 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 and monitors compliance therewith. 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 executive management and the Bank Council. In accordance with art. 728a para. 1 (3) CO, any findings by Internal Audit on the ICS for financial reporting are communicated to the Board of Deputies, Enlarged Governing Board and the Bank Council's Audit Committee twice a year.

Reporting

1.7 RISK MANAGEMENT

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

Risks

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

Risk assessment

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 associated with investment 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 issued by the Enlarged Governing Board 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. 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 issued by the Enlarged Governing Board and the Bank Council 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.

In the case of audit objectives relating to proper accounting and financial reporting, the Internal Audit unit conducts spot checks to ascertain whether the corresponding key controls are appropriate and whether they have been performed. Any findings on the ICS for financial reporting are communicated to the Board of Deputies, 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	Line management, Compliance unit, Operational Risk and Security unit
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)	www.snb.ch , <i>The SNB, Legal basis, Constitution and laws</i>
Organisation regulations (SR 951.153)	www.snb.ch , <i>The SNB, Legal basis, Guidelines and regulations</i>
Shareholders	www.snb.ch , <i>Shareholders</i>
Participation rights	www.snb.ch , <i>Shareholders, General Meeting of Shareholders, Participation</i>
Listing in share register	www.snb.ch , <i>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	www.snb.ch , <i>The SNB, Legal basis, Guidelines and regulations</i>
Bank Council	www.snb.ch , <i>The SNB, Supervisory and executive bodies, Bank Council</i>
Members	<i>Annual Report</i> , p. 201
Nationality	Art. 40 NBA
Affiliations	www.snb.ch , <i>The SNB, Supervisory and executive bodies, Bank Council</i>
Election and term of office	Art. 39 NBA
Initial and current election	<i>Annual Report</i> , p. 201
Internal organisation	Arts. 10 et seq. Organisation regulations
Committees	www.snb.ch , <i>The SNB, Supervisory and executive bodies, Bank Council</i>
Regulations on the Audit Committee, Risk Committee, Compensation Committee, and Nomination Committee; Compensation regulations	www.snb.ch , <i>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. 134 et seq.; arts. 10 et seq. Organisation regulations
Information tools	www.snb.ch , <i>The SNB, Legal basis, Guidelines and regulations</i>
Remuneration	<i>Annual Report</i> , p. 183
Code of Conduct	www.snb.ch , <i>The SNB, Legal basis, Guidelines and regulations</i>

Executive management	www.snb.ch , <i>The SNB, Supervisory and executive bodies, Governing Board/Enlarged Governing Board</i>
Members	<i>Annual Report</i> , p. 202
Affiliations	www.snb.ch , <i>The SNB, Supervisory and executive bodies, Governing Board/Enlarged Governing Board</i>
Election and term of office	Art. 43 NBA
Internal organisation	Arts. 18–24 Organisation regulations
Regulations on the employment relationship of members of the Governing Board of the Swiss National Bank and their deputies	www.snb.ch , <i>The SNB, Legal basis, Guidelines and regulations</i>
Regulations on private financial investments and financial transactions by members of SNB management	www.snb.ch , <i>The SNB, Legal basis, Guidelines and regulations</i>
Regulations on the acceptance by members of the Enlarged Governing Board of gifts, invitations and third-party considerations	www.snb.ch , <i>The SNB, Legal basis, Guidelines and regulations</i>
Regulations on the compensation of SNB supervisory and executive bodies (Compensation regulations)	www.snb.ch , <i>The SNB, Legal basis, Guidelines and regulations</i>
Federal Personnel Act	www.admin.ch , <i>Bundesrecht, Systematische Rechtssammlung, Landesrecht, 1 Staat – Volk – Behörden, 17 Bundesbehörden, 172.220 Arbeitsverhältnis, 172.220.1 Bundespersonalgesetz vom 24. März 2000 (BPG)</i> (Not available in English)
Remuneration	<i>Annual Report</i> , p. 184
Code of Conduct	www.snb.ch , <i>The SNB, Legal basis, Guidelines and regulations</i>
Staff	
Code of Conduct	www.snb.ch , <i>The SNB, Legal basis, Guidelines and regulations</i>
Audit Board	
Election and requirements	Art. 47 NBA
Tasks	Art. 48 NBA
Information policy	<i>Annual Report</i> , pp. 128, 206–209; information for shareholders at www.snb.ch , <i>Shareholders, Ad hoc announcements – messaging service</i>
Corporate structure and shareholders	<i>Annual Report</i> , pp. 126 et seq., pp. 177–178
Head offices	Art. 3 para. 1 NBA
Ticker symbol / ISIN	SNBN/CH0001319265
Breakdown of capital	<i>Annual Report</i> , p. 177
Accounting principles	<i>Annual Report</i> , p. 158

2 Resources

Organisation

2.1 ORGANISATIONAL CHANGES

The departments are 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. Internal Audit reports administratively to Department I.

In the course of the bank-wide reorganisation carried out in 2014, Statistics, formerly an organisational unit, was restructured and upgraded to a division as of 1 January 2015.

The International Monetary Cooperation division was also restructured, with its new organisational form taking effect as of 1 January 2016. Thus the target of creating a central unit for the coordination of the SNB's multilateral activities has been achieved.

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.

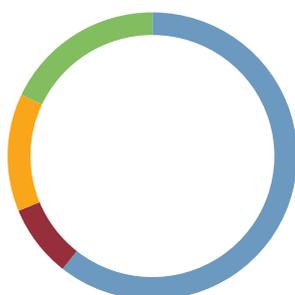
Department III comprises the Money Market and Foreign Exchange, Asset Management, Banking Operations, and Information Technology divisions, as well as the Financial Market Analysis unit and the Singapore office, which report directly to the department head.

The organisational structure is presented on pp. 204–205.

Multi-year strategic initiatives are being implemented in order to optimise the planning and budgeting process. They comprise the areas of resource and performance management, procurement, as well as project and project portfolio management.

HUMAN RESOURCES

Number of employees



— Full-time, men **536**
— Part-time, men **72**
— Full-time, women **117**
— Part-time, women **159**

Total: 884
At year-end 2015

2.2 HUMAN RESOURCES

At the end of 2015, the SNB employed 884 people (including 19 apprentices), which was 16 (or 1.8%) more than in 2014. In terms of full-time equivalents, the number of employees rose by 1.5% to 787.9. The number of full-time equivalents averaged 782. Staff turnover decreased to 4.6% (2014: 5.8%).

Number of staff

An employee survey was conducted in 2015. The participation rate came to over 85% and the outcome was gratifying. Employees exhibited well above-average commitment to the SNB and a very high level of job satisfaction. Areas with development potential will be worked on at various management levels.

The SNB's reputation is largely determined by the integrity, professional skill and behaviour of each and every one of its staff. The associated 'Code of Conduct' was revised in 2015.

2.3 PREMISES

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

On 2 February 2015, the first stage of the total renovation of the premises on Bundesplatz in Berne was launched. Prior to that, the employees of the Berne head office had moved to a temporary location at Laupenstrasse 18, which had been refurbished in 2014. In Zurich, planning work for the renovation and conversion of the premises on Fraumünsterstrasse 8 was carried out from February to June 2015. The refurbishment of the newly rented premises for the Zurich computer centre was completed by mid-2015.

2.4 INFORMATION TECHNOLOGY

The IT production systems and applications were stable in 2015.

Applications in connection with foreign exchange were updated and renewed. The Business Intelligence unit was expanded in order to meet the rising demands with regard to more effective and efficient evaluation of bank transaction data. To consolidate resources and costs, the degree of automation was increased and numerous functionalities and technologies were standardised and, wherever possible, centralised. Furthermore, measures were taken to fulfil compliance and data protection-related requirements. Analyses were conducted and concepts created to prepare for the introduction of the new SIC architecture and the implementation of the new SIC reporting formats in 2016.

The IT tools for conducting surveys and publishing data for the Statistics division were developed further, with the aim of preparing data storage and processing in line with the new accounting rules for banks, securities dealers, financial groups and conglomerates, as well as renewing the web-based data platform.

The computer centre in Zurich became operational in its new premises according to plan.

2.5 ENVIRONMENT

In its Charter, the SNB 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 climate 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 0.5%; energy consumption for heating, by around 2% in 2015.

The SNB and the Canton of Zurich agreed on targets for increasing energy efficiency and reducing carbon dioxide emissions at the Zurich computer centre for 2014–2024.

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, greenhouse gas emissions that are unavoidable in connection with the SNB's operational activities have been offset by purchasing emission reduction certificates.

3

Changes in bank bodies and management

On 4 December 2015, the Federal Council confirmed Jean Studer as President of the Bank Council until 30 April 2019, when his term of office comes to an end due to the statutory twelve-year limitation applicable for Bank Council members. In addition, it confirmed Olivier Steimer as Vice President of the Bank Council, subject to his re-election as a member of the Bank Council by the General Meeting of Shareholders. The Federal Council also re-appointed Barbara Janom Steiner, Christoph Lengwiler, Shelby du Pasquier and Ernst Stocker as members of the Bank Council for the 2016–2020 term of office. The General Meeting of Shareholders on 29 April 2016 is responsible for re-electing the other members of the Bank Council.

Bank Council

In addition, the Federal Council appointed Christian Vitta as a new member of the Bank Council for the 2016–2020 term of office, as successor to Alfredo Gysi.

Alfredo Gysi is resigning from the Bank Council with effect from the end of April 2016. The SNB thanks Alfredo Gysi for his valuable service over a period of five years.

On 24 April 2015, the General Meeting of Shareholders elected KPMG Ltd as the Audit Board for the 2015–2016 term of office, with Philipp Rickert as auditor in charge.

Audit Board

On 1 July 2015, Fritz Zurbrügg, previously Member of the Governing Board, succeeded Jean-Pierre Danthine as Vice Chairman of the Governing Board and Head of Department II.

**Governing Board and
Enlarged Governing Board**

As the new Member of the Governing Board with effect from 1 July 2015, Andréa M. Maechler assumed the role of Head of Department III.

The Bank Council appointed Sébastien Kraenzlin, Head of Banking Operations, to the position of Director with effect from 1 January 2016.

Bank management

4

Business performance

4.1 ANNUAL RESULT

Summary

The Swiss National Bank (SNB) reported a loss of CHF 23.3 billion for the year 2015 (2014: profit of CHF 38.3 billion).

The loss on foreign currency positions amounted to CHF 19.9 billion. A valuation loss of CHF 4.2 billion was recorded on gold holdings. The profit on Swiss franc positions was CHF 1.2 billion.

For the financial year just ended, the SNB has set the allocation to the provisions for currency reserves at CHF 1.4 billion. Taken together, the annual loss and allocation to provisions totalling CHF 24.6 billion are less than the distribution reserve, which amounts to CHF 27.5 billion. Thus, despite the annual loss, the resulting net profit will allow a dividend payment to shareholders of CHF 1.5 million as well as the ordinary profit distribution of CHF 1 billion to the Confederation and the cantons. The distribution reserve after appropriation of profit will amount to CHF 1.9 billion.

Valuation loss on gold holdings

At CHF 34,103 per kilogram, the price of gold was 11% lower than at the end of 2014 (CHF 38,105). This gave rise to a valuation loss of CHF 4.2 billion on the unchanged holdings of 1,040 tonnes of gold (2014: valuation gain of CHF 4.1 billion).

Loss on foreign currency positions

Overall, the loss on foreign currency positions was CHF 19.9 billion (2014: profit of CHF 34.5 billion).

The appreciation of the Swiss franc resulted in total exchange rate losses of CHF 26.4 billion. Interest income amounted to CHF 7.8 billion and dividend income to CHF 2.2 billion, however. Movements in bond prices differed from those in share prices. A loss of CHF 5.1 billion was recorded on interest-bearing paper and instruments. By contrast, equity securities and instruments made a positive contribution of CHF 1.6 billion to the net result.

Profit on Swiss franc positions

The profit on Swiss franc positions, which totalled CHF 1,245.0 million (2014: 276.6 million), essentially comprised CHF 1,163.9 million of negative interest charged on sight deposits since 22 January 2015, interest income of CHF 66.5 million and price gains of CHF 24.4 million.

Operating expenses are made up of banknote and personnel expenses, general overheads and depreciation on the SNB's tangible assets.

Operating expenses

Operating expenses decreased by CHF 129.8 million to CHF 401.2 million. This decline compared to the previous year is due to a one-off expense of CHF 156.7 million in 2014 arising from a change in accounting principles for banknote stocks.

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.

Outlook

4.2 PROVISIONS FOR CURRENCY RESERVES

Purpose	<p>In accordance with art. 30 para. 1 of the National Bank Act (NBA), the SNB sets up provisions to maintain the currency reserves at the level necessary for monetary policy. Independent of this financing function, the provisions for currency reserves have a general reserve function and thus serve as equity capital. They act as a buffer against all the different forms of loss risk at the SNB.</p>
Level of provisions	<p>When setting aside provisions for currency reserves, the SNB must take into account the development of the Swiss economy (art. 30 para. 1 NBA).</p>
Allocation from 2015 annual result	<p>In its annual review, the Bank Council resolved that it would once again apply twice the average nominal GDP growth rate for the previous five years as the basis for calculating the allocation for the 2015 financial year, given the high market risks present in the SNB balance sheet. The allocation to the provisions therefore amounts to CHF 1.4 billion.</p> <p>The figure is lower than in the previous year because the average period for the calculation of the allocation upon which the 2015 financial year is based includes several years with low nominal GDP growth rates. At 1.2%, average nominal GDP growth was therefore lower than in the relevant previous period (1.8%).</p>

PROVISIONS

	Growth in nominal GDP In percent (average period) ¹	Annual allocation In CHF millions	Provisions after allocation In CHF millions
2011 ²	3.5 (2005–2009)	3 154.3	48 215.6
2012 ²	3.7 (2006–2010)	3 568.0	51 783.6
2013 ²	2.9 (2007–2011)	3 003.4	54 787.0
2014 ^{2,3}	1.8 (2008–2012)	1 972.3	56 759.3
2015 ^{2,3}	1.2 (2009–2013)	1 362.2	58 121.5

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 Since 2014, nominal GDP growth has been based on the provisions of the European System of National and Regional Accounts of 2010 (ESA 2010).

The portion of the annual result remaining after the allocation to the currency reserves corresponds to the distributable profit as per art. 30 para. 2 NBA. Together with the distribution reserve, this makes up the net profit/net loss (art. 31 NBA). If there is a net profit, this is used for distributions.

For 2015, the distributable annual result amounts to CHF –24.6 billion. The net profit is CHF 2.9 billion.

Developments in last five years

Distributable annual result and net profit

4.3 DIVIDEND AND PROFIT DISTRIBUTION

Dividends	Art. 31 para. 1 NBA specifies that a dividend not exceeding 6% of the share capital shall be paid from the net profit, with the decision on this matter being taken by the General Meeting of Shareholders on the basis of a Bank Council proposal.
Profit distribution to Confederation and cantons	In accordance with art. 31 para. 2 NBA, one-third of the SNB's net profit – to the extent that it exceeds the dividends – is distributed to the Confederation and two-thirds to the cantons.
Distribution agreement	<p>The amount of the annual profit distribution to the Confederation and the cantons is laid down in an agreement between the Federal Department of Finance (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 be made only 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. In this case, the amount to be distributed is agreed between the SNB and the FDF, and the cantons are informed.</p> <p>A successor agreement is being drafted in 2016.</p>
Distribution for 2015	For 2015, after the allocation to the provisions for currency reserves, the SNB is distributing CHF 1 billion to the Confederation and the cantons.

Following last year's profit appropriation, the distribution reserve showed a value of CHF 27.5 billion. After offsetting against the annual result and the profit appropriation for 2015, the distribution reserve will amount to CHF 1.9 billion.

Distribution reserve

PROFIT DISTRIBUTION AND DISTRIBUTION RESERVE

In CHF millions

	2011	2012	2013	2014	2015 ²
Annual result	13 028.9	5 956.1	-9 076.6	38 312.9	-23 250.6
- Allocation to provisions for currency reserves	-3 154.3	-3 568.0	-3 003.4	-1 972.3	-1 362.2
= Distributable annual result	9 874.7	2 388.1	-12 080.0	36 340.6	-24 612.8
+ Distribution reserve before appropriation of profit ¹	-5 000.0	3 873.2	5 259.8	-6 820.2	27 518.8
= Net profit/net loss	4 874.7	6 261.3	-6 820.2	29 520.3	2 906.0
- Payment of a dividend of 6%	-1.5	-1.5	-	-1.5	-1.5
- Profit distribution to Confederation and cantons	-1 000.0	-1 000.0	-	-2 000.0	-1 000.0
= Distribution reserve after appropriation of profit	3 873.2	5 259.8	-6 820.2	27 518.8	1 904.5

1 Year-end total as per balance sheet.

2 In accordance with proposed appropriation of profit.

4.4 MULTI-YEAR COMPARISON OF ASSETS AND LIABILITIES

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

At the end of 2015, the SNB's balance sheet total stood at CHF 640 billion, CHF 79 billion higher than a year earlier. This development was principally a result of monetary policy measures taken to counter the strong Swiss franc.

On the assets side of the balance sheet, these measures were mainly reflected in the rise in foreign currency investments. On the liabilities side of the balance sheet, monetary policy measures were primarily reflected in the rise in total sight deposits.

YEAR-END VALUES OF BALANCE SHEET POSITIONS

In CHF millions

	2011	2012	2013	2014	2015
Gold holdings	48 662	50 768	35 562	39 630	35 467
Claims from gold transactions	717	4	3	–	–
Foreign currency investments	257 504	432 209	443 275	510 062	593 234
Reserve position in the IMF	3 135	2 804	2 295	2 037	1 608
International payment instruments	4 621	4 249	4 294	4 414	4 707
Monetary assistance loans	301	279	244	213	170
Claims from US dollar repo transactions	371	–	–	–	–
Claims from Swiss franc repo transactions	18 468	–	–	–	–
Swiss franc securities	3 675	3 757	3 690	3 978	3 972
Loan to stabilisation fund	7 645	4 378	–	–	–
Banknote stocks	130	126	157	–	–
Tangible assets	325	452	433	417	397
Participations	147	142	134	134	136
Other assets	377	267	295	316	461
Total assets	346 079	499 434	490 382	561 202	640 152
Banknotes in circulation	55 729	61 801	65 766	67 596	72 882
Sight deposits of domestic banks	180 721	281 814	317 132	328 006	402 317
Liabilities towards the Confederation	5 648	9 008	10 482	9 046	10 931
Sight deposits of foreign banks and institutions	1 884	11 958	11 523	17 487	25 621
Other sight liabilities	28 448	66 951	24 774	33 127	30 166
Liabilities from Swiss franc repo transactions	–	–	–	–	–
SNB debt certificates	14 719	–	–	–	–
Other term liabilities	366	–	–	–	–
Foreign currency liabilities	552	5 019	8 074	14 753	32 521
Counterpart of SDRs allocated by the IMF	4 735	4 613	4 511	4 727	4 548
Other liabilities	155	193	98	155	114
Operating provisions	7	5	31	–	–
Equity					
Provisions for currency reserves ¹	45 061	48 216	51 784	54 787	56 759
Share capital	25	25	25	25	25
Distribution reserve ¹	–5 000	3 873	5 260	–6 820	27 519
Annual result	13 029	5 956	–9 077	38 313	–23 251
Total equity	53 115	58 070	47 992	86 305	61 053
Total liabilities	346 079	499 434	490 382	561 202	640 152

¹ Before appropriation of profit, cf. p. 156.