

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 2016). 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). Organisational details are governed by the 'Organisation regulations'; these regulations, which are issued by the Bank Council and approved by the Federal Council, were partially revised in 2016. As well as explicitly stipulating that a regulation be passed on private financial investments and financial transactions by members of SNB management, the revised wording clarifies the governance structure.

The ordinance against excessive remuneration at listed companies 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. At the end of 2016, they held around 52% of shares. The remaining shares are mainly owned by private individuals. The Confederation is not a shareholder.

The major shareholders were Theo Siegert (Düsseldorf) with 6.72% (6,720 shares), the Canton of Berne with 6.63% (6,630 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 2016, 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 2016, a member of the Enlarged Governing Board held one SNB share.

Shareholder rights 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.

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. 142).

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 The SNB allows its shareholders to grant their power of attorney and send instructions to the independent proxy, either in writing or electronically.

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.

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, the Singapore location facilitates foreign exchange market operations at all market hours.

Branch office

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.

Representative offices

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

Agencies

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. 204–205.

The General Meeting of Shareholders elects five of the Bank Council's eleven members (via separate ballot per member) and appoints the Audit Board. It approves the business report and the annual financial statements, and grants discharge to the Bank Council. Furthermore, within the context of the profit appropriation, the General Meeting of Shareholders determines the dividend. This may not exceed 6% of share capital.

**General Meeting
of Shareholders**

Bank Council

The Bank Council is the SNB's supervisory and control body. Six of its members are elected by the Federal Council; 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 individual tasks of the Bank Council are described in art. 42 NBA and art. 10 of the 'Organisation regulations'. 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 operational 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. Monetary policy does not form part of its remit; this falls to the Governing Board.

Bank Council activities

In 2016, the Bank Council held six ordinary half-day meetings (in March, April, June, September, October and December), all of which were attended by the members of the Governing Board.

The Bank Council took note of the accountability report for 2015 submitted to the Federal Assembly and approved the financial report for 2015 for submission to the Federal Council and the General Meeting of Shareholders. It 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 2015 annual report of the pension fund, prepared the 2016 General Meeting of Shareholders and approved the 2015 budget statement and the 2017 budget. Furthermore, the Bank Council took note of the status report on the renovation of the SNB premises in Berne (Bundesplatz 1), gave the green light for the renovation and conversion of the building at Fraumünsterstrasse 8, and authorised the associated loan.

In addition, the Bank Council approved the partial revision of the SNB's 'Organisation regulations' and revised the regulations on private financial investments and financial transactions by members of SNB management.

The Bank Council elected a new member for the Regional Economic Council of Geneva and defined the membership of the Regional Economic Councils applicable from the 2016 General Meeting of Shareholders as well as the composition of the Bank Council committees for the 2016–2017 term of office.

Finally, the Bank Council approved the level of provisions for currency reserves and the agreement on profit distribution for the period 2016–2020 between the Federal Department of Finance and the SNB.

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, and oversees 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.

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| Meetings | <p>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 did not meet.</p> |
| Executive management | <p>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.</p> <p>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.</p> <p>The Board of Deputies is responsible for the planning and implementation of the strategic guidelines. It ensures coordination in all operational matters of interdepartmental importance.</p> |
| Audit Board | <p>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.</p> <p>KPMG Ltd has been the Audit Board since 2015 and was reappointed by the General Meeting of Shareholders for 2016. Philipp Rickert has been the auditor in charge since 2015. The role of auditor in charge rotates in compliance with the regulations on terms of office stipulated in the Swiss Code of Obligations, at least every seven years. Auditing fees for the 2016 financial year amounted to CHF 0.3 million (2015: CHF 0.3 million). KPMG Ltd did not provide any consulting services (2015: consulting services in the areas of law and tax amounted to roughly CHF 30,000).</p> |
| Internal Audit | <p>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.</p> |

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 2016 are listed in the tables on pp. 187–188.

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. 187.

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

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| 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 (heads of department and line managers), risk monitoring and internal audit.</p> |
| First level | <p>The first level is ensured through the responsibility of the line management 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 addition, Internal Audit communicates its findings on the appropriateness and efficacy of the ICS to executive management and the Bank Council's Audit Committee at least 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 loss or reputational damage arising as a result of inadequate internal processes, incorrect reporting, a lack of – or disregard for – regulations or rules of conduct, technical failure 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 the department heads, 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 for appropriate rules of conduct is both timely and appropriate to hierarchical levels. The Compliance unit may 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

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 twice a year to the Board of Deputies, the Enlarged Governing Board and the Bank Council's Audit Committee. Among other things, they are used by the Audit Board as the basis of its confirmation in accordance with art. 728a para. 1 (3) CO.

The following table summarises the organisation of risk management.

ORGANISATION OF RISK MANAGEMENT

| | Guidelines | Management | Oversight | Supervision |
|------------------------------|-------------------------------------------|-----------------|----------------------------------------------------------------------|---------------------------------------------------------------------|
| Financial risk | Governing Board | Line management | Risk Management unit | Risk Committee of Bank Council and Bank Council |
| Operational risk | Enlarged Governing Board | Line management | Board of Deputies, Operational Risk and Security unit | Audit Committee/ Risk Committee of Bank Council and Bank Council |
| Compliance risk | Bank Council and Enlarged Governing Board | Line management | Line management, Compliance unit, Operational Risk and Security unit | Audit Committee of Bank Council and Bank Council |
| Risks in financial reporting | Enlarged Governing Board | Line management | Central Accounting unit | Audit Committee of Bank Council and Bank Council |

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:

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| 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. 204 |
| 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. 204 |
| 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. 138 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. 187 |
| Code of Conduct | www.snb.ch , <i>The SNB, Legal basis, Guidelines and regulations</i> |

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| Executive management | www.snb.ch , <i>The SNB, Supervisory and executive bodies, Governing Board/Enlarged Governing Board</i> |
| Members | <i>Annual Report</i> , p. 205 |
| 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 the compensation of SNB supervisory and executive bodies (Compensation regulations) | 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> |
| Federal Personnel Act | www.admin.ch , <i>Bundesrecht, Systematische Rechtsammlung, 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. 188 |
| Code of Conduct | www.snb.ch , <i>The SNB, Legal basis, Guidelines and regulations</i> |
| Staff | |
| Charter | www.snb.ch , <i>The SNB, Legal basis, Guidelines and regulations</i> |
| 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. 132, 210–213; information for shareholders at www.snb.ch , <i>Shareholders, Ad hoc announcements – messaging service</i> |
| Corporate structure and shareholders | <i>Annual Report</i> , pp. 130 et seq., pp. 181–182 |
| Head offices | Art. 3 para. 1 NBA |
| Ticker symbol / ISIN | SNBN/CH0001319265 |
| Breakdown of capital | <i>Annual Report</i> , p. 181 |
| Accounting principles | <i>Annual Report</i> , p. 162 |

2 Resources

2.1 ORGANISATIONAL CHANGES

Organisation

The departments are primarily made up of divisions, but also include a number of organisational units that report directly to it. Divisions encompass large specialised areas that are covered by several organisational 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 Premises and Technical Services, which are all organisational units. Internal Audit reports administratively to Department I.

The Human Resources and Pension Benefits unit was reorganised in 2016. Under the new name of Human Resources (HR), it is now divided into HR Solutions, HR Executive Advice and Support, HR Services, and Pension Fund.

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.

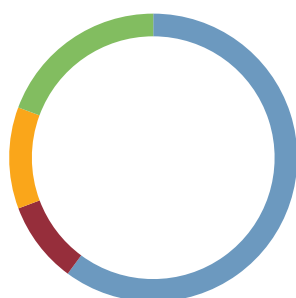
Following a reorganisation of the Banking Operations division, the Payment Operations, Back Office, and Customer and Data Management units have been consolidated into Back Office and Middle Office. The Banking Operations Analysis team was converted into an organisational unit. These changes became effective on 1 March 2017.

The organisational structure is presented on pp. 208–209.

In 2016, further advances were made in three multi-year strategic initiatives, namely resource and performance management, procurement, and project and project portfolio management. Thus the planning process based on resource and performance management was, for the first time, conducted in line with the SNB's core tasks pursuant to art. 5 NBA. In addition, the Enlarged Governing Board launched a new, multi-year HR strategy.

HUMAN RESOURCES

Number of employees



— Full-time, men **538**
— Part-time, men **82**
— Full-time, women **102**
— Part-time, women **173**

Total: 895
At year-end 2016

2.2 HUMAN RESOURCES

At the end of 2016, the SNB employed 895 people (including 20 apprentices), which was 11 (or 1.3%) more than in 2015. In terms of full-time equivalents, the number of employees rose by almost 1% to 795. Averaged over the year, the number of full-time equivalents was 792. Staff turnover increased to 6.3% (2015: 4.6%).

Number of staff

In June 2016, the SNB launched a new HR strategy to take account of labour market and social challenges affecting its workforce. The strategy is based on three guiding principles: being a learning organisation, achieving effective leadership and striking a balance between performance and motivation. It also gives pointers on how the SNB intends to deploy, lead and develop its staff in the future.

Mid-year also saw the entry into force and publication of a new Charter, which lays down the values of the SNB and provides guidance to staff in the fulfilment of their duties. It now also references sustainability issues drawn from the SNB's environmental strategy.

2.3 PREMISES

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

As part of this strategy, various buildings at both locations are currently undergoing renovation and alteration work.

The planning of the work in Berne commenced in 2011, and its execution at the beginning of 2015. In 2016, as part of the first stage, the main building at Bundesplatz 1 underwent demolition and structural work, and the roof was renovated. Progress was also made on the design and detailed planning of the building's technology and interior finishings. Work on the Bundesplatz 1 building is scheduled for completion in 2018. Renovation and alteration work on the Kaiserhaus building, which is currently in the planning stage, is due to finish in 2021.

In Zurich, planning for the renovation and alteration of the Fraumünsterstrasse 8 building began early in 2014. The tendering process was carried out in the first half of 2016. Following receipt of building approval in April, the premises were vacated, and construction commenced in August. Work is due to be completed at the end of 2018.

2.4 INFORMATION TECHNOLOGY

Information technology

The IT production systems and applications were stable in 2016.

The rise in the foreign exchange reserves affected the requirements of the portfolio management systems. In 2016, to support asset management, new front-end applications were introduced to enable a more efficient investment process.

Following a complete technical overhaul, April 2016 saw the successful operational rollout of the fourth generation of the SIC system (SIC4). The introduction of SIC4 set the stage for migrating from the existing SIC messaging standard to ISO 20022.

In 2015, the SNB merged a number of different communication channels – including telephony, video and chat – into a single, IT-based communications solution. The integration of the trading telephony system in 2016 brought the project to a close.

In the field of economic research, an integrated platform was launched to support the editing, review and publication process. The new research boards are particularly helpful in providing a good overview of ongoing research projects in the various organisational units.

Arrangements for protecting data and information systems against cyber-attacks were further strengthened in 2016. Besides the implementation of technical measures, internal IT security guidelines and processes, in particular, were revised.

2.5 ENVIRONMENT

According to its Charter, the SNB undertakes to be careful in its use of natural resources and to take account of ecological criteria in its operational procurement processes.

Environmental management

The environmental report, which is published in June of the following year, describes the foundations upon which the SNB's environmental management is based and explains its objectives in connection with climate change. It also provides information on the use of resources and on greenhouse gas emissions and lists measures aimed at improving its environmental performance. As stated in the previous environmental report, the SNB further reduced its paper and water consumption as well as its waste volume in 2015. Further efforts are necessary in the areas of transport, energy and electricity in order to improve the SNB's environmental performance. Through initiatives, staff are to be made aware of how to use resources in a more sustainable, environmentally friendly manner, and encouraged to put this knowledge into practice.

The data for the SNB's electricity and heating energy usage in 2016 are available. Electricity consumption per capita increased by 0.5%, while energy consumption for heating fell by around 11%.

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

Bank Council

At the General Meeting of Shareholders on 29 April 2016, Monika Bütler, Heinz Karrer, Daniel Lampart, Olivier Steimer and Cédric Tille were re-elected to the Bank Council for the 2016–2020 term of office.

Audit Board

On 29 April 2016, the General Meeting of Shareholders elected KPMG Ltd as the Audit Board for the 2016–2017 term of office, with Philipp Rickert as auditor in charge.

4.1 ANNUAL RESULT

The Swiss National Bank (SNB) reported a profit of CHF 24.5 billion for the year 2016 (2015: loss of CHF 23.3 billion).

Summary

The profit on foreign currency positions amounted to CHF 19.4 billion. A valuation gain of CHF 3.9 billion was recorded on gold holdings. The profit on Swiss franc positions was CHF 1.6 billion.

For the financial year just ended, the SNB has set the allocation to the provisions for currency reserves at CHF 4.6 billion. After taking into account the distribution reserve of CHF 1.9 billion, the net profit comes to CHF 21.7 billion. This will allow a dividend payment of CHF 15 per share, which corresponds to the legally stipulated maximum amount, as well as a profit distribution to the Confederation and the cantons of CHF 1 billion. The Confederation and the cantons are also entitled to a supplementary distribution of a maximum of CHF 1 billion if the distribution reserve after appropriation of profit exceeds CHF 20 billion. The net profit for 2016 allows a supplementary distribution of CHF 0.7 billion. One-third of the total distribution is allocated to the Confederation and two-thirds to the cantons. After these payments, the distribution reserve will amount to CHF 20 billion.

At CHF 37,885 per kilogram, the price of gold was 11% higher than at the end of 2015 (CHF 34,103). This gave rise to a valuation gain of CHF 3.9 billion on the unchanged holdings of 1,040 tonnes of gold (2015: loss of CHF 4.2 billion).

Valuation gain on gold holdings

The profit on foreign currency positions was CHF 19.4 billion (2015: loss of CHF 19.9 billion). Interest income amounted to CHF 8.3 billion and dividend income to CHF 3.0 billion. Price gains of CHF 1.1 billion were recorded on interest-bearing paper and instruments. Equity securities and instruments benefited from the favourable stock market environment and contributed CHF 8.6 billion to the net result. Overall, exchange rate-related losses amounted to CHF 1.7 billion.

Profit on foreign currency positions

The profit on Swiss franc positions, which amounted to CHF 1.6 billion (2015: CHF 1.2 billion), essentially comprised CHF 1.5 billion arising from the negative interest on sight deposit account balances which has been charged for the first full calendar year since its introduction on 22 January 2015.

Profit on Swiss franc positions

Operating expenses

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

Operating expenses increased by CHF 3.0 million to CHF 404.2 million.

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. In view of the considerable volatility in its results, the SNB does not exclude the possibility that, in some years, profit distributions will only be able to be carried out on a reduced scale or will have to be suspended completely.

4.2 PROVISIONS FOR CURRENCY RESERVES

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.

Purpose

When setting aside provisions for currency reserves, the SNB must take into account the development of the Swiss economy (art. 30 para. 1 NBA).

Level of provisions

In its annual review, the SNB decided to amend the rule governing the allocation to the provisions for currency reserves, given the high market risks present in its balance sheet. This amendment will be applied for the first time in the 2016 financial year. The percentage increase in provisions will continue to be calculated on the basis of double the average nominal GDP growth rate for the previous five years. However, a minimum annual allocation of 8% of the provisions at the end of the previous year will now also apply. This is aimed at ensuring that sufficient allocations are made to the provisions and the balance sheet is further strengthened even in periods of low nominal GDP growth.

**Allocation from 2016
annual result**

Since nominal GDP growth over the last five years has averaged just 1.9%, the minimum rate of 8% will be applied for the 2016 financial year. This corresponds to an allocation of CHF 4.6 billion (2015: CHF 1.4 billion). As a result, the provisions for currency reserves will grow from CHF 58.1 billion to CHF 62.8 billion.

Multi-year comparison
of provisions

PROVISIONS

| | Growth in nominal GDP In percent (average period) ¹ | Annual allocation In CHF millions | Provisions after allocation In CHF millions |
|-------------------|-------------------------------------------------------------------|--------------------------------------|---------------------------------------------------|
| 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 | 1.8 (2008–2012) | 1 972.3 | 56 759.3 |
| 2015 ² | 1,2 (2009–2013) | 1 362.2 | 58 121.5 |
| 2016 ³ | 1.9 (2010–2014) | 4 649.7 | 62 771.2 |

1 The average nominal GDP growth rate is based on the last five years for which definite values are available. 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.

3 Minimum allocation of 8% of the provisions at the end of the previous year.

Distributable annual result
and net profit

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 2016, the distributable annual result amounts to CHF 19.8 billion. The net profit is CHF 21.7 billion.

4.3 DIVIDEND AND PROFIT DISTRIBUTION

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.

Dividends

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.

Profit distribution to Confederation and cantons

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.

Distribution agreement

In November 2016, the FDF and the SNB signed a new agreement on the distribution of the SNB's profits for 2016 to 2020. As in the past, the annual distribution amounts to CHF 1 billion and will be made only if it does not render the distribution reserve negative. In future, however, omitted or reduced distributions will be compensated for in subsequent years if the distribution reserve allows this. Furthermore, the distribution amount will be raised to a maximum of CHF 2 billion if the distribution reserve exceeds CHF 20 billion.

For 2016, after the allocation to the provisions for currency reserves, the SNB is distributing CHF 1.7 billion to the Confederation and the cantons.

Distribution for 2016

Distribution reserve

Following last year's profit appropriation, the distribution reserve showed a value of CHF 1.9 billion. After offsetting against the annual result and the profit appropriation for 2016, the distribution reserve will amount to CHF 20.0 billion.

PROFIT DISTRIBUTION AND DISTRIBUTION RESERVE

In CHF millions

| | 2012 | 2013 | 2014 | 2015 | 2016 ² |
|--------------------------------------------------------------------|----------------|------------------|-----------------|------------------|-------------------|
| Annual result | 5 956.1 | -9 076.6 | 38 312.9 | -23 250.6 | 24 476.4 |
| - Allocation to provisions for currency reserves | -3 568.0 | -3 003.4 | -1 972.3 | -1 362.2 | -4 649.7 |
| = Distributable annual result | 2 388.1 | -12 080.0 | 36 340.6 | -24 612.8 | 19 826.7 |
| + Distribution reserve before appropriation of profit ¹ | 3 873.2 | 5 259.8 | -6 820.2 | 27 518.8 | 1 904.5 |
| = Net profit/net loss | 6 261.3 | -6 820.2 | 29 520.3 | 2 906.0 | 21 731.2 |
| - Payment of a dividend of 6% | -1.5 | - | -1.5 | -1.5 | -1.5 |
| - Profit distribution to Confederation and cantons | -1 000.0 | - | -2 000.0 | -1 000.0 | -1 729.7 |
| = Distribution reserve after appropriation of profit | 5 259.8 | -6 820.2 | 27 518.8 | 1 904.5 | 20 000.0 |

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 last five years.

Year-end values in CHF millions

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|--------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Gold holdings | 50 768 | 35 562 | 39 630 | 35 467 | 39 400 |
| Claims from gold transactions | 4 | 3 | – | – | – |
| Foreign currency investments | 432 209 | 443 275 | 510 062 | 593 234 | 696 104 |
| Reserve position in the IMF | 2 804 | 2 295 | 2 037 | 1 608 | 1 341 |
| International payment instruments | 4 249 | 4 294 | 4 414 | 4 707 | 4 406 |
| Monetary assistance loans | 279 | 244 | 213 | 170 | 155 |
| Claims from Swiss franc repo transactions | – | – | – | – | – |
| Swiss franc securities | 3 757 | 3 690 | 3 978 | 3 972 | 3 998 |
| Loan to stabilisation fund | 4 378 | – | – | – | – |
| Banknote stocks | 126 | 157 | – | – | – |
| Tangible assets | 452 | 433 | 417 | 397 | 375 |
| Participations | 142 | 134 | 134 | 136 | 137 |
| Other assets | 267 | 295 | 316 | 461 | 585 |
| Total assets | 499 434 | 490 382 | 561 202 | 640 152 | 746 502 |
| Banknotes in circulation | 61 801 | 65 766 | 67 596 | 72 882 | 78 084 |
| Sight deposits of domestic banks | 281 814 | 317 132 | 328 006 | 402 317 | 468 199 |
| Liabilities towards the Confederation | 9 008 | 10 482 | 9 046 | 10 931 | 7 230 |
| Sight deposits of foreign banks and institutions | 11 958 | 11 523 | 17 487 | 25 621 | 24 585 |
| Other sight liabilities | 66 951 | 24 774 | 33 127 | 30 166 | 30 036 |
| Liabilities from Swiss franc repo transactions | – | – | – | – | – |
| SNB debt certificates | – | – | – | – | – |
| Foreign currency liabilities | 5 019 | 8 074 | 14 753 | 32 521 | 49 096 |
| Counterpart of SDRs allocated by the IMF | 4 613 | 4 511 | 4 727 | 4 548 | 4 493 |
| Other liabilities | 193 | 98 | 155 | 114 | 252 |
| Operating provisions | 5 | 31 | – | – | – |
| Equity | | | | | |
| Provisions for currency reserves ¹ | 48 216 | 51 784 | 54 787 | 56 759 | 58 122 |
| Share capital | 25 | 25 | 25 | 25 | 25 |
| Distribution reserve ¹ | 3 873 | 5 260 | –6 820 | 27 519 | 1 905 |
| Annual result | 5 956 | –9 077 | 38 313 | –23 251 | 24 476 |
| Total equity | 58 070 | 47 992 | 86 305 | 61 053 | 84 527 |
| Total liabilities | 499 434 | 490 382 | 561 202 | 640 152 | 746 502 |

¹ Before appropriation of profit, cf. p. 160.