

Ladies and Gentlemen

It is our pleasure to present the *109th Annual Report*. The first part of the report comprises the accountability report to the Federal Assembly, and provides information about how the Swiss National Bank (SNB) has fulfilled its mandate pursuant to art. 5 of the National Bank Act. The second part comprises the financial report, which provides information on organisational and operational developments as well as the financial result of the SNB. It is submitted for approval, first to the Federal Council and then to the General Meeting of Shareholders.

The moderate recovery in the global economy continued in 2016. Economic growth in Switzerland picked up again after weakening in the previous year due to the sharp appreciation of the Swiss franc at the beginning of the year. Although aggregate economic capacity remained underutilised, the situation on the labour market stabilised.

The satisfactory developments overall contrasted with a number of risks and uncertainties at an international level, including the UK's decision to leave the EU. Against this background, the Swiss franc remained a sought-after currency and thus highly valued. Furthermore, many sectors experienced accelerated structural transformation. In response to these challenges, Swiss employers and employees once again demonstrated their strong ability to meet new developments with flexibility and innovation.

The SNB maintained its expansionary monetary policy in 2016, which is aimed at stabilising price developments, thereby supporting economic recovery. In order to implement this monetary policy, it continued to charge negative interest on sight deposits held by banks and other financial market participants at the SNB. Moreover, it was willing to intervene in the foreign exchange market as necessary. These measures enabled the SNB to ease upward pressure on the Swiss franc.

Consumer prices again fell slightly compared with the previous year. Nevertheless, pressure on prices abated considerably, reflecting the stabilisation of the nominal Swiss franc exchange rate and rising oil prices. It also became evident that the price-dampening effects of the Swiss franc appreciation at the beginning of 2015 had dissipated.

In April 2016, following several years of intensive preparation, the SNB issued the first denomination in the new banknote series, the 50-franc note. The new banknote was well received by the public and experts alike and has since proved its worth. The next denomination, the 20-franc note, will be released in mid-May 2017.

Another important project was the renewal of the profit distribution agreement between the Federal Department of Finance (FDF) and the SNB, which defines the amount of the annual profit distribution to the Confederation and the cantons. In November 2016, the FDF and the SNB signed an agreement covering the financial years 2016 to 2020. As in the past, the annual distribution is set at CHF 1 billion, provided the balance of the distribution reserve is positive. 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.

At a financial level, ensuring a healthy capital base remains a key concern. Extensive foreign currency purchases in recent years have led to strong growth in the currency reserves and thus in the SNB's balance sheet, resulting in higher loss exposure. The SNB's equity capital is intended to absorb potential losses. It is essentially composed of the provisions for currency reserves and the distribution reserve. In 2016, the SNB amended the rule governing the allocation to the provisions. The annual allocation will continue to be determined on the basis of double the average nominal economic growth rate over the previous five years. However, a minimum allocation of 8% of the level of provisions at the end of the previous year will now also apply. This ensures that sufficient reserves can be built up even in periods of low nominal growth.

The SNB's 2016 annual financial statements closed with a profit of CHF 24.5 billion, following a loss of CHF 23.3 billion in the previous year. This positive result was primarily attributable to gains of CHF 19.4 billion on foreign currency positions and CHF 3.9 billion on gold holdings.

The allocation to the provisions for currency reserves corresponds to the minimum amount of 8%. After taking into account the distribution reserve of CHF 1.9 billion, the net profit comes to CHF 21.7 billion. This will permit a dividend payment of CHF 15 per share, the legally stipulated maximum amount, as well as a profit distribution of CHF 1.7 billion to the Confederation and the cantons. The distribution reserve after appropriation of profit is CHF 20.0 billion.

We wish to thank our employees for all their hard work and valuable support over the past year.

Berne and Zurich, 3 March 2017



JEAN STUDER
President of the Bank Council



THOMAS J. JORDAN
Chairman of the Governing Board