

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 of the 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 must 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 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 2018) issued by the SNB Governing Board.

Finally, the NBA lays down the foundations of the SNB’s organisational structure (arts. 2, 33–48).

The ordinance against excessive remuneration at listed companies limited by shares does not apply to the SNB, since the SNB is not a company limited by shares 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 2017, they held around 51% of shares. The Confederation is not a shareholder. The remaining shares are mainly owned by private individuals.

The major shareholders were the Canton of Berne with 6.63% (6,630 shares), Theo Siegert (Düsseldorf) with 6.07% (6,070 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 2017, 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. As at 31 December 2017, a member of the Enlarged Governing Board and a party related to a member of the Governing Board held one share each (cf. table 'Remuneration for members of executive management (including employer social security contributions)', p. 196).

Shareholder rights Shareholder rights are governed by the NBA, with the provisions of company law being complementary 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 may not exceed 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 for its approval. 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. 150).

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.

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

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, Lucerne, Lugano 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. At the beginning of 2018, the regions were reorganised. The Geneva region was expanded to include the cantons of Neuchâtel and Jura, while the canton of Fribourg was added to the Vaud-Valais region. Finally, the cantons of Berne and Solothurn became part of the Mittelland region.

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. 212–213.

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 the 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 2017, 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 2016 submitted to the Federal Assembly and approved the financial report for 2016 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, the annual report of the Compliance unit, and the 2016 annual report of the pension fund, prepared the 2017 General Meeting of Shareholders and approved the 2016 budget statement and the 2018 budget.

In addition, the Bank Council elected new members to the Regional Economic Councils of Central Switzerland and Vaud-Valais, and determined the membership of the Bank Council committees for the 2017–2018 term of office.

The Bank Council also received a detailed report on the activities of the Board of Deputies.

In addition, the Bank Council took note of the latest status report on the renovation of the SNB premises at Bundesplatz 1 in Berne. Moreover, it approved the creation of a visitor centre at the Berne head office and granted the associated budget allocation.

Furthermore, the Bank Council discussed the investment policy and took note of the cybersecurity strategy and IT strategy for 2017.

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, 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 risk management 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 to the Bank Council for the 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.

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

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 appropriation 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 has been the Audit Board since 2015 and was reappointed by the General Meeting of Shareholders for 2017. Philipp Rickert has been the auditor in charge since 2015. The role of auditor in charge is rotated at least every seven years in compliance with the regulations on terms of office stipulated in the Swiss Code of Obligations. Auditing fees for the 2017 financial year amounted to CHF 0.3 million (2016: CHF 0.3 million). KPMG did not provide any additional consulting services in 2017, as in the previous year.

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 2017 are listed in the tables on pp. 195–196.

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. 195.

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 (heads of department and line managers), 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 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 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 line managers.

Operational risk, which includes cyber and information security, business continuity management and operational security, 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 line managers.

Compliance risk is monitored by the Compliance unit, the Operational Risk and Security unit and the Board of Deputies. 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 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

	Specifications	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	Board of Deputies, 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:

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. 212
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. 212
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. 146 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. 195
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. 213
Affiliations	www.snb.ch , <i>The SNB, Supervisory and executive bodies, Bank Council</i>
Election and term of office	Art. 43 NBA
Internal organisation	Art. 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 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. 196
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. 140, 218 et seq. as well as information for shareholders at www.snb.ch , <i>Shareholders, Ad hoc announcements – messaging service</i>
Corporate structure and shareholders	<i>Annual Report</i> , pp. 138 et seq., pp. 189–190
Head offices	Art. 3 Abs. 1 NBA
Ticker symbol/ISIN	SNBN/CH0001319265
Breakdown of capital	<i>Annual Report</i> , p. 189
Accounting principles	<i>Annual Report</i> , p. 170

2 Resources

2.1 ORGANISATIONAL CHANGES

Organisation

The departments are made up of divisions and a number of organisational units that report directly to them. Divisions encompass large specialised areas that are covered by several organisational units; they are led by division heads, who report to the department management.

The divisions making up Department I are the Secretariat General, Economic Affairs, International Monetary Cooperation, and Statistics. It also includes the Legal Services, Compliance, Human Resources, and Premises and Technical Services units, which report directly to the department management. Internal Audit reports administratively to Department I.

In addition to the Financial Stability and Cash divisions, Department II includes the Central Accounting, Controlling, Risk Management, and Operational Risk and Security units, which report directly to the department management.

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 branch office, which report directly to the department management.

The Asset Management division was reorganised; whereas previously it was made up of the Global Rates and Global Corporates units and the Investment Strategy team, it now comprises the Portfolio Management and Portfolio Trading units and the Investment Strategy and Quantitative Analysis team.

The organisational structure is presented on pp. 216–217.

In 2017, further advances were made in three multi-year strategic initiatives, namely resource and performance management, procurement, and project and project portfolio management. The focus was on the further development of transparency and a holistic view. In procurement, the emphasis was on consolidating newly introduced procurement tools.

HUMAN RESOURCES

Number of employees



Full-time, men **519**
Part-time, men **97**
Full-time, women **97**
Part-time, women **189**

Total: 902
At year-end 2017

2.2 HUMAN RESOURCES

At the end of 2017,¹ the SNB employed 902 people, an increase of 33 (or 3.8%) on the previous year. In terms of full-time equivalents, the number of employees rose by 3.3% to 826.4. The SNB also employed 20 apprentices. Averaged over the year, the number of full-time equivalents was 811. Staff turnover was 6.0% (2016: 6.3%).

Number of staff

The increase in staff numbers falls within the parameters laid down in the medium-term resource and performance plan approved by the Bank Council. Staff numbers rose in the area concerned with the bank's core tasks, and in IT, in particular.

As part of the new HR strategy, in 2017 special focus was placed on assessing and further developing management tools. In this context, the management principles of the SNB were revised to further strengthen management awareness and responsibility.

Implementation of HR 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.

Planning for the renovations and alterations at the SNB premises in Berne commenced in 2011; work began in early 2015. In 2017, the majority of the structural work on the Bundesplatz 1 site was concluded, and the upper floors were largely completed. Staff are due to move back into the building in October 2018. As part of the renovation and alteration work on the Kaiserhaus premises, a new design concept was developed for the ground-floor arcade (Kaiserhauspassage). A preliminary project was launched in July 2017, work began at the end of the year, and project completion is scheduled for end-2021.

Construction projects in Berne

¹ From 2017 onwards, employees seconded to international organisations abroad (e.g. IMF and OECD) are included in the number of staff. Furthermore, apprentice positions are now listed separately.

Construction projects
in Zurich

In Zurich, planning for the renovation and alteration work on the Fraumünsterstrasse 8 building began in early 2014, and construction commenced in August 2016. In 2017, mostly demolition and structural work was carried out. From the third quarter onwards, work began on the building services installations. Staff are due to move back into the building in 2019.

2.4 INFORMATION TECHNOLOGY

IT operations

IT production systems and applications were reliable and stable in 2017.

IT projects

The IT division developed a new strategy in 2017. Following approval by the relevant committees within the bank, implementation work began.

Advances were made in the automation of business transactions, and in the consolidation of electronic data.

An archiving solution for digital documents went into operation, thereby enabling the SNB to fulfil its duties according to the Archiving Act.

The technical and organisational precautions to protect data and IT systems against cyber attacks – especially in connection with SIC and SWIFT – were further reinforced.

An external agency carried out an in-depth assessment of the IT division and its services; the assessment results were positive.

2.5 ENVIRONMENT

According to its Charter, the SNB undertakes to be careful in its use of natural resources and to take account of economic, ecological and social criteria in its operational procurement processes. The Environmental unit, within whose domain this work falls, celebrated its 20th anniversary in 2017.

Environmental management

The SNB has published an annual environmental report since 2009. This will be replaced by a sustainability report on the operating divisions, to be published for the first time in summer 2018.

Environmental report

According to its 2016 environmental report (published in August 2017), the SNB achieved further reductions in its heating and paper consumption as well as its waste volume. In the areas of transport, electricity and water, there remains potential for mitigating environmental impact.

Data for the SNB's electricity and heating energy usage are available for 2017. Electricity consumption and energy consumption for heating each decreased by 5% per capita.

Consumption of electricity and heating

As a contribution to climate protection, the SNB uses exclusively 'green electricity'. It continually invests in energy-conscious renovations of SNB premises which it uses for its own operations, and increasingly substitutes its usage of fossil fuels with biogas, and, in its Zurich buildings, with lake water for heating and cooling. 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

Audit Board

On 28 April 2017, the General Meeting of Shareholders elected KPMG Ltd as the Audit Board for the 2017–2018 term of office, with Philipp Rickert as auditor in charge.

Bank management

The Bank Council appointed Nicolas Cuche-Curti, Head of Inflation Forecasting, to the position of Director with effect from 1 January 2018.

4

Business performance

4.1 ANNUAL RESULT

The Swiss National Bank (SNB) reported a profit of CHF 54.4 billion for the year 2017 (2016: CHF 24.5 billion).

Summary

The profit on foreign currency positions amounted to CHF 49.7 billion. A valuation gain of CHF 3.1 billion was recorded on gold holdings. The profit on Swiss franc positions was CHF 2.0 billion.

For the financial year just ended, the SNB has set the allocation to the provisions for currency reserves at CHF 5.0 billion. After taking into account the distribution reserve of CHF 20.0 billion, the net profit comes to CHF 69.3 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 CHF 1 billion as the distribution reserve after appropriation of profit exceeds CHF 20 billion. Of the total amount to be distributed (CHF 2 billion), one-third goes to the Confederation and two-thirds to the cantons. After these payments, the distribution reserve will amount to CHF 67.3 billion.

At CHF 40,859 per kilogram, the price of gold was 8% higher than at the end of 2016 (CHF 37,885). This gave rise to a valuation gain of CHF 3.1 billion on the unchanged holdings of 1,040 tonnes of gold (2016: CHF 3.9 billion).

Valuation gain on gold holdings

The profit on foreign currency positions was CHF 49.7 billion (2016: CHF 19.4 billion). Of this, interest income amounted to CHF 9.3 billion and dividend income to CHF 3.2 billion. Movements in bond prices differed from those in share prices. Price losses of CHF 5.5 billion were recorded on interest-bearing paper and instruments. By contrast, equity securities and instruments benefited from the favourable stock market environment and contributed CHF 21.5 billion to the net result. Overall, exchange rate-related gains amounted to CHF 21.0 billion.

Profit on foreign currency positions

The profit on Swiss franc positions, which stood at CHF 2.0 billion (2016: CHF 1.6 billion), largely resulted from negative interest charged on sight deposit account balances.

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 10.1 million to CH 414.3 million.

Outlook

The SNB's financial result depends largely on developments in the gold, foreign exchange and capital markets. Consequently, very strong fluctuations in 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 principle, given the high market risks present in the SNB balance sheet, the percentage increase in provisions is calculated on the basis of double the average nominal GDP growth rate for the previous five years. In addition, a minimum annual allocation of 8% of the provisions at the end of the previous year has applied since 2016. 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 2017
annual result**

Since nominal GDP growth over the last five years has averaged just 1.4%, the minimum rate of 8% will be applied for the 2017 financial year. This corresponds to an allocation of CHF 5.0 billion (2016: CHF 4.6 billion). As a result, the provisions for currency reserves will grow from CHF 62.8 billion to CHF 67.8 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
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
2017 ³	1,4 (2011–2015)	5 021.7	67 792.9

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 a net profit is achieved, this is used for distributions.

For 2017, the distributable annual result amounts to CHF 49.3 billion. The net profit is CHF 69.3 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.

Dividend

In accordance with art. 31 para. 2 NBA, should the SNB's net profit exceed the dividend, one-third will be 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

The current agreement covers the profit distributions for the financial years 2016–2020. The annual distribution amounts to CHF 1 billion and will only be made if it does not render the distribution reserve negative. Omitted or reduced profit distributions will be made up in subsequent years, if the distribution reserve allows it. Furthermore, the distribution amount will be raised to a maximum of CHF 2 billion if the distribution reserve exceeds CHF 20 billion.

For 2017, after the allocation to the provisions for currency reserves, the SNB is distributing CHF 2.0 billion to the Confederation and the cantons.

Distribution for 2017

Distribution reserve

Following last year's profit appropriation, the distribution reserve showed a value of CHF 20.0 billion. After offsetting against the annual result and the profit appropriation for 2017, the distribution reserve will amount to CHF 67.3 billion.

PROFIT DISTRIBUTION AND DISTRIBUTION RESERVE

In CHF millions

	2013	2014	2015	2016	2017 ²
Annual result	-9 076.6	38 312.9	-23 250.6	24 476.4	54 371.6
- Allocation to provisions for currency reserves	-3 003.4	-1 972.3	-1 362.2	-4 649.7	-5 021.7
= Distributable annual result	-12 080.0	36 340.6	-24 612.8	19 826.7	49 349.9
+ Distribution reserve before appropriation of profit ¹	5 259.8	-6 820.2	27 518.8	1 904.5	20 000.0
= Net profit/loss	-6 820.2	29 520.3	2 906.0	21 731.2	69 349.9
- Payment of a dividend of 6%	-	-1.5	-1.5	-1.5	-1.5
- Profit distribution to Confederation and cantons	-	-2 000.0	-1 000.0	-1 729.7	-2 000.0
= Distribution reserve after appropriation of profit	-6 820.2	27 518.8	1 904.5	20 000.0	67 348.4

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 balance sheet positions over the last five years.

Year-end values in CHF millions

	2013	2014	2015	2016	2017
Gold holdings	35 562	39 630	35 467	39 400	42 494
Claims from gold transactions	3	–	–	–	–
Foreign currency investments	443 275	510 062	593 234	696 104	790 125
Reserve position in the IMF	2 295	2 037	1 608	1 341	871
International payment instruments	4 294	4 414	4 707	4 406	4 496
Monetary assistance loans	244	213	170	155	210
Claims from Swiss franc repo transactions	–	–	–	–	–
Swiss franc securities	3 690	3 978	3 972	3 998	3 956
Banknote stocks	157	–	–	–	–
Tangible assets	433	417	397	375	396
Participations	134	134	136	137	157
Other assets	295	316	461	585	601
Total assets	490 382	561 202	640 152	746 502	843 306
Banknotes in circulation	65 766	67 596	72 882	78 084	81 639
Sight deposits of domestic banks	317 132	328 006	402 317	468 199	470 439
Liabilities towards the Confederation	10 482	9 046	10 931	7 230	14 755
Sight deposits of foreign banks and institutions	11 523	17 487	25 621	24 585	54 086
Other sight liabilities	24 774	33 127	30 166	30 036	34 399
Liabilities from Swiss franc repo transactions	–	–	–	–	–
SNB debt certificates	–	–	–	–	–
Foreign currency liabilities	8 074	14 753	32 521	49 096	45 934
Counterpart of SDRs allocated by the IMF	4 511	4 727	4 548	4 493	4 573
Other liabilities	98	155	114	252	315
Operating provisions	31	–	–	–	–
Equity					
Provisions for currency reserves ¹	51 784	54 787	56 759	58 122	62 771
Share capital	25	25	25	25	25
Distribution reserve ¹	5 260	–6 820	27 519	1 905	20 000
Annual result	–9 077	38 313	–23 251	24 476	54 372
Total equity	47 992	86 305	61 053	84 527	137 168
Total liabilities	490 382	561 202	640 152	746 502	843 306

¹ Before appropriation of profit, cf. p. 168.