

Business report

The business report provides information on the organisational and operational development as well as the financial result of the Swiss National Bank. Since the SNB is a listed company, the report also contains information on corporate governance in accordance with the SIX Swiss Exchange Ltd corporate governance directive.

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.

1

Corporate governance

1.1 BACKGROUND

The Swiss National Bank 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 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

In 2018, the cantons and cantonal banks reduced their shareholdings by a total of 988 shares; at the end of 2018, they held 49.6% of the share capital, compared to 50.6% one year earlier. The remaining registered shares, making up 26.3% of the share capital, are mainly owned by private individuals. The proportion of shares not entered in the share register (shares pending registration of transfer) rose from 21.6% to 24.1% year-on-year.

At the end of 2018, 25 cantons (2017: 26) and 21 cantonal banks (2017: 21) held 77.4% of the voting shares (2017: 75.8%), while private shareholders accounted for 22.0% of voting rights (2017: 23.6%). The Confederation is not a shareholder.

The major shareholders were the Canton of Berne with 6.63% (6,630 shares), Theo Siegert (Düsseldorf) with 5.24% (5,240 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 2018, 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 2018, 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. 194).

Shareholder rights	<p>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.</p> <p>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. 146).</p>
Information for shareholders	<p>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.</p>
Independent proxy	<p>The SNB allows its shareholders to grant their power of attorney and send instructions to the independent proxy, either in writing or electronically.</p>

1.3 ORGANISATIONAL STRUCTURE

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.

Departments

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. In addition to the head offices in Berne and Zurich, the SNB therefore 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. The Regional Economic Councils also regularly exchange 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 External Auditor. The composition of these bodies is described on pp. 211–212.

The General Meeting of Shareholders elects five of the Bank Council's eleven members (via separate ballot per member) and appoints the External Auditor. 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 2018, the Bank Council held six 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 2017 submitted to the Federal Assembly and approved the financial report for 2017 for submission to the Federal Council and the General Meeting of Shareholders. It discussed reports submitted by the External Auditor 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 2017 annual report of the pension fund, prepared the 2018 General Meeting of Shareholders and approved the 2017 budget statement and the 2019 budget.

The Bank Council submitted a proposal to the Federal Council on the appointment of a new alternate member of the Governing Board.

Moreover, it elected new members to the Regional Economic Councils of Eastern Switzerland, Italian-speaking Switzerland and Zurich, and determined the membership of the Bank Council committees for the 2018–2019 term of office.

The Bank Council revised the ‘Regulations on the office-holder relationship and employment relationship of members of the Governing Board of the Swiss National Bank and their deputies’ (Regulations on the Governing Board), as well as the SNB’s General Terms of Employment.

In addition, the Bank Council conducted discussions on investment policy and was briefed on the implementation of the cybersecurity strategy. It also reviewed the tasks and activities of the SNB’s Singapore branch office, which was opened in 2013.

Furthermore, it took note of the latest progress report on the renovation of the SNB’s main building in Berne. It also approved an extension to the scope of the renovation and alteration work on the Kaiserhaus building in Berne, and granted the associated budget allocation.

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 External Auditor 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 four meetings, all of which were attended by the External Auditor. The Risk Committee, the Compensation Committee and the Nomination Committee each met twice.
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 these strategic guidelines. It ensures coordination in all operational matters of interdepartmental importance.</p>
External Auditor	<p>The External Auditor 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.</p> <p>KPMG Ltd has been the External Auditor since 2015 and was reappointed by the General Meeting of Shareholders for 2018–2019. 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 2018 financial year amounted to CHF 0.3 million (2017: CHF 0.3 million). Once again, KPMG provided no consulting services in 2018.</p>
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 and compensation remitted in 2018 are listed in the tables on pp. 193–194.

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.

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.

Information on the remuneration for members of the Regional Economic Councils can be found on p. 193.

The SNB does not make severance payments to departing members of the Bank Council. In accordance with the SNB's Regulations on the Governing Board, members of the Governing Board and their deputies are understood to be employed for a further six months after their term of office has come to an end, although they will be released from their duties during these six months ('cooling-off period'). The continuation of salary payments during this period of release from duties compensates them for any restrictions imposed on them after the end of their term of office. If a member of the Enlarged Governing Board is not reappointed or is removed from office, the Bank Council may grant a severance payment amounting to a maximum of one year's salary. The same applies in the case of retirement or termination of employment of a member of the Enlarged Governing Board in the interest of the bank.

Remuneration

Bank Council

Executive management

Regional Economic Councils

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 pursuant to art. 728a CO.</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 and support line managers 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 identify and 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

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 Accounting unit.

ICS for financial reporting

The Internal Audit unit conducts spot checks to ascertain whether the corresponding key controls with regard to proper accounting and financial reporting 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. They are taken into consideration by the External Auditor in connection with the requisite confirmation in accordance with art. 728a para. 1 (3) CO.

1.7 RISK MANAGEMENT

Risks	<p>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, insufficient oversight, technical failure and the impact of various external events.</p>
Risk assessment	<p>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.</p>
Risk strategy	<p>The Governing Board issues the ‘Investment Policy Guidelines of the Swiss National Bank (SNB)’ and annually determines the strategy for the investment of assets. In so doing, it determines the framework for the financial risks associated with investments.</p> <p>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.</p>
Organisation with regard to financial risk	<p>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 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.</p>
Organisation with regard to operational risk	<p>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.</p>

Operational risk, which involves 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 it is submitted to the Bank Council. The Risk Committee and the Audit Committee are jointly responsible for monitoring operational risk arising from the SNB's investment activities.

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.

Organisation with regard to compliance risk

Compliance risk is monitored by the Compliance unit and the Operational Risk and Security unit. The Compliance unit creates and regularly updates an inventory of key compliance risks. It supports and advises the department heads, line managers and staff with regard to the handling of compliance risks. It carries out spot checks to monitor adherence to, and the appropriateness of, regulations and rules of conduct. In addition, it makes sure that reporting of compliance risks arising from the disregard for regulations or rules of conduct is both timely and appropriate to hierarchical levels. In connection with its responsibilities, the Compliance unit may approach the Chairperson of the Audit Committee or the President of the Bank Council at any time, should this prove necessary. The Compliance unit submits a report on its activities annually to SNB management, the Audit Committee and the Bank Council.

The following table summarises the organisation of risk management.

ORGANISATION OF RISK MANAGEMENT

	Specifications	Risk management (first level)	Independent oversight (second level)	Supervisory bodies of the Bank Council
Financial risk	Governing Board	Line management	Risk Management unit	Risk Committee
Operational risk	Enlarged Governing Board, Board of Deputies	Line management	Operational Risk and Security unit	Audit Committee, Risk Committee
Compliance risk	Bank Council and Enlarged Governing Board, Board of Deputies	Line management	Compliance unit, Operational Risk and Security unit	Audit Committee

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, Deadlines and participation</i>
Listing in share register	www.snb.ch , <i>Shareholders, General Meeting of Shareholders, Deadlines and 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. 211
Nationality	Art. 40 NBA
Affiliations	www.snb.ch , <i>The SNB, Supervisory and executive bodies, Bank Council, Members of the Bank Council</i>
Election and term of office	Art. 39 NBA
Initial and current election	<i>Annual Report</i> , p. 211
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	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>
Delimitation of powers	Art. 42 NBA; arts. 10 et seq. Organisation regulations
Internal control system	<i>Annual Report</i> , pp. 142–143; 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. 193
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. 212
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 office-holder relationship and 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. 194
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>
Private financial investments and financial transactions	www.snb.ch , <i>The SNB, Legal basis, Guidelines and regulations</i>
Principles governing procurement	www.snb.ch , <i>The SNB, Legal basis, Guidelines and regulations</i>
External auditor	
Election and requirements	Art. 47 NBA
Tasks	Art. 48 NBA

Information policy	<i>Annual Report</i> , pp. 136, 216 et seq. as well as information for shareholders at www.snb.ch , <i>Shareholders</i> , <i>Ad hoc announcements – messaging service</i>
Corporate structure and shareholders	<i>Annual Report</i> , p. 134 et seq., pp. 187–188
Head offices	Art. 3 para. 1 NBA
Ticker symbol/ISIN	SNBN/CH0001319265
Breakdown of capital	<i>Annual Report</i> , p. 187
Accounting principles	<i>Annual Report</i> , p. 168

2 Resources

2.1 ORGANISATIONAL CHANGES

The departments are made up of divisions and 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 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 organisational structure is presented on pp. 214–215.

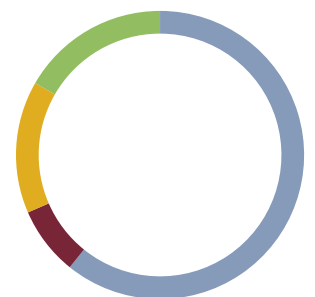
The three multi-year strategic initiatives focusing on resource and performance management, procurement, and project and portfolio management are sufficiently well advanced that the various procedures can now be rolled out in day-to-day business. An annual review process will ensure systematic and ongoing development of the implemented solutions.

In March 2019, the SNB issued its first *Sustainability Report* (covering the 2018 financial year). This report, which is published online only and consists of three chapters, explains how the SNB translates the principle of operational sustainability into reality in its interactions with employees, society and the environment. It replaces the annual environmental report published since 2010.

Organisation

HUMAN RESOURCES

Number of employees



Full-time, men	561
Part-time, men	71
Full-time, women	137
Part-time, women	154

Total: 923
At year-end 2018

Revision of Terms of Business

In 2018, the SNB revised the Terms of Business governing the legal transactions it concludes on the basis of art. 9 et seq. of the National Bank Act. The SNB now reserves the right to temporarily suspend execution of payment orders if there are reasonable grounds to suspect fraud. Moreover, any loss or damage resulting from the delayed execution or non-execution of orders is borne by the account holder provided the SNB has taken all reasonable precautions under the circumstances.

2.2 HUMAN RESOURCES

Number of staff

At the end of 2018, the SNB employed 923 people, an increase of 21 or 2.3% on the previous year. In terms of full-time equivalents, the number of employees rose by 2.7% to 848.7. The SNB also employed 21 apprentices. Averaged over the year, the number of full-time equivalents was 837.4. The overall staff turnover rate, which includes retirements in particular, was up slightly at 6.5%.

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 areas concerned with the SNB's core tasks and in IT.

More information and key figures on human resources and the SNB as an employer can be found in the 'Employees' chapter of the *Sustainability Report* for 2018.

2.3 PREMISES

Construction projects in Berne

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.

Renovation and alteration work on the SNB premises in Berne began in early 2015. Staff were able to move into the offices on the upper floors of the main building at Bundesplatz in December 2018. The SNB's counters on the ground floor will re-open in the second half of 2019.

Initial deconstruction work, as well as ongoing project planning, was carried out on the Kaiserhaus (Marktgasse) site in 2018. The renovation and alteration work is scheduled for completion at the end of 2022.

Construction relating to the renovation and alteration of the SNB's premises on Fraumünsterstrasse in Zurich began in August 2016. The structural work was completed in 2018 and building services installation and finishing work continues. Staff are due to move back into the building in 2019.

Construction projects
in Zurich

As regards the Metropal property at the corner of Börsenstrasse/ Fraumünsterstrasse, certain sections of the building's envelope are in need of renovation. In April 2018, the SNB commissioned a feasibility study to investigate improving the relevant facades and roofs; this study will provide the basis for further planning. The work is scheduled to take place in three phases between 2019 and 2021.

2.4 INFORMATION TECHNOLOGY

Internal IT systems and applications were reliable and stable in 2018. Disruptions were very rare and were always resolved swiftly.

IT operations

A range of measures were defined in the context of the SNB's cybersecurity strategy. These measures, to be implemented over a period of several years, entail an increase in headcount in central IT security functions.

IT projects

The SNB continued to participate in the SCION project run by ETH Zurich. In 2018, the SNB again used SCION, a process designed to improve the security of internet connections, for communications between Zurich and Singapore.

The implementation of the High Availability and Disaster Recovery target architecture was successfully concluded. The simplification and standardisation of processes reduces both infrastructure maintenance costs and operational risk.

A central platform for accessing external data (including quality controls) was set up to optimise the consistency of financial, market and reference data throughout the SNB.

Furthermore, a new data environment was developed to support analysis relating to the management of the SNB's assets.

As some applications and electronic workplace hardware had reached the end of their life cycle, the operating system, all standard applications (and certain specialist applications), as well as computers and accessories were upgraded throughout the bank. This further improved security, reduced the number of devices per employee and optimised operational processes.

The SNB's website was redesigned to allow content to adapt automatically to the screen size of various devices (responsive design).

2.5 ENVIRONMENT

Environmental management

In its Charter, the SNB undertakes to conserve natural resources in its operations and to take account of economic, environmental and social criteria in its procurement processes.

Reporting

The SNB published an annual environmental report for the financial years 2009 through 2016. The corresponding information for the 2018 financial year can be found in the 'Environment' chapter of the *Sustainability Report* for 2018.

The composition of the Bank Council remained unchanged in 2018.

Bank Council

Jean Studer, President of the Bank Council, and Daniel Lampart, Member of the Bank Council, will be stepping down at the end of April 2019 due to the statutory limit on the maximum term of office. The SNB thanks them both for their valuable service.

Bank Council President Jean Studer deserves special mention. The Federal Council elected him to the Bank Council in spring 2007 and appointed him its Vice President just under a year later. The Federal Council subsequently appointed him President of the Bank Council in spring 2012. The first phase of Jean Studer's term of office was dominated by efforts to strengthen compliance and revise compliance-related regulations. Thereafter, his work focused on dealing with the impact of the financial, debt and euro crisis. Under Jean Studer's guidance, the Bank Council, as the SNB's supervisory body, has been closely involved in handling associated developments within the organisation. As President, he carried out his duties with authority, prudence and remarkable commitment, rendering outstanding service to the SNB.

The SNB also thanks Daniel Lampart for his service as a Member of the Bank Council. Mr Lampart made a particular contribution both as a Member and as Chairman of the Risk Committee, a body whose work has become increasingly complex and consequential in recent years due to the significant expansion of the SNB's balance sheet.

On 14 September 2018, the Federal Council appointed Barbara Janom Steiner, from Scuol, to succeed Jean Studer as President of the Bank Council with effect from 1 May 2019. Ms Janom Steiner is a Member of the Graubünden Cantonal Government and Head of the Department of Finance and Communal Affairs.

Also on 14 September 2018, the Federal Council elected Christoph Ammann, from Meiringen, as a Member of the Bank Council with effect from 1 May 2019. Mr Ammann is a Member of the Berne Cantonal Government and Director of Economic Affairs.

Shareholders will vote to elect a successor to Daniel Lampart at the Annual General Meeting.

External Auditor

On 27 April 2018, the General Meeting of Shareholders elected KPMG Ltd as External Auditor for the 2018–2019 term of office, with Philipp Rickert as auditor in charge.

Enlarged Governing Board

Thomas Wiedmer, Alternate Member of the Governing Board, left the SNB at the end of June 2018 to take up a new professional challenge. Since being appointed Alternate Member of the Governing Board in 2000, he had served in Department II, where he was responsible for the Cash and Financial Stability divisions as well as for the Controlling, Accounting and Risk Management units. Following the financial crisis, Mr Wiedmer was also heavily involved in efforts to improve national and international banking regulation and served as the SNB's representative in the Basel Committee on Banking Supervision between 2007 and 2012. Furthermore, he oversaw the development of the ninth banknote series. The SNB thanks Mr Wiedmer for his many years of service and wishes him all the best for the future.

On 4 July 2018, the Federal Council, acting on a proposal from the Bank Council, appointed Martin Schlegel, previously Head of the SNB's Singapore branch office, as new Alternate Member of the Governing Board and successor to Mr Wiedmer, with effect from 1 September 2018.

Mr Schlegel took up the position of Deputy Head of Department I in Zurich. At the same time, the two existing Alternate Members of the Governing Board changed departments. Thomas Moser, previously Deputy Head of Department I, replaced Dewet Moser in Department III. Dewet Moser moved to Department II, where the position as Alternate Member of the Governing Board had been vacant following the resignation of Mr Wiedmer.

4

Business performance

4.1 ANNUAL RESULT

The Swiss National Bank reported a loss of CHF 14.9 billion for the year 2018 (2017: profit of CHF 54.4 billion).

Summary

The loss on foreign currency positions amounted to CHF 16.3 billion. A valuation loss of CHF 0.3 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 5.4 billion. After taking into account the distribution reserve of CHF 67.3 billion, the net profit comes to CHF 47.0 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 45.0 billion.

At CHF 40,612 per kilogram, the price of gold was 0.6% lower than at the end of 2017 (CHF 40,859). This gave rise to a valuation loss of CHF 0.3 billion on the unchanged holdings of 1,040 tonnes of gold (2017: valuation gain of CHF 3.1 billion).

Valuation loss
on gold holdings

The loss on foreign currency positions was CHF 16.3 billion (2017: profit of CHF 49.7 billion). Price losses of CHF 5.6 billion were recorded on interest-bearing paper and instruments. Furthermore, the unfavourable stock market environment led to a loss of CHF 12.4 billion on equity securities and instruments. Exchange rate-related losses totalled CHF 11.3 billion. This was offset by interest income amounting to CHF 9.6 billion and dividend income amounting to CHF 3.4 billion.

Loss on foreign currency
positions

The profit on Swiss franc positions, which stood at CHF 2.0 billion (2017: CHF 2.0 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 decreased by CHF 33.0 million to CHF 381.3 million. This reduction was mainly due to lower banknote expenses compared to 2017.

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

Given the high market risks present in the SNB balance sheet, the percentage increase in provisions is generally 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 2018
annual result**

Since nominal GDP growth over the last five years has averaged just 1.2%, the minimum rate of 8% will be applied for the 2018 financial year. This corresponds to an allocation of CHF 5.4 billion (2017: CHF 5.0 billion). As a result, the provisions for currency reserves will grow from CHF 67.8 billion to CHF 73.2 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
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
2018 ³	1.2 (2012–2016)	5 423.4	73 216.3

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 2018, the distributable annual result amounts to CHF –20.4 billion. The net profit is CHF 47.0 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 2018, 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 2018

Distribution reserve

Following last year's profit appropriation, the distribution reserve showed a value of CHF 67.3 billion. After offsetting against the annual result and the profit appropriation for 2018, the distribution reserve will amount to CHF 45.0 billion.

PROFIT DISTRIBUTION AND DISTRIBUTION RESERVE

In CHF millions

	2014	2015	2016	2017	2018 ²
Annual result	38 312.9	-23 250.6	24 476.4	54 371.6	-14 934.0
- Allocation to provisions for currency reserves	-1 972.3	-1 362.2	-4 649.7	-5 021.7	-5 423.4
= Distributable annual result	36 340.6	-24 612.8	19 826.7	49 349.9	-20 357.4
+ Distribution reserve before appropriation of profit ¹	-6 820.2	27 518.8	1 904.5	20 000.0	67 348.4
= Net profit	29 520.3	2 906.0	21 731.2	69 349.9	46 991.0
- Payment of a dividend of 6%	-1.5	-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	-2 000.0
= Distribution reserve after appropriation of profit	27 518.8	1 904.5	20 000.0	67 348.4	44 989.5

1 Year-end total as per balance sheet.

2 In accordance with proposed appropriation of profit.

4.4 MULTI-YEAR COMPARISON OF ASSETS AND LIABILITIES

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

Year-end values in CHF millions

	2014	2015	2016	2017	2018
Gold holdings	39 630	35 467	39 400	42 494	42 237
Foreign currency investments	510 062	593 234	696 104	790 125	763 728
Reserve position in the IMF	2 037	1 608	1 341	871	1 188
International payment instruments	4 414	4 707	4 406	4 496	4 441
Monetary assistance loans	213	170	155	210	260
Claims from Swiss franc repo transactions	–	–	–	–	–
Swiss franc securities	3 978	3 972	3 998	3 956	3 977
Tangible assets	417	397	375	396	435
Participations	134	136	137	157	151
Other assets	316	461	585	601	651
Total assets	561 202	640 152	746 502	843 306	817 069
Banknotes in circulation	67 596	72 882	78 084	81 639	82 239
Sight deposits of domestic banks	328 006	402 317	468 199	470 439	480 634
Liabilities towards the Confederation	9 046	10 931	7 230	14 755	15 613
Sight deposits of foreign banks and institutions	17 487	25 621	24 585	54 086	37 102
Other sight liabilities	33 127	30 166	30 036	34 399	41 479
Liabilities from Swiss franc repo transactions	–	–	–	–	–
SNB debt certificates	–	–	–	–	–
Foreign currency liabilities	14 753	32 521	49 096	45 934	34 812
Counterpart of SDRs allocated by the IMF	4 727	4 548	4 493	4 573	4 487
Other liabilities	155	114	252	315	472
Equity					
Provisions for currency reserves ¹	54 787	56 759	58 122	62 771	67 793
Share capital	25	25	25	25	25
Distribution reserve ¹	–6 820	27 519	1 905	20 000	67 348
Annual result	38 313	–23 251	24 476	54 372	–14 934
Total equity	86 305	61 053	84 527	137 168	120 232
Total liabilities	561 202	640 152	746 502	843 306	817 069

¹ Before appropriation of profit, cf. p. 166.