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SCHWEIZERISCHE NATIONALBANK
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SWISS NATIONAL BANK

President's address by Hansueli Raggenbass, President of the Bank Council at the General Meeting of Shareholders of the Swiss National Bank on 27 April 2007

Dear Shareholders

Ladies and Gentlemen

Dear Guests

I would like to start by welcoming you to our 99th General Meeting of Shareholders – undeniably one of the highlights of our centenary year.

And yes, you did hear me correctly! This is indeed only the 99th General Meeting, and not the 100th. And it's not because our archivist made a mistake in counting. It is in fact because the Federal Council decided back in 1907, at the request of the Bank Council, not to hold the first ordinary general meeting in 1908, as one would expect, but to wait until 1909. Thus, the first business period lasted roughly one and a half years.

Be that as it may, today's General Meeting marks the 100-year anniversary of our institution. It is therefore not only an ordinary General Meeting, but also a somewhat extraordinary one. I am delighted to be able to celebrate this special day with you, the shareholders of the Swiss National Bank. My speech today is dedicated to you and will address the significance of the SNB's shareholders and how the ownership structure has evolved over the years.

A joint-stock company

The National Bank's relationship with its shareholders has always been a particularly special one. Not least because it is rather unusual for a central bank to have shareholders in the first place. A glance at central banks around the world shows that those structured as shareholding banks are more the exception than the rule these days. Most are state-owned institutions. It is therefore even more unusual for a central bank to allow private individuals to own its shares.

I will thus start by explaining why the SNB is set up as a joint-stock company. I will then look briefly at how the ownership structure has evolved, before taking a closer look at the SNB share itself. Finally, I will take you through some of the shareholders' questions and demands that have come up at the various General Meetings over the years.

It is a well-known fact that the path towards foundation was not easy, but rather the result of a long, drawn-out political process. The battle over the creation of the National Bank lasted no less than fourteen years. Starting in 1891, when the note-issuing monopoly was constitutionally transferred to the Confederation, it raged until 1905, when the National Council and the Council of States finally passed the National Bank Act.

Although the benefits of a centralised system of note issuance were quickly recognised, taking sufficient account of the cantons' financial interests and resolving the differences between the proponents of a state-owned bank and the advocates of a private bank proved considerably more problematic. The issue at hand concerned the legal status that the central bank should have.

In the end, and in true Swiss spirit, an acceptable compromise was reached – a shareholding bank was formed, based on its own federal act and with a simple profit distribution rule (two-thirds to the cantons, one-third to the Confederation).

The result of this compromise was that, on the one hand, the cantons and their cantonal banks as well as the former issuing banks were made shareholders of the National Bank. Two-fifths of the bank's capital stock – at that time CHF 50 million, divided into 100,000 registered shares – was to be subscribed by the cantons in relation to their population and one-fifth was reserved for the former note-issuing banks based on the effective volume of notes issued.

On the other hand, meanwhile, private individuals were to be allowed to hold shares in the SNB as a means of anchoring the company more firmly in the population. The remaining two-fifths of the shares were thus made available for public subscription, with priority being given to smaller subscriptions, as prescribed by law.

In order to make the subscription easily accessible to the public and to establish a solid base across all levels of Swiss society, the nominal value of the share was set at CHF 500.

A share, for which at the time CHF 250 – or half the nominal value – had to be paid up, is now worth roughly CHF 3,000.

In June 1906, the *Neue Zürcher Zeitung* newspaper wrote dramatically: "Not only the capitalist, but also the small saver wants to be in on the act and it is certainly a wise and democratic decision that the law will give priority to the small subscribers. In so doing, the National Bank share is being 'democratised' and the institution will be able to gain a foothold among the population at large."

The public subscription proved highly successful: the issue was more than three times oversubscribed. Anticipating this high demand, the *Neue Zürcher Zeitung* had written on 5 June 1906: "Two defining factors indicate that the issue will be a resounding success. Firstly, the awareness – not to mention a hint of pride – that one is actively participating in the establishment of the country's central bank, and secondly, the knowledge that one is receiving an absolutely secure and good interest-bearing investment akin to a bond."

The principle of making the shares available to as broad a group as possible was taken very seriously indeed: right after the subscription, almost all of the private shareholders (around 12,000 in total) received between one and five shares. The shares of the National Bank were traded right from the outset on the stock market.

The SNB's structure as a joint-stock company was considered a key element in securing the independence of the central bank, and it has certainly stood the test of time. This was particularly an issue in the early days of the bank's existence, when central bank autonomy was not a matter of course, as it is today.

Some years ago, one of our shareholders put forward a less-than-serious proposal that SNB shareholders should actually be required to pay to attend the General Meeting, rather than simply accepting a dividend. He argued that it was, after all, a unique privilege to be able to participate in the General Meeting of the Swiss National Bank...

One point in which the said speaker was certainly not wrong was that SNB shareholders cannot be compared with shareholders in other organisations. For quite some time now, the National Bank's share capital has borne little relation to the actual volume of our institution's business. In view of the much higher balance sheet total and the high level of provisions, the share capital no longer has a risk-bearing function. Thus, the main role of our shareholders – and one that hasn't changed since the bank's inception – is to safeguard the independence of the Swiss National Bank. This is why our shareholders are accurately referred to as the custodians of central bank independence.

The shareholders

So how has the body of shareholders evolved in the SNB's 100-year history?

In our Annual Report, the shareholders are divided into four categories: private shareholders, cantons, cantonal banks and other public sector institutions. A fifth category comprises unregistered shares. These are shares that have already been sold on the stock market, but have not yet been entered in the share register under a new shareholder.

One hundred years ago, the National Bank had over 12,300 shareholders. This figure gradually declined over the years, so that today, the SNB has roughly only 2,300 shareholders.

As one would expect, the cantons have been the most stable category of shareholders. Their share has always been just slightly less than 40%. The average share ownership is around 1,600 shares. For years now, the two largest shareholders in this group have been the Canton of Berne with 6.6% and the Canton of Zurich with 5.2%.

The number of cantonal and issuing banks holding SNB shares has declined from almost 40 to just 24. The average ownership per shareholder in this category has risen from over 500 in 1907 to a little over 600 today. In terms of percent, this group accounts for 15% of the share capital. The major shareholders in this category are the cantonal banks of Berne and Zurich.

Other public sector institutions – such as cities and municipalities, legates, foundations, funds and municipal-owned institutions, certain insurance companies and pension funds – have only been listed as a separate category since 1952. Since then, their numbers have fluctuated between 30 and 60. Their current proportion of the share capital is approximately 1%.

As a category, private shareholders have undergone the most dramatic change, with their figures falling from over 12,200 at issue to just 2,200 at the end of 2006. The total number of shares held by private individuals fell from around 45,000 originally to roughly 32,000 last year. Their share in the capital fell accordingly, from 45% to 32%. Meanwhile, the average number of shares per shareholder increased from 3 to around 15.

The unregistered shares have been listed in our shareholders' overview since 1987. The total number of such shares has been rising gradually since then. This is due in part to the fact that, since the entry into force of the new company law, the ownership of shares is no longer subject to restrictions (foreign shareholders can, for instance, now hold shares in the SNB). It may also be ascribed to the fact that the trading volume of our shares has been on the rise. The increase in the number of unregistered shares is the main reason for the said drop in shares held by private shareholders.

A glance at the regional distribution of shares held by private individuals shows that 77% are in the German-speaking part of the country, 21% in the Romandie and 2% in Ticino. This representation approximates the distribution of the population.

All in all, we can see that the number of SNB shareholders has declined in the past 100 years, while the level of concentration and internationalisation of share ownership has increased. On the whole, however, the shareholder structure has remained relatively stable, particularly with regard to shareholders from the public sector. That said, we do also have a number of private shareholders who have been with us for many years.

An investment instrument

"Eat well, sleep well" is a well-known adage that, referring to the risk/return trade-off, says that the type of security investors choose depends on whether they want to eat well or sleep well.

As you know, a legally stipulated maximum dividend of 6% is paid on SNB shares. But this has not always been the case; up until 1921, a rate of 4% was paid. The share not only offers a fixed dividend, regardless of the bank's performance, but also above-average security. No normal share in other words. It is certainly not a risk paper, nor is it a growth share. And there are definitely more dynamic securities and higher-return investments out there.

So, you could say that to be an SNB shareholder is, to a certain degree, borne out of enthusiasm for our institution. As a former finance minister once said, shareholders ought simply to "enjoy owning the share, as the dividend is restricted and there is certainly no possibility of attractive capital gains in the wake of a takeover".

As an investment, the SNB share is more akin to a Confederation bond than to a real equity investment. For years now, its price has been such that its return corresponds more or less to the average yield on a Confederation bond. There was, however, one period – in the late 1990s – when the shares fluctuated strongly as a result of speculation over gold reserves. The share price has since returned to a relatively stable path. The most recent price rise can probably be attributed to the current bull market and perhaps also to it being our centenary year.

So, the adage that only investors who favour bonds can sleep well does not apply in the case of the SNB. Considering the price developments of SNB shares, you, dear shareholders, should also be able to sleep easy (but hopefully not during our General Meeting)! At any rate, I can promise you that after today's General Meeting, you will be wined and dined as all "real" shareholders should!

Shareholder concerns

And finally, I would like to take a brief look at the most important issues that have been on your minds – dear shareholders – over the last 100 years. While some of these topics are a reflection of the problems faced in a particular era, other concerns have come up time and again.

The disputes that arose during the founding years continued to have an effect, especially in the bank's early days and up until the 1950s. One particularly controversial issue was whether the economy should be provided with liquidity by the state or by private sources. There were frequent debates – sometimes quite heated – with the pioneers of the Free Economy movement. In more recent years and decades, however, they struck a more conciliatory tone towards the National Bank and explicitly praised the SNB's monetary policy goal of maintaining price stability.

Shareholder rights, which are fairly restricted as compared to those of companies organised under private law, have regularly given rise to lively discussions at our General Meetings – back then as well as in more recent times. Recurring themes include the amount of the dividend and the profit distribution rule. There was also the occasional motion regarding restrictions on the voting rights of private shareholders.

Some topics of macroeconomic relevance that have recently induced shareholders to express their opinion include the extraordinary profit distribution to the Confederation and the gold sales. The concern for the bank's independence voiced in this regard culminated in the aptly phrased caveat of a shareholder: "Once greed outstrips productivity in the economy, the call for the National Bank's manna is not far off."

Further topics that have been discussed in this setting include the amount and the composition of the foreign exchange reserves, the desire for a higher return on assets (by adding to the equity portfolio for instance), the Swiss franc exchange rate, the importance of combating inflation, the interest rate level, in particular that of mortgage loans and rents, or – expressed in more general terms – the concern over unhealthy excesses in the real estate market. Concerns over the preservation of Switzerland as a production base also occasionally found their way to the top of the agenda. The National Bank always took note of and discussed all of these topics in one form or another.

Every once in a while, an appeal was made for higher ethics standards in the economy, and allusions were made to the dangers of globalisation and deregulation of markets. While some feared that the emergence of electronic payment transactions might soon render money and the National Bank obsolete, others warned against negative repercussions following the launch of the euro. This brief account shows the sheer range of topics that have concerned shareholders over the years.

The fact that the General Meeting was sometimes much like a monetary version of the 'Landsgemeinde', the provincial assembly in some areas of Switzerland where voting takes place by a show of hands, did not take away from the value of this quintessentially democratic institution. Like clockwork, a number of speakers made an appearance year after year. In so doing, many of them achieved a certain celebrity status, while others even gained notoriety. Their appearances were often amusing, sometimes provoking and – more often than not – quite challenging.

We regard the general dialogue with shareholders as decidedly enriching; a point which has been repeatedly stressed by the National Bank. This dialogue is an opportunity for us to present and explain our policy to the public.

Acknowledgements

Celebrating an anniversary is also always a time to say thank you, and this is how I would like to conclude my speech today. On the occasion of this General Meeting, my special thanks go to you, our shareholders. The National Bank enjoys a high level of trust among the Swiss people. By committing time and money and by making your voice heard, you, esteemed shareholders, further strengthen this trust. As I mentioned earlier, a number of you have been SNB shareholders for many years, some even for decades. I would like to thank you for your loyalty and your interest in the business and policies of our institution. May the National Bank remain as firmly anchored in the population over the next 100 years as it is today!