

1 Legal framework

1.1 Entry into force of the new National Bank Act

On 24 March 2004, the Federal Council enacted the totally revised National Bank Act (NBA) with effect from 1 May 2004 after the statutory period for a referendum had expired at the end of January 2004 and no referendum had been instituted (cf. 96th Annual Report, p. 45).

NBA effective as of 1 May

The new NBA sets out in detail the National Bank's constitutional mandate. It makes price stability the SNB's primary goal – one which must be ensured while taking due account of the development of the economy – and defines the SNB's tasks in a more transparent manner. It defines the National Bank's independence and includes a formal accountability obligation to the Federal Council, Parliament and the public. An integral part of this accountability is the submission of a yearly report to the Federal Assembly on the fulfilment of the National Bank's tasks. The new NBA also extends the SNB's scope of business, making it considerably more flexible. In addition, the National Bank's monetary policy powers have been restructured and now include the authority to oversee the payment and securities settlement systems. The determination of the SNB's profits is now also regulated by law, whereas the rules governing the distribution of profits have essentially remained unchanged.

Price stability, independence and accountability

A more streamlined structure of the National Bank's bodies became effective with the entry into force of the new NBA. This included a reduction of the Bank Council to eleven members. The Federal Council had already appointed six members of the new Bank Council and re-elected its previous president on 11 February 2004. The remaining five members were elected by the National Bank's General Meeting of Shareholders on 30 April 2004.

Simplified structure of bank bodies

At the same time as the new NBA entered into effect, the Federal Council amended the Ordinance to the Banking Act (Banking Ordinance). This was a necessary step, as the existing provisions on the cash liquidity of banks, which had been governed by the Banking Act, were replaced by a modern minimum reserve regulation in the NBA.

Revision of Banking Ordinance

1.2 New National Bank Ordinance

Governing Board's implementation provisions

In view of the entry into force of the new NBA, the Governing Board issued implementation provisions in an Ordinance to the National Bank Act (National Bank Ordinance, NBO) on 18 March 2004 on the SNB's authority to compile statistics, on the minimum reserve requirements, and on the oversight of payment and securities settlement systems.

The NBO is published in the Official Compilation of Federal Laws and Decrees (AS 2004 2033), the Classified Compilation of the Federal Law (SR 951.131) and on the internet (www.snb.ch).

... on the compilation of statistics

In the chapter "Statistical surveys", the NBO defines the principles of data collection as well as the rights and obligations of institutions and companies required to submit data. The collection of statistical data must adhere to the principles of necessity and reasonableness. The coverage and frequency of statistical surveys as well as the parties required to report statistical data are described in the annexes to the NBO. The National Bank issues technical instructions on the form of reporting. All individuals involved in the conduct of surveys are obliged to treat the collected data confidentially.

... on minimum reserves

The "Minimum reserves" chapter of the NBO determines the form and manner of the banks' minimum reserve requirement. The purpose of minimum reserves is to secure a minimum level of demand for base money, thus fulfilling a monetary policy objective. The implementation provisions in the NBO closely follow the cash liquidity provisions previously contained in the Banking Ordinance. In particular, the applicable cash liquidity ratio of 2.5% remains unchanged. To give banks sufficient time to make the necessary adjustments to their information systems, the implementation provisions on minimum reserves and the (associated) amendments to the Banking Ordinance relating to liquidity did not enter into force until 1 January 2005.

... on system oversight

The chapter "Oversight of payment and securities settlement systems" of the NBO describes the minimum requirements for systemically important payment and securities settlement systems, from which risks for the stability of the financial system may emanate. These requirements are based on international standards. The NBO also governs the way in which the fulfilment of minimum requirements is assessed. To enable the National Bank to identify systems that could jeopardise system stability, all securities settlement systems and payment systems with a transaction volume of at least CHF 25 billion per annum are subject to an extended disclosure obligation.

1.3 New Organisation Regulations of the National Bank

On 14 May 2004, the new Bank Council held its constituent meeting, during which it passed the new Regulations on the Organisation of the Swiss National Bank (Organisation Regulations) as prescribed in the NBA. These were subsequently approved by the Federal Council on 23 June 2004.

The Organisation Regulations constitute the National Bank's basic internal rules. They lay down the basic features of the SNB's organisational structure, stipulate the procedure of the General Meeting of Shareholders, define the tasks and powers of the Bank Council, Governing Board and Enlarged Governing Board, and contain procedural, abstention and resignation regulations for the Bank Council. They also form the basis for the issuance of further regulations by the Bank Council. They are published in the Official Compilation of Federal Laws and Decrees (AS 2004 3389), the Classified Compilation of the Federal Law (SR 951.153), and on the internet (www.snb.ch). Compared with the former business regulations for the bodies of the National Bank, there are two key amendments that warrant particular mention.

The Organisation Regulations stipulate that the Bank Council shall appoint four committees. An Audit Committee shall support the Bank Council in supervising financial accounting and financial reporting. It shall also assess the effectiveness of the internal control system and supervise the activity of external and internal auditors. A Risk Committee shall support the Bank Council in overseeing risk management and the investment process, and shall also assess internal risk controlling. The Compensation Committee shall assist the Bank Council in determining the principles of the National Bank's compensation and salary policy and submit proposals to the Bank Council for fixing the salaries of the members of the Governing Board and their deputies. Finally, in the event of vacancies, a Nomination Committee shall prepare proposals for the election of Governing Board members and their deputies and submit these to the Bank Council. Each committee shall comprise two to three members of the Bank Council.

The Organisation Regulations divide the activities of the Governing Board, the supreme management and executive body, between two bodies. While the Governing Board will continue to be responsible for the core tasks necessary for monetary policy and to represent the National Bank externally, the Enlarged Governing Board – comprising the three Governing Board members and their three deputies (who were also elected by the Federal Council) – will assume the operational management of the SNB, which includes internal directives, financial planning and budgeting, as well as human resources and infrastructure-related decisions. The Governing Board, however, retains responsibility and the duty of accountability.

Issued by Bank Council

Basic internal rules

**Special Bank
Council committees**

Two management boards

1.4 Federal Act on International Monetary Assistance

**Monetary Assistance Act
effective as of 1 October**

On 19 March 2004, the Federal Parliament adopted the Federal Act on International Monetary Assistance (Monetary Assistance Act). A day earlier, the Federal Assembly had issued the Federal Decree on International Monetary Assistance (Monetary Assistance Decree). As no referendum had been sought within the statutory period expiring at the beginning of July 2004, the Federal Council put the Monetary Assistance Act and Decree into effect on 1 October 2004.

Broad legal basis

The entry into force of the new Monetary Assistance Act has established a broad legal basis for Switzerland's financing obligations within the context of international monetary cooperation. This includes providing multi-lateral aid in the event of disruptions to the international monetary system, participating in special funds of the International Monetary Fund (IMF), and granting bilateral loans to countries with which Switzerland has especially close ties in terms of economic and monetary policy. If the National Bank finances loans – something that is ruled out for bilateral financial assistance granted to individual countries – the Swiss Confederation guarantees their timely repayment (cf. 96th Annual Report, p. 46).

**Credit facility for
systemic aid and
bilateral financial assistance**

The Monetary Assistance Decree contains a credit ceiling (credit facility) of CHF 2,500 million for the financing of aid operations in the event of disruptions to the international monetary system and for bilateral financial assistance to individual countries. The Federal Assembly will continue to be responsible for approving special guarantee credits for Switzerland's participation in special funds of the IMF. Deviating from the Federal Council's bill, the Federal Parliament restricted the Monetary Assistance Decree to a five-year term and obliged the Federal Council to report annually on the appropriation of funds.

1.5 Appropriation of 1,300 tonnes of National Bank gold

With its Message of 20 August 2003, the Federal Council requested the Federal Parliament to have the National Bank's assets that are no longer required for monetary policy (1,300 tonnes of gold) managed by a separate fund, with one-third of the real income to be distributed to the Confederation and two-thirds to the cantons over a period of 30 years. At the same time, the Federal Council recommended the Parliament to reject the people's initiative "National Bank profits for the Old Age and Survivors' Insurance Fund (AHV/AVS)", which was launched by the Swiss committee promoting the security of the AHV/AVS (Kosa) and which aimed to allocate the SNB's future profits to the AHV/AVS – minus an annual amount of CHF 1 billion to be distributed to the cantons (cf. 96th Annual Report, p. 47).

Federal Council bill

In the summer session, the National Council – as the primary council – dealt with both bills. It decided to allocate two-thirds of the real income from the sales proceeds of the surplus gold reserves to the AHV/AVS and one-third to the cantons. It then submitted a counter-proposal to the people's initiative, recommending that the SNB's profits be split equally between the AHV/AVS and the cantons. The National Bank, which had also been heard by the deliberating committee, argued resolutely against linking the SNB's profits with the financing of a social institution, as the resulting pressure to generate as high a profit distribution as possible could hinder it in its task to pursue an independent monetary policy.

National Council's counter-proposal

In the autumn session, the Council of States decided not to consider the Federal Council's proposal to create a constitutional basis for the preservation of the asset value of the proceeds from the sale of the surplus gold reserves. With this move, the Council of States not only rejected the new distribution formula for the real income from the gold assets put forward by the National Council, it also stated that the existing law (art. 99 para. 4 Federal Constitution (FC) in conjunction with arts. 30–31 NBA) should be applied; i.e. that one-third of the proceeds from the sale of the surplus gold reserves be distributed to the Confederation, and two-thirds to the cantons. The decision was based on the consideration that the revaluation gain resulting from the market valuation of the gold is also distributable profit as defined in the NBA. In addition, the Council of States rejected the people's AHV/AVS initiative without a counter-proposal.

Non-consideration by Council of States

Bill fails in Parliament

In the December session, the National Council initially adhered to its earlier resolution to consider the bill on the appropriation of surplus gold reserves. It also stood firm with regard to its counter-proposal to the people's AHV/AVS initiative. However, a day later – on 16 December 2004 – the Council of States confirmed its decision not to consider the bill. It endorsed a distribution pursuant to current legislation. It thus became clear that there would be no majority in Parliament supporting an appropriation formula for the surplus gold which deviates from the applicable constitutional provision.

Federal Council decision

The failure of the bill on the appropriation of the gold in Parliament led to a Federal Council decision being taken on 2 February 2005, which stipulated that the National Bank's gold reserves no longer required for monetary policy be distributed in accordance with the existing law, namely two-thirds to the cantons and one-third to the Confederation. This issue had already been addressed on 22 December 2004, when the Federal Department of Finance (FDF) published the report of a technical working group, in which the National Bank was also represented, discussing various aspects of a possible transfer of assets to the countervalue of 1,300 tonnes of gold from the SNB to the Confederation and cantons. The report suggested that the free assets could be distributed within a three-month period without monetary policy being affected.

2 Organisation and tasks

The National Bank's management and executive body is the Governing Board. It is primarily responsible for monetary policy, asset investment strategy and international monetary cooperation. The Governing Board enjoys a high degree of independence in fulfilling its monetary policy mandate. The Enlarged Governing Board, which was created in accordance with the new NBA, consists of the three members of the Governing Board and their three deputies. It is responsible for the operational management of the National Bank. The Bank Council oversees the business activity.

Management and oversight

The National Bank has two seats: one in Berne and one in Zurich. It is divided into three Departments. The organisational units of Departments I and III are, for the most part, located in Zurich; those of Department II, primarily in Berne. Each of the three Departments of the SNB is headed by one member of the Governing Board. In order to ensure the supply and distribution of cash, the National Bank also has branches in Geneva and Lugano. As with the head offices and branches, four representative offices – located in Basel, Lausanne, Lucerne and St Gallen – are responsible for monitoring regional economic developments. Furthermore, the SNB has 16 agencies, which are operated by cantonal banks, for the receipt and distribution of banknotes and coins.

Structure

The National Bank's principal task is to pursue a monetary policy serving the interests of the country as a whole. The organisational unit Economic Affairs in Department I provides the basis for monetary policy decisions. It analyses the economic situation in Switzerland and abroad and produces the inflation forecast. Regional economic observers support Economic Affairs in its analysis of economic developments in Switzerland. The Financial Market Operations unit of Department III implements monetary policy by carrying out transactions in the financial markets. It also steers the three-month Libor.

Monetary policy

The management and investment of gold, foreign currency reserves and Swiss franc bonds are the responsibility of the units Asset Management and Financial Market Operations in Department III. Investment strategy and risk control are dealt with by the eponymous unit, also in Department III.

Asset management

The tasks relating to cash transactions fall within the domain of the Cash unit in Department II. The National Bank issues banknotes and puts the coins minted by the Confederation into circulation via its network of bank offices. It ensures that the quality of currency in circulation is kept at a high level by checking the cash returned to it and by disposing both of counterfeits and of banknotes and coins that no longer meet requirements.

Cash transactions

Cashless payment transactions

Conceptual and technical issues arising with regard to cashless payment transactions are dealt with by Financial Stability and Oversight in Department II as well as the units Banking Operations and Information Technology in Department III. The Banking Operations unit also runs the real-time gross settlement system SIC.

Financial system stability

The Financial Stability and Oversight unit in Department II is responsible for contributing to the stability of the financial system and overseeing the systemically important payment and securities settlement systems.

Banker to the Confederation

Acting as the bank of the Confederation is a function performed by the units Banking Operations and Financial Market Operations of Department III. These units settle domestic and foreign payments, participate in issuing money market debt register claims and bonds, and assist the Confederation in safekeeping its securities. They also effect money market and foreign exchange transactions on behalf of the Confederation.

International monetary cooperation

The International Affairs unit of Department I deals with the international aspects of monetary policy and technical assistance.

Statistics

The Statistics unit of Department I is responsible for compiling various statistical data, notably banking statistics and the balance of payments.

Central services

The central services are divided between the three Departments. The Secretariat General, Legal Services, Human Resources, Communications, and Premises belong to Department I. Department II includes Central Accounting, Controlling, and Security. Department III is responsible for Information Technology. The Internal Auditors unit reports to the Bank Council.

3 Corporate Governance

The 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 and SR 951.11 (Classified Compilation of the Federal Law)) and the Regulations on the Organisation of the Swiss National Bank of 14 May 2004 (Organisation Regulations and SR 951.153; both available at www.snb.ch). At the National Bank, statutes and regulations fulfil the function of articles of association. The SNB has a share capital totalling CHF 25 million. This is paid up in full (art. 25 NBA), after having been reduced by CHF 25 million as of 1 May 2004 (forgoing of the non-paid-up part of the share capital; art. 57 NBA).

The corporate bodies of the National Bank are the General Meeting of Shareholders, the Bank Council, the Governing Board and the Audit Board. The Bank Council oversees and controls the conduct of business of the National Bank (art. 42 NBA). Six of its members are elected by the Federal Council; the remaining five are appointed by the General Meeting of Shareholders (art. 39 NBA). The Bank Council set up an Audit Committee, a Risk Committee, a Compensation Committee and a Nomination Committee, each including two to three Bank Council members (arts. 11–14 Organisation Regulations and cf. p. 138 of this Annual Report). The Governing Board is the management and executive body (art. 46 NBA); its three members are appointed for a six-year term by the Federal Council upon recommendation of the Bank Council (art. 43 NBA). The operational management of the National Bank is the responsibility of the Enlarged Governing Board, which is composed of the three Governing Board members and their deputies (arts. 21–24 Organisation Regulations). The Audit Board examines whether the bookkeeping and the annual accounts (Financial Report) as well as the proposal for the allocation of the net profit comply with the statutory requirements. Furthermore, it is entitled to inspect at any time all aspects of the National Bank's business (art. 48 NBA). It is elected for a term of one year by the General Meeting of Shareholders (art. 47 NBA). The auditors must meet special professional requirements pursuant to art. 727b of the Swiss Code of Obligations (SCO), and they must be independent of the Bank Council, the Governing Board and the controlling shareholders (art. 47 NBA).

The rights of the shareholders are also embodied in the NBA; company law is applied merely complementarily (art. 2 NBA). As the National Bank fulfils a public mandate and is administered with the cooperation and under the supervision of the Confederation, the shareholders' rights are restricted as compared with a joint-stock company under private law. Shareholders who do not belong to the public-law sector may not cast more than 100 votes for their own and for represented shares (art. 26 para. 2 NBA). Shareholders may be represented at the Shareholders' Meeting only by other shareholders (art. 37 NBA). Only five of the eleven members of the Bank Council are elected by the General Meeting of Shareholders (art. 39 NBA). The right to a dividend is limited to 6% of the paid-up capital (art. 31 para. 1 NBA); the remaining distributable profit goes to the Confederation and the cantons (art. 31 para. 2 NBA). The Business and Financial Report must be approved by the Federal Council, before being submitted to the General Meeting of Shareholders (art. 7 para. 1 NBA). Other provisions deviating from company law concern the passing of resolutions (art. 38 NBA), the agenda and the convention of the Shareholders' Meeting (art. 35 NBA). Agenda items with proposals from shareholders must be signed by at least 20 shareholders and be submitted to the President of the Bank Council in writing in due time before the invitation is sent out (art. 35 para. 2 NBA).

General principles

Bodies and responsibilities

Shareholders' rights

The remuneration of the National Bank's bodies is determined in regulations drawn up by the Bank Council (art. 42 para. 2 (j) NBA). The affiliations of the members of the bodies are recorded in the supervisory and management bodies list (cf. p. 139).

The remuneration of the Bank Council consists of a fixed annual salary plus an attendance allowance, while the members of the Governing Board receive a salary plus a lump-sum compensation for representation expenses. The remuneration of the members of the Bank Council and the Governing Board currently in office breaks down as follows:

	2004	2003	Change
	CHF millions	CHF millions	CHF millions
Members of the Bank Council	0.659 ²	0.447 ¹	+0.212
of which for the President of the Bank Council	0.114	0.082	+0.032
of which for the Vice-President of the Bank Council	0.054	0.041	+0.013
Three members of the Governing Board	1.736	1.736	-
of which for the Chairman of the Governing Board	0.592	0.592	-
of which for the Vice-Chairman of the Governing Board	0.572	0.572	-

1 40 members of the Bank Council, ten of whom are members of the Bank Committee.

2 With the new NBA, which entered into force on 1 May 2004, the number of Bank Council members was reduced to eleven members.

In the period under review, the National Bank did not make any severance payments to former members of the Bank Council or the Governing Board. The SNB does not pay any performance-linked remuneration. In particular, there are no share or option programmes for members of the Governing Board or Bank Council. The National Bank does not grant any loans to governing bodies.

No National Bank shares were held by members of the Governing Board and Bank Council as at 31 December 2004.

The members and the substitute members of the Auditing Committee received remuneration totalling CHF 20,141 for outlays and attendance fees in the 2004 financial year. The Auditing Committee was dissolved with the entry into force of the new NBA and replaced by an external Audit Board (PricewaterhouseCoopers in 2004). The chief auditor has been in office since the 2004 financial year.

During this period, mandates were entrusted to PricewaterhouseCoopers AG (statutory auditing mandate), KPMG and Compass AG (IT audit). Fees totalled CHF 171,084 and CHF 93,832 respectively. In addition, consultancy fees in the amount of CHF 43,457 were paid to PricewaterhouseCoopers AG.

Notifications to shareholders are, in principle, communicated by post to the address listed in the share register and published in the Swiss Official Gazette of Commerce (art. 28 NBA). Shareholders do not receive any information not also made available to the public (cf. pp. 146–148). Information for shareholders can be found on the National Bank's website (www.snb.ch/e/snb/aktionaer/aktionaer.html). The deadlines for the submission of proposals and the registration of shareholders for participation in the General Meeting of Shareholders are also published at this address.

The registered shares of the National Bank are traded on the stock market. A total of 53.45% of the shares are held by cantons and cantonal banks; the remaining shares are owned primarily by private individuals (cf. p. 125). The major shareholders at the end of 2004 were the Canton of Berne with 6.6% (6,630 shares), Fritz Aeschbach, Monaco, with 6.3% (6,282 shares), and the Canton of Zurich with 5.2% (5,200 shares). The Confederation is not a shareholder.

The National Bank is not structured as a group.

4 Personnel, resources and bank management

4.1 Human resources

At the end of 2004, the National Bank's staff numbered 656 persons (including 22 apprentices). It thus exceeded the previous year's level by four persons (including two apprentices). Converted into full-time equivalent jobs, the number of employees rose from 607.9 to 611.3. The number of part-time employees decreased by 4 to 150, corresponding to a part-time rate of 22.9%. Personnel turnover was up from 3.9% a year earlier to 4.9%. This was mainly the result of 20 jobs being relocated from Berne to Zurich.

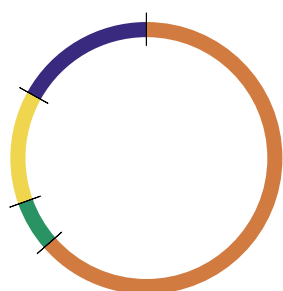
With the entry into force of the new National Bank Act (NBA), it became possible for the first time to recruit staff from abroad. In particular, the National Bank now has the opportunity to hire highly qualified foreign specialists. However, positions on the Enlarged Governing Board can still only be occupied by Swiss citizens.

In mid-2004, new management principles were introduced in the National Bank. Applied bank-wide, they form the basis for conscious management decisions and for the methodical further development of the corresponding skills within the SNB. Moreover, basic management training was made compulsory for prospective managerial staff, as were systematic advanced management courses for experienced executives.

Number of employees and turnover

Recruitment of foreign nationals

Management



Human Resources Number of employees

Full-time, men 417

Part-time, men 39

Full-time, women 89

Part-time, women 111

Total: 656
End of 2004

4.2 Resources

The National Bank revised its planning and budgeting process in 2004. Thanks to the new planning process, which links the elements of strategy, planning and budget, the operational management of the SNB has been enhanced to optimally suit the respective organisational function. Strategic principles describe the development guidelines, forming a bank-wide strategy. New regulations on the delegation of responsibilities and on budget authority were introduced. Furthermore, the establishment of the new bodies responsible for the operational management – i.e. the Enlarged Governing Board and the Board of Deputies – has strengthened the management co-ordination.

Planning and budgeting process

The National Bank holds real estate for operational requirements only, rather than for investment purposes.

Property management

The two renovation projects at the Zurich head office have progressed according to plan and within budget, and quality standards were complied with. In the main building at Börsenstrasse 15, the second phase – the renovation of the cashier's office, the security gate and the mezzanine floor – was concluded, and operations there were started in November. The construction preparations for the third and final phase, the conversion of the three office floors, has progressed to such a stage that work can be commenced in the second quarter of 2005. The comprehensive renovation of the premises at Nüscherstrasse 22 began at the end of June. The premises should be ready for occupation in May 2005. Planning of the related large-scale relocation of offices at the Zurich head office is under way.

The environmental performance evaluation published in the 2004 reporting year is the first assessment in the new target period covering 2003–2008. The National Bank's impact on the environment (measured in eco indicator points) was slightly higher overall in 2003. This was primarily due to the increase in air travel caused by the growing internationalisation of the National Bank's activities. The demolition waste resulting from the renovation work at the main building in Zurich, too, temporarily contributed to the higher impact on the environment. Electricity consumption, by contrast, was reduced by 2%, heat consumption by 15% and water consumption by 14%. In an external audit carried out for the first time, the auditing company gave the National Bank good marks for meeting the targets set in the ecological charter.

Environmental management: target period for 2003–2008

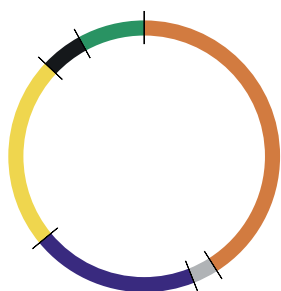
In the period under review, the IT infrastructure, which has been comprehensively updated in recent years, and the new applications continued to be consolidated and gradually enhanced. The entire central application for foreign currency investments was replaced. In document management, the focus was on electronic solutions. Measures to ensure secure and reliable operations of the IT systems continued to absorb a substantial proportion of the available IT resources. Preparations were initiated for enhancing the technical facilities for secure communication (telephony, firewalls) with external parties.

Developments in information technology

Stable shares of costs

The bulk of the National Bank's total operating costs were incurred by the position *cash transactions* (41%). These include the costs of producing banknotes and the costs arising in connection with banknote and coin circulation. The costs relating to *cashless payment transactions* remained stable year-on-year at 3% of total operating costs. This position includes the services of the National Bank in interbank payment transactions and in the field of payment transactions on behalf of other central banks and international organisations.

The position *asset management*, which comprises the costs relating to foreign exchange, money market, securities, gold and Lombard business, and the management of financial investments and gold holdings, declined slightly, amounting to 20% of total operating costs. The item *monetary policy*, which includes the costs involved in planning and formulating monetary policy as well as the costs for compiling statistics, rose slightly year-on-year to account for a 23% share. *Services for the Confederation* and *services for third parties* both remained unchanged from the previous year at 5% and 8% of total costs respectively. *Services for third parties* comprise the SNB's contribution to the Study Center Gerzensee, expenses for international cooperation (notably with the IMF) and technical assistance to foreign central banks.



Cost units In percent

Cash transactions 41

Cashless payment transactions 3

Asset management 20

Monetary policy 23

Services
for the Confederation 5

Services
for third parties 8

4.3 Bank authorities, Regional Economic Councils and management

<p>In connection with the reorganisation of the bodies under the new NBA, i.e. the termination of their mandates, all members of the Bank Council, the Local Committees and the Auditing Committee retired from their functions with effect from the date of the General Meeting of Shareholders on 30 April 2004.</p> <p>The National Bank thanks all of them for their – in some cases long-standing – valuable services.</p> <p>Pursuant to arts. 39, 42 and 47 of the new NBA, the Bank Council is now composed of eleven members; the president, the vice-president and four other members are appointed by the Federal Council, while five members are elected by the Shareholders' Meeting. The Local Committee as a statutory body was abolished; the Bank Council appoints Regional Economic Councils, which are, however, not statutory bodies. Instead of electing the Auditing Committee, the General Meeting of Shareholders must appoint an Audit Board on an annual basis.</p>	Reorganisation of bodies
<p>On 11 February and 30 April 2004 respectively, the Federal Council and the General Meeting of Shareholders elected the persons listed on p. 138 to the Bank Council. The following persons were elected for the first time:</p> <p>Konrad Hummler, Teufen, Managing Partner of Wegelin & Co., Private Bankers</p> <p>Marina Masoni, Lugano, Member of the Cantonal Government and Head of the Department of Finance and Economic Affairs of the Canton of Ticino</p> <p>Fritz Studer, Meggen</p> <p>Eveline Widmer-Schlumpf, Felsberg, Member of the Cantonal Government and Head of the Finance and Military Department of the Canton of Graubünden</p>	Bank Council
<p>The General Meeting of Shareholders on 30 April 2004 elected PricewaterhouseCoopers AG, Zurich, as the Audit Board for the 2004/2005 term of office.</p>	Audit Board
<p>The Bank Council proposes to the General Meeting of Shareholders on 29 April 2005 that PricewaterhouseCoopers AG, Zurich, be reelected.</p>	Proposal to the General Meeting of Shareholders
<p>The composition of the Bank Council remains unchanged.</p>	

Regional Economic Councils

On 3 December 2004, the Bank Council decided to rename the economic regions of the National Bank with effect from 1 January 2005 as follows:

Former name	New name
Basel Region	Region Northwestern Switzerland
Berne Region	Region Mittelland
Geneva Region	Region Geneva
Lausanne Region	Region Vaud-Valais
Lugano Region	Region Ticino
Lucerne Region	Region Central Switzerland
St Gallen Region	Region Eastern Switzerland
Zurich Region	Region Zurich

With effect from the date of the General Meeting of Shareholders on 29 April 2005, the following members will resign from their positions:

Willy Egeli, Chairman of the Regional Economic Council Eastern Switzerland

Silvia Huber-Meier, Chairwoman of the Regional Economic Council Zurich

Rolf Mehr, Chairman of the Regional Economic Council Vaud-Valais

The National Bank thanks them for their services.

On 14 May 2004, the Bank Council appointed those members of the former Local Committees who stood for election to the corresponding Regional Economic Councils (cf. list on p. 140). On 14 May and 3 December 2004, it supplemented and enlarged several of the Regional Economic Councils by making the following appointments:

Northwestern Switzerland

Hans Büttiker, Dornach, CEO of EBM (as of 14 May 2004)

Matthys Dolder, Bienne-Benken, CEO of Dolder AG (as of 14 May 2004)

Gabriele Gabrielli, Möriken, Member of the Executive Committee of ABB Switzerland Ltd (as of the Shareholders' Meeting on 29 April 2005)

Central Switzerland

Xaver Sigrist, Lucerne, President and CEO of Anliker AG Bauunternehmung (as of 14 May 2004)

David Dean, Volketswil, CEO of Bossard AG

(as of the Shareholders' Meeting on 29 April 2005)

Mittelland

André Haemmerli, La Chaux-de-Fonds, General Manager of Johnson & Johnson (as of the Shareholders' Meeting on 29 April 2005)

Eastern Switzerland

Christoph Leemann, St Gallen, Chairman and CEO of Union Holding AG (as of the Shareholders' Meeting on 29 April 2005)

Eliano Ramelli, Trogen, Partner and Vice-President of the Board of Directors of Abacus Research AG (as of the Shareholders' Meeting on 29 April 2005)

Vaud-Valais

Jean-Jacques Miauton, Epalinges, CEO of Gétaz Romang Holding SA (as of the Shareholders' Meeting on 29 April 2005)

Zurich

Milan Prenosil, Kilchberg, Chairman of the Board of Confiserie Sprüngli AG (as of the Shareholders' Meeting on 29 April 2005)

At the end of June 2004,

Erich Spörndli, Director, Deputy Head of Department III, retired. For 15 years, he served the National Bank with his expertise and provided significant contributions to the SNB, first as Head of Economic Studies and later as Head of Monetary Operations. We thank him for his commitment.

Upon proposal of the Bank Council, the Federal Council appointed

Thomas J. Jordan, former Head of Research in Department I, as his successor as of 1 July 2004.

On 30 June 2004,

Peter Klauser relinquished his function as Deputy Head of Department I. He will continue to carry out his duties as Head of Legal and Administrative Affairs. With his decision, Peter Klauser freed the way for the introduction of the new management structure, which provides for only one deputy head in each Department as stipulated in the new Organisation Regulations approved by the Federal Council on 23 June 2004. The Governing Board thanks Mr Klauser for his decision.

The Bank Council elected

Hans Peter Biland as Director and Head of Information Technology with effect from 1 February and 1 April 2005 respectively.

5 Business performance

5.1 Financial result

Summary

The annual result of the Swiss National Bank was shaped by the write-back of the provisions for the assignment of free assets in the amount of CHF 21,113 million. Not including this one-off transaction, the annual result amounted to CHF 500 million. This result, which fell significantly short of the year-earlier figure, was mainly due to lower foreign exchange rates and the lower price of gold. These developments led to significant valuation losses on gold holdings and foreign currency investments. After the allocation to provisions for currency reserves, a distributable annual profit of CHF 20,728 million resulted.

The profit distribution for 2004 totals CHF 24,015 million and thus clearly surpasses the distributable annual profit. The shortfall is offset by non-distributed profits from previous years. This reduces the distribution reserve by a total of CHF 3,287 million to CHF 6,948 million.

Gold price on the decrease

The net result from gold depends primarily on the development of the price of gold. At the beginning of the year, the gold price stood at almost CHF 16,600 per kilogram. Following its year's peak of CHF 17,500 per kilogram in mid-April, a trend reversal set in during the second quarter, lasting until mid-June. Subsequently, the gold price rose again steadily until the end of 2004, but it did not reach the level seen at the beginning of the year. The price decline of approximately CHF 640 per kilogram resulted in a loss of CHF 901 million.

Declining interest rate level abroad

The net result from foreign currency investments hinges on current interest earnings, exchange rate developments in the investment currencies and changes in the market price of investment instruments. Interest rates in the markets in which the National Bank invests fell slightly until the beginning of April. This trend was reversed by a substantial rise in the interest rate level lasting until the end of June. The second half of the year was marked by another decline in interest rates in all investment currencies. At the end of 2004, interest rates in all currencies – with the exception of the US dollar and the Canadian dollar – were somewhat lower than at the beginning of the year. These developments resulted mostly in capital gains for the National Bank. Interest income and capital gains totalled CHF 3,204 million.

The foreign exchange rates of significance to the National Bank declined during the financial year. The decreases were moderate with the exception of the US dollar. During the first nine months, the greenback hovered around the CHF 1.26 mark before depreciating sharply in the last quarter, losing roughly 10% of its value compared with the beginning of the year. Foreign exchange rate movements resulted in a CHF 1,990 million loss for the National Bank. The income from foreign currency investments amounted to CHF 1,191 million in total.

Weaker foreign exchange rates

The interest rates in the Swiss capital market developed similarly to those in the foreign markets. The interest rate decline in the first quarter was followed by an increase in the second quarter. In the second half of the year, the downward trend set in again. The interest rate level fell slightly year-on-year. The corresponding capital gains were modest. The net result from Swiss franc investments to the amount of CHF 304 million is thus largely made up of the interest income from securities and repo transactions in Swiss francs.

Decline in Swiss franc interest rates

Operating expenses comprise general overheads, personnel and banknote expenses, and depreciation on tangible assets. At CHF 214 million, operating expenses were 4% lower than a year earlier.

Slightly lower operating expenses

On 16 December 2004, the Council of States decided – for the second time – not to consider the Federal Council’s bill on the appropriation of the surplus gold reserves. It was thus obvious that there could be no parliamentary majority to support an appropriation formula for the surplus gold that deviates from the applicable constitutional provision (cf. pp. 73–74). The Council of States clearly stated that it expects the gold reserves no longer required by the National Bank to be distributed as profit based on the applicable legal provisions. It was to be assumed, therefore, that another gold appropriation bill from the Federal Council would be just as unsuccessful in gaining the support of a majority in Parliament. This assessment was confirmed on 2 February 2005, when the Federal Council decided that the gold assets with the countervalue of 1,300 tonnes of gold would be distributed to the Confederation (one-third) and the cantons (two-thirds). With this decision, the Council of States’ non-consideration of December 2004 became effective.

Write-back of the provisions for the assignment of free assets

Consequently, there is no basis for further retaining the free assets with a view to assigning them to a third party. The existing law, which stipulates that the earnings not required to build up currency reserves are to be distributed as profit (art. 30 para. 2 NBA), must be applied. The Bank Council and the Governing Board are of the opinion that it is not justified to maintain the former provisions for the assignment of free assets. The provisions for the assignment of free assets, consisting of the proceeds from gold sales realised to date, the market value of the as yet unsold portion of gold and the net result from hedging transactions for the sales proceeds in US dollars, were written back in the income statement at the end of 2004.

Prior to the increase in provisions which are stipulated in the National Bank Act, the annual result was CHF 21,613 million.

Annual result

5.2 Provisions prescribed in the National Bank Act

The National Bank does not distribute its entire annual result, as it is obliged by the NBA to set aside provisions from its earnings surplus to build up currency reserves. These reserves allow the National Bank to intervene in the market should the Swiss franc become excessively weak. The currency reserves also make Switzerland's economy less vulnerable to international crises and thereby engender confidence in the Swiss franc. The need for foreign exchange reserves is growing in tandem with the size and international integration of the Swiss economy.

Moreover, the provisions for currency reserves have a general reserve function and cover the market, credit and liquidity risks to which the National Bank's assets are exposed.

In accordance with art. 30 para. 1 NBA and the profit distribution agreement of 5 April 2002, the provisions formed on the liabilities side of the balance sheet for the purpose of building up currency reserves are increased in step with the growth of nominal gross domestic product (GDP). The targeted percentage rise is based on the average GDP growth over the past five years. This avoids the need for subsequent corrections and prevents large fluctuations from year to year.

Purpose

Targeted level

Development of targeted level

	Growth in nominal GDP ¹ In percent (average period) ²	Annual allocation CHF millions	New targeted level ³ CHF millions
2000	2.0 (1994–1998)	522.7	26 655.4
2001	2.6 (1995–1999)	682.4	27 337.8
2002	3.3 (1996–2000)	902.1	28 239.9
2003	2.3 (1997–2001)	829.3	36 886.7 ⁴
2004	2.4 (1998–2002)	885.3	37 841.0 ⁵
2005	2.1 (1999–2003)	794.7	38 635.7

1 Until 2002: nominal gross national product (GNP).

2 The data is revised on a continuous basis. The growth rates shown in the table thus differ slightly from the latest available data.

3 After the allocation of the reporting year.

4 Including CHF 7,817.5 million from the integration of the provisions for market and liquidity risks on gold on 1 January 2003 (cf. 96th Annual Report 2003, pp. 105–106).

5 Including CHF 69.0 million from the transfer of the reserve fund on 1 May 2004 pursuant to art. 57 para. 2 NBA.

Reporting of provisions in the previous balance sheet

Previously, these provisions were covered by two balance sheet positions, i.e. provisions for market, credit and liquidity risks and provisions for operating risks. In order to achieve a steady flow of payments, profit was distributed by means of the provisions for market, credit and liquidity risks, which therefore also included the surplus provisions for future profit distributions. Any changes in the provisions were shown in the income statement.

Reporting of provisions in the new balance sheet

With the entry into force of the new NBA on 1 May 2004 and two new guidelines of Swiss GAAP FER (Generally Accepted Accounting Principles issued by the Foundation for Accounting and Reporting Recommendations), the reporting method for the provisions shown in the National Bank's Financial Report was revised. The two provision items used to build up adequate currency reserves were merged and renamed *provisions for currency reserves*. This new name was chosen to express the purpose of these provisions, which is to ensure the growth of the currency reserves on the assets side. The surplus provisions for future profit distributions were transferred to a distribution reserve. Consequently, the provisions for currency reserves now correspond to the targeted level. Both the allocation to the provisions for currency reserves and the changes in the distribution reserve are now shown in the appropriation of profit. The restatement (cf. pp. 107–109) provides more detailed information.

Allocation from the 2004 annual result

This year's increase in the targeted level of provisions amounts to CHF 885 million in accordance with the average growth in GDP during the 1998–2002 period, which was 2.4% in nominal terms. The allocation from the 2004 annual result is made as part of the profit appropriation and must be approved by the General Meeting of Shareholders.

Distributable annual profit

Pursuant to art. 30 para. 2 NBA, the distributable annual profit corresponds to the earnings remaining after the provisions for currency reserves are set aside. After the allocation to the provisions, a distributable annual profit of CHF 20,728 million resulted for 2004.

5.3 Profit distribution

The National Bank's profit distribution is laid down in art. 31 NBA. Since the 2003 financial year, the amount of the annual profit distribution to the Confederation and the cantons has been determined by two agreements concluded between the National Bank and the Federal Department of Finance. In the 2004 financial year, the special agreement on the distribution of the proceeds from the sale of 1,300 tonnes of gold applies in addition.

The main agreement on the distribution of profit concluded on 5 April 2002 stipulated that – in order to achieve a steady flow of payments in the medium term – distributions to the Confederation and the cantons would be fixed at CHF 2.5 billion per year for the period 2003–2012 on the basis of an earnings forecast. This agreement relates to the current profits earned by the National Bank on its monetary assets and to the reduction in surplus provisions.

The supplementary agreement concluded on 12 June 2003 mainly relates to the income accruing on the National Bank's free assets. According to this agreement, the National Bank has – since spring 2004 and until such time as different legislation enters into force – distributed one-third of this income to the Confederation and two-thirds to the cantons. As the gold sales progress, the annual distribution will grow from CHF 300 million in spring 2004 to CHF 400 million in spring 2005. Under the agreement on the distribution of the proceeds from the sale of 1,300 tonnes of gold, this supplementary agreement will become null and void following the distribution of CHF 400 million for the 2004 financial year.

The agreement concluded on 25 February 2005 concerns the distribution of the countervalue of the 1,300 tonnes of gold no longer required for monetary policy purposes. The amount of the one-off distribution corresponds to the proceeds from the sale of 1,235.9 tonnes of gold, the market value of the as yet unsold 64.1 tonnes of gold and the net result from hedging transactions for the sales proceeds in US dollars as at 31 December 2004. The distributable amount totals CHF 21,113.2 million.

The profit distribution for the 2004 financial year will total CHF 24.0 billion: CHF 21.1 billion will be distributed under the special agreement on the distribution of the proceeds from the sale of 1,300 tonnes of gold, CHF 2.5 billion under the 2002 main agreement, and CHF 0.4 billion according to the 2003 supplementary agreement on the distribution of income on free assets. Dividend payments amount to CHF 1.5 million.

For the payment of this year's profit distribution, CHF 3.3 billion must be drawn from the distribution reserve, which is thus reduced to CHF 6.9 billion.

Profit distribution agreements

Main agreement

Supplementary agreement

Agreement on the distribution of the gold proceeds

2004 profit distribution

Distribution reserve

Development of profit distribution and distribution reserve

	Residual surplus prior to distribution	Profit distribution	Residual surplus for future distributions
	CHF millions	CHF millions	CHF millions
2000	14 205.1	1 500.0	12 705.1
2001	14 881.0	1 500.0	13 381.0
2002	13 240.4	2 500.0	10 740.4
2003	13 047.0	2 800.0	10 247.0 ¹

1 Cf. transfer of the residual surplus for future distributions to the distribution reserve, p. 126, Item no. 26.

	Distribution reserve prior to distribution	Distributable annual profit	Profit distribution	Distribution reserve after distribution
	CHF millions	CHF millions	CHF millions	CHF millions
2004	10 235.5 ¹	20 727.6	24 014.7	6 948.4

Reduction of the share capital

With the entry into force of the new NBA, the share capital was reduced to the paid-up amount and the reserve fund was liquidated.

Previously, the share capital amounted to CHF 50 million, only half of which was paid up, however. Given today's balance sheet total and considerable provisions, the share capital no longer carries any economic significance. When the new NBA came into force, the share capital was thus reduced to the paid-up amount of CHF 25 million and the non-paid-up amount was waived. As a consequence, the nominal value of one (now fully paid-up) share was lowered to CHF 250.

Liquidation of the reserve fund

The reserve fund created under the previous NBA served to cover any capital stock losses. Each year, CHF 1 million was added to the reserve fund. After the profit appropriation of the 2003 financial year, the fund had totalled CHF 69 million (cf. pp. 98–99). With the entry into force of the new NBA, the reserve fund was transferred to the provisions prescribed in the Act (pursuant to art. 57 para. 2 NBA).

