

# Business Report

# 1 Legal framework – revision of the National Bank Ordinance

The National Bank Ordinance of 18 March 2004 contains implementing provisions on the SNB's sovereign instruments – namely, its authority to compile statistics, the minimum reserve requirements, and its responsibility for overseeing the payment and securities settlement systems. These provisions have proved effective overall. In the three years since the Ordinance was issued, the need for adjustments and updates has nevertheless become apparent.

In the chapter on statistics, the appendix listing the individual statistical surveys has been brought up to date. In the chapter on minimum reserves, the application of the sanction provisions was made more stringent, notably through the imposition of a higher interest penalty. In the chapter on system oversight, provisions on minimum requirements as well as their assessment and enforcement have been revised. Operators of systemically important infrastructure systems are now no longer required to have their procedures and technical concepts audited by an external body at least once a year, but only periodically. In addition, the provision stipulating that – where foreign law is applicable – a system operator must demonstrate the effectiveness and enforceability of its contractual foundations in an expert opinion, was relaxed. Finally, system operators are no longer required to have the SNB approve amendments to the contractual foundations where such changes concern systemically relevant aspects; they now only need to inform the SNB.

## 2 Organisation and tasks

### Management and oversight

The Swiss National Bank's management and executive body is the Governing Board. It is responsible in particular for monetary policy, asset management strategy and international monetary cooperation. The Governing Board fulfils its monetary policy mandate independently. The Enlarged Governing Board, which consists of the three members of the Governing Board and their three deputies, is responsible for the operational management of the National Bank. The Bank Council, meanwhile, oversees the SNB's business activities. The internal auditors report directly to it.

### Organisation

The SNB has two head offices, 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 and those of Department II primarily in Berne. Each of the three departments is headed by a member of the Governing Board. In order to ensure the supply and distribution of cash, the National Bank also has a branch office in Geneva. As with the head offices and the branch office, the representative offices – located in Basel, Lausanne, Lugano, Lucerne and St. Gallen – are responsible for monitoring economic developments and explaining the SNB's policy in the regions. The SNB also has 16 agencies – operated by cantonal banks – for the receipt and distribution of banknotes and coins.

### Monetary policy

The SNB's principal task is to pursue a monetary policy serving the interests of the country as a whole. The monetary policy approach is formulated by Department I. The Economic Affairs unit provides the analyses upon which the monetary policy decisions are based. It evaluates the economy in Switzerland and abroad, and produces the inflation forecast. The delegates for regional economic relations support Economic Affairs in its analysis of economic developments in Switzerland. The Financial Markets unit in Department III implements monetary policy by carrying out transactions in the financial markets. It also steers the three-month Libor.

### Asset management

The management and investment of gold, foreign exchange reserves and Swiss franc assets is the responsibility of the Asset Management unit and the Money Market and Foreign Exchange unit, both of which belong to Department III. Investment strategy and risk control are dealt with by the Risk Management unit, which is also part of Department III. The Bank Council's Risk Committee oversees risk management.

### Cash transactions

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 head offices, branches and agencies. It checks the cash returned to it and replaces banknotes and coins that no longer meet requirements.

Conceptual and technical issues arising with regard to cashless payment transactions are dealt with by the Financial Systems unit of Department II and by the Banking Operations and Information Technology units of Department III. The Banking Operations unit also steers the SIC payment system.

**Cashless payment transactions**

The Financial Systems unit of Department II helps to ensure the stability of the financial system and oversees the systemically important payment and securities settlement systems.

**Financial system stability**

The function of banker to the Confederation is performed by the Banking Operations and Financial Markets units 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 the safekeeping of its securities. They also effect money market and foreign exchange transactions on behalf of the Confederation.

**Banker to the Confederation**

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

**International monetary cooperation**

The Statistics unit of Department I is responsible for compiling statistical data on banks and financial markets, and for drawing up the balance of payments, the international investment position and the Swiss Financial Accounts.

**Statistics**

The SNB's central services are divided between its three Departments. The Secretariat General, Legal Services, Human Resources, Communications, and Premises come under the aegis of Department I, while Department II encompasses Finance (Central Accounting and Controlling units) and Security and Department III is responsible for Information Technology.

**Central services**

## 3 Corporate governance

### Basic principles

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) and the Regulations on the Organisation of the Swiss National Bank of 14 May 2004 (Organisation Regulations). At the SNB, the NBA and the Organisation Regulations fulfil the function of articles of association. The National Bank has share capital totalling CHF 25 billion which consists of 100,000 fully paid-up shares with a nominal value of CHF 250 each.

The SNB does not have a group structure: all of its business is conducted by a single company.

### Corporate bodies and responsibilities

The corporate bodies of the SNB are the General Meeting of Shareholders, the Bank Council, the Governing Board and the Audit Board. The Bank Council oversees the conduct of business at the National Bank. Six of its members are appointed by the Swiss Federal Council while the five others are elected by the General Meeting of Shareholders. The Bank Council has established a Compensation Committee, a Nomination Committee, an Audit Committee and a Risk Committee. Each of these committees has at least two – or, as the case may be, three – members. The Governing Board is the SNB's 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 operational management of the SNB is in the hands of the Enlarged Governing Board, which is made up of the three Governing Board members and their deputies. The Audit Board examines whether the accounting records and the Financial Report, as well as the proposal for the allocation of the net profit, are in accordance with the statutory requirements. In addition, the Audit Board is entitled to inspect the SNB's business activities at any time. It is appointed for a term of one year by the General Meeting of Shareholders. The auditors must meet special professional qualifications pursuant to art. 727b of the Swiss Code of Obligations, and they must be independent of the Bank Council, the Governing Board and the controlling shareholders.

### Shareholder rights

Shareholder rights are also governed by the National Bank Act, with the provisions of company law being subsidiary to those of the 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 from outside the public-law sector may be registered for a maximum of 100 votes. Shareholders may be represented at the General Meeting of Shareholders by other shareholders only. Only five of the eleven members of the Bank Council are appointed by the General Meeting of Shareholders. Dividends are limited to 6% of the share capital, while the remaining distributable profit is paid out to the Confederation and the cantons. The Business and Financial Report must be approved by the Swiss Federal Council before being submitted to the General Meeting of Shareholders. Other provisions deviating from company law concern the convocation of the General Meeting of Shareholders, its 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 in due time before invitations are sent out.

Important information on the structure and organisation of the SNB, as well as the remuneration and eligibility of its bodies may be found in various parts of this report. References to the relevant sections are contained in the tables at the end of this chapter.

In 2007, the Bank Council held six ordinary half-day meetings (in February, March, June, August, October and December) and one two-hour extraordinary meeting (in April), all of which were also attended by the members of the Governing Board. The Audit Committee held three half-day meetings, all of which were also attended by representatives of the external Audit Board. The Risk Committee held two half-day meetings and the Compensation Committee met once following a Bank Council meeting. The Nomination Committee did not meet.

The remuneration of the Bank Council and the Enlarged Governing Board is laid down in regulations issued by the Bank Council. The SNB does not pay any performance-linked remuneration, nor does it grant loans to members of its bodies. In particular, there are no share or option programmes for members of the Bank Council or the Enlarged Governing Board.

Members of the Bank Council receive a fixed annual remuneration plus attendance compensation for committee meetings (cf. p. 111). In the review period, no severance payments were made to members of the Bank Council.

The regular remuneration paid to members of the Enlarged Governing Board comprises salaries, lump-sum compensation for representation expenses, employer contributions to pension plans and other social welfare schemes, compensation for General Abonnement travel cards as well as leaving, long-service and anniversary gifts. In addition, one-off pension plan buyouts were paid in connection with staff changes on the Governing Board (early retirement and new appointment). Details on remuneration are stated under item no. 05, p. 111.

PricewaterhouseCoopers Ltd. has held the SNB's statutory auditing mandate since 2004. The lead auditor appointed at the time is still in office. In the 2007 financial year, fees for the statutory auditing mandate totalled CHF 268,000. Two further mandates totalling CHF 48,400 were awarded to PricewaterhouseCoopers Ltd. in the course of the 2007 financial year.

Notifications to shareholders are, in principle, communicated by post to the address listed in the share register and are published in the Swiss Official Gazette of Commerce and on the Internet at [www.snb.ch](http://www.snb.ch). Shareholders do not receive any information which is not also made available to the public.

The registered shares of the Swiss National Bank are traded on the stock market. A total of 53.24% of the shares are held by cantons and cantonal banks. The remaining shares are mostly held by private individuals. The major shareholders at the end of 2007 were the Canton of Berne with 6.6% (6,630 shares), the Canton of Zurich with 5.2% (5,200 shares), the Canton of Vaud with 3.4% (3,401 shares) and the Canton of St. Gallen with 3.0% (3,002 shares). The Confederation is not a shareholder of the SNB.

**Information for shareholders****Listed registered shares**

The basic features of the SNB's structure and organisation are defined by the National Bank Act (NBA), the Organisation Regulations and the regulations relating to the Bank Council committees.

NBA (SR 951.11)	<a href="http://www.snb.ch">www.snb.ch</a> , <i>The SNB, Legal basis, Constitution and laws</i>
Organisation Regulations (SR 951.153)	<a href="http://www.snb.ch">www.snb.ch</a> , <i>The SNB, Legal basis, Guidelines and regulations</i>
Regulations of the Compensation Committee, the Nomination Committee, the Audit Committee and the Risk Committee	<a href="http://www.snb.ch">www.snb.ch</a> , <i>The SNB, Legal basis, Guidelines and regulations</i>

Information on corporate governance additional to that presented above may be found in other parts of the Annual Report, on the SNB website, in the National Bank Act and in the Organisation Regulations.

Corporate structure and shareholders	<i>Annual Report</i> , pp. 84, 119
Head offices	Art. 3 para. 1 NBA
Breakdown of capital	<i>Annual Report</i> , p. 119
Bank Council	<a href="http://www.snb.ch">www.snb.ch</a> , <i>The SNB, Supervisory and executive bodies, Bank Council</i>
Members	<i>Annual Report</i> , p. 132
Nationality	Art. 40 NBA
Affiliations	<i>Annual Report</i> , p. 133
Restrictions on election and term of office	Art. 39 NBA
Initial and current election	<i>Annual Report</i> , p. 132
Internal organisation	Art. 10 et seq. Organisation Regulations
Delimitation of powers	Art. 42 NBA; art. 10 et seq. Organisation Regulations
Systems of control	<i>Annual Report</i> , pp. 54, 123; art. 10 et seq. Organisation Regulations
Information instruments	<a href="http://www.snb.ch">www.snb.ch</a> , <i>The SNB, Legal basis, Guidelines and regulations</i>
Executive management	<a href="http://www.snb.ch">www.snb.ch</a> , <i>The SNB, Supervisory and executive bodies, Governing Board</i>
Remuneration	<i>Annual Report</i> , p. 111
Shareholder rights	<a href="http://www.snb.ch">www.snb.ch</a> , <i>Shareholders, General Meeting of Shareholders, Participation requirements</i>
Decision-making quorum	Art. 38 NBA
General Meeting of Shareholders	Art. 35 NBA
Listing in the share register	<a href="http://www.snb.ch">www.snb.ch</a> , <i>Shareholders, General Meeting of Shareholders, Participation requirements</i>
Audit Board	
Election and requirements	Art. 47 NBA
Tasks	Art. 48 NBA
Information policy	<i>Annual Report</i> , pp. 85, 140 et seq.

## 4 Personnel, resources and bank management

### 4.1 Human resources

At the end of 2007, the Swiss National Bank employed 656 persons (including 26 apprentices). This was 8 fewer than a year previously. In terms of full-time equivalents, this corresponded to 617.9 positions (2006: 623.8). The percentage of part-time staff was 21.3% (21.4% in 2006). Staff turnover rose to 9.8% from 5.9% a year earlier.

In the year under review, the SNB issued two documents which set out fundamental guidelines for the employees: a fully revised version of the bank's Charter, and the first-ever edition of a Code of Conduct. The Charter, which conveys the SNB's values and corporate culture, determines the fundamental approach towards both external parties and staff, while the Code of Conduct establishes a number of ground rules to be adopted by the employees.

In 2007, the SNB introduced a feedback system as part of its management and organisation development programme. This involves comparing managers' self-assessments against their team members' appraisals. Management feedback promotes a culture of confidence-building and communication, cultivates a joint understanding of management issues and assists in the implementation of management principles.

### 4.2 Resources

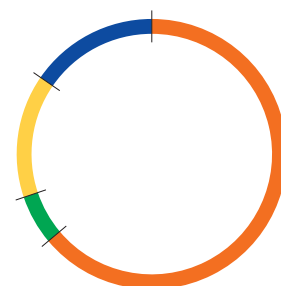
In 2006/2007, the SNB submitted its Research, Economic Analysis and Financial Stability units to an assessment by an international group of experts from central banks and universities. The experts' remit was to critically assess organisation and performance of these units. The reports issued during the year under review awarded good marks to all three specialist units, not only for the way they address and implement the tasks assigned to them but also for the employees' motivation and performance.

**Number of employees and turnover**

**Charter and Code of Conduct**

**Management feedback**

**Assessments**



**Human Resources**  
Number of employees

Full-time, men 419

Part-time, men 39

Full-time, women 97

Part-time, women 101

Total: 656  
At year-end

**Information technology**

The production environment was stable again in 2007. Systems were available at all times and there were no system breakdowns. In April, the SNB launched its new website. The partial insourcing of management activities for equity investments as of July was supported by IT from the outset. The expansion of repo operations in the autumn as a result of the financial market turbulence also required adjustments to IT systems. For the complete renewal of the IT infrastructure for statistics and for the systems used in the analysis of monetary policy, extensive preparatory work took place and, in October, a project was launched. The backup capabilities of the two congruent data processing centres in Zurich and Berne were tested in a large-scale trial.

**Premises**

In 2007, the SNB completed the sale of its bank premises in Lugano to Wegelin & Co, Private Bankers, St Gallen, after the cash office in Lugano had been closed at the end of 2006. The notice advertising the property had attracted both public and private-sector bids. When the issue was discussed on the Bank Council, two members – Konrad Hummler and Marina Masoni – abstained on the grounds of a possible conflict of interests.

In 1991, the SNB took a lease on the property at Seefeldstrasse 8 in Zurich, the owner of which granted it rights of pre-emption both for this and the neighbouring property. These rights were exercised in 2007. Thus, all organisational units of the Berne and Zurich head offices are housed in buildings owned by the SNB.

**Internal control system and operational risks**

In 2007, the SNB issued specifications on the documentation of its internal control system. These relate to the use of the numerous documents already existing and the consistent representation of the control system into significant accounting and financial reporting processes. The processes for identifying operational risks also underwent further development. A risk map was drawn up for selected risks. As part of the business continuity management programme, detailed analyses were conducted to secure banking operations in exceptional situations (pandemics, etc.) and appropriate contingency measures were introduced.

**Environmental management**

The environmental performance evaluation for 2006, which was completed in mid-2007, showed an increase in resource utilisation. Energy consumption rose by 4% and the total distance travelled for business purposes increased by 14%. Electricity and heating consumption per employee each decreased by 7%. The percentage of electricity consumed by the SNB bearing the 'naturemade star' quality mark (i.e. generated by hydroelectric and solar plants) rose from 14% to 50% in the year under review. The complete results of the environmental performance evaluation can be viewed at [www.snb.ch](http://www.snb.ch). The evaluation is published annually at the end of June for the previous year.

## 4.3 Bank bodies and management

On 9 March 2007, the Federal Council appointed

Eveline Widmer-Schlumpf, Felsberg, Member of the Cantonal Government and Head of the Finance and Municipalities Department of the Canton of Graubünden, and Member of the Bank Council, as Vice-President of the Bank Council, to take effect following the General Meeting of Shareholders on 27 April 2007.

**Bank Council**

On 9 March 2007 and 16 May 2007 respectively, the Federal Council appointed the following new members to the Bank Council:

Jean Studer, Neuchâtel, Member of the Cantonal Government and Head of the Justice, Security and Finance Department of the Canton of Neuchâtel,

Laura Sadis, Lugano, Member of the Cantonal Government and Head of the Department of Finance and Economic Affairs of the Canton of Ticino.

At the General Meeting of Shareholders held on 27 April 2007, the following new member was elected to the Bank Council:

Daniel Lampart, Zurich, Chief Economist of the Swiss Federation of Trade Unions.

The following members resigned from the Bank Council:

Marina Masoni resigned with effect from the end of June 2007.

Eveline Widmer-Schlumpf left office at the end of 2007 owing to her election to the Federal Council.

Ueli Forster announced his retirement as of the end of his four-year term of office, i. e. as of 25 April 2008.

The National Bank thanks the departing members for their valuable services.

All other members of the Bank Council are standing for re-election for a further term of office.

On 20 February 2008, the Federal Council appointed

Jean Studer, Member of the Cantonal Government and Head of the Justice, Security and Finance Department of the Canton of Neuchâtel, as Vice-President of the Bank Council.

The other, current members of the Bank Council (cf. p. 132) were re-elected by the Federal Council for the 2008–2012 term of office. The by-election will take place on a later date.

On 27 April 2007, the General Meeting of Shareholders elected PricewaterhouseCoopers Ltd., Zurich, as the Audit Board for the 2007/2008 term of office.

**Audit Board**

**Governing Board and  
Enlarged Governing Board**

In 2006, the Federal Council appointed  
Philipp M. Hildebrand, as Vice-Chairman of the Governing Board and  
Head of Department II,

Thomas J. Jordan, as Member of the Governing Board and Head of  
Department III,

Dewet Moser, as Alternate Member of the Governing Board and Deputy  
Head of Department III.

They took up their new positions on 1 May 2007.

**Bank management**

At the end of June, Peter Klauser retired after 33 years of service. He  
was appointed as Deputy Head of Department I in 1982. In this position, he  
played a key role in handling numerous important assignments for the bank  
management. His last position was that of Head of Legal and Administrative  
Affairs. His role as co-chairman of the FDF's group of experts on the drafting  
of a new National Bank Act merits special mention.

François Ganière retired at the end of 2007 following 20 years of  
service. Initially in charge of the Lausanne office, he became the delegate for  
regional economic relations in the Cantons of Vaud and Valais.

Hans-Christoph Kesselring retired at the end of August following  
25 years of service. After a management career on the operational side of  
the banking business, he played a key role in the editing and production of  
the commemorative publication marking the SNB's centenary.

At the end of May 2007, Christoph Menzel retired after 32 years with  
the bank. He was the Head of the Statistics unit during a time of expansion  
and professionalisation of the SNB's statistical activities.

The SNB wishes to thank these gentlemen for their many years of  
service, their great dedication and their invaluable contributions.

## 5 Business performance

### 5.1 Annual result

The Swiss National Bank's 2007 annual result comes to CHF 7,996 million, compared with CHF 5,045 million in 2006. As was the case last year, valuation gains on gold holdings are the largest contributory factor.

The distributable profit remaining after the allocation of CHF 751 million to the provisions for currency reserves, as prescribed by law, amounts to CHF 7,245 million. The profit distribution for the 2007 financial year totals CHF 2,502 million. The remaining CHF 4,743 million will be channelled into the distribution reserve.

The price of gold rose by 22% last year, attaining CHF 30,328 per kilogram on the balance sheet date. The resulting valuation gain on gold holdings amounts to CHF 6,433 million (2006: CHF 4,188 million). In addition, CHF 13 million interest income was earned from gold lending transactions (2006: CHF 16 million).

In June, the SNB announced the sale of 250 tonnes of gold by September 2009, of which 145 tonnes had been sold by the end of 2007. At year-end, the SNB's gold holdings amounted to 1,145 tonnes in the form of gold bars and coins plus gold lending.

At CHF 51 billion, the SNB's foreign currency investments still account for a significant proportion of assets (40%). Although they include investments such as shares and money market instruments, for the most part foreign currency investments comprise fixed-interest rate instruments. These also made the largest contribution to earnings of CHF 1,338 million (2006: CHF 820 million). As opposed to 2006, interest income was not cut into by capital losses. Capital gains were recorded on dollar investments, in particular, where significant interest rate declines on the capital markets caused the prices of the securities held to rise. For shares, net income from dividends and net price gains amounted to CHF 89 million (2006: CHF 621 million).

An exchange rate-related valuation loss of CHF 723 million was recorded on foreign currency investments (2006: CHF 546 million). Despite the fact that investments in euros and Canadian dollars recorded exchange rate gains, the impact of lower prices for the US, UK and Japanese currencies at the end of the year was greater.

The net result from Swiss franc investments came to CHF 427 million (2006: CHF 229 million), consisting mainly of income from repo transactions.

Operating expenses comprise banknote and personnel expenses, general overheads and depreciation on tangible assets. They amounted to CHF 243 million (2006: CHF 233 million). The activities organised by the SNB to mark its centenary contributed to the increase.

**Summary**

**Continuing rise in the gold price**

**Substantial interest income ...**

**... and exchange rate losses**

**Net result from Swiss franc investments**

**Operating expenses**

### Breakdown of operating expenses by cost unit

Cash transactions – including the costs of banknote production – remained responsible for the greatest proportion of operating costs (35%). Monetary policy (including statistics) accounted for 23% of operating costs, while the management of currency reserves took about 19%. The other cost units, including services for third parties (international cooperation, Study Center Gerzensee), financial system stability, liquidity supply, services for the Confederation and cashless payment transactions accounted for the remaining 23% of costs.

### Outlook

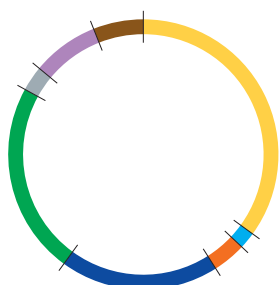
The SNB's financial result is decisively influenced by price developments in the financial markets (gold price, exchange rates, shares prices, interest) and can therefore fluctuate considerably from one reporting period to the next. From an operational perspective, there are currently no projects that might have a major bearing on financial results in the future.

## 5.2 National Bank Act requirements on setting aside provisions

### Purpose

Under the National Bank Act (NBA), the SNB is required to set aside provisions from its earnings surplus to build up currency reserves. These reserves allow it to intervene on the market in the event of a weakness in the Swiss franc. The currency reserves also make Switzerland's economy less vulnerable to international crises and thereby engender confidence in the Swiss franc. The need for currency reserves grows in tandem with the size and international integration of the Swiss economy.

Moreover, the provisions for currency reserves have a general reserve function; they cover the market, credit and liquidity risks of the National Bank's investments.



### Cost units In percent

Cash transactions	35
Cashless payment transactions	2
Liquidity supply	4
Currency reserves	19
Monetary policy	23
Services on behalf of the Confederation	3
Services on behalf of third parties	8
Financial system stability	6

In accordance with art. 30 para. 1 NBA and the profit distribution agreement of 5 April 2002 between the Federal Department of Finance (FDF) and the SNB, 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 the economy. The targeted percentage rise is based on the average GDP growth of the most recent five years.

### Development of targeted level

	Growth in nominal GDP In percent (average period) <sup>1</sup>	Annual allocation CHF millions	New targeted level <sup>2</sup> CHF millions
2003	2.3 (1997–2001)	829.3	36 886.7 <sup>2</sup>
2004	2.4 (1998–2002)	885.3	37 841.0 <sup>3</sup>
2005	2.1 (1999–2003)	794.7	38 635.7
2006	2.3 (2000–2004)	888.6	39 524.3
2007	1.9 (2001–2005)	751.0	40 275.3
2008	2.5 (2002–2006)	1 006.9	41 282.2

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

2 Including CHF 7817.5 million from the integration of the provisions for market and liquidity risks on gold on 1 January 2003 (cf. 96<sup>th</sup> Annual Report 2003, pp. 105–106).

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

In the reporting year, the required provisions for currency reserves amount to CHF 751 million, in accordance with the average growth in GDP during the 2001–2005 period, which was 1.9% in nominal terms. The allocation is to be made as part of the appropriation of the 2007 annual result.

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. For the 2007 financial year, the distributable annual profit amounted to CHF 7,245 million.

**Allocation from the 2007 annual result**

**Distributable annual profit**

## 5.3 Profit distribution

### Profit distribution to the Confederation and the cantons

In accordance with art. 31 NBA, one-third of profits – to the extent that they exceed the dividends – are distributed to the Confederation and two-thirds to the cantons. The amount of the profit distribution is laid down in an agreement between the SNB and the FDF. In the year under review, CHF 2,500 million will be distributed, as in previous years.

In 2007, the profit distribution agreement of 5 April 2002 was reviewed, as planned. In view of the need for adjustments, the FDF and the SNB decided to draw up a new agreement. Under this agreement, CHF 2,500 million will continue to be distributed annually from 2008 to 2017.

### Dividends

In addition to the agreed distribution of CHF 2,500 million to the Confederation and cantons, a total of CHF 1.5 million is to be paid in the form of dividends. Dividend payments are governed by art. 31 NBA, and are limited to a maximum of 6% of the nominal value.

### Distribution reserve

The difference between the distributable profit for the financial year and the actual profit distributed to the Confederation and cantons (pursuant to the agreement) and to the shareholders (in the form of dividends pursuant to the NBA) is entered in the distribution reserve. The distributable profit for 2007 exceeds the distribution by CHF 4,743 million. Consequently, the distribution reserve will rise to CHF 22,872 million.

### Profit distribution and distribution reserve

	Residual surplus prior to distribution In CHF millions	Profit distribution <sup>1</sup> In CHF millions	Residual surplus for future distributions In CHF millions
2003	13 047.0	2 800.0	10 247.0 <sup>2</sup>

1 Excluding per capita distribution to the cantons; excluding dividends.

2 Cf. 97<sup>th</sup> Annual Report 2004, p. 126, on transfer of the residual surplus for future distributions to the distribution reserve.

3 Total at year-end as per balance sheet (cf. p. 99).

	Distribution reserve prior to distribution <sup>3</sup> In CHF millions	Distributable annual profit In CHF millions	Profit distribution In CHF millions	Distribution reserve after distribution In CHF millions
2004	10 235.5 <sup>2</sup>	20 727.6	24 014.7	6 948.4
2005	6 948.4	12 026.5	2 501.5	16 473.4
2006	16 473.4	4 156.7	2 501.5	18 128.7
2007	18 128.7	7 244.5	2 501.5	22 871.7

## 5.4 Currency reserves

The major part of the currency reserves held by the SNB consist of gold (including claims from gold transactions) and foreign currency investments. The reserve position in the International Monetary Fund (IMF), international payment instruments, and the positive and negative replacement values of derivative financial instruments are also allocated to currency reserves. Liabilities in foreign currencies reduce the level of currency reserves.

In the short term, the currency reserves fluctuate as a result of inflows and outflows of funds as well as valuation changes. In the medium and long term, the aim is to ensure that currency reserves grow in step with the economy. In order to achieve this aim, the National Bank does not distribute its entire profit, withholding part of the annual result in the form of provisions for currency reserves entered on the liabilities side of the balance sheet (cf. 5.2).

**Definition**

**Amount**

### Composition of currency reserves

**Composition**

In CHF millions	31.12.2007	31.12.2006	Change
Gold	30 531.8	29 190.2	+1 341.6
Claims from gold transactions	4 243.7	3 030.3	+1 213.4
Foreign currency investments	50 586.3	45 591.9	+4 994.4
Reserve position in the IMF	406.0	557.3	-151.3
International payment instruments	281.7	330.8	-49.1
Derivative financial instruments	-7.0	-36.0	+29.0
Less: foreign currency liabilities	-1 127.6	-1.8	-1 125.8
<b>Total</b>	<b>84 914.9</b>	<b>78 662.7</b>	<b>+6 252.2</b>