

Business Report

1 Legal framework

1.1 Agreement on distribution of proceeds from gold sales

On 25 February 2005, the Federal Department of Finance (FDF) and the Swiss National Bank (SNB) concluded a special agreement on the distribution of the proceeds from the sale of 1,300 tonnes of gold. Under this agreement, the SNB distributed the countervalue of the 1,300 tonnes of gold no longer required for monetary policy – i. e. CHF 21.1 billion – from its 2004 annual profit, with one-third going to the Confederation and two-thirds to the cantons. The proceeds were distributed in ten weekly tranches after the SNB's 2005 General Meeting of Shareholders and in addition to the regular profit distribution of CHF 2.9 billion for the 2004 financial year.

The above-mentioned agreement was concluded on the basis of the Council of States' decision of 16 December 2004 not to consider – for the second time – the Federal Council's proposal regarding the appropriation of the SNB's gold assets (cf. 97th Annual Report 2004, pp. 73–74). The attempt to create a new legal basis for the appropriation of the surplus gold reserves had thus failed in both Federal Chambers. On 2 February 2005, the Federal Council decided not to submit a new proposal on the appropriation of the gold assets to Parliament, but to have the SNB distribute these assets to the Confederation and the cantons in accordance with the existing law (art. 99 para. 4 Federal Constitution in conjunction with arts. 30–31 National Bank Act). On 25 February 2005, the Bank Council resolved to liquidate the provisions for the assignment of free assets in the income statement as at 31 December 2004. The supplementary agreement concluded between the FDF and the SNB on 12 June 2003 regarding the distribution of income on free assets (cf. 96th Annual Report 2003, p. 48) became null and void following the distribution of the proceeds from the sale of gold.

**Distribution to
the Confederation and
the cantons**

**Council of States, Federal
Council and Bank Council
in agreement**

1.2 Cosa initiative and indirect counter-proposal

Cosa initiative

The people's initiative "National Bank profits for the Old Age and Survivors' Insurance Fund (AHV/AVS)", better known as the Cosa initiative, which was submitted in October 2002 and demands that the National Bank's net profit be allocated to the AHV/AVS (minus an annual amount of CHF 1 billion to be distributed to the cantons), was blocked for several months in 2005 in the Federal Chambers. While the Council of States had recommended rejecting the initiative without a counter-proposal in December 2004, the National Council passed such a counter-proposal (cf. 97th Annual Report 2004, pp. 73–74).

Agreement on use of Confederation's share of National Bank gold

At the end of October, a proposal that had been discussed among the parties represented in the Federal Council was submitted to the National Council's Committee for Economic Affairs and Taxation. This proposal foresees channelling the Swiss Confederation's share of the proceeds from the sale of the National Bank's gold reserves no longer required for monetary policy (roughly CHF 7 billion) to the Old Age and Survivors' Insurance Fund (AHV/AVS). Based on this, the Commission drafted a federal act on the use of the Confederation's share of the National Bank gold. The act is seen as an indirect counter-proposal to the Cosa initiative, only entering into force should the people's initiative fail to get a "yes" vote. It was passed by the National Council and subsequently by the Council of States in the December session and approved in both councils in the final vote of 16 December 2005. At the same time, the two councils agreed to recommend the electorate and the cantons to reject the Cosa initiative. The issue will be put to the vote in September 2006.

2 Organisation and tasks

The National Bank's management and executive body is the Governing Board. It is primarily responsible for monetary policy, asset management strategy and international monetary cooperation. The Governing Board is independent in the fulfilment of its monetary policy mandate. The Enlarged Governing Board consists of the three members of the Governing Board and their three deputies and is responsible for the operational management of the National Bank. The Bank Council, meanwhile, oversees the SNB's business activity and the Internal Auditors report directly to it.

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 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, the representative offices – located in Basel, Lausanne, 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, 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 monetary policy concept is drawn up in Department I. The Economic Affairs unit provides the basis for monetary policy decisions. It analyses the economic situation and developments in Switzerland and abroad and produces the inflation forecast. Delegates for regional economic relations 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 exchange reserves and Swiss franc assets are the responsibility of the Asset Management and Financial Market Operations units in Department III. Investment strategy and risk control are dealt with by the unit of the same name. The Bank Council's Risk Committee oversees risk control.

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 checks the cash returned to it and replaces banknotes and coins that no longer meet requirements.

Cash transactions

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

Cashless payment transactions

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 Banking Operations and Financial Market Operations 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 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 both with the international aspects of monetary policy and with technical assistance.

Statistics

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

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.

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, SR 951.11) and the Regulations on the Organisation of the Swiss National Bank of 14 May 2004 (Organisation Regulations, 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 which totals CHF 25 million and which is paid up in full (art. 25 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 appointed by the Federal Council; the remaining five are elected by the General Meeting of Shareholders (art. 39 NBA). The Bank Council set up a Compensation Committee, a Nomination Committee, an Audit Committee and a Risk Committee, each comprising two to three Bank Council members (arts. 11–14 Organisation Regulations). 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 be registered for more than 100 votes (art. 26 para. 2 NBA). Shareholders may only be represented at the General Meeting of Shareholders 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 General Meeting of Shareholders (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).

Basic principles

Corporate bodies and responsibilities

Shareholders' rights

Remuneration and affiliations of bodies

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. pp. 122–123).

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 lumpsum compensation for representation expenses. The remuneration of the members of the Bank Council and the Governing Board currently in office breaks down as follows:

In CHF thousands	2005	2004	Change
Members of the Bank Council	722	659 ¹	+63
of which for the President of the Bank Council	130	114	+16
of which for the Vice-President of the Bank Council	60	54	+6
Three members of the Governing Board	1 819	1 764	+55
of which for the Chairman of the Governing Board ²	637	620	+17
of which for the Vice-Chairman of the Governing Board	591	572	+19

¹ Before the entry into force of the new NBA on 1 May 2004, the Bank Council consisted of 40 members.

² Including remuneration in the amount of CHF 45,000 (2005) and CHF 28,000 (2004) for serving on the BIS Board of Directors.

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 or Bank Council as at 31 December 2005.

In the 2005 financial year, fees for the statutory auditing mandate totalled CHF 269,504. PricewaterhouseCoopers Ltd. has been entrusted with the mandate since 2004, and the chief auditor has been in office since then. The Audit Board was not given any other mandates. A special IT audit mandate (with a fee totalling CHF 19,368) was awarded to Compass Security Network Computing 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. 130–132). 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.

Information for shareholders

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. 108). The major shareholders at the end of 2005 were the Canton of Berne with 6.6% (6,630 shares) and the Canton of Zurich with 5.2% (5,200 shares). The Confederation is not a shareholder.

Listed registered shares

The National Bank is not structured as a group.

4 Personnel, resources and bank management

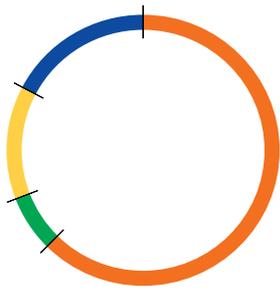
4.1 Human resources

At the end of 2005, the National Bank employed 671 persons (including 23 apprentices) – 15 persons (including one apprentice) more than the previous year. In full-time equivalents, this corresponded to 625 positions (2004: 611.3). The number of part-time employees increased by 11 to 161, bringing the part-time rate up to 24.0%. Staff turnover edged down to 4.7% from 4.9% a year earlier.

The National Bank conducted a staff survey on job satisfaction for the second time. As 88% of the employees participated in the 2005 survey, it yielded representative results. General satisfaction was higher than in the first survey in 2001 and above the average recorded at comparable companies in Switzerland. The potential for improvement is now being evaluated at all levels throughout the SNB and discussed with the staff. Suitable measures will be implemented.

Number of employees and turnover

Employee satisfaction



Human Resources Number of employees

Full-time, men 419

Part-time, men 45

Full-time, women 91

Part-time, women 116

Total: 671
End of 2005

4.2 Resources

In the year under review, cost-unit accounting was reorganised in conformity with the new National Bank Act (NBA). The number of cost units was increased from six to eight. *Cash transactions* (including banknote production) incurred 39% of operating costs, which is still the largest share. *Monetary policy* (including statistics) followed with a share of 20%, and the management of *currency reserves* with around 17%. The other cost units, namely *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 24% of costs, with shares ranging from almost 8% to around 2%.

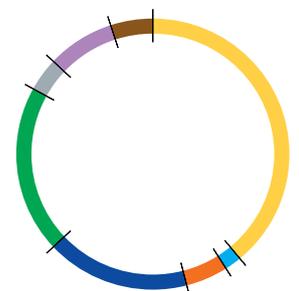
As information technology had to fulfil new business requirements, various applications in the field of banking transactions, statistics and the SNB's operational activities had to be extended. This related in particular to Asset Management, Money Market and Foreign Exchange, Payments, and Central Accounting, as well as to archiving, document management, and internal and external information. Measures to ensure the secure and reliable operation of the IT systems continued to absorb a substantial proportion of the available IT resources. The technical facilities for secure communication with external parties were partly updated, and the IT services for the productive use of the systems were optimised.

As in previous years, the main focus in the area of real estate was on the renovation of the premises at Börsenstrasse 15 and Nüscherstrasse 22 in Zurich. The renovated building at Nüscherstrasse was ready for use on 2 May as planned and now houses the organisational units Statistics as well as Financial Stability and Oversight. The final phase of the Börsenstrasse project, i.e. the renovation of the three office floors, started in June. All renovation work and the related large-scale relocation of offices went according to schedule.

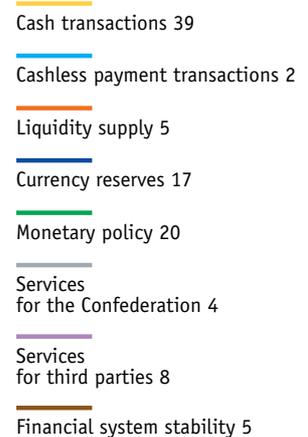
Cost-unit accounting

Information technology

Real estate



Cost units In percent



Environmental management

The SNB's latest environmental performance evaluation (for 2004) revealed that the trend in the past few years to reduce the use of resources did not continue in all areas. Due to the renovation work at the Zurich office, heat consumption was considerably higher than in previous years. Air travel emissions and office waste increased as well. The efforts to reduce water and paper consumption yielded further results. Overall, the emission of greenhouse gases rose by approximately 2% year-on-year. Greenhouse gas emission was the focus of environmental management in 2005. The Environmental Committee decided to purchase ecologically produced electricity to neutralise greenhouse gases.

4.3 Supervisory and management bodies

Bank Council

The composition of the Bank Council remained unchanged in 2005.

Audit Board

On 29 April 2005, the General Meeting of Shareholders elected PricewaterhouseCoopers Ltd., Zurich, as the Audit Board for the 2005/2006 term of office.

Bank management

At the end of March 2005, Rudolf Hug, who had headed the National Bank's Information Technology unit for 16 years, went into retirement. His vast expertise and management skills coupled with his wealth of experience were very valuable for the SNB. The National Bank wishes to thank him for his commitment.

5 Business performance

5.1 Financial result

The 2005 business year was strongly affected by the advances in both the price of gold and the value of the US dollar. This gave rise to substantial valuation gains which resulted in an extraordinarily high annual result of CHF 12,821 million. The distributable profit remaining after the allocation of CHF 795 million to the provisions for currency reserves, as prescribed by law, amounted to CHF 12,027 million. The profit distribution for 2005 totals CHF 2,502 million. The remaining CHF 9,525 million will be channelled into the distribution reserve.

Valuation gains were the dominant element in the net result from gold, which totalled CHF 7,457 million. In the course of 2005, the gold price rose substantially. At CHF 21,692 per kilogram, it closed 36% higher than at the end of 2004, the biggest increase since 1979. A valuation gain of CHF 7,439 million was recorded on the SNB holdings of 1,290 tonnes of gold. Consequently, this element contributed more than the half of the entire annual result.

About three-quarters of foreign currency investments made by the Swiss National Bank (SNB) are denominated in euros and US dollars. While the euro exchange rate closed only slightly higher than the previous year, the value of the dollar was considerably higher, at 17% up. This had a pronounced effect on the result from foreign currency investments. Exchange rate gains were also recorded for all other foreign currency holdings apart from investments in Japanese yen. Thus, at a total CHF 2,507 million, exchange rate gains accounted for almost half the net result of CHF 5,327 million from foreign currency investments.

Interest rates in the market segments of interest to the SNB declined slightly, apart from investments in US dollars, where there was an increase. In 2005, capital losses on dollar investments were more or less balanced out by capital gains on investments in other currencies. In 2004, capital gains had clearly predominated. In addition, due to the distribution of the proceeds from gold sales, the holdings of investments in foreign currencies declined. This resulted in a fall in interest income. At CHF 2,091 million, total interest income and capital gains were about one-third lower than in the previous year.

Last year, the National Bank expanded its investment spectrum, investing a small portion of its currency reserves in foreign shares. Due to favourable market developments, these investments earned a total of CHF 742 million (dividends and price gains).

Summary

Unusually strong increase in gold price

Substantial exchange rate gains on foreign currency investments

Decline in interest income and capital gains

Shares as a new investment category

Net result from Swiss franc investments maintained

At CHF 296 billion, the net result from investments denominated in Swiss francs was almost exactly the same as in 2004. The substantial drop in earnings on Swiss franc securities was almost offset by higher interest income from repo transactions in Swiss francs. For Swiss franc securities, lower holdings of investments due to the distribution of gold sales proceeds as well as reduced capital gains led to a decline in earnings. In the case of repo transactions in Swiss francs, the rise in money market interest rates resulted in higher earnings.

Higher operating expenses

Operating expenses comprise banknote and personnel expenses, general overheads and depreciation on tangible assets. At CHF 272 million, this item was CHF 59 million higher in 2005 than in the previous year. Of this amount, CHF 49 million was attributable to impairment losses on the real estate portfolio. All properties underwent impairment tests in 2005. These tests were conducted in conjunction with a real estate specialist and revealed that property values reflected only part of the figure carried as assets in respect of renovation work and conversions specifically undertaken for the head office in Zurich. Developments in cash distribution prompted the National Bank to further concentrate its cash handling processes. Consequently, it is reorganising its cash distribution services in Zurich, Berne and Geneva, and is closing its cash distribution service in Lugano with effect from the end of 2006, subject to approval from the Federal Council. A provision of CHF 5 million was made for early retirements arising out of this development, and charged to other personnel expenses.

Proceeds from sale of surplus gold reserves distributed

Between May and July, proceeds from the sale of surplus gold reserves amounting to CHF 21,113 million were distributed. One-third of this sum was paid out to the Confederation and two-thirds to the cantons. The distribution was made from the 2004 annual result and financed from the sale of foreign currency and Swiss franc security.

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 National Bank Act (NBA) to set aside provisions from its earnings surplus to build up currency reserves. These reserves allow the National Bank to intervene on 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 currency 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 investments are exposed.

In accordance with art. 30 para. 1 NBA and the profit distribution agreement of 5 April 2002 between the SNB and the Federal Department of Finance (FDF), 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
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
2006	2.3 (2000–2004)	888.6	39 524.3

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.

Allocation from the 2005 annual result

This year's increase in the targeted level of provisions amounts to CHF 795 million, in accordance with the average growth in GDP during the 1999–2003 period, which was 2.1% in nominal terms. The allocation is to be made as part of the appropriation of the 2005 annual result.

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. For the 2005 business year, the distributable annual profit amounted to CHF 12,027 million.

5.3 Profit distribution

Profit distribution agreement

In accordance with art. 31 NBA, one-third of profits are distributed to the Confederation and two-thirds to the cantons. The amount of the annual profit distribution is laid down in an agreement between the National Bank and the Federal Department of Finance.

According to the latest agreement, concluded on 5 April 2002, the amounts distributed to the Confederation and the cantons are fixed in advance, with the aim of achieving a steady flow of payments in the medium term. The figure of CHF 2,500 million each year for the ten years 2003–2012 is based on an earnings forecast. The agreement covers year-to-year National Bank profits and the reduction of the distribution reserve. It will be reviewed once five years have elapsed.

Expiry of supplementary agreements

An agreement concluded on 25 February 2005 (cf. p. 67) governed the non-recurring special distribution of CHF 21,113 million to the Confederation and the cantons, corresponding to the countervalue of the 1,300 tonnes of gold no longer required for monetary policy purposes. This distribution was carried out in ten weekly tranches between the beginning of May and the middle of July 2005, in accordance with the resolution of the General Meeting of Shareholders on 29 April 2005.

Thus the supplementary agreement concluded on 12 June 2003 – relating to earnings on invested proceeds from gold sales, as long as these were managed by the National Bank – is no longer applicable. Under this agreement, the National Bank had paid out CHF 300 million to the Confederation and the cantons from the annual result for 2003 and CHF 400 million from the result for 2004, over and above the normal profit distribution.

2005 profit distribution

In accordance with the relevant agreement, the profit distributed to the Confederation and the cantons for the 2005 business year will amount to CHF 2,500 million. Dividend payments will amount to CHF 1.5 million.

Distribution reserve

Pursuant to the agreement, the difference between distributable profit for the year and actual profit distributed will be shown in the distribution reserve. The distributable profit for 2005 exceeds the distribution by CHF 9,525 million. Consequently, the distribution reserve will rise to CHF 16,473 billion.

Development of profit distribution and distribution reserve

	Residual surplus prior to distribution CHF millions	Profit distribution ¹ CHF millions	Residual surplus for future distributions CHF millions
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 ²

	Distribution reserve prior to distribution CHF millions	Distributable annual profit CHF millions	Profit distribution CHF millions	Distribution reserve after distribution CHF millions
2004	10 235.5 ²	20 727.6	24 014.7	6 948.4
2005	6 948.4	12 026.5	2 501.5	16 473.4

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

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

5.4 Currency reserves

The major part of the currency reserves held by the National Bank consist of gold (including claims from gold transactions) and foreign currency investments. The reserve position at the 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. The free assets managed by the National Bank until their distribution were not included in the 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 they grow in step with gross domestic product (GDP). In order to achieve this goal, the National Bank does not distribute its entire annual result, withholding part of the earnings surplus in the form of provisions entered on the liabilities side of the balance sheet (cf. 5.2, p. 79).

Definition

Composition

Composition

	31.12.2005	31.12.2004	Change
In CHF millions			
Gold	25 066.0	18 463.5 ¹	+6 602.5
Claims from gold transactions	2 984.2	2 153.4	+830.8
Foreign currency investments	46 585.5	41 270.0 ¹	+5 315.5
Reserve position in the IMF	1 079.8	2 035.1	-955.3
International payment instruments	78.9	80.1	-1.2
Derivative financial instruments	34.1	150.4 ¹	-116.3
less: foreign currency liabilities	-230.8	-0.5	-230.3
Total	75 597.7	64 152.0	+11 445.7

1 Excluding free assets.

Developments in the last five years

Development

	Holdings at year-end	Year-on-year change
In CHF millions		
2001	66 137.4	-2 565.7
2002	65 492.4	-645.0
2003	65 749.9	+257.5
2004	64 152.0	-1 597.9
2005	75 597.7	+11 445.7

