Business Report

1 Legal framework

1.1 Rejection of the Cosa initiative

National vote on 24 September 2006

The people's initiative, "National Bank profits for the Old Age and Survivors' Insurance Fund (AHV/AVS)", better known as the Cosa initiative, was submitted in October 2002. It called for the Swiss National Bank's net profit to be allocated to the AHV/AVS (minus an annual amount of CHF 1 billion that was to be distributed to the cantons). On 24 September 2006, the country voted on this initiative as well as an indirect counter-proposal put forward by the Federal Assembly, that the Swiss Confederation's share in the proceeds from the sale of the SNB's gold reserves that were no longer required (about CHF 7 billion, cf. *98th Annual Report 2005,* p. 68) be paid into the AHV/AVS. This counter-proposal was only to enter into force should the people's initiative fail to be approved.

Clear result

In a hard-fought campaign, the SNB spoke out decisively against the initiative, putting forward both its independence and its credibility as arguments. The Cosa initiative was finally defeated with 41.7% votes in favour and 58.3% – as well as a clear majority of the cantons – against. Voter turnout was unusually high. The SNB was pleased with the outcome of the vote, since it can now maintain its stability-oriented policy without any change in the conditions under which it operates.

1.2 Revision of the Organisation Regulations

Initial experiences

The Organisation Regulations of 14 May 2004 constitute the SNB's basic internal rules. They lay down the basic features of the National Bank's organisational structure, stipulate the procedure to be followed at the General Meeting of Shareholders, define the tasks and powers of the Bank Council, Governing Board and Enlarged Governing Board, and contain various procedural regulations. Since they came into force on 1 July 2004, most practical experiences with the new regulations have been positive, but there have been a few individual areas where it was felt that improvements could be made. In addition, on 21 October 2005, the Bank Council decided to close the cash office in Lugano with effect from the end of 2006, and to replace it with a representative office (cf. *98th Annual Report 2005,* p. 44), and this also necessitated an adjustment to the regulations.

Partial revision

The Bank Council therefore adopted – on 31 March 2006 – a partially revised version of the Organisation Regulations. This was approved by the Federal Council on 16 June 2006. The new version includes more precise definitions of the responsibilities of the Bank Council, the Bank Council's Risk Committee, the Governing Board and the Enlarged Governing Board. It also contains changes in the provisions relating to the organisational structure, arising out of the closure of the cash office in Lugano.

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 investment strategy and international monetary cooperation. The Governing Board fulfils its monetary policy mandate independently. 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 SNB. The Bank Council, meanwhile, oversees the National Bank'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; 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 drawn up in 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 Money Market and Foreign Exchange unit in Department III implements monetary policy by carrying out transactions in the financial markets. It 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 in Department III. Investment strategy and risk control are dealt with by the Risk Management unit, also in Department III. The Bank Council's Risk Committee oversees risk control.

Cash transactions

The tasks relating to cash transactions fall within the domain of the Cash unit in Department II. The SNB 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.

Conceptual and technical issues related to cashless payment transactions are dealt with by the Financial Stability and Oversight unit in 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 Stability and Oversight unit in Department II helps to ensure the stability of the financial system and oversees the systemically important payment and securities settlement systems.

Financial system stability

Acting as the bank of the Confederation is a function performed by the Banking Operations unit and the Money Market and Foreign Exchange unit, both of which belong to Department III. These units settle domestic and foreign payments, are involved in the issue of money market debt register claims and bonds, and assist the Confederation in safekeeping its securities. They also conduct money market and foreign exchange transactions on behalf of the Confederation.

Banker to the Confederation

The International Affairs unit in Department I handles the international aspects of monetary policy as well as technical assistance.

International monetary cooperation

The Statistics unit in 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 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.

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, statutes and regulations fulfil the function of articles of association. The National Bank has a share capital totalling CHF 25 million and consisting of 100,000 registered shares at a nominal value of CHF 250 each. It is paid up in full.

The SNB is not organised in the form of a group; 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 Federal Council while the remaining five 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 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 reports on 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 elected for a term of one year by the General Meeting of Shareholders. The auditors must meet special professional requirements 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.

Shareholders' 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 SNB fulfils a public mandate and is administered with the cooperation and under the supervision of the Confederation, shareholder rights are less extensive than in the case of joint-stock companies registered under private law. Shareholders from outside the public-law sector may not be registered for more than 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 elected by the General Meeting of Shareholders. Dividends are limited to 6% of the paid-up 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 Federal Council before being submitted to the General Meeting of Shareholders. Other provisions deviating from company law concern the convention 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 by the date indicated, 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.

Meetings and remuneration of bodies

In 2006, the Bank Council held six ordinary meetings (February, March, June, August, October and December) and one extraordinary meeting (November), all of which were also attended by the members of the Governing Board. Its Compensation Committee met once and its Nomination Committee met five times. The Audit Committee met three times, all but once with representatives of the Audit Board. The Risk Committee held two meetings. All of these meetings lasted half a day.

Remuneration of the SNB's bodies is laid down in regulations issued by the Bank Council. Members of the Bank Council receive an annual compensation payment plus attendance allowances for committee meetings. Remuneration paid to members of the Enlarged Governing Board is made up of their salary plus lump-sum compensation for representation expenses.

In the period under review, the SNB 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 Bank Council or Enlarged Governing Board. The National Bank does not grant any loans to governing bodies.

No SNB shares were held by members of the Bank Council or Enlarged Governing Board as at 31 December 2006.

In the 2006 financial year, fees for the statutory auditing mandate totalled CHF 268,000. 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 granted any other mandates.

Information for shareholders

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. Shareholders do not receive any information which is not also made available to the public.

Listed registered shares

The registered shares of the Swiss 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 mostly held by private individuals. The major shareholders at the end of 2006 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.

Cross-reference tables

The basic features of the SNB's structure and organisation are contained in the National Bank Act (NBA), its Organisation Regulations and in the regulations on the Bank Council committees.

NBA (SR 951.11)	www.snb.ch, *The SNB, Legal basis, Constitution and laws*
Organisation Regulations (SR 951.153)	www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*
Regulations on the Compensation Committee	www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*
Regulations on the Nomination Committee	www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*
Regulations on the Audit Committee	www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*
Regulations on the Risk Committee	www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*

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	*Annual Report,* pp. 74, 109
Head offices	Art. 3 para. 1 NBA
Breakdown of capital	*Annual Report,* pp. 74, 109
Bank Council	www.snb.ch, *The SNB, Supervisory and executive bodies, Bank Council*
Members	*Annual Report,* p. 122
Nationality	Art. 40 NBA
Affiliations	*Annual Report,* p. 123
Restrictions on election and term of office	Art. 39 NBA
Initial and current election	*Annual Report,* p. 122
Internal organisation	Arts. 10 et seq. Organisation Regulations
Delimitation of powers	Art. 42 NBA; arts. 10 et seq. Organisation Regulations
Systems of control	*Annual Report,* pp. 53–54; arts. 10 et seq. Organisation Regulations
Executive management	www.snb.ch, *The SNB, Supervisory and executive bodies, Governing Board*
Remuneration	*Annual Report,* p. 101
Shareholders' rights	www.snb.ch, *Shareholders, General Meeting of Shareholders, Participation requirements*
Decision-making quorum	Art. 38 NBA
General Meeting of Shareholders	Art. 35 NBA
Listing in the share register	www.snb.ch, *Shareholders, General Meeting of Shareholders, Participation requirements*
Audit Board	
Information instruments	www.snb.ch, *The SNB, Legal basis, Guidelines and regulations*
Election and requirements	Art. 47 NBA
Tasks	Art. 48 NBA
Information policy	*Annual Report,* pp. 75, 130 et seq.

4 Personnel, resources and bank management

4.1 Human Resources

Number of employees and turnover

At the end of 2006, the Swiss National Bank employed 664 persons (including 24 apprentices). This was 7 fewer than the previous year. In terms of full-time equivalents, it corresponded to 623.8 positions (625 in 2005). The ratio of part-timers was 21.4% (24.0% in 2005). Staff turnover rose to 5.9% from 4.7% a year earlier.

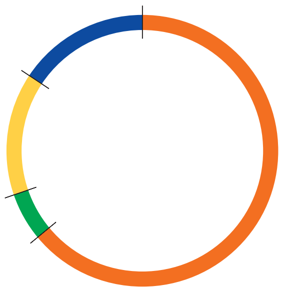
Human resources policy

In the year under review, an initial follow-up questionnaire to the 2005 staff survey on job satisfaction was carried out. A total of 76% of respondents felt that the 2005 survey had identified the correct problems. Respondents' general level of satisfaction with their personal work situation was a little higher than it had been in 2005.

In 2006, staff showed considerable interest in the SNB's range of training and further education opportunities and made active use of these. A total of 536 employees attended internal training events. The events that attracted the greatest numbers were professional training events (106), basic management training (97), safety training events (85), and development events specifically organised for individual organisational units (53), such as team development. In addition, 122 people attended external courses and seminars, while 64 people were enrolled in a course of further education.

Concentration of cash processing operations

For some years, structural changes in the area of cash transactions have triggered a gradual process of concentration in the SNB's cash processing operations. With the reorganisation of its cash distribution services in Zurich, Berne and Geneva, and the closure of the cash distribution service in Lugano, 15 positions were abolished in 2006. However, thanks to early retirements, internal relocations and one external placement, it was possible to avoid layoffs.



Human Resources
Number of employees

Full-time, men 425

Part-time, men 38

Full-time, women 97

Part-time, women 104

Total: 664
At year-end

4.2 Resources

Information technology

In 2006, a new IT strategy was introduced and the IT management structure was adjusted accordingly. IT functions were combined in three organisational units: (1) functions required to fulfil the SNB's statutory mandate, (2) support for internal operations and (3) functions relating to technical infrastructure. In order to cater for the growing complexity in the field of security, a new Information Security unit was created. An IT system to support high-quality control of financial risks was introduced as part of a long-term project. In 2006, IT invested substantial resources in the secure operation of systems. Processing in the data processing centres was stable and the availability of the systems was high. Business continuity measures were reinforced.

Premises

The renovation of the main building at Börsenstrasse 15 in Zurich was completed on 20 November 2006, when the staff restaurant reopened as scheduled. This marked the end of a seven-year renovation period which took in the main building as well as the premises at Fraumünsterstrasse 8 and Nüschelerstrasse 22. All buildings are now in first-class operational, technical and architectural condition.

Internal control system and operational risks

In 2006, the SNB gave serious consideration to the question of operational risks and implemented a bank-wide process for an Internal Control System (ICS) and the management of operational risks. This included the implementation of Control Self Assessments to identify potential deficits in the management of operational risks. Efforts in this area focused mainly on business continuity management and pandemic preparations.

Environmental management: Compensating air traffic emissions

The SNB's tenth environmental performance evaluation revealed that the burden placed on the environment by the National Bank had risen in 2005. To some extent, this was due to the renovation of the main building in Zurich. Although consumption of paper and office waste decreased, energy consumption was up by 3% from the previous year and business travel (in terms of kilometres) again rose, this time by 9%. This increased greenhouse gas emissions by 5%. The SNB decided to compensate greenhouse gas emissions from business air travel from 2007 onwards by supporting climate protection projects that promote renewable energies or energy efficiency.

The complete environmental performance evaluation can be accessed on the SNB website at www.snb.ch, *The SNB, Structure and organisation, Organisation.* A new evaluation is published each year, at the end of June.

4.3 Bank bodies and management

Bank Council

The composition of the Bank Council remained unchanged in 2006.

Following her retirement from the cantonal government of Fribourg, Ruth Lüthi, Vice-President of the Bank Council, tendered her resignation after eight years of service on the Bank Council. Her resignation takes effect on the day of the General Meeting of Shareholders on 27 April 2007.

Serge Gaillard, a member of the Bank Council since 1998, is resigning from the Bank Council following his appointment as head of the Labour Directorate at SECO. His resignation takes effect on 1 February 2007.

The Bank Council and the Governing Board thank Ruth Lüthi and Serge Gaillard for their valuable services to the Swiss National Bank.

Audit Board

On 28 April 2006, the General Meeting of Shareholders elected PricewaterhouseCoopers Ltd., Zurich, as the Audit Board for the 2006/2007 term of office.

Bank management

Niklaus Blattner, Vice-Chairman of the Governing Board and head of Department II, has announced his retirement with effect from the date of the General Meeting of Shareholders on 27 April 2007. On 1 January 2001, the Federal Council appointed him to the Governing Board and he took over responsibility for Department II. He was appointed Vice-Chairman with effect from 1 July 2003. Niklaus Blattner headed Department II during a period of renewal. In addition to his commitment to monetary policy, he developed SNB structures, expertise and reporting in the area of financial stability as well as in the oversight of financial market infrastructure. The Bank Council and the Governing Board thank him for his outstanding services.

On the proposal of the Bank Council, the Federal Council made the following appointments on 8 November and 8 December 2006:

Philipp M. Hildebrand, previously Member of the Governing Board, was appointed the new Vice-Chairman of the Governing Board.

Thomas J. Jordan, previously Alternate Member of the Governing Board and head of Financial Markets in Department III, was appointed Member of the Governing Board.

Dewet Moser, previously head of the Risk Management unit in Department III, was appointed Alternate Member of the Governing Board.

The three new appointments will be taken up on 1 May 2007. Philipp Hildebrand will take over responsibility for Department II and Thomas Jordan for Department III. Dewet Moser will become deputy head of Department III.

5 Business performance

5.1 Financial result

Summary

As in 2005, the increase in the gold price again had a major impact on the National Bank's annual result in 2006, which comes to CHF 5,045 million (2005: CHF 12,821 million). The distributable profit remaining after the allocation of CHF 889 million to the provisions for currency reserves, as prescribed by law, amounted to CHF 4,157 million. The profit distribution for the 2006 financial year totals CHF 2,502 million. The remaining CHF 1,655 million will be channelled into the distribution reserve.

Sharp rise in the gold price

Almost one-third of the SNB's assets are held in gold. In 2006, the gold price per kilogram again rose sharply. At the end of 2006, a one-kilogram gold bullion bar cost CHF 24,939, 15% more than a year earlier. A valuation gain of CHF 4,188 million (2005: CHF 7,439 million) was recorded on the SNB's total holdings of 1,290 tonnes of gold.

Lower net result from foreign currency investments

Foreign currency investments make up approximately 40% of the National Bank's total assets. They largely consist of bonds and also comprise equities and money market investments. Foreign currency investments earned a total of CHF 820 million, which is significantly less than a year earlier (CHF 5,327 million).

... due to capital losses on fixed-interest securities

Fixed-interest securities had to contend with rising interest rates in all markets, and the resulting capital losses lowered the interest income significantly. While the stock markets recorded gains, these were lower than a year earlier.

... and exchange rate losses on the US dollar and the yen

Exchange rate developments led to valuation losses. Although all European investment currencies appreciated from the previous year, these gains were more than offset by the valuation losses brought about by the weaker exchange rates for the US dollar and the yen.

Lower net result from Swiss franc investments

The net result from Swiss franc investments came to CHF 229 million, a year-on-year decline of CHF 67 million. Owing to the rising level of interest rates, Swiss franc securities incurred capital losses that were not completely offset by interest earnings. The rise in money market interest rates, by contrast, doubled the income from repo transactions.

Higher operating expenses

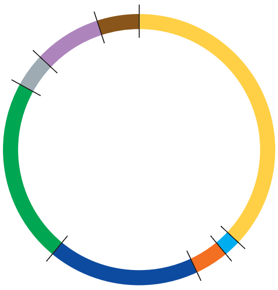
Operating expenses, which total CHF 233 million, comprise banknote and personnel expenses, general overheads and depreciation on tangible assets. If the special expenses incurred in 2005 (unscheduled depreciation on the real estate portfolio; provisions for the reorganisation of cash distribution services) are excluded, operating expenses rose by around CHF 15 million. Most of the increase was accounted for by general overheads.

Breakdown of operating expenses by cost unit

Cash transactions (including banknote production) again incurred the largest share of operating costs, accounting for 37%. Monetary policy (including statistics) followed with a share of 22%, and the management of *currency reserves* with around 18%. 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 23% of costs.

Outlook

The SNB's financial result is decisively influenced by price developments in the financial markets and can thus fluctuate strongly 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.



Cost units
In percent

Cash transactions 37

Cashless payment transactions 2

Liquidity supply 4

Currency reserves 18

Monetary policy 22

Services for the Confederation 4

Services for third parties 8

Financial system stability 5

5.2 Provisions stipulated in the National Bank Act

Purpose

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 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 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; they cover the market, credit and liquidity risks of the National Bank's investments.

Targeted level

In accordance with art. 30 para. 1 NBA and the profit distribution agreement of 5 April 2002 between the Federal Department of Finance and the National Bank, 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, in order to ensure that the currency reserves expand in line with the economy.

Development of targeted level

	Growth in nominal GDP In percent (average period)[1]	**Annual allocation** CHF millions	**New targeted level**[2] CHF millions
2002	3.3[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
2007	1.9 (2001-2005)	751.0	40 275.3

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 After the allocation in the reporting year.
3 Nominal gross national product.
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 2006 annual result

The increase in the targeted level of provisions for 2006 amounts to CHF 889 million, in accordance with the average growth in GDP during the 2000–2004 period, which was 2.3% in nominal terms. The allocation is to be made as part of the appropriation of the 2006 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 2006 financial year, the distributable annual profit amounted to CHF 4,157 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 current 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 financial 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.

2006 profit distribution

In accordance with the relevant agreement, the profit distributed to the Confederation and the cantons for the 2006 financial year will total CHF 2,500 million. Dividend payments will amount to CHF 1.5 million.

Distribution reserve

The difference between the distributable profit for the financial year and the actual profit distributed pursuant to the agreement will be recorded in the distribution reserve. The distributable profit for 2006 exceeds the distribution by CHF 1,655 million. Consequently, the distribution reserve will rise to CHF 18,129 million.

Development of profit distribution and distribution reserve

	Residual surplus prior to distribution In CHF millions	Profit distribution[1] In CHF millions	Residual surplus for future distributions In CHF millions
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 [3] In CHF million	Distributable annual profit In CHF million	Profit distribution In CHF million	Distribution reserve after distribution In CHF million
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
2006	16 473,4	4 156.7	2 501.5	18 128.7

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.
3 Total at year-end as per balance sheet (cf. p. 89).

5.4 Currency reserves

Definition

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 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 GDP. In order to achieve this aim, the National Bank does not distribute its entire profit, withholding part of the earnings surplus in the form of provisions for currency reserves entered on the liabilities side of the balance sheet (cf. 5.2, p. 83).

Composition

Composition

In CHF millions	31.12.2006	31.12.2005	Change
Gold	29 190.2	25 066.0	+4 124.2
Claims from gold transactions	3 030.3	2 984.2	+46.1
Foreign currency investments	45 591.9	46 585.5	–993.6
Reserve position in the IMF	557.3	1 079.8	–522.5
International payment instruments	330.8	78.9	+251.9
Derivative financial instruments	–36.0	34.1	–70.1
less: foreign currency liabilities	–1.8	–230.8	+229.0
Total	78 662.7	75 597.7	+3 065.0

Developments

Developments in the last five years

In CHF millions	Holdings at year-end	Year-on-year change
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
2006	78 662.7	+3 065.0