SCHWEIZERISCHE NATIONALBANK
BANQUE NATIONALE SUISSE
BANCA NAZIONALE SVIZZERA
BANCA NAZIUNALA SVIZRA

President's address by Hansueli Raggenbass, President of the Bank Council, at the Annual General Meeting of the Swiss National Bank on 30 April 2004

Dear Shareholders

Ladies and Gentlemen

Dear guests

The new National Bank Act will enter into force tomorrow. At this year's Annual General Meeting, I would like to briefly inform you of its implications for you as shareholders. Moreover, I will present some reflections on corporate governance, which is becoming increasingly important also for the National Bank. I shall conclude with a few remarks on the 2003 annual financial statements.

New National Bank Act enters into force

The new Act will provide the Swiss National Bank with a modern statutory basis. The Bank's legal form, which is that of a joint-stock company governed by special provisions of law, will not change. This underpins the Bank's constitutional independence. It is therefore also you, as shareholders of the National Bank, who guarantee the independence of Switzerland's central bank. For this, you deserve thanks and recognition! But let us see now how the revised Act concretely affects the shareholders.

Implications for the shareholders

The last comprehensive revision of the National Bank Act dates back more than 50 years. The National Bank Act has a similar function for the National Bank as by-laws for a private stock company. The Act therefore contains not only innovations in the key area of monetary policy – defining the central bank mandate, specifying independence and accountability, extending the scope of action for monetary policy – but also adjustments to the legal reality in relation to private listed stock companies. In particular, this includes abandoning the non-paid-up part of the share capital. The share capital of the SNB currently amounts to CHF 50 million, but only half has ever been paid up. In the Bank’s early days, the share capital was still in an adequate relation to the scope of business. Given the SNB's much higher balance sheet total and its level of provisions today, however, the share capital is no longer significant as a risk-bearing element. The share capital will therefore be lowered to the paid-up amount of CHF 25 million. The nominal value of one SNB share will consequently be reduced from CHF 500 to CHF 250 and will be paid up completely. The share's net value will not be affected. Registration with voting rights is still limited to 100 shares per private shareholder. In future, foreign private individuals or legal entities can also acquire SNB shares including all rights. We have informed you of these changes in the shareholders' letter. We have also notified you that we will no longer print and deliver the share certificates. The Act allows for this possibility, enabling us to simplify the administrative procedure considerably.

Corporate governance to be strengthened

The revised National Bank Act will also strengthen corporate governance. You will ask – and justifiably so – what exactly this is supposed to mean in the case of the National Bank. Corporate governance, i.e. the relationship between the management of a company and supervision, has become increasingly important in recent years. In Switzerland, however, it was only in the mid-1990s that the topic became the focus of public attention. Nevertheless, when company law was revised a decade ago, it already incorporated some aspects of corporate governance, such as a clear definition of the board's tasks or the formation of board committees for specific tasks. Two years ago, the guidelines of the Swiss Stock Exchange SWX and the Swiss Code of Best Practice published by economiesuisse, the Swiss Business Federation, established the principles of corporate governance even more firmly. The new National Bank Act takes account of these developments. Let me give you some examples to illustrate the consequences for the organisation of the National Bank.

Reduction of statutory bodies

The revised National Bank Act provides for a comprehensive reform of the statutory bodies of the Swiss National Bank. For one thing, the number of statutory bodies will be lowered from currently seven to four: the Annual General Meeting, the Bank Council, the Governing Board and the Audit Board. For another, the Bank Council, which is responsible for administrative supervision, will be reduced in number from 40 to eleven members. Its tasks are designed to strengthen the supervisory, organisational and financial responsibilities. This increases the significance of its decision-making, which is why opinion-forming discussions in this body play a more important role. Economic expertise, a deep insight into the financial markets in Switzerland and abroad coupled with broad experience in business management will be even more essential in the new Bank Council than in the past. In particular, the new Bank Council will be responsible for the following tasks: laying down the internal organisation of the Bank, approving the level of provisions, overseeing the investment of assets and risk management, approving the annual report and the annual accounts for submission to the Federal Council and the Shareholders' Meeting, drawing up the proposals for the election of the members of the Governing Board and their deputies to the Federal Council, and laying down the remuneration of its members and the salaries of the members of the Governing Board and their deputies. For the purposes of corporate governance, the Bank Council will additionally set up three standing committees of its own members: an auditing committee as a link between the external Audit Board and Internal Auditors, a risk committee for supervising the investment of assets and risk management, and a remuneration committee for controlling remuneration and salaries. Today’s Annual General Meeting of Shareholders will have to elect five members to the future Bank Council. Under the new Act your vote will carry even greater significance.

Reorganisation of the organisational structure

The National Bank not only adjusted its statutory bodies to the new reality and requirements, but also assessed the organisational structure, which is no longer laid down in detail in the Act. The tasks were, with some changes, reallocated to the three Departments. The potential for synergies was used and functions that had become operationally incompatible were separated. Asset management, banking operations and banking services for the Confederation were concentrated in Department III in Zurich. The cash distribution services of the head offices and the branch offices were allocated to Department II in Berne, and Controlling was separated from Central Accounting. The hierarchical structures were flattened. The reorganisation will be concluded in the course of this year.

Introduction of an integrated planning and budgeting procedure

The National Bank has also fundamentally revised its planning and budgeting procedure. Strategic and operational planning was linked, i.e. a comprehensive planning procedure will be introduced in 2004. The entire planning procedure will be coordinated by one person in future. Thereby, management information can be processed for specific purposes and the business management of the National Bank will be improved at all levels.

Recognition

As you can see, the National Bank is already well prepared for the entry into force of the revised National Bank Act. Implementing all changes will still require some more time and effort, though. Yet I am happy to say that we are on the right track!

Please allow me now to make a few remarks on the 2003 annual financial statements.

Gross income in the 2003 financial statements

The result of the 2003 annual financial statements is gratifying. Gross income amounted to CHF 4.3 billion last year, thus clearly surpassing the year-earlier figure of CHF 2.6 billion. The rise can be attributed to higher gains on gold and foreign currency investments. Gains on gold alone reached the level of the year-earlier gross income. This rise is primarily due to the 8.5% increase in the price of gold, which alone resulted in valuation gains of just over CHF 2 billion. Approximately half the balance sheet total is invested in foreign currency, mostly in euros and US dollars. The gain or loss on these investments strongly depends on the fluctuations in interest rates and in exchange rates. In 2003, a gain of CHF 1.6 billion resulted. On most markets on which the National Bank invests, the interest rate level moved up last year. The resulting capital losses lowered the current interest income. With exchange rate influences not taken into consideration yet, the investment result was nevertheless positive across all currencies. The exchange rates exhibited mixed development. While the US dollar depreciated by nearly 11% year-on-year against the Swiss franc, the euro firmed by over 7%. On balance, the gain and loss from these opposite developments almost offset each other. The gain on financial assets denominated in Swiss francs came to a mere CHF 0.2 billion. The relatively modest result can be attributed to two factors: on the one hand, the National Bank kept repo rates at a very low level throughout the year, which reduced the income from repo transactions significantly. On the other hand, the interest rate level on the Swiss capital market moved up in the course of the year, resulting in capital losses on the CHF bond portfolio.

Decline in ordinary expenses

Ordinary expenses declined by approximately CHF 40 million to less than CHF 300 million. The expense items decreased thanks to the significantly lower interest expenses. The increase in the average banknote circulation and higher acquisition costs boosted banknote expenses to CHF 45 million – an increase that the National Bank cannot influence directly. Personnel expenses grew by 11% to around CHF 100 million. This rise can be attributed to the following two influencing factors in particular: the higher year-on-year staff number is primarily due to the filling of positions that had remained vacant in previous years and to the assumption of new tasks by some organisational units. Moreover, the before-mentioned restructuring caused jobs to be shifted from Berne to Zurich, and this was associated with one-off reorganisation costs.

Free assets

Since May 2000, the National Bank has continuously been selling gold from the 1,300 tonnes no longer required for monetary policy purposes. In 2003, 283 tonnes of gold were sold at an average price of about CHF 16,000 per kilogram. Of the initial total of 1,300 tonnes of gold, approximately 950 tonnes were thus sold by the end of last year. The proceeds from the gold sales are invested in various financial assets. While managed separately, these investments are not shown separately in the National Bank's balance sheet. Under an Agreement concluded between the SNB and the Federal Department of Finance last year, the National Bank will continue to distribute the earnings from the invested income from the gold sales until different legislation on the use of free assets has come into force. Accordingly, an amount of CHF 300 million is distributed this year.

Profit distribution

Finally, I would like to raise a topic that, with a view to the long term, causes the National Bank a certain amount of concern. This can be illustrated by means of a simple calculation: after the deduction of ordinary expenses from the 2003 gross income, an aggregate income of just under CHF 4.1 billion remained. Of this considerable amount, the allocation to the provision for the assignment of free assets must be deducted. This provision had to be increased by CHF 0.9 billion, which lowers the income to CHF 3.2 billion. Of this amount, another CHF 0.9 billion must be subtracted to achieve the targeted level of provisions for market, credit and liquidity risks. This lowers the income to CHF 2.3 billion – still an impressive amount. However, the profit distribution agreement concluded with the Federal Department of Finance in 2002, together with the supplementary agreement of 2003 relating to the distribution of the income on the free assets, provide for a distribution of CHF 2.8 billion in total. In other words, the National Bank will distribute more money for the 2003 financial year than it can actually afford. However, this is in line with our intention of reducing excess provisions that have accumulated over the years. The shortfall of half a billion Swiss francs will be taken from the residual surplus for future distributions. The surplus remaining for future distributions thus comes to CHF 10.3 billion. This calculation shows one thing: profit distributions of this magnitude are possible only because the National Bank reduces excess provisions, but they cannot be sustained in the longer term. Thanks to the gratifying result of the annual financial statements, the surplus was reduced only moderately this year, but if the coming years yield worse results, the surplus might be reduced at an accelerated pace. The public sector therefore must not get used to distributions of this size or even count on additional money from the National Bank when budgeting its expenses.

Concluding remarks

To conclude, I wish to express my sincere thanks to the Governing Board and the staff of the National Bank for their competent and dedicated service to the Bank, especially in view of the many special efforts required last year.