

1 Income statement for the year 1997

	Notes	1997 Sfr millions	1996 Sfr millions	Change percent
Income from				
gold transactions	01	2.6	–	–
foreign currency investments	02	2 067.5	1 794.8	+15.2
reserve position in the IMF	03	69.9	55.1	+26.9
international payment instruments	04	14.0	13.6	+2.9
balance of payments aid	05	12.9	10.7	+20.6
Income from				
domestic money market claims	06	22.9	32.6	–29.8
Lombard advances	07	0.9	0.9	0.0
claims against domestic correspondents	08	1.7	2.3	–26.1
domestic securities	09	262.4	260.3	+0.8
Other income	10	13.4	12.9	+3.9
Gross income		2 468.4	2 183.2	+13.1
Interest expense	11	–67.1	–49.3	+36.1
Banknote expense	12	–32.0	–15.1	+111.9
Personnel expense	13	–79.6	–82.0	–2.9
General overheads	14	–55.2	–54.0	+2.2
Depreciation of tangible assets	15	–9.9	–10.1	–2.0
Net income		2 224.5	1 972.7	+12.8
Exchange rate-related valuation adjustments	16	1 765.2	4 412.1	–60.0
Extraordinary expense	17	–100.0	–	–
Extraordinary income	18	6.0	–	–
Extraordinary income owing to change in valuation principles		–	2 077.1	–
Aggregate income		3 895.7	8 461.9	–54.0
Allocation to provisions	19	–3 287.7	–7 396.1	–55.5
Annual profit	45	608.0	1 065.8	–43.0

2 Balance sheet as of 31 December 1997

Sfr millions

		1997	1996
Assets	Notes		
Gold holdings and claims from gold transactions			
Gold holdings	20	11 448.2	11 903.9
Claims from gold transactions	21	458.3	–
Foreign currency investments			
not exchange rate-hedged	22	40 780.2	36 462.9
exchange rate-hedged (swaps)	23	12 490.3	12 865.5
Reserve position in the IMF	24	2 765.0	2 067.8
International payment instruments	25	452.4	290.0
Balance of payments aid	26	315.4	204.3
Domestic money market claims			
Lombard advances	27	673.5	1 581.7
Claims against domestic correspondents	28	0.4	764.2
Domestic securities	29	415.4	514.5
	30	4 941.0	4 821.5
Participations	31	89.6	51.0
Tangible assets	32	567.4	532.4
Sundry assets	33	482.2	452.1
Non paid-up share capital	43	25.0	25.0
		75 904.5	72 537.0

		1997	1996
Liabilities	Notes		
Banknote circulation	34	32 141.8	32 447.6
Sight deposits of domestic banks	35	5 100.8	4 927.4
Liabilities towards the Confederation			
sight	36	155.6	839.5
time	37	2 301.7	815.3
Sight deposits of foreign banks and institutions	38	47.3	32.7
Other sight liabilities	39	230.3	204.2
Sundry liabilities	40	914.7	1 089.0
Provisions			
for market, credit and liquidity risks	41	33 842.2	30 554.5
for operating risks	42	450.0	450.0
Share capital	43	50.0	50.0
Reserve fund	44	62.0	61.0
Net disposable income – annual profit	45	608.0	1 065.8
		<u>75 904.5</u>	72 537.0

3 Notes to the accounts as of 31 December 1997

3.1 Explanatory notes on business activities

The Swiss National Bank, a company limited by shares with head offices in Berne and Zurich, is Switzerland's central bank and the country's sole authorised issuer of banknotes. It is empowered by law to operate monetary and exchange rate policies that are in the country's overall interests and to facilitate payment transactions. All the transactions which it is permitted to perform are laid down in the relevant legislation (National Bank Law). The National Bank has a commercial relationship with banks in Switzerland and abroad, with federal agencies, with other central banks and with international organisations.

The National Bank's obligations towards the economy as a whole take priority over the achievement of profit. The National Bank is the only Swiss institution with authority to autonomously create money. It is not obliged to pay interest on banknotes in circulation or on sight deposits. Consequently, a large part of the income on its assets remains as an earnings surplus. As administrator of Switzerland's currency reserves, however, the National Bank bears substantial market, credit and liquidity risks, which it hedges with appropriate provisions. The provisions also serve to safeguard the pursuit of monetary policy by allowing the National Bank to accumulate sufficient foreign currency reserves. These provisions must grow at least in step with gross national product (see pp. 85 f.).

On 31 December 1997, the National Bank employed 621 persons (1996: 603), corresponding to 577.3 full-time posts (1996: 565.4). In addition to the head offices in Berne and Zurich, the National Bank has branches in Aarau, Basle, Geneva, Lausanne, Lugano, Lucerne, Neuchâtel and St Gallen.

3.2 Accounting and valuation principles

General principles

Except where stipulated otherwise in the National Bank Law (NBL), the principles applied to the books of account, asset valuation and balance sheet are governed by the Swiss Federal Code of Obligations, due account being taken of circumstances specific to the National Bank (as specified below). Consequently, the annual financial statements are drawn up in accordance with the Swiss Accounting and Reporting Recommendations (ARR). Since the National Bank is a listed company, a number of these provisions are binding upon it.

Changes from the previous year

The revised National Bank Law allows the Bank to engage in gold lending operations. The item *Gold holdings* has therefore been divided into *Gold holdings* (i. e. physical holdings) and *Claims from gold transactions*. The latter consist of gold claims plus accrued interest from gold on loan. Like the physical gold holdings, *Gold claims* are stated at the parity price (Sfr 4,595.74 per kilo of gold loaned).

With regard to the other asset and liability positions, the same accounting and valuation principles apply as in the previous year. Consequently, direct comparisons of balance sheet and income statement data are possible.

All transactions are recorded on the day the transaction is concluded. However, they are only entered in the balance sheet on the value date. Transactions which were concluded in the year under review but which have a value date in the following year are stated under off-balance-sheet transactions.

Gold holdings and *Gold claims* are stated at the legally stipulated price of Sfr 4,595.74 per kilogram (Federal Council resolution of 9 May 1971 on the fixing of the gold parity).

Negotiable foreign currency investments, *domestic money market claims* and *domestic securities* are stated at their end-year market prices.

Pending forward contracts on foreign currencies and *securities* are stated at end-year market values and the positive or negative gross replacement values are posted to sundry assets or sundry liabilities.

Participations are stated at cost less required depreciation, or at the market value in the case of non-substantive minority interests in listed companies.

Since the participations are insignificant in relation to the core business, consolidated financial statements have not been prepared.

Tangible assets (including banknote stocks) are generally stated at their acquisition cost less required depreciation.

Other items are stated at their nominal value.

Foreign-currency items are translated at year-end rates, whereas income from these items is translated at the exchange rates applicable at the time the income was posted to the accounts.

Foreign currency exchange rates

	1997	1996	change percent
Year-end rates			
CHF/USD	1.4549	1.3500	+7.8
CHF/DEM	81.2400	86.8700	-6.5
CHF/JPY	1.1196	1.1611	-3.6
CHF/NLG	72.0600	77.3600	-6.9
CHF/XDR	1.9645	1.9418	+1.2
CHF/XEU	1.6040	1.6895	-5.1

3.3 Notes to the income statement

Summary

Foreign-currency items are a prominent feature of the income statement. Income from foreign-currency items rose by 15.5% to Sfr 2,164.34 million compared with the previous year. Together with the slightly reduced figure for other income items of Sfr 304.1 million, gross income comes to Sfr 2,468.4 million (up 13.1%). With expenses up 15.8% to Sfr 243.9 million, net income was 12.8% higher at Sfr 2,224.5 million. Translations gains due to exchange rate movements amounted to Sfr 1,765.2 million while extraordinary items produced a negative balance of Sfr 94 million. Overall, aggregate income amounted to Sfr 3,895.7 million. After the formation of provisions totalling Sfr 3,287.7 million, annual profit came to Sfr 608.0 million.

Item no. 01 in the income statement

Income from gold transactions

The gold lending operations entered into at the beginning of November 1997 yielded income of Sfr 2.6 million.

Items nos. 02-05 in the income statement

Income from foreign-currency items

Income from foreign currency investments, the reserve position in the IMF, the international payment instruments and the balance of payments aid rose by Sfr 290.1 million. This increase can be attributed to higher average conversion rates and to capital gains resulting from lower interest rates. The increase in residual maturities at the beginning of November had a beneficial effect.

Item no. 06 in the income statement

Income from domestic money market claims

With interest rates lower and holdings slightly reduced from the previous year, income from money market claims declined by Sfr 9.7 million to Sfr 22.9 million.

Item no. 07 in the income statement

Income from Lombard advances

Both the average Lombard rate and the average level of borrowing were lower than in 1996. Since this facility was used at times when Lombard rates were relatively high, however, income is an unchanged Sfr 0.9 million.

Item no. 08 in the income statement

Income from claims against domestic correspondents

With the discount rate remaining unchanged and balances lower than in the previous year, income from claims against domestic correspondents declined by Sfr 0.6 million to Sfr 1.7 million.

Item no. 09 in the income statement

Income from domestic securities

Securities income rose by Sfr 2.1 million to Sfr 262.4 million. In addition to interest income of Sfr 253.6 million, the slight easing of interest rates produced a capital gain of Sfr 8.8 million.

Other income

Item no. 10 in the income statement

	1997	Change from previous year
	Sfr millions	Sfr millions
Commissions	2.5	-0.1
Income from participations	4.1	+0.3
Income from real estate ¹	6.7	+0.7
Other ordinary income	0.1	-0.4
Total other income	13.4	+0.5

1 Income from real estate stems from the subletting of real estate not currently required and from the "Zum Neuen Froschauer" building in Zurich, which serves as spare capacity.

Interest expense

Item no. 11 in the income statement

Interest expense rose from Sfr 49.3 million to Sfr 67.1 million due almost entirely to higher net liabilities towards the Confederation.

	1997	Change from previous year
	Sfr millions	Sfr millions
Interest expense for liabilities towards the Confederation	127.0	+33.3
Interest income from onward placements	-66.1	+15.9
Net interest expense for liabilities towards the Confederation	60.9	+17.4
Interest on depositors' balances	6.2	+0.4
Total interest expense	67.1	+17.8

Item no. 12 in the income statement

Banknote expense

Banknote expense comprises write-downs for notes of the eighth issue capitalised as assets; these writedowns are effected as the new banknotes enter into circulation. The significant rise in banknote expense is due to the issuing of the new Sfr 10 and Sfr 200 notes in the year under review.

Item no. 13 in the income statement

Personnel expense

	1997	Change from previous year	
	Sfr millions	Sfr millions	percent
Salaries and children's allowances	61.9	+0.5	+0.8
Welfare benefits, training and catering	15.8	-1.5	-8.7
Expense for current employees	77.7	-1.0	-1.3
Allocations to the pension fund	1.0	-	-
General allowances for retired employees	-	-1.5	-100.0
Remuneration for supervisory bodies	0.9	+0.1	+12.5
Total personnel expense	79.6	-2.4	-2.9

Item no. 14 in the income statement

General overheads

	1997	Change from previous year	
	Sfr millions	Sfr millions	percent
Premises	19.0	-1.4	-6.9
Furniture and fixtures	5.1	+0.5	+10.9
Business and office equipment and supplies	4.4	-	-
Information and communication	4.2	+0.3	+7.7
Printing, publications	1.6	+0.6	+60.0
Other general overheads	21.1	+1.4	+7.1
Total general overheads	55.2	+1.2	+2.2

Premises

This item comprises expenditures on the maintenance of the Bank's buildings (upkeep outlays) and on rented premises.

Furniture and fixtures

Expenditures on furniture and fixtures consist mainly of costs relating to the maintenance of computer hardware and software and of other equipment.

Other general overheads

These include third-party services (Sfr 4.8 million, up from Sfr 3.9 million in 1996) and remuneration for external agencies (Sfr 3.2 million, as against Sfr 3.7 million in 1996). Other major items comprise expenses related to banknotes in circulation (Sfr 2.8 million, versus Sfr 2.7 million in 1996) and administration of financial and gold investments (Sfr 3.2 million, up from Sfr 2.3 million in 1996). Finally, this item also includes contributions to the operating costs of the Gerzensee Study Centre (Sfr 5.0 million, versus Sfr 4.9 million in 1996) and the Haslizentrum holiday and training centre (up from Sfr 0.5 million in 1996 to Sfr 0.6 million).

Depreciation of tangible assets

The bulk of this item (Sfr 9.7 million, versus Sfr 8.2 million in 1996) is accounted for by depreciation of sundry tangible assets, which comprise furnishings, machinery and equipment plus IT investments. These purchases are written off over three to twelve years. There was an additional write-down of Sfr 0.2 million (1996: Sfr 1.8 million) on the Bank's premises.

Item no. 15 in the income statement

Item no. 16 in the income statement

Exchange rate-related valuation adjustments

The value of the foreign currency holdings – which comprise foreign currency investments, the reserve position in the IMF, international payment instruments and balance of payments aid – was adjusted as follows:

	1997	1996
	Sfr millions	Sfr millions
USD	+2 247.3	+3 745.8
DEM	-440.6	+356.6
JPY	-68.5	+31.1
Other currencies	+27.0	+278.6
Total	+1 765.2	+4 412.1

Item no. 17 in the income statement

Extraordinary expense

This item represents the National Bank's contribution to the Holocaust Fund (see pp. 49 ff.).

Item no. 18 in the income statement

Extraordinary income

This relates to a write-back for AG Hotel Bellerive au Lac, Zurich, which was sold in the year under review, and to the part-repayment of a shareholder's loan which the Bank had extended to Kreuz Gerzensee AG.

Item no. 19 in the income statement

Allocation to provisions

Thanks to the substantial exchange rate-related income generated by our foreign currency balances, we were able to allocate a further Sfr 3,287.7 million to provisions (previous year's allocation: Sfr 7,396.1 million). Provisions were in line with the minimum level which the Bank seeks to maintain for reasons of exchange rate policy (see pp. 85 ff.). Annual profit is stated at Sfr 608.0 million (for details, see p. 85). The proposal regarding the distribution of profit is set out on page 88.

3.4 Notes to the balance sheet

Gold holdings and claims from gold transactions

Items nos. 20 and 21 in the balance sheet

Gold holdings

Physical gold holdings declined by 99.2 tonnes owing to the commencement of gold lending operations at the beginning of November 1997. They are stored at various locations in Switzerland and abroad.

	1997		Change from previous year
	tonnes	Sfr millions	Sfr millions
Gold ingots	2 315.8	10 642.9	-455.7
Gold coins	175.2	805.3	-
Total	2 491.0	11 448.2	-455.7

Claims from gold transactions

This item relates to unsecured claims from gold lending transactions. Transactions are effected with first-class Swiss and foreign banks and securities houses. At the end of 1997, the amount outstanding was 99.2 tonnes at a parity value of Sfr 455.7 million plus accrued interest of Sfr 2.6 million.

Foreign currency investments

Both the non-hedged and the hedged (swap-related) foreign currency holdings are invested jointly. Until the revised National Bank Law came into force, the maximum term of each individual investment was 12 months. Since 1 November 1997, longer-term foreign-currency investments have also been permitted. Government paper is denominated in the currency of the country of issue. The debtor category "monetary institutions" refers to investments at the BIS and holdings of World Bank securities. Bank investments are effected with institutions enjoying very high credit ratings.

Items nos. 22 and 23 in the balance sheet

Foreign currency investments by currency¹

	1997			Change from previous year	
	millions		% weighting	millions	
	original currency	Swiss francs		original currency	Swiss francs
USD	28 876.5	42 012.4	78.9	-1 828.7	+560.3
hedged					
not exchange rate-hedged	20 291.5	29 522.1	55.4	-883.7	+935.5
exchange rate-hedged (swaps)	8 585.0	12 490.3	23.4	-945.0	-375.2
DEM	11 288.3	9 170.6	17.2	+4 402.6	+3 189.0
JPY	162 756.4	1 822.2	3.4	+170.8	-65.6
NLG	355.0	255.8	0.5	+354.6	+255.5
Others		9.5	0.0		+2.9
Total		53 270.5	100.0		+3 942.1

Foreign currency investments by type of borrower¹

	1997			Change from previous year	
	millions		% weighting	millions	
	original currency	Swiss francs		original currency	Swiss francs
Government paper					
USD	15 916.4	23 156.8	43.5	-1 519.5	-381.7
DEM	10 991.8	8 929.7	16.8	+4 447.8	+3 244.9
JPY	161 466.6	1 807.8	3.4	-9 976.7	+48.9
NLG	352.7	254.2	0.5	+352.7	+254.2
Total		34 148.5	64.1		+3 166.3
Monetary institutions					
USD	8 115.2	11 806.8	22.2	-1 676.3	-1 411.7
DEM	43.0	35.0	0.1	+5.4	+2.3
JPY	1 237.7	13.8	0.0	+110.0	+0.7
NLG	2.0	1.4	0.0	+2.0	+1.4
Total		11 857.0	22.3		-1 407.3
Banks					
USD	4 844.8 ²	7 048.7	13.2	+1 367.0	+2 353.6
DEM	253.5	206.0	0.4	-50.5	-58.1
JPY	52.1	0.6	0.0	-9 916.0	-115.2
NLG	0.3	0.2	0.0	-0.1	-0.1
Others		9.5	0.0		+2.9
Total		7 265.0	13.6		+2 183.1
Total		53 270.5	100.0		+3 942.1

- 1 negotiable investments
 – on discount basis:
 stated at year-end rates
 – on interest basis:
 stated at year-end rates plus
 accrued interest

non-negotiable investments
 1997: Sfr 5 487.7 million
 1996: Sfr 7 198.3 million
 stated at acquisition cost plus
 accrued interest

- 2 Of this total, 53% is accounted
 for by organisations with an
 indirect government guarantee.

Reserve position in the IMF

Item no. 24 in the balance sheet

The reserve position corresponds to the difference between the Swiss quota in the IMF financed by the National Bank and the IMF's Swiss franc balance. It may be likened to a currency reserve position and may be used by the National Bank at any time to finance a deficit in Switzerland's balance of payments.

	1997		Change from previous year	
	millions		millions	
	XDR	Sfr	XDR	Sfr
Swiss quota in the IMF	2 470.4	4 853.0	–	+56.0
less IMF's Swiss franc sight balances at the National Bank	1 062.9	2 088.0	–342.6	–641.2
Reserve position in the IMF	1 407.5	2 765.0	+342.6	+697.2

International payment instruments

Item no. 25 in the balance sheet

Special Drawing Rights (XDR) are interest-yielding sight balances in the IMF. The National Bank has undertaken towards the IMF to purchase XDR against foreign currencies until a limit of XDR 200 million is reached. ECUs (XEU) are acquired by way of revolving swaps and invested on a short-term basis at the European Monetary Institute (EMI).

	1997		Change from previous year	
	millions		millions	
	original currency	Sfr	original currency	Sfr
XDR	178.4	350.5	+84.3	+167.8
XEU	63.5	101.9	–	–5.4
Total		452.4		+162.4

Claims against domestic correspondents

Item no. 29 in the balance sheet

767 branches of 81 banks (1996: 752 branches of 85 banks) perform local cash redistribution transactions for the National Bank and cover the cash requirements of federal institutions (postal service, Swiss Federal Railways). The National Bank earns interest at the discount rate on the resulting claims.

Domestic securities

These are bonds which are listed on the stock exchange.

Item no. 30 in the balance sheet

	1997		Change from previous year
	Sfr millions	% weighting	Sfr millions
Confederation	973.7	19.7	+13.6
Cantons	1 305.3	26.4	+11.7
Communes	601.7	12.2	+9.7
Mortgage bond institutions	961.6	19.5	+29.3
Banks	1 098.9	22.2	+55.4
Total market value ¹	4 941.0	100.0	+119.5
Total nominal value	4 365.4		+55.7

¹ Year-end rates plus accrued interest

Participations and tangible assets

Items nos. 31 and 32 in the balance sheet

Schedule of tangible assets in Sfr millions

	Value at end of previous year	Investments	Divestments	Depreciation	Value at end of reporting year
Participations not consolidated					
Orell Füssli	27.0				27.0
BIS	9.4	51.6			61.0
Others	14.6		13.0		1.6
Total	51.0	51.6	13.0		89.6
Tangible assets					
Banknote stocks	166.6	48.4		32.0	183.0
Real estate	343.0	13.4 ¹		0.2	356.2
<i>Insured value</i>	<i>409.6</i>				<i>416.6</i>
Sundry tangible assets	22.8	15.2		9.7	28.3
<i>Insured value</i>	<i>60.8</i>				<i>55.1</i>
Total	532.4	77.0		41.9	567.4

¹ Purchase of property at Stadthausquai 7, Zurich

Participations

The National Bank holds 33.34% of the share capital of Orell Füssli Graphic Arts Ltd, Zurich, the company which prints its banknotes. The 3.1% interest in the Bank for International Settlements (BIS) is held by reason of collaboration on monetary policy. In 1996, the BIS decided on an increase in its share capital. After formal approval had been received from the Bank Council and Federal Council, the allocation of 3,000 shares was purchased at a price of Sfr 51.6 million. This increased our holding to 16,021 shares.

At the end of the previous year, "Others" included the shares of AG Hotel Bellerive au Lac, Zurich (sold in 1997). The end-1997 figure includes stakes held in Telekurs AG, Zurich, Sihl, Zurich (a paper factory) and the S.W.I.F.T. Society for Worldwide Interbank Financial Telecommunications S.G., La Hulpe (Belgium), plus the shares in the successor to two companies which merged in the reporting year and which had been established in connection with the foundation of the Gerzensee Study Centre.

Tangible assets

Stocks of new banknotes (eighth issue) are stated at cost and written down in line with their entry into circulation. "Sundry tangible assets", which comprise office equipment and computer systems, are written down over three to twelve years.

Item no. 33 in the balance sheet

Sundry assets in Sfr millions

	1997	Change from previous year
Coins (including medallions) ¹	428.5	+30.0
Foreign notes	0.1	-
Postal giro accounts	0.6	+0.3
Other accounts receivable	33.4	+5.3
Other cheques and bills of exchange (collection business)	13.3	-11.5
Positive replacement values (forward contracts)	6.3	+6.0
Total	482.2	+30.1

¹ Coins comprise the commemorative coins and medallions acquired by the Federal Mint which are placed in circulation by the National Bank.

Accruals

Accrued interest on gold claims (Sfr 2.6 million), foreign currency investments (Sfr 14.8 million), international payment instruments (Sfr 15.6 million), balance of payments aid (Sfr 4.8 million), domestic securities (Sfr 144.4 million) and onward placements for the Confederation (Sfr 2.8 million) is contained in the corresponding balance sheet items.

Banknote circulation

This comprises all banknotes held by the general public and the banks. Of the banknotes originating from the second and fifth issues, which were recalled in 1980 and are exchangeable at the National Bank until 30 April 2000, a total of Sfr 276.3 million were still outstanding at the end of the year (1996: Sfr 285.4 million).

Averaged out over the year, and after taking account of all eligible assets, coverage of banknotes in circulation as specified in NBL Art. 19 amounted to 220.1% (1996: 191.9%). Owing to higher banknote circulation and the gold lending operations which began at the beginning of November 1997, banknote coverage declined to an average of 40.9% (1996: 42.2%). On a number of days when banknotes were in peak demand, coverage by gold dropped below 40%. Since the revised National Bank Law entered into force, a minimum of 25% has applied.

Banknote coverage annual average

	1997		Change from previous year
	millions Sfr	percent coverage	
Gold holdings	11 862.8	40.9	-1.3 percentage points
Other eligible assets	51 970.4	179.2	+29.5 percentage points
of which			
Foreign currency investments ¹	47 602.8		
Reserve position in the IMF	2 119.2		
International payment instruments	345.6		
Domestic money market claims	1 533.2		
Lombard advances	18.5		
Eligible domestic securities ²	351.2		
Overall banknote coverage	63 833.3	220.1	+28.2 percentage points
Banknote circulation	28 999.2		+2.8 %

1 as of 1 November 1997: term of up to one or two years, depending on investment class

2 term to maturity of up to two years

Sight deposit accounts of domestic banks

The 572 sight deposit accounts (1996: 586) of the 407 banks (1996: 406) do not bear interest. They form the basis on which the National Bank controls monetary policy and facilitate cashless payments within Switzerland. They are also a component of the liquidity which the banks are legally required to hold.

Liabilities towards the Confederation

The Confederation's sight deposits facilitate the payment transactions of the Federal Government and its agencies. Up to a ceiling of Sfr 500 million they attract interest at the overnight rate. The time deposits yield interest at market rates. The National Bank is free to place these funds on the market in connection with the conduct of monetary policy, in which case the Confederation bears the credit risk. At year-end, these investments totalled Sfr 8,034.5 million (1996: Sfr 7,510.5 million), of which Sfr 5,732.8 million (1996: Sfr 6,695.2 million) had been placed on the market.

Sight deposit accounts of foreign banks and institutions

The 142 (1996: 153) accounts are denominated in Swiss francs and do not bear interest. They are held primarily by foreign central or commercial banks.

Other sight liabilities

These comprise deposit accounts of active and retired employees, liabilities towards pension funds amounting to Sfr 48.9 million (1996: Sfr 9.2 million) and liabilities towards individual non-banks.

Sundry liabilities in Sfr millions

	1997	Change from previous year
Profit distribution to the Confederation and the cantons (from previous year's profit)	600.0	+457.8
Other liabilities	13.8	-9.5
Negative replacement values (forward contracts)	300.9	-622.6
Total	914.7	-174.3

Accruals

Accrued interest on time deposits of the Confederation (Sfr 34.5 million) is contained in the corresponding balance sheet item.

Provisions

Items nos. 41 and 42 in the
balance sheet

Owing to the year-on-year rise in net income and to currency gains, provisions were increased to Sfr 3,287.7 million. Provisions thus complied with the minimum figure stipulated in the profit calculation concept (see pp. 85 ff.).

	Provisions on 31.12.96	Allocated to provisions	Released from provisions	Reclassi- fied	Provisions on 31.12.97	Change from previous year
Provisions in Sfr millions						
for						
market, credit and liquidity risks	30 554.5	3 287.7	-	-	33 842.2	+3 287.7
operating risks	450.0	-	-	-	450.0	-
Total	31 004.5	3 287.7	-	-	34 292.2	+3 287.7

Market, credit and liquidity risks consist to a large extent of exchange rate risks on those foreign currency investments which are not hedged against such risks. The interest risks on foreign currency investments and domestic securities are also significant. Credit risks are primarily settlement risks attaching to foreign exchange transactions.

Share capital

The share capital of the National Bank remains unchanged. Totalling Sfr 50 million, it is divided into 100,000 registered shares of Sfr 500 each, of which 50% (Sfr 250) are paid up.

In the year under review, the Bank Committee authorised the transfer of 21,723 shares (+251%) to new holders. As of 31 December 1997, applications for registration were pending or outstanding for 15,061 shares.

The other shares were distributed as follows:

1 186 private shareholders each with	1 share
1 501 private shareholders each with	2–10 shares
364 private shareholders each with	11–100 shares
12 private shareholders each with	101–200 shares
11 private shareholders each with	over 200 shares
<hr/>	
3 074 private shareholders with a total of	28 335 shares
<hr/>	
26 cantons with a total of	38 981 shares
24 cantonal banks with a total of	14 921 shares
40 other public authorities and institutions with a total of	2 702 shares
<hr/>	
90 public-sector shareholders with a total of	56 604 shares
<hr/>	
3 164 shareholders with a total of	84 939 shares
<hr/>	
Pro memoria: registration applications pending or outstanding for	15 061 shares
<hr/>	
Total	100 000 shares

67% of the shares were thus registered in the names of cantons, cantonal banks and other public authorities and institutions, and 33% in the names of private shareholders; of the latter, 68% were held by private individuals and 32% by legal entities. 2,636 shares (without voting rights) were in foreign ownership; this is equivalent to 2.6% of the share capital.

In spring 1997, the price of the National Bank share – which, due to the legally permitted maximum dividend of 6%, has in the past normally developed along similar lines to a long-term Confederation bond with a 6% coupon – rose from about Sfr 600 to Sfr 3,000. By the end of the year, however, it had dropped back to Sfr 910. The rise was apparently due to recommendations made in various broker reports, which were based on hopes that the planned revaluation of the gold reserves would generate additional earnings for the National Bank's shareholders. However, the authors of these recommendations failed to note that the law earmarks for public use any profits in excess of the maximum dividend of 6%.

The price movements resulted in a sharp increase in the number of transactions in National Bank shares on the stock market. The number of pending or outstanding applications for registration rose by a massive 159%.

The following major shareholders held more than 5% of the voting rights, i.e. at least 5,000 registered shares:

	Number of shares		Percentage hold	
	1997	Change from previous year	1997	Change from previous year
Canton of Berne	6 630	–	6.63%	–
Canton of Zurich	5 200	–	5.20%	–

Reserve fund

The reserve fund was increased by Sfr 1 million (the legally permitted maximum) to Sfr 62 million by an allocation from the 1996 annual profit.

Item no. 44 in the balance sheet

Annual profit – calculation and distribution

The calculation of profit takes due account of the special features of the National Bank's operations. The Bank must be in a position to perform the duties assigned to it by the Constitution without having to yield a profit. Consequently, it does not distribute its entire earnings surplus but allocates funds to those provisions which are required for economic and business management purposes. The provisions are used primarily as a means of forming currency reserves. These reserves allow the National Bank to intervene on the market in the event of the Swiss franc becoming excessively weak. The currency reserves also make Switzerland's financial industry less vulnerable to international crises. The need for currency reserves is growing in line with the size and globalisation of the Swiss economy.

Item no. 45 in the balance sheet and income statement

It has therefore been decided, in agreement with the Federal Council, that the provisions be increased in line with growth in nominal gross national product (see 84th Annual Report 1991, pp. 23 ff.). The targeted percentage rise is based on the average increase in nominal gross national product over the past five years. This avoids the need for subsequent corrections and prevents large fluctuations from year to year.

The residual surplus as specified in Art. 27, para. 3 (b) of the National Bank Law is calculated after the other statutory profit distributions have been established (Art. 27, paras. 1–2 and para. 3 (a) NBL). Such a surplus exists if actual provisions exceed the target figure. To ensure stable payments over an extended period, the annual distribution to the Confederation and cantons is limited to Sfr 600 million.

Targeted level of provisions and calculation of the residual surplus and distribution

	Growth in nominal GNP	Provisions at year-end		Residual surplus	Distribution
	In percent (average period) ¹	Sfr millions		Sfr millions	Sfr millions
		(1)	Targeted level (2)	Actual level prior to distribution ² (3)	(4) = (3) - (2)
1994	5.8 (1988-92)	22 527.1	25 966.3 ³	3 439.2	600.0
1995	4.8 (1989-93)	23 608.4	23 750.6 ³	142.2	142.2
1996	3.7 (1990-94)	24 481.9	32 062.3	7 580.4	1 057.8 ⁴
1997	2.9 (1991-95)	25 191.9	34 892.2	9 700.3	600.0
1998	1.8 (1992-96)	25 645.4			

1 The figures for nominal GNP are revised from time to time. The growth rates for 1988-92 to 1991-95 shown in the table therefore differ slightly from the percentages calculated on the basis of the latest available data.

2 The balance sheet item "Provisions" corresponds to this figure less the distribution to the Confederation and cantons.

3 This figure includes the valuation adjustment for foreign currencies, which amounted to Sfr 3,153.8 million at the end of 1993 and Sfr 814.9 million at the end of 1994. It declined to zero at end-1995.

4 Maximum distribution of Sfr 600.0 million plus around Sfr 457.8 million (difference between maximum distributable profit of Sfr 600 million and actual distribution of approximately Sfr 142.2 million for the 1995 financial year)

3.5 Notes regarding off-balance-sheet business

	1997	Change from previous year	
	Sfr millions	Sfr millions	
Contingent liabilities			
Documentary credits ¹ (secured by separate balances)	5.4	+0.1	
Outstanding undertakings			
General Arrangements to Borrow (GAB) ²	2 003.7	+23.0 ⁶	
Swap agreements ³ :			
Federal Reserve Bank of New York	5 819.6	+419.6 ⁶	
Bank of Japan	2 239.2	-83.0 ⁶	
Bank for International Settlements (BIS)	872.9	+62.9 ⁶	
Two-way-arrangement (IMF) ⁴	42.4	-175.4	
Extended Structural Adjustment Facility (ESAF II) ⁵	160.8	-133.8	
Additional funding obligations			
BIS registered shares ⁷	118.6	+5.4	
Fiduciary transactions			
Fiduciary investments of the Confederation	152.4	-207.8	

	Nominal value	Gross replacement value	
		Sfr millions	
	Sfr millions	positive	negative
Forward contracts			
on currencies ⁸	12 797.3	6.3	300.9
on securities ⁹	2 392.8	0.0	0.1
Total	15 190.1	6.3	300.9

1 Chiefly in connection with development aid provided by the Confederation.

2 Credit line to the amount of XDR 1,020 million in favour of the IMF for special cases, without federal guarantee (see pp. 52 f.).

3 Bilateral agreements concerning the exchange – limited in time – of Swiss francs against a maximum amount of US \$ 4 billion with the Federal Reserve Bank, a maximum amount of 200 billion yen with the Bank of Japan and a maximum amount of US \$ 600 million with the BIS for the purpose of reciprocal balance of payments aid in extraordinary circumstances.

4 National Bank undertaking to purchase Special Drawing Rights against foreign currency up to the agreed maximum of XDR 200 million (see p. 77).

5 Loan undertaking – limited in time – to the IMF's trust fund (see pp. 52 f. and 78).

6 Change due entirely to exchange rates.

7 Only 25% paid up; calculated in gold francs, i.e. additional funding obligation closely related to the gold price; owing to the fall in the gold price, the rise in the number of shares by 3,000 to 16,021 had only a marginal effect on additional funding obligations.

8 From forward transactions (primarily swaps) and spot transactions not yet performed.

9 From money market debt-register claim swaps, domestic securities and foreign currency investments (when issued, buy/sellback transactions) including spot transactions not yet performed.

4 Proposals of the Bank Council to the Annual General Meeting of Shareholders

At its meeting of 6 March 1998, the Bank Council accepted the proposal of the Bank Committee to approve the 90th Annual Report for 1997, as presented by the Governing Board, for submission to the Federal Council and the Annual General Meeting of Shareholders.

On 16 March 1998, the Federal Council approved the Annual Report and the annual financial statements pursuant to Article 63, Paragraph 2 (i) of the National Bank Law. The Auditing Committee prepared its report pursuant to Article 51, Paragraph 2 of the National Bank Law on 30 January 1998.

The Bank Council proposes to the Annual General Meeting¹:

1. that the present Annual Report including annual financial statements be approved;
2. that the statutory bodies entrusted with the Bank's administration be granted discharge;
3. that the net disposable income of Sfr 607 998 949.60 be appropriated as follows:

allocation to the reserve fund (Art. 27, para. 1 NBL)	Sfr	1 000 000.00
payment of a dividend of 6% (Art. 27, para. 2 NBL)	Sfr	1 500 000.00
payment to the Federal Finance Administration:		
for the account of the cantons, Sfr 0.80 per capita (Art. 27, para. 3 (a) NBL)	Sfr	5 498 949.60
for the account of the Confederation and cantons (Art. 27, para. 3 (b) NBL)	Sfr	<u>600 000 000.00</u>
	Sfr	607 998 949.60

¹ For the proposal regarding appointments to the Bank Council and the Auditing Committee, see pages 60 f.

5 Report of the Auditing Committee to the Annual General Meeting of Shareholders

Dear Mr Chairman
Ladies and Gentlemen

As the Auditing Committee, we have audited the books of account and the annual financial statements (balance sheet, income statement and notes) of the Swiss National Bank for the year ended 31 December 1997. We confirm that we meet the legal requirements concerning professional competence and independence.

Our audit was conducted in accordance with the auditing standards promulgated by the profession, which require that an audit be planned and executed in such a way that any significant errors in the annual financial statements can be identified with a reasonable degree of certainty. We examined the individual items and data in the financial statements using analyses and investigations based on spot checks as well as on reports supplied by ATAG Ernst & Young Ltd. We also assessed the application of the accounting principles used, the principal valuation decisions and the presentation of the financial statements as a whole. We believe that our audit provides a reasonable basis for our assessment.

According to our assessment, the annual financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the Swiss Accounting and Reporting Recommendations (ARR). We should, however, point out the particular features (explained in the notes to the accounts) of the accounting methods used by the Swiss National Bank as Switzerland's sole central bank and note-issuing institution.

We further confirm that the books of account and the annual financial statements as well as the proposals for the appropriation of the net disposable income comply with the provisions of the National Bank Law and the Swiss Code of Obligations.

We recommend that the financial statements submitted to you be approved.

Berne, 30 January 1998

The Auditing Committee:

Peter Blaser

Chairman

Gilbert Jobin

Vice-Chairman

Kaspar Hofmann

Certified auditor
Chief auditor