Financial report

The balance sheet and income statement for 1995 are based on the accounting principles valid up to the end of that year, and thus also correspond to the figures stated in the last annual report. Presentation, classification and designations have been changed, however. The Notes contain figures computed according to the new accounting and valuation principles – where possible and meaningful – so that comparisons can be made with the previous year's figures.

1 Income statement for the year 1996

(Sfr millions)

	Notes	1996	1995
Income from			
foreign currency investments	01	1 794.8	1 910.7
reserve position in the IMF	02	55.1	45.6
international payment instruments	03	13.6	12.4
balance of payments aid	04	10.7	12.1
Income from			
domestic money market claims	05	32.6	55.5
Lombard advances	06	0.9	0.9
claims against domestic correspondents	07	2.3	3.8
domestic securities	08	260.3	238.1
Other income	09	12.9	8.9
Gross income	10	**2 183.2**	**2 288.0**
Interest expense	11	−49.3	−101.6
Banknote expense	12	−15.1	−59.3
Personnel expense	13	−82.0	−79.8
General overheads	14	−54.0	−56.6
Depreciation of tangible assets	15	−10.1	
Net income	16	**1 972.7**	**1 990.7**
Exchange rate-related valuation adjustments	17	4 412.1	−3 531.4
Write-down on securities			−66.0
Extraordinary expense			−0.9
Extraordinary income owing to change in valuation principles	18	2 077.1	
Aggregate income	19	**8 461.9**	**−1 607.6**
Allocation to provisions	20	−7 396.1	
Release of provisions			1 757.8
Annual profit	45	**1 065.8**	**150.2**

2 Balance sheet as of 31 December 1996

(Sfr millions)

Assets	Notes	1996	1995
Gold holdings	21	11 903.9	11 903.9
Foreign currency investments			
not exchange rate-hedged	22	36 462.9	27 767.8
exchange rate-hedged (swaps)	23	12 865.5	14 044.8
Reserve position in the IMF	24	2 067.8	1 687.7
International payment instruments	25	290.0	408.2
Balance of payments aid	26	204.3	173.7
Domestic money market claims	27	1 581.7	1 436.2
Lombard advances	28	764.2	4.7
Claims against domestic correspondents	29	514.5	429.2
Domestic securities	30	4 821.5	3 063.9
Participations	31	51.0	P. M.
Tangible assets	32	532.4	P. M.
Sundry assets	33	452.1	1 064.3
Non paid-up share capital	43	25.0	25.0
		72 537.0	62 009.4

Liabilities

	Notes	1996	1995
Banknote circulation	34	32 447.6	30 892.2
Sight deposits of domestic banks	35	4 927.4	4 035.0
Liabilities towards the Confederation			
sight	36	839.5	917.4
time	37	815.3	1 350.0
Sight deposits of foreign banks and institutions	38	32.7	43.3
Other sight liabilities	39	204.2	156.3
Sundry liabilities	40	1 089.0	746.5
Provisions			
for market, credit and liquidity risks	41	30 554.5	22 958.4
for operating risks	42	450.0	650.0
Share capital	43	50.0	50.0
Reserve fund	44	61.0	60.0
Net disposable income – annual profit	45	1 065.8	150.2
		72 537.0	62 009.4

3 Notes to the accounts as of 31 December 1996

3.1 Explanatory notes on business activities

The Swiss National Bank, a joint-stock company with head offices in Berne and Zurich, is Switzerland's central bank and the country's sole authorised issuer of bank notes. It has a statutory mandate 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. These provisions also serve to safeguard the pursuit of monetary policies by allowing the National Bank to accumulate sufficient foreign currency reserves. The provisions must grow at least in step with gross national product (see p. 82).

On 31 December 1996 the National Bank had 603 employees on its payroll (1995: 606); this was equivalent to 565.4 full-time posts (1995: 574.1). In addition to the head offices in Berne and Zurich, the National Bank has branch offices in Aarau, Basle, Geneva, Lausanne, Lucerne, Lugano, 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, 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). With the introduction of the new accounting methods, the balance sheet and income statement have been streamlined and the Notes to the accounts have been enlarged. These now contain detailed information on the individual items in the balance sheet and the income statement.

Changes from the previous year

Negotiable foreign currency investments, domestic money market claims and domestic securities as well as forward contracts on foreign exchange and securities are now stated at market prices (previously at acquisition cost, nominal or discounted value – cf. note to item no. 18 in the income statement), and foreign-currency items are now translated at end-year rates (instead of at the average December rates as in prior years). Owing to the changeover to market valuations for negotiable financial investments, extraordinary income of Sfr 1,560 million is stated for the 1996 financial year. Fixed assets (participations plus tangible assets) are in principle stated at acquisition cost less depreciation according to their operating life (previously, pro memoria values were stated). These changes have resulted in an additional book profit of Sfr 517.1 million. Book profits from these valuation changes are stated as extraordinary income. The accounting and valuation principles applied to all other items remain unchanged from the previous year.

Recording of transactions / balance sheet entries

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 new year are stated under off-balance-sheet transactions.

Valuation principles

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

Negotiable foreign currency assets, 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 their acquisition or intrinsic value in accordance with the lower of cost or market valuation principle, or at the market value in the case of non-substantive minority interests in listed companies.

Since the participations are not significant by comparison with 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 rates

	1996	1995	Change from previous year in %
Relevant conversion rates			
CHF/USD	1.3500	1.1639	+16.0
CHF/DEM	86.8700	80.7000	+7.7
CHF/JPY	1.1611	1.1420	+1.7
CHF/XDR	1.9418	1.7200	+12.9
CHF/XEU	1.6895	1.5100	+11.9

3.3 Notes to the income statement

Summary

The income statement is strongly influenced by the foreign currency items and the changes to the valuation principles. Although income from foreign currency investments declined slightly from the previous year, exchange rate-related valuation adjustments yielded Sfr 4,412.1 million. Owing to the application of new valuation principles to negotiable financial investments, participations and tangible assets, an extraordinary income of Sfr 2,077.1 million resulted. Aggregate income thus came to Sfr 8,461.9 million. After an allocation of Sfr 7,396.1 million to provisions, annual profit comes to Sfr 1,065.8 million.

Items no. 01-04 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 declined by Sfr 106.6 million. This decrease can be attributed to lower swap rates and to a slight decline in interest rates in the investment currencies.

Item no. 05 in the income statement

Income from domestic money market claims

With interest rates lower than in the previous year but volumes virtually unchanged, income from money market claims declined by Sfr 22.9 million to Sfr 32.6 million.

Item no. 06 in the income statement

Income from Lombard advances

Lombard income was unchanged at Sfr 0.9 million; although interest rates were lower, greater use was made of this facility.

Item no. 07 in the income statement

Income from claims against domestic correspondents

Income from domestic correspondents receded by Sfr 1.5 million to Sfr 2.3 million on lower discount rates and higher balances.

Item no. 08 in the income statement

Income from domestic securities

Securities income rose by Sfr 22.2 million to Sfr 260.3 million. In addition to interest income of Sfr 242.9 million, the slight easing of interest rates produced a capital gain of Sfr 17.4 million.

Other income

Item no. 09
in the income statement

	1996 in Sfr millions	**Change from previous year** in Sfr millions
Commissions	2.6	+0.2
Income from participations	3.8	+0.1
Income from real estate[1]	6.0	−0.3
Other ordinary income	0.5	+0.2
Total other income	12.9	.

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

Gross income

Item no. 10
in the income statement

Gross income receded year-on-year by 4.6% to Sfr 2,183.2 million. This was due mainly to lower income from the foreign currency investments.

Interest expense

Item no. 11
in the income statement

The interest expense declined by Sfr 101.6 million to Sfr 49.3 million. This decrease was due not only to lower interest rates but also to the lower net liabilities towards the Confederation.

	1996 Sfr millions	**Change from previous year** Sfr millions
Interest expense for liabilities towards the Confederation	93.7	−106.7
Interest income from onward placements	−50.2	−54.4
Net interest expense for liabilities towards the Confederation	43.5	−52.3
Interest on depositors' balances	5.8	–
Total interest expense	49.3	−52.3

Item no. 12
in the income statement

Banknote expense

As the bank note expense was defined more precisely and narrowly in the year under review, comparisons with the previous year (Sfr 59.3 million) are of limited validity. For the first time, the bulk of the production costs (paper, printing and development costs) has been charged to the new banknote series (see Schedule of fixed assets), and banknotes are now written down in step with the entry of new notes into circulation.

Item no. 13
in the income statement

Personnel expense

	1996	Change from previous year	
	Sfr millions	Sfr millions	in %
Salaries and children's allowances	61.4	+0.5	+0.8
Welfare benefits, training and catering	17.3	+1.2	+7.5
Expense for current employees	78.7	+1.7	+2.2
Allocations to the pension schemes	1.0	–	–
General allowances for retired employees	1.5	+0.5	+50.0
Remuneration for supervisory bodies	0.8	–	–
Total personnel expense	82.0	+2.2	+2.8

Item no. 14
in the income statement

General overheads

	1996	Change from previous year	
	Sfr millions	Sfr millions	in %
Premises	20.4	−2.2	−9.7
Furniture and fixtures	4.6	−7.1	.
Business and office equipment and supplies	4.4	–	–
Information and communication	3.9	+0.2	+5.4
Printing, publications	1.0	−0.1	−9.1
Other general overheads	19.7	+6.0	.
Total general overheads	54.0	.	.

Premises

Expenditure on regular building maintenance, non-value-adding alterations to various bank offices and rental of office space totalled Sfr 20.4 million, about Sfr 2.2 million or 9.7% less than in the previous year.

Furniture and fixtures

Expenditure on furniture and fixtures is not directly comparable with the previous year: under the new accounting principles, items acquired are capitalised and are thus charged only in part to the income statement. Accordingly, published expenditures declined by Sfr 7.1 million. These consist mainly of costs relating to the maintenance of computer hardware and software and of other equipment.

Other general overheads

Other general overheads increased by Sfr 6 million. These include contributions to the operating costs of the Gerzensee Study Centre (Sfr 4.9 million, up from Sfr 4.4 million in 1995) and of the Haslizentrum (the National Bank's holiday and training centre – unchanged contribution of Sfr 0.5 million) as well as – owing to the redefinition of this item – expenses of Sfr 2.7 million which were formerly classified as banknote expenses plus Sfr 2.3 million for the storage of our financial assets and gold holdings. After taking this into account, the actual increase in the comparable expense categories amounts to Sfr 1 million or 7.3% over the 1995 figure.

Depreciation of tangible assets

Item no. 15 in the income statement

The bulk of this item (Sfr 8.2 million) is accounted for by sundry tangible assets, which comprise furnishings, machinery and equipment plus Information Technology investments. These purchases are written off over 3-4 years. A further amount of Sfr 1.9 million was written down on real estate.

Net income

Item no. 16 in the income statement

With a decrease in both gross income and expenses, net income declined year-on-year by 0.9% to Sfr 1,972.7 million.

Item no. 17
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:

	1996 Sfr millions	1995 Sfr millions
USD	+3 745.8	−2 898.9
DEM	+356.6	−165.9
JPY	+31.1	−296.0
Other currencies	+278.6	−170.6
Total	+4 412.1	−3 531.4

Item no. 18
in the income statement

Extraordinary income owing to changes in valuation principles

Negotiable foreign currency investments were previously stated at acquisition cost. Until the end of 1995, domestic securities were carried in the balance sheet at either 80% (in the case of Confederation bonds) or 70% (other securities) of their nominal value. For participations and tangible assets, only pro memoria values were stated.

	1996 Sfr millions
Changeover to market valuation of negotiable financial investments	1 560.0
of which negotiable foreign currency investments	68.1
of which domestic securities	1 491.9
Revaluation of fixed assets	517.1
of which participations	51.0
of which tangible assets	466.1
Total	2 077.1

Item no. 19
in the income statement

Aggregate income

After taking account of a positive exchange rate-related value adjustment of +Sfr 4,412.1 million and of the release of hidden reserves (resulting from the change in valuation principles), aggregate income comes to Sfr 8,461.9 million.

Allocation to provisions

Item no. 20
in the income statement

Substantial exchange rate-related earnings on the National Bank's foreign currency assets and one-off book profits accruing from the adoption of new valuation principles have permitted provisions to be increased by Sfr 7,396.1 million (in the previous year, Sfr 1,757.8 million was released from provisions). They thus reached the minimum level which the Bank seeks to maintain for reasons of exchange rate policy (see p. 82). Annual profit is stated at Sfr 1,065.8 million. For the proposal regarding the distribution of profit see page 84.

3.4 Notes to the balance sheet

Item no. 21
in the balance sheet

Gold holdings

Gold holdings have remained unchanged since 1981. They are stored at various locations in Switzerland and abroad. The gold holdings are not actively managed.

	1996 tonnes	1996 Sfr millions	Change from previous year
Gold ingots	2 415.0	11 098.6	–
Gold coins	175.2	805.3	–
Total	2 590.2	11 903.9	–

Items no. 22 and 23
in the balance sheet

Foreign currency investments

The unhedged and the swap-related hedged foreign currency holdings are invested jointly. The maximum term of each investment is 12 months (NBL Art. 14, point 3). 'Government paper' refers to debt issued by the government of the corresponding currency. Bank investments are effected with institutions enjoying very good credit ratings.

Investments by currency

	1996 millions original currency	1996 millions Sfr	% weighting	Change from previous year millions original currency	Change from previous year millions Sfr
USD	30 705.2	41 452.1	84.0	−938.4	+4 707.1
of which not exchange rate-hedged	21 175.2	28 586.6	58.0	+1 745.5	+6 024.5
of which exchange rate-hedged (swaps)	9 530.0	12 865.5	26.1	−2 683.9	−1 317.4
DEM	6 885.7	5 981.6	12.1	+2 177.8	+2 182.3
JPY	162 585.6	1 887.8	3.8	+1 059.1	+43.2
Others		6.9	0.0		+0.9
Total		49 328.4	100.0		+6 933.5

Negotiable investments
on discount basis:
stated at end-year rates
on interest basis:
stated at end-year rates plus
accrued interest

Non-negotiable investments
1996: Sfr 7,198.3 million
1995: Sfr 1,540.2 million
stated at acquisition cost plus
accrued interest

Investments by borrower

	1996			Change from previous year	
	millions		% weighting	millions	
	original currency	Sfr		original currency	Sfr
Government paper					
USD	17 435.9	23 538.5	47.7	-4 844.4	-2 339.9
DEM	6 544.0	5 684.8	11.5	+1 977.4	+2 015.7
JPY	151 489.9	1 758.9	3.6	-8 944.7	-73.3
Total		30 982.2	62.8		-391.5
Monetary institutions					
USD	9 791.5	13 218.5	26.8	+3 341.2	+5 728.4
DEM	37.6	32.7	0.1	-7.8	-3.9
JPY	1 127.7	13.1	0.0	+49.3	+0.8
Total		13 264.3	26.9		+5 725.3
Banks					
USD	3 477.8	4 695.1	9.5	-564.8	+1 312.5
DEM	304.0	264.1	0.5	+188.1	+170.6
JPY	9 968.1	115.8	0.2	+9 954.7	+115.7
Others		6.9	0.0		+0.9
Total		5 081.9	10.3		+1 599.7
Total		**49 328.4**	**100.0**		**+6 933.5**

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. The National Bank may draw on the reserve position for balance-of-payments purposes at any time without stating reasons.

	1996		Change from previous year	
	millions		millions	
	XDR	Swiss francs	XDR	Swiss francs
Swiss quota in IMF	2 470.4	4 797.0	–	+547.9
less IMF's Swiss franc sight balances at the SNB	1 405.5	2 729.2	−83.7	+167.8
Reserve position in the IMF	1 064.9	2 067.8	+83.7	+380.1

Item no. 25
in the balance sheet

International payment instruments

Special Drawing Rights (XDR) are interest-yielding sight balances at 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).

	1996		Change from previous year	
	millions		millions	
	original currency	Swiss francs	original currency	Swiss francs
XDR	94.1	182.7	−87.2	−129.1
XEU	63.5	107.3	−0.3	+10.9
Total		290.0		−118.2

Item no. 26
in the balance sheet

Balance of payments aid

These are medium-term, dollar-denominated loans used for internationally coordinated balance of payments assistance in which Switzerland participates by providing a tranche. The loans are financed by the National Bank and guaranteed by the Federal Government. The guarantee extends to the payment of interest and repayment of the principal. Currency risks are borne by the National Bank.

	Outstanding loans 1996				Undertakings 1996
	millions		Change from previous year		millions
	USD	Swiss francs	USD	Swiss francs	USD
Bilateral loans					
Hungary	31.1	42.0	+1.1[1]	+7.1	–
Czech Republic	26.6	35.9	–	+4.9	–
Slovakia	13.3	18.0	–	+2.5	–
Romania	48.3	65.2	+1.1[1]	+10.3	–
Bulgaria	32.0	43.2	–	+6.0	–
Total	151.3	204.3	+2.2	+30.8	–

1 Accrued interest

Item no. 27
in the balance sheet

Domestic money market claims

These are money market debt register claims against the Swiss Confederation.

Lombard advances

Item no. 28
in the balance sheet

Lombard loans are used by the banks and the Confederation as a stopgap for unforeseeable liquidity shortfalls. At the end of 1996, a total of 248 credit lines were pending (1995: 256).

The following collateral was pledged to the National Bank as security for the credit lines:

	1996 Sfr millions	Change from previous year Sfr millions
Credit lines outstanding at end-year	7 982.8	−7.6
Collateral at end-year [1]	8 283.3	−1 100.2
Yearly average drawn down	23.9	+5.3

1 Market prices less 10-35%

Claims against domestic correspondents

Item no. 29
in the balance sheet

752 branches of 85 banks (20 cantonal banks, 4 big banks, 57 regional banks and savings banks, 1 Raiffeisen bank and 3 other banks) perform local cash redistribution transactions for the National Bank and cover the cash requirements of federal institutions (Post Office, Swiss Federal Railways). The National Bank earns interest at the discount rate on the resulting claims.

Domestic securities

Item no. 30
in the balance sheet

These are bonds which are listed on the stock exchange.

	1996 Sfr millions	 % weighting	Change from previous year Sfr millions
Confederation	960.1	19.9	+67.5
Cantons	1 293.6	26.8	+50.0
Communes	592.0	12.3	+23.7
Mortgage bond institutions	932.3	19.3	+0.4
Banks	1 043.5	21.7	−6.8
Total market value[1]	4 821.5	100.0	+134.8
Total nominal value	4 309.7		+46.6

1 Year-end rates plus accrued interest

Items no. 31 and 32 in the balance sheet

Participations and tangible assets

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 2.75% interest in the Bank for International Settlements (BIS) is held by reason of collaboration on monetary policy. Others comprise AG Hotel Bellerive au Lac, Zurich and two companies connected with the foundation of the Gerzensee Study Centre (all three wholly owned by the SNB), plus shares in Telekurs AG, Zurich, SIHL Zürcher Papierfabrik an der Sihl, Zurich, and SWIFT (Society for Worldwide Interbank Financial Telecommunications) S.G., La Hulpe (Belgium).

Tangible assets

Tangible assets comprise banknote stocks (new, 8th issue), real estate and sundry tangible assets. Banknote stocks, which are stated at production cost, are written down in line with their entry into circulation. 'Sundry tangible assets', which comprise office equipment and computer systems, are written down over 3-12 years.

Schedule of fixed assets in Sfr millions

	Value at start of reporting year[1]	Investments	Divestments	Depreciation	Value at end of reporting year
Participations not consolidated					
Orell Füssli	27.0	–	–	–	27.0
BIS	9.4	–	–	–	9.4
Others	14.6	–	–	0.0	14.6
Total	51.0	–	–	0.0	51.0
Tangible assets					
Banknote stocks	112.8	67.8	0.0	14.0	166.6
Real estate	331.6	13.3	0.0	1.9	343.0
Insured value	*402.5*				*409.6*
Sundry tangible assets	21.8	9.2	0.0	8.2	22.8
Insured value	*61.4*				*60.8*
Total	466.2	90.3	0.0	24.1	532.4

1 The 'start of reporting year' values have been restated, as participations and tangible assets were previously not carried as assets. As a rule, valuations are based on acquisition cost less depreciation according to their operating life. The Bank's real estate (most of which has belonged to the National Bank for several decades) and its acquisition cost are either no longer meaningful or would be difficult to estimate; it is thus stated at its capitalised value, due account being taken of particular operating conditions.

Sundry assets in Sfr millions

Item no. 33
in the balance sheet

	1996	Change from previous year
Coins (including medallions)[1]	398.5	.
Foreign notes	0.1	–
Postal giro accounts	0.3	−0.1
Coupons	–	–
Other accounts receivable	28.1	+0.9
Other cheques and bills of exchange (collection business)	24.8	-6.3
Positive replacement values (forward contracts)	0.3	.
Total	452.1	.

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

Accruals

Accrued interest on foreign currency investments (Sfr 23.3 million), international payment instruments (Sfr 12.2 million), balance of payments aid (Sfr 2.9 million), domestic securities (Sfr 140.6 million) and onward placements for the Confederation (Sfr 5.2 million) is contained in the corresponding balance sheet items.

Item no. 34
in the balance sheet

Banknote circulation

This comprises all banknotes held by the general public and the banks. Of the banknotes originating from earlier issues which were recalled in 1980 and are exchangeable at the National Bank until 30 April 2000, a total of Sfr 285.4 million were still outstanding at the end of the year (1995: 298.4 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 191.9% (1995: 204.5%). Coverage by gold alone declined to an average of 42.2% (1995: 43.2%) owing to the increase in banknotes in circulation. On a few days when banknotes were in peak demand, coverage by gold dropped below 40%.

Bank note coverage annual average

	1996		Change in coverage from previous year
	millions Sfr	% coverage	
Gold holdings	11 903.9	42.2	−1.0 percentage point
Other eligible assets	42 248.9	149.7	−11.6 percentage points
of which			
Foreign currency investments	38 070.6		
Reserve position in the IMF	1 801.5		
International payment instruments	309.7		
Domestic money market claims	1 705.6		
Lombard advances	24.4		
Eligible domestic securities[1]	337.1		
Overall bank note coverage	54 152.8	191.9	−12.6 percentage points
Banknote circulation	28 214.0		+2.4 %

1 Term to maturity of up to 2 years

Item no. 35
in the balance sheet

Sight deposits of domestic banks

The 586 sight deposits (1995: 603) of the 406 banks (1995: 414) 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

Items no. 36 and 37 in the balance sheet

The Confederation's sight deposits are used for 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 attract 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 7,510.5 million (1995: Sfr 5,001.1 million), of which Sfr 6,695.2 million (1995: Sfr 3,620.5 million) had been placed on the market.

Sight deposits of foreign banks and institutions

Item no. 38 in the balance sheet

The 153 (1995: 161) deposits are denominated in Swiss francs and do not bear interest. They are held primarily by foreign central or commercial banks.

Other sight liabilities

Item no. 39 in the balance sheet

These comprise deposit accounts of active and retired employees, liabilities towards the pension schemes amounting to Sfr 9.2 million (1995: Sfr 10.2 million) and liabilities towards individual non-banks.

Sundry liabilities in Sfr millions

Item no. 40 in the balance sheet

	1996	Change from previous year
Profit distribution to the Confederation and the cantons (from previous year's profit)	142.2	−457.8
Other liabilities	23.3	−3.8
Negative replacement values (forward contracts)	923.5	.
Total	1089.0	.

Accruals

Accrued interest on time deposits of the Confederation (Sfr 10.5 million) is contained in the corresponding balance sheet item.

Items no. 41 and 42 in the balance sheet

Provisions

Substantial foreign exchange gains, together with the extraordinary income resulting from the adoption of new valuation principles, enabled the Bank to increase its provisions by Sfr 7,396.1 million. Provisions thus complied with the minimum figure stipulated in the profit calculation concept (see page 82).

Provisions in Sfr millions	**Provisions on 31.12.95**	**Allocations**	**Releases**	**Trans-fers**	**Provisions on 31.12.96**	**Change from previous year**
for market, credit and liquidity risks[1]	22958.4	7396.1	–	+200.0	30554.5	+7596.1
for operating risks[2]	650.0	–	–	−200.0	450.0	−200.0
Total	23608.4	7396.1	–	–	31004.5	+7396.1

1 Up to 1995: for currency risks

2 Up to 1995: Other provisions

The former provisions accounts have been reclassified and given more precise definitions. Provisions for open-market operations (Sfr 100 million) as well as for dividend adjustments and the cantonal quotas (Sfr 100 million) have been transferred to provisions for market, credit and liquidity risks.

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 resulting from foreign exchange transactions.

Share capital

Item no. 43 in the balance sheet

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 6,196 shares to new holders. As of 31 December 1996, applications for registration were pending for 5,813 shares. The other shares were distributed as follows:

1 323 private shareholders each with	1 share
1 481 private shareholders each with	2–10 shares
310 private shareholders each with	11–100 shares
23 private shareholders each with	101–200 shares
27 private shareholders each with	over 200 shares
3 164 private shareholders with a total of	35 084 shares
26 cantons with a total of	38 981 shares
24 cantonal banks with a total of	17 118 shares
43 other public authorities and institutions with a total of	3 004 shares
3 257 shareholders with a total of	94 187 shares
pro memoria: registration applications pending or outstanding for	5 813 shares
Total	100 000 shares

63% of the shares were thus registered in the names of cantons, cantonal banks and other public authorities and institutions, and 37% in the names of private shareholders; of the latter, 70% were held by private individuals and 30% by legal entities. 451 shares (without voting rights) were in foreign ownership; this is equivalent to 0.45% of the share capital.

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

	1996	Change from previous year
Canton of Berne		
Number of shares	6 630	–
Percentage held	6.63%	–
Canton of Zurich		
Number of shares	5 200	–
Percentage held	5.20%	–

Reserve fund

Item no. 44 in the balance sheet

The reserve fund was increased by Sfr 1 million (the legally permitted maximum) to Sfr 61 million by an allocation from the 1995 annual profit.

Item no. 45
in the balance sheet and
income statement

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. Provisions are used primarily for accumulating currency reserves which the Bank can use to support the franc in the event of a decline on the foreign exchange markets. The currency reserves also make Switzerland's financial industry less vulnerable to international crises. The need for currency reserves increases in line with the growth and globalisation of the Swiss economy.

The standard rule has therefore been laid down, by agreement with the Federal Council, that the provisions be increased in line with growth in nominal gross national product (see 84th Annual Report 1991, p. 23 ff.). The targeted increment in percentage terms is based on average GNP growth over the previous five years so as to avoid subsequent adjustments or 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
		Sfr millions		Sfr millions	Sfr millions
	in % (average period)	Target level at year-end	Actual level at year-end prior to distribution[1]		
	(1)	(2)	(3)	(4) = (3) – (2)	(5)
1993	6.3 (1987–91)	21 292.2	27 427.6[2]	6 135.4	600.0
1994	5.8 (1988–92)	22 527.1	25 966.3[2]	3 439.2	600.0
1995	4.8[3] (1989–93)	23 608.4	23 750.6[2]	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			

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

2 This figure includes the valuation adjustment for foreign currencies, which amounted to Sfr 2,389.7 million at end-1992, Sfr 3,153.8 million at end-1993 and Sfr 814.9 million at end-1994. It declined to zero at end-1995.

3 Calculated on the basis of data available at the beginning of 1995. The revised growth figure is 4.9%.

4 At the end of 1995 real provisions exceeded the targeted level by a mere Sfr 142.2 million, leaving only this amount to be set aside for distribution to the Confederation and the cantons. Since at that time we were already planning to disclose the hidden reserves, we envisaged an additional payment to make up the difference to Sfr 600 million should the 1996 financial statement permit this. The high aggregate income in the 1996 accounts now enables us to make the extra payment of Sfr 457.8 million.

3.5 Notes regarding off-balance-sheet business

	1996 Sfr millions	Change from previous year Sfr millions
Contingent liabilities		
Documentary credits[1] (secured by separate balances)	5.3	−2.1
Outstanding undertakings		
General Arrangements to Borrow (GAB)[2]	1 980.7	+226.3[4]
Swap agreements[3]:		
Federal Reserve Bank of New York	5 400.0	+744.4[4]
Bank of Japan	2 322.2	+38.2[4]
Bank for International Settlements (BIS)	810.0	+111.7[4]
Two-way arrangement (IMF)	217.8	+185.6
Additional funding obligations		
BIS registered shares	113.2	+10.5

	Nominal value Sfr millions	Gross replacement value Sfr millions	
		positive	negative
Forward contracts			
on currencies[5]	15 810.4	–	923.6
on securities[6]	5 528.1	0.3	–
Total	21 338.5	0.3	923.6

1 Chiefly in connection with development aid provided by the Confederation

2 Credit line to the amount of XDR 1020 million in favour of the IMF for special cases, without federal guarantee (cf. p. 51)

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 Change due entirely to exchange rates

5 From USD/CHF swaps for the purpose of money market steering (cf. p. 30f.). The marked rise of the dollar led to a corresponding loss of value on forward sales; this is offset by a considerable increase in value in the total dollar cash position. On balance, a substantial exchange rate gain resulted (cf. item no. 17 of the income statement).

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

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

At its meeting of 7 March 1997, the Bank Council accepted the proposal of the Bank Committee to approve the 89th Annual Report for 1996, as presented by the Governing Board, for submission to the Federal Council and the Annual General Meeting of Shareholders.

On 17 March 1997, 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 4 February 1997.

The Bank Council proposes to the Annual General Meeting[1]:

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 available earnings of Sfr 1 065 799 776.22 million be appropriated as follows:

allocation to the reserve fund (Art. 27, para. 1 NBL)	Sfr	1 000 000.––
payment of a dividend of 6 % (Art. 27, para. 2 NBL)	Sfr	1 500 000.––
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	600 000 000.––
for the account of the Confederation and cantons (difference between the maximum distributable profit of Sfr 600 million and the actual distribution of approximately Sfr 142.2 million for the 1995 financial year)	Sfr	457 800 826.62
	Sfr	1 065 799 776.22

1 For the proposal regarding appointments to the Bank Council, see page 58.

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 accounting records and the financial statements (balance sheet, income statement and notes) of the Swiss National Bank for the year ended 31 December 1996. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with the auditing standards promulgated by the profession, which require that an audit be planned and performed 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 opinion.

According to our assessment, the financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the 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 central bank and sole 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 available earnings 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, 4 February 1997

The Auditing Committee

Peter Blaser
Chairman

Gilbert Jobin
Vice-Chairman

Kaspar Hofmann
certified auditor
Chief Auditor