



# 1 Income statement for the year 1998

		1998 Sfr millions	1997 Sfr millions	Change percent
	Notes			
<b>Income from</b>				
gold transactions	01	42.6	2.6	-
foreign currency investments	02	3 091.3	2 067.5	+49.5
reserve position in the IMF	03	123.8	69.9	+77.1
international payment instruments	04	14.0	14.0	-0.0
balance of payments aid	05	19.5	12.9	+51.2
<b>Income from</b>				
claims from Swiss franc repo transactions	06	84.2	-	-
domestic money market claims	07	5.9	22.9	-74.2
Lombard advances	08	0.7	0.9	-22.2
claims against domestic correspondents	09	1.4	1.7	-17.6
domestic securities	10	220.0	262.4	-16.2
Other income	11	15.1	13.4	+12.7
<b>Gross income</b>		<b>3 618.4</b>	<b>2 468.4</b>	<b>+46.6</b>
Interest expense	12	-126.1	-67.1	+87.9
Banknote expense	13	-45.5	-32.0	+42.2
Personnel expense	14	-81.1	-79.6	+1.9
General overheads	15	-60.3	-55.2	+9.2
Depreciation of tangible assets	16	-17.0	-9.9	+71.7
<b>Net income</b>		<b>3 288.5</b>	<b>2 224.5</b>	<b>+47.8</b>
Exchange rate-related valuation adjustments	17	-871.2	1 765.2	-
Extraordinary expense	18	-22.9	-100.0	-
Extraordinary income		0.0	6.0	-
<b>Aggregate income</b>		<b>2 394.5</b>	<b>3 895.7</b>	<b>-38.5</b>
Allocation to provisions	19	-886.5	-3 287.7	-
<b>Annual profit</b>	48	<b>1 508.0</b>	<b>608.0</b>	<b>+148.0</b>

## 2 Balance sheet as of 31 December 1998

in Sfr millions

		1998	1997
<b>Assets</b>	<b>Notes</b>		
<b>Gold holdings and claims from gold transactions</b>			
gold holdings	20	11 045.5	11 448.2
claims from gold transactions	21	884.6	458.3
<b>Foreign currency investments</b>			
not exchange rate-hedged	22	45 005.7	40 780.2
exchange rate-hedged (swaps)	23	7 800.1	12 490.3
Reserve position in the IMF	24	3 070.6	2 765.0
International payment instruments	25	390.8	452.4
Balance of payments aid	26	768.3	315.4
<b>Claims from Swiss franc</b>			
repo transactions	27	17 348.3	–
Domestic money market claims	28	–	673.5
Lombard advances	29	0.3	0.4
Claims against domestic correspondents	30	378.8	415.4
Domestic securities	31	5 010.0	4 941.0
Participations	32	89.4	89.6
Tangible assets	33	563.0	567.4
Sundry assets	34	480.4	482.2
Non paid-up share capital	46	25.0	25.0
		<b>92 860.7</b>	<b>75 904.5</b>

		1998	1997
<b>Liabilities</b>	Notes		
<b>Banknote circulation</b>	35	<b>33 218.8</b>	<b>32 141.8</b>
<b>Sight deposit accounts of domestic banks</b>	36	<b>6 860.1</b>	<b>5 100.8</b>
<b>Liabilities towards the Confederation</b>			
<b>sight</b>	37	<b>147.6</b>	<b>155.6</b>
<b>time</b>	38	<b>14 972.0</b>	<b>2 301.7</b>
<b>Sight deposit accounts of foreign banks</b>			
<b>and institutions</b>	39	<b>163.5</b>	<b>47.3</b>
<b>Other sight liabilities</b>	40	<b>236.1</b>	<b>230.3</b>
<b>Liabilities from Swiss franc</b>			
<b>repo transactions</b>	41	<b>–</b>	<b>–</b>
<b>Foreign currency liabilities</b>	42	<b>175.9</b>	<b>–</b>
<b>Sundry liabilities</b>	43	<b>265.3</b>	<b>914.7</b>
<b>Provisions</b>			
<b>for market, credit and</b>			
<b>liquidity risks</b>	44	<b>34 728.6</b>	<b>33 842.2</b>
<b>for operating risks</b>	45	<b>471.7</b>	<b>450.0</b>
<b>Share capital</b>	46	<b>50.0</b>	<b>50.0</b>
<b>Reserve fund</b>	47	<b>63.0</b>	<b>62.0</b>
<b>Net disposable income – annual profit</b>	48	<b>1 508.0</b>	<b>608.0</b>
		<b>92 860.7</b>	<b>75 904.5</b>

## 3 Notes to the accounts as of 31 December 1998

### 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 under the Swiss constitution 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 pages 95 f.).

On 31 December 1998, the National Bank employed 610 persons (1997: 621), corresponding to 567.4 full-time posts (1997: 577.3). Up to the end of 1998, the National Bank had branches in Aarau, Basel, Geneva, Lausanne, Lucerne, Lugano, Neuchâtel and St Gallen in addition to its head offices in Berne and Zurich. Implementation of the new cash distribution concept (see page 63) is bringing about changes in the branch network.

### 3.2 Accounting and valuation 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). Owing to the particular nature of its business, the National Bank does not draw up a cash flow statement or publish a mid-year statement.

Since April 1998, the National Bank has been using repo transactions as an instrument of monetary policy (see pages 28 and 32). Regardless of whether the repos are used for procuring or for absorbing liquidity, only the money side of the transaction is posted to the accounts.

Interest rate futures, which have been used on occasion since 1998 to regulate the average duration of foreign currency investments, are assessed daily at market (i.e. replacement) values.

General principles

Changes from the previous year

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

**Recording of transactions/  
balance sheet entries**

*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). Gold claims are inclusive of accrued interest.

**Valuation principles**

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

*Claims and liabilities from repo transactions* are stated at their nominal value including accrued repo interest. However, only the money side of the transaction is posted to the accounts. In other words, the securities transferred by the borrower to the lender are treated as if they had been pledged as security for the loan.

*Pending forward contracts on foreign currencies* and *interest rate instruments (including futures)* as well as non-performed spot transactions in negotiable investments are stated at year-end market values (replacement values). Positive or negative gross replacement values are stated under sundry assets or sundry liabilities respectively.

*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 stated at their acquisition cost less required depreciation.

*Other items* are stated at their nominal value inclusive of any accrued interest.

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

	1998	1997	Change in percent
<b>Year-end rates</b>			
CHF/USD	1.3772	1.4549	-5.3
CHF/DEM	82.1400	81.2400	+1.1
CHF/JPY	1.2110	1.1196	+8.2
CHF/NLG	72.8600	72.0600	+1.1
CHF/GBP	2.2826	2.4082	-5.2
CHF/DKK	21.5600	21.3200	+1.1
CHF/XDR	1.9218	1.9645	-2.2
CHF/XEU	1.6037	1.6040	-0.0

XDR: Special Drawing Rights

XEU: ECU

## 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 year-on-year by 50.1% to Sfr 3,248.6 million. Together with the other income items totalling Sfr 369.8 million (which also rose – up 21.6%), gross income comes to Sfr 3,618.4 million (+46.6%). With expenses up 35.4% to Sfr 330.0 million, net income was 47.8% higher at Sfr 3,288.5 million. Exchange rate-related valuation adjustments resulted in a net write-down of Sfr 871.2 million and extraordinary items produced a negative balance of Sfr 22.9 million. Aggregate income thus came to Sfr 2,394.5 million. After the formation of provisions totalling Sfr 886.5 million, annual profit came to Sfr 1,508.0 million.

Item no. 01  
in the income statement

### Income from gold transactions

The gold lending operations yielded income of Sfr 42.6 million (1997: Sfr 2.6 million). This marked rise was due mainly to the fact that in 1997 these operations had only commenced in November.

Items nos. 02–05  
in the income statement

### Income from foreign currency items

Income from foreign currency investments, the reserve position in the IMF, international payment instruments and balance of payments aid rose by Sfr 1,084.3 million to Sfr 3,248.6 million. Average foreign currency positions were slightly higher overall than in the previous year, and the residual maturities of the foreign currency investments were significantly longer. The generally higher returns on longer-dated investments plus the capital gains resulting from interest rate falls had a beneficial effect on the result.

### Income from claims arising from Swiss franc repo transactions

The Swiss franc repo transactions commenced in April 1998 yielded income of Sfr 84.2 million.

Item no. 06  
in the income statement

### Income from domestic money market claims

At the end of April, the swaps with money market claims of the Confederation were entirely superseded by repo transactions. Income for 1998 came to Sfr 5.9 million (1997: 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 1997. As a result, income declined by Sfr 0.2 million to Sfr 0.7 million.

Item no. 08  
in the income statement

### Income from claims against domestic correspondents

With the discount rate unchanged and balances lower than in the previous year, income from claims against domestic correspondents declined by Sfr 0.3 million to Sfr 1.4 million.

Item no. 09  
in the income statement

### Income from domestic securities

Securities income (interest plus price gains) receded by Sfr 42.4 million to Sfr 220.0 million. Since interest rates fell substantially again, returns were lower on all new investments. Moreover, the duration of the portfolio declined from 3.8 to 3.3 years. The lower yields associated with shorter maturities had a greater impact on aggregate income than the capital gains on long-dated bonds which were generated by the interest rate slide.

Item no. 10  
in the income statement

### Other income

	1998	Change from previous year
	Sfr millions	Sfr millions
Commissions from banking transactions	3.2	+0.7
Income from participations	5.1	+0.9
Income from real estate <sup>1</sup>	6.3	-0.4
Other ordinary income	0.6	+0.5
Total other income	15.1	+1.7

Item no. 11  
in the income statement

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

Interest expense rose from Sfr 67.1 million to Sfr 126.1 million. This rise was due to the significantly higher net liabilities to the Confederation that has resulted since the introduction of repo operations and must therefore be seen in conjunction with the interest income from repo transactions.

	1998	Change from previous year
	Sfr millions	Sfr millions
Interest expense for liabilities towards the Confederation	197.2	+70.2
Interest income from onward placements	-77.1	+11.0
Net interest expense for liabilities towards the Confederation	120.1	+59.2
Interest on depositors' balances	5.6	-0.6
Interest expense for liabilities from Swiss franc and foreign currency repo transactions	0.4	+0.4
<b>Total interest expense</b>	<b>126.1</b>	<b>+59.0</b>

### Banknote expense

Banknote expense comprises write-downs for notes of the eighth issue capitalised as assets; these write-downs are effected as the new banknotes enter into circulation. Although write-downs were lower for most denominations, the issue of the new Sfr 1000 notes – and, especially, of the new Sfr 100 notes – brought about a marked rise in banknote expense.

### Personnel expense

	1998	Change from previous year	
	Sfr millions	Sfr millions	percent
Wages, salaries and allowances	64.4	+2.5	+4.0
Welfare benefits	11.6	+0.3	+2.7
Other personnel expenses	4.0	-1.4	-25.9
Allocations to the pension fund	1.0	-	-
<b>Total personnel expense</b>	<b>81.1</b>	<b>+1.5</b>	<b>+1.9</b>

Other personnel expenses relate primarily to recruitment, training and cafeteria facilities.

## General overheads

Item no. 15  
in the income statement

	1998	Change from previous year	
	Sfr millions	Sfr millions	percent
Direct expenses from banking operations	10.6	+2.3	+27.4
Premises	15.1	-3.1	-17.0
Furniture and fixtures	6.0	+0.5	+9.1
Other general overheads	28.5	+5.3	+22.8
Total general overheads	60.3	+5.0	+9.1

### Direct expenses from banking operations

This item relates to direct costs incurred in connection with banknotes in circulation (including remuneration to outside agencies) plus commission and expenses from the management of financial investments and gold.

### Premises

This item comprises outlays on the maintenance and operation of the Bank's buildings and on rented office accommodation.

### Furniture and fixtures

This item comprises expenditure on the maintenance and upkeep of vehicles, machinery, furnishings and computer hardware and software.

### Other general overheads

Other general overheads comprise general administrative expenses and third-party consultancy and support expenses totalling Sfr 9.0 million (1997: Sfr 4.8 million) plus information retrieval and security outlays.

Finally, this item also includes contributions to the operating costs of the Gerzensee Study Centre (Sfr 5.9 million, versus Sfr 5.0 million in 1997) and to the Haslizentrum holiday and training centre (down from Sfr 0.6 million to Sfr 0.5 million).

### Depreciation of tangible assets

The bulk of this item (Sfr 13.3 million, versus Sfr 9.7 million in 1997) is accounted for by depreciation of sundry tangible assets, which comprise furnishings, machinery and equipment, vehicles and IT investments. These purchases are written off over 3–12 years. A further Sfr 3.7 million (1997:Sfr 0.2 million) is accounted for by real estate.

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:

	1998	1997
	Sfr millions	Sfr millions
USD	-941.7	+2 247.3
DEM	+137.4	-440.6
JPY	+169.1	-68.5
NLG	-0.4	
GPB	-102.0	
DKK	-16.4	
XDR	-116.7	
Other currencies	-0.5	+27.0
Total	-871.2	+1 765.2

### Extraordinary expense

This item comprises allocations to the provisions for costs arising from early retirements in connection with the new cash distribution concept (Sfr 20.0 million – see pages 63 f.) plus auditing costs incurred by the Fund for Needy Victims of the Holocaust/Shoah (Sfr 2.5 million). It also contains a Swiss National Bank contribution of Sfr 0.3 million to the Canton of Ticino for averting compensation claims in the matter of Granville Gold Trust Switzerland.

### Allocation to provisions

The sharp rise in income from foreign currency positions enabled the Bank to channel a further Sfr 886.5 million into provisions (in 1997, Sfr 3 287.7 million was allocated to provisions). Provisions were in line with the minimum level which the Bank seeks to maintain for reasons of exchange rate policy (see pages 95 f.). Annual profit is stated at Sfr 1,508.0 million. The proposal regarding the distribution of profit is set out on page 98.

## 3.4 Notes to the balance sheet

The balance sheet total rose by almost Sfr 17 billion in 1998 to just under Sfr 93 billion. The sharp rise is due largely to a massive increase in short-term time deposits of the Confederation held with the National Bank. Only part of this money was placed directly on the market. The market's remaining liquidity requirements were met by entering into additional repo operations.

The money market transactions outlined above thus resulted in a rise in net liabilities towards the Confederation and higher claims from Swiss franc repo transactions (i. e. increases on both sides of 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 87.6 tonnes owing to the stepping-up of gold lending operations since the beginning of January 1998. These holdings are stored at various locations in Switzerland and abroad.

	1998		Change from previous year
	tonnes	Sfr millions	Sfr millions
Gold ingots	2 228.2	10 240.2	-402.7
Gold coins	175.2	805.3	-
Total	2 403.4	11 045.5	-402.7

#### 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 1998, the amount outstanding was 186.8 tonnes at a parity value of Sfr 858.4 million plus accrued interest of Sfr 26.3 million.

#### Foreign currency investments

Both the non-hedged and the hedged (swap-related) foreign currency holdings are invested jointly. Government paper is mostly 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 currency<sup>1</sup>

	1998			Change from previous year	
	millions		% weighting	millions	
	original currency	Swiss francs		original currency	Swiss francs
USD	19 842.7	27 327.3	51.8	-9 033.8	-14 685.1
of which					
not exchange rate-hedged	16 397.7	22 582.9	42.8	-3 893.8	-6 939.2
exchange rate-hedged (swaps)	3 445.0	4 744.5	9.0	-5 140.0	-7 745.9
DEM	22 475.8	18 461.6	35.0	+11 187.5	+9 291.0
of which					
not exchange rate-hedged	18 755.8	15 406.0	29.2	+7 467.5	+6 235.4
exchange rate-hedged (swaps)	3 720.0	3 055.6	5.8	+3 720.0	+3 055.6
JPY	215 418.1	2 608.7	4.9	+52 661.7	+786.5
NLG	2 017.4	1 469.9	2.8	+1 662.4	+1 214.1
GBP	726.8	1 659.0	3.1	+726.0	+1 657.2
DKK	5 821.0	1 255.0	2.4	+5 819.5	+1 254.7
Others		24.1	0.0		+16.8
<b>Total</b>		<b>52 805.7</b>	<b>100.0</b>		<b>-464.9</b>

## Investments by borrower<sup>1</sup>

	1998			Change from previous year	
	millions		% weighting	millions	
	original currency	Swiss francs		original currency	Swiss francs
<b>Government paper</b>					
USD	11 377.9	15 669.7	29.7	-4 538.5	-7 487.1
DEM	19 802.3	16 265.6	30.8	+8 810.5	+7 335.9
JPY	212 243.2	2 570.3	4.9	+50 776.6	+762.5
NLG	2 002.9	1 459.3	2.8	+1 650.2	+1 205.1
GBP	660.3	1 507.1	2.9	+660.3	+1 507.1
DKK	5 818.2	1 254.4	2.4	+5 818.2	+1 254.4
<b>Total</b>		<b>38 726.4</b>	<b>73.3</b>		<b>+4 577.9</b>
<b>Monetary institutions</b>					
USD	3 524.3	4 853.6	9.2	-4 590.9	-6 953.2
DEM	1 353.0	1 111.4	2.1	+1 310.0	+1 076.4
JPY	1 171.8	14.2	0.0	-65.9	+0.4
NLG	6.7	4.9	0.0	+4.7	+3.5
GBP	13.3	30.5	0.1	+12.6	+28.8
DKK	2.3	0.5	0.0	+1.0	+0.2
<b>Total</b>		<b>6 015.0</b>	<b>11.4</b>		<b>-5 844.0</b>
<b>Banks</b>					
USD	4 940.5 <sup>2</sup>	6 804.1	12.9	+95.7	-244.6
DEM	1 320.5	1 084.7	2.1	+1 067.0	+878.7
JPY	2 003.1	24.3	0.0	+1 951.0	+23.7
NLG	7.7	5.6	0.0	+7.4	+5.4
GBP	53.2	121.4	0.2	+53.1	+121.2
DKK	0.5	0.1	0.0	+0.3	+0.1
Others		24.1	0.0		+16.8
<b>Total</b>		<b>8 064.3</b>	<b>15.3</b>		<b>+801.3</b>
<b>Total</b>		<b>52 805.7</b>	<b>100.0</b>		<b>-464.9</b>

1 of which non-negotiable investments: Sfr 4,650.0 million (1997: Sfr 5,487.7 million)

2 Of this total, 66.8% is accounted for by organisations with an indirect state guarantee.

The holdings stated contain securities used for repo operations (market value: Sfr 174.6 million) and securities lodged as initial margin with counterparties to futures transactions (market value: Sfr 240.1 million).

### Reserve position in the IMF

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 at the National Bank. 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.

	1998		Change from previous year	
	millions		millions	
	XDR	Sfr	XDR	Sfr
Swiss quota in IMF	2 470.4	4 747.6	–	–105.4
less IMF's Swiss franc sight balances at the National Bank	872.6	1 677.0	–190.3	–411.0
<b>Reserve position in the IMF</b>	<b>1 597.8</b>	<b>3 070.6</b>	<b>+190.3</b>	<b>+305.6</b>

### International payment instruments

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. The ECUs (XEU) which were previously acquired by way of revolving swaps and invested on a short-term basis at the European Monetary Institute (EMI) were no longer reinvested when they matured at the end of April 1998.

	1998		Change from previous year		Undertakings 1998 millions original currency
	millions		millions		
	original currency	Sfr	original currency	Sfr	
XDR	203.3 <sup>1</sup>	390.8	+24.9	+40.3	7.7
XEU	–	–	–63.5	–101.9	
<b>Total</b>		<b>390.8</b>		<b>–61.6</b>	

1 This figure includes accrued interest on the reserve position in the IMF.

## Balance of payments aid

Item no. 26 in the balance sheet

The bilateral loans are medium-term, dollar-denominated loans used for internationally coordinated balance-of-payments assistance in which Switzerland participates by providing a tranche.

The Extended Structural Adjustment Facility II (ESAF II) is a trust fund administered by the IMF which finances long-term low-interest loans to needy developing countries. The General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB) are special credit mechanisms which may be used for supplying additional funds to the IMF when it is short of liquidity. While the Confederation guarantees interest and principal repayments for the bilateral loans and Switzerland's participation in the ESAF II loan account, the National Bank finances Switzerland's contributions to the GAB and NAB without the Federal Government providing any guarantee (see pages 57 f.).

	Outstanding loans 1998		Change from previous year		Undertakings 1998
	millions		millions		millions
	USD	Sfr	USD	Sfr	USD
<b>Bilateral loans</b>					
Czech Republic	–	–	–26.8	–39.0	–
Slovakia	–	–	–13.4	–19.5	–
Romania	48.2	66.4	–0.1 <sup>1</sup>	–3.8	–
Bulgaria	32.3	44.5	–	–2.5	–
<b>Total</b>	<b>80.5</b>	<b>110.8</b>	<b>–40.3</b>	<b>–65.0</b>	<b>–</b>
	millions		millions		millions
	XDR	Sfr	XDR	Sfr	XDR
	<b>Credit facilities in conjunction with the IMF</b>				
GAB	87.1	167.5	+87.1	+167.5	
NAB	144.0	276.7	+144.0	+276.7	
Total GAB and NAB	231.1	444.2	+231.1	+444.2	1 326.9
ESAF II	111.0	213.3	+39.9	+73.7	42.4
<b>Total</b>	<b>342.1</b>	<b>657.5</b>	<b>+271.0</b>	<b>+517.9</b>	<b>1 369.3</b>
<b>Total</b>		<b>768.3</b>		<b>+452.9</b>	

1 Accrued interest



Item no. 27  
in the balance sheet

### Claims from Swiss franc repo transactions

Repo operations, the principal instrument of monetary policy, are used to provide the banking system with liquidity against the repurchase of securities. The claims from repo transactions are fully secured by Swiss franc-denominated bonds of Swiss or foreign borrowers eligible as collateral at the National Bank and by money market debt register claims of the Confederation and the cantons.

Item no. 28  
in the balance sheet

### Domestic money market claims

After the first repo transactions were concluded on 20 April 1998, the National Bank no longer entered into swaps with money market debt register claims.

Item no. 29  
in the balance sheet

### Lombard advances

Lombard loans are used by the banks and the Confederation as a stopgap for unforeseeable liquidity shortfalls. At the end of 1998, a total of 200 credit lines were pending (1997: 241).

Credit lines, collateral values and drawdowns are summarised below.

	1998	Change from previous year
	Sfr millions	Sfr millions
Credit lines at end-year	8 871.3	-29.2
Value of collateral at end-year <sup>1</sup>	9 629.1	+216.1
Yearly average of drawn advances	18.1	-3.2
Maximum drawdown <sup>2</sup>	633.3	+82.2

1 Market prices less 10–35%

2 Daily peak

Item no. 30  
in the balance sheet

### Claims against domestic correspondents

752 branches of 80 banks (1997: 767 branches of 81 banks) perform local cash redistribution transactions for the National Bank and cover the cash requirements of federal institutions (Swiss Post, 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. 31  
in the balance sheet

	1998		Change from previous year
	Sfr millions	% weighting	Sfr millions
Confederation	995.8	19.9	+22.1
Cantons	1 368.2	27.3	+62.9
Communes	610.7	12.2	+9.0
Mortgage bond institutions	1 010.3	20.2	+48.7
Banks	1 025.0	20.5	-73.9
Total market value <sup>1</sup>	5 010.0	100.0	+69.0
Total nominal value	4 432.9		+67.5

1 Year-end rates plus accrued interest

The positions stated contain securities with a market value of Sfr 0.4 million used as margin deposits for Swiss franc repo transactions.

## Participations and tangible assets

Items nos. 32 and 33  
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
<b>Participations not consolidated</b>					
Orell Füssli	27.0				27.0
BIS	61.0				61.0
Others	1.6			0.1	1.5
Total	89.6			0.1	89.4
<b>Tangible assets</b>					
Banknote stocks	183.0	36.7		45.5	174.2
Real estate <sup>1</sup>	356.2	1.7		3.7	354.1
Sundry tangible assets <sup>2</sup>	28.3	19.6		13.3	34.6
Total	567.4	58.0		62.5	563.0

1 The insured value of real estate at end-1998 was Sfr 425.7 million (end-1997: Sfr 416.6 million).

2 The insured value of sundry tangible assets at end-1998 was Sfr 57.8 million (end-1997: Sfr 55.1 million).

## 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.

The end-1998 figure for other participations includes stakes held in Telekurs Holding Ltd, Zurich, Sihl, Zurich (a paper factory) and the SWIFT Society for Worldwide Interbank Financial Telecommunications S.G., La Hulpe (Belgium), plus the shares in the successor to two companies which had been established in connection with the foundation of the Gerzensee Study Centre.

## Tangible assets

### Banknote stocks

Stocks of new banknotes (eighth issue) are stated at cost and written down in line with their entry into circulation.

### Real estate

Real estate is valued on the basis of its acquisition cost including any investments made. The property is written down on a straight-line basis over 100 years (or ten years in the case of installations and conversions specific to the Bank).

### Sundry tangible assets

Sundry tangible assets such as furnishings, machinery and equipment, vehicles and IT investments are stated at cost less required depreciation. These assets are written down over their estimated useful life of 3–12 years.

Low-value acquisitions are debited directly to general overheads.

## Item no. 34 in the balance sheet

### Sundry assets in Sfr millions

	1998	Change from previous year
Coins (including commemorative coins) <sup>1</sup>	445.9	+17.5
Foreign notes	0.1	–
Postal giro accounts	0.5	–0.1
Other accounts receivable	27.9	–5.5
Other cheques and bills of exchange (collection business)	3.1	–10.2
Positive replacement values (forward contracts)	2.8	–3.5
Total	480.4	–1.9

<sup>1</sup> Coins comprise the divisional and commemorative coins acquired from the Federal Mint which are placed in circulation by the National Bank.

## Accruals

Accrued interest on gold claims (Sfr 26.3 million), foreign currency investments (Sfr 886.0 million), the reserve position in the IMF (Sfr 19.8 million), international payment instruments (Sfr 1.3 million), balance of payments aid (Sfr 7.0 million), claims from Swiss franc repo transactions (Sfr 7.4 million), domestic securities (Sfr 146.0 million) and onward placements for the Confederation (Sfr 14.0 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 266.8 million were still outstanding at the end of the year (1997: 276.3 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 133.2% (1997: 220.1%). The substantial reduction is due mainly to the changed asset structure brought about by the revised National Bank Law.

Banknote coverage by gold alone decreased to an average of 37.6% (1997: 40.9%). The minimum rate prescribed by law is 25%. This decline is mainly a result of the gold lending business and of the associated decrease in physical gold holdings eligible as cover.

The higher average figure for banknotes in circulation by comparison with 1997 also contributed to the fall in both of the above figures, though only to a small extent.

Item no. 35  
in the balance sheet

## Banknote coverage annual average

	1998		Change from previous year
	millions Sfr	percent coverage	
Gold holdings	11 104.6	37.6	-3.3 percentage points
Other eligible assets	28 285.0	95.7	-83.5 percentage points
of which			
Foreign currency investments <sup>1</sup>	23 621.0		
Reserve position in the IMF	3 447.3		
International payment instruments	345.8		
Domestic money market claims	532.8		
Lombard advances	17.3		
Eligible domestic securities <sup>2</sup>	320.9		
Overall banknote coverage	39 389.5	133.2	-86.9 percentage points
Banknote circulation	29 568.6		+2.0 %

1 residual maturity of up to one or two years, depending on investment class

2 residual maturity of up to two years

Item no. 36  
in the balance sheet

### **Sight deposit accounts of domestic banks**

The 550 sight deposit accounts (1997: 572) of the 372 banks (1997: 407) 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.

Items nos. 37 and 38  
in the balance sheet

### **Liabilities towards the Confederation**

The Confederation's sight deposits facilitate the payments transactions of the Federal Government and its agencies both in Switzerland and abroad. Up to a ceiling of Sfr 500 million they attract interest at the call money 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 22,448.0 million (1997: Sfr 8,034.5 million), of which Sfr 7,476.0 million (1997: Sfr 5,732.8 million) had been placed on the market.

Item no. 39  
in the balance sheet

### **Sight deposits of foreign banks and institutions**

The 217 accounts (1997: 142) are denominated in Swiss francs and do not bear interest. They are held primarily by foreign central or commercial banks.

The marked increase is due primarily to the merger of SOFFEX (Switzerland) and Deutsche Terminbörse (DTB) to form Eurex. Since then, numerous German banks have operated a foreign sight deposit account. A link between this account and a SIC clearing account enables foreign Eurex participants to be linked to the Swiss securities clearing system of SEGA.

Item no. 40  
in the balance sheet

### **Other sight liabilities**

These comprise deposit accounts of active and retired employees, liabilities towards pension funds amounting to Sfr 12.5 million (1997: Sfr 48.9 million) and liabilities towards individual non-banks.

Item no. 41  
in the balance sheet

### **Liabilities from Swiss franc repo transactions**

As an instrument for controlling money supply growth, the National Bank may use repos to withdraw liquidity from the market. So far, however, such transactions have only been used once – for test purposes at the time the repo operations were launched.

Item no. 42  
in the balance sheet

### **Foreign currency liabilities**

This item consists of liabilities from repo transactions aimed at managing foreign currency investments (Sfr 175.1 million) plus sight liabilities towards the Confederation denominated in foreign currencies.

## Sundry liabilities in Sfr millions

Item no. 43  
in the balance sheet

	1998	Change from previous year
Profit distribution to the Confederation and the cantons (from previous year's profit)	- <sup>1</sup>	-600.0
Other liabilities	16.9	+3.1
Negative replacement values (forward contracts)	248.4	-52.5
Total	265.3	-649.4

1 Since 1998, profit has been distributed directly after the Annual General Meeting rather than at the beginning of the following year.

### Deferrals

Accrued interest on forward liabilities towards the Confederation (Sfr 98.0 million) and liabilities from foreign currency repo transactions (Sfr 0.1 million) are contained in the corresponding balance sheet positions.

### Provisions

Owing to the strong rise in net income, which greatly exceeded the exchange rate losses on foreign currencies and the published annual profit, the Bank was able to increase its provisions by Sfr 886.5 million. Provisions thus complied with the minimum figure stipulated in the profit calculation concept (see pages 95 f.).

Items nos. 44 and 45  
in the balance sheet

	Provisions on 31.12.1997	Allocated to provisions	Released from provisions	Provisions on 31.12.1998	Change from previous year
<b>Provisions in Sfr millions</b>					
for market, credit and liquidity risks	33 842.2	886.5	-	34 728.6	+886.5
operating risks	450.0	22.5	0.8 <sup>1</sup>	471.7	+21.7
Total	34 292.2	909.0	0.8	35 200.4	+908.2

1 During the course of the year, funds were released to cover the auditing costs of the Fund for Needy Victims of the Holocaust/Shoah.

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 9,868 shares (-55%) to new holders. As of 31 December 1998, applications for registration were pending or outstanding for 13,643 shares.

The other shares were distributed as follows:

1 150 private shareholders each with	1 share
1 502 private shareholders each with	2-10 shares
392 private shareholders each with	11-100 shares
9 private shareholders each with	101-200 shares
14 private shareholders each with	over 200 shares
<hr/>	
3 067 private shareholders with a total of	30 013 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	2 442 shares
<hr/>	
90 other public-sector shareholders with a total of	56 344 shares
<hr/>	
3 157 shareholders with a total of	86 357 shares
<hr/>	
pro memoria: registration applications pending or outstanding for	13 643 shares
<hr/>	
Total	100 000 shares

65% of the shares were thus registered in the names of cantons, cantonal banks and other public authorities and institutions, and 35% in the names of private shareholders; of the latter, 70% were held by private individuals and 30% by legal entities. 2,916 shares (without voting rights) were in foreign ownership; this is equivalent to 2.9% of the share capital.

The price of the National Bank share – which, owing to its legally stipulated maximum dividend of 6%, has generally developed along similar lines to a long-term Confederation bond with a 6% coupon – ranged between Sfr 850 and Sfr 1,460 during the year.

The number of transactions, which had increased significantly in the previous year, declined sharply. However, a large number of applications for registration were still pending or outstanding.

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

	Number of shares		Percentage held	
	1998	Change from previous year	1998	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 1.0 million (the legally permitted maximum) to Sfr 63.0 million by an allocation from the 1997 annual profit.

Item no. 47  
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 provisions which cover economic risks as well as serving the customary 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 economy 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. 48  
in the balance sheet and  
income statement

For this reason, an agreement reached on 24 April 1998 between the National Bank and the Federal Department of Finance regarding the distribution of profits confirmed that provisions should continue to be increased in line with growth in nominal gross national product. The targeted percentage rise is based on the average increase in nominal GNP 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. The agreement with the Department of Finance stated that, in order to achieve an even steadier flow of payments,



the distributions to the Confederation and cantons were to be fixed in advance – on the basis of earnings forecasts – at Sfr 1.5 billion per annum for the period 1999–2003. These distributions will be paid out of the earnings surpluses for financial years 1998–2002 and from the residual surplus of effective provisions remaining at the end of 1997. If the actual surpluses are insufficient for the payment of the agreed distributions, the National Bank is prepared to agree to a temporary drop in provisions below the targeted level so that it can still remit the sum of Sfr 1.5 billion. Provisions may not, however, fall below 60% of the targeted level. If necessary, the distribution may have to be curtailed or even suspended altogether during the five-year period.

### 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) <sup>1</sup>	Sfr millions		Sfr millions	Sfr millions
		Targeted level	Actual level prior to distribution <sup>2</sup>		
	(1)	(2)	(3)	(4) = (3) – (2)	(5)
1995	4.8 (1989–93)	23 608.4	23 750.6	142.2	142.2
1996	3.7 (1990–94)	24 481.9	32 062.3	7 580.4	1 057.8 <sup>3</sup>
1997	2.9 (1991–95)	25 191.9	34 892.2	9 700.3	600.0
1998	1.8 (1992–96)	25 645.4	36 700.4	11 055.0	1 500.0
1999	1.9 (1993–97)	26 132.7			

1 The figures for nominal GNP are revised on a continuous basis. The growth rates shown in the table thus 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 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

	1998	Change from previous year
	Sfr millions	Sfr millions
<b>Contingent liabilities</b>		
Documentary credits <sup>1</sup> (secured by separate balances)	7.8	+2.4
<b>Outstanding undertakings</b>		
Two-way arrangement (IMF) <sup>2</sup>	14.8	-27.6
General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB) <sup>3</sup>	2 550.0	+546.3
Extended Structural Adjustment Facility (ESAF II) <sup>4</sup>	81.6	-79.2
Substitution undertaking to the Bank for International Settlements (BIS) <sup>5</sup>	344.3	+344.3
Swap agreements <sup>6</sup> :		
Federal Reserve Bank of New York	-	-5 819.6
Bank of Japan	2 422.0	+182.8 <sup>7</sup>
Bank for International Settlements (BIS)	-	-872.9
<b>Additional funding obligations</b>		
BIS registered shares <sup>8</sup>	111.0	-7.6
<b>Fiduciary transactions</b>		
Fiduciary investments of the Confederation	323.8	+171.4

	Nominal value	Gross replacement value	
	Sfr millions	Sfr millions	
		positive	negative
<b>Forward contracts</b>			
on precious metals <sup>9</sup>	9.3	-	-
on currencies <sup>10</sup>	13 028.3	2.8	248.4
on interest rate instruments <sup>11</sup>	4 292.4	0.0	0.0
<b>Total</b>	<b>17 330.0</b>	<b>2.8</b>	<b>248.4</b>

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

2 National Bank undertaking to purchase Special Drawing Rights against currency up to the agreed maximum of XDR 200 million or to return the Special Drawing Rights in exchange for currency (see page 86).

3 Credit line totalling XDR 1,557 million (of which a maximum of XDR 1,020 million in the context of GAB) in favour of the IMF for special cases, without a federal guarantee (see pages 58 and 87).

4 Loan undertaking – limited in time – to the IMF's trust fund (see pages 57 f. and 87).

5 Substitution undertaking in the amount of USD 250 million to the BIS as part of the resolution for the provision of foreign exchange aid to Brazil, with federal guarantee (see page 59).

6 Bilateral agreement, concluded for a limited period of time, to exchange Swiss francs against a maximum amount of 200 billion yen with the Bank of Japan for the purpose of providing reciprocal balance of payments aid in extraordinary circumstances. The agreements with the Federal Reserve Bank

(for US \$ 4 billion) and with the BIS (for US \$ 600 million) expired during the year under review.

7 Change due entirely to exchange rates.

8 The BIS shares are only 25% paid up; the additional funding obligation is calculated in gold francs, i.e. is closely related to the gold price. The change is due exclusively to the decline in the gold price.

9 From gold lending operations, valued at the legally stipulated price of Sfr 4,595.74 per kilogram.

10 From forward transactions (primarily swaps) and spot transactions with value date in the new year.

11 From spot transactions with value date in the new year.

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

At its meeting of 5 March 1999, the Bank Council accepted the proposal of the Bank Committee to approve the 91st Annual Report for 1998, as presented by the Governing Board, for submission to the Federal Council and the Annual General Meeting of Shareholders.

On 24 March 1999, 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 produced its report pursuant to Article 51 Paragraph 2 of the National Bank Law on 5 February 1999.

The Bank Council proposes to the Annual General Meeting<sup>1</sup>:

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 1,507,998,949.60 be appropriated as follows: allocation to the reserve fund
- |   |     |                  |
|---|-----|------------------|
| (Art. 27 para. 1 NBL)   | Fr. | 1 000 000.--     |
| payment of a dividend of 6%   |     |                  |
| (Art. 27 para. 2 NBL)   | Fr. | 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) | Fr. | 5 498 949.60     |
| for the account of the Confederation and cantons (Art. 27 para. 3 (b) NBL)    | Fr. | 1 500 000 000.-- |
|   |     | <hr/>            |
|   | Fr. | 1 507 998 949.60 |

<sup>1</sup> For the proposal regarding appointments to the Bank Council and the Auditing Committee, see pages 68 and 70.

## 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 annual financial statements (balance sheet, income statement and notes) of the Swiss National Bank for the year ended 31 December 1998. 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 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, 5 February 1999

The Auditing Committee:

**Peter Blaser**

Chairman

**Hans Michel**

Vice-Chairman

**Kaspar Hofmann**

Certified auditor

Chief auditor