

1 Income statement for the year 1999

	Notes	1999 Sfr millions	1998 Sfr millions	Change percent
Income from				
gold transactions	01	57.8	42.6	+35.7
foreign currency investments	02	372.9	3 091.3	-87.9
reserve position in the IMF	03	91.4	123.8	-26.2
international payment instruments	04	8.2	14.0	-41.4
balance-of-payments aid	05	16.5	19.5	-15.4
Income from				
Swiss franc repo transactions	06	150.1	84.2	+78.3
domestic money market claims		-	5.9	
Lombard advances	07	0.8	0.7	+14.3
claims against domestic correspondents	08	1.0	1.4	-28.6
Swiss franc securities	09	30.6	220.0	-86.1
Other income	10	30.9	15.1	+104.6
Gross income		760.1	3 618.4	-79.0
Interest expense	11	-243.8	-126.1	+93.3
Banknote expense	12	-43.8	-45.5	-3.5
Personnel expense	13	-81.3	-81.1	+0.2
General overheads	14	-74.5	-60.3	+23.5
Depreciation of tangible assets	15	-20.9	-17.0	+22.9
Net income		295.7	3 288.5	-91.0
Exchange rate-related valuation adjustments	16	4 137.1	-871.2	
Extraordinary expense	17	-2.3	-22.9	
Extraordinary income	18	27.3	0.0	
Aggregate income		4 457.9	2 394.5	+86.2
Allocation to provisions	19	-2 949.9	-886.5	
Annual profit	47	1 508.0	1 508.0	

2 Balance sheet as of 31 December 1999

in Sfr millions

		1999	1998
Assets	Notes		
Gold holdings and claims from gold transactions			
gold holdings	20	10 453.2	11 045.5
claims from gold transactions	21	1 485.4	884.6
Foreign currency investments			
not exchange rate-hedged	22	46 921.8	45 005.7
exchange rate-hedged (swaps)	23	7 686.4	7 800.1
Reserve position in the IMF	24	2 677.6	3 070.6
International payment instruments	25	756.4	390.8
Balance-of-payments aid	26	306.5	768.3
Claims from Swiss franc			
repo transactions	27	28 136.0	17 348.3
Lombard advances	28	1.0	0.3
Claims against domestic correspondents	29	390.8	378.8
Swiss franc securities	30	4 884.9	5 010.0
Participations	31	89.4	89.4
Tangible assets	32	556.7	563.0
Sundry assets	33	467.7	480.4
Non paid-up share capital	45	25.0	25.0
		<u>104 838.9</u>	92 860.7

		1999	1998
Liabilities	Notes		
Banknote circulation	34	37 184.8	33 218.8
Sight deposit accounts of domestic banks	35	9 883.3	6 860.1
Liabilities towards the Confederation			
sight	36	112.1	147.6
time	37	16 749.9	14 972.0
Sight deposit accounts of foreign banks and institutions	38	214.0	163.5
Other sight liabilities	39	295.4	236.1
Liabilities from Swiss franc repo transactions	40	6.5	–
Foreign currency liabilities	41	355.1	175.9
Sundry liabilities	42	266.4	265.3
Provisions			
for market, credit and liquidity risks	43	37 678.5	34 728.6
for operating risks	44	470.8	471.7
Share capital	45	50.0	50.0
Reserve fund	46	64.0	63.0
Net disposable income – annual profit	47	1 508.0	1 508.0
		104 838.9	92 860.7

3 Notes to the accounts as of 31 December 1999

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. 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, federal agencies, other central banks and 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 even though the assets are judiciously managed. It hedges these risks 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 97f.).

On 31 December 1999, the National Bank employed 600 persons (1998: 610), corresponding to 560.7 full-time posts (1998: 567.4). Up to the end of 1999, the National Bank had operating branches in Basel, Geneva, Lausanne, Lucerne, Lugano and St Gallen, in addition to its head offices in Berne and Zurich. Implementation of the new cash distribution concept (see page 65) has brought 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 detailed 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.

Interest rate swaps, which have been used on occasion since autumn 1999 to regulate the average duration of investments, are stated under off-balance-sheet business and are assessed daily at market (i. e. replacement) values.

With regard to the asset and liability positions and the other off-balance-sheet transactions, the same accounting and valuation principles apply as in the previous year.

General principles

Changes from the previous year

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.

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.

Negotiable foreign currency investments and Swiss franc 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.

Forward contracts and non-performed spot transactions on negotiable foreign currency investments (including futures and interest rate swaps) and on *Swiss franc securities* are stated at year-end market values (replacement values). Positive or negative gross replacement values are posted to the income statement and balance sheet as appropriate. In the case of *forward contracts and non-performed spot transactions on non-negotiable instruments*, only the contract values are stated under off-balance-sheet transactions.

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

	1999	1998	Change in percent
Year-end rates			
CHF/USD	1.5980	1.3772	+16.0
CHF/EUR	1.6059	1.6064	-0.0
CHF/JPY	1.5653	1.2110	+29.3
CHF/GBP	2.5844	2.2826	+13.2
CHF/DKK	21.5800	21.5600	+0.1
CHF/CAD	1.1004	0.8891	+23.8
CHF/XDR	2.1862	1.9218	+13.8

XDR: Special Drawing Rights

3.3 Notes to the income statement

Summary

The income statement is strongly influenced by interest rate and exchange rate developments. The rise in interest rates on the relevant markets resulted in substantial falls in the prices of negotiable financial investments (in the previous year these had appreciated significantly). Income from foreign currency investments declined by 87.9% to Sfr 372.9 million while income from Swiss franc securities dropped 86.1% to Sfr 30.6 million. Together with the other income items totalling Sfr 356.7 million (up 16.1%), gross income comes to Sfr 760.1 million (down 79.0%). Ordinary expenses rose by 40.7% to Sfr 464.3 million due mainly to higher interest expense for Confederation investments. Net income decreased sharply, falling 91.0% to Sfr 295.7 million.

However, the cheaper Swiss franc resulted in significant currency-related mark-ups totalling Sfr 4,137.1 million. Together with the balance of extraordinary items (+Sfr 25.0 million), overall aggregate income of Sfr 4,457.9 million resulted (+86.2%), permitting an allocation of Sfr 2,949.9 million to provisions. The annual profit came to Sfr 1,508.0 million.

Item no. 01
in the income statement

Income from gold transactions

Gold lending operations yielded income of Sfr 57.8 million (1998: Sfr 42.6 million). This rise was due mainly to the higher average figure for claims from this type of transaction.

Item no. 02
in the income statement

Income from foreign currency investments

The income from foreign currency investments (interest and realised and unrealised capital gains and losses) declined by Sfr 2,718.4 million to Sfr 372.9 million. Whereas declining interest rates had produced large capital gains in the previous year, the rise in rates on all investment markets (except Japan) had resulted in substantial losses in the course of 1999. The exchange rate gains or losses resulting from the conversion of foreign currency holdings is shown under exchange rate-related valuation adjustments (item no. 16 of the income statement).

Income from other foreign currency items

For the reserve position in the IMF, the international payment instruments and the balance-of-payments aid, average foreign currency positions and average interest rates were both lower than in the previous year. The income from these positions declined from Sfr 157.3 million to Sfr 116.1 million.

Items nos. 03–05
in the income statement

Income from Swiss franc repo transactions

Income from Swiss franc repo transactions amounted to Sfr 150.1 million in 1999 (up from Sfr 84.2 million in 1998). While the average volume of outstanding claims rose appreciably, interest rates were lower than in the previous year. Moreover, in 1998 repo transactions had only commenced in April.

Item no. 06
in the income statement

Income from Lombard advances

Income from Lombard advances rose by Sfr 0.1 million to Sfr 0.8 million. The average Lombard rate was lower than in the previous year, while the average level of borrowing was higher.

Item no. 07
in the income statement

Income from claims against domestic correspondents

With outstanding balances almost unchanged from the previous year, income from claims against domestic correspondents decreased by Sfr 0.4 million to Sfr 1.0 million. This fall was due to the half-point reduction in the discount rate in April 1999.

Item no. 08
in the income statement

Income from Swiss franc securities

Securities income (interest plus realised and unrealised capital gains and losses) receded by Sfr 189.4 million to Sfr 30.6 million compared with the previous year. The interest rate rise resulted in substantial capital losses.

Item no. 09
in the income statement

Other income

	1999	Change from previous year
	Sfr millions	Sfr millions
Commissions from banking transactions	17.7	+14.5
Income from participations	6.4	+1.3
Income from real estate ¹	6.0	-0.3
Other ordinary income	0.7	+0.1
Total other income	30.9	+15.8

Item no. 10
in the income statement

1 Income from real estate stems from subletting of real estate not currently required and from buildings in Zurich and Geneva, which serve as spare capacity.

Sfr 13.9 million of the rise of Sfr 14.5 million in the commissions position from banking transactions are due to a change in the method of posting these items. Since 1999, the gross principle has been applied to the posting of securities commissions on transactions for the account of third parties. Consequently, commissions received are no longer offset against commissions forwarded. This change has also resulted in a higher figure for general overheads (cf. item no. 14 in the income statement).

**Item no. 11
in the income statement**

Interest expense

Interest expense rose from Sfr 126.1 million to Sfr 243.8 million due to a further rise in net liabilities to the Confederation (including Swiss Post). Only in isolated cases were onward placements effected. Instead, even greater use was made of repo transactions for making the necessary liquidity available.

	1999	Change from previous year
	Sfr millions	Sfr millions
Interest expense for liabilities towards the Confederation	241.4	+44.2
less interest income from onward placements	-12.8	-64.3
Net interest expense for liabilities towards the Confederation	228.6	+108.5
Interest on depositors' balances	5.6	-
Interest expense for liabilities from Swiss franc and foreign currency repo transactions	9.6	+9.2
Total interest expense	243.8	+117.7

**Item no. 12
in the income statement**

Banknote expense

The banknote expense corresponds to the cost of producing the banknotes of the eighth issue, which entered circulation in 1999.

**Item no. 13
in the income statement**

Personnel expense

	1999	Change from previous year	
	Sfr millions	Sfr millions	percent
Wages, salaries and allowances	64.3	-0.1	-0.2
Welfare benefits	11.6	-	-
Other personnel expenses	4.5	+0.5	+12.5
Allocations to the pension fund	1.0	-	-
Total personnel expense	81.3	+0.2	+0.2

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

	1999	Change from previous year	
	Sfr millions	Sfr millions	percent
Direct expenses from banking operations	27.0	+16.4	
Premises	14.3	-0.8	-5.3
Furniture and fixtures	8.0	+2.0	+33.3
Other general overheads	25.2	-3.3	-11.6
Total general overheads	74.5	+14.2	+23.5

Direct expenses from banking operations

This item relates to direct costs incurred in connection with banknotes in circulation (including remuneration to agencies) plus commission and expenses from the management of financial investments and gold, plus securities commissions forwarded. Since 1999, the latter have no longer been offset against commissions received. This change in the accounting method has contributed Sfr 13.9 million to the rise of Sfr 16.4 million in this expense item (cf. item no. 10 in the income statement).

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 plus information retrieval and security outlays.

Finally, this item also includes contributions to the operating costs of the Gerzensee Study Centre (Sfr 5.4 million, versus Sfr 5.9 million in 1998) and to the Hasli-Zentrum holiday and training centre (down from Sfr 0.5 million to Sfr 0.4 million).

Depreciation of tangible assets

The bulk of this item (Sfr 17.1 million, versus Sfr 13.3 million in 1998) 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 3.8 million (1998: Sfr 3.7 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:

	1999	1998
	Sfr millions	Sfr millions
USD	+3 164.4	-941.7
EUR ¹	-18.4	+136.5
JPY	+278.1	+169.1
GBP	+202.4	-102.0
DKK	-0.3	-16.4
CAD	+40.3	-0.1
XDR	+470.7	-116.7
Other currencies	+0.1	0.0
Total	+4 137.1	-871.2

¹ Comprises mark-ups on positions already converted into euros and on positions which are still denominated in the respective euro area currency.

**Item no. 17
in the income statement**

Extraordinary expense

This item comprises write-downs totalling Sfr 1.2 million from the sale of the premises of the former Aarau and Neuchâtel branch offices and expenses incurred by a lawsuit concerning a rebuilding project.

**Item no. 18
in the income statement**

Extraordinary income

This item includes the Sfr 26 million repaid by the International Monetary Fund (IMF) in respect of contributions made by the SNB to a risk compensation fund for IMF credits.

**Item no. 19
in the income statement**

Allocation to provisions

The large gains on foreign currency positions enabled the Bank to channel a further Sfr 2,949.9 million into provisions (as against Sfr 886.5 million in 1998).

3.4 Notes to the balance sheet

Compared with the previous year, the balance sheet total rose by approximately Sfr 12 billion to just under Sfr 105 billion. This substantial rise is due in part to the larger amount of liquidity held by the banks and the general public in the form of sight deposit accounts and banknotes in the runup to the year 2000 transition. Other factors included the increase in liabilities from net time liabilities towards the Confederation (time deposits less onward placements) and allocations to provisions. The market's higher need for liquidity was met almost entirely by the conclusion of additional repo transactions which thereby increased by Sfr 10.8 billion to Sfr 28.1 billion.

Gold holdings and claims from gold transactions

Items nos. 20 and 21
in the balance sheet

Gold holdings

Physical gold holdings declined by 128.9 tonnes in 1999 owing to the continued expansion of gold lending operations. These holdings are stored at various locations in Switzerland and abroad.

	1999		Change from previous year	1999
	Tonnes	Parity value in Sfr millions	Parity value in Sfr millions	Market value in Sfr millions
Gold ingots	2 099.3	9 647.9	-592.3	31 343.1
Gold coins	175.2	805.3	-	2 616.2
Total	2 274.5	10 453.2	-592.3	33 959.3

Claims from gold transactions

This item relates to secured and unsecured claims from gold lending transactions. Transactions are effected with first-class Swiss and foreign financial institutions. Secured gold lending transactions have been effected since mid-year. At end-1999, the amount outstanding was 315.7 tonnes at a parity value of Sfr 1,485.4 million (including accrued interest).

	1999		Changes from previous year		1999
	Tonnes	Parity value in Sfr millions	Tonnes	Parity value in Sfr millions	Market value in Sfr millions
Claims from unsecured gold lending	242.4	1 140.1	+55.6	+255.5	3 644.9
Claims from secured gold lending ¹	73.3	345.2	+73.3	+345.2	1 102.6
Total	315.7	1 485.4	+128.9	+600.8	4 747.5

¹ Secured by the deposit of first-class securities with a market value of Sfr 1,089.5 million.

Foreign currency investments

Both the non-hedged and the hedged (swap-related) foreign currency holdings are invested jointly. Government paper is mainly 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.

Foreign currency investments by currency

	1999			Change from previous year	
	millions		percent	millions	
	original currency	Sfr	weighting	original currency	Sfr
USD	18 243.6	29 153.2	53.4	-1 599.1	+1 825.9
of which					
not exchange rate-hedged	13 433.6	21 466.8	39.3	-2 964.1	-1 116.1
exchange rate-hedged (swaps)	4 810.0	7 686.4	14.1	+1 365.0	+2 941.9
EUR ¹	12 503.2	20 078.8	36.8	+81.5	+124.1
of which					
not exchange rate-hedged	12 503.2	20 078.8	36.8	+1 983.5	+3 179.7
exchange rate-hedged (swaps)	-	-	-	-1 902.0	-3 055.6
JPY	74 856.8	1 171.7	2.2	-140 561.3	-1 437.0
GBP	735.6	1 901.0	3.5	+8.8	+242.0
DKK	6 296.5	1 358.8	2.5	+475.5	+103.8
CAD	857.9	944.1	1.7	+857.4	+943.6
Others		0.6	0.0		+0.2
Total		54 608.2³	100.0		+1 802.5

Foreign currency investments by borrower

	1999		percent weighting	Change from previous year	
	millions			millions	
	original currency	Sfr		original currency	Sfr
Government paper					
USD	10 807.3	17 270.0	31.6	-570.6	+1 600.3
EUR ¹	10 135.5	16 276.6	29.8	-898.1	-1 448.3
JPY	67 655.5	1 059.0	1.9	-144 587.7	-1 511.3
GBP	641.8	1 658.6	3.0	-18.5	+151.5
DKK	6 176.8	1 333.0	2.4	+358.6	+78.6
CAD	856.5	942.5	1.7	+856.5	+942.5
Total		38 539.7	70.6		-186.7
Monetary institutions					
USD	3 233.3	5 166.8	9.5	-291.0	+313.2
EUR ¹	170.4	273.7	0.5	-525.8	-844.7
JPY	1 121.1	17.5	0.0	-50.7	+3.3
GBP	41.2	106.4	0.2	+27.9	+75.9
DKK	19.2	4.2	0.0	+16.9	+3.7
CAD	1.3	1.4	0.0	+1.3	+1.4
Others		0.5	0.0		+0.5
Total		5 570.5	10.2		-444.5
Banks					
USD	4 203.0 ²	6 716.4	12.3	-737.5	-87.7
EUR ¹	2 197.2	3 528.5	6.5	+1 505.4	+2 417.1
JPY	6 080.2	95.2	0.2	+4 077.1	+70.9
GBP	52.6	136.0	0.2	-0.6	+14.6
DKK	100.4	21.7	0.0	+99.9	+21.6
CAD	0.1	0.2	0.0	-0.4	-0.3
Others		0.1	0.0		+0.1
Total		10 498.1	19.2		+2 433.8
Total		54 608.2³	100.0		+1 802.5

1 Comprises positions already converted into euros and positions which are still denominated in the respective euro area currency.

2 Of this total, 59.7% is accounted for by organisations with an indirect state guarantee.

3 Of these, non-negotiable investments account for Sfr 11,282.7 million (1998: Sfr 4,650.0 million).

The holdings stated contain securities used for repo transactions (market value: Sfr 492.3 million) and securities lodged as initial margin with counterparties to futures transactions (market value: Sfr 88.2 million).

**Item no. 24
in the balance sheet**

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 held at the National Bank. It may be likened to a currency reserve position and may be used as such by the National Bank at any time.

1 Balances after deduction of accrued interest to the amount of XDR 6.7 million (Sfr 14.6 million) on the reserve position

	1999		Change from previous year	
	millions		millions	
	XDR	Sfr	XDR	Sfr
Swiss quota in IMF	3 458.5	7 560.8	+988.1	+2 813.2
less IMF's Swiss franc sight balances at the National Bank ¹	2 233.7	4 883.2	+1 361.1	+3 206.2
Reserve position in the IMF	1 224.8	2 677.6	-373.0	-393.0

**Item no. 25
in the balance sheet**

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 Special Drawing Rights against foreign currencies until a limit of XDR 400 million is reached (limit until November 1999: XDR 200 million).

1 including accrued interest

	1999		Change from previous year		Undertakings
	millions		millions		1999
	XDR	Sfr	XDR	Sfr	millions
Sight deposits at IMF	346.0 ¹	756.4	+142.7	+365.6	XDR 55.3

Balance-of-payments aid

Item no. 26
in the balance sheet

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

The PRGF (Poverty Reduction and Growth Facility, formerly ESAF II – Extended Structural Adjustment Facility II) is a trust fund administered by the IMF which finances long-term low-interest credits to needy developing countries. The Confederation guarantees both interest and repayment of principal on the bilateral credits of and Switzerland's share in the credits account of the PRGF. The credits granted to the IMF under the General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB) were repaid in March 1999. Both of these credit facilities remain in existence.

	Outstanding credits 1999		Change from previous year		Undertakings 1999
	millions		millions		millions
	USD	Sfr	USD	Sfr	USD
Bilateral credits					
Romania	7.3	11.7	-40.9	-54.7	-
Bulgaria	32.3	51.7	-	+7.2	-
Total	39.6	63.3	-40.9	-47.5	-
	millions		millions		millions
	XDR	Sfr	XDR	Sfr	XDR
	Credit facilities in conjunction with the IMF				
GAB	-	-	-87.1	-167.5	
NAB	-	-	-144.0	-276.7	
Total GAB and NAB	-	-	-231.1	-444.2	1 557.0
PRGF (formerly ESAF II)	111.2	243.2	+0.2 ¹	+29.9	42.4
Total	111.2	243.2	-230.9	-414.3	1 599.4
Total		306.5		-461.8	

1 accrued interest

Item no. 27
in the balance sheet

Claims from Swiss franc repo transactions

Repo transactions, 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 secured by securities from either the "SNB Basket" (Swiss franc-denominated bonds of Swiss or foreign borrowers acceptable to the National Bank as security and money market debt register claims of the Confederation and the cantons) or the "German GC Basket" (euro-denominated German government paper, plus certain World Bank issues).

Item no. 28
in the balance sheet

Lombard advances

Lombard loans are used by the banks as a stopgap for unforeseeable liquidity shortfalls. At the end of 1999, a total of 164 credit lines were outstanding (1998: 200).

Credit lines outstanding, collateral values and drawdowns are summarised below.

	1999	Change from previous year
	Sfr millions	Sfr millions
Credit lines outstanding at end-year	9 280.9	+409.6
Value of collateral at end-year ¹	9 999.7	+370.6
Yearly average of drawn advances	30.4	+12.3
Maximum drawdown ²	1 014.0	+380.7

1 market prices less 10–35%

2 daily peak

Item no. 29
in the balance sheet

Claims against domestic correspondents

710 branches of 78 banks (1998: 752 branches of 80 banks) perform local cash redistribution transactions for the National Bank and cover the cash requirements of federal institutions (Swiss Post, Swiss Federal Railways). The claims attract interest at the discount rate.

Swiss franc securities

These are bonds which are listed on the stock exchange.

Item no. 30
in the balance sheet

	1999		Change from previous year
	Sfr millions	% weighting	Sfr millions
Domestic borrowers			
Confederation	1 169.8	23.9	+174.0
Cantons	1 225.1	25.1	-143.1
Communes	541.8	11.1	-68.9
Mortgage bond institutions	1 009.0	20.7	-1.3
Banks	910.0	18.6	-115.0
Foreign borrowers			
Government paper	17.1	0.4	+17.1
Monetary institutions	1.1	0.0	+1.1
Banks	11.0	0.2	+11.0
Total market value ¹	4 884.9	100.0	-125.1
Total nominal value	4 496.8		+63.9

¹ year-end prices plus accrued interest

The positions stated contain securities with a market value of Sfr 0.9 million used as margin deposits for Swiss franc repo transactions.

Participations (not consolidated) in Sfr millions

Item no. 31
in the balance sheet

	Value as of 31.12.1998	Investments	Divestments	Depreciation	Value as of 31.12.1999
Orell Füssli	27.0	-	-	-	27.0
BIS	61.0	-	-	-	61.0
Others	1.5	-	-	-0.0	1.5
Total	89.4	-	-	-0.0	89.4

The National Bank holds 33.34% of the share capital of Orell Füssli Holding Ltd, Zurich, whose subsidiary Orell Füssli Security Documents Ltd prints the SNB's banknotes. In 1999, the nominal value of this company's registered share was reduced by Sfr 20. The sum of Sfr 1.3 million which accrued to the National Bank from this transaction was credited to income from participations.

The 3.1% interest in the Bank for International Settlements (BIS) is held by reason of collaboration on monetary policy.

The end-1999 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

Schedule of assets in Sfr millions

	Banknote stocks	Real estate and specific conver- sion work ¹	Fixed assets under construction	Sundry tangible assets ²	Total
Historical cost					
Position as at 01.01.99	174.2	357.9	1.0	78.0	611.1
Additions	24.3	9.6	24.3	16.0	74.2
Disposals	-43.8	-15.9		-6.1	-65.8
Reclassified			-0.9	0.9	
Position as at 31.12.99	154.7	351.6	24.4	88.9	619.5
Cumulative depreciation					
Position as at 01.01.99		3.7		44.4	48.1
Additions		3.8		17.1	20.8
Disposals		-0.2		-6.0	-6.2
Reclassified					
Position as at 31.12.99		7.3		55.5	62.8
Net values					
as at 01.01.99	174.2	354.1	1.0	33.6	563.0
as at 31.12.99	154.7	344.3	24.4	33.4	556.7

1 The insured value of the real estate at end-1999 was Sfr 403.8 million (end-1998: Sfr 425.7 million).

2 The insured value of the sundry tangible assets at end-1999 was Sfr 60.3 million (end-1998: Sfr 57.8 million).

Banknote stocks

The stocks of new banknotes which have not been put into circulation yet are stated at cost. These production costs are charged to the income statement in line with the notes' 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). Owing to the new cash distribution concept, the premises of the former branch offices in Aarau and Neuchâtel were sold in 1999 while in Geneva a property adjacent to the branch office was purchased (cf. pp. 67f.).

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 of less than Sfr 1,000 are charged directly to general overheads.

Sundry assets in Sfr millions

Item no. 33
in the balance sheet

	1999	Change from previous year
Coins (including medallions) ¹	412.2	-33.7
Foreign notes	0.1	-
Postal giro accounts	0.4	-0.1
Other accounts receivable	35.1	+7.2
Other cheques and bills of exchange (collection business)	5.6	+2.5
Positive replacement values (forward contracts)	14.4	+11.6
Total	467.7	-12.7

1 Coins comprise the commemorative coins and medallions acquired by Swissmint (formerly "Eidgenössische Münzstätte", the Federal Mint) which are placed in circulation by the National Bank.

Accruals

Accrued interest on gold claims (Sfr 34.7 million), foreign currency investments (Sfr 1,039.8 million), the reserve position in the IMF (Sfr 14.6 million), international payment instruments (Sfr 2.8 million), balance of payments aid (Sfr 5.0 million), claims from Swiss franc repo transactions (Sfr 16.4 million) and Swiss franc securities (Sfr 144.1 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 the fifth issues, which were recalled in 1980 and are exchangeable at the National Bank until 30 April 2000, a total of Sfr 257.4 million were still outstanding at the end of the year (1998: Sfr 266.8 million).

Averaged out over the year, and after taking account of all eligible assets, coverage of banknotes in circulation as specified in Art. 19 of the National Bank Law amounted to 115.2% (1998: 133.2%). Banknote coverage by physically available gold alone decreased to an average of 34.9% (1998: 37.6%). The minimum rate prescribed by law is 25%.

This decline is due primarily to the lower holdings of assets eligible as cover and secondly to the higher average figure for banknotes in circulation.

Item no. 34
in the balance sheet

Banknote coverage annual average

	1999		Change from previous year
	Sfr millions	percent coverage	
Gold holdings	10 752.0	34.9	-2.7 percentage points
Other eligible assets	24 734.5	80.3	-15.4 percentage points
of which			
Foreign currency investments ¹	21 066.8		
Reserve position in the IMF	2 944.8		
International payment instruments	234.1		
Lombard advances	30.4		
Eligible Swiss franc securities ²	458.2		
Overall banknote coverage	35 486.6	115.2	-18.1 percentage points
Banknote circulation	30 817.5		+4.2 %

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

2 Residual maturity of up to two years

Item no. 35 in the balance sheet

Sight deposit accounts of domestic banks

The 293 sight deposit accounts (1998: 550) of the 283 banks (1998: 372) 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.

The marked decline in the number of sight deposit accounts is due firstly to the concentration of account operations at the bank's head office in Zurich. Whereas banks with a branch structure used to operate accounts at several offices, now each bank has just one sight deposit account. The second reason is the sharp decrease in the number of banks participating in the giro system, as banks belonging to the regional banking association now transact their business through a single joint sight deposit account.

Items nos. 36 and 37 in the balance sheet

Liabilities towards the Confederation

The sight deposits of the Confederation (including those of Swiss Post) facilitate the domestic and foreign payment transactions of the Federal Government and its agencies. On 1 April 1999, the level of interest-bearing sight deposits was raised from Sfr 500 million to Sfr 800 million. The sight deposits and time deposits attract interest at market rates. At year-end, the time deposits totalled Sfr 16,749.9 million (1998: Sfr 22,448.0 million). 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 end-1999, no onward placements were outstanding (1998: Sfr 7,476.0 million).

Item no. 38 in the balance sheet

Sight deposit accounts of foreign banks and institutions

The 221 (1998: 217) accounts 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 pension funds amounting to Sfr 12.8 million (1998: Sfr 12.5 million) and liabilities towards individual non-banks.

Liabilities from Swiss franc repo transactions

Item no. 40
in the balance sheet

As an instrument for regulating the money market, the National Bank may use repos to withdraw liquidity from the market. In 1999, these transactions were used for test purposes only.

This item also includes cash margins from Swiss franc repo transactions. As part of its mark-to-market activities, the clearing organisation SIS SegInter-Settle undertakes daily market valuations of all claims and liabilities arising from repo transactions (both on the money and the securities sides). It offsets these values to calculate the net risk exposure for each counterparty. If this exceeds the limit set, a margin transfer is automatically triggered which may take the form either of margin securities or a cash margin.

Foreign currency liabilities

Item no. 41
in the balance sheet

This item consists of liabilities from repo transactions aimed at managing foreign currency investments (Sfr 354.5 million) plus sight liabilities towards the Confederation denominated in foreign currencies.

Sundry liabilities in Sfr millions

Item no. 42
in the balance sheet

	1999	Change from previous year
Other liabilities	28.5	+11.6
Negative replacement values (forward contracts)	237.9	-10.5
Total	266.4	+1.1

Deferrals

Accrued interest on forward liabilities towards the Confederation (Sfr 69.9 million) and liabilities from foreign currency repo transactions (Sfr 0.4 million) are contained in the corresponding balance sheet positions.

Provisions

Items nos. 43 and 44
in the balance sheet

Owing to substantial exchange rate gains on foreign currency holdings, aggregate income was considerably higher than in the previous year and easily exceeded the annual profit to be reported. Provisions were increased by Sfr 2,949.9 million. This figure therefore exceeded the minimum amount stipulated in the profit calculation concept (see pages 97f.).

1 During the course of the year, sums were paid out to staff taking early retirement as a result of the new cash distribution concept and for the auditing costs of the Fund for Needy Victims of the Holocaust/Shoah.

	Provisions on 31.12.1998	Allocated to provisions	Released from provisions	Provisions on 31.12.1999	Change from previous year
Provisions in Sfr millions					
Market, credit and liquidity risks	34 728.6	2 949.9	–	37 678.5	+2 949.9
Operating risks	471.7	–	0.9 ¹	470.8	–0.9
Total	35 200.4	2 949.9	0.9	38 149.3	+2 949.0

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 Swiss franc securities are also significant. Credit risks are primarily settlement risks attaching to foreign exchange transactions.

**Item no. 45
in the balance sheet**

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 11,518 shares (+17%) to new holders. As of 31 December 1999, applications for registration were pending or outstanding for 11,201 shares.

The shares were distributed as follows:

1 077 private shareholders each with	1 share
1 455 private shareholders each with	2–10 shares
452 private shareholders each with	11–100 shares
19 private shareholders each with	101–200 shares
13 private shareholders each with	über 200 shares
3 016 private shareholders with a total of	32 655 shares
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	2 242 shares
90 other public-sector shareholders with a total of	56 144 shares
3 106 shareholders with a total of	88 799 shares
Registration applications pending or outstanding for	11 201 shares
Total	100 000 shares

63% of the shares registered belonged to cantons, cantonal banks and other public authorities and institutions, and 37% were registered in the names of private shareholders; of the latter, 76% were held by private individuals and 24% by legal entities. 2,706 shares (without voting rights) were in foreign ownership; this is equivalent to 2.7% 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 750 and Sfr 950 during the year.

The number of transactions increased by almost 20% year-on-year. The number of pending or outstanding applications for registration declined by a similar margin.

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	
	1999	Change from previous year	1999	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 64.0 million by an allocation from the 1998 annual profit.

Item no. 46
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 national 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. 47 in the balance
sheet and income statement

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, henceforth for the five-year period 1999–2003. These distributions are being 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 these 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 in percent (average period) ¹	Provisions at year-end		Residual surplus Sfr millions	Distribution Sfr millions
		Sfr millions Targeted level	Sfr millions Actual level prior to distribution ²		
	(1)	(2)	(3)	(4) = (3) – (2)	(5)
1996	3.7 (1990–94)	24 481.9	32 062.3	7 580.4	1 057.8 ³
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	39 649.3	13 516.6	1 500.0
2000	2.0 (1994–98)	26 655.4			

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

	1999	Change from previous year
	Sfr millions	Sfr millions
Outstanding undertakings		
Two-way arrangement (IMF) ¹	120.8	+106.0
General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB) ²	3 403.8	+853.9
Poverty Reduction and Growth Facility (PRGF – formerly ESAF II) ³	92.8	+11.2 ⁴
Substitution undertaking to the Bank for International Settlements (BIS) ⁵	234.1	-110.2
Swap agreement with the Bank of Japan ⁶	-	-2 422.0
Other off-balance-sheet items		
Additional funding obligation for registered shares of BIS ⁷	130.2	+19.2
Documentary credits ⁸	10.2	+2.4
Other payment obligations ⁹	17.3	
Fiduciary investments of the Confederation	375.8	+52.0

	Nominal value	Gross replacement value	
	Sfr millions	Sfr millions	
		positive	negative
Forward contracts			
on precious metals	-	-	-
on currencies ¹⁰	8 920.8	14.4	236.9
on interest rate instruments ¹¹	199.4	-	1.0
Total	9 120.2	14.4	237.9

1 National Bank undertaking to purchase Special Drawing Rights against currency up to the agreed maximum of XDR 400 million or to return the Special Drawing Rights in exchange for currency (see page 88)

2 Credit line totalling XDR 1,557 million (of which a maximum of XDR 1,020 million in the context of GABs) in favour of the IMF for special cases, without a federal guarantee (see page 89)

3 Limited-term credit undertaking to the IMF's trust fund in the amount of XDR 151.7 million (cf. pages 60 and 89)

4 Change due entirely to exchange rates

5 Substitution undertaking to the BIS in the amount of USD 146.5 million in the context of the Federal decree on Switzerland's cooperation in international monetary measures for the provision of balance-of-payments aid to Brazil, with federal guarantee (cf. 91st Annual Report, page 59)

6 The bilateral agreement with the Bank of Japan for the limited-term exchange of Swiss francs against a maximum of 200 billion JPY expired in the year under review.

7 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 rise in the gold price.

8 Chiefly in connection with development aid provided by the Confederation (covered by balances earmarked for this purpose)

9 Liabilities from long-term rental contracts shown for the first time (previous year: Sfr 16.1 million)

10 From forward transactions (primarily swaps)

11 From spot transactions with value date in the new year and from futures and interest rate swaps

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

At its meeting of 3 March 2000, the Bank Council accepted the proposal of the Bank Committee to approve the 92nd Annual Report for 1999, as presented by the Governing Board, for submission to the Federal Council and the Annual General Meeting of Shareholders.

On 20 March 2000, 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 4 February 2000.

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 1,507,998,949.60 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	<u>1 500 000 000.--</u>
	Sfr	1 507 998 949.60

¹ For the proposals regarding appointments to the Bank Council and the Auditing Committee, see pages 70 and 72, respectively.

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 1999. 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 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 2000

The Auditing Committee:

Hans Michel

Chairman

Maryann Rohner

Vice-Chairwoman
Certified auditor

Kaspar Hofmann

Chief auditor
Certified auditor