Activities of the Bank

1. International monetary and financial cooperation

During the past year, the Bank has continued to play its traditional role in fostering international monetary cooperation. It organised periodic meetings of central bank and supervisory officials on a wide variety of subjects concerning monetary and financial stability. Monetary topics included financial indicators as guidelines for monetary policy, issues in inflation targeting and recent developments in the operating procedures of monetary policy. Several meetings and study groups focused on the development of electronic money and its implications for central banks (see below). Discussions on ways to strengthen financial and banking systems were also pursued, largely within the framework of the various committees which meet in Basle to examine different aspects of these questions. Finally, in recent years many central banks have been reorganising their activities with a view to increasing cost-effectiveness. The organisation and governance of central banks was therefore an area of growing interest in a number of meetings.

The globalisation of financial markets, and the need for international cooperation to extend to all the major players affected by joint decisions, were reflected in the increasing involvement in the Bank's meetings of central banks and other supervisors from emerging markets. The most visible sign of the more global nature of central bank cooperation at the BIS was the accession to shareholding membership of nine central banks in Asia, Europe, Latin America and the Middle East (see Section 7). Moreover, several important papers aimed at enhancing the stability of financial markets were prepared as a joint effort by committees based in Basle and elsewhere and representatives of central banks and supervisory agencies of emerging markets. The more global reach of cooperation was also mirrored by the growing collaboration with regional groups of central banks and other supervisors, inter alia through an increasing number of seminars organised by secretariats based at the BIS.

As usual, the Bank participated as an observer at meetings of the Interim Committee of the Board of Governors of the International Monetary Fund, and of the Finance Ministers and central bank Governors of the Group of Ten countries. Moreover, it contributed to the work of the Deputies of the G-10 Ministers and Governors referred to below. The Bank also provided the secretariats for various committees and groups of experts concerned with international monetary and financial stability. Finally, the decision in 1996 by the International Association of Insurance Supervisors (IAIS) to locate its newly founded Secretariat at the BIS provides the basis for broader cooperation between supervisory bodies in the future.

Basle Committee on Banking Supervision

Over the last few years, the Basle Committee on Banking Supervision has progressively extended the focus of its activities beyond the G-10 countries. This process was taken further at the biennial International Conference of Banking Supervisors, organised by the Committee, which was held in Stockholm in June 1996 and attended by supervisors from around 140 countries. Conference participants welcomed the Committee's intention to intensify its efforts towards strengthening prudential supervision in all countries. In September 1996, the Committee decided to build on its earlier work by preparing two separate publications: a comprehensive set of Core Principles for Effective Banking Supervision applicable in both G-10 and non-G-10 countries; and a Compendium which brings together the existing Basle Committee recommendations, guidelines and standards. Both documents were released in April 1997 with the strong endorsement of the G-10 central bank Governors.

In developing the Core Principles, the Basle Committee worked closely with non-G-10 supervisory authorities. The document sets out 25 basic Principles that must be in place for a supervisory system to be effective, covering seven broad topics: (1) preconditions for effective banking supervision; (2) the licensing and structure of institutions; (3) prudential regulations and requirements; (4) methods of ongoing banking supervision; (5) information requirements; (6) the formal powers of supervisors; and (7) cross-border banking. The Core Principles represent minimum requirements and in many cases they may well need to be strengthened or supplemented to address particular conditions and risks in the local financial system. The Principles are intended to serve as a point of reference for supervisory and other public authorities in all countries, many of which are actively seeking to reinforce their current supervisory regime.

The Core Principles have been published as a consultative paper and it is expected that the text will be finalised by September 1997. Following the wider consultation process, supervisory authorities throughout the world will be encouraged to give their formal endorsement. Implementation would include an examination of current supervisory arrangements and, where they are found to be inconsistent with the Principles in any material respect, the establishment of a timetable to remedy the deficiencies. The Basle Committee will conduct a survey to determine whether the Principles have been implemented and the result will be reviewed at the next International Conference of Banking Supervisors in October 1998. The Compendium of Basle Committee recommendations, guidelines and standards will serve as a companion piece to the Core Principles insofar as existing Committee documents elaborate on many of the Principles.

Another important step in international supervisory cooperation was the endorsement by delegates at the International Conference of Banking Supervisors of a report on the Supervision of Cross-Border Banking prepared by a joint working group of the Basle Committee and the Offshore Group of Banking Supervisors. The paper, released in October 1996, contains 29 recommendations designed to strengthen the effectiveness of supervision by home and host-country authorities of banks which operate beyond their national borders. In particular, the report reaffirms the principle that (subject to suitable safeguards) home-country supervisory authorities should have full access to necessary information, and it sets out procedures for the conduct of cross-border inspections at branches or subsidiaries owned by banks headquartered in their jurisdictions. The report also addresses the need to ensure that all cross-border banking operations are brought under effective home and host-country supervision, and makes recommendations for the monitoring of supervisory standards in host countries and for dealing with corporate structures which create potential supervisory gaps.

The Basle Committee has recently made further progress in building a truly worldwide network of banking supervisors and promoting the dissemination of Basle Committee documents, recommendations, guidelines and standards. Two new initiatives to strengthen relationships with non-G-10 supervisors are the holding of regular joint meetings with groups of banking supervisors from non-G-10 countries at each of the Committee's quarterly meetings and a significant increase in supervisory training undertaken by the Basle Committee Secretariat, mostly in cooperation with regional groups of banking supervisors.

With regard to capital adequacy standards, the Basle Committee is currently overseeing the implementation of the January 1996 Amendment to the Capital Accord to incorporate market risks. The Amendment, which will take effect no later than the end of 1997, requires banks to calculate their capital charges against market risk using one of two methods: a standardised methodology or an approach based on the results of their own internal models. The latter method allows banks to use risk measures derived from such internal models, subject only to a defined set of qualitative and quantitative standards. The Amendment is designed to ensure that banks hold a prudent level of capital against the risks associated with their trading activities, and to reinforce banks' efforts to improve risk management techniques with respect to their overall market activities. Since the Amendment was agreed, the Basle Committee has conducted further work on the impact of the two approaches on banks' capital requirements. The results, which were reviewed in November 1996, confirm the Committee's view that the internal models approach appropriately recognises the benefits of risk diversification strategies and provides incentives for firms to enhance the soundness and precision of their internal models on an ongoing basis. The Committee expects banks to make further advances in the modelling and coverage of complex components of market risk. Accordingly, the Committee is continuing to work closely with the industry.

At the end of 1996, the Committee completed a paper concerning the management of interest rate risk which establishes 12 principles that the Committee's members will use as standards in evaluating the effectiveness of banks' management of their interest rate risk. The principles relate to oversight by the board and senior management, appropriate policies and procedures for managing the risk, the system for measuring and monitoring the risk, the comprehensiveness of controls and the methods to be used by supervisory authorities to monitor interest rate risk. The paper is now going through a consultation process and it is expected that it will be finalised later this year.

In November 1996, the Basle Committee and the Technical Committee of the International Organization of Securities Commissions (IOSCO) published a survey of the disclosures that internationally active banks and securities firms made in their 1995 annual reports concerning their trading and derivatives activities. The document provides large banks and securities firms with an overview of the advances in disclosure practices over the 1993–95 period and recommends enhancements at the international level. The Basle Committee and IOSCO's Technical Committee will continue to monitor disclosure by banks and securities firms and to encourage them to improve their disclosure practices further.

The Basle Committee is currently engaged in identifying supervisory issues raised by banks' participation in payment systems as well as by electronic money and electronic banking. The Committee is drawing on ongoing work by other BIS committees and in international forums. With regard to payment systems, the joint task force established by the Basle Committee and the Committee on Payment and Settlement Systems (CPSS) is considering issues of common interest to banking supervisors and G-10 central bank officials responsible for payment and settlement systems. In the area of electronic money and electronic banking, the Basle Committee has conducted a preliminary analysis of the implications both in terms of the various risks posed for banks and in terms of the supervisory issues. The Committee intends to complete a report on these questions by the end of 1997, while constantly monitoring, in association with the CPSS, a rapidly changing situation.

The Committee has also played a leading role in the work of the Joint Forum on Financial Conglomerates, which it views as the principal focus of its efforts to enhance cooperation with securities and insurance supervisors so as to strengthen the supervision of financial institutions. The Committee fully supports and continues to participate actively in the Joint Forum's examination of complex supervisory issues arising from the activities of internationally active financial conglomerates. In accordance with its mandate, the Joint Forum has been pursuing practical means to facilitate the exchange of information among supervisors, both domestically and internationally. It has identified legal and other impediments to such exchanges, several of which appear not to be justified and which it advocates removing. Furthermore, a task force of the Joint Forum has been conducting an analysis of 13 international financial conglomerates in order to improve the understanding of how such groups are managed and organised. It is anticipated that this effort will help the Joint Forum in finding ways to promote communication among supervisors and in preparing principles for information-sharing. The Joint Forum is also carrying out valuable work on developing principles of supervision, in particular with regard to elaborating techniques for group-wide capital measurement. The intention is to assist in the supervision of regulated institutions within financial conglomerates.

In April 1997, the Governors of the G-10 central banks appointed Mr. Tom de Swaan, Executive Director of the Netherlands Bank, as the Chairman of the Basle Committee. He succeeds Mr. Tommaso Padoa-Schioppa, who resigned from the Bank of Italy to become Chairman of CONSOB, the Italian securities regulatory body.

Euro-currency Standing Committee

The Euro-currency Standing Committee continued to monitor developments in international financial markets and to discuss issues bearing on their functioning and stability. Among other matters, the Committee exchanged views on the recent growth of credit derivatives markets, factors behind the increase in collateralised transactions in wholesale markets and the rapidly growing capital flows to a number of emerging markets, together with the marked decline in spreads on their new bond issues (see Chapter VII). It also discussed the wider implications for the banking industry of forces for change emanating from technological progress, product innovation and globalisation, as well as the challenges that have arisen in resolving situations of financial distress in a globalised environment given differences in national bankruptcy procedures. It also examined sources of comovements in bond rates across markets and the causes and sustainability of the recent strength of asset prices.

The Committee set up two task forces in the course of the year. One of these is examining the implications for the nature of systemic risk of recent structural changes in financial markets, including, inter alia, the emergence of non-bank financial institutions as providers of services traditionally carried out by banks and the changing role of banks in the provision of intermediation services. The task force will assess whether these and other changes have altered the sources and distribution of risk in the financial system, the potential for contagion among financial institutions and markets, and the interrelationship between financial and macroeconomic vulnerability. It will also consider whether the traditional emphasis on banks in the analysis of systemic risk needs to be modified in the light of their evolving roles and the growing importance of non-bank financial institutions and markets.

The other task force is examining changes in portfolio management practices with a view to developing an improved understanding of cross-border capital flows. International portfolio flows have grown significantly in recent years, reflecting the opening-up of new investment opportunities and an increased desire on the part of investors and fund managers to diversify risk and enhance returns. This expansion has also been facilitated by the variety of instruments that fund managers can use in gaining or adjusting desired exposures. Many of these transactions modify the economic content of recorded flows and some are not adequately integrated into traditional frameworks for analysing and interpreting cross-border flows. The task force will review funding, positioning and hedging practices applied in international fund management and will seek to integrate knowledge of these practices into an enriched methodology for interpreting such flows.

In January 1997, the Governors of the G-10 central banks approved, for implementation by end-June 1998, a framework drawn up by the Committee for the regular collection of statistics on over-the-counter derivatives markets on the basis of reporting by leading market participants. The reporting framework is based on the report entitled Proposals for Improving Global Derivatives Market Statistics, prepared by a working group of the Committee and published in July 1996, and was finalised after a period of consultation with market participants and supervisory authorities. The design of the framework draws on the results of the 1995 Central Bank Survey of Foreign Exchange and Derivatives Market Activity, which found that these markets were much larger than suggested by previous estimates. The framework seeks to capture information requirements identified in previous studies by the Committee of the macroeconomic and macro-prudential implications of derivatives markets. These studies concluded that, while derivatives play a valuable role in strengthening the financial system by facilitating the reallocation and management of risk, improved information on the size and structure of these markets is needed to enhance their transparency and to help market participants, central banks and other authorities to better monitor patterns of activity and the distribution of risks in the global financial system. The statistics will be compiled by national central banks and published by the BIS, initially on a semi-annual basis.

Under a mandate from the Euro-currency Standing Committee, the Bank continued to compile, analyse and publish various other statistical data on developments in international banking and financial markets. The Committee initiated a number of enhancements to its semi-annual statistics on countries' external indebtedness to internationally active banks.

In September 1996, the Governors of the G-10 central banks appointed Mr. Toshihiko Fukui, Senior Deputy Governor of the Bank of Japan, as the new Chairman of the Euro-currency Standing Committee as from January 1997. Mr. Fukui succeeds Mr. Andrew Crockett, General Manager of the BIS, who had held the chairmanship from January 1994.

Committee on Payment and Settlement Systems

The Committee on Payment and Settlement Systems continued its efforts to identify, define and promote ways to reduce risks and improve efficiency in payment and settlement arrangements.

In the course of 1996 the Committee played a central role in the work carried out by the G-10 central banks on electronic money issues. Various reports were prepared, covering the security of electronic money products, implications for monetary policy and seigniorage, legal and law enforcement questions and regulatory approaches to issuers of e-money value. The reports were discussed by the G-10 Governors, who have asked the BIS, in cooperation with the Committee, to monitor closely developments in this area around the world. The analysis carried out by the G-10 central banks has provided useful input to the work of other international groups dealing with e-money issues, including the G-10 Deputies and the Financial Action Task Force.

The Committee finalised reports on various issues which were presented to the G-10 Governors in early 1997. In February the Committee and IOSCO jointly published a report containing a disclosure framework for securities settlement systems. The framework is structured in the form of a questionnaire and is designed to assist market participants in obtaining information from operators of securities settlement systems to allow them to make an informed assessment of the risks involved in participating in such systems. The joint CPSS/IOSCO working group that drew up the framework comprised representatives from central banks, securities regulators and private sector organisations in both G-10 and other countries, including emerging markets.

As well as issuing and publicising the report, the Committee and IOSCO have transmitted it to central banks and securities market regulators worldwide, encouraging them to ask system operators in their jurisdictions to complete the questionnaire and make the responses available to market participants. The CPSS and IOSCO Secretariats will serve as clearing houses for the responses.

In March 1997 the Committee published reports on large-value interbank funds transfer systems and clearing arrangements for exchange-traded derivatives. These reports are a continuation of the Committee's earlier work on the payment and settlement infrastructures that underpin financial markets, including netting schemes, securities settlement systems and foreign exchange settlement arrangements. The first report concerns real-time gross settlement (RTGS) in large-value interbank payment systems, which now routinely settle the equivalent of several trillion dollars per day in the G-10 countries. The report provides a general overview of key concepts and risks related to payment systems and considers the principles and design features of RTGS systems. It also touches on a number of policy issues connected with the development of such systems, including monetary policy aspects and the broader implications of RTGS for wholesale payment and settlement systems. The report outlines the major differences between the RTGS systems already implemented or being planned in G-10 countries and examines the management of liquidity in RTGS systems. More technical aspects such as operational procedures for processing payment instructions and message flow structures are also discussed.

The second report describes the structure of clearing arrangements for derivative contracts traded on organised exchanges and analyses the risks associated with such arrangements and the way that they are typically managed. It identifies possible weaknesses in the clearing arrangements, including the potential inadequacy of the resources of clearing organisations in the event of member defaults, a lack of intraday controls on members' positions and reliance on the use of payment procedures that do not ensure timely intraday settlement. At the same time, the report suggests possible ways to deal with these weaknesses. These include the use of stress testing by clearing organisations, more timely trade matching for the calculation of margin requirements and the strengthening of the internal payment arrangements.

Following the publication in March 1996 of a report which set out a strategy to reduce settlement risk in foreign exchange transactions, the Committee has been actively monitoring the progress made in implementing the strategy. The report, which was endorsed by the G-10 Governors, has attracted considerable publicity and has contributed to initiatives by individual banks, industry groups and central banks. It has been brought to the attention of the Basle Committee on Banking Supervision and a number of individual supervisory authorities have already begun taking specific action, for example by introducing guidelines on foreign exchange settlement risk for bank examiners. Developments such as the introduction of new RTGS systems and the prospect of longer opening hours for existing systems are also helping the market to reduce foreign exchange settlement risk.

The Committee extended its cooperation with other international regulatory authorities, as in the case of the joint initiative with IOSCO. With the Basle Committee on Banking Supervision, it is in the process of identifying and analysing issues of common concern. Closer collaboration has also been sought with non-G-10 central banks, particularly those of emerging market economies. Meetings have been held between the Committee and various non-G-10 central banks, and payment system seminars and workshops have been organised in conjunction with the BIS for various regional central bank groups (see below). The Committee and its Secretariat at the BIS intend to strengthen these efforts in the years to come.

Coordinating Service for Central Banks and International Organisations

In line with the expanded global role and membership of the BIS, the Coordinating Service for Central Banks and International Organisations has recently begun to focus on contacts between the BIS and regional central bank groupings. This will involve a deepening of relations with those groups which already have links with the Bank and the establishment of contacts with other major groups. The BIS has had contact in Latin America with CEMLA (Centro de Estudios Monetarios Latinoamericanos), in Asia with EMEAP (Executive Meeting of East Asian and Pacific Central Banks), SEANZA (Central Banks of South-East Asia, New Zealand and Australia), SEACEN (South-East Asian Central Banks) and SAARC (South Asian Association for Regional Cooperation), in the Gulf region with the GCC (Gulf Cooperation Council) and in South Africa with the SADC (South African Development Community). The BIS has contributed to the activities of these organisations and has conducted seminars together with some of them.

The Service also continued its traditional activities, in particular the organisation of seminars at the Joint Vienna Institute for countries in transition. These seminars covered specialised areas of central banking, including monetary policy, banking supervision, payment and settlement systems, legal issues and reserve management.

The traditional role of the BIS in helping to coordinate the training and technical assistance provided by a large number of central banks to their counterparts in countries in transition has been evolving as a result of the progress witnessed in several countries. Increasingly, the pattern is one of cooperation among equal partners. In this framework, representatives of central banks from Central and Eastern Europe and from the CIS republics continue to meet annually at the BIS.

Group of Computer Experts

The exchange of views which took place during the meetings of the Group of Computer Experts confirmed that central banks' information systems are moving further in the direction of distributed processing, albeit without completely eclipsing mainframe systems, whose reliability and security are still considered desirable for certain critical applications. In general, the workload of information technology (IT) departments has risen, in particular owing to the need to adapt information systems for the changeover to the year 2000 and, for the central banks of the European Union, to make preparations for economic and monetary union (EMU). Central banks' IT systems are increasingly being opened up to the outside world, notably through wider access to the Internet and the setting-up of central banks' own Web sites permitting information to be distributed to the general public. Internet techniques are, moreover, being used by a growing number of central banks in order to develop internal networks which allow staff easy access to information (intranets).

In the context of the analysis of electronic money products undertaken by the Committee on Payment and Settlement Systems (see above), a study group examined the security aspects of these new products and submitted a report which was published in August 1996. Based on a detailed review of the principal e-money systems in the G-10 countries, the report assesses security measures designed to prevent counterfeiting risks, detect fraudulent operations and limit the extent of any fraud should it occur. It concludes, inter alia, that the risks involved can be effectively reduced if a wide-ranging set of security measures is properly implemented and strictly enforced.

Group of Experts on Monetary and Economic Data Bank Questions

The Group of Experts on Monetary and Economic Data Bank Questions continued to direct its attention to the possibility of broadening the scope of secure electronic information exchange among central banks to include data, documents, voice and video. There was strong support for following up on the favourable results of a questionnaire on this subject which had been developed by Strategy and Technical Working Groups and circulated widely to central bank participants in BIS committees and groups of experts. Steps were also taken to identify possible overlapping developments in the field of electronic information exchange, as a result of EU central banks' preparations for EMU, with a view to avoiding duplication of effort wherever possible. The Group also discussed the current use of computers by central bank economists and statisticians and emerging technology, focusing on opportunities for greater efficiency in database management and analytical techniques.

2. Functions as Agent and Trustee

During the past financial year the Bank continued to act as Agent and Trustee in connection with international financial settlements.

Agent for the private ECU clearing and settlement system

Since October 1986 the Bank has performed the functions of Agent for the private ECU clearing and settlement system in accordance with the provisions of successive agreements concluded between the ECU Banking Association (EBA), Paris, and the BIS, the most recent of which was signed and entered into force on 16th September 1996. A description of the structure and operation of the clearing system is contained in the 56th Annual Report of June 1986. During the period under review, two further banks were granted the status of clearing bank by the EBA and joined the system at the beginning of May 1997. The total number of ECU clearing banks thus increased to 49.

Trustee for international government loans

With regard to the funding bonds 1990–2010 of the Dawes and Young Loans, the Deutsche Bundesbank, as Paying Agent for all uncertificated bonds of all issues of the Dawes and Young Loans, notified the Bank that it had paid out approximately DM 3.4 million to bondholders in respect of redemption at the maturity date of 3rd October 1996 and DM 6.8 million in respect of interest at the maturity dates of 3rd April and 3rd October 1996, as well as interest arrears. The newly calculated redemption values and conversion factors in respect of the aforementioned interest maturity dates were published by the German Federal Debt Administration (Bundesschuldenverwaltung) in the Federal Journal.

Concerning the application of the exchange guarantee clause for the Young Loan by the German Federal Debt Administration, the Bank has repeated its earlier reservations stated in the 50th Annual Report of June 1980, which also extend to the funding bonds 1990–2010. The Paying Agents have been advised to take the appropriate precautionary measures in order to safeguard the rights of the bondholders.

Details of these bond issues and the Bank's functions may be found in the Bank's 63rd Annual Report of June 1993.

Collateral Agent for Brazilian bonds

In accordance with two Collateral Pledge Agreements signed on 15th April 1994, the BIS acts in the capacity of Collateral Agent to hold and invest collateral for the benefit of the holders of certain US dollar denominated bonds, maturing in either 15 or 30 years, which have been issued by Brazil under the external debt restructuring arrangements agreed in November 1993.

Collateral and Escrow Agent for Peruvian bonds

Similarly, in accordance with Agreements signed on 7th March 1997, the BIS acts in the capacity of Collateral Agent to hold and invest collateral for the benefit of the holders of certain US dollar denominated bonds, maturing in either 20 or 30 years, which have been issued by Peru under the external debt restructuring arrangements agreed in November 1996. The BIS also acts as Escrow Agent under these Agreements.

3. Financial assistance to central banks

Although there were no international financial support programmes coordinated by the BIS during the period under review, the Bank nevertheless continued to grant bilateral short-term credits to central banks. These are usually collateralised but on occasion, subject to normal credit considerations and depending on the extent of the banking relationship, they may be uncollateralised.

4. Cooperation with official commissions in research on wartime activities

In connection with the widespread increase in interest in the issue of assets looted during the Second World War, the BIS received a number of enquiries concerning its wartime activities from official commissions, including the US House of Representatives Committee on Banking, Housing and Financial Services, the US Senate Committee on Banking, Housing and Urban Affairs, the Independent Committee of Eminent Persons and the Independent Commission of Experts: Switzerland – Second World War. While some of the questions raised were of a general nature, attention centred on the Bank's gold transactions with the Reichsbank during the war. The BIS responded to these enquiries by providing detailed information and pledged to cooperate fully with all official commissions, inter alia by granting access to all relevant material. The Bank's historian, who had been classifying and indexing the archives for almost two years, prepared a report on the wartime activities of the Bank that was subsequently audited by Coopers & Lybrand. This report has been made available to the public and can be accessed on the BIS Web site (http://www.bis.org). In view of the general public interest in these matters, the Board of Directors has also decided to open the BIS archives in early 1998 and to make a number of key documents available from July 1997.

5. Operations of the Banking Department

As at 31st March 1997 the Balance Sheet stood at 66,793 million gold francs, a record level for the end of a financial year. This represents an increase of 8,175 million gold francs, or 14%, over the total of 58,618 million reached a year earlier. The year-on-year rise would have been significantly greater (by a further 2.5 billion gold francs) but for the impact of valuation changes resulting from a strengthening of the US dollar.

Liabilities

The BIS's borrowed resources primarily reflect its role as a bank for central banks. During the financial year under review, the BIS took a number of steps to improve the competitiveness of the various banking and investment facilities which it offers to more than 100 central banks and international financial institutions worldwide.

On 31st March 1997 borrowed funds in gold and currencies totalled 62,097 million gold francs, compared with 54,271 million a year earlier. Without the negative effect of exchange rate movements on the overall volume of deposits, the recorded increase of 7,826 million gold francs would have been greater by some 2.6 billion. This marked expansion in borrowed funds was largely attributable to new currency deposits received from central banks.

The share of total central bank deposits in borrowed funds was virtually unchanged, with a slight reduction in 1996/97 to 93.9% against 94.2% a year earlier and 95% at end-March 1995. Correspondingly, the share of other depositors (mainly international financial institutions) rose from 5.8% to 6.1% over the financial year, totalling 3,758 million gold francs, compared with 3,133 million on 31st March 1996.

The past financial year was characterised in particular by a substantial increase (37%) in funds received in US dollars. As a result, the share of the US dollar in total borrowed funds in currencies rose to 61.6% (compared with 52.3% at end-March 1996 and 61.1% at end-March 1995); in contrast, owing partly to exchange rate movements, the share of Deutsche mark deposits fell from 32.8% on 31st March 1996 to 20.5% on 31st March 1997, close to the figure of 22.2% recorded two years previously.

On 31st March 1997 deposits with a residual maturity not exceeding three months accounted for 98.2% of total resources in currencies; this compares with 95.1% a year earlier.

Deposits in gold declined by 409 million gold francs to 3,836 million, a level which represented 6.2% of total borrowed funds on 31st March 1997, against 7.8% at the end of the previous financial year.

Assets

The bulk of the reserve assets held by central banks with the BIS are at short notice and one of the Bank's prime objectives in employing these resources is therefore to preserve a high degree of liquidity. The Bank conducts its operations in a highly prudent manner to ensure the safety of the deposits entrusted to it; credit risk, maturity transformation and exchange rate risk are rigorously monitored.

With a year-on-year increase of 8,504 million gold francs, assets in currencies amounted to 62,088 million on 31st March 1997, compared with 53,584 million gold francs at end-March 1996. These assets represent deposits with first-class financial institutions of international standing as well as short-term negotiable securities, including Treasury bills. The Bank's own funds are largely held in gold or investments in sovereign securities issued by the major industrial countries.

The Bank's assets in gold declined from 5,001 million to 4,504 million gold francs during the financial year 1996/97, primarily reflecting the decrease in gold deposits received.

The Bank also makes use of certain derivative instruments, essentially with a view to managing its own funds more efficiently and hedging risks on its borrowed funds (see Note 7a to the Balance Sheet).

6. Net profits and their distribution

The accounts for the 67th financial year ended 31st March 1997 show a net operating surplus of 203,289,449 gold francs, compared with 187,937,032 gold francs for the preceding financial year. The Bank's net operating surplus increased despite a fall in income from borrowed funds operations resulting from a narrowing of the average margin earned on deposit intermediation. On the other hand, income from own funds investments rose slightly, since the volume of own funds increased as a consequence of the issue of 44,000 new shares during the second half of the year. In addition, higher earnings were recorded from gold investments and foreign exchange operations undertaken on behalf of customers. Finally, a reduced amount was set aside by the Board of Directors to the provision for banking risks and other eventualities, following a reassessment of the credit and market risks to which the Bank's investments are exposed.

This year's result is shown after deduction of 60,530,595 gold francs in respect of costs of administration, a 9% decrease compared with the previous year's figure of 66,347,998 gold francs. This decrease was due entirely to valuation changes, resulting from a significant depreciation of the Swiss franc against the gold franc during the course of the year. In terms of Swiss francs, the currency in which most of the Bank's expenditure is incurred, total administrative costs actually increased by just under 2%.

The Board of Directors has decided to transfer from the net operating surplus 3,000,000 gold francs to the provision for exceptional costs of administration and 6,000,000 gold francs to the provision for modernisation of premises and renewal of equipment. As a result of these transfers the net profit amounts to 194,289,449 gold francs, against 181,333,300 gold francs for the previous financial year.

On the basis of Article 51 of the Statutes, the Board of Directors recommends that the net profit of 194,289,449 gold francs be applied by the General Meeting in the following manner:

(i) an amount of 48,780,923 gold francs in payment of a dividend of 280 Swiss francs per share (the dividend payable in respect of the 44,000 new shares which were issued during the latter half of the financial year 1996/97 being settled on a pro rata basis according to the relevant date of subscription);

(ii) an amount of 41,018,778 gold francs to be transferred to the general reserve fund;

(iii) an amount of 3,000,000 gold francs to be transferred to the special dividend reserve fund; and

(iv) an amount of 101,489,748 gold francs, representing the remainder of the available net profit, to be transferred to the free reserve fund. This fund can be used by the Board of Directors for any purpose that is in conformity with the Statutes.

If the above proposals are accepted, the dividend will be paid on 1st July 1997 to the shareholders whose names are contained in the Bank's share register on 20th June 1997.

The Balance Sheet, the Profit and Loss Account and summary statements showing the movements during the financial year in the Bank's capital and reserves will be found at the end of this Report. The Bank's accounts have been audited by Price Waterhouse, who have confirmed that the Balance Sheet and the Profit and Loss Account, together with the Notes on pages 190–195, give a true and fair view of the Bank's financial position at 31st March 1997 and of the results of its operations for the year ended on that date. Their report is to be found immediately following the accounts.

7. Increase in the number of shareholding central banks

With a view to further strengthening central bank cooperation under the aegis of the BIS, the Board of Directors decided on 9th September 1996 to invite nine additional central banks to become members of the Bank. As a result, the Banco Central do Brasil, The People's Bank of China, the Hong Kong Monetary Authority, the Reserve Bank of India, The Bank of Korea, the Banco de México, the Central Bank of the Russian Federation, the Saudi Arabian Monetary Agency and The Monetary Authority of Singapore were invited to subscribe shares of the third tranche of the capital of the BIS. Before the close of the financial year all nine institutions had taken up the Board's offer, thereby becoming members of the BIS.

The Board's decision to issue further shares of the third tranche of the Bank's capital was taken in accordance with the provisions of Articles 6 and 8(3) of the Statutes. Moreover, the founder central banks represented on the Board exercised their rights under Article 8(2) of the Statutes to subscribe for a proportion of the new issue of shares and, in accordance with the provisions of Article 9 of the Statutes, immediately placed the shares so subscribed at the disposal of the Bank for cancellation and the issue of an equivalent number of new shares to other central banks represented on the Board.

On the occasion of this fourth issue of shares of the third tranche, a total of 44,000 new shares were subscribed by the close of the financial year. The issue price for all the shares offered for subscription was fixed by the Board at 3,643 gold francs per share, which is the equivalent of 1,057.645 grammes (or 34 fine ounces) of gold per share. As the Bank's shares are paid up to the extent of 25%, or 625 gold francs per share, the issue price of 3,643 gold francs per share thus included a premium of 3,018 gold francs per share. The subscribing institutions were given the option of settling the issue price for the new shares either in gold or by paying, in a convertible currency acceptable to the BIS, the amount which would be necessary to purchase the same weight of gold on the market on the date of the subscription (the convertible currency countervalue being calculated on the basis of the London morning fixing price for gold two business days before the value date of the payment).

As a consequence of the issue of 44,000 new shares of the third tranche of the Bank's capital, the number of the Bank's issued shares has risen from 473,125 to 517,125 shares, and the amount of the paid-up capital of the Bank appearing in the Balance Sheet at 31st March 1997 has increased by 27.5 million gold francs to stand at 323.2 million gold francs. The aggregate premium received from the subscribing central banks amounted to 132.8 million gold francs, of which 2,250,000 gold francs has been allocated to the legal reserve fund and 130,542,000 gold francs to the general reserve fund.

8. Changes in the Board of Directors

At its meeting on 10th March 1997 the Board elected Alfons Verplaetse, Governor of the National Bank of Belgium, as Chairman of the Board of Directors and President of the Bank for a period of three years commencing on 1st July 1997, when W.F. Duisenberg will relinquish those offices.

In May 1996 Carlo Azeglio Ciampi relinquished his seat on the Board and therefore his position as Vice-Chairman of the Board. At its meeting on 10th June 1996 the Board elected Lord Kingsdown as Vice-Chairman of the Board and took note that Antonio Fazio had appointed Vincenzo Desario to the Board under Article 27(2) of the Statutes. In November 1996 this appointment, which had been made originally for the unexpired period of Carlo Azeglio Ciampi's term of office, was renewed for a period of three years. Similarly, the appointments of Helmut Schlesinger and Philippe Wilmès under the same Article of the Statutes were renewed, in December 1996 and January 1997 respectively.

In September 1996 Alan Greenspan appointed Alice M. Rivlin as his Alternate.

Balance Sheet and Profit and Loss Account

at 31st March 1997

Balance Sheet at 31st March 1997

(in gold francs – see Note 2(a) to the Accounts)

1996	Assets	1997
	Gold	
4 364 194 019	Held in bars	*3 547 261 289*
637 302 466	Time deposits and advances	*956 662 444*
5 001 496 485		4 503 923 733
9 761 421	Cash on hand and on sight account with banks	384 413 644
4 105 690 444	Treasury bills	2 813 409 132
	Time deposits and advances in currencies	
29 998 320 757	Not exceeding 3 months	*34 201 692 134*
7 329 811 023	Over 3 months	*8 153 458 323*
37 328 131 780		42 355 150 457
	Government and other securities at term	
3 539 879 228	Not exceeding 3 months	*3 441 537 565*
8 600 477 193	Over 3 months	*13 093 749 660*
12 140 356 421		16 535 287 225
32 771 184	Miscellaneous	200 780 130
1	Land, buildings and equipment	1
58 618 207 736		66 792 964 322

1996 (After allocation of the year's net proft)	Liabilities	1997 Before allocation of the year's net profit	1997 After allocation of the year's net profit
295 703 125	Paid-up capital	323 203 125	323 203 125
1 783 483 397	Reserves	1 916 275 398	2 061 783 924
373 473 506	Valuation difference account	351 129 995	351 129 995
	Deposits (gold)		
4 079 409 773	Sight	*3 471 145 991*	*3 471 145 991*
42 095 720	Not exceeding 3 months	*186 971 696*	*186 971 696*
123 463 527	Over 3 months	*178 283 536*	*178 283 536*
4 244 969 020		3 836 401 223	3 836 401 223
	Deposits (currencies)		
1 129 229 959	Sight	*2 166 693 892*	*2 166 693 892*
46 437 189 005	Not exceeding 3 months	*55 074 556 745*	*55 074 556 745*
2 459 422 087	Over 3 months	*1 019 098 838*	*1 019 098 838*
50 025 841 051		58 260 349 475	58 260 349 475
283 079 270	Staff pension scheme	252 630 204	252 630 204
1 558 325 067	Miscellaneous	1 658 685 453	1 658 685 453
	Profit and Loss Account	194 289 449	
53 333 300	Dividend payable on 1st July		48 780 923
58 618 207 736		66 792 964 322	66 792 964 322

Profit and Loss Account

for the financial year ended 31st March 1997
(in gold francs)

	1996	1997
Interest and discount, and other operating income	3 692 892 528	3 524 961 970
Less: interest and discount expense	3 438 607 498	3 261 141 926
Net interest and other operating income	254 285 030	263 820 044
Less: costs of administration		
Board of Directors	*1 460 882*	*1 328 950*
Management and staff	*46 568 445*	*42 944 303*
Office and other expenses	*18 318 671*	*16 257 342*
	66 347 998	60 530 595
Net operating surplus	187 937 032	203 289 449
Less: amounts transferred to		
Provision for exceptional costs of administration	*3 529 792*	*3 000 000*
Provision for modernisation of premises and renewal of equipment	*3 073 940*	*6 000 000*
	6 603 732	9 000 000
Net profit for the financial year	181 333 300	194 289 449
The Board of Directors recommends to the Annual General Meeting that the net profit for the year ended 31st March 1997 be allocated in accordance with Article 51 of the Statutes as follows:		
Dividend: 280 Swiss francs per share on 473 125 shares (1996: 260 Swiss francs)	*53 333 300*	*47 247 209*
on 44 000 newly issued shares (pro rata as from the value date of share subscription)	—	*1 533 714*
	53 333 300	48 780 923
	128 000 000	145 508 526
Transfer to general reserve fund	38 400 000	41 018 778
	89 600 000	104 489 748
Transfer to special dividend reserve fund	3 000 000	3 000 000
	86 600 000	101 489 748
Transfer to free reserve fund	86 600 000	101 489 748
	—	—

Movements in the Bank's paid-up capital and reserves

during the financial year ended 31st March 1997
(in gold francs)

I. Paid-up capital

	Number of shares	Gold francs
Shares of 2 500 gold francs, of which 25% is paid up:		
Balances at 1st April 1996	473 125	295 703 125
Shares issued during the financial year 1996/97	44 000	27 500 000
Balances at 31st March 1997 as per Balance Sheet	517 125	323 203 125

II. Development of the reserve funds

	Legal reserve fund	General reserve fund	Special dividend reserve fund	Free reserve fund	Total of reserve funds
Balances at 1st April 1996, after allocation of net profit for the financial year 1995/96	30 070 313	803 316 157	56 530 055	893 566 872	1 783 483 397
Add: allocations of the premium received on the issue of 44 000 new shares	2 250 000	130 542 001	—	—	132 792 001
Balances at 31st March 1997 before allocation of net profit	32 320 313	933 858 158	56 530 055	893 566 872	1 916 275 398
Add: allocations of net profit for the financial year 1996/97	—	41 018 778	3 000 000	101 489 748	145 508 526
Balances at 31st March 1997 as per Balance Sheet	32 320 313	974 876 936	59 530 055	995 056 620	2 061 783 924

III. Paid-up capital and reserve funds at 31st March 1997 (after allocation) were represented by:

	Paid-up capital	Reserve funds	Total of capital and reserves
Net assets in			
Gold	323 203 125	338 697 628	661 900 753
Currencies	—	1 723 086 296	1 723 086 296
Balances at 31st March 1997 as per Balance Sheet	323 203 125	2 061 783 924	2 384 987 049

Notes to the Accounts

for the financial year ended 31st March 1997

1. Introduction

The Bank for International Settlements (BIS) is an international financial institution which was established pursuant to the Hague Agreements of 20th January 1930. The headquarters of the Bank are in Basle, Switzerland. The objects of the BIS, as laid down in Article 3 of its Statutes, are to promote the cooperation of central banks, to provide additional facilities for international financial operations and to act as trustee or agent for international financial settlements. Forty-one central banks are currently members of the Bank and exercise the rights of representation and voting at General Meetings in proportion to the number of BIS shares issued in their respective countries. The Board of Directors of the Bank is composed of the Governors of the central banks of Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States of America, as well as appointed directors from six of those countries.

The accounts for the financial year 1996/97 are presented in a form approved by the Board of Directors pursuant to Article 49 of the Bank's Statutes.

2. Significant accounting policies

(a) Unit of account and currency translation

The unit of account of the Bank is the gold franc, which is equivalent to US$ 1.941 49... . Article 4 of the Bank's Statutes defines the gold franc (abbreviated to GF) as representing 0.290 322 58... grammes of fine gold. Items representing claims on gold are translated into gold francs on the basis of their fine weight. Items denominated in US dollars are translated into gold francs on the basis of a gold price of US$ 208 per ounce of fine gold (this price was established by the Bank's Board of Directors in 1979, resulting in the conversion factor of 1 gold franc = US$ 1.941 49...). Items denominated in other currencies are translated into US dollars at the spot market rates of exchange prevailing at the balance sheet date, with the resulting US dollar balances converted into gold francs accordingly.

Exchange differences arising on the translation of currency assets and liabilities denominated in currencies other than the US dollar are taken to the valuation difference account.

The net balance resulting from exchange differences on the translation of forward currency contracts and swaps is included under miscellaneous assets or liabilities.

(b) Basis of valuation and determination of profit

Except as otherwise stated, the accounts of the Bank are drawn up on the historical cost basis and income and expense items are recorded on the accruals basis. Profits and losses are determined on a monthly basis, translated into US dollars at the spot market rate of exchange prevailing at each month-end and translated into gold francs as set forth above; the monthly profits thus calculated are accumulated for the year.

Profits and losses arising on the sale of investment securities are taken to the securities equalisation account, which is incorporated within miscellaneous liabilities. Credit balances accumulated in this account are amortised to the Profit and Loss Account over a period corresponding to the average term to maturity of the Bank's investment portfolio; a net debit balance at the year-end would be charged immediately to the Profit and Loss Account.

(c) Gold

Gold assets and liabilities are stated on the basis of their fine weight.

(d) Treasury bills; Government and other securities at term

Treasury bills and Government and other securities at term which are owned outright are stated at cost, plus accrued interest where applicable, adjusted for the amortisation of premiums or discounts over the period to maturity; interest and discount income includes such amortisation.

Securities included under either of the above headings which are acquired in connection with purchase and resale agreements are stated at the amount advanced to the counterparty plus accrued interest.

(e) Time deposits and advances in currencies

Time deposits and advances are stated at their principal value plus accrued interest.

(f) Land, buildings and equipment

These are stated at the value of 1 gold franc. Capital expenditure on land, buildings or equipment is charged to the provision for building purposes or to the provision for modernisation of premises and renewal of equipment.

(g) Valuation difference account

The valuation difference account records the effect of exchange differences as described under (a); these valuation changes relate essentially to that portion of the Bank's own funds held in currencies other than the US dollar.

The movements in this account in the financial year 1996/97 were affected by transactions of an exceptional nature made in connection with the issue of new shares by the Bank. These transactions gave rise to book gains on gold, which were credited to the valuation difference account.

(h) Deposits

Deposits are book claims on the Bank and are stated at their principal value plus accrued interest. Certain claims are issued at a discount to the value payable on the maturity of the deposit; in such cases the accounting treatment is analogous to that applied to dated securities held by the Bank (see item (d) above).

(i) Staff pension scheme

The staff pension scheme represents the Bank's liability in respect of current staff members and pensioners, based on annual actuarial advice.

(j) Provisions

(i) General
The Board of Directors sets aside an amount each year to a provision for banking risks and other eventualities; this provision is incorporated in miscellaneous liabilities.

(ii) Specific
Amounts may be allocated from the Bank's net operating surplus by the Bank's Board of Directors for the following purposes:

1. Provision for exceptional costs of administration
2. Provision for building purposes
3. Provision for modernisation of premises and renewal of equipment.

The transfers to specific provisions are shown in the Profit and Loss Account and the unspent amounts of these provisions are included in miscellaneous liabilities.

Notes to the Balance Sheet

for the financial year ended 31st March 1997

1. Gold holdings

The following table shows the composition of the Bank's total gold holdings:

Assets	*1996*	1997
Gold bars held at central banks	*4 364 194 019*	3 547 261 289
Gold time deposits:		
Not exceeding 3 months	*236 533 897*	450 480 089
Over 3 months	*400 768 569*	506 182 355
	5 001 496 485	4 503 923 733

The Bank's own gold holdings at 31st March 1997 amounted to GF 661 900 753, equivalent to 192 tonnes of fine gold (1996: GF 661 882 392; 192 tonnes).

2. Treasury bills

The Bank's holdings of Treasury bills were as follows:

	1996	1997
– Owned outright	*4 105 690 444*	2 813 409 132

The market value of Treasury bills owned outright at 31st March 1997 was GF 2 812.7 million (1996: GF 4 105.8 million).

3. Government and other securities at term

The following table shows the breakdown of the Bank's holdings of these securities:

	1996	1997
– Owned outright	*10 488 115 419*	15 651 114 800
– Held under purchase and resale agreements	*1 652 241 002*	884 172 425
	12 140 356 421	16 535 287 225

The market value of government and other securities owned outright at 31st March 1997 was GF 15 720.1 million (1996: GF 10 532.7 million).

4. Capital

The Bank's share capital consists of:

	1996	1997
Authorised capital:		
600 000 shares,		
each of 2 500 gold francs	*1 500 000 000*	1 500 000 000
Issued capital: 473 125 shares	*1 182 812 500*	
517 125 shares		1 292 812 500
of which 25% paid up	*295 703 125*	323 203 125

During the financial year 1996/97, 44 000 shares were issued at GF 3 643 per share. The paid-up portion of GF 625 per share has been credited to share capital, and the balance – representing the premium of GF 3 018 per share – to reserves (see also the tables entitled "Movements in the Bank's paid-up capital and reserves").

5. Reserves

The Bank's reserves consist of:

	1996	1997
Legal reserve fund	*30 070 313*	32 320 313
General reserve fund	*803 316 157*	974 876 936
Special dividend reserve fund	*56 530 055*	59 530 055
Free reserve fund	*893 566 872*	995 056 620
	1 783 483 397	2 061 783 924

The yearly allocations to the various reserve funds are governed by Article 51 of the Bank's Statutes. The amounts transferred are also shown in the table entitled "Development of the reserve funds".

6. Deposits

Gold deposits placed with the Bank originate entirely from central banks. The composition of currency deposits placed with the Bank was as follows:

	1996	1997
Central banks		
Sight	*1 060 459 178*	2 107 217 697
Not exceeding 3 months	*43 770 492 278*	51 736 873 597
Over 3 months	*2 062 276 087*	658 294 838
Other depositors		
Sight	*68 770 781*	59 476 195
Not exceeding 3 months	*2 666 696 727*	3 337 683 148
Over 3 months	*397 146 000*	360 804 000
	50 025 841 051	58 260 349 475

7. Off-balance-sheet items

a) Derivatives

In the normal course of business, the Bank is party to off-balance-sheet financial transactions including forward exchange contracts, currency and interest rate swaps, forward rate agreements, futures and options. These instruments are used to hedge the Bank's interest rate and currency exposure on assets and liabilities, and to manage the duration of its liquid assets. The Bank applies the same credit criteria in considering off-balance-sheet commitments as it does for all other investments.

Notional principal amounts

(in millions of gold francs)	*1996*	1997
Exchange rate contracts:		
Foreign exchange swaps and forwards	*17 194.8*	9 917.3
Currency swaps	*842.5*	1 263.7
Interest rate contracts:		
Interest rate swaps	*6 312.1*	8 338.2
Forward rate agreements and futures	*9 896.0*	3 391.8

The notional or contracted principal amounts of the various derivatives reflect the degree to which the Bank is active in the respective markets but give no indication of the credit or market risk on the Bank's activities. The gross replacement cost of all contracts showing a profit at prevailing market prices on 31st March 1997 was GF 565 million (1996: GF 371 million).

b) Fiduciary transactions

Fiduciary transactions are not included in the balance sheet, since they are effected on behalf of and at the risk of the Bank's customers, albeit in its own name.

(in millions of gold francs)	*1996*	1997
Nominal value of securities held in safe custody	*11 537.9*	12 281.4
Gold held under earmark	*982.5*	972.0

Report of the Auditors

Report of the Auditors
to the Board of Directors and to the General Meeting
of the Bank for International Settlements, Basle

We have audited the accompanying Balance Sheet and Profit and Loss Account, including the notes thereto, of the Bank for International Settlements. The Balance Sheet and Profit and Loss Account have been prepared by the Management of the Bank in accordance with the Statutes and with the principles of valuation described under significant accounting policies in the notes. Our responsibility under the Statutes of the Bank is to form an independent opinion on the Balance Sheet and Profit and Loss Account based on our audit and to report our opinion to you.

Our audit included examining, on a test basis, evidence supporting the amounts in the Balance Sheet and Profit and Loss Account and related disclosures. We have received all the information and explanations which we have required to obtain assurance that the Balance Sheet and Profit and Loss Account are free of material misstatement, and believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Balance Sheet and Profit and Loss Account, including the notes thereto, have been properly drawn up and give a true and fair view of the financial position of the Bank for International Settlements at 31st March 1997 and the results of its operations for the year then ended so as to comply with the Statutes of the Bank.

Price Waterhouse AG

Ralph R. Reinertsen Jack W. Flamson

Auditors in charge

Basle, 25th April 1997

Five-year summary of the Balance Sheet

(in millions of gold francs)

Financial year ended 31st March	1993	1994	1995	1996	1997
Gold					
Held in bars	*4 726.9*	*4 338.3*	*4 373.4*	*4 364.2*	*3 547.3*
Time deposits and advances	*413.0*	*579.8*	*541.8*	*637.3*	*956.7*
	5 139.9	4 918.1	4 915.2	5 001.5	4 504.0
Cash on hand and on sight account with banks	7.5	12.0	9.8	9.8	384.4
Treasury bills	2 175.4	3 510.7	5 520.3	4 105.7	2 813.4
Time deposits and advances in currencies	41 183.9	41 370.4	42 478.7	37 328.1	42 355.1
Government and other securities at term	11 428.3	15 087.9	12 284.3	12 140.3	16 535.3
Miscellaneous assets	31.4	76.6	19.2	32.8	200.8
Land, buildings and equipment	–	–	–	–	–
Total assets	59 966.4	64 975.7	65 227.5	58 618.2	66 793.0
Paid-up capital	295.7	295.7	295.7	295.7	323.2
Reserves *(after allocation of the net profit for the year)*					
Legal reserve fund	*30.1*	*30.1*	*30.1*	*30.1*	*32.3*
General reserve fund	*703.1*	*732.2*	*764.9*	*803.3*	*974.9*
Special dividend reserve fund	*47.5*	*50.5*	*53.5*	*56.5*	*59.5*
Free reserve fund	*668.8*	*733.7*	*807.0*	*893.6*	*995.1*
	1 449.5	1 546.5	1 655.5	1 783.5	2 061.8
Valuation difference account	270.3	273.1	449.5	373.5	351.1
Deposits					
Gold	*4 367.3*	*4 061.1*	*4 157.0*	*4 245.0*	*3 836.4*
Currencies	*52 147.7*	*57 164.9*	*56 934.4*	*50 025.8*	*58 260.4*
	56 515.0	61 226.0	61 091.4	54 270.8	62 096.8
Staff pension scheme	172.1	200.2	271.0	283.1	252.6
Miscellaneous liabilities	1 224.9	1 393.1	1 411.0	1 558.3	1 658.7
Dividend	38.9	41.1	53.4	53.3	48.8
Total liabilities	59 966.4	64 975.7	65 227.5	58 618.2	66 793.0

Five-year summary of the Profit and Loss Account

(in millions of gold francs)

Financial year ended 31st March	1993	1994	1995	1996	1997
Net interest and other operating income	211.7	195.7	229.3	254.3	263.8
Less: costs of administration					
Board of Directors	*0.8*	*0.8*	*1.2*	*1.5*	*1.3*
Management and staff	*32.2*	*34.1*	*40.2*	*46.6*	*42.9*
Office and other expenses	*16.3*	*15.5*	*17.4*	*18.3*	*16.3*
	49.3	50.4	58.8	66.4	60.5
Net operating surplus	162.4	145.3	170.5	187.9	203.3
Less: amounts transferred to					
Provision for exceptional costs of administration	*3.3*	*3.3*	*3.4*	*3.5*	*3.0*
Provision for building purposes	–	–	–	–	–
Provision for modernisation of premises and renewal of equipment	*19.2*	*3.9*	*4.7*	*3.1*	*6.0*
	22.5	7.2	8.1	6.6	9.0
Net profit for the financial year	139.9	138.1	162.4	181.3	194.3
Dividend	38.9	41.1	53.4	53.3	48.8
	101.0	97.0	109.0	128.0	145.5
Transfer to general reserve fund	30.3	29.1	32.7	38.4	41.0
	70.7	67.9	76.3	89.6	104.5
Transfer to special dividend reserve fund	5.0	3.0	3.0	3.0	3.0
	65.7	64.9	73.3	86.6	101.5
Transfer to free reserve fund	65.7	64.9	73.3	86.6	101.5
	–	–	–	–	–

Board of Directors

W. F. Duisenberg, Amsterdam
Chairman of the Board of Directors,
President of the Bank

Lord Kingsdown, London
Vice-Chairman

Urban Bäckström, Stockholm
Vincenzo Desario, Rome
Antonio Fazio, Rome
Edward A. J. George, London
Alan Greenspan, Washington
Hervé Hannoun, Paris
William J. McDonough, New York
Yasuo Matsushita, Tokyo
Hans Meyer, Zurich
Helmut Schlesinger, Frankfurt a/M.
Gordon G. Thiessen, Ottawa
Hans Tietmeyer, Frankfurt a/M.
Jean-Claude Trichet, Paris
Alfons Verplaetse, Brussels
Philippe Wilmès, Brussels

Alternates

Jean-Pierre Patat or
Armand Pujal, Paris
Ian Plenderleith or
Terry R. Smeeton, London
Jean-Jacques Rey, Brussels
Alice M. Rivlin or
Edwin M. Truman, Washington
Carlo Santini or
Stefano Lo Faso, Rome
Helmut Schieber or
Bernd Goos, Frankfurt a/M.

Management

Andrew Crockett	General Manager
André Icard	Assistant General Manager
Gunter D. Baer	Secretary General, Head of Department
Malcolm Gill	Head of the Banking Department
William R. White	Economic Adviser, Head of the Monetary and Economic Department
Marten de Boer	Manager, Accounting, Budgeting and ECU Clearing
Renato Filosa	Manager, Monetary and Economic Department
Mario Giovanoli	Legal Adviser, Manager
Guy Noppen	Manager, General Secretariat
Günter Pleines	Deputy Head of the Banking Department
André Bascoul	Deputy Manager, Monetary and Economic Department
Joseph R. Bisignano	Deputy Manager, Monetary and Economic Department
Zenta Nakajima	Deputy Manager, Monetary and Economic Department
Jean-Marc Andreoli	Assistant Manager, General Secretariat
John A. Bispham	Assistant Manager, Monetary and Economic Department
Paul C. Bridge	Assistant Manager, Banking Department
Yukio Iura	Assistant Manager, Banking Department
Daniel Lefort	Assistant Manager, Legal Service
Alexander Radzyner	Assistant Manager, General Secretariat
Claude Sivy	Assistant Manager, Internal Audit
Frederik C. Musch	Secretary General of the Basle Committee on Banking Supervision, Monetary and Economic Department