Organisation, governance and activities

This chapter provides an overview of the internal organisation and governance of the Bank for International Settlements (BIS). It also reviews the activities of the Bank, and of the international groups it hosts, over the past financial year. These activities focus on promoting cooperation among central banks and other financial authorities, and on providing financial services to central bank customers.

Organisation and governance of the Bank

The Bank, its management and shareholders

The BIS is an international organisation that fosters international monetary and financial cooperation and serves as a bank for central banks. Its head office is in Basel, Switzerland, and it has two representative offices, one in the Hong Kong Special Administrative Region of the People's Republic of China and one in Mexico City. The Bank currently employs 562 staff from 49 countries.

The BIS fulfils its mandate by acting as:

- a forum to promote discussion and facilitate decision-making among central banks and to support dialogue with other authorities with responsibility for promoting financial stability;
- a centre for research on policy issues confronting central banks and financial sector supervisory authorities;
- a prime counterparty for central banks in their financial transactions; and
- an agent or trustee in connection with international financial operations.

The Bank also hosts the secretariats of a number of committees and organisations that seek to promote financial stability:

- The Basel Committee on Banking Supervision, the Committee on the Global Financial System, the Committee on Payment and Settlement Systems and the Markets Committee were established by the Governors of the G10 central banks at various times over the past 40 years. They enjoy a significant degree of autonomy in setting their agendas and structuring their activities.
- The Financial Stability Forum, the International Association of Insurance Supervisors and the International Association of Deposit Insurers are independent organisations whose secretariats are also hosted by the BIS but do not directly report to the BIS or its member central banks.
- The Irving Fisher Committee on Central Bank Statistics is governed by the international central banking community and operates under the auspices of the BIS.

Details of the role and recent activities of these committees and organisations are provided below.

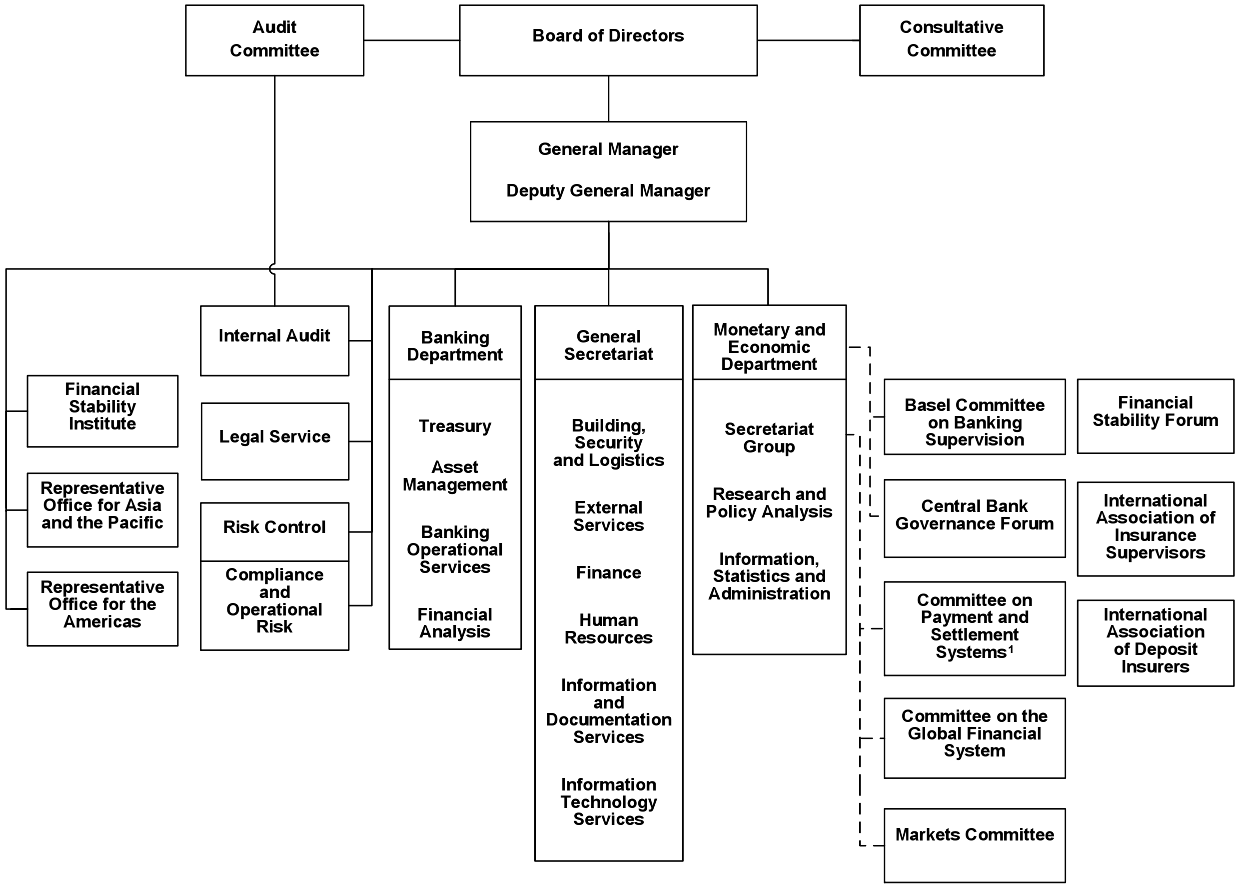
The Bank has three main departments: the Monetary and Economic Department, the Banking Department and the General Secretariat. These are supplemented by: the Legal Service; the Compliance and Operational Risk, Internal Audit and Risk Control units; and the Financial Stability Institute, which fosters the dissemination of standards and best practices to financial system supervisors worldwide.

Three main bodies govern and manage the Bank:

- The General Meeting of member central banks. Fifty-five central banks or monetary authorities currently have rights of voting and representation at General Meetings. The Annual General Meeting is held within four months of the end of the Bank's financial year, 31 March. In 2006, 100 central banks took part, including 77 at Governor level. Delegates from 20 international institutions also attended.
- The Board of Directors, currently comprising 19 members. Its main tasks include determining the strategic and policy direction of the Bank and supervising the Bank's Management. The Board is assisted by the Audit Committee and the Consultative Committee, composed of selected Directors.
- The Executive Committee, chaired by the General Manager and comprising the Deputy General Manager, the Heads of Department and other officers of similar rank appointed by the Board. The Executive Committee advises the General Manager on all important matters affecting the Bank as a whole.

Member central banks, Directors and senior officials, and recent changes in the composition of the Board and Management are listed at the end of this chapter.

Organisation of the BIS as of 31 March 2007



1 The CPSS secretariat also handles the secretariat functions for the Central Bank Counterfeit Deterrence Group

Governance of the Bank

Board enlargement

With a view to further strengthening central bank cooperation, and in line with the Bank's more global role, the Board of Directors decided on 26 June 2006 to elect, in accordance with Article 27(3) of the Bank's Statutes, three additional central bank Governors as members of the Board of Directors. Guillermo Ortiz, Governor of the Bank of Mexico, Jean-Claude Trichet, President of the European Central Bank, and Zhou Xiaochuan, Governor of the People's Bank of China, were duly elected with effect from 1 July 2006. Their terms of office are for three years and may be renewed.

Following the increase in the number of BIS shareholders in recent years, these elections bring the global diversity of BIS membership to Board level.

Promotion of international financial and monetary cooperation: direct contributions of the BIS

Regular consultations on monetary and financial matters

Every two months, the Governors and other senior officials of the BIS member central banks convene for a series of meetings to discuss current economic and financial developments and the outlook for the world economy and financial markets. They also exchange views and experiences on issues of special and topical interest to central banks. These bimonthly meetings, normally held in Basel, are one of the most important ways in which the Bank promotes cooperation within the central banking community. The November 2006 BIS bimonthly meetings took place in Sydney and were hosted by the Reserve Bank of Australia.

This series of meetings organised every two months comprises, in particular, the Global Economy Meeting and the All Governors' Meeting. The Global Economy Meeting brings to the discussion table more than 30 Governors of key industrial and emerging market economies. This group monitors economic and financial developments and assesses the risks and opportunities in the world economy and financial markets. In May 2006, the Board of Governors adopted a new format for the Global Economy Meeting, which was implemented in September 2006. A major change was to increase the number of attendees by generally inviting the Governors of a wider number of small to medium-sized economies, while at the same time introducing a more appropriate regional representation.

The All Governors' Meeting, in which all shareholding member central bank Governors participate, discusses selected topics that are of general interest to all BIS member central banks. In 2006/07, the topics discussed were:

- measuring inflation, as a key element in the conduct of monetary policy;
- developments in the area of large-value payment and settlement systems;
- trends in financial integration in emerging market economies and the associated policy challenges;
- statistical challenges for central bank policymaking and the role and activities of the Irving Fisher Committee; and
- risk management organisation and implementation in the governance of large private sector financial institutions.

Other regular meetings that take place during these bimonthly gatherings are the meetings of Governors of the G10 countries and those of Governors of major emerging market economies, which explore themes that are of special relevance to the respective groups of economies. Governors who are members of the Central Bank Governance Group also meet on a regular basis.

Because not all central banks are directly involved in the work of the Basel-based committees and other organisations hosted by the Bank, special meetings for Governors take place as needed to brief them on the activities of these specialised groupings or to explore topics of direct importance. In 2006/07, selected groups of Governors discussed:

- the relationship between the central bank and the government;
- the challenges for central banks posed by current global economic and financial developments, especially in their effects on smaller industrial and emerging market economies; and
- the implications of the rise of emerging market economies for the international monetary system.

In analysing issues related to financial stability, Governors attach importance to dialogue with heads of supervisory agencies, other financial authorities and senior executives from the private financial sector. The Bank regularly organises informal discussions among public and private sector representatives that focus on their shared interests in promoting and maintaining a sound and well functioning international financial system. In addition, the Bank organises various other meetings, on a regular or an ad hoc basis, for senior central bank officials. In a number of these meetings, other financial authorities, the private financial sector and the academic community are invited to contribute to the dialogue.

Other meetings organised for senior central bankers on a less frequent basis include:

- the meetings of the working parties on domestic monetary policy, held in Basel but also hosted on a regional basis by a number of central banks in Asia, central and eastern Europe, and Latin America; and
- the meeting of Deputy Governors of emerging market economies, for which this year's theme was the changing nature of the transmission mechanism for monetary policy in emerging market economies.

Representative Offices

The Representative Office for Asia and the Pacific (Asian Office) and that for the Americas (Americas Office) aim to strengthen relations between the BIS and central banks and financial supervisory authorities in the respective regions, and to promote cooperation within each region. The Offices organise meetings, foster the exchange of information and data, and contribute to the Bank's financial and economic research. The Offices also help to deliver BIS banking services through regular visits to reserve managers in central banks and meetings at both technical and managerial levels.

Asia-Pacific

During the past year, the Asian Office worked to strengthen its relationship with BIS shareholders in the region. To this end, both the dealing room and, especially, the research team took on additional staff.

The Asian Office organised or supported meetings on monetary policy, financial market development and financial stability. A highlight was a high-level meeting on central bank monitoring of financial markets, held jointly with the People's Bank of China in Hong Kong SAR in November 2006. Other meetings were held in conjunction with the EMEAP working groups on banking supervision and financial markets, as well as with the Hong Kong Institute for Monetary Research.

Banking activity and the Asian Bond Funds

The Asian Office's dealing room made progress towards providing the full range of BIS banking services to regional customers. It further developed its foreign exchange activity and expanded investments in the region through both placements with existing counterparties and new outlets.

As fund manager of the first Asian Bond Fund (ABF1) initiative of the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), the BIS continues to invest a portfolio of US dollar-denominated sovereign and quasi-sovereign issues of eight EMEAP economies.

As fund administrator, the BIS helped to widen the offering of bond funds to the public under EMEAP's second Asian Bond Fund (ABF2) initiative. Eleven central banks have provided seed money from their international reserves to purchase funds that invest in sovereign and quasi-sovereign domestic currency denominated bonds in eight EMEAP economies. The launching of public bond funds in Indonesia, Korea and the Philippines, in addition to the four individual market funds launched last year, helped to bring the overall size of the ABF2 to $3.1 billion at end-March 2007. Approximately $800 million of private investment now complements the investment by central banks, which has grown from $2 billion to $2.3 billion. The Pan Asia Bond Index Fund returned about 17% in its first 21 months of operation, to March 2007.

Asian Consultative Council and the BIS Special Governors' Meeting in Asia

The Asian Consultative Council (ACC) comprises the Governors of the BIS member central banks in the Asia-Pacific region. It provides a vehicle for communication between these central banks and the BIS Board and Management on matters of interest and concern to the Asian central banking community. The BIS Asian Office provides the secretariat services for the ACC.

Two meetings of the ACC gave Asian shareholding central banks the opportunity to guide the BIS Board and Management in their efforts to strengthen the Bank's relationship with them. These efforts include the widening of banking services, enhancement of the work of the Financial Stability Institute, and a three-year Asian research programme directed at improving monetary policy and operations, developing money and capital markets, and promoting financial stability and prudential policy. At both meetings, ACC members discussed individual research topics, clarifying the policy concerns underlying their suggestions. At the February meeting in Hong Kong SAR, the ACC had the opportunity to respond to some research initiatives that had been completed, in particular work on the household finance sector in Asia. In addition, the chair of the Task Force on Regional Cooperation among Central Banks reported on its work, which had been commissioned at the ACC retreat the previous year.

Each year, the BIS hosts a Special Governors' Meeting in Asia. This informal meeting of central bank governors provides an opportunity for

Governors to review the global economic and financial situation, with specific emphasis on developments in Asia and the Pacific. Following the February ACC meeting, Asia-Pacific Governors and several other Governors met for the ninth Special Governors' Meeting. They discussed the appropriate policy response to strong capital flows from outside the region, the economic outlook, and how central banks should monitor financial markets.

Asian research programme

The three-year Asian research programme began in September 2006. Regional central bankers and bank supervisors have organised themselves into two research networks, one that studies monetary policy and exchange rates, and the other analysing financial markets and institutions. The networks share information on policy issues, identify collaborative projects and organise workshops. Five economists have been hired on contracts of up to three years. In addition, the programme has hosted, and continues to seek, researchers from regional central banks, as well as from regional universities and policy institutes.

The Americas

During its fourth year of operation, the Americas Office focused its activity on strengthening its contacts with central banks in the region and cooperating more closely with regional supervisory authorities. Unlike the Asian Office, the Americas Office has no trading room, but it nonetheless actively supports BIS banking activities in the region. One highlight in this regard was a high-level seminar on reserve management, held in Santiago in May 2006.

Research efforts mainly concerned the development of fixed income markets in countries of the region and economic modelling (so-called dynamic stochastic general equilibrium (DSGE) models).

The Office also organised or supported a series of high-level meetings in Mexico and elsewhere, sometimes jointly with regional central banks and other institutions. Highlights included a meeting for regional central banks on transmission mechanisms for monetary policy, held in Colombia in March 2007; a meeting of the Working Party on Monetary Policy in Latin America, held in Peru in October 2006; and two sessions at the 11th Annual Meeting of the Latin America and Caribbean Economic Association in Mexico in November 2006, one on "Using DSGE models for policy analysis" and another on "The development of domestic bond markets and financial stability implications". Also noteworthy were the numerous regional seminars organised mainly by the FSI.

Financial Stability Institute

The Financial Stability Institute (FSI) assists financial sector supervisory authorities worldwide in strengthening oversight of their financial systems, thereby fostering financial stability globally. The FSI follows a two-pronged approach designed to disseminate standards and sound practices primarily to the banking and insurance supervision sectors.

Meetings, seminars and conferences

The first prong of the FSI approach is a long-standing series of high-level meetings, seminars and conferences both in Basel and in various regions of the world. In 2006, the FSI organised a total of 52 events on a broad range of financial sector topics. More than 1,600 representatives of central banks and banking and insurance supervisory agencies participated. Of particular note were the high-level regional meetings held for Deputy Governors and heads of supervisory authorities in Asia, Latin America and the Middle East. These meetings focused principally on Basel II implementation.

FSI Connect

The second prong of the FSI approach is FSI Connect, an online information and learning resource tool for financial sector supervisors and central bankers. FSI Connect currently includes more than 120 tutorials covering a wide range of topics for users at all levels of experience and expertise. The FSI continues to add new topics. In addition, 40 tutorials related to capital and Basel II have been made available in French and Spanish. More than 125 central banks and supervisory authorities subscribe to FSI Connect, representing more than 8,000 users. It is available to subscribers 24 hours a day, seven days a week.

Other major initiatives

In 2006, the FSI updated its 2004 survey on the plans of individual countries to implement Basel II. The new survey confirmed that more than 90 countries plan to do so, with most of them starting with the less advanced approaches. Compared with the 2004 survey, some countries anticipate slight delays in their Basel II implementation timetable. These delays appear to reflect a more realistic assessment of what is needed to achieve implementation, especially with regard to the more sophisticated approaches.

Promotion of financial stability through the permanent committees hosted by the BIS

Basel Committee on Banking Supervision

The Basel Committee on Banking Supervision, chaired by Nout Wellink, President of the Netherlands Bank, provides a forum for dialogue and information exchange among supervisors. It promotes improvements in bank risk management practices and the framework for banking supervision, and mechanisms for effective implementation by many countries of the principles developed by the Committee.

Reorganisation of the Committee's group structure

In October 2006 the Committee adopted a new, streamlined structure for its working groups. While maintaining a strong focus on capital adequacy issues, this restructuring emphasises a forward-looking strategy that has four interrelated and mutually reinforcing elements:

- to maintain a strong capital foundation for banks;
- to reinforce this foundation by promoting other infrastructure needed for sound supervision;
- to develop policy responses that are proportionate and flexible; and
- to deepen and expand outreach to non-Committee supervisors, as well as to other financial sectors and to the industry.

In support of this strategy, the Committee has reorganised its work around four core groups. These are:

- the Accord Implementation Group, established to share information and promote consistency in Basel II implementation;
- the Accounting Task Force, which works to ensure that international accounting and auditing standards and practices promote sound risk management at financial institutions, support market discipline through transparency, and reinforce the safety and soundness of the banking system;
- the International Liaison Group, which provides a forum for deepening the Committee's engagement with supervisors around the world on a broad range of issues; and
- the Policy Development Group, which identifies and reviews emerging supervisory issues and proposes and develops policies to promote a sound banking system and high supervisory standards.

Implementation of the revised capital framework ("Basel II")

Consistent cross-border implementation of Basel II remains an important focus for the Basel Committee. Supporting this objective, and to assist banks and supervisors as they prepare to implement Basel II, the Committee has released a series of papers to provide further clarity and guidance on a variety of Basel II implementation issues. These include papers related to home-host information sharing for effective Basel II implementation, the "use test" for the internal ratings-based approach, the observed range of practice in key elements of the advanced measurement approaches (AMA) for operational risk, and home-host supervisory cooperation and allocation mechanisms in the context of AMA.

In 2007, the Committee is paying particular attention to Pillar 2 (Supervisory Review Process) of the Basel II framework, reflecting the increasing international attention by both supervisors and the industry. A specific example is the Accord Implementation Group's use of case studies, allowing supervisors and bankers to deal with practical implementation issues.

Core Principles for Effective Banking Supervision

At the International Conference of Banking Supervisors (ICBS) held in Mérida, Mexico in October 2006, senior bank supervisors and central bankers from over 120 countries endorsed a significantly enhanced version of the Core Principles for Effective Banking Supervision and the Core Principles Methodology. The 25 Core Principles are globally agreed minimum standards for banking regulation and supervision, while the Core Principles Methodology provides guidance on how to interpret and assess the principles.

The Basel Committee decided to update the Core Principles, first promulgated in 1997, in the light of the many innovations and developments in banking, financial instruments and the markets within which banks operate, and the methods and approaches used by supervisors. In addition, experience gained through country assessments had made it clear that key elements of the existing Principles should be clarified and strengthened.

The revised Core Principles pay significantly more attention to sound risk management and corporate governance practices. The criteria for dealing with the fight against money laundering and terrorist financing, as well as fraud prevention, have also been strengthened. In addition, cross-border and cross-sectoral trends and developments are reflected more comprehensively, as is the need for closer cooperation and information exchange between supervisors from different sectors and jurisdictions. The importance of the independence, accountability and transparency of bank supervisory authorities has been further emphasised.

Accounting, auditing and compliance

In June 2006, the Basel Committee finalised its supervisory guidance on the use of the fair value option for financial instruments by banks and will continue to monitor its implementation. Over the past year, the Committee has taken an active role in the work to develop international accounting and auditing standards and has responded to several formal requests for comment from the International Accounting Standards Board and other international accounting and auditing standard setters. As the use of fair value estimates in financial statements has increased, the Committee has been keen to ensure that these estimates are reliable, relevant and auditable. In addition to its work on accounting standards related to financial instruments, the Committee is also focusing on issues related to the development of a common conceptual framework and the review of key audit issues from a banking supervision perspective.

Outreach

In recent years the Basel Committee has been working to further enhance its dialogue with supervisors around the world. At the October 2006 ICBS, participants reiterated the importance of continued improvements in banks' governance and risk management, and confirmed their determination to improve supervisory cooperation and information sharing. They also focused on issues arising from the growing presence of international banks in domestic markets.

The International Liaison Group (ILG) provides a platform for non-member countries to contribute to new Basel Committee initiatives early in the process and to develop proposals that are of particular interest to ILG members. The Committee will continue to explore ways to expand its dialogue with non-member countries and to support the current level of involvement through the work of the ILG, meetings with regional groups of banking supervisors and the biennial ICBS, as well as other formal and informal mechanisms.

Committee on the Global Financial System

The Committee on the Global Financial System (CGFS), chaired by Donald L Kohn, Vice Chairman of the Board of Governors of the Federal Reserve System, monitors financial market developments and analyses their implications for financial stability. The Committee, whose members are the G10 central banks and the Central Bank of Luxembourg, regularly invites representatives from the central banks or monetary authorities of Australia, Brazil, China, Hong Kong SAR, India, Korea, Mexico, Singapore and Spain to join its discussions.

Important topics of discussion during the past year included:

- the possible impact of a sudden repricing of risk and of the transmission of shocks to the real economy in increasingly integrated capital markets;
- the capacity of the global financial system to disperse risks across a wider investor base in the light of innovations in structured credit products;
- the risks that could arise from carry trades, in which investors borrow in low-yielding currencies and invest in high-yielding ones; and
- the impact of changes in financial market volatility on global financial stability.

As part of its efforts to gain a deeper understanding of structural developments in financial markets, the CGFS established two working groups. One focused on the determinants of institutional investors' asset allocation decisions and their potential implications for the financial system, given the increasingly important role they play in channelling household savings and pension assets into financial markets.

The second working group examined the impact on domestic financial intermediation of a switch in emerging market economies from foreign currency to local currency debt, and the challenges that remain in developing more liquid local bond markets.

In addition, the Committee organised several special meetings:

- a workshop on structural changes in credit markets to update market information gathered through past CGFS initiatives and to discuss ongoing trends in credit markets;
- a workshop on balance sheet effects and emerging market bond spreads, to analyse the factors influencing sovereign spreads;
- a workshop on the use of the BIS international financial statistics in research on global financial stability; and
- regional meetings on housing finance at the Central Bank of Malaysia and the National Bank of Denmark, following the publication of a CGFS working group report on *Housing finance in the global financial system*.

Committee on Payment and Settlement Systems

The Committee on Payment and Settlement Systems (CPSS), chaired by Timothy F Geithner, President and Chief Executive Officer of the Federal Reserve Bank of New York, contributes to strengthening financial market infrastructure by promoting sound and efficient payment and settlement systems. It cooperates with other international institutions and groupings, and involves a wide group of central banks in its work.

In 2006, the Committee carried out a new survey of how banks and other selected institutions manage the risks they may incur when settling foreign exchange transactions. The results will help the Committee to assess the extent to which foreign exchange settlement risk remains a threat to the financial system and whether there is a need for further action on the part of individual banks, the industry and central banks. The Committee expects to publish its findings in late 2007.

In January 2007, the CPSS and the World Bank issued a joint report on *General principles for international remittance services*. Based on an analysis of the payment system aspects of remittances, the report sets out five general principles designed to assist countries that want to improve the market for remittance services. These principles relate to: transparency and consumer protection, payment system infrastructure, the legal and regulatory framework, market structure and competition, and governance and risk management.

In March 2007, the Committee issued a report on *New developments in clearing and settlement arrangements for OTC derivatives*. It analyses existing arrangements and risk management practices in the broader OTC derivatives market and evaluates the potential for risks to be mitigated by greater use of, and enhancements to, market infrastructure. The report focuses on:

- the risks created by delays in documenting and confirming transactions;
- the implications of the rapidly expanding use of collateral to mitigate counterparty credit risks;
- the potential for expanding the use of central counterparty clearing to reduce counterparty risks;
- the implications of OTC derivatives prime brokerage;
- the risks associated with unauthorised novations of contracts; and
- the potential for significant market disruptions from the closeout of OTC derivatives transactions following the default of a large market participant.

The Committee continued to enhance cooperation among central banks, including those of emerging market economies. It also provided support and expertise to workshops and seminars on payment system issues organised by the BIS in cooperation with regional central banking organisations.

Markets Committee

The Markets Committee, chaired by Hiroshi Nakaso, Director General of the Bank of Japan, brings together senior officials responsible for market operations at G10 central banks. At its bimonthly meetings, participants exchange views on recent developments in foreign exchange and related financial markets. In particular, the Committee focuses on the short-run implications of specific events, and also the implications of structural changes, for the functioning of these markets. The Committee regularly invites representatives from the central banks or monetary authorities of Australia, Brazil, China, Hong Kong SAR, India, Korea, Mexico, Singapore and Spain to join its discussions.

Issues covered in this year's meetings included:

- the impact of monetary policy decisions on markets;
- movements in exchange rates, including the analysis of carry trade strategies;
- financial market developments related to commodities;
- the impact across different asset classes of sudden shifts in risk appetite; and
- capital inflows into emerging markets, in particular emerging equity markets.

Members also discussed a number of specific topics, including preparations for the 2007 Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity, the growing role of institutional investors in financial markets, recent developments in commodity markets, and regional investment in emerging markets. Some of these topics were discussed with private sector representatives at special meetings.

Central Bank Counterfeit Deterrence Group

The Central Bank Counterfeit Deterrence Group (CBCDG), chaired by Bonnie Schwab, Adviser, Currency, at the Bank of Canada, is mandated by the Governors of the G10 central banks to investigate emerging threats to the security of banknotes and to propose solutions for implementation by the issuing authorities. The CBCDG has developed anti-counterfeiting features to prevent banknote images from being replicated by colour copiers and digital technology (personal computers, printers and scanners). The BIS continued to support the work of the CBCDG by hosting its Secretariat and by acting as its agent in contractual arrangements.

Other areas of central bank cooperation promoted by the BIS

Research activities

In addition to providing background material for meetings of senior central bankers, and secretariat and analytical services to committees, the BIS contributes to international monetary and financial cooperation by carrying out its own research and analysis on issues of interest to central banks and, increasingly, financial supervisory authorities. This work finds its way into the Bank's publications, such as the *Annual Report*, the *Quarterly Review* and the *BIS Papers* and *Working Papers* series, as well as external professional publications. Most of the Bank's research is published on its website (www.bis.org).

In line with the Bank's mission, the long-term focus of the research is on monetary and financial stability issues. Themes receiving special attention recently included:

- changes in the inflation process, in particular the linkages between inflation and globalisation, as well as the role of exchange rates;
- the role of monetary and credit aggregates in monetary policy frameworks;

- the measurement and pricing of credit risk;
- the measurement of risk appetite and its impact on the pricing of financial assets;
- trends in international banking;
- coordination between monetary and prudential policies;
- foreign exchange reserve management practices; and
- monetary and financial stability issues in Asia-Pacific under the three-year Asian research programme (see above).

As part of its research activities the BIS also organises conferences and workshops, typically bringing together senior policymakers, academics and market participants. In the past year, meetings of this sort included:

- the Fifth BIS Annual Conference, held in Brunnen, Switzerland in June 2006, which focused on financial globalisation;
- central bank economists' meetings, held twice a year, which in October 2006 examined the determinants and policy implications of changing asset prices; and
- a meeting of central bank legal experts, which focused on legal aspects of immunities applicable to central banks' assets.

Central bank governance

Central banks' growing interest in organisational, governance and strategic management issues led the BIS, at the end of 2006, to reorganise and increase its secretariat support for the Central Bank Governance Forum. This builds on the adoption in 2005 of a charter for the Forum. The Governance Forum fosters the good governance of central banks as public policy institutions. It consists of the Central Bank Governance Group, the Central Bank Governance Network and the Secretariat provided by the BIS.

The Governance Group, comprising Governors from a broadly based and representative group of central banks, met several times during the year. Topics of discussion included the management of conflicts of interest and public perceptions of central banks. The Group also initiated major studies of the organisation of risk management within central banks and key issues in the design of a modern central bank.

The Governance Network – now spanning almost 50 central banks and monetary authorities – again actively provided information and expertise on organisational, governance and strategic management issues.

Several special-focus surveys were conducted in support of the Governance Group's deliberations and for the benefit of Governance Network central banks that are reviewing their own practices.

Cooperation in the statistical area

The BIS contributes to, and closely monitors, ongoing efforts to improve economic, monetary and financial statistics at the international, regional and national level. BIS statistical experts are also invited to participate in expert meetings of the IMF, OECD and ECB.

Irving Fisher Committee on Central Bank Statistics

During 2006, the Irving Fisher Committee on Central Bank Statistics (IFC), a forum of central bank users and compilers of statistics, established itself at the BIS, with most of the BIS's shareholding central banks formally becoming full institutional members. The Committee's first meeting at the BIS, at which 53 members were represented, was held on 29 August 2006. At this meeting the Committee's functions and future activities were defined and a new Executive was constituted. The Committee is chaired by Jan Smets, Director at the National Bank of Belgium. Membership is open to all interested central banks. The IFC also welcomes individual and institutional members from inside and outside the central banking community as associates.

Highlights of the year included:

- the Third IFC Conference (August 2006), the theme of which was "Measuring the financial position of the household sector". More than 130 experts from 68 central banks participated; and
- a contribution to the International Association of Official Statistics "People on the move" conference (September 2006). The topic of the plenary session organised by the IFC was "Financial aspects of migration: the measurement of remittances".

The proceedings of these meetings are published in the *IFC Bulletin*, which is now part of the BIS publications series.

BIS Data Bank

Through the Data Bank, participating central banks regularly report national data to the BIS, which makes these data available to the other participants. Users access the Data Bank through a newly redesigned web-based application, rolled out in the past year. At the same time, the Data Bank's content has been expanded to include data on payment and settlement systems, in particular those collected regularly by the Committee on Payment and Settlement Systems.

Korea's central bank and Singapore's monetary authority officially became participants in the past year, bringing the total to 41 BIS shareholding central banks. Those member central banks that do not participate in the Data Bank have started to report a limited number of key economic indicators; these are included in the background statistical document prepared for each BIS bimonthly meeting.

The Data Bank's technical platform electronically receives and/or disseminates the BIS international financial statistics on international banking, securities, foreign exchange and derivatives markets.

International financial statistics

Last year the guidelines to the BIS international banking statistics, which are an important methodological source for users of these data, were updated. The BIS and reporting central banks also carried out analytical work on the relationship between the locational and consolidated banking datasets and on estimates for the currency breakdown of the consolidated statistics.

BIS statisticians supported the collection of data on securities markets by the CGFS's working group on local currency bond markets (see above). The exercise identified which data are currently available on securities issuance and holdings from various national and international sources, permitting improvements in the BIS securities statistics.

The BIS banking and securities statistics are an important data source for the Joint External Debt Hub, established in cooperation with the IMF, OECD and World Bank. Last year the BIS began to cooperate actively with the International Union of Credit and Investment Insurers (the Berne Union) in order to obtain data on international trade credit for inclusion in the Hub.

Preparations for the next Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity, to be carried out between April and June 2007, got well under way during the year. It is expected that 54 central banks from around the world will participate. The findings will be published in the second half of 2007.

Statistical information technology applications upgrade

The BIS is undertaking a multi-year upgrade of its relevant information technology (IT) applications to improve its capability to support central bank cooperation in the statistical area. In the course of this project, the BIS has collected information from central banks pertaining to the use of graphical tools as well as time series in the context of relational databases. This information is typically shared with the central banks submitting such information to the BIS.

Statistical Data and Metadata Exchange

As in 2006, in 2007 the BIS is chairing the Statistical Data and Metadata Exchange (SDMX) initiative, which fosters standards for the exchange of statistical information. It is sponsored by the BIS, along with the ECB, Eurostat, IMF, OECD, United Nations and World Bank. SDMX products include:

- technical standards, approved by the International Organization for Standardization;
- content-oriented guidelines for exchange of data and metadata; and
- implementation tools that are made available by sponsoring organisations or private sector vendors.

More than 200 experts attended a conference hosted by the World Bank, "Towards implementation of SDMX", in January 2007. It gave an overview of SDMX developments, demonstrated practical implementations and provided introductory capacity-building. At the conference, a joint project was announced by SDMX and XBRL International (eXtensible Business Reporting Language, used for electronic exchange of accounting information). This will explore opportunities for interoperability between their respective data exchange formats.

Draft standards and guidelines are available for public comment on the SDMX website (www.sdmx.org).

Group of Computer Experts of the G10 central banks

The major goal of the Group of Computer Experts is to share technical and organisational experiences in the IT area among a number of key central banks. The Group, supported by working groups and task forces, meets twice a year.

The Group's November 2006 meeting assessed central banks' experiences under the topic of "Applications", with a special review of rapid application development (RAD). IT governance, business continuity and IT security were dominant themes. A number of cooperative developments among central banks, particularly related to the implementation of the European payment system TARGET2 in 2007, were also discussed.

The Group's Working Party on Security Issues (WPSI) held two meetings in the last year to discuss:

- organisational structures and the trend towards merging IT and physical security;
- risks from malicious mobile code;
- solutions for remote access;
- network segregation; and
- the costs of security solutions.

On the subject of business continuity, emphasis has been placed on risk management, particularly as related to preparations for possible pandemics. There has also been an increased focus on resilience in staff resources, as opposed to a past emphasis on physical and IT resources.

In June 2007, the Group held its triennial workshop, now called the Central Bank Information Technology Exchange (CBITX). The four scheduled sessions covered "Meeting the needs of knowledge workers", "Portfolio management and cost accounting", "IT risk management" and "IT services provision", and offered opportunities for participants to share their experiences, concerns and lessons learned in these areas.

A decision was taken this year to hold a joint meeting of the G10 heads of IT security and the WPSI. The first meeting, Workshop 2008, to be held in March 2008 at the BIS, will enable the sharing of experiences and information relating to operational risks to central banks.

Cooperation with regional central bank groupings

Although the BIS does not provide bilateral technical assistance, it occasionally supports regional training initiatives for central banks. During the past year this included:

- a workshop on "Financial stability: role of central banks", organised by the Bank of Algeria for central bankers from the French-speaking countries of North and West Africa;
- a seminar on "Non-bank financial intermediation: challenges for central banks", organised by the South East Asian Central Banks (SEACEN) and hosted by the State Bank of Vietnam;
- the organisation of two modules, one on banking and finance and the other on monetary policy, as part of the Masters in Banking and Finance programme of the Centre Africain d'Études Supérieures en Gestion (CESAG), located in Dakar;
- a meeting hosted by the Reserve Bank of South Africa for the central banks of the Southern African Development Community (SADC) on the topic of regional monetary and financial integration; and

- a seminar on bank and market-based financial intermediation for central banks from central and eastern Europe, and the Commonwealth of Independent States at the Joint Vienna Institute.

In summer 2006, 40 central banks from industrial countries, central and eastern Europe and the Commonwealth of Independent States met in Basel for the annual meeting of the Group of Coordinators of Technical Cooperation and Training. One of the topics discussed was the shift in demand for technical cooperation towards new regions, notably the Middle East, Asia and Africa (including the Maghreb).

Internal Audit

G10 central bank auditors meet regularly to share experience and knowledge in their area of expertise, and to address new issues and challenges. The main topics for discussion usually derive from international auditing standards and the continuous need to improve control over the risks faced by central banks. Twice a year, the BIS's Internal Audit unit organises and hosts the meetings of the G10 Working Party on IT Audit Methodologies.

In June 2006, the BIS participated in the 20th Annual Plenary Conference of G10 Heads of Internal Audit, hosted by the Netherlands Bank and covering: ethics, ethical awareness and auditing; the use of risk models; and auditing business continuity management (for which the BIS coordinated the work of a G10 task force).

BIS Internal Audit has established an information sharing network for internal audit heads from Asia-Pacific central banks and monetary authorities. In October, the BIS Representative Office for the Americas, in cooperation with Internal Audit, organised in Mexico City the first BIS meeting of heads of internal audit from Latin American and Caribbean central banks.

BIS contributions to broader international financial cooperation

Group of Ten

In contributing to the work of the G10 Finance Ministers and central bank Governors, the BIS participates as an observer institution and provides secretariat support together with the IMF and OECD. At their September 2006 meeting in Singapore, the G10 Ministers and Governors considered a report on the prospects for the G10 and concluded that the global economy's changing landscape underscored the need to give greater focus to international economic cooperation. They agreed that future annual meetings of G10 Ministers and Governors would be most useful if they included informal and frank discussions of significant international economic and financial issues. To facilitate such discussions, the Chairman of the G10 could invite the FSF Chair, the chairs of the various G10 committees or other participants in the meeting to introduce issues for discussion pertaining to financial markets and systems.

Financial Stability Forum

The Financial Stability Forum (FSF), chaired by Mario Draghi, Governor of the Bank of Italy, was established at the BIS in 1999 by G7 Finance Ministers and central bank Governors to promote international financial stability through enhanced information exchange and cooperation in financial supervision and surveillance. Its remit is to assess risks and vulnerabilities affecting the international financial system and to encourage and coordinate action to address them. The FSF comprises senior officials from finance ministries, central banks and financial regulators in key financial centres, as well as representatives of international financial institutions (the BIS, IMF, OECD and World Bank), international supervisory and regulatory standard-setting bodies (the Basel Committee, the IAIS, the International Accounting Standards Board (IASB) and the International Organization of Securities Commissions (IOSCO)) and central bank expert groupings (CGFS and CPSS). Switzerland joined the FSF in January 2007.

The FSF meets twice yearly in plenary form, most recently in September 2006 in Paris and March 2007 in Frankfurt. The Forum also holds regional meetings to foster wider exchanges of views on financial vulnerabilities and the work under way nationally and internationally to address them. The most recent regional meeting was held in Stockholm in January 2007, focusing on rapid credit growth, foreign currency borrowing and supervisory challenges associated with cross-border banking in emerging European economies.

At its March 2007 meeting, the FSF reviewed the drivers and implications of the turbulence in financial markets in late February and early March 2007. It also discussed developments in credit risk transfer markets and the impact of increased private equity and leveraged buyout transactions on overall corporate leverage and credit exposures of intermediaries. The FSF also assessed the systemic risks posed by the growth of the hedge fund sector and the supervisory, regulatory and private sector actions taken in recent years to strengthen market discipline, risk management practices and market infrastructure. In the light of the increasing involvement of hedge funds in credit markets with complex products, the FSF discussed how financial institutions are responding to associated risks, including developments in collateral, margining and stress testing practices. Following a request from G7 Finance Ministers and central bank Governors, the FSF has prepared an update of its 2000 report on highly leveraged institutions.

The FSF has also worked to promote the preparedness of financial authorities and the wider financial sector for dealing with possible financial crises and business continuity incidents, including an avian flu pandemic. In November last year, the FSF and the UK authorities organised a workshop on planning and communication for financial crises and business continuity incidents. As a follow-up, the FSF members are sharing information and experiences in this area, including lessons learned from crisis exercises and business continuity incidents.

The FSF is also promoting work on how regulation could be made more effective and efficient, including by facilitating dialogue between regulators and the financial industry. As part of this work, the FSF's regulatory members are undertaking a stocktaking exercise on the principles and procedures they follow in the development and interpretation of new regulations and other policy initiatives.

The FSF has supported efforts to strengthen international auditing and accounting standards and practices. In the light of the need to strengthen audit quality and improve the global consistency of audit regulation, the FSF welcomed the first meeting of the International Forum of Independent Audit Regulators in March 2007 and supported its planned work programme. The FSF also took stock of the recent progress of accounting standard setters in addressing various international issues, including ongoing efforts to harmonise accounting standards and to ensure consistent interpretation of standards.

The FSF's offshore financial centre (OFC) Review Group assessed the progress made by its member bodies to promote further improvements in OFCs, notably in effective cross-border cooperation and information exchange and the adequacy of supervisory resources. The FSF has started a review of its OFCs initiative, which it will discuss in September 2007.

FSF website: www.fsforum.org.

International Association of Insurance Supervisors

The International Association of Insurance Supervisors (IAIS), hosted by the BIS since 1998, aims to contribute to global financial stability through improved supervision of the insurance industry, the development of standards for supervision, international cooperation based on exchange of information, and mutual assistance. In collaboration with other international regulatory bodies (in the framework of the Joint Forum of the Basel Committee, IOSCO and the IAIS), the IAIS has also helped develop principles for the supervision of financial conglomerates. The continuous increase in new members and observers reflects the growing recognition of the IAIS's role.

During the past year, the IAIS took major steps in the following five areas.

Accounting

The IAIS finalised a comment paper, *Issues arising as a result of the IASB's Insurance Contracts Project – Phase II: second set of IAIS observations*, as input into the International Accounting Standards Board's Phase II project. The paper sets out a number of principles, or key observations, on measurement themes common to both general purpose financial reporting and regulatory reporting. The principles identified include various features of insurance liability measurement, risk margins and aspects of life insurance accounting.

Capital adequacy and solvency

The IAIS is progressively building a common structure and common standards for the assessment of insurer solvency, which will serve to enhance the transparency and comparability of insurers worldwide. This will benefit consumers, the industry, investors and other interested parties. A standard and a supporting issues paper on asset-liability management (ALM) were developed and adopted in October, the first in a suite of standards proposed under the IAIS Framework for Insurance Supervision, and detailed in the Roadmap Paper (*A new framework for insurance supervision: towards a common structure and common standards for the assessment of insurer solvency*). In February 2007, building on the earlier *Cornerstones for the formulation of regulatory financial requirements*, the IAIS approved the *IAIS common structure for the assessment of insurer solvency*, which provides a basis for the IAIS to develop its standards and guidance on this topic by presenting a coherent risk-based methodology for the setting of regulatory financial requirements.

Reinsurance

The revised IAIS guidance paper on *Risk transfer, disclosure and analysis of finite reinsurance*, adopted in October 2006, outlines the background on the development of finite reinsurance and the uses of this product by insurers, as well as issues in finite reinsurance and various supervisory approaches to address them. The revision addresses the sections on life insurance and reflects the latest developments in accounting for reinsurance contracts. In November 2006, the IAIS published the third edition of its *Global reinsurance market report*. The report reviews the overall financial health of the sector in 2005, an exceptional year for the reinsurance market, with unprecedented levels of losses due to natural catastrophes.

Information sharing

Recognising that supervisors must collaborate at both the national and international levels to ensure that insurers and reinsurers are supervised effectively, the IAIS adopted a *Multilateral memorandum of understanding (MMOU) for the sharing of information between supervisors* in February 2007. It defines a set of principles and procedures for sharing information, views and assessments, and provides a more efficient basis on which to make such sharing possible.

Training

During the past year, the IAIS organised or assisted in some 20 seminars, conferences and workshops around the world, in collaboration with the FSI. The IAIS also completed the Core Curriculum project, the result of a successful partnership between the IAIS and the World Bank Group in developing material for use in training insurance supervisors on the key elements of the IAIS Insurance Core Principles.

IAIS website: www.iaisweb.org.

International Association of Deposit Insurers

The International Association of Deposit Insurers (IADI), hosted by the BIS since 2002, contributes to the stability of financial systems by promoting international cooperation and encouraging wide international contact among deposit insurers and other interested parties. In particular, IADI:

- enhances the understanding of common interests and issues related to deposit insurance;
- sets out guidance to foster the effectiveness of deposit insurance systems;
- facilitates the sharing of expertise on deposit insurance issues through training, development and educational programmes; and
- provides advice on the establishment of effective deposit insurance systems, and the enhancement of existing systems.

Currently, 66 organisations (of which 47 are members) from around the world are involved in IADI's activities, including a number of central banks that have an interest in promoting the adoption or operation of effective deposit insurance systems. One of the main thrusts of IADI's efforts to improve the effectiveness of deposit insurance systems is the development of IADI principles and best practices which focus on what is working particularly well in various jurisdictions and the reasons why.

During its fifth year of operation, IADI continued to provide many forums for deposit insurers and others with related interests. Highlights were:

- the Fifth Annual Conference, with the theme "Raising the bar", held in Rio de Janeiro in November 2006 and attended by 160 deposit insurers and policymakers from 46 countries;
- an exposition organised by IADI, at which 32 organisations from systems around the world provided information on the key characteristics of their depositor protection arrangements;
- a two-day international seminar on enterprise risk management, held in Kuala Lumpur in September 2006; and
- the conference on "International financial instability: cross-border banking and national regulation" held in Chicago in October 2006, in conjunction with the Federal Reserve Bank of Chicago.

In 2006, IADI published *Guidance on interrelationships among safety net players*, the latest in a series of guidance papers following the initial publication of *Guidance for developing effective deposit insurance systems* by the FSF Working Group on Deposit Insurance in 2001, and a guidance paper on dealing with bank resolutions. Furthermore, the IADI Research and Guidance Committee is finalising other guidance papers on claims and recovery, governance, funding and effective deposit insurance mandates, to be published in mid-2007.

In October 2006, a special issue on deposit insurance was published by the *Journal of Banking Regulation*, co-authored by academics, the IADI Secretary General and deposit insurance practitioners.

Recent regional activities have included conferences, seminars and Committee meetings in Abuja, Prague, Marrakesh, Rio de Janeiro, Washington DC, Kuala Lumpur and Hanoi.

A new interactive web portal has been launched to facilitate research and to provide information on deposit insurance topics and activities to members and participants.

IADI website: www.iadi.org.

Financial services of the Bank

Banking services

The BIS offers a wide range of financial services designed specifically to assist central banks and other monetary authorities in the management of their foreign reserves. Some 130 such authorities, as well as a number of international institutions, make active use of these services.

In response to the diverse – and constantly evolving – needs of central banks, the BIS offers an extensive array of investment possibilities in terms of currency denomination, liquidity and maturity. In addition to traditional money market placements such as sight/notice accounts and fixed-term deposits, the Bank offers two instruments that can be traded (bought and sold back) directly with it: the Fixed-Rate Investment at the BIS (FIXBIS), available in maturities from one week to one year; and the BIS Medium-Term Instrument (MTI), with maturities from one year up to 10 years. A series of callable MTI structures, as well as other instruments with embedded optionality, are also part of the standard product range.

Safety and liquidity are the key features of these credit intermediation services, which are supported by a rigorous internal risk management framework. In accordance with best practice, a separate risk control unit reporting directly to the Deputy General Manager – and through him to the General Manager – monitors the Bank's credit, liquidity and market risks. Similarly, a compliance and operational risk unit monitors the Bank's operational risks.

The BIS makes spot, forward and option transactions in foreign exchange and gold on behalf of its customers.

From time to time, the Bank extends short-term credits to central banks, usually on a collateralised basis. It also acts as trustee and collateral agent (see below).

The BIS provides asset management services in sovereign securities or high-grade assets. These may take the form of either a specific portfolio mandate negotiated between the BIS and a central bank or an open-end fund structure – the BIS Investment Pool (BISIP) – allowing customers to invest in a common pool of assets. Two Asian Bond Funds (ABF1 and ABF2) are administered by the BIS under the BISIP umbrella: ABF1 is managed by the BIS and ABF2 by a group of external fund managers.

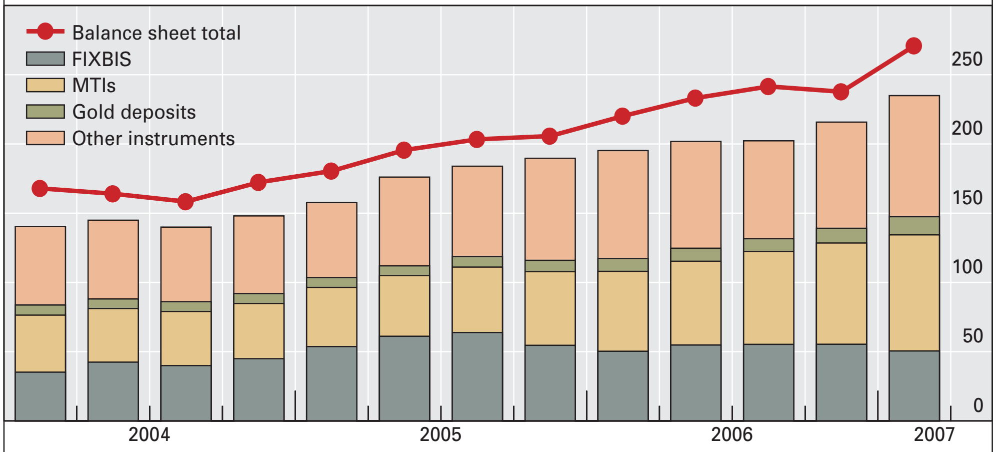
BIS financial services are provided out of two linked trading rooms: one at its Basel head office and one at its Asian Office in Hong Kong SAR.

Operations of the Banking Department in 2006/07

The BIS balance sheet continued to expand in 2006/07 to reach a financial year-end record at 31 March 2007 of SDR 270.9 billion, a substantial year-on-year increase of SDR 50.8 billion, or 23%. Of this increase, SDR 1.0 billion was attributable to a higher market price of gold. On the other hand, if exchange rates had remained constant, the increase would have been SDR 1.7 billion greater.

Balance sheet total and customer placements by product

End-quarter figures, in billions of SDR



The sum of the bars indicates total customer placements.

Liabilities

The size of the BIS balance sheet is mainly driven by placements from customers, which constitute the vast majority of total liabilities (see graph). On 31 March 2007, customer placements amounted to SDR 234.9 billion, compared with SDR 195.2 billion at the end of the previous financial year.

Around 95% of customer placements are denominated in currencies, with the remainder in gold. Currency deposits rose from SDR 186.0 billion a year ago to SDR 221.8 billion at end-March 2007, representing some 6% of the world's total foreign exchange reserves of nearly SDR 3.5 trillion, up from SDR 3.0 trillion at end-March 2006. The share of currency placements denominated in US dollars was 62%, whereas euro-denominated funds accounted for 21%. Gold deposits amounted to SDR 13.1 billion at end-March 2007, an increase of SDR 3.9 billion over the financial year, of which valuation effects (ie a higher gold price) accounted for SDR 0.8 billion.

In terms of products, the expansion in customer currency placements was mainly attributable to a 45% increase in investments in MTIs, the single largest BIS instrument held by customers.

A breakdown by geographical region of placements with the BIS over the financial year shows a relatively stable pattern, with Asian customers accounting for the highest share.

Assets

Most of the assets of the BIS consist of investments with top-quality commercial banks of international standing as well as in government and quasi-government securities, and reverse repurchase agreements. In addition, the Bank owned 150 tonnes of fine gold at 31 March 2007, having disposed of 15 tonnes during the financial year. The credit exposure is managed in a very conservative manner, with 99.7% of the Bank's credit exposure rated A– or higher as at 31 March 2007 (see note 4D to the financial statements).

The Bank's holdings of currency deposits and securities, including reverse repurchase agreements, totalled SDR 247.9 billion on 31 March 2007, up from SDR 199.2 billion at the end of the previous financial year. These additional funds were for the most part invested in top-quality commercial bank deposits, high-grade securities and reverse repurchase agreements against government collateral.

The Bank uses various derivative instruments in order to manage its assets and liabilities efficiently (see note 9 to the financial statements).

Agent and trustee functions

Trustee for international government loans

The Bank continued during the year to perform its functions as trustee for the funding bonds 1990–2010 of the Dawes and Young Loans (for details, see the *63rd Annual Report* of June 1993). The Deutsche Bundesbank, as paying agent, notified the Bank that in 2006 the Bundesamt für zentrale Dienste und offene Vermögensfragen (BADV – German Federal Office for Central Services and Unresolved Property Issues) had arranged for payment of approximately €4.9 million for redemption of funding bonds and interest. Redemption values and other details were published by the BADV in the *Bundesanzeiger* (*Federal Gazette*).

The Bank maintained its reservations regarding the application by the BADV of the exchange guarantee clause for the Young Loan (stated in detail in its *50th Annual Report* of June 1980), which also extend to the funding bonds 1990–2010.

Escrow agent functions

The Bank performed its functions as escrow agent under a Depository and Escrow Agreement with the Central Bank of Nigeria dated 31 October 2005 (described in the *76th Annual Report* of June 2006). Its obligations under this Agreement ceased with the last release of funds in February 2007, ie three months ahead of the scheduled termination date of 31 May 2007.

Collateral agent functions

Under a number of agreements the BIS acts as collateral agent to hold and invest collateral for the benefit of the holders of certain foreign currency denominated bonds issued by countries under external debt restructuring arrangements. During 2006/07, collateral pledge agreements included those for Peruvian bonds (see the *67th Annual Report* of June 1997) and Côte d'Ivoire bonds (see the *68th Annual Report* of June 1998). The functions of the BIS as collateral agent under the collateral pledge agreements for Brazilian bonds (described in the *64th Annual Report* of June 1994) terminated in June 2006 upon Brazil's early repurchase of all outstanding bonds.

Institutional and administrative matters

The Bank's administration

Budget policy

The process of formulating the Bank's expenditure budget for the coming financial year starts about six months in advance with the setting by Management of a broad business orientation and financial framework. Within this context, business areas specify their plans and the corresponding resource requirements. The process of reconciling detailed business plans, objectives and overall resource availability culminates in the determination of a draft financial budget. This must be approved by the Board before the start of the financial year.

In drawing up the budget, a distinction is made between administrative and capital expenditures. In common with other organisations of a similar nature to the BIS, expenditures for management and staff, including remuneration, pensions and health and accident insurance, amount to around 70% of administrative costs. The other major expenditure categories, each accounting for around 10% of administrative spending, are IT and telecommunications and building and equipment expenditure. Capital spending mainly relates to building and IT investment expenditure, and can vary significantly from year to year. Most of the Bank's administrative and capital expenditure is incurred in Swiss francs.

Administrative expenses before depreciation during the financial year 2006/07 amounted to 227.3 million Swiss francs, 2.0% below the budget of 232.0 million Swiss francs,[2] while capital expenditure, at 21.3 million Swiss francs, was 4.9 million below budget. The underspending in administrative expenses was attributable principally to lower expenditure on staff expatriation allowances, personnel-related costs and IT and telecommunications expenses.

Administrative and capital expenditure also reflected the priorities set in the 2006/07 budget, which were to:

- expand BIS services to deepen relations with shareholding member central banks in the Asia-Pacific region. This initiative involves a three-year policy-oriented research programme on monetary and financial sector issues in Asia, which began in autumn 2006;
- implement the results of the activity review undertaken during 2005/06. This review identified a number of areas where efficiency gains can be realised. The implementation of the activity review will, over the next few years, produce efficiency gains that will allow staff positions to be reallocated to priority areas, particularly to enhance services to central banks; and
- reinforce building safety, renew meeting facilities in the Tower building in Basel and renovate the BIS Sports Club buildings.

[2] The Bank's budgetary accounting is cash-based and excludes certain financial accounting adjustments, principally relating to retirement benefit obligations, which take into account financial market and actuarial developments. These additional factors are included under "Operating expense" disclosed in the profit and loss account (see "Net profit and its distribution").

In March 2007, the Board approved an increase in the administrative budget for the financial year 2007/08 of 2.9% to 238.8 million Swiss francs. The capital budget foresees a decrease of 1.2 million Swiss francs to 24.7 million. The main emphasis in the budget for 2007/08 is on strengthening existing business activities further. In addition to continuing the priorities of the 2006/07 budget mentioned above, the Bank has two further objectives for the financial year 2007/08. These are to:

- strengthen financial reporting and control, principally in the General Secretariat and the back office and support functions in the Banking Department. This initiative complements the enhancements made in recent years to the Bank's risk management, internal audit and compliance functions; and
- plan for the enhanced business continuity facilities and arrangements that will be implemented in 2008/09 at a site in Europe remote from Basel.

Remuneration policy

The jobs performed by BIS staff members are assessed on the basis of a number of objective criteria, including qualifications, experience and responsibilities, and are classified into distinct job grades. The job grades are associated with a structure of salary ranges. Regular salary surveys are conducted in which the structure of BIS salaries is assessed against that in comparable institutions or market segments. The analysis takes into account differences in the taxation of salaries of the staff of the surveyed institutions. When applying the market data to BIS salaries, the Bank focuses on the upper half of market salaries in order to attract highly qualified staff.

In those years in which no comprehensive salary survey is undertaken, the salary structure is adjusted for the rate of inflation in Switzerland and the average rise in real salaries in the business sector of major industrial countries. In July 2006 the salary structure was increased by 1.5% in nominal terms. Movements of salaries of individual staff members within the ranges of the salary structure are based on merit, subject to a regular evaluation of performance. In 2006, the performance review process was revised and a new electronic system was put in place in February 2007.

Non-Swiss and non-locally hired staff, including senior management, are entitled to an expatriation allowance. This currently amounts to 14% or 18% of annual salary depending on family status, subject to a ceiling. Expatriate staff are also entitled to receive an education allowance.[3] In addition, BIS staff members have access through the Bank to a contributory health insurance scheme and a defined benefit contributory pension plan. Compensation and benefits of staff members transferred between Basel and one of the Representative Offices are determined in accordance with the Bank's international assignment policy.

It was decided in early 2005 to conduct regular surveys to benchmark senior officials' salaries against conditions in comparator institutions. Between

[3] Certain staff members who joined the Bank before 1997 receive an expatriation allowance of 25%, but are not entitled to receive education allowances.

surveys, salaries of senior officials are adjusted for Swiss inflation. As of 1 July 2006, the annual remuneration of senior officials, before expatriation allowances, is based on the following salary structure:

- General Manager[4] 726,990 Swiss francs
- Deputy General Manager 615,140 Swiss francs
- Heads of Department 559,220 Swiss francs

The Annual General Meeting approves the remuneration of members of the Board of Directors, with adjustments taking place every three years. The overall fixed annual remuneration paid to the Board of Directors amounts to a total of 992,760 Swiss francs as at 1 April 2007. In addition, Board members receive an attendance fee for each Board meeting in which they participate. Assuming the full Board is represented in all Board meetings, the annual total of these attendance fees amounts to 921,120 Swiss francs.

Net profit and its distribution

Net profit

The net profit for the 77th financial year, 2006/07, amounted to SDR 639.4 million, compared with SDR 599.2 million in the preceding year.

Total operating income

Total operating income was SDR 682.3 million in the financial year 2006/07, compared with SDR 573.4 million in 2005/06. There were three principal reasons for this development:

- Interest income from investment securities benefited from higher interest yields and, to a lesser extent, from the growth in the Bank's equity denominated in currencies, which increased as a result of retained earnings and sales of own gold holdings.
- Net income from the Bank's deposit-taking business benefited from the continued increase in deposits from customers, which outweighed a decline in borrowed funds margins.
- In 2006/07, a small net exchange gain (SDR 0.9 million) was incurred. This compared to an exchange loss of SDR 25.2 million in 2005/06, which was mainly attributable to the impact of an appreciating gold price on the market value of forward contracts for the sale of own gold in that financial year.

Operating expense

Operating expenses (see note 28 to the financial statements) amounted to SDR 149.8 million, 2.0% above the preceding year's figure of SDR 146.9 million. Administrative expenses before depreciation amounted to SDR 137.7 million, 3.1% above the previous year's figure of SDR 133.6 million. The depreciation charge decreased from SDR 13.3 million to SDR 12.1 million.

[4] In addition to the basic salary, the General Manager receives an annual representation allowance and enhanced pension rights.

Operating profit and other profit items

The Bank's operating profit, which reflects the profits of its ongoing business, amounted to SDR 532.5 million, 24.9% higher than the equivalent figure of SDR 426.5 million recorded in 2005/06.

A net loss of SDR 27.0 million was incurred on the sale of investment securities during the year. This resulted from the realignment of the Bank's investment portfolio to its underlying benchmark position and reflected the sale of securities acquired when interest rates were lower. In 2005/06, a gain of SDR 58.2 million had been recorded for the sale of investment securities.

The realised gain of SDR 133.9 million on sales of gold investment assets during 2006/07 arose from the sale of 15 tonnes from the Bank's total holdings of 165 tonnes at 31 March 2006. In 2005/06, a lower gain (SDR 114.5 million) had been recorded, also on the sale of 15 tonnes of the Bank's own gold.

Dividend policy

During the financial year 2005/06, the Board reviewed the dividend policy of the BIS, taking into consideration the Bank's capital needs and the interests of BIS shareholders in obtaining a fair and sustainable return on their investments in BIS shares. The Board concluded that the approach of increasing the dividend by SDR 10 each year continued to be broadly consistent with these considerations. This approach resulted in an increase in the dividend from SDR 235 per share in 2004/05 to SDR 245 in 2005/06. The Board also decided to review the dividend policy every two to three years, taking into account changing circumstances where necessary.

The Board proposes that the dividend for 2006/07 be increased again by SDR 10 to SDR 255 per share. The next Board review of the level of the dividend will take place in the financial year 2007/08.

Proposed distribution of the net profit for the year

On the basis of Article 51 of the Statutes, the Board of Directors recommends to the Annual General Meeting that the net profit of SDR 639.4 million for the financial year 2006/07 be applied by the General Meeting in the following manner:

1. SDR 139.3 million in payment of a dividend of SDR 255 per share;
2. SDR 50.0 million to be transferred to the general reserve fund;[5]
3. SDR 6.0 million to be transferred to the special dividend reserve fund;
4. SDR 444.1 million, 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 approved by the Annual General Meeting, the dividend will be paid on 2 July 2007 according to each shareholder's instructions in any constituent

[5] Since the general reserve fund exceeded four times the Bank's paid-up capital at 31 March 2006, Article 51 of the Bank's Statutes requires that 10% of the profit after payment of the dividend shall be paid into this fund, until its balance equals five times the paid-up capital.

currency of the SDR, or in Swiss francs, to the shareholders named in the Bank's share register on 31 March 2007. The proposed dividend of SDR 255 per share for the financial year 2006/07 represents a 4.1% increase over the dividend for 2005/06.

The full dividend will be paid on 546,125 shares. The number of issued and paid-up shares is 547,125. Of these shares, 1,000 were held in treasury at 31 March 2007, namely the suspended shares of the Albanian issue. No dividend will be paid on these treasury shares.

Report of the auditors

The Bank's financial statements have been duly audited by Deloitte AG, who have confirmed that they give a true and fair view of the Bank's financial position at 31 March 2007 and the results of its operations for the year then ended. Their report is to be found immediately following the financial statements.

Board of Directors

Jean-Pierre Roth, Zurich
Chairman of the Board of Directors

Hans Tietmeyer, Frankfurt am Main
Vice-Chairman

Ben S Bernanke, Washington
David Dodge, Ottawa
Mario Draghi, Rome
Toshihiko Fukui, Tokyo
Timothy F Geithner, New York
Lord George, London
Stefan Ingves, Stockholm
Mervyn King, London
Christian Noyer, Paris
Guillermo Ortiz, Mexico City
Guy Quaden, Brussels
Fabrizio Saccomanni, Rome
Jean-Claude Trichet, Frankfurt am Main
Alfons Vicomte Verplaetse, Brussels
Axel A Weber, Frankfurt am Main
Nout H E M Wellink, Amsterdam
Zhou Xiaochuan, Beijing

Alternates

Giovanni Carosio or Ignazio Visco, Rome
Donald L Kohn or Karen H Johnson, Washington
Peter Praet or Jan Smets, Brussels
Hermann Remsperger or Wolfgang Mörke, Frankfurt am Main
Marc-Olivier Strauss-Kahn or Michel Cardona, Paris
Paul Tucker or Paul Fisher, London

Committees of the Board of Directors

Consultative Committee
Audit Committee

both chaired by Hans Tietmeyer

Senior officials

Malcolm D Knight	General Manager
Hervé Hannoun	Deputy General Manager
Peter Dittus	Secretary General, Head of General Secretariat
William R White	Economic Adviser, Head of Monetary and Economic Department
Günter Pleines	Head of Banking Department
Daniel Lefort	General Counsel
Már Gudmundsson	Deputy Head of Monetary and Economic Department
Jim Etherington	Deputy Secretary General
Louis de Montpellier	Deputy Head of Banking Department
Josef Tošovský	Chairman, Financial Stability Institute

Changes among the Board of Directors and senior officials

As mentioned above, at its meeting in June 2006, the Board elected three new members of the Board of Directors for a term of office of three years, commencing on 1 July 2006: Guillermo Ortiz, Governor of the Bank of Mexico; Jean-Claude Trichet, President of the European Central Bank; and Zhou Xiaochuan, Governor of the People's Bank of China.

At the same meeting the Board re-elected Nout Wellink, President of the Netherlands Bank, as a member of the Board of Directors for a further period of three years ending on 30 June 2009.

At its meeting in September 2006, the Board re-elected David Dodge, Governor of the Bank of Canada, and Toshihiko Fukui, Governor of the Bank of Japan, as members of the Board of Directors for further periods of three years expiring on 12 September 2009.

By letter dated 20 July 2006, Ben Bernanke, Chairman of the Board of Governors of the Federal Reserve System, reappointed Timothy Geithner, President of the Federal Reserve Bank of New York, as a member of the Board of Directors for a period of three years ending on 12 September 2009.

In November 2006, Pierluigi Ciocca resigned from his position as Deputy Director General of the Bank of Italy and vacated his seat on the Board. By letter dated 7 November 2006, Mario Draghi, Governor of the Bank of Italy, appointed Fabrizio Saccomanni, Director General of the Bank of Italy, as a member of the Board of Directors to fill the seat vacated by Mr Ciocca, for the unexpired period of Mr Ciocca's term of office until 22 December 2008. Jean-Pierre Landau, Second Deputy Governor of the Bank of France, stepped down from the Board of Directors at the end of his term of appointment on 27 November 2006.

At its meeting in March 2007, the Board re-elected Jean-Pierre Roth, Chairman of the Governing Board of the Swiss National Bank, as a member of the Board of Directors for a further period of three years ending on 31 March 2010. For the sake of good order, the term of office for which Mr Roth had been elected Chairman of the Board of Directors, from 1 March 2006 to 28 February 2009, was confirmed at the same meeting.

Axel Weber, President of the Deutsche Bundesbank, appointed Hermann Remsperger as his first Alternate from June 2006 to succeed Jürgen Stark. From July 2006, Ben Bernanke, Chairman of the Board of Governors of the Federal Reserve System, appointed Donald Kohn as his first Alternate to replace Roger Ferguson.

There were no changes among the senior officials of the BIS.

BIS member central banks[6]

Bank of Algeria

Central Bank of Argentina

Reserve Bank of Australia

Austrian National Bank

National Bank of Belgium

Central Bank of Bosnia and Herzegovina

Central Bank of Brazil

Bulgarian National Bank

Bank of Canada

Central Bank of Chile

People's Bank of China

Croatian National Bank

Czech National Bank

National Bank of Denmark

Bank of Estonia

European Central Bank

Bank of Finland

Bank of France

Deutsche Bundesbank (Germany)

Bank of Greece

Hong Kong Monetary Authority

Magyar Nemzeti Bank (Hungary)

Central Bank of Iceland

Reserve Bank of India

Bank Indonesia

Central Bank & Financial Services Authority of Ireland

Bank of Israel

Bank of Italy

Bank of Japan

Bank of Korea

Bank of Latvia

Bank of Lithuania

National Bank of the Republic of Macedonia

Central Bank of Malaysia

Bank of Mexico

Netherlands Bank

Reserve Bank of New Zealand

Central Bank of Norway

Bangko Sentral ng Pilipinas

National Bank of Poland

Bank of Portugal

National Bank of Romania

Central Bank of the Russian Federation

Saudi Arabian Monetary Agency

Monetary Authority of Singapore

National Bank of Slovakia

Bank of Slovenia

South African Reserve Bank

Bank of Spain

Sveriges Riksbank (Sweden)

Swiss National Bank

Bank of Thailand

Central Bank of the Republic of Turkey

Bank of England

Board of Governors of the Federal Reserve System

[6] In accordance with Article 15 of its Statutes, the Bank's capital is held by central banks only. The legal status of the Yugoslav issue of the capital of the BIS is currently under review following the constitutional changes in February 2003 that transformed the Federal Republic of Yugoslavia into the State Union of Serbia and Montenegro, with two separate central banks, and the Republic of Montenegro's subsequent declaration of independence from the State Union in May 2006.

Financial statements

as at 31 March 2007

The financial statements on pages 192–231 for the financial year ended 31 March 2007 were approved on 7 May 2007. They are presented in a form approved by the Board of Directors pursuant to Article 49 of the Bank's Statutes and are subject to approval by the shareholders at their Annual General Meeting on 24 June 2007.

Jean-Pierre Roth Chairman	Malcolm D Knight General Manager

Balance sheet

As at 31 March 2007

SDR millions	Notes	**2007**	2006
Assets			
Cash and sight accounts with banks	5	92.4	33.0
Gold and gold deposits	6	15,457.6	11,348.0
Treasury bills	7	43,159.3	47,311.9
Securities purchased under resale agreements	7	61,193.5	19,519.2
Time deposits and advances to banks	8	91,266.0	87,898.5
Government and other securities	7	52,244.0	44,436.4
Derivative financial instruments	9	1,850.8	1,956.0
Accounts receivable	10	5,473.6	7,444.7
Land, buildings and equipment	11	188.0	188.4
Total assets		**270,925.2**	220,136.1
Liabilities			
Currency deposits	12	221,790.1	185,991.5
Gold deposits	13	13,134.9	9,235.6
Securities sold under repurchase agreements	14	1,062.5	1,222.4
Derivative financial instruments	9	2,816.2	2,674.9
Accounts payable	15	19,584.1	9,251.3
Other liabilities	16	373.8	169.4
Total liabilities		**258,761.6**	208,545.1
Shareholders' equity			
Share capital	17	683.9	683.9
Statutory reserves	18	9,538.5	9,071.7
Profit and loss account		639.4	599.2
Less: shares held in treasury	20	(1.7)	(1.7)
Other equity accounts	21	1,303.5	1,237.9
Total equity		**12,163.6**	11,591.0
Total liabilities and equity		**270,925.2**	220,136.1

Profit and loss account

For the financial year ended 31 March 2007

SDR millions	Notes	**2007**	2006
Interest income	23	8,858.0	6,239.1
Interest expense	24	(8,241.2)	(5,569.1)
Net valuation movement	25	63.3	(74.1)
Net interest income		**680.1**	595.9
Net fee and commission income	26	1.3	2.7
Net foreign exchange gain / (loss)	27	0.9	(25.2)
Total operating income		**682.3**	573.4
Operating expense	28	(149.8)	(146.9)
Operating profit		**532.5**	426.5
Net (loss) / gain on sales of securities available for sale	29	(27.0)	58.2
Net gain on sales of gold investment assets	30	133.9	114.5
Net profit for the financial year		**639.4**	599.2

Basic and diluted earnings per share (in SDR per share)	31	**1,170.8**	1,108.5

Statement of cash flows

For the financial year ended 31 March 2007

SDR millions	Notes	**2007**	2006
Cash flow from / (used in) operating activities			
Operating profit		532.5	426.5
Non-cash flow items included in operating profit			
Depreciation of land, buildings and equipment	11	12.0	13.3
Net change in operating assets and liabilities			
Currency deposit liabilities at fair value through profit and loss		36,225.6	23,216.8
Currency banking assets		(39,242.3)	(30,719.4)
Sight and notice deposit account liabilities		2,106.3	8,515.2
Gold deposit liabilities		3,899.3	2,124.8
Gold and gold deposit banking assets		(4,063.0)	(2,118.0)
Accounts receivable		(15.8)	0.3
Other liabilities / accounts payable		205.6	19.6
Net derivative financial instruments		246.4	(533.7)
Net cash flow from / (used in) operating activities		**(93.4)**	945.4
Cash flow from / (used in) investment activities			
Net change in currency investment assets available for sale	7B	105.5	(1,676.9)
Net change in currency investment assets held at fair value through profit and loss		(548.9)	–
Securities sold under repurchase agreements		(159.9)	63.0
Net change in gold investment assets	6B	208.4	187.9
Net purchase of land, buildings and equipment	11	(11.6)	(12.6)
Net cash flow from / (used in) investment activities		**(406.5)**	(1,438.6)
Cash flow from / (used in) financing activities			
Dividends paid		(132.4)	(114.4)
Redistribution of shares held in treasury		–	468.2
Shares repurchased in 2001 – payments to former shareholders	16	(1.3)	(1.5)
Net cash flow from / (used in) financing activities		**(133.7)**	352.3
Total net cash flow		**(633.6)**	(140.9)
Net effect of exchange rate changes on cash and cash equivalents		(85.8)	108.0
Net movement in cash and cash equivalents		(547.8)	(248.9)
Net increase / (decrease) in cash and cash equivalents		**(633.6)**	(140.9)
Cash and cash equivalents, beginning of year	32	**2,864.6**	3,005.5
Cash and cash equivalents, end of year	32	**2,231.0**	2,864.6

Statement of proposed profit allocation

For the financial year ended 31 March 2007

SDR millions	Notes	2007
Net profit for the financial year		**639.4**
Transfer to legal reserve fund	18	–
Proposed dividend:		
SDR 255 per share on 546,125 shares		139.3
Proposed transfers to reserves:		
General reserve fund	18	50.0
Special dividend reserve fund	18	6.0
Free reserve fund	18	444.1
Balance after allocation to reserves		**–**

The proposed profit allocation is in accordance with Article 51 of the Bank's Statutes.

Movements in the Bank's statutory reserves

For the financial year ended 31 March 2007

						2007
SDR millions	Notes	Legal reserve fund	General reserve fund	Special dividend reserve fund	Free reserve fund	Total statutory reserves
Balance at 31 March 2006		**68.3**	**2,913.1**	**136.0**	**5,954.3**	**9,071.7**
Allocation of 2005/06 profit	18	–	46.7	6.0	414.1	466.8
Balance at 31 March 2007 per balance sheet before proposed profit allocation		**68.3**	**2,959.8**	**142.0**	**6,368.4**	**9,538.5**
Proposed transfers to reserves	18	–	50.0	6.0	444.1	500.1
Balance at 31 March 2007 after proposed profit allocation		**68.3**	**3,009.8**	**148.0**	**6,812.5**	**10,038.6**

Movements in the Bank's equity

For the financial year ended 31 March 2007

SDR millions	Notes	Share capital	Statutory reserves	Profit and loss	Shares held in treasury	Other equity accounts	Total equity
Equity at 31 March 2005		**683.9**	**8,743.2**	**370.9**	**(396.2)**	**851.5**	**10,253.3**
Income:							
Net profit for 2005/06		–	–	599.2	–	–	599.2
Net valuation movement on gold investment assets	21B	–	–	–	–	582.9	582.9
Net valuation movement on securities available for sale	21A	–	–	–	–	(196.5)	(196.5)
Total recognised income		**–**	**–**	**599.2**	**–**	**386.4**	**985.6**
Payment of 2004/05 dividend		–	–	(114.4)	–	–	(114.4)
Allocation of 2004/05 profit		–	256.5	(256.5)	–	–	–
Redistribution of shares held in treasury	20	–	72.0	–	396.2	–	468.2
Reclassification of loan to a consortium of central banks	20	–	–	–	(1.7)	–	(1.7)
Equity at 31 March 2006		**683.9**	**9,071.7**	**599.2**	**(1.7)**	**1,237.9**	**11,591.0**
Income:							
Net profit for 2006/07		–	–	639.4	–	–	639.4
Net valuation movement on gold investment assets	21B	–	–	–	–	41.8	41.8
Net valuation movement on securities available for sale	21A	–	–	–	–	23.8	23.8
Total recognised income		**–**	**–**	**639.4**	**–**	**65.6**	**705.0**
Payment of 2005/06 dividend		–	–	(132.4)	–	–	(132.4)
Allocation of 2005/06 profit		–	466.8	(466.8)	–	–	–
Equity at 31 March 2007 per balance sheet before proposed profit allocation		**683.9**	**9,538.5**	**639.4**	**(1.7)**	**1,303.5**	**12,163.6**
Proposed dividend		–	–	(139.3)	–	–	(139.3)
Proposed transfers to reserves		–	500.1	(500.1)	–	–	–
Equity at 31 March 2007 after proposed profit allocation		**683.9**	**10,038.6**	**–**	**(1.7)**	**1,303.5**	**12,024.3**

At 31 March 2007 statutory reserves included share premiums of SDR 811.7 million (2006: SDR 811.7 million).

Notes to the financial statements

1. Introduction

The Bank for International Settlements (BIS, "the Bank") is an international financial institution which was established pursuant to the Hague Agreements of 20 January 1930, the Bank's Constituent Charter and its Statutes. The headquarters of the Bank are at Centralbahnplatz 2, 4002 Basel, Switzerland. The Bank maintains representative offices in Hong Kong, Special Administrative Region of the People's Republic of China (for Asia and the Pacific) and in Mexico City, Mexico (for the Americas).

The objectives of the BIS, as laid down in Article 3 of its Statutes, are to promote cooperation among central banks, to provide additional facilities for international financial operations and to act as trustee or agent for international financial settlements. Fifty-five central banks are currently members of the Bank. Rights of representation and voting at General Meetings are exercised in proportion to the number of BIS shares issued in the respective countries. The Board of Directors of the Bank is composed of the Governors and appointed Directors from the Bank's founder central banks, being those of Belgium, France, Germany, Italy, the United Kingdom and the United States of America, as well as the Governors of the central banks of Canada, China, Japan, Mexico, the Netherlands, Sweden and Switzerland, and the President of the European Central Bank.

These financial statements incorporate the balance sheet and profit and loss account, as required by Article 49 of the Bank's Statutes.

2. Significant accounting policies

The accounting policies set out below have been applied to both of the financial years presented unless otherwise stated.

A. Scope of the financial statements

These financial statements contain all assets and liabilities that are controlled by the Bank and in respect of which the economic benefits as well as the rights and obligations lie predominantly with the Bank.

Assets and liabilities in the name of but not controlled by the Bank are not included in these financial statements. Information on off-balance sheet assets and liabilities is disclosed in Note 35.

B. Functional and presentation currency

The functional and presentation currency of the Bank is the Special Drawing Right (SDR) as defined by the International Monetary Fund (IMF).

The SDR is calculated from a basket of major trading currencies according to Rule O–1 as adopted by the Executive Board of the IMF on 30 December 2005 and effective 1 January 2006. As currently calculated, one SDR is equivalent to the sum of USD 0.632, EUR 0.410, JPY 18.4 and GBP 0.0903. Prior to 1 January 2006, the SDR was calculated as equivalent to the sum of USD 0.577, EUR 0.426, JPY 21 and GBP 0.0984. The change in composition of the SDR basket was such that the values of the SDR under the old and new baskets were equivalent at 31 December 2005 and no significant gains or losses resulted from the change in the weights of the currencies. The composition of this currency basket is subject to review every five years by the IMF; the next review is due to be undertaken in December 2010.

All figures in these financial statements are presented in SDR millions unless otherwise stated.

C. Currency translation

Monetary assets and liabilities are translated into SDR at the exchange rates ruling at the balance sheet date. Other assets and liabilities are recorded in SDR at the exchange rates ruling at the date of the transaction. Profits and losses are translated into SDR at an average rate. Exchange differences arising from the retranslation of monetary assets and liabilities and from the settlement of transactions are included as net foreign exchange gains or losses in the profit and loss account.

D. Designation of financial instruments

Upon initial recognition the Bank allocates each financial instrument to one of the following categories:

- Loans and receivables
- At fair value through profit and loss
- Available for sale

The allocation to these categories is dependent on the nature of the financial instrument and the purpose for which it was entered into, as described in section E below.

The resulting designation of each financial instrument determines the accounting methodology that is applied, as described in the accounting policies below. Where the financial instrument is designated at fair value through profit and loss, the Bank does not subsequently change this designation.

E. Asset and liability structure

Assets and liabilities are organised into two sets of portfolios:

1. Banking portfolios

These comprise currency and gold deposit liabilities and related banking assets and derivatives.

The Bank operates a banking business in currency and gold on behalf of central bank customers. In this business the Bank takes limited gold price, interest rate and foreign currency risk.

The Bank designates all currency financial instruments in its banking portfolios (other than cash and sight accounts with banks, call and notice accounts and sight and notice deposit account liabilities) as held at fair value through profit and loss. The use of fair values in the currency banking portfolios is described in Section I below.

All gold financial instruments in these portfolios are designated as loans and receivables.

2. Investment portfolios

These comprise assets, liabilities and derivatives relating principally to the investment of the Bank's equity.

The Bank holds most of its equity in financial instruments denominated in the constituent currencies of the SDR, which are managed using a fixed duration benchmark of bonds.

The relevant currency assets (other than cash and sight accounts with banks, and call and notice accounts) are designated as available for sale. Related securities sold under repurchase agreements are designated as loans and receivables.

In addition, the Bank maintains some of its equity in more actively managed portfolios. The currency assets in these portfolios are trading assets and as such are designated as held at fair value through profit and loss.

The remainder of the Bank's equity is held in gold. The Bank's own gold holdings are designated as available for sale.

F. Cash and sight accounts with banks

Cash and sight accounts with banks are included in the balance sheet at their principal value plus accrued interest where applicable.

G. Call and notice accounts

Call and notice accounts are short-term monetary assets. They typically have notice periods of three days or less and are included under the balance sheet heading "Time deposits and advances to banks".

Due to their short-term nature, these financial instruments are designated as loans and receivables. They are included in the balance sheet at their principal value plus accrued interest. Interest is included in interest income on an accruals basis.

H. Sight and notice deposit account liabilities

Sight and notice deposit accounts are short-term monetary liabilities. They typically have notice periods of three days or less and are included under the balance sheet heading "Currency deposits".

Due to their short-term nature, these financial instruments are designated as loans and receivables. They are included in the balance sheet at their principal value plus accrued interest. Interest is included in interest expense on an accruals basis.

I. Use of fair values in the currency banking portfolios

In operating its currency banking business, the Bank acts as a market-maker in certain of its currency deposit liabilities. As a result of this activity the Bank incurs realised profits and losses on these liabilities.

In accordance with the Bank's risk management policies the market risk inherent in this activity is managed on an overall fair value basis, combining all the relevant assets, liabilities and derivatives in its currency banking portfolios. The realised and unrealised profits or losses on currency deposit liabilities are thus largely offset by realised and unrealised losses or profits on the related currency assets and derivatives, or on other currency deposit liabilities.

To reduce the accounting inconsistency that would arise from recognising realised and unrealised gains and losses on different bases, the Bank designates the relevant assets, liabilities and derivatives in its currency banking portfolios as held at fair value through profit and loss.

J. Currency deposit liabilities held at fair value through profit and loss

As described above, all currency deposit liabilities, with the exception of sight and notice deposit account liabilities, are designated as held at fair value through profit and loss.

These currency deposit liabilities are initially included in the balance sheet on a trade date basis at cost. The subsequent accrual of interest to be paid and amortisation of premiums paid and discounts received are included in "Interest expense".

After trade date, the currency deposit liabilities are revalued to fair value, with all realised and unrealised movements in fair value included under the profit and loss account heading "Net valuation movement".

K. Currency assets held at fair value through profit and loss

Currency assets include treasury bills, securities purchased under resale agreements, time deposits and advances to banks and government and other securities.

As described above, the Bank designates all of the relevant assets in its currency banking portfolios as held at fair value through profit and loss. In addition, the Bank maintains certain actively managed investment portfolios. The currency assets in these portfolios are trading assets and as such are designated as held at fair value through profit and loss.

These currency assets are initially included in the balance sheet on a trade date basis at cost. The subsequent accrual of interest and amortisation of premiums paid and discounts received are included in "Interest income".

After trade date, the currency assets are revalued to fair value, with all realised and unrealised movements in fair value included under the profit and loss account heading "Net valuation movement".

L. Currency assets available for sale

Currency assets include treasury bills, securities purchased under resale agreements, time deposits and advances to banks, and government and other securities.

As described above, the Bank designates as available for sale all of the relevant assets in its currency investment portfolios, except for those assets in the Bank's more actively managed investment portfolios.

These currency assets are initially included in the balance sheet on a trade date basis at cost. The subsequent accrual of interest and amortisation of premiums paid and discounts received are included in "Interest income".

After trade date, the currency assets are revalued to fair value, with unrealised gains or losses included in the securities revaluation account, which is reported under the balance sheet heading "Other equity accounts". Realised profits on disposal are included under the profit and loss heading "Net gain on sales of securities available for sale".

M. Short positions in currency assets

Short positions in currency assets are included in the balance sheet under the heading "Other liabilities" at market value on a trade date basis.

N. Gold

Gold comprises gold bars held in sight accounts. Gold is considered by the Bank to be a financial instrument.

Gold is included in the balance sheet at its weight in gold (translated at the gold market price and USD exchange rate into SDR). Purchases and sales of gold are accounted for on a settlement date basis. Forward purchases or sales of gold are treated as derivatives prior to the settlement date.

The treatment of realised and unrealised gains or losses on gold is described in Section Q below.

O. Gold deposit assets

Gold deposit assets comprise fixed-term gold loans to commercial banks. Gold is considered by the Bank to be a financial instrument.

Gold deposit assets are included in the balance sheet on a trade date basis at their weight in gold (translated at the gold market price and USD exchange rate into SDR) plus accrued interest.

Interest on gold deposit assets is included in interest income on an accruals basis. The treatment of realised and unrealised gains or losses on gold is described in Section Q below.

P. Gold deposit liabilities

Gold deposit liabilities comprise sight and fixed-term deposits of gold from central banks. Gold is considered by the Bank to be a financial instrument and gold deposit liabilities are designated as loans and receivables.

Gold deposit liabilities are included in the balance sheet on a trade date basis at their weight in gold (translated at the gold market price and USD exchange rate into SDR) plus accrued interest.

Interest on gold deposit liabilities is included in interest expense on an accruals basis. The treatment of realised and unrealised gains or losses on gold is described in Section Q below.

Q. Realised and unrealised gains or losses on gold

The treatment of realised and unrealised gains or losses on gold depends on the designation as described below:

1. Banking portfolios, comprising gold deposit liabilities and related gold banking assets

The Bank designates all the gold financial instruments in its banking portfolios as loans and receivables.

Gains or losses on these transactions in gold are included under the profit and loss account heading "Net foreign exchange gain or loss" as net transaction gains or losses.

Gains or losses on the retranslation of the net position in gold in the banking portfolios are included under the profit and loss account heading "Net foreign exchange gain or loss" as net translation gains or losses.

2. Investment portfolios, comprising gold investment assets

The Bank's own holdings of gold are designated and accounted for as available for sale assets.

Unrealised gains or losses on the Bank's gold investment assets over their deemed cost are taken to the gold revaluation account in equity, which is reported under the balance sheet heading "Other equity accounts".

For gold investment assets held on 31 March 2003 (when the Bank changed its functional and presentation currency from the gold franc to the SDR) the deemed cost is approximately SDR 151 per ounce, based on the value of USD 208 that was applied from 1979 to 2003 following a decision by the Bank's Board of Directors, translated at the 31 March 2003 exchange rate.

Realised gains or losses on disposal of gold investment assets are included in the profit and loss account as "Net gain on sales of gold investment assets".

R. Securities sold under repurchase agreements

Where these liabilities are associated with the management of currency assets at fair value through profit and loss, they are designated as financial instruments held at fair value through profit and loss. Where these liabilities are associated with currency assets available for sale, they are designated as loans and receivables.

They are initially included in the balance sheet on a trade date basis at cost. The subsequent accrual of interest is included in "Interest expense".

After trade date, those liabilities that are designated as at fair value through profit and loss are revalued to fair value, with unrealised gains or losses included under the profit and loss account heading "Net valuation movement".

S. Derivatives

Derivatives are used either to manage the Bank's market risk or for trading purposes. They are designated as financial instruments held at fair value through profit and loss.

They are initially included in the balance sheet on a trade date basis at cost. The subsequent accrual of interest and amortisation of premiums paid and discounts received are included in "Interest income".

After trade date, derivatives are revalued to fair value, with all realised and unrealised movements in value included under the profit and loss account heading "Net valuation movement".

Derivatives are included as either assets or liabilities, depending on whether the contract has a positive or a negative fair value for the Bank.

T. Valuation policy

As described in these accounting policies, the Bank includes most of its financial instruments in its balance sheet at fair value, and includes most changes in fair value in profit and loss. The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. Key judgments affecting this accounting policy relate to how the Bank determines fair value for financial instruments.

To derive fair value for financial instruments that are quoted in active markets, the Bank uses market quotes that are regularly available from market participants, such as market prices, or interest rates and volatilities that are used as inputs to commonly used valuation techniques. Where no active market exists, or where reliable and regularly quoted market prices are not otherwise available, the Bank determines fair values based on financial models using a discounted cash flow analysis. A discounted cash flow analysis is dependent on estimates of future cash flows, interest rates, exchange rates and prepayment speeds, and upon credit, liquidity and volatility factors.

Although a significant degree of judgment is, in some cases, required in establishing fair values, the Bank believes the fair values recorded in the balance sheet and the changes in fair values recorded in the profit and loss account are appropriate and reflect the underlying economic situation.

U. Accounts receivable and accounts payable

Accounts receivable and accounts payable are principally very short-term amounts relating to the settlement of financial transactions. They are included in the balance sheet at cost.

V. Land, buildings and equipment

The cost of the Bank's buildings and equipment is capitalised and depreciated on a straight line basis over the estimated useful lives of the assets concerned, as follows:

- Buildings – 50 years
- Building installations and machinery – 15 years
- Information technology equipment – up to 4 years
- Other equipment – 4 to 10 years

The Bank's land is not depreciated. The Bank undertakes an annual review of impairment of land, buildings and equipment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to that amount.

W. Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of events arising before the balance sheet date and it is probable that economic resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. Best estimates and assumptions are used when determining the amount to be recognised as a provision.

X. Post-employment benefit obligations

The Bank operates three post-employment benefit arrangements for staff pensions, directors' pensions and health and accident insurance for current and former staff members. An independent actuarial valuation is performed annually for each arrangement.

Staff pensions

The Bank provides a final salary defined benefit pension arrangement for its staff, based on a fund without separate legal personality, out of which benefits are paid. The fund assets are administered by the Bank for the sole benefit of current and former members of staff who participate in the arrangement. The Bank remains ultimately liable for all benefits due under the arrangement.

The liability in respect of the staff pension fund is based on the present value of the defined benefit obligation at the balance sheet date, less the fair value of the fund assets at the balance sheet date, together with adjustments for unrecognised actuarial gains and losses and past service costs. The defined benefit obligation is calculated using the projected unit credit method. The present value of the defined benefit obligation is determined from the estimated future cash outflows. The rate used to discount the cash flows is determined by the Bank based on the market yield of highly rated corporate debt securities in Swiss francs which have terms to maturity approximating the terms of the related liability.

The amount charged to the profit and loss account represents the sum of the current service cost of the benefits accruing for the year under the scheme, and interest at the discount rate on the defined benefit obligation. In addition, actuarial gains and losses arising from experience adjustments (where the actual outcome is different from the actuarial assumptions previously made), changes in actuarial assumptions and amendments to the pension fund regulations are charged to the profit and loss account over the service period of staff concerned in accordance with the "Corridor accounting" methodology described below. The resulting liabilities are included under the heading "Other liabilities" in the balance sheet.

Directors' pensions

The Bank provides an unfunded defined benefit arrangement for directors' pensions. The liability, defined benefit obligation and amount charged to the profit and loss account in respect of the directors' pension arrangement are calculated on a similar basis to that used for the staff pension fund.

Post-employment health and accident benefits

The Bank provides an unfunded post-employment health and accident benefit arrangement for its staff. The liability, benefit obligation and amount charged to the profit and loss account in respect of the health and accident benefit arrangement are calculated on a similar basis to that used for the staff pension fund.

Corridor accounting

Actuarial gains or losses arise from experience adjustments (where the actual outcome is different from the actuarial assumptions previously made), changes in actuarial assumptions and amendments to the pension fund regulations. Where the cumulative unrecognised actuarial gains or losses exceed the higher of the benefit obligation or any assets used to fund the obligation by more than a corridor of 10%, the resulting excess outside the corridor is amortised over the expected remaining service period of the staff concerned.

Y. Cash flow statement

The Bank's cash flow statement is prepared using an indirect method. It is based on the movements in the Bank's balance sheet, adjusted for changes in financial transactions awaiting settlement.

Cash and cash equivalents consist of cash and sight accounts with banks, and call and notice accounts, which are very short-term financial assets that typically have notice periods of three days or less.

3. Use of estimates

The preparation of the financial statements requires the Bank's Management to make some estimates in arriving at the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the financial year. To arrive at these estimates the Management uses available information, exercises judgment and makes assumptions.

Judgment is exercised when selecting and applying the Bank's accounting policies. The judgments relating to the designation and valuation of financial instruments are a key element in the preparation of these financial statements.

Assumptions include forward-looking estimates, for example relating to the valuation of assets and liabilities, the assessment of post-employment benefit obligations and the assessment of provisions and contingent liabilities.

Subsequent actual results could differ materially from those estimates.

4. Capital and risk management

A. The risks that the Bank faces

The Bank is exposed to the following categories of risk:

Credit risk. The risk of a financial loss arising from a counterparty's failure to service its debt in a timely manner. This is the largest risk that the Bank faces.

Market risk. The risk of a decline in the total value of the Bank's assets and liabilities due to adverse changes in such market variables as interest rates, exchange rates and gold prices.

Liquidity risk. The risk of being unable to meet its obligations to pay as they fall due without incurring unacceptable losses.

Operational risk. The risk of financial loss, or damage to the Bank's reputation, or both, resulting from one or more risk factors, ie human factors, failed or inadequate processes, failed or inadequate systems, or external events, including legal risk.

B. How the Bank manages these risks

Organisation structure

The Bank is operated to serve the central banking community whilst earning an adequate return to maintain its capital strength.

The Bank manages risk through a framework including an independent risk control function and regular reporting of risk positions to appropriate Management committees. The Bank's risk methodologies and risk policies are documented in a detailed risk manual, which is reviewed on a regular basis.

The finance function and legal service augment the risk control function. The role of the finance function is to produce the Bank's financial statements and to control its expenditure through setting and monitoring the annual budget. The legal service provides legal advice and support covering a wide range of issues relating to the Bank's activities.

The purpose of the Bank's compliance function is to provide reasonable assurance that the activities of the Bank and its staff conform with applicable laws and regulations, the BIS Statutes, the Bank's Code of Conduct and other internal rules, policies and relevant standards of sound practice. The compliance function identifies and assesses compliance risks and guides and educates staff on compliance issues. It also performs a monitoring, reporting and, in cooperation with the legal service, an advisory role.

The internal audit function reviews internal control procedures and reports on how they comply with internal standards and industry best practices. The scope of internal audit work includes the review of risk management procedures, internal control systems, information systems and governance processes. Internal audit is directly responsible to the General Manager and the Deputy General Manager.

The Deputy General Manager is responsible for the Bank's risk control and compliance functions.

The head of compliance and the head of internal audit also report regularly to the Audit Committee of the Board of Directors.

Risk methodologies

The Bank uses a comprehensive range of quantitative methodologies for valuing financial instruments and for measuring risk to the Bank's net profit and its equity. The Bank reassesses its quantitative methodologies in the light of its changing risk environment and evolving best practice.

Economic capital is a key quantitative risk methodology used by the Bank. Economic capital is a measure designed to estimate the amount of equity needed to absorb the potential losses arising from exposures on any given date, to a statistical level of confidence determined by the Bank's aim to remain of the highest creditworthiness. Many of the Bank's internal limits and reports are expressed in terms of economic capital. The Bank calculates economic capital covering credit risk, market risk and operational risk.

To calculate economic capital for credit risk the Bank uses an internal model for credit portfolio value-at-risk that is based on the Bank's assessment of:

- the probability of default of individual counterparties;
- the correlations of losses associated with individual counterparties; and
- the likely loss that the Bank would incur as a result of the default.

The market risk economic capital measure is derived from the Bank's value-at-risk (VaR) methodology. This is discussed in more detail in Section E below.

The Bank's operational risk economic capital measure is based on a model that incorporates the Bank's experience of operational losses and external loss data.

In computing its credit, market and operational risk economic capital measures, the Bank uses as key assumptions a one-year time horizon and a 99.995% level of confidence.

C. Capital adequacy

The Bank maintains a strong capital position, which is measured using its economic capital model and the framework proposed by the Basel Capital Accord of July 1988 (the Basel Accord). The table below shows the Bank's capital as at 31 March 2007:

As at 31 March

SDR millions	**2007**	2006
Share capital	683.9	683.9
Statutory reserves	9,538.5	9,071.7
Less: shares held in treasury	(1.7)	(1.7)
Tier 1 capital	**10,220.7**	9,753.9
Profit and loss account	639.4	599.2
Other equity accounts	1,303.5	1,237.9
Total capital	**12,163.6**	11,591.0

The Basel Accord ratios measure capital adequacy by comparing the Bank's eligible capital with its risk-weighted assets. The risk-weighted assets are derived by applying a series of risk weightings to the Bank's assets and derivatives, based on the Basel Accord. The Bank's capital ratios are high due to the proportion of sovereign debt (which is zero risk-weighted) within the Bank's assets. The Bank's Tier 1 ratio was 29.9% as at 31 March 2007 (2006: 32.4%).

D. Credit risk

Credit risk includes:

Default risk – the risk that a counterparty will not fulfil its obligations in accordance with the agreed terms of a transaction. Default risk arises on financial assets and derivatives, as well as committed facilities that the Bank provides for central banks and international organisations.

Settlement risk – the risk of failure of the settlement or clearing of financial transactions where the exchange of cash, securities or other assets is not simultaneous.

Transfer risk – the risk that a counterparty is unable to meet its foreign currency obligations due to restricted access to foreign currency.

The Bank manages its exposure to credit risk by placing limits on the amount of risk accepted in relation to one borrower or a group of borrowers. Such risks are monitored on a regular basis and are subject to at least an annual review and will be adjusted as deemed appropriate. The main criterion for these reviews is the ability of borrowers and potential borrowers to meet interest and capital repayment obligations. Limits on the level of credit risk are approved by the Bank's Management within a framework set by the Board of Directors.

The Bank also obtains collateral, in addition to reverse repurchase agreements, to mitigate credit risk on derivative financial instruments, and has established bilateral setoff agreements with certain of its counterparties.

1. Default risk

The Bank controls its default risk at both a counterparty and a portfolio level. Credit exposures are restricted using a series of credit limits covering individual counterparties and countries of risk. The Bank conducts its own detailed independent credit analysis resulting in the assignment of internal credit grades. Based on this analysis the Bank sets its credit limits.

Default risk on the Bank's holdings of securities is reduced by the highly liquid nature of most of the assets. Securities are sold when the Bank's Management considers that a counterparty has an unacceptable risk of default.

Default risk on over-the-counter (OTC) derivatives is mitigated using collateral management agreements. As at 31 March 2007 the Bank held as collateral on OTC derivatives SDR 26.2 million nominal of G10 sovereign securities. The Bank held no collateral on OTC derivatives at 31 March 2006.

The vast majority of the Bank's assets are invested with G10 sovereigns or with financial institutions rated A or above. Because of the limited number of such investments, the Bank has significant individual counterparty concentrations within these risk sectors.

The following tables show credit exposure by sector and credit rating:

As at 31 March

Sector of risk *Percentages*	**2007**	2006
Sovereign	31.3	34.1
Financial institution	65.1	63.1
Other	3.6	2.8
	100.0	100.0

As at 31 March

BIS internal credit grade (expressed as equivalent long-term rating) *Percentages*	**2007**	2006
AAA	24.1	26.5
AA	53.8	54.7
A	21.8	18.5
BBB+ and below (including unrated risks)	0.3	0.3
	100.0	100.0

2. Settlement risk

The Bank minimises settlement risk by:

- using established clearing centres;
- where possible settling transactions only once both parties have fulfilled their obligations (the delivery versus payment settlement mechanism);
- where possible requiring net settlement of payments on derivative financial instruments;
- calculating and limiting the settlement risk on a counterparty basis; and
- in respect of foreign exchange transactions, ensuring where possible that these take place subject to setoff arrangements that would apply should a counterparty fail to deliver the counter-currency to such a transaction.

3. Transfer risk

The Bank calculates and sets limits for transfer risk on a per country basis.

E. Market risk

The main components of the Bank's market risk are gold price risk, currency risk and interest rate risk. The Bank incurs market risk primarily through the assets relating to the management of its equity. The Bank measures market risk using the value-at-risk (VaR) methodology, and by computing sensitivities to certain market risk factors. VaR expresses the statistical estimate of the maximum potential loss on the current portfolio assuming a specified time horizon and measured to a specified level of confidence.

Market risk economic capital is measured and managed on an aggregated market risk basis. The Bank's Management limits the Bank's market risk economic capital usage within a framework set by the Board of Directors.

All VaR models, while forward-looking, are based on past events and dependent on the quality of available market data. VaR limits are supplemented with a framework of other limits and reporting, including specific stress tests and detailed monitoring of the largest market risk positions.

1. Gold price risk

Gold price risk is the potential impact on the fair value of assets and liabilities from changes in the SDR price of gold. The Bank is exposed to gold price risk principally through its holdings of gold investment assets, which comprise 150 tonnes (2006: 165 tonnes). This is held in custody or placed on deposit with commercial banks. At 31 March 2007 the Bank's gold position was SDR 2,115.2 million (2006: SDR 2,145.6 million), approximately 17% of its equity (2006: 19%). The Bank can also have small exposures to gold price risk through its banking activities with central and commercial banks. Gold price risk is measured within the Bank's aggregate market risk economic capital framework.

2. Currency risk

Currency risk is the potential impact on the fair value of assets and liabilities from changes in exchange rates. The Bank is exposed to currency risk principally through the assets relating to the management of its equity. The Bank is also exposed to currency risk through managing its customer deposits and through acting as an intermediary in foreign exchange transactions between central and commercial banks. The Bank reduces its currency exposures by matching the assets relating to the management of its equity to the constituent currencies of the SDR on a regular basis, and by allowing only small currency exposures relating to customer deposits and foreign exchange transaction intermediation.

The Bank's functional currency, the SDR, is a composite currency comprising fixed amounts of USD, EUR, JPY and GBP. The following tables show the actual currency and gold composition of the Bank's assets and liabilities. The net currency and gold position shown in these tables therefore includes the Bank's gold investment assets. To arrive at the Bank's net currency exposure an adjustment is made to remove gold amounts. The SDR neutral position is then deducted from the net currency position excluding gold to arrive at the net currency exposure of the Bank on an SDR neutral basis.

As at 31 March 2007

SDR millions	SDR	USD	EUR	GBP	JPY	CHF	Gold	Other currencies	Total
Assets									
Cash and sight accounts with banks	–	10.0	56.0	1.1	–	2.5	–	22.8	92.4
Gold and gold deposits	–	–	–	–	–	–	15,434.3	23.3	15,457.6
Treasury bills	–	2,658.4	22,479.5	–	18,021.4	–	–	–	43,159.3
Securities purchased under resale agreements	–	1,087.3	54,239.3	5,594.8	272.1	–	–	–	61,193.5
Time deposits and advances to banks	73.4	72,868.7	727.3	15,423.5	2.8	936.6	–	1,233.7	91,266.0
Government and other securities	–	18,185.0	23,361.5	3,476.6	1,993.2	61.6	–	5,166.1	52,244.0
Accounts receivable	–	4,657.2	213.6	458.7	28.0	115.8	–	0.3	5,473.6
Land, buildings and equipment	188.0	–	–	–	–	–	–	–	188.0
Total	**261.4**	**99,466.6**	**101,077.2**	**24,954.7**	**20,317.5**	**1,116.5**	**15,434.3**	**6,446.2**	**269,074.4**
Liabilities									
Currency deposits	(2,006.3)	(138,437.4)	(46,371.0)	(22,780.9)	(3,381.3)	(1,068.0)	–	(7,745.2)	(221,790.1)
Gold deposits	–	(12.8)	–	–	–	–	(13,122.1)	–	(13,134.9)
Securities sold under repurchase agreements	–	(889.2)	(173.3)	–	–	–	–	–	(1,062.5)
Accounts payable	–	(1,118.8)	(17,772.5)	(132.2)	(280.6)	–	(182.7)	(97.3)	(19,584.1)
Other liabilities	–	(145.0)	(48.5)	–	–	(173.2)	–	(7.1)	(373.8)
Total	**(2,006.3)**	**(140,603.2)**	**(64,365.3)**	**(22,913.1)**	**(3,661.9)**	**(1,241.2)**	**(13,304.8)**	**(7,849.6)**	**(255,945.4)**
Net derivative financial instruments	118.5	46,085.7	(32,431.4)	(728.0)	(15,366.2)	(40.5)	(14.3)	1,410.8	(965.4)
Net currency and gold position	**(1,626.4)**	**4,949.1**	**4,280.5**	**1,313.6**	**1,289.4**	**(165.2)**	**2,115.2**	**7.4**	**12,163.6**
Adjustment for gold investment assets	–	–	–	–	–	–	(2,115.2)	–	(2,115.2)
Net currency position	**(1,626.4)**	**4,949.1**	**4,280.5**	**1,313.6**	**1,289.4**	**(165.2)**	**–**	**7.4**	**10,048.4**
SDR neutral position	1,626.4	(4,870.0)	(4,227.3)	(1,370.6)	(1,206.9)	–	–	–	(10,048.4)
Net currency exposure on SDR neutral basis	**–**	**79.1**	**53.2**	**(57.0)**	**82.5**	**(165.2)**	**–**	**7.4**	**–**

As at 31 March 2006

SDR millions	SDR	USD	EUR	GBP	JPY	CHF	Gold	Other currencies	Total
Assets									
Cash and sight accounts with banks	–	5.7	7.3	0.3	–	2.7	–	17.0	33.0
Gold and gold deposits	–	22.7	–	–	–	–	11,325.3	–	11,348.0
Treasury bills	–	4,935.2	22,395.7	–	18,311.1	1,669.9	–	–	47,311.9
Securities purchased under resale agreements	–	2,113.3	12,897.9	1,517.6	2,990.4	–	–	–	19,519.2
Time deposits and advances to banks	116.1	71,052.9	1,301.7	11,935.9	2.0	822.6	–	2,667.3	87,898.5
Government and other securities	–	18,262.0	17,825.8	3,009.6	2,028.8	61.1	–	3,249.1	44,436.4
Accounts receivable	2.8	6,214.3	335.6	771.7	–	6.5	–	113.8	7,444.7
Land, buildings and equipment	188.4	–	–	–	–	–	–	–	188.4
Total	307.3	102,606.1	54,764.0	17,235.1	23,332.3	2,562.8	11,325.3	6,047.2	218,180.1
Liabilities									
Currency deposits	(3,417.8)	(121,722.2)	(36,753.8)	(14,027.3)	(2,596.1)	(914.5)	–	(6,559.8)	(185,991.5)
Gold deposits	–	(10.6)	–	–	–	–	(9,225.0)	–	(9,235.6)
Securities sold under repurchase agreements	–	(1,211.4)	–	(11.0)	–	–	–	–	(1,222.4)
Accounts payable	–	(1,582.5)	(7,334.1)	(60.3)	–	(13.3)	(103.5)	(157.6)	(9,251.3)
Other liabilities	–	–	(0.4)	–	–	(157.9)	–	(11.1)	(169.4)
Total	(3,417.8)	(124,526.7)	(44,088.3)	(14,098.6)	(2,596.1)	(1,085.7)	(9,328.5)	(6,728.5)	(205,870.2)
Net derivative financial instruments	48.7	27,431.5	(6,388.5)	(1,758.2)	(19,360.3)	(1,617.7)	148.8	776.8	(718.9)
Net currency and gold position	(3,061.8)	5,510.9	4,287.2	1,378.3	1,375.9	(140.6)	2,145.6	95.5	11,591.0
Adjustment for gold investment assets	–	–	–	–	–	–	(2,145.6)	–	(2,145.6)
Net currency position	(3,061.8)	5,510.9	4,287.2	1,378.3	1,375.9	(140.6)	–	95.5	9,445.4
SDR neutral position	3,061.8	(5,484.2)	(4,307.2)	(1,361.2)	(1,354.6)	–	–	–	(9,445.4)
Net currency exposure on SDR neutral basis	–	26.7	(20.0)	17.1	21.3	(140.6)	–	95.5	–

The net exposure relating to other currencies comprises:

Net assets as at 31 March

SDR millions	**2007**	2006
Swedish krona	0.9	56.4
Australian dollar	2.6	34.7
Other	3.9	4.4
Total other currencies	**7.4**	95.5

The Swiss franc position in the tables above is attributable principally to the Bank's post-employment benefit obligations (see note 22).

3. Interest rate risk

Interest rate risk is the potential impact on the fair value of assets and liabilities from changes in interest rates. The Bank is exposed to interest rate risk principally through the interest bearing assets relating to the management of its equity. These assets are managed using a fixed duration benchmark of bonds. The Bank is also exposed to limited interest rate risk through its activities in accepting and reinvesting customer deposits.

The Bank closely monitors interest rate risk, including the sensitivity of fair values to movements in interest rates. Market risk is restricted using economic capital, VaR and stress test-based limits.

The tables below show the impact on the Bank's equity of a 1% upward shift in the relevant yield curve:

As at 31 March 2007

SDR millions	Up to 6 months	6 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Euro	(10.7)	5.8	(24.9)	(23.1)	(18.1)	(19.6)	(52.9)
Japanese yen	(0.3)	0.2	(4.8)	(5.7)	(6.7)	(6.3)	(13.3)
Pound sterling	(8.0)	8.3	(5.7)	(5.6)	(7.5)	(8.5)	(17.8)
Swiss franc	(0.8)	(0.6)	(0.4)	(0.7)	(0.6)	(0.9)	2.0
US dollar	(25.6)	(2.6)	(29.1)	(14.5)	(13.2)	(26.1)	(68.7)
Other currencies	(0.7)	(6.5)	(13.9)	(10.1)	(2.7)	(13.9)	(0.4)
Total	**(46.1)**	**4.6**	**(78.8)**	**(59.7)**	**(48.8)**	**(75.3)**	**(151.1)**

As at 31 March 2006

SDR millions	Up to 6 months	6 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Euro	(3.7)	(4.7)	(5.9)	(9.2)	(22.3)	(19.7)	(70.3)
Japanese yen	0.4	0.1	(5.4)	(5.0)	(7.1)	(6.5)	(14.1)
Pound sterling	–	(5.3)	(3.9)	(4.9)	(6.4)	(9.5)	(12.3)
Swiss franc	(0.5)	(0.9)	(1.3)	–	(0.4)	(0.1)	–
US dollar	(4.7)	(23.9)	(32.3)	(18.4)	(17.8)	(26.2)	(78.3)
Other currencies	(1.8)	7.8	(15.1)	(22.4)	(0.3)	(6.6)	(0.2)
Total	(10.3)	(26.9)	(63.9)	(59.9)	(54.3)	(68.6)	(175.2)

F. Liquidity risk

Net movements in the currency and gold deposits from central banks, international organisations and other public institutions are the key determinants of the size of the Bank's balance sheet. The Bank has undertaken to repurchase at fair value certain of its currency deposit instruments at one or two business days' notice. The Bank is managed to preserve a high degree of liquidity to ensure that it is able to meet the requirements of its customers at all times.

The Bank has developed a liquidity management framework based on a statistical model using prudent assumptions with regard to cash inflows and the liquidity of liabilities. Within this framework, the Board of Directors has set a limit for the Bank's liquidity ratio which requires liquid assets to be equal to at least 100% of the potential liquidity requirement faced by the Bank. In addition, liquidity stress tests are performed which assume extreme withdrawal scenarios considerably beyond the estimated potential liquidity requirement. These stress tests define additional liquidity requirements which must also be met by holdings of liquid assets. The Bank's liquidity has consistently been materially above its minimum liquidity ratio limit.

The following tables (including derivatives on a net basis) show assets and liabilities at carrying amounts based on the remaining period at the balance sheet date to the contractual maturity date:

As at 31 March 2007

SDR millions	Up to 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 5 years	Over 5 years	Maturity undefined	Total
Assets									
Cash and sight accounts with banks	92.4	–	–	–	–	–	–	–	92.4
Gold and gold deposits	12,137.6	170.0	56.7	–	199.8	2,596.5	297.0	–	15,457.6
Treasury bills	14,176.3	16,102.3	7,503.2	4,689.8	687.7	–	–	–	43,159.3
Securities purchased under resale agreements	50,007.6	4,525.2	6,660.7	–	–	–	–	–	61,193.5
Time deposits and advances to banks	30,290.6	23,129.9	22,147.3	6,718.5	8,471.2	508.5	–	–	91,266.0
Government and other securities	3,103.2	5,848.3	3,790.7	3,211.3	3,849.0	20,727.2	11,714.3	–	52,244.0
Accounts receivable	5,470.0	–	–	–	–	3.6	–	–	5,473.6
Land, buildings and equipment	–	–	–	–	–	–	–	188.0	188.0
Total	**115,277.7**	**49,775.7**	**40,158.6**	**14,619.6**	**13,207.7**	**23,835.8**	**12,011.3**	**188.0**	**269,074.4**
Liabilities									
Currency deposits									
Deposit instruments repayable at 1–2 days' notice	(13,052.0)	(10,881.0)	(22,729.1)	(14,545.3)	(17,456.0)	(48,927.1)	(6,766.6)	–	(134,357.1)
Other currency deposits	(49,695.0)	(10,994.3)	(9,821.1)	(9,986.2)	(6,931.8)	(4.5)	(0.1)	–	(87,433.0)
Gold deposits	(11,965.9)	(28.3)	(56.6)	–	(72.7)	(897.4)	(114.0)	–	(13,134.9)
Securities sold under repurchase agreements	(959.4)	(103.1)	–	–	–	–	–	–	(1,062.5)
Accounts payable	(19,584.1)	–	–	–	–	–	–	–	(19,584.1)
Other liabilities	(214.6)	–	–	–	–	–	–	(159.2)	(373.8)
Total	**(95,471.0)**	**(22,006.7)**	**(32,606.8)**	**(24,531.5)**	**(24,460.5)**	**(49,829.0)**	**(6,880.7)**	**(159.2)**	**(255,945.4)**
Net derivative financial instruments	(547.3)	(242.5)	(157.2)	(124.3)	(36.6)	1.8	140.7	–	(965.4)
Maturity gap	**19,259.4**	**27,526.5**	**7,394.6**	**(10,036.2)**	**(11,289.4)**	**(25,991.4)**	**5,271.3**	**28.8**	**12,163.6**

As at 31 March 2006

SDR millions	Up to 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 5 years	Over 5 years	Maturity undefined	Total
Assets									
Cash and sight accounts with banks	33.0	–	–	–	–	–	–	–	33.0
Gold and gold deposits	7,312.1	329.4	608.0	268.0	156.0	2,569.8	104.7	–	11,348.0
Treasury bills	14,215.7	22,411.8	7,614.5	1,801.6	1,268.3	–	–	–	47,311.9
Securities purchased under resale agreements	19,474.6	44.6	–	–	–	–	–	–	19,519.2
Time deposits and advances to banks	38,682.6	16,856.1	13,981.8	9,046.6	9,264.1	67.3	–	–	87,898.5
Government and other securities	3,535.1	7,919.3	1,771.7	2,203.0	3,938.7	17,327.6	7,741.0	–	44,436.4
Accounts receivable	7,441.1	–	–	–	–	3.6	–	–	7,444.7
Land, buildings and equipment	–	–	–	–	–	–	–	188.4	188.4
Total	90,694.2	47,561.2	23,976.0	13,319.2	14,627.1	19,968.3	7,845.7	188.4	218,180.1
Liabilities									
Currency deposits									
Deposit instruments repayable at 1–2 days' notice	(12,646.4)	(15,448.5)	(17,430.3)	(15,872.5)	(8,429.0)	(34,217.9)	(3,970.7)	–	(108,015.3)
Other currency deposits	(50,941.0)	(5,048.0)	(6,618.4)	(7,604.0)	(7,601.4)	(163.4)	–	–	(77,976.2)
Gold deposits	(7,420.9)	(198.7)	(568.1)	(160.5)	(39.3)	(743.5)	(104.6)	–	(9,235.6)
Securities sold under repurchase agreements	(1,177.6)	(44.8)	–	–	–	–	–	–	(1,222.4)
Accounts payable	(9,251.3)	–	–	–	–	–	–	–	(9,251.3)
Other liabilities	(27.7)	–	–	–	–	–	–	(141.7)	(169.4)
Total	(81,464.9)	(20,740.0)	(24,616.8)	(23,637.0)	(16,069.7)	(35,124.8)	(4,075.3)	(141.7)	(205,870.2)
Net derivative financial instruments	195.8	129.5	(67.4)	(197.3)	(206.2)	(616.5)	43.2	–	(718.9)
Maturity gap	9,425.1	26,950.7	(708.2)	(10,515.1)	(1,648.8)	(15,773.0)	3,813.6	46.7	11,591.0

G. Operational risk

Operational risk is defined by the Bank as the risk of financial loss, or damage to the Bank's reputation, or both, resulting from one or more risk causes, being human factors, failed or inadequate processes, failed or inadequate systems, or external events; it includes legal risk, but excludes strategic risk:

- Human factors: insufficient personnel, lack of requisite knowledge, skills or experience, inadequate training and development, inadequate supervision, loss of key personnel, inadequate succession planning, or lack of integrity or ethical standards;
- Failed or inadequate processes: a process is poorly designed or unsuitable, or is not properly documented, understood, implemented, followed or enforced;
- Failed or inadequate systems: a system is poorly designed, unsuitable or unavailable, or does not operate as intended; and
- External events: the occurrence of an event having an adverse impact on the Bank but outside its control.

In January 2007, the Board approved a framework for the management of operational risk at the BIS. This framework defines the expression "operational risk" and lays down the principles of how operational risk is to be identified, assessed, monitored, mitigated and reported. The Bank manages operational risk through internal controls comprising policies, procedures and organisational structures, designed to reduce the likelihood of an operational risk event occurring or that mitigate the adverse consequences of such an event if it does occur.

The Bank allocates economic capital for operational risk on the basis of a statistical model that incorporates the Bank's experience of operational losses as well as external loss data.

The Bank identifies and assesses operational risks and evaluates the effectiveness of existing controls for its key processes through a Bank-wide Control Self-Assessment (CSA) programme. The results of this annual assessment are taken into account for the management of operational risk.

5. Cash and sight accounts with banks

Cash and sight accounts with banks consist of cash balances with central banks and commercial banks that are available to the Bank on demand.

6. Gold and gold deposits

A. Total gold holdings

The composition of the Bank's total gold holdings was as follows:

As at 31 March

SDR millions	**2007**	2006
Gold bars held at central banks	11,865.8	7,132.0
Total gold time deposits	3,591.8	4,216.0
Total gold and gold deposit assets	**15,457.6**	**11,348.0**
Comprising:		
Gold investment assets	2,306.0	2,259.5
Gold and gold deposit banking assets	13,151.6	9,088.5

B. Gold investment assets

The Bank's gold investment assets are included in the balance sheet at their weight in gold (translated at the gold market price and USD exchange rate into SDR) plus accrued interest. The excess of this value over the deemed cost value is included in the gold revaluation account (reported under the balance sheet heading "Other equity accounts"), and realised gains or losses on the disposal of gold investment assets are recognised in the profit and loss account.

Note 21B provides further analysis of the gold revaluation account. Note 30 provides further analysis of the net gain on sales of gold investment assets.

The table below analyses the movements in the Bank's gold investment assets:

For the financial year ended 31 March

SDR millions	**2007**	2006
Balance at beginning of year	2,259.5	1,646.5
Net change in gold investment assets		
Deposits placed	338.7	382.0
Disposals of gold	(206.7)	(187.2)
Maturities and other net movements	(340.4)	(382.7)
	(208.4)	(187.9)
Net change in transactions awaiting settlement	79.2	103.5
Gold price movement	175.7	697.4
Balance at end of year	**2,306.0**	2,259.5

At 1 April 2006 the Bank's gold investment assets amounted to 165 tonnes of fine gold. During the financial year ended 31 March 2007 15 tonnes were disposed of (see note 30). The balance at 31 March 2007 amounted to 150 tonnes of fine gold.

7. Currency assets

A. Total holdings

Currency assets comprise treasury bills, securities purchased under resale agreements, fixed-term loans, and government and other securities.

Currency assets held at fair value through profit and loss comprise those currency banking assets that represent the reinvestment of customer deposits and those currency investment assets that are part of more actively managed portfolios. Currency assets available for sale comprise the remainder of the Bank's currency investment assets and represent, for most part, the investment of the Bank's equity.

Securities purchased under resale agreements ("reverse repurchase agreements") are transactions under which the Bank makes a fixed-term loan to a counterparty which provides collateral in the form of securities. The rate on the loan is fixed at the beginning of the transaction, and there is an irrevocable commitment to return the equivalent securities subject to the repayment of the loan. During the term of the agreement the fair value of collateral is monitored, and additional collateral is obtained where appropriate to protect against credit exposure.

Fixed-term loans are primarily investments made with commercial banks. Also included in this category are investments made with central banks and international institutions, including advances made as part of committed and uncommitted standby facilities. The balance sheet total "Time deposits and advances to banks" also includes call and notice accounts (see note 8).

Government and other securities are debt securities issued by governments, international institutions, other public institutions, commercial banks and corporates. They include fixed and floating rate bonds and asset-backed securities.

The tables below analyse the Bank's holdings of currency assets:

As at 31 March 2007	Banking assets	Investment assets			**Total currency assets**
SDR millions	Held at fair value through profit and loss	Available for sale	Held at fair value through profit and loss	Total	
Treasury bills	**43,135.1**	**–**	**24.2**	**24.2**	**43,159.3**
Securities purchased under resale agreements	**60,131.0**	**1,062.5**	**–**	**1,062.5**	**61,193.5**
Fixed-term loans and advances to banks	**89,127.4**	**–**	**–**	**–**	**89,127.4**
Government and other securities					
Government	3,397.3	6,717.6	–	6,717.6	10,114.9
Financial institutions	27,866.0	953.6	598.4	1,552.0	29,418.0
Other (including public sector securities)	11,601.0	1,110.1	–	1,110.1	12,711.1
	42,864.3	**8,781.3**	**598.4**	**9,379.7**	**52,244.0**
Total currency assets	**235,257.8**	**9,843.8**	**622.6**	**10,466.4**	**245,724.2**

As at 31 March 2006	Banking assets	Investment assets			Total currency assets
SDR millions	Held at fair value through profit and loss	Available for sale	Held at fair value through profit and loss	Total	
Treasury bills	47,311.9	–	–	–	47,311.9
Securities purchased under resale agreements	18,296.8	1,222.4	–	1,222.4	19,519.2
Fixed-term loans and advances to banks	85,066.9	–	–	–	85,066.9
Government and other securities					
Government	3,469.0	6,717.5	–	6,717.5	10,186.5
Financial institutions	24,617.4	957.5	–	957.5	25,574.9
Other (including public sector securities)	7,578.4	1,096.6	–	1,096.6	8,675.0
	35,664.8	8,771.6	–	8,771.6	44,436.4
Total currency assets	186,340.4	9,994.0	–	9,994.0	196,334.4

B. Currency assets available for sale

The table below analyses the movements in the Bank's currency assets available for sale:

For the financial year ended 31 March

SDR millions	**2007**	2006
Balance at beginning of year	9,994.0	8,412.2
Net change in currency assets available for sale		
Additions	16,800.7	21,358.5
Disposals	(2,265.5)	(3,214.1)
Maturities and other net movements	(14,640.7)	(16,467.5)
	(105.5)	1,676.9
Net change in transactions awaiting settlement	(41.5)	43.2
Fair value and other movements	(3.2)	(138.3)
Balance at end of year	**9,843.8**	9,994.0

Note 21A provides further analysis of the securities revaluation account. Note 29 provides further analysis of the net gain on sales of securities categorised as available for sale.

8. Time deposits and advances to banks

Time deposits and advances to banks comprise fixed-term loans and call and notice accounts.

Fixed-term loans are designated as fair value through profit and loss.

Call and notice accounts are designated as loans and receivables and are included as cash and cash equivalents. These are very short-term financial assets, typically having a notice period of three days or less. These are included in the balance sheet at amortised cost.

As at 31 March

SDR millions	**2007**	2006
Fixed-term loans and advances to banks	89,127.4	85,066.9
Call and notice accounts	2,138.6	2,831.6
Total time deposits and advances to banks	**91,266.0**	87,898.5

9. Derivative financial instruments

The Bank uses the following types of derivative instruments for economic hedging and trading purposes.

Interest rate and bond futures are contractual obligations to receive or pay a net amount based on changes in interest rates or bond prices on a future date at a specified price established in an organised market. Futures contracts are collateralised by cash or marketable securities and changes in the futures contract value are settled daily with the exchange.

Currency and bond options are contractual agreements under which the seller grants the purchaser the right, but not the obligation, to either buy (call option) or sell (put option), by or on a set date, a specific amount of a currency, a bond or gold at a predetermined price. In consideration, the seller receives a premium from the purchaser.

Options on futures are contractual agreements that confer the right, but not the obligation, to buy or sell a futures contract at a predetermined price during a specified period of time.

Currency and gold swaps, cross-currency interest rate swaps and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies, gold or interest rates (for example, fixed rate for floating rate) or a combination of interest rates and currencies (cross-currency interest rate swaps). Except for certain currency and gold swaps and cross-currency interest rate swaps, no exchange of principal takes place.

Currency and gold forwards represent commitments to purchase foreign currencies or gold at a future date. This includes undelivered spot transactions.

Forward rate agreements are individually negotiated interest rate forward contracts that result in cash settlement at a future date for the difference between a contracted rate of interest and the prevailing market rate.

Swaptions are options under which the seller grants the purchaser the right, but not the obligation, to enter into a currency or interest rate swap at a predetermined price by or on a set date.

The table below analyses the fair value of derivative financial instruments:

As at 31 March	2007			2006		
	Notional amounts	Fair values		Notional amounts	Fair values	
SDR millions		Assets	Liabilities		Assets	Liabilities
Bond futures	809.5	0.6	(0.4)	381.3	–	(0.4)
Bond options	–	–	–	168.0	–	(1.5)
Cross-currency interest rate swaps	5,262.3	99.4	(657.8)	8,058.3	189.2	(803.8)
Currency and gold forwards	1,830.7	9.9	(13.9)	4,212.5	18.8	(29.4)
Currency options	9,180.9	42.4	(60.0)	213.3	–	(0.3)
Currency and gold swaps	62,829.9	210.7	(497.5)	38,674.9	460.5	(142.4)
Forward rate agreements	48,018.6	6.2	(6.7)	37,290.0	11.9	(7.5)
Interest rate futures	43,239.3	–	(1.3)	42,923.3	0.1	(0.3)
Interest rate swaps	406,871.3	1,480.7	(1,570.3)	250,096.2	1,274.3	(1,668.6)
Options on futures	396.0	0.5	–	15,228.8	1.2	(0.2)
Swaptions	4,159.1	0.4	(8.3)	1,803.2	–	(20.5)
Total derivative financial instruments at end of year	**582,597.6**	**1,850.8**	**(2,816.2)**	399,049.8	1,956.0	(2,674.9)
Net derivative financial instruments at end of year			**(965.4)**			(718.9)

10. Accounts receivable

As at 31 March

SDR millions	**2007**	2006
Financial transactions awaiting settlement	5,449.5	7,436.4
Other assets	24.1	8.3
Total accounts receivable	**5,473.6**	7,444.7

"Financial transactions awaiting settlement" relates to short-term receivables (typically due in three days or less) where transactions have been effected but cash has not yet been transferred. This includes assets that have been sold and liabilities that have been issued.

11. Land, buildings and equipment

For the financial year ended 31 March				2007	2006
SDR millions	Land	Buildings	IT and other equipment	Total	Total
Historical cost					
Balance at beginning of year	**41.2**	**185.1**	**98.2**	**324.5**	312.5
Capital expenditure	–	1.5	10.1	11.6	12.6
Disposals and retirements	–	–	(1.7)	(1.7)	(0.6)
Balance at end of year	**41.2**	**186.6**	**106.6**	**334.4**	324.5
Depreciation					
Accumulated depreciation at beginning of year	–	**76.5**	**59.6**	**136.1**	123.3
Depreciation	–	4.0	8.0	12.0	13.3
Disposals and retirements	–		(1.7)	(1.7)	(0.5)
Balance at end of year	**–**	**80.5**	**65.9**	**146.4**	136.1
Net book value at end of year	**41.2**	**106.1**	**40.7**	**188.0**	188.4

The depreciation charge for the financial year ended 31 March 2007 includes an additional charge of SDR 0.8 million for IT and other equipment following an impairment review (2006: SDR 1.0 million).

12. Currency deposits

Currency deposits are book entry claims on the Bank. The Bank acts as a market-maker in certain of its currency deposit liabilities, and has undertaken to repay at fair value these financial instruments, in whole or in part, at one to two business days' notice. The applicable currency deposit instruments are analysed in the table below:

As at 31 March

SDR millions	**2007**	2006
Deposit instruments repayable at one to two days' notice		
Medium-Term Instruments (MTIs)	83,843.9	57,688.3
FIXBIS	50,513.2	50,327.0
	134,357.1	108,015.3
Other currency deposits		
FRIBIS	3,465.2	3,247.1
Fixed-term deposits	59,314.0	52,181.5
Sight and notice deposit accounts	24,653.8	22,547.6
	87,433.0	77,976.2
Total currency deposits	**221,790.1**	185,991.5
Comprising:		
Designated as held at fair value through profit and loss	197,136.3	163,443.9
Designated as loans and receivables	24,653.8	22,547.6

Medium-Term Instruments (MTIs) are fixed rate investments at the BIS for quarterly maturities of up to 10 years. The Bank also offers MTIs which are callable at an exercise price of par at the option of the Bank (callable MTIs), with call dates between April 2007 and May 2008 (2006: April 2006 and March 2007). The amount of callable MTIs in the balance sheet as at 31 March 2007 was SDR 7,740.5 million (2006: SDR 6,262.9 million).

FIXBIS are fixed rate investments at the BIS for any maturities between one week and one year.

FRIBIS are floating rate investments at the BIS with maturities of one year or longer for which the interest rate is reset in line with prevailing market conditions.

Fixed-term deposits are fixed rate investments at the BIS, typically with a maturity of less than one year. The Bank also takes fixed-term deposits that are repayable on the maturity date either in the original currency or at a fixed amount in a different currency at the option of the Bank (dual currency deposits). The amount of dual currency deposits included in the balance sheet at 31 March 2007 was SDR 6,654.9 million (2006: SDR 231.1 million). The maturity dates of these deposits are between April and June 2007 (2006: April and June 2006).

Sight and notice deposit accounts are very short-term financial liabilities, typically having a notice period of three days or less. They are designated as loans and receivables and are included in the balance sheet at amortised cost.

Currency deposits (other than sight and notice deposit accounts) are included in the balance sheet at fair value. This value differs from the amount that the Bank is contractually required to pay at maturity to the holder of the deposit. For total currency deposits the amount that the Bank is contractually required to pay at maturity to the holder of the deposit, plus accrued interest to 31 March 2007, is SDR 224,059.0 million (2006: SDR 187,896.6 million).

The Bank uses financial models to estimate the fair value of its currency deposits. These models value the expected cash flows of financial instruments using discount factors that are derived partly from quoted interest rates (eg Libor and swap rates) and partly from assumptions about spreads. The Bank determines these spreads based on recent market transactions. In the financial year ended 31 March 2007, changes to the assumptions about spreads used for valuing currency deposits increased the Bank's profit by SDR 3.2 million (2006: decreased profit by SDR 6.0 million).

13. Gold deposit liabilities

Gold deposits placed with the Bank originate entirely from central banks. They are all designated as loans and receivables.

14. Securities sold under repurchase agreements

Securities sold under repurchase agreements ("repo" liabilities) are transactions under which the Bank receives a fixed-term deposit from a counterparty to which it provides collateral in the form of securities. The rate on the deposit is fixed at the beginning of the transaction, and there is an irrevocable commitment to repay the deposit subject to the return of equivalent securities. They originate entirely from commercial banks.

As at 31 March 2007 and 2006 all of the securities sold under repurchase agreements were associated with the management of currency assets available for sale. They are therefore all designated as loans and receivables and are included in the balance sheet at amortised cost.

15. Accounts payable

Accounts payable consist of financial transactions awaiting settlement, relating to short-term payables (typically payable within three days or less) where transactions have been effected but cash has not yet been transferred. This includes assets that have been purchased and liabilities that have been repurchased.

16. Other liabilities

As at 31 March

SDR millions	**2007**	2006
Post-employment benefit obligations (see note 22)		
Directors' pensions	4.3	4.1
Health and accident benefits	152.1	135.1
Short positions in currency assets	142.4	–
Other	73.9	27.8
Payable to former shareholders	1.1	2.4
Total other liabilities	**373.8**	169.4

17. Share capital

The Bank's share capital consists of:

As at 31 March

SDR millions	**2007**	2006
Authorised capital: 600,000 shares, each of SDR 5,000 par value	3,000.0	3,000.0
Issued capital: 547,125 shares	2,735.6	2,735.6
Paid-up capital (25%)	**683.9**	683.9

The number of shares eligible for dividend is:

As at 31 March	**2007**	2006
Issued shares	547,125	547,125
Less: shares held in treasury	(1,000)	(1,000)
Outstanding shares eligible for dividend	**546,125**	546,125
Of which:		
Eligible for full dividend	546,125	510,192
Eligible for dividend pro rata from the value date of subscription	–	35,933
Dividend per share (in SDR)	**255**	245

The shares eligible for dividend pro rata from the value date of subscription in 2006 reflect the redistribution of shares held in treasury (see note 19).

18. Statutory reserves

The Bank's Statutes provide for application of the Bank's annual net profit by the Annual General Meeting on the proposal of the Board of Directors to three specific reserve funds: the legal reserve fund, the general reserve fund and the special dividend reserve fund; the remainder of the net profit after payment of any dividend is generally allocated to the free reserve fund.

Legal reserve fund. This fund is currently fully funded at 10% of the Bank's paid-up capital.

General reserve fund. After paying any dividend, 10% of the remainder of the Bank's annual net profit currently must be allocated to the general reserve fund. When the balance of this fund equals five times the Bank's paid-up capital, such annual contribution will decrease to 5% of the remainder of the annual net profit.

Special dividend reserve fund. A portion of the remainder of the annual net profit may be allocated to the special dividend reserve fund, which shall be available, in case of need, for paying the whole or any part of a declared dividend. Dividends are normally paid out of the Bank's net profit.

Free reserve fund. After the above allocations have been made, any remaining unallocated net profit is generally transferred to the free reserve fund.

Receipts from the subscription of BIS shares are allocated to the legal reserve fund as necessary to keep it fully funded, with the remainder being credited to the general reserve fund.

The free reserve fund, general reserve fund and legal reserve fund are available, in that order, to meet any losses incurred by the Bank. In the event of liquidation of the Bank, the balances of the reserve funds (after the discharge of the liabilities of the Bank and the costs of liquidation) would be divided among the Bank's shareholders.

19. Repurchase and subsequent redistribution of shares

The Extraordinary General Meeting on 8 January 2001 amended the Bank's Statutes to restrict the right to hold shares in the BIS exclusively to central banks, thereby effecting a mandatory repurchase from private (ie non-central bank) shareholders of 72,648 shares on which the American, Belgian and French central banks exercise voting rights. At the same time the Bank repurchased 2,304 shares of these three issues from other central banks. The total compensation paid was CHF 23,977.56 per share plus interest thereon.

The Bank held these shares in treasury and redistributed 40,119 of them, corresponding to the shares of the Belgian and French issues held in treasury, during the financial year ended 31 March 2005 to the central banks of those countries. The Bank redistributed the remaining 35,933 shares of the American issue held in treasury by selling them to shareholding central banks on 31 May 2005 (see note 20).

20. Shares held in treasury

For the financial year ended 31 March	**2007**	2006
Balance at beginning of year		
Repurchase of shares in the financial year ended 31 March 2001	–	34,833
Others	1,000	2,100
Total at beginning of year	**1,000**	36,933
Redistribution to shareholding central banks	–	(35,933)
Balance at end of year	**1,000**	1,000

In accordance with the Bank's Statutes, the BIS shares repurchased in early 2001 and subsequently held in treasury (see note 19) may be redistributed by the Board of Directors by way of sale to shareholding central banks against payment of an amount equal to that of the compensation paid to the former shareholders (ie CHF 23,977.56 per share).

Consistent therewith, on 31 May 2005 the Bank redistributed the remaining 35,933 shares of the American issue held in treasury by selling them to shareholding central banks at a price of CHF 23,977.56 per share. The proceeds of this sale amounted to CHF 861.6 million, equivalent to SDR 468.2 million at the transaction date.

These amounts were credited to the Bank's equity accounts as follows:

For the financial year ended 31 March

SDR millions	2006
Shares held in treasury	396.2
General reserve fund – exchange adjustment	72.0
Total	468.2

The figure of SDR 396.2 million in 2006 represents the SDR equivalent of the cost of the compensation in Swiss francs paid to the former shareholders of the shares at the time of the shares repurchase in January 2001 and the final award of the Hague Arbitral Tribunal in September 2003. For more information on the Hague Arbitral Tribunal, see the financial statements 2004/05, note 17. When the sale proceeds of these shares were received in 2006, an exchange gain of SDR 72.0 million was realised. This resulted from the appreciation of the Swiss franc against the SDR during the period from 2001 to the dates of sale.

The remaining shares held in treasury consist of 1,000 suspended shares of the Albanian issue.

During the financial year ended 31 March 2006 a loan from the Bank to a consortium of central banks that related to the suspended shares of the Albanian issue was reclassified from accounts receivable to shares held in treasury. The amount reclassified was SDR 1.7 million.

21. Other equity accounts

Other equity accounts represent the revaluation accounts of the currency assets available for sale and gold investment assets, which are further described in notes 6 and 7.

Other equity accounts comprise:

As at 31 March

SDR millions	**2007**	2006
Securities revaluation account	(80.5)	(104.3)
Gold revaluation account	1,384.0	1,342.2
Total other equity accounts	**1,303.5**	1,237.9

A. Securities revaluation account

This account contains the difference between the fair value and the amortised cost of the Bank's currency assets available for sale.

The movements in the securities revaluation account were as follows:

For the financial year ended 31 March

SDR millions	**2007**	2006
Balance at beginning of year	(104.3)	92.2
Net valuation movement		
Net loss / (gain) on sales	27.0	(58.2)
Fair value and other movements	(3.2)	(138.3)
	23.8	(196.5)
Balance at end of year	**(80.5)**	(104.3)

The tables below analyse the balance in the securities revaluation account:

As at 31 March 2007 *SDR millions*	Fair value of assets	Historical cost	Securities revaluation account	Gross gains	Gross losses
Securities purchased under resale agreements	1,062.5	1,062.5	–	–	–
Government and other securities	8,781.3	8,861.8	(80.5)	37.2	(117.7)
Total	**9,843.8**	**9,924.3**	**(80.5)**	**37.2**	**(117.7)**

As at 31 March 2006 *SDR millions*	Fair value of assets	Historical cost	Securities revaluation account	Gross gains	Gross losses
Securities purchased under resale agreements	1,222.4	1,222.5	(0.1)	–	(0.1)
Government and other securities	8,771.6	8,875.8	(104.2)	48.6	(152.8)
Total	9,994.0	10,098.3	(104.3)	48.6	(152.9)

B. Gold revaluation account

This account contains the difference between the book value and the deemed cost of the Bank's gold investment assets. For gold investment assets held on 31 March 2003 (when the Bank changed its functional and presentation currency from the gold franc to the SDR) the deemed cost is approximately SDR 151 per ounce, based on the value of USD 208 that was applied from 1979 to 2003 in accordance with a decision by the Bank's Board of Directors, translated at the 31 March 2003 exchange rate.

The movements in the gold revaluation account were as follows:

For the financial year ended 31 March

SDR millions	**2007**	2006
Balance at beginning of year	1,342.2	759.3
Net valuation movement		
Net gain on sales	(133.9)	(114.5)
Gold price movement	175.7	697.4
	41.8	582.9
Balance at end of year	**1,384.0**	1,342.2

22. Post-employment benefit obligations

The Bank operates three post-employment arrangements:

1. A final salary defined benefit pension arrangement for its staff. The pension arrangement is based on a fund without separate legal personality, out of which benefits are paid. The fund assets are administered by the Bank for the sole benefit of current and former members of staff who participate in the arrangement. The Bank remains ultimately liable for all benefits due under the arrangement.

2. An unfunded defined benefit arrangement for its directors, whose entitlement is based on a minimum service period of four years.

3. An unfunded post-employment health and accident benefit arrangement for its staff. Entitlement to this arrangement is based in principle on the employee remaining in service up to 50 years of age and the completion of a minimum service period of 10 years.

All arrangements are valued annually by independent actuaries.

In addition, the Bank operates a blocked personal deposit account for certain staff members who were previously members of the Bank's savings fund, which closed on 1 April 2003. The terms of these blocked accounts are such that staff members cannot make further deposits and balances are paid out when they leave the Bank. The accounts bear interest at a rate determined by the Bank based on the rate offered by the Swiss National Bank on similar staff accounts. The total balance of blocked accounts at 31 March 2007 was SDR 18.9 million (2006: SDR 19.4 million). They are reported under the balance sheet heading "Currency deposits".

A. Amounts recognised in the balance sheet

As at 31 March	Staff pensions		Directors' pensions		Post-employment health and accident benefits	
SDR millions	**2007**	2006	**2007**	2006	**2007**	2006
Present value of obligation	(653.7)	(606.4)	(4.6)	(4.5)	(186.3)	(183.8)
Fair value of fund assets	648.6	602.2	–	–	–	–
Funded status	(5.1)	(4.2)	(4.6)	(4.5)	(186.3)	(183.8)
Unrecognised actuarial losses	47.3	46.8	0.3	0.3	42.0	57.2
Unrecognised past service cost	(42.2)	(42.6)	–	–	(7.8)	(8.6)
Liability at end of year	**–**	–	**(4.3)**	(4.2)	**(152.1)**	(135.2)

B. Present value of benefit obligation

The reconciliation of the opening and closing amounts of the present value of the benefit obligation is as follows:

As at 31 March	Staff pensions		Directors' pensions		Post-employment health and accident benefits	
SDR millions	**2007**	2006	**2007**	2006	**2007**	2006
Present value of obligation at beginning of year	606.4	596.4	4.5	4.3	183.8	179.8
Current service cost	28.3	26.3	0.2	0.2	7.9	7.5
Employee contributions	3.4	3.2	–	–	–	–
Interest cost	19.8	18.5	0.1	0.1	6.1	5.7
Actuarial loss / (gain)	3.5	9.8	–	–	(13.9)	–
Benefit payments	(21.8)	(23.3)	(0.3)	(0.3)	(1.9)	(1.8)
Exchange differences	14.1	(24.5)	0.1	0.2	4.3	(7.4)
Present value of obligation at end of year	**653.7**	606.4	**4.6**	4.5	**186.3**	183.8

C. Fair value of fund assets for staff pensions

The reconciliation of the opening and closing amounts of the fair value of fund assets for the staff pension arrangement is as follows:

For the financial year ended 31 March

SDR millions	2007	2006
Fair value of fund assets at beginning of year	602.2	566.6
Expected return on fund assets	30.6	27.4
Actuarial gain	4.1	36.8
Employer contributions	15.9	15.0
Employee contributions	3.4	3.2
Benefit payments	(21.8)	(23.3)
Exchange differences	14.2	(23.5)
Fair value of fund assets at end of year	**648.6**	602.2

D. Amounts recognised in the profit and loss account

For the financial year ended 31 March	Staff pensions		Directors' pensions		Post-employment health and accident benefits	
SDR millions	2007	2006	2007	2006	2007	2006
Current service cost	28.3	26.3	0.2	0.2	7.9	7.5
Interest cost	19.8	18.5	0.1	0.1	6.1	5.7
Less: expected return on fund assets	(30.7)	(27.4)	–	–	–	–
Less: past service cost	(1.5)	(3.4)	–	–	(1.0)	(1.0)
Net actuarial losses recognised in year	–	1.2	–	–	2.6	2.8
Total included in operating expense	**15.9**	15.2	**0.3**	0.3	**15.6**	15.0

The Bank expects to make a contribution to its post-employment arrangements of SDR 30.8 million in 2007/08.

E. Major categories of fund assets as a percentage of total fund assets

As at 31 March

Percentages	2007	2006
European equities	16.4	16.1
Other equities	28.4	28.5
European fixed income	25.8	26.9
Other fixed income	26.6	24.0
Other assets	2.8	4.5
Actual return on fund assets	5.4%	10.7%

The staff pension fund does not invest in financial instruments issued by the Bank.

F. Principal actuarial assumptions used in these financial statements

As at 31 March

	2007	2006
Applicable to all three post-employment benefit arrangements		
Discount rate – market rate of highly rated Swiss corporate bonds	3.25%	3.25%
Applicable to staff and directors' pension arrangements		
Assumed increase in pensions payable	1.50%	1.50%
Applicable to staff pension arrangement only		
Expected return on fund assets	5.00%	5.00%
Assumed salary increase rate	4.10%	4.10%
Applicable to directors' pension arrangement only		
Assumed directors' pensionable remuneration increase rate	1.50%	1.50%
Applicable to post-employment health and accident benefit arrangement only		
Long-term medical inflation assumption	5.00%	5.00%

The assumed increases in staff salaries, directors' pensionable remuneration and pensions payable incorporate an inflation assumption of 1.5%.

The expected rate of return on fund assets is based on long-term expectations for inflation, interest rates, risk premiums and asset allocations. The estimate takes into consideration historical returns and is determined in conjunction with the fund's independent actuaries.

The assumption for medical inflation has a significant effect on the amounts recognised in the profit and loss account. A 1% change in the assumption for medical inflation compared to that used for the 2006/07 calculation would have the following effects:

For the financial year ended 31 March

SDR millions	2007	2006
Increase / (decrease) of the total service and interest cost		
6% medical inflation	4.6	4.3
4% medical inflation	(3.3)	(3.2)

As at 31 March

SDR millions	2007	2006
Increase / (decrease) of the benefit obligation		
6% medical inflation	47.0	46.4
4% medical inflation	(35.4)	(37.8)

23. Interest income

For the financial year ended 31 March

SDR millions	**2007**	2006
Currency assets available for sale		
Securities purchased under resale agreements	59.2	39.9
Government and other securities	328.9	287.1
	388.1	327.0
Currency assets held at fair value through profit and loss		
Treasury bills	816.0	465.3
Securities purchased under resale agreements	811.4	104.8
Time deposits and advances to banks	4,179.3	3,221.3
Government and other securities	1,727.2	1,058.4
	7,533.9	4,849.8
Assets designated as loans and receivables		
Call and notice accounts	105.6	96.6
Gold investment assets	15.4	20.4
Gold banking assets	6.7	7.0
	127.7	124.0
Derivative financial instruments held at fair value through profit and loss	**805.6**	936.7
Other interest	**2.7**	1.6
Total interest income	**8,858.0**	6,239.1
Of which:		
Interest received during the financial year	8,260.0	6,392.4

24. Interest expense

For the financial year ended 31 March

SDR millions	**2007**	2006
Liabilities held at fair value through profit and loss		
Currency deposits	7,596.9	5,064.3
Securities sold under repurchase agreements	–	0.3
	7,596.9	5,064.6
Liabilities designated as loans and receivables		
Gold deposits	5.2	5.4
Sight and notice deposit accounts	581.6	462.1
Securities sold under repurchase agreements	57.5	37.0
	644.3	504.5
Total interest expense	**8,241.2**	5,569.1
Of which:		
Interest paid during the financial year	7,824.7	5,434.9

25. Net valuation movement

The net valuation movement arises entirely on financial instruments designated as held at fair value through profit and loss.

For the financial year ended 31 March

SDR millions	**2007**	2006
Unrealised valuation movements on currency assets held at fair value through profit and loss	(6.8)	(332.9)
Realised gains / (losses) on currency assets held at fair value through profit and loss	(30.2)	4.3
Unrealised valuation movements on financial liabilities	(510.6)	498.2
Realised gains on financial liabilities	132.4	63.0
Valuation movements on derivative financial instruments	478.5	(306.7)
Net valuation movement	**63.3**	(74.1)

26. Net fee and commission income

For the financial year ended 31 March

SDR millions	**2007**	2006
Fee and commission income	6.1	5.8
Fee and commission expense	(4.8)	(3.1)
Net fee and commission income	**1.3**	2.7

27. Net foreign exchange gain / (loss)

For the financial year ended 31 March

SDR millions	**2007**	2006
Net transaction gain / (loss)	6.7	(23.4)
Net translation loss	(5.8)	(1.8)
Net foreign exchange gain / (loss)	**0.9**	(25.2)

The net loss in the financial year ended 31 March 2006 resulted principally from the impact of an appreciating gold price on the market value of forward contracts for the sale of gold investment assets. This loss was offset by a corresponding increase in the realised gain on the Bank's sales of gold investment assets (see note 30) when these transactions were settled.

28. Operating expense

The following table analyses the Bank's operating expense in Swiss francs (CHF), the currency in which most expenditure is incurred:

For the financial year ended 31 March

CHF millions	**2007**	2006
Board of Directors		
Directors' fees	1.9	1.7
Pensions to former directors	0.6	0.6
Travel, external Board meetings and other costs	1.7	1.1
	4.2	3.4
Management and staff		
Remuneration	106.6	102.3
Pensions	32.5	31.4
Other personnel-related expense	45.6	42.6
	184.7	176.3
Office and other expense	**64.6**	68.9
Administrative expense in CHF millions	**253.5**	248.6
Administrative expense in SDR millions	137.8	133.6
Depreciation in SDR millions	12.0	13.3
Operating expense in SDR millions	**149.8**	146.9

The average number of full-time equivalent employees during the financial year ended 31 March 2007 was 530 (2006: 520).

29. Net gain on sales of securities available for sale

For the financial year ended 31 March

SDR millions	**2007**	2006
Disposal proceeds	2,265.5	3,214.1
Amortised cost	(2,292.5)	(3,155.9)
Net gains / (losses)	**(27.0)**	58.2
Comprising:		
Gross realised gains	63.0	64.1
Gross realised losses	(90.0)	(5.9)

30. Net gain on sales of gold investment assets

The profits on the sales of gold investment assets for the financial year ended 31 March 2007 were as follows:

For the financial year ended 31 March

SDR millions	**2007**	2006
Disposal proceeds	206.7	187.2
Deemed cost (see note 21B)	(72.8)	(72.7)
Gross realised gains	**133.9**	114.5

31. Earnings per share

For the financial year ended 31 March	**2007**	2006
Net profit for the financial year (SDR millions)	639.4	599.2
Weighted average number of shares entitled to dividend	546,125	540,535
Basic and diluted earnings per share (SDR per share)	**1,170.8**	1,108.5

The dividend proposed for the financial year ended 31 March 2007 is SDR 255 per share (2006: SDR 245).

32. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise:

As at 31 March

SDR millions	**2007**	2006
Cash and sight accounts with banks	92.4	33.0
Call and notice accounts	2,138.6	2,831.6
Total cash and cash equivalents	**2,231.0**	2,864.6

33. Taxes

The Bank's special legal status in Switzerland is set out principally in its Headquarters Agreement with the Swiss Federal Council. Under the terms of this document the Bank is exempted from virtually all direct and indirect taxes at both federal and local government level in Switzerland.

Similar agreements exist with the government of the People's Republic of China for the Asian Office in Hong Kong SAR and with the Mexican government for the Office of the Americas.

34. Exchange rates

The following table shows the principal rates and prices used to translate balances in foreign currency and gold into SDR:

	Spot rate as at 31 March		Average rate for the financial year ended	
	2007	2006	**2007**	2006
USD	0.660	0.694	0.673	0.687
EUR	0.883	0.840	0.863	0.835
JPY	0.00562	0.00589	0.00576	0.00607
GBP	1.300	1.205	1.274	1.225
CHF	0.544	0.532	0.544	0.539
Gold	438.3	404.4	422.8	327.7

35. Off-balance sheet items

Fiduciary transactions are effected in the Bank's name on behalf of, and at the risk of, the Bank's customers without recourse to the Bank.

They are not included in the Bank's balance sheet and comprise:

As at 31 March

SDR millions	**2007**	2006
Nominal value of securities held under:		
Safe custody arrangements	11,189.6	10,413.8
Collateral pledge agreements	223.6	2,220.5
Portfolio management mandates	5,535.4	5,012.1
Total	**16,948.6**	17,646.4

The financial instruments held under the above arrangements are deposited with external custodians, either central banks or commercial institutions.

36. Commitments

The Bank provides a number of committed standby facilities for its central bank and international institution customers. As at 31 March 2007 the outstanding commitments to extend credit under these committed standby facilities amounted to SDR 7,211.8 million (2006: SDR 7,470.4 million), of which SDR 336.0 million was uncollateralised (2006: SDR 344.0 million).

37. Effective interest rates

The effective interest rate is the rate that discounts the expected future cash flows of a financial instrument to the current book value.

The tables below summarise the effective interest rate by major currency for applicable financial instruments:

As at 31 March 2007

Percentages	USD	EUR	GBP	JPY	Other currencies
Assets					
Gold deposits	–	–	–	–	0.85
Treasury bills	5.27	3.48	–	0.52	–
Securities purchased under resale agreements	5.23	3.75	–	–	–
Time deposits and advances to banks	5.44	3.92	5.46	0.49	4.14
Government and other securities	5.13	3.83	5.36	0.78	6.41
Liabilities					
Currency deposits	5.04	3.79	5.21	0.36	6.56
Gold deposits	–	–	–	–	0.54
Securities sold under repurchase agreements	5.42	3.88	5.36	0.54	–
Short positions in currency assets	5.51	–	–	–	–

As at 31 March 2006

Percentages	USD	EUR	GBP	JPY	Other currencies
Assets					
Gold deposits	–	–	–	–	0.61
Treasury bills	4.77	2.39	–	0.02	1.06
Securities purchased under resale agreements	4.78	2.63	4.57	–	–
Time deposits and advances to banks	4.75	2.51	4.59	–	4.25
Government and other securities	4.76	3.41	4.80	0.60	4.99
Liabilities					
Currency deposits	4.23	2.55	4.32	–	4.85
Gold deposits	–	–	–	–	0.28
Securities sold under repurchase agreements	4.63	–	4.27	–	–

38. Concentration analysis

A. Total liabilities

As at 31 March

SDR millions	**2007**	2006
Africa	24,526.0	18,260.7
Asia-Pacific	99,322.0	84,594.8
Europe	75,225.9	60,380.7
North and South America	51,769.1	41,394.6
International organisations	7,918.6	3,914.3
Total	**258,761.6**	208,545.1

The Bank's currency and gold deposits, principally from central banks and international institutions, comprise 90.8% (2006: 93.6%) of its total liabilities. At 31 March 2007 currency and gold deposits originated from 152 depositors (2006: 154). Within these deposits there are significant individual customer concentrations, with four customers each contributing in excess of 5% of the total on a settlement date basis (2006: five customers). Note 4 provides details of how the Bank manages the concentration risk in its funding base.

B. Credit commitments

As at 31 March

SDR millions	**2007**	2006
Africa	13.0	–
Asia-Pacific	6,817.8	7,166.4
Europe	315.0	304.0
Americas	66.0	–
Total	**7,211.8**	7,470.4

Note 36 provides further analysis of the Bank's credit commitments.

C. Off-balance sheet items

As at 31 March

SDR millions	**2007**	2006
Africa	1,573.7	975.2
Asia-Pacific	14,325.4	13,410.4
Europe	318.4	560.2
Americas	731.1	2,700.6
Total	**16,948.6**	17,646.4

Note 35 provides further analysis of the Bank's off-balance sheet items.

D. Total assets

The Bank invests the majority of its funds in the interbank market (with G10-based global financial institutions) and in G10 sovereign debt. A geographical analysis of the Bank's total assets is not provided because Management believes that this would not present a fair impression of the economic effect of the Bank's investments.

39. Related parties

The Bank considers the following to be its related parties:

- the members of the Board of Directors;
- the senior officials of the Bank;
- close family members of the above individuals;
- enterprises which could exert significant influence over a member of the Board of Directors or senior official, and enterprises over which one of these individuals could exert significant influence;
- the Bank's post-employment benefit arrangements; and
- central banks whose governor is a member of the Board of Directors and institutions that are connected with these central banks.

A listing of the members of the Board of Directors and senior officials is shown in the section of the Annual Report entitled "Board of Directors and senior officials". Note 22 provides details of the Bank's post-employment benefit arrangements.

A. Related party individuals

The total compensation of senior officials recognised in the profit and loss account amounted to:

For the financial year ended 31 March

CHF millions	**2007**	2006
Salaries, allowances and medical cover	6.7	6.4
Post-employment benefits	1.8	1.8
Total compensation in CHF millions	**8.5**	8.2
SDR equivalent	4.6	4.4

Note 28 provides details of the total compensation of the Board of Directors.

The Bank offers personal deposit accounts for all staff members and its Directors. In addition, the Bank operates a blocked personal deposit account for certain staff members who were previously members of the Bank's savings fund, which was discontinued in 2003. The terms of these blocked accounts are such that staff members cannot make further deposits and balances are paid out when they leave the Bank. The personal deposit accounts and the blocked accounts bear interest at a rate determined by the Bank based on the rate offered by the Swiss National Bank on similar staff accounts. The movements and total balance on personal deposit and blocked accounts relating to members of the Board of Directors and the senior officials of the Bank were as follows:

For the financial year ended 31 March

CHF millions	**2007**	2006
Balance at beginning of year	13.3	18.7
Deposits taken including interest income (net of withholding tax)	3.5	6.6
Withdrawals	(1.2)	(12.0)
Balance at end of year in CHF millions	**15.6**	13.3
SDR equivalent	8.5	7.1
Interest expense on deposits in CHF millions	0.4	0.5
SDR equivalent	0.2	0.3

Balances related to individuals who are appointed as members of the Board of Directors or as senior officials of the Bank during the financial year are included in the table above along with other deposits taken. Balances related to individuals who cease to be members of the Board of Directors or senior officials of the Bank during the financial year are included in the table above along with other withdrawals.

B. Related party central banks and connected institutions

The BIS provides banking services to central banks, international organisations and other public institutions. In fulfilling this role, the Bank in the normal course of business enters into transactions with related party central banks and connected institutions. These transactions include making advances, and taking currency and gold deposits.

It is the Bank's policy to enter into transactions with related party central banks and connected institutions on similar terms and conditions to transactions with other, non-related party customers.

Currency deposits from related party central banks and connected institutions

For the financial year ended 31 March

SDR millions	**2007**	2006
Balance at beginning of year	53,280.0	39,806.9
Deposits taken	184,721.8	175,323.0
Maturities, repayments and fair value movements	(182,058.0)	(156,074.1)
Net movement on call / notice accounts	(2,703.7)	(5,775.8)
Balance at end of year	**53,240.1**	53,280.0
Percentage of total currency deposits at end of year	24.0%	28.6%

Gold deposit liabilities from related party central banks and connected institutions

For the financial year ended 31 March

SDR millions	**2007**	2006
Balance at beginning of year	6,267.3	4,808.6
Deposits taken	83.3	–
Net withdrawals and gold price movements	3,773.2	1,458.7
Balance at end of year	**10,123.8**	6,267.3
Percentage of total gold deposits at end of year	77.1%	67.9%

Securities purchased under resale transactions with related party central banks and connected institutions

For the financial year ended 31 March

SDR millions	**2007**	2006
Balance at beginning of year	3,198.5	4,917.3
Collateralised deposits placed	680,101.7	1,095,001.1
Maturities and fair value movements	(682,830.0)	(1,096,719.9)
Balance at end of year	**470.2**	3,198.5
Percentage of total securities purchased under resale agreements at end of year	0.8%	16.4%

Other balances with related party central banks and connected institutions

The Bank maintains sight accounts in currencies with related party central banks and connected institutions, the total balance of which was SDR 144.7 million as at 31 March 2007 (2006: SDR 10.8 million). Gold held in sight accounts with related party central banks and connected institutions totalled SDR 11,837.7 million as at 31 March 2007 (2006: SDR 7,132.0 million).

Derivative transactions with related party central banks and connected institutions

The BIS enters into derivative transactions with its related party central banks and connected institutions, including foreign exchange deals and interest rate swaps. The total nominal value of these transactions with related party central banks and connected institutions during the year ended 31 March 2007 was SDR 17,005.8 million (2006: SDR 10,948.1 million).

40. Contingent liabilities

The Bank is indirectly involved in legal proceedings in France arising out of the mandatory repurchase in 2001 of the shares in the BIS held by private shareholders.

A damages claim was initiated in September 2004 before the Commercial Court in Paris by a group of claimants who allegedly sold BIS shares in the market during the period between the announcement of the proposed mandatory share repurchase on 11 September 2000 and the resolution on 8 January 2001 by the Extraordinary General Meeting effectuating the repurchase. The claim was brought not against the BIS, but rather against JP Morgan & Cie SA and Barbier Frinault, who advised the Bank on the appropriate compensation for the repurchase. That notwithstanding, the Bank faces indirect liability through an indemnification clause in its contract with JP Morgan & Cie SA with respect to litigation and costs that might arise in connection with the advisory services performed. No provision has been made for this claim.

In its judgment of 9 October 2006, the Commercial Court in Paris rejected the claim. A number of claimants have, however, requested review of this decision by the Paris Court of Appeals.

The BIS is not currently involved in any other significant legal proceedings.

Report of the auditors

Report of the auditors
to the Board of Directors and to the General Meeting
of the Bank for International Settlements, Basel

We have audited the accompanying financial statements (pages 192–231) of the Bank for International Settlements. These financial statements incorporate the balance sheet as at 31 March 2007, profit and loss account for the year then ended as required by the Bank's Statutes, and the notes thereto. The financial statements 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. The Management of the Bank is responsible for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. 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.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. 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 financial statements, 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 31 March 2007 and the results of its operations for the year then ended in conformity with the accounting principles described in the notes to the financial statements and the Statutes of the Bank.

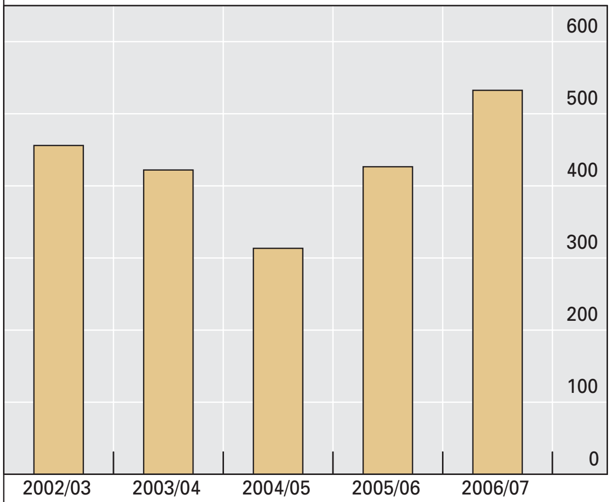
Deloitte AG

Dr. Philip Göth
Zurich, 7 May 2007

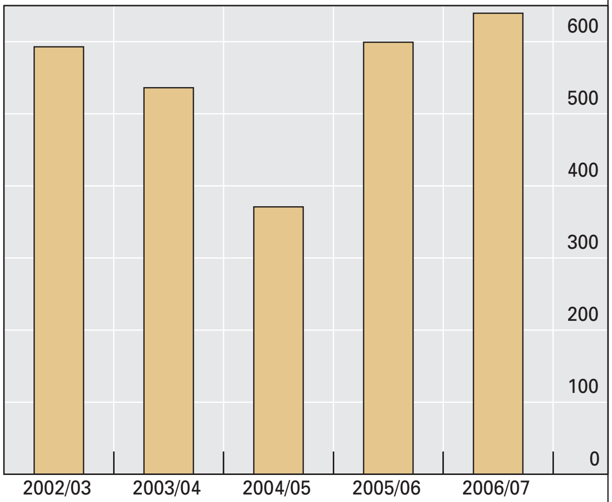
Pavel Nemecek

Five-year graphical summary

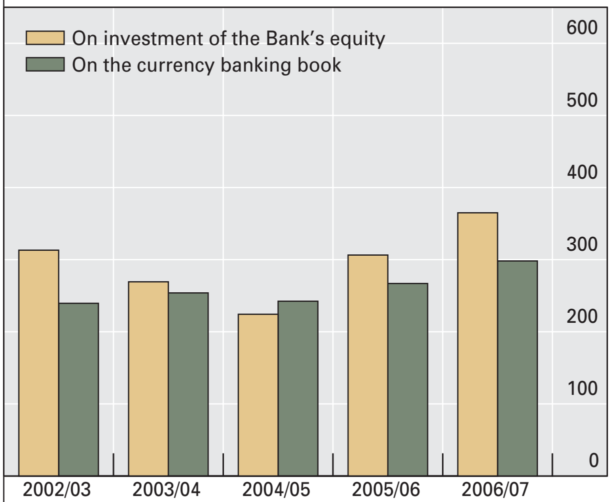
Operating profit
SDR millions



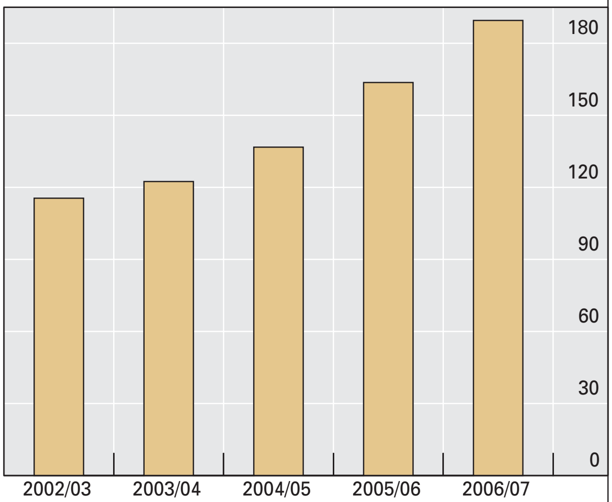
Net profit
SDR millions



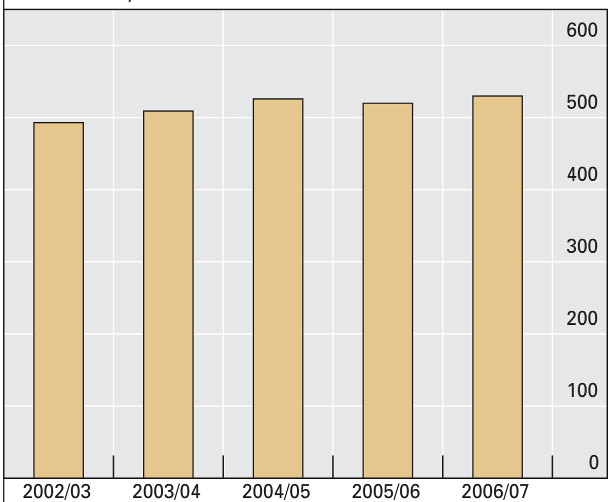
Net interest earned on currency investments
SDR millions



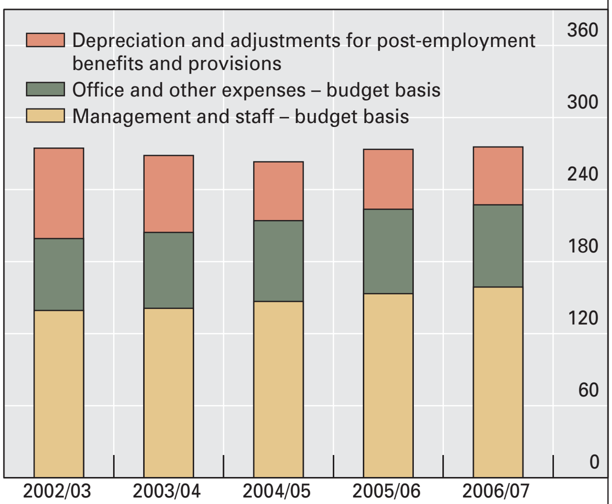
Average currency deposits (value date accruals basis)
SDR billions



Average number of employees
Full-time equivalent



Operating expense
CHF millions



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