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 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 578 staff from 48 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 that have responsibility for promoting financial stability;
- a centre for research on policy issues confronting central banks and financial system 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 during 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 which do not report directly 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.

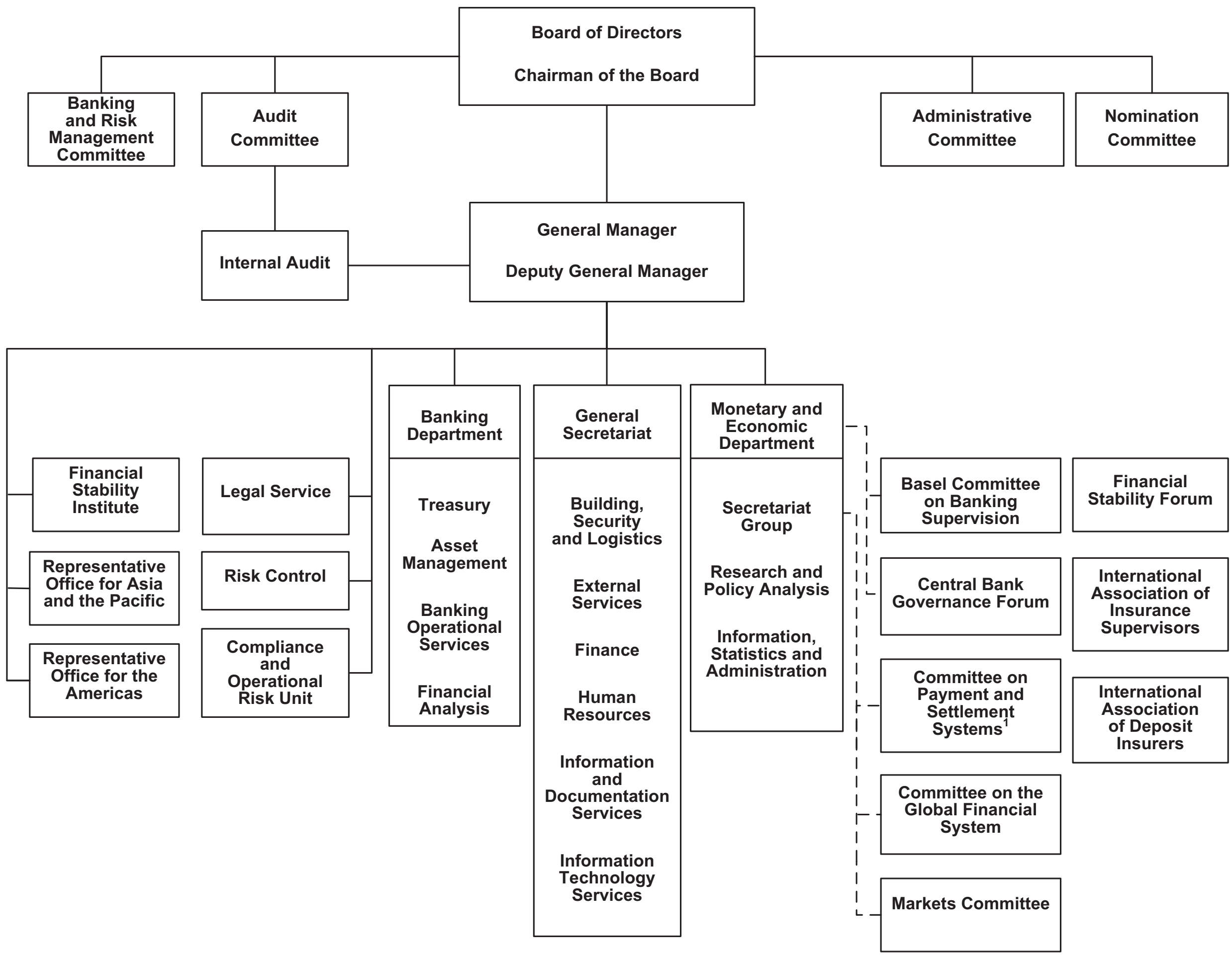
The Bank has three main departments: the Monetary and Economic Department, the Banking Department and the General Secretariat. These are supplemented by: the Legal Service; the Compliance and Operational Risk Unit, Internal Audit and Risk Control; and the Financial Stability Institute, which fosters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

There are three main decision-making levels in the governance and management of 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 2007, 110 central banks took part, including 78 at Governor level. Delegates from 17 international institutions also attended.
- The Board of Directors, currently comprising 20 members. Its main responsibilities include determining the strategic and policy direction of the Bank and supervising the Bank's Management. The Board is assisted by the Administrative Committee, the Audit Committee, the Banking and Risk Management Committee and the Nomination Committee. These committees are composed of selected Directors.
- The General Manager, who is responsible to the Board of Directors for the conduct of all important matters affecting the BIS as a whole. In taking decisions on these matters, the General Manager is advised by the Executive Committee of the Bank. The Executive Committee is chaired by the General Manager and comprises in addition the Deputy General Manager, the Heads of Department and other officers of similar rank appointed by the Board.

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 2008



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

Changes in the governance of the Bank

Advisory committees to the Board

With a view to further improving its governance practices, the Board completed in 2007 a review of the structure, mandate and composition of existing BIS Board committees. It decided to establish additional Board committees to ensure a broader participation of Board members in the preparation of Board decisions.

The new structure for BIS Board committees, which came into effect in July 2007, comprises, in addition to the Administrative Committee (formerly the Consultative Committee) and the Audit Committee, two new committees:

- a Banking and Risk Management Committee, the purpose of which is to provide a forum for the preparation of banking and risk management matters to be considered and/or decided upon by the Board; and

- a Nomination Committee, which assists the Board in carrying out its responsibilities as the appointing authority for positions on the Executive Committee of the BIS.

Furthermore, in November 2007, the Board decided to establish a Consultative Council for the Americas (CCA) as an advisory committee to the Board, comprising the Governors of BIS member central banks in the Americas. Reflecting the key role that is being played by the BIS Asian Consultative Council in guiding the activities of the BIS in Asia and the Pacific, the CCA's purpose will be to provide a vehicle for direct communication between the BIS member central banks in the Americas and the BIS Board and Management on matters of interest to the central bank community in the region.

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 2007 BIS bimonthly meetings took place in Cape Town and were hosted by the South African Reserve Bank. On that occasion, a special roundtable meeting of African Governors was organised to discuss the macroeconomic performance of African countries and the challenges they face in developing their financial markets.

The bimonthly meetings comprise, 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.

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 2007/08, the topics discussed were:

- the underlying causes and potential economic consequences of the current financial turmoil;
- the role of monetary and credit aggregates in monetary policy;
- the purpose and design of sovereign wealth funds and the related role of central banks; and
- the role of central banks in financial system development. On the occasion of this discussion, Professor Amartya Sen, the laureate of the 1998 Nobel Memorial Prize in Economics, was invited to the BIS to present his views on the role of central banks in democratic societies.

Because not all BIS member central banks are directly involved in the work of the Basel-based committees and other organisations hosted by the Bank, the All Governors' Meeting also represents an opportunity to review the activities of these specialised groupings. In 2007/08, for example, Governors discussed the work of the Basel Committee on Banking Supervision in the light of recent financial market developments.

Other regular meetings that take place during the 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.

In analysing issues related to financial stability, Governors attach importance to their dialogue with the 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, representatives of 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 "Capital flows and financial assets in emerging markets: determinants, consequences and challenges for central banks".

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 BIS deepened its relationship with Asian regional shareholders by organising joint high-level meetings with four member central banks and collaborating in research, drawing on the resources of the Asian research programme.

Meetings were held with:

- the Central Bank of Malaysia, on the implications of financial market development for monetary policy;
- the Reserve Bank of India, on money market development;
- the Bangko Sentral ng Pilipinas, on transparency and communication in monetary policy; and
- the Bank of Korea, on the policy challenge posed by household debt developments.

The Asian Office also convened meetings of reserve managers, monetary policy operators, central bank auditors and legal experts from within and outside the region. Asian Office economists provided secretariat services to twice-yearly meetings of the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) Forum on Foreign Exchange Markets.

In parallel, the representative of the Financial Stability Institute in the Asian Office provided secretariat services to the EMEAP Working Group on Banking Supervision meeting on financial stability and regulatory capital. Asian Office economists also wrote a background note for the first meeting of the deputy governor-level Monetary and Financial Stability Committee of EMEAP.

Banking activity and the Asian Bond Funds

The dealing room of the Asian Office further extended the range of banking services it offers to regional customers. An increasing number of Asian central banks are now dealing in a diverse range of products with the BIS Regional Treasury. In addition, the dealing room stepped up investment in the region through increased placements with existing counterparties and some new outlets, while maintaining a conservative risk profile.

As fund administrator, the BIS continued to provide support for public offerings of the bond funds under EMEAP's second Asian Bond Fund (ABF2) initiative. Eleven central banks have provided seed money from their international reserves for funds invested in sovereign and quasi-sovereign bonds from eight EMEAP economies. The overall size of the funds that the ABF2 invests in reached $3.3 billion at the end of March 2008, with $765 million of private investment in the funds, in addition to central bank holdings, which have grown from $2 billion to $2.5 billion. After its public launch as an open-ended fund in Indonesia in March 2007, the ABF Indonesia Bond Index Fund was successfully listed in December as the first Exchange Traded Fund on the Jakarta Stock Exchange. The Pan Asia Bond Index Fund returned almost 29% in its first 33 months of operation, to the end of March 2008. This return clearly outpaced that of US Treasury or agency debt of similar duration.

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

The Asian Consultative Council (ACC), currently chaired by Y V Reddy, Governor of the Reserve Bank of India, offers Governors of shareholding central banks in Asia and the Pacific a means of communication with the BIS Board and Management. At its two meetings this year, Governors focused their discussions on meetings to be organised and research to be carried out under the three-year Asian research programme (see below). In giving the BIS Board and Management the benefit of their views on these matters, Governors helped to attach priority where needed and to avoid duplication of efforts.

In February, the BIS once again organised a Special Governors' Meeting, this time hosted by the Reserve Bank of India in Mumbai, bringing together Governors from Asia-Pacific and elsewhere. Governors discussed supervisory lessons of the recent financial turmoil, the economic outlook and the development of robust money markets.

Asian research programme

The three-year Asian research programme passed its midpoint in early 2008. Progress is being made on a series of research projects that are intended to help regional authorities to improve monetary policy and operations, to develop financial markets, to maintain financial stability and to strengthen prudential policy. Research fellows from five shareholder central banks visited the Asian Office to participate in collaborative research. By the end of the programme, collaborative research on topics of interest to central banks and supervisors in the region will have been organised with almost every shareholding central bank in Asia and the Pacific, as well as with a number of universities and research institutes in the region. This research has not only fed into the numerous meetings organised with regional central banks, but has also led to several publications in refereed journals as well as the Bank's *Quarterly Review*. Economists in the Asian research programme also wrote notes on special policy issues at the request of the ACC Governors, including one on policy responses to capital flows in the region and another on new instruments and structured vehicles in regional credit markets. Two Asian research networks organised under the research programme held their first annual workshops in January.

The Americas

BIS initiatives in the Americas focused not only on shareholder central banks, but also on additional contacts with and events that included non-shareholding central banks, regulatory authorities and the academic community. These resulted in several articles in various journals, as well as in the Bank's *Quarterly Review* and the *BIS Papers* series.

Noteworthy Americas Office activities included:

- a first conference on new financing trends in Latin America, organised together with the Federal Reserve Bank of Atlanta and held in Mexico City; and
- a meeting for regional central banks on capital flows, held in Uruguay.

Furthermore, the Office hosted the first meeting of the Central Bank Governance Network to be held in the Americas and a meeting of the Management Committee of the Central Bank Counterfeit Deterrence Group; convened meetings for reserve managers from within and outside the region, and for central bank risk managers; and supported regional Financial Stability Institute events.

The Americas Office also provided support for and contributed to outreach meetings hosted by regional central banks, such as the Working Party on Markets in Latin America with the Markets Committee, held in Brazil; a meeting on housing finance with the Committee on the Global Financial System in Chile; and the BIS Working Party on Monetary Policy in Latin America held in Mexico.

As mentioned above, the Board decided in November 2007 to establish a Consultative Council for the Americas. The CCA will be formally constituted in 2008. The Americas Office will provide secretariat services for CCA meetings, which will be held at least once a year.

Financial Stability Institute

The mandate of the Financial Stability Institute (FSI) is to assist financial sector supervisory authorities worldwide in strengthening oversight of their financial systems, thereby fostering financial stability globally. The FSI conducts a two-pronged programme 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 programme is the long-standing series of high-level meetings, seminars and conferences both in Basel and at venues around the world. In 2007, the FSI organised a total of 55 events on a broad range of financial sector topics. More than 1,900 representatives of central banks and banking and insurance supervisory authorities participated. The FSI continued its series of high-level meetings for Deputy Governors and heads of supervisory authorities, with such meetings taking place in Africa, Asia, Europe and the Middle East. These meetings focused on Basel II implementation and other key supervisory issues.

FSI Connect

The second prong of the FSI programme is FSI Connect, an online information resource and learning tool for financial sector supervisors. FSI Connect includes more than 140 tutorials covering a wide range of topics for supervisors at all levels of experience and expertise. In the past year, a number of tutorials were added in two new subject areas: accounting, and payment and settlement systems. More than 150 central banks and supervisory authorities subscribe to FSI Connect, representing approximately 8,000 users.

Other major initiatives

In 2007, the FSI published the results of a survey on institutional arrangements for financial sector supervision in an Occasional Paper. The paper highlighted recent trends in supervision and set out the key players involved in financial sector supervision and the monitoring of overall financial stability. The paper also addressed issues related to cross-sectoral and cross-border supervisory cooperation.

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, seeks to improve supervisory understanding and the quality of banking supervision worldwide. It provides a forum for dialogue among supervisors by exchanging information on national supervisory arrangements; by improving the effectiveness of techniques for supervising international banking business; and by setting minimum supervisory standards in areas where they are considered desirable.

Responses to the market turmoil

Prior to the financial market turmoil that began in mid-2007, the Basel Committee had initiated work streams on a variety of risk management and supervisory topics, including liquidity risk and bank valuation practices. Given the weaknesses revealed by the turmoil, the Basel Committee accelerated and in some cases modified its work plans. The turmoil also taught important lessons that have helped guide the Committee in further strengthening the Basel II Framework. These initiatives are a core element of global efforts to strengthen the resilience of the banking system.

Liquidity risk management and supervision

The Basel Committee's work on liquidity risk that began in late 2006 focused initially on supervision practices in member countries. In response to market events, the original mandate was expanded to focus on the strengths and weaknesses of liquidity risk management in times of difficulty and, in February 2008, the Committee published *Liquidity risk: management and supervisory challenges*. The document highlighted financial market developments that affect liquidity risk management, discussed national supervisory regimes, and outlined observations from the current period of stress and potential future work related to liquidity risk management and supervision. The Committee is now completing a fundamental review of its *Sound practices for managing liquidity in banking organisations,* the global standards for liquidity risk management and supervision, which were issued in 2000. It plans to issue the new standards in mid-2008.

Bank valuation practices

In early 2007, the Basel Committee began a review of bank valuation practices. The objective was to gain a deeper understanding of approaches used to determine model-based valuations of financial instruments used for risk management and financial reporting purposes. This initiative also reviewed the related control, audit and governance practices surrounding these valuations. In response to the market turmoil, the scope of the work was expanded to include coverage of how banks responded to the market stress and initial lessons learned. While current valuation practices and processes were not the underlying cause of the market turmoil, the Basel Committee concluded that challenges in this area had contributed to and amplified its effects. The Committee will develop guidance for supervisors to assess the rigour of banks' valuation processes and thereby promote improvements in risk management.

The Basel II Framework

The financial market turmoil has reaffirmed the importance of prompt implementation of Basel II as a means to improve risk management and bank supervision. In response to market events, the Basel Committee undertook a review of the Basel II Framework to identify areas that could be strengthened in each of the Framework's three pillars: minimum capital requirements (Pillar 1), the supervisory review process (Pillar 2) and market discipline (Pillar 3). One such area is the strengthening of the capital requirements for the trading book. In October 2007, the Basel Committee published a consultative document covering *Guidelines for computing capital for incremental default risk in the trading book.* The Committee now wants to extend the scope of the proposed guidelines to include other potential event risks in the trading book. It expects to issue its event risk proposal for public consultation in 2008.

The market turmoil has also highlighted the importance of effective and consistent cross-border implementation of Basel II. In this context, in November 2007 the Committee published *Principles for home-host supervisory cooperation and allocation mechanisms in the context of advanced measurement approaches (AMA)* for operational risk. In addition, the Committee's Accord Implementation Group continues to address practical implementation challenges faced by the global supervisory community and to promote consistency in the implementation of Basel II.

Other risk management and supervisory initiatives

The Basel Committee has continued to play an active role in the work to develop international accounting and auditing standards. In this regard, it has worked closely with the International Accounting Standards Board (IASB) and the International Auditing and Assurance Standards Board (IAASB). 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.

In 2007, the Basel Committee formed a working group to review issues relating to the resolution of large banks with cross-border operations. This reflects the increasing significance of cross-border banking activities in recent years. The group will analyse existing resolution policies, allocation of responsibilities and legal frameworks as a foundation to a better understanding of the potential impediments and possible improvements to cooperation in the resolution of cross-border banks.

The Basel Committee also continues to play an important role in efforts to combat money laundering and the financing of terrorism. In its October

2007 newsletter, the Committee encouraged participants from the private and official sector to enhance transparency in international payments to aid anti-crime efforts worldwide. It continues to review the supervisory issues related to "cover payments" in order to reach a consensus on principles informing supervisory policies and priorities for the implementation of the transparency rules for international payments.

Outreach

The Basel Committee continues to expand the scope of its work to include supervisors from non-member jurisdictions and to further enhance its dialogue with supervisors around the world. In addition to the 13 countries represented on the Committee, more than 20 other countries participate directly in a variety of subgroups. This has served to increase the information exchange among a large number of countries. It has also proven to be an efficient way for the Committee to gain input from regions such as Asia and Latin America, as well as to disseminate information to members of regional groups of bank supervisors. The Committee's International Liaison Group (ILG) provides an additional platform for non-member countries to contribute to new Basel Committee initiatives and to develop proposals. The Committee will continue to explore ways to expand its dialogue with non-member countries through the work of the ILG, meetings with regional groups of banking supervisors and the biennial International Conference of Banking Supervisors, as well as other 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.

During the past year, the Committee's agenda increasingly reflected the unfolding financial market turmoil. In the context of its regular monitoring of the global financial system, the CGFS discussed:

- the causes of the broad-based credit deterioration in structured finance and the spillovers to other segments of the financial system;
- the effects of the recent turmoil on banks' balance sheets, their exposures to the credit market turmoil, including through warehouse risk, and exposures to off-balance sheet vehicles such as structured investment vehicles and conduits;
- the capacity of banks to raise short-term funding and capital against the background of continued disruptions in money and capital markets; and
- the consequences of the rapid deterioration in credit markets and the possible broader economic impact of tighter credit conditions.

In addition, the Committee established study groups to review specific aspects of the recent market turmoil. One group was asked to investigate how investors used rating information on structured finance products. This topic was also discussed at a CGFS workshop with credit rating agencies and investors in London. A second study group was asked to examine, in coordination with the Markets Committee, the effectiveness of central banks' responses to the tensions in money markets. The CGFS working group on private equity and leveraged finance, which was established before the turmoil began, also shifted its focus to the potential financial stability implications of the rapid growth of leveraged finance markets in the light of the recent turmoil.

As part of its efforts to improve the understanding of structural developments in global financial markets, the Committee established a working group to examine the financial implications of the significant rise in capital flows to emerging market economies in recent years.

Furthermore, the Committee organised several special meetings, including a series of regional meetings on housing finance following the publication in 2006 of its working group report on housing finance in the global financial system, and a roundtable on the development of local currency bond markets in Africa.

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 the strengthening of financial market infrastructure by promoting safe and efficient payment and settlement systems.

In July 2007, the Committee issued a consultative report entitled *Progress in reducing foreign exchange settlement risk*. The report is based on a major survey of how banks and other financial institutions manage the risks they can incur when settling foreign exchange trades. It concludes that although much progress has been made in tackling the problem, evidenced most visibly by the establishment and growth of CLS Bank, a notable share of trades is still settled in ways that generate significant potential risk in the financial system. The report therefore recommends specific actions by individual institutions, industry groups and central banks to reduce and control remaining large and long-lasting exposures. As a follow-up to the report, the Committee will be discussing with the Basel Committee possible ways to ensure that banks apply appropriate risk management procedures to their foreign exchange settlement exposures.

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 Financial Markets Department of the Bank of Japan, serves as a forum for central banks to discuss the specifics of their market operations. The Committee brings together senior officials responsible for market operations at G10 central banks. Representatives from the central banks or monetary authorities of Australia, Brazil, China, Hong Kong SAR, India, Korea, Mexico, Singapore and Spain also participate regularly.

At their bimonthly meetings, and whenever it is deemed useful, participating central banks (or a subset of them) jointly review recent developments in financial markets and their short-run implications for the functioning of these markets and their own operations.

Issues covered in this year's regular meetings included:

- the impact of monetary policy decisions on markets and possible communication challenges;
- the factors behind market tensions, in particular in money markets, and the nature and effects of central bank actions to address them;
- the consequences for currencies of sudden shifts in carry trade strategies; and
- the short-term patterns in global capital flows.

In addition, the Committee held special meetings, sometimes with the private sector, to address topics of a more structural nature, such as central bank understanding and monitoring of hedge fund strategies, changes in commodity markets, and the growing role of sovereign funds in global capital markets. The Committee organised, in cooperation with the Americas Office, a working party on markets in Latin America that was hosted by the Central Bank of Brazil.

As a result of the tensions observed in money markets, the Committee felt the need for more frequent and detailed discussions about market developments and the technical aspects of central bank market operations. To enhance market transparency and the understanding of central bank actions, the Committee also publicly released, for the first time, information on the monetary policy frameworks and market operations of its members in the form of a compendium. Finally, the Committee was involved in a study group with the CGFS to examine the effectiveness of central banks' responses to the tensions in money markets.

Central Bank Counterfeit Deterrence Group

The Central Bank Counterfeit Deterrence Group (CBCDG) is mandated by the Governors of the G10 central banks to investigate threats to the security of banknotes and to propose solutions for implementation by note-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 supports the work of the CBCDG by hosting its Secretariat and by acting as its agent in contractual arrangements.

BIS contributions to broader international financial cooperation

Group of Ten

The BIS continued to contribute to the work of the G10 Finance Ministers and central bank Governors by participating as an observer institution and providing secretariat support. At their annual meeting, the G10 Ministers and Governors reviewed progress made in implementing the recommendations of the FSF's *Report on highly leveraged institutions*. They welcomed the progress made both in the joint supervisory review of the counterparty risk management practices of the core intermediaries and in the work by private sector working groups in the United Kingdom and the United States to develop best practices for hedge funds in order to strengthen market discipline. The G10 Ministers and Governors also endorsed the renewal of the General Arrangements to Borrow for a further five-year period.

Financial Stability Forum

The Financial Stability Forum (FSF) 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 IASB and the International Organization of Securities Commissions (IOSCO)) and central bank expert groupings (CGFS and CPSS). The FSF is chaired by Mario Draghi, Governor of the Bank of Italy.

The FSF normally meets twice yearly in plenary form, most recently in September 2007 in New York and March 2008 in Rome. At these meetings, members discussed the current challenges and vulnerabilities in financial markets, the steps that are being taken to address them and policy options going forward. The Forum also holds occasional regional meetings to foster wider exchanges of views on financial vulnerabilities and relevant policy work under way.

In May 2007, the FSF issued an update of its report on highly leveraged institutions. While the hedge fund sector has not been the primary source of the recent market turmoil, the severity of market problems has highlighted the importance of ensuring sound counterparty risk management at regulated institutions and fostering the exchange of relevant information between hedge funds and their counterparties. The updated report examined important issues in these areas and made a series of recommendations. The FSF subsequently welcomed private sector initiatives to enhance guidance on sound practices for hedge fund managers and investors. At its Rome meeting, the FSF said that it would welcome regular reports on the adoption of the standards by the hedge fund industry and on how well these standards are meeting the objectives of increasing transparency and improving risk management practices.

At its September 2007 meeting, the FSF reviewed its offshore financial centres (OFC) initiative, based on a report from its OFC Review Group. The Forum acknowledged the significant progress made by OFCs, although some concerns remain. The FSF restated its commitment to foster compliance with international standards, including better cooperation and information exchange.

At the request of the G7 Finance Ministers and central bank Governors, the FSF prepared a report identifying the key weaknesses underlying the market turmoil that started in the summer of 2007 and recommending actions to address these weaknesses. The *Report of the Financial Stability Forum on enhancing market and institutional resilience*, published in April 2008, was prepared by a working group comprising senior officials from major financial centres and international financial institutions and the chairs of international supervisory and regulatory bodies. It sets out specific policy recommendations in the following areas: prudential oversight of capital, liquidity and risk management; transparency, disclosure and valuation practices; the role and uses of credit ratings; and the authorities' responsiveness to risks and their arrangements to deal with stress in the financial system. These recommendations are concrete and operational and the FSF will oversee their timely implementation.

The FSF has continued its support of efforts to strengthen international accounting and auditing standards and practices. In its report to the G7, the FSF called on accounting standard setters to enhance the financial reporting standards for off-balance sheet vehicles, valuations and risk disclosures, while auditing standard setters and oversight authorities were encouraged to improve their guidance about auditing valuations of complex or illiquid financial products.

At their April 2008 meeting in Washington, the G7 Ministers and Governors strongly endorsed the report and identified a number of recommendations among the priorities for prompt implementation. These include initiatives on disclosure and accounting standards, as well as work to strengthen risk management practices and capital positions, issue liquidity risk management guidelines, and revise codes of conduct for credit rating agencies.

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, such as its Joint Forum partners, the Basel Committee and IOSCO, the IAIS has helped develop principles for the supervision of financial conglomerates. Over recent years, the IAIS has grown significantly.

The IAIS actively participates in the FSF and has contributed to the activities of the FSF Working Group on Market and Institutional Resilience. During the year, the IAIS conducted three surveys to assess the potential impact of global financial market developments on the insurance sector. The findings will assist in identifying and prioritising its activities and will provide input to the FSF's work from an insurance regulatory perspective.

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

Accounting

The IAIS has a strong interest in ensuring high-quality financial reporting that offers a meaningful, economically sound portrayal of insurers' financial health. It closely monitors the international financial reporting developments which will most influence the overall accounting model for regulated insurance enterprises. In 2007, the IAIS provided substantial input to the IASB's work on insurance contracts, and on other projects of relevance to insurers, such as fair value measurements. The IAIS also comments on the International Federation of Accountants' consultative draft papers on the international auditing standards of most relevance to the insurance sector.

Capital adequacy and solvency

In October 2007, the IAIS adopted three guidance papers on solvency assessment. Aimed at facilitating greater comparability and convergence in the international assessment of insurer solvency, these papers focus on:

- principles-based requirements for a solvency regime in relation to regulatory capital requirements;
- the establishment and ongoing operation of an enterprise risk management framework; and
- the use of internal models as a method to assess risk, both quantitatively and qualitatively, and manage capital.

Group supervision

Recognising the growing internationalisation of the insurance market, and the reality that much insurance business is undertaken within a group structure, the IAIS has made substantial progress in developing a set of principles to facilitate more streamlined and efficient supervision of insurance groups. Supplementary standards and guidance papers will support this work.

Reinsurance

In November 2007, the IAIS published the fourth edition of its *Global reinsurance market report,* based on global reinsurance statistics submitted by the world's largest reinsurers. It shows that 2006 was significantly more profitable for reinsurers than 2005, which had seen record losses.

Information sharing

Following the adoption of a *Multilateral memorandum of understanding* (MMOU) in February 2007, which defines a set of principles and procedures for sharing information, views and assessments, the IAIS commenced validation of applications from interested jurisdictions.

Training

Each year, the IAIS organises some 15 regional seminars and workshops to assist insurance supervisors in implementing its principles and standards, in collaboration with the FSI, national insurance supervisory authorities and other bodies. In January 2008, the IAIS rolled out IAIS DISCOVER, a series of online tutorials complemented by workshops and distance learning events. Launched in Beijing, three tutorials were piloted with Asian insurance supervisors. The IAIS will develop additional tutorials based on the Core Curriculum for Insurance Supervisors developed in cooperation with the World Bank.

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 enhance 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 or enhancement of effective deposit insurance systems.

Currently, 73 organisations (of which 51 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 Association's main objectives is to improve the effectiveness of deposit insurance systems through the development of principles and practices. In March 2008, IADI released *Core Principles for effective deposit insurance systems* for the benefit of countries considering the adoption or reform of a deposit insurance system. The 21 Core Principles are based on IADI research and guidance papers and the endorsement by IADI of guidance developed by its founding members and international organisations. In developing them, IADI drew heavily on the experience of its members. The Core Principles are designed to be adaptable to a broad range of country circumstances, settings and structures.

During its sixth year of operation, IADI continued to provide many forums for deposit insurers and other safety net participants. Highlights were:

- the Sixth Annual Conference, themed "Deposit insurance and consumer protection", attended by 250 deposit insurers and policymakers from

52 countries with an exposition on key characteristics of depositor protection arrangements from systems around the world, held in Kuala Lumpur in October 2007;

- an IADI Executive Training Program, held in Washington in July 2007, featuring case studies on the establishment of deposit insurance systems, and the management of depositor claims against a failed bank;
- a symposium on cross-border issues, held in Basel in May 2007; and
- an interregional conference on "The role of deposit insurance systems in enhancing financial stability" in Istanbul in June 2007.

Recent regional activities have included conferences, seminars and committee meetings in Istanbul, Prague, Washington DC, Kuala Lumpur, San Salvador, Basel and Bali.

IADI's interactive web portal facilitates research and provides information on deposit insurance topics and activities to members and participants.

IADI website: www.iadi.org.

Other areas of central bank cooperation promoted by the BIS

Research activities

In addition to providing background material for meetings of senior central bankers, as well as 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 regular publications, such as the *Annual Report,* the *Quarterly Review* and the *BIS Papers and Working Papers* series, as well as specialised professional and academic 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 during the past year included:

- the financial market turmoil: its causes and policy implications;
- the behaviour of the interbank market;
- the macroprudential approach to financial stability and the coordination between monetary and prudential policies;
- changes in the financial system and the transmission mechanism of monetary policy;
- transparency and communication in monetary policy;
- the use of dynamic stochastic general equilibrium (DSGE) models in the policy process;
- the measurement and pricing of credit risk;
- the term structure of interest rates, with particular reference to term premia;
- trends in international banking; and
- foreign exchange reserve management practices.

As part of its research activities, the BIS also organises conferences and workshops, typically bringing together senior policymakers, leading academics and market participants. In June 2007, the Sixth BIS Annual Conference addressed the nexus between financial system and macroeconomic resilience.

In the second half of 2007, the BIS also organised two meetings for central bank researchers designed to illuminate the policymaking process. The first, which was held in September with the participation of academics, explored the usefulness of DSGE models as policy tools. The second, held in November, and partly based on an ad hoc survey, was devoted to a systematic analysis of the preparation of the statistical and analytical inputs for monetary policy decisions and the communication of the outputs.

Central bank governance

The BIS's support for actions to improve the governance of central banks as public policy institutions is coordinated through the Central Bank Governance Forum. The Governance Forum consists of the Central Bank Governance Group (comprising Governors from a broadly based and representative group of central banks), the Central Bank Governance Network (now spanning almost 50 central banks and monetary authorities) and a Secretariat.

The work is carried out by compiling, analysing and disseminating information on different approaches to the operation and governance of central banks. Interest from central banks in specific matters determines the issues that are addressed. Last year, interest extended to issues as diverse as central bank communications, the operation of central bank policymaking and oversight boards, staff input into monetary policy decisions, the organisation of the lender of last resort function, and central bank remuneration principles and practices. In addition, a comprehensive report on the organisation of risk management in central banks was released to central banks. At present, work is under way on distilling key elements in the design of a modern central bank from the information that has been amassed over the years. A new information system is also being developed that will provide much improved access to comparative data on central banks' governance and organisation to central banks.

Cooperation in the statistical area

Timely, reliable and internationally comparable economic, monetary and financial statistics are of key importance to policymakers and market participants. The BIS closely monitors, and actively contributes to, ongoing efforts to improve statistics at the international, regional and national level, particularly as regards statistics on financial developments.

Irving Fisher Committee on Central Bank Statistics

By the end of 2007, all BIS shareholding central banks had become institutional members of the Irving Fisher Committee on Central Bank Statistics (IFC). The Committee is a forum for users and compilers of statistics, both within and outside central banks, to discuss statistical issues relating to economic, monetary and financial stability. It is chaired by Jan Smets, Director at the National Bank of Belgium.

In August 2007, the IFC organised various meetings at the 56th Session of the International Statistical Institute in Lisbon. Topics included the recording of pension liabilities in national accounts, measures of stocks and flows in financial accounts, measures of output and prices of financial services, and portfolio investment statistics. The IFC also organised a series of regional workshops, in India, Argentina and Austria, on the use of surveys by central banks, co-sponsored by the respective host countries' central banks and respective regional central bank organisations. In March 2008 the IFC organised a workshop on "Challenges to improve global comparison of securities statistics" at the IMF.

Proceedings of IFC meetings are published in the *IFC Bulletin* and posted on the BIS website. The Committee has also launched a Working Paper series which contains analysis by experts of the Committee's institutional members as well as those outside the central banking community.

International financial statistics

Last year, 54 central banks contributed to the BIS's seventh Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity, covering daily turnover in foreign exchange and derivatives markets in April 2007 and amounts outstanding and gross market values at the end of June. Thanks to improved compilation procedures, the final findings were published in December, three months earlier than in 2004.

The movements revealed by the BIS quarterly statistics on cross-border banking and securities issuance as well as its semiannual statistics on over-the-counter derivatives were of particular significance during the recent period of financial market turmoil. The banking and securities statistics produced by the BIS are also an important data source for the Joint External Debt Hub (JEDH), established in cooperation with the IMF, OECD and World Bank. Cooperation between the BIS and the International Union of Credit and Investment Insurers (the Berne Union) has resulted in new trade credit data for the JEDH as from early 2008.

In January 2008, 35 central banks were represented at the BIS's biennial meeting of Experts on International Financial Statistics. Discussions focused on methodological and organisational aspects of the various BIS-sponsored data collection exercises. Last year, the Bank also sought the cooperation of the central banks of the countries covered by the BIS domestic securities statistics to improve these in line with proposals made in the CGFS report on *Financial stability and local currency bond markets*.

BIS Data Bank

Forty-one BIS shareholding central banks participate in the BIS Data Bank, through which they regularly share national data with one another. Last year, the online facility for accessing the Data Bank was significantly improved. The coverage of the Data Bank was expanded by the inclusion of data on payment systems (in particular, data published by the CPSS), housing prices and daily central bank money market operations.

Statistical information technology

Collecting, compiling, analysing and disseminating statistical data is resource-intensive, also in terms of information technology (IT). As part of a multi-year upgrade of its own IT applications, the BIS has put into production a new application for processing its international banking statistics. It is also studying how it can upgrade its application supporting the BIS Data Bank and promote the integration of its various databases and end user applications. Furthermore, a project is under way to improve the dissemination of statistics on the BIS website.

The BIS works closely with central banks to improve IT solutions for exchanging and processing statistical data and metadata. In particular, it contributes actively to the Statistical Data and Metadata Exchange (SDMX) initiative, a joint effort with the ECB, Eurostat, IMF, OECD, United Nations and World Bank. In February 2008, the UN Statistical Commission, attended by delegations from about 130 countries and 40 international organisations, recognised SDMX as the preferred standard for the exchange and sharing of data and metadata, and encouraged national and international statistical organisations to implement SDMX.

SDMX products are available via the SDMX website (www.sdmx.org) and 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.

In addition, the website provides information about SDMX-related developments in a growing number of statistical subject areas.

Group of Computer Experts of the G10 central banks

The Group of Computer Experts (GCE) provides a twice-yearly forum for a number of key central banks to share technical and organisational experiences in the area of IT. Additionally, the Working Party on Security Issues (WPSI) meets twice a year on issues related to IT security.

In June 2007, the GCE held the Central Bank Information Technology Exchange (CBITX), its triennial workshop, hosted this time by the Monetary Authority of Singapore. This was preceded by a regional workshop, hosted by the BIS, with members of the GCE and IT representatives from selected regional central banks. Presentation and discussion sessions covered and openly shared views on knowledge management, chargeback for IT services, applications deployment across very large-scale organisations, IT risk management, "build or buy" for applications, and support requirements for high-availability systems.

At their November meeting, GCE members approved the formation of a working group to enhance the planning of content and format for future meetings. Special interest groups will be formed to cover topics of long-term interest that can be cooperatively developed and presented over a series of meetings. In March 2008, recognising the growing relationship between cyber- and physical security, a joint workshop was organised by the WPSI and the Heads of Security (HOS) from the G10 central banks plus security experts from major non-G10 central banks. Topics discussed included business continuity management, risk management, and organisation and strategy. Following the success of this workshop, the WPSI and HOS groups will look at possible future cooperation.

Cooperation with regional central bank groupings

The BIS cooperates with regional central bank groupings primarily to disseminate its research, policy analysis and statistics to those central banks which do not normally participate in its regular activities. During the past year the cooperation included:

- two seminars on "Financial stability analysis and reports", one organised for central banks from central and eastern Europe and the Commonwealth of Independent States at the Joint Vienna Institute, and the other for central banks and monetary agencies of the Gulf Cooperation Council (GCC) in Riyadh, hosted by the Saudi Arabian Monetary Agency (the BIS also supported the South East Asian Central Banks (SEACEN) in organising a seminar on this topic); and
- lectures conducted as part of the Masters in Banking and Finance programme of the Centre Africain d'Études Supérieures en Gestion (CESAG), located in Dakar.

In spring 2007, the annual meeting of the Group of Coordinators of Technical Cooperation and Training was held in Yerevan. Some 50 representatives from 36 institutions were invited to discuss recent developments in technical cooperation among participating central banks and international financial institutions. The Group also sponsored the organisation of a meeting of global training providers which took place at the BIS in autumn 2007. This was attended by representatives of 30 international and national institutions that provide significant international training programmes for central banks. Discussions focused on training activities, organisational and operational aspects, and current and possible future areas of cooperation.

Internal Audit

G10 central bank internal 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 2007, the BIS participated in the 21st Annual Plenary Conference of G10 Heads of Internal Audit, hosted by the Federal Reserve Bank of New York. It covered topics such as: reporting to the board on internal controls;

cultural issues and the role of internal audit; business continuity management; key performance indicators; and use of risk models.

BIS Internal Audit has established information sharing networks for internal audit heads from central banks and monetary authorities in the Asia-Pacific region, and in Latin America and the Caribbean. In October 2007, Internal Audit and the Asian Office organised in Hong Kong SAR the fifth BIS meeting of heads of internal audit from central banks in that region.

Financial services of the Bank

The scope of financial services

The BIS offers a wide range of financial services designed specifically to assist central banks and other official 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.

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 ultimately to the General Manager – monitors the Bank's credit exposure, liquidity and market risks. Similarly, a compliance and operational risk unit monitors the Bank's operational risks.

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 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.

The Bank transacts foreign exchange and gold on behalf of its customers. From time to time, it extends short-term credits to central banks, usually on a collateralised basis. The BIS 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. The 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 the Bank's Basel head office and one at its Asian Office in Hong Kong SAR.

Financial operations in 2007/08

In the conditions of financial turmoil that began during the summer of 2007, the Bank was confronted with increased inflows of deposits at a time when the highly disturbed market conditions made it difficult to place them profitably in the private financial markets at acceptable risk. Accordingly, the BIS took a number of active measures in its banking and risk management to address these challenges.

One set of measures was designed to slow down the inflow of deposits by making their yields somewhat less attractive to customers. As a result of these and other actions, growth in the Bank's currency deposit base decelerated to SDR 14.3 billion in 2007/08, from an average annual growth of SDR 35.6 billion in the preceding two years. The proportion of total official foreign exchange reserves held at the BIS declined modestly in 2007/08, to 5.8% from 6.2% a year earlier.

The growth of the total balance sheet moderated to SDR 40.2 billion in 2007/08, from SDR 50.8 billion in 2006/07. As a result, the balance sheet total amounted to SDR 311.1 billion at 31 March 2008.

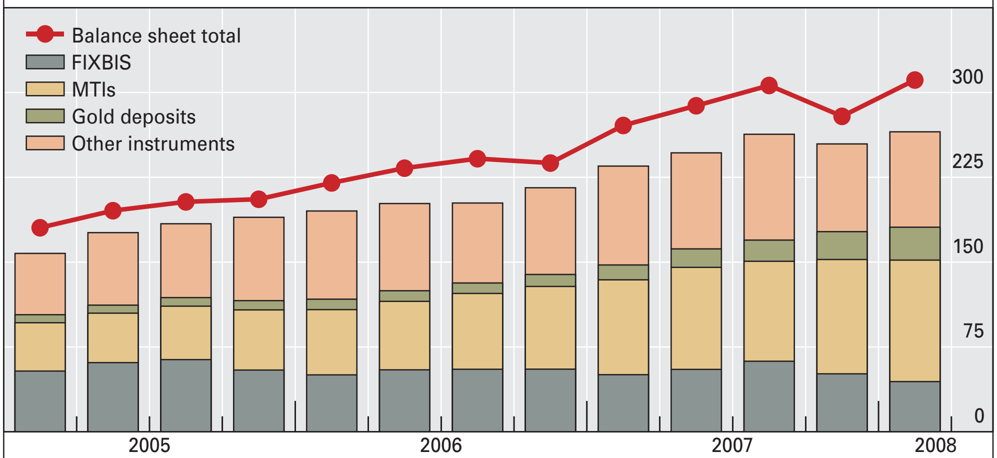
Liabilities

The size of the BIS balance sheet is mainly driven by placements from customers, which constitute the lion's share of total liabilities (see graph). On 31 March 2008, customer placements (excluding repurchase agreements) amounted to SDR 265.2 billion, compared with SDR 234.9 billion at the end of the previous financial year.

Around 89% of customer placements are denominated in currencies, with the remainder in gold. Currency deposits rose from SDR 221.8 billion a year ago to SDR 236.1 billion at end-March 2008 – representing some 5.8% of the world's total foreign exchange reserves of nearly SDR 4.1 trillion, up from SDR 3.6 trillion at end-March 2007. The share of

Balance sheet total and customer placements by product

End-quarter figures, in billions of SDR



The sum of the bars indicates total customer placements.

currency placements denominated in US dollars was 66%, whereas euro-denominated funds accounted for 20%. Gold deposits amounted to SDR 29.1 billion at end-March 2008, an increase of SDR 16.0 billion over the financial year.

The expansion of customer currency placements was mainly attributable to a 64% and 28% increase in investments in sight and notice accounts and MTIs, respectively. This expansion more than offset a 33% decrease in investments in fixed-term deposits.

A breakdown by geographical regions of placements with the BIS shows a relatively stable pattern, with African and European customers accounting for the highest share.

Assets

Most of the assets held by the BIS consist of investments with highly rated commercial banks of international standing as well as government and quasi-government securities, including reverse repurchase agreements. In addition, the Bank owned 125 tonnes of fine gold at 31 March 2008, having disposed of 25 tonnes during the financial year. The credit exposure is managed in a very conservative manner, with almost all of the Bank's credit exposure rated A– or higher as at 31 March 2008 (see note 3F of the "Risk management" section of the financial statements).

The Bank's holdings of currency deposits and securities, including reverse repurchase agreements, totalled SDR 266.6 billion on 31 March 2008, up from SDR 247.9 billion at the end of the previous financial year. These additional funds were mainly invested in reverse repurchase agreements against government collateral, treasury bills and government and other securities. Time deposits and advances to banks were reduced.

The Bank uses various derivative instruments in order to manage its assets and liabilities efficiently (see note 8 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 2007 the Bundesamt für zentrale Dienste und offene Vermögensfragen (BADV – Federal Office for Central Services and Unresolved Property Issues) had arranged for payment of approximately €4.7 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.

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 2007/08, 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).

Institutional and administrative matters

The Bank's administration

Three-Year Strategic Plan

During 2007, the Management of the Bank elaborated its first Three-Year Strategic Plan, covering the financial years to March 2011. Approved by the Board in November 2007, it seeks to deepen and broaden key activities under the Bank's established mandate by:

- strengthening the work of the BIS in fostering central bank cooperation;
- deepening the dialogue among central banks and financial supervisors on issues of financial stability; and
- enhancing the banking services that the BIS provides to central banks.

Budget policy

The process of formulating the Bank's expenditure budget for the next 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, management and staff expenses, including remuneration, pensions and health and accident insurance, amount to around 70% of administrative costs. 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 2007/08 amounted to 233.1 million Swiss francs, 2.4% below the budget of 238.8 million Swiss francs,[1] while capital expenditure, at 24.0 million Swiss francs, was 0.7 million below budget.

[1] The Bank's budgetary accounting 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 "Financial results and profit distribution").

Administrative and capital expenditure reflected the priorities set in the 2007/08 budget, in which the main emphasis was on further strengthening the resilience of the Bank's operations and enhancing its financial controls, in particular:

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

In addition to these objectives, work continued on the following initiatives to meet the needs of the Bank's shareholders:

- expanding BIS services to deepen relations with shareholders in the Asia-Pacific region through continuation of the three-year policy-oriented research programme on monetary and financial sector issues in Asia which began in September 2006;
- implementing the results of the activity review undertaken during 2005/06, which identified a number of areas where efficiency gains can be realised. The implementation of the activity review has already led, and will continue to lead over the next few years, to a reduction of administrative costs in Basel, thereby providing the room for additional resources for enhancing services to central banks; and
- reinforcing building safety, renewing meeting facilities in the Tower building and renovating the Sports Club buildings.

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. Every three years, a comprehensive salary survey is conducted in which BIS salaries are benchmarked against compensation in comparable institutions and market segments. When benchmarking BIS salaries against comparators, the Bank focuses on the upper half of market compensation in order to attract highly qualified staff. The analysis takes into account differences in the taxation of compensation for the staff of the surveyed institutions. The most recent such survey took place in the second half of 2007. As of 1 July 2008, it will result in an alignment of the midpoints of the Bank's salary ranges with the observed market benchmarks.

In years between comprehensive salary surveys, the salary structure is adjusted for the rate of inflation in Switzerland and the weighted average real wage increase in the G10 countries. In July 2007, the salary structure was accordingly increased by 2.9% in nominal terms. Movements of salaries of individual staff members within the ranges of the salary structure are based on performance.

BIS staff members have access through the Bank to a contributory health insurance plan and a contributory defined benefit pension plan. Non-Swiss and non-locally hired staff members recruited for a position at the Bank's headquarters, including senior officials, are entitled to an expatriation allowance. In proportion to annual salary, it currently amounts to 14% for unmarried staff members or 18% for married staff members, subject to a ceiling. Expatriate staff members are also entitled to receive an education allowance for their children subject to certain conditions.[2] With regard to employment in the Representative Offices, a distinction is made between staff members transferred from the headquarters and staff members recruited directly for a position in a Representative Office. The employment conditions of the former are determined in accordance with the Bank's international assignment policy. For staff directly recruited for a position in a Representative Office, employment conditions are aligned with those in the market in which the Office is located. Those staff members have access to the same health insurance and pension plans as staff engaged for a position at the Bank's headquarters.

The salaries of senior officials are regularly benchmarked against compensation in comparable institutions and market segments. In line with the survey for other staff, the most recent executive compensation survey took place in the second half of 2007. The results confirmed the appropriateness of the current practice of annually adjusting the salaries of senior officials for the rate of Swiss inflation.

As of 1 July 2007, the annual remuneration of senior officials, before expatriation allowances, is based on the following salary structure:

- General Manager[3] 734,990 Swiss francs
- Deputy General Manager 621,910 Swiss francs
- Heads of Department 565,380 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 2008. 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.

Financial results and profit distribution

Financial results

Background

The Bank's financial results for the 78th financial year, 2007/08, were achieved against a background of the turbulence in the global financial markets in

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

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

which the BIS operates. The main developments were a marked increase in uncertainties about the creditworthiness of counterparties, a rise in credit spreads, and substantial volatility in market prices. In these conditions, there was a "flight to quality", as a result of which the market values of government securities and the price of gold both rose markedly.

In the face of volatile market pricing and increased deposit inflows arising from this flight to quality, the Bank was confronted with the combined challenge of moderating deposit inflows and continuing to invest its borrowed resources profitably, while maintaining a conservative risk profile. Accordingly, Management widened the spreads below Libor for the interest rates the Bank pays on the key classes of liabilities that it offers to central bank customers. This was done in several steps, each time carefully gauging market developments. In parallel, measures were also taken to reduce credit risk exposure to commercial bank counterparties, while increasing investments in government securities and collateralised lending to the banking sector in the form of reverse repurchase agreements. These actions restrained the growth in deposits during the remainder of the financial year and preserved the underlying profitability of the Bank.

Highlights

As a result of these developments:

- Interest margins on an accruals basis in the Bank's borrowed funds book widened.
- Unrealised valuation losses were incurred on the bonds in the Bank's credit portfolios in the borrowed funds book as credit spreads widened against Libor.
- Unrealised valuation losses also resulted from the rise in the fair value of the Bank's liabilities as spreads on interest payable below Libor were increased.
- Substantial realised and unrealised gains on the Bank's own funds investments arose as the price of gold and market values of government securities both appreciated.

  These factors led to:
- Declines in the Bank's net profit (–12.0%) and operating profit (–49.9%) compared with 2006/07.[4] If the change in accounting policy to introduce bid-offer pricing had not been made, the decline in net profit would have been 3.1%, and that in operating profit 37.7%.
- An increase in the Bank's equity of SDR 1,011 million during 2007/08, compared to an increase in equity of SDR 552 million in 2006/07.
- A significant increase in the return on equity to 9.1% in 2007/08, compared to 5.8% in 2006/07.

Detailed review (see profit and loss account)

Net interest income accrued was SDR 973.4 million in the financial year 2007/08, 57.8% higher than the equivalent figure of SDR 616.8 million in

[4] Part of the reduction in operating profit for 2007/08 resulted from the move to the bid-offer valuation convention in accordance with generally accepted accounting practice.

2006/07. This increase was primarily attributable to the higher interest accruals margin arising from wider spreads above Libor received on the Bank's risk-weighted assets, as well as to the wider spreads below Libor paid on the Bank's liabilities, resulting from the Management decisions described above.

Net valuation movements resulted in a loss of SDR 478.7 million in 2007/08, compared to a profit of SDR 63.3 million in 2006/07.[5] Within this loss, SDR 362.4 million was attributable to the unrealised valuation loss from the widening of credit spreads compared to Libor, which reduced the fair values of the bonds in the Bank's credit portfolios. This unrealised loss amounts to around 1 per cent of the value of these portfolios (SDR 36 billion), which are invested in top-quality financial instruments. Since the Bank normally holds these investments until they mature, most of this unrealised valuation loss will be recovered over the period to maturity in the next two to three years. The remaining unrealised valuation loss (SDR 116.3 million) was attributable to the impact of the widening of the spreads below Libor on the fair values of the Bank's deposit liabilities, which increased their fair value. Most of this valuation loss will also be recovered over the next two financial years. Together, these two types of unrealised losses incurred in 2007/08 will build in a strong positive dynamic for the Bank's operating profit over the next two and a half years.

In 2007/08, a net exchange loss of SDR 9.5 million was incurred, which was attributable to the impact of the appreciation of the Swiss franc against the SDR on the Bank's net liabilities in that currency. In 2006/07, there was a small exchange gain (SDR 0.9 million).

Operating expense (see note 26 to the financial statements) amounted to SDR 154.5 million, 3.1% above the preceding year's figure (SDR 149.8 million). Administrative expenses before depreciation amounted to SDR 141.9 million, 3.4% above the previous year's figure (SDR 137.8 million). The depreciation charge of SDR 12.6 million was slightly higher than the equivalent figure for 2006/07.

As a result of the above factors, the operating profit before the change of accounting policy for the introduction of bid-offer valuation of financial instruments, which reflects the profits of the Bank's ongoing business on the same basis as in previous financial years, amounted to SDR 331.5 million, 37.7% lower than the equivalent figure of SDR 532.5 million for 2006/07.

The change in accounting policy to introduce bid-offer accounting for all financial instruments resulted in a charge against profits of SDR 75.0 million, which was primarily due to the widening of offer spreads on the Bank's MTI liabilities. The equivalent figure for the previous financial

[5] Under the Bank's accounting policies, which have been in force since 2003, all financial instruments in its borrowed funds book are valued at fair value. Changes in the fair value of these instruments are taken to the profit and loss account. The Bank acts as market-maker in certain of its currency deposit liabilities, and as a result incurs realised profits and losses on these liabilities. The market risk inherent in these activities is managed on an overall fair value basis, combining all the relevant assets, liabilities and derivatives in the borrowed funds banking portfolios. In normal market conditions, where credit spreads are relatively stable, the realised and unrealised profits or losses on currency deposit liabilities are offset by realised and unrealised losses or profits on the related assets or derivatives, or on other currency deposit liabilities.

year was a charge of SDR 20.2 million. As a result of this change, the Bank's financial liabilities are valued at their offer prices and financial assets are valued at their bid prices.

After taking into account the change in accounting policy, the Bank's operating profit amounted to SDR 256.5 million, 49.9% lower than the equivalent figure of SDR 512.3 million recorded in 2006/07.

A net loss of SDR 5.1 million was incurred on the sale of investment securities during the financial 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 2006/07, a net loss of SDR 27.0 million was recorded for the sale of investment securities.

The realised gain of SDR 293.3 million on sales of gold investment assets during 2007/08 arose from the sale of 25 tonnes from the Bank's total holdings of 150 tonnes at 31 March 2007. In 2006/07, a lower gain (SDR 133.9 million) was recorded on the sale of 15 tonnes of the Bank's own gold at the lower gold prices then prevailing.

As a result of these factors, the net profit for the 78th financial year, 2007/08, amounted to SDR 544.7 million, 12.0% lower than the equivalent figure of SDR 619.2 million in the preceding year, which has been restated to reflect the change of accounting policy described above. If the change in accounting policy to introduce bid-offer pricing had not been made, net profit for 2007/08 would have been SDR 619.7 million, 3.1% lower than the equivalent figure of SDR 639.4 million in 2006/07.

In addition to the items reflected in the Bank's profit and loss account, unrealised gains and losses on the Bank's own gold investments and investment securities are recorded in the gold revaluation account and securities revaluation account, respectively, which are accounts which form part of the Bank's equity.

The securities revaluation account increased by SDR 352.5 million as a result of unrealised gains on investment securities (+SDR 347.4 million) and a transfer of realised losses (+SDR 5.1 million) from the profit and loss account.

The gold revaluation account also increased, by SDR 252.8 million, as a result of unrealised gains of SDR 546.1 million resulting from the impact of the appreciating gold price in 2007/08 on the Bank's own gold holdings. Of this amount, SDR 293.3 million was transferred to the profit and loss account, being realised gains on the sales of gold investment assets.

After taking these gains into account, the Bank's total return[6] was SDR 1,150.0 million. This represented a return of 9.1% on average equity (SDR 12,586 million). In 2006/07, the total return was SDR 684.8 million, and the return on average equity (SDR 11,860 million) was 5.8%. Taking into account the payment of the dividend for 2006/07 and the move to bid-offer pricing, the Bank's equity increased by SDR 1,010.7 million. This compares with an equivalent increase of SDR 552.4 million in 2006/07.

[6] The total return is shown in the financial statements as "Total recognised income" in the table entitled "Movements in the Bank's equity".

Proposed dividend

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 255 in 2006/07. The Board also decided to review the dividend policy every two to three years, taking into account changing circumstances where necessary. The Board review of the level of the dividend, originally scheduled for 2007/08, will take place in the financial year 2008/09. Taking into account the developments in 2007/08 described above, the Board proposes that the dividend for 2007/08 be increased again by SDR 10 to SDR 265 per share.

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 544.7 million for the financial year 2007/08 be applied by the General Meeting in the following manner:

1. SDR 144.7 million in payment of a dividend of SDR 265 per share;
2. SDR 40.0 million to be transferred to the general reserve fund;[7]
3. SDR 6.0 million to be transferred to the special dividend reserve fund; and
4. SDR 354.0 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, the dividend will be paid on 3 July 2008 according to each shareholder's instructions in any constituent currency of the SDR, or in Swiss francs, to the shareholders named in the Bank's share register on 31 March 2008. The proposed dividend of SDR 265 per share for the financial year 2007/08 represents a 3.9% increase over the dividend for 2006/07.

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 2008, namely the suspended shares of the Albanian issue. No dividend will be paid on these treasury shares.

Allocation of reduction of the Bank's statutory reserves at 31 March 2007

The introduction of the new accounting policy for bid-offer valuations of the Bank's financial instruments has decreased the Bank's statutory reserves at

[7] Since the general reserve fund exceeded four times the Bank's paid-up capital at 31 March 2007, 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.

31 March 2007 by SDR 71.3 million, of which SDR 20.2 million relates to the financial year 2006/07 and SDR 51.1 million to financial years before 2006/07. The Board of Directors recommends that this decrease be reflected in reductions in the Bank's free reserve fund of SDR 20.2 million for 2006/07 and SDR 51.1 million for the financial years before 2006/07.

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 2008 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
Mark Carney, Ottawa
Mario Draghi, Rome
Timothy F Geithner, New York
Lord George, London
Stefan Ingves, Stockholm
Mervyn King, London
Jean-Pierre Landau, Paris
Christian Noyer, Paris
Guillermo Ortiz, Mexico City
Guy Quaden, Brussels
Fabrizio Saccomanni, Rome
Masaaki Shirakawa, Tokyo
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
Pierre Jaillet or Michel Cardona, Paris
Donald L Kohn or D Nathan Sheets, Washington
Peter Praet or Jan Smets, Brussels
Hermann Remsperger or Wolfgang Mörke, Frankfurt am Main
Paul Tucker or Paul Fisher, London

Committees of the Board of Directors

Administrative Committee, chaired by Hans Tietmeyer
Audit Committee, chaired by Christian Noyer
Banking and Risk Management Committee, chaired by Stefan Ingves
Nomination Committee, chaired by Jean-Pierre Roth

Senior officials

Malcolm D Knight	General Manager
Hervé Hannoun	Deputy General Manager
Peter Dittus	Secretary General, Head of Department
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

By letter dated 20 July 2007, Christian Noyer, Governor of the Bank of France, appointed Jean-Pierre Landau, Second Deputy Governor of the Bank of France, as a member of the Board of Directors for a period of three years from 1 September 2007 to 31 August 2010.

On 31 January 2008, David Dodge retired as Governor of the Bank of Canada and vacated his seat on the Board. At its meeting in March 2008, the Board elected Mark Carney, the new Governor of the Bank of Canada and successor to David Dodge, as a member of the Board of Directors for the remaining period of Mr Dodge's term of office ending on 12 September 2009.

At the same meeting, the Board re-elected Stefan Ingves, Governor of Sveriges Riksbank, as a member of the Board of Directors for a period of three years ending on 31 March 2011.

Toshihiko Fukui retired as Governor of the Bank of Japan on 19 March 2008 and vacated his seat on the Board. At its meeting in May 2008, the Board elected Masaaki Shirakawa, Mr Fukui's successor as Governor of the Bank of Japan, as a member of the Board of Directors for the remaining period of Mr Fukui's term of office expiring on 12 September 2009.

By letter dated 4 April 2008, Mervyn King, Governor of the Bank of England, reappointed Lord George as a member of the Board of Directors for a period of three years ending on 6 May 2011.

At its meeting in May 2007, the Board extended the appointment of Malcolm D Knight as the Bank's General Manager and chief executive officer from the end of his original five-year term (31 March 2008). His term now ends on 30 June 2009.

At its meeting in March 2008, the Board appointed Stephen G Cecchetti as successor to William R White as BIS Economic Adviser and Head of the Monetary and Economic Department for a period of five years, beginning on 1 July 2008.

BIS member central banks[8]

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

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

[8] 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 which 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 2008

The financial statements on pages 192–249 for the financial year ended 31 March 2008 were approved on 5 May 2008 for presentation to the Annual General Meeting on 30 June 2008. 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 the Annual General Meeting.

Jean-Pierre Roth Chairman	Malcolm D Knight General Manager

Balance sheet

As at 31 March 2008

SDR millions	Notes	**2008**	2007 restated
Assets			
Cash and sight accounts with banks	4	36.8	92.4
Gold and gold deposits	5	31,537.7	15,457.6
Treasury bills	6	50,736.9	43,159.3
Securities purchased under resale agreements	6	91,884.6	61,189.8
Time deposits and advances to banks	7	62,095.9	91,233.8
Government and other securities	6	61,918.5	52,244.0
Derivative financial instruments	8	7,426.4	1,850.8
Accounts receivable	9	5,311.8	5,473.6
Land, buildings and equipment	10	190.4	188.0
Total assets		**311,139.0**	270,889.3
Liabilities			
Currency deposits	11	236,120.9	221,798.7
Gold deposits	12	29,101.4	13,134.9
Securities sold under repurchase agreements	13	1,894.1	1,062.5
Derivative financial instruments	8	6,227.7	2,843.0
Accounts payable	14	24,365.4	19,584.1
Other liabilities	15	326.5	373.8
Total liabilities		**298,036.0**	258,797.0
Shareholders' equity			
Share capital	16	683.9	683.9
Statutory reserves	17	9,967.3	9,487.4
Profit and loss account		544.7	619.2
Less: shares held in treasury	18	(1.7)	(1.7)
Other equity accounts	19	1,908.8	1,303.5
Total equity		**13,103.0**	12,092.3
Total liabilities and equity		**311,139.0**	270,889.3

Profit and loss account

For the financial year ended 31 March 2008

SDR millions	Notes	**2008**	2007 restated
Interest income	21	11,181.2	8,858.0
Interest expense	22	(10,207.8)	(8,241.2)
Net interest income		**973.4**	616.8
Net valuation movement excluding bid-offer adjustment	23	(478.7)	63.3
Net interest and valuation income		**494.7**	680.1
Net fee and commission income	24	0.8	1.3
Net foreign exchange gain / (loss)	25	(9.5)	0.9
Total operating income		**486.0**	682.3
Operating expense	26	(154.5)	(149.8)
Operating profit before change of accounting policy		**331.5**	532.5
Introduction of bid-offer valuation for financial instruments	23	(75.0)	(20.2)
Operating profit		**256.5**	512.3
Net loss on sales of securities available for sale	27	(5.1)	(27.0)
Net gain on sales of gold investment assets	28	293.3	133.9
Net profit for the financial year		**544.7**	619.2

Basic and diluted earnings per share (in SDR per share)	29	**997.4**	1,133.8

Statement of cash flows

For the financial year ended 31 March 2008

SDR millions	Notes	**2008**	2007 restated
Cash flow from / (used in) operating activities			
Interest and similar income received		11,665.4	8,260.0
Interest and similar expenses paid		(10,118.3)	(7,824.7)
Net fee and commission income		0.8	1.3
Foreign exchange transaction income		4.5	6.7
Operating expenses paid		(141.9)	(138.1)
Non-cash flow items included in operating profit			
Valuation movements on operating assets and liabilities		(553.7)	43.1
Foreign exchange translations loss		(14.0)	(5.8)
Change in accruals and amortisation		(573.7)	181.8
Change in operating assets and liabilities			
Currency deposit liabilities held at fair value through profit and loss		(1,445.5)	36,228.9
Currency banking assets		(13,174.8)	(39,233.1)
Sight and notice deposit account liabilities		15,966.5	2,106.3
Gold deposit liabilities		15,842.8	3,899.3
Gold and gold deposit banking assets		(15,961.7)	(4,063.0)
Accounts receivable		13.4	(15.8)
Other liabilities / accounts payable		(46.9)	205.6
Net derivative financial instruments		(2,190.9)	254.1
Net cash flow used in operating activities		**(728.0)**	(93.4)
Cash flow from / (used in) investment activities			
Net change in currency investment assets available for sale	6B	(1,479.4)	105.5
Net change in currency investment assets held at fair value through profit and loss		(9.3)	(548.9)
Securities sold under repurchase agreements		831.6	(159.9)
Net change in gold investment assets	5B	245.0	208.4
Net purchase of land, buildings and equipment	10	(15.0)	(11.6)
Net cash flow used in investment activities		**(427.1)**	(406.5)

SDR millions	Notes	**2008**	2007 restated
Cash flow used in financing activities			
Dividends paid		(139.3)	(132.4)
Shares repurchased in 2001 – payments to former shareholders		(0.5)	(1.3)
Net cash flow used in financing activities		**(139.8)**	(133.7)
Total net cash flow		**(1,294.9)**	(633.6)
Net effect of exchange rate changes on cash and cash equivalents		101.0	(85.8)
Net movement in cash and cash equivalents		(1,395.9)	(547.8)
Net decrease in cash and cash equivalents		**(1,294.9)**	(633.6)
Cash and cash equivalents, beginning of year	30	**2,231.0**	2,864.6
Cash and cash equivalents, end of year	30	**936.1**	2,231.0

Movements in the Bank's equity

For the financial year ended 31 March 2008

SDR millions	Notes	Share capital	Statutory reserves	Profit and loss	Shares held in treasury	Other equity accounts	Total equity
Equity at 31 March 2006 – as previously stated		**683.9**	**9,071.7**	**599.2**	**(1.7)**	**1,237.9**	**11,591.0**
Introduction of bid-offer valuation for financial instruments – proposed transfer from reserves	3	–	(51.1)	–	–	–	(51.1)
Equity at 31 March 2006 – as restated		**683.9**	**9,020.6**	**599.2**	**(1.7)**	**1,237.9**	**11,539.9**
Income:							
Net profit for 2006/07		–	–	639.4	–	–	639.4
Change of accounting policy: introduction of bid-offer valuation for financial instruments	3	–	–	(20.2)	–	–	(20.2)
Net profit for 2006/07 – as restated		**–**	**–**	**619.2**	**–**	**–**	**619.2**
Net valuation movement on gold investment assets	19B	–	–	–	–	41.8	41.8
Net valuation movement on securities available for sale	19A	–	–	–	–	23.8	23.8
Total recognised income		**–**	**–**	**619.2**	**–**	**65.6**	**684.8**
Payment of 2005/06 dividend		–	–	(132.4)	–	–	(132.4)
Allocation of 2005/06 profit		–	466.8	(466.8)	–	–	–
Equity at 31 March 2007 – as restated		**683.9**	**9,487.4**	**619.2**	**(1.7)**	**1,303.5**	**12,092.3**

SDR millions	Notes	Share capital	Statutory reserves	Profit and loss	Shares held in treasury	Other equity accounts	Total equity
Equity at 31 March 2007 – as restated		**683.9**	**9,487.4**	**619.2**	**(1.7)**	**1,303.5**	**12,092.3**
Income:							
Net profit for 2007/08		–	–	544.7	–	–	544.7
Net valuation movement on gold investment assets	19B	–	–	–	–	252.8	252.8
Net valuation movement on securities available for sale	19A	–	–	–	–	352.5	352.5
Total recognised income		**–**	**–**	**544.7**	**–**	**605.3**	**1,150.0**
Payment of 2006/07 dividend		–	–	(139.3)	–	–	(139.3)
Allocation of 2006/07 profit		–	500.1	(500.1)	–	–	–
Introduction of bid-offer valuation for financial instruments – proposed transfer from reserves	3	–	(20.2)	20.2	–	–	–
Equity at 31 March 2008 per balance sheet before proposed profit allocation		**683.9**	**9,967.3**	**544.7**	**(1.7)**	**1,908.8**	**13,103.0**
Proposed dividend		–	–	(144.7)	–	–	(144.7)
Proposed transfers to reserves		–	400.0	(400.0)	–	–	–
Equity at 31 March 2008 after proposed profit allocation		**683.9**	**10,367.3**	**–**	**(1.7)**	**1,908.8**	**12,958.3**

At 31 March 2008 statutory reserves included share premiums of SDR 811.7 million (2007: SDR 811.7 million).

Statement of proposed profit allocation

For the financial year ended 31 March 2008

SDR millions	Notes	**2008**
Net profit for the financial year		**544.7**
Transfer to legal reserve fund	17	–
Proposed dividend:		
SDR 265 per share on 546,125 shares		(144.7)
Proposed transfers to reserves:		
General reserve fund	17	(40.0)
Special dividend reserve fund	17	(6.0)
Free reserve fund	17	(354.0)
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 2008

SDR millions	Notes	Legal reserve fund	General reserve fund	Special dividend reserve fund	Free reserve fund	2008 Total statutory reserves
Balance at 31 March 2007		**68.3**	**2,959.8**	**142.0**	**6,368.4**	**9,538.5**
Allocation of 2006/07 profit	17	–	50.0	6.0	444.1	500.1
Change of accounting policy: Impact of introduction of bid-offer valuation for financial instruments – proposed reduction in reserves for:						
– financial years prior to 2006/07	3	–	–	–	(51.1)	(51.1)
– 2006/07	3	–	–	–	(20.2)	(20.2)
Balance at 31 March 2008 per balance sheet before proposed profit allocation		**68.3**	**3,009.8**	**148.0**	**6,741.2**	**9,967.3**
Proposed transfers to reserves	17	–	40.0	6.0	354.0	400.0
Balance at 31 March 2008 after proposed profit allocation		**68.3**	**3,049.8**	**154.0**	**7,095.2**	**10,367.3**

Accounting policies

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

1. 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 with the Bank.

Assets and liabilities in the name of but not controlled by the Bank and in respect of which the economic benefits as well as the rights and obligations do not lie with the Bank are not included in these financial statements. Information on off-balance sheet assets and liabilities is disclosed in note 33.

2. 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. 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.

3. 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.

4. Designation of financial instruments

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

- Loans and receivables
- Financial assets and financial liabilities held at fair value through profit and loss
- Available for sale financial assets
- Financial liabilities measured at amortised cost

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 5 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 as held at fair value through profit and loss, the Bank does not subsequently change this designation.

5. Asset and liability structure

Assets and liabilities are organised into two sets of portfolios:

A. 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 its 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 9 below.

All gold financial assets in these portfolios are designated as loans and receivables and all gold financial liabilities are designated as financial liabilities measured at amortised cost.

B. 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 financial liabilities measured at amortised cost.

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.

6. 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.

7. 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.

8. 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 financial liabilities measured at amortised cost. They are included in the balance sheet at their principal value plus accrued interest. Interest is included in interest expense on an accruals basis.

9. 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.

10. 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 received and discounts paid 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".

11. 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".

12. 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 loss on sales of securities available for sale".

13. 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.

14. Gold

Gold comprises gold bars held in custody and 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 17 below.

15. 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 17 below.

16. 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.

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 17 below.

17. 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:

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

The Bank designates gold deposit assets in its banking portfolios as loans and receivables and gold deposit liabilities as financial liabilities measured at amortised cost. The gold derivatives included in the portfolios are designated as held at fair value through profit and loss.

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

B. 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".

18. Securities sold under repurchase agreements

Where these liabilities are associated with the management of currency assets held 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 financial liabilities measured at amortised cost.

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 held 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".

19. 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.

Where a derivative contract is embedded within a host contract which is not accounted for as held at fair value through profit and loss, it is separated from the host contract for accounting purposes and treated as though it were a standalone derivative as described above.

20. Valuation policy

The Bank's valuation policy has been approved by the Board of Directors. In this policy the Bank defines how financial instruments are designated, which determines their valuation basis and accounting treatment. This policy is supplemented with detailed valuation procedures.

The majority of the financial instruments on the balance sheet are included at fair value. The Bank defines the fair value of a financial instrument as the amount at which the instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction.

The use of fair values ensures that the financial reporting to the Board and shareholders reflects the way in which the banking business is managed and is consistent with the risk management economic performance figures reported to Management.

The Bank considers published price quotations in active markets as the best evidence of fair value. Where no published price quotations exist, the Bank determines fair values using a valuation technique appropriate to the particular financial instrument. Such valuation techniques may involve using market prices of recent arm's length market transactions in similar instruments or may make use of financial models. Where financial models are used, the Bank aims at making maximum use of observable market inputs (eg interest rates and volatilities) as appropriate, and relies as little as possible on own estimates. Such valuation models comprise discounted cash flow analyses and option pricing models.

Where valuation techniques are used to determine fair values, the valuation models and key inputs are periodically reviewed by qualified personnel independent of the Banking Department.

The Bank has an independent price verification unit which periodically reviews instrument valuations. Other valuation controls include the review and analysis of daily profit and loss.

The Bank values its assets at the bid price and its liabilities at the offer price. Financial assets and liabilities that are not valued at fair value are included in the balance sheet at amortised cost.

21. 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 initially recognised at fair value and subsequently included in the balance sheet at amortised cost.

22. 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.

23. 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.

24. 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.

A. 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.

B. 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.

C. 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.

D. 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.

25. 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.

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.

2. 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.

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.

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

Subsequent actual results could differ materially from those estimates.

Significant judgments relating to the valuation of financial assets and liabilities

There is no active secondary market for certain of the Bank's financial assets and financial liabilities. Such assets and liabilities are valued using valuation techniques which require judgment to determine appropriate valuation parameters. Changes in assumptions about these parameters could materially affect the reported fair values. The valuation impact of a 1 basis point change in spread assumptions is shown in the table below:

For the financial year ended 31 March

SDR millions	**2008**	2007
Securities purchased under resale agreements	0.5	0.4
Time deposits and advances to banks	6.2	4.8
Government and other securities	9.9	9.3
Currency deposits	30.0	23.3
Derivative financial instruments	16.2	11.1

3. Impact of change of accounting policy

During the financial year 2007/08 the Bank changed its valuation policy for financial instruments. All financial assets are now valued using bid prices, and all financial liabilities are now valued using offer prices. The Bank believes that this change in valuation policy better reflects the fair value of its financial instruments and brings its valuation policy into line with recent developments in global accounting frameworks. The following table shows the previous and new valuation conventions:

	Previous valuation convention	**New valuation convention**
Securities purchased under resale agreements	Current replacement cost (offer)	Bid prices
Time deposits and advances to banks	Current replacement cost (offer)	Bid prices
Currency deposits	Mid prices	Offer prices
Derivative financial instruments	Mid prices	Bid-offer basis

The change in the Bank's valuation policy has affected the balance sheet, profit and loss account, equity and the statement of cash flows of the Bank as presented below:

For the financial year ended 31 March 2008

SDR millions	As stated before change of accounting policy	**Effect of change of accounting policy**	As stated in the accounts
Balance sheet			
Assets			
Securities purchased under resale agreements	91,889.4	**(4.8)**	91,884.6
Time deposits and advances to banks	62,137.8	**(41.9)**	62,095.9
Total effect on assets		**(46.7)**	
Liabilities			
Currency deposits	236,054.2	**66.7**	236,120.9
Derivative financial instruments	6,194.6	**32.9**	6,227.7
Total effect on liabilities		**99.6**	
Shareholders' equity			
Operating profit for 2007/08	331.5	**(75.0)**	256.5
Statutory reserves (prior year profit)	10,038.6	**(71.3)**	9,967.3
Total effect on shareholders' equity		**(146.3)**	
Statement of cash flows			
Valuation movements on operating assets and liabilities	(478.7)	**(75.0)**	(553.7)
Net change in currency deposit liabilities	(1,503.5)	**58.0**	(1,445.5)
Net change in currency banking assets	(13,185.6)	**10.8**	(13,174.8)
Net change in derivative financial instruments	(2,197.1)	**6.2**	(2,190.9)
Total effect on cash flows from / (used in) operating activities		**–**	

For the financial year ended 31 March 2007

SDR millions	As stated before change of accounting policy	Effect of change of accounting policy	As stated in the accounts
Balance sheet			
Assets			
Securities purchased under resale agreements	61,193.5	(3.7)	61,189.8
Time deposits and advances to banks	91,266.0	(32.2)	91,233.8
Total effect on assets		(35.9)	
Liabilities			
Currency deposits	221,790.1	8.6	221,798.7
Derivative financial instruments	2,816.2	26.8	2,843.0
Total effect on liabilities		35.4	
Shareholders' equity			
Operating profit for 2006/07	532.5	(20.2)	512.3
Statutory reserves (prior year profit)	9,538.5	(51.1)	9,487.4
Total effect on shareholders' equity		(71.3)	
Statement of cash flows			
Valuation movements on operating assets and liabilities	63.3	(20.2)	43.1
Net change in currency deposit liabilities	36,225.5	3.4	36,228.9
Net change in currency banking assets	(39,242.4)	9.3	(39,233.1)
Net change in derivative financial instruments	246.6	7.5	254.1
Total effect on cash flows from / (used in) operating activities		–	

4. 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.

5. 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	**2008**	2007
Gold bars held at central banks	27,530.9	11,865.8
Total gold time deposits	4,006.8	3,591.8
Total gold and gold deposit assets	**31,537.7**	15,457.6
Comprising:		
Gold investment assets	2,424.4	2,306.0
Gold and gold deposit banking assets	29,113.3	13,151.6

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 19 provides further analysis of the gold revaluation account. Note 28 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	**2008**	2007
Balance at beginning of year	2,306.0	2,259.5
Net change in gold investment assets		
Deposits placed	–	338.7
Disposals of gold	(414.3)	(206.7)
Maturities and other net movements	169.3	(340.4)
	(245.0)	(208.4)
Net change in transactions awaiting settlement	(182.7)	79.2
Gold price movement	546.1	175.7
Balance at end of year	**2,424.4**	2,306.0

At 1 April 2007 the Bank's gold investment assets amounted to 150 tonnes of fine gold. During the financial year ended 31 March 2008 25 tonnes of fine gold (31 March 2007: 15 tonnes) were disposed of (see note 28). The balance at 31 March 2008 amounted to 125 tonnes of fine gold.

6. 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 7).

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 2008	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	**50,708.8**	**–**	**28.1**	**28.1**	**50,736.9**
Securities purchased under resale agreements	**89,991.1**	**1,893.5**	**–**	**1,893.5**	**91,884.6**
Fixed-term loans and advances to banks	**61,196.6**	**–**	**–**	**–**	**61,196.6**
Government and other securities					
Government	4,532.4	7,642.7	–	7,642.7	12,175.1
Financial institutions	30,814.0	1,012.5	603.8	1,616.3	32,430.4
Other (including public sector securities)	16,154.4	1,158.7	–	1,158.7	17,313.1
	51,500.8	**9,813.9**	**603.8**	**10,417.7**	**61,918.5**
Total currency assets	**253,397.3**	**11,707.4**	**631.9**	**12,339.3**	**265,736.6**

As at 31 March 2007 – restated	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	60,127.3	1,062.5	–	1,062.5	61,189.8
Fixed-term loans and advances to banks	89,095.2	–	–	–	89,095.2
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	235,221.9	9,843.8	622.6	10,466.4	245,688.3

There is no active secondary market for the Bank's securities purchased under resale agreements, fixed-term loans and for certain government and other securities. These assets are valued using valuation techniques which require judgment to determine appropriate valuation parameters. A 1 basis point change in spread assumptions for the three categories of financial instruments would have had an impact on the valuation of SDR 16.6 million (2007: SDR 14.5 million).

B. Currency assets available for sale

The Bank's currency investment assets related principally to the investment of its equity. They are designated as available for sale unless they are part of an actively traded portfolio.

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

For the financial year ended 31 March

SDR millions	**2008**	2007
Balance at beginning of year	9,843.8	9,994.0
Net change in currency assets available for sale		
Additions	20,990.3	16,800.7
Disposals	(2,195.9)	(2,265.5)
Maturities and other net movements	(17,315.0)	(14,640.7)
	1,479.4	(105.5)
Net change in transactions awaiting settlement	36.8	(41.5)
Fair value and other movements	347.4	(3.2)
Balance at end of year	**11,707.4**	9,843.8

Note 19 provides further analysis of the securities revaluation account. Note 27 provides further analysis of the net gain on sales of securities designated as available for sale.

7. 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 held at 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	**2008**	2007 restated
Fixed-term loans and advances to banks	61,196.6	89,095.2
Call and notice accounts	899.3	2,138.6
Total time deposits and advances to banks	**62,095.9**	91,233.8

The amount of change in fair value recognised in the profit and loss on time deposits and advances is SDR 88.8 million (2007: SDR 58.8 million).

8. 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 settled daily with the exchange. Associated margin payments are settled by cash or marketable securities.

Currency and gold 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 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. In consideration, the seller receives a premium from the purchaser.

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. In consideration, the seller receives a premium from the purchaser.

In addition, the Bank sells products to its customers which contain embedded derivatives (see notes 11 and 12). Embedded derivatives are separated from the host contract for accounting purposes and treated as though they are regular derivatives where the host contract is not accounted for as held at fair value. As such, the gold currency options embedded in gold dual currency deposits are included within derivatives as currency and gold options.

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

As at 31 March	**2008**			2007 restated		
	Notional amounts	Fair values		Notional amounts	Fair values	
SDR millions		Assets	Liabilities		Assets	Liabilities
Bond futures	1,367.8	1.4	(1.4)	809.5	0.6	(0.4)
Cross-currency interest rate swaps	3,836.0	117.6	(750.7)	5,262.3	99.4	(658.7)
Currency and gold forwards	1,095.0	21.0	(13.4)	1,830.7	9.9	(13.9)
Currency and gold options	4,669.0	64.0	(64.9)	9,180.9	42.4	(62.3)
Currency and gold swaps	127,026.0	1,372.2	(3,119.1)	62,829.9	210.7	(497.5)
Forward rate agreements	26,377.0	22.2	(27.3)	48,018.6	6.2	(6.7)
Interest rate futures	10,114.0	0.9	(0.2)	43,239.3	–	(1.3)
Interest rate swaps	360,306.4	5,824.7	(2,194.0)	406,871.3	1,480.7	(1,593.5)
Options on futures	–	–	–	396.0	0.5	–
Swaptions	6,162.7	2.4	(56.7)	4,159.1	0.4	(8.7)
Total derivative financial instruments at end of year	**540,953.9**	**7,426.4**	**(6,227.7)**	582,597.6	1,850.8	(2,843.0)
Net derivative financial instruments at end of year			**1,198.7**			(992.2)

There is no active secondary market for certain of the Bank's derivatives. These derivative assets and liabilities are valued using valuation techniques which require judgment to determine appropriate valuation parameters. A 1 basis point change in spread assumptions would have had an impact on the valuation of SDR 16.2 million (2007: SDR 11.1 million).

9. Accounts receivable

As at 31 March

SDR millions	**2008**	2007
Financial transactions awaiting settlement	5,301.1	5,449.5
Other assets	10.7	24.1
Total accounts receivable	**5,311.8**	5,473.6

"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.

10. Land, buildings and equipment

For the financial year ended 31 March				**2008**	2007
SDR millions	Land	Buildings	IT and other equipment	Total	Total
Historical cost					
Balance at beginning of year	**41.2**	**186.6**	**106.6**	**334.4**	324.5
Capital expenditure	–	2.8	12.2	15.0	11.6
Disposals and retirements	–	–	(0.3)	(0.3)	(1.7)
Balance at end of year	**41.2**	**189.4**	**118.5**	**349.1**	334.4
Depreciation					
Accumulated depreciation at beginning of year	–	**80.5**	**65.9**	**146.4**	136.1
Depreciation	–	4.2	8.4	12.6	12.0
Disposals and retirements	–	–	(0.3)	(0.3)	(1.7)
Balance at end of year	**–**	**84.7**	**74.0**	**158.7**	146.4
Net book value at end of year	**41.2**	**104.7**	**44.5**	**190.4**	188.0

The depreciation charge for the financial year ended 31 March 2008 includes an additional charge of SDR 1.1 million for IT and other equipment following an impairment review (2007: SDR 0.8 million).

11. Currency deposits

Currency deposits are book entry claims on the Bank. The currency deposit instruments are analysed in the table below:

As at 31 March

SDR millions	2008	2007 restated
Deposit instruments repayable at one to two days' notice		
Medium-Term Instruments (MTIs)	99,372.5	76,112.0
Callable MTIs	8,024.2	7,740.5
FIXBIS	44,403.4	50,513.2
	151,800.1	134,365.7
Other currency deposits		
FRIBIS	4,218.1	3,465.2
Fixed-term deposits	39,606.2	59,314.0
Sight and notice deposit accounts	40,496.5	24,653.8
	84,320.8	87,433.0
Total currency deposits	**236,120.9**	221,798.7
Comprising:		
Designated as held at fair value through profit and loss	195,624.4	197,144.9
Designated as financial liabilities measured at amortised cost	40,496.5	24,653.8

Medium-Term Instruments (MTIs) are fixed rate investments at the BIS for quarterly maturities of up to 10 years.

Callable MTIs are MTIs that are callable at the option of the Bank at an exercise price of par, with call dates between June 2008 and December 2009 (2007: April 2007 and May 2008).

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 2008 was SDR 161.4 million (2007: SDR 6,654.9 million). These deposits all matured in April 2008 (2007: between April and June 2007).

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 financial liabilities measured at amortised cost.

The Bank acts as a sole market-maker in certain of its currency deposit liabilities and has undertaken to repay at fair value some of these financial instruments, in whole or in part, at one to two business days' notice.

A. Valuation of currency deposits

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 2008, is SDR 234,822.0 million (2007: SDR 224,059.0 million).

The Bank uses valuation techniques to estimate the fair value of its currency deposits. These valuation techniques comprise discounted cash flow models and option pricing models. The discounted cash flow models value the expected cash flows of financial instruments using discount factors that are partly derived from quoted interest rates (eg Libor and swap rates) and partly based on assumptions about spreads at which each product is offered to and repurchased from customers.

The spread assumptions are based on recent market transactions in each product. Where the product series has been closed to new investors (and thus there are no recent market transactions) the Bank uses the latest quoted spread for the series as the basis for determining the appropriate model inputs.

The option pricing models include assumptions about volatilities that are derived from market quotes.

A change of 1 basis point in spread assumptions used for valuing currency deposits at the balance sheet date would have had an impact on the Bank's valuation of SDR 30.0 million (2007: SDR 23.3 million)

B. Impact of changes in the Bank's creditworthiness

The fair value of the Bank's liabilities would be affected by any change in its creditworthiness. If the Bank's creditworthiness deteriorated, the value of its liabilities would decrease, and the change in value would be reflected as a valuation movement in the profit and loss account. The Bank regularly assesses its creditworthiness as part of its risk management processes. The Bank's assessment of its creditworthiness did not indicate a change which could have had an impact on the fair value of the Bank's liabilities during the period under review.

12. Gold deposit liabilities

Gold deposits placed with the Bank originate entirely from central banks. They are all designated as financial liabilities measured at amortised cost.

The Bank also takes gold deposits that are repayable on the maturity date either in gold or at a fixed amount of currency at the option of the Bank (gold dual currency deposits). The embedded gold currency option is included in the balance sheet as a derivative financial instrument and is accounted for at fair value. The amount of gold dual currency deposits within gold deposit liabilities at 31 March 2008 was SDR 54.1 million (2007: none). All of these deposits matured in April 2008.

13. 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. Securities sold under repurchase agreements originate entirely from commercial banks.

As at 31 March 2008 and 2007 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 financial liabilities measured at amortised cost.

14. 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.

15. Other liabilities

As at 31 March

SDR millions	**2008**	2007
Post-employment benefit obligations (see note 20)		
Directors' pensions	4.8	4.3
Health and accident benefits	185.4	152.1
Short positions in currency assets	115.6	142.4
Other	20.1	73.9
Payable to former shareholders	0.6	1.1
Total other liabilities	**326.5**	373.8

16. Share capital

The Bank's share capital consists of:

As at 31 March

SDR millions	**2008**	2007
Authorised capital: 600,000 shares, each of SDR 5,000 par value, of which SDR 1,250 is paid up	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	**2008**	2007
Issued shares	547,125	547,125
Less: shares held in treasury	(1,000)	(1,000)
Outstanding shares eligible for full dividend	**546,125**	546,125
Dividend per share (in SDR)	**265**	255

17. 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 payment of 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.

18. Shares held in treasury

For the financial year ended 31 March	2008	2007
Balance at beginning of year	1,000	1,000
Movements during the year	–	–
Balance at end of year	**1,000**	1,000

The shares held in treasury consist of 1,000 shares of the Albanian issue which were suspended in 1977.

19. 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 5 respectively.

Other equity accounts comprise:

As at 31 March

SDR millions	2008	2007
Securities revaluation account	272.0	(80.5)
Gold revaluation account	1,636.8	1,384.0
Total other equity accounts	**1,908.8**	1,303.5

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	2008	2007
Balance at beginning of year	(80.5)	(104.3)
Net valuation movement		
Net loss on sales	5.1	27.0
Fair value and other movements	347.4	(3.2)
	352.5	23.8
Balance at end of year	**272.0**	(80.5)

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

As at 31 March 2008 *SDR millions*	Fair value of assets	Historical cost	Securities revaluation account	Gross gains	Gross losses
Securities purchased under resale agreements	1,893.5	1,894.2	(0.7)	–	(0.7)
Government and other securities	9,813.9	9,541.2	272.7	305.4	(32.7)
Total	**11,707.4**	**11,435.4**	**272.0**	**305.4**	**(33.4)**

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)

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	**2008**	2007
Balance at beginning of year	**1,384.0**	1,342.2
Net valuation movement		
Net gain on sales	(293.3)	(133.9)
Gold price movement	546.1	175.7
	252.8	41.8
Balance at end of year	**1,636.8**	1,384.0

20. 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.

A. Amounts recognised in the balance sheet

As at 31 March	Staff pensions		
SDR millions	**2008**	2007	2006
Present value of obligation	(709.7)	(653.7)	(606.4)
Fair value of fund assets	714.3	648.6	602.2
Funded status	4.6	(5.1)	(4.2)
Unrecognised actuarial losses	41.2	47.3	46.8
Unrecognised past service cost	(45.8)	(42.2)	(42.6)
Liability at end of year	–	–	–

As at 31 March	Directors' pensions		
SDR millions	**2008**	2007	2006
Present value of obligation	(5.4)	(4.6)	(4.6)
Fair value of fund assets	–	–	–
Funded status	(5.4)	(4.6)	(4.6)
Unrecognised actuarial losses	0.6	0.3	0.3
Unrecognised past service cost	–	–	–
Liability at end of year	**(4.8)**	(4.3)	(4.3)

As at 31 March	Post-employment health and accident benefits		
SDR millions	**2008**	2007	2006
Present value of obligation	(208.0)	(186.3)	(183.8)
Fair value of fund assets	–	–	–
Funded status	(208.0)	(186.3)	(183.8)
Unrecognised actuarial losses	30.3	42.0	57.2
Unrecognised past service cost	(7.7)	(7.8)	(8.6)
Liability at end of year	**(185.4)**	(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	**2008**	2007	**2008**	2007	**2008**	2007
Present value of obligation at beginning of year	653.7	606.4	4.6	4.5	186.3	183.8
Current service cost	30.5	28.3	0.2	0.2	8.2	7.9
Employee contributions	3.7	3.4	–	–	–	–
Interest cost	21.3	19.8	0.1	0.1	6.1	6.1
Actuarial (gain) / loss	(55.7)	3.5	–	–	(13.9)	(13.9)
Benefit payments	(23.1)	(21.8)	(0.3)	(0.3)	(1.8)	(1.9)
Exchange differences	79.3	14.1	0.9	0.1	23.1	4.3
Present value of obligation at end of year	**709.7**	653.7	**5.4**	4.6	**208.0**	186.3

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	**2008**	2007
Fair value of fund assets at beginning of year	648.6	602.2
Expected return on fund assets	33.1	30.6
Actuarial gain / (loss)	(44.8)	4.1
Employer contributions	17.3	15.9
Employee contributions	3.7	3.4
Benefit payments	(23.1)	(21.8)
Exchange differences	79.5	14.2
Fair value of fund assets at end of year	**714.3**	648.6

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	**2008**	2007	**2008**	2007	**2008**	2007
Current service cost	30.5	28.3	0.2	0.2	8.2	7.9
Interest cost	21.3	19.8	0.1	0.1	6.1	6.1
Less: expected return on fund assets	(33.1)	(30.7)	–	–	–	–
Less: past service cost	(1.5)	(1.5)	–	–	(1.0)	(1.0)
Net actuarial losses recognised in year	–	–	–	–	1.6	2.6
Total included in operating expense	**17.2**	15.9	**0.3**	0.3	**14.9**	15.6

The Bank expects to make a contribution to its post-employment arrangements of CHF 31.9 million in 2008/09.

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

As at 31 March

Percentages	**2008**	2007
European equities	12.8	16.4
Other equities	17.4	28.4
European fixed income	32.2	25.8
Other fixed income	27.1	26.6
Other assets	10.5	2.8
Actual return on fund assets	(1.7%)	5.4%

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

	2008	2007
Applicable to all three post-employment benefit arrangements		
Discount rate – market rate of highly rated Swiss corporate bonds	3.75%	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% at 31 March 2008 (2007: 1.5%).

The expected rate of return on fund assets is based on long-term expectations for inflation, interest rates, risk premia 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 2007/08 calculation would have the following effects:

For the financial year ended 31 March

SDR millions	2008	2007
Increase / (decrease) of the total service and interest cost		
6% medical inflation	7.5	4.6
4% medical inflation	(4.9)	(3.3)

As at 31 March

SDR millions	2008	2007
Increase / (decrease) of the benefit obligation		
6% medical inflation	45.5	47.0
4% medical inflation	(34.5)	(35.4)

21. Interest income

For the financial year ended 31 March

SDR millions	**2008**	2007
Currency assets available for sale		
Securities purchased under resale agreements	71.1	59.2
Government and other securities	380.9	328.9
	452.0	388.1
Currency assets held at fair value through profit and loss		
Treasury bills	861.6	816.0
Securities purchased under resale agreements	2,480.9	811.4
Time deposits and advances to banks	4,147.8	4,179.3
Government and other securities	2,301.2	1,727.2
	9,791.5	7,533.9
Assets designated as loans and receivables		
Sight and notice accounts	38.4	108.3
Gold investment assets	11.2	15.4
Gold banking assets	5.4	6.7
	55.0	130.4
Derivative financial instruments held at fair value through profit and loss	**882.7**	805.6
Total interest income	**11,181.2**	8,858.0

22. Interest expense

For the financial year ended 31 March

SDR millions	**2008**	2007
Liabilities held at fair value through profit and loss		
Currency deposits	**8,963.7**	7,596.9
Liabilities designated as financial liabilities measured at amortised cost		
Gold deposits	3.9	5.2
Sight and notice deposit accounts	1,171.7	581.6
Securities sold under repurchase agreements	68.5	57.5
	1,244.1	644.3
Total interest expense	**10,207.8**	8,241.2

23. 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	2008			2007 restated		
SDR millions	Valuation movement excluding bid-offer adjustment	Impact of bid-offer valuation	Total net valuation movement	Valuation movement excluding bid-offer adjustment	Impact of bid-offer valuation	Total net valuation movement
Currency assets held at fair value through profit and loss						
Unrealised valuation movements on currency assets	29.6	(10.8)	18.8	(6.8)	(9.3)	(16.1)
Realised gains / (losses) on currency assets	(11.7)	–	(11.7)	(30.2)	–	(30.2)
	17.9	**(10.8)**	**7.1**	(37.0)	(9.3)	(46.3)
Currency liabilities held at fair value through profit and loss						
Unrealised valuation movements on financial liabilities	(2,774.2)	(58.0)	(2,832.2)	(510.6)	(3.4)	(514.0)
Realised gains on financial liabilities	(257.2)	–	(257.2)	132.4	–	132.4
	(3,031.4)	**(58.0)**	**(3,089.4)**	(378.2)	(3.4)	(381.6)
Valuation movements on derivative financial instruments	**2,534.8**	**(6.2)**	**2,528.6**	478.5	(7.5)	471.0
Net valuation movement	**(478.7)**	**(75.0)**	**(553.7)**	63.3	(20.2)	43.1

24. Net fee and commission income

For the financial year ended 31 March

SDR millions	2008	2007
Fee and commission income	6.8	6.1
Fee and commission expense	(6.0)	(4.8)
Net fee and commission income	**0.8**	1.3

25. Net foreign exchange gain / (loss)

For the financial year ended 31 March

SDR millions	2008	2007
Net transaction gain	4.5	6.7
Net translation loss	(14.0)	(5.8)
Net foreign exchange gain / (loss)	**(9.5)**	0.9

26. 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	2008	2007
Board of Directors		
Directors' fees	1.9	1.9
Pensions to former Directors	0.6	0.6
Travel, external Board meetings and other costs	1.7	1.7
	4.2	4.2
Management and staff		
Remuneration	111.8	106.6
Pensions	34.3	32.5
Other personnel-related expense	43.1	45.6
	189.2	184.7
Office and other expense	**63.5**	64.6
Administrative expense in CHF millions	**256.9**	253.5
Administrative expense in SDR millions	141.9	137.8
Depreciation in SDR millions	12.6	12.0
Operating expense in SDR millions	**154.5**	149.8

The average number of full-time equivalent employees during the financial year ended 31 March 2008 was 542 (2007: 530).

27. Net loss on sales of securities available for sale

For the financial year ended 31 March

SDR millions	2008	2007
Disposal proceeds	2,195.9	2,265.5
Amortised cost	(2,201.0)	(2,292.5)
Net loss	**(5.1)**	(27.0)
Comprising:		
Gross realised gains	51.8	63.0
Gross realised losses	(56.9)	(90.0)

28. Net gain on sales of gold investment assets

For the financial year ended 31 March

SDR millions	2008	2007
Disposal proceeds	414.3	206.7
Deemed cost (see note 19B)	(121.0)	(72.8)
Net realised gain	**293.3**	133.9

29. Earnings per share

For the financial year ended 31 March	2008	2007 restated
Net profit for the financial year (SDR millions)	544.7	619.2
Weighted average number of shares entitled to dividend	546,125	546,125
Basic and diluted earnings per share (SDR per share)	**997.4**	1,133.8

The dividend proposed for the financial year ended 31 March 2008 is SDR 265 per share (2007: SDR 255).

30. Cash and cash equivalents

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

As at 31 March

SDR millions	**2008**	2007
Cash and sight accounts with banks	36.8	92.4
Call and notice accounts	899.3	2,138.6
Total cash and cash equivalents	**936.1**	2,231.0

31. 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 for the Americas.

32. 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	
	2008	2007	**2008**	2007
USD	**0.609**	0.660	**0.643**	0.673
EUR	**0.960**	0.883	**0.910**	0.863
JPY	**0.00610**	0.00562	**0.00564**	0.00576
GBP	**1.208**	1.300	**1.291**	1.274
CHF	**0.612**	0.544	**0.556**	0.544
Gold	**557.8**	438.3	**490.2**	422.8

33. 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	**2008**	2007
Nominal value of securities held under:		
Safe custody arrangements	11,308.0	11,189.6
Collateral pledge agreements	158.9	223.6
Portfolio management mandates	6,093.9	5,535.4
Total	**17,560.8**	16,948.6

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

34. Commitments

The Bank provides a number of committed standby facilities for its customers. As at 31 March 2008 the outstanding commitments to extend credit under these committed standby facilities amounted to SDR 6,767.7 million (2007: SDR 7,211.8 million), of which SDR 304.6 million was uncollateralised (2007: SDR 336.0 million).

35. 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 2008

Percentages	USD	EUR	GBP	JPY	Other currencies
Assets					
Gold deposits	–	–	–	–	0.76
Treasury bills	0.73	4.02	–	0.58	–
Securities purchased under resale agreements	1.90	2.69	5.15	0.71	–
Time deposits and advances to banks	3.87	4.18	5.71	0.85	3.24
Government and other securities	3.21	4.10	4.19	0.98	7.39
Liabilities					
Currency deposits	3.24	3.77	5.00	0.34	5.16
Gold deposits	–	–	–	–	0.35
Securities sold under repurchase agreements	1.65	–	5.10	–	–
Short positions in currency assets	4.03	–	–	–	–

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	–	–	–	–

36. Geographical analysis

A. Total liabilities

As at 31 March

SDR millions	2008	2007 restated
Africa and Europe	132,229.9	99,765.6
Asia-Pacific	102,353.8	99,335.5
Americas	54,810.3	51,776.2
International organisations	8,642.0	7,919.7
Total	**298,036.0**	258,797.0

B. Credit commitments

As at 31 March

SDR millions	2008	2007
Africa and Europe	496.6	328.0
Asia-Pacific	6,109.7	6,817.8
Americas	161.4	66.0
Total	**6,767.7**	7,211.8

Note 34 provides further analysis of the Bank's credit commitments.

C. Off-balance sheet items

As at 31 March

SDR millions	2008	2007
Africa and Europe	2,341.6	1,892.1
Asia-Pacific	14,695.6	14,325.4
Americas	523.6	731.1
Total	**17,560.8**	16,948.6

Note 33 provides further analysis of the Bank's off-balance sheet items. A geographical analysis of the Bank's assets is provided under "Risk Management" Section, note 3D below.

37. 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 20 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	2008	2007
Salaries, allowances and medical cover	6.7	6.7
Post-employment benefits	1.9	1.8
Total compensation in CHF millions	**8.6**	8.5
SDR equivalent	4.8	4.6

Note 26 provides details of the total compensation of the Board of Directors.

The Bank offers personal deposit accounts for all staff members and its Directors. The accounts bear interest at a rate determined by the Bank based on the rate offered by the Swiss National Bank on staff accounts. The movements and total balance on personal deposit 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	**2008**	2007
Balance at beginning of year	15.6	13.3
Deposits taken including interest income (net of withholding tax)	3.8	3.5
Withdrawals	(1.4)	(1.2)
Balance at end of year in CHF millions	**18.0**	15.6
SDR equivalent	11.0	8.5
Interest expense on deposits in CHF millions	0.6	0.4
SDR equivalent	0.3	0.2

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.

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 staff accounts plus 1%. The total balance of blocked accounts at 31 March 2008 was SDR 20.8 million (2007: SDR 18.9 million). They are reported under the balance sheet heading "Currency deposits".

B. Related party central banks and connected institutions

The BIS provides banking services to its customers, who are predominantly central banks, monetary authorities and international financial 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	**2008**	2007
Balance at beginning of year	53,240.1	53,280.0
Deposits taken	130,847.9	184,721.8
Maturities, repayments and fair value movements	(129,656.6)	(182,058.0)
Net movement on call / notice accounts	(433.1)	(2,703.7)
Balance at end of year	**53,998.3**	53,240.1
Percentage of total currency deposits at end of year	22.9%	24.0%

Gold deposit liabilities from related party central banks and connected institutions

For the financial year ended 31 March

SDR millions	**2008**	2007
Balance at beginning of year	10,123.8	6,267.3
Deposits taken	600.2	83.3
Net movement on gold sight accounts	16,161.2	3,875.5
Net withdrawals and gold price movements	(549.1)	(102.3)
Balance at end of year	**26,336.1**	10,123.8
Percentage of total gold deposits at end of year	90.5%	77.1%

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

For the financial year ended 31 March

SDR millions	**2008**	2007
Balance at beginning of year	470.2	3,198.5
Collateralised deposits placed	776,745.9	680,101.7
Maturities and fair value movements	(773,944.2)	(682,830.0)
Balance at end of year	**3,271.9**	470.2
Percentage of total securities purchased under resale agreements at end of year	3.6%	0.8%

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 539.3 million as at 31 March 2008 (2007: SDR 144.7 million). Gold held in sight accounts with related party central banks and connected institutions totalled SDR 27,499.7 million as at 31 March 2008 (2007: SDR 11,837.7 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 2008 was SDR 43,655.5 million (2007: SDR 17,005.8 million).

38. 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.

Capital adequacy

1. Capital

The Bank's capital components consist of share capital, statutory reserves, net profit for the year and other equity accounts, comprising the gold and securities revaluation accounts, less any shares held in treasury.

The table below shows the composition of the Bank's Tier 1 and total capital as at 31 March 2008.

As at 31 March

SDR millions	**2008**	2007 restated
Share capital	683.9	683.9
Statutory reserves per balance sheet	9,967.3	9,487.4
Less: shares held in treasury	(1.7)	(1.7)
Less: negative revaluation reserves	–	–
Tier 1 capital	**10,649.5**	10,169.6
Profit and loss account	544.7	619.2
Other equity accounts	1,908.8	1,303.5
Total capital	**13,103.0**	12,092.3

The Bank assesses its capital adequacy continuously. The assessment is supported by an annual capital planning process. The Bank's business planning supports this capital planning process.

The Bank has implemented a risk framework that is consistent with the revised "*International Convergence of Capital Measurement and Capital Standards*" (Basel II Framework) issued by the Basel Committee on Banking Supervision in June 2006. The implementation includes all three pillars of the Framework, and takes the particular scope and nature of the Bank's activities into account. Since the Bank is not subject to national banking supervisory regulation, the application of Pillar 2 is limited to the Bank's own assessment of capital adequacy. This assessment is based primarily on an economic capital methodology which is more comprehensive and geared to a substantially higher solvency level than the minimum Pillar 1 capital level required by the Basel II Framework.

The Tier 1 capital for 31 March 2007 has been reduced by SDR 51.1 million following a change of accounting policy for bid-offer accounting of financial instruments.

2. Risk-weighted assets and minimum capital requirements under the Basel II Framework

The Basel II Framework includes several approaches for calculating risk-weighted assets and the corresponding minimum capital requirements. In principle, the minimum capital requirements are determined by taking 8% of the risk-weighted assets.

The following table summarises the relevant exposure types and approaches as well as the risk-weighted assets and the minimum capital requirements for credit risk, market risk and operational risk.

As at 31 March 2008

SDR millions	*Approach used*		*Risk-weighted assets*	*Minimum capital requirement*
Credit risk		Amount of exposure	(A)	(B)
Exposure to sovereigns, banks and corporates	Advanced internal ratings-based approach, where (B) is derived as (A) x 8%	281,560.2	11,715.2	937.2
Securitisation exposures, externally managed portfolios and other assets	Standardised approach, where (B) is derived as (A) x 8%	4,048.3	1,349.1	107.9
Market risk				
Exposure to foreign exchange risk and gold price risk	Internal models approach, where (A) is derived as (B) / 8%	–	8,197.5	655.8
Operational risk	Advanced measurement approach, where (A) is derived as (B) / 8%	–	1,962.5	157.0
Total			**23,224.3**	**1,857.9**

For credit risk, the Bank has adopted the advanced internal ratings-based approach for the majority of its exposures. Under this approach, the risk weighting for a transaction is determined by the relevant Basel II risk weight function using the Bank's own estimates for key inputs. For certain exposures, the Bank has adopted the standardised approach. Under this approach, risk weightings are mapped to exposure types.

Risk-weighted assets for market risk are derived following an internal models approach. For operational risk, the advanced measurement approach is used. Both these approaches rely on value-at-risk (VaR) methodologies. The minimum capital requirements are derived from the VaR figures and are translated into risk-weighted assets taking into account the 8% minimum capital requirement.

More details on the assumptions underlying the calculations are provided in the sections on credit risk, market risk and operational risk.

3. Tier 1 capital ratio

The capital ratio measures capital adequacy by comparing the Bank's Tier 1 capital with its risk-weighted assets. The table below shows the Bank's Tier 1 capital ratio, consistent with the Basel II Framework.

As at 31 March

SDR millions	**2008**
Tier 1 capital	10,649.5
Less: expected loss	(30.9)
Tier 1 capital net of expected loss (A)	**10,618.6**
Total risk-weighted assets (B)	23,224.3
Tier 1 capital ratio (A) / (B)	**45.7%**

As required by the Basel II Framework, expected loss is calculated for credit risk exposures subject to the advanced internal ratings-based approach. Since the BIS does not hold any provisions due to the high credit quality of its credit exposures, the Bank deducts the expected loss from Tier 1 capital consistent with the Basel II Framework.

The Bank maintains a very high creditworthiness and performs a comprehensive capital assessment considering its specific characteristics. As such, it maintains a capital position substantially in excess of the minimum requirement.

The Bank's Tier 1 ratio under the Basel Capital Accord of 1988 was 34.6% as at 31 March 2008 (2007 restated: 29.7%). The material difference between the Bank's Tier 1 capital ratio under the Basel II Framework and the 1988 Accord is attributable mainly to the higher risk sensitivity of the Basel II approaches.

Risk management

1. Risks faced by the Bank

The Bank supports its customers, predominantly central banks, monetary authorities and international financial institutions, in the management of their reserves and related financial activities.

Banking activities form an essential element of meeting the Bank's objectives and as such ensure its financial strength and independence. The BIS engages in banking activities that are customer-related as well as activities that are related to the investment of its equity, each of which may give rise to financial risk comprising credit risk, market risk and liquidity risk. The Bank is also exposed to operational risk.

Within the risk framework defined by the Board of Directors, the Management of the Bank has established risk management policies designed to ensure that risks are identified, appropriately measured and limited as well as monitored and reported.

2. Risk management approach and organisation

General approach

The Bank maintains superior credit quality and adopts a prudent approach to financial risk-taking, by:

- maintaining an exceptionally strong capital position;
- investing its assets predominantly in high credit quality financial instruments;
- seeking to diversify its assets across a range of sectors;
- adopting a conservative approach to its tactical market risk-taking and carefully managing market risk associated with the Bank's strategic positions, which include its gold holdings; and
- maintaining a high level of liquidity.

A. Organisation

Under Article 39 of the Bank's Statutes, the General Manager is responsible to the Board for the management of the Bank, and is assisted by the Deputy General Manager. The Deputy General Manager is responsible for the Bank's independent risk control and compliance functions. The General Manager and the Deputy General Manager are supported by senior management advisory committees.

The key advisory committees are the Executive Committee, the Finance Committee and the Compliance and Operational Risk Committee. The first two committees are chaired by the General Manager and the third by the Deputy General Manager, and all include other senior members of the Bank's Management. The Executive Committee advises the General Manager primarily on the Bank's strategic planning and the allocation of resources, as well as on decisions related to the broad financial objectives for the banking activities and operational risk management. The Finance Committee advises the General Manager on the financial management and policy issues related to the banking business, including the allocation of economic capital to risk categories. The Compliance and Operational Risk Committee acts as an advisory committee to the Deputy General Manager and ensures the coordination of compliance matters and operational risk management throughout the Bank.

The independent risk control function for financial risks is performed by the Risk Control unit. The independent operational risk control function is shared between Risk Control, which maintains the operational risk quantification, and the Compliance and Operational Risk Unit. Both units report directly to the Deputy General Manager.

The Bank's compliance function is performed by the Compliance and Operational Risk Unit. The objective of this function is to provide reasonable assurance that the activities of the Bank and its staff conform to 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 and Operational Risk Unit identifies and assesses compliance risks and guides and educates staff on compliance issues. The Head of the Compliance and Operational Risk Unit also has a direct reporting line to the Audit Committee, which is an advisory committee to the Board of Directors.

The Finance unit and the Legal Service complement the Bank's risk management. The Finance unit operates an independent valuation control function, produces the Bank's financial statements and controls the Bank's expenditure through setting and monitoring the annual budget. The objective of the independent valuation control function is to ensure that the Bank's valuations comply with its valuation policy and procedures, and that the processes and procedures which influence the Bank's valuations conform to best practice guidelines. The Finance unit has a direct reporting line to the Secretary General.

The Legal Service provides legal advice and support covering a wide range of issues relating to the Bank's activities. The Legal Service has a direct reporting line to the General Manager.

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 has a direct reporting line to the Audit Committee and is responsible to the General Manager and the Deputy General Manager.

B. Risk monitoring and reporting

The Bank's financial and operational risk profile, position and performance are monitored on an ongoing basis by the relevant units. Financial risk and compliance reports aimed at various management levels are regularly provided to enable Management to adequately assess the Bank's risk profile and financial condition.

Management reports financial and risk information to the Board of Directors on a bimonthly basis. Furthermore, the Audit Committee receives regular reports from Internal Audit, the Compliance and Operational Risk Unit and the Finance unit. The Banking and Risk Management Committee, another advisory committee to the Board, receives regular reports from the Risk Control unit and the Banking Department. The preparation of these reports is subject to comprehensive policies and procedures, thus ensuring strong controls.

C. 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.

The Bank's model validation policy defines the roles and responsibilities and processes related to the implementation of new or materially changed risk models.

A key methodology used by the Bank to measure and manage risk is the calculation of economic capital based on value-at-risk (VaR) techniques. VaR expresses the statistical estimate of the maximum potential loss on the current positions of the Bank measured to a specified level of confidence and a specified time horizon.

The Bank's economic capital calculation is designed to measure the amount of equity needed to absorb losses arising from its exposures to a statistical level of confidence determined by the Bank's aim to remain of the highest creditworthiness.

The Bank assesses its capital adequacy on the basis of economic capital frameworks for market risk, credit risk and operational risk, supplemented by sensitivity and risk factor analyses. The Bank's economic capital frameworks measure economic capital to a 99.995% confidence interval assuming a one-year holding period.

The Bank allocates economic capital to the above risk categories. An additional amount of economic capital is set aside based on Management's assessment of risks which are not (or not fully) reflected in the economic capital calculations.

A comprehensive stress testing framework complements the Bank's risk assessment including its VaR and economic capital calculations for financial risk. The Bank's key market risk factors and credit exposures are stress-tested. The stress testing includes the analysis of severe historical and adverse hypothetical macroeconomic scenarios, as well as sensitivity tests of extreme but still plausible movements of the key risk factors identified. The Bank also performs stress tests related to liquidity risk.

3. Credit risk

Credit risk arises because a counterparty may fail to meet its obligations in accordance with the agreed contractual terms and conditions.

The Bank manages credit risk within a framework and policies set by the Board of Directors and Management. These are complemented by more detailed guidelines and procedures at the level of the independent risk control function.

A. Credit risk assessment

Credit risk is continuously controlled at both a counterparty and a portfolio level. As part of the independent risk control function, individual counterparty credit assessments are performed subject to a well defined internal rating process, involving 18 rating grades. As part of this process, a counterparty's financial statements and market information are analysed. The rating methodologies depend on the nature of the counterparty. Based on the internal rating and specific counterparty features, the Bank sets a series of credit limits covering individual counterparties and countries. Internal ratings are assigned to all counterparties. In principle, the ratings and related limits are reviewed at least annually. The main assessment criterion in these reviews is the ability of the counterparties to meet interest and principal repayment obligations in a timely manner.

Credit risk limits at the counterparty level are approved by the Bank's Management and fit within a framework set by the Board of Directors.

On an aggregated level credit risk, including default and country transfer risk, is measured, monitored and limited based on the Bank's economic capital calculation for credit risk. To calculate economic capital for credit risk, the Bank uses a portfolio VaR model, assuming a one-year time horizon and 99.995% confidence interval. Management limits the Bank's overall exposure to credit risk by allocating an amount of economic capital to credit risk.

B. Credit risk mitigation

Credit risk is mitigated through the use of collateral and legally enforceable netting or setoff agreements. The corresponding assets and liabilities are not offset on the balance sheet.

The Bank obtains collateral, under reverse repurchase agreements, some derivative financial instrument contracts and certain drawn-down facility agreements, to mitigate counterparty default risk in accordance with the respective policies and procedures. The collateral value is monitored on an ongoing basis and, where appropriate, additional collateral is requested.

The Bank mitigates settlement risk by using established clearing centres and by settling transactions where possible through a delivery versus payment settlement mechanism. Daily settlement risk limits are monitored on a continuous basis.

C. Default risk by asset class and issuer type

The following table represents the exposure of the Bank to default risk at 31 March 2008, without taking account of any collateral held or other credit enhancements available to the Bank. The exposures set out in the table below are based on the carrying value of the assets on the balance sheet as categorised by sector. Gold and gold deposits exclude gold held in custody, and accounts receivable do not include unsettled liability issues, because these items do not represent credit exposures of the Bank. The carrying value is the fair value of the financial instruments, including derivatives, except in the case of very short-term financial instruments (sight and notice accounts) and gold, which are shown at amortised cost. Commitments are shown at their notional amounts.

Exposure to default risk as at 31 March 2008

Asset class / issuer type *SDR millions*	Sovereign and central banks	Public sector	Banks	Corporate	Securitisation	Total
On-balance sheet						
Cash and sight accounts with banks	22.4	–	14.4	–	–	36.8
Gold and gold deposits	–	–	3,805.2	232.9	–	4,038.1
Treasury bills	50,736.9	–	–	–	–	50,736.9
Securities purchased under resale agreements	3,272.4	–	82,191.0	6,421.2	–	91,884.6
Time deposits and advances to banks	8,662.2	1,598.7	51,835.0	–	–	62,095.9
Government and other securities	18,616.3	9,963.5	27,351.5	2,695.0	3,292.2	61,918.5
Derivatives	1,006.3	1.5	6,418.6	0	0	7,426.4
Accounts receivable	–	–	424.7	10.7	–	435.4
Total on-balance sheet exposure	**82,316.5**	**11,563.7**	**172,040.4**	**9,359.8**	**3,292.2**	**278,572.6**
Commitments						
Undrawn unsecured facilities	304.6	–	–	–	–	304.6
Undrawn secured facilities	6,463.1	–	–	–	–	6,463.1
Total commitments	**6,767.7**	–	–	–	–	**6,767.7**
Total exposure	**89,084.2**	**11,563.7**	**172,040.4**	**9,359.8**	**3,292.2**	**285,340.3**

Exposure to default risk as at 31 March 2007

Asset class / issuer type *SDR millions*	Sovereign and central banks	Public sector	Banks	Corporate	Securitisation	Total
On-balance sheet						
Cash	80.7	–	11.7	–	–	92.4
Gold and gold deposits	–	–	3,337.8	282.0	–	3,619.8
Treasury bills	43,159.3	–	–	–	–	43,159.3
Securities purchased under resale agreements	470.1	–	60,719.7	–	–	61,189.8
Time deposits and advances to banks	133.1	3,445.8	87,654.9	–	–	91,233.8
Government and other securities	10,616.2	9,243.6	25,550.2	2,887.6	3,946.4	52,244.0
Derivatives	23.4	0.1	1,827.3	–	–	1,850.8
Accounts receivable	–	–	466.1	24.1	–	490.2
Total on-balance sheet exposure	54,482.8	12,689.5	179,567.7	3,193.7	3,946.4	253,880.1
Commitments						
Undrawn unsecured facilities	336.0	–	–	–	–	336.0
Undrawn secured facilities	6,875.8	–	–	–	–	6,875.8
Total commitments by issuer type	7,211.8	–	–	–	–	7,211.8
Total exposure	61,694.6	12,689.5	179,567.7	3,193.7	3,946.4	261,091.9

The vast majority of the Bank's assets are invested in securities issued by G10 governments and financial institutions rated A– or above. Limitations on the number of high-quality counterparties in these sectors mean that the Bank is exposed to single-name concentration risk.

D. Default risk by geographical exposure

The following tables show the Bank's exposure to default risk, as categorised by geographical region. For these tables, the Bank has allocated exposures to regions based on the country of incorporation of each legal entity. Gold and gold deposits exclude gold held in custody and accounts receivable do not include unsettled liability issues, because these items do not represent credit exposures of the Bank. The exposures set out are at fair value with the exception of gold and very short-term financial instruments (sight and notice accounts), which are shown at amortised cost.

As at 31 March 2008

Geographical exposure

SDR millions	Africa and Europe	Asia-Pacific	Americas	International institutions	Total
On-balance sheet					
Cash and sight accounts with banks	25.6	1.2	10.0	–	36.8
Gold and gold deposits	1,891.4	116.4	2,030.3	–	4,038.1
Treasury bills	12,931.6	37,777.2	28.1	–	50,736.9
Securities purchased under resale agreements	89,251.3	–	2,633.3	–	91,884.6
Time deposits and advances to banks	49,740.0	2,463.3	8,966.9	925.7	62,095.9
Government and other securities	36,722.9	7,740.3	11,882.7	5,572.6	61,918.5
Derivatives	6,111.1	88.8	1,225.0	1.5	7,426.4
Accounts receivable	38.3	–	397.1	–	435.4
Total on-balance sheet exposure	**196,712.2**	**48,187.2**	**27,173.4**	**6,499.8**	**278,572.6**
Commitments					
Undrawn unsecured facilities	304.6	–	–	–	304.6
Undrawn secured facilities	192.0	6,110.1	161.0	–	6,463.1
Total commitments by region	**496.6**	**6,110.1**	**161.0**	**–**	**6,767.7**
Total exposure by region	**197,208.8**	**54,297.3**	**27,334.4**	**6,499.8**	**285,340.3**

As at 31 March 2007

Geographical exposure

SDR millions	Africa and Europe	Asia-Pacific	Americas	International institutions	Total
On-balance sheet					
Cash	72.2	10.0	10.2	–	92.4
Gold and gold deposits	2,484.5	344.6	790.7	–	3,619.8
Treasury bills	22,477.1	18,021.4	2,660.8	–	43,159.3
Securities purchased under resale agreements	59,918.2	272.0	999.6	–	61,189.8
Time deposits and advances to banks	73,284.4	6,060.6	11,765.7	123.1	91,233.8
Government and other securities	32,827.1	9,141.6	8,831.3	1,444.0	52,244.0
Derivatives	1,435.2	34.5	381.1	–	1,850.8
Accounts receivable	24.1	–	466.1	–	490.2
Total on-balance sheet exposure	192,522.8	33,884.7	25,905.5	1,567.1	253,880.1
Commitments					
Undrawn unsecured facilities	138.0	198.0	–	–	336.0
Undrawn secured facilities	190.0	6,619.8	66.0	–	6,875.8
Total commitments by region	328.0	6,817.8	66.0	–	7,211.8
Total exposure by region	192,850.8	40,702.5	25,971.5	1,567.1	261,091.9

E. Credit risk mitigation and collateral

As at 31 March	2008		2007	
SDR millions	Fair value of relevant contracts	Value of collateral	Fair value of relevant contracts	Value of collateral
Collateral obtained for				
Securities purchased under resale agreements	91,884.6	92,167.7	61,193.0	61,481.0
Interest rate swaps	2,979.3	2,429.7	(128.5)	26.8
Total collateral obtained	**94,863.9**	**94,597.4**	61,064.5	61,507.8
Collateral provided for				
Securities sold under repurchase agreements	1,894.1	1,898.2	1,062.5	1,055.9
Total collateral provided	**1,894.1**	**1,898.2**	1,062.5	1,055.9

The above table shows the collateral obtained and provided by the Bank. The Bank obtains collateral as part of reverse repurchase agreements and collateral agreements for certain interest rate swaps. The Bank is allowed to sell or repledge this collateral, but must deliver equivalent financial instruments upon the expiry of the contract. Eligible collateral for reverse repurchase agreements comprises sovereign and supranational debt as well as US agency securities. Eligible collateral for interest rate swaps comprises US treasuries. No collateral was repledged or sold during the financial year 2007/08.

The Bank grants facilities which are secured against either deposits made with the Bank or units held by customers in funds managed by the Bank. As of 31 March 2008 the total amount of undrawn facilities which could be drawn down subject to collateralisation by the counterparty was SDR 6,463.1 million (2007: SDR 6,875.8 million).

The Bank provides collateral for securities sold under repurchase agreements. This collateral consists of government or agency securities.

F. Credit quality per class of financial asset

A financial asset is considered past due when a counterparty fails to make a payment on the contractual due date. The Bank revalues virtually all of its financial assets to fair value on a daily basis and reviews its valuations monthly, taking into account necessary adjustments for impairment. As of 31 March 2008 and 2007 the Bank had no financial assets which were considered past due and no adjustment for impairment was necessary.

The following table shows the credit quality of the Bank's on-balance sheet financial instruments. The ratings shown reflect the Bank's internal ratings expressed as equivalent external ratings. Gold and gold deposits exclude gold held in custody and accounts receivable do not include unsettled liability issues, because these items do not represent credit exposures of the Bank. The Bank's holdings of financial instruments are included in the table below at fair values, with the exception of gold deposits and very short-term financial instruments (cash and sight and notice accounts), which are shown at amortised cost. The table shows that the vast majority of the Bank's exposure is rated equivalent to A– or above.

As at 31 March 2008

Asset class / counterparty rating *SDR millions*	AAA	AA	A	BBB	BB and below	Unrated	Fair value totals
On-balance sheet exposures							
Cash and sight accounts with banks	22.7	12.0	1.6	0.5	–	–	36.8
Gold and gold deposits		3,123.2	914.9	–	–	–	4,038.1
Treasury bills	9,878.9	38,735.2	2,122.8	–	–	–	50,736.9
Securities purchased under resale agreements	182.7	71,573.5	20,128.4	–	–	–	91,884.6
Time deposits and advances to banks	8,843.2	31,847.6	20,348.5	–	1,056.6	–	62,095.9
Government and other securities	25,990.6	26,135.8	9,754.8	37.3	–	–	61,918.5
Derivatives	994.0	5,291.3	1,096.1	11.2	33.8	–	7,426.4
Accounts receivable	397.1	4.8	22.8	–	–	10.7	435.4
Total on-balance sheet exposures	**46,309.2**	**176,723.4**	**54,389.9**	**49.0**	**1,090.4**	**10.7**	**278,572.6**
Percentages	*17%*	*63%*	*20%*	–	–	–	*100%*
Commitments							
Unsecured	304.6	–	–	–	–	–	304.6
Secured	180.0	531.0	4,087.1	713.0	952.0	–	6,463.1
Total commitments by counterparty rating	**484.6**	**531.0**	**4,087.1**	**713.0**	**952.0**	**–**	**6,767.7**
Total exposure by counterparty rating	**46,793.8**	**177,254.4**	**58,477.0**	**762.0**	**2,042.4**	**10.7**	**285,340.3**

G. Minimum capital requirements for credit risk

Exposures to sovereigns, banks and corporates

For the calculation of risk-weighted assets for exposures to banks, sovereigns and corporates, the Bank has adopted an approach that is consistent with the advanced internal ratings-based approach for the majority of its exposures.

As a general rule, under this approach risk-weighted assets are determined by multiplying the credit risk exposures with risk weights derived from the relevant Basel II risk weight function using the Bank's own estimates for key inputs. These estimates for key inputs are also relevant to the Bank's economic capital calculation for credit risk.

The credit risk exposure for a transaction or position is referred to as the exposure at default (EAD). The Bank determines the EAD as the notional amount of all on- and off-balance sheet credit exposures, except derivatives. The EAD for derivatives is calculated using an approach consistent with the internal model method proposed under the Basel II Framework. In line with this methodology, the Bank calculates effective expected positive exposures that are then multiplied by a factor alpha as set out in the Framework.

Key inputs to the risk weight function are a counterparty's estimated one-year probability of default (PD) as well as the estimated loss-given-default (LGD) and maturity for each transaction.

Due to the high credit quality of the Bank's investments and the conservative credit risk management process at the BIS, the Bank is not in a position to estimate PDs and LGDs based on own default experience. In the absence of internal default data, the Bank calibrates counterparty PD estimates through a mapping of internal rating grades to external credit assessments taking external default data into account. Similarly, LGD estimates are derived from external data. Where appropriate, these estimates are adjusted to reflect the risk-reducing effect of collateral obtained giving consideration to market price volatility, remargining and revaluation frequency.

The table below details the calculation of risk-weighted assets. The exposures are measured taking netting and collateral benefits into account. The total amount of exposures reported in the table as of 31 March 2008 includes SDR 5,998.3 million for interest rate contracts and SDR 2,823.1 million for FX and gold contracts.

As at 31 March 2008

Internal rating grades expressed as equivalent external rating grades	Amount of exposure	Exposure-weighted PD	Exposure-weighted average LGD	Exposure-weighted average risk weight	Risk-weighted assets
Percentages / SDR millions	*SDR millions*	*%*	*%*	*%*	*SDR millions*
AAA	42,393.0	0.01	34.0	3.3	1,417.7
AA	178,155.6	0.03	22.2	3.5	6,201.3
A	58,280.9	0.05	25.4	6.2	3,631.3
BBB	947.2	0.22	11.1	7.3	68.8
BB and below	1,783.5	10.04	5.2	22.2	396.1
Total	**281,560.2**				**11,715.2**

H. Securitisation exposures

The Bank holds only highly rated securitisation exposures. Risk-weighted assets for these exposures are determined using the standardised approach.

Given the scope of the Bank's activities, risk-weighted assets under the Basel II Framework are determined according to the standardised approach for securitisation. Under this approach, external credit assessments' risk weights are used to determine the relevant risk weights. External credit assessment institutions used for determining the risk weights assigned to those exposures are Moody's Investors Service, Standard & Poor's and Fitch Ratings. Risk-weighted assets are then derived as the product of the notional amounts of the exposures and the associated risk weights.

The following table shows the Bank's investments in securitisation analysed by type of securitised assets:

As at 31 March 2008

SDR millions	External rating	Amount of exposures	Risk weight	Risk-weighted assets
Asset-backed commercial papers	A1/P1/F1+	168.7	20%	33.7
Residential mortgage-backed securities	AAA	1,344.2	20%	268.9
Securities backed by credit card receivables	AAA	1,111.0	20%	222.2
Securities backed by other receivables (government-sponsored)	AAA	750.1	20%	150.0
Total		**3,374.0**		**674.8**

4. Market risk

The Bank is exposed to market risk through adverse movements in market prices. The main components of the Bank's market risk are gold price risk, interest rate risk and foreign exchange risk. The Bank incurs market risk primarily through the assets relating to the management of its equity. The Bank measures market risk and calculates economic capital based on a VaR methodology using a Monte Carlo simulation technique. Risk factor volatilities and correlations are estimated using a one-year observation period. Furthermore, the Bank computes sensitivities to certain market risk factors.

In line with the Bank's objective to maintain its superior credit quality, economic capital is measured at the 99.995% confidence interval assuming a one-year holding period. The Bank's Management manages market risk economic capital usage within a framework set by the Board of Directors. VaR limits are supplemented by operating limits.

VaR models depend on statistical assumptions and the quality of available market data; and while forward-looking, they extrapolate from past events.

To ensure that models provide a reliable measure of potential losses over the one-year time horizon, the Bank has established a comprehensive regular backtesting framework, comparing daily performance with corresponding VaR estimates. The results are analysed and reported to Management.

The Bank also supplements its market risk measurement based on VaR modelling and related economic capital calculations with a series of stress tests. These include severe historical scenarios, adverse hypothetical macroeconomic scenarios and sensitivity tests of gold price, interest rate and foreign exchange rate movements.

A. Gold price risk

Gold price risk is the exposure of the Bank's financial condition to adverse movements in the price of gold.

The Bank is exposed to gold price risk principally through its holdings of gold investment assets, which amount to 125 tonnes (2007: 150 tonnes). These gold investment assets are held in custody or placed on deposit with commercial banks. At 31 March 2008 the Bank's gold position was SDR 2,247.0 million (2007: SDR 2,115.2 million), approximately 17% of its equity (2007: 17%). The Bank sometimes also has small exposures to gold price risk emerging from its banking activities with central and commercial banks. Gold price risk is measured within the Bank's VaR methodology, including its economic capital framework and stress tests.

B. Interest rate risk

Interest rate risk is the exposure of the Bank's financial condition to adverse movements 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. Limited interest rate risk also arises from accepting and reinvesting customer deposits.

The Bank measures and monitors interest rate risk using a VaR methodology and sensitivity analyses taking into account movements in relevant money market rates, government bonds, swap rates and credit spreads.

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

As at 31 March 2008

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	(5.8)	(3.4)	(26.9)	(16.6)	(17.3)	(31.7)	(61.4)
Japanese yen	0.1	(0.9)	(4.8)	(7.7)	(7.5)	(4.4)	(19.9)
Pound sterling	3.9	(3.8)	(4.6)	(5.8)	(5.8)	(6.9)	(23.3)
Swiss franc	(0.6)	0.1	(0.6)	(0.5)	(0.5)	(1.0)	2.2
US dollar	(2.6)	(15.0)	(23.9)	(12.4)	(16.3)	(26.1)	(72.7)
Other currencies	(1.7)	(6.0)	(8.2)	(2.9)	(13.3)	(1.1)	–
Total	**(6.7)**	**(29.0)**	**(69.0)**	**(45.9)**	**(60.7)**	**(71.2)**	**(175.1)**

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)

C. Foreign exchange risk

The Bank's functional currency, the SDR, is a composite currency comprising fixed amounts of USD, EUR, JPY and GBP. Currency risk is the exposure of the Bank's financial condition to adverse movements in exchange rates. The Bank is exposed to foreign exchange risk primarily through the assets relating to the management of its equity. The Bank is also exposed to foreign exchange 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 foreign exchange exposures by matching the relevant assets to the constituent currencies of the SDR on a regular basis, and by limiting currency exposures arising from customer deposits and foreign exchange transaction intermediation.

Foreign exchange risk is measured and monitored based on the Bank's VaR methodology and sensitivity analyses considering movements in key foreign exchange rates.

The following tables show the Bank's assets and liabilities by currency and gold exposure. The net foreign exchange and gold position in these tables therefore includes the Bank's gold investments. To determine the Bank's net foreign exchange exposure the gold amounts need to be removed. The SDR neutral position is then deducted from the net foreign exchange position excluding gold to arrive at the net currency exposure of the Bank on an SDR neutral basis.

As at 31 March 2008

SDR millions	SDR	USD	EUR	GBP	JPY	CHF	Gold	Other currencies	Total
Assets									
Cash and sight accounts with banks	–	9.3	14.5	2.1	–	4.7	–	6.2	36.8
Gold and gold deposits	–	17.2	–	–	–	–	31,520.5	–	31,537.7
Treasury bills	–	28.1	12,931.5	–	37,777.3	–	–	–	50,736.9
Securities purchased under resale agreements	–	1,823.5	79,059.5	7,911.8	3,089.8	–	–	–	91,884.6
Time deposits and advances to banks	669.8	45,677.1	4,565.0	9,250.4	182.7	972.1	–	778.8	62,095.9
Government and other securities	–	29,690.6	22,395.8	4,195.1	1,472.5	62.4	–	4,102.1	61,918.5
Accounts receivable	–	4,400.1	35.8	710.5	24.4	7.4	–	133.6	5,311.8
Land, buildings and equipment	190.4	–	–	–	–	–	–	–	190.4
Total	**860.2**	**81,645.9**	**119,002.1**	**22,069.9**	**42,546.7**	**1,046.6**	**31,520.5**	**5,020.7**	**303,712.6**
Liabilities									
Currency deposits	(2,238.8)	(157,367.2)	(45,777.9)	(17,837.7)	(3,601.3)	(987.0)	–	(8,311.0)	(236,120.9)
Gold deposits	–	(8.9)	–	–	–	–	(29,092.5)	–	(29,101.4)
Securities sold under repurchase agreements	–	(1,489.1)	–	(405.0)	–	–	–	–	(1,894.1)
Accounts payable	–	(2,094.5)	(22,011.4)	(146.9)	–	–	–	(112.6)	(24,365.4)
Other liabilities	–	(117.2)	(0.5)	–	–	(208.8)	–	–	(326.5)
Total	**(2,238.8)**	**(161,076.9)**	**(67,789.8)**	**(18,389.6)**	**(3,601.3)**	**(1,195.8)**	**(29,092.5)**	**(8,423.6)**	**(291,808.3)**
Net derivative financial instruments	71.6	84,238.4	(46,363.2)	(2,340.1)	(37,560.1)	(49.2)	(181.0)	3,382.3	1,198.7
Net currency and gold position	**(1,307.0)**	**4,807.4**	**4,849.1**	**1,340.2**	**1,385.3**	**(198.4)**	**2,247.0**	**(20.6)**	**13,103.0**
Adjustment for gold investment assets	–	–	–	–	–	–	(2,247.0)	–	(2,247.0)
Net currency position	**(1,307.0)**	**4,807.4**	**4,849.1**	**1,340.2**	**1,385.3**	**(198.4)**	**–**	**(20.6)**	**10,856.0**
SDR neutral position	1,307.0	(4,683.0)	(4,788.5)	(1,327.0)	(1,364.5)	–	–	–	(10,856.0)
Net currency exposure on SDR neutral basis	**–**	**124.4**	**60.6**	**13.2**	**20.8**	**(198.4)**	**–**	**(20.6)**	**–**

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	–	1,087.2	54,235.8	5,594.7	272.1	–	–	–	61,189.8
Time deposits and advances to banks	73.4	72,844.2	724.7	15,419.0	2.8	936.6	–	1,233.1	91,233.8
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	99,442.0	101,071.1	24,950.1	20,317.5	1,116.5	15,434.3	6,445.6	269,038.5
Liabilities									
Currency deposits	(2,006.3)	(138,444.1)	(46,372.0)	(22,781.6)	(3,381.4)	(1,068.0)	–	(7,745.3)	(221,798.7)
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)	(140,609.9)	(64,366.3)	(22,913.8)	(3,662.0)	(1,241.2)	(13,304.8)	(7,849.7)	(255,954.0)
Net derivative financial instruments	118.5	46,066.1	(32,435.9)	(730.3)	(15,366.3)	(40.5)	(14.3)	1,410.5	(992.2)
Net currency and gold position	(1,626.4)	4,898.2	4,268.9	1,306.0	1,289.2	(165.2)	2,115.2	6.4	12,092.3
Adjustment for gold investment assets	–	–	–	–	–	–	(2,115.2)	–	(2,115.2)
Net currency position	(1,626.4)	4,898.2	4,268.9	1,306.0	1,289.2	(165.2)	–	6.4	9,977.1
SDR neutral position	1,626.4	(4,819.0)	(4,214.7)	(1,363.0)	(1,206.8)	–	–	–	(9,977.1)
Net currency exposure on SDR neutral basis	–	79.2	54.2	(57.0)	82.4	(165.2)	–	6.4	–

D. Market risk VaR by risk type and in total

The Bank measures market risk based on a VaR methodology using a Monte Carlo simulation technique taking correlations between risk factors into account. Economic capital for market risk is also calculated following this methodology measured to the 99.995% confidence interval and assuming a one-year holding period. The Bank measures its gold price risk relative to changes in the USD value of gold. The foreign exchange risk component, resulting from changes in the USD exchange rate versus the SDR, is included in the measurement of foreign exchange risk. Key figures of the Bank's exposure to market risk in terms of economic capital over the past two financial years are highlighted in the tables below:

For the financial year ended 31 March

	2008				2007			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Gold price risk	1,399.7	2,163.9	958.1	**2,116.1**	1,844.1	2,690.7	1,250.9	1,278.5
Interest rate risk	1,294.4	2,200.6	623.4	**2,187.0**	682.4	937.8	553.6	654.8
Foreign exchange risk	289.0	574.0	169.9	**519.3**	336.2	461.0	230.9	233.3
Correlation and diversification effects	(1,227.6)	(1,988.5)	(571.9)	**(2,132.7)**	(992.0)	(1,526.9)	(734.4)	(777.5)
Total VaR	1,755.5	2,950.0	1,179.5	**2,689.7**	1,870.7	2,562.6	1,301.0	1,389.1

For the calculation of minimum capital requirements for market risk under the Basel II Framework, the Bank has adopted a banking book approach consistent with the scope and nature of its business activities. Consequently, market risk-weighted assets are determined for gold price risk and foreign exchange risk, but not interest rate risk. The related minimum capital requirement is derived using the VaR-based internal models method. Under this method, VaR calculations are performed using the Bank's VaR methodology, assuming a 99% confidence interval, a 10-day holding period and a one-year historical observation period.

The actual minimum capital requirement is derived as the higher of the VaR on the calculation date and the average of the daily VaR measures on each of the preceding 60 business days (including the calculation date) subject to a multiplication factor of three plus a potential add-on depending on backtesting results. For the period under consideration, the number of backtesting outliers observed remained within the range where no add-on is required. The Bank's minimum capital requirement for market risk and the related risk-weighted assets as of 31 March 2008 are shown in the table below:

As at 31 March 2008

SDR millions	Relevant VaR	Risk-weighted assets (A)	Minimum capital requirement (B)
Market risk (A) is derived as (B) / 8%	218.6	8,197.5	655.8

5. Liquidity risk

Liquidity risk arises when the Bank may not be able to meet expected or unexpected current or future cash flows and collateral needs without affecting its daily operations or its financial condition.

Outstanding balances in the currency and gold deposits from central banks, international organisations and other public institutions are the key drivers 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 so that it can meet the requirements of its customers at all times.

The Bank has developed a liquidity management framework based on a statistical model underpinned by conservative 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 at least 100% of the potential liquidity requirement. In addition, liquidity stress tests assuming extreme withdrawal scenarios are performed. These stress tests specify additional liquidity requirements to be met by holdings of liquid assets. The Bank's liquidity has consistently been materially above its minimum liquidity ratio and the requirements of its stress tests.

The Bank's currency and gold deposits, principally from central banks and international institutions, comprise 89% (2007: 91%) of its total liabilities. At 31 March 2008 currency and gold deposits originated from 152 depositors (2007: 152). 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 (2007: four customers).

The following table shows the maturity profile of cash flows for assets and liabilities. The amounts disclosed are the undiscounted cash flows to which the Bank is committed.

As at 31 March 2008 SDR millions	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	5 to 10 years	Over 10 years	Total
Assets									
Cash and sight accounts with banks	36.8	–	–	–	–	–	–	–	36.8
Gold and gold deposits	27,836.1	215.9	379.1	558.8	1,446.3	974.8	151.6	–	31,562.6
Treasury bills	15,043.0	27,977.7	6,629.3	1,195.5	–	–	–	–	50,845.5
Securities purchased under repurchase agreements	53,803.9	14,279.9	2,079.3	–	–	–	–	–	70,163.1
Time deposits and advances to banks	24,550.5	24,058.1	9,636.4	3,140.8	–	–	–	–	61,385.8
Government and other securities	7,940.5	8,755.7	5,245.0	6,710.1	10,340.2	15,696.2	12,543.5	923.7	68,154.9
Total	**129,210.8**	**75,287.3**	**23,969.1**	**11,605.2**	**11,786.5**	**16,671.0**	**12,695.1**	**923.7**	**282,148.7**
Liabilities									
Currency deposits									
Deposit instruments repayable at 1–2 days' notice	(5,757.5)	(21,501.1)	(20,601.1)	(28,243.4)	(35,374.1)	(33,370.0)	(9,928.4)	(9.3)	(154,784.9)
Other currency deposits	(56,610.6)	(16,760.6)	(7,355.6)	(3,229.8)	–	–	–	–	(83,956.6)
Gold deposits	(27,579.3)	–	(18.2)	(125.1)	(864.2)	(373.9)	(150.1)	–	(29,110.8)
Securities sold under repurchase agreements	(1,896.3)	–	–	–	–	–	–	–	(1,896.3)
Securities sold short	(11.9)	–	–	–	–	(16.2)	(12.4)	(75.1)	(115.6)
Total	**(91,855.6)**	**(38,261.7)**	**(27,974.9)**	**(31,598.3)**	**(36,238.3)**	**(33,760.1)**	**(10,090.9)**	**(84.4)**	**(269,864.2)**
Derivatives									
Net settled									
Interest rate contracts	(59.6)	87.8	43.6	1,711.3	1,223.9	741.4	34.4	–	3,782.8
Gross settled									
Exchange rate and gold price contracts									
Inflows	77,731.6	33,831.8	8,236.2	10,349.7	135.2	–	–	–	130,284.5
Outflows	(78,792.3)	(34,443.3)	(8,222.5)	(10,285.7)	(135.2)	–	–	–	(131,879.0)
Subtotal	(1,060.7)	(611.5)	13.7	64.0	–	–	–	–	(1,594.5)
Interest rate contracts – gross settled									
Inflows	80.6	121.1	239.3	529.6	534.6	917.6	1,034.0	–	3,456.8
Outflows	(99.8)	(157.4)	(279.4)	(673.1)	(610.6)	(1,112.6)	(1,316.8)	–	(4,249.7)
Subtotal	(19.2)	(36.3)	(40.1)	(143.5)	(76.0)	(195.0)	(282.8)	–	(792.9)
Total derivatives	**(1,139.5)**	**(560.0)**	**17.2**	**1,631.8**	**1,147.9**	**546.4**	**(248.4)**	**–**	**1,395.4**
Total future undiscounted cash flows	**36,215.7**	**36,465.6**	**(3,988.6)**	**(18,361.3)**	**(23,303.9)**	**(16,542.7)**	**2,355.8**	**839.3**	**13,679.9**

As at 31 March 2007

SDR millions	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	5 to 10 years	Over 10 years	Total
Assets									
Cash and sight accounts with banks	92.4	–	–	–	–	–	–	–	92.4
Gold and gold deposits	12,011.9	115.5	60.4	205.3	1,008.6	1,609.0	333.2	–	15,343.9
Treasury bills	13,913.7	16,142.5	7,616.5	5,513.1	–	2.4	–	–	43,188.2
Securities purchased under repurchase agreements	32,709.7	4,553.5	6,750.3	–	–	–	–	–	44,013.5
Time deposits and advances to banks	29,884.2	23,350.6	22,574.6	15,926.7	534.9	–	–	–	92,271.0
Government and other securities	2,315.2	6,133.8	4,278.1	8,291.5	11,156.9	13,387.8	12,371.4	972.1	58,906.8
Total	90,927.1	50,295.9	41,279.9	29,936.6	12,700.4	14,999.2	12,704.6	972.1	253,815.8
Liabilities									
Currency deposits									
Deposit instruments repayable at 1–2 days' notice	(8,073.2)	(11,707.8)	(23,952.7)	(34,078.5)	(25,290.4)	(28,253.5)	(7,997.8)	–	(139,353.9)
Other currency deposits	(48,814.3)	(11,830.0)	(11,050.30)	(15,528.1)	(4.7)	–	–	–	(87,227.4)
Gold deposits	(11,965.5)	(28.3)	(56.7)	(73.2)	(14.3)	(889.4)	(120.1)	–	(13,147.5)
Securities sold under repurchase agreements	(961.7)	(103.7)	–	–	–	–	–	–	(1,065.4)
Securities sold short	(0.3)	–	–	–	–	(41.5)	(7.9)	(92.8)	(142.5)
Total	(69,815.0)	(23,669.8)	(35,059.7)	(49,679.8)	(25,309.4)	(29,184.4)	(8,125.8)	(92.8)	(240,936.7)
Derivatives									
Net settled									
Interest rate contracts	78.6	(350.3)	(263.3)	(132.9)	269.6	291.2	50.4	(4.3)	(61.0)
Gross settled									
Exchange rate and gold price contracts									
Inflows	45,092.9	17,810.5	920.4	3,349.8	239.1	134.5	–	–	67,547.2
Outflows	(45,324.5)	(17,824.2)	(906.4)	(3,270.3)	(238.4)	(134.5)	–	–	(67,698.3)
Subtotal	(231.6)	(13.7)	14.0	79.5	0.7	0	–	–	(151.1)
Interest rate contracts – gross settled									
Inflows	223.6	144.8	578.4	637.9	967.2	1,297.5	1,454.2	–	5,303.6
Outflows	(307.4)	(159.5)	(649.7)	(771.0)	(1,031.0)	(1,336.1)	(1,559.5)	–	(5,814.2)
Subtotal	(83.8)	(14.7)	(71.3)	(133.1)	(63.8)	(38.6)	(105.3)	–	(510.6)
Total derivatives	(236.8)	(378.7)	(320.6)	(186.5)	206.5	252.6	(54.9)	(4.3)	(722.7)
Total future undiscounted cash flows	20,875.3	26,247.4	5,899.6	(19,929.7)	(12,402.5)	(13,932.6)	4,523.9	875.0	12,156.4

The Bank writes options in the ordinary course of its banking business. The table below discloses the fair value of the written options analysed by exercise date:

Written options

SDR millions	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	5 to 10 years	Over 10 years	Total
As at 31 March 2008	(0.9)	(11.3)	(9.7)	(94.3)	(5.3)	–	–	–	(121.5)
As at 31 March 2007	(8.5)	(9.7)	(3.1)	(46.5)	(0.1)	–	–	–	(67.9)

The table below shows the contractual expiry date of the credit commitments as at the balance sheet date:

Contractual expiry date

SDR millions	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	5 to 10 years	Over 10 years	Total
As at 31 March 2008	243.7	466.3	–	4,212.7	–	–	–	1,845.0	6,767.7
As at 31 March 2007	66.0	330.4	–	4,815.4	–	–	–	2,000.0	7,211.8

6. 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, as outlined below:

- 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.

Operational risk includes legal risk, but excludes strategic risk.

The Bank's operational risk management framework, policies and procedures comprise the management and measurement of operational risk, including the determination of the relevant key parameters and inputs, business continuity planning and the monitoring of key risk indicators.

The Bank has established a procedure of immediate reporting for operational risk-related incidents. The Compliance and Operational Risk Unit develops action plans with the respective units and follows up on their implementation on a regular basis.

For the measurement of operational risk, the Bank has adopted an approach that is consistent with the advanced measurement approach proposed under the Basel II Framework for the calculation of operational risk-weighted assets and the measurement of operational risk economic capital. Internal and external loss data, scenario estimates and control self-assessments to reflect changes in the business and control environment of the Bank are key inputs in the calculations.

In line with the assumptions and key parameters of the Basel II Framework, the calculation of the minimum capital requirement for operational risk does not take reputational risk into account and is determined assuming a 99.9% confidence interval and a one-year time horizon. In quantifying its operational risk the Bank does not take potential protection it may obtain from insurance into account.

Consistent with the parameters used in the calculation of economic capital for financial risk, the Bank also measures economic capital for operational risk to the 99.995% confidence interval assuming a one-year holding period.

The table below shows the minimum capital requirement for operational risk and the related risk-weighted assets as of 31 March 2008:

As at 31 March 2008

SDR millions	VaR	Risk-weighted assets (A)	Minimum capital requirement (B)
Operational risk, where (A) is derived as (B) / 8%	157.0	1,962.5	157.0

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 192–249) of the Bank for International Settlements. These financial statements incorporate the balance sheet as at 31 March 2008, 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 2008 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.

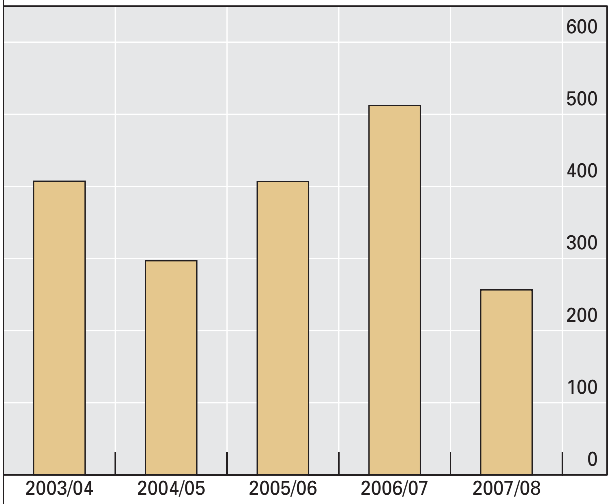
Deloitte AG

Dr Philip Göth | Pavel Nemecek

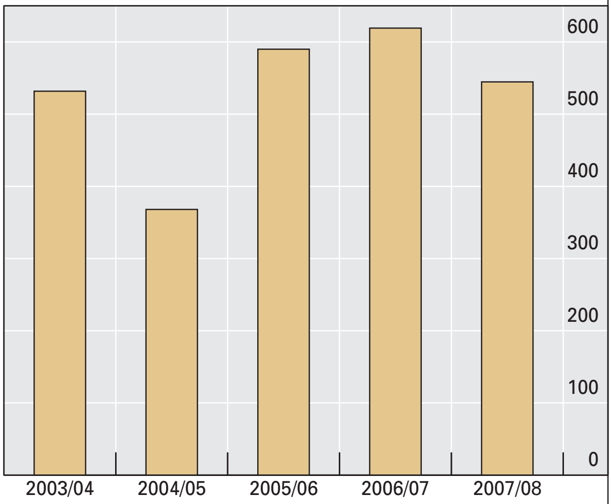
Zurich, 5 May 2008

Five-year graphical summary

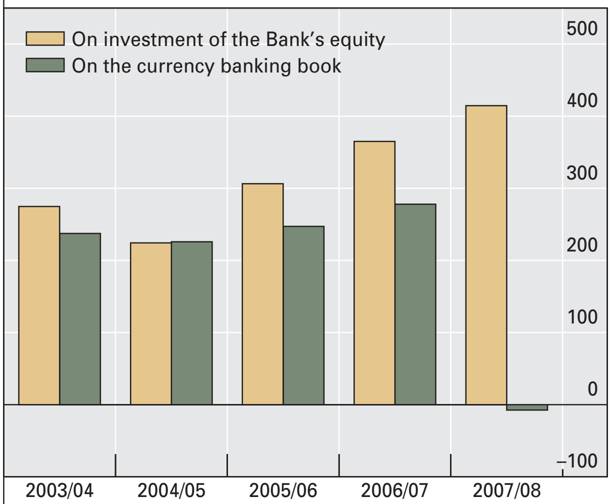
Operating profit
SDR millions



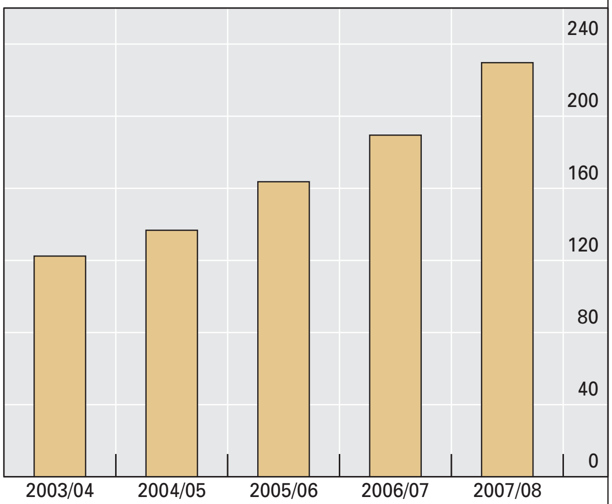
Net profit
SDR millions



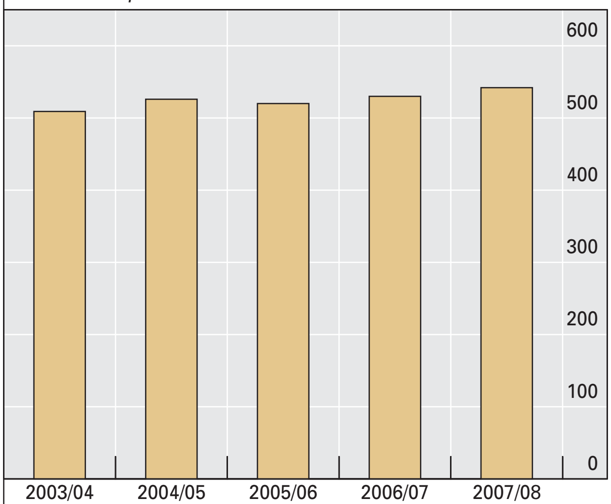
Net interest earned on currency investments
SDR millions



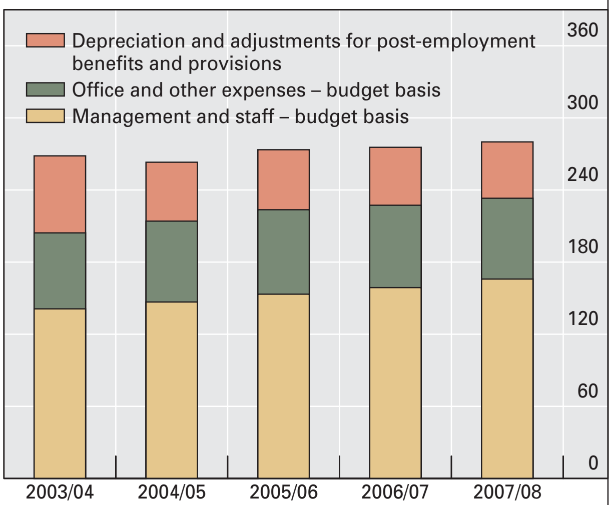
Average currency deposits (settlement date basis)
SDR billions



Average number of employees
Full-time equivalent



Operating expense
CHF millions



The financial information in the top four panels has been restated to reflect a change in the accounting policy made in this year's accounts.

Printed in Switzerland Werner Druck AG, Basel