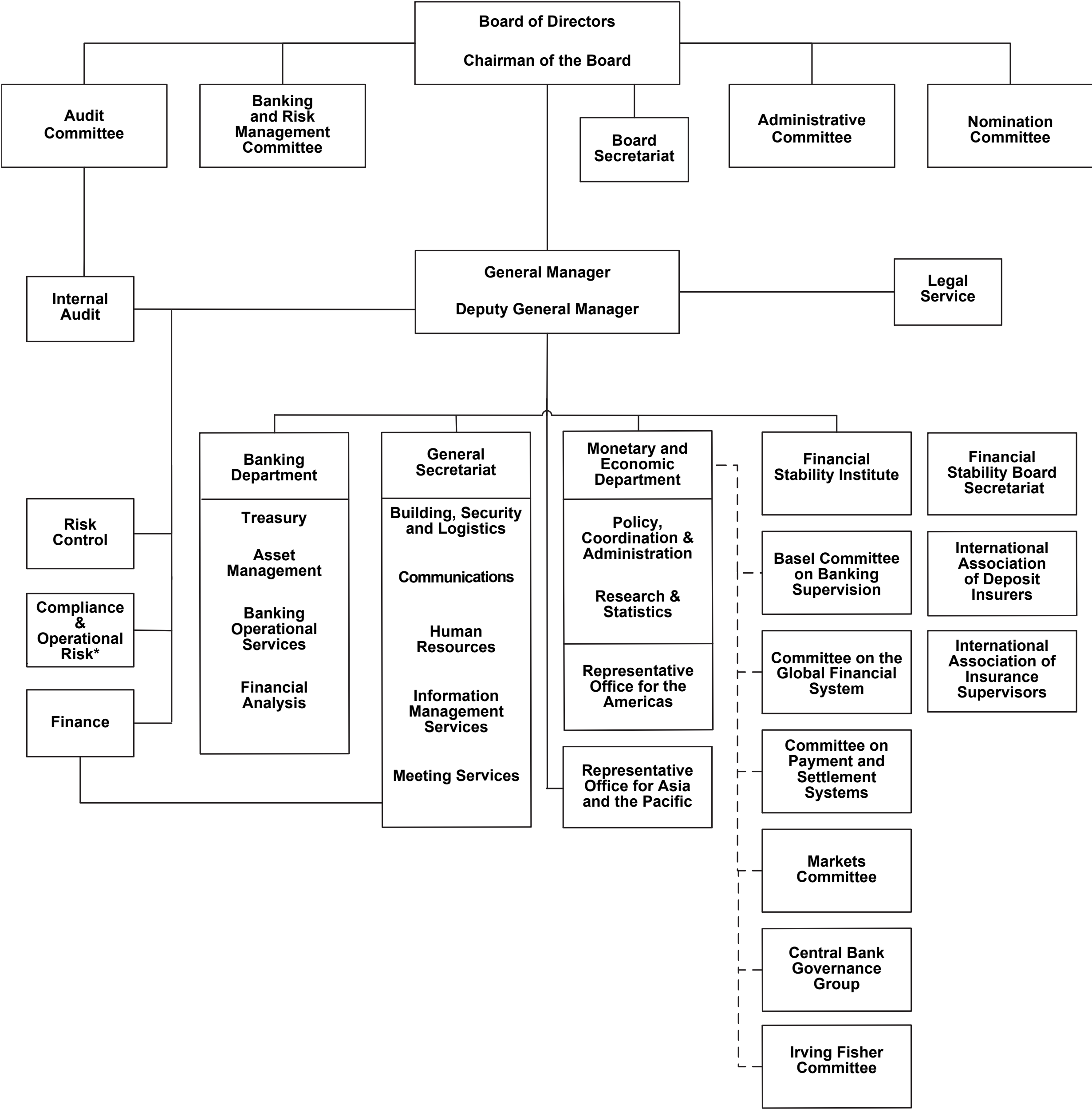
Organisation of the BIS as at 31 March 2013



* Direct access to the Audit Committee on compliance matters.

The BIS: mission, activities, governance and financial results

The mission of the Bank for International Settlements (BIS) is to serve central banks in their pursuit of monetary and financial stability, to foster international cooperation in those areas and to act as a bank for central banks.

In the light of the Bank's mission, this chapter reviews the activities of the BIS, and of the groups it hosts, for the financial year 2012/13; describes the institutional framework that supports the work of those groups; and presents the year's financial results.

In broad outline, the BIS pursues its mission by:

- promoting discussion and facilitating collaboration among central banks;
- supporting dialogue with other authorities that are responsible for promoting financial stability;
- conducting research on policy issues confronting central banks and financial supervisory authorities;
- acting as a prime counterparty for central banks in their financial transactions; and
- serving as an agent or trustee in connection with international financial operations.

The BIS promotes international cooperation among monetary authorities and financial supervisory officials through its meetings programmes and through the Basel Process – hosting international committees and standard-setting bodies and facilitating their interaction in an efficient and cost-effective way.

In particular, the BIS hosts the Financial Stability Board (FSB). The BIS supports the FSB's objectives, which are to coordinate at the international level the work of national authorities and international standard setters to strengthen the financial sector; and to work with international institutions to address threats to global financial stability.

The BIS research and statistics function helps meet the needs of monetary and supervisory authorities for data and policy insight.

The BIS banking function provides prime counterparty, agent and trustee services appropriate to the BIS mission.

The meetings programmes and the Basel Process

The BIS promotes international cooperation among financial and monetary officials in two major ways:

- through hosting bimonthly and other meetings of central bank officials; and
- through the Basel Process, which facilitates cooperation among the committees and standard-setting bodies hosted by the BIS in Basel.

Bimonthly meetings and other regular consultations

At bimonthly meetings, normally held in Basel, Governors and other senior officials of BIS member central banks discuss current 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. In addition to the bimonthly meetings, the Bank regularly hosts gatherings that variously include public and private sector representatives and the academic community.

The two principal bimonthly meetings are the Global Economy Meeting and the All Governors' Meeting.

Global Economy Meeting

The Global Economy Meeting (GEM) comprises the Governors of 30 BIS member central banks in major advanced and emerging market economies that account for about four fifths of global GDP. The Governors of another 19 central banks attend the GEM as observers.[1] The GEM has two main roles: (i) monitoring and assessing developments, risks and opportunities in the world economy and the global financial system; and (ii) providing guidance to three Basel-based central bank committees – the Committee on the Global Financial System, the Committee on Payment and Settlement Systems and the Markets Committee. The GEM also receives reports from the chairs of those committees and decides on publication.

As the Global Economy Meeting is quite large, it is supported by an informal group called the Economic Consultative Committee (ECC). Limited to 18 participants, the ECC includes all BIS Board member Governors, the central bank Governors from India and Brazil, and the BIS General Manager. The ECC assembles proposals for consideration by the GEM. In addition, the ECC Chairman initiates recommendations to the GEM on the appointment of chairs of the three central bank committees mentioned above and on the composition and organisation of those committees.

All Governors' Meeting

The All Governors' Meeting comprises the Governors of the BIS's 60 member central banks and is chaired by the BIS Chairman. It convenes to discuss selected topics of general interest to its members. In 2012/13, the topics discussed were:

- Reform of the over-the-counter (OTC) derivatives markets: progress and open issues
- Collateral scarcity: assessment and implications
- How big and how global should the financial system be?
- Making the European monetary union (presentation by guest speaker Harold James)
- Structural bank regulation initiatives: approaches and implications

Two other groups – the Central Bank Governance Group, which also meets during the bimonthly meetings, and the Irving Fisher Committee on Central Bank Statistics – have a broader membership than the GEM, and hence, by agreement with the GEM and the BIS Board, the All Governors' Meeting is responsible for overseeing their work.

Other regular consultations

During the bimonthly meetings, Governors of central banks in (i) major emerging market economies and (ii) small open economies gather to discuss themes of special relevance to their economies.

[1] The members of the GEM are the central bank Governors of Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Malaysia, Mexico, the Netherlands, Poland, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Thailand, Turkey, the United Kingdom and the United States and also the President of the European Central Bank and the President of the Federal Reserve Bank of New York. The Governors attending as observers are from Algeria, Austria, Chile, Colombia, the Czech Republic, Denmark, Finland, Greece, Hungary, Ireland, Israel, Luxembourg, New Zealand, Norway, Peru, the Philippines, Portugal, Romania and the United Arab Emirates.

The Bank hosts regular meetings of the Group of Central Bank Governors and Heads of Supervision (GHOS), which oversees the work of the Basel Committee on Banking Supervision. In its January 2013 meeting, the GHOS unanimously endorsed the Basel Committee's proposed revisions to the liquidity coverage ratio (LCR), a key element of the Basel regulatory framework; and it reaffirmed its support of the other component of the global liquidity regime, the net stable funding ratio (NSFR), while directing the Committee to review it over the next two years. The GHOS endorsed the Committee's medium-term work agenda – assessing the comparability of model-based internal risk weightings; and considering the appropriate balance to be struck among simplicity, comparability and risk sensitivity in reforming the regulatory framework. It also endorsed a new charter for the Committee to improve understanding of the Committee's activities and decision-making processes.

The Bank regularly arranges informal discussions among public and private sector representatives that focus on their shared interests in promoting a sound and well functioning international financial system. In addition, for senior central bank officials, the Bank organises various meetings to which other financial authorities, the private financial sector and the academic community are invited to contribute. These meetings include:

- the annual meetings of the working parties on monetary policy, held in Basel but also hosted at a regional level by a number of central banks in Asia, central and eastern Europe, and Latin America;
- the meeting of Deputy Governors of emerging market economies; and
- the high-level meetings organised by the Financial Stability Institute in various regions of the world for Governors and Deputy Governors and heads of supervisory authorities.

In January 2013, the BIS hosted a seminar on sovereign risk, inviting Governors from shareholding banks to hear presentations from policymakers, practitioners and academics. Also scheduled for 2013 are meetings of Governors and senior officials from Africa and other regions and of Governors from Latin America and the Caribbean.

The Basel Process

The Basel Process refers to the facilitative role of the BIS in hosting and supporting the work of the international secretariats engaged in standard setting and the pursuit of financial stability. A key example of the Basel Process is the support the BIS provides to the Financial Stability Board (FSB), which coordinates the work of national financial authorities and international standard-setting bodies and whose work programme has been endorsed by the G20 heads of state and government. Another aspect of the Basel Process is the mandate given by the BIS to its own Financial Stability Institute (FSI) to assist financial sector supervisory authorities worldwide in strengthening oversight of their financial systems.

Features of the Basel Process

The Basel Process is based on four key features: (i) the synergies of co-location; (ii) flexibility and openness in the exchange of information; (iii) support from the economic research expertise and banking experience of the BIS; and (iv) the dissemination of work.

Synergies. The BIS hosts the secretariats of nine groups, including the FSB, that contribute to the pursuit of financial stability. These groups have their own governance arrangements and reporting lines.

Various groupings of central banks and supervisory authorities set the agendas of the following six groups:

- the Basel Committee on Banking Supervision (BCBS): develops global regulatory standards for banks and addresses supervision at the level of individual institutions and as it relates to macroprudential supervision;
- the Committee on the Global Financial System (CGFS): monitors and analyses the broad issues relating to financial markets and systems;
- the Committee on Payment and Settlement Systems (CPSS): analyses and sets standards for payment, clearing and settlement infrastructures;
- the Markets Committee: examines the functioning of financial markets;
- the Central Bank Governance Group: examines issues related to the design and operation of central banks; and
- the Irving Fisher Committee on Central Bank Statistics (IFC): addresses statistical issues of concern to central banks, including those relating to economic, monetary and financial stability.

The remaining three groups hosted at the BIS are:

- the FSB;
- the International Association of Deposit Insurers (IADI); and
- the International Association of Insurance Supervisors (IAIS).

The physical proximity of these nine groups at the BIS creates synergies that, regardless of the variation in governance arrangements, produce a broad and fruitful exchange of ideas. In addition, by reducing each group's costs of operation through economies of scale, the Basel Process supports a more efficient use of public funds.

Flexibility. The limited size of these groups leads to flexibility and openness in the exchange of information, thereby enhancing the coordination of their work on financial stability issues and preventing overlaps and gaps in their work programmes. At the same time, their output is much larger than their limited size would suggest, as they are able to leverage the expertise of the international community of central bankers, financial regulators and supervisors, and other international and national public authorities.

Supportive BIS expertise and experience. The work of the Basel-based committees is informed by the BIS's economic research and by its banking experience. The latter is derived from the BIS Banking Department's working relationships with market participants and its implementation of regulatory standards and financial controls for the conduct of its banking operations.

Dissemination. The FSI facilitates the dissemination of the standard-setting bodies' work to central banks and financial sector supervisory and regulatory agencies.

Activities of BIS-hosted groups in 2012/13

The following pages review the year's principal activities of the nine groups hosted at the BIS.

Financial Stability Board

The Financial Stability Board (FSB) coordinates the work of national financial authorities and international standard-setting bodies and develops policies to enhance global financial stability. It closely monitors whether these policies are implemented fully and consistently.

More specifically, under its mandate from the G20, the FSB:

- assesses vulnerabilities affecting the global financial system and identifies and reviews the regulatory, supervisory and related actions needed to address them, including the outcomes of those actions;
- promotes coordination and information exchange among authorities responsible for financial stability;
- monitors and advises on market developments and their implications for regulatory policy;
- monitors and advises on best practice in meeting regulatory standards;
- undertakes joint strategic reviews of the international standard-setting bodies' policy development work to ensure that it is timely, coordinated and focused on priorities and that it addresses gaps;
- supports the establishment of supervisory colleges and sets guidelines for them;
- supports contingency planning for cross-border crisis management, particularly with respect to systemically important firms;
- collaborates with the IMF to conduct early warning exercises; and
- promotes member jurisdictions' implementation of internationally agreed commitments, standards and policy recommendations through monitoring, peer review and disclosure.

The membership of the FSB consists of senior officials from finance ministries, central banks, and financial regulators and supervisors of 24 countries and territories;[2] senior officials from the European Central Bank (ECB) and the European Commission; and high-level representatives of international financial institutions and international standard-setting bodies and central bank groups.[3]

The FSB, chaired by Mark Carney,[4] operates through Plenary meetings of its membership; the Plenary names the Chair of the FSB and appoints a Steering Committee. The FSB also has four Standing Committees on the following subjects:

- Assessment of Vulnerabilities – chaired by Agustín Carstens, Governor of the Bank of Mexico, who succeeded Jaime Caruana, General Manager of the BIS, as Chair on 31 March 2013;
- Supervisory and Regulatory Cooperation – chaired by Daniel Tarullo, member of the Board of Governors of the Federal Reserve System, who succeeded Adair Turner, Chairman of the UK Financial Services Authority, as Chair on 31 March 2013;
- Standards Implementation – chaired by Ravi Menon, Managing Director of the Monetary Authority of Singapore, who succeeded Tiff Macklem, Senior Deputy Governor of the Bank of Canada, as Chair on 31 March 2013; and
- Budget and Resources – established in November 2012 and chaired by Jens Weidmann, President of the Deutsche Bundesbank.

The Plenary has also established various working groups, which cover a number of technical areas. The work of the FSB is supported by a Secretariat, located at the BIS, comprising a staff of 26.

Plenary meetings were held in May and October 2012 and in January 2013. As detailed below, the FSB was active in a wide range of areas during the year, and

[2] The country members of the G20 plus Hong Kong SAR, the Netherlands, Singapore, Spain and Switzerland.

[3] The international financial institutions are the BIS, IMF, OECD and World Bank. The international standard-setting bodies and central bank groups are the Basel Committee on Banking Supervision, CGFS, CPSS, International Accounting Standards Board, IAIS and the International Organization of Securities Commissions.

[4] Governor of the Bank of Canada until 1 June 2013 and Governor of the Bank of England beginning 1 July 2013.

several policy initiatives approved at the May Plenary meeting were endorsed at the June 2012 Los Cabos Summit of the G20 Leaders.

Early warning exercises

As part of its regular activities, the FSB conducted two early warning exercises, in April and October, in collaboration with the IMF. The IMF's International Monetary and Financial Committee and the G20 finance ministers and central bank Governors received a confidential presentation of results and recommended actions; the FSB focused on vulnerabilities and regulatory challenges in the financial sector, and the IMF covered macroeconomic and macrofinancial vulnerabilities.

Reducing the moral hazard posed by systemically important financial institutions (SIFIs)

During 2012, national authorities and international organisations made further progress in implementing the FSB's framework to address the systemic and moral hazard risks associated with SIFIs, which was endorsed by the G20 Leaders at their 2010 Seoul Summit. The framework contains three key elements:

- a resolution framework to ensure that all financial institutions can be quickly resolved without destabilising the financial system and exposing the taxpayer to risk of loss;
- higher loss absorbency capacity to reflect the greater risks to the global financial system; and
- more intensive supervisory oversight for financial institutions that may pose systemic risks.

Resolution of SIFIs. Since the FSB published the *Key attributes of effective resolution regimes for financial institutions* in November 2011 as a new international standard, many jurisdictions have begun reforms to align their resolution regimes with it. The *Key attributes* standard is designed to apply to all types of financial institutions that may be systemically significant if they fail, including not only banks but also insurers, financial market infrastructures (FMIs) and investment firms. The FSB is working with sectoral standard setters to develop guidance on how to apply the *Key attributes* standard to these other types of financial institutions.

During 2012, the FSB began to develop an assessment methodology for the *Key attributes* standard to assist jurisdictions with their implementation and for use both in FSB peer reviews and in IMF and World Bank assessments of national resolution regimes.

The FSB is also preparing guidance on three key aspects of recovery and resolution planning: (i) developing the stress scenarios and triggers for recovery actions that should be used in recovery plans for global SIFIs (G-SIFIs); (ii) developing resolution strategies and associated operational resolution plans tailored to different group structures; and (iii) identifying the critical functions that would need to remain in operation during resolution to maintain systemic stability. Draft guidance was published for consultation in October 2012 and will be finalised in the first half of 2013.

Higher loss absorbency. In November 2012, the FSB published the first annual update to its list of global systemically important banks (G-SIBs), using end-2011 data. The update added two banks and removed three from the initial list of 29 G-SIBs, published in November 2011, thus reducing the total number to 28.

The FSB will continue annual November updates of the list, which is based on a methodology developed by the Basel Committee on Banking Supervision (BCBS). Beginning with the 2012 update, the list assigns each bank to one of the five levels of required additional loss absorbency (additional common equity) for G-SIBs. The levels range from 1% to 3.5% of risk-weighted assets, according to the level of systemic risk posed by the bank. Starting from 2016, the additional loss absorbency will be phased in over three years, initially for those banks in the November 2014 list.[5]

More intensive supervisory oversight. In November 2012, the FSB released its third progress report on intensifying supervisory oversight. It concluded that, to make supervision more proactive and effective, further steps are needed, including commitments by governments to strengthen the official mandates, resources and independence of supervisors in line with standard setters' stated core principles.

Extending the framework. The FSB and standard-setting bodies continue to extend the SIFI framework to additional types of systemically important financial institutions. In 2012, the FSB and the BCBS finalised a principles-based framework for addressing domestic SIBs (D-SIBs), and national authorities will begin to apply requirements to these institutions starting from 2016. The IAIS has issued for public consultation its proposed assessment methodology for identifying global systemically important insurers (G-SIIs), as well as policy measures to be applied to identified G-SIIs. An initial designation of G-SIIs is expected in the first half of 2013. The FSB, in consultation with the International Organization of Securities Commissions (IOSCO), has also been working on the assessment methodology for non-bank, non-insurance G-SIFIs, and a consultation paper is expected in 2013.

Improving the OTC and commodity derivatives markets

The G20 has made commitments to improve the functioning, transparency and oversight of the OTC derivatives market by means of increased standardisation, central clearing, organised platform trading and reporting of all trades to trade repositories. The FSB published progress reports on member jurisdictions' implementation of these agreed reforms in June and October 2012 and April 2013; and it continues to press member jurisdictions to complete the reforms, which were due by end-2012, and to ensure the consistency of implementation across jurisdictions. The FSB's OTC Derivatives Coordination Group, composed of the chairs of the BCBS, CGFS, CPSS, FSB and IOSCO, works to improve the coordination and consistency of these bodies' workstreams that have a bearing on OTC derivatives markets.

Strengthening the oversight and regulation of shadow banking

The shadow banking system – credit intermediation involving entities and activities outside the regulated banking system – can be a source of systemic risk both directly and through its interconnectedness with the regular banking system. Shadow banking can also create opportunities for arbitrage that might undermine stricter bank regulation and lead to a build-up of additional leverage and risks in the financial system as a whole.

[5] The current list is at www.financialstabilityboard.org/publications/r_121031ac.pdf.

In November 2012, the FSB published for consultation an initial set of detailed policy recommendations to mitigate the potential systemic risks associated with shadow banking. The recommendations covered the following objectives:

- mitigate spillovers between the regular banking system and the shadow banking system;
- reduce the susceptibility of money market funds to runs;
- assess and mitigate systemic risks posed by other shadow banking entities;
- assess and align the incentives associated with securitisation; and
- dampen risks and procyclical incentives associated with securities lending and repurchase agreements that may exacerbate funding strains in times of runs.

The FSB will deliver a refined set of recommendations to the September 2013 G20 Summit.

In November 2012, the FSB published its second annual monitoring report on the global shadow banking system, expanding its coverage to include all FSB member jurisdictions. The report assesses risks from the shadow banking system, including innovations and changes that could lead to growing systemic risks and regulatory arbitrage.

Credit ratings

In November 2012, the FSB published a roadmap for work by standard setters and national authorities to accelerate progress in implementing its *Principles for reducing reliance on credit rating agency ratings*, published in October 2010. The goal is twofold: to eliminate mechanistic market reliance on ratings, which is a cause of herding and cliff effects that can amplify procyclicality and cause systemic disruption; and to create incentives for market participants to improve their independent credit risk assessment and due diligence. As part of the roadmap, the FSB has launched a peer review, to be completed in early 2014, of national authorities' actions to achieve these goals.

Addressing data gaps

The global financial crisis highlighted major gaps in information on the large, globally active financial institutions that play a key role in the financial system. The FSB is continuing its project to develop a common data template for G-SIBs that will detail their exposures and funding dependencies by counterparty as well as by market, sector and instrument. Such data would strengthen the information available to authorities on linkages among G-SIBs. Phase 1 of the project, which began in March 2013, will provide national supervisory authorities for G-SIBs and other large banks with common access to improved data on bilateral and aggregate credit exposures through a central hub located at the BIS (see also the discussion of international statistical initiatives in the "Research and statistics" section below). Consideration will be given to progressively expanding the framework with improved data on bilateral funding dependencies (Phase 2) and consolidated balance sheets (Phase 3).

Advancing transparency through the legal entity identifier

At their November 2011 Cannes Summit, the G20 Leaders asked the FSB to recommend a system for uniquely identifying parties to financial transactions worldwide. The FSB recommendations for such a global "legal entity identifier" (LEI) take a global federated approach drawing on local infrastructure and expertise

and were endorsed by the G20 Leaders at their Los Cabos Summit in June 2012. The FSB developed the charter for a Regulatory Oversight Committee (ROC) to oversee the global LEI system. In January 2013, the ROC, comprising approximately 50 regulatory authorities from around the globe, took over leadership of the initiative. The FSB provides a secretariat and administrative support for the ROC.

In cooperation with private sector experts, the ROC is preparing for the establishment of a Central Operating Unit along with Local Operating Units; the latter will act as the primary interface with registrants in the federated global LEI system.

Strengthening accounting standards

The G20 and FSB support the development of a single set of high-quality global accounting standards. To that end, the FSB continues to encourage the International Accounting Standards Board and the United States' Financial Accounting Standards Board to complete their convergence project, and it is monitoring their progress in implementing specific G20 and FSB accounting recommendations. The two accounting boards made further progress in 2012, but work remains ongoing in some key areas of convergence, notably on accounting for financial instruments and insurance contracts, on which the two standard setters will undertake further consultation in 2013.

Enhanced Disclosure Task Force (EDTF)

In May 2012, the FSB encouraged the formation of the EDTF, a private sector initiative to enhance risk disclosure practices by major banks. The EDTF published its principles and recommendations for such disclosures in October 2012, together with examples of good practice. The FSB views the EDTF report as a valuable step towards improving the quality of risk disclosures.

Monitoring implementation and strengthening adherence to international standards

The FSB's Coordination Framework for Implementation Monitoring (CFIM), endorsed by G20 Leaders at their 2011 Cannes Summit, highlights areas in which implementation of reforms is particularly important for global financial stability and ensures that these are subject to more intensive monitoring and detailed reporting. Current priority areas are the Basel II/2.5/III framework; the OTC derivatives market; compensation practices; policy measures for G-SIFIs; resolution frameworks; and shadow banking. Detailed reporting of progress in implementation has already begun in several of these areas, and the FSB will extend and deepen monitoring in 2013. In the area of compensation, the FSB has launched a dedicated Bilateral Complaint Handling Process, a mechanism by which national supervisors from the FSB member jurisdictions can work together to address firms' level playing field concerns.

The FSB's most intensive monitoring mechanism is the peer review programme, undertaken through its Standing Committee on Standards Implementation, to evaluate member jurisdictions' adoption of international financial standards and FSB policies. In 2012/13, the FSB completed thematic peer reviews of resolution regimes and financial institutions' risk governance as well as a country peer review of South Africa.

In November 2012, the FSB published a status update on its initiative to promote jurisdictions' adherence to standards for international supervisory and

regulatory cooperation and information exchange. The update covers all jurisdictions evaluated under the initiative, including those identified as non-cooperative.

Mortgage underwriting principles

In April 2012, the FSB published *Principles for sound residential mortgage underwriting practices*. The principles provide a framework within which jurisdictions should define minimum acceptable underwriting standards. The goal is to limit the risks that mortgage markets pose to financial stability and to better safeguard borrowers and investors. Following up on this work, the FSB has planned a workshop for June 2013 regarding commercial real estate underwriting and its regulation and supervision across the FSB membership.

Impact of regulatory reforms on emerging market and developing economies (EMDEs)

In June 2012, the FSB published a study identifying potential unintended consequences for EMDEs stemming from internationally agreed regulatory reforms. As requested by the G20, and in consultation with standard-setting bodies and international financial institutions, the FSB has established a follow-up process for continued monitoring, analysis and reporting of material unintended consequences and measures taken to address them. The FSB also continues to monitor progress made in implementing the recommendations of the October 2011 FSB-IMF-World Bank report on financial stability issues of particular interest to EMDEs.

Financial regulatory factors affecting the availability of long-term finance

In February 2013, the FSB published an assessment of the effect of the G20 financial reform programme on the availability of long-term investment finance. The assessment is part of a broader study of long-term finance by international organisations for the G20. The FSB assessment concluded that, while there may be short-term adjustment effects, the most important contribution of the financial reform programme to long-term investment finance is to rebuild confidence and resilience in the global financial system. Nevertheless, the FSB will continue to monitor the possible effects of regulatory reforms on the supply of long-term financing.

Regional consultative groups

To facilitate its interaction with a wider group of countries, the FSB has established six regional consultative groups that bring together FSB members with 65 other jurisdictions in the Americas, Asia, the Commonwealth of Independent States, Europe, the Middle East and North Africa, and sub-Saharan Africa. The regional groups, which typically meet twice a year, discuss vulnerabilities affecting regional and global financial systems and the financial stability initiatives of the FSB and member jurisdictions. Several of the regional bodies have established working groups to study issues relevant to their region and to provide input to the FSB.

FSB capacity, resources and governance

The FSB is taking steps to strengthen its capacity, resources and governance in line with recommendations of a high-level working group endorsed by G20 Leaders at

their 2012 Los Cabos Summit. G20 Leaders also endorsed a revised FSB Charter to reinforce certain elements of the FSB mandate. The FSB was established as an association under Swiss law in January 2013 in order to place it on an enduring organisational footing that includes legal personality and greater financial autonomy while still maintaining strong links with the BIS. The FSB will continue to be hosted by the BIS in Basel, and the two organisations have entered into an agreement that formalises the provision of financial and other resources for the FSB secretariat.

FSB: www.financialstabilityboard.org

Basel Committee on Banking Supervision

The Basel Committee on Banking Supervision (BCBS) seeks to enhance supervisory cooperation and improve the quality of banking supervision worldwide. It supports supervisors by providing a forum for exchanging information on national supervisory arrangements, improving the effectiveness of techniques for supervising international banks and setting minimum supervisory standards.

The Committee, which generally meets four times a year, consists of senior representatives of bank supervisory authorities and central banks responsible for banking supervision or financial stability issues in the Committee's member countries. The Group of Governors and Heads of Supervision (GHOS) is the Basel Committee's governing body and consists of central bank Governors and non-central bank heads of supervision from member countries.

Key initiatives

The Basel III framework, a set of global regulatory standards on bank capital adequacy and liquidity that promote a more resilient banking sector, began to come into effect in many jurisdictions at the start of 2013. All Basel Committee member countries have introduced, or are in the process of introducing, the capital adequacy requirements; and the Committee has finalised the liquidity coverage ratio, the first ever global liquidity standard for banks. The Committee continues to develop global regulatory and supervisory standards and to monitor its members' implementation of the Basel framework.

Liquidity

The Committee published its revised liquidity coverage ratio (LCR) after the GHOS endorsed the revisions in January 2013. The LCR ensures that a bank has an adequate stock of unencumbered high-quality liquid assets to meet its cash needs under a liquidity stress scenario covering 30 calendar days. The LCR was first published in December 2010. At that time, the Basel Committee put in place a rigorous process to review the standard and its implications for financial markets, credit extension and economic growth. It committed to address unintended consequences as necessary. The revised LCR will take effect on 1 January 2015 as originally intended, but to ensure that it will not disrupt the ongoing process of strengthening banking systems or the financing of economic activity, the minimum requirement will begin at 60% of the intended ratio and rise by 10 percentage points per year to reach 100% on 1 January 2019.

As a complement to the short-term focus of the LCR, the net stable funding ratio (NSFR) addresses the longer-term structure of bank debt. Due to be introduced in 2018 as a minimum standard, it is intended to limit banks' overreliance on short-term wholesale funding and to promote a sustainable maturity structure for assets

and liabilities. Reviewing the NSFR will be a priority for the Committee over the next two years.

In July 2012, the Committee published the consultative paper *Monitoring indicators for intraday liquidity management*, which reinforces its call for banks to actively manage their intraday liquidity positions and risks so that they can meet their payment and settlement obligations under both normal and stressed conditions. The Committee finalised the guidance in March 2013. The indicators are intended to allow banking supervisors to monitor a bank's management of its intraday liquidity risk; over time, they will also help supervisors better understand banks' management of this risk as well as their payment and settlement behaviour.

Derivatives

The crisis that began in 2007 showed that improved regulation, together with enhanced market transparency, would be necessary to limit excessive and opaque risk-taking through OTC derivatives and to reduce systemic risk posed by OTC derivatives transactions, markets and practices. To that end, the Basel Committee has agreed on reforms to ensure that banks adequately capitalise exposures to counterparty credit risk, whether arising from other banks or from exposures to central counterparties (CCPs). It is also working with other global regulatory bodies to set margining requirements for non-centrally cleared contracts. Completing these reforms in the near term is essential to promote system-wide stability and mitigate the potential for spillover effects on the real economy.

Exposures to central counterparties. In July, the Committee issued an interim standard for the capitalisation of bank exposures to CCPs. The interim standard allows for full implementation of Basel III while recognising that additional work is needed to develop an improved capital framework.

The Committee's framework for capitalising exposures to CCPs builds on *Principles for financial market infrastructures*, released in April 2012 by the CPSS and IOSCO. Those principles are designed to enhance the robustness of the essential infrastructures – including CCPs – supporting global financial markets. The Committee is currently working with the CPSS and IOSCO to develop a final standard that appropriately recognises the enhanced regulatory framework for CCPs while ensuring that risks faced by banks are appropriately capitalised.

Margining requirements on non-centrally cleared derivatives. Margining requirements can help mitigate systemic risk in the derivatives markets. They can also encourage standardisation and promote central clearing by reflecting the generally higher risk of non-centrally cleared derivatives. In July, the Committee in collaboration with IOSCO published a consultative paper setting out high-level principles for margining practices and treatment of collateral and proposing margin requirements for non-centrally cleared derivatives. These principles will apply to all transactions that involve either financial firms or systemically important non-financial entities. A near-final proposal was issued for consultation in February 2013; the Committee and IOSCO expect to finalise the margin requirements later in the year.

To reduce the liquidity impact of the original margin proposal, which included a zero initial margin threshold, the February proposal provides for a universal initial margin threshold of €50 million. The near-final proposals also envisage a gradual phase-in. The requirement to collect and post initial margin on non-centrally cleared trades, to be phased in between 2015 and 2019, will begin with the largest, most active and most systemically risky derivatives market participants.

Core principles for effective banking supervision

The Committee completed its review of its *Core principles for effective banking supervision* and the associated *Core principles methodology* in September, and the resulting revisions were endorsed by banking supervisors at the 2012 International Conference of Banking Supervisors.

The core principles are the de facto standard for sound prudential regulation and supervision of banks and banking systems. Originally issued by the Committee in 1997, they are used by countries as a benchmark for assessing and improving the quality of their supervisory systems. In addition, the IMF and the World Bank use the core principles in their Financial Sector Assessment Program (FSAP) to assess the effectiveness of countries' banking supervisory systems and practices.

The revised core principles highlight the distinction between what supervisors do and what they expect banks to do and contain important enhancements to strengthen supervisory practices and risk management in light of the global financial crisis and the past few years of market turmoil. For example, they emphasise the need for greater supervisory intensity combined with adequate resources to deal with systemically important banks; the importance of applying a macroprudential perspective to the supervision of individual banks; and the need for effective measures (in crisis management, and recovery and resolution) to reduce both the probability and impact of a bank failure.

Domestic systemically important banks

In November 2011, the Basel Committee issued final rules for *global* systemically important banks (G-SIBs). In endorsing those rules, the G20 Leaders asked the Committee and the FSB to extend the framework to *domestic* SIBs (D-SIBs).

In October 2012, the Basel Committee released *A framework for dealing with domestic systemically important banks*, which contains a set of principles on the assessment methodology and the higher loss absorbency required for D-SIBs. The framework's perspective complements that of the G-SIB rules by focusing on the domestic economic effect of bank distress or failure. Given that complementarity, the Committee believes it would be appropriate for national authorities to require banks that they identify as D-SIBs to comply with the principles in line with the phase-in arrangements for the G-SIB framework (ie from January 2016).

Settlement of foreign exchange transactions

In February, the Committee released *Supervisory guidance for managing risks associated with the settlement of foreign exchange transactions*. Since publication of the original guidance in September 2000, the foreign exchange market has made significant strides in reducing the risks associated with the settlement of transactions, but substantial settlement-related risks remain, not least because of the rapid growth in foreign exchange trading.

The updated guidance provides a more comprehensive and detailed view of the governance and management of settlement-related risks. In addition, to reduce principal risk, it promotes the use of payment-versus-payment arrangements where they are practicable.

Trading book review

In recognition of the substantial losses incurred by banks during the financial crisis that began in 2007, the Committee in 2009 introduced a package of substantially

increased capital requirements for trading activities, particularly for securitisations and structured credit products. These revisions became known as Basel 2.5.

At the time it published Basel 2.5, the Committee also commenced a fundamental review of trading book capital requirements. It aimed to evaluate the design of the market risk regulatory regime as well as weaknesses in risk measurement under the framework's internal models-based and standardised approaches. In May 2012, the Committee issued proposals for a regulatory framework that can be implemented consistently by supervisors and that achieves comparable levels of capital across jurisdictions. Key elements of the proposals include (i) setting a more objective boundary between the trading book and the banking book that materially reduces the scope for regulatory arbitrage; (ii) moving from value-at-risk to expected shortfall, a risk measure that better captures low-probability but high-impact crises (tail risks); (iii) calibrating the revised framework in both the standardised and internal models-based approaches to a period of significant financial stress; (iv) comprehensively incorporating the risk of market illiquidity; (v) reducing model risk in the internal models-based approach, including through a more granular process for models approval and constraints on diversification; and (vi) revising the standardised approach to be more risk-sensitive and act as a credible fallback to internal models.

The Committee also proposed to strengthen the relationship between the models-based and standardised approaches by establishing a closer link between the calibration of the two approaches; to require mandatory calculation of the standardised approach by all banks; and to consider the merits of introducing the standardised approach as a floor or surcharge to the models-based approach. Furthermore, the treatment of hedging and diversification in the two approaches will be more closely aligned.

Securitisation

In December, the Committee released a consultative paper setting out proposed revisions to the capital adequacy standards for securitisation exposures. Given the role of securitisation exposures in the global financial crisis, the Committee's objectives are to make capital requirements more prudent and risk-sensitive; to mitigate mechanistic reliance on external credit ratings; and to reduce current cliff effects in capital requirements. The revisions incorporate additional risk drivers, such as maturity; and new regulatory approaches, such as a simplified supervisory formula approach and different applications of the concentration ratio approach in Basel 2.5.

High-cost credit protection

The Committee has been concerned about potential arbitraging of regulatory capital through certain credit protection transactions. It has monitored developments in that regard and, after further consideration, published a consultative proposal in March that would strengthen capital requirements when banks engage in certain high-cost credit protection transactions.

Audit

The financial crisis has highlighted the need to improve the quality of internal and external bank audits. In June, the Committee issued *The internal audit function in banks*, replacing a 2001 document with revised supervisory guidance for assessing audit effectiveness. The guidance builds on the Committee's *Principles for enhancing corporate governance*, which requires banks to have an internal audit function with

authority, stature, independence, adequate resources and access to the board of directors. The new guidance addresses the supervisory authority's expectations of and relationship to the internal audit function as well as supervisory assessments. It encourages internal bank auditors to comply with, and contribute to, national and international professional standards and promotes consideration of prudential issues in the development of standards and practices. The new document also details responsibilities of a bank's audit committee.

In March, the Committee also issued for consultation *External audits of banks*, providing supervisory guidance that will enhance and supersede existing guidance. The new document reflects the evolution of bank practices and the introduction of new standards and regulations over the past 10 years. It sets out the Committee's greater supervisory expectations of (i) more robust audit of banks and (ii) enhanced engagement between the audit committee and auditors and between auditors and supervisors.

Disclosure and reporting

Timely disclosure of financial information promotes market discipline by providing meaningful information to bank investors and other interested parties. The Committee is working to ensure consistency, relevance and coherence in the area of prudential disclosures through its publication of required disclosures and its establishment of a dedicated working group on the topic. The group's objective is to (i) propose adjustments to the Committee's disclosure requirements to maintain their relevance; (ii) ensure that disclosures are consistent with the Committee's other policy initiatives; and (iii) review and consider new disclosure requirements and proposals emanating from external sources.

Composition of capital. During the financial crisis, market participants and supervisors could not thoroughly assess banks' capital positions or draw adequate cross-jurisdictional comparisons. The problem was a lack of detail in capital disclosures and a lack of domestic and international consistency in reporting. In June 2012, the Committee published a set of disclosure requirements on the composition of banks' capital that aim to improve both transparency and comparability.

Data aggregation and risk reporting. The financial crisis revealed that many banks, including G-SIBs, were unable to aggregate risk exposures and identify concentrations fully, quickly and accurately. The lack of data hampered decision-making, with wide-ranging consequences for the banks themselves and for the stability of the financial system as a whole. The Basel Committee's *Principles for effective risk data aggregation*, published in January, will strengthen the aggregation of risk data, internal risk reporting and, hence, risk management at banks – especially G-SIBs.

Implementation and monitoring of Basel III

Full, timely and consistent implementation of the Basel III framework is fundamental to raising the resilience of the global banking system, maintaining market confidence in regulatory ratios and providing a level playing field internationally. The benefits of the recent round of regulatory reforms will not be realised without sound implementation, which is essential for securing a stable global banking system.

In April 2012, the Basel Committee introduced its Regulatory Consistency Assessment Programme (RCAP), which seeks to ensure the timely adoption of

Basel III; domestic regulatory consistency with Basel III; and the consistency of outcomes, with an initial focus on banks' calculations of risk-weighted assets. The RCAP, primarily a peer review process, assesses any inconsistencies and reports on their impact on financial stability and on the maintenance of an international level playing field. In doing so, it promotes full and consistent implementation of Basel III, facilitates effective dialogue among members, and provides peer pressure where needed.

A key element of the process is transparency, including periodic reporting to the G20; reports were submitted to the G20 Leaders in June 2012 and to the G20 finance ministers and central bank Governors in October 2012 and April 2013. The Committee also assesses Basel III's quantitative impact on financial markets and reports the results of its monitoring exercises twice a year.

Timely adoption of Basel III. The first element of the Committee's RCAP focuses on the status of domestic rule-making processes to ensure that the Committee's capital standards are incorporated in national law or regulation according to the internationally agreed time frames. These progress reports, which were published in April and October 2012 and April 2013, provide a high-level view of Committee members' progress in adopting the Basel standards (Basel II, 2.5 and III). The Committee believes that disclosure will provide an additional incentive for members to fully comply with the international agreements.

Regulatory consistency. Assessments of domestic regulations in relation to the Basel standards, conducted by independent teams of technical experts from a wide range of countries, began with the European Union, Japan and the United States and were published in October. The rules reviewed in Japan were already in effect; those of the European Union and the United States were in draft form and will be the subject of follow-up reviews once they are finalised. The results of an assessment of Singapore's Basel III rules were published in March.

Consistency of outcomes. To assess the regulatory consistency of results produced by the Basel standards, the Committee studied banks' calculation of risk-weighted assets for the trading book. A similar exercise for the banking book is being conducted, and results will be published in 2013. The report of the trading book review, published in January, contained two analyses. The first examined publicly available data for a selection of large banks. The second involved 15 internationally active banks in an exercise using a hypothetical portfolio. The report estimates the variation in risk weights for market risk across banks and highlights aspects of the Basel standards that contribute to that variation. An exercise planned for 2013 will include more complex hypothetical portfolios to help the Committee deepen its analysis of the variation in risk measurement of trading books across banks.

These preliminary findings will feed into the policy work already initiated by the Committee regarding the enhancement of bank disclosures and the fundamental review of the trading book. Moreover, the data used to compile the report provide national supervisors with a clearer picture of the risk models of their banks in relation to those of international peers and will help the supervisors take action where needed.

Simplicity and comparability

In parallel with the analysis of the consistency in outcomes, the Committee undertook a review of the Basel framework's simplicity and comparability. The Committee is considering ways in which the Basel framework can be simplified

without materially altering its underlying objective, or weakening it, or reducing the comparability of the results. It will publish a consultative paper on these topics in 2013.

Peer review of stress testing

Stress testing is an important tool used by banks to identify the potential for unexpected adverse outcomes across a range of risks and scenarios. In 2009, in the wake of the financial crisis, the Committee published *Principles for sound stress testing practices and supervision*.

The Committee's Standards Implementation Group conducted a peer review of supervisory authorities' implementation of the 2009 principles and published the results in April 2012. The review found that stress testing has become a key component of the supervisory assessment process as well as a tool for contingency planning and communication. Overall, the review found the 2009 stress testing principles to be generally effective. In many countries, however, the principles are not fully implemented. The Committee will continue to monitor the implementation of the principles and determine whether additional guidance might be necessary.

Outreach and the global supervisory community

The Committee organised the 17th biennial International Conference of Banking Supervisors, hosted in Istanbul on 13–14 September by the Central Bank of the Republic of Turkey and the Turkish Banking Regulation and Supervision Agency. At the conference, which brought together banking supervisors and central bankers from more than 100 countries, delegates endorsed the Committee's revised core principles, discussed lessons learned from the financial crisis, particularly from the perspective of emerging market and developing economies, and considered the latest developments in supervision, risk management and financial stability.

The Committee also strengthened its collaboration with the global supervisory community through its participation in a series of annual high-level meetings organised jointly by the Committee and the Financial Stability Institute and attended by Deputy Governors of central banks and heads of supervisory authorities from various regions of the world. In addition, the Committee expanded its outreach to jurisdictions that are not members of the Committee through its Basel Consultative Group (BCG). The BCG facilitates broad supervisory dialogue with non-member countries on Committee initiatives, and it provides input to the Committee's regulatory reform agenda to ensure that the needs of the international banking community are appropriately addressed.

Basel Committee: www.bis.org/bcbs

Committee on the Global Financial System

The Committee on the Global Financial System (CGFS) monitors financial market developments for the Governors of the BIS Global Economy Meeting and analyses the implications of these developments for financial stability and central bank policy. The CGFS is chaired by William C Dudley, President of the Federal Reserve Bank of New York. Committee members are Deputy Governors and other senior officials from 23 central banks of major advanced and emerging market economies and the Economic Adviser of the BIS.

Among the focal points of the Committee's discussions during the past year were sovereign debt problems and associated banking sector challenges in the

euro area as well as policy initiatives that could stop contagion among sovereigns and break the link between sovereign risk and bank funding problems. Measures addressing currency denomination risk and related risk premia in euro area sovereign debt markets were a key aspect in this context. Committee members also examined unconventional monetary policies regarding their potential consequences for market functioning, risk-taking and financial stability. This examination included, in particular, possible risks from international spillovers of the current accommodative policies and challenges posed by a future exit from those policies. Interest rate risk exposures and factors increasing the sensitivity of bond yields to a change in the monetary policy stance were another key aspect. Additional topics addressed by the Committee were the international economic and financial implications of the so-called fiscal cliff in the United States and risks related to a possible abrupt growth slowdown in China.

The Committee also commissioned a number of in-depth analyses and longer-term projects carried out by groups of central bank experts. Two of the resulting reports were released in late 2012:

- The first, published in November, formally ended a multi-year project to enhance the BIS international banking statistics – a key international data set for which the CGFS serves as the governing body. The enhanced statistics, which will be implemented in two stages beginning in 2013, help close some key gaps in the currently reported data. Over time, this will significantly increase the analytical value of the statistics in areas such as banks' sources and uses of foreign currency funding, the transmission of possible funding shocks across banking systems, banks' country credit risk exposures, and credit supply and funding trends among different types of banks.
- The second report, published in December, builds on earlier work by the Committee to help policymakers put macroprudential policies into action. Taking a practical perspective, the report provides guidance on how to assess three broad criteria that are key in determining the selection and application of macroprudential instruments: timing, effectiveness and efficiency. It also sets out, for the first time, seven broad principles for the design and operation of the macroprudential policies formulated by the CGFS in 2011.

A third report, to be released in 2013, explores the implications for markets and policy of the increasing demand for collateral assets arising from regulatory reform and other developments. It finds that supply will be less of a concern than the adverse market effects of endogenous adjustments that are likely to prevent any lasting scarcity of collateral assets at the system level. Those effects include an increase in interconnectedness, procyclicality and financial system opacity as well as higher operational, funding and rollover risks. The report argues that policy responses therefore need to focus primarily on those adverse developments (eg in the context of shadow banking activities or balance sheet encumbrance), rather than on supply-demand conditions in the markets for collateral assets.

CGFS: www.bis.org/cgfs

Committee on Payment and Settlement Systems

The Committee on Payment and Settlement Systems (CPSS) contributes to the strengthening of financial market infrastructures by promoting safe and efficient payment, clearing and settlement arrangements. Comprising senior officials from 25 central banks, the CPSS is a recognised international standard setter in this area. The Committee chair is Paul Tucker, the Bank of England's Deputy Governor, Financial Stability.

New standards for financial market infrastructures

The CPSS, together with IOSCO, published *Principles for financial market infrastructures* in April 2012. The document sets out new international standards intended to govern systemically important financial market infrastructures (FMIs) – payment systems, central securities depositories, securities settlement systems, central counterparties and trade repositories. The new standards replace the three previous sets of CPSS and CPSS-IOSCO standards – those for systemically important payment systems (2001), for securities settlement systems (2001) and for central counterparties (2004). The revised set of 24 principles reflects lessons learned from the recent financial crisis as well as the experience gained from applying the previous standards during the past decade. The document also contains a set of five responsibilities for the authorities that oversee or regulate the FMIs. These responsibilities include effective cooperation between authorities where more than one is involved.

In December, the CPSS and IOSCO jointly published *Principles for financial market infrastructures: disclosure framework and assessment methodology*. The disclosure framework prescribes the form and content of the information that FMIs are expected to publicly disclose in compliance with the 24 principles; the disclosures are intended to help show how FMIs work and to facilitate more robust comparisons between them. The assessment methodology promotes thorough and consistent assessments. It is intended primarily for external assessors at the international level, in particular the IMF and the World Bank, but it also provides a baseline for national authorities to assess observance of the principles by FMIs and to self-assess the way they discharge their own responsibilities as regulators, supervisors and overseers.

The CPSS and IOSCO have begun regularly gathering information from a number of jurisdictions to monitor their progress in implementing the standards; status reports will be published starting in the second half of 2013. The initial goal of the monitoring is to determine whether jurisdictions have made the changes to their legal and regulatory framework that are necessary to enable them to implement the standards. Subsequently, more detailed assessments will be carried out.

Recovery and resolution of financial market infrastructures

In July 2012, the CPSS and IOSCO released a consultative document, *Recovery and resolution of financial market infrastructures*, that outlines the issues involved in designing effective recovery plans and resolution regimes for FMIs. The CPSS and IOSCO will assist the FSB in elaborating how the FSB's *Key attributes of effective resolution regimes* apply to FMIs. The CPSS and IOSCO will also articulate what jurisdictions need to do to ensure that FMIs of different types have good recovery capabilities and plans.

Authorities' access to trade repository data

A consultative report issued by the CPSS and IOSCO in April 2013 outlines the framework to guide authorities' access to data held in trade repositories, both regular and ad hoc. The guidance expands on issues of access addressed in the January 2012 CPSS-IOSCO publication on aggregation and reporting of data on OTC derivatives.

Guidance on foreign exchange settlement risk

The CPSS worked with the BCBS on the revision of its supervisory guidance on how banks should manage the risks of settling foreign exchange transactions. As reported above, the BCBS published the updated guidance in February.

Innovations in retail payments

In the May 2012 report *Innovations in retail payments*, the CPSS provides an overview of innovative retail payment activities and identifies a number of factors that could hinder or help such innovations. The study also raises issues for central banks concerning their various responsibilities and tasks as catalysts, overseers and operators of payment systems.

The new Red Book and the annual statistical update

In November, the Committee published the second and final volume of its new edition of *Payment, clearing and settlement systems in the CPSS countries*, a reference work known as the Red Book, describing FMIs in member countries (the new volume 1 was released in September 2011). In January, the Committee published the annual update of *Statistics on payment, clearing and settlement systems in the CPSS countries*.

CPSS: www.bis.org/cpss

Markets Committee

The Markets Committee, chaired by Hiroshi Nakaso, Deputy Governor of the Bank of Japan, is a forum for senior central bank officials to jointly monitor developments in financial markets and assess their implications for the liquidity management operations of central banks. Currently, 21 central banks are represented on the Committee.

Recurring concerns over euro area sovereign debt and the ultra-low interest rate environment in the major currency areas shaped the Committee's discussions during the year. The Committee closely monitored government bond market and bank funding conditions in the euro area and their effects on the integrity of the single market. A bout of market stress in mid-2012 prompted Committee members to hold ad hoc conference calls to exchange information on the latest developments. And as major central banks announced further rounds of unconventional measures and adopted new approaches to forward policy guidance, the Committee examined their effects on financial markets both at home and abroad.

The Committee also discussed selected longer-term and structural issues such as the efforts in different jurisdictions to review existing practices in reference interest rates and the responses to that in the private sector. Moreover, the Committee Chair and several members participated in a working group established by the ECC to examine reference interest rate practices from a central banking perspective, focusing on the implications for monetary transmission and financial stability. Committee members also kept abreast of several ongoing financial sector reforms and assessed their potential impact on the functioning of financial markets.

The Committee published a study on how central bank frameworks and practices regarding collateral evolved in the five years from mid-2007. In addition, as part of the preparation for the 2013 BIS Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity, a group established by the Committee completed its task of refining the survey's categories for counterparty and execution method and its currency-pair coverage. The 53 central banks participating in the survey then began technical preparations.

Markets Committee: www.bis.org/markets

Central Bank Governance Group

The Central Bank Governance Group, comprising representatives from nine central banks and chaired by Stanley Fischer, Governor of the Bank of Israel, serves as a venue for information exchange and research on the design and operation of central banks as public policy institutions. In addition, the Group suggests priorities for BIS work on these topics that is carried out through the almost 50 central banks that make up the Central Bank Governance Network. The research work and results of the numerous Network-based surveys on governance topics are available to central bank officials, and selected material is published.

During the past year, the Governance Group gathered at the BIS bimonthly meetings to address the evolving circumstances of central banks. With the support of research commissioned from its BIS secretariat and survey information generated by the Network, the Group assessed the financial strength that central banks need in order to be effective in the post-crisis world; discussed the challenges arising from changing mandates and arrangements relating to financial stability; and deliberated on the efforts made by central banks to improve the public's understanding of their increasingly complex activities.

Central Bank Governance Group: www.bis.org/about/cbgov.htm

Irving Fisher Committee on Central Bank Statistics

The Irving Fisher Committee on Central Bank Statistics (IFC), chaired by Muhammad Ibrahim, Deputy Governor of the Central Bank of Malaysia, is a forum for economists and statisticians from 80 central banks to address statistical topics related to monetary and financial stability. Among its activities during the year was a webcast in which Roberto Rigobon of the MIT Sloan School of Management presented his work on the Billion Prices Project; the project compiles a daily price index and inflation rate based on price and product descriptions collected every day from online retailers in more than 70 countries.

At the Committee's sixth biennial conference, held in Basel, the topics included the measurement of shadow banking, residential and commercial property prices, commodity markets, market expectations, effective exchange rates, and private and public sector indebtedness.

The IFC sponsored a workshop on financial inclusion indicators in cooperation with the Central Bank of Malaysia at Sasana Kijang, Kuala Lumpur. The event aimed to advance the data-gathering efforts needed to support greater financial inclusion worldwide (inclusion refers to the availability of appropriate financial services to underserved populations; the concept can extend to expanding financial literacy and consumer protection).[6]

The IFC's annual membership survey focused on data sharing between central banks and supervisory authorities. In its annual report to the BIS All Governors' Meeting in January 2013, the Committee proposed a task force on data sharing to analyse existing practices regarding the sharing of data, in particular with respect to banks' balance sheets and activities.

IFC: www.bis.org/ifc

[6] See the workshop's Sasana Statement on Financial Inclusion Indicators, www.bis.org/ifc/events/sasana_statement.pdf.

International Association of Deposit Insurers

Founded in 2002, the International Association of Deposit Insurers (IADI) strengthens safety-net regimes around the world by providing guidance for effective deposit insurance systems, conducting research and promoting collaboration among the key players in the global financial safety net. The number of organisations affiliated with IADI now stands at 88, including 67 deposit insurers as Members, nine Associates and 12 Partners. The 2012 IADI Annual General Meeting elected Jerzy Pruski, President of the Management Board of the Bank Guarantee Fund of Poland, as IADI's President and Chair of its Executive Council; he succeeded Martin J Gruenberg, Chairman of the US Federal Deposit Insurance Corporation.

IADI adopted strategic priorities in 2012 that, in line with the global efforts to strengthen the financial stability framework, (i) promote strong deposit insurance and resolution systems; (ii) strengthen and deepen relationships with other international financial organisations and standard-setting bodies on safety net-related matters; and (iii) support research and the development of guidance to further promote effective deposit insurance systems.

Core principles for effective deposit insurance systems, part of the FSB's key standards for sound financial systems, is used in the Financial Sector Assessment Program (FSAP) conducted by the IMF and World Bank. IADI experts who meet the IMF and World Bank Assessor qualifications will now participate in FSAP missions evaluating deposit insurance systems. IADI has begun to revise and update the core principles and is participating in the drafting of the assessment methodology for the FSB's *Key attributes of effective resolution regimes for financial institutions*. IADI is also contributing to the work of the FSB Cross-Border Crisis Management Committee in the development of G-SIFI resolution guidance.

In response to FSB recommendations in its thematic review of deposit insurance, IADI is developing additional guidance on matters stemming from the global financial crisis. Three papers – addressing deposit reimbursement, public awareness and deposit insurance coverage – were submitted to the FSB this year. Three other papers, scheduled for completion in 2013, focus on moral hazard, ex ante funding and the impact of multiple deposit insurance systems within one jurisdiction.

The 2012 annual joint IADI-FSI seminar "Bank Resolution: Current Developments, Challenges and Opportunities" reviewed insights and experiences on issues involving SIFIs and G-SIFIs. IADI continued its collaboration with the FSI to produce online tutorials on deposit insurance issues.

IADI maintains a global deposit insurance system database and updates it with results from its annual survey and targeted research. IADI posted on its public website a selection of results from its second annual survey of deposit insurers; full results are available to IADI Members, the FSB and the BIS.

IADI: www.iadi.org

International Association of Insurance Supervisors

The International Association of Insurance Supervisors (IAIS) is the international standard-setting body for prudential supervision of the insurance industry. Its purpose is to promote effective and globally consistent supervision and contribute to global financial stability so that policyholders may benefit from fair, safe and stable insurance markets.

Financial stability

The IAIS initiated public consultations on an assessment methodology for systemically important insurers in May 2012 and on proposed policy measures in October. It expects to deliver conclusions on both topics to the FSB in 2013.

The IAIS is developing a framework for monitoring the insurance sector's macroeconomic and financial market environment. Under the framework, macroprudential surveillance of the insurance sector differentiates the scope for supervisory action from the powers of central banks. The IAIS is also exploring macro stress testing in the insurance sector.

In a July 2012 paper on reinsurance and financial stability, the IAIS concluded that surveillance of non-reinsurance activities of reinsurers is warranted. A joint working paper by economists from the IAIS, BIS and IMF studied the impact of natural catastrophes on the reinsurance sector.

Insurance core principles

At its October general meeting, the IAIS revised Insurance Core Principle (ICP) 9, which covers supervisory review and reporting, and adopted guidance on how best to apply the ICPs to improve access to insurance products for those currently underserved.

Internationally active insurance groups

In July, the IAIS issued the first comprehensive draft of the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) for public consultation, and a revised draft is scheduled for 2013. In a field testing phase scheduled for 2014, ComFrame will be evaluated in practice so that it can be modified as necessary before its formal adoption, planned for 2018.

New global insurance market report

In October 2012, the IAIS released its first *Global insurance market report*, the successor publication to its reinsurance market reports. It covers the performance of primary insurers as well as reinsurers and reports on key developments in the global insurance market.

The new report contains both publicly available and confidential data submitted by global reinsurers for the period 2007–11. It shows that, while global primary insurers and reinsurers have been affected by the financial crisis and subsequent recession in many economies around the world, they have also been resilient in the face of the devastating series of natural disasters in 2005 and again in 2011. The data reveal that the reinsurance sector absorbed record-high losses in 2011 with a smaller impact on equity capital than in 2005, the former record-setting year.

Multilateral Memorandum of Understanding

Insurance supervisors that are signatories to the IAIS Multilateral Memorandum of Understanding (MMoU) participate in a global framework for cooperation and information exchange. The memorandum sets minimum standards to which signatories must adhere, and all applicants are subject to review and approval by an independent team of IAIS members. MMoU participants are better able to promote the financial stability of cross-border insurance operations for the benefit of consumers. The MMoU currently has 34 signatories representing more than 52% of worldwide premium volume.

Standards observance

The IAIS Standards Observance Subcommittee, created in 2010, is conducting assessments and peer reviews on the implementation of the ICPs as revised in 2011. The resulting confidential individual reports inform the participating supervisory authorities, and an aggregate report gives the standard-setting committees critical feedback on any challenges in interpretation or scope experienced in IAIS member jurisdictions.

More broadly, the IAIS organises regional seminars and workshops on implementing IAIS principles, standards and guidance in collaboration with the FSI, national supervisory authorities and other bodies. The Financial Inclusion Subcommittee extends this focus on implementation to supervisory authorities in emerging market and developing economies; the subcommittee also manages the IAIS relationship with its partnering Access to Insurance Initiative and the Islamic Financial Services Board.

IAIS: www.iaisweb.org

Financial Stability Institute

The Financial Stability Institute (FSI) assists supervisory authorities worldwide in their oversight of financial systems by fostering a solid understanding of prudential standards and good supervisory practice.

In the current context in particular, the FSI is assisting supervisors with implementation of reforms developed by international standard-setting bodies in response to the financial crisis. It is doing this through a range of channels, including conferences, high-level meetings, seminars and the internet. Its online information resource and learning tool, FSI Connect, is used by financial sector supervisors at all levels of experience and expertise.

In addition, the FSI conducts surveys of selected countries' implementation of the Basel framework. Surveys are now undertaken annually, and the results are published on the BIS website. The 2012 survey showed that 91 countries had implemented or were in the process of implementing Basel II, and 51 countries were in the process of implementing Basel III.

Meetings, seminars and conferences

The FSI's extensive programme of seminars, conferences and high-level meetings is targeted at banking and insurance sector supervisors and central bank financial stability experts. Over the past year, approximately 1,800 representatives of central banks and banking and insurance supervisory authorities participated in 42 banking seminars, nine insurance seminars and the FSI's sixth biennial conference.

For some of the insurance seminars, the FSI worked with the IAIS and its regional network. For regional banking seminars, the FSI collaborated with the following supervisory groups:

- Africa – Committee of Bank Supervisors of West and Central Africa (BSWCA); Southern African Development Community (SADC);
- Americas – Association of Supervisors of Banks of the Americas (ASBA); Center for Latin American Monetary Studies (CEMLA); Caribbean Group of Banking Supervisors (CGBS);
- Asia and the Pacific – Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) Working Group on Banking Supervision; South East Asian Central Banks (SEACEN); Central Banks of South East Asia, New Zealand and Australia (SEANZA) Forum of Banking Supervisors;
- Europe – European Banking Authority (EBA); Group of Banking Supervisors from Central and Eastern Europe (BSCEE);

- Middle East – Arab Monetary Fund (AMF); Gulf Cooperation Council (GCC) Committee of Banking Supervisors; and
- Other – Group of French-Speaking Banking Supervisors (GSBF); Group of International Finance Centre Supervisors (GIFCS).

The biennial FSI conference, held in Basel in November, brought together more than 100 central bankers and banking supervisors to discuss leading-edge risk management practices and the banking implications of current supervisory reforms. In October, the FSI hosted the first annual conference of the Global Partnership for Financial Inclusion, during which participants discussed the challenges faced by standard-setting bodies in their efforts to broaden financial inclusion.

The annual high-level meetings for Deputy Governors of central banks and heads of supervisory authorities, organised jointly with the BCBS, took place in Africa, Asia, central and eastern Europe, Latin America and the Middle East. The meeting topics included financial stability, macroprudential tools and policies, regulatory priorities and other key supervisory issues. The FSI seminars focused on improving supervisors' understanding of financial regulatory reforms, particularly those relating to Basel III capital and liquidity.

FSI Connect

FSI Connect is used by more than 9,500 subscribers from 245 central banks and banking and insurance supervisory authorities. It offers more than 230 tutorials covering a wide range of regulatory policy and supervisory topics. Recently released tutorials include capital conservation and countercyclical buffers, regulatory capital adjustments under Basel III, and assessment and guidance relating to the insurance core principles.

Research and statistics

Through its research function, the BIS addresses economic and financial issues important to central banks and financial supervisory authorities. Most of the resulting research and analysis is published through the Bank's principal outlets – the *Annual Report*, the *BIS Quarterly Review*, *BIS Papers*, *BIS Working Papers* and the Bank's website (www.bis.org) – as well as in external professional publications. In addition, the research function collects, analyses and disseminates statistical information for central banks and the general public on key elements of the international financial system. The research function also supports the BIS mission by developing background material for meetings of senior central bankers, and it provides secretariat and analytical services to the various groups hosted by the BIS in Basel.

Research focus

In line with the Bank's mission, the focus of BIS research is on monetary and financial stability. As in previous years, the principal themes of the work were the immediate challenges of the global financial crisis and its longer-term implications for policy.

A first strand of research continued to examine the link between the macroeconomy and public and private balance sheets against the backdrop of rising debt. The topics of the investigation included the link between the size of the financial system and growth; the financial cycle and its relationship to the business cycle; the interplay between the financial health of the sovereign and that of the banking sector; and the risks to financial stability in this new environment.

The sustainability and implications of extraordinarily low interest rates figured prominently in the analyses.

A second strand of work focused on prudential and structural policies designed to make the financial system more resilient. The analysis examined strengths and weaknesses of macroprudential policy instruments and their relationship to monetary policy tools. The research paid special attention to the interaction between the emerging regulation of bank liquidity and the implementation of monetary policy.

A third strand studied the evolution of monetary policy in the wake of the global financial crisis. It analysed the effectiveness of policy in addressing balance sheet recessions and the pros and cons of central banks' balance sheet policies, such as large-scale asset purchases and the accumulation of foreign exchange reserves. The work also assessed changes in the transmission mechanism of policy and explored the threat of fiscal dominance.

A fourth strand explored the nexus between the international monetary and financial system and the performance of the global economy. At issue was global liquidity – the concept as well as measurement and policy implications – and its relationship to developments in international banking. Making extensive use of the BIS's unique international financial statistics, the research included detailed studies on transnational banking activity and on segments of the foreign exchange market.

The BIS research function annually organises conferences and workshops for participants from the worlds of policy, research and business. The leading event is the BIS Annual Conference. In June 2012, the 11th BIS Annual Conference addressed the future of financial globalisation and its implications for macroeconomic, monetary and financial stability.

International statistical initiatives

Work to improve the collection and dissemination of data on cross-border claims and liabilities of internationally active banks continued along the lines of the multistage process endorsed by the CGFS. In a first stage, central banks have enhanced the reporting of residency-based cross-border data. The second stage enhancements will see central banks report a more detailed sectoral breakdown in both the locational and consolidated banking statistics; the latter will be extended to include the liability positions of banks, including capital.

On its website, the BIS has begun publicly releasing data that were developed in cooperation with central bank members of the Data Bank: new long-series data on total credit and improved international and domestic statistics on debt securities.[7] As one of the sponsors of the Statistical Data and Metadata Exchange (SDMX), the BIS uses these standards in all its collection, processing and dissemination of statistics. The BIS also continues its participation in the Inter-Agency Group on Economic and Financial Statistics (IAG), which follows up on the FSB and IMF recommendations to the G20 to close data gaps revealed by the financial crisis.[8]

[7] The Data Bank contains key economic indicators reported by almost all BIS shareholding central banks, additional detailed macroeconomic series from major advanced and emerging market economies, and data collected by various BIS-hosted groups. Substantial efforts have been made to facilitate use of the Data Bank for calculating and disseminating long series of important economic variables, such as credit.

[8] The IAG comprises the BIS, ECB, Eurostat, IMF, OECD, United Nations and World Bank (www.principalglobalindicators.org/about_iag.aspx). The same organisations also sponsor the SDMX initiative (www.sdmx.org).

As a participant in the FSB Working Group on Data Gaps and Systemic Linkages, the BIS launched a central hub to house data covering global systemically important banks. Over time, the data will give national supervisory authorities a better understanding of how balance sheet interlinkages can amplify or cushion financial shocks. In addition, the initiative will help strengthen international communication among supervisory authorities.

Other central bank initiatives to which the BIS lends support

The BIS contributes to the activities of central banks and regional central bank organisations. During the past year, it supported the following groups in hosting events on the following topics:

- CEMLA (Center for Latin American Monetary Studies) – banking, payment and settlement systems, fiscal policy and central bank finances;
- FLAR (Fondo Latinoamericano de Reservas) – reserve management;
- SEACEN (South East Asian Central Banks) Research and Training Centre – central bank communications, financial stability and supervision, monetary policy and payment and settlement systems;
- MEFMI (Macroeconomic and Financial Management Institute of Eastern and Southern Africa) – payment and settlement systems, and portfolio and risk management; and
- World Bank – portfolio diversification.

BIS experts also contributed to events organised by the International Banking and Finance Institute of the Bank of France.

Financial services of the Bank

Through its Banking Department, the BIS offers a wide range of financial services designed to assist central banks and other official monetary authorities in the management of their foreign reserves and to foster international cooperation in this area. Some 140 such institutions, as well as a number of international organisations, make active use of these services.

Safety and liquidity are the key features of BIS credit intermediation, which is supported by a rigorous framework of internal risk management. Independent control units reporting directly to the BIS Deputy General Manager monitor and control the related risks. A compliance and operational risk unit monitors operational risk; a risk control unit controls the Bank's financial risks – ie credit, liquidity and market risks – and is also responsible for the coordination required for an integrated approach to risk management.

BIS financial services are provided from two linked trading rooms: one in Basel, at the Bank's head office; and one in Hong Kong SAR, at its Representative Office for Asia and the Pacific.

Scope of services

As an institution owned and governed by central banks, the BIS possesses a distinctive understanding of the needs of reserve managers – their primary requirement of safety and liquidity as well as their evolving need to diversify substantial exposures arising from the growth of foreign exchange reserves. To meet those needs, the BIS offers investments that vary by currency denomination, maturity and liquidity. The Bank offers tradable instruments in maturities ranging from one week to five years –

Fixed-Rate Investments at the BIS (FIXBIS), Medium-Term Instruments (MTIs) and products with embedded optionality (Callable MTIs); tradable instruments can be bought or sold at any time during the Bank's dealing hours.

Also available are money market placements, such as sight/notice accounts and fixed-term deposits, in most convertible currencies; in addition, the Bank provides short-term liquidity facilities and extends credit to central banks, usually on a collateralised basis. Moreover, the Bank acts as trustee and collateral agent in connection with international financial operations.

The Bank transacts foreign exchange and gold on behalf of its customers, thereby providing access to a large liquidity base in the context of, for example, regular rebalancing of reserve portfolios or major changes in reserve currency allocations. The foreign exchange services of the Bank encompass spot transactions in major currencies and Special Drawing Rights (SDR) as well as swaps, outright forwards, options and dual currency deposits (DCDs). In addition, the Bank provides gold services such as buying and selling, sight accounts, fixed-term deposits, earmarked accounts, upgrading and refining and location exchanges.

The BIS also provides asset management products. These products, which consist of sovereign securities and high-grade fixed income instruments, are available in two forms: dedicated portfolio mandates tailored by the BIS to each customer's preferences; and open-end fund structures – BIS Investment Pools (BISIPs) – that allow customers to invest in a common pool of assets similar to mutual funds or unit funds. Both forms are offered as either single currency or multicurrency mandates in major reserve currencies. The investor in multicurrency mandates can choose whether to hedge back into the base currency.

In addition, the BISIP structure is used for the Asian Bond Fund (ABF) initiative sponsored by EMEAP (Executives' Meeting of East Asia-Pacific Central Banks). The BIS, in cooperation with a group of advising central banks, has chosen the same structure for a US inflation-protected government securities fund managed by external investment firms.

The BIS Banking Department hosts global and regional meetings, seminars and workshops on reserve management issues. These gatherings facilitate the exchange of knowledge and experience among reserve managers and promote the development of investment and risk management capabilities in central banks and international organisations.

Financial operations in 2012/13

In 2012/13, financial markets continued to be driven largely by the evolution of the sovereign debt crisis in the euro area. Despite periods of high volatility, however, funding conditions in credit markets improved overall. The Bank's balance sheet total fluctuated between SDR 255 billion and SDR 201 billion. For the year, it decreased by SDR 43.7 billion, following a marginal decrease of SDR 5.4 billion in the previous year. As a result, the balance sheet total at 31 March 2013 was SDR 212.0 billion.

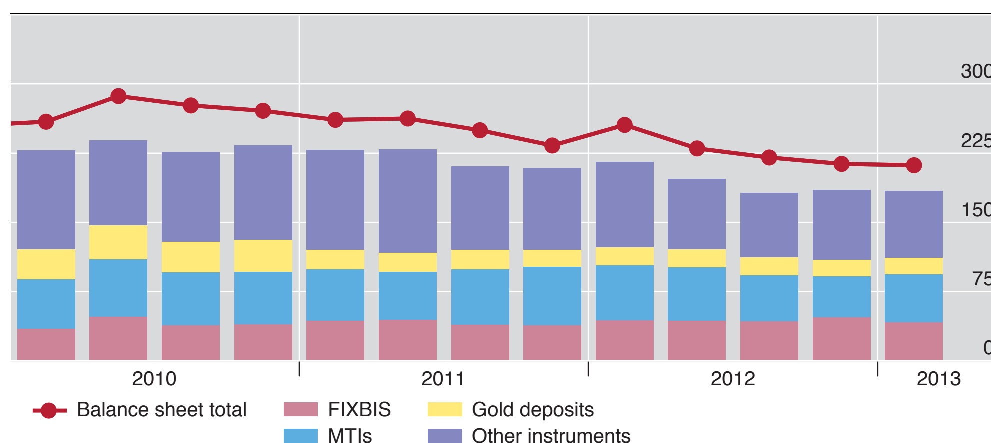
Liabilities

Customer placements, about 90% of which are denominated in currencies and the remainder in gold, constitute the largest share of total liabilities (see graph). On 31 March 2013, customer placements (excluding repurchase agreements) amounted to SDR 183.7 billion, compared with SDR 215.4 billion at the end of 2011/12; the decrease occurred in both currency and gold.

Currency deposits decreased from SDR 195.8 billion a year ago to SDR 166.2 billion at end-March 2013. That balance represents some 2.0% of the

Balance sheet total and customer placements by product

End-quarter figures, in billions of SDR



The sum of the bars indicates total customer placements.

world's total foreign exchange reserves – which totalled nearly SDR 7.4 trillion at end-March 2013, up from SDR 7.0 trillion at end-March 2012.[9] The share of currency placements denominated in US dollars was 76%, while euro- and sterling-denominated funds accounted for 8% and 7%, respectively.

Gold deposits amounted to SDR 17.6 billion at end-March 2013, a decrease of SDR 2.0 billion for the financial year.

Assets

As in the previous financial year, most of the assets held by the BIS consist of government and quasi-government securities plus investments (including reverse repurchase agreements) with highly rated commercial banks of international standing. In addition, the Bank held 115 tonnes of fine gold in its investment portfolio at 31 March 2013. The Bank's credit exposure is managed in a conservative manner, with almost all of it rated no lower than A– at 31 March 2013 (see note 3, "Credit risk", in the "Risk management" section of the financial statements).

The Bank's holdings of currency assets totalled SDR 157.1 billion on 31 March 2013, compared with SDR 200.2 billion at the end of the previous financial year (see note 6, "Currency assets", in "Notes to the financial statements"). The Bank uses various derivative instruments to manage its assets and liabilities efficiently (see note 8, "Derivative financial instruments", in "Notes to the financial statements").

Representative Offices

The BIS has a Representative Office for Asia and the Pacific (the Asian Office), located in the Hong Kong Special Administrative Region of the People's Republic of China; and a Representative Office for the Americas (the Americas Office), located in Mexico City. The Representative Offices promote cooperation and the BIS mission

[9] Excluded from the ratio calculation are funds placed by institutions for which data on foreign exchange reserves are not available.

within each region by organising meetings, supporting regional institutions and Basel-based committees, conducting policy research and fostering the exchange of information and data. The Asian Office also provides banking services to the region's monetary authorities.

The Asian Office

The activities of the Asian Office are guided by the Asian Consultative Council (ACC), comprising the Governors of the 12 BIS shareholding central banks in the Asia-Pacific region.[10] The Office undertakes economic research, organises high-level regional meetings and, through its Regional Treasury, offers specialised banking services. The economics team in Hong Kong focuses its research on the region's policy issues.

The Asian Consultative Council

At its June 2012 semiannual meeting in Basel, the Council nominated Choongsoo Kim, Governor of the Bank of Korea, to succeed Masaaki Shirakawa, Governor of the Bank of Japan, as chair of the ACC beginning in October. At its February 2013 meeting, the Council endorsed a new research theme, "Cross-border financial linkages in Asia and the Pacific", which will be the focus of Asian Office research on financial stability issues for the next two years.

Research

Economists in the Asian Office produced research on the two themes previously endorsed by the ACC. On the monetary stability side, the theme was inflation dynamics and globalisation in Asia and the Pacific; the specific policy issues under this theme were identified at a June research workshop in Hong Kong. On the financial stability side, the theme was property markets and financial stability; in August, a conference co-hosted with the Reserve Bank of Australia in Sydney showcased the results of that research.

In carrying out their research, Asian Office economists collaborated with selected academics from around the world and economists at BIS shareholding central banks in the region. The resulting papers have informed policy discussions in various central bank meetings and have appeared in refereed journals as well as the *BIS Quarterly Review*.

The Special Governors' Meeting and other high-level meetings

The Asian Office organised 11 high-level BIS policy meetings. Each was held jointly with a central bank in the region or with a regional body of central banks, including the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) and the South East Asian Central Banks (SEACEN) Research and Training Centre.

The annual Special Governors' Meeting gathers the Governors of the major central banks in the region together with other Governors from around the world to address issues of common concern. This year's meeting was organised jointly with the Bank of Korea and held in Seoul in February. For the third year in a row, the event included a meeting with the chief executive officers of large financial

[10] The 12 central banks are those of Australia, China, Hong Kong SAR, India, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore and Thailand.

institutions active in the region. The discussion centred on issues of bank profitability and regional expansion.

Other high-level events were the Eighth Meeting on Monetary Policy Operating Procedures, in Hong Kong in April; a meeting of the Working Party on Monetary Policy in Asia, co-hosted by the Bank of Japan in Tokyo in June; the SEACEN-BIS Exco Seminar, co-hosted by the Bank of Korea in Busan in September; and the Eighth Roundtable on Financial Markets, co-hosted by the Bank of Korea in Hong Kong in December.

Banking activity and the Asian Bond Funds

The dealing room of the Asian Office continued to work closely with the BIS Risk Control unit to explore new investment outlets and expand its involvement in regional financial markets while maintaining a conservative risk profile. Central banks in the region also maintained a conservative stance in their reserve portfolio operations with the BIS, demanding mainly short-term liquid instruments. On balance, placements by central banks in the region in the 2012/13 financial year were down slightly from those in 2011/12.

The BIS continued to support the second Asian Bond Fund (ABF2), an EMEAP initiative to foster the development of local currency bond markets. At the end of March 2013, the combined size of all ABF funds was just under $5.8 billion, an increase of slightly more than 19% from the end of March 2012. The total return on the region-wide fund, the Pan-Asia Bond Index Fund (PAIF), from its inception on 7 July 2005 to end-March 2013 was 69.8%, which compared favourably with the 44.0% return on a US Treasury index of similar duration.

The Americas Office

In its research and outreach, the Americas Office takes guidance from the Consultative Council for the Americas (CCA), comprising the Governors of the eight BIS shareholding central banks in the region.[11] The chair of the CCA is Agustín Carstens, Governor of the Bank of Mexico.

The Office organised the third annual CCA research conference, hosted in April 2012 by the Central Bank of Brazil, which covered financial stability, financial regulation and monetary policy. The Office has also implemented two research network projects to aid cooperative investigation among CCA members on topics of regional concern. The first project, on the effects of foreign exchange market operations in Latin America, held a plenary session in April 2012; its closing conference, in November, was hosted by the Bank of the Republic, the central bank of Colombia. In March 2013, the Office organised a meeting of authors to finalise the papers for publication. A second research network project was launched in January, on financial stability considerations in central bank policy models. Economists in the Americas Office have conducted additional research, including studies of foreign exchange intervention, hedging in foreign exchange markets, oil prices and food prices, and the regionalisation of banking in Latin America, that has been used internally or published on the BIS website or in academic journals.

The Office's outreach activities included support for several meetings: the 16th BIS Working Party for Monetary Policy in Latin America, hosted in September by the Central Reserve Bank of Peru; a roundtable on fiscal policy, public debt management and government bond markets organised jointly by the BIS and the

[11] Those of Argentina, Brazil, Canada, Chile, Colombia, Mexico, Peru and the United States.

host, the Center for Latin American Monetary Studies (CEMLA), in Mexico City; and a BIS-CEMLA workshop on central bank finances, hosted by the Central Bank of Chile. The Office also organised two BIS panels at the November meetings of the Latin American and Caribbean Economic Association in Lima. As part of their outreach activities, economists of the Americas Office have made numerous presentations, including those at several FSB regional consultative group meetings and at an FSI-CEMLA seminar on Basel III and stress testing.

Governance and management of the BIS

The governance and management of the Bank are conducted at three principal levels:

- the General Meeting of BIS member central banks;
- the BIS Board of Directors; and
- BIS Management.

The BIS has its head office in Basel, Switzerland. At the end of the 2012/13 financial year, the BIS employed 647 staff members from 54 countries.

The General Meeting of BIS member central banks

Sixty central banks and monetary authorities are currently members of the BIS and have rights of voting and representation at General Meetings. The Annual General Meeting (AGM) is held no later than four months after 31 March, the end of the BIS financial year. The AGM decides the distribution of the dividend and profit of the BIS, approves the annual report and the accounts of the Bank, makes adjustments in the allowances paid to Board members and selects the Bank's independent auditor.

The BIS Board of Directors

Consisting of 18 members at present, the Board of Directors is assisted by four committees of Board members: the Administrative Committee, the Audit Committee, the Banking and Risk Management Committee, and the Nomination Committee. The main responsibilities of the Board are determining the strategic and policy direction of the BIS and supervising the Bank's Management.

At its meeting in June 2012, the BIS Board re-elected the following members for a further period of three years: Agustín Carstens, Governor of the Bank of Mexico; Mario Draghi, President of the ECB; Klaas Knot, President of the Netherlands Bank; and Zhou Xiaochuan, Governor of the People's Bank of China. In September 2012, the Board re-elected two other members, also for a further period of three years: Mark Carney, Governor of the Bank of Canada; and Masaaki Shirakawa, Governor of the Bank of Japan.

With effect from 13 September 2012, Ben Bernanke, Chairman of the Board of Governors of the Federal Reserve System, reappointed William C Dudley as a member of the Board for three years.

Anne Le Lorier, First Deputy Governor of the Bank of France, stepped down as a member of the Board at the end of December 2012.

Mervyn King, Governor of the Bank of England, appointed Paul Tucker to the Board for a three-year term with effect from 1 January 2013. Ignazio Visco, Governor of the Bank of Italy, reappointed Fabrizio Saccomanni as a member of the Board for one year from 1 January 2013. Mr Saccomanni stepped down as a member of the Board on 28 April 2013. With effect from 29 April, Ignazio Visco

appointed Fabio Panetta, Deputy Director General of the Bank of Italy, as a member of the Board for the unexpired portion of Mr Saccomanni's term, ending 31 December 2013.

In January 2013, the Board re-elected Christian Noyer, Governor of the Bank of France, as Chairman of the Board of Directors for a further period of three years beginning on 7 March 2013.

In March 2013, the Board re-elected Thomas Jordan, Chairman of the Governing Board of the Swiss National Bank, for a further period of three years.

On 19 March 2013, Masaaki Shirakawa stepped down as Governor of the Bank of Japan and therefore left the Board. At its meeting in May 2013, the Board elected Haruhiko Kuroda, Mr Shirakawa's successor as Governor of the Bank of Japan, as a member of the Board for the unexpired period of Mr Shirakawa's term of office, ending on 12 September 2015.

Mark Carney stepped down as Governor of the Bank of Canada and thus also as a BIS Board Member on 1 June 2013. The Board appointed Luc Coene, Governor of the National Bank of Belgium, as successor to Mr Carney as Chairman of the Audit Committee.

BIS shareholding institutions and members of the BIS Board of Directors are listed on the following pages.

BIS member central banks

Bank of Algeria

Central Bank of Argentina

Reserve Bank of Australia

Central Bank of the Republic of Austria

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

Bank of the Republic (Colombia)

Croatian National Bank

Czech National Bank

National Bank of Denmark

Bank of Estonia

European Central Bank

Bank of Finland

Bank of France

Deutsche Bundesbank (Germany)

Bank of Greece

Hong Kong Monetary Authority

Magyar Nemzeti Bank (Hungary)

Central Bank of Iceland

Reserve Bank of India

Bank Indonesia

Central Bank of Ireland

Bank of Israel

Bank of Italy

Bank of Japan

Bank of Korea

Bank of Latvia

Bank of Lithuania

Central Bank of Luxembourg

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

Central Reserve Bank of Peru

Bangko Sentral ng Pilipinas (Philippines)

National Bank of Poland

Bank of Portugal

National Bank of Romania

Central Bank of the Russian Federation

Saudi Arabian Monetary Agency

National Bank of Serbia

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

Central Bank of the United Arab Emirates

Bank of England

Board of Governors of the Federal Reserve System (United States)

Board of Directors

Chairman: Christian Noyer, Paris
Vice-Chairman: (vacant)
Ben S Bernanke, Washington
Agustín Carstens, Mexico City
Luc Coene, Brussels
Andreas Dombret, Frankfurt am Main
Mario Draghi, Frankfurt am Main
William C Dudley, New York
Stefan Ingves, Stockholm
Thomas Jordan, Zurich
Mervyn King, London
Klaas Knot, Amsterdam
Haruhiko Kuroda, Tokyo
Fabio Panetta, Rome
Guy Quaden, Brussels
Paul Tucker, London
Ignazio Visco, Rome
Jens Weidmann, Frankfurt am Main
Zhou Xiaochuan, Beijing

Alternates

Mathias Dewatripont or Jan Smets, Brussels
Paul Fisher or Michael Cross, London
Anne Le Lorier or Marc-Olivier Strauss-Kahn, Paris
Joachim Nagel or Karlheinz Bischofberger, Frankfurt am Main
Janet L Yellen or Steven B Kamin, Washington
Emerico Zautzik, Rome

Committees of the Board of Directors

Administrative Committee, chaired by Agustín Carstens
Audit Committee, chaired by Luc Coene
Banking and Risk Management Committee, chaired by Stefan Ingves
Nomination Committee, chaired by Christian Noyer

BIS Management

BIS Management is under the overall direction of the General Manager, who is responsible to the Board of Directors for the conduct of the Bank. The General Manager is advised by the Executive Committee of the BIS, which consists of six members: the General Manager as chair; the Deputy General Manager; the Heads of the three BIS departments – the General Secretariat, the Monetary and Economic Department and the Banking Department – and the General Counsel. Other senior officials are the Deputy Heads of the departments and the Chairman of the Financial Stability Institute.

At the end of April 2013, Günter Pleines retired as Head of Banking Department. At its meeting on 7 January 2013, the Board appointed Peter Zöllner as Head of Banking Department for a period of five years beginning on 1 May 2013.

General Manager	Jaime Caruana
Deputy General Manager	Hervé Hannoun
Secretary General and Head of General Secretariat	Peter Dittus
Economic Adviser and Head of Monetary and Economic Department	Stephen G Cecchetti
Head of Banking Department	Peter Zöllner
General Counsel	Diego Devos
Deputy Secretary General	Jim Etherington
Deputy Head of Banking Department	Louis de Montpellier
Deputy Head of Monetary and Economic Department (Research and Statistics)	Claudio Borio
Deputy Head of Monetary and Economic Department (Policy, Coordination and Administration)	Philip Turner
Chairman, Financial Stability Institute	Josef Tošovský

In memoriam

The Bank was saddened to learn of the death of Sir Andrew Crockett on 3 September 2012 at the age of 69. Sir Andrew was the General Manager of the BIS from 1 January 1994 to 31 March 2003. Among his many achievements was his work to expand the membership of the BIS and its Board beyond the Bank's traditional, mostly European base. The Bank's opening of representative offices in Asia and the Americas was a part of this global outreach. Another milestone reached under Sir Andrew's leadership was the creation of the Financial Stability Forum (FSF – later the Financial Stability Board), of which he was the first Chairman. The Basel Process was greatly strengthened by locating the FSF Secretariat at the BIS. Sir Andrew also initiated significant changes to modernise the Bank's management culture. In its continuing efforts to further strengthen the institution, the Bank is building on Sir Andrew's legacy.

Bank budget policy

The process of formulating the Bank's annual expenditure budget 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 corresponding resource requirements. The process of reconciling detailed business plans, objectives and overall resource availability culminates in a draft budget, which must be approved by the Board before the start of the financial year.

The budget distinguishes between administrative and capital expenditures. As with organisations similar to the BIS, Management and staff expenditure – including remuneration, pensions, and health and accident insurance – amounts to around 70% of administrative expenditure. The other major categories, each accounting for about 10% of administrative spending, are information technology (IT), buildings and equipment, and general operational costs. Capital spending, relating mainly to

buildings and IT investment, can vary significantly from year to year depending on the projects in progress.

Administrative and capital expenditure for 2012/13 reflected the Bank's priority of responding to the global financial crisis. Additional staff positions devoted to the Basel Process were allocated to the FSB, which became an independent association at the end of January 2013; to the BCBS; and, to strengthen research capacities, to the statistical sections of the Monetary and Economic Department. At the same time, IT projects were undertaken to enhance statistical and research systems, and to upgrade IT infrastructure related to the provision of banking and asset management services to central bank customers.

For 2012/13, overall administrative expense on the Bank's budget basis of accounting amounted to CHF 271.2 million, or CHF 6.8 million (2.4%) lower than the budget.[12] It was CHF 16.2 million (6.4%) above actual administrative expense in 2011/12.

Capital expenditure was CHF 20.7 million, or CHF 2.0 million (8.8%) below the budget. It was CHF 5.5 million (21%) below actual capital expenditure in 2011/12.

Total expenditure was CHF 291.9 million, or CHF 8.8 million (2.9%) below budget. It was CHF 10.7 million (3.8%) above the actual expenditure in 2011/12.

In March 2013, the Board approved a 1.9% increase in the administrative budget for the financial year 2013/14, to CHF 283.2 million. It also approved a capital budget of CHF 30.5 million (including CHF 14.0 million for the purchase of the building at Centralbahnstrasse 21 in Basel). The total budget of CHF 313.7 million is CHF 13 million (4.3%) higher than in 2012/13. The 2013/14 budget is based on a business plan which continues to focus on enhancing financial stability activities. This includes monitoring of the initial implementation of supervisory and financial standards, and strengthening of the Bank's data collection and statistical systems. Resources have also been added to bolster the Internal Audit and IT Security control functions, and to improve the diversification of the Bank's investments.

Bank 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 classified into distinct job grades. The job grades are associated with a structure of salary ranges. Salaries of individual staff members move within the ranges of the salary structure on the basis of performance. Every three years, a comprehensive survey benchmarks BIS salaries (in Swiss francs) against compensation in comparable institutions and market segments. In benchmarking, 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 at the surveyed institutions. In years between comprehensive salary surveys, the salary structure is adjusted on the basis of the rate of inflation in Switzerland and the weighted average real wage development in industrial countries. As of 1 July 2012, the salary structure was accordingly decreased by 0.1%.

Through the Bank, BIS staff members have access to a contributory health insurance plan and a contributory defined benefit pension plan. Non-locally hired,

[12] The Bank's budget excludes financial accounting adjustments relating to post-employment benefit obligations for pensions and health and accident insurance. The expense for the next financial year depends on the actuarial valuations as at 31 March each year, which are not finalised until April, after the budget has been set by the Board. For similar reasons, certain extraordinary items are also excluded from the budget. These additional factors are included under "Operating expense" in the profit and loss account (see "Net profit and its distribution").

non-Swiss staff members recruited for a position at the Bank's headquarters, including senior officials, are entitled to an expatriation allowance. The allowance currently amounts to 14% of annual salary for unmarried staff members and 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. In the Representative Offices, the BIS makes a distinction between staff members on an international assignment from the Bank's 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 recruited directly, employment conditions are aligned with those in the market in which the Office is located, but they include access to the same health insurance and pension plans available to staff employed at the Bank's headquarters.

The salaries of senior officials are regularly benchmarked against compensation in comparable institutions and market segments. As with the survey for other staff, the most recent executive compensation survey took place in the second half of 2010. 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 2012, the annual remuneration of senior officials, before expatriation allowances, is based on the salary structure of CHF 766,220 for the General Manager;[13] CHF 648,340 for the Deputy General Manager; and CHF 589,400 for Heads of Department.

The Annual General Meeting approves the remuneration of members of the Board of Directors, with adjustments taking place at regular intervals. The total fixed annual remuneration paid to the Board of Directors was CHF 1,096,932 as of 1 April 2013. 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 CHF 1,017,792.

Net profit and its distribution

The Bank recorded a net profit of SDR 898.2 million for its 83rd financial year, ended 31 March 2013. This result was 18% higher than the previous year.

Principal factors behind the 2012/13 profit

The background to the Bank's 2012/13 results was a broad stabilisation of market valuations, but at reduced yields. In this environment, Management maintained a cautious approach to the balance sheet, which was reduced by 17% over the year, from SDR 256 billion to SDR 212 billion. With historically low interest rates, the interest accrual on the investment assets was lower and the net interest margin on the banking business was squeezed. However, this reduction in net interest income was partially offset by a reduction in valuation losses incurred during the year. As a result, net interest and valuation income for the financial year 2012/13 was SDR 1,014.4 million, an increase of SDR 146.6 million from the prior financial year amount of SDR 867.8 million. Operating expenses amounted to SDR 256.3 million, 13% above the 2011/12 figure of SDR 226.7 million. This increase was due mainly to

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

a higher charge for post-employment benefits following a reduction in the discount rate assumption.

After taking into account the above factors, the Bank's operating profit amounted to SDR 786.2 million, which was SDR 130.7 million above the SDR 655.5 million recorded in 2011/12.

The Bank's available for sale portfolios, one for investment securities and one for gold, hold positions for which valuation gains are recognised in the profit and loss account only on disposal. During 2012/13, the Bank continued to manage its portfolio of available for sale investment securities with a benchmark duration of three years, with disposals in this portfolio realising a net gain of SDR 82.7 million (2011/12: net gain of SDR 24.7 million). The Bank also realised a gain of SDR 29.3 million on the sale of 1 tonne of its gold investment assets. This compares with a gain of SDR 78.7 million on the sale of 3 tonnes in 2011/12.

As a result of these factors, the net profit for 2012/13 amounted to SDR 898.2 million, 18% above the previous year's profit of SDR 758.9 million. The profit represented a return of 4.8% on average daily equity (2011/12: 4.3%).

Movements in equity

The unrealised gains on the Bank's available for sale portfolios, one for investment securities and one for gold, are included in revaluation accounts in the Bank's equity.

The securities revaluation account decreased by SDR 55.5 million (2011/12: gain of SDR 296.5 million), reflecting the recognition in profit of gains made on disposal of available for sale investment securities, which was partially offset by increased valuations on those securities held in the portfolio at year-end. The gold revaluation account decreased by SDR 67.8 million (2011/12: gain of SDR 551.8 million), reflecting the realisation into profit following the sale of 1 tonne, along with a 1% fall in the price of gold over the year.

After adjusting for these movements on revaluation accounts, the Bank's total comprehensive income for 2012/13 was SDR 774.9 million. This represented a return of 4.1% on average daily equity of SDR 18,734 million. In 2011/12, the total comprehensive income of SDR 1,607.2 million benefited from unrealised valuation gains arising both from a rise in gold prices and from a decline in interest rates. Taking into account the dividend for 2011/12 of SDR 168.4 million that was paid during 2012/13, the Bank's equity increased by SDR 606.5 million during the year ended 31 March 2013.

Proposed dividend

The Board's review of the BIS dividend policy in 2009/10 took 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. In framing the dividend policy, the Board adopted a number of governing principles, which are:

- First, the Bank should maintain a strong capital base at all times, including during financial stress.
- Second, the dividend should be relatively stable, set at a sustainable level and changing in a predictable manner each year.
- Third, while the Bank's dividend policy should provide guidance for the medium term, the dividend should continue to reflect the prevailing financial circumstances of the Bank, and the Board's proposal to the AGM should remain an annual decision.

The policy, which is due to be reviewed again in 2014/15, ensures that earnings are retained to augment the Bank's capital at a rate sufficient to support its

business. The final approval of the dividend coincides with the outcome of the annual economic capital allocation process (see item 2, "Economic capital", in the "Capital adequacy" section of the financial statements), enabling the Board to set an appropriate dividend while ensuring that the Bank's capital base remains strong. In normal circumstances, this results in a dividend which increases steadily by SDR 10 per share per annum (the "normal dividend"), while retaining the flexibility to vary the dividend in years of low or high profits.

Consistent with this dividend policy, the Board proposes for the financial year 2012/13 to declare a normal dividend of SDR 315 per share, SDR 10 per share above the normal dividend for 2011/12. The dividend policy foresees the possibility of a supplementary dividend in a year when profits are high and the Bank's capital strength allows. With the current low interest rate environment constraining the Bank's underlying profitability (and hence its capital generating capacity), no supplementary dividend is proposed for 2012/13.

At 31 March 2013, there were 559,125 issued and fully paid shares. This includes the 1,000 shares of the Albanian issue, which are suspended and held in treasury. The normal dividend will be paid on 558,125 shares, with no dividend paid on the 1,000 shares held in treasury. The total cost of the proposed dividend would be SDR 175.8 million, after which SDR 722.4 million would be available for allocation to reserves. The dividend would be paid on 28 June 2013 in one of the component currencies of the SDR (US dollar, euro, yen or sterling) or in Swiss francs according to the instructions of each shareholder named in the Bank's share register at 31 March 2013.

Reserves adjustment for revised accounting policy in 2013/14

With effect from 1 April 2013, the Bank has changed its accounting policy for post-employment benefit obligations to reflect developments in global financial standards. The change, which will be applied in the 2013/14 financial statements, requires statutory reserves to be reduced by SDR 89.7 million, representing the cumulative change in profit recognition as a result of applying the revised accounting policy. To this end, the Board proposes to deduct the aforementioned amount from the free reserve fund. Further details on the revised accounting policy can be found in note 3 to the financial statements.

Proposed application of net profit for 2012/13 and reserves adjustment for revised accounting policy in 2013/14

On the basis of Article 51 of the Bank's Statutes, the Board of Directors recommends that the General Meeting apply the net profit for the year of SDR 898.2 million in the following manner:

(a) SDR 175.8 million to be paid as a normal dividend of SDR 315 per share;

(b) SDR 36.1 million to be transferred to the general reserve fund;[14]

(c) SDR 6.0 million to be transferred to the special dividend reserve fund; and

(d) SDR 680.3 million, representing the remainder of the available profit, to be transferred to the free reserve fund.

In addition, the Board recommends that, to achieve the decrease in the Bank's statutory reserves resulting from the change of accounting policy described in note 3 to the financial statements, SDR 89.7 million be deducted from the free reserve fund.

[14] The general reserve fund exceeded five times the Bank's paid-up capital at 31 March 2013. As such, under Article 51 of the Statutes, 5% of net profit, after accounting for the proposed dividend, should be allocated to the general reserve fund.

Independent auditor

Election of the auditor

In accordance with Article 46 of the Bank's Statutes, the Annual General Meeting of the Bank is invited to elect an independent auditor for the ensuing year and to fix the auditor's remuneration. This election is based on a formal proposal by the Board, which in turn is based on the recommendation of the Audit Committee. This annual process ensures a regular assessment of the knowledge, competence and independence of the auditor, and of the effectiveness of the audit. The 2012 Annual General Meeting elected Ernst & Young as the Bank's auditor for the financial year ended 31 March 2013. The Board policy is to rotate the auditor on a regular basis, with the new auditor chosen following a selection process involving the Bank's Management and the Audit Committee. The financial year ended 31 March 2013 was the first year of Ernst & Young's term as auditor. The previous auditor, Deloitte AG, served a term of seven years.

Report of the auditor

In accordance with Article 50 of the Bank's Statutes, the independent auditor has full powers to examine all books and accounts of the Bank and to require full information as to all its transactions. The Bank's financial statements have been duly audited by Ernst & Young, who have confirmed that they give a true and fair view of the Bank's financial position at 31 March 2013 and the results of its operations for the year then ended. The Ernst & Young report is to be found immediately following the financial statements.

Financial statements

as at 31 March 2013

The financial statements on pages 126–92 for the financial year ended 31 March 2013 were approved on 13 May 2013 for presentation to the Annual General Meeting on 23 June 2013. 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.

Jaime Caruana	Hervé Hannoun
General Manager	Deputy General Manager

Balance sheet

As at 31 March

SDR millions	Notes	**2013**	2012
Assets			
Cash and sight accounts with banks	4	6,884.1	4,077.8
Gold and gold loans	5	35,367.1	35,912.7
Treasury bills	6	46,694.1	53,492.3
Securities purchased under resale agreements	6	28,469.5	46,210.8
Loans and advances	7	19,676.8	22,757.1
Government and other securities	6	62,643.3	77,877.7
Derivative financial instruments	8	5,855.7	7,303.9
Accounts receivable	9	6,171.2	7,845.5
Land, buildings and equipment	10	190.6	193.0
Total assets		**211,952.4**	255,670.8
Liabilities			
Currency deposits	11	166,160.3	195,778.5
Gold deposits	12	17,580.9	19,624.0
Derivative financial instruments	8	3,402.3	4,727.0
Accounts payable	13	5,335.3	16,745.5
Other liabilities	14	487.8	416.5
Total liabilities		**192,966.6**	237,291.5
Shareholders' equity			
Share capital	15	698.9	698.9
Statutory reserves	16	13,647.7	13,057.2
Profit and loss account		898.2	758.9
Less: shares held in treasury	17	(1.7)	(1.7)
Other equity accounts	18	3,742.7	3,866.0
Total equity		**18,985.8**	18,379.3
Total liabilities and equity		**211,952.4**	255,670.8

Profit and loss account

For the financial year ended 31 March

SDR millions	Notes	**2013**	2012
Interest income	20	2,154.0	3,091.2
Interest expense	21	(1,122.5)	(1,633.1)
Net interest income		**1,031.5**	1,458.1
Net valuation movement	22	(17.1)	(590.3)
Net interest and valuation income		**1,014.4**	867.8
Net fee and commission income	23	3.1	4.7
Net foreign exchange gain	24	25.0	9.7
Total operating income		**1,042.5**	882.2
Operating expense	25	(256.3)	(226.7)
Operating profit		**786.2**	655.5
Net gain on sales of securities available for sale	26	82.7	24.7
Net gain on sales of gold investment assets	27	29.3	78.7
Net profit for the financial year		**898.2**	758.9

Basic and diluted earnings per share (in SDR per share)	28	**1,609.3**	1,374.6

Statement of comprehensive income

For the financial year ended 31 March

SDR millions	Notes	**2013**	2012
Net profit for the financial year		**898.2**	758.9
Unrealised gain / (loss) on securities available for sale	18A	(55.5)	296.5
Unrealised gain / (loss) on gold investment assets	18B	(67.8)	551.8
Total comprehensive income for the financial year		**774.9**	1,607.2

Statement of cash flows

For the financial year ended 31 March

SDR millions	Notes	**2013**	2012
Cash flow from / (used in) operating activities			
Interest and similar income received		2,923.9	3,676.2
Interest and similar expenses paid		(911.9)	(1,625.4)
Net fee and commission income	23	3.1	4.7
Net foreign exchange transaction gain	24	14.3	14.4
Operating expenses paid		(239.5)	(210.4)
Non-cash flow items included in operating profit			
Valuation movements on operating assets and liabilities	22	(17.1)	(590.3)
Net foreign exchange translation gain / (loss)	24	10.7	(4.7)
Release of impairment provision on gold loans		–	34.7
Change in accruals and amortisation		(980.5)	(627.4)
Change in operating assets and liabilities			
Currency deposit liabilities held at fair value through profit and loss		(14,079.8)	(18,980.9)
Currency banking assets		30,314.5	19,630.1
Sight and notice deposit account liabilities		(12,021.8)	7,251.1
Gold deposit liabilities		(2,043.1)	(1,645.9)
Gold and gold loan banking assets		472.2	1,291.5
Accounts receivable		0.3	(2.0)
Other liabilities / accounts payable		86.9	41.1
Net derivative financial instruments		123.5	(3,746.1)
Net cash flow from operating activities		**3,655.7**	4,510.7
Cash flow from / (used in) investment activities			
Net change in currency investment assets available for sale	6B	(489.6)	(923.0)
Net change in currency investment assets held at fair value through profit and loss		(56.8)	(51.7)
Net change in gold investment assets	5B	34.8	63.5
Net purchase of land, buildings and equipment	10	(14.5)	(18.9)
Net cash flow used in investment activities		**(526.1)**	(930.1)

SDR millions	Notes	**2013**	2012
Cash flow from / (used in) financing activities			
Issue of shares		–	262.9
Dividends paid		(168.4)	(161.1)
Net cash flow from / (used in) financing activities		**(168.4)**	101.8
Total net cash flow		**2,961.2**	3,682.4
Net effect of exchange rate changes on cash and cash equivalents		(66.5)	1.1
Net movement in cash and cash equivalents		3,027.7	3,681.3
Net change in cash and cash equivalents		**2,961.2**	3,682.4
Cash and cash equivalents, beginning of year	29	**4,264.4**	582.0
Cash and cash equivalents, end of year	29	**7,225.6**	4,264.4

Movements in the Bank's equity

For the financial year ended 31 March

SDR millions	Notes	Share capital	Statutory reserves	Profit and loss	Shares held in treasury	Other equity accounts	Total equity
Equity at 31 March 2011		**683.9**	**12,154.4**	**816.0**	**(1.7)**	**3,017.7**	**16,670.3**
Payment of 2010/11 dividend		–	–	(161.1)	–	–	(161.1)
Allocation of 2010/11 profit		–	654.9	(654.9)	–	–	–
Issue of shares		15.0	247.9	–	–	–	262.9
Total comprehensive income	18	–	–	758.9	–	848.3	1,607.2
Equity at 31 March 2012		**698.9**	**13,057.2**	**758.9**	**(1.7)**	**3,866.0**	**18,379.3**
Payment of 2011/12 dividend		–	–	(168.4)	–	–	(168.4)
Allocation of 2011/12 profit		–	590.5	(590.5)	–	–	–
Total comprehensive income	18	–	–	898.2	–	(123.3)	774.9
Equity at 31 March 2013		**698.9**	**13,647.7**	**898.2**	**(1.7)**	**3,742.7**	**18,985.8**

At 31 March 2013 statutory reserves included share premiums of SDR 1,059.6 million (2012: SDR 1,059.6 million).

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 32.

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 2010 and effective 1 January 2011. As currently calculated, one SDR is equivalent to the sum of USD 0.660, EUR 0.423, JPY 12.1 and GBP 0.111. Prior to 1 January 2011, one SDR was equivalent to the sum of USD 0.632, EUR 0.410, JPY 18.4 and GBP 0.0903. The change in the composition of the SDR basket was such that the values of the SDR under the old and new baskets were equivalent at 31 December 2010 and no significant gains or losses resulted from the change in the weights of the currencies. The composition of the SDR currency basket is subject to review every five years by the IMF; the next review is due to be undertaken in December 2015.

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 and notice accounts with banks, 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.

Currency assets in investment portfolios, with the exception of cash and sight accounts with banks and those in more actively traded portfolios, are designated as available for sale.

The currency investment assets maintained in more actively traded 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. Notice accounts

Notice accounts are short-term monetary assets, including balances at futures clearing brokers. They typically have notice periods of three days or less and are included under the balance sheet heading "Loans and advances". They are considered to be cash equivalents for the purposes of the cash flow statement.

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 banking 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 assets held at fair value through profit and loss

Currency assets include treasury bills, securities purchased under resale agreements, loans and advances, 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 traded investment portfolios. The currency investment 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. The accrual of interest and amortisation of premiums paid and discounts received are included in the profit and loss account under "Interest income" on an effective interest rate basis. After initial measurement, the currency assets are revalued to fair value, with all realised and unrealised movements in fair value included under "Net valuation movement".

11. 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. The accrual of interest to be paid and amortisation of premiums received and discounts paid are included under the profit and loss account heading "Interest expense" on an effective interest rate basis.

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

12. Currency investment assets available for sale

Currency assets include treasury bills, securities purchased under resale agreements, loans and advances, 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 traded investment portfolios.

These currency investment assets are initially included in the balance sheet on a trade date basis. The accrual of interest and amortisation of premiums paid and discounts received are included in the profit and loss account under "Interest income" on an effective interest rate basis.

After trade date, the currency investment 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". The movement in fair value is included in the statement of comprehensive income under the heading "Unrealised gain / (loss) on securities available for sale". Realised profits on disposal are included in the profit and loss account under "Net gain 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 fair value on a trade date basis.

14. Gold

Gold comprises gold bar assets held in custody at central banks and sight accounts denominated in gold. 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 loans

Gold loans comprise fixed-term gold loans. Gold loans 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.

Accrued interest on gold loans is included in the profit and loss account under "Interest income" on an effective interest rate basis.

16. Gold deposits

Gold deposits comprise unallocated sight and fixed-term deposits of gold from central banks.

Unallocated gold deposits provide customers with a general claim on the Bank for delivery of gold of the same weight and quality as that delivered by the customer to the Bank, but do not provide the right to specific gold bars. Unallocated gold deposits 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. Accrued interest on gold deposits is included in the profit and loss account under "Interest expense" on an effective interest rate basis.

Allocated (or "earmarked") gold deposits provide depositors with a claim for delivery of the specific gold bars deposited by the customer with the Bank on a custody basis. Beneficial ownership and risk remain with the customer. As such, allocated gold deposit liabilities and the related gold bar assets are not included on the Bank's balance sheet. They are disclosed as off-balance sheet items (see note 32).

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 deposits and related gold banking assets

The Bank designates gold loans in its banking portfolios as loans and receivables and gold deposits 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 in the profit and loss account under "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 "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". The movement in fair value is included in the statement of comprehensive income under the heading "Unrealised gain on 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 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. The accrual of interest is included in the profit and loss account under "Interest expense" on an effective interest rate basis.

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 "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.

Derivatives are initially included in the balance sheet on a trade date basis. The accrual of interest and amortisation of premiums paid and discounts received are included in the profit and loss account under "Interest income" on an effective interest rate basis.

After trade date, derivatives are revalued to fair value, with all realised and unrealised movements in value included under "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 and 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 its 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 are subject to initial approval and periodic review in line with the requirements of the Bank's model validation policy.

The Bank has an independent valuation control function which periodically reviews the value of its financial instruments, taking into account both the accuracy of the valuations and the valuation methodologies used. 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. Derivative financial instruments are valued on a bid-offer basis, with valuation reserves, where necessary, included in derivative financial liabilities. Financial assets and liabilities that are not valued at fair value are included in the balance sheet at amortised cost.

21. Impairment of financial assets

Financial assets, other than those designated as held at fair value through profit and loss, are assessed for indications of impairment at each balance sheet date. A financial asset is impaired when there is objective evidence that the estimated future cash flows of the asset have been reduced as a result of one or more events that occurred after the initial recognition of the asset. Evidence of impairment could include significant financial difficulty, default, or probable bankruptcy / financial reorganisation of the counterparty or issuer.

Impairment losses are recognised to the extent that a decline in fair value below amortised cost is considered significant or prolonged. Impairment of currency assets is included in the profit and loss account under "Net valuation movement", with impairment of gold loans included under "Interest income". If the amount of the impairment loss decreases in a subsequent period, the previously recognised impairment loss is reversed through profit and loss to the extent that the carrying amount of the investment does not exceed that which it would have been had the impairment not been recognised.

22. 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.

23. 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.

24. 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.

25. 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.

26. 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 and notice accounts with banks, 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. Sixty 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 BIS is composed of the Governors and appointed Directors from the Bank's founding 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, 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, Management uses available information, makes assumptions and exercises judgment.

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. In particular, the valuation of derivative financial instruments involves a significant amount of judgment over the discount curve to be used and the adjustments necessary to allow for credit risk and collateral.

Subsequent actual results could differ significantly from those estimates.

A. 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 significantly 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	**2013**	2012
Treasury bills	1.0	0.1
Securities purchased under resale agreements	0.1	0.1
Loans and advances	0.1	0.2
Government and other securities	10.2	11.3
Currency deposits	12.4	13.5
Derivative financial instruments	4.3	4.1

B. Impairment provision on financial assets

The Bank conducts an annual review for impairment at the date of each balance sheet. At 31 March 2013 the Bank did not have any financial assets that were considered to be impaired (31 March 2012: nil).

C. Actuarial assumptions

The valuation of the Bank's pension fund and health care arrangements relies on actuarial assumptions which include expectations of inflation, interest rates, medical cost inflation and retirement age and life expectancy of participants. Changes to these assumptions have an impact on the valuation of the Bank's pension fund liabilities and the amounts recognised in the financial statements.

3. Future change in accounting policy for post-employment benefit obligations

With effect from 1 April 2013, the Bank has changed its accounting policy for post-employment benefit obligations to reflect developments in global financial reporting standards. As a result of the change, the Bank will no longer apply corridor accounting for actuarial gains and losses and all changes in the net defined benefit liabilities or assets will be recognised when they occur. Service costs and the net interest will be recognised in the profit and loss account while re-measurements, such as actuarial gains and losses, will be recognised in other comprehensive income. In addition, the interest cost and the expected return on assets will be replaced with a net interest amount calculated by applying the discount rate to the net defined benefit liabilities.

The change will be applied in the 2013/14 financial statements, and the reported numbers for the current financial year will be restated for comparative purposes. The restatement will result in an increase in other liabilities of SDR 511.7 million and a corresponding decrease in shareholders' equity, reflecting the recognition of the net unrecognised actuarial loss as at 31 March 2013. Of this amount in shareholders' equity, SDR 89.7 million will be deducted from the free reserve, representing the cumulative change in profit recognition as a result of applying the revised accounting policies. The remaining SDR 422.0 million will be deducted from a new account in other equity, representing the cumulative actuarial gains and losses. Further changes in the profit and loss account will result from the new net interest amount calculation and the removal of the amortisation of actuarial gains and losses. The 2013/14 financial statements will provide full details on this accounting policy change.

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 loans

A. Total gold holdings

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

As at 31 March

SDR millions	**2013**	2012
Gold	35,086.8	34,831.9
Gold loans	280.3	1,080.8
Total gold and gold loan assets	**35,367.1**	35,912.7
Comprising:		
Gold investment assets	3,944.9	4,018.2
Gold and gold loan banking assets	31,422.2	31,894.5

Included in "Gold" is SDR 13,836.1 million (404 tonnes) of gold (2012: SDR 12,262.8 million; 355 tonnes) that the Bank holds in connection with its gold swap contracts. Under such contracts the Bank exchanges currencies for physical gold, and has an obligation to return the gold at the end of the contract. See note 8 for more details on gold swap transactions.

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, which is reported under the balance sheet heading "Other equity accounts"; the movement in this value is included in the statement of comprehensive income under the heading "Unrealised gain on gold investment assets". Realised gains or losses on the disposal of gold investment assets are recognised in the profit and loss account under the heading "Net gain on sales of gold investment assets".

Note 18B provides further analysis of the gold revaluation account. Note 27 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	**2013**	2012
Balance at beginning of year	4,018.2	3,451.2
Net change in gold investment assets		
Disposals of gold	(34.1)	(93.3)
Maturities, sight account and other net movements	(0.7)	(4.9)
Release of impairment provision	–	34.7
	(34.8)	(63.5)
Gold price movement	(38.5)	630.5
Balance at end of year	**3,944.9**	4,018.2

During the financial year ended 31 March 2012 the Bank released an impairment provision as the related gold loans were repaid in full.

At 31 March 2013 the Bank's gold investment assets amounted to 115 tonnes of fine gold (2012: 116 tonnes).

6. Currency assets

A. Total holdings

Currency assets comprise treasury bills, securities purchased under resale agreements, fixed-term loans and advances, 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 currency deposit liabilities along with currency investment assets that are part of more actively traded portfolios. The remaining part of the Bank's currency investment assets are categorised as available for sale and, together with the gold investment assets, largely represent the investment of the Bank's equity.

Treasury bills are short-term debt securities issued by governments on a discount basis.

Securities purchased under resale agreements ("reverse repurchase agreements") are usually short-term 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 Bank monitors the fair value of the collateral securities and may call for additional collateral or be required to return collateral based on the movement in its market value.

Fixed-term loans are primarily investments made with commercial banks. Also included in this category are investments made with central banks, international institutions and other public sector organisations. This includes advances made as part of committed and uncommitted standby facilities. These loans are recognised in the balance sheet total "Loans and advances", which also includes notice accounts (see note 7).

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

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

As at 31 March 2013	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	**46,552.7**	**–**	**141.4**	**141.4**	**46,694.1**
Securities purchased under resale agreements	**28,469.5**	**–**	**–**	**–**	**28,469.5**
Loans and advances	**19,335.3**	**–**	**–**	**–**	**19,335.3**
Government and other securities					
Government	24,172.2	13,801.8	–	13,801.8	37,974.0
Financial institutions	10,957.8	105.4	718.7	824.1	11,781.9
Other	12,881.4	6.0	–	6.0	12,887.4
	48,011.4	**13,913.2**	**718.7**	**14,631.9**	**62,643.3**
Total currency assets	**142,368.9**	**13,913.2**	**860.1**	**14,773.3**	**157,142.2**

As at 31 March 2012	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	53,338.3	–	154.0	154.0	53,492.3
Securities purchased under resale agreements	46,210.8	–	–	–	46,210.8
Loans and advances	22,570.5	–	–	–	22,570.5
Government and other securities					
Government	35,885.9	13,181.9	130.9	13,312.8	49,198.7
Financial institutions	15,790.4	201.9	–	201.9	15,992.3
Other	12,099.9	94.8	492.0	586.8	12,686.7
	63,776.2	13,478.6	622.9	14,101.5	77,877.7
Total currency assets	185,895.8	13,478.6	776.9	14,255.5	200,151.3

B. Currency investment assets available for sale

The Bank's currency investment assets relate 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 investment assets available for sale:

For the financial year ended 31 March

SDR millions	**2013**	2012
Balance at beginning of year	13,478.6	12,146.4
Net change in currency investment assets available for sale		
Additions	6,268.2	4,086.5
Disposals	(5,247.4)	(2,132.0)
Other net movements	(531.2)	(1,031.5)
	489.6	923.0
Net change in transactions awaiting settlement	(82.2)	88.0
Fair value and other movements	27.2	321.2
Balance at end of year	**13,913.2**	13,478.6

7. Loans and advances

Loans and advances comprise fixed-term loans to commercial banks, advances and notice accounts. Advances relate to committed and uncommitted standby facilities which the Bank provides for its customers. Notice accounts are very short-term financial assets, typically having a notice period of three days or less.

Fixed-term loans and advances are designated as held at fair value through profit and loss. Notice accounts are designated as loans and receivables and are included in the balance sheet at amortised cost. At 31 March 2013, the balance held in the futures clearing accounts totalled SDR 34.1 million (2012: SDR 40.3 million).

As at 31 March

SDR millions	**2013**	2012
Loans and advances	19,335.3	22,570.5
Notice accounts	341.5	186.6
Total loans and advances	**19,676.8**	22,757.1

The amount of the change in fair value recognised in the profit and loss account on fixed-term loans and advances is SDR –2.1 million (2012: SDR –1.7 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 agreements to receive or pay a net amount based on changes in interest rates or bond prices on a future date. 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.

Currency and gold swaps, cross-currency interest rate swaps and interest rate swaps are bilateral contractual agreements to exchange cash flows related to currencies, gold or interest rates (for example, fixed rate for floating rate). Cross-currency interest rate swaps involve the exchange of cash flows related to a combination of interest rates and foreign exchange rates. Except for certain currency and gold swaps and cross-currency interest rate swaps, no exchange of principal takes place.

Currency and gold forwards are bilateral contractual agreements involving the exchange of foreign currencies or gold at a future date. This includes undelivered spot transactions.

Forward rate agreements are bilateral 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 bilateral 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 note 11). Where the host contract is not accounted for as held at fair value, embedded derivatives are separated from the host contract for accounting purposes and treated as though they are regular derivatives. 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

	2013			2012		
	Notional amounts	Fair values		Notional amounts	Fair values	
SDR millions		Assets	Liabilities		Assets	Liabilities
Bond futures	731.6	0.4	(0.1)	1,023.8	0.2	(0.2)
Cross-currency interest rate swaps	1,284.7	0.2	(145.8)	1,456.3	0.1	(275.4)
Currency and gold forwards	573.6	6.3	(5.9)	950.2	7.0	(2.6)
Currency and gold options	1,674.6	0.2	(0.3)	115.2	–	(0.2)
Currency and gold swaps	102,193.8	2,278.8	(416.9)	116,556.3	2,381.9	(945.0)
Forward rate agreements	4,628.2	0.9	(0.7)	15,881.2	4.1	(4.0)
Interest rate futures	5,773.7	0.1	–	4,722.1	0.1	–
Interest rate swaps	215,102.1	3,568.8	(2,831.4)	304,954.9	4,910.5	(3,496.6)
Swaptions	1,497.7	–	(1.2)	1,446.9	–	(3.0)
Total derivative financial instruments at end of year	**333,460.0**	**5,855.7**	**(3,402.3)**	447,106.9	7,303.9	(4,727.0)
Net derivative financial instruments at end of year			**2,453.4**			2,576.9

9. Accounts receivable

As at 31 March

SDR millions	**2013**	2012
Financial transactions awaiting settlement	6,159.2	7,833.2
Other assets	12.0	12.3
Total accounts receivable	**6,171.2**	7,845.5

"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				**2013**	2012
SDR millions	Land	Buildings	IT and other equipment	Total	Total
Historical cost					
Balance at beginning of year	**41.2**	**257.7**	**102.7**	**401.6**	384.3
Capital expenditure	–	5.7	8.8	14.5	18.9
Disposals and retirements	–	–	(7.4)	(7.4)	(1.6)
Balance at end of year	**41.2**	**263.4**	**104.1**	**408.7**	401.6
Depreciation					
Balance at beginning of year	**–**	**130.7**	**77.9**	**208.6**	193.5
Depreciation	–	8.0	8.9	16.9	16.7
Disposals and retirements	–	–	(7.4)	(7.4)	(1.6)
Balance at end of year	**–**	**138.7**	**79.4**	**218.1**	208.6
Net book value at end of year	**41.2**	**124.7**	**24.7**	**190.6**	193.0

The depreciation charge for the financial year ended 31 March 2013 includes an additional charge of SDR 1.3 million for IT and other equipment following an impairment review (2012: SDR 1.6 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	**2013**	2012
Deposit instruments repayable at one to two days' notice		
Medium-Term Instruments (MTIs)	50,047.8	57,867.3
Callable MTIs	1,755.5	2,016.5
Fixed Rate Investments of the BIS (FIXBIS)	41,760.5	43,507.5
	93,563.8	103,391.3
Other currency deposits		
Floating Rate Investments of the BIS (FRIBIS)	307.3	731.8
Fixed-term deposits	59,144.7	66,560.0
Dual Currency Deposits (DCDs)	190.9	119.9
Sight and notice deposit accounts	12,953.6	24,975.5
	72,596.5	92,387.2
Total currency deposits	**166,160.3**	195,778.5
Comprising:		
Designated as held at fair value through profit and loss	153,206.7	170,803.1
Designated as financial liabilities measured at amortised cost	12,953.6	24,975.4

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 2013 and March 2014 (2012: September 2012 and March 2013). The balance sheet total for callable MTIs includes the fair value of the embedded interest rate option.

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

FRIBIS are floating rate investments at the Bank 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.

Dual Currency Deposits (DCDs) are 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. The balance sheet total for DCDs includes the fair value of the embedded foreign exchange option. These deposits all mature between April 2013 and May 2013 (2012: in April 2012 and May 2012).

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 the sole market-maker in certain of its currency deposit liabilities and has undertaken to repay some of these financial instruments at fair value, 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 obliged to pay at maturity to the holder of the deposit. The amount the Bank is contractually obliged to pay at maturity in respect of its total currency deposits (including accrued interest to 31 March 2013) is SDR 165,182.2 million (2012: SDR 194,313.6 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.

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 deposits

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

13. 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.

14. Other liabilities

The Bank's other liabilities consist of:

As at 31 March

SDR millions	**2013**	2012
Post-employment benefit obligations (see note 19)		
Staff pensions	50.5	30.0
Directors' pensions	6.7	6.4
Health and accident benefits	311.4	287.0
Short positions in currency assets	96.7	69.7
Payable to former shareholders	0.6	0.6
Other	21.9	22.8
Total other liabilities	**487.8**	416.5

15. Share capital

The Bank's share capital consists of:

As at 31 March

SDR millions	**2013**	2012
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: 559,125 shares	2,795.6	2,795.6
Paid-up capital (25%)	**698.9**	698.9

During the financial year ended 31 March 2012 the Bank issued 3,000 shares each to the Bank of the Republic (Colombia), the Central Bank of Luxembourg, the Central Reserve Bank of Peru and the Central Bank of the United Arab Emirates. This increased the number of member central banks to 60 (31 March 2011: 56). There were no new shares issued in the financial year ended 31 March 2013.

The number of shares eligible for dividend is:

As at 31 March	**2013**	2012
Issued shares	559,125	559,125
Less: shares held in treasury	(1,000)	(1,000)
Outstanding shares eligible for dividend	**558,125**	558,125
Of which:		
Eligible for full dividend	558,125	546,125
New shares eligible for dividend pro rata from the value date of subscription	–	12,000

16. 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, 5% of the remainder of the Bank's annual net profit currently must be allocated to the general reserve fund.

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 the Bank's 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.

The table below analyses the movements in the Bank's statutory reserves over the past two financial years:

SDR millions	Legal reserve fund	General reserve fund	Special dividend reserve fund	Free reserve fund	Total statutory reserves
Balance at 31 March 2011	**68.3**	**3,228.5**	**166.0**	**8,691.6**	**12,154.4**
Allocation of 2010/11 profit	–	65.5	6.0	583.4	654.9
New shares issued	1.5	246.4	–	–	247.9
Balance at 31 March 2012	**69.8**	**3,540.4**	**172.0**	**9,275.0**	**13,057.2**
Allocation of 2011/12 profit	–	29.5	6.0	555.0	590.5
Balance at 31 March 2013	**69.8**	**3,569.9**	**178.0**	**9,830.0**	**13,647.7**

In accordance with Article 51 of the Bank's Statutes, the following profit allocation will be proposed at the Bank's Annual General Meeting:

SDR millions	**2013**
Net profit for the financial year	**898.2**
Transfer to legal reserve fund	–
Proposed dividend:	
SDR 315 per share on 558,125 shares	(175.8)
Profit available for allocation	**722.4**
Proposed transfers to reserves:	
General reserve fund	(36.1)
Special dividend reserve fund	(6.0)
Free reserve fund	(680.3)
Balance after allocation to reserves	–

The balances in the Bank's statutory reserves are also affected by the future implementation of the new accounting policy for post-employment benefits (see note 3). It is proposed to deal with this by deducting SDR 89.7 million from the free reserve fund. Assuming that the Annual General Meeting approves the proposed profit allocation and the deduction from the free reserve fund following the change in accounting policy, the balances in the Bank's statutory reserves at the date of the Annual General Meeting would be:

SDR millions	Legal reserve fund	General reserve fund	Special dividend reserve fund	Free reserve fund	Total statutory reserves
Balance at 31 March 2013	**69.8**	**3,569.9**	**178.0**	**9,830.0**	**13,647.7**
Change of accounting policy (from 1 April 2013) for post-employment benefit obligations (see note 3)	–	–	–	(89.7)	(89.7)
Proposed allocation of 2012/13 profit	–	36.1	6.0	680.3	722.4
Balance at 23 June 2013 assuming approval of proposed profit allocation	**69.8**	**3,606.0**	**184.0**	**10,420.6**	**14,280.4**

17. Shares held in treasury

For the financial year ended 31 March	**2013**	2012
Number of shares at beginning of year	1,000	1,000
Number of shares 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.

18. 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 5 and 6.

Other equity accounts comprise:

As at 31 March

SDR millions	**2013**	2012
Securities revaluation account	362.3	417.8
Gold revaluation account	3,380.4	3,448.2
Total other equity accounts	**3,742.7**	3,866.0

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	**2013**	2012
Balance at beginning of year	417.8	121.3
Net valuation movement		
Net gain on sales	(82.7)	(24.7)
Fair value and other movements	27.2	321.2
	(55.5)	296.5
Balance at end of year	**362.3**	417.8

The table below analyses the balance in the securities revaluation account, which relates to government and other securities:

SDR millions	Fair value of assets	Historical cost	Securities revaluation account	Gross gains	Gross losses
As at 31 March 2013	13,913.1	13,550.8	**362.3**	362.3	–
As at 31 March 2012	13,478.6	13,060.8	417.8	422.7	(4.9)

B. Gold revaluation account

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

The movements in the gold revaluation account were as follows:

For the financial year ended 31 March

SDR millions	**2013**	2012
Balance at beginning of year	3,448.2	2,896.4
Net valuation movement		
Net gain on sales	(29.3)	(78.7)
Gold price movement	(38.5)	630.5
	(67.8)	551.8
Balance at end of year	**3,380.4**	3,448.2

19. 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	**2013**	2012	2011	2010	2009
Present value of obligation	(1,370.7)	(1,264.5)	(1,039.1)	(913.1)	(747.4)
Fair value of fund assets	978.2	929.2	881.9	762.4	619.6
Funded status	(392.5)	(335.3)	(157.2)	(150.7)	(127.8)
Unrecognised actuarial losses	342.0	305.3	134.5	138.6	125.4
Liability at end of year	**(50.5)**	(30.0)	(22.7)	(12.1)	(2.4)

As at 31 March	Directors' pensions				
SDR millions	**2013**	2012	2011	2010	2009
Present value of obligation	(8.9)	(8.6)	(7.2)	(6.5)	(5.7)
Fair value of fund assets	–	–	–	–	–
Funded status	(8.9)	(8.6)	(7.2)	(6.5)	(5.7)
Unrecognised actuarial losses	2.2	2.2	1.3	1.3	0.9
Liability at end of year	**(6.7)**	(6.4)	(5.9)	(5.2)	(4.8)

As at 31 March	Post-employment health and accident benefits				
SDR millions	**2013**	2012	2011	2010	2009
Present value of obligation	(478.9)	(434.3)	(316.7)	(284.2)	(225.4)
Fair value of fund assets	–	–	–	–	–
Funded status	(478.9)	(434.3)	(316.7)	(284.2)	(225.4)
Unrecognised actuarial losses	170.0	151.2	63.3	72.3	40.1
Unrecognised past service cost	(2.5)	(3.9)	(4.9)	(5.6)	(6.3)
Liability at end of year	**(311.4)**	(287.0)	(258.3)	(217.5)	(191.6)

B. Present value of defined 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	**2013**	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Present value of obligation at beginning of year	1,264.5	1,039.1	913.1	8.6	7.2	6.5	434.3	316.7	284.2
Current service cost	53.5	45.6	40.1	0.4	0.4	0.3	15.6	11.3	9.4
Employee contributions	6.2	6.0	5.2	–	–	–	–	–	–
Interest cost	24.3	29.5	25.6	0.2	0.2	0.2	8.4	9.0	8.1
Actuarial loss / (gain)	70.9	146.8	(11.8)	0.3	1.0	–	30.1	88.9	(11.9)
Benefit payments	(28.5)	(40.0)	(29.0)	(0.5)	(0.4)	(0.4)	(2.7)	(2.6)	(2.5)
Exchange differences	(20.2)	37.5	95.9	(0.1)	0.3	0.6	(6.8)	11.0	29.4
Present value of obligation at end of year	**1,370.7**	1,264.5	1,039.1	**8.9**	8.6	7.2	**478.9**	434.3	316.7

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	**2013**	2012	2011
Fair value of fund assets at beginning of year	929.2	881.9	762.4
Expected return on fund assets	45.1	46.2	39.4
Actuarial gain / (loss)	15.0	(23.9)	0.9
Employer contributions	26.5	25.7	22.0
Employee contributions	6.2	6.0	5.2
Benefit payments	(28.5)	(40.0)	(29.0)
Exchange differences	(15.3)	33.3	81.0
Fair value of fund assets at end of year	**978.2**	929.2	881.9

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	**2013**	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Current service cost	53.5	45.6	40.1	0.4	0.4	0.3	15.6	11.3	9.4
Interest cost	24.3	29.5	25.6	0.2	0.2	0.2	8.4	9.0	8.1
Less: expected return on fund assets	(45.1)	(46.2)	(39.4)	–	–	–	–	–	–
Less: past service cost	–	–	–	–	–	–	(1.3)	(1.3)	(1.2)
Net actuarial losses recognised in year	15.4	2.9	4.2	0.2	0.1	0.1	8.8	2.9	3.5
Total included in operating expense	**48.1**	31.8	30.5	**0.8**	0.7	0.6	**31.5**	21.9	19.8

The Bank expects to make a contribution to its post-employment arrangements of SDR 29.9 million in 2013/14.

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

As at 31 March

Percentages	**2013**	2012
European equities	13.8	12.7
Other equities	48.8	30.4
European fixed income	14.3	28.8
Other fixed income	18.1	22.3
Other assets	5.0	5.8
Actual return on fund assets	**6.2%**	2.4%

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	**2013**	2012
Applicable to all three post-employment benefit arrangements		
Discount rate – market rate of highly rated Swiss corporate bonds	1.75%	2.00%
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 cost 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 2013 (2012: 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 2012/13 calculation would have the following effects:

For the financial year ended 31 March

SDR millions	**2013**	2012
Increase / (decrease) of the total service and interest cost		
6% medical inflation	8.8	7.7
4% medical inflation	(6.3)	(5.4)

As at 31 March

SDR millions	**2013**	2012
Increase / (decrease) of the benefit obligation		
6% medical inflation	124.1	104.0
4% medical inflation	(92.3)	(77.6)

20. Interest income

For the financial year ended 31 March

SDR millions	**2013**	2012
Currency assets available for sale		
Government and other securities	218.6	288.9
	218.6	288.9
Currency assets held at fair value through profit and loss		
Treasury bills	91.4	304.6
Securities purchased under resale agreements	50.7	235.8
Loans and advances	106.0	209.0
Government and other securities	738.0	862.9
	986.1	1,612.3
Assets designated as loans and receivables		
Sight and notice accounts	0.7	2.2
Gold investment assets	–	1.0
Gold banking assets	1.1	1.6
Release of impairment provision on repayment in full of related gold banking assets	–	34.7
	1.8	39.5
Derivative financial instruments held at fair value through profit and loss	**947.5**	1,150.5
Total interest income	**2,154.0**	3,091.2

21. Interest expense

For the financial year ended 31 March

SDR millions	**2013**	2012
Liabilities held at fair value through profit and loss		
Currency deposits	1,079.3	1,564.8
Liabilities designated as financial liabilities measured at amortised cost		
Sight and notice deposit accounts	42.4	67.3
Gold deposits	0.8	1.0
	43.2	68.3
Total interest expense	**1,122.5**	1,633.1

22. Net valuation movement

The net valuation movement arises entirely on financial instruments designated as held at fair value through profit and loss. Included in the table for the financial year ended 31 March 2012 is a credit loss of SDR 31.9 million relating to a sovereign debt restructuring. There were no credit losses due to restructuring or default in 2013.

For the financial year ended 31 March

SDR millions	**2013**	2012
Currency assets held at fair value through profit and loss		
Unrealised valuation movements on currency assets	192.5	530.1
Realised gains on currency assets	7.9	52.9
	200.4	583.0
Currency liabilities held at fair value through profit and loss		
Unrealised valuation movements on financial liabilities	335.6	(258.0)
Realised losses on financial liabilities	(126.2)	(185.1)
	209.4	(443.1)
Valuation movements on derivative financial instruments	**(426.9)**	(730.2)
Net valuation movement	**(17.1)**	(590.3)

23. Net fee and commission income

For the financial year ended 31 March

SDR millions	**2013**	2012
Fee and commission income	12.8	14.5
Fee and commission expense	(9.7)	(9.8)
Net fee and commission income	**3.1**	4.7

24. Net foreign exchange gain

For the financial year ended 31 March

SDR millions	**2013**	2012
Net transaction gain	14.3	14.4
Net translation gain / (loss)	10.7	(4.7)
Net foreign exchange gain	**25.0**	9.7

25. 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	**2013**	2012
Board of Directors		
Directors' fees	2.0	1.9
Pensions to former Directors	1.2	0.9
Travel, external Board meetings and other costs	1.5	1.2
	4.7	4.0
Management and staff		
Remuneration	132.5	122.2
Pensions	70.0	46.2
Other personnel-related expense	63.9	48.1
	266.4	216.5
Office and other expenses	**72.5**	70.0
Administrative expense in CHF millions	**343.6**	290.5
Administrative expense in SDR millions	239.4	210.0
Depreciation in SDR millions	16.9	16.7
Operating expense in SDR millions	**256.3**	226.7

The average number of full-time equivalent employees during the financial year ended 31 March 2013 was 576 (2012: 554). In addition, at 31 March the Bank employed 57 staff members (2012: 29) on behalf of the Financial Stability Board, the International Association of Deposit Insurers and the International Association of Insurance Supervisors, with the regular ongoing cost of these staff members borne by the associations in accordance with agreements with each association. The Bank makes a direct contribution towards the operational costs of these associations, which is included under office and other expenses in the table above. The Bank also provides logistical, administrative and staffing-related support for them, the cost of which is included within the Bank's regular operating expense categories.

26. Net gain on sales of securities available for sale

For the financial year ended 31 March

SDR millions	**2013**	2012
Disposal proceeds	5,351.0	2,132.0
Amortised cost	(5,268.3)	(2,107.3)
Net gain on sales of securities available for sale	**82.7**	24.7
Comprising:		
Gross realised gains	89.3	39.5
Gross realised losses	(6.6)	(14.8)

27. Net gain on sales of gold investment assets

For the financial year ended 31 March

SDR millions	**2013**	2012
Disposal proceeds	34.1	93.2
Deemed cost (see note 18B)	(4.8)	(14.5)
Net gain on sales of gold investment assets	**29.3**	78.7

28. Earnings and dividends per share

For the financial year ended 31 March	**2013**	2012
Net profit for the financial year (SDR millions)	898.2	758.9
Weighted average number of shares entitled to dividend	558,125.0	552,076.0
Basic and diluted earnings per share (SDR per share)	**1,609.3**	1,374.6
Dividends per share (SDR per share)		
Normal	**315.0**	305.0

The Bank's dividend policy incorporates two elements: a normal sustainable dividend that is intended to change in a predictable manner from year to year, and a supplementary dividend that is appropriate when profits are high and the Bank's capital requirements are met. Only a normal dividend will be paid this financial year.

29. Cash and cash equivalents

The cash and cash equivalents in the cash flow statement comprise:

As at 31 March

SDR millions	**2013**	2012
Cash and sight accounts with banks	6,884.1	4,077.8
Notice accounts	341.5	186.6
Total cash and cash equivalents	**7,225.6**	4,264.4

30. 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 Americas Office.

31. 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	
	2013	2012	**2013**	2012
USD	**0.667**	0.646	**0.655**	0.636
EUR	**0.855**	0.861	**0.844**	0.875
JPY	**0.00709**	0.00784	**0.00792**	0.00806
GBP	**1.012**	1.033	**1.035**	1.015
CHF	**0.703**	0.715	**0.697**	0.723
Gold (in ounces)	**1,064.3**	1,074.7	**1,083.2**	1,046.3

32. 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 other assets of the Bank. They are not included in the Bank's balance sheet and comprise:

As at 31 March

SDR millions	**2013**	2012
Safe custody arrangements	6,590.8	11,167.9
Collateral pledge agreements	35.8	34.7
Portfolio management mandates	12,335.7	11,341.6
Gold bars held under earmark	11,081.2	11,176.2
Total	**30,043.5**	33,720.4

The above table includes the nominal value of securities held under safe custody and collateral pledge arrangements, and the net asset value of portfolio management mandates. Portfolio management mandates include BIS Investment Pools (BISIPs), which are collective investment arrangements for central banks, and dedicated mandates for single central bank investors.

Gold bars held under earmark comprise specific gold bars which have been deposited with the Bank on a custody basis. They are included at their weight in gold (translated at the gold market price and the USD exchange rate into SDR). At 31 March 2013 gold bars held under earmark amounted to 324 tonnes of fine gold (2012: 323 tonnes).

The financial instruments listed in the above schedule are deposited with external custodians, either central banks or commercial institutions.

In addition to the off-balance sheet items listed above, the Bank also manages portfolios of BIS currency deposits on behalf of its customers. These totalled SDR 6,532.6 million at 31 March 2013 (2012: SDR 6,253.2 million). The assets in these portfolios are included in the balance sheet under the heading "Currency deposits".

33. Commitments

The Bank provides a number of committed standby facilities for its customers on a collateralised or uncollateralised basis. At 31 March 2013 the outstanding commitments to extend credit under these committed standby facilities amounted to SDR 3,053.8 million (2012: SDR 2,570.6 million), of which SDR 200.1 million was uncollateralised (2012: SDR 193.8 million).

The Bank is also committed to supporting the operation of the Financial Stability Board, the International Association of Deposit Insurers and the International Association of Insurance Supervisors. The services provided include premises, equipment, and logistical, administrative and staffing-related support. The BIS support is subject to an annual budgetary decision of the BIS Board, and associated costs are included in the Bank's operating expense as they accrue.

34. The fair value hierarchy

The Bank categorises its financial instrument fair value measurements using a hierarchy that reflects the significance of inputs used in measuring fair value. The valuation is categorised at the lowest level of input that is significant to the fair value measurement in its entirety. The fair value hierarchy used by the Bank comprises the following levels:

Level 1 – unadjusted quoted prices in active markets for identical financial instruments.

Level 2 – inputs other than those in level 1 are observable for the financial instrument either directly (ie as a price) or indirectly (ie derived from prices for similar financial instruments). This includes observable interest rates, spreads and volatilities.

Level 3 – inputs are not observable in financial markets.

A. Assets measured at fair value

As at 31 March 2013

SDR millions	Level 1	Level 2	Level 3	Total
Financial assets held at fair value through profit and loss				
Treasury bills	44,256.4	2,437.7	–	46,694.1
Securities purchased under resale agreements	–	28,469.5	–	28,469.5
Fixed-term loans	–	19,335.3	–	19,335.3
Government and other securities	32,387.5	16,342.6	–	48,730.1
Derivative financial instruments	0.7	5,855.0	–	5,855.7
Financial assets designated as available for sale				
Government and other securities	13,907.2	6.0	–	13,913.2
Total financial assets accounted for at fair value	**90,551.8**	**72,446.1**	**–**	**162,997.9**
Financial liabilities held at fair value through profit and loss				
Currency deposits	–	(153,206.7)	–	(153,206.7)
Derivative financial instruments	(0.2)	(3,402.1)	–	(3,402.3)
Other liabilities (short positions in currency assets)	–	(96.7)	–	(96.7)
Total financial liabilities accounted for at fair value	**(0.2)**	**(156,705.5)**	**–**	**(156,705.7)**

As at 31 March 2012

SDR millions	Level 1	Level 2	Level 3	Total
Financial assets held at fair value through profit and loss				
Treasury bills	51,306.1	2,186.2	–	53,492.3
Securities purchased under resale agreements	–	46,210.8	–	46,210.8
Fixed-term loans	–	22,570.5	–	22,570.5
Government and other securities	36,620.2	27,770.6	8.3	64,399.1
Derivative financial instruments	20.9	7,283.0	–	7,303.9
Financial assets designated as available for sale				
Government and other securities	13,361.1	117.5	–	13,478.6
Total financial assets accounted for at fair value	101,308.3	106,138.6	8.3	207,455.2
Financial liabilities held at fair value through profit and loss				
Currency deposits	–	(170,803.1)	–	(170,803.1)
Derivative financial instruments	(35.6)	(4,691.4)	–	(4,727.0)
Other liabilities (short positions in currency assets)	–	(69.7)	–	(69.7)
Total financial liabilities accounted for at fair value	(35.6)	(175,564.2)	–	(175,599.8)

The Bank considers published price quotations in active markets as the best evidence of fair value. The financial instruments valued using active market quotes are categorised as level 1.

Where reliable published price quotations are not available for a financial instrument, the Bank determines fair value by using market standard valuation techniques. These valuation techniques include the use of discounted cash flow models as well as other standard market valuation methods. Where financial models are used, the Bank aims at making maximum use of observable market inputs. The financial instruments valued in this manner are categorised as level 2.

A small percentage of the Bank's financial instruments valuations are produced using valuation techniques that utilise significant unobservable inputs. The financial instruments valued in this manner are categorised as level 3. The financial instruments categorised as level 3 at 31 March 2012 comprised illiquid bonds. At 31 March 2013 the Bank had no financial instruments categorised as level 3.

The accuracy of the Bank's valuations is ensured through an independent price verification exercise performed by the valuation control function.

B. Reconciliation of assets and liabilities measured at fair value level 3

As at 31 March 2013

SDR millions	Financial assets held at fair value through profit and loss	Financial assets designated as available for sale	Total
Balance at beginning of year	8.3	–	8.3
Gains in equity	–	–	–
Disposals	(8.3)	–	(8.3)
Balance at end of year	**–**	**–**	**–**
Gains / (losses) in profit or loss for assets and liabilities held at end of year	–	–	**–**

As at 31 March 2012

SDR millions	Financial assets held at fair value through profit and loss	Financial assets designated as available for sale	Total
Balance at beginning of year	64.1	–	64.1
Gains in profit or loss	1.3	–	1.3
Total gains	1.3	–	1.3
Disposals	(27.4)	–	(27.4)
Transfers out of level 3	(38.0)	–	(38.0)
Transfers into level 3	8.3	–	8.3
Balance at end of year	8.3	–	8.3
Gains / (losses) in profit or loss for assets and liabilities held at end of year	(20.0)	–	(20.0)

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 2013

Percentages	USD	EUR	GBP	JPY	Other currencies
Assets					
Gold loans	–	–	–	–	0.86
Treasury bills	0.15	0.03	–	0.07	1.48
Securities purchased under resale agreements	0.14	0.01	0.36	0.01	–
Loans and advances	0.23	0.07	0.45	0.10	0.15
Government and other securities	1.08	1.79	1.66	0.22	3.58
Liabilities					
Currency deposits	0.51	0.72	0.60	0.02	0.56
Gold deposits	–	–	–	–	0.72
Short positions in currency assets	3.44	–	–	–	–

As at 31 March 2012

Percentages	USD	EUR	GBP	JPY	Other currencies
Assets					
Gold loans	–	–	–	–	0.50
Treasury bills	0.12	0.85	0.45	0.09	0.59
Securities purchased under resale agreements	0.07	0.07	0.39	0.05	–
Loans and advances	0.24	0.46	0.71	0.09	0.15
Government and other securities	1.15	1.76	2.00	0.35	4.72
Liabilities					
Currency deposits	0.57	0.68	0.72	0.03	0.77
Gold deposits	–	–	–	–	0.42
Short positions in currency assets	4.33	–	–	–	–

36. Geographical analysis

A. Total liabilities

As at 31 March

SDR millions	**2013**	2012
Africa and Europe	58,597.2	80,509.2
Asia-Pacific	86,965.2	99,805.3
Americas	33,208.0	42,594.0
International organisations	14,196.2	14,383.0
Total	**192,966.6**	237,291.5

B. Off-balance sheet items

As at 31 March

SDR millions	**2013**	2012
Africa and Europe	8,076.3	7,972.9
Asia-Pacific	16,158.0	20,144.4
Americas	5,809.2	5,603.1
Total	**30,043.5**	33,720.4

Note 32 provides further analysis of the Bank's off-balance sheet items. A geographical analysis of the Bank's assets is provided in the "Risk management" section below (note 3B).

C. Credit commitments

As at 31 March

SDR millions	**2013**	2012
Africa and Europe	256.6	–
Asia-Pacific	2,797.2	2,570.6
Total	**3,053.8**	2,570.6

Note 33 provides further analysis of the Bank's credit commitments.

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;
- 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 sections of the Annual Report entitled "Board of Directors" and "BIS Management". Note 19 provides details of the Bank's post-employment benefit arrangements.

A. Related party individuals

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

For the financial year ended 31 March

CHF millions	**2013**	2012
Salaries, allowances and medical cover	7.8	7.7
Post-employment benefits	2.1	2.1
Total compensation	**9.9**	9.8
SDR equivalent	6.9	7.1

Note 25 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	**2013**	2012
Balance at beginning of year	24.1	21.7
Deposits taken including interest income (net of withholding tax)	4.2	4.2
Withdrawals	(1.1)	(1.8)
Balance at end of year	**27.2**	24.1
SDR equivalent	19.1	17.2
Interest expense on deposits in CHF millions	0.4	0.5
SDR equivalent	0.3	0.4

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 or withdrawals and the 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 2013 was SDR 18.6 million (2012: SDR 19.4 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, which 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	**2013**	2012
Balance at beginning of year	49,428.8	47,156.3
Deposits taken	118,064.6	290,890.7
Maturities, repayments and fair value movements	(126,159.1)	(289,823.8)
Net movement on notice accounts	(4,606.4)	1,205.6
Balance at end of year	**36,727.9**	49,428.8
Percentage of total currency deposits at end of year	22.1%	25.2%

Gold deposit liabilities from related central banks and connected institutions

For the financial year ended 31 March

SDR millions	**2013**	2012
Balance at beginning of year	13,767.1	15,536.0
Net movement on gold sight accounts	(2,917.4)	(1,768.9)
Balance at end of year	**10,849.7**	13,767.1
Percentage of total gold deposits at end of year	61.7%	70.2%

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

For the financial year ended 31 March

SDR millions	**2013**	2012
Balance at beginning of year	5,760.6	5,947.0
Collateralised deposits placed	1,378,767.4	1,569,113.8
Maturities and fair value movements	(1,380,533.7)	(1,569,300.2)
Balance at end of year	**3,994.3**	5,760.6
Percentage of total securities purchased under resale agreements at end of year	14.0%	12.5%

Derivatives transactions with related party central banks and connected institutions

The BIS enters into derivatives transactions with 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 2013 was SDR 18,843.4 million (2012: SDR 16,196.5 million).

Other balances and transactions 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 6,858.1 million as at 31 March 2013 (2012: SDR 4,061.8 million). Gold held with related party central banks and connected institutions totalled SDR 35,074.5 million as at 31 March 2013 (2012: SDR 34,816.2 million).

During the year ended 31 March 2013 the Bank acquired SDR 22.4 million of securities issued by related party central banks and connected institutions (2012: SDR 34,276.9 million). A total of SDR 1,109.0 million of such securities matured or were sold during the financial year (2012: SDR 36,724.0 million). At 31 March 2013 the Bank held SDR 81.2 million of related party securities (2012: SDR 1,167.8 million).

During the financial year, the Bank purchased third-party securities from central banks and connected institutions amounting to SDR 7,061.0 million, all of which were subsequently disposed of before the end of the year (2012: SDR 131.1 million).

The Bank provides committed standby facilities for customers and as of 31 March 2013 the Bank had outstanding commitments to extend credit under facilities to related parties of SDR 285.7 million (2012: SDR 261.5 million).

38. Contingent liabilities

In the opinion of the Bank's Management there were no significant contingent liabilities at 31 March 2013.

Capital adequacy

1. Capital

The table below shows the composition of the Bank's Tier 1 and total capital.

As at 31 March

SDR millions	**2013**	2012
Share capital	698.9	698.9
Statutory reserves per balance sheet	13,647.7	13,057.2
Less: shares held in treasury	(1.7)	(1.7)
Tier 1 capital	**14,344.9**	13,754.4
Profit and loss account	898.2	758.9
Other equity accounts	3,742.7	3,866.0
Total equity	**18,985.8**	18,379.3

The Bank assesses its capital adequacy continuously. The assessment is supported by an annual capital and business 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.

2. Economic capital

The Bank's own assessment of its capital adequacy is performed on the basis of its economic capital frameworks for credit risk, market risk, operational risk and other risks. These are designed to determine the amount of equity needed to absorb losses arising from its exposures to a statistical level of confidence consistent with the objective of maintaining superior credit quality. The Bank's economic capital frameworks measure economic capital to a 99.995% confidence level assuming a one-year horizon, except for settlement risk (included in the utilisation for credit risk) and other risks. The amount of economic capital set aside for settlement risk and other risks, ie risks which are not, or not fully, reflected in the Bank's economic capital calculations, is based on an assessment by Management.

The following table summarises the Bank's economic capital utilisation for credit risk, market risk, operational risk and other risks:

As at 31 March

SDR millions	**2013**	2012
Credit risk	6,283.6	6,886.2
Market risk	2,308.6	3,287.9
Operational risk	700.0	700.0
Other risks	300.0	300.0
Total economic capital utilisation	**9,592.2**	11,174.1

3. 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 related minimum capital requirements for credit risk, market risk and operational risk.

As at 31 March		**2013**			2012		
SDR millions	Approach used	Amount of exposure	Risk-weighted assets (A)	Minimum capital requirement (B)	Amount of exposure	Risk-weighted assets (A)	Minimum capital requirement (B)
Credit risk							
Exposure to sovereigns, banks and corporates	Advanced internal ratings-based approach, where (B) is derived as (A) x 8%	131,684.4	8,934.3	714.7	153,430.0	10,041.9	803.4
Securitisation exposures, externally managed portfolios and other assets	Standardised approach, where (B) is derived as (A) x 8%	1,823.5	1,142.6	91.4	1,853.2	1,107.8	88.6
Market risk							
Exposure to foreign exchange risk and gold price risk	Internal models approach, where (A) is derived as (B) / 8%	–	11,748.1	939.8	–	16,005.8	1,280.5
Operational risk	Advanced measurement approach, where (A) is derived as (B) / 8%	–	4,612.5	369.0	–	4,270.3	341.6
Total			**26,437.5**	**2,114.9**		31,425.8	2,514.1

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.

4. 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	**2013**	2012
Tier 1 capital	**14,344.9**	13,754.4
Expected loss	(20.8)	(24.3)
Tier 1 capital net of expected loss (A)	**14,324.1**	13,730.1
Total risk-weighted assets (B)	26,437.5	31,425.8
Tier 1 capital ratio (A) / (B)	**54.2%**	43.7%

As required by the Basel II framework, expected loss is calculated for credit risk exposures subject to the advanced internal ratings-based approach. The expected loss is calculated at the balance sheet date taking into account any impairment provision which is reflected in the Bank's financial statements. The Bank had no impaired financial assets at 31 March 2013 or 31 March 2012. Note 2B to the financial statements provides details of the impairment provision. In accordance with the requirements of the Basel II framework, the expected loss is compared with the impairment provision and any shortfall is deducted from the Bank's Tier 1 capital.

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.

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 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 controlled as well as monitored and reported.

2. Risk management approach and organisation

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 by 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 reports to the Deputy General Manager and 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 monthly and a quarterly 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 an annual report from the Risk Control unit. The preparation of reports is subject to comprehensive policies and procedures, thus ensuring strong controls.

C. Risk methodologies

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. It uses a comprehensive range of quantitative methodologies for valuing financial instruments and for measuring risk to its net profit and 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. VaR models depend on statistical assumptions and the quality of available market data and, while forward-looking, they extrapolate from past events. VaR models may underestimate potential losses if changes in risk factors fail to align with the distribution assumptions. VaR figures do not provide any information on losses that may occur beyond the assumed confidence level.

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 credit risk, market risk, operational risk and other risks, 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. A financial asset is considered past due when a counterparty fails to make a payment on the contractual due date.

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 an aggregated 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, counterparty 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 controlled 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. Management limits the Bank's overall exposure to credit risk by allocating an amount of economic capital to credit risk.

B. Default risk

The following tables show the exposure of the Bank to default risk, without taking into account any collateral held or other credit enhancements available to the Bank. Credit risk is further 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 exposures set out in the tables below are based on the carrying value of the assets on the balance sheet as categorised by sector, geographical region and credit quality. 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 net of any impairment charge. Commitments are reported at their notional amounts. Gold and gold loans exclude gold bar assets held in custody, and accounts receivable do not include unsettled liability issues, because these items do not represent credit exposures of the Bank.

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

The Bank conducts an annual review for impairment at the date of each balance sheet. At 31 March 2013 the Bank did not have any financial assets that were considered to be impaired (31 March 2012: nil). As at 31 March 2013 no financial assets were considered past due (31 March 2012: nil). During the period ended 31 March 2012 the Bank recorded a credit loss of SDR 31.9 million due to a sovereign debt restructuring. No credit loss was recognised for the financial year ended 31 March 2013.

Default risk by asset class and issuer type

The following tables show the exposure of the Bank to default risk by asset class and issuer type, without taking into account any collateral held or other credit enhancements available to the Bank. "Public sector" includes international and other public sector institutions.

As at 31 March 2013

SDR millions	Sovereign and central banks	Public sector	Banks	Corporate	Securitisation	Total
On-balance sheet exposures						
Cash and sight accounts with banks	6,861.0	–	22.2	0.9	–	6,884.1
Gold and gold loans	–	–	292.6	–	–	292.6
Treasury bills	46,694.1	–	–	–	–	46,694.1
Securities purchased under resale agreements	3,994.3	–	24,475.2	–	–	28,469.5
Loans and advances	3,134.8	507.3	16,034.7	–	–	19,676.8
Government and other securities	39,559.3	11,847.7	4,897.7	5,395.0	943.6	62,643.3
Derivatives	166.6	148.9	5,539.7	0.5	–	5,855.7
Accounts receivable	145.9	147.7	103.7	8.7	–	406.0
Total on-balance sheet exposure	**100,556.0**	**12,651.6**	**51,365.8**	**5,405.1**	**943.6**	**170,922.1**
Commitments						
Undrawn unsecured facilities	200.1	–	–	–	–	200.1
Undrawn secured facilities	2,853.7	–	–	–	–	2,853.7
Total commitments	**3,053.8**	**–**	**–**	**–**	**–**	**3,053.8**
Total exposure	**103,609.8**	**12,651.6**	**51,365.8**	**5,405.1**	**943.6**	**173,975.9**

As at 31 March 2012

SDR millions	Sovereign and central banks	Public sector	Banks	Corporate	Securitisation	Total
On-balance sheet exposures						
Cash and sight accounts with banks	4,064.5	–	11.9	1.4	–	4,077.8
Gold and gold loans	–	–	1,096.5	–	–	1,096.5
Treasury bills	53,492.3	–	–	–	–	53,492.3
Securities purchased under resale agreements	5,760.6	–	40,450.2	–	–	46,210.8
Loans and advances	4,520.6	391.6	17,844.9	–	–	22,757.1
Government and other securities	49,198.7	15,588.9	7,617.7	4,467.4	1,005.0	77,877.7
Derivatives	49.1	139.8	7,114.6	0.4	–	7,303.9
Accounts receivable	10.0	337.5	20.6	9.6	–	377.7
Total on-balance sheet exposure	117,095.8	16,457.8	74,156.4	4,478.8	1,005.0	213,193.8
Commitments						
Undrawn unsecured facilities	193.8	–	–	–	–	193.8
Undrawn secured facilities	2,376.8	–	–	–	–	2,376.8
Total commitments	2,570.6	–	–	–	–	2,570.6
Total exposure	119,666.4	16,457.8	74,156.4	4,478.8	1,005.0	215,764.4

Default risk by geographical region

The following tables represent the exposure of the Bank to default risk by asset class and geographical region, without taking into account any collateral held or other credit enhancements available to the Bank. The Bank has allocated exposures to regions based on the country of incorporation of each legal entity to which the Bank has exposures.

As at 31 March 2013

SDR millions	Africa and Europe	Asia-Pacific	Americas	International institutions	Total
On-balance sheet exposures					
Cash and sight accounts with banks	6,874.4	2.2	7.5	–	6,884.1
Gold and gold loans	117.5	–	175.1	–	292.6
Treasury bills	7,213.3	32,940.0	6,540.8	–	46,694.1
Securities purchased under resale agreements	21,807.8	3,560.7	3,101.0	–	28,469.5
Loans and advances	11,604.8	6,764.2	1,000.5	307.3	19,676.8
Government and other securities	29,977.4	3,790.8	22,709.4	6,165.7	62,643.3
Derivatives	4,620.6	199.2	1,035.9	–	5,855.7
Accounts receivable	46.4	0.9	358.7	–	406.0
Total on-balance sheet exposure	**82,262.2**	**47,258.0**	**34,928.9**	**6,473.0**	**170,922.1**
Commitments					
Undrawn unsecured facilities	–	200.1	–	–	200.1
Undrawn secured facilities	256.6	2,597.1	–	–	2,853.7
Total commitments	**256.6**	**2,797.2**	**–**	**–**	**3,053.8**
Total exposure	**82,518.8**	**50,055.2**	**34,928.9**	**6,473.0**	**173,975.9**

As at 31 March 2012

SDR millions	Africa and Europe	Asia-Pacific	Americas	International institutions	Total
On-balance sheet exposures					
Cash and sight accounts with banks	4,063.9	7.7	6.2	–	4,077.8
Gold and gold loans	782.5	68.9	245.1	–	1,096.5
Treasury bills	14,394.7	37,072.8	2,024.8	–	53,492.3
Securities purchased under resale agreements	39,158.3	5,252.6	1,799.9	–	46,210.8
Loans and advances	14,584.2	6,799.0	1,227.8	146.1	22,757.1
Government and other securities	39,858.2	4,411.6	25,233.2	8,374.7	77,877.7
Derivatives	5,613.2	94.8	1,595.8	0.1	7,303.9
Accounts receivable	31.6	0.9	345.2	–	377.7
Total on-balance sheet exposure	118,486.6	53,708.3	32,478.0	8,520.9	213,193.8
Commitments					
Undrawn unsecured facilities	–	193.8	–	–	193.8
Undrawn secured facilities	–	2,376.8	–	–	2,376.8
Total commitments	–	2,570.6	–	–	2,570.6
Total exposure	118,486.6	56,278.9	32,478.0	8,520.9	215,764.4

Default risk by counterparty / issuer rating

The following tables show the exposure of the Bank to default risk by class of financial asset and counterparty / issuer rating, without taking into account any collateral held or other credit enhancements available to the Bank. The ratings shown reflect the Bank's internal ratings expressed as equivalent external ratings.

As at 31 March 2013 *SDR millions*	AAA	AA	A	BBB	BB and below	Unrated	Total
On-balance sheet exposures							
Cash and sight accounts with banks	6,804.5	73.9	3.8	0.9	0.3	0.7	6,884.1
Gold and gold loans	–	–	292.6	–	–	–	292.6
Treasury bills	7,818.8	6,067.3	32,183.1	624.9	–	–	46,694.1
Securities purchased under resale agreements	–	433.6	22,625.6	5,410.3	–	–	28,469.5
Loans and advances	1,508.0	1,281.8	16,151.8	535.1	200.1	–	19,676.8
Government and other securities	11,688.0	40,153.8	8,756.5	1,530.7	514.3	–	62,643.3
Derivatives	132.2	527.3	5,107.2	88.2	0.3	0.5	5,855.7
Accounts receivable	–	290.7	71.8	0.9	1.0	41.6	406.0
Total on-balance sheet exposure	**27,951.5**	**48,828.4**	**85,192.4**	**8,191.0**	**716.0**	**42.8**	**170,922.1**
Percentages	*16.4%*	*28.6%*	*49.7%*	*4.8%*	*0.5%*	*0.0%*	*100.0%*
Commitments							
Undrawn unsecured facilities	–	–	–	200.1	–	–	200.1
Undrawn secured facilities	–	842.7	857.1	825.5	328.4	–	2,853.7
Total commitments	**–**	**842.7**	**857.1**	**1,025.6**	**328.4**	**–**	**3,053.8**
Total exposure	**27,951.5**	**49,671.1**	**86,049.5**	**9,216.6**	**1,044.4**	**42.8**	**173,975.9**

As at 31 March 2012 *SDR millions*	AAA	AA	A	BBB	BB and below	Unrated	Total
On-balance sheet exposures							
Cash and sight accounts with banks	3,969.7	97.8	9.4	0.3	0.3	0.3	4,077.8
Gold and gold loans	–	83.3	1,013.2	–	–	–	1,096.5
Treasury bills	6,160.9	43,461.9	3,310.6	558.9	–	–	53,492.3
Securities purchased under resale agreements	–	5,760.6	39,287.8	1,162.4	–	–	46,210.8
Loans and advances	1,101.0	4,360.9	15,913.0	800.8	581.4	–	22,757.1
Government and other securities	24,965.8	42,492.8	7,471.8	2,029.8	917.5	–	77,877.7
Derivatives	107.9	1,472.0	5,723.0	–	0.6	0.4	7,303.9
Accounts receivable	–	345.5	25.0	0.5	0.2	6.5	377.7
Total on-balance sheet exposure	36,305.3	98,074.8	72,753.8	4,552.7	1,500.0	7.2	213,193.8
Percentages	*17.0%*	*46.0%*	*34.1%*	*2.1%*	*0.8%*	*0.0%*	*100.0%*
Commitments							
Undrawn unsecured facilities	–	–	–	193.8	–	–	193.8
Undrawn secured facilities	–	771.3	784.4	261.4	559.7	–	2,376.8
Total commitments	–	771.3	784.4	455.2	559.7	–	2,570.6
Total exposure	36,305.3	98,846.1	73,538.2	5,007.9	2,059.7	7.2	215,764.4

C. 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 requires counterparties to provide 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. During the term of the agreement, the Bank monitors the fair value of the collateral securities and may call for further collateral or be required to return collateral based on the movement in its market value.

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.

The table below shows the collateral obtained by the Bank. It excludes transactions which have yet to settle (on which neither cash nor collateral has been exchanged).

As at 31 March	**2013**		2012	
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	26,457.4	26,686.6	36,567.3	36,960.2
Advances	2,134.1	2,226.7	3,811.0	4,340.4
Derivatives	2,381.0	2,740.9	2,754.7	2,938.2
Total collateral obtained	**30,972.5**	**31,654.2**	43,133.0	44,238.8

The Bank is allowed to sell or pledge collateral obtained, but must deliver equivalent financial instruments upon expiry of the contract. The Bank accepts sovereign securities and cash as collateral for derivatives. Eligible collateral for reverse repurchase agreements comprises sovereign and supranational debt as well as state agency securities. Eligible collateral for loans and advances includes currency deposits with the Bank as well as units in the BIS Investment Pools (BISIPs) and securities in portfolios managed by the BIS.

At 31 March 2013 the total amount of undrawn facilities which could be drawn down subject to collateralisation by the counterparty was SDR 2,853.7 million (2012: SDR 2,376.8 million).

The Bank may provide cash or securities collateral on its derivatives contracts. At 31 March 2013 the Bank had provided SDR 0.3 million of Treasury bills and cash as collateral in connection with futures and interest rate swap contracts (31 March 2012: SDR 0.3 million).

D. Economic capital for credit risk

The Bank determines economic capital for credit risk using a VaR methodology on the basis of a portfolio VaR model, assuming a one-year time horizon and a 99.995% confidence interval, except for settlement risk (included in the utilisation for credit risk). The amount of economic capital set aside for settlement risk reflected in the Bank's economic capital calculations is based on an assessment by Management.

For the financial year	**2013**				2012			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Economic capital utilisation for credit risk	6,527.8	7,499.0	5,903.7	**6,283.6**	6,504.4	7,131.2	5,602.3	6,886.2

E. Minimum capital requirements for credit risk

Exposure 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.

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 contracts and certain collateralised exposures. The EAD for derivatives is calculated using an approach consistent with the internal models 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 its own default experience. 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 effects of collateral obtained giving consideration to market price volatility, remargining and revaluation frequency. The recognition of the risk-reducing effects of collateral obtained for derivatives contracts, reverse repurchase agreements and collateralised advances is accounted for in calculating the EAD.

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 at 31 March 2013 includes SDR 303.6 million for interest rate contracts (31 March 2012: SDR 421.4 million) and SDR 761.3 million for FX and gold contracts (31 March 2012: SDR 726.5 million).

As at 31 March 2013

Internal rating grades expressed as equivalent external rating grades *SDR millions / percentages*	Amount of exposure *SDR millions*	Exposure-weighted PD *%*	Exposure-weighted average LGD *%*	Exposure-weighted average risk weight *%*	Risk-weighted assets *SDR millions*
AAA	26,163.8	0.002	35.6	1.0	270.9
AA	45,560.3	0.01	37.4	5.3	2,437.3
A	56,429.9	0.05	42.3	8.6	4,850.0
BBB	3,031.1	0.19	42.4	30.3	919.7
BB and below	499.3	1.24	48.4	91.4	456.4
Total	**131,684.4**				**8,934.3**

As at 31 March 2012

Internal rating grades expressed as equivalent external rating grades *SDR millions / percentages*	Amount of exposure *SDR millions*	Exposure-weighted PD *%*	Exposure-weighted average LGD *%*	Exposure-weighted average risk weight *%*	Risk-weighted assets *SDR millions*
AAA	34,310.0	0.002	35.6	1.2	397.8
AA	88,287.5	0.02	37.6	3.9	3,415.5
A	26,344.3	0.07	49.5	15.8	4,158.9
BBB	3,530.3	0.15	42.8	30.1	1,064.2
BB and below	957.9	1.32	48.4	105.0	1,005.5
Total	153,430.0				10,041.9

The table below summarises the impact of collateral arrangements on the amount of credit exposure after taking netting into account.

SDR millions	Amount of exposure after taking netting into account	Benefits from collateral arrangements	Amount of exposure after taking into account netting and collateral arrangements
As at 31 March 2013	163,153.7	31,469.3	**131,684.4**
As at 31 March 2012	207,533.6	54,103.6	153,430.0

Securitisation exposures

The Bank invests in highly rated securitisation exposures based on traditional, ie non-synthetic, securitisation structures. 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 of the securities are used to determine the relevant risk weights. External credit assessment institutions used for this purpose 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 2013

SDR millions	External rating	Amount of exposure	Risk weight	Risk-weighted assets
Residential mortgage-backed securities	AAA	33.9	20%	6.8
Residential mortgage-backed securities	A	32.4	50%	16.2
Securities backed by other receivables (government-sponsored)	AAA	797.0	20%	159.4
Total		**863.3**		**182.4**

As at 31 March 2012

SDR millions	External rating	Amount of exposure	Risk weight	Risk-weighted assets
Residential mortgage-backed securities	AAA	62.8	20%	12.6
Residential mortgage-backed securities	A	39.7	50%	19.9
Securities backed by credit card receivables	AAA	78.8	20%	15.8
Securities backed by other receivables (government-sponsored)	AAA	765.5	20%	153.1
Total		946.8		201.4

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 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, subject to an exponential weighting scheme, over a four-year observation period. Furthermore, the Bank computes sensitivities to certain market risk factors.

In line with the Bank's objective of maintaining 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.

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 115 tonnes (2012: 116 tonnes). These gold investment assets are held in custody or placed on deposit with commercial banks. At 31 March 2013 the Bank's net gold investment assets amounted to SDR 3,944.9 million (2012: SDR 4,018.2 million), approximately 21% of its equity (2012: 22%). The Bank sometimes also has small exposures to gold price risk arising 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 including credit spreads. The Bank is exposed to interest rate risk through the interest bearing assets relating to the management of its equity held in its investment portfolios and investments relating to its banking portfolios. The investment portfolios are managed using a fixed duration benchmark of bonds.

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 2013

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	(4.5)	(5.0)	(23.8)	(41.2)	(45.5)	(20.7)	(26.0)
Japanese yen	0.7	(0.8)	(5.5)	(19.3)	(9.9)	(1.4)	–
Pound sterling	(0.6)	(1.1)	(8.0)	(14.5)	(19.8)	(5.4)	13.4
Swiss franc	9.8	(0.2)	(0.4)	(2.5)	(2.7)	(2.1)	7.5
US dollar	12.0	(28.7)	(30.9)	(39.4)	(45.6)	(25.8)	(18.1)
Other currencies	–	(0.3)	(0.6)	(0.4)	1.0	(0.5)	–
Total	**17.4**	**(36.1)**	**(69.2)**	**(117.3)**	**(122.5)**	**(55.9)**	**(23.2)**

As at 31 March 2012

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	(1.2)	(13.6)	(14.0)	(25.6)	(32.4)	(16.7)	(40.0)
Japanese yen	1.1	(2.7)	(4.2)	(16.3)	(7.3)	(4.0)	(7.2)
Pound sterling	1.4	(3.7)	(6.0)	(15.2)	(18.0)	(7.6)	0.1
Swiss franc	6.1	(0.2)	(0.4)	(0.6)	(3.2)	(4.6)	8.6
US dollar	17.3	(36.2)	(26.9)	(31.2)	(47.8)	(37.9)	(12.4)
Other currencies	(1.3)	0.4	–	(0.9)	0.4	–	0.1
Total	23.4	(56.0)	(51.5)	(89.8)	(108.3)	(70.8)	(50.8)

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.

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 2013

SDR millions	SDR	USD	EUR	GBP	JPY	CHF	Gold	Other currencies	Total
Assets									
Cash and sight accounts with banks	–	11.4	1,550.5	14.7	–	5,300.6	–	6.9	6,884.1
Gold and gold loans	–	7.9	–	–	–	–	35,359.2	–	35,367.1
Treasury bills	–	5,139.3	7,213.3	–	31,903.8	–	–	2,437.7	46,694.1
Securities purchased under resale agreements	–	4,701.4	11,906.2	8,301.2	3,560.7	–	–	–	28,469.5
Loans and advances	307.3	11,861.2	366.8	3,816.4	835.8	3.1	–	2,486.2	19,676.8
Government and other securities	–	33,379.1	18,879.8	5,890.2	2,115.6	9.9	–	2,368.7	62,643.3
Derivative financial instruments	4,017.8	65,592.1	(21,826.0)	(1,358.1)	(24,267.1)	(4,840.5)	(11,478.1)	15.6	5,855.7
Accounts receivable	–	3,653.1	9.4	2,323.8	35.8	8.6	–	140.5	6,171.2
Land, buildings and equipment	184.6	–	–	–	–	6.0	–	–	190.6
Total assets	**4,509.7**	**124,345.5**	**18,100.0**	**18,988.2**	**14,184.6**	**487.7**	**23,881.1**	**7,455.6**	**211,952.4**
Liabilities									
Currency deposits	(7,311.0)	(125,764.6)	(12,743.4)	(11,912.0)	(2,540.1)	(453.3)	–	(5,435.9)	(166,160.3)
Gold deposits	–	(6.6)	–	–	–	–	(17,574.3)	–	(17,580.9)
Derivative financial instruments	951.9	11,033.1	865.4	(2,212.0)	(10,125.9)	(27.7)	(2,359.9)	(1,527.2)	(3,402.3)
Accounts payable	–	(1,920.7)	(5.5)	(2,901.4)	(42.5)	–	–	(465.2)	(5,335.3)
Other liabilities	–	(97.8)	–	–	–	(389.7)	–	(0.3)	(487.8)
Total liabilities	**(6,359.1)**	**(116,756.6)**	**(11,883.5)**	**(17,025.4)**	**(12,708.5)**	**(870.7)**	**(19,934.2)**	**(7,428.6)**	**(192,966.6)**
Net currency and gold position	**(1,849.4)**	**7,588.9**	**6,216.5**	**1,962.8**	**1,476.1**	**(383.0)**	**3,946.9**	**27.0**	**18,985.8**
Adjustment for gold	–	–	–	–	–	–	(3,946.9)	–	(3,946.9)
Net currency position	**(1,849.4)**	**7,588.9**	**6,216.5**	**1,962.8**	**1,476.1**	**(383.0)**	**–**	**27.0**	**15,038.9**
SDR-neutral position	1,849.4	(7,432.9)	(6,109.7)	(1,896.8)	(1,448.9)	–	–	–	(15,038.9)
Net currency exposure on SDR-neutral basis	**–**	**156.0**	**106.8**	**66.0**	**27.2**	**(383.0)**	**–**	**27.0**	**–**

As at 31 March 2012

SDR millions	SDR	USD	EUR	GBP	JPY	CHF	Gold	Other currencies	Total
Assets									
Cash and sight accounts with banks	–	6.4	171.6	4.7	0.1	3,883.7	–	11.3	4,077.8
Gold and gold loans	–	9.7	–	–	–	–	35,903.0	–	35,912.7
Treasury bills	–	1,960.6	12,504.4	322.6	36,439.9	1,108.8	–	1,156.0	53,492.3
Securities purchased under resale agreements	–	2,768.8	27,383.6	10,805.8	5,252.6	–	–	–	46,210.8
Loans and advances	146.1	11,071.1	8,671.5	679.4	436.4	56.7	–	1,695.9	22,757.1
Government and other securities	–	37,283.1	30,273.3	5,329.0	2,421.1	–	–	2,571.2	77,877.7
Derivative financial instruments	1,224.8	50,812.8	(8,337.0)	117.1	(28,957.4)	(1,093.0)	(6,939.9)	476.5	7,303.9
Accounts receivable	–	7,662.4	0.7	–	–	9.7	–	172.7	7,845.5
Land, buildings and equipment	189.6	–	–	–	–	3.4	–	–	193.0
Total assets	1,560.5	111,574.9	70,668.1	17,258.6	15,592.7	3,969.3	28,963.1	6,083.6	255,670.8
Liabilities									
Currency deposits	(7,840.2)	(136,634.5)	(27,870.9)	(13,147.3)	(2,798.4)	(514.0)	–	(6,973.2)	(195,778.5)
Gold deposits	–	(6.4)	–	–	–	–	(19,617.6)	–	(19,624.0)
Derivative financial instruments	3,793.5	35,928.0	(25,098.0)	(1,185.9)	(10,347.6)	(3,445.0)	(5,324.2)	952.2	(4,727.0)
Accounts payable	–	(3,387.4)	(11,585.7)	(925.7)	(783.5)	–	–	(63.2)	(16,745.5)
Other liabilities	–	(70.9)	–	–	–	(345.3)	–	(0.3)	(416.5)
Total liabilities	(4,046.7)	(104,171.2)	(64,554.6)	(15,258.9)	(13,929.5)	(4,304.3)	(24,941.8)	(6,084.5)	(237,291.5)
Net currency and gold position	(2,486.2)	7,403.7	6,113.5	1,999.7	1,663.2	(335.0)	4,021.3	(0.9)	18,379.3
Adjustment for gold	–	–	–	–	–	–	(4,021.3)	–	(4,021.3)
Net currency position	(2,486.2)	7,403.7	6,113.5	1,999.7	1,663.2	(335.0)	–	(0.9)	14,358.0
SDR-neutral position	2,486.2	(7,019.0)	(6,378.0)	(1,895.0)	(1,552.2)	–	–	–	(14,358.0)
Net currency exposure on SDR-neutral basis	–	384.7	(264.5)	104.7	111.0	(335.0)	–	(0.9)	–

D. Economic capital for market risk

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. The table below shows the key figures of the Bank's exposure to market risk in terms of economic capital utilisation over the past two financial years.

For the financial year	**2013**				2012			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Economic capital utilisation for market risk	2,787.8	3,341.9	2,274.8	**2,308.6**	3,232.7	3,716.0	2,734.0	3,287.9

The table below provides a further analysis of the Bank's market risk exposure by category of risk:

For the financial year	**2013**				2012			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Gold price risk	2,263.8	2,540.9	1,913.6	**1,913.6**	2,345.6	2,741.6	1,835.5	2,501.3
Interest rate risk	1,193.0	1,607.0	893.4	**893.4**	1,565.2	1,660.6	1,463.6	1,560.4
Foreign exchange risk	763.2	911.3	628.1	**632.3**	923.0	1,095.7	788.9	894.2
Diversification effects	(1,432.1)	(1,687.5)	(1,130.7)	**(1,130.7)**	(1,601.1)	(1,809.2)	(1,403.8)	(1,668.0)

E. Minimum capital requirements for market risk

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 table below summarises the market risk development relevant to the calculation of minimum capital requirements and the related risk-weighted assets over the reporting period.

As at 31 March	**2013**			2012		
SDR millions	VaR	Risk-weighted assets (A)	Minimum capital requirement (B)	VaR	Risk-weighted assets (A)	Minimum capital requirement (B)
Market risk, where (A) is derived as (B) / 8%	313.3	11,748.1	**939.8**	426.8	16,005.8	1,280.5

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 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 95% (2012: 91%) of its total liabilities. At 31 March 2013 currency and gold deposits originated from 168 depositors (2012: 172). Within these deposits, there are significant individual customer concentrations, with five customers each contributing in excess of 5% of the total on a settlement date basis (2012: five customers).

The following tables show 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 2013

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	6,884.1	–	–	–	–	–	–	–	6,884.1
Gold and gold loans	35,086.8	–	–	–	282.1	–	–	–	35,368.9
Treasury bills	11,036.4	23,042.0	9,643.5	2,994.5	–	–	–	–	46,716.4
Securities purchased under resale agreements	21,795.6	4,664.6	–	–	–	–	–	–	26,460.2
Loans and advances	10,034.4	8,640.8	318.9	–	–	–	–	–	18,994.1
Government and other securities	1,576.3	5,590.8	8,649.6	10,677.1	11,246.0	23,018.8	1,951.0	1,062.8	63,772.4
Total assets	**86,413.6**	**41,938.2**	**18,612.0**	**13,671.6**	**11,528.1**	**23,018.8**	**1,951.0**	**1,062.8**	**198,196.1**
Liabilities									
Currency deposits									
Deposit instruments repayable at 1–2 days' notice	(7,383.7)	(10,649.5)	(17,483.0)	(19,696.1)	(14,744.0)	(23,859.4)	(67.9)	–	(93,883.6)
Other currency deposits	(40,783.3)	(19,228.9)	(7,980.9)	(2,603.5)	–	–	–	–	(70,596.6)
Gold deposits	(17,301.9)	–	–	–	(280.5)	–	–	–	(17,582.4)
Securities sold short	82.8	13.2	(0.9)	(1.7)	(3.4)	(10.3)	(17.2)	(149.6)	(87.1)
Total liabilities	**(65,386.1)**	**(29,865.2)**	**(25,464.8)**	**(22,301.3)**	**(15,027.9)**	**(23,869.7)**	**(85.1)**	**(149.6)**	**(182,149.7)**
Derivatives									
Net settled									
Interest rate contracts	(1.2)	107.8	133.1	199.8	238.0	94.6	(17.0)	–	755.1
Gross settled									
Exchange rate and gold price contracts									
Inflows	32,788.8	46,454.6	17,827.6	5,835.2	–	–	–	–	102,906.2
Outflows	(31,785.2)	(46,067.1)	(17,536.6)	(5,623.4)	–	–	–	–	(101,012.3)
Subtotal	1,003.6	387.5	291.0	211.8	–	–	–	–	1,893.9
Interest rate contracts									
Inflows	114.2	133.6	115.4	84.3	475.8	365.3	–	–	1,288.6
Outflows	(114.5)	(156.1)	(128.0)	(107.9)	(518.1)	(402.6)	–	–	(1,427.2)
Subtotal	(0.3)	(22.5)	(12.6)	(23.6)	(42.3)	(37.3)	–	–	(138.6)
Total derivatives	**1,002.1**	**472.8**	**411.5**	**388.0**	**195.7**	**57.3**	**(17.0)**	**–**	**2,510.4**
Total future undiscounted cash flows	**22,029.6**	**12,545.8**	**(6,441.3)**	**(8,241.7)**	**(3,304.1)**	**(793.6)**	**1,848.9**	**913.2**	**18,556.8**

As at 31 March 2012

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	4,077.8	–	–	–	–	–	–	–	4,077.8
Gold and gold loans	35,353.6	137.9	139.5	–	–	284.4	–	–	35,915.4
Treasury bills	10,035.9	30,652.9	8,256.7	3,576.1	–	–	–	–	52,521.6
Securities purchased under resale agreements	27,593.1	4,686.9	–	–	–	–	–	–	32,280.0
Loans and advances	12,204.2	8,127.7	1,142.4	–	–	–	–	–	21,474.3
Government and other securities	3,475.1	8,892.3	9,786.2	20,647.0	10,137.1	22,703.1	3,470.0	983.5	80,094.3
Total assets	92,739.7	52,497.7	19,324.8	24,223.1	10,137.1	22,987.5	3,470.0	983.5	226,363.4
Liabilities									
Currency deposits									
Deposit instruments repayable at 1–2 days' notice	(3,531.3)	(24,460.6)	(17,340.6)	(15,139.2)	(14,964.6)	(23,677.2)	(202.9)	–	(99,316.4)
Other currency deposits	(56,016.8)	(21,657.6)	(9,272.2)	(2,984.0)	–	–	–	–	(89,930.6)
Gold deposits	(19,204.8)	–	(138.5)	–	–	(282.9)	–	–	(19,626.2)
Securities sold short	61.2	8.0	(0.8)	(1.6)	(3.1)	(9.3)	(15.5)	(124.3)	(85.4)
Total liabilities	(78,691.7)	(46,110.2)	(26,752.1)	(18,124.8)	(14,967.7)	(23,969.4)	(218.4)	(124.3)	(208,958.6)
Derivatives									
Net settled									
Interest rate contracts	20.1	179.9	313.3	333.4	391.9	240.9	(31.8)	–	1,447.7
Gross settled									
Exchange rate and gold price contracts									
Inflows	41,207.3	52,261.0	19,830.5	10,073.7	–	–	–	–	123,372.5
Outflows	(40,756.6)	(51,444.4)	(19,642.6)	(10,008.9)	–	–	–	–	(121,852.5)
Subtotal	450.7	816.6	187.9	64.8	–	–	–	–	1,520.0
Interest rate contracts									
Inflows	1.1	13.5	2.0	270.7	245.7	788.6	–	–	1,321.6
Outflows	(0.3)	(23.4)	(8.5)	(361.3)	(310.3)	(896.0)	–	–	(1,599.8)
Subtotal	0.8	(9.9)	(6.5)	(90.6)	(64.6)	(107.4)	–	–	(278.2)
Total derivatives	471.6	986.6	494.7	307.6	327.3	133.5	(31.8)	–	2,689.5
Total future undiscounted cash flows	14,519.6	7,374.1	(6,932.6)	6,405.9	(4,503.3)	(848.4)	3,219.8	859.2	20,094.3

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 2013	(0.1)	(0.2)	–	–	–	(1.1)	–	–	**(1.4)**
As at 31 March 2012	(0.2)	–	–	–	(0.2)	(2.8)	–	–	(3.2)

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	Maturity undefined	Total
As at 31 March 2013	–	–	256.6	200.1	–	–	–	2,597.1	**3,053.8**
As at 31 March 2012	–	–	–	193.8	–	–	–	2,376.8	2,570.6

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.
- 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 economic capital and operational risk-weighted assets, the Bank has adopted a VaR approach using a Monte Carlo simulation technique that is consistent with the advanced measurement approach proposed under the Basel II framework. In line with the assumptions of the Basel II framework, the quantification of operational risk does not take reputational risk into account. 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 quantifying its operational risk, the Bank does not take potential protection it may obtain from insurance into account.

A. Economic capital for operational risk

Consistent with the parameters used in the calculation of economic capital for financial risk, the Bank measures economic capital for operational risk to the 99.995% confidence interval assuming a one-year holding period. The table below shows the key figures of the Bank's exposure to operational risk in terms of economic capital utilisation over the past two financial years.

For the financial year	**2013**				2012			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Economic capital utilisation for operational risk	700.0	700.0	700.0	**700.0**	700.0	700.0	700.0	700.0

B. Minimum capital requirements for operational risk

In line with the key parameters of the Basel II framework, the calculation of the minimum capital requirement for operational risk is determined assuming a 99.9% confidence interval and a one-year time horizon. The table below shows the minimum capital requirements for operational risk and related risk-weighted assets.

As at 31 March	**2013**			2012		
SDR millions	VaR	Risk-weighted assets (A)	Minimum capital requirement (B)	VaR	Risk-weighted assets (A)	Minimum capital requirement (B)
Operational risk, where (A) is derived as (B) / 8%	369.0	4,612.5	**369.0**	341.6	4,270.3	341.6

Independent auditor's report

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

We have audited the accompanying financial statements of the Bank for International Settlements, which comprise of the balance sheet as at 31 March 2013, the related profit and loss account, statement of comprehensive income, statement of cash flows and movements in the Bank's equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting principles described in the financial statements and the Statutes of the Bank. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical responsibilities and plan and perform the audit to obtain reasonable assurance 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 risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation 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 system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 March 2013 give a true and fair view of the financial position of the Bank for International Settlements and of its financial performance and its cash flows for the year then ended in accordance with the accounting principles described in the financial statements and the Statutes of the Bank.

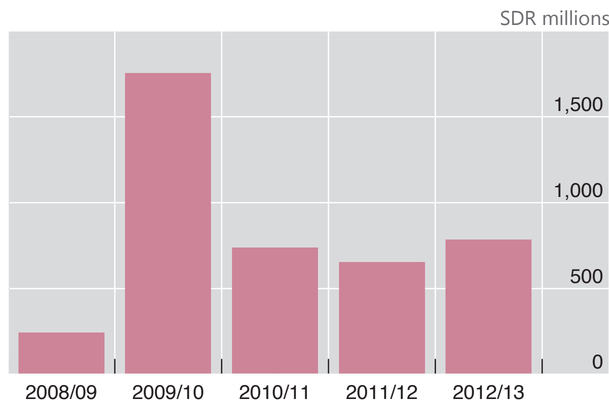
Ernst & Young Ltd

Victor Veger John Alton

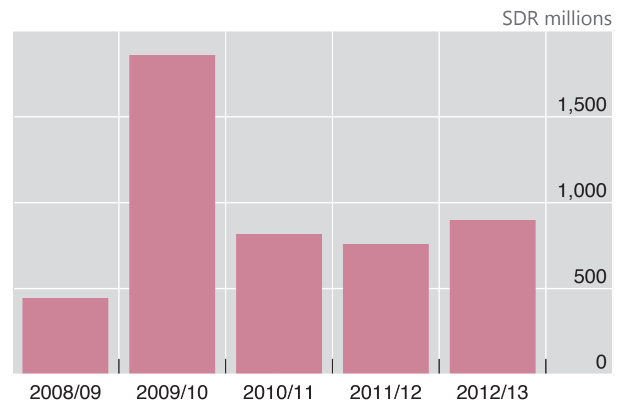
Zurich, 13 May 2013

Five-year graphical summary

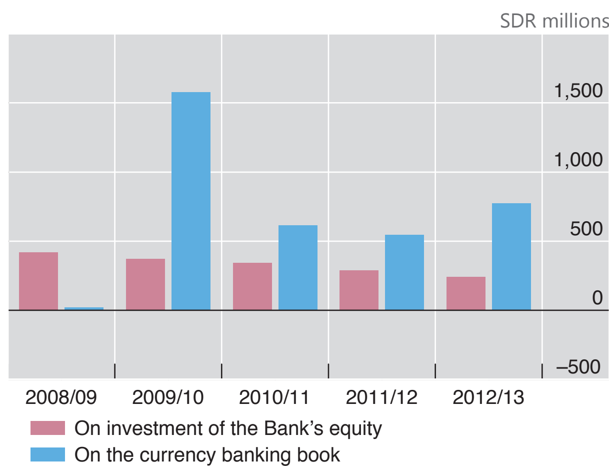
Operating profit



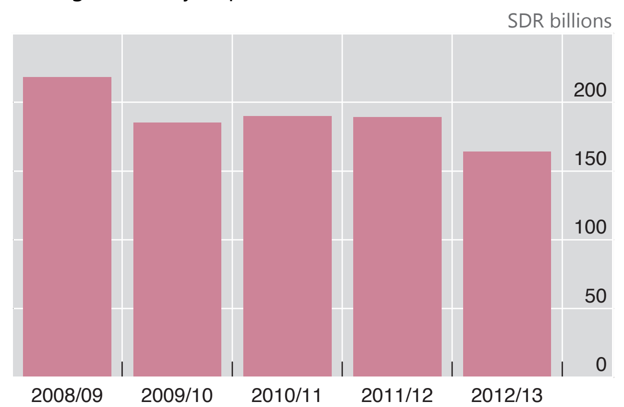
Net profit



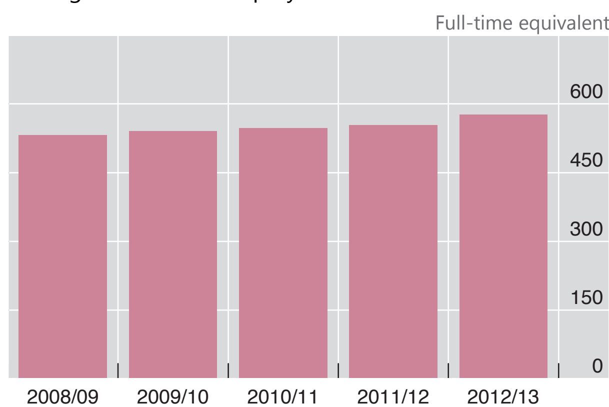
Net interest and valuation income



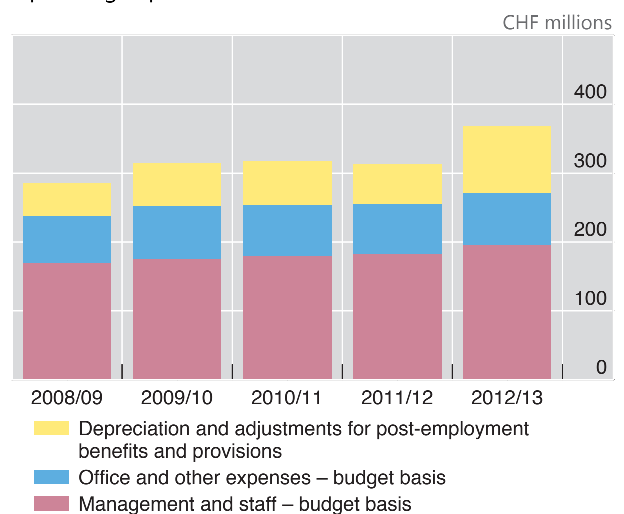
Average currency deposits (settlement date basis)



Average number of employees



Operating expense



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