Annual Report

2017/18

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BIS

Annual Report

April 2017–March 2018

Promoting global monetary and financial stability

Foreword by the BIS General Manager

For 88 years and counting, the Bank for International Settlements (BIS) has been constantly evolving. In today's context, that evolution includes communicating better with our stakeholders and also the broader public.

To this end, we have decided to take a new approach to our Annual Report.

Starting this year, our commentary on the global economy and chapters on specific topics will be published under a new title, the *Annual Economic Report*, with an enhanced structure. The pages of the *Annual Report* will hence be dedicated to describing our activities, governance and organisation, and disclosing our annual financial statements.

We have come to this decision because readers' feedback, along with our own experience, has suggested that a distinct annual flagship economic publication would allow us to better showcase our economic research and analysis. This also responds to a recommendation from the 2016 independent review of BIS research.

We also believe that the "corporate" side of the report, instead of being tucked away behind the economic chapters, should be given its own rightful space.

I am therefore pleased to present this newly redesigned *Annual Report*. With the new format, we hope to explain more vividly what we do and who we are as an institution.

Our core activities span three main areas:

- *Economic research and statistics:* Our analytical work helps to clarify the policy issues that matter for central banks and lends another perspective to the global economic debate. Our analysis is an input for the international meetings and cooperative efforts that take place at the BIS; it in turn is informed by the exchanges of ideas and views that ensue.

- *Banking activities:* We are a bank for central banks and international organisations. We also manage our own capital. Both aspects allow us to independently finance our activities and generate a return for our shareholders. For the financial year 2017/18, the Bank's net profit was SDR 508 million. SDR 131 million is proposed as a dividend at SDR 235 per share.

- *International cooperation:* What distinguishes us is our long-standing and direct link to the central bank community. A forum for discussion and a platform for cooperation among policymakers, the BIS works *for* and *with* central banks and other financial authorities in the pursuit of monetary and financial stability.

Ultimately, the main asset that makes all this possible is the human capital of our staff. It is therefore fitting that, alongside the account of our activities, we also devote some pages in this report to portray the people behind the work: in other words, give a human face to the institution.

In closing, I hope you will enjoy reading our new *Annual Report*. Although the way we present our activities has changed, the purpose of what we do as an institution remains the same: to provide excellent service to the central bank community, to promote monetary and financial stability and to foster international cooperation in these areas.

Agustín Carstens

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The bank for central banks

As a hub for central banks and other financial regulatory and supervisory authorities across the globe, the BIS is in a unique position to respond to their needs. It does this through its work in three main areas: economic research and analysis, banking services and international cooperation.

The BIS as a platform

The Bank for International Settlements (BIS) is an international organisation headquartered in Basel, Switzerland. It is owned by 60 member central banks and monetary authorities from around the world (see page 52).

The BIS is a platform for central bankers and other financial regulators and supervisors to build a greater collective understanding of the world economy, foster international cooperation and support policymaking.

Supporting the central bank community

Conducting economic research and analysis

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Through its research, analysis and statistics, the BIS supports central bank cooperation and provides an independent voice to sound policymaking.

BIS research emphasises the links between the real economy and the financial system, global rather than country-specific aspects, and longer-term drivers of activity. It seeks to strike a balance between

Providing banking services to central banks and international organisations

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As an institution owned and governed by central banks, the BIS is well placed to understand the needs of reserve managers – their primary focus on safety and liquidity, as well as the evolving need to diversify their exposures and obtain a competitive return.

To meet those needs, the Bank provides credit intermediation, gold and foreign exchange, and asset management services, while managing its own capital.

Promoting international cooperation among monetary and financial authorities

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Through the Basel Process, the BIS acts as a forum for discussion and a platform for cooperation among policymakers, to foster monetary and financial stability.

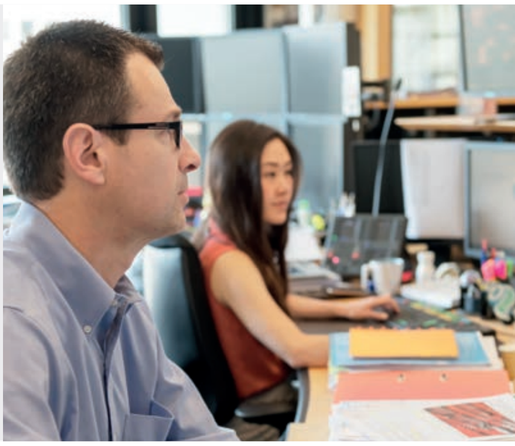
In this role, the Bank contributes its expertise in economic research and analysis, its practical experience in banking and its knowledge in regulatory

By conducting research on policy issues confronting authorities, acting as a prime counterparty for central banks in their financial transactions and facilitating dialogue and collaboration, the BIS contributes to monetary and financial stability, which is essential for sustained economic growth.

responsiveness to short-term, conjunctural issues and proactivity in exploring themes of strategic importance for central banks and prudential authorities.

The BIS also compiles and disseminates international statistics on financial institutions and markets.

The financial services of the BIS are exclusively offered to central banks, monetary authorities and international organisations, mainly to assist them in the management of their foreign exchange reserves. An integrated risk management function ensures that financial and operational risks are properly measured and controlled.



and supervisory issues, adding value to the discussions and cooperative efforts.

In turn, this close interaction with policymakers informs the work of the BIS and allows it to respond to their needs more effectively, in a mutually enriching dialogue that enhances the collaborative process.


USD ↑ ► equity
The bank's optimal
clearing

Economic research, analysis and statistics

Research at the BIS supports central banks in their pursuit of monetary and financial stability. To do this effectively, the BIS draws strength from its unique position at the intersection of research and policy in those areas, leveraging its close contacts with the central banking and financial supervisory community.

The BIS's economic research and analysis are conducted within its Monetary and Economic Department (MED). Its economists work at the head office in Basel and at the representative offices located in Hong Kong SAR and in Mexico City. MED also compiles and disseminates statistics on international banking, financial instruments and markets.

Through its research, analysis and statistics, MED supports the cooperative activities of the Bank (see page 23) and helps it meet the policy and analytical needs of monetary and supervisory authorities as well as other international organisations.

Research and analysis

Research and analysis are the basis of the background notes that the BIS produces for bimonthly and other meetings of central bank officials, of its support for the Basel-based committees, and of the Bank's own publications. In its research, the BIS seeks a balance between responding to short-term issues and proactively exploring themes that are of more strategic and lasting importance for central banks and prudential authorities.

BIS research offers a distinct perspective, which emphasises the interaction between the real and the financial sides of the economy, global rather than country-specific issues, and the longer-term implications of economic developments. Three broad themes currently guide BIS research: the characteristics of financial intermediation; post-crisis monetary and financial stability frameworks; and the global economy and spillovers.

Highlights in 2017/18

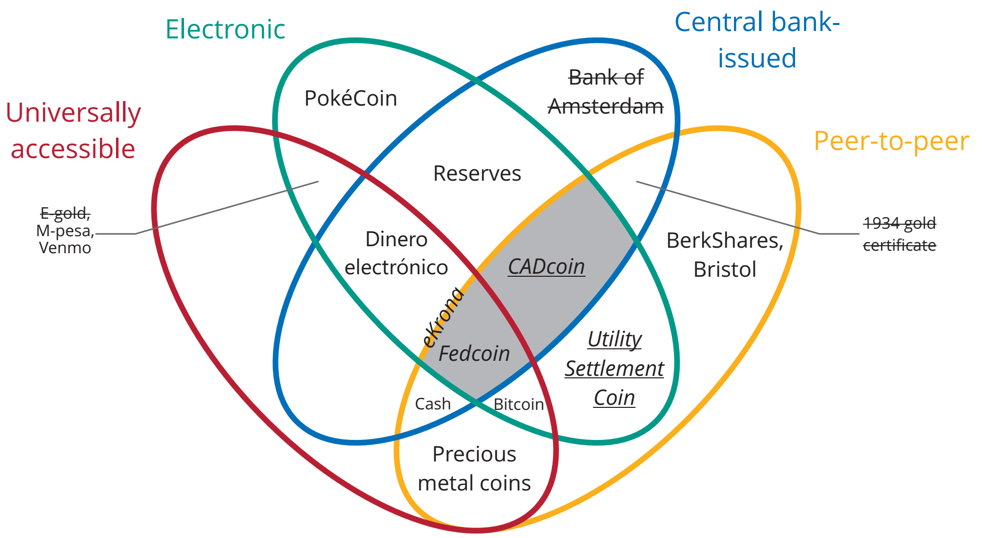
Over the past year, digital currencies and bank business models were a key focus under the theme of financial intermediation, while work on macroprudential and monetary policy frameworks, and potential coordination between these policy areas, cut across the second and third themes. International capital flows naturally remained important in analysing spillovers.

Digital currencies

Digitalisation has led to technological innovations, including matching services (such as crowdfunding) and big data applications, which allow better tailoring, pricing and risk management of financial services. Among these, blockchain or, more generally, distributed ledger technology (DLT) stands out as probably the most transformative innovation, by providing an alternative means of recording financial information without recourse to trusted intermediaries.

As private DLT-based cryptocurrencies mushroomed in 2017, the growing hype prompted debate about whether central banks should issue their own digital currencies. A special feature in the September *BIS Quarterly Review*[1] provides a taxonomy of money that identifies two types of central bank digital currency (CBDC) – retail and wholesale – and differentiates them from other forms of central bank money, such as cash and reserves. The "money flower" establishes a way to classify different types of money and understand how past, present and potential future forms relate to each other.

The money flower



A standard font indicates that a system is in operation; an *italic* font indicates a proposal; an *italic and underlined* font indicates experimentation; a ~~strikethrough~~ font indicates a defunct company or an abandoned project.

Building on this work, a joint report[2] by the Committee on Payments and Market Infrastructures and the Markets Committee analyses the implications of the two types of CBDC for payments, monetary policy and financial stability. The report concludes that central banks must carefully weigh the implications for financial stability and monetary policy of issuing digital currencies available to the general public, although the underlying technologies might hold more promise for wholesale payments, clearing and settlements.

1 M Bech and R Garratt, "Central bank cryptocurrencies", *BIS Quarterly Review*, September 2017.

2 Committee on Payments and Market Infrastructures and Markets Committee, *Central bank digital currencies*, March 2018.

In his first major speech[3] as BIS General Manager, Agustín Carstens tackled the broader implications of the emergence of cryptocurrencies for central banks. Digitalisation has many advantages, he said, but authorities should be wary of risks for consumers and investors. Lessons from the past[4] show that, for money to keep its value, it must be backed by accountable institutions that enjoy the public's trust, referring in particular to central banks. Mr Carstens argues central banks and financial authorities should pay particular attention to the ties linking cryptocurrencies to existing currencies. Access to legitimate banking and payment services should be limited to service providers and products that meet accepted high standards.

This issue is also discussed in this year's BIS *Annual Economic Report*.

"The rise of cryptocurrencies only highlights the important role central banks have played, and continue to play, as stewards of public trust."

Agustín Carstens
BIS General Manager

Bank business models and regulation

Following the finalisation of the Basel III framework (see page 32), implementation at the national level is in full swing. Most banks have already adjusted their balance sheets and funding models to meet the new requirements. Indeed, one BIS working paper[5] identifies that after the crisis, there were switches away from business models primarily funded from wholesale sources into retail-funded models – in line with the Basel Committee on Banking Supervision's objective of more stable bank funding. At the same time, for China, a separate research project[6] found that commercial banks have expanded their business model to become key players in China's shadow banking system.

3 A Carstens, "Money in the digital age: what role for central banks?", lecture at the House of Finance, Goethe University, Frankfurt, 6 February 2018.

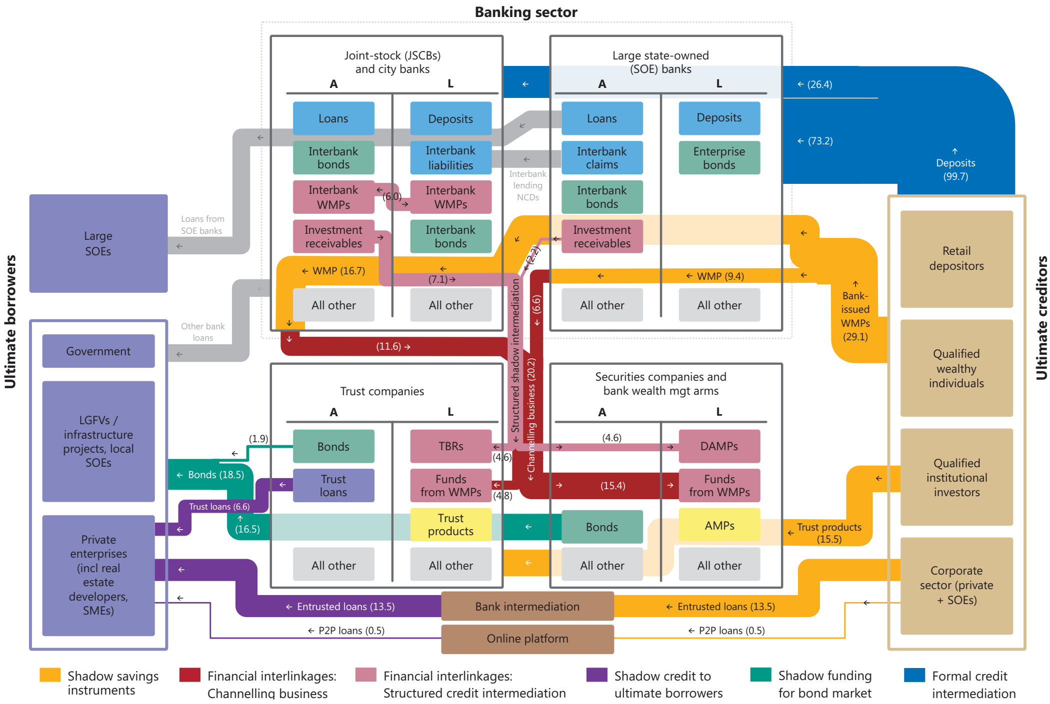
4 See I Schnabel and H S Shin, "Money and trust: lessons from the 1620s for money in the digital age", *BIS Working Papers*, no 698, February 2018.

5 R Roengpitya, N Tarashev, K Tsatsaronis and A Villegas, "Bank business models: popularity and performance", *BIS Working Papers*, no 682, December 2017.

6 T Ehlers, S Kong and F Zhu, "Mapping shadow banking in China: structure and dynamics", *BIS Working Papers*, no 701, February 2018.

2016 China shadow banking map: stylised structure of claims

Amounts in trillions of renminbi



Markets have generally rewarded banks' business model adjustments[7] with increasing equity valuations, but progress has been uneven across different banking sectors and restructuring continues. A *BIS Quarterly Review* special feature[8] assesses bank valuations and stresses how banks can boost them through measures such as cost controls and managing non-performing loans (see *Annual Economic Report 2018*, Chapter III).

Related research[9] looks into banks' capital allocation in the context of changing regulatory requirements, assessing the combined impact of regulation, internal risk management and risk perceptions on banks' behaviour. Building on work by the Committee on the Global Financial System on repo markets,[10] this project shows that managerial shortcuts (such as individual banks deciding to implement the leverage ratio at the business unit level, rather than firm-wide) can unduly discourage certain activities, such as market-making or repo market intermediation, even when the leverage ratio is not binding at the consolidated level.

7 See Committee on the Global Financial System, *Structural changes in banking after the crisis*, *CGFS Papers*, no 60, January 2018.

8 B Bogdanova, I Fender and E Takáts, "The ABCs of bank PBRs: what drives bank price-to-book ratios?", *BIS Quarterly Review*, March 2018.

9 T Goel, U Lewrick and N Tarashev, "Bank capital allocation under multiple constraints", *BIS Working Papers*, no 666, October 2017.

10 Committee on the Global Financial System, *Repo market functioning*, *CGFS Papers*, no 59, April 2017.

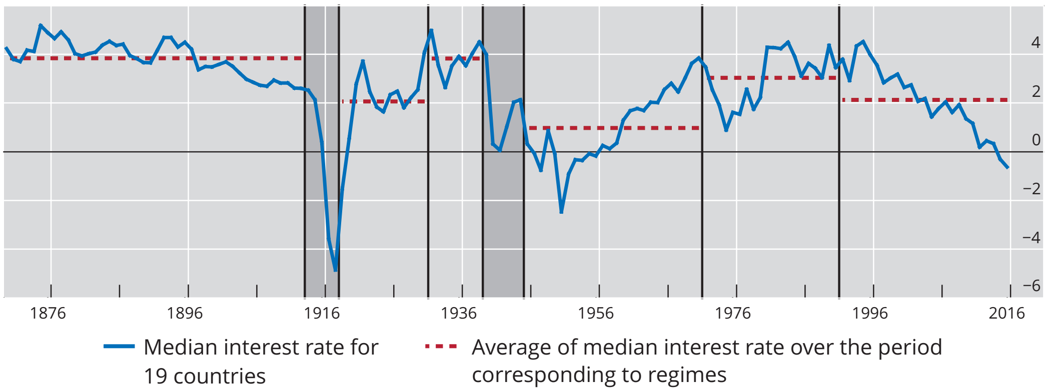
Macro-prudential and monetary policy frameworks

Research on the post-crisis framework for monetary and financial stability has been a key focus of BIS work for many years. This work explores possible adjustments in both prudential and monetary policy frameworks.

Recent research has focused on the effectiveness of macroprudential policy tools, as well as the scope for international spillovers. As argued in the BIS *Annual Economic Report 2018*, targeted macroprudential measures can help strengthen the resilience of the financial system, but are less effective in limiting the build-up of financial imbalances. Another research project[11] suggests that using macroprudential tools to blunt the transmission of spillovers works best with international coordination.

The influence of monetary regimes on real long-term rates

In per cent



Monetary policy regimes, in order: (mainly) classical gold standard; post-WWI gold standard; other interwar years; Bretton Woods; post-Bretton Woods, pre-Volcker; post-Bretton Woods, post-Volcker tightening. Shaded areas indicate WWI and WWII (excluded from the empirical analysis).

Senior officials from emerging market economies (EMEs), attending a meeting at the BIS on macroprudential frameworks and their implementation,[12] concluded that authorities need to act early if they want to address systemic risk effectively. A central bank research project,[13] conducted under the auspices of the BIS Americas Office, confirms this finding. Yet it also highlights that, for certain purposes, macroprudential tools tend to have a greater effect when reinforced by the use of monetary policy.

Indeed, discussions on policy frameworks are incomplete without considering monetary policy, and the challenges posed by the post-crisis environment of low interest rates. This raises important questions about the timing and speed of policy normalisation.

11 P-R Agénor, E Kharroubi, L Gambacorta, G Lombardo and L Pereira da Silva, "The international dimensions of macroprudential policies", *BIS Working Papers*, no 643, June 2017.

12 See BIS, "Macroprudential frameworks, implementation and relationship with other policies", *BIS Papers*, no 94, December 2017.

13 L Gambacorta and A Murcia, "The impact of macroprudential policies and their interaction with monetary policy: an empirical analysis using credit registry data", *BIS Working Papers*, no 636, May 2017.

One of the topics for discussion by Governors at their Global Economy Meetings (see page 23), therefore, was monetary policy in a world of large balance sheets, while the 16th BIS Annual Conference explored the causes and consequences of the persistently low interest rate environment that has prevailed over the past decade.

Various BIS working papers over the past year have sought to shed light on these issues. One[14] asks whether monetary policy is less effective in boosting aggregate demand and output when interest rates are persistently low. It finds that headwinds during the recovery from balance sheet recessions tend to reduce monetary policy effectiveness while the impact of low rates on variables such as bank profits (and therefore credit supply) and saving dampens their influence on spending. Another paper[15] examines the reasons for the decline in inflation-adjusted interest rates over the last 30 years and casts doubt on the argument that this decline is driven by variations in saving and investment. It concludes that the role of central banks' rate-setting behaviour in determining interest rates over long horizons seems to have been underrated.

International capital flows and spillovers

International banking is another research area on which the BIS has traditionally focused, leveraging its in-house expertise on the various BIS international banking and financial statistics data sets. In analysing international capital flows, a BIS working paper[16] finds that the drivers of international bank lending have shifted after the crisis. The sensitivity of cross-border bank lending to US monetary policy, for example, rose substantially in the immediate crisis aftermath, peaking around the 2013 Fed "taper tantrum" episode. It also highlights how a large portion of foreign currency debt is not recorded on balance sheets and official statistics, as it takes the form of FX swaps and forwards.[17] For instance, the estimated size of such "missing debt" owed by non-banks outside the United States in dollars is similar to, and probably exceeds, the $10.7 trillion in debt recorded on their balance sheets.

The BIS international banking and financial statistics have also been used to examine the risk-taking channel of exchange rate fluctuations. This channel works in the opposite direction to the standard trade channel. One working paper,[18] for example, finds

14 C Borio and B Hofmann, "Is monetary policy less effective when interest rates are persistently low?", *BIS Working Papers*, no 628, April 2017.

15 C Borio, P Disyatat, M Juselius and P Rungcharoenkitkul, "Why so low for so long? A long-term view of real interest rates", *BIS Working Papers*, no 685, December 2017.

16 S Avdjiev, L Gambacorta, L Goldberg and S Schiaffi, "The shifting drivers of global liquidity", *BIS Working Papers*, no 644, June 2017.

17 See C Borio, R McCauley and P McGuire, "FX swaps and forwards: missing global debt?", *BIS Quarterly Review*, September 2017.

18 S Avdjiev, V Bruno, C Koch and H S Shin, "The dollar exchange rate as a global risk factor: evidence from investment", *BIS Working Papers*, no 695, January 2018.

that a US dollar appreciation can lead to a contraction in cross-border bank lending (tightening financial conditions in EMEs) and, ultimately, to a reduction in investment.

Academic collaboration

Collaboration with central bank and academic researchers around the world stimulates broad dialogue on key policy questions. During the past year, the BIS welcomed 48 academics and central bank researchers under its various visitor programmes to conduct collaborative research on policy-related issues of relevance to the BIS. The programmes range from visits of a few days or weeks to longer stays by resident scholars. These included the Alexandre Lamfalussy Senior Research Fellowships, which were awarded in 2017 to Viral Acharya and Bengt Holmström.

Lamfalussy Fellows 2017

Viral Acharya, C V Starr Professor of Economics, New York University Stern School of Business

Bengt Holmström, Paul A Samuelson Professor of Economics, Massachusetts Institute of Technology

Conferences and workshops are organised frequently to bring together participants from policymaking, academia and business. The semiannual meetings of the BIS Research Network provide another opportunity to discuss current macroeconomic and financial topics.

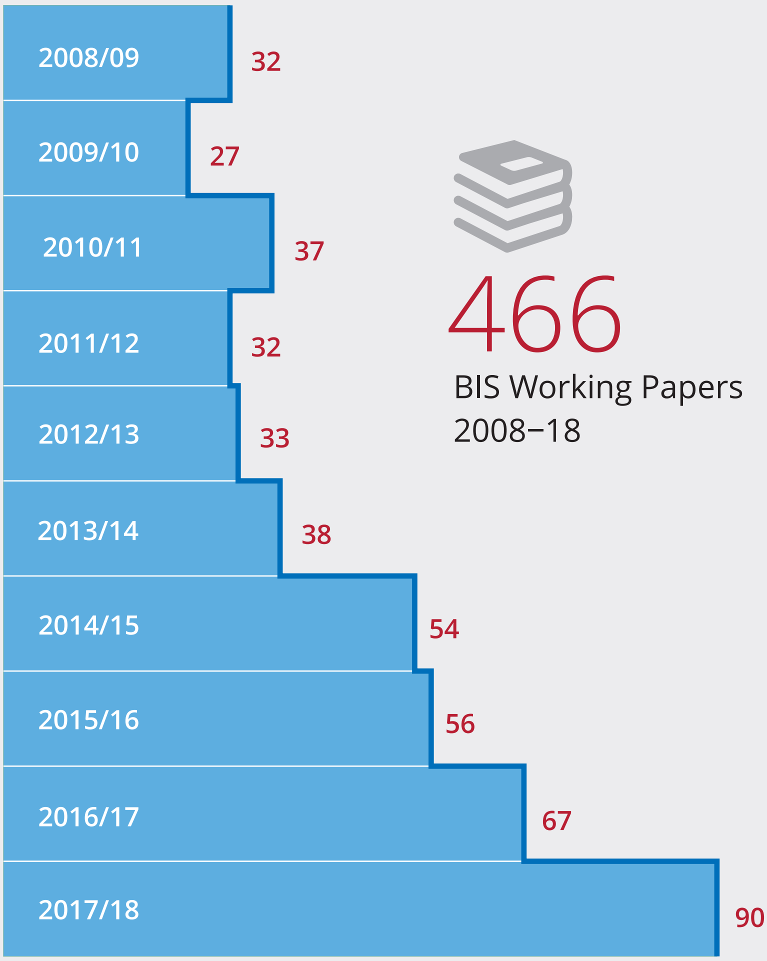
Most analysis and research activities are undertaken at the BIS's Basel headquarters, but an important part is carried out at the two representative offices, located in Hong Kong SAR and Mexico City. Both offices have active research programmes alongside secondment and exchange schemes to collaborate with member central banks in their respective regions. The representative offices also oversee a programme of conferences and collaborative research networks.

Regular reports of the research activities of the BIS Representative Office for Asia and the Pacific are presented to the Asian Consultative Council, currently chaired by Veerathai Santiprabhob, Governor of the Bank of Thailand, while research activities in the BIS Representative Office for the Americas are organised in cooperation with the Consultative Council for the Americas, chaired by Julio Velarde, Governor of the Central Reserve Bank of Peru.

The BIS also collaborates closely with international research bodies, such as the International Bank Research Network. Working with international banking and financial statistics, the BIS conducts global analyses to complement other network members' respective country-specific studies and helps to improve the comparability of country-level results.

BIS research is published mainly in *BIS Working Papers*, the *BIS Quarterly Review* and *BIS Papers*. It also informs the analysis of policy challenges reviewed in the BIS *Annual Economic Report*. To gain further feedback and academic recognition, BIS economists present their research at international conferences and publish in professional journals and other external publications.

More about BIS research at www.bis.org/forum/research.htm.



Number of BIS Working Papers published per financial year.

Statistics

The BIS international banking and financial statistics, compiled in cooperation with central banks and other national authorities as well as international organisations, are designed to inform and support analysis of financial stability, international monetary spillovers and global liquidity. BIS research also relies extensively on the BIS Data Bank, which contains key economic indicators shared online among member central banks.

Highlights in 2017/18

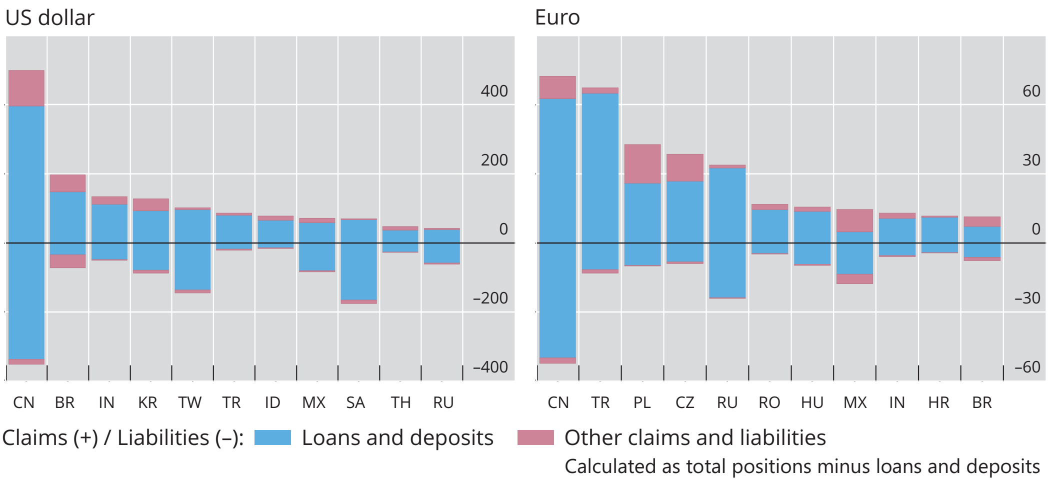
Given the post-crisis recognition of the importance of balance sheet data in analysing economic activity and financial stability, existing statistics are being expanded to provide a better understanding of balance sheet mismatches and associated risks. One focus has been country-level exposure to foreign currency risk, and the BIS extended its data offerings in this area as part of the G20's Data Gaps Initiative.

International banking statistics

In September 2017, the Bank began publishing more detailed data as part of its international banking statistics (IBS), which cover the balance sheets of internationally active financial institutions at the country level. The published details now include a currency breakdown of cross-border loans and deposits. Such data are especially useful for analysing the foreign currency exposures of EMEs. Bank loans can be added to debt securities to estimate the build-up of total foreign currency debt at the country level.

Banks' cross-border claims/liabilities to selected EMEs, by currency

Amounts outstanding at end-December 2017, in billions of US dollars



Source: BIS locational banking statistics (Table A6.1).

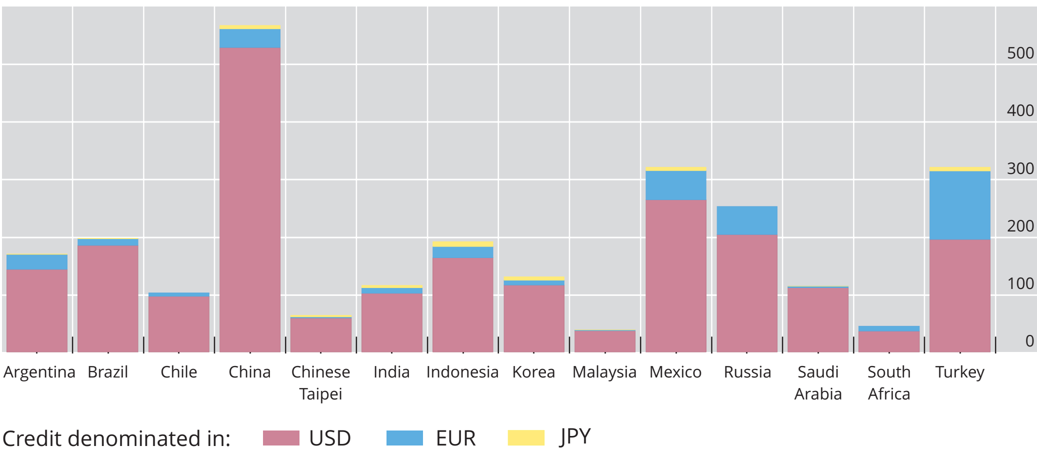
In parallel, for the first time, data were reported for banks located in the Philippines, bringing to 47 the number of countries reporting banking statistics by the location of a bank or affiliate.

Global liquidity indicators

The BIS also began to publish country-level estimates of total US dollar, euro and yen credit as part of its global liquidity indicators (GLIs). The GLIs combine BIS international banking and debt securities statistics with other data sets to measure the ease of global credit conditions. Estimates of total credit by currency of denomination, in particular total US dollar credit to non-bank borrowers outside the United States, are the most widely cited GLI. The BIS now publishes estimates for US dollar, euro and yen credit to 14 EMEs. Previously, they were published only at the global level and for EME regions. This aims to provide a comprehensive measure of credit from bank and non-bank creditors to non-bank borrowers.

Foreign currency credit to EMEs

Amounts outstanding at end-December 2017, in billions of US dollars



Source: BIS global liquidity indicators (Table E.2).

Other statistics

In 2017, the BIS introduced a new data set of long time series on central bank policy rates, covering 38 central banks, with data in some cases going back to 1946. It also presented a long time series on bilateral US dollar exchange rates for the currencies of approximately 190 economies. This combines current and historical data in a single data set with the highest possible level of consistency and comparability across countries.

A variety of other statistics are published on the BIS website, including those on property prices, debt securities, debt service ratios, credit to the private and public sectors, credit-to-GDP gaps, effective exchange rates, foreign exchange markets, derivatives, consumer prices and payment systems. These data are published

in the *BIS Statistical Bulletin* and can be downloaded using two interactive tools, the BIS Statistics Warehouse and the BIS Statistics Explorer, available on the BIS website.

Statistical collaboration

The BIS's unique international banking and financial statistics underpin the Basel Process (see page 23) by supporting the analysis of global financial stability. This involves close cooperation with other international financial organisations, especially through the BIS's participation in the Inter-Agency Group on Economic and Financial Statistics (IAG).[19] Together with other IAG members, the BIS sponsors the Statistical Data and Metadata eXchange (SDMX) standard.

The BIS also hosts the International Data Hub, where balance sheet and income statement information about systemically important financial institutions is stored and analysed on behalf of participating supervisory authorities. In addition, to support the Financial Stability Board's efforts to strengthen the oversight and regulation of shadow banking activities, the BIS is preparing to provide operational support for the collection and potential dissemination of aggregated securities financing data.

More about BIS statistics at www.bis.org/statistics.

19 The IAG comprises the BIS, the ECB, Eurostat, the IMF, the OECD, the United Nations and the World Bank Group.

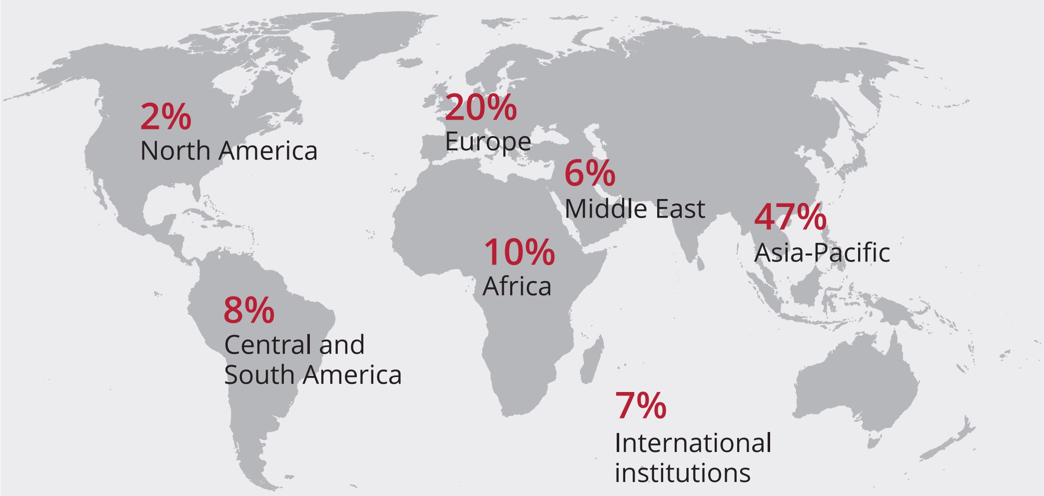
Banking activities

The banking activities of the BIS range from deposit-taking, in the form of money market and tradable instruments, gold and foreign exchange services, to the off-balance sheet asset management of fixed income products. The business is supported by a strong capital position and a conservative risk management framework. A large part of the Bank's own capital is invested in sovereign debt denominated in the constituent currencies of the SDR (Special Drawing Right), a basket of currencies defined by the IMF (see page 77).

Services have evolved over time to meet central banks' demand for asset diversification, and to take account of the sustained expansion of their global foreign exchange reserves. To address these needs, in recent years the BIS has developed new fixed income products, both on- and off-balance sheet and denominated in different currencies such as the renminbi and the South Korean won, as well as a new investment pool in corporate bonds.

Geographical distribution of customer deposits

Based on nominal values in SDR, excluding gold



The BIS conducts its banking activities within an independent risk management framework established by its Board of Directors, which is monitored by the Board's Banking and Risk Management Committee. Within this framework, financial risks – ie credit, market and liquidity risks – and operational risk are overseen by the Risk Management unit, which ensures an integrated approach.

The BIS is committed to ensuring that the activities of the institution are conducted in accordance with applicable principles and industry standards, such as the FX Global Code and SWIFT Customer Security Programme, and in line with best market practices and the highest ethical standards.

Management of own capital

The capital of the BIS stems from the paid-in capital of its shareholders and retained earnings from banking activities. The Bank's capital was SDR 19.4 billion as of 31 March 2018, of which SDR 2.9 billion was held in gold (102 tonnes). The remainder of the Bank's own capital is invested mainly in fixed income securities.

The strategic benchmark for fixed income investments is set by BIS Management within parameters established by the Board. It comprises SDR-weighted sovereign bond indices and currently has an average duration of two and a half years. The BIS Banking Department manages investments and can deviate on a tactical basis from the strategic benchmark, within predefined guidelines.

Scope of financial services

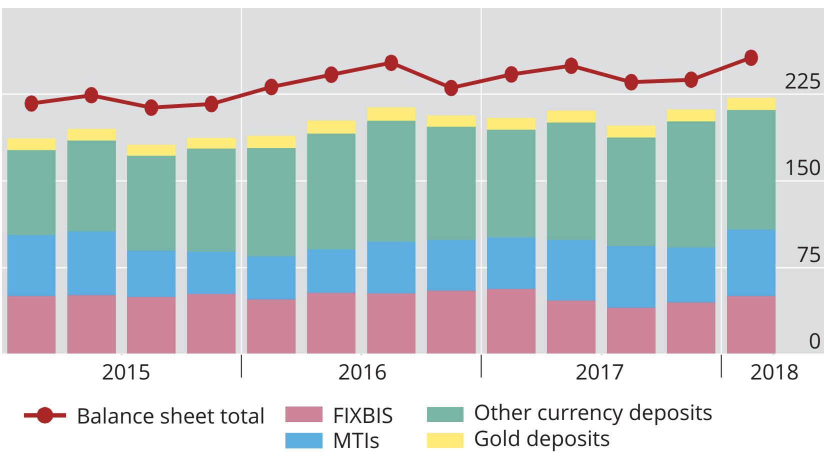
Today, some 140 central banks, monetary authorities and international organisations make use of the BIS financial services. The Banking Department operates from two linked trading rooms, one at the Bank's head office in Basel and one at the Representative Office for Asia and the Pacific located in Hong Kong SAR, and maintains close contact with reserve managers.

Money market and tradable instruments

The BIS offers money market placements, such as sight/notice accounts and fixed-term deposits, and tradable instruments in maturities ranging from one week to five years. These take the form of Fixed-Rate Investments at the BIS (FIXBIS), Medium-Term Instruments (MTIs) and products with embedded optionality (Callable MTIs). All these money market and fixed income products typically provide a competitive return over and above comparable sovereign debt. As of 31 March 2018, total deposits at the BIS stood at SDR 222 billion, of which about 96% was denominated in currencies and the remainder in gold.

Balance sheet total and deposits by product

End-quarter figures, in billions of SDR



Foreign exchange and gold services

Foreign exchange is another integral part of BIS banking services. The Bank transacts foreign exchange on behalf of its customers, providing access to a large liquidity base. BIS foreign exchange services encompass spot transactions, swaps, outright forwards, options and dual currency deposits (DCDs). In recent years, the supply of services in traditional reserve currencies and SDR has been expanded to cover major EME currencies, including the South Korean won and the renminbi.

The Bank also provides gold services that include buying and selling on a spot basis and through outright forwards, swaps and options. Other gold services comprise sight accounts, fixed-term deposits (as well as DCDs), earmarked accounts, quality upgrading, refining and location exchanges.

Asset management services

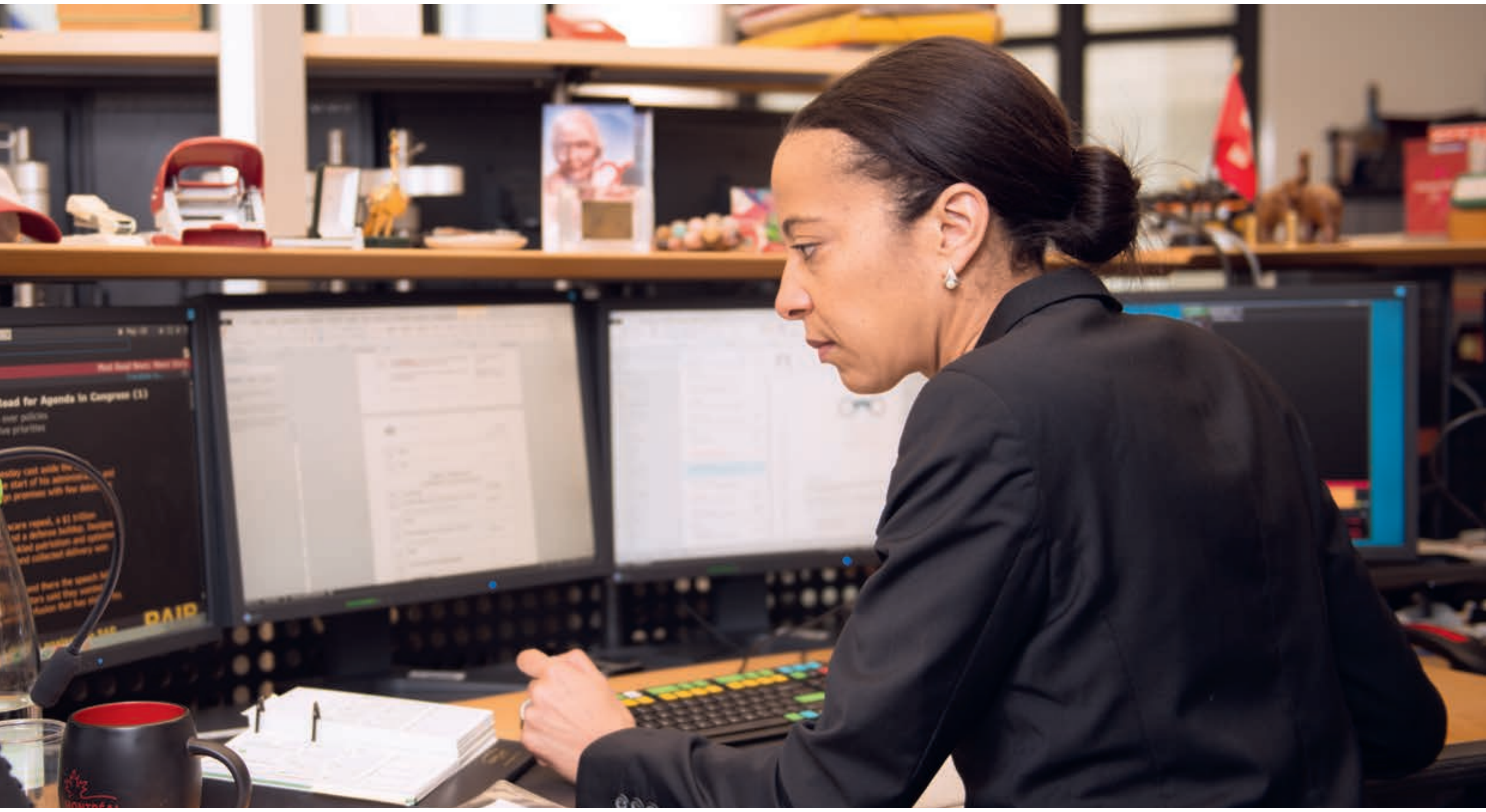
BIS Asset Management offers dedicated portfolio management mandates tailored to each central bank customer's preferences and BIS Investment Pools (BISIPs), which are open-ended fund structures that allow customers to invest in a common pool of assets. Both types are held off balance sheet.

The BISIP structure was initially used for US dollar- and euro-denominated bond portfolios. BISIPs also help to support cooperative initiatives such as the Asian Bond Fund (ABF), which was sponsored by Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) countries to foster the development of local currency bond markets. In the last few years, additional funds have been launched in cooperation with a number of central banks, including the BISIP ILF1 (invested in US inflation-protected government securities), the BISIP CNY (invested in domestic Chinese sovereign fixed income securities) and the BISIP KRW (invested in domestic South Korean sovereign fixed income securities).

In October 2017, the BIS launched a new investment pool in corporate bonds, known as the BISIP Y. This initiative came in response to growing interest in instruments that would allow reserve managers to diversify into less traditional reserve assets. The BISIP Y was designed to accommodate the specific needs of official sector investors, for example, by excluding the financial sector in the fund composition. It also recognises the growing interest in sustainable investments by taking into account environmental, social and governance (ESG) factors, to address issues related to long-term sustainability. To that end, all assets purchased by the BISIP Y comply with a minimum ESG rating threshold.

Other services

The BIS also offers short-term liquidity facilities and extends credit to central banks, primarily on a collateralised basis. Moreover, the BIS can act as trustee and collateral agent in connection with international financial operations.



Knowledge-sharing for international reserve managers

The Banking Department hosts a number of global and regional meetings for senior reserve and risk managers, as well as 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 at central banks and international organisations.

Each year the Department organises several banking seminars in Switzerland and the Asia-Pacific region, as well as an Asset Management Associate Programme in Basel. The Banking Department also hosts a High-level Reserve Management Conference that brings together senior central bank officials, and co-organises a biennial conference for public sector investors on topical issues related to reserve management, sovereign wealth funds and public pension funds. For these events, the Department draws on research and analysis performed by the BIS.

In 2017/18, the Banking Department organised five seminars covering a broad range of topics including reserve management trends, governance, investment strategy, active decision-making, risk management, outsourcing of asset management mandates, cyber-security, portfolio analytics and strategic asset allocation. Furthermore, the Asset Management Associate Programme provided training on asset allocation and risk budgeting for central banks. Staff members from the Banking Department also contributed to knowledge-sharing events organised at partner institutions.

The Banking Department provides additional reserve management services to central banks. For example, it occasionally supports central banks in reviewing and assessing their reserve management practices, and it provides them with customised quantitative studies on asset allocation.


Symposium on capacity building in
financial sector regulation and supervision
Welcome

Promoting international cooperation

The BIS is a forum for discussion and a platform for cooperation among central banks and other financial authorities in the pursuit of monetary and financial stability.

This international cooperation is known as the Basel Process. The Basel Process revolves around two main axes: regular high-level meetings of senior monetary and financial officials, and the BIS's support for and collaboration with international groups pursuing financial stability. The outcomes of this process are visible to the public in the form of committee reports analysing specific topics and internationally agreed standards produced by the standard-setting committees. The BIS also supports the implementation of these standards through its Financial Stability Institute (see page 27), including its contribution to capacity-building of financial authorities worldwide.

Governors' meetings

Governors and other senior officials of BIS member central banks meet every two months to discuss current developments and the outlook for the world economy and financial markets. They also exchange views and experiences on issues of particular interest to central banks.

Global Economy Meeting

The Global Economy Meeting (GEM) brings together 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. The GEM is chaired by Mark Carney, Governor of the Bank of England, who took over from Agustín Carstens on 1 December 2017.

The GEM has two main roles:

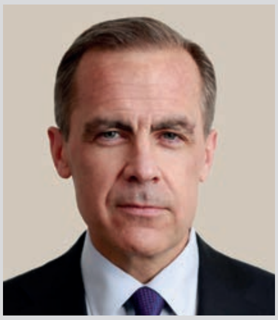
- monitoring and assessing developments in the world economy and the global financial system; and
- providing guidance to three BIS-based central bank committees – the Committee on the Global Financial System (CGFS), the Committee on Payments and Market Infrastructures (CPMI) and the Markets Committee.

The GEM's economic discussions focus on current macroeconomic and financial developments in major advanced and emerging market economies. Topics discussed by the GEM over the past year included global prospects for business investment, conducting monetary policy in a world of large balance sheets in advanced economies, distributional effects of monetary policy, global external imbalances, labour markets and the outlook for wage growth and inflation, and the state and risks of the global macro-financial landscape.

Economic Consultative Committee

The Economic Consultative Committee (ECC) is an 18-member group that supports the work of the GEM. Also led by the GEM Chair and comprising all Governors participating in the BIS Board meeting and the BIS General Manager, the ECC conducts analyses and prepares proposals for the GEM's consideration. In addition, the ECC Chair makes recommendations to the GEM on the appointment of chairs and the composition and organisation of the CGFS, the CPMI and the Markets Committee.

Jens Weidmann,
Chairman of the Board and
Chair of the All Governors' Meeting



Mark Carney,
Chair of GEM and ECC

All Governors' Meeting

The All Governors' Meeting comprises the Governors of the 60 BIS member central banks and is conducted by the Chairman of the Board, currently Jens Weidmann, President of the Deutsche Bundesbank. It convenes to discuss selected topics of general interest to its members. In 2017/18, the topics discussed included central bank accountability, big data and central banks, key research issues for the BIS and for central banks, Basel III finalisation, and macroprudential measures and the housing market.

By agreement with the GEM and the BIS Board, the All Governors' Meeting oversees the work of two other groups that have a broader network or membership than the GEM. These are the Central Bank Governance Group and the Irving Fisher Committee on Central Bank Statistics.

Meetings from April 2017 to March 2018

278
meetings
187 in Basel
91 elsewhere*

9,514
participants
6,213 in Basel
3,301 elsewhere*

* Excluding FSB, IADI and IAIS meetings

Other regular consultations

The Group of Central Bank Governors and Heads of Supervision (GHOS) meets periodically to decide on global banking regulations and oversee the work of the Basel Committee on Banking Supervision. Chaired by Mario Draghi, President of the European Central Bank, the GHOS is a high-level forum responsible for international collaboration on banking regulation and supervision. A highlight in the past year was the GHOS meeting in December 2017 to finalise the post-crisis regulatory reforms under Basel III (see pages 32–3).

The central bank Governors of major EMEs meet during the January, May and September bimonthly meetings to discuss issues of importance to their economies. The topics discussed in 2017/18 included building resilience in a changing policy climate, challenges posed by globalisation and the impact of the unwinding of central bank asset purchases. In June, the BIS held a roundtable of Governors from African central banks on the challenges they face in building resilience to global risks.

The BIS also holds regular meetings for the Governors of central banks from small open economies (SOEs). The main discussion themes during the past year included the economic resilience of SOEs, the role of exchange rates and foreign exchange intervention in monetary frameworks and policy implementation, wage growth and inflation in SOEs, and the post-crisis evolution of monetary policy frameworks.

In addition, various meetings bring together senior central bank officials and, occasionally, representatives from other financial authorities, the private financial sector and the academic community to discuss topics of shared interest.

International groups at the BIS

A number of committees and associations engaged in the pursuit of financial stability are located at the BIS. Each group is supported by a secretariat that prepares the group's meetings, background papers and reports and publishes its work (see Section 2).

The BIS supports their work by contributing its expertise in economic research and statistics, its practical experience in banking and its knowledge in regulatory and supervisory issues. In addition, its close relationships with policymakers and stakeholders allow the Bank to enrich the debate and to add value to the work of these groups. The BIS also makes a financial contribution to the costs associated with the secretariats of these international committees and associations. It also supports them in terms of facilities and corporate services.

Co-location at the BIS's premises facilitates communication and collaboration among these groups, as well as their interaction with policymakers in the context of the BIS's regular meetings programme. This exchange of information also makes it easier to coordinate efforts and prevents overlaps and gaps in the various work programmes.

BIS committees

- The **Basel Committee on Banking Supervision** develops global regulatory standards for banks and seeks to strengthen micro- and macroprudential supervision.
- The **Committee on Payments and Market Infrastructures** establishes and promotes global regulatory/oversight standards for payment, clearing, settlement and other market infrastructures, and monitors and analyses developments in these areas.
- The **Committee on the Global Financial System** monitors and analyses issues relating to financial markets and systems.
- The **Markets Committee** monitors developments in financial markets and their implications for central bank operations.
- The **Central Bank Governance Group** examines issues related to the design and operation of central banks.
- The **Irving Fisher Committee on Central Bank Statistics** addresses statistical issues relating to economic, monetary and financial stability.

The following associations have secretariats at the BIS, but have their own separate legal identity and governance structure, reporting to their members. The BIS is a member of the FSB and the IAIS.

- The **Financial Stability Board** coordinates the work of national authorities and international standard setters in developing and promoting the implementation of effective regulatory, supervisory and other financial sector policies in the interest of global financial stability.
- The **International Association of Deposit Insurers** sets global standards for deposit insurance systems and promotes cooperation on deposit insurance and bank resolution arrangements.
- The **International Association of Insurance Supervisors** sets global standards for the insurance sector to promote effective and globally consistent supervision for the benefit and protection of policyholders and to contribute to global financial stability.

Financial Stability Institute

To complement the BIS's efforts in promoting international cooperation, its Financial Stability Institute (FSI) assists central banks and financial regulatory and supervisory authorities worldwide in strengthening their financial systems by supporting the implementation of global regulatory standards and sound supervisory practices. The FSI pursues this mandate through an extensive programme of activities, including policy implementation work, outreach events and e-learning.

In 2017, the FSI Advisory Board was reactivated to provide strategic advice to the FSI to help it fulfil its mandate of promoting sound supervisory standards and practices, while remaining responsive to the changing needs of financial sector authorities worldwide. In concrete terms, the Advisory Board aims to provide guidance on the formulation of the FSI's strategic goals, review its main achievements, provide input on the FSI's programme of activities and products, and help promote awareness of the FSI and its activities.

Chaired by the BIS's General Manager, the Advisory Board comprises a small but diverse group of central bank Governors, heads of financial authorities and chairs of standard-setting bodies and regional supervisory groups. The exact composition of the Advisory Board can be found on the BIS website.

Policy implementation work

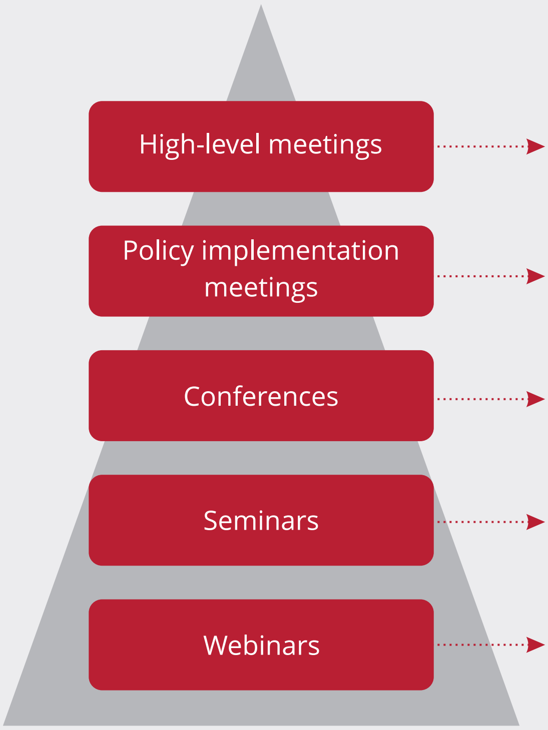
As part of its mandate, the FSI explores a range of policy approaches in different jurisdictions on key regulatory and supervisory issues and shares its findings in the *FSI Insights on policy implementation* publication series. During the year, the FSI published a number of FSI Insights covering the following topics: proportionality in banking regulation, regulatory approaches to cyber-risk, resolution of non-performing loans, insurance supervisory strategies for a low interest rate environment, prudential policy considerations under expected credit loss provisioning, identification and measurement of non-performing assets, early intervention regimes for weak banks and financial supervisory architecture.

Outreach events

In 2017/18, there were 42 FSI events in total, 27 organised in cooperation with regional supervisory groups or other partner organisations. These events attracted around 2,000 participants from central banks and financial sector supervisory agencies.

In February 2018, the FSI, together with the IMF, organised a special meeting in Basel for recipients, donors and providers of training and technical assistance for capacity-building in financial regulation and supervision. The meeting provided a venue for exchanging views on the capacity-building needs of financial authorities post-crisis and how to more effectively address these needs.

FSI events



- Heads of financial sector supervision
- Latest global financial standards and regional supervision priorities

- Heads of department
- Practical implementation of global standards and other key prudential topics

- Financial sector supervisory staff
- Cross-sectoral supervisory topics

- Technical experts
- Key prudential topics

- Bank and insurance supervisors
- Recent developments in financial sector supervision

6
High-level meetings

Banking-related meetings in Africa, the Americas, Asia, Europe and the Middle East.

First high-level meeting on insurance supervision in Latin America.

11
Policy implementation meetings

Banking-related topics, largely using *FSI Insights* as the basis for the discussion.

3
Conferences

Policy implementation issues in the current macro-financial environment.

Issues related to banks' trading books and financial market infrastructure.

Bank resolution, crisis management and deposit insurance.

22
Seminars

Two thirds focused on banking issues and the rest on insurance issues.

Topics discussed

Banking

- Basel III implementation
- Proportionality in regulation and supervision
- Regulatory and supervisory approaches to cyber-risk
- Identification and measurement of non-performing loans and the provisioning framework
- Early supervisory intervention and bank resolution
- Banks' trading books and financial market infrastructure

Insurance

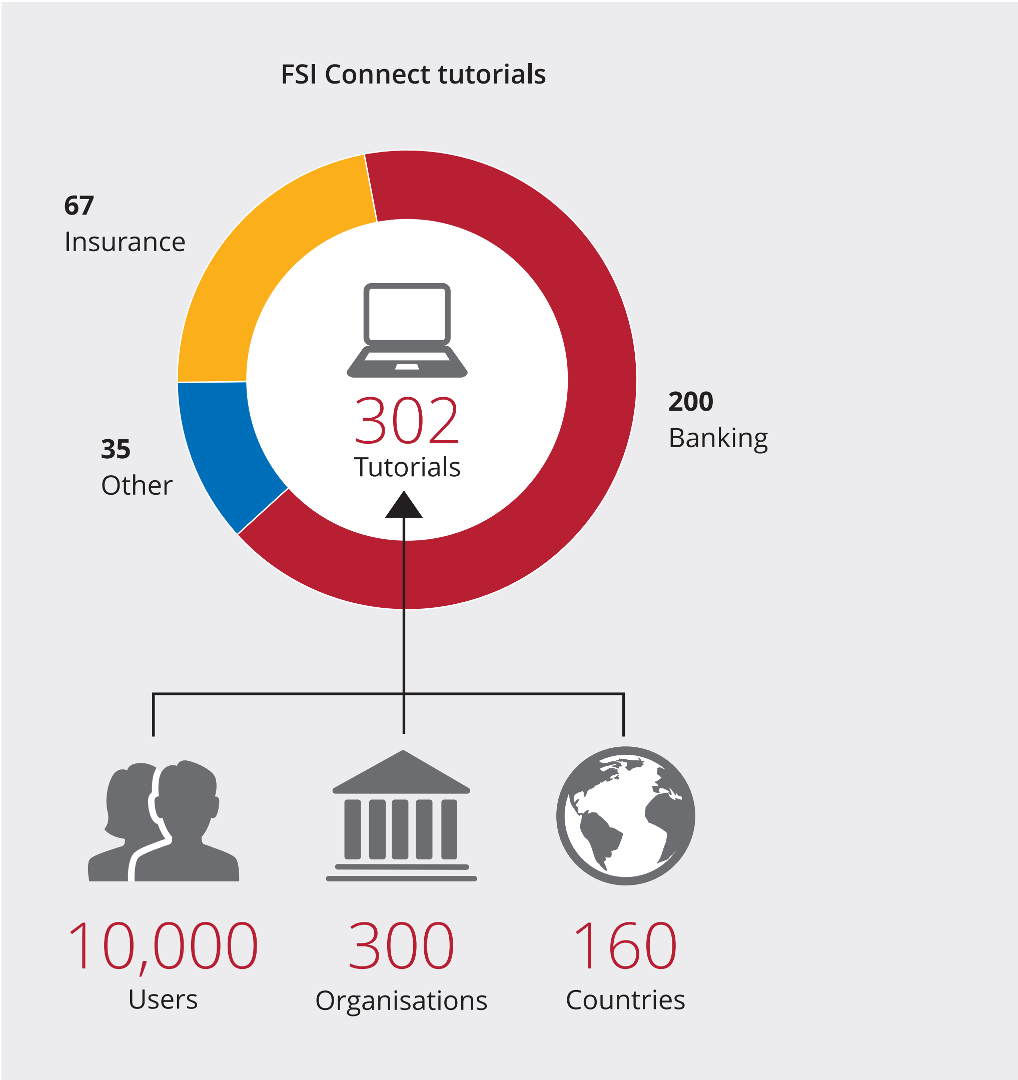
- Global insurance capital standards
- Risk management and risk-based supervision
- Regulating and supervising corporate governance
- Opportunities and risks arising from fintech

FSI Connect

FSI Connect is a web-based e-learning tool that covers mainly international financial regulatory standards and sound supervisory practices. It offers more than 300 tutorials to central banks and supervisory authorities worldwide.

In 2017/18, the FSI released close to 20 new and updated tutorials on topics such as margin requirements for non-centrally cleared derivatives, interest rate risk in the banking book, sound practices for managing operational and liquidity risks, prudential treatment of problem assets, policyholder protection schemes, systemic risk from an insurance perspective and resolution of global systemically important insurers.

More about the FSI at www.bis.org/fsi.



2

Collaborative activities

The BIS promotes international cooperation among monetary and financial authorities by offering them a forum for discussion and a platform for cooperation. In this role, the Bank provides support to a number of committees and international associations located at the BIS in their efforts to promote global economic stability and financial resilience. In addition, the Bank participates in international forums and contributes to regional initiatives related to monetary and financial stability.

BIS committees

Basel Committee on Banking Supervision

The Basel Committee on Banking Supervision (BCBS) is the primary global standard setter for the prudential regulation of banks and provides a forum for regular cooperation on banking supervisory matters. Its 45 members comprise central banks and bank supervisors from 28 jurisdictions. Chaired by Stefan Ingves, Governor of Sveriges Riksbank, the BCBS consists of senior representatives of banking supervisory authorities and central banks responsible for banking supervision or financial stability in the Committee's member jurisdictions.

The Basel Committee reports to the Group of Central Bank Governors and Heads of Supervision (GHOS) as its oversight body and seeks its endorsement for major decisions and strategic priorities. Currently chaired by Mario Draghi, President of the ECB, the GHOS consists of central bank governors and non-central bank heads of supervision from BCBS member jurisdictions. The GHOS directs the Committee's work in accordance with its mandate, monitors the BCBS work programme and provides operational guidance.

Basel III: finalisation of the post-crisis regulatory reforms

The Basel III framework is a central element of the Basel Committee's response to the global financial crisis. It addresses shortcomings of the pre-crisis regulatory framework and provides a regulatory foundation for a strong banking system that supports the real economy. The final phase of the post-crisis reforms was published in December 2017.

These reforms will make banks more resilient and restore confidence in the banking system. One of their key objectives is to reduce excessive variability of risk-weighted assets (RWA), an estimate of risk that determines the minimum level of regulatory capital a bank must maintain to deal with unexpected losses (from both on-balance sheet assets and off-balance sheet exposures). Four important components of the reforms are described on the next page.

From left to right: Stefan Ingves, Chair of the BCBS; Mario Draghi, Chair of the GHOS; and William Coen, Secretary General of the BCBS.

Enhancing robustness and risk sensitivity

The BCBS has revised the standardised approaches for calculating credit risk, credit valuation adjustment (CVA) risk and operational risk capital requirements. These approaches, which are used by the majority of banks around the world, are now more robust and risk-sensitive and, in the case of credit risk, rely less on external credit ratings.

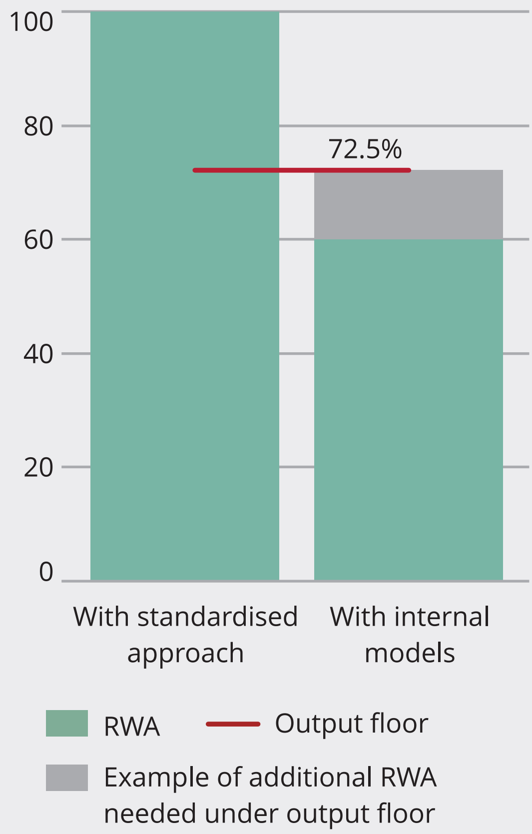
Limiting the use of internally modelled approaches

These reforms address shortcomings highlighted by the financial crisis in the use of internally modelled approaches for regulatory capital, including excessive complexity, a lack of comparability in banks' capital requirements and a lack of robustness in modelling certain asset classes. The revised framework removes the option to use the advanced internal ratings-based approach for certain asset classes, and/or adopts floors for model inputs such as probabilities of default and loss-given-default to ensure a minimum level of conservatism in model parameters. To reduce RWA variability, it also specifies in more detail the practices that banks may use to estimate model parameters. In addition, the internally modelled approaches for CVA risk and operational risk have been removed.

A more robust, risk-sensitive output floor

The output floor limits the amount of capital benefit a bank can obtain from its use of internal models, relative to using the standardised approaches. Banks' calculations of RWA generated by internal models cannot, in aggregate, fall below 72.5% of the RWA computed by the standardised approaches.

The output floor at work



Leverage ratio buffer for global systemically important banks (G-SIBs)

A leverage ratio buffer for G-SIBs has been introduced to maintain the relative incentives between the risk-based and leverage ratio capital requirements. This buffer must be met with Tier 1 capital and is set at 50% of a G-SIB's risk-weighted higher loss absorbency requirement.

As part of its ongoing work to support supervisors in the effective supervision of banks, the BCBS published guidelines and sound practices on asset quality, mitigating step-in risk (whereby systemic risks stemming from financial distress in shadow banking entities spread to banks) and the implications of fintech for the banking industry and the activities of supervisors. The BCBS also revised its guidelines on the sound management of risks related to money laundering and the financing of terrorism as part of a broader initiative by the international community to assess and address the decline in correspondent banking.

The BCBS continued to actively monitor the implementation of its standards by banks and supervisors, including several peer reviews. Its targeted policy development, outside the finalisation of the Basel III reforms, included consideration of revisions to market risk capital requirements, the securitisation framework and its Pillar 3 disclosure requirements, as well as the publication of a discussion paper on the treatment of sovereign exposures.

More information about the Basel Committee at www.bis.org/bcbs.

Committee on Payments and Market Infrastructures

The Committee on Payments and Market Infrastructures (CPMI) is a global standard-setting body that promotes the safety and efficiency of payment, clearing, settlement and reporting systems and other market infrastructures. The CPMI also serves as a forum for central banks to monitor and analyse developments and cooperate in related oversight, policy and operational matters, including the provision of central bank services. Chaired by Benoît Cœuré, a member of the ECB's Executive Board, the CPMI comprises senior officials from 28 central banks.

"General purpose central bank digital currencies could revolutionise the way money is provided and the role of central banks … but these are uncharted waters, with potential risks."

Benoît Cœuré
Chair, Committee on Payments and Market Infrastructures

Digital currencies

In 2017/18, the CPMI assessed issues related to central bank digital currencies and the potential implications of distributed ledger technology for central bank payment, clearing and settlement services. As part of this work, the CPMI hosted an industry workshop on central bank digital currencies (CBDCs) in October 2017.

Key design features of central bank money

	Existing central bank money		Central bank digital currencies		
	Cash	Reserves and settlement balances	General purpose token	General purpose accounts	Wholesale-only token
24/7 availability	✓	✗	✓	(✓)	(✓)
Anonymity vis-à-vis central bank	✓	✗	(✓)	✗	(✓)
Peer-to-peer transfer	✓	✗	(✓)	✗	(✓)
Interest-bearing	✗	(✓)	(✓)	(✓)	(✓)
Limits or caps	✗	✗	(✓)	(✓)	(✓)

✓ = existing or likely feature (✓) = possible feature ✗ = not typical or possible feature

Source: Committee on Payments and Market Infrastructures, *Central bank digital currencies*, March 2018.

An initial joint analysis of CBDCs by the CPMI and the Markets Committee was published in March 2018. The report looks at two types of CBDC: a wholesale currency limited to selected financial institutions, and a general purpose currency accessible to the public. The report analyses the implications for three core central banking areas: payments, monetary policy implementation and financial stability. The analysis reflects initial thinking in this rapidly evolving area as a starting point for discussion and further research. It also highlights that issuance of a CBDC requires careful consideration.

Cyber-resilience and payments security

The joint CPMI-International Organization of Securities Commissions (IOSCO) working group on cyber-resilience has been monitoring the implementation of the *Guidance on cyber resilience for financial market infrastructures* ("Cyber Guidance") and engaging with the industry on cyber-resilience. Financial market infrastructures are expected to take immediate steps, with relevant stakeholders, to improve their cyber-resilience and develop plans to meet the recovery time objectives set out in the Cyber Guidance.

Additionally, responding to the increasing threat of wholesale payments fraud, the CPMI published in September 2017 a consultative discussion note that laid out a strategy to strengthen the security of wholesale payments. The strategy sets out key elements designed to address all areas relevant to preventing, detecting, responding to and communicating about wholesale payments fraud, and calls upon all relevant public and private sector stakeholders to take a holistic and coordinated approach. In the light of industry input received in the consultation process, the CPMI finalised the strategy in 2018 and is promoting its operationalisation.

Global standard-setting work

Throughout the year, the CPMI, together with IOSCO, continued to work as a global standard setter for financial market infrastructures in a wide range of areas, notably further strengthening central counterparties' resilience and recovery, promoting and monitoring the implementation of the *Principles for financial market infrastructures*, and supporting the harmonisation of OTC derivatives data.

More information about the Committee on Payments and Market Infrastructures at www.bis.org/cpmi.

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 for financial stability and central bank policy. It is chaired by William C Dudley, President of the Federal Reserve Bank of New York, and comprises 23 member central banks.

William C Dudley
Chair of the CGFS

Monitoring vulnerabilities

In the past year, the CGFS examined the level and volatility of asset prices against an improving macroeconomic backdrop, the ongoing and prospective normalisation of monetary policy and rising geopolitical risks. Members also discussed financial vulnerabilities related to high valuations in residential property markets and high household indebtedness, as well as the likely impact on market functioning of the rising share of passive asset management.

Fintech credit

A report on fintech credit, published jointly by the CGFS and the Financial Stability Board in May 2017, explores the credit activity facilitated by electronic platforms. Although small relative to traditional intermediaries, the expansion of fintech credit could entail both financial stability benefits and risks in the future, including access to alternative funding sources in the economy and efficiency pressures on incumbent banks. Under some circumstances, it could bring about a weakening of lending standards and intensify the procyclicality of credit supply.

Repo market functioning

A report on repo market functioning analysed changes in the availability and cost of repo financing driven by accommodative monetary policies and regulatory reforms, which have affected the demand for repo liquidity and the capital costs of repo intermediation. From the perspective of repo markets, the balance between the costs and the benefits of these changes is unclear and differs across jurisdictions. Market participants and central banks are in the process of implementing adaptations that will require time to mature.

Post-crisis structural changes in banking

A CGFS report on structural changes in the banking sector after the crisis finds that banks have strengthened their balance sheet and funding resilience, in line with the aims of regulatory reforms, while there are no signs of any restrictions in credit provision. In response to post-crisis operating conditions, banks are cutting costs and making structural adjustments that warrant authorities' attention and, on occasion, facilitation.

More information about the Committee on the Global Financial System at www.bis.org/cgfs.

Markets Committee

The Markets Committee is a forum where senior central bank officials discuss current market conditions, market functioning and monetary operations. With a membership of 21 central banks, the Committee is chaired by Jacqueline Loh, Deputy Managing Director at the Monetary Authority of Singapore.

Jacqueline Loh
Chair of the Markets Committee

Central bank digital currencies

The Markets Committee produced a report on central bank digital currencies jointly with the CPMI (see page 35).

FX Global Code of Conduct

A milestone was the completion and launch of the FX Global Code of Conduct in May 2017, which is now collectively owned and maintained by the Global Foreign Exchange Committee (GFXC). This was the culmination of a two-year collaborative initiative between central banks and private sector market participants worldwide under the auspices of the Markets Committee.

The Code is voluntary and covers important areas including ethics, governance, execution, information-sharing, risk management and compliance, as well as confirmation and settlement. Since the launch of the Code, the GFXC has focused on promoting the adherence by market participants, in both the private and public sectors. Going forward, the GFXC will regularly assess the need to update the Code in response to evolving market practices.

Workshops

In addition to its regular meetings, the Markets Committee organised two workshops. In April 2017, it sponsored a workshop at the Bank of England on market intelligence-gathering at central banks. In January 2018, the Committee held a workshop on monitoring fast-paced electronic FX markets, with representatives from the private sector. The event also provided useful insights to inform ongoing work by the Committee on the monitoring of these markets by central banks.

More information about the Markets Committee at www.bis.org/markets.

Central Bank Governance Group

The Central Bank Governance Group is a venue for Governors to exchange views on the design and operation of their institutions. The focus is on central banks' institutional and organisational arrangements, including the choice of functions, decision-making structures, independence and accountability. The group comprises nine Governors and is currently chaired by Veerathai Santiprabhob, Governor of the Bank of Thailand, who succeeded Stefan Ingves, Governor of Sveriges Riksbank, after he stepped down as Chair of the Group in November 2017.

Veerathai Santiprabhob
Chair of the Central Bank Governance Group

Discussions are based on information collected through the Central Bank Governance Network, comprising almost 50 of the BIS member central banks. This and other information is made available to central bank officials, while selected examples of this research are published.

The information and insights provided by the Group's discussions are disseminated within the central bank community, helping central banks assess the effectiveness of their own arrangements and gain insights into the alternatives available.

Discussions

The Group convened during several BIS bimonthly meetings to discuss, among other topics, the mechanisms that legislatures use to oversee the central bank and hold it to account, decision-making on information technologies used by the central bank, and changing institutional arrangements for conducting financial stability policy.

More information about the Central Bank Governance Group at www.bis.org/cbgov.

Irving Fisher Committee on Central Bank Statistics

The Irving Fisher Committee on Central Bank Statistics (IFC) is a forum where central bank economists and statisticians address statistical topics related to monetary and financial stability. Governed by the BIS member central banks, it is hosted by the BIS and associated with the International Statistical Institute (ISI). The IFC has 89 institutional members, including almost all BIS member central banks, and is currently chaired by Claudia Buch, Vice President of the Deutsche Bundesbank.

Claudia Buch
Chair of the IFC

Seminars and publications

The IFC organised several activities with the support of its member central banks and a number of international organisations. A key event was the ISI's 61st World Statistics Congress, during which the IFC sponsored several sessions. With the Bank of Morocco and the Center for Latin American Monetary Studies, the IFC also co-organised a seminar on the data and policy aspects of financial inclusion and, with the National Bank of Belgium, a workshop on macroprudential data needs.

In addition, the IFC issued five bulletins on issues relevant to the central banking statistical community, including data collection for macroprudential analysis, micro balance sheet data, and "big data" in central banks.

Closing data gaps

The IFC has been working on the G20-endorsed international Data Gaps Initiative to enhance economic and financial statistics, especially in the areas of data-sharing, sectoral financial accounts, cross-border exposures and external sector statistics, and international data cooperation and communication. Last year, the IFC continued to monitor central banks' data exchange processes. It also surveyed their access to trade repository data, with an emphasis on challenges faced in collecting, processing, disseminating and using derivatives information.

More information about the Irving Fisher Committee at www.bis.org/ifc.

International associations at the BIS

The following associations have secretariats at the BIS, but have their own separate legal identity and governance structure, reporting to their members. The BIS is a member of the FSB and the IAIS.

Financial Stability Board

The Financial Stability Board (FSB) promotes international financial stability by coordinating national financial authorities and international standard-setting bodies as they develop regulatory, supervisory and other policies. It fosters a level playing field by encouraging coherent implementation of these policies across sectors and jurisdictions. The FSB is chaired by Mark Carney, Governor of the Bank of England.

More information about the FSB and its Annual Report at www.fsb.org.

International Association of Deposit Insurers

The International Association of Deposit Insurers (IADI) is the global standard-setting body for deposit insurance systems. It contributes to the stability of financial systems by advancing standards and guidance for effective deposit insurance systems and by promoting international cooperation among deposit insurers, bank resolution authorities and other safety net organisations. The President and Chair of IADI's Executive Council is Katsunori Mikuniya, Governor of the Deposit Insurance Corporation of Japan.

More information about the IADI and its Annual Report at www.iadi.org.

International Association of Insurance Supervisors

The International Association of Insurance Supervisors (IAIS) is the global standard-setting body for the insurance sector. Its mission is to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders and to contribute to global financial stability. The IAIS Executive Committee is chaired by Victoria Saporta, Executive Director of the Prudential Policy Directorate at the Bank of England.

More information about the IAIS and its Annual Report at www.iaisweb.org.

Other areas of international cooperation

The BIS participates in international forums such as the G20 and collaborates with key international financial institutions such as the International Monetary Fund and the World Bank Group. It also contributes to the activities of central banks and regional central bank organisations by participating in their events as well as hosting joint events.

During the past year, the Bank co-organised events or collaborated with the following regional organisations:

AMF
Arab Monetary Fund

ASBA
Association of Supervisors of Banks of the Americas

ASEAN
Association of Southeast Asian Nations

ASSAL
Association of Latin American Insurance Supervisors

BSCEE
Group of Banking Supervisors from Central and Eastern Europe

BSWCA
Banking Supervisors of West and Central Africa

CEMLA
Center for Latin American Monetary Studies

CGBS
Caribbean Group of Banking Supervisors

EBA
European Banking Authority

EMEAP
Executives' Meeting of East Asia-Pacific Central Banks

ESE
European Supervisor Education Initiative

GCC
Gulf Cooperation Council – Committee of Banking Supervisors

GIFCS
Group of International Financial Centre Supervisors

IOSCO
International Organization of Securities Commissions

MEFMI
Macroeconomic and Financial Management Institute of Eastern and Southern Africa

SEACEN
South East Asian Central Banks

SEANZA
Central Banks of South East Asia, New Zealand and Australia

3

Financial results and profit allocation

The BIS balance sheet and financial results are mainly driven by the banking-related activities. In the course of such activities, the BIS undertakes financial transactions in its own name and on behalf of its customers, which are solely central banks, monetary authorities and international organisations. The Bank accepts deposits from customers, which it then invests along with its own equity.

Balance sheet

The BIS's balance sheet total as of 31 March 2018 was SDR 256.5 billion, representing an increase of SDR 14.3 billion over the year. This change was driven mainly by customer deposits.

Deposits, primarily from central banks, constitute the largest share of the Bank's liabilities.

Total deposits*

SDR 221.5 billion
31 March 2018

SDR 204.4 billion
31 March 2017

+ SDR 17.1 billion

Currency deposits*

SDR 211.7 billion
31 March 2018

SDR 194.4 billion
31 March 2017

+ SDR 17.2 billion

Gold deposits*

SDR 9.9 billion
31 March 2018

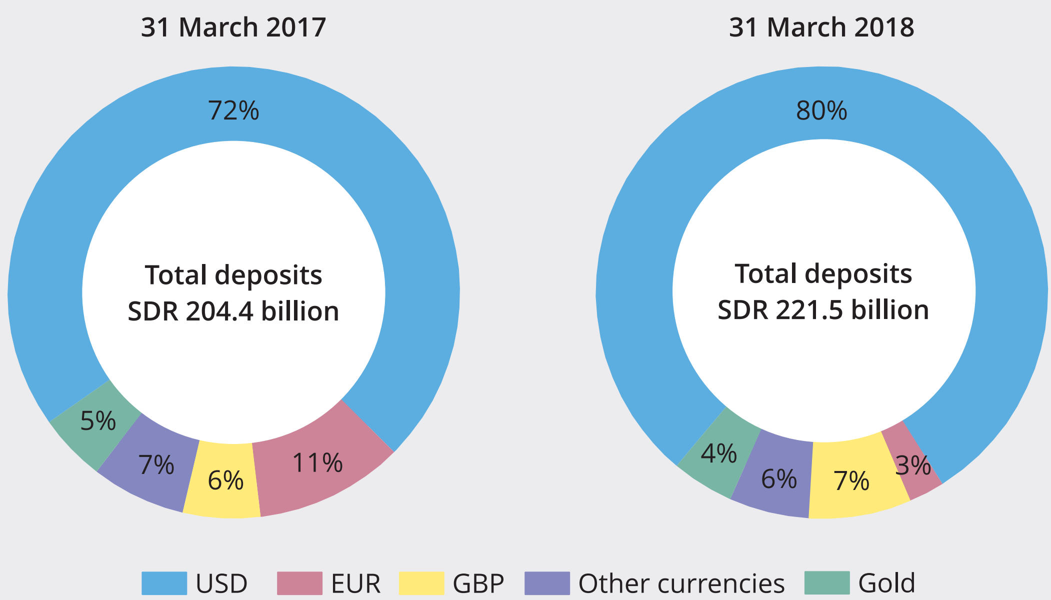
SDR 9.9 billion
31 March 2017

− SDR 0.1 billion

* Subject to rounding adjustments

The share of deposits denominated in US dollars increased, while the share in euros fell significantly.

Balance sheet deposit composition



Funds received from deposit liabilities are invested in assets that are managed conservatively.

Total assets

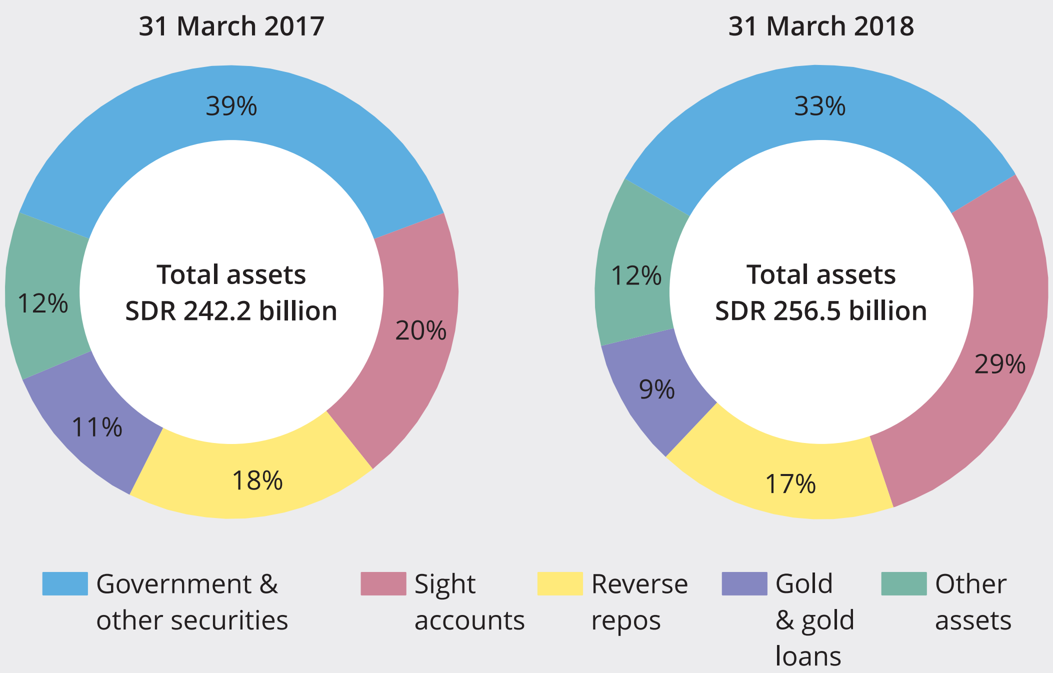
33%
Government securities (including treasury bills) and other securities

29%
Sight account balances (mainly at central banks)

17%
Reverse repurchase agreements (primarily with sovereign bonds as collateral)

9%
Gold and gold loans (including 102 tonnes in the Bank's own investment portfolio)

Balance sheet asset composition



Financial performance

Net profit

The net profit for 2017/18 was SDR 508 million, about one third below the exceptional level of profit in 2016/17 (SDR 828 million).

The change in net profit between 2016/17 and 2017/18 was driven by three main factors:

Net interest and valuation income

SDR 280 million lower

due mainly to lower net interest on the currency banking portfolios. The intermediation margin fell significantly, although it was high by historical norms.

Net foreign exchange movement

SDR 6 million loss

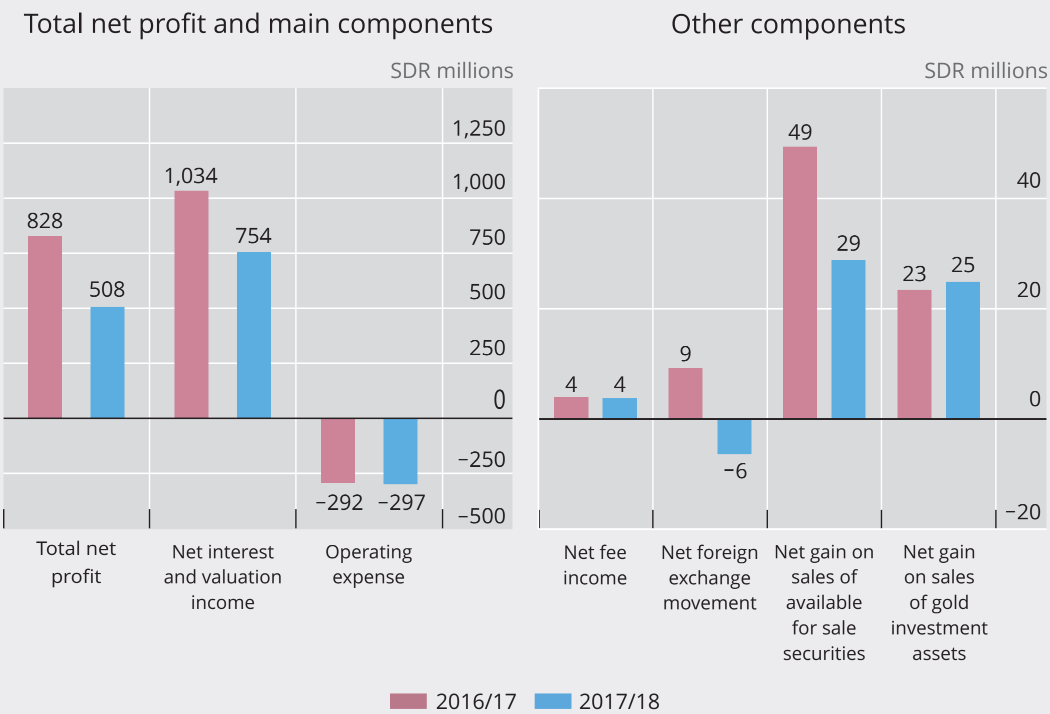
compared with a gain of SDR 9 million in 2016/17.

Net gain on sales of available for sale securities

SDR 21 million lower

due to the effects of the increase in the SDR bond yields. Gains on sales arise when portfolios are rebalanced to their benchmarks.

Net profit and its components



Total comprehensive income

The Bank's total comprehensive income for 2017/18 was SDR 426 million, down from SDR 839 million in 2016/17.

In addition to net profit, total comprehensive income includes three valuation changes:

Net movement on revaluation of available for sale securities

– SDR 172 million

from revaluation losses due to an increase in SDR bond yields along with the realisation of SDR 29 million of gains in profit.

Net movement on the revaluation of gold investment assets

– SDR 48 million

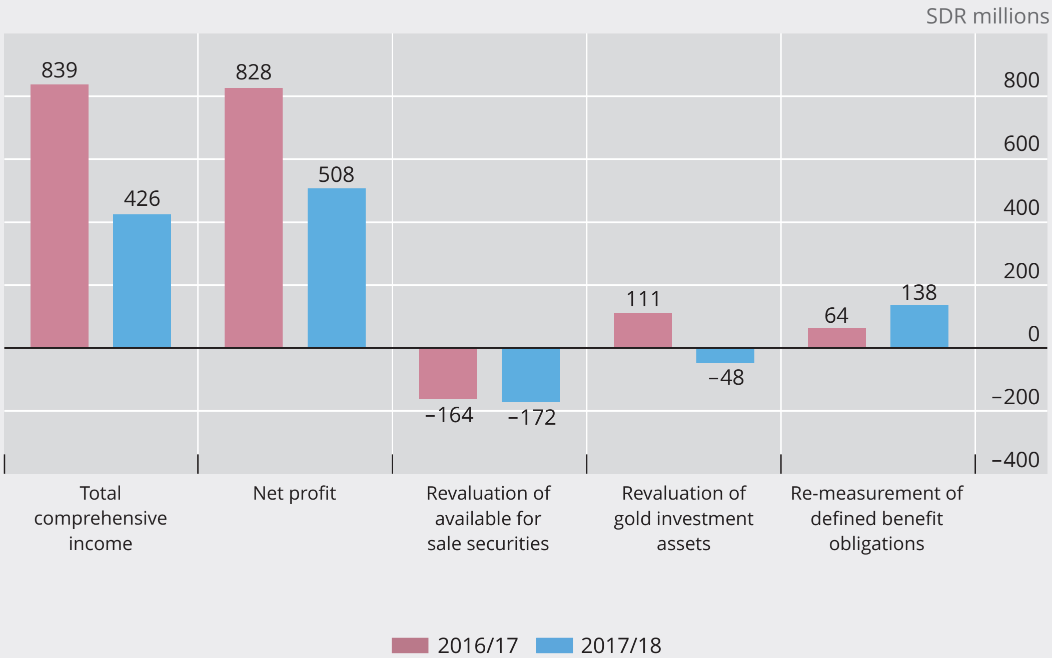
reflecting a 0.8% decline in the gold price, combined with the realisation of SDR 25 million of gains in profit.

Actuarial gains from re-measurement of post-employment defined benefit obligations

+ SDR 138 million

due to a lower actuarial valuation of the liabilities (resulting from an increase in the discount rates used), along with a gain on pension fund assets.

Total comprehensive income and its components



Allocation and distribution of profit

Proposed dividend

The dividend policy of the BIS has three fundamental principles:

- the Bank should maintain an exceptionally strong capital position;
- the dividend should be predictable, stable and sustainable; and
- the dividend should be an annual decision reflecting prevailing financial circumstances.

The policy incorporates a normal dividend, which usually increases by SDR 10 per share per annum. The dividend policy also allows for the possibility of a supplementary dividend in years when profits are high and the Bank's financial circumstances allow.

Consistent with the dividend policy, it is proposed to declare a normal dividend of **SDR 235 per share** for the **financial year 2017/18**, SDR 10 per share higher than in the previous year. This sum will be payable to **558,125 eligible shares** at a total cost of **SDR 131 million.**

Proposed allocation of net profit

In accordance with Article 51 of the BIS Statutes, the Board of Directors recommends that the Annual General Meeting allocate the 2017/18 net profit of SDR 508 million in the following manner:

SDR 131 million	SDR 19 million	SDR 358 million
to be paid as a **dividend of SDR 235 per share**	to be transferred to the **general reserve fund**	to be transferred to the **free reserve fund**

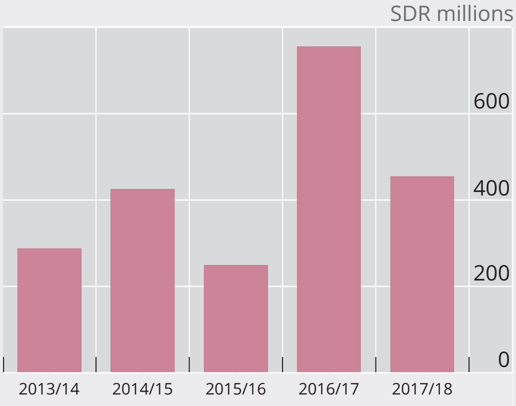
Independent auditor

The BIS financial statements for the year ended 31 March 2018, presented on pages 69–139, have been audited by Ernst & Young, which confirmed that they give a true and fair view of the Bank's financial position and of its financial performance and its cash flows for the year then ended. The audit report can be found on pages 140–41.

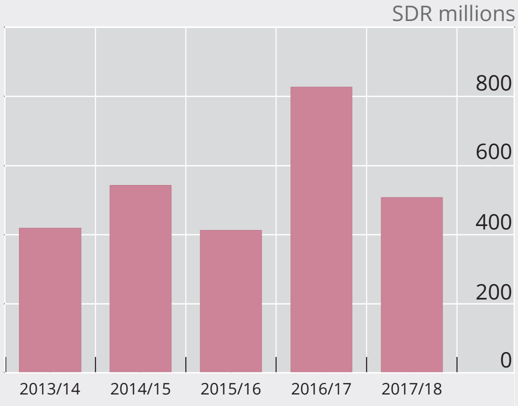
The Board policy is to rotate the auditor on a regular basis. The financial year ended 31 March 2018 was the sixth consecutive year of Ernst & Young's term as auditor. In accordance with Article 46 of the BIS Statutes, the Annual General Meeting is invited to elect an independent auditor for the ensuing financial year and to fix the auditor's remuneration.

Five-year graphical summary

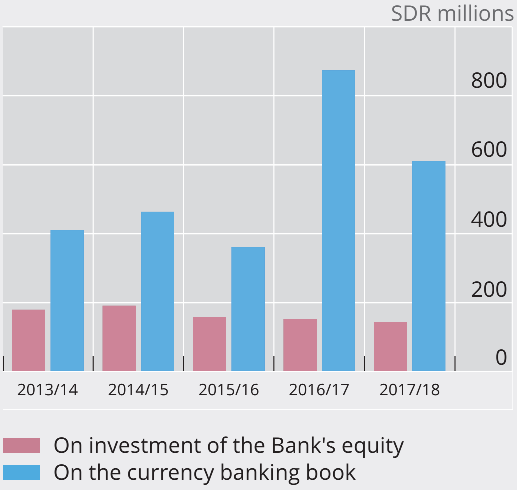
Operating profit



Net profit

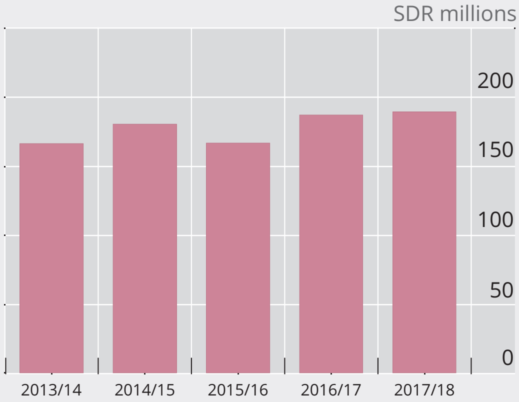


Net interest and valuation income



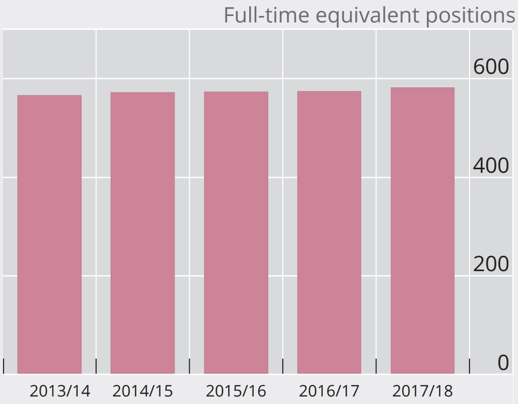
Average currency deposits

(settlement date basis)

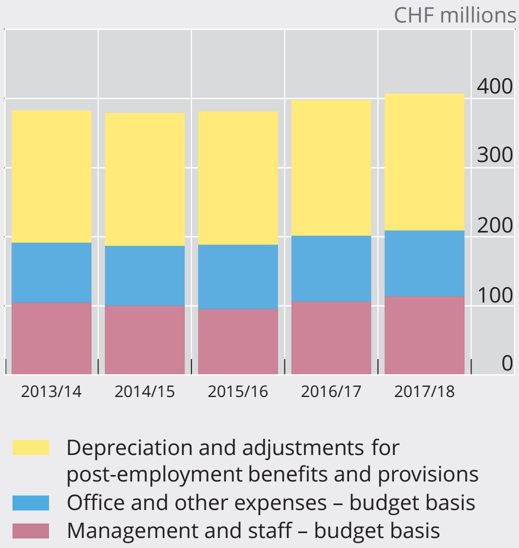


Average number of employees

(excluding hosted associations)



Operating expense



4

Governance and organisation

The governance of the BIS is exercised at three levels as determined by its Statutes: the General Meetings of member central banks, the Board of Directors and BIS Management. Each of these levels participates in the governance and decision-making related to the BIS activities in the areas of international cooperation, policy analysis, banking operations and resource management.

General Meetings

Sixty central banks and monetary authorities are currently members of the BIS, each having voting rights and representation at General Meetings. The BIS Annual General Meeting (AGM) is held within four months of the end of the financial year on 31 March. The AGM approves the Annual Report and the accounts of the Bank, decides on the distribution of a dividend and elects the Bank's auditor.

BIS member central banks

Bank of Algeria	Algeria
Central Bank of Argentina	Argentina
Reserve Bank of Australia	Australia
Central Bank of the Republic of Austria	Austria
National Bank of Belgium	Belgium
Central Bank of Bosnia and Herzegovina	Bosnia and Herzegovina
Central Bank of Brazil	Brazil
Bulgarian National Bank	Bulgaria
Bank of Canada	Canada
Central Bank of Chile	Chile
People's Bank of China	China
Bank of the Republic	Colombia
Croatian National Bank	Croatia
Czech National Bank	Czech Republic
Danmarks Nationalbank	Denmark
Bank of Estonia	Estonia
European Central Bank	Euro area
Bank of Finland	Finland
Bank of France	France
Deutsche Bundesbank	Germany
Bank of Greece	Greece
Hong Kong Monetary Authority	Hong Kong SAR
Magyar Nemzeti Bank	Hungary
Central Bank of Iceland	Iceland
Reserve Bank of India	India
Bank Indonesia	Indonesia
Central Bank of Ireland	Ireland
Bank of Israel	Israel
Bank of Italy	Italy
Bank of Japan	Japan
Bank of Korea	Korea

Bank of Latvia	Latvia
Bank of Lithuania	Lithuania
Central Bank of Luxembourg	Luxembourg
National Bank of the Republic of Macedonia	Macedonia, FYR
Central Bank of Malaysia	Malaysia
Bank of Mexico	Mexico
Netherlands Bank	Netherlands
Reserve Bank of New Zealand	New Zealand
Central Bank of Norway	Norway
Central Reserve Bank of Peru	Peru
Bangko Sentral ng Pilipinas	Philippines
Narodowy Bank Polski	Poland
Bank of Portugal	Portugal
National Bank of Romania	Romania
Central Bank of the Russian Federation	Russia
Saudi Arabian Monetary Authority	Saudi Arabia
National Bank of Serbia	Serbia
Monetary Authority of Singapore	Singapore
National Bank of Slovakia	Slovakia
Bank of Slovenia	Slovenia
South African Reserve Bank	South Africa
Bank of Spain	Spain
Sveriges Riksbank	Sweden
Swiss National Bank	Switzerland
Bank of Thailand	Thailand
Central Bank of the Republic of Turkey	Turkey
Central Bank of the United Arab Emirates	United Arab Emirates
Bank of England	United Kingdom
Board of Governors of the Federal Reserve System	United States

Board of Directors

The Board determines the Bank's strategic and policy direction, supervises BIS Management and fulfils specific tasks as set out in the Bank's Statutes. It meets at least six times a year. The Board elects a Chairman from among its members for a three-year term and may elect a Vice-Chairman. The current Chairman is Jens Weidmann, President of the Deutsche Bundesbank.

In line with Article 27 of the BIS Statutes, the Board may have up to 21 Directors. These include six ex officio Directors (the central bank Governors of Belgium, France, Germany, Italy, the United Kingdom and the United States), who may each appoint another Director of the same nationality. Nine Governors of other member central banks may also be elected to the Board. In addition, one member of the Economic Consultative Committee serves as an observer to BIS Board meetings on a rotating basis.

Composition of the Board

As of May 2018; includes one rotational observer

Chairman: Jens Weidmann, Deutsche Bundesbank, Frankfurt am Main

Mark Carney, Bank of England, London

Jon Cunliffe, Bank of England, London

Alejandro Díaz de León, Bank of Mexico, Mexico City

Andreas Dombret, Frankfurt am Main

Mario Draghi, European Central Bank, Frankfurt am Main

William C Dudley, Federal Reserve Bank of New York, New York

Ilan Goldfajn, Central Bank of Brazil, Brasília

Stefan Ingves, Sveriges Riksbank, Stockholm

Thomas Jordan, Swiss National Bank, Zurich

Klaas Knot, Netherlands Bank, Amsterdam

Haruhiko Kuroda, Bank of Japan, Tokyo

Fabio Panetta, Bank of Italy, Rome

Urjit R Patel, Reserve Bank of India, Mumbai

Stephen S Poloz, Bank of Canada, Ottawa

Jerome H Powell, Board of Governors of the Federal Reserve System, Washington DC

Jan Smets, National Bank of Belgium, Brussels

François Villeroy de Galhau, Bank of France, Paris

Ignazio Visco, Bank of Italy, Rome

Pierre Wunsch, National Bank of Belgium, Brussels

Yi Gang, People's Bank of China, Beijing

Advisory committees

Four advisory committees assist the Board:

- **Administrative Committee**: reviews key areas of the Bank's administration, such as budget and expenditures, human resources policies and information technology. Chaired by Haruhiko Kuroda.
- **Audit Committee**: meets with internal and external auditors and the Compliance unit. It examines matters related to the Bank's internal control systems and financial reporting. Chaired by Stephen S Poloz.
- **Banking and Risk Management Committee**: reviews and assesses the Bank's financial objectives, its business model for banking operations and its risk management frameworks. Chaired by Stefan Ingves.
- **Nomination Committee**: deals with the appointment of members of the BIS Executive Committee. Chaired by Jens Weidmann.

Changes in the Board

Agustín Carstens left the Board in November 2017 to become General Manager of the BIS. In December, Anne Le Lorier left the Board when she retired as First Deputy Governor of the Bank of France. Mark Carney, Governor of the Bank of England, appointed Jon Cunliffe, Deputy Governor of the Bank of England, as a BIS Director with effect from January until end-2018. In February 2018, Janet Yellen stepped down as Chair of the Board of Governors of the Federal Reserve System, and therefore also from the Board. Her successor, Jerome H Powell, took up his ex officio seat on the Board on 3 February. Zhou Xiaochuan left the Board in March, after stepping down as Governor of the People's Bank of China. In May, the Board elected Yi Gang, Governor of the People's Bank of China, and Alejandro Díaz de León, Governor of the Bank of Mexico, as Board members for a period of three years.

Board remuneration

The AGM approves the remuneration of board members of the Board of Directors, with adjustments taking place at regular intervals. The total fixed annual remuneration paid to the Board was CHF 1,125,676 as of 1 April 2018. Board members also receive an attendance fee for each Board meeting in which they participate. Assuming that the full Board is represented in all Board meetings, the annual total of these attendance fees amounts to CHF 1,072,080.

Changes to the BIS Statutes regarding Board composition

At the 2017 AGM, the BIS announced changes to its Statutes to allow for greater flexibility in the Board's composition. The changes will become effective on 1 January 2019.

- The **total number of Directors** will be reduced from 21 to 18 to enhance the functioning of the Board.
- The six **ex officio Directors** will agree on the appointment of one Director – instead of six – from one of their nationalities.
- The number of **elected Directors** will be raised from nine to 11, enhancing the flexibility the BIS has to compose the Board.

BIS Management

BIS Management is directed by the General Manager, who is responsible to the Board of Directors for the conduct of the Bank. The General Manager is assisted by the Deputy General Manager and advised by the Executive Committee.

The Executive Committee is chaired by the General Manager and includes the Deputy General Manager, the Heads of the three BIS departments (the General

General Manager
Agustín Carstens

Deputy General Manager
Luiz Awazu Pereira da Silva

Secretary General
Monica Ellis

Head of Banking Department
Peter Zöllner

Head of Monetary and Economic Department
Claudio Borio

Economic Adviser and Head of Research
Hyun Song Shin

Changes in Management

On 31 November 2017, Jaime Caruana retired as General Manager, and Agustín Carstens' appointment as General Manager became effective on 1 December 2017. Stijn Claessens was appointed Deputy Head of the Monetary and Economic Department with effect from 1 March 2018 for a five-year term, replacing Dietrich Domanski, who became Secretary General of the Financial Stability Board.

Secretariat, the Banking Department and the Monetary and Economic Department), the Economic Adviser and Head of Research, and the General Counsel.

Other BIS senior officials are the Deputy Heads of the departments, the Chairman of the Financial Stability Institute and the Head of Risk Management.

General Counsel
Diego Devos

Deputy Head of
Banking Department
Jean-François Rigaudy

Deputy Secretary General
Bertrand Legros

Deputy Head of Monetary
and Economic Department
Stijn Claessens

Chairman of Financial
Stability Institute
Fernando Restoy

Head of Risk Management
Jens Ulrich

Senior management remuneration

The salaries of senior officials are regularly benchmarked against compensation in comparable institutions and market segments. As of 1 July 2017, their annual remuneration, before expatriation and other allowances, is based on the salary structure of CHF 713,950 for the General Manager, CHF 604,110 for the Deputy General Manager and CHF 549,190 for Heads of Department. In addition, the General Manager receives an annual representation allowance and enhanced pension rights.

Organisation

The BIS has three main departments. Two of these encompass the two principal activities of the Bank – economic research and banking – while the third provides general internal support.

The **Monetary and Economic Department** undertakes research and analysis to shape the understanding of policy issues concerning central banks, provides committee support and organises key meetings of senior central bankers and other officials in charge of financial stability.

The **Banking Department** provides a range of financial services to support central banks in the management of their foreign exchange and gold reserves and invests the BIS's own capital.

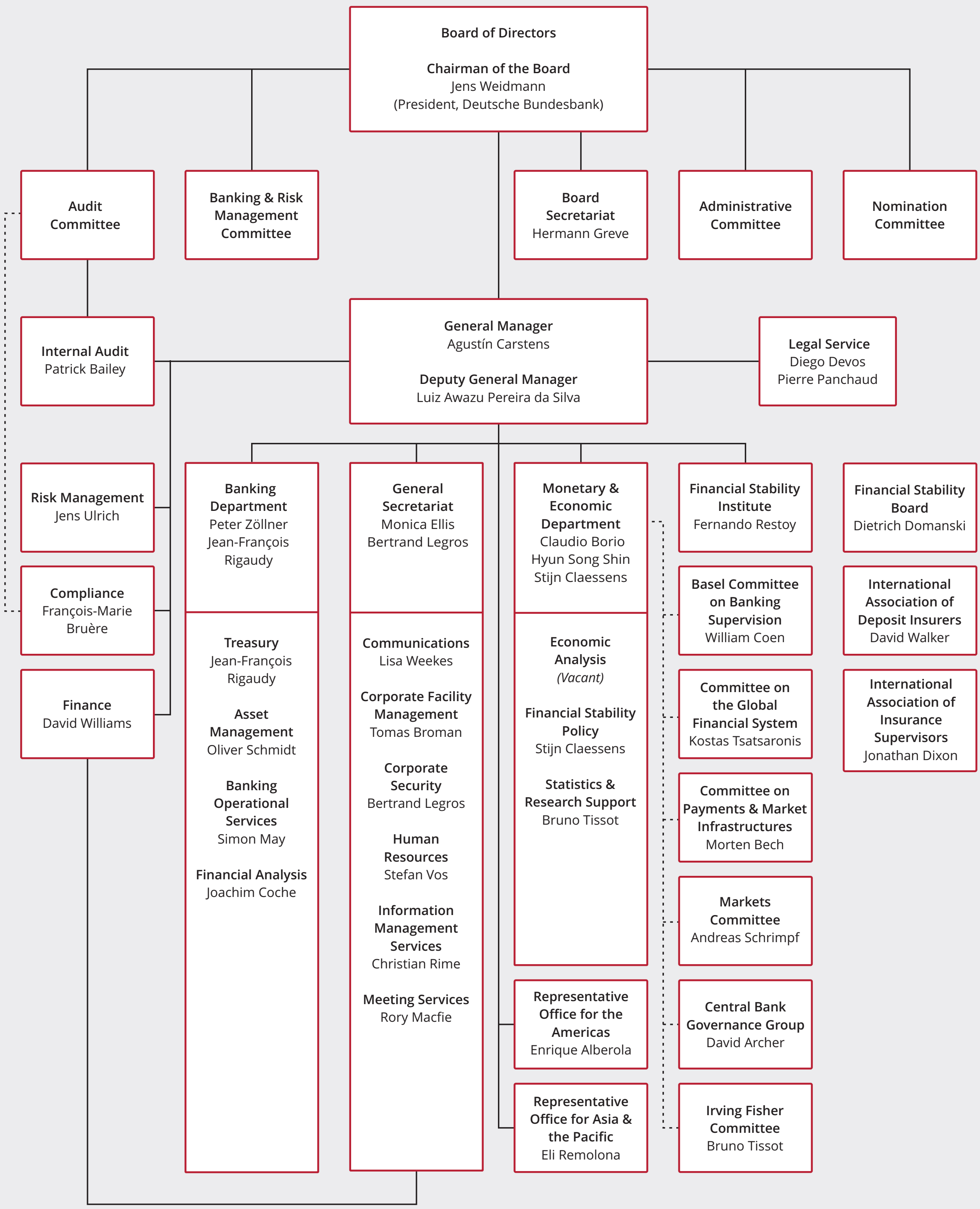
The **General Secretariat** provides the organisation with comprehensive corporate services in the areas of IT, human resources, communications, finance, facilities management, security and meeting services.

The BIS is further supported by the Legal Service and the Risk Management, Internal Audit and Compliance units. In addition, the BIS's Financial Stability Institute promotes the implementation of global regulatory standards and sound supervisory practices worldwide.

The BIS has two representative offices: one for Asia and the Pacific (the Asian Office), located in Hong Kong SAR, and one for the Americas (the Americas Office), located in Mexico City. The Offices promote cooperation and foster the exchange of information within each region and contribute to the Bank's outreach efforts. They also conduct economic research and analysis. In addition, the Asian Office provides financial services to the central banks and monetary authorities in the region.

A number of international groups engaged in the pursuit of financial stability have their secretariats at the BIS (see Section 2).

Organisation of the BIS as at 31 March 2018



Staff

The Bank's employees are its greatest asset. BIS staff have expertise in finance, banking, risk management, international law, monetary and financial economics, and statistics, among other fields.

The BIS is a small and diverse organisation. As of 31 March 2018, the Bank employed 608 staff members (equivalent to 585 full-time positions; see graph on page 49), excluding hosted associations. Its modest size encourages collaboration and knowledge-sharing both inside and outside the institution.

608

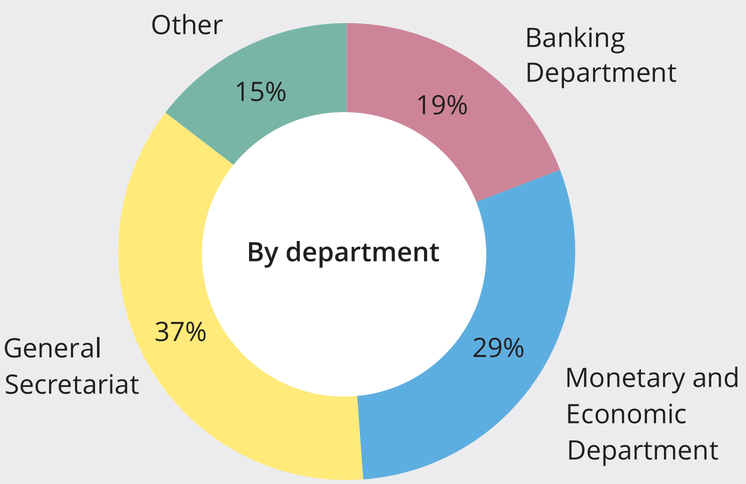
Staff members

(March 2018)

40% **Female**

60% **Male**

60 **Nationalities**



Meet our people

David
Head of Cyber Security, Corporate Security

"It has been particularly exciting for me to help organise the Bank's first cyber-security seminar, an event that brought together almost 80 delegates from 50 central banks. The goal of the seminar was to provide a forum for the central banking community to share in-depth knowledge and insights on a variety of cyber-security subjects with the overall aim to strengthen cyber-security defences.

"The seminar spanned two and a half days and featured a number of internal and external expert speakers who spoke on a variety of themes including the evolving cyber-threat landscape, emerging technology, best practice for IT security controls, as well as the SWIFT Customer Security Programme.

"I particularly enjoyed the breakout sessions, designed to address the cyber security challenges the participants all face on a day-to-day basis. These small, topic-focused sessions not only generated meaningful discussions but also allowed participants to share experiences and best practices, and to network."

Sandra
Senior Business Analyst, Communications

"We have recently redesigned the BIS website and introduced some major improvements, like easier access to publications (also for mobile users) through enhanced navigation and filtering options. For example, a new time line widget now makes it easier for our visitors to browse through the life cycle of Basel Committee publications.

"This particular project was unique in that our target audience (researchers, journalists and central bankers) was included in the project as part of the user experience research activities. This was a significant step towards making the website more user-centric. The inclusion of different business areas also played a key role in helping to shape the new pages. Everyone was incredibly helpful during this process, as we went through numerous rounds to review and update the content. This would not have been possible without them."

Kumar
Credit Analyst, Risk Management

"I work with the Credit Analysis team in our Risk Management unit. Our team is responsible for credit risk evaluations of commercial counterparties and the Bank's investments. In practice, this means that we help to implement the Bank's credit risk appetite by proposing internal credit ratings and credit limits. Closely collaborating with our front office colleagues in the Banking Department, our main responsibility is to try to balance the Bank's risk-reward trade-off.

"On a normal day, this involves fundamental credit analysis and monitoring market developments. Occasionally there are periods of market stress or a credit event, which require a rapid response. This is when things get interesting as we must quickly evaluate our exposures and recommend remedial action. At times, this involves animated conversations on risk perceptions with a plurality of views. For me, the ability to get into such engaging conversations is one of the things that makes working for the BIS interesting."

Ulrike
Senior Asset Management Specialist, Banking Department

"I have contributed to the launch of a Corporate Bond Investment Pool (BISIP Y). This is an open-ended collective investment fund that includes environmental, social and governance (ESG) factors as investment parameters. Our goal with this fund is to help central banks diversify their foreign exchange reserves into global corporate bonds, while responding to their growing interest in sustainable investments.

"ESG factors have been gaining attention in recent years as investors, regulators and asset managers increasingly recognise that ESG issues, such as climate change, health and safety considerations, and corporate governance are a signal of a company's long-term sustainability and influence its long-term risk-adjusted return. This fund is among a number of initiatives that the BIS is supporting to promote and increase transparency in the area of sustainable investments. Another example is the introduction of green bonds in the BIS investments, joining forces with a growing number of institutional investors who are promoting environmentally friendly developments."

Bilyana
Senior Research Analyst, Monetary and Economic Department

"As part of a team of 25 Research Analysts, I contribute to background notes for the BIS bimonthly meetings of central bankers, to regular publications, such as the *Annual Economic Report* and the *BIS Quarterly Review*, as well as BIS research papers. Part of our team supports the Basel Committee on Banking Supervision's quantitative impact studies (QIS), monitoring the impact of the new regulatory framework (Basel III).

"This year has been quite dynamic and challenging for us, as we faced exposure to new micro-level databases and, hence, discovered new econometric models and tools. We worked in close collaboration with economists on topics such as monetary policy normalisation, digital currencies and technological innovation, regulation and bank business models. One special feature in the Quarterly Review in which I participated together with MED economists, titled 'The ABCs of bank PBRs', explored the drivers of bank price-to-book ratios. This was a very fruitful collaboration, as we have created a comprehensive and consistent multi-country data set. We also found a model that fits the data well across time and banks."

5

Financial statements

The BIS's financial statements for the financial year ended 31 March 2018 provide an analysis of the Bank's balance sheet and profit and loss account, together with other financial, capital adequacy and risk management disclosures. The financial statements are prepared in accordance with the Statutes and accounting policies of the Bank, and are externally audited.

Letter to shareholders

Submitted to the Annual General Meeting of the Bank for International Settlements held in Basel on 24 June 2018

Ladies and gentlemen

It is our pleasure to submit to you the financial statements of the Bank for International Settlements for the financial year ended 31 March 2018.

Pursuant to Article 49 of the Bank's Statutes, they are presented in a form approved by the Board of Directors on 7 May 2018 for presentation to the Annual General Meeting on 24 June 2018 and are subject to approval by the shareholders at the Annual General Meeting.

The net profit for the year amounted to SDR 508.1 million, compared with SDR 827.6 million for the preceding year. The Board of Directors proposes, in application of Article 51 of the Bank's Statutes, that the present Annual General Meeting apply the sum of SDR 131.2 million in payment of a dividend of SDR 235 per share, payable in any constituent currency of the SDR or in Swiss francs.

The Board further recommends that SDR 18.8 million be transferred to the general reserve fund and the remainder – amounting to SDR 358.1 million – to the free reserve fund.

If these proposals are approved, the Bank's dividend for the financial year 2017/18 will be payable to shareholders on 28 June 2018.

Basel, 12 June 2018

Agustín Carstens
General Manager

Luiz Awazu Pereira da Silva
Deputy General Manager

Contents

Balance sheet

As at 31 March

SDR millions	Note	2018	2017
Assets			
Cash and sight accounts	1	73,150.0	48,295.5
Gold and gold loans	2	23,429.6	27,276.0
Treasury bills	3	31,760.9	36,163.6
Securities purchased under resale agreements	3	44,112.9	43,929.9
Loans and advances	3	22,428.6	21,136.8
Governments and other securities	3	52,881.0	57,402.5
Derivative financial instruments	4	1,725.1	2,220.7
Accounts receivable and other assets	5	6,809.0	5,626.5
Land, buildings and equipment	6	192.3	196.9
Total assets		**256,489.4**	242,248.4
Liabilities			
Gold deposits	7	9,859.5	9,934.5
Currency deposits	8	211,665.6	194,442.4
Securities sold under repurchase agreements	9	2,095.0	1,418.6
Derivative financial instruments	4	3,138.5	1,823.5
Accounts payable	10	9,381.2	14,443.5
Other liabilities	11	994.0	1,088.7
Total liabilities		**237,133.8**	223,151.2
Shareholders' equity			
Share capital	13	698.9	698.9
Less: shares held in treasury	13	(1.7)	(1.7)
Statutory reserves	14	15,950.1	15,289.9
Profit and loss account		508.1	827.6
Other equity accounts	15	2,200.2	2,282.5
Total equity		**19,355.6**	19,097.2
Total liabilities and equity		**256,489.4**	242,248.4

Profit and loss account

For the financial year ended 31 March

SDR millions	Note	2018	2017
Interest income	16	3,352.7	2,521.0
Interest expense	17	(2,598.8)	(1,558.6)
Net interest income		**753.9**	962.4
Net valuation movement	18	0.3	71.5
Net interest and valuation income		**754.2**	1,033.9
Net fee and commission income	19	3.7	4.0
Net foreign exchange movement	20	(6.4)	9.2
Total operating income		**751.5**	1,047.1
Operating expense	21	(297.1)	(292.3)
Operating profit		**454.4**	754.8
Net gain on sales of available for sale securities	22	28.8	49.4
Net gain on sales of gold investment assets	23	24.9	23.4
Net profit		**508.1**	827.6

Statement of comprehensive income

For the financial year ended 31 March

SDR millions	Note	**2018**	2017
Net profit		**508.1**	827.6
Other comprehensive income			
Items either reclassified to profit and loss during the year, or that will be reclassified subsequently when specific conditions are met			
Net movement on revaluation of available for sale securities	15A	(171.7)	(163.6)
Net movement on revaluation of gold investment assets	15B	(48.1)	111.0
Items that will not be reclassified subsequently to profit and loss			
Re-measurement of defined benefit obligations	15C	137.5	63.6
		(82.3)	11.0
Total comprehensive income		**425.8**	838.6

Statement of cash flows

For the financial year ended 31 March

SDR millions	Note	**2018**	2017
Cash flow from / (used in) operating activities			
Interest and similar income received		1,232.7	2,063.9
Interest and similar expenses paid		(1,221.1)	(908.4)
Net fee and commission income	19	3.7	4.0
Net foreign exchange transaction gain	20	11.4	5.5
Administrative expense	21	(277.4)	(275.1)
Non-cash flow items included in operating profit			
Net valuation movement	18	0.3	71.5
Net foreign exchange translation movement	20	(17.8)	3.7
Change in accruals and amortisation		742.2	(192.2)
Change in operating assets and liabilities			
Currency deposit liabilities held at fair value through profit and loss		15,658.7	28,902.6
Currency banking assets		4,552.6	19,913.8
Sight and notice deposit account liabilities		(404.8)	(10,187.2)
Gold deposits		(75.0)	(293.1)
Gold and gold loans		3,793.5	(13,995.5)
Accounts receivable		(0.3)	0.8
Accounts payable and other liabilities		62.9	63.1
Net derivative financial instruments		1,810.6	(2,614.1)
Net cash flow from operating activities		**25,872.2**	22,563.3
Cash flow from / (used in) investment activities			
Net change in currency investment assets available for sale		(1,596.1)	(761.5)
Securities sold under repurchase agreements		686.2	733.4
Net change in gold investment assets		29.8	30.5
Capital expenditure	6	(15.1)	(18.4)
Net cash flow used in investment activities		**(895.2)**	(16.0)

SDR millions	Notes	2018	2017
Cash flow from / (used in) financing activities			
Dividends paid		(167.4)	(120.0)
Net cash flow used in financing activities		**(167.4)**	(120.0)
Total net cash flow		**24,809.6**	22,427.3
Net effect of exchange rate changes on cash and cash equivalents		2,041.8	(220.5)
Net movement in cash and cash equivalents		22,767.8	22,647.8
Net change in cash and cash equivalents		**24,809.6**	22,427.3
Cash and cash equivalents, beginning of year	1	**48,806.2**	26,378.9
Cash and cash equivalents, end of year	1	**73,615.8**	48,806.2

Movements in the Bank's equity

SDR millions	Note	Share capital	Shares held in treasury	Statutory reserves	Profit and loss	Other equity accounts: Defined benefit obligations	Other equity accounts: Gold and securities revaluation	Movement in total equity
Balance as at 31 March 2016		**698.9**	**(1.7)**	**14,997.0**	**412.9**	**(411.2)**	**2,682.7**	**18,378.6**
Payment of 2015/16 dividend		–	–	–	(120.0)	–	–	(120.0)
Allocation of 2015/16 profit		–	–	292.9	(292.9)	–	–	–
Total comprehensive income	15	–	–	–	827.6	63.6	(52.6)	838.6
Balance as at 31 March 2017		**698.9**	**(1.7)**	**15,289.9**	**827.6**	**(347.6)**	**2,630.1**	**19,097.2**
Payment of 2016/17 dividend		–	–	–	(167.4)	–	–	(167.4)
Allocation of 2016/17 profit		–	–	660.2	(660.2)	–	–	–
Total comprehensive income	15	–	–	–	508.1	137.5	(219.8)	425.8
Balance as at 31 March 2018		**698.9**	**(1.7)**	**15,950.1**	**508.1**	**(210.1)**	**2,410.3**	**19,355.6**

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 as well as the Bank's Constituent Charter and its Statutes.

The headquarters of the Bank are at Centralbahnplatz 2, 4002 Basel, Switzerland.

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. In the course of its activities, the Bank accepts deposits from customers, which it then invests. The Bank also invests funds related to its shareholders' equity.

The governance and management of the BIS are discussed in the "Governance and management" section of this Annual Report.

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 recognise all assets and liabilities that are controlled by the Bank and in respect of which the economic benefits, as well as any rights and obligations, lie with the Bank.

As part of its activities, the Bank undertakes financial transactions in its own name but for the economic benefit of other parties. These include transactions on a custodial or agency basis, such as those undertaken on behalf of investment entities operated by the Bank and on behalf of the staff pension fund, which do not have separate legal personality from the Bank. Unless otherwise stated, such transactions are not included in these financial statements.

The preparation of the financial statements requires the Bank's Management to make assumptions and use estimates to arrive at reported amounts. In doing so, Management exercises judgment based on reliable information. Actual results could differ significantly from these estimates.

The areas of estimation uncertainty considered to require critical judgment and which have the most significant effect on the amounts recognised in the financial statements are: post-employment obligations; the classification and valuation of financial instruments; and contingent liabilities.

All figures in these financial statements are presented in SDR millions unless otherwise stated. Amounts are subject to rounding and consequently there may be small differences both within and between disclosures.

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 composition of the SDR is subject to periodic review, following such a review by the IMF during 2015, changes were be made to the SDR basket effective from 1 October 2016.

As currently calculated, one SDR is equivalent to the sum of USD 0.58252, EUR 0.38671, Renminbi 1.0174, JPY 11.9 and GBP 0.085946.

Monetary assets and liabilities are translated into SDR at the exchange rates ruling at the balance sheet date. Other assets and liabilities and profits and losses are translated into SDR at the exchange rates ruling at the date of the transaction. 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.

3. Presentation of interest

In the profit and loss account, interest income includes “negative” interest on liabilities while interest expense includes “negative” interest on assets. Interest on derivatives is presented as interest income. The notes to the financial statements separately analyse components of interest income and interest expense.

4. Classification of financial instruments

Upon initial recognition, the Bank classifies each financial instrument into 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 classification 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 classification of each financial instrument determines the accounting methodology that is applied, as described in the accounting policies below. Where the financial instrument is classified as held at fair value through profit and loss, the Bank does not subsequently change this classification.

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 is exposed to credit and market risks. The extent of these exposures is limited by the Bank’s risk management approach.

The Bank classifies 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 classified as loans and receivables, and all gold financial liabilities are classified 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 shareholders' equity.

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

Currency assets in investment portfolios, with the exception of cash and sight accounts and notice accounts (Sections 6 and 7 below) are classified as available for sale.

The remainder of the Bank's shareholders' equity is held in gold. The Bank's overall own gold holding is treated as available for sale.

6. Cash and sight accounts

Cash and sight accounts 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. These typically have notice periods of three days or less, and are included under the balance sheet heading "Loans and advances". They are considered cash equivalents for the purposes of the statement of cash flows.

These financial instruments are classified as loans and receivables because they are not quoted in an active market, and because they comprise fixed or determinable payments. They are included in the balance sheet at their principal value plus accrued interest. Interest is included under "Interest income" or "Interest expense" (negative interest) 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".

These financial instruments are classified as financial liabilities measured at amortised cost because they are not quoted in an active market and include fixed or determinable payments.

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 otherwise arise from recognising realised and unrealised gains and losses on different bases, the Bank classifies the relevant assets, liabilities and derivatives in its currency banking portfolios as held at fair value through profit and loss.

10. Securities purchased under resale agreements

Securities purchased under resale agreements ("reverse repurchase agreements") are recognised as collateralised loan transactions by which the Bank lends cash and receives an irrevocable commitment from the counterparty to return the cash, plus interest, at a specified date in the future. As part of these agreements, the Bank receives collateral in the form of securities to which it has full legal title, but must return equivalent securities to the counterparty at the end of the agreement, subject to the counterparty's repayment of the cash. As the Bank does not acquire the risks or rewards associated with ownership of these collateral securities, they are not recognised as assets in the Bank's balance sheet.

The collateralised loans relating to securities purchased under resale agreements are currency assets. The accounting treatment is determined by whether the transaction involves currency assets held at fair value through profit and loss (Section 11 below) or currency investment assets available for sale (Section 13 below).

11. Currency assets classified 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 in Section 9 above, the Bank classifies all of the relevant assets in its currency banking portfolios 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" or "Interest expense" (negative interest) 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".

12. Currency deposit liabilities classified at fair value through profit and loss

All currency deposit liabilities, with the exception of sight and notice deposit account liabilities, are classified 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" or "Interest income" (negative interest) on an effective interest rate basis.

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

13. Currency investment assets available for sale

Currency assets include treasury bills, securities purchased under resale agreements, loans and advances, and government and other securities.

The Bank's currency investment assets are classified as available for sale investments and 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 movements 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 "Net movement on revaluation of available for sale securities". Realised profits on disposal are included in the profit and loss account under "Net gain on sales of available for sale securities".

14. Gold and gold loans

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 15 below.

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.

15. Realised and unrealised gains or losses on gold

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

A. Banking portfolios, comprising gold deposits and related gold banking assets

Gold derivatives included in the portfolios are held at fair value through profit and loss. Gains or losses on derivative transactions in gold are included in the profit and loss account under "Net foreign exchange movement" 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 movement" as net translation gains or losses.

B. Investment portfolios, comprising gold investment assets

The Bank's overall own gold holding is accounted for as an 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 "Net movement on revaluation of 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 per ounce 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".

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 26, "Off-balance sheet items").

17. Securities sold under repurchase agreements

Securities sold under repurchase agreements ("repurchase agreements") are recognised as collateralised deposit transactions by which the Bank receives cash and provides an irrevocable commitment to return the cash, plus interest, at a specified date in the future. As part of these agreements, the Bank transfers legal title of collateral securities to the counterparty. At the end of the contract, the counterparty must return equivalent securities to the Bank, subject to the Bank's repayment of the cash. As the Bank retains the risks and rewards associated with ownership of these securities, they continue to be recognised as assets in the Bank's balance sheet.

Where the repurchase agreement is associated with currency assets available for sale, the collateralised deposit transaction is accounted for as a financial liability measured at amortised cost.

Where the repurchase agreement is associated with the management of currency assets held at fair value through profit and loss, the collateralised deposit transaction is classified as a financial instrument held at fair value through profit and loss.

The collateralised deposits relating to securities sold under repurchase agreements 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" or "Interest income" (negative interest) on an effective interest rate basis. After initial measurement, the transactions classified as held at fair value through profit and loss are revalued to fair value with all unrealised movements in fair value included under "Net valuation movement."

18. Securities lending

The Bank participates in securities lending transactions in which it lends debt securities in exchange for a fee. The transactions are conducted under standard agreements employed by financial market participants. The securities which have been transferred are not de-recognised from the balance sheet since the risks and rewards of ownership are not transferred, even if the borrower has the right to sell or re-pledge the securities. Such Bank-owned securities transferred to a borrower are presented on the balance sheet as part of "Government and other securities" and "Treasury bills". Note 3 provides further details.

19. Derivatives

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

Derivatives are initially included in the balance sheet on a trade date basis. Where applicable, the accrual of interest and amortisation of premiums and discounts 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 classification of each financial instrument determines those instruments' valuation basis and accounting treatment. The majority of the financial instruments on the balance sheet are included at fair value. The Bank defines fair value as the exit price of an orderly transaction between market participants on the measurement date.

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 as appropriate, and relies as little as possible on its own estimates. Such valuation models comprise discounted cash flow analyses and option pricing models.

The Bank values its positions at their exit price, so that assets are valued at the bid price and 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 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 recognised on a trade date basis and subsequently accounted for at amortised cost until their settlement.

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 – 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, the asset is written down to the lower value.

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. Taxation

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.

However, income and gains received by the Bank may be subject to tax imposed in other countries. Such income and gains are recognised on a gross basis, with the corresponding tax recognised as an expense.

26. Post-employment benefit obligations

The Bank operates three post-employment benefit arrangements, respectively, 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 liability in respect of the staff pension fund is based on the present value of the defined benefit obligation less the fair value of the fund assets, both at the balance sheet date. 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 a duration approximating that 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 net of the defined benefit obligation less the fair value of the fund assets. Past service costs from plan amendments are immediately recognised through profit or loss. Gains and losses arising from re-measurement of the obligations, such as experience adjustments (where the actual outcome is different from the actuarial assumptions previously made) and changes in actuarial assumptions are charged to other comprehensive income in the year in which the re-measurement is applied. They are not subsequently included in profit and loss in future years.

B. Directors' pensions and post-employment health and accident benefits

The liability, defined benefit obligation, amount charged to the profit and loss account, and gains and losses arising from re-measurement in respect of the Bank's other post-employment benefit arrangements are calculated on a similar basis to that used for the staff pension fund.

27. Statement of cash flows

The Bank's statement of cash flows 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. Cash and sight accounts

The Bank holds cash and sight accounts predominantly with central banks. Cash and cash equivalents as shown in the statement of cash flows comprise cash and sight accounts as well as notice accounts, which are disclosed under "Loans and advances". The balances are analysed in the table below:

As at 31 March

SDR millions	**2018**	2017
Balance at central banks	73,103.5	48,274.4
Balance at commercial banks	46.5	21.1
Total cash and sight accounts	**73,150.0**	48,295.5
Notice accounts	465.8	510.7
Total cash and cash equivalents	**73,615.8**	48,806.2

2. Gold and gold loans

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

As at 31 March

SDR millions	**2018**	2017
Gold investment assets	2,995.5	3,048.5
Gold banking assets	20,434.1	24,227.5
Total gold and gold loan assets	**23,429.6**	27,276.0
Comprising:		
Gold bars	23,429.6	27,276.0

Included in "Gold banking assets" is SDR 10,572.2 million (361 tonnes) of gold (2017: SDR 14,086.9 million; 438 tonnes) that the Bank holds in connection with its gold swap contracts. See note 4 for more details.

3. Currency assets

Currency assets comprise the following products:

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

Securities purchased under resale agreements ("reverse repurchase agreements") are recognised as collateralised loan transactions. Interest receivable on the transaction is fixed at the start of the agreement. During the term of the agreement, the Bank monitors the fair value of the loan and related collateral securities, and may call for additional collateral (or be required to return collateral) based on movements in market value.

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.

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 2018

SDR millions	Fair value through profit and loss	Available for sale	Amortised cost	**Total**
Treasury bills	**31,637.9**	**123.0**	**–**	**31,760.9**
Securities purchased under resale agreements	**42,017.7**	**2,095.2**	**–**	**44,112.9**
Loans and advances	**21,962.8**	**–**	**465.8**	**22,428.6**
Government and other securities				
Government	14,599.8	14,132.3	–	28,732.1
Financial institutions	10,871.0	1,103.3	–	11,974.3
Other	11,811.0	363.6	–	12,174.6
	37,281.8	**15,599.2**	**–**	**52,881.0**
Total currency assets	**132,900.2**	**17,817.4**	**465.8**	**151,183.4**

As at 31 March 2017

SDR million	Fair value through profit and loss	Available for sale	Amortised cost	Total
Treasury bills	35,871.1	292.5	–	36,163.6
Securities purchased under resale agreements	42,520.8	1,409.1	–	43,929.9
Loans and advances	20,626.1	–	510.7	21,136.8
Government and other securities				
Government	20,952.5	13,175.8	–	34,128.3
Financial institutions	9,473.3	1,100.9	–	10,574.2
Other	12,597.6	102.4	–	12,700.0
	43,023.4	14,379.1	–	57,402.5
Total currency assets	142,041.4	16,080.7	510.7	158,632.8

Note 15A provides further analysis of the securities revaluation account. Note 22 provides further analysis of the net gain on sales of available for sale securities.

The Bank lends some of its securities in exchange for a fee. Government and other securities and treasury bills which are transferred in securities lending transactions (and are not subject to de-recognition from the balance sheet to the extent of the Bank's continuing involvement) represented SDR 59.7 million as at 31 March 2018 (2017: SDR 82.7 million).

4. Derivative financial instruments

The main types of derivative instruments used by the Bank for economic hedging and trading purposes are as follows:

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 swaps and interest rate swaps are 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 contractual agreements involving the exchange of foreign currencies or gold at a future date. This includes undelivered spot transactions.

Forward rate agreements are 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.

Futures contracts include bond and interest rate futures, which represent contractual agreements to receive or pay a net amount based on changes in bond prices or interest rates at a future date. Futures contracts are settled daily with the exchange. Associated margin payments are settled by cash or marketable securities.

Swaptions are contractual agreements 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.

The Bank recognises all derivatives transacted in its name, including those for which the economic benefit lies with a third party. In such circumstances, the Bank recognises both the original derivative contract and an exactly offsetting derivative contract with the beneficial party.

As at 31 March	**2018**			2017		
	Notional amounts	Fair values		Notional amounts	Fair values	
SDR millions		Assets	Liabilities		Assets	Liabilities
Cross-currency swaps	809.3	1.4	(76.2)	1,231.0	36.6	(3.5)
Currency and gold forwards	1,244.2	24.5	(22.4)	1,391.7	8.3	(3.6)
Currency and gold options	996.8	0.4	(0.7)	620.9	–	(0.4)
Currency and gold swaps	206,771.2	1,187.4	(2,297.9)	163,218.0	1,585.8	(1,207.1)
Forward rate agreements	4,557.3	1.0	(0.6)	32,968.1	0.6	(1.3)
Futures contracts	3,817.5	0.6	(0.6)	9,206.1	2.3	(1.3)
Interest rate swaps	213,145.7	509.8	(666.6)	288,900.9	587.1	(598.2)
Swaptions	3,645.5	–	(73.5)	736.2	–	(8.1)
Total derivative financial instruments	**434,987.5**	**1,725.1**	**(3,138.5)**	498,272.9	2,220.7	(1,823.5)

5. Accounts receivable and other assets

As at 31 March

SDR millions	**2018**	2017
Financial transactions awaiting settlement	6,795.3	5,613.1
Other assets	13.7	13.4
Total accounts receivable and other assets	**6,809.0**	5,626.5

"Financial transactions awaiting settlement" relates to short-term receivables, typically due in three business days or less, where transactions have been effected but cash has not yet been received.

6. Land, buildings and equipment

For the financial year ended 31 March				**2018**	2017
SDR millions	Land	Buildings and installations	IT and other equipment	Total	Total
Historical cost					
Balance at beginning of year	**46.4**	**282.7**	**77.6**	**406.7**	396.0
Capital expenditure	–	4.7	10.4	15.1	18.4
Disposals and retirements	–	(1.7)	(5.9)	(7.6)	(7.7)
Balance at end of year	**46.4**	**285.7**	**82.1**	**414.2**	406.7
Depreciation					
Balance at beginning of year	–	**169.5**	**40.3**	**209.8**	199.6
Depreciation	–	9.4	10.1	19.5	17.2
Disposals and retirements	–	(1.7)	(5.7)	(7.4)	(7.0)
Balance at end of year	–	**177.2**	**44.7**	**221.9**	209.8
Net book value at end of year	**46.4**	**108.5**	**37.4**	**192.3**	196.9

The net book value of IT and other equipment at 31 March 2018 included intangible assets, comprising computer software, of SDR 27.4 million (2017: SDR 26.4 million). The Bank's practice is to retire assets when their age reaches twice their estimated useful life. As a result, SDR 4.7 million has been removed from the historical cost and accumulated depreciation for the year ended 31 March 2018 (2017: SDR 5.1 million).

7. Gold deposits

Gold deposit liabilities placed with the Bank originate entirely from central banks.

8. Currency deposits

Currency deposits comprise the following products:

Sight and notice deposit accounts are very short-term financial liabilities, typically having a notice period of three days or less.

Medium-Term Instruments (MTIs) are fixed rate investments at the Bank issued with initial maturities of between one and 10 years.

Callable MTIs (CMTIs) are MTIs that are callable at the option of the Bank at an exercise price of par. At 31 March 2018 two CMTIs had a call date in June 2018. The other CMTIs at 31 March 2018 and all but one of the CMTIs at 31 March 2017 had options which had expired by the reporting date. The balance sheet total for CMTIs 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 Bank, typically with an initial 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 2018 and June 2018 (2017: between April 2017 and June 2017).

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.

The amount the Bank is contractually obliged to pay at maturity in respect of its total currency deposits, including interest accrued to 31 March 2018, is SDR 212,483.2 million (2017: SDR 194,499.0 million).

Sight and notice deposit accounts are included on an amortised cost basis, while all other deposits are included at their fair value.

As at 31 March

SDR millions	**2018**	2017
Repayable at one to three days' notice		
Sight and notice deposit accounts	15,584.9	15,989.7
Medium-Term Instruments (MTIs)	52,722.1	43,227.4
Callable MTIs (CMTIs)	4,951.1	1,487.4
Fixed-Rate Investments at the BIS (FIXBIS)	50,451.1	56,689.0
	123,709.2	117,393.5
Other currency deposits		
Floating Rate Investments of the BIS (FRIBIS)	1,056.2	81.2
Fixed-term deposits	86,680.9	76,702.0
Dual Currency Deposits (DCDs)	219.3	265.7
	87,956.4	77,048.9
Balance at end of year	**211,665.6**	194,442.4

9. Securities sold under repurchase agreements

Securities sold under repurchase agreements ("repurchase agreements") are analysed in the table below:

As at 31 March

SDR millions	**2018**	2017
Amortised cost	2,095.0	1,409.0
Fair value through profit and loss	–	9.6
Total securities sold under repurchase agreements	**2,095.0**	1,418.6

Further information on the collateral related to repurchase agreements is provided in the "Risk management" section, note 3C, "Credit risk mitigation".

10. Accounts payable

Accounts payable consist of financial transactions awaiting settlement, relating to short-term payables where transactions have been effected but cash has not yet been transferred.

11. Other liabilities

The Bank's other liabilities consist of:

As at 31 March

SDR millions	**2018**	2017
Post-employment benefit obligations (see note 12)		
Staff pensions	394.6	461.3
Directors' pensions	10.8	11.2
Health and accident benefits	567.1	590.0
Other liabilities	21.5	26.2
Balance at end of year	**994.0**	1,088.7

12. Post-employment benefit obligations

The Bank operates three post-employment arrangements:

1. A defined benefit pension arrangement for its staff in the event of retirement, disability or death. Under this arrangement, benefits accrue according to years of participation and pensionable remuneration. These benefits are paid out of a fund, without separate legal personality. Contributions are made to this fund by the Bank and by staff. The fund is the beneficial owner of assets on which it receives a return. These assets are administered by the Bank for the sole benefit of participants in the arrangement. Except as shown in this note, and as described in note 4, "Derivative financial instruments", these assets are not recognised as assets of the Bank. 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 49 months.

3. An unfunded post-employment health and accident benefit arrangement for its staff and their dependants. Employees who leave the Bank after becoming eligible for early retirement benefits from the pension arrangement are eligible for post-employment health and accident benefits.

All three arrangements operate in Swiss francs and are valued annually by an independent actuary. During 2018/19, the Bank expects to make contributions of SDR 33.3 million (2017/18: SDR 33.7 million) to its post-employment arrangements.

A. Amounts recognised in the balance sheet

As at 31 March	Staff pensions			Directors' pensions			Post-employment health and accident benefits		
SDR millions	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016
Present value of obligations	(1,538.1)	(1,601.8)	(1,551.4)	(10.8)	(11.2)	(10.8)	(567.1)	(590.0)	(555.0)
Fair value of fund assets	1,143.5	1,140.5	1,048.2	–	–	–	–	–	–
Liability at end of year	**(394.6)**	(461.3)	(503.2)	**(10.8)**	(11.2)	(10.8)	**(567.1)**	(590.0)	(555.0)

B. Present value of defined benefit obligations

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

As at 31 March	Staff pensions			Directors' pensions			Post-employment health and accident benefits		
SDR millions	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016
Present value of obligations at beginning of year	(1,601.8)	(1,551.4)	(1,468.7)	(11.2)	(10.8)	(10.2)	(590.0)	(555.0)	(498.7)
Employee contributions	(6.9)	(6.9)	(6.7)	–	–	–	–	–	–
Benefit payments	54.6	47.7	41.8	0.5	0.5	0.5	3.4	3.1	3.0
Net current service cost	(61.2)	(59.0)	(56.3)	(0.6)	(0.6)	(0.6)	(27.9)	(27.8)	(24.3)
Interest cost on obligations at opening discount rate	(10.9)	(9.1)	(11.4)	(0.1)	–	(0.1)	(4.1)	(3.3)	(3.9)
Actuarial gain / (loss) arising from experience adjustments	5.3	13.0	12.5	–	–	–	(1.9)	3.7	(5.3)
Actuarial gain / (loss) arising from changes in demographic assumptions	(7.1)	(15.3)	(4.3)	(0.1)	(0.1)	–	(7.0)	(17.4)	(2.2)
Actuarial gain / (loss) arising from changes in financial assumptions	55.6	(29.4)	(70.7)	0.5	(0.2)	(0.6)	47.3	3.5	(27.7)
Foreign exchange differences	34.3	8.6	12.4	0.2	–	0.2	13.1	3.2	4.1
Present value of obligations at end of year	**(1,538.1)**	(1,601.8)	(1,551.4)	**(10.8)**	(11.2)	(10.8)	**(567.1)**	(590.0)	(555.0)

The following table shows the weighted average duration of the defined benefit obligations for the Bank's three post-employment benefit arrangements:

As at 31 March	Staff pensions			Directors' pensions			Post-employment health and accident benefits		
Years	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016
Weighted average duration	**18.0**	18.4	18.3	**13.7**	13.9	13.4	**26.0**	26.4	23.6

C. 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	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016
Net current service cost	(61.2)	(59.0)	(56.3)	(0.6)	(0.6)	(0.6)	(27.9)	(27.8)	(24.3)
Interest cost on net liability	(3.1)	(2.9)	(2.6)	(0.1)	–	(0.1)	(4.1)	(3.3)	(3.9)
Amounts recognised in operating expense	**(64.3)**	(61.9)	(58.9)	**(0.7)**	(0.6)	(0.7)	**(32.0)**	(31.1)	(28.2)

D. Re-measurement of defined benefit obligations recognised in other comprehensive income

For the financial year ended 31 March	Staff pensions			Directors' pensions			Post-employment health and accident benefits		
SDR millions	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016
Return on plan assets in excess of opening discount rate	37.4	103.0	(65.8)	–	–	–	–	–	–
Actuarial gain or loss arising from experience adjustments	5.3	13.0	12.5	–	–	–	(1.9)	3.7	(5.3)
Actuarial gain or loss arising from changes in demographic assumptions	(7.1)	(15.3)	(4.3)	(0.1)	(0.1)	–	(7.0)	(17.4)	(2.2)
Actuarial gain or loss arising from changes in financial assumptions	55.6	(29.4)	(70.7)	0.5	(0.2)	(0.6)	47.3	3.5	(27.7)
Foreign exchange gain or loss on items in other comprehensive income	3.5	1.7	0.6	0.1	–	0.1	3.9	1.1	1.2
Amounts recognised in other comprehensive income	**94.7**	73.0	(127.7)	**0.5**	(0.3)	(0.5)	**42.3**	(9.1)	(34.0)

E. Analysis of movement on 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	**2018**	2017	2016
Fair value of fund assets at beginning of year	1,140.5	1,048.2	1,121.1
Employer contributions	29.6	29.5	29.0
Employee contributions	6.9	6.9	6.7
Benefit payments	(54.6)	(47.7)	(41.8)
Interest income on plan assets calculated on opening discount rate	7.9	6.2	8.8
Return on plan assets in excess of opening discount rate	37.4	103.0	(65.8)
Foreign exchange differences	(24.2)	(5.6)	(9.8)
Fair value of fund assets at end of year	**1,143.5**	1,140.5	1,048.2

F. Composition and fair value of assets for the pension fund

The table below analyses the assets of the pension fund and the extent to which the fair values of those assets have been calculated using quoted prices in active markets. The pension fund does not invest in financial instruments issued by the Bank.

As at 31 March	2018			2017		
SDR millions	Quoted in active market	Unquoted	Total	Quoted in active market	Unquoted	Total
Cash (including margin accounts)	72.2	–	72.2	78.8	–	78.8
Debt securities	256.8	–	256.8	261.5	–	261.5
Fixed income funds	169.9	–	169.9	174.2	–	174.2
Equity funds	441.0	43.5	484.5	425.3	41.1	466.4
Real estate funds	34.5	81.8	116.3	63.6	45.8	109.4
Commodity-linked notes	–	62.0	62.0	–	51.5	51.5
Derivative instruments	0.1	(18.3)	(18.2)	(0.5)	(0.8)	(1.3)
Total	**974.5**	**169.0**	**1,143.5**	1,002.9	137.6	1,140.5

G. Principal actuarial assumptions used in these financial statements

As at 31 March	2018	2017
Applicable to staff pension arrangement		
Discount rate	0.90%	0.70%
Applicable to post-employment health and accident benefit arrangement		
Discount rate	1.00%	0.70%
Applicable to Directors’ pension arrangement		
Discount rate	0.80%	0.50%
Applicable to staff and Directors’ pension arrangements		
Assumed increase in pensions payable	1.00%	1.00%
Applicable to staff pension arrangement		
Assumed average salary increase rate	3.00%	3.00%
Applicable to Directors’ pension arrangement		
Assumed Directors’ pensionable remuneration increase rate	1.00%	1.00%
Applicable to post-employment health and accident benefit arrangement		
Long-term medical cost inflation assumption	4.00%	4.00%

The assumed increases in staff salaries, Directors’ pensionable remuneration and pensions payable incorporate an inflation assumption of 1.00% at 31 March 2018 (2017: 1.00%).

H. Life expectancies

The life expectancies, at age 65, used in the actuarial calculations for the staff pension arrangement are:

As at 31 March

Years	**2018**	2017
Current life expectancy of members aged 65		
Male	20.4	20.3
Female	22.5	22.4
Life expectancy of members aged 65 projected forward in 10 years' time		
Male	21.7	21.6
Female	23.6	23.5

I. Sensitivity analysis of significant actuarial assumptions

The Bank is exposed to risks from these obligations and arrangements including investment risk, interest rate risk, foreign exchange risk, longevity risk and salary risk.

Investment risk is the risk that plan assets will not generate returns at the expected level.

Interest rate risk is the exposure of the post-employment benefit obligations to adverse movements in interest rates, including credit spreads. A decrease in interest rates will increase the present value of these obligations. However, in the case of the staff pension arrangement this may be offset, either fully or partly, by an increase in value of the interest bearing securities held by the fund.

Foreign exchange risk is the exposure of the post-employment benefit obligations to adverse movements in exchange rates between the Swiss franc, which is the operating currency of the post-employment benefit arrangements, and the SDR, which is the functional currency of the Bank.

Longevity risk is the risk that actual outcomes differ from actuarial estimates of life expectancy.

Salary risk is the risk that higher than expected salary rises increase the cost of providing a salary-related pension.

The table below shows the estimated impact on the defined benefit obligations resulting from a change in key actuarial assumptions (see tables 12G and 12H):

As at 31 March	**Staff pensions** Increase / (decrease) in defined benefit obligation	
SDR millions	**2018**	2017
Discount rate		
Increase by 0.5%	(129.2)	(136.2)
Decrease by 0.5%	147.7	157.0
Rate of salary increase		
Increase by 0.5%	38.5	41.6
Decrease by 0.5%	(36.9)	(38.4)
Rate of pension payable increase		
Increase by 0.5%	101.5	105.7
Decrease by 0.5%	(92.3)	(96.1)
Life expectancy		
Increase by 1 year	60.0	62.5
Decrease by 1 year	(58.4)	(62.5)

As at 31 March	Directors' pensions Increase / (decrease) in defined benefit obligation	
SDR millions	**2018**	2017
Discount rate		
Increase by 0.5%	(0.7)	(0.7)
Decrease by 0.5%	0.8	0.8
Rate of pension payable increase		
Increase by 0.5%	0.6	0.7
Decrease by 0.5%	(0.6)	(0.6)
Life expectancy		
Increase by 1 year	0.6	0.6
Decrease by 1 year	(0.6)	(0.6)

As at 31 March	Post-employment health and accident benefits Increase / (decrease) in defined benefit obligation	
SDR millions	**2018**	2017
Discount rate		
Increase by 0.5%	(66.9)	(69.0)
Decrease by 0.5%	79.4	82.0
Medical cost inflation rate		
Increase by 1.0%	150.0	161.0
Decrease by 1.0%	(108.6)	(116.8)
Life expectancy		
Increase by 1 year	53.3	50.1
Decrease by 1 year	(47.6)	(46.6)

The above estimates were arrived at by changing each assumption individually, holding other variables constant. They do not include any correlation effects that may exist between variables.

13. Share capital

The Bank's share capital consists of:

As at 31 March

SDR millions	**2018**	2017
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

The number of shares eligible for dividend is:

As at 31 March	2018	2017
Issued shares	559,125	559,125
Shares held in treasury	(1,000)	(1,000)
Outstanding shares eligible for dividend	**558,125**	558,125

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

14. Statutory reserves

The Bank's Statutes provide for application of the Bank's annual net profit, by the Annual General Meeting at 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 last two years:

SDR millions	Legal reserve fund	General reserve fund	Special dividend reserve fund	Free reserve fund	Total statutory reserves
Balance at 31 March 2016	**69.8**	**3,641.9**	**184.0**	**11,101.3**	**14,997.0**
Allocation of 2015/16 profit	–	14.6	–	278.3	292.9
Balance at 31 March 2017	**69.8**	**3,656.5**	**184.0**	**11,379.6**	**15,289.9**
Allocation of 2016/17 profit	–	33.0	–	627.2	660.2
Balance at 31 March 2018	**69.8**	**3,689.5**	**184.0**	**12,006.8**	**15,950.1**

At 31 March 2018, statutory reserves included share premiums of SDR 1,059.6 million (2017: SDR 1,059.6 million).

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	**2018**
Net profit	**508.1**
Proposed dividend:	
SDR 235 per share on 558,125 shares	(131.2)
Profit available for allocation	**376.9**
Proposed transfers to reserves:	
General reserve fund	(18.8)
Free reserve fund	(358.1)
Balance after allocation to reserves	–

15. Other equity accounts

Other equity accounts comprise the revaluation accounts for available for sale assets (gold and currency investment assets) as well as the re-measurement gains or losses on defined benefit obligations.

As at 31 March

SDR millions	**2018**	2017
Securities revaluation account	(83.6)	88.1
Gold revaluation account	2,493.9	2,542.0
Re-measurement of defined benefit obligations	(210.1)	(347.6)
Total other equity accounts	**2,200.2**	2,282.5

A. Securities revaluation account

This account contains the difference between the fair value and the amortised cost of the Bank's available for sale securities. The movements in the securities revaluation account were as follows:

For the financial year ended 31 March

SDR millions	**2018**	2017
Balance at beginning of year	88.1	251.7
Net gain on sales	(28.8)	(49.4)
Fair value and other movements	(142.9)	(114.2)
Net movement on revaluation of available for sale securities	**(171.7)**	(163.6)
Balance at end of year	**(83.6)**	88.1

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 2018	17,817.4	17,901.0	**(83.6)**	43.2	(126.8)
As at 31 March 2017	16,080.7	15,992.6	88.1	126.7	(38.6)

B. Gold revaluation account

The movements in the gold revaluation account were as follows:

For the financial year ended 31 March

SDR millions	**2018**	2017
Balance at beginning of year	2,542.0	2,431.0
Net gain on sales	(24.9)	(23.4)
Gold price movement	(23.2)	134.4
Net movement on revaluation of gold investment assets	**(48.1)**	111.0
Balance at end of year	**2,493.9**	2,542.0

C. Re-measurement of defined benefit obligations

This account contains the gains and losses from re-measurement of the Bank's post-employment benefit obligations.

For the financial year ended 31 March

SDR millions	**2018**	2017
Balance at beginning of year	(347.6)	(411.2)
Staff pensions	94.7	73.0
Directors' pensions	0.5	(0.3)
Post-employment health and accident insurance	42.3	(9.1)
Net movement on the re-measurement of defined benefit obligations	**137.5**	63.6
Balance at end of year	**(210.1)**	(347.6)

Note 12D provides further analysis of the re-measurement of the Bank's post-employment benefit obligations.

16. Interest income

For the financial year ended 31 March

SDR millions	2018	2017
Currency assets available for sale		
Securities purchased under resale agreements	2.5	0.3
Government and other securities	169.3	150.6
	171.8	150.9
Currency assets held at fair value through profit and loss		
Treasury bills	98.4	57.7
Securities purchased under resale agreements	68.1	46.2
Loans and advances	178.7	137.5
Government and other securities	484.1	491.4
	829.3	732.8
Assets designated as loans and receivables		
Sight and notice accounts	9.1	8.3
Gold investment assets	0.1	9.9
Gold banking assets	–	0.4
	9.2	18.6
Derivative financial instruments held at fair value through profit and loss	**2,265.9**	1,501.8
Interest income on liabilities	**76.5**	116.9
Total interest income	**3,352.7**	2,521.0

17. Interest expense

For the financial year ended 31 March

SDR millions	2018	2017
Liabilities held at fair value through profit and loss		
Currency deposits	**1,929.1**	1,004.6
Liabilities designated as financial liabilities measured at amortised cost		
Sight and notice deposit accounts	167.7	79.3
Securities sold under repurchase agreements	2.2	0.5
	169.9	79.8
Interest expense on assets	**499.8**	474.2
Total interest expense	**2,598.8**	1,558.6

18. Net valuation movement

The net valuation movement arises entirely on financial instruments classified as held at fair value through profit and loss. There were no credit losses due to restructuring or default in the financial years ended 31 March 2018 and 31 March 2017.

For the financial year ended 31 March

SDR millions	**2018**	2017
Currency assets		
Unrealised valuation movements on currency assets	(143.0)	(211.0)
Realised gains / (losses) on currency assets	(27.7)	27.6
	(170.7)	(183.4)
Currency liabilities		
Unrealised valuation movements on financial liabilities	474.7	341.0
Realised gains / (losses) on financial liabilities	8.9	(12.2)
	483.6	328.8
Valuation movements on derivative financial instruments	**(312.6)**	(73.9)
Net valuation movement	**0.3**	71.5

19. Net fee and commission income

For the financial year ended 31 March

SDR millions	**2018**	2017
Net third-party asset management fee income	12.6	12.7
Other fee income	3.1	3.3
Other fees, withholding taxes and commission expenses	(12.0)	(12.0)
Net fee and commission income	**3.7**	4.0

20. Foreign exchange movement

For the financial year ended 31 March

SDR millions	**2018**	2017
Net transaction gain	11.4	5.5
Net translation movement	(17.8)	3.7
Net foreign exchange movement	**(6.4)**	9.2

21. 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	**2018**	2017
Board of Directors		
Directors' fees	2.1	2.1
Pensions to former Directors	0.9	0.9
Travel and other costs	1.3	1.2
	4.3	4.2
Management and staff		
Remuneration	132.8	131.9
Pensions	86.4	84.2
Other personnel-related expense	64.2	62.5
	283.4	278.6
Office and other expense	**76.9**	75.7
BIS administrative expense	**364.6**	358.5
Direct contributions to hosted organisations	15.0	15.6
Total administrative expense	**379.6**	374.1
Administrative expense translated into SDR millions	277.4	275.1
Depreciation and impairment in SDR millions	19.7	17.2
Operating expense in SDR millions	**297.1**	292.3

The average number of full-time equivalent employees during the financial year ended 31 March 2018 was 582 (2017: 574). In addition, at 31 March 2018, the Bank was the legal employer of 74 staff members (2017: 75) working in the secretariats of the Financial Stability Board (FSB), the International Association of Deposit Insurers (IADI) and the International Association of Insurance Supervisors (IAIS).

The Bank makes direct contributions, which include salary and post-employment costs and other related expenses, towards the operational costs of the FSB, IADI and the IAIS, and these amounts are shown under "Direct contributions to hosted organisations". The Bank also provides logistical, administrative and staffing-related support for these organisations, the cost of which is included within the Bank's regular administrative expense categories.

22. Net gain on sales of available for sale securities

For the financial year ended 31 March

SDR millions	2018	2017
Disposal proceeds	4,188.7	6,383.9
Amortised cost	(4,159.9)	(6,334.5)
Net gain on sales of available for sale securities	**28.8**	49.4
Comprising:		
Gross realised gains	35.9	66.7
Gross realised losses	(7.1)	(17.3)

23. Net gain on sales of gold investment assets

For the financial year ended 31 March

SDR millions	2018	2017
Disposal proceeds	29.7	28.2
Deemed cost	(4.8)	(4.8)
Net gain on sales of gold investment assets	**24.9**	23.4

24. Dividend per share

For the financial year ended 31 March	2018	2017
Net profit for the financial year (SDR millions)	508.1	827.6
Weighted average number of shares entitled to dividend	558,125	558,125
Dividend per share (SDR per share)		
Normal	235.0	225.0
Supplementary	–	75.0
Total dividend per share	235.0	300.0
Total dividend (SDR millions)	**131.2**	167.4

The Bank's dividend policy requires that the dividend be set at a sustainable level which should vary over time in a predictable fashion. The policy also requires that the dividend reflect the Bank's capital needs and its prevailing financial circumstances, with a payout ratio of between 20% and 30% in most years.

In line with the Bank's dividend policy, it is proposed to declare a normal dividend for 2017/18 of SDR 235 per share, SDR 10 per share higher than for the previous year. The medium-term guidance of the dividend policy allows for the possibility that a supplementary dividend could also be paid in years where profits are high, and the Bank's financial circumstances allow. A supplementary dividend of SDR 75 per share was paid for the 2016/17 financial year, resulting in a total dividend for 2016/17 of SDR 300 per share.

The proposed dividend for 2018 represents a payout ratio of 26% of net profit (2017: 20%).

25. Exchange rates

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

	Spot rate as at 31 March		Average rate for the financial year ended 31 March	
	2018	2017	**2018**	2017
USD	**0.688**	0.736	**0.709**	0.724
EUR	**0.847**	0.787	**0.829**	0.795
JPY	**0.0065**	0.0066	**0.0064**	0.0067
GBP	**0.968**	0.922	**0.940**	0.946
Renminbi	**0.110**	0.107	**0.107**	0.108
CHF	**0.720**	0.736	**0.731**	0.733
Gold (per ounce)	**910.1**	917.3	**911.7**	910.7

26. Off-balance sheet items

The following items are not included in the Bank's balance sheet:

As at 31 March

SDR millions	**2018**	2017
Gold bars held under earmark arrangements	11,338.6	11,703.3
Nominal value of securities:		
Securities held under safe custody arrangements	3,290.6	3,349.6
Securities held under collateral pledge agreements	36.9	39.5
Net asset value of portfolio management mandates:		
BISIPs	10,403.6	10,792.5
Dedicated mandates	4,049.1	4,225.5

Gold bars held under earmark arrangements 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 2018, gold bars held under earmark amounted to 387 tonnes of gold (2017: 397 tonnes).

Portfolio management mandates include BIS Investment Pools (BISIPs) and dedicated mandates.

The BISIPs are a range of open-ended investment funds created by the Bank and managed using entities that do not have a separate legal personality from the Bank. The Bank has an agency relationship with the BISIPs, such that the assets of the BISIPs are held in the name of the BIS, but the economic benefit lies with central bank customers. The Bank does not invest for its own account in the BISIPs.

Dedicated mandates are portfolios which are managed by the Bank in accordance with investment guidelines set by the customer. They are held for the financial benefit of the customer.

For both the BISIPs and the dedicated mandates, the Bank is remunerated by a management fee which is included under "Net fee and commission income" in the profit and loss account.

27. Commitments

The Bank provides a number of committed standby facilities for its customers on a collateralised or uncollateralised basis. At 31 March 2018, there were no outstanding commitments that were collateralised (2017: SDR 2,451.4 million) and SDR 206.4 million were uncollateralised (2017: SDR 220.9 million). As at 31 March 2018, total outstanding commitments amounted to SDR 206.4 million (2017: SDR 2,672.3 million).

The BIS is committed to supporting the operations of the Financial Stability Board (FSB), the International Association of Deposit Insurers (IADI) and the International Association of Insurance Supervisors (IAIS). In each case, the Bank has a separate agreement specifying the terms of support and commitment. The Bank is the legal employer of FSB, IADI and IAIS staff, with the regular ongoing staff costs borne by each association. The commitment by the BIS to IADI is subject to an annual budgetary decision of the Board. The current agreement with the FSB ends in January 2023. The current agreement with the IAIS ends in 2019.

28. Fair value hierarchy

The Bank categorises its financial instrument fair value measurements using a hierarchy that reflects the observability of inputs used in measuring that value. A valuation level is assigned according to the least observable 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 – Instruments valued using unadjusted quoted prices in active markets for identical financial instruments.

Level 2 – Instruments valued with valuation techniques using inputs which 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 – Instruments valued using valuation techniques where the inputs are not observable in financial markets.

At 31 March 2018, the Bank had no financial instruments categorised as level 3 (31 March 2017: nil).

As at 31 March 2018

SDR millions	Level 1	Level 2	Total
Financial assets held at fair value through profit and loss			
Treasury bills	20,262.3	11,375.6	31,637.9
Securities purchased under resale agreements	–	42,017.7	42,017.7
Fixed-term loans	–	21,962.8	21,962.8
Government and other securities	22,275.3	15,006.5	37,281.8
Derivative financial instruments	0.7	1,724.4	1,725.1
Financial assets designated as available for sale			
Treasury bills	123.0	–	123.0
Government and other securities	15,088.6	510.6	15,599.2
Securities purchased under resale agreements	–	2,095.2	2,095.2
Total financial assets accounted for at fair value	**57,749.9**	**94,692.8**	**152,442.7**
Financial liabilities held at fair value through profit and loss			
Currency deposits	–	(196,080.7)	(196,080.7)
Securities sold under repurchase agreements	–	–	–
Derivative financial instruments	(0.8)	(3,137.7)	(3,138.5)
Total financial liabilities accounted for at fair value	**(0.8)**	**(199,218.4)**	**(199,219.2)**

As at 31 March 2017

SDR millions	Level 1	Level 2	Total
Financial assets held at fair value through profit and loss			
Treasury bills	30,741.2	5,129.9	35,871.1
Securities purchased under resale agreements	–	42,520.8	42,520.8
Fixed-term loans	–	20,626.1	20,626.1
Government and other securities	31,347.8	11,675.6	43,023.4
Derivative financial instruments	2.6	2,218.1	2,220.7
Financial assets designated as available for sale			
Treasury bills	255.6	36.9	292.5
Government and other securities	13,799.5	579.6	14,379.1
Securities purchased under resale agreements	–	1,409.1	1,409.1
Total financial assets accounted for at fair value	76,146.7	84,196.1	160,342.8
Financial liabilities held at fair value through profit and loss			
Currency deposits	–	(178,452.7)	(178,452.7)
Securities sold under repurchase agreements	–	(9.6)	(9.6)
Derivative financial instruments	(1.5)	(1,822.0)	(1,823.5)
Total financial liabilities accounted for at fair value	(1.5)	(180,284.3)	(180,285.8)

A. Transfers between levels in the fair value hierarchy

Of the assets categorised as level 1 at 31 March 2018, SDR 610.3 million related to assets that were categorised as level 2 at 31 March 2017. Of the assets categorised as level 2 at 31 March 2018, SDR 1,350.0 million related to assets that had been categorised as level 1 at 31 March 2017. The transfer of assets between levels 1 and 2 reflected specific market conditions existing at the reporting dates that affected the observability of the market prices as defined above. No liabilities were transferred between fair value hierarchy levels.

B. Assets and liabilities measured at fair value level 3

During the financial years ended 31 March 2018 and 31 March 2017, the Bank did not classify any assets or liabilities as level 3 in the fair value hierarchy.

C. Financial instruments not measured at fair value

In accordance with its accounting policies, the Bank does not account for certain financial instruments at fair value. Using the same valuation techniques as used for fair valued financial instruments, the Bank estimates that the fair values of these financial instruments would be materially the same as the carrying values shown in these financial statements for both 31 March 2018 and 31 March 2017. If these instruments were included in the fair value hierarchy, the valuation of “Gold loans” and “Securities sold under repurchase agreements” would be considered level 2. All other amortised cost financial instruments would be considered level 1.

D. Impact of changes in the Bank’s creditworthiness

The fair value of the Bank’s liabilities may be affected by any change in its creditworthiness. If the Bank’s creditworthiness deteriorated, the value of its liabilities should 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.

E. The valuation of financial assets and liabilities

Certain of the Bank’s financial assets and financial liabilities are valued using valuation techniques which require estimation of appropriate valuation parameters. Changes in estimates of these parameters could significantly affect the reported fair values. The valuation impact of a 1 basis point change in interest rate assumptions of key financial instruments is shown in the table below:

For the financial year ended 31 March

SDR millions	**2018**	2017
Treasury bills	1.0	1.1
Securities purchased under resale agreements	0.2	0.3
Loans and advances	0.4	0.3
Government and other securities	8.9	9.7
Currency deposits	11.8	8.7
Derivative financial instruments	4.8	0.9

29. Geographical analysis

A. Total liabilities

As at 31 March

SDR millions	**2018**	2017
Africa and Europe	82,412.9	78,594.2
Asia-Pacific	116,891.9	107,454.7
Americas	24,667.9	23,975.6
International organisations	13,161.1	13,126.7
Balance at end of year	**237,133.8**	223,151.2

B. Off-balance sheet items

As at 31 March

SDR millions	**2018**			2017		
	Gold bars held under earmark	Nominal value of securities	Net asset value of portfolio management mandates	Gold bars held under earmark	Nominal value of securities	Net asset value of portfolio management mandates
Africa and Europe	4,753.5	–	3,288.0	4,791.0	–	3,535.5
Asia-Pacific	3,130.8	3,290.6	9,049.0	3,155.5	3,349.6	9,561.2
Americas	3,454.4	36.9	2,115.7	3,756.8	39.5	1,921.3
Total	**11,338.6**	**3,327.5**	**14,452.7**	11,703.3	3,389.1	15,018.0

C. Credit commitments

As at 31 March

SDR millions	**2018**	2017
Africa and Europe	–	236.2
Asia-Pacific	206.4	2,436.1
Total	**206.4**	2,672.3

A geographical analysis of the Bank's assets by default risk is provided in the "Risk management" section in note 3B under "Default risk by geographical region".

30. 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 12 provides details of the Bank's post-employment benefit arrangements.

A. Related party individuals

Note 21 provides details of the total compensation of the Board of Directors.

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

For the financial year ended 31 March

CHF millions	**2018**	2017
Salaries, allowances and medical cover	7.3	7.5
Post-employment benefits	2.3	2.1
Total compensation	**9.6**	9.6
SDR equivalent	7.0	7.1

The Bank offers personal deposit accounts for staff members and Directors. The accounts bear interest at a rate determined by the Bank based on the rate offered by the Swiss National Bank on its 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	**2018**	2017
Balance at beginning of year	11.5	14.6
Deposits taken and other inflows	2.7	4.1
Withdrawals and other outflows	(1.8)	(7.2)
Balance at end of year	**12.4**	11.5
SDR equivalent	9.0	8.5
Interest expense on deposits in CHF millions	**0.1**	0.1
SDR equivalent	0.1	0.1

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 as other inflows. Balances related to individuals who ceased to be members of the Board of Directors or senior officials of the Bank during the financial year are included in the table above as other outflows.

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 its staff accounts plus 1%. The total balance of blocked accounts at 31 March 2018 was SDR 8.7 million (2017: SDR 10.6 million). They are reported under the balance sheet heading "Currency deposits".

B. Related party customers

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 customers which are related parties (as defined above). These transactions include making advances, and taking currency and gold deposits. It is the Bank's policy to enter into transactions with related party customers on similar terms and conditions to transactions with other, non-related party customers. The following tables show balances relating to these transactions, which the Bank believes are representative of the general level of business undertaken with related party customers during the year.

Balances with related party customers

As at 31 March	2018			2017		
	Balance sheet total	Balance with related parties		Balance sheet total	Balance with related parties	
SDR millions / percentages	*SDR millions*	*SDR millions*	*%*	*SDR millions*	*SDR millions*	*%*
Assets						
Cash	73,150.0	**73,078.8**	99.9	48,295.5	47,843.7	99.1
Gold and gold loans	23,429.6	**23,414.1**	99.9	27,276.0	27,257.6	99.9
Securities purchased under resale agreements	44,112.9	**1,323.5**	3.0	43,929.9	2,011.7	4.6
Government and other securities	52,881.0	**343.3**	0.6	57,402.5	295.5	0.5
Derivative assets	1,725.1	**6.6**	0.4	2,220.7	13.7	0.6
Liabilities						
Currency deposits	(211,665.6)	**(88,850.5)**	42.0	(194,442.4)	(85,320.8)	43.9
Gold deposits	(9,859.5)	**(6,780.6)**	68.8	(9,934.5)	(7,685.7)	77.4
Derivative liabilities	(3,138.5)	**(1.8)**	0.1	(1,823.5)	(7.3)	0.4

Main profit and loss items arising from transactions with related party customers

For the financial year ended 31 March	2018			2017		
	Profit and loss total	Balance with related parties		Profit and loss total	Balance with related parties	
SDR millions / percentages	*SDR millions*	*SDR millions*	*%*	*SDR millions*	*SDR millions*	*%*
Interest income	3,352.7	**53.8**	1.6	2,521.0	111.6	4.4
Interest expense	(2,598.8)	**(1,090.3)**	42.0	(1,558.6)	(647.5)	41.5

31. Contingent liabilities

In the opinion of the Bank's Management, there were no significant contingent liabilities at 31 March 2018 (31 March 2017: nil).

Capital adequacy

1. Capital adequacy frameworks

As an international financial institution that is overseen by a Board composed of Governors of major central banks and that has no national supervisor, the Bank is committed to maintaining its superior credit quality and financial strength, in particular in situations of financial stress.

The Bank assesses its capital adequacy on a continuous basis throughout the year. It operates an annual capital planning process that focuses on two elements: an economic capital framework and a financial leverage framework. The disclosures in this section relating to credit, market, operational and liquidity risk are based on the Bank's own assessment of capital adequacy derived in accordance with these two BIS frameworks.

Regulatory capital ratios are not used as indicators of BIS capital adequacy because key aspects of the business model for the BIS banking activities are not adequately captured. In the main, these relate to the high level of solvency targeted by the Bank as well as the way regulatory capital ratios reflect portfolio concentrations and interest rate risk in the banking book.

To facilitate comparability, the Bank has implemented a 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 (BCBS) in June 2006. Following that framework, the Bank discloses a Tier 1 capital ratio (Pillar 1), risk-weighted assets and more detailed related information. In addition, the Bank calculates for reference a Common Equity Tier 1 capital ratio, leverage ratio and liquidity coverage ratio taking account of banking supervisory recommendations related to Basel III.

The Bank maintains a capital position substantially in excess of the regulatory minimum requirement in order to ensure its superior credit quality.

2. Economic capital

The Bank's economic capital methodology relates its risk-taking capacity to the amount of economic capital needed to absorb potential losses arising from its exposures. The risk-taking capacity is defined as allocatable economic capital that is derived following a prudent assessment of the components of the Bank's equity, which are set out in the following table:

As at 31 March

SDR millions	2018	2017
Share capital	698.9	698.9
Statutory reserves per balance sheet	15,950.1	15,289.9
Less: shares held in treasury	(1.7)	(1.7)
Share capital and reserves	**16,647.3**	15,987.1
Securities revaluation account	(83.6)	88.1
Gold revaluation account	2,493.9	2,542.0
Re-measurement of defined benefit obligations	(210.1)	(347.6)
Other equity accounts	**2,200.2**	2,282.5
Profit and loss account	**508.1**	827.6
Total equity	**19,355.6**	19,097.2

Allocatable economic capital is determined following a prudent evaluation of the Bank's equity components for their loss absorption capacity and sustainability. The components of capital with long-term risk-bearing capacity are the Bank's Tier 1 capital and the sustainable portion of the securities and gold revaluation accounts ("sustainable supplementary capital"). Only this "allocatable capital" is available for allocation to the various categories of risk. The portion of revaluation accounts that is considered more transitory in nature is assigned to the "capital filter" together with the profit accrued during the financial year.

As at 31 March

SDR millions	**2018**	2017
Share capital and reserves	16,647.3	15,987.1
Re-measurement of defined benefit obligations	(210.1)	(347.6)
Negative securities revaluation account	(83.6)	–
Tier 1 capital	**16,353.6**	15,639.5
Sustainable supplementary capital	1,646.4	1,660.5
Allocatable capital	**18,000.0**	17,300.0
Capital filter	1,355.6	1,797.2
Total equity	**19,355.6**	19,097.2

As part of the annual capital planning process, Management allocates economic capital to risk categories within the amount of allocatable capital. As a first step, capital is assigned to an "economic capital cushion" that provides an additional margin of safety and is sufficient to sustain a potential material loss without the need to reduce the capital allocation to individual risk categories or to liquidate any holdings of assets. The level of the economic capital cushion is determined based on stress tests that explore extreme but still plausible default events. Allocations are then made to each category of financial risk (ie credit, market and "other risks") as well as operational risk. "Other risks" are risks that have been identified but that are not taken into account in the economic capital utilisation calculations, and include model risk and residual basis risk. Reflecting the high level of solvency targeted by the Bank, the economic capital framework measures economic capital to a 99.995% confidence level assuming a one-year horizon, except for FX settlement risk (included in the utilisation for credit risk) and "other risks". The amount of economic capital set aside for FX settlement risk and other risks is based on an assessment by Management. The Bank's economic capital framework is subject to regular review and calibration.

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

As at 31 March

	2018		2017	
SDR millions	Allocation	Utilisation	Allocation	Utilisation
Insolvency and transfer risk	9,600.0	6,314.3	9,200.0	8,715.5
FX settlement risk	300.0	300.0	300.0	300.0
Credit risk	9,900.0	6,614.3	9,500.0	9,015.5
Market risk	4,000.0	3,286.5	4,000.0	3,326.1
Operational risk	1,300.0	1,300.0	1,200.0	1,200.0
Other risks	300.0	300.0	300.0	300.0
Economic capital cushion	2,500.0	2,500.0	2,300.0	2,300.0
Total economic capital	**18,000.0**	**14,000.8**	17,300.0	16,141.6

3. Financial leverage

The Bank complements its capital adequacy assessment with a prudently managed financial leverage framework. The Bank monitors its financial leverage using a ratio that compares the BIS adjusted common equity with its total exposure. However, to reflect the scope and nature of its banking activities, the definition of the BIS adjusted common equity limits the recognition of revaluation accounts to the proportion of the gold and securities revaluation accounts that is considered sustainable ("sustainable supplementary capital"). Further, the exposure measure is supplemented by the inclusion of committed and uncommitted facilities, and pension fund assets.

The following table shows the calculation of the Bank's financial leverage ratio:

As at 31 March

SDR millions	**2018**	2017
Share capital and reserves	16,647.3	15,987.1
Sustainable supplementary capital	1,646.4	1,660.5
Share capital, reserves and sustainable supplementary capital	**18,293.7**	17,647.6
Re-measurement losses on defined benefit obligations	(210.1)	(347.6)
Negative securities revaluation account	(83.6)	–
Intangible assets	(27.4)	(26.4)
Prudential adjustments	**(321.1)**	(374.0)
Total BIS adjusted common equity (A)	**17,972.6**	17,273.6
Total balance sheet assets	**256,489.4**	242,248.4
Derivatives	(123.4)	(232.9)
Securities purchased under resale agreements	4.2	5.1
Committed and uncommitted facilities	3,901.1	4,424.9
Pension fund assets	1,143.5	1,140.5
Exposure adjustments	**4,925.4**	5,337.6
Total BIS exposure (B)	**261,414.8**	247,586.0
BIS leverage ratio (A) / (B)	**6.9%**	7.0%

The Bank also calculates a leverage ratio that is consistent with Basel III recommendations. The Bank's Basel III leverage ratio differs from the BIS leverage ratio in using Common Equity Tier 1 as its capital measure instead of BIS adjusted common equity as defined above. The calculation of Common Equity Tier 1 capital is included in section 4B. At 31 March 2018 the Bank's Basel III leverage ratio stood at 7.2% (2017: 7.4%).

4. Capital ratios

The economic capital framework and the financial leverage framework described above are the main tools used for assessing the Bank's capital adequacy. Risk-weighted assets, minimum capital requirements and capital ratios are disclosed to facilitate comparability. Guidance issued by the BCBS 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.

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. 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 2018 (2017: nil). In accordance with the requirements of the Basel frameworks, the expected loss is compared with the impairment provision and any shortfall is deducted from the Bank's Tier 1 capital. For securitisation exposures and relevant other assets, 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.

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

A. Tier 1 capital ratio

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 under the Basel II framework:

As at 31 March		**2018**			2017		
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%	184,291.0	12,577.9	1,006.2	166,485.1	14,574.9	1,166.0
Securitisation exposures and other assets	Standardised approach, where (B) is derived as (A) x 8%	304.8	240.2	19.2	282.7	220.9	17.7
Market risk							
Exposure to foreign exchange risk and gold price risk	Internal models approach, where (A) is derived as (B) / 8%	–	7,604.2	608.3	–	8,906.4	712.5
Operational risk							
	Advanced measurement approach, where (A) is derived as (B) / 8%	–	9,981.4	798.5	–	10,802.9	864.2
Total			**30,403.7**	**2,432.2**		34,505.1	2,760.4

The capital ratio measures capital adequacy by comparing the Bank's Tier 1 capital with its risk-weighted assets. The Tier 1 capital ratio, consistent with the Basel II framework, is provided in the following table:

As at 31 March *SDR millions*	2018	2017
Share capital and reserves	16,647.3	15,987.1
Re-measurement losses on defined benefit obligations	(210.1)	(347.6)
Negative securities revaluation account	(83.6)	–
Tier 1 capital	**16,353.6**	15,639.5
Expected loss	(23.8)	(32.3)
Tier 1 capital net of expected loss (A)	**16,329.8**	15,607.2
Total risk-weighted assets (B)	**30,403.7**	34,505.1
Tier 1 capital ratio (A) / (B)	**53.7%**	45.2%

B. Common Equity Tier 1 capital ratio

To facilitate comparability, information on risk-weighted assets and related minimum capital requirements calculated under the Basel III framework is provided in the following table. Credit risk-weighted assets differ, mainly due to the asset value correlation multiplier for large financial institutions. Relating to market risk, Basel III risk-weighted assets are calculated as the sum of the Basel II market risk-weighted assets (presented in the previous section) and market risk-weighted assets derived from a stressed VaR.

As at 31 March		2018			2017		
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%	184,291.0	14,428.8	1,154.3	166,486.6	16,433.1	1,314.6
Securitisation exposures and other assets	Standardised approach, where (B) is derived as (A) x 8%	304.8	240.2	19.2	282.7	220.9	17.7
Market risk							
Exposure to foreign exchange risk and gold price risk	Internal models approach, where (A) is derived as (B) / 8%	–	22,496.5	1,799.7	–	23,727.9	1,898.2
Operational risk							
	Advanced measurement approach, where (A) is derived as (B) / 8%	–	9,981.4	798.5	–	10,802.9	864.2
Total			**47,146.9**	**3,771.7**		51,184.8	4,094.7

The Common Equity Tier 1 capital ratio calculated under the Basel III framework is set out in the following table:

As at 31 March

SDR millions	2018	2017
Share capital and reserves	16,647.3	15,987.1
Revaluation accounts	2,410.3	2,630.1
Share capital, reserves and revaluation accounts	**19,057.6**	18,617.2
Re-measurement losses on defined benefit obligations	(210.1)	(347.6)
Expected loss	(23.8)	(32.3)
Intangible assets	(27.4)	(26.4)
Prudential adjustments	**(261.3)**	(406.3)
Total Common Equity Tier 1 capital (A)	**18,796.3**	18,210.9
Total risk-weighted assets (B)	**47,146.9**	51,184.8
Common Equity Tier 1 capital ratio (A) / (B)	**39.9%**	35.6%

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 shareholders' 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 frameworks 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 management 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 strategic operational risk management issues. 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, chaired by the Deputy General Manager, provides a forum for considering important compliance and operational risk matters, ensures the coordination of compliance matters and operational risk management throughout the Bank and informs or advises the Executive Committee as appropriate.

The risk management functions for financial risk and operational risk are performed by the Risk Management unit. The Head of Risk Management reports to the Deputy General Manager. The Head of the Operational Risk Management unit within Risk Management has reporting lines to the Deputy General Manager and the Head of Risk Management.

The Bank's compliance function is performed by the Compliance unit. The objective of this function is to assist Management in ensuring that all activities of the BIS and its staff are conducted in accordance with compliance laws, rules and standards. The Chief Compliance Officer reports to the Deputy General Manager and also has a right of direct access to the Audit Committee on compliance matters. The Audit Committee 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 a 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 valuation control function is to ensure that the Bank's valuations comply with its valuation policy and procedures. 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 reports to the General Manager.

The Internal Audit function evaluates and improves the effectiveness of risk management, control, and governance systems and processes. Internal Audit provides an independent, objective assurance function, and advises on best practice. Internal Audit has reporting lines to the General Manager and the Deputy General Manager, and to the Audit Committee.

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, operational risk and compliance reports aimed at various management levels are provided regularly 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, and the Compliance, Finance and Operational Risk Management units. The Banking and Risk Management Committee, another advisory committee to the Board, receives regular reports from the Risk Management 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 instruments 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 and valuation 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 framework covers credit risk, market risk, operational risk and other risks. As part of the annual capital planning process, the Bank allocates economic capital to the above risk categories commensurate with principles set by the Board and taking account of the business strategy. Reflecting the high level of solvency targeted by the Bank, the economic capital framework measures economic capital to a 99.995% confidence level assuming a one-year holding period. An additional amount of economic capital is set aside for FX settlement risk (included in the utilisation for credit risk) and "other risks" based on Management's assessment of risks which are not reflected in the economic capital calculations. Moreover, capital is also allocated to an "economic capital cushion" that is based on stress tests that explore extreme but still plausible default events. The economic capital cushion provides an additional margin of safety to sustain a potential material loss without the need to reduce the capital allocated to individual risk categories or to liquidate any holdings of assets.

The management of the Bank's capital adequacy is complemented by a comprehensive stress testing framework, and a prudent financial leverage framework. The stress testing framework supplements 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. The financial leverage framework focuses on a ratio that sets the BIS adjusted common equity in relation to its total balance sheet exposure.

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 management function.

A. Credit risk assessment

Credit risk is continuously controlled at both a counterparty and an aggregated level. The independent risk management function performs individual counterparty credit assessments following a well defined internal rating process. 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 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, except in the case of very short-term financial instruments (sight and notice accounts) and gold. 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 liabilities issued, because these items do not represent credit exposures of the Bank.

The vast majority of the Bank's assets are invested in sight accounts at central banks, or in securities issued by 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 2018, the Bank did not have any financial assets that were considered to be impaired (2017: nil). At 31 March 2018, no financial assets were considered past due (2017: nil). No credit loss was recognised in the current period (2017: nil).

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 2018

SDR millions	Sovereign and central banks	Public sector	Banks	Corporate	Securitisation	Total
On-balance sheet exposures						
Cash and sight accounts with banks	73,103.5	–	46.5	–	–	73,150.0
Gold and gold loans	–	–	15.5	–	–	15.5
Treasury bills	30,811.0	949.9	–	–	–	31,760.9
Securities purchased under resale agreements	1,323.5	–	30,568.4	12,221.0	–	44,112.9
Loans and advances	529.0	624.0	21,275.6	–	–	22,428.6
Governments and other securities	28,830.5	8,547.4	7,143.5	8,278.9	80.7	52,881.0
Derivative financial instruments	303.8	19.1	1,401.9	0.3	–	1,725.1
Accounts receivable	1.4	4.5	209.5	7.3	–	222.7
Total on-balance sheet exposure	**134,902.7**	**10,144.9**	**60,660.9**	**20,507.5**	**80.7**	**226,296.7**
Commitments						
Undrawn unsecured facilities	206.4	–	–	–	–	206.4
Total commitments	**206.4**	**–**	**–**	**–**	**–**	**206.4**
Total exposure	**135,109.1**	**10,144.9**	**60,660.9**	**20,507.5**	**80.7**	**226,503.1**

As at 31 March 2017

SDR millions	Sovereign and central banks	Public sector	Banks	Corporate	Securitisation	Total
On-balance sheet exposures						
Cash and sight accounts with banks	48,274.4	–	21.1	–	–	48,295.5
Gold and gold loans	–	–	18.5	–	–	18.5
Treasury bills	34,081.2	2,082.4	–	–	–	36,163.6
Securities purchased under resale agreements	2,011.7	–	37,166.9	4,751.3	–	43,929.9
Loans and advances	942.4	542.1	19,652.3	–	–	21,136.8
Government and other securities	34,230.0	9,154.7	5,565.4	8,375.1	77.3	57,402.5
Derivative financial instruments	142.4	16.9	2,059.8	1.6	–	2,220.7
Accounts receivable	1.1	6.2	178.9	5.6	–	191.8
Total on-balance sheet exposure	119,683.2	11,802.3	64,662.9	13,133.6	77.3	209,359.3
Commitments						
Undrawn unsecured facilities	220.9	–	–	–	–	220.9
Undrawn secured facilities	2,451.4	–	–	–	–	2,451.4
Total commitments	2,672.3		–		–	2,672.3
Total exposure	122,355.5	11,802.3	64,662.9	13,133.6	77.3	212,031.6

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. Exposures are allocated to regions based on the country of incorporation of each legal entity.

As at 31 March 2018

SDR millions	Africa and Europe	Asia-Pacific	Americas	International institutions	Total
On-balance sheet exposures					
Cash and sight accounts with banks	61,675.2	11,445.1	29.7	–	73,150.0
Gold and gold loans	15.5	–	–	–	15.5
Treasury bills	4,718.9	21,369.3	4,722.8	949.9	31,760.9
Securities purchased under resale agreements	42,101.5	–	2,011.4	–	44,112.9
Loans and advances	14,515.1	5,050.0	2,410.4	453.1	22,428.6
Government and other securities	26,568.8	9,580.0	11,596.1	5,136.1	52,881.0
Derivative financial instruments	1,118.5	127.7	459.8	19.1	1,725.1
Accounts receivable	204.0	1.2	13.0	4.5	222.7
Total on-balance sheet exposure	**150,917.5**	**47,573.3**	**21,243.2**	**6,562.7**	**226,296.7**
Commitments					
Undrawn unsecured facilities	–	206.4	–	–	206.4
Total commitments	**–**	**206.4**	**–**	**–**	**206.4**
Total exposure	**150,917.5**	**47,779.7**	**21,243.2**	**6,562.7**	**226,503.1**

As at 31 March 2017

SDR millions	Africa and Europe	Asia-Pacific	Americas	International institutions	Total
On-balance sheet exposures					
Cash and sight accounts with banks	39,887.0	8,371.0	37.5	–	48,295.5
Gold and gold loans	18.5	–	–	–	18.5
Treasury bills	7,976.6	20,512.5	5,592.1	2,082.4	36,163.6
Securities purchased under resale agreements	41,182.1	–	2,747.8	–	43,929.9
Loans and advances	13,794.2	4,433.7	2,366.8	542.1	21,136.8
Government and other securities	28,523.6	9,873.2	13,961.4	5,044.3	57,402.5
Derivative financial instruments	1,448.3	324.1	431.4	16.9	2,220.7
Accounts receivable	178.8	1.2	7.8	4.0	191.8
Total on-balance sheet exposure	133,009.1	43,515.7	25,144.8	7,689.7	209,359.3
Commitments					
Undrawn unsecured facilities	–	220.9	–	–	220.9
Undrawn secured facilities	236.2	2,215.2	–	–	2,451.4
Total commitments	236.2	2,436.1	–	–	2,672.3
Total exposure	133,245.3	45,951.8	25,144.8	7,689.7	212,031.6

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 2018

SDR millions	AAA	AA	A	BBB	BB and below	Unrated	Total
On-balance sheet exposures							
Cash and sight accounts with banks	42,615.3	14,130.5	15,375.6	1,028.5	0.1	–	73,150.0
Gold and gold loans	–	–	15.5	–	–	–	15.5
Treasury bills	433.3	8,604.4	20,608.3	2,114.9	–	–	31,760.9
Securities purchased under resale agreements	–	13,544.5	23,487.9	7,080.5	–	–	44,112.9
Loans and advances	436.9	546.6	20,233.5	660.7	550.9	–	22,428.6
Government and other securities	9,703.0	24,951.2	17,245.5	981.3	–	–	52,881.0
Derivative financial instruments	–	20.7	1,395.1	42.0	251.7	15.5	1,725.1
Accounts receivable	0.2	0.5	196.7	0.3	0.5	24.5	222.7
Total on-balance sheet exposure	**53,188.7**	**61,798.4**	**98,558.1**	**11,908.2**	**803.2**	**40.0**	**226,296.7**
Commitments							
Undrawn unsecured facilities	–	–	–	206.4	–	–	206.4
Total commitments	**–**	**–**	**–**	**206.4**	**–**	**–**	**206.4**
Total exposure	**53,188.7**	**61,798.4**	**98,558.1**	**12,114.6**	**803.2**	**40.0**	**226,503.1**

As at 31 March 2017

SDR millions	AAA	AA	A	BBB	BB and below	Unrated	Total
On-balance sheet exposures							
Cash and sight accounts with banks	29,400.3	7,424.4	10,134.2	1,336.5	0.1	–	48,295.5
Gold and gold loans	–	–	18.5	–	–	–	18.5
Treasury bills	1,455.1	10,037.6	21,984.2	2,686.7	–	–	36,163.6
Securities purchased under resale agreements	–	6,762.9	30,304.2	6,862.8	–	–	43,929.9
Loans and advances	854.8	335.7	18,576.4	780.5	589.4	–	21,136.8
Government and other securities	9,657.0	30,464.4	16,218.0	1,063.1	–	–	57,402.5
Derivative financial instruments	–	57.8	2,031.2	15.9	106.4	9.4	2,220.7
Accounts receivable	7.9	0.3	133.7	37.8	0.4	11.7	191.8
Total on-balance sheet exposure	41,375.1	55,083.1	99,400.4	12,783.3	696.3	21.1	209,359.3
Commitments							
Undrawn unsecured facilities	–	–	–	220.9	–	–	220.9
Undrawn secured facilities	–	622.2	584.6	1,008.4	236.2	–	2,451.4
Total commitments	–	622.2	584.6	1,229.3	236.2	–	2,672.3
Total exposure	41,375.1	55,705.3	99,985.0	14,012.6	932.5	21.1	212,031.6

C. Credit risk mitigation

Netting

Netting agreements give the Bank a legally enforceable right to net transactions with counterparties under potential future conditions, notably an event of default. Such master netting or similar agreements apply to counterparties with which the Bank conducts most of its derivative transactions, as well as to counterparties used for repurchase and reverse repurchase agreement transactions. Where required, netting is applied when determining the amount of collateral to be requested or provided, but the Bank does not typically settle assets and liabilities on a net basis during the normal course of business. As such, the amounts shown on the Bank's balance sheet are the gross amounts.

Collateral

The Bank mitigates credit risk by requiring counterparties to provide collateral. The Bank receives collateral in respect of most derivative contracts and reverse repurchase agreements and for advances made under collateralised facility agreements. During the term of these transactions, further collateral may be called or collateral may be released based on the movements in value of both the underlying instrument and the collateral that has been received. The Bank is required to provide collateral in respect of repurchase agreements.

For derivative contracts and reverse repurchase agreements, the Bank accepts as collateral high-quality sovereign, state agency and supranational securities and, in a limited number of cases, cash. For advances made under collateralised facility agreements, collateral accepted includes currency deposits with the Bank, units in the BIS Investment Pools and gold.

Under the terms of its collateral arrangements, the Bank is permitted to sell ("re-hypothecate") collateral received on derivative contracts and reverse repurchase agreements, but upon expiry of the transaction must return equivalent financial instruments to the counterparty. At 31 March 2018, the Bank had not lent out any of the collateral it held (2017: SDR 0.1 million).

The fair value of collateral held which the Bank had the right to sell was:

As at 31 March *SDR millions*	2018	2017
Collateral held in respect of:		
Derivatives	14.5	170.9
Securities purchased under resale agreements	34,436.7	28,919.2
Total	**34,451.2**	29,090.1

Financial assets and liabilities subject to netting or collateralisation

The tables below show the categories of assets and liabilities which are either subject to collateralisation, or for which netting agreements would apply under potential future conditions such as the event of default of a counterparty.

The amount of collateral required is usually based on valuations performed on the previous business day, whereas the Bank's balance sheet reflects the valuations of the reporting date. Due to this timing difference, the valuation of collateral can be higher than the valuation of the underlying contract in the Bank's balance sheet. The amount of the collateral obtained is also impacted by thresholds, minimum transfer amounts and valuation adjustments ("haircuts") specified in the contracts. In these tables, the mitigating effect of collateral has been limited to the balance sheet value of the underlying net asset.

As at 31 March 2018		Effect of risk mitigation				Analysed as:	
SDR millions	Gross carrying amount as per balance sheet	Adjustments for settlement date effects	Enforceable netting agreements	Collateral (received) / provided (limited to balance sheet value)	Exposure after risk mitigation	Amounts not subject to risk mitigation agreements	Amounts subject to risk mitigation agreements
Financial assets							
Securities purchased under resale agreements	44,112.9	(8,647.7)	–	(35,465.1)	0.1	–	0.1
Advances	550.9	–	–	(550.9)	–	–	–
Derivative financial assets	1,725.1	–	(1,329.2)	(14.5)	381.4	36.5	344.9
Financial liabilities							
Securities sold under repurchase agreements	(2,095.0)	–	–	2,095.0	.	.	.
Derivative financial liabilities	(3,138.5)	–	1,329.2	–	.	.	.

As at 31 March 2017		Effect of risk mitigation				Analysed as:	
SDR millions	Gross carrying amount as per balance sheet	Adjustments for settlement date effects	Enforceable netting agreements	Collateral (received) / provided (limited to balance sheet value)	Exposure after risk mitigation	Amounts not subject to risk mitigation agreements	Amounts subject to risk mitigation agreements
Financial assets							
Securities purchased under resale agreements	43,929.9	(13,356.4)	–	(30,571.3)	2.2	–	2.2
Advances	589.4	–	–	(589.4)	–	–	–
Derivative financial assets	2,220.7	–	(1,525.1)	(240.6)	455.0	20.6	434.4
Financial liabilities							
Securities sold under repurchase agreements	(1,418.6)	–	–	1,417.8	.	.	.
Derivative financial liabilities	(1,823.5)	–	1,525.1	–	.	.	.

D. Economic capital for credit risk

The Bank determines economic capital for credit risk (except for FX settlement risk, which is included in the utilisation 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 level. The amount of economic capital set aside for FX settlement risk reflected in the Bank's economic capital calculations is based on an assessment by Management.

For the financial year ended 31 March	**2018**				2017			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Economic capital utilisation for credit risk	7,699.3	9,222.5	6,393.4	**6,614.3**	7,825.4	9,015.5	7,100.1	9,015.5

E. Minimum capital requirements for credit risk

Exposure to sovereigns, banks and corporates

For the calculation of risk-weighted assets for exposures to sovereigns, banks 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 on- and off-balance sheet credit exposures, except for securities and derivative contracts. 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 each counterparty PD estimate 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, re-margining and revaluation frequency. With effect from March 2018, the LGD estimates for central bank deposits were lowered to better reflect their risk characteristics, thereby reducing the estimated capital utilisation. The recognition of the risk-reducing effects of collateral obtained for derivative 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 2018 includes SDR 139.9 million for interest rate contracts (2017: SDR 142.2 million) and SDR 234.4 million for FX and gold contracts (2017: SDR 435.0 million). In line with the Basel II framework, the minimum capital requirement is determined as 8% of risk-weighted assets.

As at 31 March 2018

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	52,697.2	0.01	7.1	1.1	566.9
AA	52,128.9	0.02	31.4	6.8	3,557.0
A	74,369.9	0.04	44.1	9.4	6,962.0
BBB	5,092.5	0.22	46.7	29.2	1,488.1
BB and below	2.5	4.71	56.2	160.2	3.9
Total	**184,291.0**				**12,577.9**

As at 31 March 2017

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	40,818.0	0.01	37.0	1.9	788.5
AA	50,913.9	0.02	44.0	7.8	3,957.7
A	68,510.2	0.04	53.8	10.3	7,068.4
BBB	6,233.8	0.28	58.7	44.1	2,751.0
BB and below	9.2	1.72	59.0	100.7	9.3
Total	166,485.1				14,574.9

At 31 March 2018, the minimum capital requirement for credit risk related to exposures to sovereigns, banks and corporates was SDR 1,006.2 million (2017: SDR 1,166.0 million).

The following table 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 2018	228,979.4	44,688.4	**184,291.0**
As at 31 March 2017	212,369.1	45,884.0	166,485.1

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 market values of the exposures and the associated risk weights. In line with the Basel II framework, the minimum capital requirement is determined as 8% of risk-weighted assets.

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

As at 31 March 2018

SDR millions	External rating	Amount of exposures	Risk weight	Risk-weighted assets
Securities backed by other receivables (government-sponsored)	AAA	80.7	20%	16.1
Total		**80.7**		**16.1**

As at 31 March 2017

SDR millions	External rating	Amount of exposures	Risk weight	Risk-weighted assets
Securities backed by other receivables (government-sponsored)	AAA	77.3	20%	15.5
Total		77.3		15.5

At 31 March 2018, the minimum capital requirement for securitisation exposures was SDR 1.3 million (2017: SDR 1.2 million).

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 six-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 level assuming a one-year holding period. The Bank calculates the economic capital utilisation for market risk on the basis of a stressed market data set. 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. These gold investment assets are held in custody or placed on deposit with commercial banks. At 31 March 2018, the Bank's net gold investment assets were 102 tonnes with a value of SDR 2,995.5 million (2017: 103 tonnes, SDR 3,048.5 million), approximately 15% of its equity (2017: 16%). 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 bond yields, swap rates and credit spreads.

The following tables 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 2018

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	Total
Euro	7.7	(12.7)	(24.7)	(29.1)	(48.6)	(12.2)	(17.4)	(137.0)
Japanese yen	11.4	0.9	0.1	(0.1)	0.1	(0.1)	–	12.3
Pound sterling	0.3	(2.0)	(3.7)	(15.4)	(13.8)	(6.2)	(0.4)	(41.2)
Renminbi	(2.7)	(6.0)	(6.9)	(1.2)	–	–	–	(16.8)
Swiss franc	12.6	(0.1)	(0.2)	(0.7)	(0.6)	(0.6)	(3.1)	7.3
US dollar	16.4	(14.5)	(33.8)	(42.7)	(66.1)	(60.0)	(10.7)	(211.4)
Other currencies	(0.5)	1.9	(0.2)	(0.4)	0.3	–	–	1.1
Total	**45.2**	**(32.5)**	**(69.4)**	**(89.6)**	**(128.7)**	**(79.1)**	**(31.6)**	**(385.7)**

As at 31 March 2017

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	Total
Euro	13.0	(8.7)	(18.5)	(26.7)	(21.8)	(41.4)	(63.8)	(167.9)
Japanese yen	8.9	0.8	0.1	(0.1)	–	–	–	9.7
Pound sterling	(3.0)	(0.5)	(7.2)	(13.9)	(10.1)	(3.0)	10.8	(26.9)
Renminbi	(2.8)	(4.1)	(5.4)	(2.3)	–	–	–	(14.6)
Swiss franc	8.5	(0.5)	(0.2)	(0.3)	(0.9)	(1.1)	(3.6)	1.9
US dollar	11.8	(19.1)	(43.8)	(34.5)	(68.5)	(48.5)	(18.0)	(220.6)
Other currencies	(0.6)	(0.2)	(0.5)	(0.3)	(1.3)	1.1	0.1	(1.7)
Total	35.8	(32.3)	(75.5)	(78.1)	(102.6)	(92.9)	(74.5)	(420.1)

C. Foreign exchange risk

The Bank's functional currency, the SDR, is a composite currency comprising fixed amounts of USD, EUR, JPY, GBP and Renminbi. 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. 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 2018

SDR millions	SDR	USD	EUR	GBP	JPY	RMB	CHF	Gold	Other currencies	Total
Assets										
Cash and sight accounts	–	8.5	51,492.0	20.4	11,432.7	1.3	10,131.8	–	63.3	73,150.0
Gold and gold loans	–	–	–	–	–	–	–	23,429.6	–	23,429.6
Treasury bills	–	4,722.8	4,790.8	–	19,424.8	77.4	433.3	–	2,311.8	31,760.9
Securities purchased under resale agreements	–	2,871.3	25,685.3	12,905.7	2,650.6	–	–	–	–	44,112.9
Loans and advances	453.4	9,537.9	7,376.8	2,149.1	328.6	–	491.9	–	2,090.9	22,428.6
Government and other securities	–	23,125.9	15,869.2	5,532.9	448.7	4,657.0	134.7	–	3,112.6	52,881.0
Derivative financial instruments	1,784.8	71,900.1	(57,189.0)	(340.2)	(6,693.8)	3,522.8	(9,449.1)	(2,309.5)	499.0	1,725.1
Accounts receivable	–	6,416.4	140.7	96.5	–	88.3	10.0	–	57.1	6,809.0
Land, buildings and equipment	179.1	–	–	–	–	–	13.2	–	–	192.3
Total assets	**2,417.3**	**118,582.9**	**48,165.8**	**20,364.4**	**27,591.6**	**8,346.8**	**1,765.8**	**21,120.1**	**8,134.7**	**256,489.4**
Liabilities										
Gold deposits	–	–	–	–	–	–	–	(9,859.5)	–	(9,859.5)
Currency deposits	(2,095.9)	(177,118.3)	(5,666.6)	(16,193.3)	(886.5)	(2,670.9)	(357.1)	–	(6,677.0)	(211,665.6)
Securities sold under repurchase agreements	–	–	(1,436.7)	(658.3)	–	–	–	–	–	(2,095.0)
Derivative financial instruments	201.5	65,581.6	(26,898.1)	(2,150.7)	(25,524.5)	(3,812.2)	(843.5)	(8,264.6)	(1,428.0)	(3,138.5)
Accounts payable	–	(391.0)	(8,918.0)	(28.4)	–	–	–	–	(43.8)	(9,381.2)
Other liabilities	–	(0.2)	–	–	–	–	(992.6)	–	(1.2)	(994.0)
Total liabilities	**(1,894.4)**	**(111,927.9)**	**(42,919.4)**	**(19,030.7)**	**(26,411.0)**	**(6,483.1)**	**(2,193.2)**	**(18,124.1)**	**(8,150.0)**	**(237,133.8)**
Net currency and gold position	**522.9**	**6,655.0**	**5,246.4**	**1,333.7**	**1,180.6**	**1,863.7**	**(427.4)**	**2,996.0**	**(15.3)**	**19,355.6**
Adjustment for gold	–	–	–	–	–	–	–	(2,996.0)	–	(2,996.0)
Net currency position	**522.9**	**6,655.0**	**5,246.4**	**1,333.7**	**1,180.6**	**1,863.7**	**(427.4)**	**–**	**(15.3)**	**16,359.6**
SDR-neutral position	(522.9)	(6,345.5)	(5,190.2)	(1,317.0)	(1,218.7)	(1,765.4)	–	–	–	**(16,359.6)**
Net currency exposure on SDR-neutral basis	**–**	**309.5**	**56.2**	**16.7**	**(38.1)**	**98.3**	**(427.4)**	**–**	**(15.3)**	**–**

As at 31 March 2017

SDR millions	SDR	USD	EUR	GBP	JPY	RMB	CHF	Gold	Other currencies	Total
Assets										
Cash and sight accounts	–	6.8	29,976.5	818.9	8,354.4	1.5	8,659.3	–	478.1	48,295.5
Gold and gold loans	–	–	–	–	–	–	–	27,276.0	–	27,276.0
Treasury bills	–	4,985.8	8,149.6	322.5	19,394.4	36.9	55.3	–	3,219.1	36,163.6
Securities purchased under resale agreements	–	3,199.1	25,654.4	10,720.8	4,355.6	–	–	–	–	43,929.9
Loans and advances	498.6	10,434.2	6,398.5	1,146.8	5.8	–	272.9	–	2,380.0	21,136.8
Government and other securities	–	25,847.6	16,033.4	6,102.9	2,494.2	2,272.9	101.6	–	4,549.9	57,402.5
Derivative financial instruments	2,091.0	49,267.9	(35,776.0)	(448.0)	(2,147.6)	1,244.4	(3,802.2)	(7,925.8)	(283.0)	2,220.7
Accounts receivable	–	4,791.8	71.4	37.3	–	1.1	9.5	–	715.4	5,626.5
Land, buildings and equipment	182.1	–	–	–	–	–	14.8	–	–	196.9
Total assets	2,771.7	98,533.2	50,507.8	18,701.2	32,456.8	3,556.8	5,311.2	19,350.2	11,059.5	242,248.4
Liabilities										
Gold deposits	–	–	–	–	–	–	–	(9,934.5)	–	(9,934.5)
Currency deposits	(2,875.2)	(147,534.4)	(21,788.8)	(11,348.0)	(1,451.4)	(2,249.0)	(359.9)	–	(6,835.7)	(194,442.4)
Securities sold under repurchase agreements	–	(9.6)	(1,244.0)	(165.0)	–	–	–	–	–	(1,418.6)
Derivative financial instruments	–	56,660.6	(11,338.9)	(4,925.4)	(28,435.2)	478.1	(4,534.7)	(6,366.2)	(3,361.8)	(1,823.5)
Accounts payable	–	(167.5)	(11,120.7)	(948.3)	(1,320.4)	–	–	–	(886.6)	(14,443.5)
Other liabilities	–	(0.4)	–	–	–	–	(1,087.0)	–	(1.3)	(1,088.7)
Total liabilities	(2,875.2)	(91,051.3)	(45,492.4)	(17,386.7)	(31,207.0)	(1,770.9)	(5,981.6)	(16,300.7)	(11,085.4)	(223,151.2)
Net currency and gold position	(103.5)	7,481.9	5,015.4	1,314.5	1,249.8	1,785.9	(670.4)	3,049.5	(25.9)	19,097.2
Adjustment for gold	–	–	–	–	–	–	–	(3,049.5)	–	(3,049.5)
Net currency position	(103.5)	7,481.9	5,015.4	1,314.5	1,249.8	1,785.9	(670.4)	–	(25.9)	16,047.7
SDR-neutral position	103.5	(6,926.2)	(4,916.6)	(1,279.4)	(1,268.9)	(1,760.1)	–	–	–	(16,047.7)
Net currency exposure on SDR-neutral basis	–	555.7	98.8	35.1	(19.1)	25.8	(670.4)	–	(25.9)	–

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 level and assuming a one-year holding period. The Bank calculates the economic capital utilisation for market risk on the basis of a stressed market data set. The stressed data set is subject to regular review and calibrated to take account of the Bank's key market risk exposures and market risk drivers.

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 following table 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 ended 31 March	**2018**				2017			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Economic capital utilisation for market risk	3,253.2	3,397.5	3,181.2	**3,286.5**	3,442.7	3,716.2	3,162.9	3,326.1

The following table provides a further analysis of the Bank's economic capital utilisation for market risk by category of risk:

For the financial year ended 31 March	**2018**				2017			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Gold price risk	2,284.3	2,391.7	2,195.5	**2,276.8**	2,297.3	2,477.9	2,123.5	2,318.8
Interest rate risk	2,039.3	2,151.7	1,944.4	**2,094.9**	2,276.4	2,545.0	2,058.4	2,090.8
Foreign exchange risk	728.3	782.9	679.8	**736.5**	682.1	1,089.7	567.5	761.9
Diversification effects	(1,798.7)	(1,874.4)	(1,717.8)	**(1,821.7)**	(1,813.1)	(2,173.7)	(1,617.9)	(1,845.4)
Total				**3,286.5**				3,326.1

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 for 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 level and a 10-day holding 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 following table 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	**2018**			2017		
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%	202.8	7,604.2	**608.3**	237.5	8,906.4	712.5

5. 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 Operational Risk Management 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 level assuming a one-year holding period. The following table 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 ended 31 March	**2018**				2017			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Economic capital utilisation for operational risk	1,275.2	1,300.0	1,200.0	**1,300.0**	1,200.0	1,200.0	1,200.0	1,200.0

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 level and a one-year time horizon. The following table shows the minimum capital requirements for operational risk, and the related risk-weighted assets:

As at 31 March	2018			2017		
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%	798.5	9,981.4	**798.5**	864.2	10,802.9	864.2

6. 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.

The Bank's currency and gold deposits, principally from central banks and international institutions, comprise 93% (2017: 92%) of its total liabilities. At 31 March 2018, currency and gold deposits originated from 175 depositors (2017: 169 depositors). Within these deposits, there are significant individual customer concentrations, with four customers each contributing in excess of 5% of the total on a settlement date basis (2017: four customers).

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 is exposed to funding liquidity risk mainly because of the short-term nature of its deposits and because it undertakes to repurchase at fair value certain of its currency deposit instruments at one or two business days' notice. In line with the Bank's objective to maintain a high level of liquidity, it has developed a liquidity management framework, including a ratio, based on conservative assumptions for estimating the liquidity available and the liquidity required.

A. Maturity profile of cash flows

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. Options are included in the table at fair value and are shown in the "Up to 1 month" category.

31 March 2018

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	73,150.0	–	–	–	–	–	–	–	73,150.0
Gold and gold loans	23,429.6	–	–	–	–	–	–	–	23,429.6
Treasury bills	4,708.9	12,626.1	7,601.1	6,848.7	–	–	–	–	31,784.8
Securities purchased under resale agreements	25,825.2	9,844.3	–	–	–	–	–	–	35,669.5
Loans and advances	8,071.0	8,061.1	5,865.8	210.0	–	–	–	–	22,207.9
Government and other securities	2,298.3	6,739.2	3,119.7	8,576.8	10,068.8	21,994.2	1,280.3	–	54,077.3
Total assets	**137,483.0**	**37,270.7**	**16,586.6**	**15,635.5**	**10,068.8**	**21,994.2**	**1,280.3**	**–**	**240,319.1**
Liabilities									
Gold deposits	(9,859.5)	–	–	–	–	–	–	–	(9,859.5)
Currency deposits									
Deposit instruments repayable at 1–2 days' notice	(29,438.0)	(16,215.2)	(9,053.4)	(8,509.1)	(24,412.2)	(21,372.3)	–	–	(109,000.2)
Other currency deposits	(68,689.4)	(22,337.4)	(5,059.1)	(2,297.4)	–	–	–	–	(98,383.3)
Securities sold under repurchase agreements	(2,094.8)	–	–	–	–	–	–	–	(2,094.8)
Total liabilities	**(110,081.7)**	**(38,552.6)**	**(14,112.5)**	**(10,806.5)**	**(24,412.2)**	**(21,372.3)**	**–**	**–**	**(219,337.8)**
Derivatives									
Net settled cash flows									
Options and interest rate contracts	(16.6)	(5.1)	(134.6)	38.8	(3.4)	(4.1)	(0.1)	–	(125.1)
Gross settled cash flows									
Interest rate contracts									
Inflows	192.7	346.7	0.7	69.1	34.5	–	–	–	643.7
Outflows	(217.8)	(380.8)	–	(77.9)	(39.4)	–	–	–	(715.9)
Subtotal	(25.1)	(34.1)	0.7	(8.8)	(4.9)	–	–	–	(72.2)
Currency and gold contracts									
Inflows	129,074.2	48,660.6	18,162.8	14,819.4	419.3	–	–	–	211,136.3
Outflows	(129,102.2)	(49,106.9)	(18,225.5)	(14,894.3)	(419.2)	–	–	–	(211,748.1)
Subtotal	(28.0)	(446.3)	(62.7)	(74.9)	0.1	–	–	–	(611.8)
Total derivatives	**(69.7)**	**(485.5)**	**(196.6)**	**(44.9)**	**(8.2)**	**(4.1)**	**(0.1)**	**–**	**(809.1)**
Total future undiscounted cash flows	**27,331.6**	**(1,767.4)**	**2,277.5**	**4,784.1**	**(14,351.6)**	**617.8**	**1,280.2**	**–**	**20,172.2**

As at 31 March 2017

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	48,295.5	–	–	–	–	–	–	–	48,295.5
Gold and gold loans	27,276.0	–	–	–	–	–	–	–	27,276.0
Treasury bills	8,920.1	11,922.8	6,886.6	8,432.2	–	–	–	–	36,161.7
Securities purchased under resale agreements	16,715.8	13,850.4	–	–	–	–	–	–	30,566.2
Loans and advances	9,926.9	6,980.4	4,159.0	–	–	–	–	–	21,066.3
Government and other securities	3,950.3	2,390.5	5,606.5	11,217.3	11,386.6	21,891.6	2,038.9	–	58,481.7
Total assets	115,084.6	35,144.1	16,652.1	19,649.5	11,386.6	21,891.6	2,038.9	–	221,847.4
Liabilities									
Gold deposits	(9,934.5)	–	–	–	–	–	–	–	(9,934.5)
Currency deposits									
Deposit instruments repayable at 1–2 days' notice	(13,589.5)	(30,328.4)	(16,378.7)	(17,801.8)	(16,647.6)	(5,767.9)	(17.1)	–	(100,531.0)
Other currency deposits	(47,793.2)	(19,446.3)	(12,072.1)	(10,809.8)	–	–	–	–	(90,121.4)
Securities sold under repurchase agreements	(1,269.2)	(148.9)	–	–	–	–	–	–	(1,418.1)
Total liabilities	(72,586.4)	(49,923.6)	(28,450.8)	(28,611.6)	(16,647.6)	(5,767.9)	(17.1)	–	(202,005.0)
Derivatives									
Net settled cash flows									
Options and interest rate contracts	(4.4)	(11.6)	(10.7)	20.0	32.9	(30.8)	(0.5)	–	(5.1)
Gross settled cash flows									
Interest rate contracts									
Inflows	179.8	371.2	3.1	6.9	651.4	36.8	–	–	1,249.2
Outflows	(178.4)	(353.2)	–	(1.3)	(628.8)	(36.7)	–	–	(1,198.4)
Subtotal	1.4	18.0	3.1	5.6	22.6	0.1	–	–	50.8
Currency and gold contracts									
Inflows	85,753.2	45,391.8	19,472.6	17,765.9	3,193.0	–	–	–	171,576.5
Outflows	(85,398.4)	(45,379.1)	(19,162.7)	(17,669.9)	(3,191.5)	–	–	–	(170,801.6)
Subtotal	354.8	12.7	309.9	96.0	1.5	–	–	–	774.9
Total derivatives	351.8	19.1	302.3	121.6	57.0	(30.7)	(0.5)	–	820.6
Total future undiscounted cash flows	42,850.0	(14,760.4)	(11,496.4)	(8,840.5)	(5,204.0)	16,093.0	2,021.3	–	20,663.0

In the above table, the gross cash flows for currency and gold contracts have been amended since they were originally published in the 2016/17 financial statements.

The following table 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 2018	–	–	–	206.4	–	–	–	–	**206.4**
As at 31 March 2017	–	2,215.2	236.2	220.9	–	–	–	–	2,672.3

B. Liquidity ratio

The Bank has adopted a liquidity risk framework taking into account regulatory guidance issued by the Basel Committee on Banking Supervision related to the Liquidity Coverage Ratio (LCR). The framework is based on a liquidity ratio that compares the Bank's available liquidity with a liquidity requirement over a one-month time horizon assuming a stress scenario. In line with the Basel III liquidity framework, the underlying stress scenario combines an idiosyncratic and a market crisis. However, the liquidity ratio differs in construction from the LCR to reflect the nature and scope of the BIS banking activities − in particular, the short-term nature of the Bank's assets and liabilities. Within the Bank's liquidity framework, the Board of Directors has set a limit for the Bank's liquidity ratio which requires the liquidity available to be at least 100% of the potential liquidity requirement.

The following table provides information on the development of the Bank's liquidity ratio for the last two years:

For the financial year ended 31 March	**2018**				2017			
Percentages	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Liquidity ratio	143.9%	175.3%	126.6%	**128.8%**	139.1%	156.5%	120.8%	151.0%

The liquidity available is determined as the cash inflow from financial instruments over a one-month horizon, along with potential additional liquidity which could be generated from the disposal of highly liquid securities, or by entering into sale and repurchase agreements for a part of the Bank's remaining unencumbered high-quality liquid securities. In calculating the amount of potential additional liquidity, an assessment is performed to identify securities which are of high credit quality and highly liquid. This is followed by a projection of the amounts that could reasonably be generated through selling these securities or entering into repurchase transactions.

The Bank determines the liquidity required as the sum of the cash outflow from financial instruments over a one-month horizon, the estimated early withdrawal of currency deposits, and the estimated drawings of undrawn facilities. As regards currency deposits, it is assumed that all deposits that mature within the time horizon are not rolled over and that a proportion of non-maturing currency deposits is withdrawn from the Bank prior to contractual maturity. At 31 March 2018, the estimated outflow of currency deposits in response to the stress scenario amounted to 56.3% (2017: 44.6%) of the total stock of currency deposits. Moreover, it is assumed that undrawn facilities committed by the Bank would be fully drawn by customers, along with a proportion of undrawn uncommitted facilities.

The following table shows the Bank's estimated liquidity available, the liquidity required and the resulting liquidity ratio:

As at 31 March

SDR billions	2018	2017
Liquidity available		
Estimated cash inflows	116.9	94.0
Estimated liquidity from sales of highly liquid securities	32.3	35.8
Estimated sale and repurchase agreements	5.2	5.9
Total liquidity available (A)	**154.4**	135.7
Liquidity required		
Estimated withdrawal of currency deposits	115.3	84.3
Estimated drawings of facilities	2.1	4.6
Estimated other outflows	2.4	1.1
Total liquidity required (B)	**119.8**	90.0
Liquidity ratio (A) / (B)	**128.8%**	151.0%

For reference, the Bank also calculates an LCR following the principles set out in the guidance issued by the BCBS. At 31 March 2018, the Bank's LCR stood at 141.9% (2017: 198.2%).

Independent auditor’s report

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of the Bank for International Settlements, which comprise the balance sheet as at 31 March 2018, the profit and loss account, the statement of comprehensive income, movements in the Bank's equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank for International Settlements as at 31 March 2018 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the Bank for International Settlements in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Switzerland, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank for International Settlement’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank for International Settlement or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank for International Settlement’s financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Bank for International Settlement's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank for International Settlement's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank for International Settlements to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Zurich, 7 May 2018

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