Annex

Financial statements

The BIS's financial statements for the financial year ended 31 March 2021 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 by video conference on 29 June 2021

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 2021.

Pursuant to Article 49 of the Bank's Statutes, they are presented in a form approved by the Board of Directors on 9 May 2021, and are subject to approval by shareholders at the Annual General Meeting.

The net profit for the year was exceptional at SDR 1,237.3 million. This compares with SDR 165.5 million for the prior year, and reflects the recouping in full of the valuation losses from the start of the pandemic, coupled with strong earnings from a higher average balance sheet. The Board of Directors proposes to allocate this profit as follows. First, SDR 294.1 million to pay a dividend of SDR 520 per share, comprising the normal dividend of SDR 265 and a supplementary dividend of SDR 255 to compensate for the absence of a dividend in 2019/20. Second, SDR 300.0 million to the Special Dividend Reserve Fund. This would be coupled with establishing a work-plan to develop a new dividend policy to use this Fund to smooth future dividend payments. Third, SDR 47.1 million to the general reserve fund. Fourth, SDR 596.1 million to the free reserve fund.

Basel, 17 May 2021

Agustín Carstens
General Manager

Luiz Awazu Pereira da Silva
Deputy General Manager

Contents

Balance sheet

As at 31 March

SDR millions	Note	**2021**	2020
Assets			
Cash and cash equivalents	1	50,854.6	54,021.4
Securities purchased under resale agreements	2	78,572.0	56,018.6
Loans and advances	2	45,544.4	54,038.9
Government and other securities	2	127,079.5	103,706.1
Gold and gold loans	3	41,665.7	31,436.8
Derivative financial instruments	4	7,621.8	3,521.0
Accounts receivable and other assets	5	4,618.0	5,555.2
Land, buildings and equipment	6	198.4	199.3
Total assets		**356,154.4**	308,497.3
Liabilities			
Currency deposits	7	288,014.7	250,194.8
Securities sold under repurchase agreements	8	–	148.8
Gold deposits	9	18,848.9	15,221.1
Derivative financial instruments	4	2,208.1	3,049.2
Accounts payable	10	23,319.7	17,212.6
Other liabilities	11	940.0	1,030.9
Total liabilities		**333,331.4**	286,857.4
Shareholders' equity			
Share capital	13	710.2	706.4
Less: shares held in treasury	13	(1.7)	(1.7)
Statutory reserves	14	17,141.8	16,867.8
Profit and loss account		1,237.3	165.5
Other equity accounts	15	3,735.4	3,901.9
Total shareholders' equity		**22,823.0**	21,639.9
Total liabilities and shareholders' equity		**356,154.4**	308,497.3

Profit and loss account

For the financial year ended 31 March

SDR millions	Note	**2021**	2020
Interest income	16	254.9	282.3
Interest expense	17	(174.2)	(453.3)
Change in ECL impairment provision	18	0.8	(1.8)
Net income on financial assets and liabilities at fair value through profit and loss	19	1,310.4	554.0
Net interest and valuation income		**1,391.9**	381.1
Net gain / (loss) on sales of currency assets at fair value through other comprehensive income	20	127.6	109.2
Net fee income	22	6.7	3.0
Net foreign exchange income	23	27.5	13.0
Total income		**1,553.8**	506.3
Administrative expense	24	(288.8)	(315.3)
Depreciation and amortisation	6	(27.7)	(25.5)
Operating expense		**(316.5)**	(340.8)
Net profit		**1,237.3**	165.5

Statement of comprehensive income

For the financial year ended 31 March

SDR millions	Note	**2021**	2020
Net profit		**1,237.3**	165.5
Other comprehensive income			
Items that are or may be reclassified subsequently to profit and loss			
Currency assets at fair value through other comprehensive income			
Net change in fair value during the year		(227.8)	544.7
Net change in expected credit loss impairment provision		(0.7)	1.8
Reclassification to profit and loss	20	(127.6)	(109.2)
Net movement on currency assets at fair value through other comprehensive income		**(356.1)**	437.3
Gold at fair value through other comprehensive income			
Net change in fair value during the year	15B	60.9	807.4
Reclassification to profit and loss		–	–
Net movement on gold at fair value through other comprehensive income		**60.9**	807.4
Items that will not be reclassified to profit and loss			
Re-measurement of defined benefit obligations	15C	**128.7**	192.6
Total comprehensive income		**1,070.9**	1,602.8

Statement of cash flows

For the financial year ended 31 March

SDR millions	Note	**2021**	2020
Cash flow from / (used in) operating activities			
Interest income received		336.5	370.4
Interest expenses paid		(160.8)	(439.2)
Net fee income	22	6.7	3.0
Net foreign exchange transaction gain	23	13.5	22.2
Administrative expense	24	(288.8)	(315.3)
Adjustments for non-cash flow items			
Net income on financial assets and liabilities at fair value through profit and loss (FVPL)	19	1,310.4	554.0
Net change in ECL impairment provision	18	0.8	(1.8)
Net foreign exchange translation gain	23	14.0	(9.2)
Lease interest expense	17	(0.1)	(0.2)
Change in accruals		(95.5)	(102.1)
Change in operating assets and liabilities			
Currency deposits		39,033.7	9,072.8
Currency banking assets		(31,916.5)	(9,160.1)
Gold deposits		3,627.8	3,887.7
Gold banking assets		(10,167.4)	(10,974.2)
Change in cash collateral balance on derivatives transactions		(3.0)	1.2
Accounts receivable and other assets		(0.5)	(5.2)
Accounts payable and other liabilities		41.5	126.4
Net derivative financial instruments		(4,941.9)	637.7
Net cash flow used in operating activities		**(3,189.6)**	(6,331.9)
Cash flow from / (used in) investment activities			
Change in currency investment assets		88.6	(61.9)
Change in securities sold under repurchase agreements in investment portfolios		(148.8)	(400.3)
Capital expenditure on land, buildings and equipment	6	(26.5)	(26.2)
Net cash flow used in investment activities		**(86.7)**	(488.4)

SDR millions	Note	**2021**	2020
Cash flow from financing activities			
Issue of shares		112.3	224.5
Dividends paid		–	(136.7)
Repayment of principal on lease liabilities		(2.8)	(2.4)
Net cash flow from financing activities		**109.5**	85.4
Total net cash flow		**(3,166.8)**	(6,735.0)
Net effect of exchange rate changes on cash and cash equivalents		(1,168.8)	1,254.5
Net movement in cash and cash equivalents		(1,998.0)	(7,989.5)
Net change in cash and cash equivalents		**(3,166.8)**	(6,735.0)
Cash and cash equivalents, beginning of year	1	**54,021.4**	60,756.4
Cash and cash equivalents, end of year	1	**50,854.6**	54,021.4

Movements in shareholders' equity

						Other equity accounts			
SDR millions	Note	Share capital	Shares held in treasury	Statutory reserves	Profit and loss	Defined benefit obligations	Securities revaluation	Gold revaluation	Shareholders' equity
Balance as at 31 March 2019		**698.9**	**(1.7)**	**16,326.3**	**461.1**	**(238.3)**	**135.0**	**2,568.0**	**19,949.3**
Payment of 2018/19 dividend		–	–	–	(136.7)	–	–	–	(136.7)
Allocation of 2018/19 profit		–	–	324.4	(324.4)	–	–	–	–
Issue of shares		7.5	–	217.0	–	–	–	–	224.5
Total comprehensive income	15	–	–	–	165.5	192.6	437.3	807.4	1,602.8
Balance as at 31 March 2020		**706.4**	**(1.7)**	**16,867.8**	**165.5**	**(45.7)**	**572.3**	**3,375.3**	**21,639.9**
Allocation of 2019/20 profit		–	–	165.5	(165.5)	–	–	–	–
Issue of shares		3.8	–	108.5	–	–	–	–	112.3
Total comprehensive income	15	–	–	–	1,237.3	128.7	(356.1)	60.9	1,070.9
Balance as at 31 March 2021		**710.2**	**(1.7)**	**17,141.8**	**1,237.3**	**83.0**	**216.2**	**3,436.2**	**22,823.0**

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. The scope of these financial statements is defined in accounting policy 2.

Accounting policies

The accounting policies set out below have been applied to both of the financial years presented except as described in the following paragraphs.

1. Critical judgments and estimates

The preparation of the financial statements requires the Bank's Management to apply judgment and to make estimates.

The judgments which have the most significant effect on the financial statements concern the selection and application of accounting policies to ensure that the financial statements present a true and fair view of the financial position and performance of the Bank. The most critical accounting policies for the Bank's financial reporting are those which concern:

- the scope of the financial statements (see accounting policy 2);
- the functional and presentation currency (see accounting policy 3);
- the classification and measurement of financial instruments, and the application of these policies to the Bank's portfolios (see accounting policies 4–6); and
- accounting for gold assets and liabilities, and for the Bank's overall own gold position (see accounting policies 10 and 14).

The critical estimates having the most significant effect on the amounts recognised in the financial statements are those which concern:

- the valuation of currency deposits classified as fair value through profit and loss; and
- post-employment obligations, the estimation of which is dependent on long-term actuarial assumptions.

There are also judgments involved in making disclosures, including the methodology used to determine the fair value hierarchy disclosures.

When making estimates, Management exercises judgment based on available information. Actual results could differ significantly from these estimates.

2. 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, including transactions on a custodial or agency basis. These include transactions undertaken on behalf of the staff pension fund and the BIS Investment Pools ("BISIPs"). These are reporting entities with their own financial statements, but which do not have separate legal personality from the Bank. The Bank also undertakes transactions in its name on behalf of dedicated mandates, where the Bank is the investment manager of a customer investment portfolio. Unless otherwise stated, such transactions are not included in these financial statements. Note 27 provides further information on the BISIPs and dedicated mandates. Note 12 provides further information on the staff pension fund.

The Bank hosts the secretariats of three independent associations – the Financial Stability Board (FSB), the International Association of Deposit Insurers (IADI) and the International Association for Insurance Supervisors (IAIS) and supports the activities of the BIS Sports club. It also acts in an administrative capacity for the International Journal of Central Banking (IJCB). These five associations each have their own legal personality and financial statements, and are therefore independent of the Bank. Unless otherwise stated, the activities of these five independent associations are not included in these financial statements.

3. 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. 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 income in the profit and loss account.

All figures in these financial statements are presented in SDR millions unless otherwise stated. Amounts are rounded to the nearest SDR 0.1 million, and consequently there may be small differences both within and between disclosures.

4. Recognition, de-recognition, classification and measurement of financial assets

The Bank recognises financial assets on the trade date, being the date on which the Bank commits to purchase the assets. Financial assets are de-recognised on the trade date of a sale (when the Bank commits to transfer substantially all the risks and rewards of ownership), or when the contractual cash flows from the assets have expired. On initial recognition, financial assets are classified as either:

- amortised cost;
- fair value through other comprehensive income ("FVOCI"); or
- fair value through profit and loss ("FVPL").

The classification determines the measurement of financial assets, and how this is reflected in the Bank's financial statements. The classification depends on the business model for managing the assets and on the cash flow characteristics of the assets, as described below.

Amortised cost

Financial assets can be classified as amortised cost if two criteria are met:

1. the financial assets are held within a business model with the objective of holding the assets to collect the contractual cash flows; and
2. the contractual terms on the financial assets give rise to cash flows that are solely payments of principal or interest.

Amortised cost financial assets are measured in the balance sheet using the effective interest rate method, with the carrying value adjusted by the expected credit loss (ECL) for each asset. Interest is included in the profit and loss account under “Interest income” or “Interest expense” (negative interest) on an accruals basis. The movement in the ECL impairment provision on these assets is recognised in the profit and loss account under “Change in ECL impairment provision”.

Fair value through other comprehensive income (FVOCI)

Financial assets can be classified as FVOCI if two criteria are met:

1. the financial assets are held within a business model with the objective of collecting the contractual cash flows or potentially selling the assets; and
2. the contractual terms on the financial assets give rise to cash flows that are solely payments of principal or interest.

FVOCI financial assets are measured in the balance sheet at fair value. In addition, an amortised cost book value is calculated using the effective interest rate method, including an adjustment for the ECL impairment provision of each asset. Changes in the book value (due to the accrual of interest) are included as “Interest income” or “Interest expense” (negative interest) in the profit and loss account. Unrealised valuation movements, adjusted by the ECL impairment provision, are recognised through the “Securities revaluation account” in other comprehensive income (OCI). Interest revenue, the movement in ECL impairment provision and foreign exchange gains or losses are recognised in the profit and loss account. Upon disposal of the assets, gains or losses are recognised in the profit and loss account as “Net gain on sales of financial assets at fair value through other comprehensive income”.

Fair value through profit and loss (FVPL)

All other financial assets are classified as FVPL. These include:

- derivative financial assets,
- assets that are held for trading, or that are held within a business model that is managed on a fair value basis; and
- assets which contain contractual terms that give rise to cash flows that are not solely payments of principal or interest.

In addition, the Bank chooses to classify financial assets as FVPL if the use of the classification removes or significantly reduces an accounting mismatch. Any such classification is made on the date of initial recognition, and is irrevocable.

FVPL financial assets are measured in the balance sheet at fair value. The accrual of interest and all realised and unrealised movements in fair value are included within “Net income on financial assets and liabilities at fair value through profit and loss”.

Reclassification

Groups of financial assets are reclassified if there is a fundamental change to the way they are managed. Reclassifications are applied prospectively from the date of change, with no restatement of previously recognised gains, losses or interest. Financial assets which are classified as FVPL in order to remove or significantly reduce an accounting mismatch cannot be reclassified.

Impairment of financial assets

The Bank assesses impairment on financial assets which are classified as either FVOCI or amortised cost, and also for loan commitments. Impairment is assessed from the date of initial recognition using a three-stage model.

Stage 1 applies to financial assets on which there has not been a significant increase in credit risk since initial recognition. The ECL impairment provision is calculated on a 12-month forward-looking basis.

Stage 2 applies to financial assets on which there has been a significant increase in credit risk since initial recognition. The ECL impairment provision is calculated taking into account the full expected life of the financial asset.

Stage 3 applies to financial assets which are considered to be credit impaired. The ECL impairment provision is calculated on a lifetime basis, but the effective interest rate on the financial asset is recalculated based on the amortised cost (including the ECL).

The key inputs into the measurement of the ECL impairment provision are:

- The probability of default (PD), which represents the estimated likelihood of a borrower defaulting on its financial obligation over a specific time period. PDs are regularly re-estimated using a combination of internal and external data, along with judgment.
- Loss-given-default (LGD) is the proportion of an exposure that is lost as a result of a counterparty default. LGD estimates are informed by observed external LGD data.
- Exposure at default (EAD) is the magnitude of the exposures in the event of a default and is determined based on the future expected cash flows discounted at the effective interest rate. The EAD reflects the offsetting effects of any collateral received.

The ECL impairment provision is presented in the balance sheet as follows:

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the asset;
- for financial assets measured at FVOCI: within the “Securities revaluation account” in other equity; and
- for loan commitments: as a provision within “Loans and advances”.

5. Recognition, de-recognition, classification and measurement of financial liabilities

The Bank recognises financial liabilities on the trade date, being the date on which the Bank commits to issue the liabilities. Financial liabilities are de-recognised on the trade date of a repurchase (when the Bank commits to buy back the financial liability), or when the contractual cash flows from the financial liabilities have expired. On initial recognition, financial liabilities are classified as either:

- fair value through profit and loss; or
- amortised cost.

The classification determines the measurement of financial liabilities, and how this is reflected in the Bank's financial reporting. The classification depends on the characteristics of the liabilities, as described below.

Fair value through profit and loss (FVPL)

Financial liabilities are classified as FVPL if they are derivative financial liabilities, or are held for trading. In addition, the Bank chooses to classify financial liabilities as FVPL if the use of the classification removes or significantly reduces an accounting mismatch. Any such classification is made on the date of initial recognition, and is irrevocable.

FVPL financial liabilities are measured in the balance sheet at fair value. The accrual of interest and all realised and unrealised movements in fair value are included within "Net income on financial assets and liabilities at fair value through profit and loss".

Amortised cost

All other financial liabilities are classified as amortised cost.

Amortised cost financial liabilities are measured in the balance sheet using the effective interest rate method. Interest is included in the profit and loss account under "Interest expense" or "Interest income" (negative interest) on an accruals basis. Any gains or losses on redemption are recognised in the profit and loss account.

6. The application of the classification and measurement approach to the Bank's portfolios

All very short-dated financial assets (cash and cash equivalents) and liabilities (sight and notice deposit accounts) are classified as amortised cost. The classification of other financial assets and liabilities is determined by the Bank's asset and liability portfolio structure. The Bank's assets and liabilities are organised into four sets of portfolios.

A. Currency banking portfolios ("borrowed funds")

The Bank operates a currency banking book (comprising currency deposit liabilities, and related assets and derivatives). The Bank acts as a market-maker in its currency deposit liabilities. As a result of this activity, the Bank incurs realised profits or losses when these liabilities are repurchased from customers. Under the Bank's accounting policies, some of these financial instruments would be classified as FVPL, while others would be classified as FVOCI or amortised cost. In accordance with the Bank's risk management policies, the market risk inherent in this activity is managed on an overall fair value basis. As such, the realised and unrealised profits or losses on currency deposit liabilities are largely offset by realised and unrealised losses or profits on the related assets and derivatives. To reduce the accounting inconsistency that would otherwise arise from recognising realised and unrealised gains and losses on different bases, the Bank chooses to classify all financial assets and liabilities (other than those which are very short-dated) in its currency banking portfolios as FVPL.

B. Gold banking portfolio ("borrowed gold")

The Bank operates a gold banking book (comprising gold deposit liabilities and related gold loan assets). All gold loan and deposit financial assets and liabilities in this portfolio are classified as amortised cost. All derivatives are classified as FVPL.

C. Currency investment portfolios ("own funds")

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

The Bank invests most of its shareholders' equity in financial instruments. Most of the currency financial assets in investment portfolios (other than those which are very short-dated) are classified as FVOCI. Any related currency financial liabilities (including securities sold under repurchase agreements) are classified as amortised cost.

In addition, the Bank invests some of its shareholders' equity in portfolios that are managed with a mandate which permits active trading. The financial instruments in these portfolios (other than those which are very short-dated) are classified as FVPL currency assets and liabilities.

D. Gold investment portfolio ("own gold")

The Bank invests some of its shareholders' equity in gold and gold loans. These assets are classified as amortised cost. The Bank's overall own gold position is treated as an FVOCI asset (as further described in accounting policy 10 below).

Accounting policies 7 to 14 below describe the application of these accounting policies to individual items in the balance sheet.

7. Cash and cash equivalents

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. Notice accounts include balances at futures clearing brokers. Cash and cash equivalents are classified as amortised cost.

8. Securities purchased under resale agreements

Securities purchased under resale agreements ("reverse repurchase agreements") are collateralised loan transactions through 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 recognised as assets, and are classified as either FVPL (currency banking portfolios) or FVOCI (currency investment portfolios).

9. Loans and advances, and government and other securities

Loans and advances comprise fixed-term loans to commercial banks, and advances under committed and uncommitted standby facilities which the Bank provides for its customers. Government and other securities are debt securities issued by governments, international institutions, other public sector institutions, commercial banks and corporates. They include treasury bills, commercial paper, certificates of deposit, fixed and floating rate bonds, covered bonds and asset-backed securities.

These financial assets are classified as either FVPL (banking portfolios) or FVOCI (investment portfolios).

10. Gold and gold loans

Gold comprises gold bar assets held in custody at central banks and sight accounts denominated in gold. Gold loans comprise fixed-term gold loans. Gold and gold loans are classified as amortised cost, and are included in the balance sheet at their weight in gold (translated at the gold market price and USD exchange rate into SDR) plus accrued interest.

Gold loans are recognised on a trade date basis. Purchases and sales of gold bar assets are recognised on a settlement date basis, with forward purchases or sales treated as derivatives prior to settlement date.

The Bank trades most of its gold swaps under its derivative ISDA contracts, and accounts for them in a similar manner to currency swaps. As such, gold balances in the balance sheet include gold received (and exclude gold paid) in respect of gold swap contracts.

The treatment of realised gains or losses on gold transactions, and unrealised gains or losses on the retranslation of the net gold position, depends on the management objective for which the gold is held, as described below:

A. Gold banking portfolio (“borrowed gold”)

Gains or losses on the retranslation of the net position in gold in the banking portfolio are included under “Net foreign exchange income” as net translation gains or losses.

B. Gold investment portfolio (“own gold”)

The Bank’s overall own gold position is treated as an FVOCI asset.

Unrealised gains or losses on the Bank’s gold investment assets over their deemed cost are included in the “Gold 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 “Gold at fair value through other comprehensive income – net change in fair value during the year”.

All of the Bank’s gold investment assets were held on 31 March 2003 (when the Bank changed its functional and presentation currency from the gold franc to the SDR). The deemed cost of these assets 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”.

11. Derivative financial instruments

Derivatives are used either to manage the Bank’s market risk or for trading purposes. The Bank trades most of its gold swaps under its derivative ISDA contracts, and accounts for them in a similar manner to currency swaps. Derivatives are classified as FVPL, and are included in the balance sheet as either assets or liabilities, depending on whether the contract has a positive or a negative fair value for the Bank.

12. Currency deposits

Currency deposits comprise sight and notice deposit accounts along with BIS deposit instruments.

Sight and notice deposit accounts are very short-term monetary liabilities that typically have notice periods of three days or less. They are classified as amortised cost.

BIS deposit instruments comprise currency deposit products offered by the Bank to its customers. They are classified as FVPL.

Some BIS deposit instruments contain embedded derivative financial instruments, such as currency or call options. These embedded derivatives are also classified as FVPL, and are included within the currency deposits balance sheet value.

13. Securities sold under repurchase agreements

Securities sold under repurchase agreements ("repurchase agreements") are collateralised deposit transactions through 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. The collateralised deposits are recognised as liabilities and are classified as either FVPL (currency banking portfolios) or amortised cost (currency investment portfolios).

14. 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. All unallocated gold deposits (whether sight or fixed-term) are classified as amortised cost. Unallocated gold sight account deposits are included in the balance sheet on a settlement date basis at their weight in gold (translated at the gold market price and USD exchange rate into SDR). Unallocated fixed-term deposits of gold 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.

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 in the Bank's balance sheet and are disclosed as off-balance sheet items.

15. 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 in the balance sheet as part of "Government and other securities".

16. Determination of fair value of financial instruments

The majority of the Bank's financial instruments are classified as either FVPL or FVOCI, and hence are included in the balance sheet at fair value. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market (or, in its absence, the most advantageous market to which the Bank has access at that date).

The Bank considers published price quotations in active markets as the best evidence of fair value. Where no reliable 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 such as discounted cash flow analyses and option pricing models. Where financial models are used, the Bank aims to make maximum use of observable market inputs as appropriate, and relies as little as possible on its own estimates. 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 assets and liabilities.

17. Interest income and expense

Interest income and interest expense relate to financial instruments which are classified as either FVOCI or amortised cost. Interest income includes "negative" interest on liabilities, while interest expense includes "negative" interest on assets and interest on lease liabilities.

Interest income and interest expense are recognised in the profit and loss account using the effective interest rate method. Interest income is calculated by applying the effective interest rate to the gross carrying amount of an asset, except for assets which are purchased (or subsequently become) credit impaired (impairment stage 3). For financial assets purchased as credit impaired, the original credit adjusted effective interest rate is applied to the amortised cost of the financial asset. For financial assets which subsequently become credit impaired, interest income is calculated by applying the effective interest rate to the amortised cost value of the asset.

18. 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.

19. Land, buildings and equipment

Expenditure on land, buildings and equipment is recognised as an asset in the balance sheet where it is probable that the Bank will obtain future economic benefits. Buildings and equipment assets are 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; and
- computer software intangible assets – 4 years.

The Bank's land is not depreciated. Right-of-use assets are depreciated on a straight line basis over the lease term. 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.

20. Leases

In the course of its business, the Bank enters into lease contracts, and contracts that contain lease components. On initial recognition of such contracts, the Bank calculates a "right of use asset" and a lease liability, both of which are based on the present value of lease payments. The Bank's incremental borrowing rate (or, if applicable, the interest rate implicit in the lease) is used as the discount rate for determining the present value. The right-of-use asset is included under "Land, buildings and equipment", and is depreciated on a straight line basis over the term of the lease. It is reviewed for impairment annually. The lease liability is included under "Other liabilities", and is reduced when the Bank makes payments under the lease. Interest expense is calculated based on the outstanding lease liability and the discount rate.

The Bank leases certain premises under contracts that can contain non-lease components (such as maintenance). The Bank does not separate such components from the lease payments, and therefore the right-of-use asset and lease liability are based on the total lease payment.

21. 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.

22. 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, with the Mexican government for the Americas Office, and with the Singapore government for the BIS Innovation Hub Centre in Singapore. 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.

23. Post-employment benefit obligations

The Bank operates three post-employment benefit arrangements, respectively, for staff pensions, Directors' pensions and staff medical benefits. An independent actuarial valuation is performed annually for each arrangement. The staff pensions arrangement is funded (ie it has specifically allocated assets); the other two arrangements are unfunded.

A. Staff pensions

The liability in respect of the staff pension arrangement is based on the present value of the defined benefit obligation less the fair value of the pension fund assets (see note 12), 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 pension fund assets. Past service costs from plan amendments are immediately recognised through profit and 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 included in profit and loss in future years.

B. Directors' pensions and staff post-employment medical benefits

The liability, the defined benefit obligation, the amount charged to the profit and loss account, and the 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 arrangement.

24. 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.

Notes to the financial statements

1. Cash and cash equivalents

Cash and cash equivalents comprise sight accounts at central and commercial banks, as well as notice accounts at commercial banks and international financial institutions. Included within the cash balances is collateral received from counterparties in relation to derivatives transactions. More detail on this collateral is included in the "Risk management" section of these financial statements, note 3C, "Credit risk mitigation". Cash balances are analysed in the table below:

As at 31 March

SDR millions	**2021**	2020
Balance at central banks	50,151.0	53,147.7
Balance at commercial banks	48.7	288.5
Total cash and sight accounts	**50,199.7**	53,436.2
Notice accounts	654.9	585.2
Total cash and cash equivalents	**50,854.6**	54,021.4

2. Currency assets

Currency assets comprise the following products:

Securities purchased under resale agreements are collateralised loan transactions. 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 their market value.

Loans and advances comprise fixed-term loans to commercial banks and advances. Advances are drawings of committed and uncommitted standby facilities which the Bank provides for its customers.

Government and other securities are debt securities issued by governments, international institutions, other public sector institutions, commercial banks and corporates. They include treasury bills, 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 in accordance with their classification.

As at 31 March 2021

SDR millions	FVPL	FVOCI	**Total**
Securities purchased under resale agreements	**78,572.0**	**–**	**78,572.0**
Loans and advances	**45,544.4**	**–**	**45,544.4**
Government and other securities			
Sovereigns and central banks	80,014.9	13,944.6	93,959.5
Other	31,274.1	1,845.9	33,120.0
Total government and other securities	**111,289.0**	**15,790.5**	**127,079.5**
Total currency assets	**235,405.4**	**15,790.5**	**251,195.9**

As at 31 March 2020

SDR millions	FVPL	FVOCI	**Total**
Securities purchased under resale agreements	55,869.8	148.8	56,018.6
Loans and advances	54,038.9	–	54,038.9
Government and other securities			
Sovereigns and central banks	59,093.8	14,469.5	73,563.3
Other	28,407.2	1,735.6	30,142.8
Total government and other securities	87,501.0	16,205.1	103,706.1
Total currency assets	197,409.7	16,353.9	213,763.6

Government and other securities classified as FVPL as at 31 March 2021 include SDR 1,460.9 million (2020: SDR 908.7 million) of securities that are part of the currency investment portfolios (own funds) that have been classified as FVPL because the portfolio mandate permits active trading.

The Bank lends some of its securities in exchange for a fee. Government and other securities which are transferred in securities lending transactions (and were not subject to de-recognition from the balance sheet to the extent of the Bank's continuing involvement) represented SDR 104.4 million as at 31 March 2021 (2020: SDR 100.9 million).

The Bank gives or pledges as collateral some of its debt securities in certain derivative and repurchase agreements transactions. For more detail, see the "Risk management" section, note 3C, "Credit risk mitigation".

3. Gold and gold loans

As at 31 March *SDR millions*	**2021**	2020
Gold investment assets	3,939.6	3,878.1
Gold banking assets	37,726.1	27,558.7
Total gold and gold loan assets	**41,665.7**	31,436.8
Comprising:		
Gold bars	40,992.2	31,145.5
Sight accounts denominated in gold	194.1	67.2
Gold loans	479.4	224.1

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

Included in "Gold banking assets" is SDR 18,873.2 million (490 tonnes) of gold (2020: SDR 12,334.4 million; 326 tonnes) that the Bank holds in connection with its gold swap contracts.

4. Derivative financial instruments

The main types of derivative instruments used by the Bank 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.

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, without imposing 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.

TBAs ("to be announced") are forward contracts for investment in mortgage-backed securities, whereby the investor acquires a portion of a pool of as yet unspecified mortgages, which will be announced on a given delivery date. The Bank classifies these financial instruments as derivatives because it typically opens and closes the positions before the delivery date.

Exchange traded equity futures and equity options represent contractual agreements to receive or pay a net amount based on changes in equity index levels at a future date. Those instruments are traded for the management of the BIS pension fund only.

The Bank enters into derivatives transactions for its own benefit, and also on behalf of customers, investment entities operated by the Bank, and the staff pension fund. Over-the-counter (OTC) derivatives transactions are legally documented under the Bank's derivative master contracts, and are subject to its collateralisation processes (and netting rules in the event of default of one of the parties). The Bank recognises all derivatives transacted in its name. Where the economic benefit lies with a customer, an investment entity or the staff pension fund, the Bank recognises both the original derivative contract and an exactly offsetting derivative contract with the beneficial party.

As at 31 March	**2021**			2020		
	Notional	Fair values		Notional	Fair values	
SDR millions	amounts	Assets	Liabilities	amounts	Assets	Liabilities
Cross-currency swaps	2,766.2	75.1	(33.4)	2,613.8	9.1	(37.3)
Currency and gold forwards	10,013.7	66.9	(64.4)	7,407.0	41.2	(32.4)
Currency, gold and equity options	1,388.1	0.2	(9.4)	857.4	0.1	(9.8)
Currency and gold swaps	288,514.4	7,002.8	(1,403.3)	214,708.8	2,153.2	(1,504.4)
Forward rate agreements	467.2	–	(0.5)	2,689.0	0.7	(0.9)
Futures contracts	2,171.0	1.0	(0.3)	2,005.3	1.0	(1.2)
Interest rate swaps	262,293.4	475.2	(694.9)	214,341.2	1,313.4	(1,461.5)
TBAs	578.7	0.6	(1.9)	220.5	2.3	(1.7)
Total derivative financial instruments	**568,192.7**	**7,621.8**	**(2,208.1)**	444,843.0	3,521.0	(3,049.2)

5. Accounts receivable and other assets

As at 31 March		
SDR millions	**2021**	2020
Financial transactions awaiting settlement	4,596.5	5,536.1
Other assets	21.5	19.1
Total accounts receivable and other assets	**4,618.0**	5,555.2

"Financial transactions awaiting settlement" relate 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, and depreciation and amortisation

For the financial year ended 31 March							**2021**	2020
SDR millions	Land	Buildings and Installations	IT and other equipment	Computer software Intangible assets	Assets under construction	Right-of-use assets	Total	Total
Historical cost								
Balance at beginning of year	**46.4**	**293.6**	**23.4**	**59.0**	**16.1**	**13.2**	**451.7**	420.0
Change in accounting policy	–					–	–	12.0
Capital expenditure	–				26.5	–	26.5	23.3
Transfers	–	7.5	1.7	13.3	(22.5)	–	–	–
Change in right-of-use assets	–	–	–	–	–	0.2	0.2	1.2
Disposals and retirements	–	(0.2)	(0.8)	(3.6)	–	–	(4.6)	(4.8)
Balance at end of year	**46.4**	**301.0**	**24.4**	**68.6**	**20.1**	**13.4**	**473.9**	451.7
Accumulated depreciation and amortisation								
Balance at beginning of year	**–**	**197.9**	**15.1**	**36.7**	**–**	**2.7**	**252.4**	231.7
Depreciation and amortisation	–	11.4	2.2	11.4	–	2.7	27.7	25.5
Disposals and retirements	–	(0.2)	(0.8)	(3.6)	–	–	(4.6)	(4.8)
Balance at end of year	**–**	**209.1**	**16.6**	**44.5**	**–**	**5.3**	**275.5**	252.4
Net book value at end of year	**46.4**	**91.9**	**7.8**	**24.1**	**20.1**	**8.1**	**198.4**	199.3

Changes in right-of-use assets include new lease transactions, along with extensions and amendments of existing leases. Assets under construction are not subject to depreciation until they are completed and put into service.

The Bank’s practice is to retire assets from the fixed asset register at the latest when their age reaches twice their estimated useful life. Due to retirement of assets, SDR 4.6 million has been removed from the historical cost and from accumulated depreciation for the year ended 31 March 2021 (2020: SDR 4.8 million).

7. 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 five years.

Callable MTIs (CMTIs) are MTIs that are callable at the option of the Bank at an exercise price of par. As at 31 March 2021, the call date of all callable MTIs had expired.

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

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

Fixed-term deposits are fixed rate investments at the BIS, typically with 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 Dual Currency Deposits includes the fair value of the embedded foreign exchange option. These deposits all mature between April and June 2021 (2020: between April and September 2020).

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 three business days' notice.

The amount the Bank is contractually obliged to pay at maturity in respect of its FVPL currency deposits that were outstanding at 31 March 2021 (including total future interest payments) is SDR 255,066.9 million (2020: SDR 196,806.2 million).

Sight and notice deposit accounts are classified as amortised cost, while all other deposits are classified as FVPL.

As at 31 March

SDR millions	**2021**	2020
Repayable at one to three days' notice		
Sight and notice deposit accounts	29,993.3	49,355.2
Medium-Term Instruments	19,346.8	28,756.5
Callable MTIs	718.5	4,649.8
Fixed Rate Investments at the BIS	115,441.7	63,990.9
	165,500.2	146,752.4
Other currency deposits		
Floating Rate Investments of the BIS	1,244.0	1,039.5
Fixed-term deposits	120,331.2	101,560.3
Dual Currency Deposits	939.3	842.6
	122,514.5	103,442.4
Total currency deposits	**288,014.7**	250,194.8

8. Securities sold under repurchase agreements

As at 31 March

SDR millions	**2021**	2020
Amortised cost	–	148.8
Fair value through profit and loss	–	–
Total securities sold under repurchase agreements	**–**	148.8

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

9. Gold deposits

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

10. Accounts payable

"Accounts payable" consists 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

As at 31 March

SDR millions	**2021**	2020
Post-employment benefit obligations (see note 12)		
Staff pensions	334.7	477.0
Directors' pensions	11.0	10.8
Medical benefits	536.0	493.7
Lease liabilities	8.3	11.0
Other liabilities	50.0	38.4
Total other liabilities	**940.0**	1,030.9

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. The arrangement also applies to the staff of the three independent associations hosted by the Bank (the FSB, IADI and the IAIS). Under this arrangement, benefits accrue according to years of participation and pensionable remuneration. These benefits are paid out of a pension 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 the 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. The defined benefit obligation and the related expense for the staff pension plan includes amounts related to an unfunded legacy arrangement for cleaning staff. The disbursements for this arrangement are not paid out of the assets in the fund, as described above.
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 medical benefit arrangement for its staff and their dependents. Employees who leave the Bank after becoming eligible for early retirement benefits from the pension arrangement are eligible for post-employment medical benefits. The arrangement also applies to the staff of the three independent associations hosted by the Bank (the FSB, IADI and the IAIS).

All three arrangements operate in Swiss francs and are valued annually by an independent actuary. During 2021/22, the Bank expects to make contributions of CHF 48.8 million (2020/21: CHF 49.9 million of actual contribution) to its post-employment arrangements.

All matters of a general policy nature arising in connection with the management of the assets of the pension fund are dealt with by the Pension Fund Committee. The committee is chaired by the Deputy General Manager, and includes members of Senior Management, along with staff representatives and external pension experts. The Pension Fund Committee determines the investment policies of the fund, sets its risk tolerance, and establishes the long-term strategic allocation policy on the basis of regular asset and liability management studies. It also supervises the arrangements made by the Bank in this regard, including selecting external investment managers. The Pension Fund Committee assesses the funding position of the pension fund using a through-the-cycle discount rate and, if necessary, makes recommendations on changes to the contribution rate of the Bank to ensure the long-term actuarial equilibrium of the Pensions System, including a sufficient safety margin.

A. Amounts recognised in the balance sheet

As at 31 March	Staff pensions		Directors' pensions		Post-employment medical benefits	
SDR millions	**2021**	2020	**2021**	2020	**2021**	2020
Present value of obligations	(1,620.8)	(1,586.6)	(11.0)	(10.8)	(536.0)	(493.7)
Fair value of fund assets	1,286.1	1,109.6	–	–	–	–
Liability at end of year	**(334.7)**	(477.0)	**(11.0)**	(10.8)	**(536.0)**	(493.7)

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 medical benefits	
SDR millions	**2021**	2020	**2021**	2020	**2021**	2020
Present value of obligations at beginning of year	(1,586.6)	(1,617.3)	(10.8)	(11.4)	(493.7)	(597.9)
Employee contributions	(8.9)	(7.2)	–	–	–	–
Benefit payments	68.6	64.7	0.5	0.5	4.3	3.9
Service cost, incl. past service cost	(54.4)	(70.5)	(0.5)	(0.6)	(20.6)	(25.1)
Interest cost	(7.9)	(11.3)	(0.1)	(0.1)	(2.5)	(4.6)
Actuarial gain / (loss) arising from experience adjustments	2.7	17.1	–	0.8	(0.5)	69.8
Actuarial gain / (loss) arising from changes in demographic assumptions	30.2	22.3	0.1	0.1	7.4	9.3
Actuarial gain / (loss) arising from changes in financial assumptions	(84.9)	96.9	(0.4)	0.6	(37.1)	81.3
Foreign exchange differences	20.4	(81.3)	0.2	(0.7)	6.7	(30.4)
Present value of obligations at end of year	**(1,620.8)**	(1,586.6)	**(11.0)**	(10.8)	**(536.0)**	(493.7)

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 medical benefits	
Years	**2021**	2020	**2021**	2020	**2021**	2020
Weighted average duration	**17.1**	16.7	**13.9**	13.5	**26.1**	24.3

C. Amounts recognised in the profit and loss account

For the financial year ended 31 March	Staff pensions		Directors' pensions		Post-employment medical benefits	
SDR millions	**2021**	2020	**2021**	2020	**2021**	2020
Service cost	(54.4)	(70.5)	(0.5)	(0.6)	(20.6)	(25.1)
Interest cost on net liability	(2.3)	(3.1)	(0.1)	(0.1)	(2.5)	(4.6)
Amounts recognised in operating expense	**(56.7)**	(73.6)	**(0.6)**	(0.7)	**(23.1)**	(29.7)

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 medical benefits	
SDR millions	**2021**	2020	**2021**	2020	**2021**	2020
Return on plan assets in excess of opening discount rate	210.6	(93.8)	–	–	–	–
Actuarial gain / (loss) loss arising from experience adjustments	2.7	17.1	–	0.8	(0.5)	69.8
Actuarial gain / (loss) arising from changes in demographic assumptions	30.2	22.3	0.1	0.1	7.4	9.3
Actuarial gain / (loss) arising from changes in financial assumptions	(84.9)	96.9	(0.4)	0.6	(37.1)	81.3
Foreign exchange gain / (loss) on items in other comprehensive income	0.8	(4.7)	–	(0.3)	(0.3)	(6.8)
Amounts recognised in other comprehensive income	**159.4**	37.8	**(0.3)**	1.2	**(30.5)**	153.6

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	**2021**	2020
Fair value of fund assets at beginning of year	1,109.6	1,164.3
Employer contributions	33.6	30.9
Employee contributions	8.9	7.2
Benefit payments	(68.6)	(64.7)
Interest income on plan assets	5.6	8.2
Return on plan assets in excess of opening discount rate	210.6	(93.8)
Foreign exchange differences	(13.6)	57.5
Fair value of fund assets at end of year	**1,286.1**	1,109.6

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	**2021**			2020		
SDR millions	Quoted in active market	Unquoted	Total	Quoted in active market	Unquoted	Total
Cash (including margin accounts)	47.5	–	47.5	59.5	–	59.5
Debt securities	312.8	–	312.8	285.1	–	285.1
Fixed income funds	208.2	–	208.2	194.6	–	194.6
Equity funds	465.1	30.7	495.8	374.2	24.3	398.5
Real estate funds	–	151.0	151.0	–	123.6	123.6
Commodity-linked notes	–	74.5	74.5	–	48.8	48.8
Derivative financial instruments	0.6	(4.3)	(3.7)	(1.3)	0.8	(0.5)
Total	**1,034.2**	**251.9**	**1,286.1**	912.1	197.5	1,109.6

G. Principal actuarial assumptions used in these financial statements

As at 31 March	2021	2020
Applicable to staff pension arrangement		
Discount rate	0.20%	0.50%
Assumed average salary increase rate	1.70%	1.70%
Applicable to post-employment medical benefit arrangement		
Discount rate	0.20%	0.50%
Long-term medical cost inflation assumption	3.00%	3.00%
Applicable to Directors' pension arrangement		
Discount rate	0.20%	0.50%
Assumed Directors' pensionable remuneration increase rate	0.50%	0.50%
Applicable to staff and Directors' pension arrangements		
Assumed increase in pensions payable	0.50%	0.50%
Mortality table applicable to all three arrangements:	**Swiss table BVG2020 with generational projection CMI 2019 and long-term improvement rate of 1.25%**	**Swiss table BVG2015 with generational projection CMI 2016 and long-term improvement rate of 1.25%**

The assumed increases in staff salaries, Directors' pensionable remuneration and pensions payable incorporate an inflation assumption of 0.50% at 31 March 2021 (2020: 0.50%).

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	2021	2020
Current life expectancy of members aged 65		
Male	21.7	21.6
Female	23.4	23.6
Life expectancy of members aged 65 projected forward in 10 years' time		
Male	22.4	22.4
Female	24.2	24.4

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:

As at 31 March	**Staff pensions** Increase / (decrease) in defined benefit obligation	
SDR millions	**2021**	2020
Discount rate		
Increase by 0.5%	(129.7)	(123.8)
Decrease by 0.5%	147.5	141.2
Rate of salary increase		
Increase by 0.5%	35.7	34.9
Decrease by 0.5%	(34.0)	(33.3)
Rate of pension payable increase		
Increase by 0.5%	107.0	103.1
Decrease by 0.5%	(97.2)	(92.0)
Life expectancy		
Increase by 1 year	60.0	53.9
Decrease by 1 year	(60.0)	(55.5)

As at 31 March	**Directors' pensions** Increase / (decrease) in defined benefit obligation	
SDR millions	**2021**	2020
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%	0.7	0.7
Decrease by 0.5%	(0.6)	(0.6)
Life expectancy		
Increase by 1 year	0.6	0.5
Decrease by 1 year	(0.6)	(0.5)

As at 31 March	Post-employment medical benefits Increase / (decrease) in defined benefit obligation	
SDR millions	**2021**	2020
Discount rate		
Increase by 0.5%	(64.3)	(58.3)
Decrease by 0.5%	76.6	68.6
Medical cost inflation rate		
Increase by 1.0%	129.5	118.3
Decrease by 1.0%	(95.1)	(87.0)
Life expectancy		
Increase by 1 year	51.5	42.5
Decrease by 1 year	(47.7)	(40.5)

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	**2021**	2020
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: 568,125 shares (2020: 565,125)	2,840.6	2,825.6
Paid-up capital (25%)	**710.2**	706.4

During the financial year ended 31 March 2021, the Bank issued 3,000 shares to the central bank of Vietnam (2020: 3,000 shares each to the central banks of Kuwait and Morocco). As at 31 March 2021 the number of member central banks was 63 (2020: 62).

The number of shares eligible for dividend is:

As at 31 March	**2021**	2020
Issued shares	568,125	565,125
Shares held in treasury	(1,000)	(1,000)
Outstanding shares eligible for dividend	**567,125**	564,125
Of which:		
Eligible for full dividend	564,125	558,125
New shares eligible for dividend pro rata from the value date of subscription	3,000	6,000

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 2019	**69.8**	**3,708.3**	**184.0**	**12,364.2**	**16,326.3**
Allocation of 2018/19 profit	–	16.2	–	308.2	324.4
New shares issued	0.8	216.2	–	–	217.0
Balance at 31 March 2020	**70.6**	**3,940.7**	**184.0**	**12,672.4**	**16,867.8**
Allocation of 2019/20 profit	–	8.3	–	157.2	165.5
New shares issued	0.4	108.1	–	–	108.5
Balance at 31 March 2021	**71.0**	**4,057.2**	**184.0**	**12,829.6**	**17,141.8**

At 31 March 2021, statutory reserves included share premiums of SDR 1,385.1 million (2020: SDR 1,276.6 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 for the 2021 profit:

SDR millions	**2021**
Net profit	**1,237.3**
Proposed dividend:	
Proposed dividend	(294.1)
Profit available for allocation	**943.2**
Proposed transfers to reserves:	
General reserve fund	(47.1)
Special dividend reserve fund	(300.0)
Free reserve fund	(596.1)
Balance after allocation to reserves	–

The proposed transfer to the special dividend reserve fund would provide capacity to help smooth future dividend payments.

15. Other equity accounts

Other equity accounts comprise the revaluation accounts for FVOCI 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	**2021**	2020
Securities revaluation account	216.2	572.3
Gold revaluation account	3,436.2	3,375.3
Re-measurement of defined benefit obligations	83.0	(45.7)
Total other equity accounts	**3,735.4**	3,901.9

A. Securities revaluation account

This account contains the difference between the fair value and the amortised cost of the Bank's currency investment assets classified as FVOCI.

SDR millions	Fair value of assets	Historical cost	Securities revaluation account	Gross gains	Gross losses
As at 31 March 2021	15,790.5	15,576.2	**214.3**	237.1	(22.8)
As at 31 March 2020	16,353.9	15,784.2	569.7	582.7	(13.0)

The securities revaluation account at 31 March 2021 includes an ECL impairment provision of SDR –1.9 million (31 March 2020: SDR –2.6 million).

B. Gold revaluation account

This account contains the difference between the book value and the deemed cost of the Bank's gold investment assets. All of the Bank's gold investment assets were held on 31 March 2003 (when the Bank changed its functional and presentation currency from the gold franc to the SDR). The deemed cost of these assets 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. The movement in the gold revaluation account was as follows:

For the financial year ended 31 March

SDR millions	**2021**	2020
Balance at beginning of year	3,375.3	2,568.0
Gold price movement	60.9	807.4
Balance at end of year	**3,436.2**	3,375.3

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	**2021**	2020
Balance at beginning of year	(45.7)	(238.3)
Staff pensions	159.4	37.8
Directors' pensions	(0.3)	1.2
Post-employment medical benefits	(30.5)	153.6
Net movement on the re-measurement of defined benefit obligations	**128.7**	192.6
Balance at end of year	**83.0**	(45.7)

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	**2021**	2020
Assets classified as amortised cost		
Cash and cash equivalents	0.7	5.3
Gold loan and sight accounts denominated in gold	0.9	0.7
	1.6	6.0
Financial assets classified as FVOCI		
Securities purchased under resale agreements	–	0.6
Government and other securities	198.1	237.5
	198.1	238.1
Interest income on liabilities classified as amortised cost	**55.2**	38.2
Total interest income	**254.9**	282.3

Total interest income is net of "negative" interest income on assets of SDR 160.4 million (2020: SDR 131.2 million).

17. Interest expense

For the financial year ended 31 March

SDR millions	**2021**	2020
Liabilities classified as amortised cost		
Currency deposits: sight and notice deposit accounts	(13.7)	(321.3)
Gold deposits	–	–
Securities sold under repurchase agreements	–	(0.6)
Interest on lease liabilities	(0.1)	(0.2)
	(13.8)	(322.1)
Interest expense on assets classified as amortised cost or FVOCI	**(160.4)**	(131.2)
Total interest expense	**(174.2)**	(453.3)

Total interest expense is net of "negative" interest expense on liabilities classified as amortised cost of SDR 55.2 million (2020: SDR 38.2 million).

18. Change in ECL impairment provision

The Bank assesses impairment of financial assets which are classified as either FVOCI or amortised cost, and also in relation to loan commitments. The Bank takes a prudent stance on investments and managing its credit exposures. It monitors its exposures on an ongoing basis. It uses its standard credit risk methodology for assessing ECL and related key inputs for its ECL calculation, including estimates for probability-of-default (PDs), loss-given-default (LGDs) and exposure-at-default (EADs) for individual exposures. No significant changes in estimation techniques were made during the reporting period.

Estimating ECL involves judgment. At the start of the financial year, financial markets responded with substantial volatility to concerns regarding the increased uncertainty in economic outlook. However, significant support from governments and central banks, together with progress in managing the health and economic impact of the Covid pandemic, resulted in an improvement in economic outlook and market environment. While there were a limited number of internal rating downgrades over the last financial year, the overall credit quality of the portfolio has remained robust. The review of credit exposures in scope of the ECL calculation, notwithstanding these modest internal rating changes, concluded that all credit exposures were assessed to be in stage 1 during the financial years ended 31 March 2021, unchanged from 31 March 2020.

All credit exposures were assessed to be in stage 1 during the financial years ended 31 March 2021 and 31 March 2020.

For the financial year ended 31 March

SDR millions	**2021**	2020
Financial assets classified as amortised cost	–	–
Financial assets classified as FVOCI	0.8	(1.8)
Loan commitments	–	–
Net change in ECL impairment provision	**0.8**	(1.8)

19. Net income on financial assets and liabilities at fair value through profit and loss

For the financial year ended 31 March

SDR millions	**2021**	2020
Financial assets		
Securities purchased under resale agreements	(127.6)	223.0
Loans and advances	204.3	632.0
Government and other securities	514.8	1,040.5
	591.5	1,895.5
Financial liabilities		
Currency deposits	(658.2)	(4,419.2)
	(658.2)	(4,419.2)
Derivative financial instruments	**1,377.1**	3,077.7
Net income on financial assets and liabilities at FVPL	**1,310.4**	554.0

The net income on financial assets and liabilities at fair value through profit and loss comprises the accrual of effective interest, along with realised and unrealised valuation movements, as further analysed in the following table:

For the financial year ended 31 March

SDR millions	**2021**	2020
Financial assets		
Interest	636.5	1,519.8
Realised and unrealised valuation movements	(45.1)	375.7
	591.4	1,895.5
Financial liabilities		
Interest	(1,176.9)	(3,471.6)
Realised and unrealised valuation movements	518.7	(947.6)
	(658.2)	(4,419.2)
Derivative financial instruments		
Interest	1,479.6	2,934.0
Realised and unrealised valuation movements	(102.4)	143.7
	1,377.2	3,077.7
Net income on financial assets and liabilities at FVPL	**1,310.4**	554.0

20. Net gain on sales of currency assets at FVOCI

For the financial year ended 31 March

SDR millions	**2021**	2020
Disposal proceeds	5,704.5	5,445.0
Amortised cost	(5,576.9)	(5,335.8)
Net gain on sales of currency assets at FVOCI	**127.6**	109.2
Comprising:		
Gross realised gains	163.3	110.3
Gross realised losses	(35.7)	(1.1)

21. Net gain on sales of gold investment assets

The Bank did not sell any own gold during the financial years ended 31 March 2021 and 31 March 2020.

22. Net fee income

For the financial year ended 31 March

SDR millions	**2021**	2020
Third-party asset management net fee income	16.9	14.6
Other income	5.5	4.4
Withholding taxes	(5.3)	(8.6)
Other fees and expenses	(10.4)	(7.4)
Net fee income	**6.7**	3.0

23. Net foreign exchange income

For the financial year ended 31 March

SDR millions	**2021**	2020
Net transaction gain	13.5	22.2
Net translation movement	14.0	(9.2)
Net foreign exchange income	**27.5**	13.0

24. Administrative expense

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

For the financial year ended 31 March

CHF millions	**2021**	2020
Board of Directors		
Directors' fees	2.1	2.0
Pensions to former Directors	0.7	1.0
Travel and other costs	-	1.2
	2.8	4.2
Management and staff		
Remuneration	154.1	156.6
Pensions	71.6	97.4
Other personnel-related expense	60.1	64.2
	285.8	318.2
Office and other expense	**72.1**	89.7
BIS administrative expense	**360.7**	412.1
Direct contributions to hosted international organisations	15.2	15.7
Total administrative expenses in CHF millions	**375.9**	427.8
Total administrative expense in SDR millions	**288.8**	315.3

The average number of full-time equivalent senior officials and officials employed on behalf of the Bank during the financial year ended 31 March 2021 was 612 (2020: 595). In addition to the above regular BIS staff, the Bank accommodates up to 12 graduates a year and supports secondments from other organisations. The Bank also employs a small number of cleaners (currently five). The cost of all employees employed on behalf of the Bank is included within management and staff expense.

The Bank hosts the secretariats of three independent associations – the FSB, the IADI and the IAIS. The Bank makes a financial contribution to support these international associations including paying some salaries and other post-employment costs. These amounts are shown under "Direct contributions to hosted organisations". The staff employed on behalf of the independent associations are not included within the average number of employees quoted above. The Bank also provides indirect support for these organisations, in the form of logistical, administrative and staffing-related support. The cost of this support is included within the Bank's regular administrative expense categories.

25. Dividend per share

For the financial year ended 31 March	2021	2020
Net profit for the financial year (SDR millions)	1,237.3	165.5
Weighted average number of shares eligible for dividend	565,522.3	558,764.3
Dividend per share (SDR per share)	520.0	–
Total dividend (SDR millions)	**294.1**	–

Due to the exceptional circumstances of the Covid-19 pandemic, the Bank did not pay a dividend for the financial year ended 31 March 2020.

26. 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	
	2021	2020	**2021**	2020
USD	0.705	0.731	0.710	0.726
EUR	0.828	0.802	0.828	0.807
JPY	0.0064	0.0068	0.0067	0.0067
GBP	0.973	0.910	0.928	0.923
Renminbi	0.108	0.103	0.105	0.104
CHF	0.749	0.759	0.769	0.736
Gold (per ounce)	1,196.8	1,178.3	1,294.3	1,062.4

27. Off-balance sheet items

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

As at 31 March

SDR millions	2021	2020
Gold bars held under earmark arrangements	15,015.1	14,386.1
Nominal value of securities:		
Securities held under safe custody arrangements	2,065.3	2,164.3
Securities held under collateral pledge agreements	–	39.3
Net asset value of portfolio management mandates:		
BISIPs	18,091.1	16,030.6
Dedicated mandates	4,238.5	4,145.5

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 2021, gold bars held under earmark amounted to 390 tonnes of gold (2020: 380 tonnes).

Portfolio management mandates include BIS Investment Pools and dedicated mandates.

The BISIPs are a range of open-ended investment funds created by the Bank. The BISIPs do not have a separate legal personality from the Bank, but are a series of separate reporting entities, each with its own financial statements. The Bank has an agency relationship with the BISIPs. Transactions are conducted in the name of the BIS, and investments are held by a custodian appointed by the BIS, but all of the economic benefit lies with the BISIP customers. The Bank does not invest for its own account in the BISIPs. Because the Bank does not participate in the risks or rewards of the BISIPs, the financial instruments transacted on behalf of the BISIPs are excluded from the BIS balance sheet, and are reported as off-balance sheet items.

Dedicated mandates are portfolios which are managed by the Bank in accordance with investment guidelines set by the customer. Transactions are conducted in the name of the customer, investments are held by a custodian appointed by the customer, and all of the economic benefit lies with the customer. Because the Bank does not participate in the risks or rewards of the dedicated mandates, the financial instruments transacted on behalf of the dedicated mandates are excluded from the BIS balance sheet, and are reported as off-balance sheet items.

The Bank transacts derivative financial instruments on behalf of the BISIPs and dedicated mandates. Such derivatives are governed by the Bank's ISDA contracts, and are subject to the netting and offsetting arrangements specified in those contracts. In certain circumstances, derivatives transacted on behalf of BISIPs and dedicated mandates could be offset against other derivatives transacted by the BIS on behalf of the Bank, the staff pension fund, other BISIPs or other dedicated mandates. For this reason, all derivatives transacted by the Bank are included in the Bank's balance sheet. Such derivatives transacted on behalf of BISIPs and dedicated mandates are represented in the BIS balance sheet along with an equal and offsetting transaction between the Bank and the BISIP or dedicated mandate.

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

28. Commitments

The Bank provides a number of committed standby facilities for its customers on a collateralised or uncollateralised basis. At 31 March 2021, there were no outstanding commitments that were collateralised (2020: nil), and SDR 211.6 million of uncollateralised commitments (2020: SDR 219.4 million).

The BIS is committed to supporting the operations of the three independent associations – the FSB, IADI and the IAIS. In each case, the Bank has a separate agreement specifying the terms of support and the length of the commitment. In accordance with these agreements, the Bank was the legal employer of 75 staff members (2020: 73) working in the secretariats of the hosted international organisations.

29. 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. An input is determined to be significant if its contribution to the value of the financial instrument is greater than 5%. Market liquidity is a consideration in determining whether an input is observable, and hence its fair value hierarchy level. 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 and foreign exchange rates, spreads and volatilities.

Level 3 – Instruments valued using valuation techniques where the significant inputs are not observable in financial markets. This includes illiquid prices and spreads derived from illiquid prices.

As at 31 March 2021

SDR millions	Level 1	Level 2	Level 3	**Total**
Financial assets classified as FVPL				
Securities purchased under resale agreements	–	78,572.0	–	78,572.0
Loans and advances	–	45,544.4	–	45,544.4
Government and other securities	84,782.3	25,956.9	549.8	111,289.0
Derivative financial instruments	2.4	7,619.4	–	7,621.8
Financial assets classified as FVOCI				
Government and other securities	14,816.4	830.0	144.1	15,790.5
Total financial assets accounted for at fair value	**99,601.1**	**158,522.7**	**693.9**	**258,817.7**
Financial liabilities classified as FVPL				
Currency deposits	–	(258,021.4)	–	(258,021.4)
Securities sold under repurchase agreements	–	–	–	–
Derivative financial instruments	(2.8)	(2,205.3)	–	(2,208.1)
Total financial liabilities accounted for at fair value	**(2.8)**	**(260,226.7)**	**–**	**(260,229.5)**

As at 31 March 2020

SDR millions	Level 1	Level 2	Level 3	Total
Financial assets classified as FVPL				
Securities purchased under resale agreements	–	55,869.8	–	55,869.8
Loans and advances	–	54,038.9	–	54,038.9
Government and other securities	60,479.7	26,767.0	254.3	87,501.0
Derivative financial instruments	4.2	3,516.8	–	3,521.0
Financial assets classified as FVOCI				
Securities purchased under resale agreements	–	148.8	–	148.8
Government and other securities	15,096.1	1,109.0	–	16,205.1
Total financial assets accounted for at fair value	75,580.0	141,450.3	254.3	217,284.6
Financial liabilities classified as FVPL				
Currency deposits	–	(200,839.6)	–	(200,839.6)
Derivative financial instruments	(4.1)	(3,045.1)	–	(3,049.2)
Total financial liabilities accounted for at fair value	(4.1)	(203,884.7)	–	(203,888.8)

A. Transfers between levels in the fair value hierarchy

Of the debt securities categorised as level 1 as at 31 March 2021, SDR 8,684.9 million related to assets that were categorised as level 2 as at 31 March 2020. Of the debt securities categorised as level 2 as at 31 March 2021, SDR 1,528.2 million related to assets that were categorised as level 1 as at 31 March 2020. Of the debt securities categorised as level 3 as at 31 March 2021, SDR 91.7 million related to debt securities that were categorised as level 1 and SDR 52.4 million related to assets that were categorised as level 2 as at 31 March 2020.

The transfer of assets between levels 1, 2 and 3 reflected specific market conditions existing at the reporting dates that affected the observability of the market prices as defined above. No liabilities or other types of assets were transferred between the fair value hierarchy levels.

B. Assets and liabilities categorised at fair value level 3

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

As at 31 March 2021, a small percentage of the Bank's financial instrument valuations were produced using valuation techniques that utilised significant unobservable inputs. These financial instruments are categorised as level 3. For these instruments, the determination of fair value requires subjective assessment and judgment depending on liquidity, pricing assumptions, the current economic and competitive environment and the risks affecting the specific instrument. In such circumstances, valuation is determined based on Management's own judgments about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). Both observable and unobservable inputs may be used to determine the fair value of positions that have been classified within level 3. As a result, the unrealised gains and losses for assets and liabilities within level 3 presented in the table below may include changes in fair value that were attributable to both observable and unobservable inputs.

The financial instruments categorised as level 3 comprise illiquid bonds. During the financial period ended 31 March 2021, the Bank categorised SDR 693.9 million of securities as level 3 in the fair value hierarchy.

Of these securities, SDR 435.9 million were valued using illiquid prices, and SDR 258.0 million were valued using illiquid spreads.

As at 31 March 2021

SDR millions	FVPL	FVOCI	**Total**
Balance at the beginning of the year	**254.3**	**–**	**254.3**
Purchases	390.3	–	390.3
Sales	(121.7)	–	(121.7)
Transfers in	101.4	144.1	245.5
Transfers out	(76.5)	–	(76.5)
Amount recognised in net profit	**2.0**	**–**	**2.0**
Balance at end of the year	**549.8**	**144.1**	**693.9**
Unrealised gains relating to assets still held as at the reporting date	**0.4**	**0.5**	**0.9**

C. Quantitative disclosures of valuation techniques

The following table provides the representative range of minimum and maximum values and the associated weighted averages of each significant unobservable input for level 3 assets by the related valuation technique most significant to the related financial instrument.

As at 31 March 2021

	Fair value *(SDR millions)*	Valuation technique	Unobservable input	Minimum value of input	Maximum value of input	Weighted average of input	Unit	Relationship of unobservable input to fair value
Debt securities	258.0	Price	Bond prices	99.8	102.7	101.7	Points	A change in the prices of 1 point would increase / decrease the fair value by SDR 2.6 million
Debt securities	435.9	Discounted cash flow based on spread to yield curve	Bond spreads	(6.9)	30.0	13.8	Basis-points	A change in the spreads of 100 basis-points would increase / decrease the fair value by SDR 3.0 million
Total level 3 assets at fair value	**693.9**							

D. Financial instruments not measured at fair value

In accordance with its accounting policies, the Bank accounts for certain financial instruments at amortised cost. Using the same valuation techniques as used for fair valued financial instruments, Management 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 2021 and 31 March 2020. If the valuation of these instruments were categorised using 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.

E. 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 would decrease, and the change in value would be reflected as a movement in other comprehensive income. 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.

F. Valuation of financial assets and liabilities

The Bank is the sole market maker in certain of its currency deposit products, while in other currency deposit products there is no active market. As such, judgment is involved in determining the appropriate assumptions to derive the fair value of currency deposits. The Bank uses valuation techniques to estimate the fair value of its currency deposits. These valuation techniques comprise discounted cash flow models and option pricing models. The discounted cash flow models value the expected cash flows of financial instruments using discount factors that are partly derived from quoted interest rates (eg rates on derivatives) and partly based on assumptions about spreads at which each product would be repurchased from customers. For short-term products, repurchase spreads are based on recent market transactions. For MTIs, repurchase spreads are based on those used when the deposit was sold to the customer. If a deposit was sold with an enhanced rate, the enhancement is reflected in the valuation spread as it would be applied if the Bank were to buy-back the deposit from the customer. The option pricing models include assumptions about volatilities that are derived from market quotes. The valuation of OTC derivatives is also subject to judgment, in particular as a result of the Libor reform.

Stressed market conditions can increase the degree of judgment involved in the valuation of the Bank's financial assets and liabilities. In such circumstances, the Bank reconsiders some of its valuation processes, and applies judgment in determining the appropriate valuation methods and inputs for each financial instrument. Reflecting generally lower market liquidity, level 1 observable prices may not be available for some financial assets, and these may instead be valued using a discounted cash flow model based on a spread to a standard market yield curve. Such valuations are level 2 or level 3, and require estimation of appropriate valuation parameters. Changes in estimates of these parameters could significantly affect the reported fair values. The valuation impact is opposite for a one basis point parallel downward change in the underlying yield curve. Management uses a move of 200 basis points as a stress test. The valuation impact of a 1 basis point parallel upward change in the underlying yield curve assumptions of key financial instruments is shown in the table below:

For the financial year ended 31 March

SDR millions	**2021**	2020
Securities purchased under resale agreements	(0.4)	(0.2)
Loans and advances	(1.2)	(2.0)
Government and other securities	(12.1)	(13.1)
Currency deposits	9.7	9.2
Derivative financial instruments	1.0	0.7

30. Geographical analysis

A. Total liabilities

As at 31 March

SDR millions	**2021**	2020
Africa and Europe	106,379.6	89,916.5
Asia-Pacific	189,040.5	162,483.9
Americas	31,335.7	26,262.0
International organisations	6,575.6	8,195.0
Balance at end of year	**333,331.4**	286,857.4

B. Off-balance sheet items

As at 31 March

SDR millions	**2021**			2020		
	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	6,463.0	–	3,993.3	6,249.5	–	3,598.7
Asia-Pacific	4,116.8	2,065.3	11,011.4	4,053.1	2,164.3	10,584.8
Americas	4,435.3	–	7,324.9	4,083.5	39.3	5,992.6
Total	**15,015.1**	**2,065.3**	**22,329.6**	14,386.1	2,203.6	20,176.1

The geographical distribution in the above table reflects the geographical origin of the underlying investors in the above off-balance sheet items, and not the geographical location of the investment assets.

C. Credit commitments

As at 31 March

SDR millions	**2021**	2020
Asia-Pacific	211.6	219.4
Total	**211.6**	219.4

31. 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". The Bank provides services to the pension fund on a free-of-charge basis, including investment management, accounting, reporting, valuation and monitoring. Note 12 provides further details of the Bank's post-employment benefit arrangements.

A. Related party individuals

Note 24 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	**2021**	2020
Salaries, allowances and medical cover	8.6	8.0
Post-employment benefits	2.8	2.6
Total compensation	**11.4**	10.6
SDR equivalent in millions	8.8	7.8

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	**2021**	2020
Balance at beginning of year	14.9	13.2
Deposits taken and other inflows	2.0	2.5
Withdrawals and other outflows	(4.7)	(0.8)
Balance at end of year	**12.2**	14.9
SDR equivalent in millions	9.1	11.3
Interest expense on deposits in CHF millions	**–**	–

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 2021 was SDR 4.8 million (2020: SDR 7.2 million). They are reported under the balance sheet heading "Currency deposits".

B. Related party institutions

The Bank pays a dividend to its shareholders, as described in note 25. The dividends paid to related party shareholders in the financial year ended 31 March 2020 (for the financial year 2018/19) was SDR 136.7 million. No dividend was paid in the financial year ended 31 March 2021 (for the financial year 2019/20).

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	2021			2020		
	Balance sheet total	Balance with related parties		Balance sheet total	Balance with related parties	
	SDR millions	*SDR millions*	*%*	*SDR millions*	*SDR millions*	*%*
Assets						
Cash and cash equivalents	50,854.6	**49,160.9**	96.7	54,021.4	53,142.0	98.4
Securities purchased under resale agreements	78,572.0	**2,515.2**	3.2	56,018.6	7,012.4	12.5
Loans and advances	45,544.4	**8,030.3**	17.6	54,038.9	227.4	0.4
Government and other securities	127,079.5	**3,810.4**	3.0	103,706.1	3,444.7	3.3
Gold and gold loans	41,665.7	**41,471.6**	99.5	31,436.8	31,369.6	99.8
Derivative financial instruments	7,621.8	**51.8**	0.7	3,521.0	80.8	2.3
Other assets	21.5	**1.1**	5.1	19.1	1.2	6.3
Liabilities						
Currency deposits	(288,014.7)	**(135,952.7)**	47.2	(250,194.8)	(138,725.3)	55.4
Gold deposits	(18,848.9)	**(11,480.6)**	60.9	(15,221.1)	(11,302.8)	74.3
Derivative financial instruments	(2,208.1)	**(41.6)**	1.9	(3,049.2)	(66.8)	2.2

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

For the financial year ended 31 March	2021			2020		
	Profit and loss total	Balance with related parties		Profit and loss total	Balance with related parties	
	SDR millions	*SDR millions*	*%*	*SDR millions*	*SDR millions*	*%*
Interest income	254.9	**49.6**	19.5	282.3	37.0	13.1
Interest expense	(174.2)	**(151.6)**	87.0	(453.3)	(329.2)	72.6
Net change in ECL impairment provision	0.8	**–**	–	(1.8)	–	–
Net income on financial assets and liabilities at FVPL						
Financial assets	591.5	**27.7**	4.7	1,895.6	119.5	6.3
Financial liabilities	(658.2)	**(244.6)**	37.2	(4,419.2)	(1,796.9)	40.7
Derivative financial instruments	1,377.1	**(1.2)**	(0.1)	3,077.6	73.0	2.4

32. Contingent liabilities

In the opinion of the Bank's Management, there were no significant contingent liabilities at 31 March 2021 (31 March 2020: nil).

Capital adequacy

1. Capital adequacy framework

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. Its capital planning process 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 guidance issued by the Basel Committee on Banking Supervision (BCBS). Following this, the Bank discloses a Common Equity Tier 1 capital ratio (Pillar 1), risk-weighted assets and more detailed related information. In addition, the Bank calculates for reference a Liquidity Coverage Ratio.

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-bearing capacity to the amount of economic capital needed to absorb potential losses arising from its exposures. Consistent with guidance from the BCBS, the risk-bearing capacity is defined as Common Equity Tier 1 capital which is based on components of the Bank's shareholders' equity (as reduced by prudential adjustments) as set out in the following table.

Common Equity Tier 1 capital includes the profit and loss account. It is adjusted by the Bank's current estimate of the amount of the profit and loss account that will be paid as a dividend (the "dividend adjustment"), to ensure that Common Equity Tier 1 capital includes only the component of the profit and loss account that is expected to be allocated to statutory reserves.

As at 31 March

SDR millions	**2021**	2020
Share capital	710.2	706.4
Statutory reserves per balance sheet	17,141.8	16,867.8
Less: shares held in treasury	(1.7)	(1.7)
Share capital and reserves	**17,850.2**	17,572.5
Securities revaluation account	216.2	572.3
Gold revaluation account	3,436.2	3,375.3
Re-measurement of defined benefit obligations	83.0	(45.7)
Other equity accounts	**3,735.4**	3,901.9
Expected loss	(151.8)	(59.4)
Intangible assets	(29.4)	(24.3)
Prudential adjustments	**(181.1)**	(83.7)
Profit and loss account	**1,237.3**	165.5
Dividend adjustment	**(294.1)**	–
Common Equity Tier 1 capital	**22,347.8**	21,556.2

As part of the capital planning process, Management allocates economic capital to risk categories within its risk-bearing capacity. Allocations are made to each category of financial risk (ie credit and market risk) as well as operational risk. Capital is also assigned to a minimum cushion of capital that is not utilised by risk categories (“minimum capital cushion”) providing an additional margin of safety. The difference between its risk-bearing capacity and the total economic capital utilisation, the "available economic capital", is available for further risk-taking.

Reflecting the high level of solvency targeted by the Bank, the economic capital framework measures economic capital to a 99.99% confidence level assuming a one-year horizon, except for FX settlement risk. The amount of economic capital set aside for FX settlement risk 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 as well as the resulting available economic capital:

As at 31 March	2021		2020	
SDR millions	Allocation	Utilisation	Allocation	Utilisation
Insolvency and transfer risk	7,700.0	6,050.4	7,400.0	5,931.4
FX settlement risk	400.0	400.0	300.0	300.0
Credit risk	8,100.0	6,450.4	7,700.0	6,231.4
Market risk	5,300.0	3,987.6	4,200.0	3,807.0
Operational risk	1,100.0	1,100.0	1,100.0	1,100.0
Minimum capital cushion	3,352.2	3,352.2	3,233.4	3,233.4
Total economic capital (A)	**17,852.2**	**14,890.2**	16,233.4	14,371.8
Common Equity Tier 1 capital (B)		**22,347.8**		21,556.2
Available economic capital (B) – (A)		**7,457.6**		7,184.4

3. Financial leverage

The Bank complements its capital adequacy assessment with a financial leverage framework using a ratio that compares the Bank's Common Equity Tier 1 capital with its total exposure. The exposure measure is supplemented by the pension fund asset value as well as regulatory exposure adjustments relating to committed and uncommitted facilities, repurchase agreements and derivatives.

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

As at 31 March *SDR millions*	2021	2020
Common Equity Tier 1 capital (A)	**22,347.8**	21,556.2
Total balance sheet assets	**356,154.4**	308,497.3
Derivatives	7,346.0	2,775.8
Securities purchased under resale agreements	25.4	10.1
Committed and uncommitted facilities	4,979.1	3,745.2
Pension fund assets	1,286.1	1,109.6
Exposure adjustments	**13,636.6**	7,640.7
Total BIS exposure (B)	**369,791.0**	316,138.0
BIS leverage ratio (A) / (B)	**6.0%**	6.8%

4. Common Equity Tier 1 capital ratio

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 the Common Equity Tier 1 capital ratio 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 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 and is calculated at the balance sheet date. In accordance with the requirements of the Basel Framework, the expected loss is compared with write-offs, if applicable, and any shortfall is deducted from the Bank's Common Equity 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 based on a value-at-risk (VaR) methodology calibrated to stressed and non-stressed market conditions. For operational risk, the advanced measurement approach is used. This approach also relies on VaR.

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

The following table provides information on risk-weighted assets and related minimum capital requirements:

As at 31 March		**2021**			2020		
	Approach used	Amount of exposure	Risk-weighted assets	Minimum capital requirement	Amount of exposure	Risk-weighted assets	Minimum capital requirement
SDR millions			(A)	(B)		(A)	(B)
Credit risk							
Exposure to sovereigns, banks and corporates	Advanced internal ratings-based approach, where (B) is derived as (A) x 8%	227,562.6	30,400.6	2,432.0	218,276.3	31,124.7	2,490.0
Securitisation exposures and other assets	Standardised approach, where (B) is derived as (A) x 8%	413.1	1,423.0	113.8	642.7	1,287.1	103.0
Market risk							
Exposure to foreign exchange risk and gold price risk	Internal models approach, where (A) is derived as (B) / 8%	–	37,453.7	2,996.3	–	27,562.9	2,205.0
Operational risk							
	Advanced measurement approach, where (A) is derived as (B) / 8%	–	8,957.5	716.6	–	8,909.2	712.7
Total			**78,234.7**	**6,258.8**		68,883.9	5,510.7

The Common Equity Tier 1 capital ratio is set out in the following table:

As at 31 March		
SDR millions	**2021**	2020
Total Common Equity Tier 1 capital (A)	**22,347.8**	21,556.2
Total risk-weighted assets (B)	**78,234.7**	68,883.9
Common Equity Tier 1 capital ratio (A) / (B)	**28.6%**	31.3%

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 and the Finance Committee. Both committees are chaired by the General Manager, and 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 independent risk management function for financial risks is performed by the Risk Management unit. The Head of Risk Management reports to the Deputy General Manager. The independent risk management function for operational risk is performed by the Operational Transformation and Resiliency unit. The Head of Operational Transformation and Resiliency reports to the Deputy Secretary General.

The Bank's independent 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, rules and standards. The Chief Compliance Officer reports to the Deputy General Manager and also has a direct access to the Audit Committee, which is an advisory committee to the Board of Directors.

As part of its efforts to strengthen the implementation of its three lines of defence approach, the Bank has undertaken a review of roles and responsibilities related to compliance and conduct risks across the organisation. In May 2021, the Bank decided to reallocate responsibilities. As a result, the Risk Management function, jointly with the Legal Service, will provide guidance on and monitor compliance risk related to BIS banking services. In addition, a new Conduct and Ethics unit will be established to underline the strategic importance of ethics for the Bank and its corporate culture.

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 Transformation and Resiliency 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 and operational risk. As part of the 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 99.99% confidence level assuming a one-year time horizon. An additional amount of economic capital is allocated for FX settlement risk based on Management's risk assessment. Moreover, capital is set aside for a "minimum capital cushion" which provides an additional margin of safety.

The management of the Bank's capital adequacy is complemented by a comprehensive stress testing framework, and a 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 Common Equity Tier 1 capital 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. The ratings and related limits are reviewed at least annually for counterparties with internal ratings (expressed as equivalent external ratings) of 'A' or below. 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 tables in this section show the exposure of the Bank to default risk, without taking into account any impairment allowance, 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 gross carrying value of the assets in the balance sheet as categorised by sector, geographical region and credit quality. The gross 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. Provisions for estimated credit losses on instruments valued at amortised cost are not included in the exposure amounts. Commitments are reported at their notional amounts. Gold and gold loans exclude gold bar assets held in custody at central banks, and accounts receivable and other assets do not include unsettled liabilities issued because these items do not represent credit exposures of the Bank.

The substantial majority of the Bank's assets are placed in local currency central bank cash, 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. As at 31 March 2021, excluding local currency cash at central banks and exposures largely mitigated by collateral arrangements, there was one advanced economy sovereign comprising more than 5% of the total on-balance sheet exposure reported in the tables below. This exposure was between 10% and 15% of the total on-balance sheet exposure (31 March 2020: one exposure between 10% and 15%).

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 impairment loss allowance, collateral held or other credit enhancements available to the Bank. "Public sector" includes international and other public sector institutions.

As at 31 March 2021

SDR millions	Sovereign and central banks	Public sector	Banks	Corporate	Securitisation	Total
On-balance sheet exposure						
Cash and cash equivalents	50,151.0	635.3	68.3	–	–	50,854.6
Gold and gold loans	479.4	–	194.1	–	–	673.5
Securities purchased under resale agreements	5,074.4	–	58,832.5	14,665.1	–	78,572.0
Loans and advances	12,120.3	82.7	33,341.4	–	–	45,544.4
Government and other securities	93,959.5	15,632.3	8,350.8	8,945.3	191.6	127,079.5
Derivative financial instruments	345.9	15.2	7,260.1	0.6	–	7,621.8
Accounts receivable and other assets	8.1	31.7	1,437.9	5.9	–	1,483.6
Total on-balance sheet exposure	**162,138.6**	**16,397.2**	**109,485.1**	**23,616.9**	**191.6**	**311,829.4**
Commitments						
Undrawn unsecured facilities	211.6	–	–	–	–	211.6
Total commitments	**211.6**	**–**	**–**	**–**	**–**	**211.6**
Total exposure	**162,350.2**	**16,397.2**	**109,485.1**	**23,616.9**	**191.6**	**312,041.0**

As at 31 March 2020

SDR millions	Sovereign and central banks	Public sector	Banks	Corporate	Securitisation	Total
On-balance sheet exposure						
Cash and cash equivalents	53,137.3	577.3	306.8	–	–	54,021.4
Gold and gold loans	224.1	–	67.2	–	–	291.3
Securities purchased under resale agreements	7,012.4	–	36,120.9	12,885.3	–	56,018.6
Loans and advances	5,072.8	40.0	48,926.1	–	–	54,038.9
Government and other securities	73,563.3	11,328.9	9,138.7	9,258.1	417.1	103,706.1
Derivative financial instruments	251.4	7.4	3,261.8	0.4	–	3,521.0
Accounts receivable and other assets	5.9	4.5	193.4	5.8	–	209.6
Total on-balance sheet exposure	139,267.2	11,958.1	98,014.9	22,149.6	417.1	271,806.9
Commitments						
Undrawn unsecured facilities	219.4	–	–	–	–	219.4
Total commitments	219.4	–	–	–	–	219.4
Total exposure	139,486.6	11,958.1	98,014.9	22,149.6	417.1	272,026.3

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 impairment loss allowance, 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 2021

SDR millions	Africa and Europe	Asia-Pacific	Americas	International institutions	Total
On-balance sheet exposure					
Cash and cash equivalents	38,665.6	11,524.9	28.8	635.3	50,854.6
Gold and gold loans	673.5	–	–	–	673.5
Securities purchased under resale agreements	65,081.8	10,516.6	2,973.6	–	78,572.0
Loans and advances	38,813.9	4,614.4	2,116.1	–	45,544.4
Government and other securities	38,569.1	56,996.1	27,334.4	4,179.9	127,079.5
Derivative financial instruments	5,917.7	456.5	1,238.2	9.4	7,621.8
Accounts receivable and other assets	1,410.3	3.7	69.5	0.1	1,483.6
Total on-balance sheet exposure	**189,131.9**	**84,112.2**	**33,760.6**	**4,824.7**	**311,829.4**
Commitments					
Undrawn unsecured facilities	–	211.6	–	–	211.6
Total commitments	**–**	**211.6**	**–**	**–**	**211.6**
Total exposure	**189,131.9**	**84,323.8**	**33,760.6**	**4,824.7**	**312,041.0**

As at 31 March 2020

SDR millions	Africa and Europe	Asia-Pacific	Americas	International institutions	Total
On-balance sheet exposure					
Cash and cash equivalents	27,224.9	26,178.2	41.0	577.3	54,021.4
Gold and gold loans	291.3	–	–	–	291.3
Securities purchased under resale agreements	40,385.1	8,621.1	7,012.4	–	56,018.6
Loans and advances	37,533.2	9,272.8	7,232.9	–	54,038.9
Government and other securities	33,636.1	41,652.4	23,961.5	4,456.1	103,706.1
Derivative financial instruments	2,861.5	376.0	280.3	3.2	3,521.0
Accounts receivable and other assets	11.1	2.6	194.6	1.3	209.6
Total on-balance sheet exposure	141,943.2	86,103.1	38,722.7	5,037.9	271,806.9
Commitments					
Undrawn unsecured facilities	–	219.4	–	–	219.4
Total commitments	–	219.4	–	–	219.4
Total exposure	141,943.2	86,322.5	38,722.7	5,037.9	272,026.3

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 impairment allowance, 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 2021

SDR millions	AAA	AA	A	BBB	BB and below	Unrated	Total
On-balance sheet exposure							
Cash and cash equivalents	34,478.9	5,681.7	10,560.8	132.6	0.6	–	50,854.6
Gold and gold loans	–	479.4	194.1	–	–	–	673.5
Securities purchased under resale agreements	–	17,180.2	39,948.6	21,443.2	–	–	78,572.0
Loans and advances	1,409.4	9,889.3	31,151.1	413.9	2,680.7	–	45,544.4
Government and other securities	6,065.0	46,484.2	61,695.8	12,834.5	–	–	127,079.5
Derivative financial instruments	0.3	647.4	6,367.0	461.6	0.5	145.0	7,621.8
Accounts receivable and other assets	185.4	25.8	447.7	809.5	1.2	14.0	1,483.6
Total on-balance sheet exposure	**42,139.0**	**80,388.0**	**150,365.1**	**36,095.3**	**2,683.0**	**159.0**	**311,829.4**
Commitments							
Undrawn unsecured facilities	–	–	–	211.6	–	–	211.6
Total commitments	**–**	**–**	**–**	**211.6**	**–**	**–**	**211.6**
Total exposure	**42,139.0**	**80,388.0**	**150,365.1**	**36,306.9**	**2,683.0**	**159.0**	**312,041.0**

As at 31 March 2020

SDR millions	AAA	AA	A	BBB	BB and below	Unrated	Total
On-balance sheet exposure							
Cash and cash equivalents	25,771.2	1,897.8	26,227.3	125.0	0.1	–	54,021.4
Gold and gold loans	–	224.1	67.2	–	–	–	291.3
Securities purchased under resale agreements	–	19,897.7	27,508.8	8,612.1	–	–	56,018.6
Loans and advances	2,208.1	1,478.5	47,076.6	638.5	2,637.2	–	54,038.9
Government and other securities	6,541.8	40,029.8	48,165.6	8,968.9	–	–	103,706.1
Derivative financial instruments	–	155.9	3,175.7	169.8	16.1	3.5	3,521.0
Accounts receivable and other assets	–	0.8	2.6	191.5	2.1	12.6	209.6
Total on-balance sheet exposure	34,521.1	63,684.6	152,223.8	18,705.8	2,655.5	16.1	271,806.9
Commitments							
Undrawn unsecured facilities	–	–	–	219.4	–	–	219.4
Total commitments	–	–	–	219.4	–	–	219.4
Total exposure	34,521.1	63,684.6	152,223.8	18,925.2	2,655.5	16.1	272,026.3

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 derivatives 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 in 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 and some derivative contracts.

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 or reuse 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 2021, the Bank had not sold, lent or reused any of the collateral it held (31 March 2020: nil).

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

As at 31 March *SDR millions*	**2021**	2020
Collateral held in respect of:		
Derivatives	5,245.7	1,095.2
Securities purchased under resale agreements	56,072.8	38,088.2
Total	**61,318.5**	39,183.4

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.

Some of the securities purchased under resale agreements presented in the table below relate to the utilisation of uncommitted credit lines by the Bank's central bank customers.

The Bank also receives collateral in respect of advances under certain committed and uncommitted facilities. Such collateral can be in the form of currency deposits with the BIS, or units in BIS investment pools.

In certain derivatives transactions, the Bank has provided or received collateral in the form of cash and cash equivalents, with the corresponding balance recorded as part of other assets or other liabilities, respectively, in the balance sheet. For some dedicated mandates the Bank receives collateral from the mandate customer in respect of derivative financial instruments transacted on their behalf. This collateral is in the form of currency deposits with the BIS, and is recorded as such in the balance sheet.

As at 31 March 2021		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	78,572.0	(20,437.3)	–	(58,109.5)	25.2	–	25.2
Advances	2,680.7	–	–	(2,680.7)	–	–	–
Derivative financial instruments	7,621.8	–	(1,090.7)	(5,246.3)	1,284.8	140.3	1,144.5
Financial liabilities							
Securities sold under repurchase agreements	–	–	–	–	–	–	–
Derivative financial instruments	(2,208.1)	–	1,090.7	15.7	–	–	–

As at 31 March 2020	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	56,018.6	(11,324.5)	–	(44,684.1)	10.0	–	10.0
Advances	2,637.3	–	–	(2,637.3)	–	–	–
Derivative financial instruments	3,521.0	–	(2,057.8)	(822.6)	640.6	116.5	524.1
Financial liabilities							
Securities sold under repurchase agreements	(148.8)	–	–	148.7	–	–	–
Derivative financial instruments	(3,049.2)	–	2,057.8	171.8	–	–	–

As at 31 March 2021, the Bank pledged SDR 13.0 million (31 March 2020: SDR 315.1 million) of debt securities as collateral under its obligations related to derivative financial instrument contracts. The counterparties have an obligation to return these securities to the Bank.

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 99.99% 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	2021				2020			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Economic capital utilisation for credit risk	6,622.3	7,298.5	5,912.5	6,450.4	5,919.6	6,321.1	5,493.9	6,231.4

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 BCBS regulatory 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 securities is based on market value, the EAD for derivatives is calculated using an approach consistent with the internal models method. In line with the EAD methodology for derivatives, 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. 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 2021 includes SDR 50.7 million for interest rate contracts (2020: SDR 98.1 million) and SDR 1,194.4 million for FX and gold contracts (2020: SDR 635.4 million). In line with the Basel Framework, the minimum capital requirement is determined as 8% of risk-weighted assets.

As at 31 March 2021

Internal rating grades expressed as equivalent external rating grades	Amount of exposure	Exposure-weighted PD	Exposure-weighted average LGD	Exposure-weighted average risk weight	Risk-weighted assets
SDR millions / percentages	*SDR millions*	%	%	%	*SDR millions*
AAA	41,488.3	0.01	6.8	0.7	300.7
AA	66,471.8	0.03	42.2	11.3	7,504.1
A	105,490.0	0.06	49.3	15.8	16,651.5
BBB	13,911.3	0.20	55.4	37.3	5,193.2
BB and below	201.2	79.54	58.8	136.2	274.1
Total	**227,562.6**				**29,923.6**

As at 31 March 2020

Internal rating grades expressed as equivalent external rating grades	Amount of exposure	Exposure-weighted PD	Exposure-weighted average LGD	Exposure-weighted average risk weight	Risk-weighted assets
SDR millions / percentages	*SDR millions*	%	%	%	*SDR millions*
AAA	33,883.0	0.01	9.5	1.2	408.1
AA	50,726.8	0.03	40.0	13.7	6,967.0
A	123,510.3	0.06	45.0	16.1	19,868.6
BBB	10,147.4	0.20	55.6	37.1	3,760.7
BB and below	8.8	59.63	58.4	53.7	4.7
Total	218,276.3				31,009.1

At 31 March 2021, the minimum capital requirement for credit risk related to exposures to sovereigns, banks and corporates was SDR 2,393.9 million (2020: SDR 2,480.7 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 2021	312,777.4	85,214.8	**227,562.6**
As at 31 March 2020	269,732.1	51,455.8	218,276.3

Securitisation exposures

The Bank invests in securitisation exposures based on traditional, ie non-synthetic, securitisation structures. Given the scope of the Bank's activities, risk-weighted assets 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 BCBS 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 2021

SDR millions	External rating	Amount of exposures	Risk weight	Risk-weighted assets
Securities backed by other receivables (government-sponsored)	AAA	97.0	20%	19.4
Securities backed by mortgages		94.6	1250%	1,182.1
Total		**191.6**		**1,201.5**

As at 31 March 2020

SDR millions	External rating	Amount of exposures	Risk weight	Risk-weighted assets
Securities backed by other receivables (government-sponsored)	AAA	337.6	20%	67.5
Securities backed by mortgages		79.5	1250%	994.1
Total		417.1		1,061.6

At 31 March 2021, the minimum capital requirement for securitisation exposures was SDR 96.1 million (2020: SDR 84.9 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 99.99% 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 2021, the Bank's net gold investment assets were 102 tonnes with a value of SDR 3,939.6 million, approximately 17% of shareholders' equity (31 March 2020: 102 tonnes, SDR 3,878.1 million, representing 18% of shareholders' equity). 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 2021

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	(5.0)	(14.9)	(30.5)	(29.0)	(28.2)	(6.7)	(9.8)	(124.2)
Japanese yen	18.2	0.5	(0.1)	–	(0.2)	0.1	0.1	18.7
Pound sterling	0.3	(3.5)	(8.7)	(11.8)	(5.3)	(0.6)	(2.4)	(31.9)
Renminbi	(0.8)	(3.5)	(6.8)	(7.3)	(8.2)	(15.6)	(20.9)	(63.1)
Swiss franc	12.5	(0.1)	(0.2)	(0.2)	(0.1)	(1.7)	(1.1)	9.1
US dollar	(12.4)	(12.1)	(38.3)	(25.9)	(29.1)	(36.3)	(83.1)	(237.3)
Other currencies	(0.5)	(0.1)	(0.7)	(0.8)	(0.9)	(0.5)	(0.5)	(4.1)
Total	**12.4**	**(33.6)**	**(85.3)**	**(74.9)**	**(72.1)**	**(61.3)**	**(117.9)**	**(432.8)**

As at 31 March 2020

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	(6.0)	(13.8)	(27.3)	(38.9)	(39.8)	(28.5)	(16.5)	(170.8)
Japanese yen	19.5	0.8	0.1	–	(0.1)	–	0.1	20.4
Pound sterling	(0.9)	(1.6)	(7.4)	(10.2)	(17.8)	(5.9)	–	(43.8)
Renminbi	(0.2)	(4.6)	(5.3)	(3.3)	(9.4)	(17.8)	(38.1)	(78.7)
Swiss franc	4.4	(0.3)	(0.3)	(0.2)	(0.3)	(0.8)	(2.7)	(0.2)
US dollar	(19.6)	(15.9)	(20.5)	(31.9)	(16.2)	(50.7)	(155.1)	(309.9)
Other currencies	(0.3)	0.3	(0.4)	(1.0)	(0.9)	(0.4)	(0.1)	(2.8)
Total	(3.1)	(35.1)	(61.1)	(85.5)	(84.5)	(104.1)	(212.4)	(585.8)

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 2021 *SDR millions*	SDR	USD	EUR	GBP	JPY	RMB	CHF	Gold	Other currencies	Total
Assets										
Cash and cash equivalents	635.3	18.7	24,178.2	681.6	10,106.2	414.9	13,787.7	–	1,032.0	50,854.6
Securities purchased under resale agreements	–	4,701.1	25,154.8	29,180.3	19,535.8	–	–	–	–	78,572.0
Loans and advances	–	19,937.9	13,461.7	8,468.5	–	–	1,918.9	–	1,757.4	45,544.4
Government and other securities	–	32,200.4	32,169.1	5,275.7	42,352.9	3,914.4	933.7	–	10,233.3	127,079.5
Gold and gold loans	–	0.7	–	–	–	–	–	41,665.0	–	41,665.7
Derivative financial instruments	3,185.3	199,764.9	(52,567.6)	(29,569.5)	(78,214.0)	3,351.4	(16,286.1)	(19,547.6)	(2,495.0)	7,621.8
Accounts receivable and other assets	–	3,859.9	188.0	423.0	–	124.4	7.8	–	14.9	4,618.0
Land, buildings and equipment	138.6	6.7	4.2	2.1	–	–	46.7	–	0.1	198.4
Total assets	**3,959.2**	**260,490.3**	**42,588.4**	**14,461.7**	**(6,219.1)**	**7,805.1**	**408.7**	**22,117.4**	**10,542.7**	**356,154.4**
Liabilities										
Currency deposits	(2,167.2)	(244,517.3)	(16,290.9)	(8,853.3)	(277.7)	(10,319.2)	(351.7)	–	(5,237.4)	(288,014.7)
Securities sold under repurchase agreements	–	–	–	–	–	–	–	–	–	–
Gold deposits	–	–	–	–	–	–	–	(18,848.9)	–	(18,848.9)
Derivative financial instruments	(57.1)	(7,526.8)	(7,364.1)	(2,462.3)	13,592.0	4,815.6	781.2	670.9	(4,657.5)	(2,208.1)
Accounts payable	–	(1,344.0)	(13,474.0)	(1,717.0)	(5,864.5)	(413.6)	–	–	(506.6)	(23,319.7)
Other liabilities	–	(3.5)	(1.9)	(0.4)	–	–	(927.8)	–	(6.4)	(940.0)
Total liabilities	**(2,224.3)**	**(253,391.6)**	**(37,130.9)**	**(13,033.0)**	**7,449.8**	**(5,917.2)**	**(498.3)**	**(18,178.0)**	**(10,407.9)**	**(333,331.4)**
Net currency and gold position	**1,734.9**	**7,098.7**	**5,457.5**	**1,428.7**	**1,230.7**	**1,887.9**	**(89.6)**	**3,939.4**	**134.8**	**22,823.0**
Adjustment for gold	–	–	–	–	–	–	–	(3,939.4)	–	(3,939.4)
Net currency position	**1,734.9**	**7,098.7**	**5,457.5**	**1,428.7**	**1,230.7**	**1,887.9**	**(89.6)**	**–**	**134.8**	**18,883.6**
SDR-neutral position	(1,734.9)	(7,044.4)	(5,492.5)	(1,434.6)	(1,300.8)	(1,876.4)	–	–	–	(18,883.6)
Net currency exposure on SDR-neutral basis	**–**	**54.3**	**(35.0)**	**(5.9)**	**(70.1)**	**11.5**	**(89.6)**	**–**	**134.8**	**–**

As at 31 March 2020 *SDR millions*	SDR	USD	EUR	GBP	JPY	RMB	CHF	Gold	Other currencies	Total
Assets										
Cash and cash equivalents	577.2	22.0	14,589.9	7.2	25,942.1	217.5	12,589.8	-	75.7	54,021.4
Securities purchased under resale agreements	-	10,230.6	23,466.9	11,332.5	10,819.2	169.4	-	-	-	56,018.6
Loans and advances	-	32,499.1	18,047.1	1,033.3	-	103.3	605.4	-	1,750.7	54,038.9
Government and other securities	-	33,847.1	25,086.5	4,788.2	30,670.7	2,952.2	266.2	-	6,095.2	103,706.1
Gold and gold loans	-	0.2	-	-	-	-	-	31,436.6	-	31,436.8
Derivative financial instruments	1,542.8	86,023.6	(41,629.5)	(1,776.7)	(27,527.2)	(1,460.0)	(5,036.7)	(874.5)	(5,740.8)	3,521.0
Accounts receivable and other assets	-	5,059.5	0.7	464.3	-	2.7	9.7	-	18.3	5,555.2
Land, buildings and equipment	166.0	2.3	1.6	0.7	-	-	28.6	-	0.1	199.3
Total assets	2,286.0	167,684.4	39,563.2	15,849.5	39,904.8	1,985.1	8,463.0	30,562.1	2,199.2	308,497.3
Liabilities										
Currency deposits	(2,522.2)	(204,184.1)	(20,595.5)	(13,204.3)	(399.1)	(3,283.4)	(376.5)	-	(5,629.7)	(250,194.8)
Securities sold under repurchase agreements	-	-	-	(148.8)	-	-	-	-	-	(148.8)
Gold deposits	-	-	-	-	-	-	-	(15,221.1)	-	(15,221.1)
Derivative financial instruments	854.4	48,958.7	(4,474.5)	(513.8)	(35,707.0)	3,161.5	(7,339.9)	(11,475.6)	3,487.0	(3,049.2)
Accounts payable	-	(4,851.4)	(9,189.8)	(617.8)	(2,536.1)	-	-	-	(17.5)	(17,212.6)
Other liabilities	-	(4.4)	(1.5)	(0.2)	-	-	(1,016.3)	-	(8.5)	(1,030.9)
Total liabilities	(1,667.8)	(160,081.2)	(34,261.3)	(14,484.9)	(38,642.2)	(121.9)	(8,732.7)	(26,696.7)	(2,168.7)	(286,857.4)
Net currency and gold position	618.2	7,603.2	5,301.9	1,364.6	1,262.6	1,863.2	(269.7)	3,865.4	30.5	21,639.9
Adjustment for gold	-	-	-	-	-	-	-	(3,865.4)	-	(3,865.4)
Net currency position	618.2	7,603.2	5,301.9	1,364.6	1,262.6	1,863.2	(269.7)	-	30.5	17,774.5
SDR-neutral position	(618.2)	(7,309.6)	(5,323.0)	(1,341.7)	(1,380.9)	(1,801.1)	-	-	-	(17,774.5)
Net currency exposure on SDR-neutral basis	-	293.6	(21.1)	22.9	(118.3)	62.1	(269.7)	-	30.5	-

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 99.99% 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	**2021**				2020			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Economic capital utilisation for market risk	4,357.6	4,722.8	3,853.4	**3,987.6**	3,664.9	3,977.9	3,415.2	3,807.0

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	**2021**				2020			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Gold price risk	3,088.8	3,484.9	2,779.7	**2,870.2**	2,536.5	2,898.6	2,186.4	2,752.9
Interest rate risk	2,586.5	2,693.0	2,194.9	**2,194.9**	2,345.8	2,479.5	2,198.0	2,346.8
Foreign exchange risk	905.5	1,037.6	765.4	**832.9**	764.4	924.2	610.5	836.9
Diversification effects	(2,223.2)	(2,478.2)	(1,910.3)	**(1,910.3)**	(1,981.8)	(2,267.7)	(1,758.9)	(2,129.6)
Total				**3,987.6**				3,807.0

E. Minimum capital requirements for market risk

For the calculation of minimum capital requirements for market risk under the Basel 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 for both a stressed and non-stressed market data sets.

The actual minimum capital requirement is derived as the sum of the minimum capital requirements based on the VaR calculated for both the stressed and non-stressed market data sets. For each data set, 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) is used subject to a multiplication factor of three plus a potential add-on depending on backtesting results. For the period under consideration, six backtesting outliers were reported, resulting in a backtesting add-on of 0.5. 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	2021			2020		
	VaR	Risk-weighted assets	Minimum capital requirement	VaR	Risk-weighted assets	Minimum capital requirement
SDR millions		(A)	(B)		(A)	(B)
Market risk, where (A) is derived as (B) / 8%	538.0	37,453.7	**2,996.3**	500.2	27,562.9	2,205.0

F. 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 99.99% 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	2021				2020			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Economic capital utilisation for operational risk	1,100.0	1,100.0	1,100.0	**1,100.0**	1,100.0	1,100.0	1,100.0	1,100.0

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 Transformation and Resiliency 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 VaR-based Monte Carlo simulation technique that is consistent with the advanced measurement approach. Consistent with the BCBS recommendations, the quantification of operational risk does not take into account reputational risk. Internal and external loss data as well as scenario estimates are key inputs in the calculations.

Minimum capital requirements for operational risk

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	2021			2020		
	VaR	Risk-weighted assets	Minimum capital requirement	VaR	Risk-weighted assets	Minimum capital requirement
SDR millions		(A)	(B)		(A)	(B)
Operational risk, where (A) is derived as (B) / 8%	716.6	8,957.5	**716.6**	712.7	8,909.2	712.7

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 92% (2020: 93%) of its total liabilities. At 31 March 2021, currency and gold deposits originated from 174 depositors (2020: 175 depositors). Within these deposits, there are significant individual customer concentrations, with three customers each contributing in excess of 5% of the total on a settlement date basis (2020: five 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.

As at 31 March 2021 *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 cash equivalents	50,854.6	–	–	–	–	–	–	–	50,854.6
Securities purchased under resale agreements	44,430.4	13,698.8	–	–	–	–	–	–	58,129.2
Loans and advances	20,061.9	10,621.5	5,776.4	8,659.8	176.9	–	–	–	45,296.5
Government and other securities	12,801.3	19,285.4	25,235.9	37,573.6	12,685.2	15,410.9	2,634.9	1,505.2	127,132.4
Gold and gold loans	41,665.7	–	–	–	–	–	–	–	41,665.7
Total assets	**169,813.9**	**43,605.7**	**31,012.3**	**46,233.4**	**12,862.1**	**15,410.9**	**2,634.9**	**1,505.2**	**323,078.4**
Liabilities									
Currency deposits									
Deposit instruments repayable at 1–3 days' notice	(47,775.7)	(27,325.8)	(40,248.2)	(36,717.2)	(6,528.3)	(4,432.6)	(93.8)	–	(163,121.6)
Other currency deposits	(62,501.4)	(27,388.1)	(21,124.9)	(10,891.0)	(33.2)	–	–	–	(121,938.6)
Gold deposits	(18,848.9)	–	–	–	–	–	–	–	(18,848.9)
Total liabilities	**(129,126.0)**	**(54,713.9)**	**(61,373.1)**	**(47,608.2)**	**(6,561.5)**	**(4,432.6)**	**(93.8)**	**–**	**(303,909.1)**
Derivatives									
Net settled cash flows									
Options and interest rate contracts	(13.1)	(68.4)	(18.2)	(29.1)	(74.2)	(18.1)	4.6	–	(216.5)
Gross settled cash flows									
Interest rate contracts									
Inflows	22.5	105.4	1,176.2	635.3	318.3	531.2	–	–	2,788.9
Outflows	(20.1)	(96.7)	(1,147.1)	(638.3)	(292.2)	(506.8)	–	–	(2,701.2)
Subtotal	2.4	8.7	29.1	(3.0)	26.1	24.4	–	–	87.7
Currency and gold contracts									
Inflows	168,878.6	57,100.7	39,414.9	40,393.9	526.9	–	–	–	306,315.0
Outflows	(166,606.0)	(55,805.0)	(38,321.2)	(39,160.6)	(524.9)	–	–	–	(300,417.7)
Subtotal	2,272.6	1,295.7	1,093.7	1,233.3	2.0	–	–	–	5,897.3
Total derivatives	**2,261.9**	**1,236.0**	**1,104.6**	**1,201.2**	**(46.1)**	**6.3**	**4.6**	**–**	**5,768.5**
Total future undiscounted cash flows	**42,949.8**	**(9,872.2)**	**(29,256.2)**	**(173.6)**	**6,254.5**	**10,984.6**	**2,545.7**	**1,505.2**	**24,937.8**

As at 31 March 2020

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 cash equivalents	54,021.4	–	–	–	–	–	–	–	54,021.4
Securities purchased under resale agreements	39,608.7	5,079.5	–	–	–	–	–	–	44,688.2
Loans and advances	11,120.7	13,147.0	10,771.8	16,878.2	298.2	–	–	–	52,215.9
Government and other securities	8,213.2	17,993.8	15,444.4	17,423.3	18,803.4	18,856.8	4,484.9	1,447.5	102,667.3
Gold and gold loans	31,248.1	188.8	–	–	–	–	–	–	31,436.9
Total assets	144,212.1	36,409.1	26,216.2	34,301.5	19,101.6	18,856.8	4,484.9	1,447.5	285,029.6
Liabilities									
Currency deposits									
Deposit instruments repayable at 1–3 days' notice	(56,957.3)	(21,970.9)	(18,030.0)	(27,901.7)	(12,542.3)	(7,987.1)	(74.3)	–	(145,463.6)
Other currency deposits	(52,527.9)	(24,918.4)	(16,890.1)	(6,361.3)	–	–	–	–	(100,697.7)
Securities sold under repurchase agreements	(148.8)	–	–	–	–	–	–	–	(148.8)
Gold deposits	(15,221.1)	–	–	–	–	–	–	–	(15,221.1)
Total liabilities	(124,855.1)	(46,889.3)	(34,920.1)	(34,263.0)	(12,542.3)	(7,987.1)	(74.3)	–	(261,531.2)
Derivatives									
Net settled cash flows									
Options and interest rate contracts	(59.0)	10.7	80.5	30.6	(119.4)	(88.2)	0.2	–	(144.6)
Gross settled cash flows									
Interest rate contracts									
Inflows	34.0	37.9	57.9	164.4	1,925.4	440.7	–	–	2,660.3
Outflows	(34.4)	(33.6)	(55.5)	(158.5)	(1,917.8)	(436.9)	–	–	(2,636.7)
Subtotal	(0.4)	4.3	2.4	5.9	7.6	3.8	–	–	23.6
Currency and gold contracts									
Inflows	131,694.3	47,663.1	24,577.4	22,546.8	–	–	–	–	226,481.6
Outflows	(131,303.1)	(47,546.0)	(24,391.8)	(22,221.2)	–	–	–	–	(225,462.1)
Subtotal	391.2	117.1	185.6	325.6	–	–	–	–	1,019.5
Total derivatives	331.8	132.1	268.5	362.1	(111.8)	(84.4)	0.2	–	898.5
Total future undiscounted cash flows	19,688.8	(10,348.1)	(8,435.4)	400.6	6,447.5	10,785.3	4,410.8	1,447.5	24,396.9

In the above table, the cash flows for government and other securities (along with the related total lines) have been amended since they were originally published in the 2019/20 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 2021	–	–	–	211.6	–	–	–	–	**211.6**
As at 31 March 2020	–	–	–	219.4	–	–	–	–	219.4

The following table shows the contractual undiscounted cash flows under lease contracts 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 2021	(0.3)	(0.7)	(0.3)	(1.5)	(2.8)	(2.2)	(0.6)	–	**(8.4)**
As at 31 March 2020	(0.3)	(0.7)	(0.3)	(1.5)	(2.8)	(4.9)	(0.9)	–	(11.4)

B. Liquidity ratio

The Bank has adopted a liquidity risk framework taking into account regulatory guidance issued by the BCBS 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 BCBS liquidity risk 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	**2021**				2020			
Percentages	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Liquidity ratio	131.3%	154.8%	118.8%	**129.0%**	134.2%	157.5%	118.9%	127.7%

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 2021, the estimated outflow of currency deposits in response to the stress scenario amounted to 49.0% (2020: 50.7%) 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	**2021**	2020
Liquidity available		
Estimated cash inflows	130.9	118.8
Estimated liquidity from sales of highly liquid securities	43.2	35.1
Estimated sale and repurchase agreements	9.6	8.6
Total liquidity available (A)	**183.7**	162.5
Liquidity required		
Estimated withdrawal of currency deposits	138.3	123.8
Estimated drawings of facilities	2.7	2.1
Estimated other outflows	1.3	1.4
Total liquidity required (B)	**142.4**	127.3
Liquidity ratio (A) / (B)	**129.0%**	127.7%

For reference, the Bank also calculates an LCR following the principles set out in the guidance issued by the BCBS. At 31 March 2021, the Bank's LCR stood at 184.8% (2020: 177.9%).

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 2021, the profit and loss account, the statement of comprehensive income, the statement of cash flows, movements in shareholders' equity and notes, as well as capital adequacy and risk management disclosures for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements as at 31 March 2021 give a true and fair view of the financial position of the Bank for International Settlements and of its financial performance and its cash flows for the year then ended in accordance with the accounting policies 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 provisions and 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) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Board of Directors for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting policies 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 Settlements or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is 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 the Managements' 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 the Audit Committee 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.

PricewaterhouseCoopers AG

Andrin Bernet	Natalia Dmitrieva	
Audit expert	Audit expert	Zürich, 17 May 2021

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