BANK FOR INTERNATIONAL SETTLEMENTS

Interim financial statements (unaudited)

as at 30 September 2011

These financial statements for the six months ended 30 September 2011 were presented to the Board of Directors on 7 November 2011.

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Management report

In a period of continued uncertainty in global financial markets, the Bank recorded a ***net profit*** of SDR 78.7 million for the six months ended 30 September 2011. This compares with a profit of SDR 356.9 million for the equivalent period in the preceding financial year. The main factors behind this outcome are described below.

Net interest income for the six months ended 30 September amounted to SDR 689.9 million, against SDR 774.2 million in the equivalent period of the previous financial year. With the Bank's daily average balance sheet being similar for the two periods, the decrease reflects mainly a combination of lower interest yields on the Bank's own funds, along with a reduced impact from early repurchases of Medium-Term Instrument (MTI) liabilities and the associated hedging arrangements.[1]

Net valuation movements amounted to a loss of SDR 591.3 million for the current six-month period, compared with a loss of SDR 372.5 million in the prior period. The loss in the current year was attributable to the impact of MTI hedging mentioned above and to wider credit, foreign exchange swap and Libor-OIS spreads, which reduced the fair value of the Bank's financial instruments. The smaller loss in the prior year resulted from the same underlying causes operating to a lesser extent, with the change between the two periods primarily reflecting a further widening of credit and foreign exchange swap spreads in the current year.

Operating expenses increased from SDR 96.7 million in the prior period to SDR 112.5 million in the six months ended 30 September 2011. This increase primarily reflects the impact of exchange rates on the Bank's mostly Swiss franc-denominated expenses. In Swiss franc terms, the operating expense in the first half of the financial year 2011/12 was below that in 2010/11.

Mainly as a result of the factors above, the Bank's ***operating profit*** amounted to SDR 2.0 million, compared with SDR 308.3 million last year, a decrease of SDR 306.3 million.

A net loss of SDR 2.0 million was realised during the period on the ***sale of securities available for sale***. This figure compares with a gain of SDR 26.8 million for the equivalent period last year.

A gain of SDR 78.7 million was realised on the sale of ***gold investment assets*** during the period, representing the disposal of three tonnes of the Bank's own gold. In the first half of 2010/11 the Bank sold one tonne of gold and realised a profit of SDR 21.8 million.

As a result of these factors, the ***net profit*** for the first six months of 2011/12 amounted to SDR 78.7 million, compared with a profit of SDR 356.9 million for the equivalent period last year.

In addition to the items reflected in the Bank's profit and loss account, the unrealised gains and losses on the Bank's ***securities available for sale*** and ***gold investment assets*** are recorded in the

[1] When an MTI liability is issued to a customer, the proceeds are invested in an asset, and a derivative is taken out to hedge interest rate risk. Holders of MTIs may sell these financial instruments back to the BIS at their current market value. When an MTI is repurchased by the BIS, the corresponding assets and original hedging derivatives are retained, being refinanced by other BIS financial instruments (and with the interest rate risk hedged with new derivatives). This refinancing is currently at much lower interest rates, and results in a higher net interest income. This benefit is offset by a correspondingly lower net valuation movement as the assets and hedging arrangements converge to par at maturity.

securities revaluation account and gold revaluation account, which are accounts included in the Bank's equity.

The ***securities revaluation account*** increased by SDR 315.0 million during the period as a result of unrealised gains on investment securities held in the Bank's own funds (SDR 313.0 million), and a transfer to the profit and loss account of realised losses (SDR 2.0 million) on sales of securities.

The ***gold revaluation account*** increased by SDR 420.4 million as the value of the Bank's own gold holdings substantially increased as a result of the further appreciation of the price of gold (SDR 499.1 million). This gain was offset by a transfer to the profit and loss account from the gold revaluation account of realised gains (SDR 78.7 million) on the sale of three tonnes of the Bank's own gold holdings.

The Bank's ***total comprehensive income*** amounted to SDR 814.1 million. This represented an annualised return of 9.4% on average equity (SDR 17,236 million). By comparison, the total comprehensive income for the equivalent period last year was SDR 864.6 million, resulting in an annualised return on average equity (SDR 16,089 million) of 10.7%.

After the payment of the dividend for the 2010/11 financial year (SDR 161.1 million), the ***Bank's equity*** increased over the current six-month period by SDR 784.3 million to SDR 17,454.6 million. The total comprehensive income accounted for SDR 813.9 million of this increase. In addition, the Bank received proceeds of SDR 131.3 million when it issued 3,000 shares to each of its two new members, the Central Bank of Luxembourg and the Central Reserve Bank of Peru.

Balance sheet

SDR millions	Notes	**30 September 2011**	31 March 2011
Assets			
Cash and sight accounts with banks		1,034.5	329.8
Gold and gold loans		36,543.4	36,637.2
Treasury bills	3	62,982.9	76,932.1
Securities purchased under resale agreements	3	51,770.3	51,464.0
Loans and advances		19,801.6	24,170.4
Government and other securities	3	63,772.6	56,987.9
Derivative financial instruments		8,239.9	5,790.3
Accounts receivable		5,283.7	8,616.3
Land, buildings and equipment	4	191.4	190.8
Total assets		**249,620.3**	261,118.8
Liabilities			
Currency deposits	5	189,422.2	207,085.6
Gold deposits		21,142.3	21,269.9
Derivative financial instruments		6,379.0	6,959.5
Accounts payable		14,753.7	8,758.1
Other liabilities		468.5	375.4
Total liabilities		**232,165.7**	244,448.5
Shareholders' equity			
Share capital	7	691.4	683.9
Statutory reserves		12,933.1	12,154.4
Profit and loss account		78.7	816.0
Less: shares held in treasury		(1.7)	(1.7)
Other equity accounts		3,753.1	3,017.7
Total equity		**17,454.6**	16,670.3
Total liabilities and equity		**249,620.3**	261,118.8

Profit and loss account

For the six months ended 30 September

SDR millions	Notes	**2011**	2010
Interest income		1,575.2	1,740.5
Interest expense		(885.3)	(966.3)
Net interest income		**689.9**	774.2
Net valuation movement		(591.3)	(372.5)
Net interest and valuation income		**98.6**	401.7
Net fee and commission income		2.6	1.7
Net foreign exchange gain		13.3	1.6
Total operating income		**114.5**	405.0
Operating expense		(112.5)	(96.7)
Operating profit		**2.0**	308.3
Net gain / (loss) on sales of securities available for sale		(2.0)	26.8
Net gain on sales of gold investment assets		78.7	21.8
Net profit for the six months ended 30 September		**78.7**	356.9

Basic and diluted earnings per share (in SDR per share)	8	**143.5**	653.5

Statement of comprehensive income

For the six months ended 30 September

SDR millions	Notes	**2011**	2010
Net profit for the six months ended 30 September		**78.7**	**356.9**
Unrealised gain on securities available for sale		315.0	131.9
Unrealised gain on gold investment assets		420.4	375.8
Total comprehensive income for the six months ended 30 September		**814.1**	864.6

Statement of cash flows

For the six months ended 30 September

SDR millions	Notes	**2011**	2010
Cash flow from / (used in) operating activities			
Interest and similar income received		1,935.5	2,085.8
Interest and similar expenses paid		(778.6)	(924.2)
Net fee and commission income		2.6	1.7
Foreign exchange transaction gain		7.7	17.7
Operating expenses paid		(105.4)	(90.3)
Non-cash flow items included in operating profit			
Valuation movements on operating assets and liabilities		(591.3)	(372.5)
Foreign exchange translation gain / (loss)		5.6	(16.1)
Change in accruals and amortisation		(467.0)	(387.4)
Change in operating assets and liabilities			
Currency deposit liabilities held at fair value through profit and loss		(24,448.8)	(935.1)
Currency banking assets		18,332.1	5,106.8
Sight and notice deposit account liabilities		9,970.6	(6,894.3)
Gold deposit liabilities		(127.6)	1,483.5
Gold and gold loan banking assets		495.7	(3,565.8)
Accounts receivable		(1.5)	(322.6)
Other liabilities / accounts payable		103.1	(362.3)
Net derivative financial instruments		(3,030.1)	6,702.4
Net cash flow from operating activities		**1,302.6**	1,527.3
Cash flow from / (used in) investment activities			
Net change in currency investment assets available for sale		(620.5)	(695.8)
Net change in currency investment assets held at fair value through profit and loss		(110.5)	(77.5)
Net change in gold investment assets		97.2	30.3
Net purchase of land, buildings and equipment	4	(7.7)	(3.8)
Net cash flow used in investment activities		**(641.5)**	(746.8)

SDR millions	Notes	**2011**	2010
Cash flow from / (used in) financing activities			
Issue of shares		131.3	–
Dividends paid		(161.1)	(374.1)
Net cash flow used in financing activities		**(29.8)**	(374.1)
Total net cash flow		**631.3**	406.4
Net effect of exchange rate changes on cash and cash equivalents		(3.4)	(115.1)
Net movement in cash and cash equivalents		634.7	521.5
Net change in cash and cash equivalents		**631.3**	406.4
Cash and cash equivalents, beginning of period	9	**582.0**	2,488.8
Cash and cash equivalents, end of period	9	**1,213.3**	2,895.2

Movements in the Bank's equity

For the six months ended 30 September 2011

SDR millions	Notes	Share capital	Statutory reserves	Profit and loss	Shares held in treasury	Other equity accounts	Total equity
Equity at 31 March 2011		**683.9**	**12,154.4**	**816.0**	**(1.7)**	**3,017.7**	**16,670.3**
Total comprehensive income		—	—	78.7	—	735.4	814.1
Issue of shares		7.5	123.8	—	—	—	131.3
Payment of 2010/11 dividend	6	—	—	(161.1)	—	—	(161.1)
Allocation of 2010/11 profit		—	654.9	(654.9)	—	—	—
Equity at 30 September 2011		**691.4**	**12,933.1**	**78.7**	**(1.7)**	**3,753.1**	**17,454.6**

For the six months ended 30 September 2010

SDR millions	Notes	Share capital	Statutory reserves	Profit and loss	Shares held in treasury	Other equity accounts	Total equity
Equity at 31 March 2010		**683.9**	**10,668.7**	**1,859.8**	**(1.7)**	**2,564.6**	**15,775.3**
Total comprehensive income		—	—	356.9	—	507.7	864.6
Payment of 2009/10 dividend	6	—	—	(374.1)	—	—	(374.1)
Allocation of 2009/10 profit		—	1,485.7	(1,485.7)	—	—	—
Equity at 30 September 2010		**683.9**	**12,154.4**	**356.9**	**(1.7)**	**3,072.3**	**16,265.8**

Notes to the financial statements

1. Accounting policies

The accounting policies adopted by the Bank for these interim financial statements are consistent with those described in the Bank's 81st Annual Report.

2. Use of estimates

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

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

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

Subsequent actual results could differ materially from those estimates.

A. The valuation of financial assets and liabilities

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

SDR millions	**30 September 2011**	31 March 2011
Treasury bills	0.1	0.2
Securities purchased under resale agreements	0.3	0.3
Loans and advances	0.2	0.5
Government and other securities	11.1	10.2
Currency deposits	14.8	14.3
Derivative financial instruments	4.9	4.3

B. Impairment provision on financial assets

Gold loans include a provision of SDR 33.3 million following an impairment review as at 30 September 2011 (31 March 2011: SDR 29.0 million). The impairment review was conducted at an individual counterparty level, identifying those counterparties which were experiencing significant financial difficulties at the balance sheet date. The increase in the provision during the six months ended 30 September 2011 is due to changes in gold prices and exchange rates, which are included under the profit and loss account heading “Net foreign exchange gain”. No additional impairment charge was recognised during the six months ended 30 September 2011 (31 March 2011: nil). Impairment charges, when recognised, are included in the profit and loss account under the heading “Net interest income”.

C. Actuarial assumptions

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

3. Currency assets

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

Currency assets held at fair value through profit and loss comprise those currency banking assets that represent the reinvestment of currency deposit liabilities along with currency investment assets that are part of more actively traded portfolios. The remaining part of the Bank’s currency investment assets are categorised as available for sale and, together with the gold investment assets, largely represent the investment of the Bank’s equity.

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

As at 30 September 2011	Banking assets	Investment assets			**Total currency assets**
SDR millions	Held at fair value through profit and loss	Available for sale	Held at fair value through profit and loss	Total	
Treasury bills	**62,850.0**	**—**	**132.9**	**132.9**	**62,982.9**
Securities purchased under resale agreements	**51,770.3**	**—**	**—**	**—**	**51,770.3**
Fixed-term loans and advances	**19,622.8**	**—**	**—**	**—**	**19,622.8**
Government and other securities					
Government	20,877.7	12,878.1	—	12,878.1	33,755.8
Financial institutions	16,706.0	95.3	737.0	832.3	17,538.3
Other	12,372.5	106.0	—	106.0	12,478.5
	49,956.2	**13,079.4**	**737.0**	**13,816.4**	**63,772.6**
Total currency assets	**184,199.3**	**13,079.4**	**869.9**	**13,949.3**	**198,148.6**

As at 31 March 2011	Banking assets	Investment assets			Total currency assets
SDR millions	Held at fair value through profit and loss	Available for sale	Held at fair value through profit and loss	Total	
Treasury bills	76,739.3	—	192.8	192.8	76,932.1
Securities purchased under resale agreements	51,464.0	—	—	—	51,464.0
Fixed-term loans and advances	23,918.2	—	—	—	23,918.2
Government and other securities					
Government	11,498.1	11,083.5	—	11,083.5	22,581.6
Financial institutions	18,933.2	226.9	601.6	828.5	19,761.7
Other	13,808.6	836.0	—	836.0	14,644.6
	44,239.9	12,146.4	601.6	12,748.0	56,987.9
Total currency assets	196,361.4	12,146.4	794.4	12,940.8	209,302.2

Note that the balance sheet heading “Loans and advances” comprises “Fixed-term loans and advances” and notice accounts. The tables above exclude notice accounts which totalled SDR 178.8 million at 30 September 2011 (31 March 2011: SDR 252.2 million).

4. Land, buildings and equipment

For the six months ended 30 September	**2011**				2010
SDR millions	Land	Buildings	IT and other equipment	Total	Total
Historical cost					
Balance at beginning of period	**41.2**	**250.2**	**92.9**	**384.3**	373.7
Capital expenditure	—	1.7	6.0	7.7	3.8
Balance at end of period	**41.2**	**251.9**	**98.9**	**392.0**	377.5
Depreciation					
Balance at beginning of period	**—**	**123.0**	**70.5**	**193.5**	183.8
Depreciation	—	3.7	3.4	7.1	6.5
Balance at end of period	**—**	**126.7**	**73.9**	**200.6**	190.3
Net book value at end of period	**41.2**	**125.2**	**25.0**	**191.4**	187.2

5. Currency deposits

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

As at

SDR millions	**30 September 2011**	31 March 2011
Deposit instruments repayable at one to two days' notice		
Medium-Term Instruments (MTIs)	58,982.3	54,453.9
Callable MTIs	1,130.2	1,556.7
Fixed Rate Investments of the BIS (FIXBIS)	38,494.6	42,751.3
	98,607.1	98,761.9
Other currency deposits		
Floating Rate Investments of the BIS (FRIBIS)	713.6	962.8
Fixed-term deposits	62,359.8	89,550.9
Dual Currency Deposits (DCDs)	46.8	85.7
Sight and notice deposit accounts	27,694.9	17,724.3
	90,815.1	108,323.7
Total currency deposits	**189,422.2**	207,085.6
Comprising:		
Designated as held at fair value through profit and loss	161,727.3	189,361.3
Designated as financial liabilities measured at amortised cost	27,694.9	17,724.3

6. Dividends

Dividends of SDR 161.1 million declared for the financial year 2010/11 were paid on 1 July 2011 (2009/10: SDR 374.1 million).

7. Share capital

The Bank's share capital consists of:

As at

SDR millions	**30 September 2011**	31 March 2011
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		
Balance at beginning of period	2,735.6	2,735.6
Issued shares	30.0	—
Balance at end of period	2,765.6	2,735.6
Paid-up capital (25%)	**691.4**	683.9

The number of shares eligible for dividend is:

As at

	30 September 2011	31 March 2011
Issued shares at beginning of period	547,125	547,125
Shares issued during the period	6,000	—
Issued shares at end of period	**553,125**	—
Less: shares held in treasury	(1,000)	(1,000)
Outstanding shares eligible for full dividend	**552,125**	546,125

8. Earnings per share

For the six months ended 30 September

	2011	2010
Net profit for the period (SDR millions)	78.7	356.9
Weighted average number of shares entitled to dividend	548,535	546,125
Basic and diluted earnings per share (SDR per share)	**143.5**	653.5

9. Cash and cash equivalents

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

As at

SDR millions	**30 September 2011**	31 March 2011
Cash and sight accounts with banks	1,034.5	329.8
Notice accounts	178.8	252.2
Total cash and cash equivalents	**1,213.3**	582.0

10. Commitments

The Bank provides a number of committed standby facilities for its customers on a collateralised or uncollateralised basis. As at 30 September 2011 the outstanding commitments to extend credit under these committed standby facilities amounted to SDR 2,486.6 million (2010: SDR 2,320.5 million), of which SDR 192.0 million was uncollateralised (2010: SDR 193.4 million).

11. Related parties

The Bank considers the following to be its related parties:

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

A. Related party individuals

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

For the six months ended 30 September

CHF millions	**2011**	2010
Salaries, allowances and medical cover	3.9	4.0
Post-employment benefits	1.1	1.1
Total compensation in CHF millions	**5.0**	5.1
SDR equivalent	3.7	3.4

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

For the six months ended 30 September

CHF millions	**2011**	2010
Directors' fees	1.0	0.9
Pensions to former Directors	0.3	0.5
Travel, external Board meetings and other costs	0.7	0.6
Total compensation in CHF millions	**2.0**	2.0
SDR equivalent	1.5	1.3

The Bank offers personal deposit accounts for all staff members and its Directors. The accounts bear interest at a rate determined by the Bank based on the rate offered by the Swiss National Bank on staff accounts. The movements and total balance on personal deposit accounts relating to members of the Board of Directors and the senior officials of the Bank were as follows:

For the six months ended 30 September

CHF millions	2011	2010
Balance at beginning of period	21.7	19.7
Deposits taken including interest income (net of withholding tax)	2.1	2.1
Withdrawals	(0.9)	(1.0)
Balance at end of period in CHF millions	**22.9**	20.8
SDR equivalent	17.0	13.7
Interest expense on deposits in CHF millions	0.3	0.3
SDR equivalent	0.2	0.2

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

In addition, the Bank operates a blocked personal deposit account for certain staff members who were previously members of the Bank's savings fund, which closed on 1 April 2003. The terms of these blocked accounts are such that staff members cannot make further deposits or withdrawals and the balances are paid out when they leave the bank. The accounts bear interest at a rate determined by the Bank based on the rate offered by the Swiss National Bank on staff accounts plus 1%. The total balance of blocked accounts at 30 September 2011 was SDR 19.9 million (2010: SDR 21.1 million). They are reported under the balance sheet heading "Currency deposits".

The Bank made contributions to its staff pension fund totalling SDR 13.2 million for the period ended 30 September 2011 (2010: SDR 11.3 million).

B. Related party central banks and connected institutions

The BIS provides banking services to its customers, who are predominantly central banks, monetary authorities and international financial institutions. In fulfilling this role, the Bank in the normal course of business enters into transactions with related party central banks and connected institutions. These transactions include making advances, and taking currency and gold deposits.

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

Currency deposits from related party central banks and connected institutions

For the six months ended 30 September

SDR millions	**2011**	2010
Balance at beginning of period	47,156.3	57,512.6
Deposits taken	165,575.0	190,645.3
Maturities, repayments and fair value movements	(165,429.3)	(193,658.5)
Net movement on notice accounts	1,640.9	(1,851.2)
Balance at end of period	**48,942.9**	52,648.2
Percentage of total currency deposits at end of period	25.8%	27.3%

Gold deposit liabilities from related central banks and connected institutions

For the six months ended 30 September

SDR millions	**2011**	2010
Balance at beginning of period	15,536.0	27,688.7
Net movement on gold sight accounts	(484.3)	640.8
Balance at end of period	**15,051.7**	28,329.5
Percentage of total gold deposits at end of period	71.2%	84.4%

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

For the six months ended 30 September

SDR millions	**2011**	2010
Balance at beginning of period	5,947.0	4,942.7
Collateralised deposits placed	828,235.7	548,199.3
Maturities and fair value movements	(828,284.4)	(548,638.8)
Balance at end of period	**5,898.3**	4,503.2
Percentage of total securities purchased under resale agreements at end of period	11.4%	7.2%

Other balances with related party central banks and connected institutions

The Bank maintains sight accounts in currencies with related party central banks and connected institutions, the total balance of which was SDR 1,006.3 million as at 30 September 2011 (2010: SDR 2,607.8 million). Gold held with related party central banks and connected institutions totalled SDR 35,250.4 million as at 30 September 2011 (2010: SDR 45,555.3 million).

Derivative transactions with related party central banks and connected institutions

The BIS enters into derivative transactions with related party central banks and connected institutions, including foreign exchange deals and interest rate swaps. The total nominal value of these transactions with related party central banks and connected institutions during the six months ended 30 September 2011 was SDR 13,972.5 million (2010: SDR 10,366.6 million).

12. Contingent liabilities

In the opinion of the Bank's Management there were no material contingent liabilities at 30 September 2011.

Capital adequacy

1. Capital

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

As at

SDR millions	**30 September 2011**	31 March 2011
Share capital	691.4	683.9
Statutory reserves per balance sheet	12,933.1	12,154.4
Less: shares held in treasury	(1.7)	(1.7)
Tier 1 capital	**13,622.8**	12,836.6
Profit and loss account	78.7	816.0
Other equity accounts	3,753.1	3,017.7
Total equity	**17,454.6**	16,670.3

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

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

2. Economic capital

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

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

As at *SDR millions*	**30 September 2011**	31 March 2011
Credit risk	6,562.0	5,974.2
Market risk	3,488.7	2,836.5
Operational risk	700.0	700.0
Other risks	300.0	300.0
Total economic capital utilisation	**11,050.7**	9,810.7

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

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

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

As at		**30 September 2011**			31 March 2011		
SDR millions	Approach used	Amount of exposure	Risk-weighted assets (A)	Minimum capital requirement (B)	Amount of exposure	Risk-weighted assets (A)	Minimum capital requirement (B)
Credit risk							
Exposure to sovereigns, banks and corporates	Advanced internal ratings-based approach, where (B) is derived as (A) x 8%	146,615.0	9,648.7	771.9	158,491.3	7,538.3	603.1
Securitisation exposures, externally managed portfolios and other assets	Standardised approach, where (B) is derived as (A) x 8%	1,953.0	1,145.9	91.7	2,256.6	1,190.0	95.2
Market risk							
Exposure to foreign exchange risk and gold price risk	Internal models approach, where (A) is derived as (B) / 8%	—	24,253.8	1,940.3	—	10,806.2	864.5
Operational risk							
	Advanced measurement approach, where (A) is derived as (B) / 8%	—	4,185.0	334.8	—	3,760.4	300.8
Total			**39,233.4**	**3,138.7**		23,294.9	1,863.6

4. Tier 1 capital ratio

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

As at

SDR millions	**30 September 2011**	31 March 2011
Tier 1 capital (A)	**13,622.8**	12,836.6
Total risk-weighted assets (B)	39,233.4	23,294.9
Tier 1 capital ratio (A) / (B)	**34.7%**	55.1%

As required by the Basel II Framework, expected loss is calculated for credit risk exposures subject to the advanced internal ratings-based approach. The expected loss is calculated at the balance sheet date taking into account the impairment provision which is reflected in the Bank's financial statements. Note 2B to the financial statements provides details of the impairment provision. In accordance with the requirements of the Basel II Framework, the expected loss is compared with the impairment provision and any shortfall is deducted from the Bank's Tier 1 capital. At 30 September 2011, the impairment provision exceeded the expected loss.

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

Risk management

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

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

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

1. Credit risk

Credit risk arises because a counterparty may fail to meet its obligations in accordance with the agreed contractual terms and conditions. A financial asset is considered past due when a counterparty fails to make a payment on the contractual due date.

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

The following tables show the exposure of the Bank to default risk, without taking into account any collateral held or other credit enhancements available to the Bank. Credit risk is further mitigated through the use of collateral and legally enforceable netting or setoff agreements. The corresponding assets and liabilities are not offset on the balance sheet.

The exposures set out in the tables below are based on the carrying value of the assets on the balance sheet as categorised by asset class and issuer type, geographical region and credit quality. The carrying value is the fair value of the financial instruments, including derivatives, except in the case of very short-term financial instruments (sight and notice accounts) and gold, which are shown at amortised cost net of any impairment charge. Commitments are reported at their notional amounts. Gold and gold loans exclude gold bar assets held in custody, and accounts receivable do not include unsettled liability issues, because these items do not represent credit exposures of the Bank.

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

Gold loans include a provision of SDR 33.3 million following an impairment review as at 30 September 2011 (31 March 2011: SDR 29.0 million). The increase in the provision during the reporting period ended 30 September 2011 is due to changes in gold prices and exchange rates.

As at 30 September 2011, no financial assets were considered past due (31 March 2011: nil).

A. Default risk by asset class and issuer type

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

As at 30 September 2011

SDR millions	Sovereign and central banks	Public sector	Banks	Corporate	Securitisation	Total
On-balance sheet exposures						
Cash and sight accounts with banks	1,009.5	—	21.6	3.4	—	1,034.5
Gold and gold loans	—	—	1,259.6	33.3	—	1,292.9
Treasury bills	62,982.9	—	—	—	—	62,982.9
Securities purchased under resale agreements	5,898.3	—	45,872.0	—	—	51,770.3
Loans and advances	981.2	532.6	18,287.8	—	—	19,801.6
Government and other securities	33,822.1	16,381.3	8,378.1	4,099.8	1,091.3	63,772.6
Derivatives	478.3	109.1	7,652.3	0.2	—	8,239.9
Accounts receivable	19.4	419.1	0.1	10.4	—	449.0
Total on-balance sheet exposure	**105,191.7**	**17,442.1**	**81,471.5**	**4,147.1**	**1,091.3**	**209,343.7**
Commitments						
Undrawn unsecured facilities	192.0	—	—	—	—	192.0
Undrawn secured facilities	2,294.6	—	—	—	—	2,294.6
Total commitments	**2,486.6**	**—**	**—**	**—**	**—**	**2,486.6**
Total exposure	**107,678.3**	**17,442.1**	**81,471.5**	**4,147.1**	**1,091.3**	**211,830.3**

As at 31 March 2011

SDR millions	Sovereign and central banks	Public sector	Banks	Corporate	Securitisation	Total
On-balance sheet exposures						
Cash and sight accounts with banks	316.7	—	6.8	6.3	—	329.8
Gold and gold loans	—	—	1,225.1	29.1	—	1,254.2
Treasury bills	76,932.1	—	—	—	—	76,932.1
Securities purchased under resale agreements	5,947.0	—	45,517.0	—	—	51,464.0
Loans and advances	1,182.5	424.2	22,563.7	—	—	24,170.4
Government and other securities	28,467.5	14,375.1	9,206.9	3,589.2	1,349.2	56,987.9
Derivatives	156.2	31.4	5,602.1	0.6	—	5,790.3
Accounts receivable	2.0	434.9	131.5	8.0	—	576.4
Total on-balance sheet exposure	113,004.0	15,265.6	84,253.1	3,633.2	1,349.2	217,505.1
Commitments						
Undrawn unsecured facilities	189.4	—	—	—	—	189.4
Undrawn secured facilities	2,098.3	—	—	—	—	2,098.3
Total commitments	2,287.7	—	—	—	—	2,287.7
Total exposure	115,291.7	15,265.6	84,253.1	3,633.2	1,349.2	219,792.8

B. Default risk by geographical region

The following tables represent the exposure of the Bank to default risk by geographical region, without taking into account any collateral held or other credit enhancements available to the Bank.

The Bank has allocated exposures to regions based on the country of incorporation of each legal entity.

As at 30 September 2011

SDR millions	Africa and Europe	Asia-Pacific	Americas	International institutions	Total
On-balance sheet exposures					
Cash and sight accounts with banks	1,015.6	7.9	11.0	—	1,034.5
Gold and gold loans	889.6	66.6	336.7	—	1,292.9
Treasury bills	26,442.5	36,407.5	132.9	—	62,982.9
Securities purchased under resale agreements	45,872.0	5,536.3	362.0	—	51,770.3
Loans and advances	14,981.1	4,253.7	436.4	130.4	19,801.6
Government and other securities	33,303.6	3,943.8	18,102.2	8,423.0	63,772.6
Derivatives	6,290.8	93.6	1,855.5	—	8,239.9
Accounts receivable	29.0	0.8	419.2	—	449.0
Total on-balance sheet exposure	**128,824.2**	**50,310.2**	**21,655.9**	**8,553.4**	**209,343.7**
Commitments					
Undrawn unsecured facilities	—	192.0	—	—	192.0
Undrawn secured facilities	172.0	2,122.6	—	—	2,294.6
Total commitments	**172.0**	**2,314.6**	**—**	**—**	**2,486.6**
Total exposure	**128,996.2**	**52,624.8**	**21,655.9**	**8,553.4**	**211,830.3**

As at 31 March 2011

SDR millions	Africa and Europe	Asia-Pacific	Americas	International institutions	Total
On-balance sheet exposures					
Cash and sight accounts with banks	315.1	1.2	13.5	—	329.8
Gold and gold loans	901.8	58.3	294.1	—	1,254.2
Treasury bills	37,831.2	36,796.9	2,304.0	—	76,932.1
Securities purchased under resale agreements	45,359.2	5,710.0	394.8	—	51,464.0
Loans and advances	19,224.0	3,429.6	1,345.2	171.6	24,170.4
Government and other securities	31,368.7	3,427.6	13,667.5	8,524.1	56,987.9
Derivatives	4,082.8	175.1	1,532.1	0.3	5,790.3
Accounts receivable	140.6	0.8	435.0	—	576.4
Total on-balance sheet exposure	139,223.4	49,599.5	19,986.2	8,696.0	217,505.1
Commitments					
Undrawn unsecured facilities	—	189.4	—	—	189.4
Undrawn secured facilities	179.1	1,919.2	—	—	2,098.3
Total commitments	179.1	2,108.6	—	—	2,287.7
Total exposure	139,402.5	51,708.1	19,986.2	8,696.0	219,792.8

C. Default risk by counterparty / issuer rating

The following tables show the exposure of the Bank to default risk by counterparty / issuer rating, without taking into account any collateral held or other credit enhancements available to the Bank.

The ratings shown reflect the Bank's internal ratings expressed as equivalent external ratings.

As at 30 September 2011

SDR millions	AAA	AA	A	BBB	BB and below	Unrated	Total
On-balance sheet exposures							
Cash and sight accounts with banks	912.9	109.2	10.7	0.6	—	1.1	1,034.5
Gold and gold loans	—	338.8	920.8	33.3	—	—	1,292.9
Treasury bills	8,723.7	49,231.6	5,027.6	—	—	—	62,982.9
Securities purchased under resale agreements	—	7,192.2	44,578.1	—	—	—	51,770.3
Loans and advances	394.6	5,454.6	13,952.4	—	—	—	19,801.6
Government and other securities	16,642.6	37,980.9	8,073.0	227.5	827.7	20.9	63,772.6
Derivatives	142.2	1,692.0	6,385.0	12.6	4.8	3.3	8,239.9
Accounts receivable	0.4	419.4	18.2	0.3	0.2	10.5	449.0
Total on-balance sheet exposure	**26,816.4**	**102,418.7**	**78,965.8**	**274.3**	**832.7**	**35.8**	**209,343.7**
Percentages	*12.8%*	*48.9%*	*37.7%*	*0.1%*	*0.5%*	*0.0%*	*100.0%*
Commitments							
Undrawn unsecured facilities	—	—	—	192.0	—	—	192.0
Undrawn secured facilities	—	758.9	771.1	429.0	335.6	—	2,294.6
Total commitments	**—**	**758.9**	**771.1**	**621.0**	**335.6**	**—**	**2,486.6**
Total exposure	**26,816.4**	**103,177.6**	**79,736.9**	**895.3**	**1,168.3**	**35.8**	**211,830.3**

As at 31 March 2011

SDR millions	AAA	AA	A	BBB	BB and below	Unrated	Total
On-balance sheet exposures							
Cash and sight accounts with banks	315.3	11.7	2.1	0.3	0.1	0.3	329.8
Gold and gold loans	—	303.8	921.3	29.1	—	—	1,254.2
Treasury bills	28,360.2	41,532.1	7,039.8	—	—	—	76,932.1
Securities purchased under resale agreements	237.0	13,499.4	37,727.6	—	—	—	51,464.0
Loans and advances	1,543.6	7,498.1	15,128.7	—	—	—	24,170.4
Government and other securities	36,427.9	12,321.0	7,501.6	686.5	50.9	—	56,987.9
Derivatives	31.3	798.3	4,914.0	0.1	46.0	0.6	5,790.3
Accounts receivable	435.0	0.3	134.9	0.3	1.4	4.5	576.4
Total on-balance sheet exposure	67,350.3	75,964.7	73,370.0	716.3	98.4	5.4	217,505.1
Percentages	*31.0%*	*34.9%*	*33.7%*	*0.3%*	*0.1%*	*0.0%*	*100%*
Commitments							
Undrawn unsecured facilities	—	—	—	189.4	—	—	189.4
Undrawn secured facilities	—	710.0	721.8	419.7	246.8	—	2,098.3
Total commitments	—	710.0	721.8	609.1	246.8	—	2,287.7
Total exposure	67,350.3	76,674.7	74,091.8	1,325.4	345.2	5.4	219,792.8

D. Credit risk mitigation

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

The Bank requires counterparties to provide collateral, under reverse repurchase agreements, some derivative financial instrument contracts and certain drawn-down facility agreements, to mitigate counterparty default risk in accordance with the respective policies and procedures. During the term of the agreement, the Bank monitors the fair value of the collateral securities and may call for further collateral or be required to return collateral based on the movement in its market value.

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

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

As at SDR millions	30 September 2011		31 March 2011	
	Fair value of relevant contracts	Value of collateral	Fair value of relevant contracts	Value of collateral
Collateral obtained for				
Securities purchased under resale agreements	41,034.0	41,622.0	45,703.9	45,858.7
Advances	981.2	1,289.0	63.1	67.5
Derivatives	1,894.4	2,406.3	1,639.8	1,743.5
Total collateral obtained	**43,909.6**	**45,317.3**	47,406.8	47,669.7

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

As at 30 September 2011 the total amount of undrawn facilities which could be drawn down subject to collateralisation by the counterparty was SDR 2,294.6 million (31 March 2011: SDR 2,098.3 million).

The Bank did not provide collateral on any of its financial instrument contracts as at 30 September 2011 (31 March 2011: nil).

E. Minimum capital requirements for credit risk

Exposure to sovereigns, banks and corporates

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

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

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

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

Due to the high credit quality of the Bank's investments and the conservative credit risk management process at the BIS, the Bank is not in a position to estimate PDs and LGDs based on its own default experience. The Bank calibrates counterparty PD estimates through a mapping of internal rating grades to external credit assessments taking external default data into account. Similarly, LGD estimates are derived from external data. Where appropriate, these estimates are adjusted to reflect the risk-reducing effects of collateral obtained giving consideration to market price volatility, remargining and revaluation frequency. The recognition of the risk-reducing effects of collateral obtained for derivative contracts, reverse repurchase agreements and collateralised advances is accounted for in calculating the EAD amounts.

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 30 September 2011 includes SDR 519.3 million for interest rate contracts (31 March 2011: SDR 463.0 million) and SDR 777.5 million for FX and gold contracts (31 March 2011: SDR 287.5 million).

As at 30 September 2011

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	25,060.1	0.003	35.7	1.6	412.1
AA	91,407.9	0.02	38.0	4.3	3,912.5
A	28,676.7	0.07	48.2	14.7	4,217.9
BBB	496.2	0.15	37.9	27.4	136.0
BB and below	974.1	1.08	48.2	99.6	970.2
Total	**146,615.0**				**9,648.7**

As at 31 March 2011

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	63,927.4	0.004	37.8	1.9	1,197.8
AA	61,483.3	0.02	40.7	4.1	2,496.1
A	32,008.5	0.05	48.2	10.6	3,399.1
BBB	1,008.2	0.19	41.7	39.5	398.1
BB and below	63.9	1.00	42.3	73.7	47.2
Total	158,491.3				7,538.3

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

As at 30 September 2011

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
Total	203,458.1	56,843.1	**146,615.0**

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

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

As at 30 September 2011

SDR millions	External rating	Amount of exposures	Risk weight	Risk-weighted assets
Residential mortgage-backed securities	AAA	71.7	20%	14.3
Residential mortgage-backed securities	A	45.0	50%	22.5
Securities backed by credit card receivables	AAA	142.4	20%	28.5
Securities backed by other receivables (government-sponsored)	AAA	766.6	20%	153.3
Total		**1,025.7**		**218.6**

As at 31 March 2011

SDR millions	External rating	Amount of exposures	Risk weight	Risk-weighted assets
Residential mortgage-backed securities	AAA	161.1	20%	32.2
Securities backed by credit card receivables	AAA	376.3	20%	75.3
Securities backed by other receivables (government-sponsored)	AAA	795.8	20%	159.2
Total		1,333.2		266.7

2. 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.

A. Gold price risk

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

The Bank is exposed to gold price risk principally through its holdings of gold investment assets, which amount to 116 tonnes (31 March 2011: 119 tonnes). These gold investment assets are held in custody or placed on deposit with commercial banks. At 30 September 2011 the Bank's net gold investment assets amounted to SDR 3,853.2 million (31 March 2011: SDR 3,451.2 million), approximately 22% of its equity (31 March 2011: 21%).

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

As at 30 September 2011

SDR millions	Up to 6 months	6 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Euro	(1.7)	(5.8)	(2.9)	(18.9)	(34.4)	(20.0)	(48.2)
Japanese yen	0.3	(4.7)	(3.8)	(9.2)	(11.5)	—	(8.1)
Pound sterling	(0.5)	(1.9)	(4.5)	(13.7)	(14.1)	(11.4)	(1.7)
Swiss franc	0.7	(0.2)	(0.4)	(0.6)	(1.1)	(6.7)	8.7
US dollar	3.6	(17.6)	(36.4)	(25.9)	(49.0)	(23.9)	(13.5)
Other currencies	(2.9)	(0.6)	0.3	(0.7)	0.7	(0.5)	0.5
Total	**(0.5)**	**(30.8)**	**(47.7)**	**(69.0)**	**(109.4)**	**(62.5)**	**(62.3)**

As at 31 March 2011

SDR millions	Up to 6 months	6 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Euro	2.6	(8.6)	(16.9)	(11.0)	(27.4)	(32.1)	(29.3)
Japanese yen	0.9	(3.3)	(6.1)	(5.2)	(13.7)	(2.8)	(3.2)
Pound sterling	1.8	(2.9)	(3.5)	(12.8)	(9.5)	(9.1)	(19.9)
Swiss franc	(1.2)	(0.3)	(0.4)	(0.6)	(0.8)	(5.7)	7.5
US dollar	19.4	(15.9)	(13.5)	(47.5)	(39.4)	(26.7)	(7.3)
Other currencies	(0.7)	(5.6)	0.2	(0.6)	0.4	0.3	—
Total	22.8	(36.6)	(40.2)	(77.7)	(90.4)	(76.1)	(52.2)

C. Foreign exchange risk

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

The following tables show the net currency exposure of the Bank, excluding gold, on an SDR-neutral basis.

As at 30 September 2011

SDR millions	SDR	USD	EUR	GBP	JPY	CHF	Gold	Other currencies	Total
Assets									
Cash and sight accounts with banks	—	19.3	170.5	5.0	—	826.4	—	13.3	1,034.5
Gold and gold loans	—	9.6	—	—	—	—	36,533.8	—	36,543.4
Treasury bills	—	132.9	22,317.1	17.0	36,120.6	3,793.5	—	601.8	62,982.9
Securities purchased under resale agreements	—	362.0	39,652.5	6,219.4	5,536.3	—	—	0.1	51,770.3
Loans and advances	130.4	4,655.8	10,442.5	892.0	1,086.7	719.5	—	1,874.7	19,801.6
Government and other securities	—	31,390.9	21,934.8	5,696.6	2,683.5	—	—	2,066.8	63,772.6
Derivative financial instruments	4,461.1	65,775.8	(39,259.9)	298.4	(17,632.1)	(3,363.7)	(2,091.4)	51.7	8,239.9
Accounts receivable	—	2,854.5	324.6	1,367.0	—	9.3	—	728.3	5,283.7
Land, buildings and equipment	182.5	—	—	—	—	8.9	—	—	191.4
Total assets	**4,774.0**	**105,200.8**	**55,582.1**	**14,495.4**	**27,795.0**	**1,993.9**	**34,442.4**	**5,336.7**	**249,620.3**
Liabilities									
Currency deposits	(7,922.3)	(116,064.8)	(43,328.2)	(10,545.8)	(3,669.2)	(810.8)	—	(7,081.1)	(189,422.2)
Gold deposits	—	(6.2)	—	—	—	—	(21,136.1)	—	(21,142.3)
Derivative financial instruments	2.0	19,406.4	4,569.2	(1,213.9)	(20,346.2)	(1,184.5)	(9,453.3)	1,841.3	(6,379.0)
Accounts payable	—	(1,016.2)	(10,851.2)	(757.4)	(2,037.4)	—	—	(91.5)	(14,753.7)
Other liabilities	—	(143.3)	—	—	—	(324.9)	—	(0.3)	(468.5)
Total liabilities	**(7,920.3)**	**(97,824.1)**	**(49,610.2)**	**(12,517.1)**	**(26,052.8)**	**(2,320.2)**	**(30,589.4)**	**(5,331.6)**	**(232,165.7)**
Net currency and gold position	**(3,146.3)**	**7,376.7**	**5,971.9**	**1,978.3**	**1,742.2**	**(326.3)**	**3,853.0**	**5.1**	**17,454.6**
Adjustment for gold investment assets	—	—	—	—	—	—	(3,853.0)	—	(3,853.0)
Net currency position	**(3,146.3)**	**7,376.7**	**5,971.9**	**1,978.3**	**1,742.2**	**(326.3)**	**—**	**5.1**	**13,601.6**
SDR-neutral position	3,146.3	(7,088.9)	(6,109.3)	(1,864.0)	(1,685.7)	—	—	—	(13,601.6)
Net currency exposure on SDR-neutral basis	**—**	**287.8**	**(137.4)**	**114.3**	**56.5**	**(326.3)**	**—**	**5.1**	**—**

As at 31 March 2011

SDR millions	SDR	USD	EUR	GBP	JPY	CHF	Gold	Other currencies	Total
Assets									
Cash and sight accounts with banks	—	12.6	151.3	8.0	—	151.3	—	6.6	329.8
Gold and gold loans	—	9.0	—	—	—	—	36,628.2	—	36,637.2
Treasury bills	—	2,304.0	29,737.0	397.2	36,796.9	5,337.0	—	2,360.0	76,932.1
Securities purchased under resale agreements	—	394.8	37,559.5	7,799.6	5,710.0	—	—	0.1	51,464.0
Loans and advances	171.7	8,460.0	10,937.4	1,368.1	1,062.4	544.4	—	1,626.4	24,170.4
Government and other securities	—	29,061.1	21,378.5	3,769.8	1,209.5	35.3	—	1,533.7	56,987.9
Derivative financial instruments	(36.5)	23,335.2	8,337.9	(408.9)	(26,700.9)	327.2	(247.0)	1,183.3	5,790.3
Accounts receivable	0.1	6,969.2	684.9	426.6	—	8.0	—	527.5	8,616.3
Land, buildings and equipment	189.7	—	—	—	—	1.1	—	—	190.8
Total assets	325.0	70,545.9	108,786.5	13,360.4	18,077.9	6,404.3	36,381.2	7,237.6	261,118.8
Liabilities									
Currency deposits	(7,691.5)	(140,478.2)	(38,882.7)	(10,083.1)	(4,667.5)	(680.8)	—	(4,601.8)	(207,085.6)
Gold deposits	—	(5.6)	—	—	—	—	(21,264.3)	—	(21,269.9)
Derivative financial instruments	4,221.7	79,073.2	(59,048.3)	126.6	(11,840.3)	(5,452.7)	(11,666.5)	(2,373.2)	(6,959.5)
Accounts payable	—	(1,964.2)	(4,761.1)	(1,491.8)	—	(275.6)	—	(265.4)	(8,758.1)
Other liabilities	—	(66.6)	(2.8)	—	—	(305.3)	—	(0.7)	(375.4)
Total liabilities	(3,469.8)	(63,441.4)	(102,694.9)	(11,448.3)	(16,507.8)	(6,714.4)	(32,930.8)	(7,241.1)	(244,448.5)
Net currency and gold position	(3,144.8)	7,104.5	6,091.6	1,912.1	1,570.1	(310.1)	3,450.4	(3.5)	16,670.3
Adjustment for gold investment assets	—	—	—	—	—	—	(3,450.4)	—	(3,450.4)
Net currency position	(3,144.8)	7,104.5	6,091.6	1,912.1	1,570.1	(310.1)	—	(3.5)	13,219.9
SDR-neutral position	3,144.8	(6,818.8)	(6,196.9)	(1,840.6)	(1,508.4)	—	—	—	(13,219.9)
Net currency exposure on SDR-neutral basis	—	285.7	(105.3)	71.5	61.7	(310.1)	—	(3.5)	—

D. Minimum capital requirements for market risk

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

The actual minimum capital requirement is derived as the higher of the VaR on the calculation date and the average of the daily VaR measures on each of the preceding 60 business days (including the calculation date) subject to a multiplication factor of three plus a potential add-on depending on backtesting results. For the period under consideration, the number of backtesting outliers observed remained within the range where no add-on is required. The table below summarises the market risk development relevant to the calculation of minimum capital requirements and the related risk-weighted assets over the reporting period.

As at	**30 September 2011**			31 March 2011		
	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%	646.8	24,253.8	**1,940.3**	288.2	10,806.2	864.5

3. 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.

Currency and gold deposits from central banks, international organisations and other public institutions are the key drivers of the size of the Bank's balance sheet. The Bank has undertaken to repurchase at fair value certain of its currency deposit instruments at one or two business days' notice. The Bank has developed a liquidity management framework based on a statistical model underpinned by conservative assumptions with regard to cash inflows and the liquidity of liabilities. Within this framework, the Board of Directors has set a limit for the Bank's liquidity ratio which requires liquid assets to be at least 100% of the potential liquidity requirement. In addition, liquidity stress tests assuming extreme withdrawal scenarios are performed. These stress tests specify additional liquidity requirements to be met by holdings of liquid assets. The Bank's liquidity has consistently been materially above its minimum liquidity ratio and the requirements of its stress tests.

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

As at 30 September 2011

SDR millions	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	5 to 10 years	Over 10 years	Total
Assets									
Cash and sight accounts with banks	1,034.5	—	—	—	—	—	—	—	1,034.5
Gold and gold loans	35,262.6	41.6	228.1	773.0	—	275.3	—	—	36,580.6
Treasury bills	12,356.6	31,515.0	7,499.6	9,653.8	—	—	—	—	61,025.0
Securities purchased under resale agreements	28,048.0	11,966.4	866.2	—	—	—	—	—	40,880.6
Loans and advances	11,624.8	7,781.9	259.3	—	—	—	—	—	19,666.0
Government and other securities	1,425.9	2,747.5	6,464.6	17,796.8	10,880.9	21,640.8	4,586.8	1,168.8	66,712.1
Total assets	**89,752.4**	**54,052.4**	**15,317.8**	**28,223.6**	**10,880.9**	**21,916.1**	**4,586.8**	**1,168.8**	**225,898.8**
Liabilities									
Currency deposits									
Deposit instruments repayable at 1–2 days' notice	(741.9)	(20,240.5)	(17,394.7)	(18,916.7)	(15,382.1)	(22,602.4)	(2,889.6)	—	(98,167.9)
Other currency deposits	(48,697.9)	(15,199.1)	(12,761.2)	(13,007.8)	—	—	—	—	(89,666.0)
Gold deposits	(20,506.3)	—	(94.3)	(270.6)	—	(273.8)	—	—	(21,145.0)
Securities sold short	141.9	(0.9)	(1.4)	(2.9)	(5.7)	(17.1)	(28.5)	(242.8)	(157.4)
Total liabilities	**(69,804.2)**	**(35,440.5)**	**(30,251.6)**	**(32,198.0)**	**(15,387.8)**	**(22,893.3)**	**(2,918.1)**	**(242.8)**	**(209,136.3)**
Derivatives									
Net settled									
Interest rate contracts	(23.5)	138.4	326.5	492.4	528.4	326.5	25.7	—	1,814.4
Gross settled									
Exchange rate and gold price contracts									
Inflows	34,914.1	61,435.3	17,684.0	13,515.4	—	—	—	—	127,548.8
Outflows	(35,194.4)	(60,844.2)	(17,800.7)	(13,236.2)	—	—	—	—	(127,075.5)
Subtotal	(280.3)	591.1	(116.7)	279.2	—	—	—	—	473.3
Interest rate contracts									
Inflows	0.5	0.7	37.7	16.7	510.6	789.3	—	—	1,355.5
Outflows	(6.9)	(1.2)	(66.0)	(32.2)	(637.4)	(924.7)	—	—	(1,668.4)
Subtotal	(6.4)	(0.5)	(28.3)	(15.5)	(126.8)	(135.4)	—	—	(312.9)
Total derivatives	**(310.2)**	**729.0**	**181.5**	**756.1**	**401.6**	**191.1**	**25.7**	**—**	**1,974.8**
Total future undiscounted cash flows	**19,638.0**	**19,340.9**	**(14,752.3)**	**(3,218.3)**	**(4,105.3)**	**(786.1)**	**1,694.4**	**926.0**	**18,737.3**

As at 31 March 2011

SDR millions	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	5 to 10 years	Over 10 years	Total
Assets									
Cash and sight accounts with banks	329.8	—	—	—	—	—	—	—	329.8
Gold and gold loans	35,402.2	0.2	116.9	235.6	675.2	241.4	—	—	36,671.5
Treasury bills	20,560.7	34,860.3	9,809.3	11,493.0	—	—	—	—	76,723.3
Securities purchased under resale agreements	37,247.3	6,508.0	1,922.6	—	—	—	—	—	45,677.9
Loans and advances	10,979.7	11,508.3	1,159.4	—	—	—	—	—	23,647.4
Government and other securities	2,714.6	3,182.7	4,433.6	11,945.4	12,101.3	20,634.4	5,019.1	608.1	60,639.2
Total assets	107,234.3	56,059.5	17,441.8	23,674.0	12,776.5	20,875.8	5,019.1	608.1	243,689.1
Liabilities									
Currency deposits									
Deposit instruments repayable at 1–2 days' notice	(7,108.9)	(15,075.9)	(17,684.3)	(16,343.5)	(18,205.4)	(21,450.7)	(2,331.1)	—	(98,199.8)
Other currency deposits	63,470.8	(21,510.5)	(12,675.9)	(7,303.5)	(3.2)	—	—	—	(104,963.9)
Gold deposits	(20,714.5)	—	—	(82.4)	(236.3)	(239.9)	—	—	(21,273.1)
Securities sold short	(0.4)	(0.7)	(1.1)	(2.1)	(4.2)	(12.7)	(21.4)	(71.3)	(113.9)
Total liabilities	(91,294.6)	(36,587.1)	(30,361.3)	(23,731.5)	(18,449.1)	(21,703.3)	(2,352.5)	(71.3)	(224,550.7)
Derivatives									
Net settled									
Interest rate contracts	99.2	243.4	410.3	447.1	634.0	318.3	4.5	—	2,156.8
Gross settled									
Exchange rate and gold price contracts									
Inflows	42,049.4	52,875.9	21,374.8	11,771.3	—	—	—	—	128,071.4
Outflows	(42,703.7)	(54,108.8)	(21,993.1)	(12,287.9)	—	—	—	—	(131,093.5)
Subtotal	(654.3)	(1,232.9)	(618.3)	(516.6)	—	—	—	—	(3,022.1)
Interest rate contracts									
Inflows	0.8	50.4	1.4	39.1	289.4	1,023.5	25.1	—	1,429.7
Outflows	—	(54.5)	(9.9)	(76.8)	(400.7)	(1,215.6)	(34.7)	—	(1,792.2)
Subtotal	0.8	(4.1)	(8.5)	(37.7)	(111.3)	(192.1)	(9.6)	—	(362.5)
Total derivatives	(554.3)	(993.6)	(216.5)	(107.2)	522.7	126.2	(5.1)	—	(1,227.8)
Total future undiscounted cash flows	15,385.4	18,478.8	(13,136.0)	(164.7)	(5,149.9)	(701.3)	2,661.5	536.8	17,910.6

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

Written options

SDR millions	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	5 to 10 years	Over 10 years	Total
As at 30 September 2011	—	—	—	—	—	(0.1)	—	—	**(0.1)**
As at 31 March 2011	(38.6)	(0.1)	—	(5.1)	—	(5.0)	—	—	(48.8)

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

Contractual expiry date

SDR millions	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	5 to 10 years	Maturity undefined	Total
As at 30 September 2011	—	—	364.0	—	—	—	—	2,122.6	**2,486.6**
As at 31 March 2011	—	—	—	368.5	—	—	—	1,919.2	2,287.7

4. 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 human factors, failed or inadequate processes, failed or inadequate systems, or external events. Operational risk includes legal risk, but excludes strategic risk.

For the measurement of operational risk-weighted assets, the Bank has adopted a VaR approach using a Monte Carlo simulation technique that is consistent with the advanced measurement approach proposed under the Basel II Framework. In line with the assumptions of the Basel II Framework, the quantification of operational risk does not take reputational risk into account and is determined assuming a 99.9% confidence level and a one-year time horizon. Internal and external loss data, scenario estimates and control self-assessments to reflect changes in the business and control environment of the Bank are key inputs in the calculations. In quantifying its operational risk, the Bank does not take potential protection it may obtain from insurance into account.

The table below shows the minimum capital requirements for operational risk and related risk-weighted assets.

As at	**30 September 2011**			31 March 2011		
	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%	334.8	4,185.0	**334.8**	300.8	3,760.4	300.8