



## Interim financial statements (unaudited)

as at 30 September 2012

These financial statements for the six months ended 30 September 2012 were presented to the Board of Directors on 4 November 2012.

Jaime Caruana  
General Manager

Hervé Hannoun  
Deputy General Manager





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## Management report

The Bank recorded a **net profit** of SDR 545.8 million for the six months ended 30 September 2012. This compares with a profit of SDR 78.7 million for the equivalent period last year. The main factors behind this outcome are described below.

**Net interest income** for the six months ended 30 September 2012 amounted to SDR 597.2 million, against SDR 689.9 million in the equivalent period last year. The reduction in the net interest income was principally driven by the reduction in the size of balance sheet in a period of continuing uncertainty in financial markets. The Bank maintained a stable net interest margin.

**Net valuation movements** amounted to a loss of SDR 45.8 million for the six months ended 30 September 2012, compared with a loss of SDR 591.3 million in the equivalent period last year. The first quarter of 2012/13 saw valuation losses, which were largely recovered in the second quarter when market sentiment improved.

**Operating expenses** increased from SDR 112.5 million in the prior period to SDR 124.8 million in the six months ended 30 September 2012.

Mainly as a result of the factors above, the Bank's **operating profit** amounted to SDR 474.5 million, compared with SDR 2.0 million last year, an increase of 472.5 million.

A net gain of SDR 42.0 million was realised during the period on the **sale of securities available for sale**. This figure compares with a net loss of SDR 2.0 million for the equivalent period last year. A gain of SDR 29.3 million was realised on the sale of **gold investment assets** during the period, representing the disposal of one tonne of the Bank's own gold. In the first half of 2011/12 the Bank sold three tonnes of gold and realised a gain of SDR 78.7 million.

The **net profit** for the first six months of 2012/13 amounted to SDR 549.7 million, compared with a net profit of SDR 78.7 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 securities revaluation account and gold revaluation account, which are included in the Bank's equity.

The **securities revaluation account** increased by SDR 13.2 million during the period as a result of unrealised gains on investment securities held in the Bank's own funds. The **gold revaluation account** increased by SDR 259.9 million as a result of the further appreciation of the price of gold of SDR 289.2 million.

The Bank's **total comprehensive income** amounted to SDR 818.9 million. This represented an annualised return of 8.9% on average equity. By comparison, the total comprehensive income for the equivalent period last year was SDR 814.1 million, resulting in an annualised return on average equity of 9.4%.

After the payment of the dividend for the 2011/12 financial year (SDR 168.4 million), the **Bank's equity** increased over the six months ended 30 September 2012 by SDR 650.5 million to SDR 19,029.8 million.



## Balance sheet

<i>SDR millions</i>	Notes	30 September 2012	31 March 2012
<b>Assets</b>			
Cash and sight accounts with banks		8,688.4	4,077.8
Gold and gold loans		37,850.2	35,912.7
Treasury bills	3	48,451.2	53,492.3
Securities purchased under resale agreements	3	33,005.3	46,210.8
Loans and advances		14,710.6	22,757.1
Government and other securities	3	67,254.3	77,877.7
Derivative financial instruments		5,031.8	7,303.9
Accounts receivable		5,156.5	7,845.5
Land, buildings and equipment	4	190.9	193.0
<b>Total assets</b>		<b>220,339.2</b>	255,670.8
<b>Liabilities</b>			
Currency deposits	5	162,724.2	195,778.5
Gold deposits		18,954.3	19,624.0
Derivative financial instruments		5,539.3	4,727.0
Accounts payable		13,594.2	16,745.5
Other liabilities		497.4	416.5
<b>Total liabilities</b>		<b>201,309.4</b>	237,291.5
<b>Shareholders' equity</b>			
Share capital	7	698.9	698.9
Statutory reserves		13,647.7	13,057.2
Profit and loss account		545.8	758.9
Less: shares held in treasury		(1.7)	(1.7)
Other equity accounts		4,139.1	3,866.0
<b>Total equity</b>		<b>19,029.8</b>	18,379.3
<b>Total liabilities and equity</b>		<b>220,339.2</b>	255,670.8



## Profit and loss account

For the six months ended 30 September

<i>SDR millions</i>	Notes	2012	2011
Interest income		1,210.0	1,575.2
Interest expense		(612.8)	(885.3)
<b>Net interest income</b>		<b>597.2</b>	689.9
Net valuation movement		(45.8)	(591.3)
<b>Net interest and valuation income</b>		<b>551.4</b>	98.6
Net fee and commission income		1.2	2.6
Net foreign exchange gain		46.7	13.3
<b>Total operating income</b>		<b>599.3</b>	114.5
Operating expense		(124.8)	(112.5)
<b>Operating profit</b>		<b>474.5</b>	2.0
Net gain / (loss) on sales of securities available for sale		42.0	(2.0)
Net gain on sales of gold investment assets		29.3	78.7
<b>Net profit for the six months ended 30 September</b>		<b>545.8</b>	78.7
<b>Basic and diluted earnings per share (in SDR per share)</b>	8	<b>977.9</b>	143.5



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## Statement of comprehensive income

For the six months ended 30 September

<i>SDR millions</i>	Notes	2012	2011
<b>Net profit for the six months ended 30 September</b>		<b>545.8</b>	<b>78.7</b>
Unrealised gain on securities available for sale		13.2	315.0
Unrealised gain on gold investment assets		259.9	420.4
<b>Total comprehensive income for the six months ended 30 September</b>		<b>818.9</b>	<b>814.1</b>





## Statement of cash flows

For the six months ended 30 September

<i>SDR millions</i>	Notes	2012	2011
<b>Cash flow from / (used in) operating activities</b>			
Interest and similar income received		1,527.7	1,935.5
Interest and similar expenses paid		(568.2)	(778.6)
Net fee and commission income		1.2	2.6
Foreign exchange transaction gain		18.8	7.7
Operating expenses paid		(117.0)	(105.4)
<b>Non-cash flow items included in operating profit</b>			
Valuation movements on operating assets and liabilities		(45.8)	(591.3)
Foreign exchange translation gain		27.9	5.6
Change in accruals and amortisation		(362.3)	(467.0)
<b>Change in operating assets and liabilities</b>			
Currency deposit liabilities held at fair value through profit and loss		(18,940.8)	(24,448.8)
Currency banking assets		33,913.3	18,332.1
Sight and notice deposit account liabilities		(11,025.3)	9,970.6
Gold deposit liabilities		(669.7)	(127.6)
Gold and gold loan banking assets		(1,682.9)	495.7
Accounts receivable		(38.2)	(1.5)
Other liabilities / accounts payable		189.0	103.1
Net derivative financial instruments		3,084.4	(3,030.1)
<b>Net cash flow from operating activities</b>		<b>5,312.1</b>	<b>1,302.6</b>
<b>Cash flow from / (used in) investment activities</b>			
Net change in currency investment assets available for sale		(436.8)	(620.5)
Net change in currency investment assets held at fair value through profit and loss		(89.0)	(110.5)
Net change in gold investment assets		34.6	97.2
Net purchase of land, buildings and equipment	4	(5.7)	(7.7)
<b>Net cash flow used in investment activities</b>		<b>(496.9)</b>	<b>(641.5)</b>



<i>SDR millions</i>	Notes	2012	2011
<b>Cash flow from / (used in) financing activities</b>			
Issue of shares		–	131.3
Dividends paid		(168.4)	(161.1)
<b>Net cash flow used in financing activities</b>		<b>(168.4)</b>	<b>(29.8)</b>
<b>Total net cash flow</b>			
		<b>4,646.8</b>	631.3
Net effect of exchange rate changes on cash and cash equivalents		(135.7)	(3.4)
Net movement in cash and cash equivalents		4,782.5	634.7
<b>Net change in cash and cash equivalents</b>		<b>4,646.8</b>	<b>631.3</b>
<b>Cash and cash equivalents, beginning of period</b>	9	<b>4,264.4</b>	582.0
<b>Cash and cash equivalents, end of period</b>	9	<b>8,911.2</b>	1,213.3



## Movements in the Bank's equity

For the six months ended 30 September 2012

<i>SDR millions</i>	Notes	Share capital	Statutory reserves	Profit and loss	Shares held in treasury	Other equity accounts	Total equity
<b>Equity at 31 March 2012</b>		<b>698.9</b>	<b>13,057.2</b>	<b>758.9</b>	<b>(1.7)</b>	<b>3,866.0</b>	<b>18,379.3</b>
Total comprehensive income		–	–	545.8	–	273.1	818.9
Payment of 2011/12 dividend	6	–	–	(168.4)	–	–	(168.4)
Allocation of 2011/12 profit		–	590.5	(590.5)	–	–	–
<b>Equity at 30 September 2012</b>		<b>698.9</b>	<b>13,647.7</b>	<b>545.8</b>	<b>(1.7)</b>	<b>4,139.1</b>	<b>19,029.8</b>

For the six months ended 30 September 2011

<i>SDR millions</i>	Notes	Share capital	Statutory reserves	Profit and loss	Shares held in treasury	Other equity accounts	Total equity
<b>Equity at 31 March 2011</b>		<b>683.9</b>	<b>12,154.4</b>	<b>816.0</b>	<b>(1.7)</b>	<b>3,017.7</b>	<b>16,670.3</b>
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)	–	–	–
<b>Equity at 30 September 2011</b>		<b>691.4</b>	<b>12,933.1</b>	<b>78.7</b>	<b>(1.7)</b>	<b>3,753.1</b>	<b>17,454.6</b>



## 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 82nd 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:

<i>SDR millions</i>	30 September 2012	31 March 2012
Treasury bills	0.1	0.1
Securities purchased under resale agreements	0.1	0.1
Loans and advances	0.3	0.2
Government and other securities	9.4	11.3
Currency deposits	10.7	13.5
Derivative financial instruments	3.3	4.1

#### B. Impairment provision on financial assets

The Bank conducts a review for impairment at the balance sheet date. At 30 September 2012 the Bank did not have any financial assets that were considered to be impaired (31 March 2012: 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 2012	Banking assets	Investment assets			Total currency assets
	Held at fair value through profit and loss	Available for sale	Held at fair value through profit and loss	Total	
<i>SDR millions</i>					
<b>Treasury bills</b>	<b>48,328.5</b>	–	<b>122.7</b>	<b>122.7</b>	<b>48,451.2</b>
<b>Securities purchased under resale agreements</b>	<b>33,005.3</b>	–	–	–	<b>33,005.3</b>
<b>Fixed-term loans and advances</b>	<b>14,487.8</b>	–	–	–	<b>14,487.8</b>
<b>Government and other securities</b>					
Government	27,988.4	13,689.6	–	13,689.6	41,678.0
Financial institutions	12,789.3	142.1	714.3	856.4	13,645.7
Other	11,880.1	50.5	–	50.5	11,930.6
	<b>52,657.8</b>	<b>13,882.2</b>	<b>714.3</b>	<b>14,596.5</b>	<b>67,254.3</b>
<b>Total currency assets</b>	<b>148,479.4</b>	<b>13,882.2</b>	<b>837.0</b>	<b>14,719.2</b>	<b>163,198.6</b>

As at 31 March 2012	Banking assets	Investment assets			Total currency assets
	Held at fair value through profit and loss	Available for sale	Held at fair value through profit and loss	Total	
<i>SDR millions</i>					
<b>Treasury bills</b>	<b>53,338.3</b>	–	<b>154.0</b>	<b>154.0</b>	<b>53,492.3</b>
<b>Securities purchased under resale agreements</b>	<b>46,210.8</b>	–	–	–	<b>46,210.8</b>
<b>Fixed-term loans and advances</b>	<b>22,570.5</b>	–	–	–	<b>22,570.5</b>
<b>Government and other securities</b>					
Government	35,885.9	13,181.9	130.9	13,312.8	49,198.7
Financial institutions	15,790.4	201.9	–	201.9	15,992.3
Other	12,099.9	94.8	492.0	586.8	12,686.7
	<b>63,776.2</b>	<b>13,478.6</b>	<b>622.9</b>	<b>14,101.5</b>	<b>77,877.7</b>
<b>Total currency assets</b>	<b>185,895.8</b>	<b>13,478.6</b>	<b>776.9</b>	<b>14,255.5</b>	<b>200,151.3</b>

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 222.8 million at 30 September 2012 (31 March 2012: SDR 186.6 million).



#### 4. Land, buildings and equipment

For the six months ended 30 September

	2012			2011	
	Land	Buildings	IT and other equipment	Total	Total
<i>SDR millions</i>					
Historical cost					
Balance at beginning of period	41.2	257.7	102.7	401.6	384.3
Capital expenditure	–	2.8	2.9	5.7	7.7
<b>Balance at end of period</b>	<b>41.2</b>	<b>260.5</b>	<b>105.6</b>	<b>407.3</b>	392.0
Depreciation					
Balance at beginning of period	–	130.7	77.9	208.6	193.5
Depreciation	–	4.0	3.8	7.8	7.1
<b>Balance at end of period</b>	<b>–</b>	<b>134.7</b>	<b>81.7</b>	<b>216.4</b>	200.6
<b>Net book value at end of period</b>	<b>41.2</b>	<b>125.8</b>	<b>23.9</b>	<b>190.9</b>	191.4

#### 5. Currency deposits

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

As at

<i>SDR millions</i>	30 September 2012	31 March 2012
<b>Deposit instruments repayable at one to two days' notice</b>		
Medium-Term Instruments (MTIs)	48,054.9	57,867.3
Callable MTIs	2,416.9	2,016.5
Fixed Rate Investments of the BIS (FIXBIS)	42,164.8	43,507.5
	<b>92,636.6</b>	103,391.3
<b>Other currency deposits</b>		
Floating Rate Investments of the BIS (FRIBIS)	545.6	731.8
Fixed-term deposits	55,520.2	66,560.0
Dual Currency Deposits (DCDs)	71.7	119.9
Sight and notice deposit accounts	13,950.1	24,975.5
	<b>70,087.6</b>	92,387.2
<b>Total currency deposits</b>	<b>162,724.2</b>	195,778.5
Comprising:		
Designated as held at fair value through profit and loss	148,774.1	170,803.1
Designated as financial liabilities measured at amortised cost	13,950.1	24,975.4



## 6. Dividends

The Bank declared a dividend of SDR 168.4 million for the financial year 2011/12, which was paid on 29 June 2012 (2010/11: SDR 161.1 million).

## 7. Share capital

The Bank's share capital consists of:

As at

<i>SDR millions</i>	30 September 2012	31 March 2012
Authorised capital: 600,000 shares, each of SDR 5,000 par value, of which SDR 1,250 is paid up	3,000.0	3,000.0
Issued capital		
Balance at beginning of period	2,795.6	2,765.6
Issued shares	–	30.0
Balance at end of period	2,795.6	2,795.6
<b>Paid-up capital (25%)</b>	<b>698.9</b>	698.9

The number of shares eligible for dividend is:

As at

	30 September 2012	31 March 2012
Issued shares at beginning of period	559,125	553,125
Shares issued during the period	–	6,000
<b>Issued shares at end of period</b>	<b>559,125</b>	559,125
Less: shares held in treasury	(1,000)	(1,000)
<b>Outstanding shares eligible for full dividend</b>	<b>558,125</b>	558,125

## 8. Earnings per share

For the six months ended 30 September	2012	2011
Net profit for the period (SDR millions)	545.8	78.7
Weighted average number of shares entitled to dividend	558,125	548,535
<b>Basic and diluted earnings per share (SDR per share)</b>	<b>977.9</b>	143.5



## 9. Cash and cash equivalents

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

As at

<i>SDR millions</i>	30 September 2012	31 March 2012
Cash and sight accounts with banks	8,688.4	4,077.8
Notice accounts	222.8	186.6
<b>Total cash and cash equivalents</b>	<b>8,911.2</b>	<b>4,264.4</b>

## 10. Commitments

The Bank provides a number of committed standby facilities for its customers on a collateralised or uncollateralised basis. As at 30 September 2012 the outstanding commitments to extend credit under these committed standby facilities amounted to SDR 2,934.7 million (2011: SDR 2,486.6 million), of which SDR 195.1 million was uncollateralised (2011: SDR 192.0 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 the Board of Directors and senior officials recognised in the profit and loss account amounted to:

For the six months ended 30 September

<i>CHF millions</i>	<b>2012</b>	2011
Salaries, allowances and medical cover	4.0	3.9
Post-employment benefits	1.1	1.1
<b>Total compensation</b>	<b>5.1</b>	5.0
SDR equivalent	3.5	3.7

For the six months ended 30 September

<i>CHF millions</i>	<b>2012</b>	2011
Directors' fees	1.0	1.0
Pension to former Directors	0.3	0.3
Travel, external Board meetings and other costs	0.9	0.7
<b>Total compensation</b>	<b>2.2</b>	2.0
SDR equivalent	1.6	1.5

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

<i>CHF millions</i>	<b>2012</b>	2011
Balance at beginning of period	24.1	21.7
Deposits taken including interest income (net of withholding tax)	2.1	2.1
Withdrawals	(0.5)	(0.9)
<b>Balance at end of period</b>	<b>25.7</b>	22.9
SDR equivalent	17.8	17.0
Interest expense on deposits in CHF millions	0.2	0.3
SDR equivalent	0.1	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 2012 was SDR 18.8 million (2011: SDR 19.9 million). They are reported under the balance sheet heading "Currency deposits".

The Bank made contributions to its staff pension fund totalling SDR 13.1 million for the period ended 30 September 2012 (2011: SDR 13.2 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

<i>SDR millions</i>	<b>2012</b>	2011
Balance at beginning of period	49,428.8	47,156.3
Deposits taken	71,364.9	165,575.0
Maturities, repayments and fair value movements	(81,269.3)	(165,429.3)
Net movement on notice accounts	(4,000.9)	1,640.9
<b>Balance at end of period</b>	<b>35,523.5</b>	48,942.9
Percentage of total currency deposits at end of period	21.8%	25.8%

#### *Gold deposit liabilities from related central banks and connected institutions*

For the six months ended 30 September

<i>SDR millions</i>	<b>2012</b>	2011
Balance at beginning of period	13,767.1	15,536.0
Net movement on gold sight accounts	(2,014.9)	(484.3)
<b>Balance at end of period</b>	<b>11,752.2</b>	15,051.7
Percentage of total gold deposits at end of period	62.0%	71.2%

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

For the six months ended 30 September

<i>SDR millions</i>	2012	2011
Balance at beginning of period	5,760.6	5,947.0
Collateralised deposits placed	701,826.0	828,235.7
Maturities and fair value movements	(702,138.8)	(828,284.4)
<b>Balance at end of period</b>	<b>5,447.8</b>	<b>5,898.3</b>
Percentage of total securities purchased under resale agreements at end of period	16.5%	11.4%

*Derivatives transactions with related party central banks and connected institutions*

The BIS enters into derivatives transactions with related party central banks and connected institutions, including foreign exchange deals and interest rate swaps. The total nominal value of these transactions with related party central banks and connected institutions during the six months ended 30 September 2012 was SDR 9,036.7 million (2011: SDR 7,550.8 million).

*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 8,663.4 million as at 30 September 2012 (2011: SDR 1,006.3 million). Gold held with related party central banks and connected institutions totalled SDR 37,536.7 million as at 30 September 2012 (2011: SDR 35,250.4 million).

During the six months ended 30 September 2012 the Bank did not acquire any securities issued by related party central banks and connected institutions (2011: SDR 4,402.0 million). A total of SDR 1,102.0 million such securities matured or were sold during the six months ended 30 September 2012 (2011: SDR 4,486.3 million). As at 30 September 2012 the Bank held SDR 65.8 million of related party securities (2011: SDR 3,530.5 million).

**12. Contingent liabilities**

In the opinion of the Bank's Management there were no material contingent liabilities at 30 September 2012.



# Capital adequacy

## 1. Capital

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

As at

<i>SDR millions</i>	30 September 2012	31 March 2012
Share capital	698.9	698.9
Statutory reserves per balance sheet	13,647.7	13,057.2
Less: shares held in treasury	(1.7)	(1.7)
<b>Tier 1 capital</b>	<b>14,344.9</b>	13,754.4
Profit and loss account	545.8	758.9
Other equity accounts	4,139.1	3,866.0
<b>Total equity</b>	<b>19,029.8</b>	18,379.3

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

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

## 2. Economic capital

The Bank's own assessment of its capital adequacy is performed on the basis of its economic capital framework 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 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

<i>SDR millions</i>	30 September 2012	31 March 2012
Credit risk	6,458.4	6,886.2
Market risk	2,830.1	3,287.9
Operational risk	700.0	700.0
Other risks	300.0	300.0
<b>Total economic capital utilisation</b>	<b>10,288.5</b>	11,174.1



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

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

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

As at		30 September 2012			31 March 2012		
Approach used	Amount of exposure	Risk-weighted assets (A)	Minimum capital requirement (B)	Amount of exposure	Risk-weighted assets (A)	Minimum capital requirement (B)	
<i>SDR millions</i>							
<b>Credit risk</b>							
Exposure to sovereigns, banks and corporates	Advanced internal ratings-based approach, where (B) is derived as (A) x 8%	133,749.3	7,712.5	617.0	153,430.0	10,041.9	803.4
Securitisation exposures, externally managed portfolios and other assets	Standardised approach, where (B) is derived as (A) x 8%	1,741.9	1,073.1	85.8	1,853.2	1,107.8	88.6
<b>Market risk</b>							
Exposure to foreign exchange risk and gold price risk	Internal models approach, where (A) is derived as (B) / 8%	–	14,389.9	1,151.2	–	16,005.8	1,280.5
<b>Operational risk</b>							
	Advanced measurement approach, where (A) is derived as (B) / 8%	–	4,612.5	369.0	–	4,270.3	341.6
<b>Total</b>			<b>27,788.0</b>	<b>2,223.0</b>		<b>31,425.8</b>	<b>2,514.1</b>



#### 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

<i>SDR millions</i>	<b>30 September 2012</b>	31 March 2012
<b>Tier 1 capital (A)</b>	<b>14,344.9</b>	13,754.4
Expected loss	(17.1)	(24.3)
<b>Tier 1 capital net of expected loss (A)</b>	<b>14,327.8</b>	13,730.1
Total risk-weighted assets (B)	27,788.0	31,425.8
<b>Tier 1 capital ratio (A) / (B)</b>	<b>51.6%</b>	43.7%

As required by the Basel II Framework, expected loss is calculated for credit risk exposures subject to the advanced internal ratings-based approach. The expected loss is calculated at the balance sheet date taking into account any impairment provision which is reflected in the Bank's financial statements. In accordance with the requirements of the Basel II Framework, the expected loss is compared with the impairment provision and any shortfall is deducted from the Bank's Tier 1 capital. The Bank had no impairment provision at 30 September 2012.

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.



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## 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 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. As at 30 September 2012, no financial assets were considered past due (31 March 2012: 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 2012

<i>SDR millions</i>	Sovereign and central banks	Public sector	Banks	Corporate	Securitisation	Total
<b>On-balance sheet exposures</b>						
Cash and sight accounts with banks	8,676.3	–	11.0	1.1	–	8,688.4
Gold and gold loans	–	–	313.5	–	–	313.5
Treasury bills	48,451.2	–	–	–	–	48,451.2
Securities purchased under resale agreements	5,447.8	–	27,557.5	–	–	33,005.3
Loans and advances	3,441.0	378.4	10,891.2	–	–	14,710.6
Government and other securities	43,146.9	12,911.3	5,606.3	4,644.4	945.4	67,254.3
Derivatives	35.7	42.1	4,953.4	0.6	–	5,031.8
Accounts receivable	45.2	365.6	0.2	8.8	–	419.8
<b>Total on-balance sheet exposure</b>	<b>109,244.1</b>	<b>13,697.4</b>	<b>49,333.1</b>	<b>4,654.9</b>	<b>945.4</b>	<b>177,874.9</b>
<b>Commitments</b>						
Undrawn unsecured facilities	195.1	–	–	–	–	195.1
Undrawn secured facilities	2,739.6	–	–	–	–	2,739.6
<b>Total commitments</b>	<b>2,934.7</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>2,934.7</b>
<b>Total exposure</b>	<b>112,178.8</b>	<b>13,697.4</b>	<b>49,333.1</b>	<b>4,654.9</b>	<b>945.4</b>	<b>180,809.6</b>





As at 31 March 2012

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

**B. Default risk by geographical region**

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

As at 30 September 2012

<i>SDR millions</i>	Africa and Europe	Asia-Pacific	Americas	International institutions	Total
<b>On-balance sheet exposures</b>					
Cash and sight accounts with banks	8,670.5	9.2	8.7	–	8,688.4
Gold and gold loans	124.7	–	188.8	–	313.5
Treasury bills	6,270.9	36,332.5	5,847.8	–	48,451.2
Securities purchased under resale agreements	24,630.8	4,764.9	3,609.6	–	33,005.3
Loans and advances	9,084.6	4,954.5	488.3	183.2	14,710.6
Government and other securities	33,767.8	4,373.8	21,787.6	7,325.1	67,254.3
Derivatives	3,837.5	48.2	1,146.1	–	5,031.8
Accounts receivable	10.7	0.8	408.3	–	419.8
<b>Total on-balance sheet exposure</b>	<b>86,397.5</b>	<b>50,483.9</b>	<b>33,485.2</b>	<b>7,508.3</b>	<b>177,874.9</b>
<b>Commitments</b>					
Undrawn unsecured facilities	–	195.1	–	–	195.1
Undrawn secured facilities	250.6	2,489.0	–	–	2,739.6
<b>Total commitments</b>	<b>250.6</b>	<b>2,684.1</b>	<b>–</b>	<b>–</b>	<b>2,934.7</b>
<b>Total exposure</b>	<b>86,648.1</b>	<b>53,168.0</b>	<b>33,485.2</b>	<b>7,508.3</b>	<b>180,809.6</b>

As at 31 March 2012

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

**C. Default risk by counterparty / issuer rating**

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

As at 30 September 2012

<i>SDR millions</i>	AAA	AA	A	BBB	BB and below	Unrated	Total
<b>On-balance sheet exposures</b>							
Cash and sight accounts with banks	8,468.2	102.5	8.8	108.4	0.3	0.2	8,688.4
Gold and gold loans	–	–	313.5	–	–	–	313.5
Treasury bills	6,133.9	42,192.0	125.3	–	–	–	48,451.2
Securities purchased under resale agreements	–	5,447.8	24,936.1	2,621.4	–	–	33,005.3
Loans and advances	703.7	1,035.8	12,775.9	–	195.2	–	14,710.6
Government and other securities	20,632.4	36,823.3	7,690.5	1,651.9	456.2	–	67,254.3
Derivatives	11.5	354.6	4,634.1	22.4	8.7	0.5	5,031.8
Accounts receivable	–	369.3	4.2	0.6	39.8	5.9	419.8
<b>Total on-balance sheet exposure</b>	<b>35,949.7</b>	<b>86,325.3</b>	<b>50,488.4</b>	<b>4,404.7</b>	<b>700.2</b>	<b>6.6</b>	<b>177,874.9</b>
<i>Percentages</i>	20.2%	48.5%	28.4%	2.5%	0.4%	0.0%	100.0%
<b>Commitments</b>							
Undrawn unsecured facilities	–	–	–	195.1	–	–	195.1
Undrawn secured facilities	–	807.0	821.9	524.5	586.2	–	2,739.6
<b>Total commitments</b>	<b>–</b>	<b>807.0</b>	<b>821.9</b>	<b>719.6</b>	<b>586.2</b>	<b>–</b>	<b>2,934.7</b>
<b>Total exposure</b>	<b>35,949.7</b>	<b>87,132.3</b>	<b>51,310.3</b>	<b>5,124.3</b>	<b>1,286.4</b>	<b>6.6</b>	<b>180,809.6</b>



As at 31 March 2012

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

#### 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).

<i>SDR millions</i>	30 September 2012		31 March 2012	
	Fair value of relevant contracts	Value of collateral	Fair value of relevant contracts	Value of collateral
<b>Collateral obtained for</b>				
Securities purchased under resale agreements	23,002.7	23,072.7	36,567.3	36,960.2
Advances	3,115.6	3,184.0	3,811.0	4,340.4
Derivatives	813.0	1,009.3	2,754.7	2,938.2
<b>Total collateral obtained</b>	<b>26,931.3</b>	<b>27,266.0</b>	<b>43,133.0</b>	<b>44,238.8</b>



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

As at 30 September 2012 the total amount of undrawn facilities which could be drawn down subject to collateralisation by the counterparty was SDR 2,739.6 million (31 March 2012: SDR 2,376.8 million).

### ***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.

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 2012 includes SDR 356.5 million for interest rate contracts (31 March 2012: SDR 421.4 million) and SDR 123.9 million for FX and gold contracts (31 March 2012: SDR 726.5 million).

#### **As at 30 September 2012**

<b>Internal rating grades expressed as equivalent external rating grades</b>	<b>Amount of exposure</b>	<b>Exposure-weighted PD</b>	<b>Exposure-weighted average LGD</b>	<b>Exposure-weighted average risk weight</b>	<b>Risk-weighted assets</b>
<i>SDR millions / percentages</i>	<i>SDR millions</i>	<i>%</i>	<i>%</i>	<i>%</i>	<i>SDR millions</i>
AAA	34,028.6	0.002	35.6	1.1	379.3
AA	78,327.5	0.01	36.5	3.5	2,765.1
A	18,989.9	0.08	51.6	18.3	3,473.5
BBB	1,950.5	0.19	40.6	34.1	665.4
BB and below	452.8	1.30	49.3	94.8	429.2
<b>Total</b>	<b>133,749.3</b>				<b>7,712.5</b>



As at 31 March 2012

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
<i>SDR millions / percentages</i>	<i>SDR millions</i>	<i>%</i>	<i>%</i>	<i>%</i>	<i>SDR millions</i>
AAA	34,310.0	0.002	35.6	1.2	397.8
AA	88,287.5	0.02	37.6	3.9	3,415.5
A	26,344.3	0.07	49.5	15.8	4,158.9
BBB	3,530.3	0.15	42.8	30.1	1,064.2
BB and below	957.9	1.32	48.4	105.0	1,005.5
<b>Total</b>	<b>153,430.0</b>				<b>10,041.9</b>

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

<i>SDR millions</i>	Amount of exposure after taking netting into account	Benefits from collateral arrangements	Amount of exposure after taking into account netting and collateral arrangements
<b>As at 30 September 2012</b>	171,991.1	38,241.8	<b>133,749.3</b>
As at 31 March 2012	207,533.6	54,103.6	153,430.0

### Securitisation exposures

The Bank invests in highly rated securitisation exposures based on traditional, ie non-synthetic, securitisation structures. Given the scope of the Bank's activities, risk-weighted assets under the Basel II Framework are determined according to the standardised approach for securitisation. Under this approach, external credit assessments of the securities are used to determine the relevant risk weights. External credit assessment institutions used for this purpose are Moody's Investors Service, Standard & Poor's and Fitch Ratings. Risk-weighted assets are then derived as the product of the notional amounts of the exposures and the associated risk weights.

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

As at 30 September 2012

<i>SDR millions</i>	External rating	Amount of exposures	Risk weight	Risk-weighted assets
Residential mortgage-backed securities	AAA	51.9	20%	10.4
Residential mortgage-backed securities	A	35.7	50%	17.8
Securities backed by other receivables (government-sponsored)	AAA	761.7	20%	152.3
<b>Total</b>		<b>849.3</b>		<b>180.5</b>

As at 31 March 2012

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



## 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 115 tonnes (31 March 2012: 116 tonnes). These gold investment assets are held in custody or placed on deposit with commercial banks. At 30 September 2012 the Bank's net gold investment assets amounted to SDR 4,272.8 million (31 March 2012: SDR 4,018.2 million), approximately 22.5% of its equity (31 March 2012: 22.0%). The Bank sometimes has also small exposures to gold price risk arising from its banking activities with central and commercial banks.

### 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 2012

SDR millions	Up to 6 months	6 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Euro	(0.6)	(9.9)	(19.0)	(31.0)	(46.0)	(24.6)	(17.3)
Japanese yen	1.3	(1.1)	(5.4)	(19.5)	(14.4)	(2.5)	(3.0)
Pound sterling	(2.2)	(0.9)	(8.7)	(16.5)	(19.0)	(3.5)	(0.5)
Swiss franc	7.2	(0.2)	(0.4)	(0.8)	(4.6)	(2.2)	7.9
US dollar	(4.1)	(27.2)	(22.6)	(42.9)	(48.3)	(37.3)	(4.6)
Other currencies	–	(1.2)	(0.3)	0.6	(1.6)	1.0	–
<b>Total</b>	<b>1.6</b>	<b>(40.5)</b>	<b>(56.4)</b>	<b>(110.1)</b>	<b>(133.9)</b>	<b>(69.1)</b>	<b>(17.5)</b>

#### As at 31 March 2012

SDR millions	Up to 6 months	6 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Euro	(1.2)	(13.6)	(14.0)	(25.6)	(32.4)	(16.7)	(40.0)
Japanese yen	1.1	(2.7)	(4.2)	(16.3)	(7.3)	(4.0)	(7.2)
Pound sterling	1.4	(3.7)	(6.0)	(15.2)	(18.0)	(7.6)	0.1
Swiss franc	6.1	(0.2)	(0.4)	(0.6)	(3.2)	(4.6)	8.6
US dollar	17.3	(36.2)	(26.9)	(31.2)	(47.8)	(37.9)	(12.4)
Other currencies	(1.3)	0.4	–	(0.9)	0.4	–	0.1
<b>Total</b>	<b>23.4</b>	<b>(56.0)</b>	<b>(51.5)</b>	<b>(89.8)</b>	<b>(108.3)</b>	<b>(70.8)</b>	<b>(50.8)</b>



### **C. Foreign exchange risk**

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

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





As at 30 September 2012

<i>SDR millions</i>	SDR	USD	EUR	GBP	JPY	CHF	Gold	Other currencies	Total
<b>Assets</b>									
Cash and sight accounts with banks	–	6.1	3,411.2	1.3	–	5,246.0	–	23.8	8,688.4
Gold and gold loans	–	7.2	–	–	–	–	37,843.0	(0.0)	37,850.2
Treasury bills	–	5,059.9	5,243.8	576.5	35,483.4	–	–	2,087.6	48,451.2
Securities purchased under resale agreements	–	5,040.5	6,055.6	17,144.3	4,764.9	–	–	–	33,005.3
Loans and advances	183.2	9,208.1	1,468.9	1,395.2	375.0	3.0	–	2,077.2	14,710.6
Government and other securities	–	32,852.1	23,854.8	5,402.6	2,443.4	–	–	2,701.4	67,254.3
Derivative financial instruments	1,242.1	15,807.7	(5,401.9)	(2,731.3)	(2,401.0)	(1,534.3)	(806.1)	856.6	5,031.8
Accounts receivable	–	4,243.0	138.6	505.4	–	8.8	–	260.7	5,156.5
Land, buildings and equipment	181.9	–	–	–	–	9.0	–	–	190.9
<b>Total assets</b>	<b>1,607.2</b>	<b>72,224.6</b>	<b>34,771.0</b>	<b>22,294.0</b>	<b>40,665.7</b>	<b>3,732.5</b>	<b>37,036.9</b>	<b>8,007.3</b>	<b>220,339.2</b>
<b>Liabilities</b>									
Currency deposits	(7,826.8)	(116,617.7)	(14,985.3)	(13,922.9)	(3,022.4)	(455.5)	–	(5,893.6)	(162,724.2)
Gold deposits	–	(6.0)	–	–	–	–	(18,948.3)	–	(18,954.3)
Derivative financial instruments	3,925.7	54,246.9	(10,866.0)	(487.2)	(33,382.5)	(3,267.3)	(13,811.2)	(1,897.7)	(5,539.3)
Accounts payable	–	(2,188.2)	(2,850.1)	(5,840.4)	(2,504.4)	–	–	(211.1)	(13,594.2)
Other liabilities	–	(142.4)	–	–	–	(354.8)	–	(0.2)	(497.4)
<b>Total liabilities</b>	<b>(3,901.1)</b>	<b>(64,707.4)</b>	<b>(28,701.4)</b>	<b>(20,250.5)</b>	<b>(38,909.3)</b>	<b>(4,077.6)</b>	<b>(32,759.5)</b>	<b>(8,002.6)</b>	<b>(201,309.4)</b>
<b>Net currency and gold position</b>	<b>(2,293.9)</b>	<b>7,517.2</b>	<b>6,069.6</b>	<b>2,043.5</b>	<b>1,756.4</b>	<b>(345.1)</b>	<b>4,277.4</b>	<b>4.7</b>	<b>19,029.8</b>
Adjustment for gold investment assets	–	–	–	–	–	–	(4,277.4)	–	(4,277.4)
<b>Net currency position</b>	<b>(2,293.9)</b>	<b>7,517.2</b>	<b>6,069.6</b>	<b>2,043.5</b>	<b>1,756.4</b>	<b>(345.1)</b>	<b>–</b>	<b>4.7</b>	<b>14,752.4</b>
SDR-neutral position	2,293.9	(7,317.3)	(6,022.7)	(1,984.0)	(1,722.2)	–	–	–	(14,752.3)
<b>Net currency exposure on SDR-neutral basis</b>	<b>–</b>	<b>199.9</b>	<b>46.9</b>	<b>59.5</b>	<b>34.2</b>	<b>(345.1)</b>	<b>–</b>	<b>4.7</b>	<b>–</b>



As at 31 March 2012

<i>SDR millions</i>	SDR	USD	EUR	GBP	JPY	CHF	Gold	Other currencies	Total
<b>Assets</b>									
Cash and sight accounts with banks	–	6.4	171.6	4.7	0.1	3,883.7	–	11.3	4,077.8
Gold and gold loans	–	9.7	–	–	–	–	35,903.0	(0.0)	35,912.7
Treasury bills	–	1,960.6	12,504.4	322.6	36,439.9	1,108.8	–	1,156.0	53,492.3
Securities purchased under resale agreements	–	2,768.8	27,383.6	10,805.8	5,252.6	–	–	–	46,210.8
Loans and advances	146.1	11,071.1	8,671.5	679.4	436.4	56.7	–	1,695.9	22,757.1
Government and other securities	–	37,283.1	30,273.3	5,329.0	2,421.1	–	–	2,571.2	77,877.7
Derivative financial instruments	1,224.8	50,812.8	(8,337.0)	117.1	(28,957.4)	(1,093.0)	(6,939.9)	476.5	7,303.9
Accounts receivable	–	7,662.4	0.7	–	–	9.7	–	172.7	7,845.5
Land, buildings and equipment	189.6	–	–	–	–	–	3.4	–	193.0
<b>Total assets</b>	<b>1,560.5</b>	<b>111,574.9</b>	<b>70,668.1</b>	<b>17,258.6</b>	<b>15,592.7</b>	<b>3,969.3</b>	<b>28,963.1</b>	<b>6,083.6</b>	<b>255,670.8</b>
<b>Liabilities</b>									
Currency deposits	(7,840.2)	(136,634.5)	(27,870.9)	(13,147.3)	(2,798.4)	(514.0)	–	(6,973.2)	(195,778.5)
Gold deposits	–	(6.4)	–	–	–	–	(19,617.6)	–	(19,624.0)
Derivative financial instruments	3,793.5	35,928.0	(25,098.0)	(1,185.9)	(10,347.6)	(3,445.0)	(5,324.2)	952.2	(4,727.0)
Accounts payable	–	(3,387.4)	(11,585.7)	(925.7)	(783.5)	–	–	(63.2)	(16,745.5)
Other liabilities	–	(70.9)	–	–	–	(345.3)	–	(0.3)	(416.5)
<b>Total liabilities</b>	<b>(4,046.7)</b>	<b>(104,171.2)</b>	<b>(64,554.6)</b>	<b>(15,258.9)</b>	<b>(13,929.5)</b>	<b>(4,304.3)</b>	<b>(24,941.8)</b>	<b>(6,084.5)</b>	<b>(237,291.5)</b>
<b>Net currency and gold position</b>	<b>(2,486.2)</b>	<b>7,403.7</b>	<b>6,113.5</b>	<b>1,999.7</b>	<b>1,663.2</b>	<b>(335.0)</b>	<b>4,021.3</b>	<b>(0.9)</b>	<b>18,379.3</b>
Adjustment for gold investment assets	–	–	–	–	–	–	(4,021.3)	–	(4,021.3)
<b>Net currency position</b>	<b>(2,486.2)</b>	<b>7,403.7</b>	<b>6,113.5</b>	<b>1,999.7</b>	<b>1,663.2</b>	<b>(335.0)</b>	<b>–</b>	<b>(0.9)</b>	<b>14,358.0</b>
SDR-neutral position	2,486.2	(7,019.0)	(6,378.0)	(1,895.0)	(1,552.2)	–	–	–	(14,358.0)
<b>Net currency exposure on SDR-neutral basis</b>	<b>–</b>	<b>384.7</b>	<b>(264.5)</b>	<b>104.7</b>	<b>111.0</b>	<b>(335.0)</b>	<b>–</b>	<b>(0.9)</b>	<b>–</b>

**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 a VaR-based internal models method. Under this method, VaR calculations are performed using the Bank's VaR methodology, assuming a 99% confidence interval and a 10-day holding period.

The actual minimum capital requirement is derived as the higher of the VaR on the calculation date and the average of the daily VaR measures on each of the preceding 60 business days (including the calculation date) subject to a multiplication factor of three plus a potential add-on depending on backtesting results. For the period under consideration, the number of backtesting outliers observed remained within the range where no add-on is required. The 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 2012			31 March 2012		
	VaR	Risk-weighted assets (A)	Minimum capital requirement (B)	VaR	Risk-weighted assets (A)	Minimum capital requirement (B)
<i>SDR millions</i>						
<b>Market risk, where (A) is derived as (B) / 8%</b>	383.7	14,389.9	<b>1,151.2</b>	426.8	16,005.8	1,280.5

**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.

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

The 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 2012

<i>SDR millions</i>	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
<b>Assets</b>									
Cash and sight accounts with banks	8,688.4	–	–	–	–	–	–	–	8,688.4
Gold and gold loans	37,547.9	–	–	–	–	304.5	–	–	37,852.4
Treasury bills	12,529.4	21,024.7	5,770.0	6,640.6	–	–	–	–	45,964.7
Securities purchased under resale agreements	18,904.0	3,613.3	–	–	–	–	–	–	22,517.3
Loans and advances	9,051.3	5,340.7	270.3	–	–	–	–	–	14,662.3
Government and other securities	3,783.7	3,461.6	10,220.2	14,868.5	10,292.5	22,745.6	2,287.0	1,092.1	68,751.2
<b>Total assets</b>	<b>90,504.7</b>	<b>33,440.3</b>	<b>16,260.5</b>	<b>21,509.1</b>	<b>10,292.5</b>	<b>23,050.1</b>	<b>2,287.0</b>	<b>1,092.1</b>	<b>198,436.3</b>
<b>Liabilities</b>									
Currency deposits									
Deposit instruments repayable at 1–2 days' notice	(5,929.9)	(22,880.6)	(18,115.6)	(8,763.6)	(13,970.5)	(21,954.2)	(178.6)	–	(91,793.0)
Other currency deposits	(35,393.1)	(15,857.2)	(11,563.8)	(4,436.2)	–	–	–	–	(67,250.3)
Gold deposits	(18,653.1)	–	–	–	–	(302.9)	–	–	(18,956.0)
Securities sold short	139.9	(0.8)	(1.2)	(2.4)	(4.9)	(14.6)	(24.4)	(221.8)	(130.2)
<b>Total liabilities</b>	<b>(59,836.2)</b>	<b>(38,738.6)</b>	<b>(29,680.6)</b>	<b>(13,202.2)</b>	<b>(13,975.4)</b>	<b>(22,271.7)</b>	<b>(203.0)</b>	<b>(221.8)</b>	<b>(178,129.5)</b>
<b>Derivatives</b>									
<i>Net settled</i>									
Interest rate contracts	(51.5)	97.6	258.3	250.1	305.7	212.4	(21.8)	–	1,050.8
<i>Gross settled</i>									
Exchange rate and gold price contracts									
Inflows	35,373.8	36,448.1	18,622.2	9,313.7	–	–	–	–	99,757.8
Outflows	(35,726.4)	(36,744.1)	(18,809.2)	(9,707.0)	–	–	–	–	(100,986.7)
Subtotal	(352.6)	(296.0)	(187.0)	(393.3)	–	–	–	–	(1,228.9)
Interest rate contracts									
Inflows	115.0	54.0	125.4	294.9	189.8	599.5	–	–	1,378.6
Outflows	(139.8)	(75.6)	(162.6)	(331.2)	(226.6)	(670.4)	–	–	(1,606.2)
Subtotal	(24.8)	(21.6)	(37.2)	(36.3)	(36.8)	(70.9)	–	–	(227.6)
<b>Total derivatives</b>	<b>(428.9)</b>	<b>(220.0)</b>	<b>34.1</b>	<b>(179.5)</b>	<b>268.9</b>	<b>141.5</b>	<b>(21.8)</b>	<b>–</b>	<b>(405.7)</b>
<b>Total future undiscounted cash flows</b>	<b>30,239.6</b>	<b>(5,518.3)</b>	<b>(13,386.0)</b>	<b>8,127.4</b>	<b>(3,414.0)</b>	<b>919.9</b>	<b>2,062.2</b>	<b>870.3</b>	<b>19,901.1</b>



As at 31 March 2012

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



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

<i>SDR millions</i>	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
<b>As at 30 September 2012</b>	(0.2)	–	–	–	–	(1.5)	–	–	<b>(1.7)</b>
As at 31 March 2012	(0.2)	–	–	–	(0.2)	(2.8)	–	–	(3.2)

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

#### Contractual expiry date

<i>SDR millions</i>	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
<b>As at 30 September 2012</b>	–	–	195.1	250.6	–	–	–	2,489.0	<b>2,934.7</b>
As at 31 March 2012	–	–	–	193.8	–	–	–	2,376.8	2,570.6

## 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.

<i>As at</i>	30 September 2012			31 March 2012		
	VaR	Risk-weighted assets	Minimum capital requirement	VaR	Risk-weighted assets	Minimum capital requirement
<i>SDR millions</i>		(A)	(B)		(A)	(B)
<b>Operational risk, where (A) is derived as (B) / 8%</b>	369.0	4,612.5	<b>369.0</b>	341.6	4,270.3	341.6