Organisation, activities and financial results

This chapter reviews the organisation of the Bank for International Settlements (BIS), summarises its activities for the financial year 2008/09 and presents its financial results.

Organisation

The mission of the BIS is to serve central banks and financial authorities in their pursuit of monetary and financial stability, to foster international cooperation on such matters and to serve as a bank for central banks. The BIS pursues this mission by:

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

The BIS has its head office in Basel, Switzerland, and representative offices in the Hong Kong Special Administrative Region of the People's Republic of China and in Mexico City. At the end of the financial year, the BIS employed 570 staff from 53 countries.

Departments and committees

The BIS has three main departments: the Monetary and Economic Department, the Banking Department and the General Secretariat. These are supplemented by: the Legal Service; the Compliance and Operational Risk Unit, Internal Audit and Risk Control; and the Financial Stability Institute, which fosters the dissemination of standards and best practices to financial system supervisors worldwide.

The BIS hosts the secretariats of a number of groups that seek to promote financial stability. Four committees, which enjoy a significant degree of autonomy in setting their agendas and structuring their activities, were established over the past 40 years:

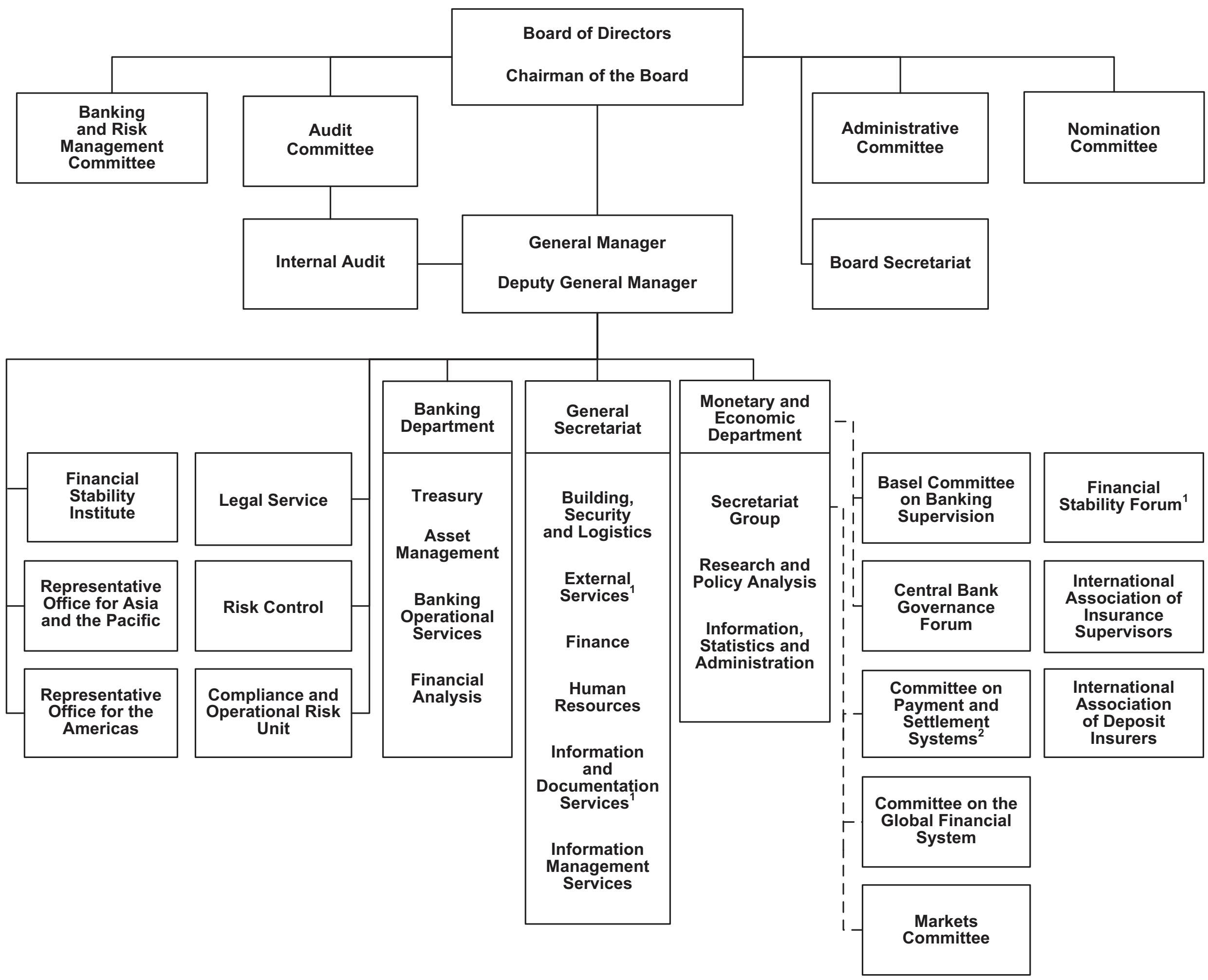
- the Basel Committee on Banking Supervision;
- the Committee on the Global Financial System;
- the Committee on Payment and Settlement Systems; and
- the Markets Committee.

Three groups whose secretariats are hosted by the BIS do not report directly to the BIS or its member central banks:

- the Financial Stability Board (formerly the Financial Stability Forum);
- the International Association of Deposit Insurers; and
- the International Association of Insurance Supervisors.

In addition, the Irving Fisher Committee on Central Bank Statistics, which is governed by the international central banking community, operates under the Bank's auspices. The BIS also supports the work of the Central Bank Counterfeit Deterrence Group.

Organisation of the BIS as of 31 March 2009



[1] On 1 April 2009, the Financial Stability Forum became the Financial Stability Board; External Services became Meeting Services; and Information and Documentation Services became Communications.

[2] The CPSS secretariat also handles the secretariat functions for the Central Bank Counterfeit Deterrence Group.

Governance and management

There are three main decision-making levels in the governance and management of the Bank:

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

The General Meeting. Fifty-five central banks or monetary authorities are currently members of the BIS. These 55 member banks have rights of voting and representation at General Meetings. The Annual General Meeting (AGM) is held within four months from 31 March, the end of the BIS financial year.

The Board of Directors. The Board of Directors comprises 19 members. Its main responsibilities are determining the strategic and policy direction of the BIS and supervising the Bank's Management. The Board is assisted by four subcommittees of Board members: the Administrative Committee, the Audit Committee, the Banking and Risk Management Committee and the Nomination Committee.

The General Manager. The General Manager of the BIS is responsible to the Board of Directors for the conduct of all important matters affecting the BIS. The General Manager is advised by the Executive Committee of the BIS, which consists of the General Manager as chair, the Deputy General Manager, the Heads of Department and other officers of similar rank appointed by the Board.

BIS member central banks[1]

Bank of Algeria

Central Bank of Argentina

Reserve Bank of Australia

Austrian National Bank

National Bank of Belgium

Central Bank of Bosnia and Herzegovina

Central Bank of Brazil

Bulgarian National Bank

Bank of Canada

Central Bank of Chile

People's Bank of China

Croatian National Bank

Czech National Bank

National Bank of Denmark

Bank of Estonia

European Central Bank

Bank of Finland

Bank of France

Deutsche Bundesbank (Germany)

Bank of Greece

Hong Kong Monetary Authority

Magyar Nemzeti Bank (Hungary)

Central Bank of Iceland

Reserve Bank of India

Bank Indonesia

Central Bank & Financial Services Authority of Ireland

Bank of Israel

Bank of Italy

Bank of Japan

Bank of Korea

Bank of Latvia

Bank of Lithuania

National Bank of the Republic of Macedonia

Central Bank of Malaysia

Bank of Mexico

Netherlands Bank

Reserve Bank of New Zealand

Central Bank of Norway

Bangko Sentral ng Pilipinas (Philippines)

National Bank of Poland

Bank of Portugal

National Bank of Romania

Central Bank of the Russian Federation

Saudi Arabian Monetary Agency

Monetary Authority of Singapore

National Bank of Slovakia

Bank of Slovenia

South African Reserve Bank

Bank of Spain

Sveriges Riksbank (Sweden)

Swiss National Bank

Bank of Thailand

Central Bank of the Republic of Turkey

Bank of England

Board of Governors of the Federal Reserve System

[1] In accordance with Article 15 of its Statutes, the Bank's capital is held by central banks only. The legal status of the Yugoslav issue of the capital of the BIS is currently under review following the constitutional changes in February 2003 which transformed the Federal Republic of Yugoslavia into the State Union of Serbia and Montenegro, establishing two separate central banks, and the Republic of Montenegro's subsequent declaration of independence from the State Union in May 2006.

Board of Directors[2]

Guillermo Ortiz, Mexico City
Chairman of the Board of Directors

Hans Tietmeyer, Frankfurt am Main
Vice-Chairman

Ben S Bernanke, Washington
Mark Carney, Ottawa
Mario Draghi, Rome
William C Dudley, New York
Stefan Ingves, Stockholm
Mervyn King, London
Jean-Pierre Landau, Paris
Christian Noyer, Paris
Guy Quaden, Brussels
Jean-Pierre Roth, Zurich
Masaaki Shirakawa, Tokyo
Jean-Claude Trichet, Frankfurt am Main
Paul Tucker, London
Alfons Vicomte Verplaetse, Brussels
Axel A Weber, Frankfurt am Main
Nout H E M Wellink, Amsterdam
Zhou Xiaochuan, Beijing

Alternates

Paul Fisher or Michael Cross, London
Pierre Jaillet or Denis Beau, Paris
Donald L Kohn or D Nathan Sheets, Washington
Hans-Helmut Kotz or Wolfgang Mörke, Frankfurt am Main
Peter Praet or Jan Smets, Brussels
Fabrizio Saccomanni or Ignazio Visco, Rome

Committees of the Board of Directors

Administrative Committee, chaired by Hans Tietmeyer
Audit Committee, chaired by Christian Noyer
Banking and Risk Management Committee, chaired by Stefan Ingves
Nomination Committee, chaired by Guillermo Ortiz

[2] As of 31 May 2009.

Senior officials

Jaime Caruana	General Manager
Hervé Hannoun	Deputy General Manager
Peter Dittus	Secretary General, Head of Department
Stephen G Cecchetti	Economic Adviser, Head of Monetary and Economic Department
Günter Pleines	Head of Banking Department
Daniel Lefort	General Counsel
Már Gudmundsson	Deputy Head of Monetary and Economic Department
Jim Etherington	Deputy Secretary General
Louis de Montpellier	Deputy Head of Banking Department
Josef Tošovský	Chairman, Financial Stability Institute

Changes among the Board of Directors and senior officials

At its meeting in January 2009, the Board elected Guillermo Ortiz, Governor of the Bank of Mexico, to succeed Jean-Pierre Roth, Chairman of the Governing Board of the Swiss National Bank, as Chairman of the Board of Directors for a period of three years commencing on 1 March 2009.

By letter dated 17 October 2008, Axel A Weber, President of the Deutsche Bundesbank, reappointed Hans Tietmeyer as a member of the Board of Directors for a period of two years from 1 January 2009 to 31 December 2010. At its meeting in November 2008, the Board re-elected Hans Tietmeyer as Vice-Chairman of the Board of Directors for the same period.

Fabrizio Saccomanni, Director General of the Bank of Italy, stepped down from the Board of Directors at the end of his term of appointment on 22 December 2008.

On 26 January 2009, Timothy F Geithner resigned as President of the Federal Reserve Bank of New York and vacated his seat on the Board. By letter dated 2 February 2009, Ben S Bernanke, Chairman of the Board of Governors of the Federal Reserve System, appointed William C Dudley as a member of the Board of Directors for the remaining period of Mr Geithner's term of office, ending on 12 September 2009.

At its meeting in March 2009, the Board took note of the reappointment by Guy Quaden, Governor of the National Bank of Belgium, of Vicomte Verplaetse, Honorary Governor of the National Bank of Belgium, as a member of the Board of Directors for a further period of 10 months, expiring on 31 December 2009.

The Board noted with deep regret the death of Lord George of St Tudy on 18 April 2009 at the age of 70. Lord George had served as an ex officio Director of the Board while Governor of the Bank of England between 1993 and 2003, and as an appointed Director from 2003 until his death.

By letter dated 23 April 2009, Mervyn King, Governor of the Bank of England, appointed Paul Tucker, Deputy Governor of the Bank of England, as a member of the Board of Directors for the remaining period of Lord George's term of office ending on 6 May 2011.

It was with deep regret that the Bank learned of the death of Baron Jean Godeaux, Honorary Governor of the National Bank of Belgium, on 27 April 2009 at the age of 86. Baron Godeaux had served on the Board as a Director from 1982 to 1990, during which time he had served as President of the Bank and Chairman of the Board of Directors from 1985 to 1987.

The Board also noted with deep sadness the death of Masaru Hayami, former Governor of the Bank of Japan, on 16 May 2009 at the age of 84. Mr Hayami had served on the Board as a Director from 1998 to 2003.

As regards the senior officials of the Bank, upon the resignation of Malcolm D Knight on 30 September 2008, Hervé Hannoun exercised the responsibilities of General Manager under the title of Acting General Manager until the date upon which a new General Manager took up his duties. Jaime Caruana was appointed as the Bank's new General Manager for a period of five years from 1 April 2009.

At its meeting in March 2009, the Board reappointed Peter Dittus as the Bank's Secretary General for a period of five years beginning on 1 January 2010.

Daniel Lefort, the Bank's present General Counsel, will retire from the BIS with effect from 30 September 2009. At its meeting in May 2009, the Board appointed Diego Devos as the Bank's General Counsel for a period of five years beginning on 1 October 2009.

At the same meeting, the Board reappointed Günter Pleines as Head of the Banking Department for a period of three years and one month from 1 April 2010.

Institutional and administrative matters

The Bank's administration

Budget policy

The process of formulating the Bank's expenditure budget for the next financial year starts about six months in advance with the setting by Management of a broad business orientation and financial framework. Within this context, business areas specify their plans and the corresponding resource requirements. The process of reconciling detailed business plans, objectives and overall resource availability culminates in the determination of a draft financial budget. This must be approved by the Board before the start of the financial year.

In drawing up the budget, a distinction is made between administrative and capital expenditures. In common with other organisations of a similar nature to the BIS, Management and staff expense, including remuneration, pensions and health and accident insurance, amounts to around 70% of administrative costs. Other major categories, each accounting for around 10% of administrative spending, are expenditure on information technology (IT) and telecommunications, and on buildings and equipment. Capital spending mainly relates to building and IT investment expenditure, and can vary significantly from year to year. Most of the Bank's administrative and capital expenditure is incurred in Swiss francs.

Administrative expenses before depreciation for the financial year 2008/09 amounted to 237.9 million Swiss francs, 4.6% below the budget of 247.9 million Swiss francs,[3] while capital expenditure, at 22.1 million Swiss francs, was 2.9 million under budget. The main contributor to the underspending in administrative expenses was the impact of the lower than budgeted headcount, which arose from delays in recruitment for open staff positions. Spending on the Bank's data centre and on other IT and telecommunications items was also below budget.

Administrative and capital expenditure in 2008/09 reflected the priorities set in the budget, chief among them the further strengthening of the resilience of the BIS and its capacity to deal with unforeseen developments. This involved the following measures:

- Against the background of the market turbulence which began in August 2007, budget provisions were created for additional staff positions in the Banking Department, the Financial Stability Forum (now the Financial Stability Board) and the Compliance and Operational Risk Unit. The required reallocation of resources was achieved by reducing staff positions in the General Secretariat, in particular by outsourcing certain IT activities.
- The Bank's second data centre was relocated to a remote site to give greater assurance of business continuity and service to customers in the event of a major disruption in Basel.

The work of the Bank during the financial year was dominated by the need to deal with the challenges posed by the intensifying global financial crisis, and the Bank's resources were reoriented to cope with the resulting workload. This was achieved within the budget ceiling, and involved the following initiatives:

- The Monetary and Economic Department changed the focus of its work programmes and redirected its staff to concentrate on financial stability issues that came to the fore in the crisis, both in its support for the committees hosted at the BIS and in its research activities.
- The Banking Department and the Risk Control and Finance units took a series of measures to reduce the Bank's financial risks, which involved reducing credit risk through increased investment in sovereign and quasi-sovereign assets, shortening the duration of the financial instruments on both sides of the balance sheet, and taking a number of steps to protect

[3] The Bank's budgetary accounting is cash-based and excludes certain financial accounting adjustments, principally relating to retirement benefit obligations, which take into account financial market and actuarial developments. These additional factors are included under "Operating expense" disclosed in the profit and loss account (see "Financial results and profit distribution").

the Bank's liabilities. These measures, together with the volatility that arose from dislocated financial markets, increased the operational workload of the banking activity and additional staff resources were allocated to deal with the extra work.

Work also continued on the following initiatives to meet the needs of the Bank's shareholders:

- the expansion of BIS services to deepen relations with shareholders in the Asia-Pacific region through continuation of the Asian research programme;
- the creation of a Consultative Council for the Americas; and
- the completion of multi-year projects to enhance meeting facilities and safety in Basel.

In March 2009, the Board approved an increase in the administrative budget for the financial year 2009/10 of 4.0% to 259.2 million Swiss francs. The capital budget foresees a decrease of 3.1 million Swiss francs to 21.9 million. The main priority in framing the budgets for 2009/10 is to reinforce the Bank's response to the global financial crisis as follows:

- Resources devoted to financial stability issues will be increased by the creation of additional staff positions to support the work of the Financial Stability Board, the Basel Committee on Banking Supervision and the Committee on the Global Financial System in handling their increased responsibilities and workload.
- Dealing with the impact of the financial crisis on the BIS banking business will continue to be the main priority of the Banking Department and the Risk Control, Finance and Compliance units. Work in the banking business will be oriented towards controlling the size and enhancing the management of the banking operations through initiatives to implement integrated risk management and enhance management accounting.

In addition, the budget for 2009/10 provides for the further development of the Bank's global outreach through support for the Consultative Council for the Americas and through the creation of a permanent economics research unit at the Asian Office following the completion of the Asian research programme in September 2009. The visitors' restaurant facilities in the Tower building in Basel will also be upgraded after over 30 years of use.

Remuneration policy

The jobs performed by BIS staff members are assessed on the basis of a number of objective criteria, including qualifications, experience and responsibilities, and are classified into distinct job grades. The job grades are associated with a structure of salary ranges. Every three years, a comprehensive salary survey is conducted in which BIS salaries are benchmarked against compensation in comparable institutions and market segments. When benchmarking BIS salaries against comparators, the Bank focuses on the upper half of market compensation in order to attract highly qualified staff. The analysis takes into account differences in the taxation of compensation for the staff of the surveyed institutions. The most recent such survey took place in the second half of 2007, with the benchmark data collected reflecting the comparator market as of 1 July 2007. As of 1 July 2008, the midpoints of the Bank's salary ranges were aligned with those observed market benchmarks and the estimated change in external market salaries in the intervening period. The latter adjustment, based on the rate of inflation in Switzerland and the weighted average real wage increase in industrial countries, amounted to 2.0%. Movements of salaries of individual staff members within the ranges of the salary structure are based on performance.

BIS staff members have access through the Bank to a contributory health insurance plan and a contributory defined benefit pension plan. Non-locally hired, non-Swiss staff members recruited for a position at the Bank's headquarters, including senior officials, are entitled to an expatriation allowance. In proportion to annual salary, it currently amounts to 14% for unmarried staff members and 18% for married staff members, subject to a ceiling. Expatriate staff members are also entitled to receive an education allowance for their children subject to certain conditions.[4] With regard to employment in the Representative Offices, a distinction is made between staff members transferred from the headquarters and staff members recruited directly for a position in a Representative Office. The employment conditions of transferred staff are determined in accordance with the Bank's international assignment policy. For staff recruited directly, employment conditions are aligned with those in the market in which the Office is located. Those staff members have access to the same health insurance and pension plans as staff engaged at the Bank's headquarters.

The salaries of senior officials are regularly benchmarked against compensation in comparable institutions and market segments. As with the survey for other staff, the most recent executive compensation survey took place in the second half of 2007. The results confirmed the appropriateness of the current practice of annually adjusting the salaries of senior officials for the rate of Swiss inflation.

As of 1 July 2008, the annual remuneration of senior officials, before expatriation allowances, is based on the following salary structure:

- General Manager[5] 739,400 Swiss francs
- Deputy General Manager 625,650 Swiss francs
- Heads of Department 568,770 Swiss francs

The Annual General Meeting approves the remuneration of members of the Board of Directors, with adjustments taking place every three years. The overall fixed annual remuneration paid to the Board of Directors amounts to a total of 1,049,520 Swiss francs as at 1 April 2009. In addition, Board members receive an attendance fee for each Board meeting in which they participate. Assuming the full Board is represented in all Board meetings, the annual total of these attendance fees amounts to 973,788 Swiss francs.

[4] Certain staff members who joined the Bank before 1997 receive an expatriation allowance of 25%, but are not entitled to receive an education allowance.

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

Activities

Promotion of international financial and monetary cooperation: direct contributions of the BIS

Regular consultations on monetary and financial matters

Every two months, the Governors and other senior officials of the BIS member central banks convene for a series of meetings to discuss current developments and the outlook for the world economy and financial markets. They also exchange views and experiences on issues of special and topical interest to central banks. These bimonthly meetings, normally held in Basel, are one of the most important ways in which the Bank promotes cooperation within the central banking community. The November 2008 BIS bimonthly meetings took place in São Paulo and were hosted by the Central Bank of Brazil.

The bimonthly meetings comprise, in particular, the Global Economy Meeting and the All Governors' Meeting. The Global Economy Meeting, which brings together more than 30 Governors of key advanced and emerging market economies, monitors economic and financial developments and assesses the risks and opportunities in the world economy and financial markets.

The All Governors' Meeting, in which all shareholding member central bank Governors participate, discusses selected topics that are of general interest to all BIS member central banks. In 2008/09, the topics discussed were:

- the procyclicality of the financial system;
- the lessons of the global banking crisis;
- foreign currency liquidity pressures, dislocation in foreign exchange swap markets and central bank responses;
- money market interest rates and operational monetary policy targets; and
- central bank liquidity operations: lessons from the current turmoil.

Because not all central banks are directly involved in the work of the Basel-based committees and other organisations hosted by the Bank, the All Governors' Meetings also represent an opportunity to review the activities of these specialised groupings. In 2008/09, Governors discussed, for instance, the Basel Committee initiatives to respond to the financial crisis.

Other regular meetings that take place during the bimonthly gatherings are those of Governors of the G10 countries and of Governors of major emerging market economies, which explore themes that are of special relevance to the respective groups of economies. Governors who are members of the Central Bank Governance Group also meet on a regular basis.

In analysing issues related to financial stability, Governors meet with heads of supervisory agencies, other financial authorities and senior executives from the private financial sector. In particular, the Bank hosts regular joint meetings of Governors and heads of supervision; in 2008/09 this grouping discussed, among other topics, the enhancements to the Basel II Framework and specific areas in which the resiliency of the financial system could be strengthened.

The Bank regularly organises informal discussions among public and private sector representatives that focus on their shared interests in promoting a sound and well functioning international financial system. In addition, the Bank organises various other meetings for senior central bank officials on a regular or ad hoc basis. In a number of these meetings, other financial authorities, the private financial sector and the academic community are invited to contribute to the dialogue.

Other meetings organised for senior central bankers on a less frequent basis include:

- the meetings of the working parties on domestic monetary policy, held in Basel but also hosted on a regional basis by a number of central banks in Asia, central and eastern Europe, and Latin America; and
- the meeting of Deputy Governors of emerging market economies, for which this year's theme was "Monetary policy and the measurement of inflation: prices, wages and expectations".

Representative Offices

The Representative Office for Asia and the Pacific (Asian Office) and that for the Americas (Americas Office) aim to strengthen relations between the BIS and central banks and financial supervisory authorities in the respective regions, and to promote cooperation within each region. The Offices organise meetings, foster the exchange of information and data, and contribute to the Bank's financial and economic research. The Offices also help to deliver BIS banking services through regular visits to reserve managers in central banks and meetings at both technical and managerial levels.

Asia-Pacific

During the past year, the BIS responded to the needs of its Asian regional shareholders by organising high-level meetings and pursuing research on issues related to the ongoing financial turmoil. Drawing on the resources of the Asian research programme, the Asian Office held eight events, each organised jointly with a shareholding central bank or a regional central bank organisation:

- the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP)–BIS Forum on Foreign Exchange Markets, organised with the Bank of Japan, in Yokohama in July 2008;
- the Central Bank Workshop on the Microstructure of Financial Markets, organised with the Hong Kong Institute for Monetary Research, in Hong Kong SAR in September 2008;
- the Reserve Bank of India–BIS High-Level Seminar on Lessons from the Financial Crisis, in Hyderabad in December 2008;
- the EMEAP–BIS Forum on Foreign Exchange Markets, organised with the Bank of Japan, in Tokyo in December 2008;
- the South East Asian Central Banks (SEACEN)–BIS Executive Seminar on Global Shocks and Economic Stability, organised with Bank Indonesia, in Yogyakarta in January 2009;

- the Hong Kong Institute for Monetary Research–BIS Conference on Property Markets and Finance, in Hong Kong SAR in January 2009; and
- the Bank of Korea–BIS High-Level Seminar on Currency Internationalisation: Lessons from the Financial Crisis, in Seoul in March 2009.

In November 2008, the Financial Stability Institute (FSI) and the EMEAP Working Group on Banking Supervision convened their annual high-level meeting in Asia. Hosted by the People's Bank of China in Beijing, the meeting focused on the role of banking and banking supervision in financial stability. In addition, the FSI organised 10 seminars for financial sector supervisors in the Asian region that in most cases focused on topics and issues highlighted by the current financial crisis.

Banking activity and the Asian Bond Funds

The dealing room of the Asian Office continued to focus on meeting customers' needs as the financial crisis unfolded. Central banks in the region have maintained a cautious stance in their reserve portfolio management in the current strained environment.

As fund administrator, the BIS continued to provide support for public offerings of the bond funds under EMEAP's second Asian Bond Fund (ABF2) initiative. Eleven central banks provided seed money from their international reserves for funds invested in sovereign and quasi-sovereign bonds from eight EMEAP economies. The total size of the fund was $2.86 billion at the end of March 2009, down from $3.3 billion at the end of March 2008. Private sector investment decreased further to $427 million at the end of March 2009 from $765 million at the end of March 2008; central bank holdings, which stood at $2.43 billion, were down from $2.5 billion at the end of March 2008.

The fourth annual rebalancing of ABF2 was carried out in the final two months of 2008.

Negotiations are progressing to resolve the major outstanding issues on the China fund, one of the eight single-country funds which make up ABF2, with a view to launching an open-ended fund in China in the next few months. The BIS provided assistance to the fund manager at the suggestion of the EMEAP working group.

Asian Consultative Council and the BIS Special Governors' Meeting in Asia

The Asian Consultative Council (ACC), currently chaired by Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, provides Governors of shareholding central banks in Asia and the Pacific with a formal means of communicating with the BIS Board and Management. At the Council's two meetings this year, Governors focused their discussions on meetings to be organised and research to be carried out under the three-year Asian research programme (see below). The Governors reported their views on these matters to the BIS Board and Management, attaching priority to work related to policy issues raised by the global financial turmoil.

In February, the BIS once again organised a Special Governors' Meeting, this time hosted by the Central Bank of Malaysia in Kuala Lumpur, bringing together Governors from Asia-Pacific and elsewhere. Governors discussed recent economic and financial developments and the lessons of the global financial crisis for financial stability in Asia and the Pacific.

Asian research programme

The three-year Asian research programme entered its final phase, with completion scheduled for August 2009. Developments in the region dictated that the programme devote considerable attention to the implications of the international financial crisis for Asia and the Pacific. Progress continues on a series of research projects that are intended to help regional authorities improve monetary policy and operations, develop financial markets, maintain financial stability and strengthen prudential policy.

By the end of the programme, collaborative research on topics of interest to central banks and supervisors in the region will have been organised with almost every shareholding central bank in Asia and the Pacific, as well as with regional organisations of central banks. This research has not only fed into the numerous meetings organised with regional central banks, but has also led to the publication of several articles in refereed journals and the Bank's *Quarterly Review*. Economists in the Asian research programme also wrote notes on special policy issues at the request of the ACC Governors. Two Asian research networks organised under the research programme held their second annual workshops in January. The success of the three-year programme has led to a decision to establish a stepped-up research presence in the region on a more permanent basis.

The Americas

Given the financial turmoil in major developed countries, the work of the Americas Office centred on closely monitoring developments that would indicate vulnerabilities in the region – in particular, spillovers to the economies of Latin America and the Caribbean.

BIS efforts in the region, as in recent years, were devoted not only to BIS member central banks but also to contacts and events with non-shareholding central banks, regulatory authorities and the academic community, which resulted in several publications. Noteworthy activities included the organisation of a panel discussion with regional central bank Governors as well as several parallel sessions at the annual meeting of the Latin American and Caribbean Economic Association (LACEA) in Brazil. The Office also co-organised the second regional BIS meeting of heads of internal audit, held in cooperation with the Central Bank of Chile, hosted a regional meeting of central bank general counsels in Mexico City and contributed to BIS meetings hosted by regional central banks, such as the Working Party on Monetary Policy in Latin America, convened at the Colombian central bank.

The Americas Office also supported FSI regional events and a BIS seminar on "Financial stability analysis and reports", organised with the Centre for Latin American Monetary Studies (CEMLA). The Office contributed research and speakers to events organised by the Central Bank of Brazil, Bank of Canada and Central Reserve Bank of Peru as well as the Caribbean Centre for Money and Finance, the Association of Supervisors of Banks of the Americas, the Fondo Latinoamericano de Reservas, the International Association of Deposit Insurers, the International Monetary Fund and the United Nations.

Consultative Council for the Americas (CCA)

In May 2008, the Bank established the Consultative Council for the Americas (CCA) as an advisory committee to the Board. The CCA, which is currently chaired by Martín Redrado, Governor of the Central Bank of Argentina, comprises the Governors of the BIS member central banks in the Americas. Its purpose is to provide a vehicle for direct communication between the BIS member central banks in the Americas and the BIS Board and Management on matters of interest to the central bank community in the region. The Americas Office provides secretariat support to the CCA.

The CCA met for the first time on the occasion of the BIS Annual General Meeting in June 2008 and has held two subsequent meetings. CCA members are regularly informed of the work of the BIS and the Americas Office in the region and are invited to comment on ongoing work.

Financial Stability Institute

The mandate of the Financial Stability Institute (FSI) is to assist financial sector supervisory authorities worldwide in strengthening oversight of their financial systems, thereby fostering financial stability globally. The FSI conducts a programme designed to disseminate standards and sound practices primarily to the banking and insurance supervision sectors. The work of the FSI benefits from the fact that the BIS hosts the standard-setting bodies for banking and insurance supervision. The synergies and consultations that arise from this close proximity have come to be referred to as the Basel Process, described in the next section.

Meetings, seminars and conferences

The first component of the FSI programme is the long-standing series of high-level meetings, seminars and conferences held both in Basel and at venues in various regions of the world. In 2008, the FSI organised a total of 50 events. While these continued to cover a broad range of financial sector topics, emphasis was placed on issues related directly to financial stability. More than 1,850 representatives of central banks and banking and insurance supervisory authorities participated. The FSI also continued its series of high-level meetings for Deputy Governors and heads of supervisory authorities, with such meetings taking place in Africa, Asia, Latin America and the Middle East. These meetings focused on the financial crisis as well as Basel II implementation and other key supervisory issues.

FSI Connect

The second component of the FSI programme is FSI Connect, an online information resource and learning tool for financial sector supervisors. FSI Connect includes more than 160 tutorials covering a wide range of topics for supervisors at all levels of experience and expertise. More than 170 central banks and supervisory authorities subscribe to FSI Connect, representing approximately 8,000 users. In 2008, with the endorsement of the International Association of Insurance Supervisors, BIS Management approved a second phase of development to specifically address insurance sector supervision. Approximately 25 tutorials will be developed over the next few years, dealing with insurance risks and related supervisory issues and techniques. Moreover, with the support of the International Association of Deposit Insurers, several tutorials related to deposit insurance will be added to FSI Connect over the course of 2009. These two initiatives will further enhance the BIS's contribution to financial sector stability.

Other major initiatives

In 2008, the FSI updated its 2004 and 2006 surveys on Basel II implementation efforts in non-Basel Committee member countries. Consistent with the results of the previous surveys, the 2008 survey indicates that Basel II will be implemented by the overwhelming majority of the 101 respondents to the most recent survey. Including Basel Committee countries, nearly 90 jurisdictions planned to implement Basel II by the end of 2008. One difference from the preceding two surveys is the increased number of countries permitting their banks to implement the more advanced approaches for credit and operational risk.

FSI: www.bis.org/fsi

Promotion of international financial and monetary cooperation: the Basel Process

One of the main ways in which the BIS contributes to promoting international financial and monetary stability is through cooperation of the committees and standard-setting bodies hosted by the BIS and located in Basel. This approach is increasingly referred to as "the Basel Process" for the promotion of international financial and monetary cooperation.

The Basel Process is based on four key ingredients:

- First, the BIS hosts, and provides staff and financial resources for, a number of committees that address the key elements of financial stability. These include the Basel Committee on Banking Supervision, which is concerned with supervision at the level of individual institutions; the Committee on the Global Financial System, which monitors macrofinancial stability issues; the Markets Committee, which examines the functioning of financial markets; and the Committee on Payment and Settlement Systems, which examines the payments infrastructure. In addition, the International Association of Insurance Supervisors and the International Association of Deposit Insurers are hosted by the BIS. Furthermore, most of the Basel-based committees contribute to the work of the Financial Stability Board, also hosted by the BIS. The synergies created by physical proximity and the resulting exchange of ideas among these groups have been considerable.
- Second, the flexibility of these groups and the openness in the exchange of information among policymakers enhance the coordination of their

work on financial stability issues and help avoid overlaps and gaps in their work programmes. At the same time, their output is much larger than their size would suggest, as they are able to leverage the expertise of the international community of central bankers, financial regulators and supervisors.

- Third, the work of the Basel-based committees is informed by the analytical and statistical inputs of the BIS's economic research and its banking activities, in particular through the Banking Department's working relationships with market participants and the implementation of regulatory standards and financial controls for the conduct of banking operations.
- Finally, dissemination of the standard-setting bodies' work is facilitated by the FSI.

The activities of each of the committees and standard-setting bodies during the past year are reported below.

The permanent committees hosted by the BIS

Basel Committee on Banking Supervision

The Basel Committee on Banking Supervision, chaired by Nout Wellink, President of the Netherlands Bank, seeks to improve supervisory understanding and the quality of banking supervision worldwide. It provides a forum for dialogue among supervisors by exchanging information on national supervisory arrangements, by improving the effectiveness of techniques for supervising international banking business, and by setting minimum supervisory standards in areas where they are considered desirable.

Responses to the financial crisis

Based on its assessment of the supervisory, regulatory and risk management weaknesses revealed by the crisis, the Basel Committee established a comprehensive strategy to address the lessons in these areas. The Committee initiated and in some cases accelerated work related to a variety of supervisory and risk management topics, including liquidity risk, stress testing and bank valuation practices. The market turmoil also provided important lessons that have helped guide the Basel Committee in further strengthening the Basel II Framework and other elements of capital adequacy regulation. Taken together, these initiatives are a core element of global efforts to strengthen the resilience of the banking and broader financial system.

Strengthening capital adequacy

The crisis has underscored the importance of a strong capital base for a robust banking sector. In its work on capital adequacy, the Committee's goal is to raise the level and quality of capital in the banking system so as to increase banks' resilience to future episodes of economic and financial stress and enhance confidence in the global banking system. This work includes developing ways to mitigate procyclicality, for example by promoting capital buffers above the regulatory minimum that can be drawn upon during periods of stress. These efforts also support the initiatives and recommendations of the Financial Stability Board and the G20 leaders.

The Basel II Framework

In response to market events, the Basel Committee undertook a review of the Basel II Framework in 2008 to identify areas that could be strengthened. Based on this review, the Committee issued a package of consultative documents in January 2009.

The proposed enhancements, which the Committee expects to finalise in the course of 2009, will help ensure that the risks inherent in banks' portfolios related to trading activities, securitisations and exposures to off-balance sheet vehicles are better reflected in minimum capital requirements, risk management practices and accompanying disclosures to the public. The Committee intends to coordinate and implement this work programme in a manner that strengthens financial confidence and avoids aggravating current market conditions. It will not recommend increasing required global minimum capital ratios during periods of economic and financial stress.

The January 2009 consultative package set out enhancements to minimum capital requirements (Pillar 1) that focus on strengthening the risk coverage of the Framework, including the regulatory capital treatment for trading book exposures. Most of the build-up of leverage prior to the financial crisis, and the majority of losses since the crisis began, occurred in banks' trading books. An important contributing factor was that the current capital framework for market risk, based on the 1996 amendments to Basel I, does not capture some key risks. In response, the Committee proposed supplementing the current value-at-risk trading book framework with an incremental risk charge (IRC), which includes default risk as well as migration risk. Once implemented, the IRC will reduce the incentive for regulatory arbitrage between the banking and trading books.

An additional proposed response is the introduction of a stressed value-at-risk requirement, which will help reduce the procyclicality of the minimum capital requirements for market risk. The Committee announced that it will conduct a longer-term, fundamental review of the capital framework for trading activities.

The crisis has clearly shown that collateralised debt obligations consisting of asset-backed securities (CDOs of ABS – so-called "resecuritisations") are more highly correlated with systematic risk than traditional securitisations. Resecuritisations therefore warrant a higher capital charge as proposed in the January 2009 consultative package.

Prior to the onset of the financial crisis, banks had built up significant exposures to off-balance sheet conduits, which were not adequately reflected in the capital regime. In response, the Committee proposed an increase in capital requirements for liquidity lines extended to support asset-backed commercial paper conduits by eliminating the distinction between short-term and long-term liquidity facilities. The Committee also proposed a requirement that banks obtain comprehensive information about the underlying exposure characteristics of their externally rated securitisation positions. Failure to obtain such information would result in higher capital requirements.

Through the supervisory review process (Pillar 2) of the Basel II Framework, the Committee also introduced standards to promote more rigorous supervision and risk management of risk concentrations, off-balance sheet exposures, securitisations and related reputational risks. It further proposed improvements to valuations of financial instruments, the management of funding liquidity risks and firm-wide stress testing practices.

Moreover, the Committee introduced enhanced disclosure requirements to promote better market discipline. These Pillar 3 requirements relate to securitisations and sponsorship of off-balance sheet vehicles and should provide market participants with a better understanding of an institution's overall risk profile.

Procyclicality

An additional dimension of the Committee's capital-related work concerns procyclicality. In 2008, the Committee initiated a comprehensive, top-down review of the capital levels and cyclicality implied by the Basel II Framework, taking into account the interaction with broader macroprudential objectives. The aim is to promote adequate capital buffers over the credit cycle and to mitigate the risk that excessive cyclicality of the minimum capital requirement amplifies the procyclicality of the financial system.

The Committee has put in place a comprehensive capital monitoring framework to track the impact of Basel II on the minimum required and total capital levels and the procyclicality of those levels.

With a particular focus on the composition of Tier 1 capital, the Committee is evaluating ways to build additional buffers above the regulatory minimum that can be drawn upon in stress conditions. It also initiated a review of the treatment of loan loss provisions under Basel II and ways to strengthen incentives to raise such provisions in good times.

In 2008/09, the Committee also began an evaluation of concrete ways to supplement the Basel II risk-based capital framework with a simple, transparent measure of gross exposure, such as a leverage ratio. Such a measure could provide an independent measure of risk and capital, help contain leverage and put a simple floor under the risk-based measure.

Liquidity risk management and supervision

The market turmoil re-emphasised the importance of liquidity to the functioning of financial markets and the banking sector. In response, the Basel Committee in September 2008 issued enhanced global *Principles for sound liquidity risk management and supervision*, which were endorsed by bank supervisors meeting at the biennial International Conference of Banking Supervisors.

The sound liquidity principles support one of the key recommendations for strengthening prudential oversight set out in the April 2008 *Report of the Financial Stability Forum on enhancing market and institutional resilience*. The principles were designed to strengthen banks' liquidity risk management.

They focus on the governance, measurement and management of banks' liquidity risk and require that banks maintain a strong liquidity buffer. A formal assessment of implementation will take place in 2009.

The Basel Committee is also working to promote greater consistency in liquidity risk supervision. This includes the potential for harmonised supervisory benchmarks and metrics, and increased information sharing between supervisors of cross-border banks.

Stress testing

The financial crisis has demonstrated the importance of stress testing as an integral part of any bank's risk management, liquidity and capital planning process. This tool plays a critical role in strengthening not only bank corporate governance but also the resilience of individual banks and the financial system. To address weaknesses in stress testing, the Basel Committee issued a consultative paper entitled *Principles for sound stress testing practices and supervision* in January 2009.

The paper presents principles for the governance, design and implementation of stress testing programmes at banks. It defines expectations for the role and responsibilities of supervisors in reviewing firms' stress testing practices, and emphasises that a sound stress testing programme should, among other things, be directed by the board and senior management, provide forward-looking assessments of risk, and be an integral part of capital and liquidity planning.

Bank valuation practices

The Basel Committee concluded that, while current valuation practices and processes were not the underlying cause of the market turmoil, they contributed to it and amplified its effects. In April 2009, the Committee issued *Supervisory guidance for assessing banks' financial instrument fair value practices*. The guidance strengthens banks' valuation processes for financial instruments. It will help supervisors assess the rigour of banks' valuation processes and promote improvements in risk management and control practices.

Implementation of standards

The financial crisis has highlighted the importance of prudent, informed standards and supervisory guidance. In response, the Basel Committee announced in January 2009 that it was broadening the mandate of its Accord Implementation Group (AIG), which had focused on implementation of the Basel II Framework. The AIG was renamed the Standards Implementation Group (SIG), and its focus is on promoting the implementation of Basel Committee guidance and standards more generally, in an internationally coordinated and consistent manner.

Supervisory cooperation for cross-border banks

In 2008, the Committee evaluated the various issues associated with the resolution of complex global banking organisations. Further examination and a detailed consideration of individual bank failures and rescues are necessary. The Committee's final report in September 2009 will draw the lessons of the current crisis for bank resolution mechanisms and their application across borders.

Core Principles for Effective Deposit Insurance Systems

In March 2009, the Basel Committee and the International Association of Deposit Insurers issued a consultative document on *Core Principles for Effective Deposit Insurance Systems*. The Core Principles respond to one of the lessons of the financial crisis: the need for effective systems of deposit insurance to help maintain public confidence. They set an important benchmark for countries to use in establishing or reforming deposit insurance systems and address a range of issues, including deposit insurance coverage, funding and prompt reimbursement. They also address issues related to public awareness, resolution of failed institutions and cooperation with other safety net participants.

Expanded membership and outreach

In 2009, the Basel Committee and its governance body – central bank Governors and heads of supervision – agreed to expand the Committee's membership and invite representatives from Argentina, Australia, Brazil, China, Hong Kong SAR, India, Indonesia, Korea, Mexico, Russia, Saudi Arabia, Singapore, South Africa and Turkey to join. The Committee believes that this expansion in membership will enhance its ability to carry out its core mission.

Basel Committee: www.bis.org/bcbs

Committee on the Global Financial System

The Committee on the Global Financial System (CGFS), chaired by Donald L Kohn, Vice Chairman of the Board of Governors of the Federal Reserve System, monitors financial market developments and analyses their implications for financial stability.

The deepening financial crisis shaped the Committee's work in the period under review. The CGFS discussed in particular:

- the condition of international banks and their responses to growing pressure on funding and capital;
- the consequences of dysfunctional credit markets and the broader economic impact of disruption in credit supply;
- changes in the supply of cross-border bank financing in response to the crisis; and
- government and central bank support measures and their impact on financial market conditions.

In addition, the Committee established various groups to review specific aspects of the financial crisis. A joint CGFS–Financial Stability Forum working group investigated the role of valuation and leverage in the procyclicality of the financial system. This topic was also discussed at a roundtable with private sector participants and accounting standard setters in Paris. A second group has been asked to examine, jointly with the Markets Committee, central bank credit policies. The CGFS also established a group to review possible enhancements to credit risk transfer statistics collected under its auspices.

In mid-2008, the CGFS published three reports that analyse issues pertinent to the financial crisis: developments in private equity and leveraged finance markets; central bank operations in response to the financial turmoil; and the role of ratings in structured finance. A January 2009 report, *Capital flows and emerging market economies*, includes a preliminary assessment of the impact of the financial crisis on major emerging market economies.

CGFS: www.bis.org/cgfs

Committee on Payment and Settlement Systems

The Committee on Payment and Settlement Systems (CPSS), chaired by William C Dudley, President and Chief Executive Officer of the Federal Reserve Bank of New York, contributes to the strengthening of financial market infrastructure by promoting safe and efficient payment and settlement systems.

During the year, the Committee published two reports:

- *The interdependencies of payment and settlement systems*, which identifies the various interconnections that exist among systems, analyses the risk implications of the resulting interdependencies, and assesses the associated risk management challenges. The report concludes that tighter interdependencies among systems have helped to strengthen the global infrastructure by reducing several sources of settlement costs and risks but have also increased the potential for disruptions to spread quickly and widely. The report therefore suggests a number of actions that industry participants, as well as central banks and other authorities, could take to adapt their policies to the increasingly interconnected nature of systems.
- *Progress in reducing foreign exchange settlement risk*, which concludes that, while much progress has been made, potentially significant risk remains. It therefore recommends actions to be taken by individual institutions, industry groups and central banks. These actions include working with banking supervisors and other regulators to explore options that could ensure that banks apply appropriate risk management procedures to their foreign exchange settlement exposures.

The CPSS also:

- identified potential actions that central banks could take, on an individual or coordinated basis, to strengthen their operational readiness to provide cross-border liquidity in emergencies;
- cooperated with the Basel Committee to identify sound practices for banks' management of intraday liquidity risks, as described in the Basel Committee's *Principles for sound liquidity risk management and supervision*; and
- monitored the impact of the financial crisis on the functioning of payment and settlement systems and continued to share information on the clearing of over-the-counter derivatives transactions.

The Committee continued to enhance cooperation among central banks, including those of emerging market economies. It also provided support and expertise to workshops and seminars on payment system issues organised by the BIS in cooperation with regional central banking organisations.

CPSS: www.bis.org/cpss

Markets Committee

The Markets Committee, chaired by Hiroshi Nakaso, Executive Director of the Bank of Japan, serves as a forum for major central banks to jointly monitor developments in financial markets and discuss the specifics of their market operations. It brings together senior officials responsible for market operations.

Dislocations in money, credit and foreign exchange markets, and central bank initiatives to alleviate them, remained at the centre of the Committee's discussions in the past year. Steps were taken to further enhance the technical cooperation among its members, including: more frequent and detailed discussions about market developments; timely exchanges of information in periods of tension; discussions of measures to address market dislocations; and sharing of documentation to deepen the common understanding of central banks' operational frameworks. Furthermore, the *Compendium on monetary policy frameworks and central bank market operations* was updated. The Committee was also involved in the preparation of the CGFS report on *Central bank operations in response to the financial turmoil*, published in July 2008. Recently, a Markets Committee study group was asked to examine central bank credit policies, together with the CGFS.

In addition to its bimonthly meetings, the Committee held special meetings, sometimes with the private sector, to address topics of a more structural nature, such as changes in commodity markets or the spillover of the financial crisis to emerging markets. The Committee organised its second Working Party on Markets in Latin America with central banks and market participants from the region in November 2008.

Markets Committee: www.bis.org/markets

Central Bank Counterfeit Deterrence Group

The Central Bank Counterfeit Deterrence Group (CBCDG) is mandated to investigate threats to the security of banknotes and to propose common solutions for implementation by note-issuing authorities. The CBCDG has developed anti-counterfeiting features to prevent banknote images from being replicated by colour copiers and digital technology (personal computers, printers and scanners). The BIS supports the work of the CBCDG by hosting its Secretariat and by acting as its agent in contractual arrangements.

BIS contributions to broader international financial cooperation

Group of Ten

The Bank continued to contribute to the work of the G10 Finance Ministers and central bank Governors by participating as an observer institution and providing secretariat support. During the year under review, the Group operated under the Chairmanship of the Dutch Minister of Finance. As no meetings were held during the year, written procedures were used to address questions relating to performance-related compensation and financial stability.

Financial Stability Board

The Financial Stability Board (FSB), which was established in April 2009 as the successor to the Financial Stability Forum (FSF), promotes international financial stability through enhanced information exchange and cooperation in financial supervision and surveillance. Specifically, the mandate of the FSB is to:

- assess vulnerabilities affecting the financial system, and identify and oversee action needed to address them;
- promote coordination and information exchange among authorities responsible for financial stability;
- monitor and advise on market developments and their implications for regulatory policy;
- advise on and monitor best practice in meeting regulatory standards;
- undertake joint strategic reviews of the policy development work of the international standard-setting bodies to ensure that their work is timely, coordinated and focused on priorities and is addressing gaps;
- set guidelines for supervisory colleges, support their establishment and functioning, and encourage participation in them, including through ongoing identification of the most systemically important cross-border firms;
- support contingency planning for cross-border crisis management, particularly with respect to systemically important firms; and
- collaborate with the IMF to conduct early warning exercises.

The FSB is chaired by Mario Draghi, Governor of the Bank of Italy. Its Secretariat is located in Basel and hosted by the BIS.

In accordance with the FSF's decision in March 2009 to expand its national membership, the FSB comprises senior officials from finance ministries, central banks and financial regulators in 24 countries and territories as well as from the ECB and the European Commission. It also includes representatives of international financial institutions (the BIS, IMF, OECD and World Bank), international supervisory, regulatory and standard-setting bodies (the Basel Committee, the International Association of Insurance Supervisors (IAIS), the International Accounting Standards Board (IASB) and the International Organization of Securities Commissions (IOSCO)) and central bank expert groupings (CGFS and CPSS).

At the FSF's plenary meetings – in September 2008 in Amsterdam, December 2008 in Hong Kong SAR and March 2009 in London – members discussed the current challenges and vulnerabilities in financial markets, the steps that are being taken to address them and policy options. The September 2008 meeting also featured an exchange of views with private sector representatives on current financial system risks and response measures. In addition to its plenary meetings, the Board holds occasional regional meetings to foster wider exchanges of views on financial vulnerabilities and relevant policy work under way. A meeting bringing together members and authorities from the Asia-Pacific region was held in Hong Kong SAR in December 2008. An outreach meeting with authorities from selected emerging economies, organised jointly with the IMF, was held in Washington in October 2008.

The FSF's April 2008 *Report on enhancing market and institutional resilience* called for international action to mitigate the procyclicality of the financial system. In June 2008, the FSF initiated three workstreams on procyclicality issues, focusing on: (i) the capital regime (jointly with the Basel Committee); (ii) bank provisioning practices; and (iii) the interaction between leverage and valuation (jointly with the CGFS). The Action Plan adopted by the G20 leaders at their November 2008 summit also called for the FSF to develop recommendations to mitigate procyclicality. The recommendations arising from these workstreams were published, together with supporting commentary and analysis, in April 2009. Among other things, the FSF recommended that:

- the Basel Committee strengthen the capital framework so that the level as well as the quality of capital rise in good times and can be drawn on in downturns;
- risk-based capital requirements be supplemented with a simple, transparent measure to contain leverage in the financial system;
- accounting standard setters reconsider the incurred loss model for provisioning by analysing alternative approaches for recognising and measuring loan losses and examine the feasibility of valuation reserves or adjustments for fair value financial instruments under certain circumstances; and
- the Basel Committee and the CGFS launch a joint research programme to measure funding and liquidity risk attached to maturity transformation.

Also following upon recommendations in its April 2008 report, the FSF developed principles to guide compensation practices at financial institutions, high-level principles for cross-border crisis management, protocols for establishing international colleges of supervisors for large cross-border banks, and an enhanced early warning process for identifying and mitigating global systemic risks (the last in collaboration with the IMF). These initiatives were also called for in the G20 Action Plan released on 2 April 2009. The principles for compensation and cross-border crisis management were published in April 2009. Supervisory colleges for most large cross-border financial institutions had been set up by the end of 2008, with the remainder expected to be established in the first half of 2009. The conclusions of the IMF-FSF inaugural early warning exercise were presented to the IMF's International Monetary and Financial Committee at its April 2009 meeting.

In addition to these initiatives, the FSF oversaw the implementation of the other recommendations in its April 2008 report by national authorities, international bodies and standard setters, and the private sector. The FSF reported on progress in implementing the recommendations to the G7 Finance Ministers and Governors in October 2008, and a second progress report was issued in April 2009. Both reports concluded that, while most of the recommendations were being successfully implemented in a timely manner, further work remains to be done in some areas and continued monitoring will be essential.

FSB: www.financialstabilityboard.org

International Association of Insurance Supervisors

The International Association of Insurance Supervisors (IAIS), hosted by the BIS since 1998, is the international standard-setting body for prudential supervision of the insurance industry. The IAIS aims to contribute to global financial stability through improved supervision of the insurance industry, the development of standards for supervision, international cooperation based on exchange of information, and mutual assistance. Over recent years, the IAIS has grown significantly.

The IAIS has been actively involved in assessing the impact of the financial crisis on the insurance sector and responding to the FSB and G20 recommendations for regulatory reforms. With a view to further improving the effectiveness and efficiency of insurance supervision on a global basis, the IAIS has mapped weaknesses revealed by the crisis.

The Basel Committee, IOSCO and the IAIS, through the Joint Forum, their joint working group, have put in place a framework and process to carry out a stocktake of the issues pertaining to regulatory gaps and differences that build on existing work and processes in each sector.

Accounting

The IAIS has a strong interest in ensuring high-quality financial reporting that offers a meaningful, economically sound portrayal of insurers' financial health. It closely monitors the international financial reporting developments which will most influence the overall accounting model for regulated insurance enterprises. In 2008, the IAIS provided input to the IASB's discussion papers on reducing complexity in reporting financial instruments and on amendments to IAS 19 employee benefits. The IAIS also provided comments on the International Federation of Accountants' exposure draft on using the work of an "auditor's expert" and on international auditing standards of most relevance to the insurance sector.

Capital adequacy and solvency

In October 2008, the IAIS adopted six supervisory papers on solvency assessment. Aimed at facilitating greater comparability and convergence in the international assessment of insurer solvency, these papers consist of standards and guidance on:

- the structure of regulatory capital requirements for a solvency regime;
- the establishment and ongoing operation of an enterprise risk management framework; and
- the use of internal models as a method to assess risk, both quantitatively and qualitatively, and manage capital.

Group supervision

Recognising the growing internationalisation of the insurance market and the reality that much insurance business is undertaken within a group structure, the IAIS has made progress in developing a comprehensive framework for streamlining group supervision. The main goal is to achieve efficient group supervision which preserves the level of policyholders' protection while avoiding unnecessary supervisory burden. In October 2008, the IAIS adopted papers on:

- principles of group-wide supervision, focusing on its aims and the mechanisms to achieve them; and
- guidance on the role and responsibilities of a group-wide supervisor, including the factors to consider in identifying one, as well as the range of cooperation mechanisms.

Reinsurance

Reinsurers play an important role in the functioning of efficient insurance markets through their shock-absorbing capacity. In October 2008, the IAIS adopted a guidance paper on mutual recognition of reinsurance supervision.

In December 2008, the IAIS published the fifth edition of its *Global reinsurance market report*, based on global reinsurance statistics submitted by the world's largest reinsurers. Over the years, the report has evolved from facilitating reinsurance market transparency on an ongoing basis to providing a foundation on which up-to-date coverage of market trends and developments can be analysed and reported. It shows that the reinsurance industry has a solid financial base to face the challenges of the continuing financial crisis. However, if the impact of the crisis spreads, reinsurers may be confronted with difficult market and credit conditions.

Information sharing

Following the adoption of a *Multilateral memorandum of understanding* (MMOU) in February 2007, which defines a set of principles and procedures for sharing information, views and assessments, the IAIS commenced validation of applications from interested jurisdictions.

Training

Each year, the IAIS organises some 15 regional seminars and workshops to assist insurance supervisors in implementing its principles and standards, in collaboration with the FSI, national insurance supervisory authorities and other bodies.

IAIS: www.iaisweb.org

International Association of Deposit Insurers

The International Association of Deposit Insurers (IADI) contributes to the stability of financial systems by promoting international cooperation and encouraging wide international contact among deposit insurers and other interested parties. In particular, IADI:

- enhances the understanding of common interests and issues related to deposit insurance;
- sets out guidance to enhance the effectiveness of deposit insurance systems;
- facilitates the sharing of expertise on deposit insurance issues through training, outreach and educational programmes; and
- provides guidance on the establishment or enhancement of effective deposit insurance systems.

Currently, 72 organisations (of which 52 are members) from around the world are involved in IADI's activities, including a number of central banks that have an interest in promoting the adoption or operation of effective deposit insurance systems.

One of the Association's main objectives is to improve the effectiveness of deposit insurance systems through the development of principles and practices. In its April 2008 *Report on enhancing market and institutional resilience*, the FSF called on authorities to agree on an international set of core principles for effective deposit insurance systems. Subsequently, the Basel Committee and IADI issued a consultative document on *Core Principles for Effective Deposit Insurance Systems* for public consultation.

In response to a request from the G20 leaders for information on areas where progress on convergence in deposit insurance is being made or is in need of acceleration, IADI briefed the FSF on regulatory practices related to deposit insurance and transitioning to an explicit, limited-coverage deposit insurance system.

During its seventh year of operation, IADI continued to provide many forums for deposit insurers and other safety net participants. Activities included:

- the Seventh Annual Conference, themed "The role of deposit insurance in promoting financial stability and economic inclusion" and attended by over 250 deposit insurers and policymakers from 60 countries. The conference focused on: current financial market challenges and implications for financial institutions; the role of deposit insurers in financial crises; past, present and future research and guidance; and the building of inclusive financial sectors to ensure that low-income individuals have access to financial services;
- an IADI Executive Training Program, held in the United States and Asia, on major issues in bank resolution. The Program covered the least cost test for determining a bank resolution alternative, large and small bank resolutions, and the use of bridge banks and conservatorships during the resolution process;
- an agreement with the FSI to provide online tutorials on deposit insurance;
- collaboration with the European Forum of Deposit Insurers on training and other areas of mutual interest to support deposit insurance schemes in Europe;
- establishment of an Advisory Forum of 17 deposit insurance experts to comment on research and guidance papers before publication; and

- publication of guidance papers on governance, public awareness and funding.
  IADI: www.iadi.org

Other areas of central bank cooperation promoted by the BIS

Central bank governance

The Central Bank Governance Group comprises Governors from a broadly based and representative group of central banks. It is assisted by the Central Bank Governance Network, which encompasses nearly 50 central banks and monetary authorities that cooperate via the BIS to share information on governance and organisational matters.

Through the BIS, the Group worked on understanding issues in the governance of central banks as public policy institutions. In May 2009, it released a report on *Issues in the governance of central banks* that is intended to serve as a point of reference when decisions are made on governance arrangements for central banks. The report notes a number of governance implications that may flow from changes in the role of the central bank with respect to achieving and maintaining financial stability. These questions include the range and nature of central banks' responsibilities for promoting financial stability and the design of mechanisms for decision-making on financial stability matters.

Work on the dynamics of monetary policy committees was also completed during the year. The purpose of this workstream was to understand how structural features and committee procedures shape the decision-making process. In addition, various requests for comparative information on a range of central bank governance issues were met, and multilateral and bilateral consultations were held with a number of central banks.

Research activities

In addition to providing background material for meetings of senior central bankers and secretariat and analytical services to committees, the BIS contributes to international monetary and financial cooperation by carrying out its own research and analysis on issues of interest to central banks and, increasingly, financial supervisory authorities. This work finds its way into the Bank's regular publications, such as the *Annual Report*, the *Quarterly Review* and the *BIS Papers* and *Working Papers* series, as well as external professional publications. Most of the Bank's research is published on its website (www.bis.org).

In line with the Bank's mission, the long-term focus of the research is on monetary and financial stability issues. A core theme of the work during the period under review was the global financial crisis. The research explored the various dimensions of the crisis, including its causes, dynamics and policy implications. In particular, this work analysed the behaviour of financial markets under stress and the transmission of strains through international banking markets. Special attention was also paid to advancing the macroprudential approach to financial regulation and supervision, which addresses the financial system as a whole rather than individual institutions. The work included the development of early warning indicators of banking system distress and an analysis of ways to dampen the procyclicality of the financial system. Some of this work was channelled into the FSF report on procyclicality published in April 2009.

As part of its research activities, the BIS also organises conferences and workshops, typically bringing together senior policymakers, leading academics and market participants. In June 2008, the Seventh BIS Annual Conference addressed the challenges to monetary policy in the decade ahead. The BIS and the Centre for Economic Policy Research (CEPR) organised a conference in Basel in September 2008 on the transmission mechanism of monetary policy.

Cooperation in the statistical area

The monitoring and analysis of the financial crisis require timely, reliable and internationally comparable economic, monetary and financial statistics. The BIS benefits significantly from the various international statistical activities it has been involved in for some time with respect to data collection, methodological issues and technical solutions.

International financial statistics

The various unique datasets compiled and disseminated by the BIS in cooperation with central banks are of particular interest in the current financial turmoil. The quarterly banking statistics permit a detailed examination of developments in the international banking markets, including the dollar funding needs of banks outside the United States and cross-border bank lending among major financial centres and to emerging markets. The semiannual over-the-counter (OTC) derivatives statistics, which also cover outstanding credit default swaps (CDS), provide a key source for understanding the major trading patterns and potential exposures in this systemically important market. The securities statistics, covering both international and domestic markets, indicate the impact of the credit market turmoil on issuance activities in these markets. The banking and securities statistics feed the Joint External Debt Hub established by the BIS in cooperation with the IMF, OECD and World Bank; the Hub now includes new trade credit data from the International Union of Credit and Investment Insurers (the Berne Union).

Efforts were made last year to clarify the guidelines for reporting central banks with the aim of further improving consistency within and across BIS datasets. The BIS also contributed to the discussion about how its OTC derivatives statistics, in particular those related to credit risk transfers through CDS, could be adapted to enable better monitoring of market developments. Moreover, the Bank made a major contribution to the drafting of the *Handbook on securities statistics*, sponsored by the Working Group on Securities Databases, whose members are the BIS, ECB, IMF and

OECD.[6] Finally, the Bank strengthened its cooperation with these and other international institutions on statistical methodological and data compilation issues: in particular, it joined the new Inter-Agency Group on Economic and Financial Statistics, which aims to improve the availability of key national and international data in response to the ongoing financial and economic crisis.

Irving Fisher Committee on Central Bank Statistics

The BIS hosts the Secretariat of the Irving Fisher Committee on Central Bank Statistics (IFC). The Committee is a forum for users and compilers of statistics, both within and outside central banks, to discuss statistical issues relating to economic, monetary and financial stability. It currently has 64 full institutional members, including all BIS shareholding central banks, and is chaired by Manuel Marfán, Board Member of the Central Bank of Chile.

The IFC's fourth biennial conference, held in Basel in August 2008, addressed the topic "Measuring financial innovation and its impact". About 150 economists and statisticians from central banks around the world participated. The conference included a discussion on data issues revealed by the recent financial turmoil. It concluded that the lack of anticipation of the crisis was not caused by insufficient data on, for instance, economic and financial imbalances. A number of gaps could nonetheless be singled out. These gaps would take time to fill, and innovative approaches might have to be adopted to address the information needs of policymakers and market participants in the meanwhile. Proceedings of IFC meetings are published in the *IFC Bulletin* and posted on the BIS website.

BIS Data Bank

The BIS Data Bank is now used by 53 BIS shareholding central banks to exchange national data with each other (12 additional central banks joined during the year). Data Bank coverage was expanded to include high-frequency data on central bank money market operations, which are being closely monitored and discussed by various Basel-based groups during the financial crisis; data on food and energy prices were also added. Furthermore, steps were taken to facilitate the reporting of available data on national debt securities following the release of a conceptual framework in the *Handbook on securities statistics*.

In May 2008, 38 central banks were represented at the regular Data Bank Experts meeting. Issues on the agenda included improving the timeliness of data submissions and the need to save the original as well as all subsequent revisions of monetary and economic data in order to permit a proper historical analysis of the background against which market reactions occur and policy decisions are made.

[6] The first part of the Handbook was posted on the IMF website in May 2009. It provides a conceptual framework, anchored in existing international statistical standards, for position and flow statistics on debt securities issues. Eventually this document will be expanded to cover debt securities holdings and other types of securities.

Statistical information technology

Last year, the BIS finalised the implementation of a new database for its international financial statistics and prepared a new search and download facility for its data on the web. In doing so, the BIS continued to work very closely with central banks to make the exchange, processing and dissemination of statistical data and metadata more efficient. A major initiative in this regard is the Statistical Data and Metadata Exchange (SDMX), a joint effort of the BIS, ECB, Eurostat, IMF, OECD, United Nations and World Bank.[7] More than 240 experts from 65 countries and nearly 20 international organisations came together at the SDMX Global Conference held in Paris in January 2009. The conference illustrated the broad acceptance of SDMX and the need for an electronic community for SDMX on the internet. Many national and international statistical organisations are keen to implement SDMX in order to improve the dissemination of their statistical data.

The SDMX website (www.sdmx.org) provides the family of SDMX products, including technical standards approved by the International Organization for Standardization, content-oriented guidelines for exchange of data and metadata, and implementation tools. The site also provides information about SDMX-related developments in a growing number of statistical subject areas, such as the balance of payments and external debt.

Group of Computer Experts

The Group of Computer Experts (GCE) provides a twice-yearly forum for central banks to share technical and organisational experiences in the IT area. Additionally, the Working Party on Security Issues (WPSI) meets twice a year on issues related to IT security.

At the May 2008 GCE meeting, payment systems issues predominated. The main presentation was on the business and technical aspects of the recent round of TARGET2 implementations. At the November meeting, the major topic was the impact of the market turmoil on IT, with discussions highlighting the need to respond very quickly to demand for the development and implementation of new financial instruments and reports.

Infrastructural issues addressed by the WPSI included virtual machine technology, network segmentation and the sharing of IT infrastructures by IT systems and facility management systems. Two-factor authentication, identity management and access control were discussed in relation to secure access to systems and data, mobile computing, portable storage devices, remote access and support by vendors.

Cooperation with regional central bank groupings

Occasional meetings with regional central banking groups allow BIS research, policy analysis and statistics to be disseminated to those central banks that do

[7] In this initiative, the BIS informally represents the views and interests of the central banking community that participates in its statistical initiatives such as the Data Bank and international financial statistics.

not normally participate in the Bank's regular activities. During the past year, these meetings were focused on issues related to the current financial crisis. Activities included:

- seminars on "Financial stability analysis and reports", organised with CEMLA for Latin American and Caribbean central banks and with the Southern African Development Community (SADC) for eastern and southern African central banks;
- a seminar on "Increased capital flows and the implications for central banks", organised with SEACEN for Asia-Pacific central banks; and
- lectures conducted as part of the Masters in Banking and Finance programme of the Centre Africain d'Études Supérieures en Gestion (CESAG), located in Dakar.

The Coordinators of Technical Cooperation and Training held their annual meeting in Basel in July 2008. Thirty-six central banks and international institutions attended the meeting to discuss establishing robust networks and information sharing between those involved in technical cooperation.

Internal Audit

Internal auditors of central banks meet regularly to share experience and knowledge. In June 2008, the 22nd Annual Plenary Conference of G10 Heads of Internal Audit was hosted by the National Bank of Belgium. It covered topics such as changes and trends in internal controls, outsourcing issues, talent management practices in internal audit, audit approaches to analytical areas, and enterprise risk management. In addition, twice a year, the BIS hosts the meetings of the G10 Working Party on IT Audit Methodologies.

BIS Internal Audit has established information sharing networks for internal audit heads from central banks and monetary authorities in the Asia-Pacific region, and in Latin America and the Caribbean. In October 2008, the second meeting of heads of internal audit from central banks in Latin America and the Caribbean was hosted by the Central Bank of Chile in Santiago de Chile. Discussions focused on risk management in financial institutions, internal control failures, and the role of internal audit during stressful periods.

Financial services of the Bank

The scope of financial services

The BIS offers a wide range of financial services designed specifically to assist central banks and other official monetary authorities in the management of their foreign reserves. Some 135 such institutions, as well as a number of international institutions, make active use of these services.

Safety and liquidity are the key features of these credit intermediation services, which are supported by a rigorous internal risk management framework. In accordance with best practice, a separate risk control unit reporting directly to the Deputy General Manager monitors the Bank's credit, liquidity and market risks. Similarly, a compliance and operational risk unit monitors the Bank's operational risks.

In response to the diverse – and constantly evolving – needs of central banks, the BIS offers an extensive array of investment possibilities in terms of currency denomination, liquidity and maturity. In addition to traditional money market placements such as sight/notice accounts and fixed-term deposits, the Bank offers two instruments that can be traded (bought and sold back): the Fixed-Rate Investment at the BIS (FIXBIS), available in maturities from one week to one year; and the BIS Medium-Term Instrument (MTI), with maturities from one year to 10 years. A series of callable MTI structures, as well as other instruments with embedded optionality, are also part of the standard product range. From time to time, the BIS extends short-term credits to central banks, usually on a collateralised basis. The Bank also acts as trustee and collateral agent (see below).

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

The BIS provides asset management services in sovereign securities or high-grade assets. These may take the form of either a specific portfolio mandate negotiated between the BIS and a central bank or an open-end fund structure – the BIS Investment Pool (BISIP) – allowing customers to invest in a common pool of assets. The two Asian Bond Funds (ABF1 and ABF2) are administered by the BIS under the BISIP umbrella: ABF1 is managed by the BIS and ABF2 by a group of external fund managers.

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

Financial operations in 2008/09

Since the summer of 2007, financial markets have been in a constant state of distress. The turmoil confronted the Bank with sustained demand to accept deposits at a time when the conditions induced by the turmoil made it difficult to place funds profitably in the private financial markets at an acceptable level of risk. As a result of actions taken by the BIS in its banking and risk management practices to address these challenges, combined with the evolution of financial market variables, the Bank's currency deposit base decreased by SDR 38.9 billion in 2008/09, after an average annual increase of SDR 25.1 billion in the preceding two years. The currency deposit base stood at SDR 197.2 billion at 31 March 2009.

The total balance sheet decreased by SDR 55.8 billion in 2008/09, after recording growth of SDR 40.2 billion in 2007/08. As a result, the balance sheet total amounted to SDR 255.4 billion at 31 March 2009.

Liabilities

The size of the BIS balance sheet is mainly driven by placements from customers, which constitute the lion's share of total liabilities (see graph). On 31 March 2009, customer placements (excluding repurchase agreements) amounted to SDR 220.3 billion, compared with SDR 265.2 billion at the end of the previous financial year.

Around 90% of customer placements are denominated in currencies, with the remainder in gold. Currency deposits decreased from SDR 236.1 billion a year ago to SDR 197.2 billion at end-March 2009 – representing some 4%[8] of the world's total foreign exchange reserves of nearly SDR 4.5 trillion, up from SDR 4.2 trillion at end-March 2008. The share of currency placements denominated in US dollars was 68%, whereas euro-denominated funds accounted for 21%. Gold deposits amounted to SDR 23.1 billion at end-March 2009, a decrease of SDR 6 billion over the financial year.

The contraction of customer currency placements was mainly attributable to a 13%, 26% and 22% decrease in investments in MTIs, FIXBIS and sight/notice accounts, respectively.

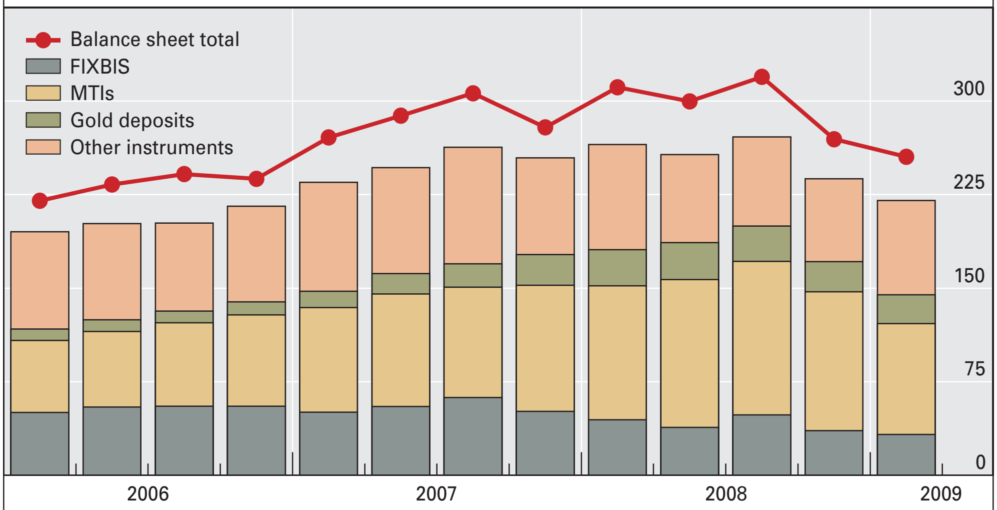
A breakdown of placements with the BIS by geographical region shows a relatively stable pattern, with Asian customers accounting for the highest share.

Assets

Most of the assets held by the BIS consist of government and quasi-government securities, including reverse repurchase agreements and, to a lesser extent than in the previous financial year, investments with highly rated commercial banks of international standing. In addition, the Bank owned 120 tonnes of fine gold at 31 March 2009. The credit exposure is managed in a very prudent manner, with almost all of the Bank's credit exposure rated

Balance sheet total and customer placements by product

End-quarter figures, in billions of SDR



The sum of the bars indicates total customer placements.

[8] Funds placed by institutions for which foreign exchange reserves data are not available are excluded from the calculation.

A– or higher as at 31 March 2009 (see subsection 3, "Credit risk" in the "Risk management" section of the financial statements).

The Bank's holdings of currency assets totalled SDR 208.9 billion on 31 March 2009, down from SDR 265.7 billion at the end of the previous financial year. The decrease in customer placements was mainly accommodated by a reduction of investments with commercial banks, partially offset by an increase in treasury bills.

The Bank uses various derivative instruments to manage its assets and liabilities efficiently (see note 7 to the financial statements).

Agent and trustee functions

Trustee for international government loans

The Bank continued to perform its functions as trustee for the funding bonds 1990–2010 of the Dawes and Young Loans (for details, see the *63rd Annual Report* of June 1993). The Deutsche Bundesbank, as paying agent, notified the Bank that in 2008 the Bundesamt für zentrale Dienste und offene Vermögensfragen (BADV – Federal Office for Central Services and Unresolved Property Issues) had arranged for payment of approximately €4.6 million for redemption of funding bonds and interest. Redemption values and other details were published by the BADV in the *Bundesanzeiger* (*Federal Gazette*).

The Bank maintained its reservations regarding the application by the BADV of the exchange guarantee clause for the Young Loan (stated in detail in its *50th Annual Report* of June 1980), which also extend to the funding bonds 1990–2010.

Collateral agent functions

Under a number of agreements, the BIS acts as collateral agent to hold and invest collateral for the benefit of the holders of certain foreign currency denominated bonds issued by countries under external debt restructuring arrangements. During 2008/09, collateral pledge agreements included those for Peruvian bonds (see the *67th Annual Report* of June 1997) and Côte d'Ivoire bonds (see the *68th Annual Report* of June 1998).

Financial results and profit distribution

Financial results

Background

The Bank's financial results for the 79th financial year, 2008/09, were achieved against a background of the continuing turmoil in the global financial markets in which the BIS operates. This turmoil, which began in July 2007, reached a new level of intensity in September 2008, when a number of important financial institutions failed or were threatened with failure. Banks and other institutions became reluctant to lend to each other except on a very short-term basis. Credit markets also became severely dislocated, with activity in some areas virtually ceasing as a flight to safety developed.

This deterioration in interbank markets was stemmed by measures taken by central banks and governments in subsequent months to support the global banking system. However, concerns then started to focus beyond the financial sector and towards developments in the global economy, which led in the credit markets to a widening of spreads for non-bank debt issues. Monetary authorities acted to support economic activity by reducing interest rates to exceptionally low levels. In these conditions, the market values of government securities and the price of gold rose markedly.

In these exceptionally turbulent market conditions, the Bank's Management took successive actions to improve the Bank's resilience to events. On the liabilities side of the balance sheet, total currency deposits declined as the interest rates quoted for short-term BIS instruments were lowered and the issuance of certain BIS products was successively reduced and, when necessary, suspended. On the assets side, Management lowered exposures to, and the duration of, placements with commercial banks, while increasing investments in sovereign and quasi-sovereign assets. These actions reduced the balance sheet total and preserved the Bank's underlying profitability, while protecting it from realising significant losses from defaults by counterparties and debt issuers. In addition to these measures, Management restricted disposals of gold during 2008/09 to five tonnes, compared with 25 tonnes sold in the previous financial year, and reduced the duration benchmark for its investment securities portfolios from four years to three.

Highlights

As a result of these developments:

- Interest margins on an accruals basis in the Bank's borrowed funds book widened markedly from their already elevated levels in 2007/08.
- Further unrealised valuation losses were incurred on the bonds in the Bank's credit portfolios in the borrowed funds book as credit spreads widened against Libor.
- Additional realised and unrealised gains on the Bank's own funds investments occurred as the price of gold and the market values of government securities appreciated.

These factors led to:

- an operating profit of SDR 245.3 million, SDR 11.2 million lower than in 2007/08;
- a net profit of SDR 446.1 million, 18.1% lower than in 2007/08;
- a further increase in the Bank's equity (of SDR 612.8 million) following the increase of SDR 1,010.7 million in 2007/08; and
- a 5.8% return on equity in 2008/09, compared to 9.1% in 2007/08.

Detailed review (see profit and loss account)

Net interest income accrued was SDR 1,601.9 million in the financial year 2008/09, 64.5% higher than the equivalent figure of SDR 973.4 million in 2007/08.

This increase was primarily attributable to the higher interest accruals margin arising from the much wider spreads above Libor received on the Bank's risk-weighted assets, as well as the lower interest rates paid on the Bank's liabilities.

Net valuation movements resulted in a loss of SDR 1,181.7 million compared to a loss of SDR 553.7 million in 2007/08.[9] Around SDR 1,100 million of the loss in 2008/09 was attributable to the widening of credit spreads from Libor, which reduced the fair values of the bonds in the Bank's credit portfolios. This unrealised loss amounted to almost 3% of the value of these portfolios (SDR 35 billion), which are invested in top-quality financial instruments.

Operating expense (see note 25 to the financial statements) amounted to SDR 166.5 million, 7.8% above the preceding year's figure (SDR 154.5 million). Administrative expenses before depreciation amounted to SDR 154.4 million, 8.4% above the previous year's figure (SDR 141.9 million). In terms of Swiss francs, the currency in which most of the Bank's administrative expenses are incurred, operating expense rose by 3.2%. The depreciation charge of SDR 12.1 million was SDR 0.5 million below the equivalent figure for 2007/08 (SDR 12.6 million).

After taking into account the above factors, the Bank's operating profit amounted to SDR 245.3 million, 4.4% below the equivalent figure of SDR 256.5 million recorded in 2007/08.

A net gain of SDR 123.8 million was realised on the sale of investment securities during the financial year. This reflected the sale of securities acquired when interest rates were lower and included gains on sales of securities that were realised when the portfolio duration benchmark was reduced as described above. In 2007/08, a net loss of SDR 5.1 million was recorded for the sale of investment securities.

The realised gain of SDR 77.0 million on sales of gold investment assets during 2008/09 arose from the sale of five tonnes from the Bank's total holdings of 125 tonnes at 31 March 2008. In 2007/08, a higher gain (SDR 293.3 million) was recorded on the sale of 25 tonnes of the Bank's own gold.

As a result of these factors, the net profit for the 79th financial year, 2008/09, amounted to SDR 446.1 million, 18.1% lower than the equivalent figure of SDR 544.7 million in the preceding year.

In addition to the items reflected in the Bank's profit and loss account, unrealised gains and losses on the Bank's own gold investments and investment securities are recorded in the gold revaluation account and securities revaluation account, which form part of the Bank's equity.

The securities revaluation account increased by SDR 159.1 million as a result of unrealised gains on investment securities (+SDR 282.8 million), less a transfer to the profit and loss account of realised gains (–SDR 123.8 million) on sales of securities.

[9] Under the Bank's accounting policies, which have been in force since 2003, all financial instruments in its borrowed funds book are valued at fair value. Changes in the fair value of these instruments are taken to the profit and loss account. The Bank acts as market-maker in certain of its currency deposit liabilities, and as a result incurs realised profits and losses on these liabilities. The market risk inherent in these activities is managed on an overall fair value basis, combining all the relevant assets, liabilities and derivatives in the borrowed funds banking portfolios. In normal market conditions, where credit spreads are relatively stable, the realised and unrealised profits or losses on currency deposit liabilities are offset by realised and unrealised losses or profits on the related assets or derivatives, or on other currency deposit liabilities.

The gold revaluation account also increased, by SDR 152.4 million, as a result of unrealised gains (+SDR 229.4 million) resulting from the impact of the appreciating gold price in 2008/09 on the Bank's own gold holdings, less a transfer to the profit and loss account of realised gains (–SDR 77.0 million) on the sale of five tonnes of gold referred to above.

After taking these gains into account, the Bank's total return for 2008/09 was SDR 757.6 million. This represented a return of 5.8% on average equity (SDR 13,149 million). In 2007/08, the total return had been SDR 1,150.0 million, and the return on average equity (SDR 12,586 million) had been 9.1%. Taking into account the payment of the dividend for 2007/08, the Bank's equity increased by SDR 612.8 million during the year ended 31 March 2009. This compares with an equivalent increase of SDR 1,010.7 million in 2007/08.

Proposed dividend

The Board reviewed the dividend policy of the BIS during the financial year 2005/06. The review took into consideration the Bank's capital needs and the interests of BIS shareholders in obtaining a fair and sustainable return on their investments in BIS shares. The Board concluded that the approach of increasing the dividend by SDR 10 each year continued to be broadly consistent with these considerations. This approach resulted in an increase in the dividend from SDR 235 per share in 2004/05 to SDR 265 in 2007/08. The Board also decided to review the dividend policy every two to three years, taking into account changing circumstances where necessary.

As foreseen last year, the Board reviewed the level of the dividend once again during 2008/09 and concluded that the prevailing market turbulence and resulting uncertainties did not provide an appropriate environment to develop a medium-term dividend policy. Taking into account the financial developments described above, the Board proposes that the dividend for 2008/09 be unchanged from the previous financial year at SDR 265 per share.

Proposed distribution of the net profit for the year

On the basis of Article 51 of the Statutes, the Board of Directors recommends to the Annual General Meeting that the net profit of SDR 446.1 million for the financial year 2008/09 be applied by the General Meeting in the following manner:

1. SDR 144.7 million in payment of a dividend of SDR 265 per share;
2. SDR 30.1 million to be transferred to the general reserve fund;[10]
3. SDR 271.3 million, representing the remainder of the available net profit, to be transferred to the free reserve fund. This fund can be used by the Board of Directors for any purpose that is in conformity with the Statutes.

No transfer to the special dividend reserve fund is proposed for 2008/09 as the recommended dividend is unchanged from the dividend for the previous financial year.

[10] Since the general reserve fund exceeded four times the Bank's paid-up capital at 31 March 2009, Article 51 of the Bank's Statutes requires that 10% of the profit after payment of the dividend shall be paid into this fund, until its balance equals five times the paid-up capital.

If approved, the dividend will be paid on 2 July 2009 according to each shareholder's instructions in any constituent currency of the SDR, or in Swiss francs, to the shareholders named in the Bank's share register on 31 March 2009.

The full dividend will be paid on 546,125 shares. The number of issued and paid-up shares is 547,125. Of these shares, 1,000 were held in treasury at 31 March 2009, namely the suspended shares of the Albanian issue. No dividend will be paid on these treasury shares.

Report of the auditors

The Bank's financial statements have been duly audited by Deloitte AG, who have confirmed that the statements give a true and fair view of the Bank's financial position at 31 March 2009 and the results of its operations for the year then ended. Their report is to be found immediately following the financial statements.

Financial statements

as at 31 March 2009

The financial statements on pages 182–239 for the financial year ended 31 March 2009 were approved on 11 May 2009 for presentation to the Annual General Meeting on 29 June 2009. They are presented in a form approved by the Board of Directors pursuant to Article 49 of the Bank's Statutes and are subject to approval by the shareholders at the Annual General Meeting.

Jaime Caruana	Hervé Hannoun
General Manager	Deputy General Manager

Balance sheet

As at 31 March 2009

SDR millions	Notes	**2009**	2008
Assets			
Cash and sight accounts with banks	3	915.2	36.8
Gold and gold loans	4	25,416.2	31,537.7
Treasury bills	5	96,421.9	50,736.9
Securities purchased under resale agreements	5	38,594.4	91,884.6
Loans and advances	6	18,512.7	62,095.9
Government and other securities	5	55,763.7	61,918.5
Derivative financial instruments	7	13,749.1	7,426.4
Accounts receivable	8	5,822.5	5,311.8
Land, buildings and equipment	9	191.0	190.4
Total assets		**255,386.7**	311,139.0
Liabilities			
Currency deposits	10	197,222.2	236,120.9
Gold deposits	11	23,052.1	29,101.4
Securities sold under repurchase agreements	12	–	1,894.1
Derivative financial instruments	7	6,816.8	6,227.7
Accounts payable	13	14,211.5	24,365.4
Other liabilities	14	368.2	326.5
Total liabilities		**241,670.8**	298,036.0
Shareholders' equity			
Share capital	15	683.9	683.9
Statutory reserves	16	10,367.3	9,967.3
Profit and loss account		446.1	544.7
Less: shares held in treasury	17	(1.7)	(1.7)
Other equity accounts	18	2,220.3	1,908.8
Total equity		**13,715.9**	13,103.0
Total liabilities and equity		**255,386.7**	311,139.0

Profit and loss account

For the financial year ended 31 March 2009

SDR millions	Notes	**2009**	2008
Interest income	20	8,254.9	11,181.2
Interest expense	21	(6,653.0)	(10,207.8)
Net interest income		**1,601.9**	973.4
Net valuation movement	22	(1,181.7)	(553.7)
Net interest and valuation income		**420.2**	419.7
Net fee and commission income	23	0.4	0.8
Net foreign exchange loss	24	(8.8)	(9.5)
Total operating income		**411.8**	411.0
Operating expense	25	(166.5)	(154.5)
Operating profit		**245.3**	256.5
Net gain / (loss) on sales of securities available for sale	26	123.8	(5.1)
Net gain on sales of gold investment assets	27	77.0	293.3
Net profit for the financial year		**446.1**	544.7

Basic and diluted earnings per share (in SDR per share)	28	**816.8**	997.4

Statement of cash flows

For the financial year ended 31 March 2009

SDR millions	Notes	**2009**	2008
Cash flow from / (used in) operating activities			
Interest and similar income received		6,710.8	11,665.4
Interest and similar expenses paid		(4,802.1)	(10,118.3)
Net fee and commission income		0.4	0.8
Foreign exchange transaction income		11.6	4.5
Operating expenses paid		(154.4)	(141.9)
Non-cash flow items included in operating profit			
Valuation movements on operating assets and liabilities		(1,181.7)	(553.7)
Foreign exchange translation loss		(20.4)	(14.0)
Impairment charge on gold assets		(18.3)	–
Change in accruals and amortisation		(288.4)	(573.7)
Change in operating assets and liabilities			
Currency deposit liabilities held at fair value through profit and loss		(29,289.7)	(1,445.5)
Currency banking assets		44,724.0	(13,174.8)
Sight and notice deposit account liabilities		(8,910.2)	15,966.5
Gold deposits		(6,049.3)	15,842.8
Gold and gold loan banking assets		6,055.2	(15,961.7)
Accounts receivable		(0.3)	13.4
Other liabilities / accounts payable		41.8	(46.9)
Net derivative financial instruments		(5,733.6)	(2,190.9)
Net cash flow used in operating activities		**1,095.4**	(728.0)
Cash flow from / (used in) investment activities			
Net change in currency investment assets available for sale	5B	1,021.2	(1,479.4)
Net change in currency investment assets held at fair value through profit and loss		15.0	(9.3)
Net change in securities sold under repurchase agreements		(1,894.1)	831.6
Net change in gold investment assets	4B	295.7	245.0
Net purchase of land, buildings and equipment	9	(12.7)	(15.0)
Net cash flow used in investment activities		**(574.9)**	(427.1)

SDR millions	Notes	2009	2008
Cash flow used in financing activities			
Dividends paid		(144.7)	(139.3)
Shares repurchased in 2001 – payments to former shareholders		(0.1)	(0.5)
Net cash flow used in financing activities		**(144.8)**	(139.8)
Total net cash flow		**375.7**	(1,294.9)
Net effect of exchange rate changes on cash and cash equivalents		(23.2)	101.0
Net movement in cash and cash equivalents		398.9	(1,395.9)
Net change in cash and cash equivalents		**375.7**	(1,294.9)
Cash and cash equivalents, beginning of year	29	**936.1**	2,231.0
Cash and cash equivalents, end of year	29	**1,311.8**	936.1

Movements in the Bank's equity

For the financial year ended 31 March 2009

SDR millions	Notes	Share capital	Statutory reserves	Profit and loss	Shares held in treasury	Other equity accounts	Total equity
Equity at 31 March 2007		**683.9**	**9,487.4**	**619.2**	**(1.7)**	**1,303.5**	**12,092.3**
Income:							
Net profit for 2007/08		–	–	544.7	–	–	544.7
Net valuation movement on securities available for sale	18A	–	–	–	–	352.5	352.5
Net valuation movement on gold investment assets	18B	–	–	–	–	252.8	252.8
Total recognised income		**–**	**–**	**544.7**	**–**	**605.3**	**1,150.0**
Payment of 2006/07 dividend		–	–	(139.3)	–	–	(139.3)
Allocation of 2006/07 profit		–	479.9	(479.9)	–	–	–
Equity at 31 March 2008		**683.9**	**9,967.3**	**544.7**	**(1.7)**	**1,908.8**	**13,103.0**
Income:							
Net profit for 2008/09		–	–	446.1	–	–	446.1
Net valuation movement on securities available for sale	18A	–	–	–	–	159.1	159.1
Net valuation movement on gold investment assets	18B	–	–	–	–	152.4	152.4
Total recognised income		**–**	**–**	**446.1**	**–**	**311.5**	**757.6**
Payment of 2007/08 dividend		–	–	(144.7)	–	–	(144.7)
Allocation of 2007/08 profit		–	400.0	(400.0)	–	–	–
Equity at 31 March 2009 per balance sheet before proposed profit allocation		**683.9**	**10,367.3**	**446.1**	**(1.7)**	**2,220.3**	**13,715.9**
Proposed dividend		–	–	(144.7)	–	–	(144.7)
Proposed transfers to reserves		–	301.4	(301.4)	–	–	–
Equity at 31 March 2009 after proposed profit allocation		**683.9**	**10,668.7**	**–**	**(1.7)**	**2,220.3**	**13,571.2**

At 31 March 2009 statutory reserves included share premiums of SDR 811.7 million (2008: SDR 811.7 million).

Statement of proposed profit allocation

For the financial year ended 31 March 2009

SDR millions	Notes	2009
Net profit for the financial year		**446.1**
Transfer to legal reserve fund	16	–
Proposed dividend:		
SDR 265 per share on 546,125 shares		(144.7)
Proposed transfers to reserves:		
General reserve fund	16	(30.1)
Special dividend reserve fund	16	–
Free reserve fund	16	(271.3)
Balance after allocation to reserves		**–**

The proposed profit allocation is in accordance with Article 51 of the Bank's Statutes.

Movements in the Bank's statutory reserves

For the financial year ended 31 March 2009

						2009
SDR millions	Notes	Legal reserve fund	General reserve fund	Special dividend reserve fund	Free reserve fund	Total statutory reserves
Balance at 31 March 2008		**68.3**	**3,009.8**	**148.0**	**6,741.2**	**9,967.3**
Allocation of 2007/08 profit	16	–	40.0	6.0	354.0	400.0
Balance at 31 March 2009 per balance sheet before proposed profit allocation		**68.3**	**3,049.8**	**154.0**	**7,095.2**	**10,367.3**
Proposed transfers to reserves	16	–	30.1	–	271.3	301.4
Balance at 31 March 2009 after proposed profit allocation		**68.3**	**3,079.9**	**154.0**	**7,366.5**	**10,668.7**

Accounting policies

The accounting policies set out below have been applied to both of the financial years presented unless otherwise stated.

1. Scope of the financial statements

These financial statements contain all assets and liabilities that are controlled by the Bank and in respect of which the economic benefits as well as the rights and obligations lie with the Bank.

Assets and liabilities in the name of but not controlled by the Bank and in respect of which the economic benefits as well as the rights and obligations do not lie with the Bank are not included in these financial statements. Information on off-balance sheet assets and liabilities is disclosed in note 32.

2. Functional and presentation currency

The functional and presentation currency of the Bank is the Special Drawing Right (SDR) as defined by the International Monetary Fund (IMF).

The SDR is calculated from a basket of major trading currencies according to Rule O–1 as adopted by the Executive Board of the IMF on 30 December 2005 and effective 1 January 2006. As currently calculated, one SDR is equivalent to the sum of USD 0.632, EUR 0.410, JPY 18.4 and GBP 0.0903. The composition of this currency basket is subject to review every five years by the IMF; the next review is due to be undertaken in December 2010.

All figures in these financial statements are presented in SDR millions unless otherwise stated.

3. Currency translation

Monetary assets and liabilities are translated into SDR at the exchange rates ruling at the balance sheet date. Other assets and liabilities are recorded in SDR at the exchange rates ruling at the date of the transaction. Profits and losses are translated into SDR at an average rate. Exchange differences arising from the retranslation of monetary assets and liabilities and from the settlement of transactions are included as net foreign exchange gains or losses in the profit and loss account.

4. Designation of financial instruments

Upon initial recognition the Bank allocates each financial instrument to one of the following categories:

- Loans and receivables
- Financial assets and financial liabilities held at fair value through profit and loss
- Available for sale financial assets
- Financial liabilities measured at amortised cost

The allocation to these categories is dependent on the nature of the financial instrument and the purpose for which it was entered into, as described in Section 5 below.

The resulting designation of each financial instrument determines the accounting methodology that is applied, as described in the accounting policies below. Where the financial instrument is designated as held at fair value through profit and loss, the Bank does not subsequently change this designation.

5. Asset and liability structure

Assets and liabilities are organised into two sets of portfolios:

A. Banking portfolios

These comprise currency and gold deposit liabilities and related banking assets and derivatives.

The Bank operates a banking business in currency and gold on behalf of its customers. In this business the Bank takes limited gold price, interest rate and foreign currency risk.

The Bank designates all currency financial instruments in its banking portfolios (other than cash and sight and notice accounts with banks, and sight and notice deposit account liabilities) as held at fair value through profit and loss. The use of fair values in the currency banking portfolios is described in Section 9 below.

All gold financial assets in these portfolios are designated as loans and receivables and all gold financial liabilities are designated as financial liabilities measured at amortised cost.

B. Investment portfolios

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

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

The relevant currency assets (other than cash and sight and notice accounts with banks) are designated as available for sale. Related securities sold under repurchase agreements are designated as financial liabilities measured at amortised cost.

In addition, the Bank maintains some of its equity in more actively managed portfolios. The currency assets in these portfolios are trading assets and as such are designated as held at fair value through profit and loss.

The remainder of the Bank's equity is held in gold. The Bank's own gold holdings are designated as available for sale.

6. Cash and sight accounts with banks

Cash and sight accounts with banks are included in the balance sheet at their principal value plus accrued interest where applicable.

7. Notice accounts

Notice accounts are short-term monetary assets. They typically have notice periods of three days or less and are included under the balance sheet heading "Loans and advances".

Due to their short-term nature, these financial instruments are designated as loans and receivables. They are included in the balance sheet at their principal value plus accrued interest. Interest is included in interest income on an accruals basis.

8. Sight and notice deposit account liabilities

Sight and notice deposit accounts are short-term monetary liabilities. They typically have notice periods of three days or less and are included under the balance sheet heading "Currency deposits".

Due to their short-term nature, these financial instruments are designated as financial liabilities measured at amortised cost. They are included in the balance sheet at their principal value plus accrued interest. Interest is included in interest expense on an accruals basis.

9. Use of fair values in the currency banking portfolios

In operating its currency banking business, the Bank acts as a market-maker in certain of its currency deposit liabilities. As a result of this activity the Bank incurs realised profits and losses on these liabilities.

In accordance with the Bank's risk management policies the market risk inherent in this activity is managed on an overall fair value basis, combining all the relevant assets, liabilities and derivatives in its currency banking portfolios. The realised and unrealised profits or losses on currency deposit liabilities are thus largely offset by realised and unrealised losses or profits on the related currency assets and derivatives, or on other currency deposit liabilities.

To reduce the accounting inconsistency that would arise from recognising realised and unrealised gains and losses on different bases, the Bank designates the relevant assets, liabilities and derivatives in its currency banking portfolios as held at fair value through profit and loss.

10. Currency deposit liabilities held at fair value through profit and loss

As described above, all currency deposit liabilities, with the exception of sight and notice deposit account liabilities, are designated as held at fair value through profit and loss.

These currency deposit liabilities are initially included in the balance sheet on a trade date basis at cost. The subsequent accrual of interest to be paid and amortisation of premiums received and discounts paid are included in "Interest expense" on an effective interest rate basis.

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

11. Currency assets held at fair value through profit and loss

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

As described above, the Bank designates all of the relevant assets in its currency banking portfolios as held at fair value through profit and loss. In addition, the Bank maintains certain actively managed investment portfolios. The currency assets in these portfolios are trading assets and as such are designated as held at fair value through profit and loss.

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

After trade date, the currency assets are revalued to fair value, with all realised and unrealised movements in fair value included under the profit and loss account heading "Net valuation movement".

12. Currency assets available for sale

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

As described above, the Bank designates as available for sale all of the relevant assets in its currency investment portfolios, except for those assets in the Bank's more actively managed investment portfolios.

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

After trade date, the currency assets are revalued to fair value, with unrealised gains or losses included in the securities revaluation account, which is reported under the balance sheet heading "Other equity accounts". Realised profits on disposal are included under the profit and loss heading "Net gain / (loss) on sales of securities available for sale".

13. Short positions in currency assets

Short positions in currency assets are included in the balance sheet under the heading "Other liabilities" at market value on a trade date basis.

14. Gold

Gold comprises gold bars held in custody and sight accounts. Gold is considered by the Bank to be a financial instrument.

Gold is included in the balance sheet at its weight in gold (translated at the gold market price and USD exchange rate into SDR). Purchases and sales of gold are accounted for on a settlement date basis. Forward purchases or sales of gold are treated as derivatives prior to the settlement date.

The treatment of realised and unrealised gains or losses on gold is described in Section 17 below.

15. Gold loans

Gold loans comprise fixed-term gold loans to commercial banks. Gold is considered by the Bank to be a financial instrument.

Gold loans are included in the balance sheet on a trade date basis at their weight in gold (translated at the gold market price and USD exchange rate into SDR) plus accrued interest.

Interest on gold loans is included in interest income on an effective interest rate basis. The treatment of realised and unrealised gains or losses on gold is described in Section 17 below.

16. Gold deposits

Gold deposits comprise sight and fixed-term deposits of gold from central banks. Gold is considered by the Bank to be a financial instrument.

Gold deposits are included in the balance sheet on a trade date basis at their weight in gold (translated at the gold market price and USD exchange rate into SDR) plus accrued interest.

Interest on gold deposits is included in interest expense on an effective interest rate basis. The treatment of realised and unrealised gains or losses on gold is described in Section 17 below.

17. Realised and unrealised gains or losses on gold

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

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

The Bank designates gold loans in its banking portfolios as loans and receivables and gold deposits as financial liabilities measured at amortised cost. The gold derivatives included in the portfolios are designated as held at fair value through profit and loss.

Gains or losses on these transactions in gold are included under the profit and loss account heading "Net foreign exchange gain / (loss)" as net transaction gains or losses.

Gains or losses on the retranslation of the net position in gold in the banking portfolios are included under the profit and loss account heading "Net foreign exchange gain / (loss)" as net translation gains or losses.

B. Investment portfolios, comprising gold investment assets

The Bank's own holdings of gold are designated and accounted for as available for sale assets.

Unrealised gains or losses on the Bank's gold investment assets over their deemed cost are taken to the gold revaluation account in equity, which is reported under the balance sheet heading "Other equity accounts".

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

Realised gains or losses on disposal of gold investment assets are included in the profit and loss account as "Net gain on sales of gold investment assets".

18. Securities sold under repurchase agreements

Where these liabilities are associated with the management of currency assets held at fair value through profit and loss, they are designated as financial instruments held at fair value through profit and loss. Where these liabilities are associated with currency assets available for sale, they are designated as financial liabilities measured at amortised cost.

They are initially included in the balance sheet on a trade date basis at cost. The subsequent accrual of interest is included in "Interest expense" on an effective interest rate basis.

After trade date, those liabilities that are designated as held at fair value through profit and loss are revalued to fair value, with unrealised gains or losses included under the profit and loss account heading "Net valuation movement".

19. Derivatives

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

They are initially included in the balance sheet on a trade date basis at cost. The subsequent accrual of interest and amortisation of premiums paid and discounts received are included in "Interest income" on an effective interest rate basis.

After trade date, derivatives are revalued to fair value, with all realised and unrealised movements in value included under the profit and loss account heading "Net valuation movement".

Derivatives are included as either assets or liabilities, depending on whether the contract has a positive or a negative fair value for the Bank.

Where a derivative contract is embedded within a host contract which is not accounted for as held at fair value through profit and loss, it is separated from the host contract for accounting purposes and treated as though it were a standalone derivative as described above.

20. Valuation policy

The Bank's valuation policy has been approved by the Board of Directors. In this policy the Bank defines how financial instruments are designated, which determines their valuation basis and accounting treatment. This policy is supplemented with detailed valuation procedures.

The majority of the financial instruments on the balance sheet are included at fair value. The Bank defines the fair value of a financial instrument as the amount at which the instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction.

The use of fair values ensures that the financial reporting to the Board and shareholders reflects the way in which the banking business is managed and is consistent with the risk management economic performance figures reported to Management.

The Bank considers published price quotations in active markets as the best evidence of fair value. Where no published price quotations exist, the Bank determines fair values using a valuation technique appropriate to the particular financial instrument. Such valuation techniques may involve using market prices of recent arm's length market transactions in similar instruments or may make use of financial models. Where financial models are used, the Bank aims at making maximum use of observable market inputs (eg interest rates and volatilities) as appropriate, and relies as little as possible on own estimates. Such valuation models comprise discounted cash flow analyses and option pricing models.

Where valuation techniques are used to determine fair values, the valuation models are subject to initial approval and periodic review in line with the requirements of the Bank's model validation policy.

The Bank has an independent valuation control function which periodically reviews financial instrument valuations. Other valuation controls include the review and analysis of daily profit and loss.

The Bank values its assets at the bid price and its liabilities at the offer price. Financial assets and liabilities that are not valued at fair value are included in the balance sheet at amortised cost.

21. Impairment of financial assets

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

Impairment losses are recognised in the profit and loss account if a decline in fair value below amortised cost is considered other than temporary. If the amount of the impairment loss decreases in a subsequent period, the previously recognised impairment loss is reversed through profit and loss to the extent that the carrying amount of the investment does not exceed that which it would have been had the impairment not been recognised.

22. Accounts receivable and accounts payable

Accounts receivable and accounts payable are principally very short-term amounts relating to the settlement of financial transactions. They are initially recognised at fair value and subsequently included in the balance sheet at amortised cost.

23. Land, buildings and equipment

The cost of the Bank's buildings and equipment is capitalised and depreciated on a straight line basis over the estimated useful lives of the assets concerned, as follows:

- Buildings – 50 years
- Building installations and machinery – 15 years
- Information technology equipment – up to 4 years
- Other equipment – 4 to 10 years

The Bank's land is not depreciated. The Bank undertakes an annual review of impairment of land, buildings and equipment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to that amount.

24. Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of events arising before the balance sheet date and it is probable that economic resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. Best estimates and assumptions are used when determining the amount to be recognised as a provision.

25. Post-employment benefit obligations

The Bank operates three post-employment benefit arrangements for staff pensions, Directors' pensions and health and accident insurance for current and former staff members. An independent actuarial valuation is performed annually for each arrangement.

A. Staff pensions

The Bank provides a final salary defined benefit pension arrangement for its staff, based on a fund without separate legal personality, out of which benefits are paid. The fund assets are administered by the Bank for the sole benefit of current and former members of staff who participate in the arrangement. The Bank remains ultimately liable for all benefits due under the arrangement.

The liability in respect of the staff pension fund is based on the present value of the defined benefit obligation at the balance sheet date, less the fair value of the fund assets at the balance sheet date, together with adjustments for unrecognised actuarial gains and losses and past service costs. The defined benefit obligation is calculated using the projected unit credit method. The present value of the defined benefit obligation is determined from the estimated future cash outflows. The rate used to discount the cash flows is determined by the Bank based on the market yield of highly rated corporate debt securities in Swiss francs which have terms to maturity approximating the terms of the related liability.

The amount charged to the profit and loss account represents the sum of the current service cost of the benefits accruing for the year under the scheme, and interest at the discount rate on the defined benefit obligation. In addition, actuarial gains and losses arising from experience adjustments (where the actual outcome is different from the actuarial assumptions previously made), changes in actuarial assumptions and amendments to the pension fund regulations are charged to the profit and loss account over the service period of staff concerned in accordance with the "Corridor accounting" methodology described below. The resulting liabilities are included under the heading "Other liabilities" in the balance sheet.

B. Directors' pensions

The Bank provides an unfunded defined benefit arrangement for Directors' pensions. The liability, defined benefit obligation and amount charged to the profit and loss account in respect of the Directors' pension arrangement are calculated on a similar basis to that used for the staff pension fund.

C. Post-employment health and accident benefits

The Bank provides an unfunded post-employment health and accident benefit arrangement for its staff. The liability, benefit obligation and amount charged to the profit and loss account in respect of the health and accident benefit arrangement are calculated on a similar basis to that used for the staff pension fund.

D. Corridor accounting

Actuarial gains or losses arise from experience adjustments (where the actual outcome is different from the actuarial assumptions previously made), changes in actuarial assumptions and amendments to the pension fund regulations. Where the cumulative unrecognised actuarial gains or losses exceed the higher of the benefit obligation or any assets used to fund the obligation by more than a corridor of 10%, the resulting excess outside the corridor is amortised over the expected remaining service period of the staff concerned.

26. Cash flow statement

The Bank's cash flow statement is prepared using an indirect method. It is based on the movements in the Bank's balance sheet, adjusted for changes in financial transactions awaiting settlement.

Cash and cash equivalents consist of cash and sight accounts with banks, and call and notice accounts, which are very short-term financial assets that typically have notice periods of three days or less.

Notes to the financial statements

1. Introduction

The Bank for International Settlements (BIS, "the Bank") is an international financial institution which was established pursuant to the Hague Agreements of 20 January 1930, the Bank's Constituent Charter and its Statutes. The headquarters of the Bank are at Centralbahnplatz 2, 4002 Basel, Switzerland. The Bank maintains representative offices in Hong Kong, Special Administrative Region of the People's Republic of China (for Asia and the Pacific) and in Mexico City, Mexico (for the Americas).

The objectives of the BIS, as laid down in Article 3 of its Statutes, are to promote cooperation among central banks, to provide additional facilities for international financial operations and to act as trustee or agent for international financial settlements. Fifty-five central banks are currently members of the Bank. Rights of representation and voting at General Meetings are exercised in proportion to the number of BIS shares issued in the respective countries. The Board of Directors of the Bank is composed of the Governors and appointed Directors from the Bank's founder central banks, being those of Belgium, France, Germany, Italy, the United Kingdom and the United States of America, as well as the Governors of the central banks of Canada, China, Japan, Mexico, the Netherlands, Sweden and Switzerland, and the President of the European Central Bank.

2. Use of estimates

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

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

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.

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:

For the financial year ended 31 March

SDR millions	**2009**	2008
Securities purchased under resale agreements	0.1	0.5
Loans and advances	0.2	1.0
Government and other securities	9.5	9.4
Currency deposits	18.5	24.0
Derivative financial instruments	8.9	16.0

B. The valuation of corporate bonds

In the financial market environment at 31 March 2009 the degree of judgment involved in valuing financial instruments has increased significantly from previous years. With few actual market trades in certain financial assets held by the Bank, a high degree of judgment has been necessary to select valuation parameters from within a wide range of potential alternative assumptions. This is particularly relevant for the Bank's holdings of corporate bonds (included under the balance sheet heading "Government and other securities"), for which the potential range of alternative spread assumptions was of the order of tens of basis points. Management believes that all of the valuation parameters used by the Bank reflect market conditions at the balance sheet date in a fair and prudent manner.

C. Impairment charge on financial assets

Gold loans include a charge of SDR 18.3 million following an impairment review as at 31 March 2009 (31 March 2008: nil). 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 impairment charge is included in the profit and loss account under the heading "Net interest income".

D. Actuarial assumptions and medical cost inflation

The valuation of the Bank's pension fund and health care arrangements relies on actuarial assumptions and expectations of inflation and interest rates. Changes to these assumptions will have an impact on the valuation of the Bank's pension fund liabilities and the amounts recognised in the financial statements.

3. Cash and sight accounts with banks

Cash and sight accounts with banks consist of cash balances with central banks and commercial banks that are available to the Bank on demand.

4. Gold and gold loans

A. Total gold holdings

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

As at 31 March

SDR millions	**2009**	2008
Gold bars held at central banks	22,616.5	27,530.9
Total gold loans	2,799.7	4,006.8
Total gold and gold loan assets	**25,416.2**	31,537.7
Comprising:		
Gold investment assets	2,358.1	2,424.4
Gold and gold loan banking assets	23,058.1	29,113.3

Due to the deterioration in creditworthiness of borrowers, an impairment charge of SDR 18.3 million (2008: nil) was recognised in the year. The impairment charge is included under the profit and loss account heading "Net interest income".

B. Gold investment assets

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

Note 18 provides further analysis of the gold revaluation account. Note 27 provides further analysis of the net gain on sales of gold investment assets.

The table below analyses the movements in the Bank's gold investment assets:

For the financial year ended 31 March

SDR millions	**2009**	2008
Balance at beginning of year	2,424.4	2,306.0
Net change in gold investment assets		
Loans placed	–	–
Disposals of gold	(102.0)	(414.3)
Maturities, impairment, sight account and other net movements	(193.7)	169.3
	(295.7)	(245.0)
Net change in transactions awaiting settlement	–	(182.7)
Gold price movement	229.4	546.1
Balance at end of year	**2,358.1**	2,424.4

At 1 April 2008 the Bank's gold investment assets amounted to 125 tonnes of fine gold. During the financial year ended 31 March 2009 5 tonnes of fine gold (2008: 25 tonnes) were disposed of (see note 27). The balance at 31 March 2009 amounted to 120 tonnes of fine gold.

5. Currency assets

A. Total holdings

Currency assets comprise treasury bills, securities purchased under resale agreements, fixed-term loans, 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 customer deposits and those currency investment assets that are part of more actively managed portfolios. Currency assets available for sale comprise the remainder of the Bank's currency investment assets and represent, for the most part, the investment of the Bank's equity.

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

Securities purchased under resale agreements ("reverse repurchase agreements") are transactions under which the Bank makes a fixed-term loan to a counterparty which provides collateral in the form of securities. The rate on the loan is fixed at the beginning of the transaction, and there is an irrevocable commitment to return the equivalent securities subject to the repayment of the loan. During the term of the agreement the fair value of collateral is monitored, and additional collateral is obtained where appropriate to protect against credit exposure.

Fixed-term loans are primarily investments made with commercial banks. Also included in this category are investments made with central banks, international institutions and other public sector organisations. This includes advances made as part of committed and uncommitted standby facilities. The balance sheet total "Loans and advances" also includes notice accounts (see note 6).

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

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

As at 31 March 2009	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	**96,399.2**	**–**	**22.7**	**22.7**	**96,421.9**
Securities purchased under resale agreements	**38,594.4**	**–**	**–**	**–**	**38,594.4**
Fixed-term loans and advances	**18,116.1**	**–**	**–**	**–**	**18,116.1**
Government and other securities					
Government	3,024.1	8,211.8	–	8,211.8	11,235.9
Financial institutions	22,548.1	707.6	710.7	1,418.3	23,966.4
Other (including public sector securities)	18,621.5	1,939.9	–	1,939.9	20,561.4
	44,193.7	**10,859.3**	**710.7**	**11,570.0**	**55,763.7**
Total currency assets	**197,303.4**	**10,859.3**	**733.4**	**11,592.7**	**208,896.1**

There is no active secondary market for the Bank's securities purchased under resale agreements, fixed-term loans and for certain government and other securities. These assets are valued using valuation techniques which require judgment to determine appropriate valuation parameters. A 1 basis point change in spread assumptions for the three categories of financial instruments would have had an impact on the valuation of SDR 9.8 million (2008: SDR 10.9 million).

As at 31 March 2008	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	50,708.8	–	28.1	28.1	50,736.9
Securities purchased under resale agreements	89,991.1	1,893.5	–	1,893.5	91,884.6
Fixed-term loans and advances	61,196.6	–	–	–	61,196.6
Government and other securities					
Government	4,532.4	7,642.7	–	7,642.7	12,175.1
Financial institutions	30,814.0	1,012.5	603.8	1,616.3	32,430.4
Other (including public sector securities)	16,154.4	1,158.7	–	1,158.7	17,313.1
	51,500.8	9,813.9	603.8	10,417.7	61,918.5
Total currency assets	253,397.3	11,707.4	631.9	12,339.3	265,736.6

B. Currency assets available for sale

The Bank's currency investment assets relate principally to the investment of its equity. They are designated as available for sale unless they are part of an actively traded portfolio.

The table below analyses the movements in the Bank's currency assets available for sale:

For the financial year ended 31 March

SDR millions	**2009**	2008
Balance at beginning of year	11,707.4	9,843.8
Net change in currency assets available for sale		
Additions	10,805.7	20,990.3
Disposals	(4,633.8)	(2,195.9)
Maturities and other net movements	(7,193.1)	(17,315.0)
	(1,021.2)	1,479.4
Net change in transactions awaiting settlement	(109.8)	36.8
Fair value and other movements	282.9	347.4
Balance at end of year	**10,859.3**	11,707.4

Note 18 provides further analysis of the securities revaluation account. Note 26 provides further analysis of the net gain / (loss) on sales of securities designated as available for sale.

6. Loans and advances

Loans and advances comprise fixed-term loans and notice accounts.

Fixed-term loans are designated as held at fair value through profit and loss. Notice accounts are designated as loans and receivables and are included as cash and cash equivalents. These are very short-term financial assets, typically having a notice period of three days or less. These are included in the balance sheet at amortised cost.

As at 31 March

SDR millions	**2009**	2008
Fixed-term loans and advances	18,116.1	61,196.6
Notice accounts	396.6	899.3
Total loans and advances	**18,512.7**	62,095.9

The amount of the change in fair value recognised in the profit and loss account on fixed-term loans and advances is SDR (50.0) million (2008: SDR 88.8 million).

7. Derivative financial instruments

The Bank uses the following types of derivative instruments for economic hedging and trading purposes.

Interest rate and bond futures are contractual obligations to receive or pay a net amount based on changes in interest rates or bond prices on a future date at a specified price established in an organised market. Futures contracts are settled daily with the exchange. Associated margin payments are settled by cash or marketable securities.

Currency and gold options are contractual agreements under which the seller grants the purchaser the right, but not the obligation, to either buy (call option) or sell (put option), by or on a set date, a specific amount of a currency or gold at a predetermined price. In consideration, the seller receives a premium from the purchaser.

Currency and gold swaps, cross-currency interest rate swaps and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies, gold or interest rates (for example, fixed rate for floating rate) or a combination of interest rates and currencies (cross-currency interest rate swaps). Except for certain currency and gold swaps and cross-currency interest rate swaps, no exchange of principal takes place.

Currency and gold forwards represent commitments to purchase foreign currencies or gold at a future date. This includes undelivered spot transactions.

Forward rate agreements are individually negotiated interest rate forward contracts that result in cash settlement at a future date for the difference between a contracted rate of interest and the prevailing market rate.

Swaptions are options under which the seller grants the purchaser the right, but not the obligation, to enter into a currency or interest rate swap at a predetermined price by or on a set date. In consideration, the seller receives a premium from the purchaser.

In addition, the Bank sells products to its customers which contain embedded derivatives (see notes 10 and 11). Embedded derivatives are separated from the host contract for accounting purposes and treated as though they are regular derivatives where the host contract is not accounted for as held at fair value. As such, the gold currency options embedded in gold dual currency deposits are included within derivatives as currency and gold options.

The table below analyses the fair value of derivative financial instruments:

As at 31 March	2009			2008		
	Notional amounts	Fair values		Notional amounts	Fair values	
SDR millions		Assets	Liabilities		Assets	Liabilities
Bond futures	1,862.4	1.2	(1.4)	1,367.8	1.4	(1.4)
Cross-currency interest rate swaps	2,708.0	95.6	(400.7)	3,836.0	117.6	(750.7)
Currency and gold forwards	3,047.4	7.3	(173.0)	1,095.0	21.0	(13.4)
Currency and gold options	5,030.1	156.6	(158.2)	4,669.0	64.0	(64.9)
Currency and gold swaps	99,578.6	2,860.4	(1,294.1)	127,026.0	1,372.2	(3,119.1)
Forward rate agreements	10,875.9	20.0	(13.3)	26,377.0	22.2	(27.3)
Interest rate futures	12,430.4	0.3	(0.9)	10,114.0	0.9	(0.2)
Interest rate swaps	393,413.7	10,600.8	(4,761.2)	360,306.4	5,824.7	(2,194.0)
Swaptions	2,016.9	6.9	(14.0)	6,162.7	2.4	(56.7)
Total derivative financial instruments at end of year	**530,963.4**	**13,749.1**	**(6,816.8)**	540,953.9	7,426.4	(6,227.7)
Net derivative financial instruments at end of year			**6,932.3**			1,198.7

There is no active secondary market for certain of the Bank's derivatives. These derivative assets and liabilities are valued using valuation techniques which require judgment to determine appropriate valuation parameters. A 1 basis point change in spread assumptions would have had an impact on the valuation of SDR 8.9 million (2008: SDR 16.0 million).

8. Accounts receivable

As at 31 March

SDR millions	**2009**	2008
Financial transactions awaiting settlement	5,811.5	5,301.1
Other assets	11.0	10.7
Total accounts receivable	**5,822.5**	5,311.8

"Financial transactions awaiting settlement" relates to short-term receivables (typically due in three days or less) where transactions have been effected but cash has not yet been transferred. This includes assets that have been sold and liabilities that have been issued.

9. Land, buildings and equipment

For the financial year ended 31 March				2009	2008
SDR millions	Land	Buildings	IT and other equipment	Total	Total
Historical cost					
Balance at beginning of year	**41.2**	**189.4**	**118.5**	**349.1**	334.4
Capital expenditure	–	–	12.7	12.7	15.0
Disposals and retirements	–	–	(0.2)	(0.2)	(0.3)
Balance at end of year	**41.2**	**189.4**	**131.0**	**361.6**	349.1
Depreciation					
Accumulated depreciation at beginning of year	–	**84.7**	**74.0**	**158.7**	146.4
Depreciation	–	4.0	8.1	12.1	12.6
Disposals and retirements	–	–	(0.2)	(0.2)	(0.3)
Balance at end of year	**–**	**88.7**	**81.9**	**170.6**	158.7
Net book value at end of year	**41.2**	**100.7**	**49.1**	**191.0**	190.4

The depreciation charge for the financial year ended 31 March 2009 includes an additional charge of SDR 0.4 million for IT and other equipment following an impairment review (2008: SDR 1.1 million).

10. Currency deposits

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

As at 31 March

SDR millions	**2009**	2008
Deposit instruments repayable at one to two days' notice		
Medium-Term Instruments (MTIs)	86,243.7	99,372.5
Callable MTIs	2,652.9	8,024.2
FIXBIS	32,664.4	44,403.4
	121,561.0	151,800.1
Other currency deposits		
FRIBIS	204.3	4,218.1
Fixed-term deposits	43,633.2	39,444.8
Dual Currency Deposits (DCDs)	237.4	161.4
Sight and notice deposit accounts	31,586.3	40,496.5
	75,661.2	84,320.8
Total currency deposits	**197,222.2**	236,120.9
Comprising:		
Designated as held at fair value through profit and loss	165,635.9	195,624.4
Designated as financial liabilities measured at amortised cost	31,586.3	40,496.5

Medium-Term Instruments (MTIs) are fixed rate investments at the BIS for quarterly maturities of up to 10 years.

Callable MTIs are MTIs that are callable at the option of the Bank at an exercise price of par, with call dates between June 2009 and December 2009 (2008: June 2008 and December 2009).

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

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

Fixed-term deposits are fixed rate investments at the BIS, typically with a maturity of less than one year.

Dual Currency Deposits (DCDs) are fixed-term deposits that are repayable on the maturity date either in the original currency or at a fixed amount in a different currency at the option of the Bank. These deposits all matured between 2 April 2009 and 15 May 2009 (2008: in April 2008).

Sight and notice deposit accounts are very short-term financial liabilities, typically having a notice period of three days or less. They are designated as financial liabilities measured at amortised cost.

The Bank acts as a sole market-maker in certain of its currency deposit liabilities and has undertaken to repay at fair value some of these financial instruments, in whole or in part, at one to two business days' notice.

A. Valuation of currency deposits

Currency deposits (other than sight and notice deposit accounts) are included in the balance sheet at fair value. This value differs from the amount that the Bank is contractually required to pay at maturity to the holder of the deposit. For total currency deposits the amount that the Bank is contractually required to pay at maturity to the holder of the deposit, plus accrued interest to 31 March 2009, is SDR 193,629.2 million (2008: SDR 234,822.0 million).

The Bank uses valuation techniques to estimate the fair value of its currency deposits. These valuation techniques comprise discounted cash flow models and option pricing models. The discounted cash flow models value the expected cash flows of financial instruments using discount factors that are partly derived from quoted interest rates (eg Libor and swap rates) and partly based on assumptions about spreads at which each product is offered to and repurchased from customers.

The spread assumptions are based on recent market transactions in each product. Where the product series has been closed to new investors (and thus there are no recent market transactions) the Bank uses the latest quoted spread for the series as the basis for determining the appropriate model inputs.

The option pricing models include assumptions about volatilities that are derived from market quotes.

A change of 1 basis point in spread assumptions used for valuing currency deposits at the balance sheet date would have had an impact on the Bank's valuation of SDR 18.5 million (2008: SDR 24.0 million).

B. Impact of changes in the Bank's creditworthiness

The fair value of the Bank's liabilities would be affected by any change in its creditworthiness. If the Bank's creditworthiness deteriorated, the value of its liabilities would decrease, and the change in value would be reflected as a valuation movement in the profit and loss account. The Bank regularly assesses its creditworthiness as part of its risk management processes. The Bank's assessment of its creditworthiness did not indicate a change which could have had an impact on the fair value of the Bank's liabilities during the period under review.

11. Gold deposits

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

The Bank also takes gold deposits that are repayable on the maturity date either in gold or at a fixed amount of currency at the option of the Bank (gold dual currency deposits). The embedded gold currency option is included in the balance sheet as a derivative financial instrument and is accounted for at fair value. There were no gold dual currency deposits at 31 March 2009 (2008: SDR 54.1 million).

12. Securities sold under repurchase agreements

Securities sold under repurchase agreements ("repo" liabilities) are transactions under which the Bank receives a fixed-term deposit from a counterparty to which it provides collateral in the form of securities. The rate on the deposit is fixed at the beginning of the transaction, and there is an irrevocable commitment to repay the deposit subject to the return of equivalent securities. Securities sold under repurchase agreements originate entirely from commercial banks.

There were no securities sold under repurchase agreements at 31 March 2009. As at 31 March 2008 all of the securities sold under repurchase agreements were associated with the management of currency assets available for sale. They were therefore all designated as financial liabilities measured at amortised cost.

13. Accounts payable

Accounts payable consist of financial transactions awaiting settlement, relating to short-term payables (typically payable within three days or less) where transactions have been effected but cash has not yet been transferred. This includes assets that have been purchased and liabilities that have been repurchased.

14. Other liabilities

As at 31 March

SDR millions	**2009**	2008
Post-employment benefit obligations (see note 19)		
Staff pensions	2.4	–
Directors' pensions	4.8	4.8
Health and accident benefits	191.6	185.4
Short positions in currency assets	151.6	115.6
Payable to former shareholders	0.5	0.6
Other	17.3	20.1
Total other liabilities	**368.2**	326.5

15. Share capital

The Bank's share capital consists of:

As at 31 March

SDR millions	**2009**	2008
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: 547,125 shares	2,735.6	2,735.6
Paid-up capital (25%)	**683.9**	683.9

The number of shares eligible for dividend is:

As at 31 March	**2009**	2008
Issued shares	547,125	547,125
Less: shares held in treasury	(1,000)	(1,000)
Outstanding shares eligible for full dividend	**546,125**	546,125
Dividend per share (in SDR)	**265**	265

16. Statutory reserves

The Bank's Statutes provide for application of the Bank's annual net profit by the Annual General Meeting on the proposal of the Board of Directors to three specific reserve funds: the legal reserve fund, the general reserve fund and the special dividend reserve fund; the remainder of the net profit after payment of any dividend is generally allocated to the free reserve fund.

Legal reserve fund. This fund is currently fully funded at 10% of the Bank's paid-up capital.

General reserve fund. After payment of any dividend, 10% of the remainder of the Bank's annual net profit currently must be allocated to the general reserve fund. When the balance of this fund equals five times the Bank's paid-up capital, such annual contribution will decrease to 5% of the remainder of the annual net profit.

Special dividend reserve fund. A portion of the remainder of the annual net profit may be allocated to the special dividend reserve fund, which shall be available, in case of need, for paying the whole or any part of a declared dividend. Dividends are normally paid out of the Bank's net profit.

Free reserve fund. After the above allocations have been made, any remaining unallocated net profit is generally transferred to the free reserve fund.

Receipts from the subscription of BIS shares are allocated to the legal reserve fund as necessary to keep it fully funded, with the remainder being credited to the general reserve fund.

The free reserve fund, general reserve fund and legal reserve fund are available, in that order, to meet any losses incurred by the Bank. In the event of liquidation of the Bank, the balances of the reserve funds (after the discharge of the liabilities of the Bank and the costs of liquidation) would be divided among the Bank's shareholders.

17. Shares held in treasury

For the financial year ended 31 March	2009	2008
Balance at beginning of year	1,000	1,000
Movements during the year	–	–
Balance at end of year	**1,000**	1,000

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

18. Other equity accounts

Other equity accounts represent the revaluation accounts of the currency assets available for sale and gold investment assets, which are further described in notes 4 and 5.

Other equity accounts comprise:

As at 31 March

SDR millions	2009	2008
Securities revaluation account	431.1	272.0
Gold revaluation account	1,789.2	1,636.8
Total other equity accounts	**2,220.3**	1,908.8

A. Securities revaluation account

This account contains the difference between the fair value and the amortised cost of the Bank's currency assets available for sale.

The movements in the securities revaluation account were as follows:

For the financial year ended 31 March

SDR millions	2009	2008
Balance at beginning of year	272.0	(80.5)
Net valuation movement		
Net (gain) / loss on sales	(123.8)	5.1
Fair value and other movements	282.9	347.4
	159.1	352.5
Balance at end of year	**431.1**	272.0

The tables below analyse the balance in the securities revaluation account:

As at 31 March 2009 *SDR millions*	Fair value of assets	Historical cost	Securities revaluation account	Gross gains	Gross losses
Government and other securities and Total	**10,859.3**	**10,428.2**	**431.1**	**447.3**	**(16.2)**

As at 31 March 2008 *SDR millions*	Fair value of assets	Historical cost	Securities revaluation account	Gross gains	Gross losses
Securities purchased under resale agreements	1,893.5	1,894.2	(0.7)	–	(0.7)
Government and other securities	9,813.9	9,541.2	272.7	305.4	(32.7)
Total	11,707.4	11,435.4	272.0	305.4	(33.4)

B. Gold revaluation account

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

The movements in the gold revaluation account were as follows:

For the financial year ended 31 March

SDR millions	**2009**	2008
Balance at beginning of year	1,636.8	1,384.0
Net valuation movement		
Net gain on sales	(77.0)	(293.3)
Gold price movement	229.4	546.1
	152.4	252.8
Balance at end of year	**1,789.2**	1,636.8

19. Post-employment benefit obligations

The Bank operates three post-employment arrangements:

1. A final salary defined benefit pension arrangement for its staff. The pension arrangement is based on a fund without separate legal personality, out of which benefits are paid. The fund assets are administered by the Bank for the sole benefit of current and former members of staff who participate in the arrangement. The Bank remains ultimately liable for all benefits due under the arrangement.

2. An unfunded defined benefit arrangement for its Directors, whose entitlement is based on a minimum service period of four years.

3. An unfunded post-employment health and accident benefit arrangement for its staff. Entitlement to this arrangement is based in principle on the employee remaining in service up to 50 years of age and the completion of a minimum service period of 10 years.

All arrangements are valued annually by independent actuaries.

A. Amounts recognised in the balance sheet

As at 31 March	Staff pensions			
SDR millions	**2009**	2008	2007	2006
Present value of obligation	(747.4)	(709.7)	(653.7)	(606.4)
Fair value of fund assets	619.6	714.3	648.6	602.2
Funded status	(127.8)	4.6	(5.1)	(4.2)
Unrecognised actuarial losses	125.4	41.2	47.3	46.8
Unrecognised past service cost	–	(45.8)	(42.2)	(42.6)
Liability at end of year	**(2.4)**	–	–	–

As at 31 March	Directors' pensions			
SDR millions	**2009**	2008	2007	2006
Present value of obligation	(5.7)	(5.4)	(4.6)	(4.6)
Fair value of fund assets	–	–	–	–
Funded status	(5.7)	(5.4)	(4.6)	(4.6)
Unrecognised actuarial losses	0.9	0.6	0.3	0.3
Unrecognised past service cost	–	–	–	–
Liability at end of year	**(4.8)**	(4.8)	(4.3)	(4.3)

As at 31 March	Post-employment health and accident benefits			
SDR millions	**2009**	2008	2007	2006
Present value of obligation	(225.4)	(208.0)	(186.3)	(183.8)
Fair value of fund assets	–	–	–	–
Funded status	(225.4)	(208.0)	(186.3)	(183.8)
Unrecognised actuarial losses	40.1	30.3	42.0	57.2
Unrecognised past service cost	(6.3)	(7.7)	(7.8)	(8.6)
Liability at end of year	**(191.6)**	(185.4)	(152.1)	(135.2)

B. Present value of benefit obligation

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

As at 31 March	Staff pensions			Directors' pensions			Post-employment health and accident benefits		
SDR millions	**2009**	2008	2007	**2009**	2008	2007	**2009**	2008	2007
Present value of obligation at beginning of year	709.7	653.7	606.4	5.4	4.6	4.5	208.0	186.3	183.8
Current service cost	29.8	30.5	28.3	0.2	0.2	0.2	7.9	8.2	7.9
Employee contributions	3.9	3.7	3.4	–	–	–	0.1	–	–
Interest cost	24.9	21.3	19.8	0.2	0.1	0.1	7.4	6.1	6.1
Actuarial (gain) / loss	29.3	(55.7)	3.5	0.3	–	–	11.5	(13.9)	(13.9)
Benefit payments	(24.5)	(23.1)	(21.8)	(0.3)	(0.3)	(0.3)	(2.0)	(1.8)	(1.9)
Exchange differences	(25.7)	79.3	14.1	(0.1)	0.9	0.1	(7.5)	23.1	4.3
Present value of obligation at end of year	**747.4**	709.7	653.7	**5.7**	5.4	4.6	**225.4**	208.0	186.3

C. Fair value of fund assets for staff pensions

The reconciliation of the opening and closing amounts of the fair value of fund assets for the staff pension arrangement is as follows:

For the financial year ended 31 March			
SDR millions	**2009**	2008	2007
Fair value of fund assets at beginning of year	714.3	648.6	602.2
Expected return on fund assets	34.0	33.1	30.6
Actuarial gain / (loss)	(99.3)	(44.8)	4.1
Employer contributions	18.3	17.3	15.9
Employee contributions	3.9	3.7	3.4
Benefit payments	(24.5)	(23.1)	(21.8)
Exchange differences	(27.1)	79.5	14.2
Fair value of fund assets at end of year	**619.6**	714.3	648.6

D. Amounts recognised in the profit and loss account

For the financial year ended 31 March	Staff pensions			Directors' pensions			Post-employment health and accident benefits		
SDR millions	**2009**	2008	2007	**2009**	2008	2007	**2009**	2008	2007
Current service cost	29.8	30.5	28.3	0.2	0.2	0.2	7.9	8.2	7.9
Interest cost	24.9	21.3	19.8	0.2	0.1	0.1	7.4	6.1	6.1
Less: expected return on fund assets	(34.0)	(33.1)	(30.7)	–	–	–	–	–	–
Less: past service cost	–	(1.5)	(1.5)	–	–	–	(6.3)	(1.0)	(1.0)
Net actuarial losses recognised in year	–	–	–	–	–	–	–	1.6	2.6
Total included in operating expense	**20.7**	17.2	15.9	**0.4**	0.3	0.3	**9.0**	14.9	15.6

The Bank expects to make a contribution to its post-employment arrangements of CHF 41.8 million in 2009/10.

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

As at 31 March

Percentages	**2009**	2008
European equities	7.4	12.8
Other equities	16.8	17.4
European fixed income	49.9	32.2
Other fixed income	21.8	27.1
Other assets	4.1	10.5
Actual return on fund assets	–10.5%	–1.7%

The staff pension fund does not invest in financial instruments issued by the Bank.

F. Principal actuarial assumptions used in these financial statements

As at 31 March

	2009	2008
Applicable to all three post-employment benefit arrangements		
Discount rate – market rate of highly rated Swiss corporate bonds	3.25%	3.75%
Applicable to staff and Directors' pension arrangements		
Assumed increase in pensions payable	1.50%	1.50%
Applicable to staff pension arrangement only		
Expected return on fund assets	5.00%	5.00%
Assumed salary increase rate	4.10%	4.10%
Applicable to Directors' pension arrangement only		
Assumed Directors' pensionable remuneration increase rate	1.50%	1.50%
Applicable to post-employment health and accident benefit arrangement only		
Long-term medical cost inflation assumption	5.00%	5.00%

The assumed increases in staff salaries, Directors' pensionable remuneration and pensions payable incorporate an inflation assumption of 1.5% at 31 March 2009 (2008: 1.5%).

The expected rate of return on fund assets is based on long-term expectations for inflation, interest rates, risk premia and asset allocations. The estimate takes into consideration historical returns and is determined in conjunction with the fund's independent actuaries.

The assumption for medical inflation has a significant effect on the amounts recognised in the profit and loss account. A 1% change in the assumption for medical inflation compared to that used for the 2008/09 calculation would have the following effects:

For the financial year ended 31 March

SDR millions	**2009**	2008
Increase / (decrease) of the total service and interest cost		
6% medical inflation	5.0	7.5
4% medical inflation	(3.6)	(4.9)

As at 31 March

SDR millions	**2009**	2008
Increase / (decrease) of the benefit obligation		
6% medical inflation	56.3	45.5
4% medical inflation	(42.5)	(34.5)

20. Interest income

For the financial year ended 31 March

SDR millions	**2009**	2008
Currency assets available for sale		
Securities purchased under resale agreements	18.5	71.1
Government and other securities	365.0	380.9
	383.5	452.0
Currency assets held at fair value through profit and loss		
Treasury bills	1,253.1	861.6
Securities purchased under resale agreements	1,880.8	2,480.9
Loans and advances	1,321.1	4,147.8
Government and other securities	1,766.8	2,301.2
	6,221.8	9,791.5
Assets designated as loans and receivables		
Sight and notice accounts	16.0	38.4
Gold investment assets	6.4	11.2
Gold banking assets	5.0	5.4
Impairment charge on gold banking assets	(18.3)	–
	9.1	55.0
Derivative financial instruments held at fair value through profit and loss	**1,640.5**	882.7
Total interest income	**8,254.9**	11,181.2

21. Interest expense

For the financial year ended 31 March

SDR millions	**2009**	2008
Liabilities held at fair value through profit and loss		
Currency deposits	**6,160.4**	8,963.7
Liabilities designated as financial liabilities measured at amortised cost		
Gold deposits	3.3	3.9
Sight and notice deposit accounts	472.0	1,171.7
Securities sold under repurchase agreements	17.3	68.5
	492.6	1,244.1
Total interest expense	**6,653.0**	10,207.8

22. Net valuation movement

The net valuation movement arises entirely on financial instruments designated as held at fair value through profit and loss. Included in the table below are net valuation losses of SDR 4.6 million arising from credit losses on default (2008: nil).

For the financial year ended 31 March

SDR millions	**2009**	2008
Currency assets held at fair value through profit and loss		
Unrealised valuation movements on currency assets	59.8	18.8
Realised gains / (losses) on currency assets	34.8	(11.7)
	94.6	7.1
Currency liabilities held at fair value through profit and loss		
Unrealised valuation movements on financial liabilities	(1,549.1)	(2,832.2)
Realised gains on financial liabilities	(1,139.6)	(257.2)
	(2,688.7)	(3,089.4)
Valuation movements on derivative financial instruments	**1,412.4**	2,528.6
Net valuation movement	**(1,181.7)**	(553.7)

23. Net fee and commission income

For the financial year ended 31 March

SDR millions	**2009**	2008
Fee and commission income	8.1	6.8
Fee and commission expense	(7.7)	(6.0)
Net fee and commission income	**0.4**	0.8

24. Net foreign exchange gain / (loss)

For the financial year ended 31 March

SDR millions	**2009**	2008
Net transaction gain	11.6	4.5
Net translation loss	(20.4)	(14.0)
Net foreign exchange gain / (loss)	**(8.8)**	(9.5)

25. Operating expense

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

For the financial year ended 31 March

CHF millions	**2009**	2008
Board of Directors		
Directors' fees	2.0	1.9
Pensions to former Directors	0.5	0.6
Travel, external Board meetings and other costs	1.6	1.7
	4.1	4.2
Management and staff		
Remuneration	114.1	111.8
Pensions	34.3	34.3
Other personnel-related expense	45.4	43.1
	193.8	189.2
Office and other expense	**65.8**	63.5
Administrative expense in CHF millions	**263.7**	256.9
Administrative expense in SDR millions	154.4	141.9
Depreciation in SDR millions	12.1	12.6
Operating expense in SDR millions	**166.5**	154.5

The average number of full-time equivalent employees during the financial year ended 31 March 2009 was 532 (2008: 542).

26. Net gain / (loss) on sales of securities available for sale

For the financial year ended 31 March

SDR millions	2009	2008
Disposal proceeds	4,633.8	2,195.9
Amortised cost	(4,510.0)	(2,201.0)
Net gain / (loss)	**123.8**	(5.1)
Comprising:		
Gross realised gains	128.9	51.8
Gross realised losses	(5.1)	(56.9)

27. Net gain on sales of gold investment assets

For the financial year ended 31 March

SDR millions	2009	2008
Disposal proceeds	102.0	414.3
Deemed cost (see note 18B)	(25.0)	(121.0)
Net realised gain	**77.0**	293.3

28. Earnings per share

For the financial year ended 31 March	2009	2008
Net profit for the financial year (SDR millions)	446.1	544.7
Weighted average number of shares entitled to dividend	546,125	546,125
Basic and diluted earnings per share (SDR per share)	**816.8**	997.4

The dividend proposed for the financial year ended 31 March 2009 is SDR 265 per share (2008: SDR 265).

29. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise:

As at 31 March

SDR millions	2009	2008
Cash and sight accounts with banks	915.2	36.8
Notice accounts	396.6	899.3
Total cash and cash equivalents	**1,311.8**	936.1

30. Taxes

The Bank's special legal status in Switzerland is set out principally in its Headquarters Agreement with the Swiss Federal Council. Under the terms of this document the Bank is exempted from virtually all direct and indirect taxes at both federal and local government level in Switzerland.

Similar agreements exist with the government of the People's Republic of China for the Asian Office in Hong Kong SAR and with the Mexican government for the Office for the Americas.

31. Exchange rates

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

	Spot rate as at 31 March		Average rate for the financial year ended	
	2009	2008	**2009**	2008
USD	**0.670**	0.609	**0.648**	0.643
EUR	**0.890**	0.960	**0.908**	0.910
JPY	**0.00677**	0.00610	**0.00654**	0.00564
GBP	**0.962**	1.208	**1.088**	1.291
CHF	**0.590**	0.612	**0.584**	0.556
Gold (in ounces)	**614.6**	557.8	**560.4**	490.2

32. Off-balance sheet items

Fiduciary transactions are effected in the Bank's name on behalf of, and at the risk of, the Bank's customers without recourse to the Bank. They are not included in the Bank's balance sheet and comprise:

As at 31 March

SDR millions	**2009**	2008
Safe custody arrangements	11,082.0	11,308.0
Collateral pledge agreements	90.0	158.9
Portfolio management mandates	6,919.0	6,093.9
Gold bars held under earmark	4,078.9	3,665.4
Total	**22,169.9**	21,226.2

The above table includes the nominal value of securities held under safe custody and collateral pledge arrangements, and the net asset value of portfolio management mandates. Gold bars held under earmark are included at their weight in gold (translated at the gold market price and the USD exchange rate into SDR). At 31 March 2009 gold bars held under earmark amounted to 212 tonnes of fine gold (2008: 204 tonnes).

The financial instruments held under the above arrangements are deposited with external custodians, either central banks or commercial institutions.

33. Commitments

The Bank provides a number of committed standby facilities for its customers. As at 31 March 2009 the outstanding commitments to extend credit under these committed standby facilities amounted to SDR 8,646.8 million (2008: SDR 6,767.7 million), of which SDR 234.5 million was uncollateralised (2008: SDR 304.6 million).

34. Effective interest rates

The effective interest rate is the rate that discounts the expected future cash flows of a financial instrument to the current book value.

The tables below summarise the effective interest rate by major currency for applicable financial instruments:

As at 31 March 2009

Percentages	USD	EUR	GBP	JPY	Other currencies
Assets					
Gold loans	–	–	–	–	0.54
Treasury bills	0.88	1.83	0.69	0.23	–
Securities purchased under resale agreements	0.16	0.62	0.63	0.10	–
Loans and advances	0.84	1.29	0.87	0.08	0.40
Government and other securities	2.50	3.24	3.26	0.86	3.88
Liabilities					
Currency deposits	2.00	2.00	2.05	0.16	2.05
Gold deposits	–	–	–	–	0.38
Short positions in currency assets	4.96	–	–	–	–

As at 31 March 2008

Percentages	USD	EUR	GBP	JPY	Other currencies
Assets					
Gold loans	–	–	–	–	0.76
Treasury bills	0.73	4.02	–	0.58	–
Securities purchased under resale agreements	1.90	2.69	5.15	0.71	–
Loans and advances	3.87	4.18	5.71	0.85	3.24
Government and other securities	3.21	4.10	4.19	0.98	7.39
Liabilities					
Currency deposits	3.24	3.77	5.00	0.34	5.16
Gold deposits	–	–	–	–	0.35
Securities sold under repurchase agreements	1.65	–	5.10	–	–
Short positions in currency assets	4.03	–	–	–	–

35. Geographical analysis

A. Total liabilities

As at 31 March

SDR millions	**2009**	2008
Africa and Europe	109,733.3	132,229.9
Asia-Pacific	82,770.5	102,353.8
Americas	40,344.5	54,810.3
International organisations	8,822.5	8,642.0
Total	**241,670.8**	298,036.0

B. Off-balance sheet items

As at 31 March

SDR millions	**2009**	2008
Africa and Europe	5,361.6	4,877.1
Asia-Pacific	16,165.1	15,825.5
Americas	643.2	523.6
Total	**22,169.9**	21,226.2

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

C. Credit commitments

As at 31 March

SDR millions	**2009**	2008
Africa and Europe	1,073.3	496.6
Asia-Pacific	7,573.5	6,109.7
Americas	–	161.4
Total	**8,646.8**	6,767.7

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

36. 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 listing of the members of the Board of Directors and senior officials is shown in the section of the Annual Report entitled "Board of Directors and senior officials". Note 19 provides details of the Bank's post-employment benefit arrangements.

A. Related party individuals

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

For the financial year ended 31 March

CHF millions	**2009**	2008
Salaries, allowances and medical cover	6.4	6.7
Post-employment benefits	1.7	1.9
Total compensation in CHF millions	**8.1**	8.6
SDR equivalent	4.7	4.8

Note 25 provides details of the total compensation of the Board of Directors.

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

For the financial year ended 31 March

CHF millions	**2009**	2008
Balance at beginning of year	18.0	15.6
Deposits taken including interest income (net of withholding tax)	3.4	3.8
Withdrawals	(8.6)	(1.4)
Balance at end of year in CHF millions	**12.8**	18.0
SDR equivalent	7.6	11.0
Interest expense on deposits in CHF millions	0.7	0.6
SDR equivalent	0.4	0.3

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 and balances are paid out when they leave the Bank. The accounts bear interest at a rate determined by the Bank based on the rate offered by the Swiss National Bank on staff accounts plus 1%. The total balance of blocked accounts at 31 March 2009 was SDR 19.2 million (2008: SDR 20.8 million). They are reported under the balance sheet heading "Currency deposits".

B. Related party central banks and connected institutions

The BIS provides banking services to its customers, 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 financial year ended 31 March

SDR millions	**2009**	2008
Balance at beginning of year	53,998.3	53,240.1
Deposits taken	120,912.0	130,847.9
Maturities, repayments and fair value movements	(123,325.4)	(129,656.6)
Net movement on call / notice accounts	(1,109.5)	(433.1)
Balance at end of year	**50,475.4**	53,998.3
Percentage of total currency deposits at end of year	25.6%	22.9%

Gold deposits from related party central banks and connected institutions

For the financial year ended 31 March

SDR millions	**2009**	2008
Balance at beginning of year	26,336.1	10,123.8
Deposits taken	55.0	600.2
Net movement on gold sight accounts	(6,703.6)	16,161.2
Net withdrawals and gold price movements	(218.8)	(549.1)
Balance at end of year	**19,468.7**	26,336.1
Percentage of total gold deposits at end of year	84.5%	90.5%

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

For the financial year ended 31 March

SDR millions	**2009**	2008
Balance at beginning of year	3,271.9	470.2
Collateralised deposits placed	889,828.4	776,745.9
Maturities and fair value movements	(888,497.8)	(773,944.2)
Balance at end of year	**4,602.5**	3,271.9
Percentage of total securities purchased under resale agreements at end of year	11.9%	3.6%

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 881.5 million as at 31 March 2009 (2008: SDR 539.3 million). Gold held in sight accounts with related party central banks and connected institutions totalled SDR 22,605.8 million as at 31 March 2009 (2008: SDR 27,499.7 million).

Derivative transactions with related party central banks and connected institutions

The BIS enters into derivative transactions with its related party central banks and connected institutions, including foreign exchange deals and interest rate swaps. The total nominal value of these transactions with related party central banks and connected institutions during the year ended 31 March 2009 was SDR 6,510.0 million (2008: SDR 43,655.5 million).

37. Contingent liabilities

At 31 March 2009, the Bank had no material contingent liabilities.

Capital adequacy

1. Capital

The table below shows the composition of the Bank's Tier 1 and total capital as at 31 March 2009.

As at 31 March

SDR millions	**2009**	2008
Share capital	683.9	683.9
Statutory reserves per balance sheet	10,367.3	9,967.3
Less: shares held in treasury	(1.7)	(1.7)
Tier 1 capital	**11,049.5**	10,649.5
Profit and loss account	446.1	544.7
Other equity accounts	2,220.3	1,908.8
Total capital	**13,715.9**	13,103.0

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 to maintain superior credit quality. The Bank's economic capital frameworks measure economic capital to a 99.995% confidence interval assuming a one-year holding period.

The following table summarises the Bank's economic capital utilisation for credit risk, market risk and operational risk as at 31 March 2009. Furthermore, since 1 April 2008, an additional amount of economic capital has been set aside for other risks based on Management's assessment of risks which are not, or not fully, reflected in the Bank's economic capital calculations.

As at 31 March

SDR millions	**2009**	2008
Credit risk	5,673.7	6,173.3
Market risk	3,099.8	2,689.7
Operational risk	425.0	400.0
Other risks	300.0	–
Total economic capital utilisation	**9,498.5**	9,263.0

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 the minimum capital requirements for credit risk, market risk and operational risk.

As at 31 March		2009			2008		
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%	225,017.7	10,114.8	809.2	281,560.2	11,715.2	937.2
Securitisation exposures, externally managed portfolios and other assets	Standardised approach, where (B) is derived as (A) x 8%	3,342.2	1,291.0	103.3	4,048.3	1,349.1	107.9
Market risk							
Exposure to foreign exchange risk and gold price risk	Internal models approach, where (A) is derived as (B) / 8%	–	15,783.5	1,262.7	–	8,197.5	655.8
Operational risk	Advanced measurement approach, where (A) is derived as (B) / 8%	–	2,250.0	180.0	–	1,962.5	157.0
Total			**29,439.3**	**2,355.2**		23,224.3	1,857.9

For credit risk, the Bank has adopted the advanced internal ratings-based approach for the majority of its exposures. Under this approach, the risk weighting for a transaction is determined by the relevant Basel II risk weight function using the Bank's own estimates for key inputs. For certain exposures, the Bank has adopted the standardised approach. Under this approach, risk weightings are mapped to exposure types.

Risk-weighted assets for market risk are derived following an internal models approach. For operational risk, the advanced measurement approach is used. Both these approaches rely on value-at-risk (VaR) methodologies. The minimum capital requirements are derived from the VaR figures and are translated into risk-weighted assets taking into account the 8% minimum capital requirement.

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

4. Tier 1 capital ratio

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

As at 31 March

SDR millions	**2009**	2008
Tier 1 capital	11,049.5	10,649.5
Less: expected loss	(13.9)	(30.9)
Tier 1 capital net of expected loss (A)	**11,035.6**	10,618.6
Total risk-weighted assets (B)	29,439.3	23,224.3
Tier 1 capital ratio (A) / (B)	**37.5%**	45.7%

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 the impairment charge which is reflected in the Bank's profit and loss account. Note 4 provides details of the impairment charge. The expected loss is deducted from the Bank's Tier 1 capital in accordance with the requirements of the Basel II Framework.

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.

The Bank's Tier 1 ratio under the 1988 Basel Capital Accord was 50.8% as at 31 March 2009 (2008: 34.6%). The material difference between the Bank's Tier 1 capital ratio under the Basel II Framework and the 1988 Accord is attributable mainly to the higher risk sensitivity of the Basel II approaches.

Risk management

1. Risks faced by the Bank

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

Banking activities form an essential element of meeting the Bank's objectives and 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 limited as well as monitored and reported.

2. Risk management approach and organisation

General approach

The Bank maintains superior credit quality and adopts a prudent approach to financial risk-taking, by:

- maintaining an exceptionally strong capital position;
- investing its assets predominantly in high credit quality financial instruments;
- seeking to diversify its assets across a range of sectors;
- adopting a conservative approach to its tactical market risk-taking and carefully managing market risk associated with the Bank's strategic positions, which include its gold holdings; and
- maintaining a high level of liquidity.

A. Organisation

Under Article 39 of the Bank's Statutes, the General Manager is responsible to the Board for the management of the Bank, and is assisted by the Deputy General Manager. The Deputy General Manager is responsible for the Bank's independent risk control and compliance functions. The General Manager and the Deputy General Manager are supported by senior management advisory committees.

The key advisory committees are the Executive Committee, the Finance Committee and the Compliance and Operational Risk Committee. The first two committees are chaired by the General Manager and the third by the Deputy General Manager, and all include other senior members of the Bank's Management. The Executive Committee advises the General Manager primarily on the Bank's strategic planning and the allocation of resources, as well as on decisions related to the broad financial objectives for the banking activities and operational risk management. The Finance Committee advises the General Manager on the financial management and policy issues related to the banking business, including the allocation of economic capital to risk categories. The Compliance and Operational Risk Committee acts as an advisory committee to the Deputy General Manager and ensures the coordination of compliance matters and operational risk management throughout the Bank.

The independent risk control function for financial risks is performed by the Risk Control unit. The independent operational risk control function is shared between Risk Control, which maintains the operational risk quantification, and the Compliance and Operational Risk Unit. Both units report directly to the Deputy General Manager.

The Bank's compliance function is performed by the Compliance and Operational Risk Unit. The objective of this function is to provide reasonable assurance that the activities of the Bank and its staff conform to applicable laws and regulations, the BIS Statutes, the Bank's Code of Conduct and other internal rules, policies and relevant standards of sound practice.

The Compliance and Operational Risk Unit identifies and assesses compliance risks and guides and educates staff on compliance issues. The Head of the Compliance and Operational Risk Unit also has a direct reporting line to the Audit Committee, which is an advisory committee to the Board of Directors.

The Finance unit and the Legal Service complement the Bank's risk management. The Finance unit operates an independent valuation control function, produces the Bank's financial statements and controls the Bank's expenditure through setting and monitoring the annual budget. The objective of the independent valuation control function is to ensure that the Bank's valuations comply with its valuation policy and procedures, and that the processes and procedures which influence the Bank's valuations conform to best practice guidelines. The Finance unit has a direct reporting line to the Secretary General.

The Legal Service provides legal advice and support covering a wide range of issues relating to the Bank's activities. The Legal Service has a direct reporting line to the General Manager.

The Internal Audit function reviews internal control procedures and reports on how they comply with internal standards and industry best practices. The scope of internal audit work includes the review of risk management procedures, internal control systems, information systems and governance processes. Internal Audit has a direct reporting line to the Audit Committee and is responsible to the General Manager and the Deputy General Manager.

B. Risk monitoring and reporting

The Bank's financial and operational risk profile, position and performance are monitored on an ongoing basis by the relevant units. Financial risk and compliance reports aimed at various management levels are regularly provided to enable Management to adequately assess the Bank's risk profile and financial condition.

Management reports financial and risk information to the Board of Directors on a bimonthly basis. Furthermore, the Audit Committee receives regular reports from Internal Audit, the Compliance and Operational Risk Unit and the Finance unit. The Banking and Risk Management Committee, another advisory committee to the Board, receives an annual report from the Risk Control unit. The preparation of reports is subject to comprehensive policies and procedures, thus ensuring strong controls.

C. Risk methodologies

The Bank uses a comprehensive range of quantitative methodologies for valuing financial instruments and for measuring risk to the Bank's net profit and its equity. The Bank reassesses its quantitative methodologies in the light of its changing risk environment and evolving best practice.

The Bank's model validation policy defines the roles and responsibilities and processes related to the implementation of new or materially changed risk models.

A key methodology used by the Bank to measure and manage risk is the calculation of economic capital based on value-at-risk (VaR) techniques. VaR expresses the statistical estimate of the maximum potential loss on the current positions of the Bank measured to a specified level of confidence and a specified time horizon.

The Bank's economic capital calculation is designed to measure the amount of equity needed to absorb losses arising from its exposures to a statistical level of confidence determined by the Bank's aim to remain of the highest creditworthiness.

The Bank assesses its capital adequacy on the basis of economic capital frameworks for market risk, credit risk, operational risk and other risks, supplemented by sensitivity and risk factor analyses. The Bank's economic capital frameworks measure economic capital to a 99.995% confidence interval assuming a one-year holding period.

The Bank allocates economic capital to the above risk categories. An additional amount of economic capital is set aside based on Management's assessment of risks which are not or not fully reflected in the economic capital calculations.

A comprehensive stress testing framework complements the Bank's risk assessment including its VaR and economic capital calculations for financial risk. The Bank's key market risk factors and credit exposures are stress-tested. The stress testing includes the analysis of severe historical and adverse hypothetical macroeconomic scenarios, as well as sensitivity tests of extreme but still plausible movements of the key risk factors identified. The Bank also performs stress tests related to liquidity risk.

3. Credit risk

Credit risk arises because a counterparty may fail to meet its obligations in accordance with the agreed contractual terms and conditions.

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

A. Credit risk assessment

Credit risk is continuously controlled at both a counterparty and an aggregated level. As part of the independent risk control function, individual counterparty credit assessments are performed subject to a well defined internal rating process, involving 18 rating grades. As part of this process, counterparty financial statements and market information are analysed. The rating methodologies depend on the nature of the counterparty. Based on the internal rating and specific counterparty features, the Bank sets a series of credit limits covering individual counterparties and countries. Internal ratings are assigned to all counterparties. In principle, the ratings and related limits are reviewed at least annually. The main assessment criterion in these reviews is the ability of the counterparties to meet interest and principal repayment obligations in a timely manner.

Credit risk limits at the counterparty level are approved by the Bank's Management and fit within a framework set by the Board of Directors.

On an aggregated level credit risk, including default and country transfer risk, is measured, monitored and limited based on the Bank's economic capital calculation for credit risk. To calculate economic capital for credit risk, the Bank uses a portfolio VaR model. Management limits the Bank's overall exposure to credit risk by allocating an amount of economic capital to credit risk.

B. 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 obtains 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. The collateral value is monitored on an ongoing basis and, where appropriate, additional collateral is requested.

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.

C. Default risk

The exposures set out in the table below are based on the carrying value of the assets on the balance sheet as categorised by sector, geographical region and credit quality. Gold and gold loans exclude gold held in custody, and accounts receivable do not include unsettled liability issues, because these items do not represent credit exposures of the Bank. 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 shown at their notional amounts.

Default risk by asset class and issuer type

The following tables do not take into account any collateral held or other credit enhancements available to the Bank.

As at 31 March 2009 *SDR millions*	Sovereign and central banks	Public sector	Banks	Corporate	Securitisation	Total
On-balance sheet						
Cash and sight accounts with banks	884.6	–	9.5	21.1	–	915.2
Gold and gold loans	–	–	2,672.1	138.3	–	2,810.4
Treasury bills	96,421.9	–	–	–	–	96,421.9
Securities purchased under resale agreements	4,691.5	–	32,970.0	932.9	–	38,594.4
Loans and advances	7,542.6	502.0	10,468.1	–	–	18,512.7
Government and other securities	20,437.1	11,889.9	19,161.3	1,849.3	2,426.1	55,763.7
Derivatives	102.0	49.9	13,597.2	–	–	13,749.1
Accounts receivable	–	–	722.5	11.0	–	733.5
Total on-balance sheet exposure	**130,079.7**	**12,441.8**	**79,600.7**	**2,952.6**	**2,426.1**	**227,500.9**
Commitments						
Undrawn unsecured facilities	234.5	–	–	–	–	234.5
Undrawn secured facilities	8,412.3	–	–	–	–	8,412.3
Total commitments	**8,646.8**	**–**	**–**	**–**	**–**	**8,646.8**
Total exposure	**138,726.5**	**12,441.8**	**79,600.7**	**2,952.6**	**2,426.1**	**236,147.7**

As at 31 March 2008 *SDR millions*	Sovereign and central banks	Public sector	Banks	Corporate	Securitisation	Total
On-balance sheet						
Cash	22.4	–	14.4	–	–	36.8
Gold and gold loans	–	–	3,805.2	232.9	–	4,038.1
Treasury bills	50,736.9	–	–	–	–	50,736.9
Securities purchased under resale agreements	3,272.4	–	82,191.0	6,421.2	–	91,884.6
Loans and advances	8,662.2	1,598.7	51,835.0	–	–	62,095.9
Government and other securities	18,616.3	9,963.5	27,351.5	2,695.0	3,292.2	61,918.5
Derivatives	1,006.3	1.5	6,418.6	–	–	7,426.4
Accounts receivable	–	–	424.7	10.7	–	435.4
Total on-balance sheet exposure	82,316.5	11,563.7	172,040.4	9,359.8	3,292.2	278,572.6
Commitments						
Undrawn unsecured facilities	304.6	–	–	–	–	304.6
Undrawn secured facilities	6,463.1	–	–	–	–	6,463.1
Total commitments	6,767.7	–	–	–	–	6,767.7
Total exposure	89,084.2	11,563.7	172,040.4	9,359.8	3,292.2	285,340.3

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.

Default risk by geographical region

The following tables do not take into account any collateral held or other credit enhancements available to the Bank.

As at 31 March 2009

SDR millions	Africa and Europe	Asia-Pacific	Americas	International institutions	Total
On-balance sheet					
Cash and sight accounts with banks	882.9	0.4	31.9	–	915.2
Gold and gold loans	2,087.9	345.1	377.4	–	2,810.4
Treasury bills	45,541.2	43,128.2	7,752.5	–	96,421.9
Securities purchased under resale agreements	33,522.9	4,273.9	797.6	–	38,594.4
Loans and advances	13,573.1	2,417.3	2,278.7	243.6	18,512.7
Government and other securities	32,430.8	5,750.7	11,008.1	6,574.1	55,763.7
Derivatives	9,835.8	185.4	3,727.9	–	13,749.1
Accounts receivable	232.5	119.0	382.0	–	733.5
Total on-balance sheet exposure	**138,107.1**	**56,220.0**	**26,356.1**	**6,817.7**	**227,500.9**
Commitments					
Undrawn unsecured facilities	33.5	201.0	–	–	234.5
Undrawn secured facilities	1,039.8	7,372.5	–	–	8,412.3
Total commitments	**1,073.3**	**7,573.5**	**–**	**–**	**8,646.8**
Total exposure	**139,180.4**	**63,793.5**	**26,356.1**	**6,817.7**	**236,147.7**

As at 31 March 2008

SDR millions	Africa and Europe	Asia-Pacific	Americas	International institutions	Total
On-balance sheet					
Cash	25.6	1.2	10.0	–	36.8
Gold and gold loans	1,891.4	116.4	2,030.3	–	4,038.1
Treasury bills	12,931.6	37,777.2	28.1	–	50,736.9
Securities purchased under resale agreements	89,251.3	–	2,633.3	–	91,884.6
Loans and advances	49,740.0	2,463.3	8,966.9	925.7	62,095.9
Government and other securities	36,722.9	7,740.3	11,882.7	5,572.6	61,918.5
Derivatives	6,111.1	88.8	1,225.0	1.5	7,426.4
Accounts receivable	38.3	–	397.1	–	435.4
Total on-balance sheet exposure	196,712.2	48,187.2	27,173.4	6,499.8	278,572.6
Commitments					
Undrawn unsecured facilities	304.6	–	–	–	304.6
Undrawn secured facilities	192.0	6,110.1	161.0	–	6,463.1
Total commitments	496.6	6,110.1	161.0	–	6,767.7
Total exposure	197,208.8	54,297.3	27,334.4	6,499.8	285,340.3

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

Default risk per class of financial asset

The following tables do not take into account any collateral held or other credit enhancements available to the Bank.

As at 31 March 2009 *SDR millions*	AAA	AA	A	BBB	BB and below	Unrated	Fair value totals
On-balance sheet exposures							
Cash and sight accounts with banks	883.3	4.6	5.8	0.4	–	21.1	915.2
Gold and gold loans	–	685.9	1,986.2	138.3	–	–	2,810.4
Treasury bills	38,974.5	48,490.5	8,956.9	–	–	–	96,421.9
Securities purchased under resale agreements	328.6	18,359.8	19,816.9	89.1	–	–	38,594.4
Loans and advances	4,482.1	3,403.7	7,322.8	167.5	3,136.6	–	18,512.7
Government and other securities	32,972.5	13,715.2	8,988.2	87.8	–	–	55,763.7
Derivatives	383.8	1,999.4	11,268.0	–	97.9	–	13,749.1
Accounts receivable	397.7	–	221.5	103.3	–	11.0	733.5
Total on-balance sheet exposures	**78,422.5**	**86,659.1**	**58,566.3**	**586.4**	**3,234.5**	**32.1**	**227,500.9**
Percentages	*34.5%*	*38.1%*	*25.8%*	*0.2%*	*1.4%*	–	*100%*
Commitments							
Unsecured	–	–	–	234.5	–	–	234.5
Secured	–	2,432.9	4,178.5	1,572.3	228.6	–	8,412.3
Total commitments	**–**	**2,432.9**	**4,178.5**	**1,806.8**	**228.6**	**–**	**8,646.8**
Total exposure	**78,422.5**	**89,092.0**	**62,744.8**	**2,393.2**	**3,463.1**	**32.1**	**236,147.7**

As at 31 March 2008 *SDR millions*	AAA	AA	A	BBB	BB and below	Unrated	Fair value totals
On-balance sheet exposures							
Cash and sight accounts with banks	22.7	12.0	1.6	0.5	–	–	36.8
Gold and gold loans	–	3,123.2	914.9	–	–	–	4,038.1
Treasury bills	9,878.9	38,735.2	2,122.8	–	–	–	50,736.9
Securities purchased under resale agreements	182.7	71,573.5	20,128.4	–	–	–	91,884.6
Loans and advances	8,843.2	31,847.6	20,348.5	–	1,056.6	–	62,095.9
Government and other securities	25,990.6	26,135.8	9,754.8	37.3	–	–	61,918.5
Derivatives	994.0	5,291.3	1,096.1	11.2	33.8	–	7,426.4
Accounts receivable	397.1	4.8	22.8	–	–	10.7	435.4
Total on-balance sheet exposures	46,309.2	176,723.4	54,389.9	49.0	1,090.4	10.7	278,572.6
Percentages	*16.6%*	*63.5%*	*19.5%*	–	*0.4%*	–	*100%*
Commitments							
Unsecured	304.6	–	–	–	–	–	304.6
Secured	180.0	531.0	4,087.1	713.0	952.0	–	6,463.1
Total commitments	484.6	531.0	4,087.1	713.0	952.0	–	6,767.7
Total exposure	46,793.8	177,254.4	58,477.0	762.0	2,042.4	10.7	285,340.3

The ratings shown reflect the Bank's internal ratings expressed as equivalent external ratings. The vast majority of the Bank's exposure is rated equivalent to A– or above.

A financial asset is considered past due when a counterparty fails to make a payment on the contractual due date. The Bank revalues virtually all of its financial assets to fair value on a daily basis and reviews its valuations monthly, taking into account necessary adjustments for impairment. As at 31 March 2009 the Bank recorded an impairment charge of SDR 18.3 million on gold loans (2008: nil). No financial assets were considered past due at the balance sheet date.

D. Credit risk mitigation and collateral

As at 31 March	2009		2008	
SDR millions	Fair value of relevant contracts	Value of collateral	Fair value of relevant contracts	Value of collateral
Collateral obtained for				
Securities purchased under resale agreements	33,625.0	33,725.5	69,965.9	70,245.5
Advances	3,136.5	5,013.4	1,057.0	2,436.8
Derivatives	4,957.3	4,542.4	2,979.3	2,429.7
Total collateral obtained	**41,718.8**	**43,281.3**	74,002.2	75,112.0
Collateral provided for				
Securities sold under repurchase agreements	–	–	1,894.1	1,898.2
Total collateral provided	–	–	1,894.1	1,898.2

The above table shows the collateral obtained and provided by the Bank. It excludes transactions which have yet to settle (on which neither cash nor collateral have been exchanged). The Bank obtains collateral as part of reverse repurchase agreements and collateral agreements for certain derivatives. The Bank is allowed to sell or repledge this collateral, but must deliver equivalent financial instruments upon the expiry of the contract. Eligible collateral for reverse repurchase agreements comprises sovereign and supranational debt as well as US agency securities. Eligible collateral for derivatives comprises sovereign securities. Due to the default of a counterparty SDR 735.5 million of US Treasury bills held as collateral was seized and sold during the financial year ended 31 March 2009.

The Bank grants facilities to customers which are secured against either deposits made with the Bank or units held by customers in funds managed by the Bank. As at 31 March 2009 the total amount of undrawn facilities which could be drawn down subject to collateralisation by the customer was SDR 8,412.3 million (2008: SDR 6,463.1 million).

The Bank provides collateral for securities sold under repurchase agreements. This collateral consists of government or agency securities.

E. Economic capital for credit risk

The Bank determines economic capital for credit risk using a VaR methodology on the basis of a portfolio VaR model, assuming a one-year time horizon and a 99.995% confidence interval. The table below shows the key figures of the Bank's exposure to credit risk in terms of economic capital utilisation over the past two financial years.

For the financial year ended 31 March	2009				2008			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Economic capital utilisation for credit risk	6,080.1	6,596.3	5,389.1	**5,673.7**	6,427.3	6,841.1	5,967.4	6,173.3

F. Minimum capital requirements for credit risk

Exposures 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 for the majority of its exposures.

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

The credit risk exposure for a transaction or position is referred to as the exposure at default (EAD). The Bank determines the EAD as the notional amount of all on- and off-balance sheet credit exposures, except derivatives. 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 effect of collateral obtained giving consideration to market price volatility, remargining and revaluation frequency.

The table below details the calculation of risk-weighted assets. The exposures are measured taking netting and collateral benefits into account. The total amount of exposures reported in the table as at 31 March 2009 includes SDR 7,024.8 million (2008: SDR 5,998.3 million) for interest rate contracts and SDR 5,108.0 million (2008: SDR 2,823.1 million) for FX and gold contracts.

As at 31 March 2009

Internal rating grades expressed as equivalent external rating grades *Percentages / SDR millions*	Amount of exposure *SDR millions*	Exposure-weighted PD *%*	Exposure-weighted average LGD *%*	Exposure-weighted average risk weight *%*	Risk-weighted assets *SDR millions*
AAA	73,642.3	0.005	30.8	2.4	1,803.0
AA	86,205.5	0.02	25.3	3.6	3,109.3
A	59,283.3	0.05	23.9	6.9	4,119.8
BBB	3,848.8	0.62	11.8	11.0	425.3
BB and below	2,037.8	11.34	7.7	32.3	657.4
Total	**225,017.7**				**10,114.8**

During the reporting period the Bank experienced a credit loss due to a default. Taking account of the collateral held in relation to the transactions, the Bank recorded a net loss of SDR 4.6 million.

As at 31 March 2008

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
Percentages / SDR millions	*SDR millions*	*%*	*%*	*%*	*SDR millions*
AAA	42,393.0	0.007	34.0	3.3	1,417.7
AA	178,155.6	0.03	22.2	3.5	6,201.3
A	58,280.9	0.05	25.4	6.2	3,631.3
BBB	947.2	0.22	11.1	7.3	68.8
BB and below	1,783.5	10.04	5.2	22.2	396.1
Total	281,560.2				11,715.2

G. Securitisation exposures

The Bank only invests in highly rated securitisation exposures based on traditional, ie non-synthetic, securitisation structures. Risk-weighted assets for these exposures are determined using the standardised approach.

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

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

As at 31 March 2009

SDR millions	External rating	Amount of exposures	Risk weight	Risk-weighted assets
Residential mortgage-backed securities	AAA	649.3	20%	129.9
Securities backed by credit card receivables	AAA	1,176.8	20%	235.3
Securities backed by other receivables (government-sponsored)	AAA	737.9	20%	147.6
Total		**2,564.0**		**512.8**

As at 31 March 2008

SDR millions	External rating	Amount of exposures	Risk weight	Risk-weighted assets
Asset-backed commercial paper	A1/P1/F1+	168.7	20%	33.7
Residential mortgage-backed securities	AAA	1,344.2	20%	268.9
Securities backed by credit card receivables	AAA	1,111.0	20%	222.2
Securities backed by other receivables (government-sponsored)	AAA	750.1	20%	150.0
Total		3,374.0		674.8

4. Market risk

The Bank is exposed to market risk through adverse movements in market prices. The main components of the Bank's market risk are gold price risk, interest rate risk and foreign exchange risk. The Bank measures market risk and calculates economic capital based on a VaR methodology using a Monte Carlo simulation technique. Risk factor volatilities and correlations are estimated using a one-year observation period. Furthermore, the Bank computes sensitivities to certain market risk factors.

In line with the Bank's objective to maintain its superior credit quality, economic capital is measured at the 99.995% confidence interval assuming a one-year holding period. The Bank's Management manages market risk economic capital usage within a framework set by the Board of Directors. VaR limits are supplemented by operating limits.

VaR models depend on statistical assumptions and the quality of available market data and, while forward-looking, they extrapolate from past events.

To ensure that models provide a reliable measure of potential losses over the one-year time horizon, the Bank has established a comprehensive regular backtesting framework, comparing daily performance with corresponding VaR estimates. The results are analysed and reported to Management.

The Bank also supplements its market risk measurement based on VaR modelling and related economic capital calculations with a series of stress tests. These include severe historical scenarios, adverse hypothetical macroeconomic scenarios and sensitivity tests of gold price, interest rate and foreign exchange rate movements.

A. Gold price risk

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

The Bank is exposed to gold price risk principally through its holdings of gold investment assets, which amount to 120 tonnes (2008: 125 tonnes). These gold investment assets are held in custody or placed on deposit with commercial banks. At 31 March 2009 the Bank's gold position was SDR 2,358.0 million (2008: SDR 2,247.0 million), approximately 17% of its equity (2008: 17%). The Bank sometimes also has small exposures to gold price risk emerging from its banking activities with central and commercial banks. Gold price risk is measured within the Bank's VaR methodology, including its economic capital framework and stress tests.

B. Interest rate risk

Interest rate risk is the exposure of the Bank's financial condition to adverse movements in interest rates including credit spreads.

The Bank is exposed to interest rate risk through the interest bearing assets relating to the management of its equity held in its investment portfolios and investments relating to its banking portfolios. The investment portfolios are managed with a fixed duration benchmark of bonds.

The Bank measures and monitors interest rate risk using a VaR methodology and sensitivity analyses taking into account movements in relevant money market rates, government bonds, swap rates and credit spreads.

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

As at 31 March 2009

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	(5.4)	(5.5)	(11.9)	(16.5)	(24.0)	(15.1)	(13.9)
Japanese yen	1.0	(1.3)	(6.6)	(11.3)	(14.6)	(5.1)	(1.7)
Pound sterling	0.2	(1.3)	(3.6)	(12.9)	(8.7)	(1.7)	(1.9)
Swiss franc	(0.1)	(0.2)	(0.6)	(0.6)	(0.7)	(1.4)	2.7
US dollar	(0.6)	(7.6)	(41.5)	(13.8)	(29.1)	(22.6)	(29.3)
Other currencies	(0.1)	(6.0)	(1.2)	(10.8)	(0.8)	–	–
Total	**(5.0)**	**(21.9)**	**(65.4)**	**(65.9)**	**(77.9)**	**(45.9)**	**(44.1)**

As at 31 March 2008

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	(5.8)	(3.4)	(26.9)	(16.6)	(17.3)	(31.7)	(61.4)
Japanese yen	0.1	(0.9)	(4.8)	(7.7)	(7.5)	(4.4)	(19.9)
Pound sterling	3.9	(3.8)	(4.6)	(5.8)	(5.8)	(6.9)	(23.3)
Swiss franc	(0.6)	0.1	(0.6)	(0.5)	(0.5)	(1.0)	2.2
US dollar	(2.6)	(15.0)	(23.9)	(12.4)	(16.3)	(26.1)	(72.7)
Other currencies	(1.7)	(6.0)	(8.2)	(2.9)	(13.3)	(1.1)	–
Total	(6.7)	(29.0)	(69.0)	(45.9)	(60.7)	(71.2)	(175.1)

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.

Foreign exchange risk is measured and monitored based on the Bank's VaR methodology and sensitivity analyses considering movements in key foreign exchange rates.

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

As at 31 March 2009 *SDR millions*	SDR	USD	EUR	GBP	JPY	CHF	Gold	Other currencies	Total
Assets									
Cash and sight accounts with banks	–	28.9	175.2	6.4	–	696.2	–	8.5	915.2
Gold and gold loans	–	19.1	–	–	–	–	25,397.1	–	25,416.2
Treasury bills	–	7,752.5	43,738.8	1,802.4	43,128.2	–	–	–	96,421.9
Securities purchased under resale agreements	–	797.6	27,986.9	5,536.0	4,273.9	–	–	–	38,594.4
Loans and advances	243.7	8,999.5	7,619.1	1,077.5	4.0	443.5	–	125.4	18,512.7
Government and other securities	–	27,233.4	22,706.3	2,704.9	1,437.8	30.6	–	1,650.7	55,763.7
Derivative financial instruments	21.0	65,576.9	(12,368.7)	370.2	(41,023.4)	191.4	–	981.7	13,749.1
Accounts receivable	0.1	3,719.7	959.8	988.6	110.1	11.1	–	33.1	5,822.5
Land, buildings and equipment	183.1	–	–	–	–	7.9	–	–	191.0
Total	**447.9**	**114,127.6**	**90,817.4**	**12,486.0**	**7,930.6**	**1,380.7**	**25,397.1**	**2,799.4**	**255,386.7**
Liabilities									
Currency deposits	(2,015.5)	(134,278.9)	(41,524.2)	(11,597.5)	(3,935.6)	(1,220.8)	–	(2,649.7)	(197,222.2)
Gold deposits	–	(13.0)	–	–	–	–	(23,039.1)	–	(23,052.1)
Derivative financial instruments	2.2	26,485.3	(34,192.0)	2,970.0	(1,846.9)	(144.5)	–	(90.9)	(6,816.8)
Accounts payable	–	(532.0)	(10,482.5)	(2,662.2)	(442.3)	–	–	(92.5)	(14,211.5)
Other liabilities	–	(153.3)	(0.4)	–	–	(214.5)	–	–	(368.2)
Total	**(2,013.3)**	**(108,491.9)**	**(86,199.1)**	**(11,289.7)**	**(6,224.8)**	**(1,579.8)**	**(23,039.1)**	**(2,833.1)**	**(241,670.8)**
Net currency and gold position	**(1,565.4)**	**5,635.7**	**4,618.3**	**1,196.3**	**1,705.8**	**(199.1)**	**2,358.0**	**(33.7)**	**13,715.9**
Adjustment for gold investment assets	–	–	–	–	–	–	(2,358.0)	–	(2,358.0)
Net currency position	**(1,565.4)**	**5,635.7**	**4,618.3**	**1,196.3**	**1,705.8**	**(199.1)**	**–**	**(33.7)**	**11,357.9**
SDR neutral position	1,565.4	(5,472.6)	(4,718.3)	(1,122.7)	(1,609.7)	–	–	–	(11,357.9)
Net currency exposure on SDR neutral basis	**–**	**163.1**	**(100.0)**	**73.6**	**96.1**	**(199.1)**	**–**	**(33.7)**	**–**

As at 31 March 2008

SDR millions	SDR	USD	EUR	GBP	JPY	CHF	Gold	Other currencies	Total
Assets									
Cash and sight accounts with banks	–	9.3	14.5	2.1	–	4.7	–	6.2	36.8
Gold and gold loans	–	17.2	–	–	–	–	31,520.5	–	31,537.7
Treasury bills	–	28.1	12,931.5	–	37,777.3	–	–	–	50,736.9
Securities purchased under resale agreements	–	1,823.5	79,059.5	7,911.8	3,089.8	–	–	–	91,884.6
Loans and advances	669.8	45,677.1	4,565.0	9,250.4	182.7	972.1	–	778.8	62,095.9
Government and other securities	–	29,690.6	22,395.8	4,195.1	1,472.5	62.4	–	4,102.1	61,918.5
Derivative financial instruments	51.5	1,856.5	3,259.7	(4,233.2)	4,943.8	7.7	(56.9)	1,597.3	7,426.4
Accounts receivable	–	4,400.1	35.8	710.5	24.4	7.4	–	133.6	5,311.8
Land, buildings and equipment	190.4	–	–	–	–	–	–	–	190.4
Total	911.7	83,502.4	122,261.8	17,836.7	47,490.5	1,054.3	31,463.6	6,618.0	311,139.0
Liabilities									
Currency deposits	(2,238.8)	(157,367.2)	(45,777.9)	(17,837.7)	(3,601.3)	(987.0)	–	(8,311.0)	(236,120.9)
Gold deposits	–	(8.9)	–	–	–	–	(29,092.5)	–	(29,101.4)
Securities sold under repurchase agreements	–	(1,489.1)	–	(405.0)	–	–	–	–	(1,894.1)
Derivative financial instruments	20.1	82,381.9	(49,622.9)	1,893.1	(42,503.9)	(56.9)	(124.1)	1,785.0	(6,227.7)
Accounts payable	–	(2,094.5)	(22,011.4)	(146.9)	–	–	–	(112.6)	(24,365.4)
Other liabilities	–	(117.2)	(0.5)	–	–	(208.8)	–	–	(326.5)
Total	(2,218.7)	(78,695.0)	(117,412.7)	(16,496.5)	(46,105.2)	(1,252.7)	(29,216.6)	(6,638.6)	(298,036.0)
Net currency and gold position	(1,307.0)	4,807.4	4,849.1	1,340.2	1,385.3	(198.4)	2,247.0	(20.6)	13,103.0
Adjustment for gold investment assets	–	–	–	–	–	–	(2,247.0)	–	(2,247.0)
Net currency position	(1,307.0)	4,807.4	4,849.1	1,340.2	1,385.3	(198.4)	–	(20.6)	10,856.0
SDR neutral position	1,307.0	(4,683.0)	(4,788.5)	(1,327.0)	(1,364.5)	–	–	–	(10,856.0)
Net currency exposure on SDR neutral basis	–	124.4	60.6	13.2	20.8	(198.4)	–	(20.6)	–

D. Economic capital for market risk

The Bank measures market risk based on a VaR methodology using a Monte Carlo simulation technique taking correlations between risk factors into account. Economic capital for market risk is also calculated following this methodology measured to the 99.995% confidence interval and assuming a one-year holding period. The Bank measures its gold price risk relative to changes in the USD value of gold. The foreign exchange risk component, resulting from changes in the USD exchange rate versus the SDR, is included in the measurement of foreign exchange risk. The table below shows the key figures of the Bank's exposure to market risk in terms of economic capital utilisation over the past two financial years.

For the financial year ended 31 March

	2009				2008			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Economic capital utilisation for market risk	2,614.0	3,386.9	1,928.0	**3,099.8**	1,755.5	2,950.0	1,179.5	2,689.7

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

For the financial year ended 31 March

	2009				2008			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Gold price risk	1,690.5	2,325.1	1,312.6	**2,009.1**	1,399.7	2,163.9	958.1	2,116.1
Interest rate risk	1,972.7	2,519.9	1,404.8	**2,209.1**	1,294.4	2,200.6	623.4	2,187.0
Foreign exchange risk	502.7	769.0	301.6	**769.0**	289.0	574.0	169.9	519.3
Correlation and diversification effects	(1,551.9)	(2,073.7)	(1,164.2)	**(1,887.4)**	(1,227.6)	(2,137.4)	(646.7)	(2,132.7)

E. Minimum capital requirements for market risk

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

The actual minimum capital requirement is derived as the higher of the VaR on the calculation date and the average of the daily VaR measures on each of the preceding 60 business days (including the calculation date) subject to a multiplication factor of three plus a potential add-on depending on backtesting results. For the period under consideration, the number of backtesting outliers observed remained within the range where no add-on is required. The table below summarises the market risk development relevant to the calculation of minimum capital requirements over the reporting period and shows the Bank's minimum capital requirement for market risk and the related risk-weighted assets as at 31 March 2009.

As at 31 March	**2009**			2008		
SDR millions	VaR	Risk-weighted assets (A)	Minimum capital requirement (B)	VaR	Risk-weighted assets (A)	Minimum capital requirement (B)
Market risk, where (A) is derived as (B) / 8%	420.9	15,783.5	**1,262.7**	218.6	8,197.5	655.8

5. Liquidity risk

Liquidity risk arises when the Bank may not be able to meet expected or unexpected current or future cash flows and collateral needs without affecting its daily operations or its financial condition.

Outstanding balances in the currency and gold deposits from central banks, international organisations and other public institutions are the key drivers of the size of the Bank's balance sheet. The Bank has undertaken to repurchase at fair value certain of its currency deposit instruments at one or two business days' notice. The Bank is managed to preserve a high degree of liquidity so that it can meet the requirements of its customers at all times.

The Bank has developed a liquidity management framework based on a statistical model underpinned by conservative assumptions with regard to cash inflows and the liquidity of liabilities. Within this framework, the Board of Directors has set a limit for the Bank's liquidity ratio which requires liquid assets to be at least 100% of the potential liquidity requirement. In addition, liquidity stress tests assuming extreme withdrawal scenarios are performed. These stress tests specify additional liquidity requirements to be met by holdings of liquid assets. The Bank's liquidity has consistently been materially above its minimum liquidity ratio and the requirements of its stress tests.

The Bank's currency and gold deposits, principally from central banks and international institutions, comprise 91% (2008: 89%) of its total liabilities. At 31 March 2009 currency and gold deposits originated from 131 depositors (2008: 152). Within these deposits, there are significant individual customer concentrations, with seven customers each contributing in excess of 5% of the total on a settlement date basis (2008: four customers).

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

As at 31 March 2009

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	915.2	–	–	–	–	–	–	–	915.2
Gold and gold loans	22,856.0	458.0	265.1	630.6	375.3	698.4	167.0	–	25,450.4
Treasury bills	17,346.9	48,193.3	15,306.8	15,178.4	–	–	–	–	96,025.4
Securities purchased under resale agreements	25,396.5	240.8	1,444.0	–	–	–	–	–	27,081.3
Loans and advances	9,533.3	7,931.7	804.1	–	–	–	–	–	18,269.1
Government and other securities	3,800.4	7,106.2	3,880.8	4,934.0	12,920.3	17,782.8	9,247.2	921.8	60,593.5
Total	**79,848.3**	**63,930.0**	**21,700.8**	**20,743.0**	**13,295.6**	**18,481.2**	**9,414.2**	**921.8**	**228,334.9**
Liabilities									
Currency deposits									
Deposit instruments repayable at 1–2 days' notice	(11,144.1)	(19,693.4)	(15,143.3)	(20,590.2)	(18,218.1)	(29,301.2)	(7,309.7)	–	(121,400.0)
Other currency deposits	(68,805.4)	(4,635.1)	(1,348.5)	(22.6)	–	–	–	–	(74,811.6)
Gold deposits	(21,768.0)	(200.1)	(216.8)	(296.7)	(195.7)	(216.3)	(165.4)	–	(23,059.0)
Securities sold short	(0.8)	(1.7)	(2.5)	(4.9)	(9.8)	(29.7)	(49.9)	(185.4)	(284.7)
Total	**(101,718.3)**	**(24,530.3)**	**(16,711.1)**	**(20,914.4)**	**(18,423.6)**	**(29,547.2)**	**(7,525.0)**	**(185.4)**	**(219,555.3)**
Derivatives									
Net settled									
Interest rate contracts	(1,304.0)	588.3	940.4	1,049.2	1,483.8	1,486.7	187.4	0.1	4,431.9
Gross settled									
Exchange rate and gold price contracts									
Inflows	29,504.3	53,304.7	8,576.4	10,940.4	–	–	–	–	102,325.8
Outflows	(28,771.1)	(52,297.6)	(8,568.4)	(11,221.9)	–	–	–	–	(100,859.0)
Subtotal	733.2	1,007.1	8.0	(281.5)	–	–	–	–	1,466.8
Interest rate contracts – gross settled									
Inflows	2.8	53.4	320.9	164.5	610.2	665.5	841.1	–	2,658.4
Outflows	(2.1)	(67.1)	(339.2)	(197.2)	(695.6)	(747.4)	(920.3)	–	(2,968.9)
Subtotal	0.7	(13.7)	(18.3)	(32.7)	(85.4)	(81.9)	(79.2)	–	(310.5)
Total derivatives	**(570.1)**	**1,581.7**	**930.1**	**735.0**	**1,398.4**	**1,404.8**	**108.2**	**0.1**	**5,588.2**
Total future undiscounted cash flows	**(22,440.1)**	**40,981.4**	**5,919.8**	**563.6**	**(3,729.6)**	**(9,661.2)**	**1,997.4**	**736.5**	**14,367.8**

As at 31 March 2008

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	36.8	–	–	–	–	–	–	–	36.8
Gold and gold loans	27,836.1	215.9	379.1	558.8	1,446.3	974.8	151.6	–	31,562.6
Treasury bills	15,043.0	27,977.7	6,629.3	1,195.5	–	–	–	–	50,845.5
Securities purchased under resale agreements	53,803.9	14,279.9	2,079.3	–	–	–	–	–	70,163.1
Loans and advances	24,550.5	24,058.1	9,636.4	3,140.8	–	–	–	–	61,385.8
Government and other securities	7,940.5	8,755.7	5,245.0	6,710.1	10,340.2	15,696.2	12,543.5	923.7	68,154.9
Total	129,210.8	75,287.3	23,969.1	11,605.2	11,786.5	16,671.0	12,695.1	923.7	282,148.7
Liabilities									
Currency deposits									
Deposit instruments repayable at 1–2 days' notice	(5,757.5)	(21,501.1)	(20,601.1)	(28,243.4)	(35,374.1)	(33,370.0)	(9,928.4)	(9.3)	(154,784.9)
Other currency deposits	(56,610.6)	(16,760.6)	(7,355.6)	(3,229.8)	–	–	–	–	(83,956.6)
Gold deposits	(27,579.3)	–	(18.2)	(125.1)	(864.2)	(373.9)	(150.1)	–	(29,110.8)
Securities sold under repurchase agreements	(1,896.3)	–	–	–	–	–	–	–	(1,896.3)
Securities sold short	(11.9)	–	–	–	–	(16.2)	(12.4)	(75.1)	(115.6)
Total	(91,855.6)	(38,261.7)	(27,974.9)	(31,598.3)	(36,238.3)	(33,760.1)	(10,090.9)	(84.4)	(269,864.2)
Derivatives									
Net settled									
Interest rate contracts	(59.6)	87.8	43.6	1,711.3	1,223.9	741.4	34.4	–	3,782.8
Gross settled									
Exchange rate and gold price contracts									
Inflows	77,731.6	33,831.8	8,236.2	10,349.7	135.2	–	–	–	130,284.5
Outflows	(78,792.3)	(34,443.3)	(8,222.5)	(10,285.7)	(135.2)	–	–	–	(131,879.0)
Subtotal	(1,060.7)	(611.5)	13.7	64.0	–	–	–	–	(1,594.5)
Interest rate contracts – gross settled									
Inflows	80.6	121.1	239.3	529.6	534.6	917.6	1,034.0	–	3,456.8
Outflows	(99.8)	(157.4)	(279.4)	(673.1)	(610.6)	(1,112.6)	(1,316.8)	–	(4,249.7)
Subtotal	(19.2)	(36.3)	(40.1)	(143.5)	(76.0)	(195.0)	(282.8)	–	(792.9)
Total derivatives	(1,139.5)	(560.0)	17.2	1,631.8	1,147.9	546.4	(248.4)	–	1,395.4
Total future undiscounted cash flows	36,215.7	34,465.5	(3,988.6)	(18,361.3)	(23,303.9)	(16,542.7)	2,355.8	839.3	13,679.6

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 31 March 2009	(1.2)	(10.2)	(8.4)	(138.2)	(1.8)	(7.9)	(4.3)	–	**(172.0)**
As at 31 March 2008	(0.9)	(11.3)	(9.7)	(94.3)	(5.3)	–	–	–	(121.5)

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

Contractual expiry date

SDR millions	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	5 to 10 years	Maturity undefined	Total
As at 31 March 2009	33.5	335.0	–	6,400.1	–	–	–	1,677.1	**8,445.7**
As at 31 March 2008	243.7	466.3	–	4,212.7	–	–	–	1,845.0	6,767.7

6. Operational risk

Operational risk is defined by the Bank as the risk of financial loss, or damage to the Bank's reputation, or both, resulting from one or more risk causes, as outlined below:

- human factors: insufficient personnel, lack of requisite knowledge, skills or experience, inadequate training and development, inadequate supervision, loss of key personnel, inadequate succession planning, or lack of integrity or ethical standards;
- failed or inadequate processes: a process is poorly designed or unsuitable, or is not properly documented, understood, implemented, followed or enforced;
- failed or inadequate systems: a system is poorly designed, unsuitable or unavailable, or does not operate as intended; and
- external events: the occurrence of an event having an adverse impact on the Bank but outside its control.

Operational risk includes legal risk, but excludes strategic risk.

The Bank's operational risk management framework, policies and procedures comprise the management and measurement of operational risk, including the determination of the relevant key parameters and inputs, business continuity planning and the monitoring of key risk indicators.

The Bank has established a procedure of immediate reporting for operational risk-related incidents. The Compliance and Operational Risk Unit develops action plans with the respective units and follows up on their implementation on a regular basis.

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

A. Economic capital for operational risk

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

For the financial year ended 31 March

	2009				2008			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Economic capital utilisation for operational risk	412.5	425.0	400.0	**425.0**	370.0	400.0	360.0	400.0

B. Minimum capital requirements for operational risk

In line with the key parameters of the Basel II Framework, the calculation of the minimum capital requirement for operational risk is determined assuming a 99.9% confidence interval and a one-year time horizon. The table below summarises the key figures of the Bank's exposure to operational risk in terms of minimum capital requirements over the past two financial years.

As at 31 March	**2009**			2008		
SDR millions	VaR	Risk-weighted assets (A)	Minimum capital requirement (B)	VaR	Risk-weighted assets (A)	Minimum capital requirement (B)
Operational risk, where (A) is derived as (B) / 8%	180.0	2,250.0	**180.0**	157.0	1,962.5	157.0

Report of the auditors

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

We have audited the accompanying financial statements of the Bank for International Settlements. These financial statements incorporate the balance sheet as at 31 March 2009, the profit and loss account for the year then ended as required by the Bank's Statutes, and the statement of cash flows and notes thereto. The financial statements have been prepared by the Management of the Bank in accordance with the Statutes and with the principles of valuation described under significant accounting policies in the notes. The Management of the Bank is responsible for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. Our responsibility under the Statutes of the Bank is to form an independent opinion on the balance sheet and profit and loss account based on our audit and to report our opinion to you.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We have received all the information and explanations which we have required to obtain assurance that the balance sheet and profit and loss account are free of material misstatement, and believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements, including the notes thereto, have been properly drawn up and give a true and fair view of the financial position of the Bank for International Settlements at 31 March 2009 and the results of its operations for the year then ended in conformity with the accounting principles described in the notes to the financial statements and the Statutes of the Bank.

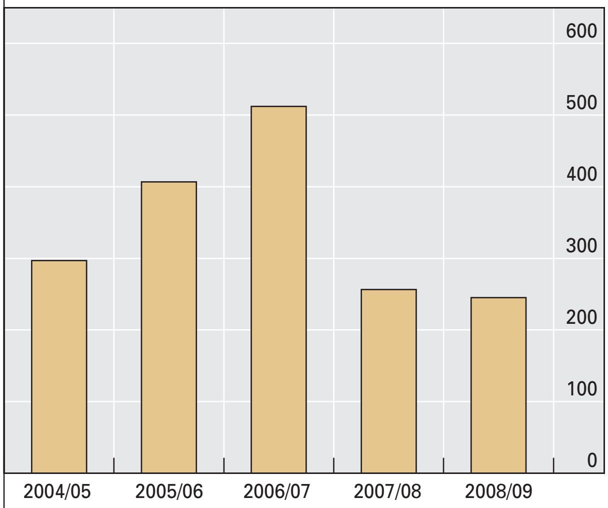
Deloitte AG

Mark D. Ward — Pavel Nemecek

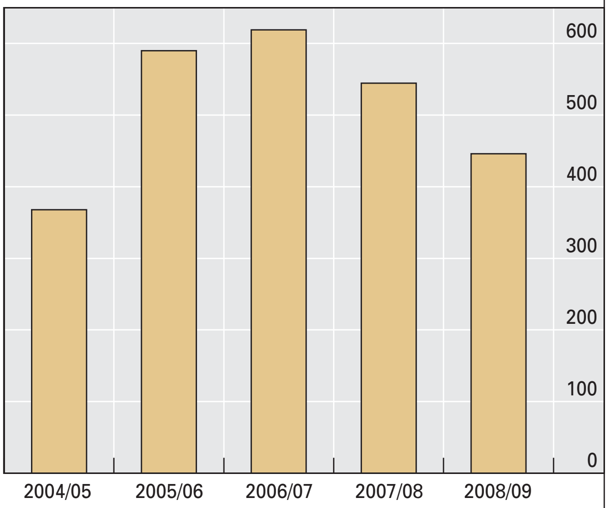
Zurich, 11 May 2009

Five-year graphical summary

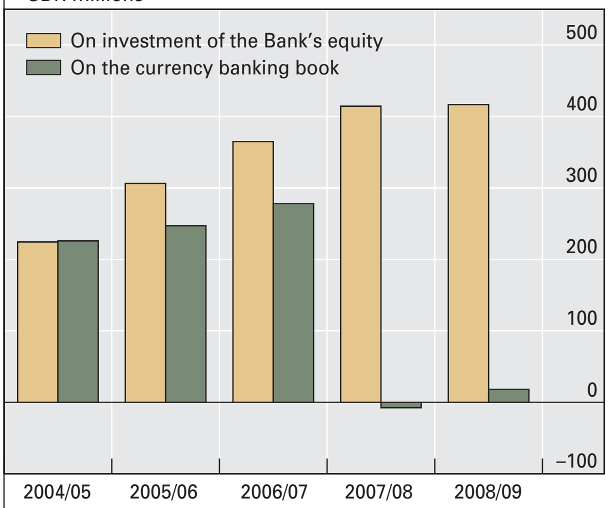
Operating profit
SDR millions



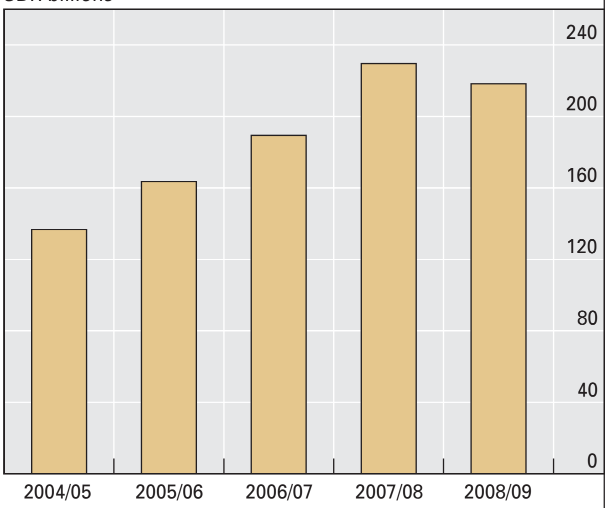
Net profit
SDR millions



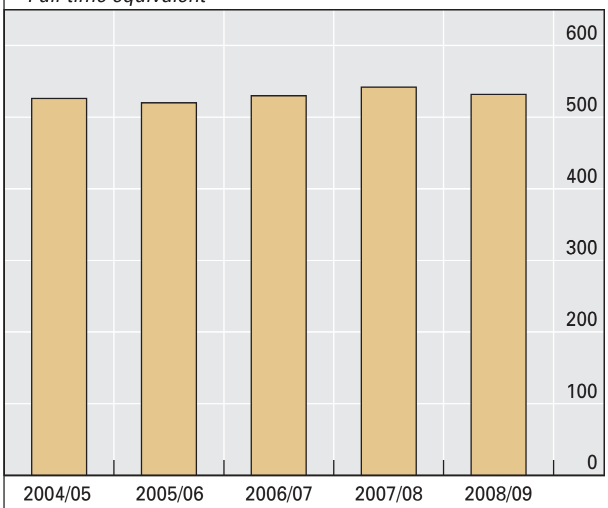
Net interest earned on currency investments
SDR millions



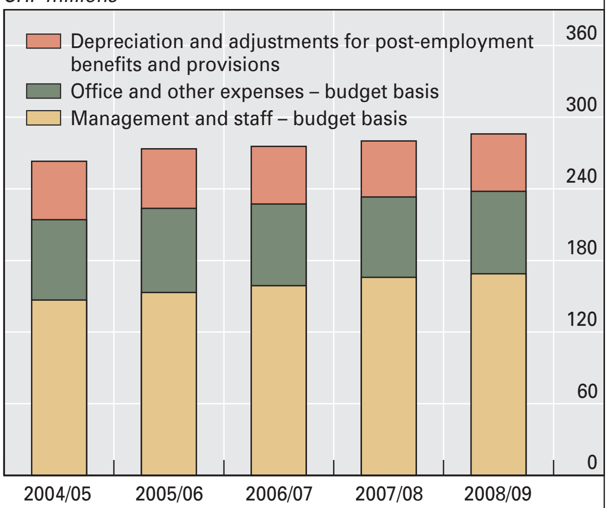
Average currency deposits (settlement date basis)
SDR billions



Average number of employees
Full-time equivalent



Operating expense
CHF millions



The financial information in the top four panels has been restated to reflect a change in the accounting policy made in the previous years' accounts.

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