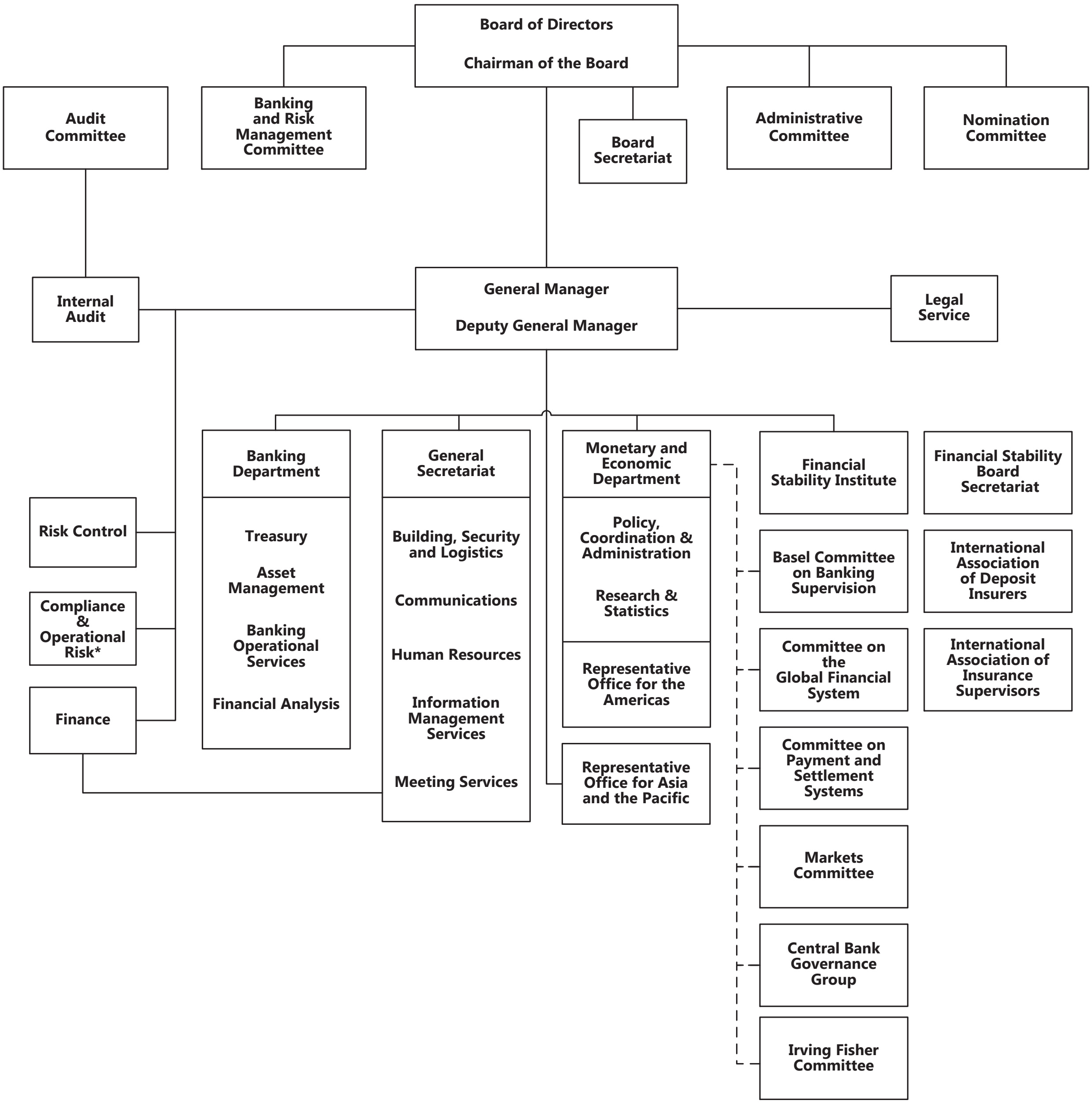
Organisation of the BIS as at 31 March 2014



* Direct access to the Audit Committee on compliance matters.

The BIS: mission, activities, governance and financial results

The mission of the Bank for International Settlements (BIS) is to serve central banks in their pursuit of monetary and financial stability, to foster international cooperation in those areas and to act as a bank for central banks.

In the light of the Bank's mission, this chapter reviews the activities of the BIS, and of the groups it hosts, for the financial year 2013/14; describes the institutional framework that supports the work of those groups; and presents the year's financial results.

In broad outline, the BIS pursues its mission by:

- promoting discussion and facilitating collaboration among central banks;
- supporting dialogue with other authorities that are responsible for promoting financial stability;
- conducting research on policy issues confronting central banks and financial 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 promotes international cooperation among monetary authorities and financial supervisory officials through its meetings programmes and through the Basel Process – hosting international groups pursuing global financial stability (such as the Basel Committee on Banking Supervision and the Financial Stability Board) and facilitating their interaction in an efficient and cost-effective way (see below).

The BIS economic analysis, research and statistics function helps meet the needs of monetary and supervisory authorities for policy insight and data.

The BIS banking function provides prime counterparty, agent and trustee services appropriate to the BIS mission.

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 (Hong Kong SAR) and in Mexico City.

The meetings programmes and the Basel Process

The BIS promotes international cooperation among financial and monetary officials in two major ways:

- hosting and preparing background material for meetings of central bank officials; and
- the Basel Process, which facilitates cooperation among the international groups hosted by the BIS.

Bimonthly meetings and other regular consultations

At bimonthly meetings, normally held in Basel, Governors and other senior officials of BIS member central banks 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. In addition to the bimonthly meetings, the Bank regularly hosts gatherings that variously include public and private sector representatives and the academic community.

The two principal bimonthly meetings are the Global Economy Meeting and the All Governors' Meeting.

Global Economy Meeting

The Global Economy Meeting (GEM) comprises the Governors of 30 BIS member central banks in major advanced and emerging market economies that account for about four fifths of global GDP. The Governors of another 19 central banks attend the GEM as observers.[1] The GEM has two main roles: (i) monitoring and assessing developments, risks and opportunities in the world economy and the global financial system; and (ii) providing guidance to three BIS-based central bank committees – the Committee on the Global Financial System, the Committee on Payment and Settlement Systems and the Markets Committee. The GEM also receives reports from the Chairs of those committees and decides on publication.

As the Global Economy Meeting is quite large, it is supported by an informal group called the Economic Consultative Committee (ECC). Limited to 18 participants, the ECC includes all BIS Board Governors and the BIS General Manager. The ECC assembles proposals for consideration by the GEM. In addition, the ECC Chairman initiates recommendations to the GEM on the appointment of Chairs of the three central bank committees mentioned above and on the composition and organisation of those committees.

All Governors' Meeting

The All Governors' Meeting comprises the Governors of the 60 BIS member central banks and is chaired by the BIS Chairman. It convenes to discuss selected topics of general interest to its members. In 2013/14, the topics discussed were:

- New challenges for the institutional design of central banks
- Central bank challenges from forward guidance
- Financial structure determinants and implications
- Meeting higher capital requirements: progress and challenges
- Domestic and global drivers of inflation: has the balance changed?

By agreement with the GEM and the BIS Board, the All Governors' Meeting is responsible for overseeing the work of two other groups: the Central Bank Governance Group, which also meets during the bimonthly meetings, and the Irving Fisher Committee on Central Bank Statistics.

Other regular consultations

During the bimonthly meetings, Governors of central banks in (i) major emerging market economies and (ii) small open economies gather to discuss themes of special relevance to their economies.

In addition, the Bank hosts regular meetings of the Group of Central Bank Governors and Heads of Supervision (GHOS), which oversees the work of the Basel

[1] The members of the GEM are the central bank Governors of Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Malaysia, Mexico, the Netherlands, Poland, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Thailand, Turkey, the United Kingdom and the United States and also the President of the European Central Bank and the President of the Federal Reserve Bank of New York. The Governors attending as observers are from Algeria, Austria, Chile, Colombia, the Czech Republic, Denmark, Finland, Greece, Hungary, Ireland, Israel, Luxembourg, New Zealand, Norway, Peru, the Philippines, Portugal, Romania and the United Arab Emirates.

Committee on Banking Supervision. In its January 2014 meeting, the GHOS endorsed several proposals from the Basel Committee (as discussed below in more detail in the report of the Committee): a common definition of the Basel III leverage ratio and related disclosure requirements; changes to the Basel III net stable funding ratio; minimum requirements for liquidity-related disclosures; and modifications of the definition of high-quality liquid assets for purposes of Basel III's liquidity coverage ratio. Finally, the GHOS also reviewed and endorsed the Committee's strategic priorities in its work programme for the next two years, with the highest priority accorded to completion of the crisis-related policy reform agenda.

The Bank regularly arranges 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, for senior central bank officials, the Bank organises various meetings to which other financial authorities, the private financial sector and the academic community are invited to contribute. These meetings include:

- the annual meetings of the working parties on monetary policy, held in Basel but also hosted at a regional level by a number of central banks in Asia, central and eastern Europe, and Latin America;
- the meeting of Deputy Governors of emerging market economies; and
- the high-level meetings organised by the Financial Stability Institute in various regions of the world for Governors and Deputy Governors and heads of supervisory authorities.

Other meetings in the past year included:

- a roundtable meeting of Governors from Africa, in May 2013;
- a meeting of Governors from Latin American and Caribbean central banks, in June 2013;
- a Central Bank of Russia – BIS Seminar, "Challenges for monetary and financial policy", in July 2013; and
- a roundtable meeting of Governors from Central Asia, jointly hosted by the Swiss National Bank and the BIS, in November 2013.

The Basel Process

The Basel Process refers to the facilitative role of the BIS in hosting and supporting the work of international groups – six committees and three associations – engaged in standard setting and the pursuit of financial stability.

The hosted committees, whose agendas are guided by various sets of central banks and supervisory authorities, are as follows:

- the Basel Committee on Banking Supervision (BCBS): develops global regulatory standards for banks and addresses supervision at the level of individual institutions and as it relates to macroprudential supervision;
- the Committee on the Global Financial System (CGFS): monitors and analyses the broad issues relating to financial markets and systems;
- the Committee on Payment and Settlement Systems (CPSS): analyses and sets standards for payment, clearing and settlement infrastructures;
- the Markets Committee: monitors developments in financial markets and their implications for central bank operations;
- the Central Bank Governance Group: examines issues related to the design and operation of central banks; and
- the Irving Fisher Committee on Central Bank Statistics (IFC): addresses statistical issues of concern to central banks, including those relating to economic, monetary and financial stability.

The hosted associations are as follows:

- the Financial Stability Board (FSB): an association including finance ministries, central banks and other financial authorities in 24 countries; coordinates at the international level the work of national authorities and international standard setters and develops policies to enhance financial stability;
- the International Association of Deposit Insurers (IADI): sets global standards for deposit insurance systems and promotes cooperation on deposit insurance and bank resolution arrangements; and
- the International Association of Insurance Supervisors (IAIS): sets standards for the insurance sector to promote globally consistent supervision.

The Bank's own Financial Stability Institute (FSI) facilitates the dissemination of the standard-setting bodies' work to central banks and financial sector supervisory and regulatory agencies through its extensive programme of meetings, seminars and online tutorials.

The Basel Process is based on three key features: synergies of co-location, flexibility and openness in the exchange of information, and support from the economic expertise and banking experience of the BIS.

Synergies of co-location

The physical proximity of the nine committees and associations at the BIS creates synergies that produce a broad and fruitful exchange of ideas. In addition, by reducing each group's costs of operation through economies of scale, the Basel Process supports a more efficient use of public funds.

Flexibility and openness in the exchange of information

The limited size of these groups leads to flexibility and openness in the exchange of information, thereby enhancing the coordination of their work on financial stability issues and preventing overlaps and gaps in their work programmes. At the same time, their output is much larger than their limited size would suggest, as they are able to leverage the expertise of the international community of central bankers, financial regulators and supervisors, and other international and national public authorities.

Support from the economic expertise and banking experience of the BIS

The work of the nine groups is informed by the BIS's economic research and by the practical experience it gains from the implementation of regulatory standards and financial controls in its banking activities.

Activities of BIS-hosted committees and the FSI in 2013/14

This section reviews the year's principal activities of the six committees hosted by the BIS and of the Financial Stability Institute.

Basel Committee on Banking Supervision

The Basel Committee on Banking Supervision (BCBS) seeks to enhance supervisory cooperation and improve the quality of banking supervision worldwide. It supports supervisors by providing a forum for exchanging information on national supervisory arrangements, improving the effectiveness of techniques for supervising international banks and setting minimum supervisory and regulatory standards.

The Committee, which generally meets four times a year, consists of senior representatives of bank supervisory authorities and central banks responsible for banking supervision or financial stability issues in the Committee's member countries. The Group of Governors and Heads of Supervision (GHOS) is the Basel Committee's governing body and consists of central bank Governors and non-central bank heads of supervision from member countries.

Key initiatives

The Committee's current work programme has four goals:

- policy reform, with the primary task of completing the crisis-induced reforms;
- implementation of the Basel regulatory framework;
- further examining the balance between simplicity, comparability and risk sensitivity in the regulatory framework; and
- improving the effectiveness of supervision.

Policy reform

The Basel III framework, a set of global regulatory standards on bank capital adequacy and liquidity that promote a more resilient banking sector, began taking effect in many jurisdictions at the start of 2013. All Basel Committee member countries have introduced the capital adequacy requirements. The Committee continues to develop global regulatory and supervisory standards and to monitor its members' implementation of the Basel framework.

Basel III leverage ratio. On 12 January 2014, after endorsement by the GHOS, the Committee issued the full text of the framework and disclosure requirements for the Basel III leverage ratio. The document included modifications to the consultative proposal the Committee issued in June 2013. The leverage ratio complements the risk-based capital framework to better limit the build-up of excessive leverage in the banking sector.

The numerator of the leverage ratio is a measure of equity (the "capital measure"), and the denominator is a measure of assets (the "exposure measure"). The capital measure is currently defined as Tier 1 capital, and a minimum leverage ratio of 3% has been tentatively proposed. The Committee is checking the ratio at banks twice per year to assess its appropriateness over a full credit cycle and for different types of business models. It is also collecting data to assess the impact of using Common Equity Tier 1 (CET1) or total regulatory capital as the capital measure.

Banks have begun reporting on the ratio to national supervisors, and public disclosure starts on 1 January 2015. The Committee will make any final adjustments to the definition and calibration of the leverage ratio by 2017, with a view to migrating to a Pillar 1 (minimum capital requirements) treatment on 1 January 2018.

Basel III net stable funding ratio. The Committee first published its proposals on the net stable funding ratio (NSFR) in 2009 and included the measure in the December 2010 Basel III agreement. Since that time, the Committee has been reviewing the standard and its implications for financial market functioning and the economy.

The NSFR limits over-reliance on short-term wholesale funding, encourages better assessment of funding risk across all on- and off-balance sheet items, and promotes funding stability. A robust funding structure increases the likelihood that, if a bank's regular sources of funding are disrupted, it will maintain liquidity sufficient to sustain its operations.

On 12 January 2014, after endorsement by the GHOS, the Committee issued proposed revisions to the NSFR. The revisions include reducing cliff effects within the measurement of funding stability, improving the alignment of the NSFR with the liquidity coverage ratio, and altering the calibration of the NSFR to focus greater attention on short-term, potentially volatile funding sources.

Refinements to the liquidity coverage ratio. Also in January 2014, the GHOS endorsed the Committee's proposal to modify the definition of high-quality liquid assets (HQLA) within the liquidity coverage ratio (LCR) framework to provide greater use of committed liquidity facilities (CLFs) provided by central banks. The use of CLFs within the LCR had been limited to those jurisdictions with insufficient HQLA to meet the needs of the banking system. Subject to a range of conditions, a restricted version of a CLF (an RCLF) may be used by any jurisdiction in times of stress. The conditions are intended to limit the use of RCLFs in normal times, thereby maintaining the principle that banks should self-insure against liquidity shocks and that central banks should remain the lenders of last resort. Whether jurisdictions choose to make use of RCLFs is a matter for national discretion; central banks are under no obligation to offer them.

Margin requirements for non-centrally cleared derivatives. In September 2013, the Committee and the International Organization of Securities Commissions (IOSCO) released the final framework for margin requirements for non-centrally cleared derivatives. Under these globally agreed standards, all financial firms and systemically important non-financial entities that transact non-centrally cleared derivatives will have to exchange initial and variation margin commensurate with the counterparty risks arising from such transactions. The framework has been designed to reduce systemic risks related to OTC (over-the-counter) derivatives markets as well as to provide firms with appropriate incentives for central clearing while managing the overall liquidity impact of the requirements.

The requirements will be phased in over a four-year period, which begins in December 2015 with the largest, most active and most systemically important participants in the derivatives market.

Standardised approach for capitalising counterparty credit risk exposures. Following a public consultation on a "non-internal model method" proposed in June 2013, the Committee published a final standard in March 2014 to improve the methodology for assessing the counterparty credit risk associated with derivatives transactions. The standardised approach, which will come into effect on 1 January 2017, will replace the capital framework's existing methods – the Current Exposure Method and the Standardised Method. It improves on the risk sensitivity of the Current Exposure Method by differentiating between margined and unmargined trades. The standardised approach updates supervisory factors to reflect the level of volatilities observed over the recent stress period and provides a more meaningful recognition of netting benefits. At the same time, the method is suitable for a wide variety of derivatives transactions, reduces the scope for discretion by banks as it does not rely on internal models, and avoids undue complexity.

Updated assessment methodology and additional loss absorbency requirement for global systemically important banks. In July 2013, the Committee published an updated framework that sets out its assessment methodology for identifying global systemically important banks (G-SIBs). The framework also describes the requirements for additional loss absorbency that will apply to G-SIBs, the phase-in arrangements for these requirements and the disclosures that banks above a certain size are required to make to enable the framework to operate on the basis of publicly available information.

The measures will enhance the going-concern loss absorbency of G-SIBs and reduce the probability of their failure. The rationale for the measures is that current regulatory policies do not fully address the cross-border negative externalities created by G-SIBs.

The assessment methodology takes an indicator-based approach comprising five broad categories: size, interconnectedness, lack of readily available substitutes or financial institution infrastructure, global (cross-jurisdictional) activity and complexity.

The amount of additional loss absorbency will consist of "buckets" of CET1, with the buckets ranging in size from 1% to 3.5% of CET1, depending on a bank's systemic importance. Initially, no G-SIBs were assigned to the highest requirement – 3.5% (the so-called empty bucket) – which was established to discourage banks from becoming even more systemically important.

In December 2013, in accordance with the timeline it set out in July, the Committee published (i) the denominators that were used to calculate bank scores and (ii) the cutoff score and bucket thresholds that were used to identify the updated list of G-SIBs and to allocate them to buckets. That information will enable banks to calculate their own scores and their higher loss absorbency requirement. The requirement will be introduced, in parallel with the Basel III capital conservation and countercyclical buffers, between 1 January 2016 and year-end 2018, becoming fully effective on 1 January 2019.

Measuring and controlling large exposures. Concentrated exposures to individual counterparties have been a major source of bank failures and were significant during the global financial crisis. In April 2014, with the results of public consultation and a quantitative impact study in hand, the Committee finalised a supervisory framework for measuring and controlling large exposures to contain the maximum loss a bank could face in the event of a sudden counterparty failure. The framework can be used to mitigate the risk of contagion between G-SIBs, thus underpinning financial stability. It also offers policy measures designed to capture large exposures to shadow banks that are of concern to supervisors.

Capital requirements for investments in funds. Following a public consultation in mid-2013, the Committee revised its policy framework for the prudential treatment of banks' investments in the equity of all types of funds (eg hedge funds, managed funds, investment funds) that are held in the banking book. The revised framework will take effect from 1 January 2017 and will apply to all banks regardless of the method they use for assigning risk weights for credit risk.

In general, investing in funds should involve identifying their underlying assets, but this look-through approach may not always be feasible. Therefore, the revised framework provides incentives for improved risk management practices. It also helps address risks associated with banks' interactions with shadow banks and thus contributes to the broader effort by the Financial Stability Board to strengthen the oversight and regulation of shadow banking.

Fundamental review of the trading book. In October 2013, the Committee issued a follow-up to its May 2012 consultative paper on its fundamental review of capital requirements for the trading book. The October consultative paper comprises detailed proposals for a comprehensive revision of the market risk framework. Key features include:

- a revised boundary between the trading book and banking book that is less permeable and more objective; it reduces the incentives for regulatory arbitrage and remains aligned with banks' risk management practices;
- a shift in the measure of risk, from value-at-risk to expected shortfall, to better capture tail risk; calibration would be based on a period of significant financial stress;
- incorporation of market illiquidity risk and an additional risk assessment tool for trading desks with exposure to illiquid, complex products;
- a revised standardised approach that is sufficiently risk-sensitive to act as a credible fallback to internal models, and is still appropriate for banks that do not require sophisticated measurement of market risk;
- a revised internal models-based approach that includes a more rigorous approval process for the models and more consistent identification and capitalisation of material risk factors;
- a strengthened relationship between the standardised and the models-based approaches that requires all banks to conduct a standardised calculation and publicly disclose the resulting standardised capital charges; and
- a closer alignment of the regulatory treatment of credit risk in the trading book and the banking book by differentiating securitisation and non-securitisation exposures.

The Committee is also considering making the standardised approach a floor or a surcharge to the models-based approach. The Committee expects to finalise the trading book framework in 2015 following a comprehensive quantitative impact study.

Revisions to the securitisation framework. In December 2013, the Committee published a second consultative paper on revisions to the securitisation framework following a comment period and a quantitative impact study. In revising the framework, the Committee aimed to strike an appropriate balance between risk sensitivity, simplicity and comparability. The major changes in the December document apply to the hierarchy of approaches and the calibration of capital requirements.

For the hierarchy, the Committee has proposed a simple framework akin to that used for credit risk: if they have the capacity and supervisory approval, banks may use (i) an internal ratings-based approach in setting their capital requirement; if that is not possible for a given exposure, they may use (ii) an external ratings-based approach (if permitted by their jurisdiction) or, failing that, (iii) a standardised approach.

Capital requirements remain more stringent than under the existing framework. The Committee also proposes to set a 15% risk-weight floor for all approaches instead of the 20% floor originally proposed. The Committee intends to finalise the securitisation framework around year-end 2014.

Policy implementation

Implementation of the Basel III framework is a key priority of global regulatory reform. To facilitate implementation, the Basel Committee adopted a Regulatory Consistency Assessment Programme (RCAP). The RCAP (i) monitors the progress on implementation and (ii) assesses the consistency and completeness of the adopted standards. The RCAP also facilitates dialogue among Committee members and aids the Committee in developing standards.

The assessments are carried out by jurisdiction and by theme. The thematic focus, currently on risk-based capital, will expand from 2015 to cover Basel III standards on liquidity, leverage and systemically important banks.

In October 2013, the Committee published updated procedures for conducting jurisdictional assessments. The document will be updated as the scope of the RCAP expands to include all aspects of the Basel III framework.

An important part of the jurisdictional assessments is to ensure that the internationally active segment of the domestic banking system conforms to the letter and spirit of the relevant Basel standards; the assessment does so by highlighting the current and potential impact of that segment on the overall regulatory environment. This helps reveal differences within and across jurisdictions and allows member jurisdictions to initiate corrective measures, as appropriate, to strengthen and improve the functioning of their regulatory regimes.

This year the RCAP conducted jurisdictional assessments for Switzerland (published in June 2013), China (September), Brazil (December) and Australia (March 2014). By end-2014, the RCAP will have completed assessments for all countries that are home to G-SIBs. By end-2015, it will have completed or initiated detailed peer reviews of the capital regulations of all 27 member jurisdictions of the Basel Committee, which together account for more than 90% of global banking assets.

Progress reports. In April and October 2013, the Committee issued reports providing a high-level view of Committee members' progress in adopting Basel II, Basel 2.5 and Basel III. The reports focus on the status of domestic rule-making processes to ensure that the Committee's capital standards are transformed into national law or regulation according to the internationally agreed time frames. The Committee believes that disclosure will provide an additional incentive for members to fully comply with the international agreements.

Reports to the G20. In April 2013, the Committee gave updates to the G20 Finance Ministers and Central Bank Governors on progress in adopting the Basel III regulatory reforms. The report covered capital and other regulatory standards as well as banks' progress in bolstering their capital. It also highlighted specific shortcomings in implementation that will require continued policy and operational attention.

In August 2013, the Committee reported to the G20 Leaders on implementation of Basel III, the further harmonisation of capital regulations across member jurisdictions and the finalisation of the Basel framework's remaining post-crisis reforms. The report also included Committee findings regarding bank calculations of risk-weighted assets.

Basel III monitoring. Published twice a year, the Committee's *Basel III monitoring report* covers the implications of Basel III for financial markets. The results of the monitoring exercise assume that the final Basel III package has been fully implemented. Thus, they do not take account of the transitional arrangements set out in the Basel III framework, such as the gradual phase-in of deductions from regulatory capital. The latest report was released in March 2014. It shows that, as of 30 June 2013, the sampled banks' average CET1 capital ratio under the Basel III framework was 9.5% for Group 1 (representative of internationally active banks with Tier 1 capital of more than €3 billion) and 9.1% for Group 2 (representative of all other banks). The fully phased-in CET1 minimum requirement is 4.5%, and the CET1 target level is 7.0%. The report indicates that shortfalls in the risk-based capital of large internationally active banks generally continue to shrink.

Liquidity coverage ratio. In January 2014, following a mid-2013 public consultation, the Committee issued final requirements for banks' LCR-related disclosures.

Internationally active banks in all Committee member jurisdictions will have to publish their LCR according to a common template to help market participants consistently assess banks' liquidity risk position. National authorities will implement these disclosure standards, and compliance will be required from the date of the first reporting period after 1 January 2015.

Risk data aggregation and risk reporting. In December 2013, the Committee published a report that assessed the overall progress of G-SIBs in adopting the Committee's *Principles for effective risk data aggregation and risk reporting*. The principles, issued in January 2013, are designed to help improve risk management, decision-making and resolvability.

The assessment found that many banks are having difficulties with the initial stage of implementation, which covers the governance, architecture and processes for strong data aggregation. Of the 30 banks identified as G-SIBs during 2011 and 2012, 10 reported that they will not be able to comply with the principles by the 1 January 2016 deadline for full implementation, the main reason being the resources devoted to large multi-year computer and data-related projects.

The Committee will continue to monitor the status of G-SIBs as regards meeting the deadline. In addition, the Committee urges national supervisors to apply these principles to institutions identified as domestic SIBs three years after their designation as such. The Committee believes that the principles can be applied to a wider range of banks in a way that is appropriate to their size, nature and complexity.

Simplicity, comparability and risk sensitivity

Having substantially strengthened the banking system's regulatory framework, the Committee has now turned to the matter of its complexity and the comparability of capital adequacy ratios across banks and jurisdictions. The Committee considers it essential to the ongoing effectiveness of the Basel capital standards to simplify them where possible and to improve the comparability of their outcomes (eg regulatory capital, risk-weighted assets and capital ratios).

In 2012, the Committee commissioned a small group of its members to review the Basel capital framework, aware that, over time, the framework has steadily grown and that more sophisticated risk measurement methodologies have been introduced. The goal of the task force was to point to areas of undue complexity within the framework and opportunities to improve the comparability of its outcomes.

In July 2013, the Committee released a discussion paper on the trade-offs between the risk sensitivity of the Basel capital standards and their simplicity and comparability. The goal of the paper was to seek views to help shape the Committee's thinking on this question.

Related developments in the analysis of comparability were the Committee's release of two studies on the risk-weighting of assets, the first regarding credit risk in the banking book, and the second regarding market risk in the trading book.

Banking book – risk-weighting of assets for credit risk. In July 2013, the Committee published its first report on the consistency of weighting for credit risk in the banking book. Part of the RCAP, the study draws on supervisory data from more than 100 major banks plus data on sovereign, bank and corporate exposures collected from 32 major international banks as part of a portfolio benchmarking exercise.

Risk-weighted assets (RWA) for credit risk in the banking book vary considerably across banks, mostly because the differences in the riskiness of assets across banks are real. The study found, however, that a material portion of the variation is driven by differences in bank and supervisory practices regarding the weighting process. These differences could result in the reported capital ratios of identical portfolios for some outlier banks varying by as much as 2 percentage points in either direction from a 10% capital ratio benchmark – potentially a 4 percentage point difference – although the capital ratios for most banks fall within a narrower range.

The report discusses policy options for minimising such excessive practice-based variations. The Committee considers it critical to improve the comparability of regulatory capital calculations by banks while maintaining good risk sensitivity.

Trading book – risk-weighting of assets for market risk. The Committee's December 2013 report on market risk in the trading book follows up on a January 2013 study, which found that internal models produced a significant variation in market risk weights and that modelling choices were a significant driver of the variation. The December study extended that analysis to more representative and complex trading positions. It confirmed the earlier findings and in addition showed that the variability in market risk weights typically increases for more complex trading positions.

Policy recommendations in the December study support reforms identified in the earlier report, which are being addressed by the Committee's ongoing reviews of the trading book framework and Pillar 3 (market discipline) requirements for disclosure. These reform areas are:

- improving public disclosure and the collection of regulatory data to aid the understanding of weighting for market risk;
- narrowing the range of modelling choices for banks; and
- further harmonising supervisory practices with regard to model approvals.

Improving the effectiveness of supervision

The global financial crisis underscored the crucial importance of supervision for financial stability and for the effective functioning of the policy framework.

Sound capital planning. In January 2014, the Committee issued *A sound capital planning process: fundamental elements*, which brings together recent supervisory thinking on important lessons from the financial crisis concerning weak capital planning.

During and after the crisis, certain jurisdictions conducted ad hoc stress tests to assess capital adequacy at banks. Because of the pressing need to determine whether banks were appropriately capitalised, those first rounds of official stress tests often did not include an assessment of the processes banks employ to project potential capital needs and to manage capital sources and uses. More recently, supervisors have begun to codify their expectations for what constitutes sound processes for capital planning. Those processes help banks judge the appropriate amount and composition of capital needed to support their business strategies across a range of potential scenarios and outcomes.

Supervisory colleges. A consultative document published by the Committee in January 2014, *Revised good practice principles for supervisory colleges*, updates the original document, published in October 2010, which included a commitment to take stock of any key lessons learned from their use. The January consultative report follows a review of the challenges encountered in implementation and possible areas of additional best practice. The review took into account the perspectives of home and host supervisors and internationally active banks.

Money laundering and financing of terrorism. In January 2014, following a mid-2013 consultative period, the Committee issued *Sound management of risks related to money laundering and financing of terrorism*, a set of guidelines describing how banks should include such risks within their overall risk management framework. The guidelines are consistent with those in *International standards on combating money laundering and the financing of terrorism and proliferation*, issued by the Financial Action Task Force (FATF) in 2012, and supplement their goals and objectives. The Committee's guidelines include cross-references to FATF standards to help banks comply with national requirements based on those standards.

Market-based indicators of liquidity. Also in January 2014, the Committee published information to assist supervisors in their evaluation of the liquidity profile of assets held by banks. The document, *Guidance for supervisors on market-based indicators of liquidity*, also helps promote greater consistency in the classification of so-called high-quality liquid assets (HQLA) across jurisdictions in the context of the Basel III LCR. The guidance does not change the definition of HQLA within the LCR; rather, it helps supervisors assess whether assets are suitably liquid for LCR purposes.

Intraday liquidity management. In April 2013, the Committee issued the final version of its *Monitoring tools for intraday liquidity management*. The seven quantitative tools were developed in consultation with the CPSS to help banking supervisors better monitor a bank's management of intraday liquidity risk and its ability to meet its payment and settlement obligations. They complement the qualitative guidance in the Committee's 2008 *Principles for sound liquidity risk management and supervision*.

Introduced for monitoring purposes only, the tools will also help supervisors gain a better understanding of banks' payment and settlement behaviour. Internationally active banks will be required to apply them; national supervisors will determine the extent to which the tools apply to non-internationally active banks within their jurisdictions. Monthly reporting of the monitoring tools will commence from 1 January 2015 to coincide with the implementation of the LCR reporting requirements.

External audits. The financial crisis revealed the need to improve the quality of external audits of banks. Following a public consultation in 2013, the Committee published *External audits of banks* in March 2014. Its 16 principles and accompanying explanatory guidance describe supervisory expectations regarding audit quality and how they relate to the external auditor's work in a bank.

Joint Forum publications. During the past year, the Joint Forum[2] issued publications on mortgage insurance, longevity risk and point of sale disclosures.

- *Mortgage insurance: market structure, underwriting cycle and policy implications* Published in August 2013 after a comment period, this report examines the interaction of mortgage insurers with mortgage originators and underwriters. It makes a series of recommendations for policymakers and supervisors that aim to reduce the likelihood of mortgage insurance stress and failure in times of crisis.

2 The Joint Forum was established in 1996 under the aegis of the Basel Committee, IOSCO and the IAIS to deal with issues common to the banking, securities and insurance sectors, including the regulation of financial conglomerates. Its membership consists of senior supervisors from the three sectors (www.bis.org/bcbs/jointforum.htm).

- *Longevity risk transfer market: market structure, growth drivers and impediments, and potential risks*
  Longevity risk is the possibility of paying out on pensions and annuities for longer than anticipated because of rising longevity. Published in December 2013 following a comment period, the guidance considers risk transfer markets and makes recommendations for supervisors and policymakers.
- *Point of sale disclosure in the insurance, banking and securities sectors*
  Published for consultation in August 2013, the report assesses differences and gaps in regulatory approaches to point of sale (POS) disclosure for investment and savings products across the insurance, banking and securities sectors. The report considers whether POS disclosures need to be further aligned across sectors, and it includes recommendations to assist policymakers and supervisors in addressing that question.

BCBS: www.bis.org/bcbs

Committee on the Global Financial System

The Committee on the Global Financial System (CGFS) monitors financial market developments for the Governors of the BIS Global Economy Meeting and analyses the implications of these developments for financial stability and central bank policy. The CGFS is chaired by William C Dudley, President of the Federal Reserve Bank of New York. Committee members are Deputy Governors and other senior officials from 23 central banks of major advanced and emerging market economies and the Economic Adviser of the BIS.

Among the focal points of the Committee's discussions during the past year were the challenges posed by the eventual exit of major central banks from their current accommodative policies and the resulting implications for financial markets. Cross-market spillovers from exit, including reversals in capital flows, were a key aspect of this topic. Committee members also examined risks posed by financial imbalances that may have built up during the recent period of monetary accommodation and the possibility of addressing them through macroprudential policy. Also discussed were sovereign and banking sector risks in the euro area, the budgetary stand-off in the United States, and the risks posed by macroeconomic and financial developments in China and other key emerging market economies.

A number of in-depth analyses and longer-term projects have been commissioned by the Committee from groups of central bank experts. Three of these groups produced public reports during the year.

The rising demand for collateral assets. The first report, issued in May 2013, explored the increasing demand for collateral assets arising from regulatory reform and other developments. It found that endogenous market adjustments are likely to prevent any lasting system-wide scarcity of collateral assets. The report argued that policy responses therefore need to focus primarily on those market adjustments and their implications, rather than on supply-demand conditions for the assets. Later in the year, key market responses, including collateral transformation and optimisation activities, were investigated further in an informal workshop with industry participants.

Trade finance. The second report, published in January, examined the interplay between changes in trade finance and international trade. It found that trade finance has historically posed little financial stability risk. It noted, however, that when banks run down their trade finance assets in response to strains, the trade finance market can transmit stress from the financial system to the real economy.

Therefore, policies that broadly address weaknesses in bank capital and liquidity and encourage competition – aspects of current regulatory efforts – were found to generally provide an effective means for avoiding or containing disruptions to trade finance flows.

Banking systems in emerging market economies (EMEs). In March, a report provided indications that banking groups headquartered in EMEs are starting to play a greater role in regional financial systems. That process, however, has not yet reached a point where it would significantly change the risk profile of EME banking systems. Yet over time there may be broader effects that warrant strengthening the regulatory environment and market infrastructures and providing crisis prevention and resolution measures.

CGFS: www.bis.org/cgfs

Committee on Payment and Settlement Systems

The Committee on Payment and Settlement Systems (CPSS) promotes the safety and efficiency of payment, clearing, settlement and reporting systems and arrangements, thereby supporting financial stability and the wider economy. Comprising senior officials from 25 central banks, the CPSS is a recognised global standard setter in its field. It also serves as a forum for central banks to monitor and analyse developments concerning payment, clearing and settlement within and across jurisdictions and to cooperate in related policy and oversight matters. The Committee Chair is Benoît Cœuré, a member of the Executive Board of the European Central Bank.

Monitoring implementation of standards for financial market infrastructures

The CPSS-IOSCO *Principles for financial market infrastructures* (PFMIs report), published in April 2012, sets out international standards for systemically important FMIs – payment systems, central securities depositories, securities settlement systems, central counterparties (CCPs) and trade repositories. The PFMIs report also specifies five responsibilities for the authorities that oversee or regulate the FMIs, including effective cooperation between authorities where more than one is involved.

Monitoring the consistent, complete and timely implementation of the PFMIs is a high priority for the CPSS and involves three phases: (i) Have the legislation and related rules to enable implementation been adopted? (ii) Are the legislation and related rules complete and consistent with the PFMIs? (iii) Has implementation of the new standards produced consistent outcomes?

In August 2013, the CPSS and IOSCO published the results of the first phase of monitoring. The report showed that most jurisdictions had begun enactment of the necessary laws and rules. Although few had completed the process for all types of FMIs, the results represented substantial progress during the relatively brief period since the PFMIs report was issued.

Continued monitoring and regular updates for the first phase are planned until all jurisdictions have completed the legal and regulatory framework. In February 2014, the CPSS and IOSCO also started the second phase of the monitoring process.

Recovery of financial market infrastructures

In August 2013, the CPSS and IOSCO released a consultative report, *Recovery of financial market infrastructures*. The report gives guidance to financial market infrastructures such as CCPs on developing plans to enable them to recover from threats to their viability and financial strength that might prevent them from continuing to provide critical services. It was produced in response to comments received on an earlier CPSS-IOSCO report, *Recovery and resolution of financial market infrastructures*, that requested more guidance on what recovery tools would be appropriate for FMIs.

Authorities' access to trade repository data

A report issued by the CPSS and IOSCO in August 2013 outlines the framework to guide authorities' regular and ad hoc access to data held in trade repositories. The guidance expands on issues of access addressed in the January 2012 CPSS-IOSCO publication on aggregation and reporting of data on OTC derivatives.

Non-banks in retail payments

The CPSS is studying the role of non-banks in retail payments. It is analysing the factors that explain the growing importance of non-banks in this area, the possible risks and the differing regulatory approaches of the various CPSS jurisdictions.

Payment aspects of financial inclusion

The CPSS, in cooperation with the World Bank, has recently started to explore the links between payment systems and financial inclusion.

Cyber-security in FMIs

The CPSS has begun analysing cyber-security issues and their implications for FMIs in view of the operational risk principle set out in the PFMIs report.

Red Book statistics

In December 2013, the CPSS published its annual update of *Statistics on payment, clearing and settlement systems in the CPSS countries*.

CPSS: www.bis.org/cpss

Markets Committee

The Markets Committee is a forum for senior central bank officials to jointly monitor developments in financial markets and assess their implications for the operations of central banks. The Committee's membership comprises 21 central banks.

In June 2013, the BIS Global Economy Meeting appointed Guy Debelle, Assistant Governor of the Reserve Bank of Australia, as Chair of the Committee. He succeeded Hiroshi Nakaso, Deputy Governor of the Bank of Japan, who had served as Chair since June 2006.

The timing of the Federal Reserve's decision to scale back its pace of asset purchases and the Bank of Japan's new monetary policy framework (quantitative and qualitative easing) shaped the Committee's discussion during the year. The Committee monitored the impact of these developments in emerging market economies especially closely.

Moreover, the Committee discussed the greater emphasis on forward policy guidance in some advanced economies; money market developments in China; and the emerging contours of the ECB's comprehensive assessment of credit institutions. Uncertainties surrounding the debt limit and government shutdown in the United States in late 2013 prompted a close dialogue among Committee members to discuss potential market implications.

In addition to monitoring near-term market developments, the Committee also devoted time to the potential longer-term market effects of new and evolving financial regulations. The Committee's deliberations included discussions on swap execution facilities and European Commission proposals for a financial transaction tax and the regulation of financial benchmarks. The Committee also discussed the design of foreign exchange benchmarks.

Under the auspices of the Markets Committee, the BIS and 53 participating central banks conducted the 2013 Triennial Central Bank Survey of Foreign Exchange Market Activity. Trading in foreign exchange markets averaged $5.3 trillion per day in April 2013, up from $4.0 trillion in April 2010. The Committee reviewed the usefulness of the survey's expanded coverage of currency pairs and of the refinements introduced in the survey categories for counterparty and execution methods. To aid the design of future Triennial Surveys, the Committee organised a January 2014 workshop with private sector participants regarding execution methods for foreign exchange transactions.

Markets Committee: www.bis.org/markets

Central Bank Governance Group

The Central Bank Governance Group comprises nine central bank Governors and is chaired by Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia. It serves as a venue for information exchange on the design and operation of central banks as public policy institutions. The Group also suggests priorities for BIS work carried out on these topics through the almost 50 central banks that make up the Central Bank Governance Network. Central bank officials have access to the results of numerous surveys on governance topics conducted among Network central banks as well as other governance research, and selected material is published.

The Governance Group convened during several BIS bimonthly meetings to study the evolving circumstances of central banks. The Group discussed the post-crisis organisational issues faced by central banks that have a major responsibility for banking supervision, surveyed the organisation of financial risk management within central banks, and discussed the challenges faced in communicating policy actions and intentions in uncertain times. The information and insights provided help central banks assess the effectiveness of their own arrangements as well as the alternatives available.

Central Bank Governance Group: www.bis.org/cbgov

Irving Fisher Committee on Central Bank Statistics

The Irving Fisher Committee on Central Bank Statistics (IFC) addresses statistical topics related to monetary and financial stability. The IFC comprises more than 80 central banks worldwide, including almost all BIS members, and is currently chaired by Muhammad Ibrahim, Deputy Governor of the Central Bank of Malaysia.

The Committee and various central banks co-sponsored workshops and meetings on the following topics: balance of payments issues (Bank of France); the integrated management of micro-databases (Bank of Portugal); and measuring structural change in the financial system, especially regarding shadow banking (People's Bank of China). It also organised six sessions at the 59th biennial World Statistics Congress of the International Statistical Institute (ISI), held in Hong Kong SAR. The IFC's sessions covered data methodologies and compilation exercises related to five sets of financial and economic variables: bank interest rates, real effective exchange rates, inflation measures, external debt and capital flows. At the Congress, the IFC became an affiliated member of the ISI.

The Committee has set up a task force to analyse data sharing between central bank statistical departments and bank supervisors so as to support research and policy analysis relating to financial stability. The group has made an inventory of approaches taken in different countries, and it is identifying good practices that will allow central banks and supervisors to benchmark their national arrangements.

The IFC's 2013 annual report was endorsed by the BIS All Governors' Meeting in January and was published in February.

IFC: www.bis.org/ifc

Financial Stability Institute

The Financial Stability Institute (FSI) assists supervisory authorities worldwide in their oversight of financial systems by fostering a solid understanding of prudential standards and good supervisory practice.

The FSI helps supervisors to implement reforms developed by international standard-setting bodies by explaining the concepts and detail of the reforms and their implications for supervision. It carries out these tasks through a range of channels, including high-level meetings, seminars and the internet. Its online information resource and learning tool, FSI Connect, is used by financial sector supervisors at all levels of experience and expertise.

The FSI annually surveys selected countries' implementation of the Basel framework and publishes the results on the BIS website. The 2013 survey results, combined with work by the Basel Committee on Banking Supervision, show that 100 countries have implemented or are in the process of implementing Basel II, and 72 countries are implementing Basel III.

Meetings, seminars and conferences

The FSI's extensive programme of high-level meetings, seminars and conferences is targeted at banking and insurance supervisors and central bank financial stability experts. Over the past year, approximately 1,700 participants attended 41 banking events and nine insurance seminars.

The annual high-level regional meetings for Deputy Governors of central banks and heads of supervisory authorities, organised jointly with the BCBS, took place in Africa, Asia, central and eastern Europe, Latin America and the Middle East. Topics included financial stability, macroprudential tools and policies, regulatory priorities and other key supervisory issues.

The FSI held banking seminars in Basel and collaborated with the following supervisory groups for seminars elsewhere:

- Africa – Committee of Bank Supervisors of West and Central Africa (BSWCA); Southern African Development Community (SADC)
- Americas – Association of Supervisors of Banks of the Americas (ASBA); Center for Latin American Monetary Studies (CEMLA); Caribbean Group of Banking Supervisors (CGBS)

- Asia and the Pacific – Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) Working Group on Banking Supervision; South East Asian Central Banks (SEACEN); Central Banks of South East Asia, New Zealand and Australia (SEANZA) Forum of Banking Supervisors
- Europe – European Banking Authority (EBA); Group of Banking Supervisors from Central and Eastern Europe (BSCEE)
- Middle East – Arab Monetary Fund (AMF); Gulf Cooperation Council (GCC) Committee of Banking Supervisors
- Other – Group of French-Speaking Banking Supervisors (GSBF); Group of International Finance Centre Supervisors (GIFCS)

In collaboration with the International Association of Insurance Supervisors (IAIS) and the IAIS's regional network, the FSI held insurance seminars in Switzerland as well as in Africa, Asia, central and eastern Europe, Latin America and the Middle East.

The seminars last year focused on the revised BCBS and IAIS core principles, risk-based supervision, macroprudential policies and systemic risk assessment, and Basel III capital and risk-based solvency.

FSI Connect

FSI Connect is used by more than 9,800 subscribers from 250 central banks and banking and insurance supervisory authorities. It offers more than 230 tutorials covering a wide range of regulatory policy and supervisory topics. Recently released tutorials cover supervisory intensity and effectiveness, public awareness of deposit insurance systems, macroprudential supervision, group-wide supervision and on-site inspection processes for insurance supervisors, and pricing of life insurance products.

FSI: www.bis.org/fsi

Activities of BIS-hosted associations in 2013/14

This section reviews the year's principal activities of the three associations hosted by the BIS in Basel.

Financial Stability Board

The Financial Stability Board (FSB) coordinates at the international level the financial stability work of national authorities and international standard-setting bodies; and it develops and promotes financial sector policies to enhance global financial stability.[3]

Its membership consists of finance ministries, central banks,[4] and financial supervisory and regulatory authorities in 24 countries and territories;[5] the European

[3] The FSB is a not–for-profit association under Swiss law and is hosted by the BIS under a five-year renewable service agreement. The BIS provides financial and other resources for the FSB Secretariat, which currently comprises 29 staff members.

[4] Including a central bank group, the CGFS.

[5] The country members of the G20 plus Hong Kong SAR, the Netherlands, Singapore, Spain and Switzerland.

Central Bank (ECB) and the European Commission; and international financial institutions and standard-setting bodies.[6]

The FSB, chaired by Mark Carney,[7] operates through Plenary meetings of its membership; the Plenary appoints the Chair of the FSB and a Steering Committee. The FSB also has four Standing Committees:

- Assessment of Vulnerabilities – chaired by Agustín Carstens, Governor of the Bank of Mexico;
- Supervisory and Regulatory Cooperation – chaired by Daniel Tarullo, member of the Board of Governors of the Federal Reserve System;
- Standards Implementation – chaired by Ravi Menon, Managing Director of the Monetary Authority of Singapore; and
- Budget and Resources – chaired by Jens Weidmann, President of the Deutsche Bundesbank.

To facilitate its interaction with a wider group of countries, the Plenary has established six regional consultative groups (for the Americas, Asia, the Commonwealth of Independent States, Europe, the Middle East and North Africa, and sub-Saharan Africa). These groups bring FSB members together with institutions from about 65 non-member jurisdictions to discuss vulnerabilities affecting regional and global financial systems and the current and potential financial stability initiatives of the FSB and member jurisdictions.

The Plenary has also established various working groups, which cover a number of technical areas.

Plenary meetings were held in June and November 2013 and in March 2014. As detailed below, the FSB was active in a wide range of areas during the year, and several policy initiatives were endorsed at the September 2013 St Petersburg Summit of the G20 Leaders.

Reducing the moral hazard posed by systemically important financial institutions (SIFIs)

Endorsed by the G20 Leaders at their 2010 Seoul Summit, the FSB's framework to address the systemic risks and moral hazard associated with SIFIs contains three key elements:

- a resolution framework to ensure that all financial institutions can be quickly resolved without destabilising the financial system and exposing the taxpayer to risk of loss;
- higher loss absorbency for SIFIs to reflect the greater risks they pose for the global financial system; and
- more intense supervisory oversight for SIFIs.

Resolution of SIFIs. In July, the FSB published *Guidance on recovery triggers and stress scenarios* covering three key aspects of recovery and resolution planning: (i) developing the scenarios and triggers that should be used in recovery plans for global SIFIs (G-SIFIs); (ii) developing resolution strategies and associated operational resolution plans tailored to different group structures; and (iii) identifying the

[6] The international financial institutions are the BIS, IMF, OECD and World Bank; the international standard-setting bodies are the BCBS, the International Accounting Standards Board (IASB), the IAIS and IOSCO.

[7] Was Governor of the Bank of Canada until 1 June 2013 and became Governor of the Bank of England on 1 July 2013.

functions that should remain in operation during resolution to maintain systemic stability.

In August, the FSB published three consultative papers regarding its October 2011 document *Key attributes of effective resolution regimes for financial institutions* (hereafter in text and titles, *Key attributes*).

On 12 August, it released *Application of the Key attributes to non-bank financial institutions*. When final, the guidance is intended to form additional annexes to the *Key attributes* on the following topics:

- the resolution of financial market infrastructures (FMIs) and of systemically important FMI participants;
- the resolution of insurers; and
- client asset protection in resolution.

Also on 12 August, the FSB released *Information sharing for resolution purposes*, which covers standards for confidentiality and statutory safeguards for information sharing within cross-border crisis management groups and for institution-specific cross-border cooperation agreements.

On 28 August, the FSB published *Assessment methodology for the Key attributes*, which proposes criteria for assessing jurisdictions' compliance with the *Key attributes* and offers guidance on related legislative reforms. The FSB developed the draft methodology in conjunction with the IMF, World Bank and standard-setting bodies.

Higher loss absorbency. In November 2013, the FSB released the annual update to its list of global systemically important banks (G-SIBs) using end-2012 data; it was based on a revised methodology that was published by the BCBS in July 2013. One bank was added to the list, increasing the overall number from 28 to 29.

The list distributes the banks across the lower four of the five levels of required additional loss absorbency (additional common equity) for G-SIBs. The five levels range from 1% to 3.5% of risk-weighted assets, according to the level of systemic risk posed by the bank. The highest level (3.5%) is currently kept empty as a disincentive for G-SIBs to increase their systemic importance. Starting from 2016, the additional loss absorbency will be phased in over three years, initially for those banks in the November 2014 list.[8]

In July 2013, the FSB published an initial list of nine global systemically important insurers (G-SIIs), using the IAIS assessment methodology and end-2011 data. Starting from November 2014, the list of G-SIIs will be updated and published annually by the FSB. In July 2014, in consultation with the IAIS and national authorities, the FSB will determine the systemic status of, and appropriate risk mitigating measures for, major reinsurers. The IAIS also published policy measures for G-SIIs and an overall framework for macroprudential policy and surveillance in insurance, which were endorsed by the FSB.

More intense supervisory oversight. In November 2013, the FSB published *Principles for an effective risk appetite framework* and the consultation paper *Guidance on supervisory interaction with financial institutions on risk culture.* These papers form part of the FSB's initiative to increase the intensity and effectiveness of supervision, which is a key component of the policy response to the problem of firms that are "too big to fail". Supervisory expectations for firms' risk management functions and overall risk governance frameworks are increasing, as these were areas that exhibited significant weaknesses during the global financial crisis.

8 The current list is at www.financialstabilityboard.org/publications/r_121031ac.pdf.

In April 2014, the FSB will publish its final version of the guidance regarding risk culture, which will incorporate the feedback from the public consultation and report on efforts to enhance supervisory effectiveness.

Extending the framework. The FSB and standard-setting bodies continue to extend the SIFI framework to additional types of financial institutions. In January 2014, the FSB and IOSCO published for public consultation *Assessment methodologies for identifying non-bank non-insurer global systemically important financial institutions* (NBNI G-SIFIs). The document proposes methodologies for the identification of NBNI G-SIFIs, but it does not identify specific institutions, nor does it propose any policy measures. Policies will be developed once the methodologies are finalised.

Improving the OTC derivatives markets. The G20 has made commitments to improve the functioning, transparency and oversight of the OTC derivatives markets through increased standardisation, central clearing, organised platform trading and reporting of all trades to trade repositories (TRs). The FSB published progress updates on the reforms in April and September 2013, and it continues to work with member jurisdictions to complete the reforms, settle remaining cross-border issues and ensure the consistency of implementation across jurisdictions.

The FSB has set up a study group to consider how the data reported to TRs can be effectively used by authorities, in particular by aggregating the data. In February 2014, the FSB published a consultation paper that analyses the options for aggregating TR data on OTC derivatives.

Strengthening the oversight and regulation of shadow banking

The shadow banking system – credit intermediation involving entities and activities outside the regulated banking system – can be a source of systemic risk both directly and through its interconnections with the regular banking system. Shadow banking can also create opportunities for arbitrage that might undermine stricter bank regulation and lead to a build-up of additional leverage and risks in the financial system as a whole.

In August 2013, after a comment period, the FSB published revised policy recommendations to strengthen the oversight and regulation of the shadow banking system and mitigate its potential systemic risks. The recommendations focus on five areas:

- spillovers between the regular banking system and the shadow banking system;
- the susceptibility of money market funds (MMFs) to "runs";
- the incentives associated with securitisation;
- the risks and procyclical incentives associated with securities financing transactions that may exacerbate funding strains in times of market stress; and
- systemic risks posed by other shadow banking entities and activities.

The recommendations are now largely finalised with the exception of the proposals for securities financing transactions, which will be further refined.

In November 2013, the FSB released its third annual monitoring report on global trends and risks of the shadow banking system, including innovations and changes that could lead to growing systemic risks and regulatory arbitrage. The report includes data from 25 jurisdictions and the euro area as a whole, which represent about 80% of global GDP and 90% of global financial system assets. For the first time, the report also incorporates estimates from a hedge fund survey by IOSCO.

Credit ratings

In August 2013, the FSB released a progress report and an interim peer review report on the work by standard setters and national authorities to accelerate their implementation of the FSB's October 2010 guidance on reducing reliance on credit rating agency ratings. The goal of the guidance is twofold: to eliminate mechanistic market reliance on ratings, which is a cause of herding and cliff effects that can amplify procyclicality and cause systemic disruption; and to create incentives for market participants to improve their independent credit risk assessments and due diligence.

The second stage of the peer review will analyse planned actions to reduce reliance on the ratings; and it will report on progress with alternative measures of credit risk and the strengthening of banks' internal credit risk assessment processes. The FSB intends to issue the final peer review report in 2014.

Financial benchmarks

The G20 has tasked the FSB with promoting consistency in the various efforts to improve the reliability and robustness of interbank benchmark interest rates. The FSB has established a high-level Official Sector Steering Group (OSSG) of regulators and central banks to coordinate reviews of existing interest rate benchmarks. The OSSG will also guide a Market Participants Group, which will examine the feasibility of adopting additional reference rates and potential transition issues. The OSSG will report to the FSB by June 2014.

Addressing data gaps

The global financial crisis highlighted major gaps in information on globally active financial institutions. The FSB is developing a common data template with which G-SIBs can analyse their exposures and funding dependencies by counterparty, and their concentration by country, market, currency, sector and instrument. The international data hub that is collecting these data is hosted by the BIS and became fully operational in the second quarter of 2013 with the assembly of harmonised data on credit exposures of G-SIBS. In October 2013, the FSB and IMF published their *Fourth progress report on the implementation of the G-20 data gaps initiative*, which reported considerable progress.

Advancing transparency through the legal entity identifier (LEI)

The objective of the global LEI system is to provide unique identification of parties to financial transactions across the globe. The G20 endorsed the June 2012 FSB report *A global legal entity identifier for financial markets*, and an interim system has been launched. A key building block of an improved financial data infrastructure, the LEI will facilitate the achievement of many financial stability and risk management objectives as well as reduce operational risk within firms.

The Regulatory Oversight Committee (ROC) was established in January 2013 as a standalone body responsible for governance of the global LEI system and to ensure that it serves the public interest. It has asked the FSB to act as the founder of the Global LEI Foundation (GLEIF), and the FSB is undertaking a due diligence review of the possibility. The GLEIF will be established as a not-for-profit foundation under Swiss law to act as the operational arm of the LEI system. It will support the worldwide application of uniform operational standards and protocols set by the ROC and support the maintenance of a centralised database of identifiers and corresponding reference data.

Strengthening accounting standards

The G20 and FSB support the development of a single set of high-quality global accounting standards. The FSB continues to encourage the IASB and the Financial Accounting Standards Board to complete their convergence project, and it is monitoring their progress in implementing specific G20 and FSB accounting recommendations. The two boards made further progress in 2013. Work in the key areas of accounting for the impairment of loans and for insurance contracts is scheduled to be completed in 2014.

Enhanced Disclosure Task Force (EDTF)

The EDTF is a private sector initiative to enhance the risk disclosure practices of major banks. It issued principles and recommendations for such disclosures in October 2012. In August 2013, it published a survey on the level and quality of implementation as it appeared in the major banks' 2012 annual reports. The FSB has asked the EDTF to undertake another survey in 2014.

Monitoring implementation and strengthening adherence to international standards

The FSB's Coordination Framework for Implementation Monitoring (CFIM) mandates that implementation of reforms in priority areas (those deemed by the FSB to be particularly important for global financial stability) should be subject to more intensive monitoring and detailed reporting. Current priority areas are the Basel II, Basel 2.5 and Basel III frameworks; the OTC derivatives market reforms; compensation practices; policy measures for G-SIFIs; resolution frameworks; and shadow banking. Detailed reporting of progress in implementation, conducted in cooperation with relevant standard-setting bodies, has begun in several of these areas, and the FSB will extend and deepen monitoring in 2014.

In August, the FSB published the second progress report on member jurisdictions' adoption of the FSB's principles for sound compensation practices, issued in September 2009.

The FSB's most intensive monitoring mechanism is the peer review programme. It is conducted through its Standing Committee on Standards Implementation to evaluate member jurisdictions' adoption of international financial standards and FSB policies. In 2013, the FSB completed country peer reviews of South Africa, the United Kingdom and the United States. Three other peer reviews began in 2013 and will be completed in 2014: the thematic review of reducing reliance on ratings issued by credit rating agencies and country reviews of Indonesia and Germany.

In December 2013, the FSB published an update on its initiative to promote jurisdictions' adherence to standards for international supervisory and regulatory cooperation and information exchange. This annual update provides information on all jurisdictions evaluated under the initiative, including those identified as non-cooperative.

Impact of regulatory reforms on emerging market and developing economies (EMDEs)

As requested by the G20, and in consultation with standard-setting bodies and international financial institutions, the FSB reports on significant unintended consequences of internationally agreed reforms and of measures taken to address them. In September 2013, the FSB published an update of monitoring developments, which draws in part on the findings of a workshop organised in May 2013 on experiences among EMDEs. It also draws on discussions in FSB regional consultative groups and input from FSB members. The FSB will continue to report on the effects of reforms on EMDEs as part of its overall implementation monitoring framework.

Financial regulatory factors affecting the availability of long-term finance

In August 2013, the FSB updated the G20 Finance Ministers and Central Bank Governors on financial regulatory factors affecting the supply of long-term investment finance. The FSB's monitoring of this issue will continue as part of a broader study of long-term finance being undertaken for the G20 by international organisations.

FSB: www.financialstabilityboard.org

International Association of Deposit Insurers

The International Association of Deposit Insurers (IADI) is the global standard-setting body for deposit insurance systems. It contributes to the stability of financial systems by enhancing the effectiveness of deposit insurance and, in active partnership with other international organisations, by promoting international cooperation on deposit insurance and bank resolution arrangements. IADI also provides guidance on establishing and enhancing deposit insurance systems.

Jerzy Pruski, President of the Management Board of Poland's Bank Guarantee Fund, serves as the President of IADI and the Chair of its Executive Council.

The theme of IADI's 13th Annual General Meeting and Conference, held in Buenos Aires, was "Navigating through the financial reform landscape". Topics included changes in the global financial landscape; the response of deposit insurance and the banking sector to the financial crisis; financial safety net design; deposit insurance funding arrangements and reforms in bank resolution regimes; and contingency planning for bank failures.

IADI took action to advance the four strategic priorities it adopted in 2013, as follows.

Enhance IADI standards and evaluations

To enhance its standards and the evaluations based on them, IADI established a steering committee in February 2013 to propose a revision of its *Core principles for effective deposit insurance systems*.[9] In January 2014, IADI provided the committee's revisions for discussion by a Joint Working Group consisting of the BCBS, FSB, IMF, World Bank, European Commission and European Forum of Deposit Insurers. In June, the IADI Executive Council will consider the final version, which will later be presented to the FSB as an update to the FSB's key standards.

Conduct research and develop guidance on insurance and resolution

As a member of the FSB's Resolution Steering Group, IADI is contributing to the design of an international standard for the resolution of failed financial institutions.

9 IADI's core principles are part of the FSB's key standards for sound financial systems and are used in the Financial Sector Assessment Program (FSAP) conducted by the IMF and World Bank. IADI experts participate in FSAP evaluations and in IMF and World Bank technical assistance programmes.

A key issue for deposit insurers and resolution regimes is the use of bail-in for a bank resolution. IADI initiated a research project to identify strategies and guidance for the application of bail-in for deposit insurance systems.

IADI continued to advance its research on ex ante funding for deposit insurance funds and multiple deposit insurance systems within one jurisdiction. It also published guidance on mitigating moral hazard through early detection and timely intervention; and it issued a research paper on financial inclusion.

IADI is enhancing its database of global deposit insurance systems through updates from research surveys, including its own annual survey of deposit insurers. IADI posted on its public website a selection of results from its third annual survey; full results are available to IADI members, the FSB and the BIS.

More than 200 participants attended IADI's Second Bi-Annual Research Conference, which presented current research related to the conference theme, "Evolution of the deposit insurance framework: design features and resolution regimes".

Strengthen deposit insurance systems

IADI introduced a Self-Assessment Technical Assistance Program (SATAP). Under the SATAP, IADI experts assist deposit insurer members in evaluating their insurance systems and, as needed, in developing a reform programme.

In August 2013, IADI and the FSI held their third annual joint seminar on bank resolution and deposit insurance. Since 2008, IADI has collaborated with the FSI to produce eight online tutorials on deposit insurance systems.

IADI hosted global and regional seminars on various topics including reimbursement of deposit insurance, Islamic deposit insurance issues, integrated protection schemes and contingency planning for effective resolutions.

Expand membership and strengthen its support

This year, nine deposit insurers joined IADI, bringing its coverage of all explicit deposit insurance systems to 65% and the total number of organisations affiliated with IADI to 96. To address IADI's growth and strengthen its support of the membership, the Executive Council approved the establishment of a Research Unit in the Secretariat to enhance IADI's participation in research on current policy issues.

IADI: www.iadi.org

International Association of Insurance Supervisors

The International Association of Insurance Supervisors (IAIS) is the global standard-setting body for the insurance sector. Its purpose is to promote effective and globally consistent supervision and contribute to global financial stability so that policyholders may benefit from fair, safe and stable insurance markets. Peter Braumüller, a director in Austria's Financial Market Authority, chairs the IAIS Executive Committee.

Financial stability

In July 2013, the IAIS released its assessment methodology and policy measures for G-SIIs, which were endorsed by the FSB. It also released a framework for implementing macroprudential policy and surveillance (MPS) in the insurance sector. The focus of the MPS framework is on enhancing the supervisory capacity to identify, assess and mitigate macro-financial vulnerabilities that could lead to severe and widespread financial risk. The MPS framework is being refined by developing guidance on related IAIS insurance core principles and by developing a toolkit and data template of early warning risk measures for stress testing.

Insurance core principles

At its October general meeting, the IAIS revised Insurance Core Principle (ICP) 22, which covers anti-money laundering and combating the financing of terrorism, and adopted an "applications paper" on the same subject. This revision is an update to the October 2011 *Insurance core principles, standards, guidance and assessment methodology*. In October, the IAIS also adopted "issues papers" on policyholder protection schemes and the supervision of cross-border operations through branches.

ComFrame

In October, the IAIS issued the final consultation draft of the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), which builds on the IAIS insurance core principles. In 2014, after any modifications arising from the comment period, field testing of ComFrame will begin so that it can be further modified as necessary before formal adoption in 2018. Members are to begin implementation of ComFrame in 2019.

Global insurance capital standard

In October, the IAIS announced its plan to develop the first-ever risk-based global insurance capital standard (ICS), which will be a part of ComFrame. Full implementation of the ICS will thus begin in 2019 after two years of testing and refinement with supervisors and internationally active insurance groups.

The IAIS also began developing basic capital requirements (BCRs), which are scheduled to be finalised and ready for implementation by G-SIIs in late 2014. BCRs will undergird the higher loss absorbency requirements for GSIIs, and their development and testing is expected to also support development of the ICS.

Multilateral Memorandum of Understanding

Insurance supervisors that are signatories to the IAIS Multilateral Memorandum of Understanding (MMoU) participate in a global framework for cooperation and information exchange. The memorandum sets minimum standards to which signatories must adhere, and all applicants are subject to review and approval by an independent team of IAIS members. By participating in the MMoU, supervisors are better able to promote the financial stability of cross-border insurance operations for the benefit of consumers. The MMoU currently has 39 signatories representing more than 54% of worldwide premium volume.

Coordinated Implementation Framework

The Coordinated Implementation Framework (CIF), adopted in October 2013, sets forth key principles and strategies to guide the IAIS's extensive work in monitoring its members' implementation of IAIS supervisory material. The CIF establishes a programme of working with associations of supervisors around the world on regional implementation.

Central to the CIF is leveraging the work of partners. One of these partners, the Access to Insurance Initiative (A2ii), advances capacity building in inclusive insurance markets. Such markets are a critical area of attention for standard-setting bodies under the G20's Global Partnership for Financial Inclusion.

Self-assessment and peer reviews

In October, the IAIS released an aggregate report containing the findings from two self-assessment and peer reviews (SAPRs) conducted on ICP 1 (Objectives, Powers and Responsibilities of the Supervisor), ICP 2 (Supervisor) and ICP 23 (Group-Wide Supervision). The IAIS is committed to reviewing all ICPs through the SAPR process by the end of 2016. The outcome of these assessments will help identify areas in which the ICPs may need to be revised, which was the case with the SAPR for ICP 23; the results will also feed into IAIS education activities.

Joint Forum publications

The Joint Forum, which the IAIS co-established in 1996, issued publications during the past year on mortgage insurance, longevity risk and point of sale disclosures (more details are given above, at the end of the section on the Basel Committee on Banking Supervision).

IAIS: www.iaisweb.org

Economic analysis, research and statistics

The BIS provides in-depth economic analysis and research on policy issues regarding macroeconomic, monetary and financial stability. These activities are carried out by the Monetary and Economic Department (MED) at the head office in Basel and at the BIS Representative Offices in Hong Kong SAR and Mexico City. The BIS also compiles and disseminates international statistics on financial institutions and markets.

Analysis and research in the Basel Process

BIS economists produce analytical background documents and research papers on issues of importance to central banks and financial supervisory authorities. In particular, such work is prepared for the regular meetings of Governors and other senior central bank officials. MED also provides analytical and statistical support to the BIS-hosted committees and associations.

BIS researchers collaborate with central bank and academic economists and participate in research conferences and networks. Such engagements foster international cooperation in policy research and analysis, stimulate the exchange of ideas and enhance the quality of the Bank's work.

The BIS itself organises conferences and workshops designed to bring together participants from the worlds of policy, research and business. Of these gatherings, the flagship event for central bank Governors is the BIS Annual Conference. In June 2013, the 12th BIS Annual Conference – "Navigating the Great Recession: what role for monetary policy?" – focused on the nature of the Great Recession and its aftermath. Papers considered the appropriate policy mix, the risk of overburdening monetary policy, the relevance of global spillovers and the advancement of monetary policy cooperation in this evolving environment.

Most BIS analysis and research is published through the principal outlets on the Bank's website (www.bis.org) – the *Annual Report*, the *BIS Quarterly Review*, *BIS Papers* and *BIS Working Papers*. BIS economists also publish in professional journals and other external publications.

BIS research: www.bis.org/forum/research.htm

Research topics

Reflecting the Bank's mission, the focus of BIS research is on monetary and financial stability. In recent years, the principal themes of the work have been the challenges posed by the global financial crisis and its longer-term policy implications. During the past year, BIS research devoted special attention to three areas: financial intermediation; new frameworks for monetary and financial stability policies; and the global economy and spillovers.

The research on financial intermediation focused on conditions in emerging market economies, the measurement of banks' systemic importance and adjustments surrounding higher capital requirements. Analyses covered specific financial market segments (long-term finance, longevity risk transfer markets, collateral asset markets), instruments (non-deliverable forwards, contingent convertible bonds) and practices (liquidity stress testing, portfolio allocation). More general issues included the link between the financial system and growth, and the interplay between the financial health of the sovereign and that of the banking sector.

The research on new policy frameworks consisted of two lines of inquiry. The first explored various aspects of monetary policy and the macroeconomy, including collateral frameworks and practices; forward guidance policies; and the use of specific instruments such as committed liquidity facilities. It also considered foreign exchange intervention, interest rate pass-through processes, the sustainability and implications of extraordinarily low interest rates, and the link between the macroeconomy and the financial cycle (eg the usefulness of credit as an early indicator of crisis). The second line of enquiry addressed prudential policy, including the identification of systemically important institutions and the impact of structural regulation, which aims at distinguishing types of banking activity. Research also examined the macroeconomic impact of reforms in the regulation of OTC derivatives.

The third area of research, the global economy and spillovers, explored the nexus between the international monetary and financial system and the performance of the global economy. Among the issues studied were global imbalances; the concept, measurement and policy implications of global liquidity; and monetary policy spillovers.

International statistical initiatives

The BIS's unique international financial statistics facilitated detailed studies on transnational banking activity. Studies also focused on developments revealed by the 2013 BIS Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity.

The BIS is pursuing further enhancements to its international banking statistics. Together with central banks, it is improving the collection and dissemination of data on cross-border claims and liabilities of internationally active banks, a multistage process endorsed by the CGFS. In the current phase, central banks have started reporting a more detailed sectoral breakdown in both the locational and consolidated banking statistics; the latter are being extended to cover the liability positions of banks, including capital.

The BIS International Data Hub completed its first year of operations. It accomplished phase 1 of its goal, which was to assemble micro data covering global systemically important banks. This work has helped to strengthen the supervisory dialogue by providing authorities with a more complete picture of balance sheet interlinkages in derivatives markets. The Data Hub has been coordinating with the FSB Data Gaps Implementation Group in preparing for phase 2, which is the collection of additional data.

On its website, the BIS has begun releasing its Data Bank statistics regarding global liquidity indicators.[10] This initiative forms part of the BIS's support for G20 activities and extends earlier work by the BIS and CGFS.

The BIS also participates in the Inter-Agency Group on Economic and Financial Statistics (IAG), which follows up on the FSB and IMF recommendations to the G20 to close data gaps revealed by the financial crisis.[11]

BIS statistics: www.bis.org/statistics

Cooperation with other central bank initiatives

The BIS contributes to the activities of central banks and regional central bank organisations. During the past year, it cooperated with the following groups on the following topics:

- CEMLA (Center for Latin American Monetary Studies) – foreign exchange intervention, payment and settlement systems;
- FLAR (Latin American Reserve Fund) – reserves management;
- MEFMI (Macroeconomic and Financial Management Institute of Eastern and Southern Africa) – payment and settlement systems, reserves management;
- SEACEN (South East Asian Central Banks) Research and Training Centre – central bank governance, financial stability, macroeconomic and monetary policy challenges, payment and settlement systems; and
- World Bank – governance and oversight of central bank reserves management.

BIS experts also contributed to events organised by the International Banking and Finance Institute of the Bank of France.

Representative Offices

The BIS has a Representative Office for Asia and the Pacific (the Asian Office), located in Hong Kong SAR; and a Representative Office for the Americas (the Americas Office), located in Mexico City. The Representative Offices promote

[10] The Data Bank contains key economic indicators reported by almost all BIS member central banks, additional detailed macroeconomic series from major advanced and emerging market economies and data collected by BIS-hosted groups. The BIS is making a substantial effort to facilitate use of the Data Bank for calculating and disseminating long series of important economic variables, such as credit.

[11] The IAG comprises the BIS, the ECB, Eurostat, the IMF, the OECD, the United Nations and the World Bank (www.principalglobalindicators.org). These organisations also sponsor the Statistical Data and Metadata Exchange (SDMX), whose standards the BIS uses for its collection, processing and dissemination of statistics (www.sdmx.org).

cooperation and the BIS mission within each region by organising meetings, supporting regional institutions and Basel-based committees, conducting policy research and fostering the exchange of information and data. The Asian Office also provides banking services to the region's monetary authorities.[12]

The Asian Office

The Asian Office undertakes economic research, organises high-level regional meetings and, through its Regional Treasury, offers specialised banking services and explores new investment outlets in regional financial markets. The economists of the Asian Office focus their research on the region's policy issues. The Asian Office's activities are guided by the Asian Consultative Council (ACC), comprising the Governors of the 12 BIS member central banks in the Asia-Pacific region.[13] Governor Amando Tetangco, of the Bangko Sentral ng Pilipinas, succeeded Governor Choongsoo Kim, of the Bank of Korea, as Chair of the Council in April 2014.

The Asian Consultative Council

At its June 2013 semiannual meeting, in Basel, the ACC endorsed a secondment programme in Hong Kong as a mechanism for research collaboration among member central banks in the region. At its February 2014 meeting, in Sydney, the Council endorsed a two-year research programme on "Expanding the boundaries of monetary policy".

Research

Economists in the Asian Office produced research on the two themes previously endorsed by the ACC. On the financial stability side, the theme was cross-border financial linkages in Asia and the Pacific; outlines for proposed papers and specific policy issues were discussed at a July research workshop in Hong Kong. On the monetary policy side, the theme was inflation dynamics and globalisation; in September, a conference in Beijing co-hosted with the People's Bank of China showcased the results of that research.

In carrying out their research, Asian Office economists collaborated with academics from around the world and economists at BIS member central banks in the region. The resulting papers have informed policy discussions in various central bank meetings and have appeared in the *BIS Quarterly Review* and refereed journals.

The Special Governors' Meeting and other high-level meetings

The Asian Office organised 10 high-level BIS policy meetings. Most were held jointly with a central bank or with either EMEAP or SEACEN.

The ACC Governors meet with others from around the world in the annual Special Governors' Meeting. Normally held in Asia in February, it was combined this year with the BIS bimonthly meeting, held in Sydney in February with the Reserve Bank of Australia as host. For the fourth consecutive year, the event included a

12 For more information on the BIS's banking activities, please refer to "Financial services of the Bank", page 160.

13 The 12 central banks are those of Australia, China, Hong Kong SAR, India, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore and Thailand.

roundtable with the chief executive officers of large financial institutions active in the region. The discussions covered current vulnerabilities in Asia, the role of asset managers and the financing of infrastructure projects.

Other high-level events were the 16th meeting of the Working Party on Monetary Policy in Asia, co-hosted by the Bank of Korea, in Seoul in May; the BIS-SEACEN Exco Seminar, co-hosted by the Bank of Mongolia, in Ulaanbaatar in September; the Ninth Meeting on Monetary Policy Operating Procedures, in Hong Kong in November; and the Workshop on the Financing of Infrastructure Investment, in Hong Kong in January.

The Americas Office

The activities of the Americas Office are guided by the Consultative Council for the Americas (CCA). The CCA comprises the Governors of the eight BIS member central banks in the Americas and is chaired by José Darío Uribe, Governor of the Bank of the Republic, Colombia.[14]

The Americas Office has implemented a number of initiatives in the past year to support regional central bank consultations and research. A newly established Consultative Group of Directors of Operations (CGDO) brings together central bank officials who are typically responsible for open market and foreign exchange market operations and foreign reserve management. The group held regular teleconferences, and the Americas Office co-hosted with the Bank of Mexico the group's first meeting, in March 2014. Meeting topics included the implications of changes in global monetary conditions, policy responses and financial market structures.

In December 2013, the directors of financial stability from CCA central banks held their first meeting, hosted by the Central Bank of Brazil in Rio de Janeiro. Among the issues discussed were responsibilities, instruments, governance and risk assessment (including stress testing). The Americas Office has supported efforts to further strengthen the consultation process of this group.

The fourth annual CCA research conference was hosted by the Central Bank of Chile in Santiago in April 2013. The theme of the conference was "Financial stability, macroprudential policy and exchange rates", and paper selection was organised into each of those three topics.

A project of the CCA central bank research network introduces financial stability considerations into central bank policy models. In October 2013, the project held its first conference in the newly opened facilities of the Americas Office. A policy exercise is focusing the project's models on the implications of a credit boom. Some CCA central banks in the research network are also undertaking a joint research project that will allow for cross-country comparison of the effects of monetary or macroprudential policies.

The Americas Office contributed to other meetings and outreach activities as follows: (i) providing background material for the 17th BIS Working Party for Monetary Policy in Latin America, hosted by the Central Bank of Chile in Santiago in September 2013; (ii) organising and chairing a BIS-CEMLA roundtable on foreign exchange market intervention, hosted by the Central Bank of Costa Rica in San José in July 2013; (iii) providing economists for presentations at FSB regional consultative group meetings and at central bank research conferences; and (iv) organising a high-level central bank panel at the November 2013 annual meeting of the Latin America and Caribbean Economics Association in Mexico City.

14 The eight central banks are those of Argentina, Brazil, Canada, Chile, Colombia, Mexico, Peru and the United States.

Financial services of the Bank

The BIS, through its Banking Department, offers a wide range of financial services designed to assist central banks and other official monetary authorities in the management of their foreign exchange reserves and to foster international cooperation in this area. Some 140 such institutions, as well as a number of international organisations, make active use of these services.

Safety and liquidity are the key features of BIS credit intermediation, which is supported by a rigorous framework of internal risk management. Independent control units reporting directly to the BIS Deputy General Manager monitor and control the related risks. A compliance and operational risk unit monitors operational risk; a risk control unit controls the Bank's financial risks – ie credit, liquidity and market risks – and is also responsible for the coordination required for an integrated approach to risk management.

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

Scope of services

As an institution owned and governed by central banks, the BIS possesses a distinctive understanding of the needs of reserve managers – their primary requirement of safety and liquidity as well as their evolving need to diversify part of their foreign exchange reserves. To meet those needs, the BIS offers investments that vary by currency denomination, maturity and liquidity. The Bank offers tradable instruments in maturities ranging from one week to five years – Fixed-Rate Investments at the BIS (FIXBIS), Medium-Term Instruments (MTIs) and products with embedded optionality (Callable MTIs); these instruments can be bought or sold throughout the Bank's dealing hours.

Also available are money market placements, such as sight/notice accounts and fixed-term deposits, in most convertible currencies; in addition, the Bank provides short-term liquidity facilities and extends credit to central banks, usually on a collateralised basis. Moreover, the Bank acts as trustee and collateral agent in connection with international financial operations.

The Bank transacts foreign exchange and gold on behalf of its customers, thereby providing access to a large liquidity base in the context of, for example, regular rebalancing of reserve portfolios or major changes in reserve currency allocations. 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 buying and selling, sight accounts, fixed-term deposits, earmarked accounts, upgrading and refining and location exchanges.

The BIS also provides asset management products and services. The products, which predominantly consist of sovereign securities and other high-grade fixed income instruments in major reserve currencies, are available in two forms: (i) dedicated portfolio mandates tailored to each customer's preferences; and (ii) open-end fund structures that allow customers to invest in a common pool of assets, ie BIS Investment Pools (BISIPs).

The BISIP structure is used for the Asian Bond Fund (ABF) initiative, sponsored by EMEAP (Executives' Meeting of East Asia-Pacific Central Banks) to foster the development of local currency bond markets. Further initiatives developed in cooperation with a group of advising central banks have also been based on the BISIP structure. These include the BISIP ILF1 (US inflation-protected government securities fund) and the BISIP CNY (domestic Chinese sovereign fixed income fund).

The BIS Banking Department hosts global and regional meetings, seminars and workshops on reserve management issues. These gatherings facilitate the exchange of knowledge and experience among reserve managers and promote the development of investment and risk management capabilities in central banks and international organisations. The Banking Department also supports central banks in reviewing their current reserve management practices.

Financial operations in 2013/14

The Bank's balance sheet increased by SDR 10.6 billion, following a decrease of SDR 43.7 billion in the previous year. The balance sheet total at 31 March 2014 was SDR 222.5 billion (see graph).

Liabilities

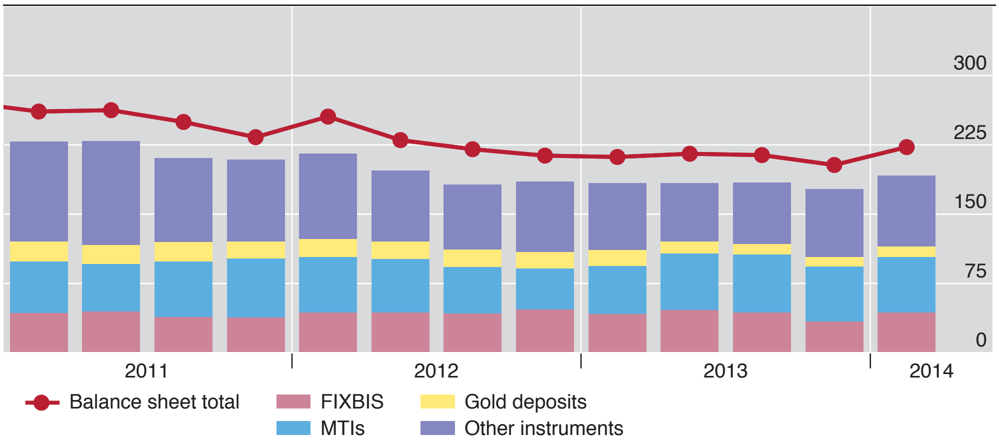
Customer placements, about 94% of which are denominated in currencies and the remainder in gold, constitute the largest share of total liabilities. On 31 March 2014, customer placements (excluding repurchase agreements) amounted to SDR 191.8 billion, compared with SDR 183.7 billion at the end of 2012/13.

Currency deposits increased from SDR 166.2 billion a year ago to SDR 180.5 billion at end-March 2014. That balance represents 2.1% of the world's total foreign exchange reserves – which totalled nearly SDR 7.9 trillion at end-March 2014, up from SDR 7.7 trillion at end-March 2013.[15] The share of currency placements denominated in US dollars was 73%, while euro- and sterling-denominated funds accounted for 13% and 6%, respectively.

Gold deposits amounted to SDR 11.3 billion at end-March 2014, a decrease of SDR 6.3 billion for the financial year.

Balance sheet total and customer placements by product

End-quarter figures, in billions of SDR



The sum of the bars indicates total customer placements.

15 Excluded from the ratio calculation are funds placed by institutions for which data on foreign exchange reserves are not available.

Assets

As in the previous financial year, most of the assets held by the BIS consisted of government and quasi-government securities plus investments (including reverse repurchase agreements) with commercial banks of international standing. In addition, the Bank held 111 tonnes of fine gold in its investment portfolio at 31 March 2014. The Bank's credit exposure is managed in a conservative manner, with most of it rated no lower than A–.

The Bank's holdings of currency assets totalled SDR 184.4 billion at 31 March 2014, compared with SDR 157.1 billion at the end of the previous financial year. The Bank uses various derivative instruments to manage its assets and liabilities efficiently.[16]

Governance and management of the BIS

The governance and management of the Bank are conducted at three principal levels:

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

The General Meeting of BIS member central banks

Sixty central banks and monetary authorities are currently members of the BIS and have rights of voting and representation at General Meetings. The Annual General Meeting (AGM) is held no later than four months after 31 March, the end of the BIS financial year. The AGM approves the annual report and the accounts of the Bank and decides on the distribution of a dividend, makes adjustments in the allowances paid to Board members and elects the Bank's auditor.

16 Further information on the Bank's assets and liabilities can be found in the notes to the financial statements and the risk management section.

BIS member central banks

Bank of Algeria
Central Bank of Argentina
Reserve Bank of Australia
Central Bank of the Republic of Austria
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
Bank of the Republic (Colombia)
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 of Ireland
Bank of Israel
Bank of Italy
Bank of Japan
Bank of Korea
Bank of Latvia
Bank of Lithuania
Central Bank of Luxembourg
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
Central Reserve Bank of Peru
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
National Bank of Serbia
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
Central Bank of the United Arab Emirates
Bank of England
Board of Governors of the Federal Reserve System (United States)

The BIS Board of Directors

The Board is responsible for determining the strategic and policy direction of the BIS, supervising Management and fulfilling the specific tasks given to it by the Bank's Statutes. The Board meets at least six times a year.

The Board may have up to 21 members, including six ex officio Directors, comprising the central bank Governors of Belgium, France, Germany, Italy, the United Kingdom and the United States. Each ex officio member may appoint another member of the same nationality. Nine Governors of other member central banks may be elected to the Board.

In addition, one member of the Economic Consultative Committee serves as observer to BIS Board meetings on a rotating basis. The observer participates in the Board's discussions and may be a member of one or more of the Board's four advisory committees, described below.

The Board elects a Chairman from among its members for a three-year term and may elect a Vice-Chairman.

Four advisory committees, established pursuant to Article 43 of the Bank's Statutes, assist the Board in its work:

- The Administrative Committee reviews key areas of the Bank's administration, such as budget and expenditures, human resources policies and information technology. The Committee meets at least four times a year. Its Chairman is Jens Weidmann.
- The Audit Committee meets with internal and external auditors, as well as with the compliance unit. Among its duties is the examination of matters related to the Bank's internal control systems and financial reporting. The Committee meets at least four times a year and is chaired by Luc Coene.
- The Banking and Risk Management Committee reviews and assesses the Bank's financial objectives, the business model for BIS banking operations and the risk management frameworks of the BIS. The Committee meets at least once a year. Its Chairman is Stefan Ingves.
- The Nomination Committee deals with the appointment of members of the BIS Executive Committee and meets on an ad hoc basis. It is chaired by the Board's Chairman, Christian Noyer.

Board of Directors[17]

Chairman: Christian Noyer, Paris
Mark Carney, London
Agustín Carstens, Mexico City
Luc Coene, Brussels
Jon Cunliffe, London
Andreas Dombret, Frankfurt am Main
Mario Draghi, Frankfurt am Main
William C Dudley, New York
Stefan Ingves, Stockholm
Thomas Jordan, Zurich
Klaas Knot, Amsterdam
Haruhiko Kuroda, Tokyo
Anne Le Lorier, Paris

[17] As at 1 June 2014. The list includes the observer mentioned above.

Stephen S Poloz, Ottawa
Raghuram G Rajan, Mumbai
Jan Smets, Brussels
Alexandre A Tombini, Brasília
Ignazio Visco, Rome
Jens Weidmann, Frankfurt am Main
Janet L Yellen, Washington
Zhou Xiaochuan, Beijing

Alternates

Stanley Fischer, Washington
Paul Fisher, London
Jean Hilgers, Brussels
Joachim Nagel, Frankfurt am Main
Fabio Panetta, Rome
Marc-Olivier Strauss-Kahn, Paris

In memoriam

The Bank was saddened to learn of the death of Lord Kingsdown on 24 November 2013 at the age of 86. A former Governor of the Bank of England, Lord Kingsdown was a member of the BIS Board of Directors from 1983 to 2003 and was its Vice-Chairman from 1996 to 2003. He made important contributions to the BIS, in particular overseeing the creation of the Board's Audit Committee and serving as that Committee's first Chairman.

BIS Management

BIS Management is under the overall direction of the General Manager, who is responsible to the Board of Directors for the conduct of the Bank. The General Manager is advised by the Executive Committee of the BIS, which consists of seven members: the General Manager as Chair; the Deputy General Manager; the Heads of the three BIS departments – the General Secretariat, the Banking Department and the Monetary and Economic Department; the Economic Adviser and Head of Research; and the General Counsel. Other senior officials are the Deputy Heads of the departments and the Chairman of the Financial Stability Institute.

General Manager	Jaime Caruana
Deputy General Manager	Hervé Hannoun
Secretary General and Head of General Secretariat	Peter Dittus
Head of Banking Department	Peter Zöllner
Head of Monetary and Economic Department	Claudio Borio
Economic Adviser and Head of Research	Hyun Song Shin
General Counsel	Diego Devos

Deputy Head of Monetary and Economic Department	Philip Turner
Deputy Secretary General	Monica Ellis
Deputy Head of Banking Department	Jean-François Rigaudy
Chairman, Financial Stability Institute	Josef Tošovský

BIS budget policy

Management begins preparing the BIS annual expenditure budget by establishing a broad business plan and financial framework. Within that context, business areas specify their plans and corresponding resource requirements. The process of reconciling detailed business plans, objectives and overall resources culminates in a draft budget, which must be approved by the Board before the start of the financial year.

The budget distinguishes between administrative and capital expenditures. In 2013/14, these expenditures collectively amounted to CHF 306.5 million. The Bank's overall administrative expense amounted to CHF 277.4 million.[18] As with organisations similar to the BIS, spending for Management and staff – including remuneration, pensions, and health and accident insurance – amounts to around 70% of administrative expenditure. New staff positions were added during the year in accordance with the Bank's business plan, which emphasised the Basel regulatory process, BIS financial statistics, and BIS banking activities and internal controls.

The other major categories of administrative spending are information technology (IT), buildings and equipment, and general operational costs, each accounting for about 10%.

Capital spending, relating mainly to buildings and IT investment, can vary significantly from year to year depending on projects in progress. For 2013/14, capital expenditure amounted to CHF 29.1 million, including a special item of CHF 13.6 million for the purchase of the office building at Centralbahnstrasse 21, near the BIS head office.

BIS remuneration policy

At the end of the 2013/14 financial year, the BIS employed 656 staff members from 57 countries. The jobs performed by BIS staff members are assessed on the basis of a number of objective criteria – including qualifications, experience and responsibilities – and classified into distinct job grades. The job grades are associated with a structure of salary ranges, and the salaries of individual staff members move within the ranges of the salary structure on the basis of performance.

Every three years, a comprehensive survey benchmarks BIS salaries (in Swiss francs) against compensation in comparable institutions and market segments, with adjustments to take place as of 1 July in the following year. In benchmarking, the

[18] The financial statements report a total administrative expense of CHF 360.9 million. That figure consists of the CHF 277.4 million actual administrative expense reported here plus CHF 83.5 million of financial accounting adjustments for post-employment benefit obligations. This additional expense is not included in the budget for the coming financial year because it depends on actuarial valuations as at 31 March, which in turn are not finalised until April, after the budget has been set by the Board.

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 at the surveyed institutions.

In years between comprehensive salary surveys, the salary structure is adjusted as of 1 July on the basis of the rate of inflation in Switzerland and the weighted average real wage development in industrial countries. As of 1 July 2013, this adjustment produced a decrease of 0.95% in the salary structure.

The salaries of senior officials are also regularly benchmarked against compensation in comparable institutions and market segments. As of 1 July 2013, the annual remuneration of senior officials, before expatriation allowances, is based on the salary structure of CHF 766,220 for the General Manager;[19] CHF 648,340 for the Deputy General Manager; and CHF 589,400 for Heads of Department.

BIS staff members have access to a contributory health insurance plan and a contributory defined benefit pension plan. At the Bank's headquarters, non-Swiss staff members recruited from abroad, including senior officials, are entitled to an expatriation allowance. The allowance currently amounts to 14% of annual salary 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.

The Annual General Meeting approves the remuneration of members of the Board of Directors, with adjustments taking place at regular intervals. The total fixed annual remuneration paid to the Board of Directors was CHF 1,114,344 as of 1 April 2014. 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 CHF 1,061,280.

Net profit and its distribution

The net profit for 2013/14 was SDR 419.3 million (2012/13: SDR 895.4 million). The profit represented a return of 2.4% on average equity (2012/13: 4.9%).

Financial results

The BIS's financial results for 2013/14 were shaped by greater stability in most financial markets compared with recent years as well as continuing low interest rates. This environment resulted in lower returns on the Bank's investment assets and a compression of intermediation margins, which led to a decline in profitability.

The total comprehensive income of the BIS includes unrealised valuation movements on "available for sale" assets (the BIS's own gold and investment securities) and re-measurements of the actuarial liabilities for post-employment benefit arrangements. As the market price of gold fell (22% on the year), the valuation of the Bank's own gold declined. At the same time, there was a revaluation loss on own funds investment securities. These effects were partly offset by a gain on the re-measurement of defined benefit obligations. The resulting total comprehensive income for 2013/14 was SDR –570.4 million (2012/13: SDR +718.2 million). The total return on equity was –3.2% (2012/13: +3.9%), primarily because of the fall in the price of gold.

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

Taking into account the 2012/13 dividend of SDR 175.8 million, which was paid during 2013/14, the Bank's equity decreased by SDR 746.2 million during the year ended 31 March 2014.

Proposed dividend

It is proposed for the financial year 2013/14 to declare a dividend of SDR 215 per share, which is consistent with BIS dividend policy and with the reduction in profit in the context of the global financial environment.

At 31 March 2014, there were 559,125 issued shares; these include the 1,000 shares of the Albanian issue, which are suspended, held in treasury and receive no dividend. The dividend is therefore to be paid on 558,125 shares. The total cost of the proposed dividend would be SDR 120.0 million, after which SDR 299.3 million would be available for allocation to reserves. The dividend would be paid on 3 July 2014 in one of the component currencies of the SDR (US dollar, euro, yen or sterling) or in Swiss francs according to the instructions of each shareholder named in the BIS share register at 31 March 2014.

Proposed allocation of net profit for 2013/14

On the basis of Article 51 of the BIS Statutes, the Board of Directors recommends that the General Meeting allocate the 2013/14 net profit of SDR 419.3 million in the following manner:

(a) SDR 120.0 million to be paid as a normal dividend of SDR 215 per share;
(b) SDR 15.0 million to be transferred to the general reserve fund;[20] and
(c) SDR 284.3 million, representing the remainder of the available profit, to be transferred to the free reserve fund.

Independent auditor

Election of the auditor

In accordance with Article 46 of the BIS Statutes, the Annual General Meeting is invited to elect an independent auditor for the ensuing year and to fix the auditor's remuneration. This election is based on a formal proposal by the BIS Board, which in turn is based on the recommendation of the Audit Committee. This annual process ensures a regular assessment of the knowledge, competence and independence of the auditor and of the effectiveness of the audit. The 2013 Annual General Meeting elected Ernst & Young as the BIS auditor for the financial year ended 31 March 2014. The Board policy is to rotate the auditor on a regular basis, with the new auditor chosen following a selection process involving BIS Management and the Audit Committee. The financial year ended 31 March 2014 was the second year of Ernst & Young's term as auditor.

Report of the auditor

In accordance with Article 50 of the BIS Statutes, the independent auditor has full powers to examine all books and accounts of the BIS and to require full information

[20] At 31 March 2014, the general reserve fund exceeded five times the Bank's paid-up capital. As such, under Article 51 of the Statutes, 5% of net profit, after accounting for the proposed dividend, should be allocated to the general reserve fund.

as to all its transactions. The BIS financial statements have been duly audited by Ernst & Young, who have confirmed that they give a true and fair view of the BIS's financial position at 31 March 2014 and the results of its operations for the year then ended. The Ernst & Young report is to be found immediately following the financial statements.

Financial statements

as at 31 March 2014

The financial statements on pages 173–244 for the financial year ended 31 March 2014 were approved on 12 May 2014 for presentation to the Annual General Meeting on 29 June 2014. 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 General Manager	Hervé Hannoun Deputy General Manager

Balance sheet

As at 31 March

SDR millions	Notes	**2014**	2013 restated	2012 restated
Assets				
Cash and sight accounts with banks	4	11,211.5	6,884.1	4,077.8
Gold and gold loans	5	20,596.4	35,367.1	35,912.7
Treasury bills	6	44,530.8	46,694.1	53,492.3
Securities purchased under resale agreements	6	50,554.4	28,469.5	46,210.8
Loans and advances	7	19,600.3	19,676.8	22,757.1
Government and other securities	6	70,041.1	62,643.3	77,877.7
Derivative financial instruments	8	3,002.2	5,855.7	7,303.9
Accounts receivable	9	2,777.4	6,171.2	7,845.5
Land, buildings and equipment	10	196.2	190.6	193.0
Total assets		**222,510.3**	211,952.4	255,670.8
Liabilities				
Currency deposits	11	180,472.2	166,160.3	195,778.5
Gold deposits	12	11,297.5	17,580.9	19,624.0
Securities sold under repurchase agreements	13	1,169.3	–	–
Derivative financial instruments	8	2,632.9	3,402.3	4,727.0
Accounts payable	14	8,411.5	5,335.3	16,745.5
Other liabilities	15	799.0	999.5	871.5
Total liabilities		**204,782.4**	193,478.3	237,746.5
Shareholders' equity				
Share capital	16	698.9	698.9	698.9
Statutory reserves	17	14,280.4	13,560.8	12,989.4
Profit and loss account		419.3	895.4	739.8
Less: shares held in treasury	18	(1.7)	(1.7)	(1.7)
Other equity accounts	19	2,331.0	3,320.7	3,497.9
Total equity		**17,727.9**	18,474.1	17,924.3
Total liabilities and equity		**222,510.3**	211,952.4	255,670.8

Prior-year figures have been restated due to a change in accounting policy – see note 3.

Profit and loss account

For the financial year ended 31 March

SDR millions	Notes	**2014**	2013 restated
Interest income	21	1,599.8	2,154.0
Interest expense	22	(830.3)	(1,122.5)
Net interest income		**769.5**	1,031.5
Net valuation movement	23	(179.6)	(17.1)
Net interest and valuation income		**589.9**	1,014.4
Net fee and commission income	24	5.0	3.1
Net foreign exchange gain / (loss)	25	(33.3)	26.7
Total operating income		**561.6**	1,044.2
Operating expense	26	(273.9)	(260.8)
Operating profit		**287.7**	783.4
Net gain on sales of securities available for sale	27	40.5	82.7
Net gain on sales of gold investment assets	28	91.1	29.3
Net profit for the financial year		**419.3**	895.4

Basic and diluted earnings per share (in SDR per share)	29	**751.3**	1,604.3

Prior-year figures have been restated due to a change in accounting policy – see note 3.

Statement of comprehensive income

For the financial year ended 31 March

SDR millions	Notes	**2014**	2013 restated
Net profit for the financial year		**419.3**	895.4
Other comprehensive income			
Items either reclassified to profit and loss during the year, or that will be reclassified subsequently when specific conditions are met			
Net valuation movement on securities available for sale	19A	(229.9)	(55.5)
Net valuation movement on gold investment assets	19B	(942.9)	(67.8)
Items that will not be reclassified subsequently to profit and loss			
Re-measurement of defined benefit obligations	19C	183.1	(53.9)
Total comprehensive income for the financial year		**(570.4)**	718.2

Prior-year figures have been restated due to a change in accounting policy – see note 3.

Statement of cash flows

For the financial year ended 31 March

SDR millions	Notes	**2014**	2013 restated
Cash flow from / (used in) operating activities			
Interest and similar income received		2,183.3	2,923.9
Interest and similar expenses paid		(668.0)	(911.9)
Net fee and commission income	24	5.0	3.1
Net foreign exchange transaction gain	25	1.6	14.3
Operating expenses	26	(258.6)	(243.9)
Non-cash flow items included in operating profit			
Valuation movements on operating assets and liabilities	23	(179.6)	(17.1)
Net foreign exchange translation gain / (loss)	25	(34.9)	12.4
Change in accruals and amortisation		(745.8)	(980.5)
Change in operating assets and liabilities			
Currency deposit liabilities held at fair value through profit and loss		10,617.5	(14,079.8)
Currency banking assets		(21,947.9)	30,314.5
Sight and notice deposit account liabilities		6,014.4	(12,021.8)
Gold deposit liabilities		(6,283.4)	(2,043.1)
Gold and gold loan banking assets		13,807.7	472.2
Accounts receivable		1.2	0.3
Other liabilities / accounts payable		216.9	89.6
Net derivative financial instruments		2,084.1	123.5
Net cash flow from operating activities		**4,813.5**	3,655.7
Cash flow from / (used in) investment activities			
Net change in currency investment assets available for sale	6B	(1,682.4)	(489.6)
Net change in currency investment assets held at fair value through profit and loss		677.5	(56.8)
Securities sold under repurchase agreements		595.9	–
Net change in gold investment assets	5B	111.3	34.8
Net purchase of land, buildings and equipment	10	(21.1)	(14.5)
Net cash flow used in investment activities		**(318.8)**	(526.1)

SDR millions	Notes	**2014**	2013 restated
Cash flow from / (used in) financing activities			
Dividends paid		(175.8)	(168.4)
Net cash flow used in financing activities		**(175.8)**	(168.4)
Total net cash flow		**4,318.9**	2,961.2
Net effect of exchange rate changes on cash and cash equivalents		282.3	(66.5)
Net movement in cash and cash equivalents		4,036.6	3,027.7
Net change in cash and cash equivalents		**4,318.9**	2,961.2
Cash and cash equivalents, beginning of year	30	**7,225.6**	4,264.4
Cash and cash equivalents, end of year	30	**11,544.5**	7,225.6

Prior-year figures have been restated due to a change in accounting policy – see note 3.

Movements in the Bank's equity

For the financial year ended 31 March

SDR millions	Notes	Share capital	Statutory reserves	Profit and loss	Shares held in treasury	Other equity accounts: Defined benefit obligations	Other equity accounts: Gold and securities revaluation	Total equity
Equity at 31 March 2012		**698.9**	**13,057.2**	**758.9**	**(1.7)**	**–**	**3,866.0**	**18,379.3**
Change in accounting policy for post-employment benefit obligations	3	–	(67.8)	(19.1)	–	(368.1)	–	(455.0)
Equity at 31 March 2012 – restated		**698.9**	**12,989.4**	**739.8**	**(1.7)**	**(368.1)**	**3,866.0**	**17,924.3**
Payment of 2011/12 dividend		–	–	(168.4)	–	–	–	(168.4)
Allocation of 2011/12 profit – restated		–	571.4	(571.4)	–	–	–	–
Total comprehensive income 2012/13 – restated	19	–	–	895.4	–	(53.9)	(123.3)	718.2
Equity at 31 March 2013 – restated		**698.9**	**13,560.8**	**895.4**	**(1.7)**	**(422.0)**	**3,742.7**	**18,474.1**
Payment of 2012/13 dividend		–	–	(175.8)	–	–	–	(175.8)
Allocation of 2012/13 profit – restated		–	719.6	(719.6)	–	–	–	–
Total comprehensive income	19	–	–	419.3	–	183.1	(1,172.8)	(570.4)
Equity at 31 March 2014		**698.9**	**14,280.4**	**419.3**	**(1.7)**	**(238.9)**	**2,569.9**	**17,727.9**

Prior-year figures have been restated due to a change in accounting policy – see note 3.

Accounting policies

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

1. Scope of the financial statements

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

To provide services to central bank customers, the Bank operates investment entities that do not have a separate legal personality from the BIS. Transactions are undertaken for these entities in the Bank's name, but for which the economic benefit lies with central bank customers and not with the Bank. The assets and liabilities of these entities are not recognised in these financial statements. The Bank does not prepare consolidated financial statements. Note 33 provides information on off-balance sheet assets and liabilities.

The Bank operates a staff pension fund that does not have a separate legal personality from the BIS. Transactions are undertaken in the Bank's name, but for the economic benefit of the fund. The fund's assets and liabilities are included in these financial statements on a net basis in accordance with the accounting policy for post-employment benefit obligations. Note 20 provides information on the Bank's staff pension fund.

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 2010 and effective 1 January 2011. As currently calculated, one SDR is equivalent to the sum of USD 0.660, EUR 0.423, JPY 12.1 and GBP 0.111. The composition of the SDR currency basket is subject to review every five years by the IMF; the next review is due to be undertaken in December 2015.

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

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 by comparison to a fixed duration benchmark of bonds.

Currency assets in investment portfolios, with the exception of cash and sight accounts with banks and those in more actively traded portfolios, are designated as available for sale.

The currency investment assets maintained in more actively traded 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, including balances at futures clearing brokers. These typically have notice periods of three days or less and are included under the balance sheet heading "Loans and advances". They are considered to be cash equivalents for the purposes of the cash flow statement.

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 banking assets and derivatives, or on other currency deposit liabilities.

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

10. Securities purchased under resale agreements

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

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

11. Currency assets 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 in Section 9 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 traded investment portfolios. The currency investment 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. The accrual of interest and amortisation of premiums paid and discounts received are included in the profit and loss account under "Interest income" on an effective interest rate basis. After initial measurement, the currency assets are revalued to fair value, with all realised and unrealised movements in fair value included under "Net valuation movement".

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

As described in Section 11 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. The accrual of interest to be paid and amortisation of premiums received and discounts paid are included under the profit and loss account heading "Interest expense" on an effective interest rate basis.

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

13. Currency investment assets available for sale

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

As described in Section 12 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 traded investment portfolios.

Available for sale investment assets are initially included in the balance sheet on a trade date basis. The accrual of interest and amortisation of premiums paid and discounts received are included in the profit and loss account under "Interest income" on an effective interest rate basis.

After trade date, the currency investment 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". The movement in fair value is included in the statement of comprehensive income under the heading "Unrealised gain / (loss) on securities available for sale". Realised profits on disposal are included in the profit and loss account under "Net gain on sales of securities available for sale".

14. Short positions in currency assets

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

15. Gold

Gold comprises gold bar assets held in custody at central banks and sight accounts denominated in gold. Gold is considered by the Bank to be a financial instrument.

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

The treatment of realised and unrealised gains or losses on gold is described in Section 18 below.

16. Gold loans

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

Accrued interest on gold loans is included in the profit and loss account under "Interest income" on an effective interest rate basis.

17. Gold deposits

Gold deposits comprise unallocated sight and fixed-term deposits of gold from central banks.

Unallocated gold deposits provide customers with a general claim on the Bank for delivery of gold of the same weight and quality as that delivered by the customer to the Bank, but do not provide the right to specific gold bars. Unallocated gold deposits are included in the balance sheet on a trade date basis at their weight in gold (translated at the gold market price and USD exchange rate into SDR) plus accrued interest. Accrued interest on gold deposits is included in the profit and loss account under "Interest expense" on an effective interest rate basis.

Allocated (or "earmarked") gold deposits provide depositors with a claim for delivery of the specific gold bars deposited by the customer with the Bank on a custody basis. Beneficial ownership and risk remain with the customer. As such, allocated gold deposit liabilities and the related gold bar assets are not included on the Bank's balance sheet. They are disclosed as off-balance sheet items (see note 33).

18. 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 derivative transactions in gold are included in the profit and loss account under "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 "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". The movement in fair value is included in the statement of comprehensive income under the heading "Unrealised gain on 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 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".

19. Securities sold under repurchase agreements

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

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

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

The collateralised deposits relating to securities sold under repurchase agreements are initially included in the balance sheet on a trade date basis. The accrual of interest is included in the profit and loss account under "Interest expense" on an effective interest rate basis. After initial measurement, the transactions designated as held at fair value through profit and loss are revalued to fair value with all unrealised movements in fair value included under "Net valuation movement".

20. 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.

Derivatives are initially included in the balance sheet on a trade date basis. Where applicable, the accrual of interest and amortisation of premiums and discounts are included in the profit and loss account under "Interest income" on an effective interest rate basis.

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

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

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

21. Valuation policy

The Bank's valuation policy 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 fair value as the exit price of an orderly transaction between market participants on the measurement date.

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 and 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 its 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 the value of its financial instruments, taking into account both the accuracy of the valuations and the valuation methodologies used. Other valuation controls include the review and analysis of daily profit and loss.

The Bank values its positions at their exit price, so that assets are valued at the bid price and liabilities at the offer price. Derivative financial instruments are valued on a bid-offer basis, with valuation reserves, where necessary, included in derivative financial liabilities. Financial assets and liabilities that are not valued at fair value are included in the balance sheet at amortised cost.

22. 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. A financial asset is impaired when there is objective evidence that the estimated future cash flows of the asset have been reduced as a result of one or more events that occurred after the initial recognition of the asset. Evidence of impairment could include significant financial difficulty, default, or probable bankruptcy / financial reorganisation of the counterparty or issuer.

Impairment losses are recognised to the extent that a decline in fair value below amortised cost is considered significant or prolonged. Impairment of currency assets is included in the profit and loss account under "Net valuation movement", with impairment of gold loans included under "Interest income". If the amount of the impairment loss decreases in a subsequent period, the previously recognised impairment loss is reversed through profit and loss to the extent that the carrying amount of the investment does not exceed that which it would have been had the impairment not been recognised.

23. 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.

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

25. 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.

26. Post-employment benefit obligations

Note 3 to the financial statements describes a change in accounting policy which applies to post-employment benefit obligations.

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

A. Staff pensions

The Bank provides a final salary defined benefit pension arrangement for its staff, based on a fund without a separate legal personality from the BIS, 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 less the fair value of the fund assets, both at the balance sheet date. The defined benefit obligation is calculated using the projected unit credit method. The present value of the defined benefit obligation is determined from the estimated future cash outflows. The rate used to discount the cash flows is determined by the Bank based on the market yield of highly rated corporate debt securities in Swiss francs which have 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 net of the defined benefit obligation less the fair value of the fund assets. Past service costs from plan amendments are immediately recognised through profit or loss. Gains and losses arising from re-measurement of the obligations, such as experience adjustments (where the actual outcome is different from the actuarial assumptions previously made) and changes in actuarial assumptions are charged to other comprehensive income in the year in which the re-measurement is applied. They are not subsequently included in profit and loss in future years.

B. Directors' pensions

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.

27. 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 and notice accounts with banks, which are very short-term financial assets that typically have notice periods of three days or less.

Notes to the financial statements

1. 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. Sixty 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 BIS is composed of the Governors and appointed Directors from the Bank's founding 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 Brazil, Canada, China, India, 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, makes assumptions and exercises judgment.

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

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

Subsequent actual results could differ significantly 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 significantly 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	**2014**	2013
Treasury bills	1.1	1.0
Securities purchased under resale agreements	0.3	0.1
Loans and advances	0.2	0.2
Government and other securities	11.0	10.2
Currency deposits	13.3	12.4
Derivative financial instruments	4.1	4.3

B. Impairment provision on financial assets

The Bank conducts an annual review for impairment at the date of each balance sheet. At 31 March 2014 the Bank did not have any financial assets that were considered to be impaired (31 March 2013: nil).

C. Actuarial assumptions

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

3. Change in accounting policy for post-employment benefit obligations

With effect from 1 April 2013, the Bank changed its accounting policy for post-employment benefit obligations to reflect developments in global financial reporting standards. As a result of the change, the Bank no longer applies "corridor accounting" for actuarial gains and losses, and all changes in the net defined benefit obligations or assets are recognised as they occur. Service costs and net interest are recognised in the profit and loss account while re-measurements, such as actuarial gains and losses, are recognised in other comprehensive income.

The reported numbers for prior financial periods have been restated for comparative purposes. The restatement resulted in an increase in "Other liabilities" of SDR 511.7 million, reflecting the recognition of amounts previously reported as "Unrecognised actuarial losses" as at 31 March 2013. There was a corresponding decrease in shareholders' equity, of which SDR 89.7 million was deducted from the free reserve fund within "Statutory reserves" and represented the cumulative change in profit recognition in prior financial years due to the adoption of the revised accounting policy. The remainder, SDR 422.0 million, was charged to a new account within "Other equity accounts" and represented the cumulative actuarial losses arising from re-measurements.

The tables below show the effect of this change in accounting policy.

A. Effect on net profit and total comprehensive income

	Effect on net profit				
For the financial year ended 31 March 2013 *SDR millions*	Foreign exchange gain	Operating expenses	**Net profit**	Other comprehensive income	**Total comprehensive income**
Amount previously reported for 2012/13	25.0	(256.3)	898.2	(123.3)	774.9
Effect of change in accounting policy					
Staff pensions	1.7	(12.5)	(10.8)	(25.7)	(36.5)
Directors' pensions	–	0.3	0.3	(0.3)	–
Post-employment health and accident benefits	–	7.7	7.7	(27.9)	(20.2)
	1.7	**(4.5)**	**(2.8)**	**(53.9)**	**(56.7)**
Restated amount for 2012/13	**26.7**	**(260.8)**	**895.4**	**(177.2)**	**718.2**

For the financial year ended 31 March 2012 *SDR millions*	Effect on net profit Foreign exchange gain	 Operating expenses	 **Net profit**	Other comprehensive income	**Total comprehensive income**
Amount previously reported for 2011/12	9.7	(226.7)	758.9	848.3	1,607.2
Effect of change in accounting policy					
Staff pensions	(2.9)	(18.0)	(20.9)	(150.4)	(171.3)
Directors' pensions	–	0.1	0.1	(1.1)	(1.0)
Post-employment health and accident benefits	0.1	1.6	1.7	(90.3)	(88.6)
	(2.8)	**(16.3)**	**(19.1)**	**(241.8)**	**(260.9)**
Restated amount for 2011/12	**6.9**	**(243.0)**	**739.8**	**606.5**	**1,346.3**

B. Effect on other liabilities

As at 31 March 2013

SDR millions	Other liabilities
Amount previously reported as at 31 March 2013	(487.8)
Cumulative effect of change in accounting policy for 2012/13 and prior years	
Staff pensions	(341.9)
Directors' pensions	(2.2)
Post-employment health and accident benefits	(167.6)
	(511.7)
Restated balance as at 31 March 2013	**(999.5)**

As at 31 March 2012

SDR millions	Other liabilities
Amount previously reported as at 31 March 2012	(416.5)
Cumulative effect of change in accounting policy for 2011/12 and prior years	
Staff pensions	(305.4)
Directors' pensions	(2.2)
Post-employment health and accident benefits	(147.4)
	(455.0)
Restated balance as at 31 March 2012	**(871.5)**

C. Effect on shareholders' equity

For the financial year ended 31 March 2013 *SDR millions*	Share capital	Statutory reserves	Profit and loss account	Shares held in treasury	Other equity accounts Defined benefit obligations	Other equity accounts Gold and securities revaluation	**Total equity**
Amount previously reported as at 31 March 2013	698.9	13,647.7	898.2	(1.7)	–	3,742.7	**18,985.8**
Cumulative effect of change in accounting policy for 2012/13 and prior years							
Staff pensions	–	(89.1)	(10.8)	–	(242.0)	–	**(341.9)**
Directors' pensions	–	0.2	0.3	–	(2.7)	–	**(2.2)**
Post-employment health and accident benefits	–	2.0	7.7	–	(177.3)	–	**(167.6)**
	–	**(86.9)**	**(2.8)**	**–**	**(422.0)**	**–**	**(511.7)**
Restated balance as at 31 March 2013	**698.9**	**13,560.8**	**895.4**	**(1.7)**	**(422.0)**	**3,742.7**	**18,474.1**

For the financial year ended 31 March 2012 *SDR millions*	Share capital	Statutory reserves	Profit and loss account	Shares held in treasury	Other equity accounts Defined benefit obligations	Other equity accounts Gold and securities revaluation	**Total equity**
Amount previously reported as at 31 March 2012	698.9	13,057.2	758.9	(1.7)	–	3,866.0	**18,379.3**
Cumulative effect of change in accounting policy for 2011/12 and prior years							
Staff pensions	–	(68.2)	(20.9)	–	(216.3)	–	**(305.4)**
Directors' pensions	–	0.1	0.1	–	(2.4)	–	**(2.2)**
Post-employment health and accident benefits	–	0.3	1.7	–	(149.4)	–	**(147.4)**
	–	**(67.8)**	**(19.1)**	**–**	**(368.1)**	**–**	**(455.0)**
Restated balance as at 31 March 2012	**698.9**	**12,989.4**	**739.8**	**(1.7)**	**(368.1)**	**3,866.0**	**17,924.3**

The change in accounting policy for post-employment benefit obligations resulted in a restatement of the Bank's shareholders' equity. This restatement resulted in the following change to the Tier 1 capital figures, as discussed in the "Risk management" section of this report.

D. Change in Tier 1 capital

As at 31 March 2013 *SDR millions*	**Tier 1 capital**
Tier 1 capital previously reported as at 31 March 2013	14,344.9
Cumulative effect of change in accounting policy for 2012/13 and prior years	
Re-measurement losses on defined benefit obligations	(422.0)
Cumulative changes to the statutory reserves for years prior to 2012/13	(86.9)
Restated Tier 1 capital as at 31 March 2013	**13,836.0**

4. 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.

5. 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	**2014**	2013
Gold	20,374.5	35,086.8
Gold loans	221.9	280.3
Total gold and gold loan assets	**20,596.4**	35,367.1
Comprising:		
Gold investment assets	2,981.8	3,944.9
Gold and gold loan banking assets	17,614.6	31,422.2

Included in "Gold" is SDR 6,311.2 million (236 tonnes) of gold (2013: SDR 13,836.1 million; 404 tonnes) that the Bank holds in connection with its gold swap contracts. Under such contracts the Bank exchanges currencies for physical gold, and has an obligation to return the gold at the end of the contract. See note 8 for more details on gold swap transactions.

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, which is reported under the balance sheet heading "Other equity accounts"; the movement in this value is included in the statement of comprehensive income under the heading "Unrealised gain on gold investment assets". Realised gains or losses on the disposal of gold investment assets are recognised in the profit and loss account under the heading "Net gain on sales of gold investment assets".

Note 19B provides further analysis of the gold revaluation account. Note 28 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	**2014**	2013
Balance at beginning of year	3,944.9	4,018.2
Net change in gold investment assets		
Disposals of gold	(110.5)	(34.1)
Maturities, sight account and other net movements	(0.8)	(0.7)
	(111.3)	(34.8)
Gold price movement	(851.8)	(38.5)
Balance at end of year	**2,981.8**	3,944.9

At 31 March 2014 the Bank's gold investment assets amounted to 111 tonnes of fine gold (2013: 115 tonnes).

6. Currency assets

A. Total holdings

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

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

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

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

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. These loans are recognised in the balance sheet total "Loans and advances", which also includes notice accounts (see note 7).

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

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

As at 31 March 2014	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	**44,530.8**	**–**	**–**	**–**	**44,530.8**
Securities purchased under resale agreements	**49,708.6**	**845.8**	**–**	**845.8**	**50,554.4**
Loans and advances	**19,267.3**	**–**	**–**	**–**	**19,267.3**
Government and other securities					
Government	29,176.5	14,658.7	–	14,658.7	43,835.2
Financial institutions	13,281.2	142.2	–	142.2	13,423.4
Other	12,779.3	3.2	–	3.2	12,782.5
	55,237.0	**14,804.1**	**–**	**14,804.1**	**70,041.1**
Total currency assets	**168,743.7**	**15,649.9**	**–**	**15,649.9**	**184,393.6**

As at 31 March 2013	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	46,552.7	–	141.4	141.4	46,694.1
Securities purchased under resale agreements	28,469.5	–	–	–	28,469.5
Loans and advances	19,335.3	–	–	–	19,335.3
Government and other securities					
Government	24,172.2	13,801.8	–	13,801.8	37,974.0
Financial institutions	10,957.8	105.4	718.7	824.1	11,781.9
Other	12,881.4	6.0	–	6.0	12,887.4
	48,011.4	13,913.2	718.7	14,631.9	62,643.3
Total currency assets	142,368.9	13,913.2	860.1	14,773.3	157,142.2

B. Currency investment 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 investment assets available for sale:

For the financial year ended 31 March

SDR millions	**2014**	2013
Balance at beginning of year	13,913.2	13,478.6
Net change in currency investment assets available for sale		
Additions	9,981.6	6,268.2
Disposals	(5,679.3)	(5,247.4)
Other net movements	(2,619.9)	(531.2)
	1,682.4	489.6
Net change in transactions awaiting settlement	243.7	(82.2)
Fair value and other movements	(189.4)	27.2
Balance at end of year	**15,649.9**	13,913.2

7. Loans and advances

Loans and advances comprise fixed-term loans to commercial banks, advances and notice accounts. Advances relate to committed and uncommitted standby facilities which the Bank provides for its customers. Notice accounts are very short-term financial assets, typically having a notice period of three days or less.

Fixed-term loans and advances are designated as held at fair value through profit and loss. Notice accounts are designated as loans and receivables and are included in the balance sheet at amortised cost. At 31 March 2014 the balance held in the futures clearing accounts totalled SDR 33.1 million (2013: SDR 34.1 million).

As at 31 March

SDR millions	**2014**	2013
Loans and advances	19,267.3	19,335.3
Notice accounts	333.0	341.5
Total loans and advances	**19,600.3**	19,676.8

The amount of the change in fair value recognised in the profit and loss account on fixed-term loans and advances is SDR –1.2 million (2013: SDR 2.1 million).

8. 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 agreements to receive or pay a net amount based on changes in interest rates or bond prices at a future date. 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), a specific amount of a currency or gold at a predetermined price, on or by a set date. In consideration, the seller receives a premium from the purchaser.

Currency and gold swaps, cross-currency interest rate swaps and interest rate swaps are bilateral contractual agreements to exchange cash flows related to currencies, gold or interest rates (for example, fixed rate for floating rate). Cross-currency interest rate swaps involve the exchange of cash flows related to a combination of interest rates and foreign exchange rates. Except for certain currency and gold swaps and cross-currency interest rate swaps, no exchange of principal takes place.

Currency and gold forwards are bilateral contractual agreements involving the exchange of foreign currencies or gold at a future date. This includes undelivered spot transactions.

Forward rate agreements are bilateral 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 bilateral 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 note 11). Where the host contract is not accounted for as held at fair value, embedded derivatives are separated from the host contract for accounting purposes and treated as though they are regular derivatives. 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	**2014**			2013		
	Notional amounts	Fair values		Notional amounts	Fair values	
SDR millions		Assets	Liabilities		Assets	Liabilities
Bond futures	1,404.9	0.7	(0.2)	731.6	0.4	(0.1)
Cross-currency interest rate swaps	1,025.1	–	(145.0)	1,284.7	0.2	(145.8)
Currency and gold forwards	627.1	3.0	(0.6)	573.6	6.3	(5.9)
Currency and gold options	2,643.1	7.3	(7.7)	1,674.6	0.2	(0.3)
Currency and gold swaps	96,534.1	803.6	(640.1)	102,193.8	2,278.8	(416.9)
Forward rate agreements	10,574.2	0.7	(1.7)	4,628.2	0.9	(0.7)
Interest rate futures	3,508.7	–	(0.1)	5,773.7	0.1	–
Interest rate swaps	282,991.9	2,186.9	(1,828.2)	215,102.1	3,568.8	(2,831.4)
Swaptions	1,488.4	–	(9.3)	1,497.7	–	(1.2)
Total derivative financial instruments at end of year	**400,797.5**	**3,002.2**	**(2,632.9)**	333,460.0	5,855.7	(3,402.3)
Net derivative financial instruments at end of year			**369.3**			2,453.4

9. Accounts receivable

As at 31 March

SDR millions	**2014**	2013
Financial transactions awaiting settlement	2,766.7	6,159.2
Other assets	10.7	12.0
Total accounts receivable	**2,777.4**	6,171.2

"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.

10. Land, buildings and equipment

For the financial year ended 31 March *SDR millions*	Land	Buildings	IT and other equipment	**2014** Total	2013 Total
Historical cost					
Balance at beginning of year	**41.2**	**263.4**	**104.1**	**408.7**	401.6
Capital expenditure	5.3	7.0	8.8	21.1	14.5
Disposals and retirements	(0.1)	–	(17.1)	(17.2)	(7.4)
Balance at end of year	**46.4**	**270.4**	**95.8**	**412.6**	408.7
Depreciation					
Balance at beginning of year	**–**	**138.7**	**79.4**	**218.1**	208.6
Depreciation	–	8.5	6.8	15.3	16.9
Disposals and retirements	–	–	(17.0)	(17.0)	(7.4)
Balance at end of year	**–**	**147.2**	**69.2**	**216.4**	218.1
Net book value at end of year	**46.4**	**123.2**	**26.6**	**196.2**	190.6

The depreciation charge for the financial year ended 31 March 2014 includes an additional charge of SDR 0.1 million for IT and other equipment following an impairment review (2013: SDR 1.3 million).

11. 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	**2014**	2013
Deposit instruments repayable at one to two days' notice		
Medium-Term Instruments (MTIs)	57,196.1	50,047.8
Callable MTIs	2,832.7	1,755.5
Fixed Rate Investments of the BIS (FIXBIS)	43,327.0	41,760.5
	103,355.8	93,563.8
Other currency deposits		
Floating Rate Investments of the BIS (FRIBIS)	58.3	307.3
Fixed-term deposits	57,832.9	59,144.7
Dual Currency Deposits (DCDs)	257.3	190.9
Sight and notice deposit accounts	18,967.9	12,953.6
	77,116.4	72,596.5
Total currency deposits	**180,472.2**	166,160.3
Comprising:		
Designated as held at fair value through profit and loss	161,504.3	153,206.7
Designated as financial liabilities measured at amortised cost	18,967.9	12,953.6

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 2014 and December 2014 (2013: June 2013 and March 2014). The balance sheet total for callable MTIs includes the fair value of the embedded interest rate option.

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

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

Fixed-term deposits are fixed rate investments at the 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. The balance sheet total for DCDs includes the fair value of the embedded foreign exchange option. These deposits all mature between April 2014 and May 2014 (2013: in April 2013 and May 2013).

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

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 obliged to pay at maturity to the holder of the deposit. The amount the Bank is contractually obliged to pay at maturity in respect of its total currency deposits (including accrued interest to 31 March 2014) is SDR 180,373.0 million (2013: SDR 165,182.2 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.

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.

12. Gold deposits

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

13. Securities sold under repurchase agreements

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

The securities sold under repurchase agreements (and related collateral provided by the Bank) are analysed in the table below:

As at 31 March

SDR millions	**2014**	2013
Held at amortised cost	845.8	–
Held at fair value through profit and loss	323.5	–
Total securities sold under repurchase agreements	**1,169.3**	–
Transactions awaiting settlement	(249.9)	–
Repurchase agreements on a settlement date basis	**919.4**	–
Collateral provided under repurchase agreements comprises:		
Treasury bills	323.5	–
Government securities	596.3	–
Total collateral provided	**919.8**	–

At 31 March 2013 the Bank had not entered into any repurchase agreements.

Further information on collateral is provided in the section "Credit risk mitigation" within the "Risk management" section of this report.

14. 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.

15. Other liabilities

The Bank's other liabilities consist of:

As at 31 March

SDR millions	**2014**	2013 restated
Post-employment benefit obligations (see note 20)		
Staff pensions	336.5	392.5
Directors' pensions	8.8	8.9
Health and accident benefits	431.4	478.9
Short positions in currency assets	–	96.7
Payable to former shareholders	0.6	0.6
Other	21.7	21.9
Total other liabilities	**799.0**	999.5

16. Share capital

The Bank's share capital consists of:

As at 31 March

SDR millions	**2014**	2013
Authorised capital: 600,000 shares, each of SDR 5,000 par value, of which SDR 1,250 is paid up	3,000.0	3,000.0
Issued capital: 559,125 shares	2,795.6	2,795.6
Paid-up capital (25%)	**698.9**	698.9

The number of shares eligible for dividend is:

As at 31 March	**2014**	2013
Issued shares	559,125	559,125
Less: shares held in treasury	(1,000)	(1,000)
Outstanding shares eligible for dividend	**558,125**	558,125

17. 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, 5% of the remainder of the Bank's annual net profit currently must be allocated to the general reserve fund.

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

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

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

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

The table below analyses the movements in the Bank's statutory reserves over the last two years:

SDR millions	Legal reserve fund	General reserve fund	Special dividend reserve fund	Free reserve fund	Total statutory reserves
Balance at 31 March 2012	**69.8**	**3,540.4**	**172.0**	**9,275.0**	**13,057.2**
Change in accounting policy for post-employment benefit obligations – financial years prior to 2011/12	–	–	–	(67.8)	(67.8)
Allocation of 2011/12 profit – restated	–	29.5	6.0	535.9	571.4
Balance at 31 March 2013 – restated	**69.8**	**3,569.9**	**178.0**	**9,743.1**	**13,560.8**
Allocation of 2012/13 profit – restated	–	36.1	6.0	677.5	719.6
Balance at 31 March 2014	**69.8**	**3,606.0**	**184.0**	**10,420.6**	**14,280.4**

At 31 March 2014 statutory reserves included share premiums of SDR 1,059.6 million (2013: SDR 1,059.6 million).

In accordance with Article 51 of the Bank's Statutes, the following profit allocation will be proposed at the Bank's Annual General Meeting:

SDR millions	**2014**
Net profit for the financial year	**419.3**
Transfer to legal reserve fund	–
Proposed dividend:	
SDR 215 per share on 558,125 shares	(120.0)
Profit available for allocation	**299.3**
Proposed transfers to reserves:	
General reserve fund	(15.0)
Free reserve fund	(284.3)
Balance after allocation to reserves	**–**

18. Shares held in treasury

For the financial year ended 31 March	**2014**	2013
Number of shares at beginning of year	1,000	1,000
Number of shares 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.

19. Other equity accounts

Other equity accounts comprise the gold investment assets and the revaluation accounts of the currency assets available for sale (see notes 6 and 5) and the re-measurement gains or losses on defined benefit obligations (see note 20).

As at 31 March

SDR millions	**2014**	2013 restated
Securities revaluation account	132.4	362.3
Gold revaluation account	2,437.5	3,380.4
Re-measurement of defined benefit obligations	(238.9)	(422.0)
Total other equity accounts	**2,331.0**	3,320.7

A. Securities revaluation account

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

For the financial year ended 31 March

SDR millions	**2014**	2013
Balance at beginning of year	362.3	417.8
Net gain on sales	(40.5)	(82.7)
Fair value and other movements	(189.4)	27.2
Net valuation movement on securities available for sale	**(229.9)**	(55.5)
Balance at end of year	**132.4**	362.3

The table below analyses the balance in the securities revaluation account, which relates to government and other securities:

SDR millions	Fair value of assets	Historical cost	Securities revaluation account	Gross gains	Gross losses
As at 31 March 2014	15,649.9	15,517.5	**132.4**	173.1	(40.7)
As at 31 March 2013	13,913.1	13,550.8	362.3	362.3	–

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	**2014**	2013
Balance at beginning of year	3,380.4	3,448.2
Net gain on sales	(91.1)	(29.3)
Gold price movement	(851.8)	(38.5)
Net valuation movement on gold investment assets	**(942.9)**	(67.8)
Balance at end of year	**2,437.5**	3,380.4

C. Re-measurement of defined benefit obligations

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

For the financial year ended 31 March

SDR millions	**2014**	2013 restated
Balance at beginning of year	(422.0)	(368.1)
Staff pension	98.5	(25.7)
Directors' pension	0.5	(0.3)
Post-employment health and accident insurance	84.1	(27.9)
Re-measurement of defined benefit obligations	**183.1**	(53.9)
Balance at end of year	**(238.9)**	(422.0)

Note 20D provides further analysis of the re-measurement of the Bank's post-employment benefit obligations.

20. Post-employment benefit obligations

With effect from 1 April 2013, the Bank changed its accounting policy for post-employment benefit obligations to reflect developments in global financial reporting standards. The revised policy is described in Section 26 of the accounting policies and note 3 provides further information on the effects of this change.

The Bank operates three post-employment arrangements:

1. A defined benefit pension arrangement for its staff in the event of retirement, disability or death. Benefits accrue under this arrangement according to years of participation and pensionable remuneration. Benefits are paid out of a fund without separate legal personality from the BIS. The fund assets are administered by the Bank for the sole benefit of current and former members of staff who participate in the arrangement. Contributions are made to this fund by the Bank and by staff. The fund also receives the return on the assets it holds. 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. Employees who leave the Bank after becoming eligible for early retirement benefits from the pension arrangement are eligible for post-employment health and accident benefits.

All three arrangements operate in Swiss francs and are valued annually by an independent actuary. During 2014/15, the Bank expects to make contributions of SDR 32.3 million to its post-employment arrangements.

In January 2014, the Board endorsed a number of changes to the staff pension arrangement. Changes included the discontinuation of the right to purchase additional pension benefits, an increase in the compulsory retirement age, a reduction in early retirement benefits, and an amendment to the pensionable remuneration basis from final salary to average salary of the last three years of service. Some of these changes became effective immediately; others will become effective on 1 October 2014 when new pension fund regulations come into force. These new pension regulations have been included in the actuarial calculation at 31 March 2014 to the extent that they change the future expected cash flows of the staff pension arrangement.

A. Amounts recognised in the balance sheet

As at 31 March	Staff pensions			Directors' pensions			Post-employment health and accident benefits		
SDR millions	**2014**	2013 restated	2012 restated	**2014**	2013 restated	2012 restated	**2014**	2013 restated	2012 restated
Present value of obligation	(1,398.6)	(1,370.7)	(1,264.5)	(8.8)	(8.9)	(8.6)	(431.4)	(478.9)	(434.3)
Fair value of fund assets	1,062.1	978.2	929.2	–	–	–	–	–	–
Liability at end of year	**(336.5)**	(392.5)	(335.3)	**(8.8)**	(8.9)	(8.6)	**(431.4)**	(478.9)	(434.3)

B. Present value of defined benefit obligations

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	**2014**	2013 restated	2012 restated	**2014**	2013 restated	2012 restated	**2014**	2013 restated	2012 restated
Present value of obligations at beginning of year	1,370.7	1,264.5	1,039.1	8.9	8.6	7.2	478.9	434.3	316.7
Employee contributions	6.5	6.2	6.0	–	–	–	–	–	–
Benefit payments	(35.8)	(28.5)	(40.0)	(0.5)	(0.5)	(0.4)	(2.9)	(2.7)	(2.6)
Net current service cost	63.6	53.5	45.6	0.5	0.4	0.4	18.2	15.6	11.3
Interest cost on obligation at opening discount rate	24.1	24.3	29.5	0.1	0.2	0.2	8.5	8.4	9.0
Actuarial gains and losses arising from experience adjustments	(21.3)	5.0	5.3	(0.4)	–	–	(41.0)	–	(0.1)
Actuarial gains and losses arising from changes in demographic assumptions	5.6	5.1	(15.0)	–	–	–	(26.1)	3.1	22.8
Actuarial gains and losses arising from changes in financial assumptions	(65.1)	60.8	156.5	(0.3)	0.3	1.0	(24.3)	27.0	66.2
Reduction in past service cost	(7.0)	–	–	–	–	–	–	–	–
Foreign exchange differences	57.3	(20.2)	37.5	0.5	(0.1)	0.2	20.1	(6.8)	11.0
Present value of obligations at end of year	**1,398.6**	1,370.7	1,264.5	**8.8**	8.9	8.6	**431.4**	478.9	434.3

The SDR 7.0 million of reduction in past service cost during the financial year ended 31 March 2014 was due to the changes in the staff pension arrangement approved by the Board in January 2014.

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

As at 31 March	Staff pensions			Directors' pensions			Post-employment health and accident benefits		
Years	**2014**	2013	2012	**2014**	2013	2012	**2014**	2013	2012
Weighted average duration	**18.4**	18.9	18.5	**12.3**	12.4	12.2	**22.1**	24.1	23.7

C. Amounts recognised in the profit and loss account

For the financial year ended 31 March	Staff pensions			Directors' pensions			Post-employment health and accident benefits		
SDR millions	**2014**	2013 restated	2012 restated	**2014**	2013 restated	2012 restated	**2014**	2013 restated	2012 restated
Net current service cost	63.6	53.5	45.6	0.5	0.4	0.4	18.2	15.6	11.3
Reduction in past service cost	(7.0)	–	–	–	–	–	–	–	–
Interest cost on net liability	6.7	6.2	4.1	0.1	0.2	0.2	8.5	8.4	9.1
Total included in operating expense	**63.3**	59.7	49.7	**0.6**	0.6	0.6	**26.7**	24.0	20.4

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

For the financial year ended 31 March	Staff pensions			Directors' pensions			Post-employment health and accident benefits		
SDR millions	**2014**	2013 restated	2012 restated	**2014**	2013 restated	2012 restated	**2014**	2013 restated	2012 restated
Return on plan assets in excess of opening discount rate	26.9	42.1	(3.1)	–	–	–	–	–	–
Actuarial gains and losses arising from experience adjustments	21.3	(5.0)	(5.3)	0.4	–	–	41.0	–	0.1
Actuarial gains and losses arising from changes in demographic assumptions	(5.6)	(5.1)	15.0	–	–	–	26.1	(3.1)	(22.8)
Actuarial gains and losses arising from changes in financial assumptions	65.1	(60.8)	(156.5)	0.3	(0.3)	(1.0)	24.3	(27.0)	(66.2)
Foreign exchange gains and losses on items in other comprehensive income	(9.2)	3.1	(0.5)	(0.2)	–	(0.1)	(7.3)	2.2	(1.4)
Amounts recognised in other comprehensive income	**98.5**	(25.7)	(150.4)	**0.5**	(0.3)	(1.1)	**84.1**	(27.9)	(90.3)

E. Analysis of movement on fair value of fund assets for staff pensions

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

For the financial year ended 31 March

SDR millions	**2014**	2013	2012
Fair value of fund assets at beginning of year	978.2	929.2	881.9
Employer contributions	27.8	26.5	25.7
Employee contributions	6.5	6.2	6.0
Benefit payments	(35.8)	(28.5)	(40.0)
Interest income on plan assets calculated on opening discount rate	17.4	18.0	25.4
Return on plan assets in excess of opening discount rate	26.9	42.1	(3.1)
Foreign exchange differences	41.1	(15.3)	33.3
Fair value of fund assets at end of year	**1,062.1**	978.2	929.2

F. Composition and fair value of fund assets for staff pensions

The table below analyses the assets of the staff pension fund and the extent to which the fair values of those assets have been calculated using quoted prices in active markets. A price is considered to be quoted if it is both readily available from an exchange, dealer or similar source and indicates the price at which transactions can be executed. A market is considered to be active if willing buyers and sellers can normally be found. The staff pension fund does not invest in financial instruments issued by the Bank.

As at 31 March

SDR million	**2014**			2013		
	Quoted in active market	Other	Total	Quoted in active market	Other	Total
Cash (including margin accounts)	19.5	–	19.5	35.8	–	35.8
Debt securities	361.2	–	361.2	304.7	–	304.7
Fixed income funds	124.6	–	124.6	142.3	–	142.3
Equity funds	436.4	29.3	465.7	394.8	27.7	422.5
Real estate funds	25.8	8.0	33.8	25.5	–	25.5
Commodity-linked note	–	52.9	52.9	–	47.7	47.7
Derivatives	0.1	4.3	4.4	0.1	(0.4)	(0.3)
Total	**967.6**	**94.5**	**1,062.1**	903.2	75.0	978.2

G. Principal actuarial assumptions used in these financial statements

As at 31 March	**2014**	2013
Applicable to all three post-employment benefit arrangements		
Discount rate – market rate of highly rated Swiss corporate bonds	2.00%	1.75%
Applicable to staff and Directors' pension arrangements		
Assumed increase in pensions payable	1.50%	1.50%
Applicable to staff pension arrangement only		
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 2014 (2013: 1.5%).

H. Life expectancies

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

As at 31 March

Years	**2014**	2013
Current life expectancy of members aged 65		
Male	19.9	19.7
Female	22.2	22.1
Life expectancy of members aged 65 projected forward in 10 years' time		
Male	20.3	20.2
Female	22.6	22.5

I. Sensitivity analysis of significant actuarial assumptions

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

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

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

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

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

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

The table below shows the estimated increase of the defined benefit obligation resulting from a change in key actuarial assumptions (see tables 20G and 20H):

As at 31 March	Staff pensions	
SDR million	**2014**	2013
Discount rate – increase by 0.5%	(117.5)	(119.3)
Rate of salary increase – increase by 0.5%	42.0	41.1
Rate of pension payable increase – increase by 0.5%	86.7	87.7
Life expectancy – increase by 1 year	51.7	53.5

As at 31 March	Directors' pensions	
SDR million	**2014**	2013
Discount rate – increase by 0.5%	(0.5)	(0.5)
Rate of pension payable increase – increase by 0.5%	0.5	0.5
Life expectancy – increase by 1 year	0.4	0.4

As at 31 March	Post-employment health and accident benefits	
SDR million	**2014**	2013
Discount rate – increase by 0.5%	(43.1)	(52.7)
Medical cost inflation rate – increase by 0.5%	100.7	124.1
Life expectancy – increase by 1 year	27.2	33.0

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

21. Interest income

For the financial year ended 31 March

SDR millions	**2014**	2013
Currency assets available for sale		
Securities purchased under resale agreements	0.2	–
Government and other securities	181.7	218.6
	181.9	218.6
Currency assets held at fair value through profit and loss		
Treasury bills	97.4	91.4
Securities purchased under resale agreements	64.0	50.7
Loans and advances	125.8	106.0
Government and other securities	627.6	738.0
	914.8	986.1
Assets designated as loans and receivables		
Sight and notice accounts	0.5	0.7
Gold banking assets	1.0	1.1
	1.5	1.8
Derivative financial instruments held at fair value through profit and loss	**501.6**	947.5
Total interest income	**1,599.8**	2,154.0

22. Interest expense

For the financial year ended 31 March

SDR millions	**2014**	2013
Liabilities held at fair value through profit and loss		
Currency deposits	798.5	1,079.3
Liabilities designated as financial liabilities measured at amortised cost		
Sight and notice deposit accounts	31.0	42.4
Gold deposits	0.8	0.8
	31.8	43.2
Total interest expense	**830.3**	1,122.5

23. Net valuation movement

The net valuation movement arises entirely on financial instruments designated as held at fair value through profit and loss. There were no credit losses due to restructuring or default in the financial years ended 31 March 2014 and 2013.

For the financial year ended 31 March

SDR millions	**2014**	2013
Currency assets held at fair value through profit and loss		
Unrealised valuation movements on currency assets	(384.6)	192.5
Realised gains on currency assets	67.3	7.9
	(317.3)	200.4
Currency liabilities held at fair value through profit and loss		
Unrealised valuation movements on financial liabilities	820.8	335.6
Realised losses on financial liabilities	(369.7)	(126.2)
	451.1	209.4
Valuation movements on derivative financial instruments	**(313.4)**	(426.9)
Net valuation movement	**(179.6)**	(17.1)

24. Net fee and commission income

For the financial year ended 31 March

SDR millions	**2014**	2013
Fee and commission income	14.4	12.8
Fee and commission expense	(9.4)	(9.7)
Net fee and commission income	**5.0**	3.1

25. Net foreign exchange gain / (loss)

For the financial year ended 31 March

SDR millions	**2014**	2013 restated
Net transaction gain	1.6	14.3
Net translation gain / (loss)	(34.9)	12.4
Net foreign exchange gain / (loss)	**(33.3)**	26.7

26. 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	**2014**	2013 restated
Board of Directors		
Directors' fees	2.1	2.0
Pensions to former Directors	0.9	0.9
Travel, external Board meetings and other costs	1.6	1.5
	4.6	4.4
Management and staff		
Remuneration	129.9	132.5
Pensions	89.0	87.9
Other personnel-related expense	54.9	52.9
	273.8	273.3
Office and other expense	**82.5**	72.5
Administrative expense in CHF millions	**360.9**	350.2
Administrative expense in SDR millions	258.6	243.9
Depreciation in SDR millions	15.3	16.9
Operating expense in SDR millions	**273.9**	260.8

The average number of full-time equivalent employees during the financial year ended 31 March 2014 was 566 (2013: 576). In addition, at 31 March 2014 the Bank employed 60 staff members (2013: 57) on behalf of the Financial Stability Board (FSB), the International Association of Deposit Insurers (IADI) and the International Association of Insurance Supervisors (IAIS).

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

27. Net gain on sales of securities available for sale

For the financial year ended 31 March

SDR millions	**2014**	2013
Disposal proceeds	5,679.4	5,351.0
Amortised cost	(5,638.9)	(5,268.3)
Net gain on sales of securities available for sale	**40.5**	82.7
Comprising:		
Gross realised gains	55.2	89.3
Gross realised losses	(14.7)	(6.6)

28. Net gain on sales of gold investment assets

For the financial year ended 31 March

SDR millions	**2014**	2013
Disposal proceeds	110.5	34.1
Deemed cost (see note 19B)	(19.4)	(4.8)
Net gain on sales of gold investment assets	**91.1**	29.3

29. Earnings and dividends per share

For the financial year ended 31 March	**2014**	2013 restated
Net profit for the financial year (SDR millions)	419.3	895.4
Weighted average number of shares entitled to dividend	558,125.0	558,125.0
Basic and diluted earnings per share (SDR per share)	751.3	1,604.3
Dividend per share (SDR per share)	**215.0**	315.0

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

The proposed dividend for 2014 represents a pay-out ratio of 29% of net profit (2013: 20%).

30. Cash and cash equivalents

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

As at 31 March

SDR millions	**2014**	2013
Cash and sight accounts with banks	11,211.5	6,884.1
Notice accounts	333.0	341.5
Total cash and cash equivalents	**11,544.5**	7,225.6

31. 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 Americas Office.

32. 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	
	2014	2013	**2014**	2013
USD	**0.647**	0.667	**0.656**	0.655
EUR	**0.892**	0.855	**0.879**	0.844
JPY	**0.00629**	0.00709	**0.00655**	0.00792
GBP	**1.079**	1.012	**1.043**	1.035
CHF	**0.732**	0.703	**0.715**	0.697
Gold (in ounces)	**833.3**	1,064.3	**871.0**	1,083.2

33. Off-balance sheet items

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

As at 31 March

SDR millions	**2014**	2013
Gold bars held under earmark	10,417.4	11,081.2
Nominal value of securities:		
Securities held under safe custody arrangements	5,295.9	6,590.8
Securities held under collateral pledge agreements	34.8	35.8
Net asset value of portfolio management mandates:		
BISIPs	9,162.4	8,569.8
Dedicated mandates	2,969.3	3,765.9
Total	**27,879.8**	30,043.5

Gold bars held under earmark comprise specific gold bars which have been deposited with the Bank on a custody basis. They are included at their weight in gold (translated at the gold market price and the USD exchange rate into SDR). At 31 March 2014 gold bars held under earmark amounted to 389 tonnes of fine gold (2013: 324 tonnes).

Portfolio management mandates include BIS Investment Pools (BISIPs), which are collective investment arrangements for central banks and dedicated mandates where assets are managed for a single central bank customer.

The BISIPs are a range of open-ended investment funds created by the Bank and managed using entities that do not have a separate legal personality from the Bank. The assets of the BISIPs are held in the name of the BIS, but the economic benefit lies with central bank customers. The Bank is considered as having an agency relationship with the BISIPs; the related assets are not included in the Bank's financial statements. The Bank does not invest for its own account in the BISIPs.

Dedicated mandates are portfolios which are managed by the Bank in accordance with investment guidelines set by the customer. The Bank is not exposed to the risks or rewards from these assets, as they are held for the sole benefit of the central bank customer. The assets are not included in the Bank's financial statements.

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

In addition to the off-balance sheet items listed above, the Bank also manages portfolios of BIS currency deposits on behalf of its customers. These totalled SDR 8,560.9 million at 31 March 2014 (2013: SDR 6,532.6 million). The investments held in these portfolios are liabilities of the Bank, and are included in the balance sheet under the heading "Currency deposits".

34. Commitments

The Bank provides a number of committed standby facilities for its customers on a collateralised or uncollateralised basis. As at 31 March 2014 the outstanding commitments to extend credit under these committed standby facilities amounted to SDR 2,922.9 million (2013: SDR 3,053.8 million), of which SDR 194.1 million was uncollateralised (2013: SDR 200.1 million).

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

On 28 January 2013 the BIS and the FSB entered into an agreement which governs the Bank's support of the FSB. The agreement is for an initial term of five years. Under the terms of the agreement, the BIS is the legal employer of FSB staff. The Bank provides a contribution to cover FSB staff costs, and also provides premises, administrative infrastructure and equipment.

35. The fair value hierarchy

The Bank categorises its financial instrument fair value measurements using a hierarchy that reflects the significance of inputs used in measuring fair value. The valuation is categorised at the lowest level of input that is significant to the fair value measurement in its entirety. The fair value hierarchy used by the Bank comprises the following levels:

Level 1 – Instruments valued using unadjusted quoted prices in active markets for identical financial instruments.

Level 2 – Instruments valued with valuation techniques using inputs which are observable for the financial instrument either directly (ie as a price) or indirectly (ie derived from prices for similar financial instruments). This includes observable interest rates, spreads and volatilities.

Level 3 – Instruments valued using valuation techniques where the inputs are not observable in financial markets.

A. Assets and liabilities classified by levels in the fair value hierarchy

At 31 March 2014 and 2013 the Bank had no financial instruments categorised as level 3.

As at 31 March 2014

SDR millions	Level 1	Level 2	Total
Financial assets held at fair value through profit and loss			
Treasury bills	40,162.5	4,368.3	44,530.8
Securities purchased under resale agreements	–	49,708.6	49,708.6
Fixed-term loans	–	19,267.3	19,267.3
Government and other securities	38,207.1	17,029.9	55,237.0
Derivative financial instruments	1.0	3,001.2	3,002.2
Financial assets designated as available for sale			
Government and other securities	14,730.2	73.9	14,804.1
Securities purchased under resale agreements	–	845.8	845.8
Total financial assets accounted for at fair value	**93,100.8**	**94,295.0**	**187,395.8**
Financial liabilities held at fair value through profit and loss			
Currency deposits	–	(161,504.3)	(161,504.3)
Securities sold under repurchase agreements	–	(323.5)	(323.5)
Derivative financial instruments	(0.7)	(2,632.2)	(2,632.9)
Total financial liabilities accounted for at fair value	**(0.7)**	**(164,460.0)**	**(164,460.7)**

As at 31 March 2013

SDR millions	Level 1	Level 2	Total
Financial assets held at fair value through profit and loss			
Treasury bills	44,256.4	2,437.7	46,694.1
Securities purchased under resale agreements	–	28,469.5	28,469.5
Fixed-term loans	–	19,335.3	19,335.3
Government and other securities	32,387.5	16,342.6	48,730.1
Derivative financial instruments	0.7	5,855.0	5,855.7
Financial assets designated as available for sale			
Government and other securities	13,907.2	6.0	13,913.2
Total financial assets accounted for at fair value	90,551.8	72,446.1	162,997.9
Financial liabilities held at fair value through profit and loss			
Currency deposits	–	(153,206.7)	(153,206.7)
Derivative financial instruments	(0.2)	(3,402.1)	(3,402.3)
Other liabilities (short positions in currency assets)	–	(96.7)	(96.7)
Total financial liabilities accounted for at fair value	(0.2)	(156,705.5)	(156,705.7)

The Bank considers published price quotations in active markets as the best evidence of fair value. The financial instruments valued using active market quotes are categorised as level 1.

Where reliable published price quotations are not available for a financial instrument, the Bank determines fair value by using market standard valuation techniques. These valuation techniques include the use of discounted cash flow models as well as other standard valuation methods. Where financial models are used, the Bank aims at making maximum use of observable market data as model inputs. The financial instruments valued in this manner are categorised as level 2.

B. Transfers between levels in the fair value hierarchy

Of the assets categorised as level 1 at 31 March 2014, SDR 2,359.3 million related to assets that had been held at 31 March 2013 and valued as level 2 at that date. Of the assets categorised as level 2 at 31 March 2014, SDR 3,068.3 million related to assets that had been held at 31 March 2013 and categorised as level 1 as at that date. No assets were transferred to or from the level 3 category during the year. The transfer of assets between levels 1 and 2 reflected specific market conditions existing at the reporting dates that affected the observability of the market prices as defined above. No liability valuations were transferred between fair value hierarchy levels.

C. Assets and liabilities measured at fair value level 3

During the 2013/14 financial year the Bank did not hold assets classified as level 3 in the fair value hierarchy. During the previous financial year the Bank had an opening balance at 31 March 2012 of SDR 8.3 million of illiquid bonds. These were valued by the estimation of credit spreads. An increase in the credit spread estimate would have led to a lower fair value at 31 March 2012.

D. Financial instruments not measured at fair value

The Bank accounts for certain financial instruments at amortised cost. These comprise financial assets of "Cash and sight accounts", "Gold and gold loans" and "Notice accounts". Financial liabilities held at amortised cost comprise "Gold deposits", "Sight and notice deposit accounts" and those "Securities sold under repurchase agreements" that are associated with currency assets available for sale. If these instruments were included in the fair value hierarchy, the valuation of "Gold loans" and "Securities sold under repurchase agreements" would be considered level 2. All other amortised cost financial instruments would be considered level 1.

Using the same valuation techniques for amortised cost financial instruments as is applied to fair valued financial instruments, the Bank estimates that their fair values would be materially the same as the carrying values shown in these financial statements for both 31 March 2014 and 31 March 2013.

36. 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 2014

Percentages	USD	EUR	GBP	JPY	Other currencies
Assets					
Gold loans	–	–	–	–	0.89
Treasury bills	0.11	0.23	–	0.04	1.90
Securities purchased under resale agreements	0.04	0.14	0.37	0.01	–
Sight accounts, loans and advances	0.19	0.39	0.47	0.02	0.92
Government and other securities	0.94	1.47	1.50	0.13	3.33
Liabilities					
Currency deposits	0.30	0.53	0.69	0.01	1.58
Securities sold under repurchase agreements	(0.04)	0.01	–	–	–
Gold deposits	–	–	–	–	0.75

As at 31 March 2013

Percentages	USD	EUR	GBP	JPY	Other currencies
Assets					
Gold loans	–	–	–	–	0.86
Treasury bills	0.15	0.03	–	0.07	1.48
Securities purchased under resale agreements	0.14	0.01	0.36	0.01	–
Sight accounts, loans and advances	0.23	0.07	0.45	0.10	0.78
Government and other securities	1.08	1.79	1.66	0.22	3.58
Liabilities					
Currency deposits	0.51	0.72	0.60	0.02	1.31
Gold deposits	–	–	–	–	0.72
Short positions in currency assets	3.44	–	–	–	–

37. Geographical analysis

A. Total liabilities

As at 31 March

SDR millions	**2014**	2013 restated
Africa and Europe	63,200.4	59,108.9
Asia-Pacific	95,746.5	86,965.2
Americas	31,602.1	33,208.0
International organisations	14,233.4	14,196.2
Total	**204,782.4**	193,478.3

B. Off-balance sheet items

As at 31 March

SDR millions	**2014**	2013
Africa and Europe	7,727.1	8,076.3
Asia-Pacific	15,221.9	16,158.0
Americas	4,930.8	5,809.2
Total	**27,879.8**	30,043.5

Note 33 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 below (note 3B).

C. Credit commitments

As at 31 March

SDR millions	**2014**	2013
Africa and Europe	267.5	256.6
Asia-Pacific	2,655.4	2,797.2
Total	**2,922.9**	3,053.8

Note 34 provides further analysis of the Bank's credit commitments.

38. Related parties

The Bank considers the following to be its related parties:

- the members of the Board of Directors;
- the senior officials of the Bank;
- close family members of the above individuals;
- the Bank's post-employment benefit arrangements; and
- central banks whose Governor is a member of the Board of Directors and institutions that are connected with these central banks.

A listing of the members of the Board of Directors and senior officials is shown in the sections of the Annual Report entitled "Board of Directors" and "BIS Management". Note 20 provides details of the Bank's post-employment benefit arrangements.

A. Related party individuals

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

For the financial year ended 31 March

CHF millions	**2014**	2013
Salaries, allowances and medical cover	7.7	7.8
Post-employment benefits	2.0	2.1
Total compensation	**9.7**	9.9
SDR equivalent	6.9	6.9

Note 26 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	**2014**	2013
Balance at beginning of year	27.2	24.1
Deposits taken including interest income (net of withholding tax)	5.5	4.2
Withdrawals	(14.4)	(1.1)
Balance at end of year	**18.3**	27.2
SDR equivalent	13.4	19.1
Interest expense on deposits in CHF millions	**0.3**	0.4
SDR equivalent	0.2	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 or withdrawals and the balances are paid out when they leave the Bank. The accounts bear interest at a rate determined by the Bank based on the rate offered by the Swiss National Bank on staff accounts plus 1%. The total balance of blocked accounts at 31 March 2014 was SDR 17.0 million (2013: SDR 18.6 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, which are predominantly central banks, monetary authorities and international financial institutions. In fulfilling this role, the Bank in the normal course of business enters into transactions with 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	**2014**	2013
Balance at beginning of year	36,727.9	49,428.8
Deposits taken	146,205.7	118,064.6
Maturities, repayments and fair value movements	(123,938.5)	(126,159.1)
Net movement on notice accounts	6,421.9	(4,606.4)
Balance at end of year	**65,417.0**	36,727.9
Percentage of total currency deposits at end of year	36.2%	22.1%

Gold deposit liabilities from related central banks and connected institutions

For the financial year ended 31 March

SDR millions	**2014**	2013
Balance at beginning of year	10,849.7	13,767.1
Net movement on gold sight accounts	(3,662.7)	(2,917.4)
Balance at end of year	**7,187.0**	10,849.7
Percentage of total gold deposits at end of year	63.6%	61.7%

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

For the financial year ended 31 March

SDR millions	**2014**	2013
Balance at beginning of year	3,994.3	5,760.6
Collateralised deposits placed	1,038,178.0	1,378,767.4
Maturities and fair value movements	(1,040,814.6)	(1,380,533.7)
Balance at end of year	**1,357.7**	3,994.3
Percentage of total securities purchased under resale agreements at end of year	2.7%	14.0%

Derivative transactions with related party central banks and connected institutions

The BIS enters into derivative transactions with related party central banks and connected institutions, including foreign exchange deals and interest rate swaps; the total nominal value of these transactions during the year ended 31 March 2014 was SDR 18,430.1 million (2013: SDR 18,843.4 million).

Other balances and transactions 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 11,202.1 million as at 31 March 2014 (2013: SDR 6,858.1 million). Gold held with related party central banks and connected institutions totalled SDR 20,292.9 million as at 31 March 2014 (2013: SDR 35,074.5 million).

During the year ended 31 March 2014 the Bank acquired SDR 361.2 million of securities issued by related party central banks and connected institutions (2013: SDR 22.4 million). A total of SDR 171.2 million of such securities matured or were sold during the financial year (2013: SDR 1,109.0 million). At 31 March 2014 the Bank held SDR 271.2 million of related party securities (2013: SDR 81.2 million).

During the financial year, the Bank purchased third-party securities from central banks and connected institutions amounting to SDR 1,688.6 million, all of which were subsequently disposed of before the end of the year (2013: SDR 7,061.0 million).

The Bank provides committed standby facilities for customers and as at 31 March 2014 the Bank had outstanding commitments to extend credit under facilities to related parties of SDR 271.1 million (2013: SDR 285.7 million).

39. Contingent liabilities

In the opinion of the Bank's Management there were no significant contingent liabilities at 31 March 2014.

Capital adequacy

1. Capital adequacy frameworks

As an international financial institution that is overseen by a Board composed of Governors of major central banks and that, by nature, has no national supervisor, the Bank is committed to maintaining its superior credit quality and financial strength, in particular in situations of financial stress. To that end, the Bank continuously assesses its capital adequacy based on an annual capital planning process that focuses on two elements: an economic capital framework and a financial leverage framework.

The Bank discloses risk-related information on its exposure to credit, market, operational and liquidity risk based on its own assessment of capital adequacy.

To facilitate comparability, the Bank has implemented a framework that is consistent with the revised *International Convergence of Capital Measurement and Capital Standards* (Basel II Framework) issued by the Basel Committee on Banking Supervision in June 2006. Following that framework, the Bank discloses a Tier 1 capital ratio (Pillar 1), risk-weighted assets and more detailed related information. The Bank maintains a capital position substantially in excess of the regulatory minimum requirement in order to ensure its superior credit quality.

2. Economic capital

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

As at 31 March

SDR millions	**2014**	2013 restated
Share capital	698.9	698.9
Statutory reserves per balance sheet	14,280.4	13,560.8
Less: shares held in treasury	(1.7)	(1.7)
Share capital and reserves	**14,977.6**	14,258.0
Securities revaluation account	132.4	362.3
Gold revaluation account	2,437.5	3,380.4
Re-measurement of defined benefit obligations	(238.9)	(422.0)
Other equity accounts	**2,331.0**	3,320.7
Profit and loss account	**419.3**	895.4
Total equity	**17,727.9**	18,474.1

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

As at 31 March

SDR millions	2014	2013 restated
Share capital and reserves	14,977.6	14,258.0
Re-measurement of defined benefit obligations	(238.9)	(422.0)
Tier 1 capital	**14,738.7**	13,836.0
Sustainable supplementary capital	1,661.3	2,164.0
Allocatable capital	**16,400.0**	16,000.0
Capital filter	1,327.9	2,474.1
Total equity	**17,727.9**	18,474.1

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

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

As at 31 March	2014		2013	
SDR millions	Allocation	Utilisation	Allocation	Utilisation
Insolvency and transfer risk	8,200.0	7,474.1	7,800.0	5,983.6
FX settlement risk	300.0	300.0	300.0	300.0
Credit risk	8,500.0	7,774.1	8,100.0	6,283.6
Market risk	4,100.0	2,178.4	4,600.0	2,308.6
Operational risk	1,200.0	1,200.0	700.0	700.0
Other risks	300.0	300.0	300.0	300.0
Economic capital cushion	2,300.0	2,300.0	2,300.0	2,300.0
Total economic capital	**16,400.0**	**13,752.5**	16,000.0	11,892.2

The Bank's economic capital framework is subject to regular review and calibration. The increase of economic capital utilisation for credit risk and operational risk since 31 March 2013 is partly due to a review of the respective methodologies and parameterisations during the reporting period. The relatively low level of utilisation of economic capital for market risk is largely attributable to the exceptionally low volatility of the main market risk factors during the period under review.

3. Financial leverage

The Bank complements its capital adequacy assessment with a prudently managed financial leverage. The Bank monitors its financial leverage using a leverage ratio that compares the Bank's Tier 1 capital with its total balance sheet assets. As such, derivatives transactions, repurchase agreements and reverse repurchase agreements are included in the leverage ratio calculation on a gross basis in accordance with the Bank's accounting policies.

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

As at 31 March

SDR millions	**2014**	2013 restated
Tier 1 capital (A)	**14,738.7**	13,836.0
Total balance sheet assets (B)	222,510.3	211,952.4
Financial leverage ratio (A) / (B)	**6.6%**	6.5%

The following table summarises the development of the financial leverage ratio over the last two financial years:

For the financial year	**2014**				2013 restated			
	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Financial leverage ratio	6.8%	7.5%	6.0%	**6.6%**	6.3%	6.9%	5.3%	6.5%

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

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

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

As at 31 March		**2014**			2013		
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%	144,885.9	10,152.5	812.2	131,684.4	8,934.3	714.7
Securitisation exposures, externally managed portfolios and other assets	Standardised approach, where (B) is derived as (A) x 8%	1,078.6	386.2	30.9	1,823.5	1,142.6	91.4
Market risk							
Exposure to foreign exchange risk and gold price risk	Internal models approach, where (A) is derived as (B) / 8%	–	11,244.9	899.6	–	11,748.1	939.8
Operational risk	Advanced measurement approach, where (A) is derived as (B) / 8%	–	10,154.1	812.3	–	4,612.5	369.0
Total			**31,937.7**	**2,555.0**		26,437.5	2,114.9

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 securitisation exposures, externally managed portfolios and relevant other assets, the Bank has adopted the standardised approach. Under this approach, risk weightings are mapped to exposure types.

Risk-weighted assets for market risk are derived following an internal models approach. For operational risk, the advanced measurement approach is used. Both these approaches rely on value-at-risk (VaR) methodologies.

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

5. 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	**2014**	2013 restated
Share capital and reserves	14,977.6	14,258.0
Re-measurement losses on defined benefit obligations	(238.9)	(422.0)
Tier 1 capital	**14,738.7**	13,836.0
Expected loss	(19.9)	(20.8)
Tier 1 capital net of expected loss (A)	**14,718.8**	13,815.2
Total risk-weighted assets (B)	31,937.7	26,437.5
Tier 1 capital ratio (A) / (B)	**46.1%**	52.3%

Expected loss is calculated for credit risk exposures subject to the advanced internal ratings-based approach. The expected loss is calculated at the balance sheet date taking into account any impairment provision which is reflected in the Bank's financial statements. The Bank had no impaired financial assets at 31 March 2014 (2013: nil). In accordance with the requirements of the Basel II Framework, any expected loss is compared with the impairment provision and any shortfall is deducted from the Bank's Tier 1 capital.

The Bank is committed to maintaining its superior credit quality and financial strength, in particular in situations of financial stress. This is reflected in its own assessment of capital adequacy. As a result, the Bank maintains a capital position substantially in excess of minimum capital requirements under the Basel II Framework.

Risk management

1. Risks faced by the Bank

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

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

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

2. Risk management approach and organisation

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

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

A. Organisation

Under Article 39 of the Bank's Statutes, the General Manager is responsible to the Board for the management of the Bank, and is assisted by the Deputy General Manager. The Deputy General Manager is responsible for the Bank's independent risk 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 by 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 reports to the Deputy General Manager and the Secretary General.

The Legal Service provides legal advice and support covering a wide range of issues relating to the Bank's activities. The Legal Service 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 reporting lines to the General Manager and the Deputy General Manager, and to the Audit Committee.

B. Risk monitoring and reporting

The Bank's financial and operational risk profile, position and performance are monitored on an ongoing basis by the relevant units. Financial risk 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 monthly and a quarterly 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 regular reports 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 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. It uses a comprehensive range of quantitative methodologies for valuing financial instruments and for measuring risk to its net profit and equity. The Bank reassesses its quantitative methodologies in the light of its changing risk environment and evolving best practice.

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

A key methodology used by the Bank to measure and manage risk is the calculation of economic capital based on value-at-risk (VaR) techniques. VaR expresses the statistical estimate of the maximum potential loss on the current positions of the Bank measured to a specified level of confidence and a specified time horizon. VaR models depend on statistical assumptions and the quality of available market data and, while forward-looking, they extrapolate from past events. VaR models may underestimate potential losses if changes in risk factors fail to align with the distribution assumptions. VaR figures do not provide any information on losses that may occur beyond the assumed confidence level.

The Bank's economic capital framework covers credit risk, market risk, operational risk and other risks. As part of the annual capital planning process, the Bank allocates economic capital to the above risk categories commensurate with principles set by the Board and taking account of the business strategy. The Bank's economic capital framework measures economic capital to a 99.995% confidence interval assuming a one-year holding period. An additional amount of economic capital is set aside for "other risks" based on Management's assessment of risks which are not reflected in the economic capital calculations. Moreover, capital is also allocated to an "economic capital cushion" that is based on stress tests that explore extreme but still plausible default events. The economic capital cushion provides an additional margin of safety to sustain a potential material loss without the need to reduce the capital allocated to individual risk categories or to liquidate any holdings of assets.

The management of the Bank's capital adequacy is complemented by a comprehensive stress testing framework, and a prudently determined financial leverage. The stress testing framework supplements the Bank's risk assessment including its VaR and economic capital calculations for financial risk. The Bank's key market risk factors and credit exposures are stress-tested. The stress testing includes the analysis of severe historical and adverse hypothetical macroeconomic scenarios, as well as sensitivity tests of extreme but still plausible movements of the key risk factors identified. The Bank also performs stress tests related to liquidity risk. The financial leverage framework focuses on a ratio that sets the Bank's Tier 1 capital in relation to its total balance sheet assets.

3. Credit risk

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

The Bank manages credit risk within a framework and policies set by the Board of Directors and Management. These are complemented by more detailed guidelines and procedures at the level of the independent risk 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 controlled based on the Bank's economic capital calculation for credit risk. To calculate economic capital for credit risk, the Bank uses a portfolio VaR model. Management limits the Bank's overall exposure to credit risk by allocating an amount of economic capital to credit risk.

B. Default risk

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

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

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

The Bank conducts an annual review for impairment at the date of each balance sheet. At 31 March 2014 the Bank did not have any financial assets that were considered to be impaired (31 March 2013: nil). As at 31 March 2014 no financial assets were considered past due (31 March 2013: nil). No credit loss was recognised in the current period.

Default risk by asset class and issuer type

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

As at 31 March 2014

SDR millions	Sovereign and central banks	Public sector	Banks	Corporate	Securitisation	Total
On-balance sheet exposures						
Cash and sight accounts with banks	11,206.0	–	5.5	–	–	11,211.5
Gold and gold loans	–	–	236.8	–	–	236.8
Treasury bills	43,982.9	547.9	–	–	–	44,530.8
Securities purchased under resale agreements	1,357.7	–	47,347.0	1,849.7	–	50,554.4
Loans and advances	647.1	493.9	18,459.3	–	–	19,600.3
Government and other securities	43,835.2	12,606.5	5,608.8	7,053.1	937.5	70,041.1
Derivatives	13.7	43.3	2,944.5	0.7	–	3,002.2
Accounts receivable	2.8	–	0.2	7.8	–	10.8
Total on-balance sheet exposure	**101,045.4**	**13,691.6**	**74,602.1**	**8,911.3**	**937.5**	**199,187.9**
Commitments						
Undrawn unsecured facilities	194.1	–	–	–	–	194.1
Undrawn secured facilities	2,728.8	–	–	–	–	2,728.8
Total commitments	**2,922.9**	**–**	**–**	**–**	**–**	**2,922.9**
Total exposure	**103,968.3**	**13,691.6**	**74,602.1**	**8,911.3**	**937.5**	**202,110.8**

As at 31 March 2013

SDR millions	Sovereign and central banks	Public sector	Banks	Corporate	Securitisation	Total
On-balance sheet exposures						
Cash and sight accounts with banks	6,861.0	–	22.2	0.9	–	6,884.1
Gold and gold loans	–	–	292.6	–	–	292.6
Treasury bills	46,694.1	–	–	–	–	46,694.1
Securities purchased under resale agreements	3,994.3	–	24,475.2	–	–	28,469.5
Loans and advances	3,134.8	507.3	16,034.7	–	–	19,676.8
Government and other securities	39,559.3	11,847.7	4,897.7	5,395.0	943.6	62,643.3
Derivatives	166.6	148.9	5,539.7	0.5	–	5,855.7
Accounts receivable	145.9	147.7	103.7	8.7	–	406.0
Total on-balance sheet exposure	100,556.0	12,651.6	51,365.8	5,405.1	943.6	170,922.1
Commitments						
Undrawn unsecured facilities	200.1	–	–	–	–	200.1
Undrawn secured facilities	2,853.7	–	–	–	–	2,853.7
Total commitments	3,053.8	–	–	–	–	3,053.8
Total exposure	103,609.8	12,651.6	51,365.8	5,405.1	943.6	173,975.9

Default risk by geographical region

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

As at 31 March 2014

SDR millions	Africa and Europe	Asia-Pacific	Americas	International institutions	Total
On-balance sheet exposures					
Cash and sight accounts with banks	6,199.6	5,001.6	10.3	–	11,211.5
Gold and gold loans	98.2	–	138.6	–	236.8
Treasury bills	7,806.6	32,030.6	4,145.7	547.9	44,530.8
Securities purchased under resale agreements	42,240.1	–	8,314.3	–	50,554.4
Loans and advances	11,792.1	6,411.2	1,097.3	299.7	19,600.3
Government and other securities	31,805.7	5,081.3	25,339.4	7,814.7	70,041.1
Derivatives	2,318.2	86.6	597.4	–	3,002.2
Accounts receivable	9.7	0.9	0.2	–	10.8
Total on-balance sheet exposure	**102,270.2**	**48,612.2**	**39,643.2**	**8,662.3**	**199,187.9**
Commitments					
Undrawn unsecured facilities	–	194.1	–	–	194.1
Undrawn secured facilities	267.5	2,461.3	–	–	2,728.8
Total commitments	**267.5**	**2,655.4**	**–**	**–**	**2,922.9**
Total exposure	**102,537.7**	**51,267.6**	**39,643.2**	**8,662.3**	**202,110.8**

As at 31 March 2013

SDR millions	Africa and Europe	Asia-Pacific	Americas	International institutions	Total
On-balance sheet exposures					
Cash and sight accounts with banks	6,874.4	2.2	7.5	–	6,884.1
Gold and gold loans	117.5	–	175.1	–	292.6
Treasury bills	7,213.3	32,940.0	6,540.8	–	46,694.1
Securities purchased under resale agreements	21,807.8	3,560.7	3,101.0	–	28,469.5
Loans and advances	11,604.8	6,764.2	1,000.5	307.3	19,676.8
Government and other securities	29,977.4	3,790.8	22,709.4	6,165.7	62,643.3
Derivatives	4,620.6	199.2	1,035.9	–	5,855.7
Accounts receivable	46.4	0.9	358.7	–	406.0
Total on-balance sheet exposure	82,262.2	47,258.0	34,928.9	6,473.0	170,922.1
Commitments					
Undrawn unsecured facilities	–	200.1	–	–	200.1
Undrawn secured facilities	256.6	2,597.1	–	–	2,853.7
Total commitments	256.6	2,797.2	–	–	3,053.8
Total exposure	82,518.8	50,055.2	34,928.9	6,473.0	173,975.9

Default risk by counterparty / issuer rating

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

As at 31 March 2014 *SDR millions*	AAA	AA	A	BBB	BB and below	Unrated	Total
On-balance sheet exposures							
Cash and sight accounts with banks	6,120.1	88.2	5,001.9	1.0	0.3	–	11,211.5
Gold and gold loans	–	–	236.8	–	–	–	236.8
Treasury bills	2,144.9	7,725.7	31,042.6	3,617.6	–	–	44,530.8
Securities purchased under resale agreements	–	3,207.4	35,215.4	12,131.6	–	–	50,554.4
Loans and advances	1,141.1	1,188.9	16,213.4	1,056.9	–	–	19,600.3
Government and other securities	13,159.1	44,218.0	11,118.9	1,532.5	12.6	–	70,041.1
Derivatives	16.2	71.5	2,845.8	67.7	0.4	0.6	3,002.2
Accounts receivable	0.1	0.2	0.2	0.7	0.7	8.9	10.8
Total on-balance sheet exposure	**22,581.5**	**56,499.9**	**101,675.0**	**18,408.0**	**14.0**	**9.5**	**199,187.9**
Commitments							
Undrawn unsecured facilities	–	–	–	194.1	–	–	194.1
Undrawn secured facilities	–	797.2	813.2	1,118.4	–	–	2,728.8
Total commitments	**–**	**797.2**	**813.2**	**1,312.5**	**–**	**–**	**2,922.9**
Total exposure	**22,581.5**	**57,297.1**	**102,488.2**	**19,720.5**	**14.0**	**9.5**	**202,110.8**

As at 31 March 2013 *SDR millions*	AAA	AA	A	BBB	BB and below	Unrated	Total
On-balance sheet exposures							
Cash and sight accounts with banks	6,804.5	73.9	3.8	0.9	0.3	0.7	6,884.1
Gold and gold loans	–	–	292.6	–	–	–	292.6
Treasury bills	7,818.8	6,067.3	32,183.1	624.9	–	–	46,694.1
Securities purchased under resale agreements	–	433.6	22,625.6	5,410.3	–	–	28,469.5
Loans and advances	1,508.0	1,281.8	16,151.8	535.1	200.1	–	19,676.8
Government and other securities	11,688.0	40,153.8	8,756.5	1,530.7	514.3	–	62,643.3
Derivatives	132.2	527.3	5,107.2	88.2	0.3	0.5	5,855.7
Accounts receivable	–	290.7	71.8	0.9	1.0	41.6	406.0
Total on-balance sheet exposure	27,951.5	48,828.4	85,192.4	8,191.0	716.0	42.8	170,922.1
Commitments							
Undrawn unsecured facilities	–	–	–	200.1	–	–	200.1
Undrawn secured facilities	–	842.7	857.1	825.5	328.4	–	2,853.7
Total commitments	–	842.7	857.1	1,025.6	328.4	–	3,053.8
Total exposure	27,951.5	49,671.1	86,049.5	9,216.6	1,044.4	42.8	173,975.9

C. Credit risk mitigation

Netting

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

Collateral

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

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

Under the terms of its collateral arrangements, the Bank is permitted to sell ("re-hypothecate") collateral received on derivative contracts and reverse repurchase agreements, but upon expiry of the transaction must return equivalent financial instruments to the counterparty. At 31 March 2014 the Bank had not sold any of the collateral it held (2013: nil).

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

As at 31 March *SDR millions*	**2014**	2013
Collateral held in respect of:		
Derivative financial instruments	515.9	2,566.3
Securities purchased under resale agreements	42,378.7	26,253.0
Total	**42,894.6**	28,819.3

Financial assets and liabilities subject to netting or collateralisation

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

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

As at 31 March 2014		Effect of risk mitigation				Analysed as:	
SDR millions	Gross carrying amount as per balance sheet	Trade date balances subject to delivery versus payment on settlement date	Enforceable netting agreements	Collateral (received) / provided limited to balance sheet value	Exposure after risk mitigation	Amounts not subject to netting agreements or collateralisation	Residual exposure on amounts subject to risk mitigation agreements
Financial assets							
Securities purchased under resale agreements	50,554.4	(7,107.9)	–	(43,422.2)	24.3	–	24.3
Derivative financial assets	3,002.2	–	(2,325.7)	(509.9)	166.6	7.0	159.6
Financial liabilities							
Securities sold under repurchase agreements	(1,169.3)	249.9	–	919.4	–	–	–
Derivative financial liabilities	(2,632.9)	–	2,325.7	–	(307.2)	(43.3)	(263.9)
Total	**49,754.4**	**(6,858.0)**	**–**	**(43,012.7)**	**(116.3)**	**(36.3)**	**(80.0)**

As at 31 March 2013		Effect of risk mitigation				Analysed as:	
SDR millions	Gross carrying amount as per balance sheet	Trade date balances subject to delivery versus payment on settlement date	Enforceable netting agreements	Collateral (received) / provided limited to balance sheet value	Exposure after risk mitigation	Amounts not subject to netting agreements or collateralisation	Residual exposure on amounts subject to risk mitigation agreements
Financial assets							
Securities purchased under resale agreements	28,469.5	(2,012.1)	–	(26,455.9)	1.5	–	1.5
Loans and advances	19,335.3	–	–	(2,134.1)	17,201.2	17,201.2	–
Derivative financial assets	5,855.7	–	(3,354.8)	(2,286.4)	214.5	36.8	177.7
Financial liabilities							
Derivative financial liabilities	(3,402.3)	–	3,354.8	–	(47.5)	(34.6)	(12.9)
Total	50,258.2	(2,012.1)	–	(30,876.4)	17,369.7	17,203.4	166.3

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

For the financial year	**2014**				2013			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Economic capital utilisation for credit risk	7,421.5	7,990.1	6,175.7	**7,774.1**	6,527.8	7,499.0	5,903.7	6,283.6

E. Minimum capital requirements for credit risk

Exposure to sovereigns, banks and corporates

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

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

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

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

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

The table below details the calculation of risk-weighted assets. The exposures are measured taking netting and collateral benefits into account. The total amount of exposures reported in the table as at 31 March 2014 includes SDR 208.5 million for interest rate contracts (31 March 2013: SDR 303.6 million) and SDR 229.4 million for FX and gold contracts (31 March 2013: SDR 761.3 million). In line with the Basel II Framework, the minimum capital requirement is determined as 8% of risk-weighted assets.

As at 31 March 2014

Internal rating grades expressed as equivalent external rating grades *SDR millions / percentages*	Amount of exposure *SDR millions*	Exposure-weighted PD *%*	Exposure-weighted average LGD *%*	Exposure-weighted average risk weight *%*	Risk-weighted assets *SDR millions*
AAA	20,887.6	0.010	35.6	3.5	727.3
AA	52,972.0	0.02	37.6	6.5	3,447.8
A	64,401.2	0.04	42.3	7.1	4,541.3
BBB	6,612.5	0.17	40.6	21.6	1,429.9
BB and below	12.6	0.70	35.6	48.8	6.2
Total	**144,885.9**				**10,152.5**

As at 31 March 2014 the minimum capital requirement for credit risk related to exposures to sovereigns, banks and corporates amounted to SDR 812.2 million.

As at 31 March 2013

Internal rating grades expressed as equivalent external rating grades *SDR millions / percentages*	Amount of exposure *SDR millions*	Exposure-weighted PD *%*	Exposure-weighted average LGD *%*	Exposure-weighted average risk weight *%*	Risk-weighted assets *SDR millions*
AAA	26,163.8	0.002	35.6	1.0	270.9
AA	45,560.3	0.01	37.4	5.3	2,437.3
A	56,429.9	0.05	42.3	8.6	4,850.0
BBB	3,031.1	0.19	42.4	30.3	919.7
BB and below	499.3	1.24	48.4	91.4	456.4
Total	131,684.4				8,934.3

As at 31 March 2013 the minimum capital requirement for credit risk related to exposures to sovereigns, banks and corporates amounted to SDR 714.7 million.

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

SDR millions	Amount of exposure after taking netting into account	Benefits from collateral arrangements	Amount of exposure after taking into account netting and collateral arrangements
As at 31 March 2014	197,550.2	52,664.3	**144,885.9**
As at 31 March 2013	163,153.7	31,469.3	131,684.4

Securitisation exposures

The Bank invests in highly rated securitisation exposures based on traditional, ie non-synthetic, securitisation structures. Given the scope of the Bank's activities, risk-weighted assets under the Basel II Framework are determined according to the standardised approach for securitisation. Under this approach, external credit assessments of the securities are used to determine the relevant risk weights. External credit assessment institutions used for this purpose are Moody's Investors Service, Standard & Poor's and Fitch Ratings. Risk-weighted assets are then derived as the product of the notional amounts of the exposures and the associated risk weights. In line with the Basel II Framework, the minimum capital requirement is determined as 8% of risk-weighted assets.

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

As at 31 March 2014

SDR millions	External rating	Amount of exposures	Risk weight	Risk-weighted assets
Residential mortgage-backed securities	AAA	19.4	20%	3.9
Residential mortgage-backed securities	A	24.5	50%	12.2
Securities backed by other receivables (government-sponsored)	AAA	830.8	20%	166.2
Total		**874.7**		**182.3**

As at 31 March 2014 the minimum capital requirement for securitisation exposures amounted to SDR 14.6 million.

As at 31 March 2013

SDR millions	External rating	Amount of exposures	Risk weight	Risk-weighted assets
Residential mortgage-backed securities	AAA	33.9	20%	6.8
Residential mortgage-backed securities	A	32.4	50%	16.2
Securities backed by other receivables (government-sponsored)	AAA	797.0	20%	159.4
Total		863.3		182.4

As at 31 March 2013 the minimum capital requirement for securitisation exposures amounted to SDR 14.6 million.

4. Market risk

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

In line with the Bank's objective of maintaining its superior credit quality, economic capital is measured to a 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.

To ensure that models provide a reliable measure of potential losses over the one-year time horizon, the Bank has established a comprehensive regular back-testing 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 111 tonnes (2013: 115 tonnes). These gold investment assets are held in custody or placed on deposit with commercial banks. At 31 March 2014 the Bank's net gold investment assets amounted to SDR 2,981.8 million (2013: SDR 3,944.9 million), approximately 17% of its equity (2013: 21%). The Bank sometimes also has small exposures to gold price risk arising from its banking activities with central and commercial banks. Gold price risk is measured within the Bank's VaR methodology, including its economic capital framework and stress tests.

B. Interest rate risk

Interest rate risk is the exposure of the Bank's financial condition to adverse movements in interest rates including credit spreads. The Bank is exposed to interest rate risk through the interest bearing assets relating to the management of its equity held in its investment portfolios and investments relating to its banking portfolios. The investment portfolios are managed using a fixed duration benchmark of bonds.

The Bank measures and monitors interest rate risk using a VaR methodology and sensitivity analyses taking into account movements in relevant money market rates, government 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 2014

SDR millions	Up to 6 months	6 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Euro	0.5	(7.9)	(28.6)	(41.1)	(42.7)	(35.0)	(9.9)
Japanese yen	(1.4)	(2.1)	0.1	(0.1)	–	–	–
Pound sterling	(0.2)	(1.8)	(7.7)	(15.0)	(23.8)	(4.8)	3.8
Swiss franc	10.3	(0.2)	(1.8)	(2.1)	(1.5)	(0.4)	5.6
US dollar	8.7	(10.2)	(34.8)	(40.6)	(58.5)	(40.1)	12.2
Other currencies	0.4	(0.3)	(1.4)	1.1	(2.3)	0.3	(0.3)
Total	**18.3**	**(22.5)**	**(74.2)**	**(97.8)**	**(128.8)**	**(80.0)**	**11.4**

As at 31 March 2013

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	(4.5)	(5.0)	(23.8)	(41.2)	(45.5)	(20.7)	(26.0)
Japanese yen	0.7	(0.8)	(5.5)	(19.3)	(9.9)	(1.4)	–
Pound sterling	(0.6)	(1.1)	(8.0)	(14.5)	(19.8)	(5.4)	13.4
Swiss franc	9.8	(0.2)	(0.4)	(2.5)	(2.7)	(2.1)	7.5
US dollar	12.0	(28.7)	(30.9)	(39.4)	(45.6)	(25.8)	(18.1)
Other currencies	–	(0.3)	(0.6)	(0.4)	1.0	(0.5)	–
Total	17.4	(36.1)	(69.2)	(117.3)	(122.5)	(55.9)	(23.2)

C. Foreign exchange risk

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

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

As at 31 March 2014

SDR millions	SDR	USD	EUR	GBP	JPY	CHF	Gold	Other currencies	Total
Assets									
Cash and sight accounts with banks	–	5.3	430.1	(8.8)	4,996.7	5,774.5	–	13.7	11,211.5
Gold and gold loans	–	8.6	–	–	–	–	20,587.8	–	20,596.4
Treasury bills	–	2,910.6	8,085.7	–	29,445.4	–	–	4,089.1	44,530.8
Securities purchased under resale agreements	–	13,588.4	15,725.9	20,171.7	1,068.5	–	–	(0.1)	50,554.4
Loans and advances	299.7	10,994.0	456.0	2,408.1	5.5	3.2	–	5,433.8	19,600.3
Government and other securities	–	37,816.3	18,613.1	7,562.9	1,858.8	–	–	4,190.0	70,041.1
Derivative financial instruments	1,178.2	37,183.3	(185.4)	(1,653.8)	(24,096.4)	(1,190.9)	(5,176.2)	(3,056.6)	3,002.2
Accounts receivable	–	1,793.7	429.0	511.8	–	7.8	–	35.1	2,777.4
Land, buildings and equipment	188.1	–	–	–	–	8.1	–	–	196.2
Total assets	**1,666.0**	**104,300.2**	**43,554.4**	**28,991.9**	**13,278.5**	**4,602.7**	**15,411.6**	**10,705.0**	**222,510.3**
Liabilities									
Currency deposits	(4,856.2)	(131,291.6)	(23,073.6)	(9,848.8)	(2,404.8)	(475.5)	–	(8,521.7)	(180,472.2)
Gold deposits	–	(7.2)	–	–	–	–	(11,290.3)	–	(11,297.5)
Securities sold under repurchase agreements	–	(323.5)	(845.8)	–	–	–	–	–	(1,169.3)
Derivative financial instruments	3,207.0	35,397.7	(11,149.1)	(13,462.1)	(9,514.9)	(4,072.6)	(1,135.8)	(1,903.1)	(2,632.9)
Accounts payable	–	(1,637.9)	(2,661.6)	(3,812.9)	(188.6)	–	–	(110.5)	(8,411.5)
Other liabilities	–	(0.6)	–	–	–	(798.1)	–	(0.3)	(799.0)
Total liabilities	**(1,649.2)**	**(97,863.1)**	**(37,730.1)**	**(27,123.8)**	**(12,108.3)**	**(5,346.2)**	**(12,426.1)**	**(10,535.6)**	**(204,782.4)**
Net currency and gold position	**16.8**	**6,437.1**	**5,824.3**	**1,868.1**	**1,170.2**	**(743.5)**	**2,985.5**	**169.4**	**17,727.9**
Adjustment for gold	–	–	–	–	–	–	(2,985.5)	–	(2,985.5)
Net currency position	**16.8**	**6,437.1**	**5,824.3**	**1,868.1**	**1,170.2**	**(743.5)**	**–**	**169.4**	**14,742.4**
SDR-neutral position	(16.8)	(6,289.2)	(5,553.6)	(1,762.9)	(1,119.9)	–	–	–	(14,742.4)
Net currency exposure on SDR-neutral basis	**–**	**147.9**	**270.7**	**105.2**	**50.3**	**(743.5)**	**–**	**169.4**	**–**

As at 31 March 2013 (restated)

SDR millions	SDR	USD	EUR	GBP	JPY	CHF	Gold	Other currencies	Total
Assets									
Cash and sight accounts with banks	–	11.4	1,550.5	14.7	–	5,300.6	–	6.9	6,884.1
Gold and gold loans	–	7.9	–	–	–	–	35,359.2	–	35,367.1
Treasury bills	–	5,139.3	7,213.3	–	31,903.8	–	–	2,437.7	46,694.1
Securities purchased under resale agreements	–	4,701.4	11,906.2	8,301.2	3,560.7	–	–	–	28,469.5
Loans and advances	307.3	11,861.2	366.8	3,816.4	835.8	3.1	–	2,486.2	19,676.8
Government and other securities	–	33,379.1	18,879.8	5,890.2	2,115.6	9.9	–	2,368.7	62,643.3
Derivative financial instruments	4,017.8	65,592.1	(21,826.0)	(1,358.1)	(24,267.1)	(4,840.5)	(11,478.1)	15.6	5,855.7
Accounts receivable	–	3,653.1	9.4	2,323.8	35.8	8.6	–	140.5	6,171.2
Land, buildings and equipment	184.6	–	–	–	–	6.0	–	–	190.6
Total assets	4,509.7	124,345.5	18,100.0	18,988.2	14,184.6	487.7	23,881.1	7,455.6	211,952.4
Liabilities									
Currency deposits	(7,311.0)	(125,764.6)	(12,743.4)	(11,912.0)	(2,540.1)	(453.3)	–	(5,435.9)	(166,160.3)
Gold deposits	–	(6.6)	–	–	–	–	(17,574.3)	–	(17,580.9)
Derivative financial instruments	951.9	11,033.1	865.4	(2,212.0)	(10,125.9)	(27.7)	(2,359.9)	(1,527.2)	(3,402.3)
Accounts payable	–	(1,920.7)	(5.5)	(2,901.4)	(42.5)	–	–	(465.2)	(5,335.3)
Other liabilities	–	(97.8)	–	–	–	(901.4)	–	(0.3)	(999.5)
Total liabilities	(6,359.1)	(116,756.6)	(11,883.5)	(17,025.4)	(12,708.5)	(1,382.4)	(19,934.2)	(7,428.6)	(193,478.3)
Net currency and gold position	(1,849.4)	7,588.9	6,216.5	1,962.8	1,476.1	(894.7)	3,946.9	27.0	18,474.1
Adjustment for gold	–	–	–	–	–	–	(3,946.9)	–	(3,946.9)
Net currency position	(1,849.4)	7,588.9	6,216.5	1,962.8	1,476.1	(894.7)	–	27.0	14,527.2
SDR-neutral position	1,849.4	(7,207.6)	(5,924.6)	(1,839.3)	(1,405.2)	–	–	–	(14,527.2)
Net currency exposure on SDR-neutral basis	–	381.3	291.9	123.5	70.9	(894.7)	–	27.0	–

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 a 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	**2014**				2013			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Economic capital utilisation for market risk	2,363.2	2,589.5	2,140.1	**2,178.4**	2,787.8	3,341.9	2,274.8	2,308.6

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

For the financial year	**2014**				2013			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Gold price risk	1,964.0	2,190.9	1,755.2	**1,768.1**	2,263.8	2,540.9	1,913.6	1,913.6
Interest rate risk	929.8	1,005.3	843.7	**863.0**	1,193.0	1,607.0	893.4	893.4
Foreign exchange risk	603.8	707.1	493.1	**500.0**	763.2	911.3	628.1	632.3
Diversification effects	(1,134.4)	(1,275.1)	(952.7)	**(952.7)**	(1,432.1)	(1,687.5)	(1,130.7)	(1,130.7)
Total				**2,178.4**				2,308.6

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, to a 99% confidence interval assuming a 10-day holding period.

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

As at 31 March	**2014**			2013		
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%	299.9	11,244.9	**899.6**	313.3	11,748.1	939.8

5. Operational risk

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

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

Operational risk includes legal risk, but excludes strategic risk.

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

The Bank has established a procedure of immediate reporting for operational risk-related incidents. The 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. In quantifying its operational risk, the Bank does not take potential protection it may obtain from insurance into account.

A. Economic capital for operational risk

Consistent with the parameters used in the calculation of economic capital for financial risk, the Bank measures economic capital for operational risk to a 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	**2014**				2013			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Economic capital utilisation for operational risk	1,075.0	1,200.0	700.0	**1,200.0**	700.0	700.0	700.0	700.0

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 to a 99.9% confidence interval assuming a one-year time horizon. The table below shows the minimum capital requirements for operational risk and related risk-weighted assets.

As at 31 March	**2014**			2013		
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%	812.3	10,154.1	**812.3**	369.0	4,612.5	369.0

6. Liquidity risk

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

The Bank's currency and gold deposits, principally from central banks and international institutions, comprise 94% (2013: 95%) of its total liabilities. At 31 March 2014 currency and gold deposits originated from 175 depositors (2013: 168). Within these deposits, there are significant individual customer concentrations, with five customers each contributing in excess of 5% of the total on a settlement date basis (2013: five customers).

Outstanding balances in the currency and gold deposits from central banks, international organisations and other public institutions are the key drivers of the size of the Bank's balance sheet. The Bank is exposed to funding liquidity risk mainly because of the short-term nature of its deposits and because it undertakes to repurchase at fair value certain of its currency deposit instruments at one or two business days' notice. In line with the Bank's objective to maintain a high level of liquidity, it has developed a liquidity management framework, including a ratio, based on conservative assumptions for estimating the liquidity available and the liquidity required.

A. Maturity profile of cash flows

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

As at 31 March 2014

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	11,211.5	–	–	–	–	–	–	–	11,211.5
Gold and gold loans	20,374.5	–	–	222.6	–	–	–	–	20,597.1
Treasury bills	10,075.7	22,334.5	7,135.5	4,400.3	323.6	–	–	–	44,269.6
Securities purchased under resale agreements	33,792.9	8,497.3	–	–	–	–	–	–	42,290.2
Loans and advances	9,645.7	9,955.7	–	–	–	–	–	–	19,601.4
Government and other securities	3,990.7	7,821.5	8,208.5	11,422.5	12,341.6	26,177.5	1,458.7	–	71,421.0
Total assets	**89,091.0**	**48,609.0**	**15,344.0**	**16,045.4**	**12,665.2**	**26,177.5**	**1,458.7**	**–**	**209,390.8**
Liabilities									
Currency deposits									
Deposit instruments repayable at 1–2 days' notice	(9,115.8)	(19,975.2)	(16,886.1)	(17,351.8)	(16,795.8)	(23,879.9)	(16.1)	–	(104,020.7)
Other currency deposits	(47,374.8)	(17,579.2)	(7,913.1)	(3,210.3)	–	–	–	–	(76,077.4)
Gold deposits	(11,077.0)	–	–	(221.1)	–	–	–	–	(11,298.1)
Total liabilities	**(67,567.6)**	**(37,554.4)**	**(24,799.2)**	**(20,783.2)**	**(16,795.8)**	**(23,879.9)**	**(16.1)**	**–**	**(191,396.2)**
Derivatives									
Net settled									
Interest rate contracts	11.2	71.0	102.8	117.3	105.6	(37.7)	(3.9)	–	366.3
Gross settled									
Exchange rate and gold price contracts									
Inflows	44,188.7	40,218.5	8,699.9	7,240.7	–	–	–	–	100,347.8
Outflows	(44,213.3)	(39,986.0)	(8,752.1)	(7,211.6)	–	–	–	–	(100,163.0)
Subtotal	(24.6)	232.5	(52.2)	29.1	–	–	–	–	184.8
Interest rate contracts									
Inflows	32.6	0.2	186.1	282.9	400.1	25.5	–	–	927.4
Outflows	(36.8)	(1.8)	(214.0)	(331.5)	(458.9)	(28.6)	–	–	(1,071.6)
Subtotal	(4.2)	(1.6)	(27.9)	(48.6)	(58.8)	(3.1)	–	–	(144.2)
Total derivatives	**(17.6)**	**301.9**	**22.7**	**97.8**	**46.8**	**(40.8)**	**(3.9)**	**–**	**406.9**
Total future undiscounted cash flows	**21,505.8**	**11,356.5**	**(9,432.5)**	**(4,640.0)**	**(4,083.8)**	**2,256.8**	**1,438.7**	**–**	**18,401.5**

As at 31 March 2013

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	6,884.1	–	–	–	–	–	–	–	6,884.1
Gold and gold loans	35,086.8	–	–	–	282.1	–	–	–	35,368.9
Treasury bills	11,036.4	23,042.0	9,643.5	2,994.5	–	–	–	–	46,716.4
Securities purchased under resale agreements	21,795.6	4,664.6	–	–	–	–	–	–	26,460.2
Loans and advances	10,034.4	8,640.8	318.9	–	–	–	–	–	18,994.1
Government and other securities	1,576.3	5,590.8	8,649.6	10,677.1	11,246.0	23,018.8	1,951.0	1,062.8	63,772.4
Total assets	86,413.6	41,938.2	18,612.0	13,671.6	11,528.1	23,018.8	1,951.0	1,062.8	198,196.1
Liabilities									
Currency deposits									
Deposit instruments repayable at 1–2 days' notice	(7,383.7)	(10,649.5)	(17,483.0)	(19,696.1)	(14,744.0)	(23,859.4)	(67.9)	–	(93,883.6)
Other currency deposits	(40,783.3)	(19,228.9)	(7,980.9)	(2,603.5)	–	–	–	–	(70,596.6)
Gold deposits	(17,301.9)	–	–	–	(280.5)	–	–	–	(17,582.4)
Securities sold short	82.8	13.2	(0.9)	(1.7)	(3.4)	(10.3)	(17.2)	(149.6)	(87.1)
Total liabilities	(65,386.1)	(29,865.2)	(25,464.8)	(22,301.3)	(15,027.9)	(23,869.7)	(85.1)	(149.6)	(182,149.7)
Derivatives									
Net settled									
Interest rate contracts	(1.2)	107.8	133.1	199.8	238.0	94.6	(17.0)	–	755.1
Gross settled									
Exchange rate and gold price contracts									
Inflows	32,788.8	46,454.6	17,827.6	5,835.2	–	–	–	–	102,906.2
Outflows	(31,785.2)	(46,067.1)	(17,536.6)	(5,623.4)	–	–	–	–	(101,012.3)
Subtotal	1,003.6	387.5	291.0	211.8	–	–	–	–	1,893.9
Interest rate contracts									
Inflows	114.2	133.6	115.4	84.3	475.8	365.3	–	–	1,288.6
Outflows	(114.5)	(156.1)	(128.0)	(107.9)	(518.1)	(402.6)	–	–	(1,427.2)
Subtotal	(0.3)	(22.5)	(12.6)	(23.6)	(42.3)	(37.3)	–	–	(138.6)
Total derivatives	1,002.1	472.8	411.5	388.0	195.7	57.3	(17.0)	–	2,510.4
Total future undiscounted cash flows	22,029.6	12,545.8	(6,441.3)	(8,241.7)	(3,304.1)	(793.6)	1,848.9	913.2	18,556.8

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 2014	(0.3)	(0.1)	(3.3)	(3.8)	–	(9.3)	–	–	**(16.8)**
As at 31 March 2013	(0.1)	(0.2)	–	–	–	(1.1)	–	–	(1.4)

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 2014	–	–	267.5	194.1	–	–	–	2,461.3	**2,922.9**
As at 31 March 2013	–	–	256.6	200.1	–	–	–	2,597.1	3,053.8

B. Liquidity ratio

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

Liquidity available

The liquidity available is determined as the cash inflow from financial instruments over a one-month horizon, along with potential additional liquidity which could be generated from the disposal of highly liquid securities, or by entering into sale and repurchase agreements for a part of the Bank's remaining unencumbered high-quality liquid securities. The assessment of this potential additional liquidity involves two steps. First, there is an assessment of the credit quality and market liquidity of the securities. Second, the process of converting the identified securities into cash is modelled by projecting the amount that could be reasonably collected.

Liquidity required

Consistent with the stress scenario, the Bank determines the liquidity required as the sum of the cash outflow from financial instruments over a one-month horizon, the estimated early withdrawal of currency deposits, and the estimated drawings of undrawn facilities. As regards the calculation of the liquidity needs related to currency deposits, it is assumed that all deposits that mature within the time horizon are not rolled-over and that a proportion of non-maturing currency deposits is withdrawn from the Bank prior to contractual maturity. At 31 March 2014 the estimated outflow of currency deposits in response to the stress scenario amounted to 42.9% of the total stock of currency deposits. Moreover, it is assumed that undrawn facilities committed by the Bank would be fully drawn by customers, along with a proportion of undrawn uncommitted facilities.

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

As at 31 March

SDR millions	2014
Liquidity available	
Estimated cash inflows	70.5
Estimated liquidity from sales of highly liquid securities	56.9
Estimated sale and repurchase agreements	6.1
Total liquidity available (A)	**133.5**
Liquidity required	
Estimated withdrawal of currency deposits	76.1
Estimated drawings of facilities	4.3
Estimated other outflows	1.1
Total liquidity required (B)	**81.5**
Liquidity ratio (A) / (B)	**163.8%**

Independent auditor's report

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, which comprise of the balance sheet as at 31 March 2014, the related profit and loss account, statement of comprehensive income, statement of cash flows and movements in the Bank's equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting principles described in the financial statements and the Statutes of the Bank. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical responsibilities and plan and perform the audit to obtain reasonable assurance 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 risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation 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 system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 March 2014 give a true and fair view of the financial position of the Bank for International Settlements and of its financial performance and its cash flows for the year then ended in accordance with the accounting principles described in the financial statements and the Statutes of the Bank.

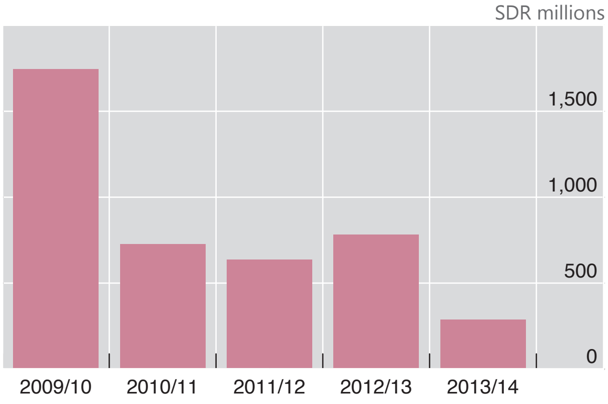
Ernst & Young Ltd

Victor Veger John Alton

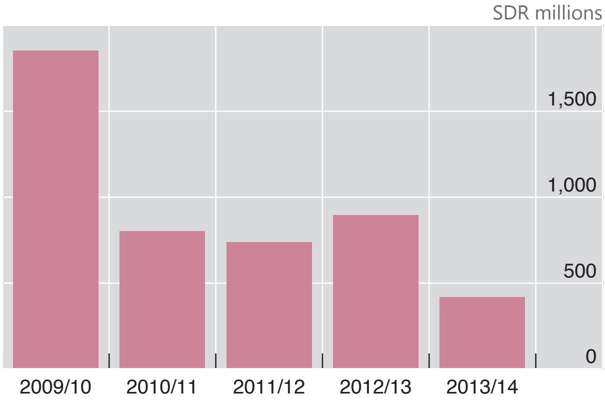
Zurich, 12 May 2014

Five-year graphical summary

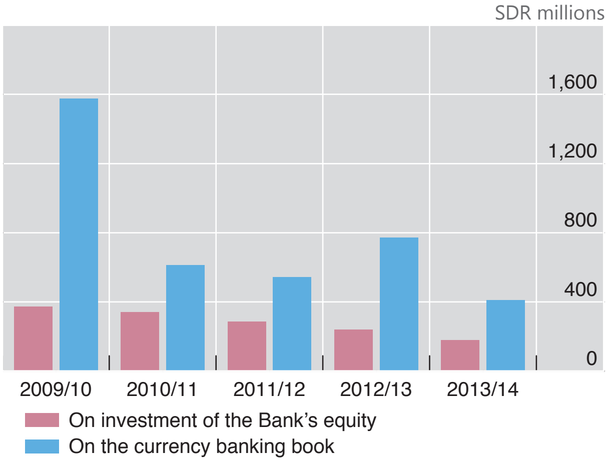
Operating profit



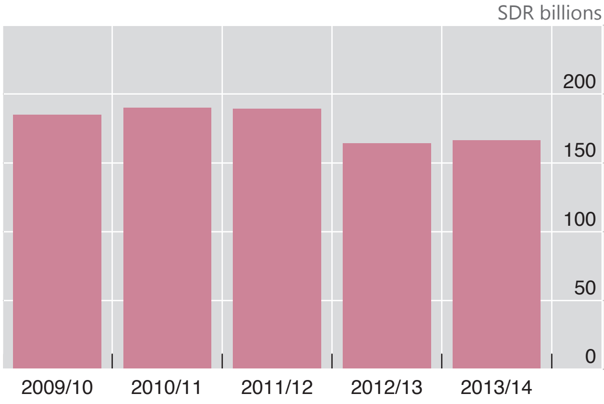
Net profit



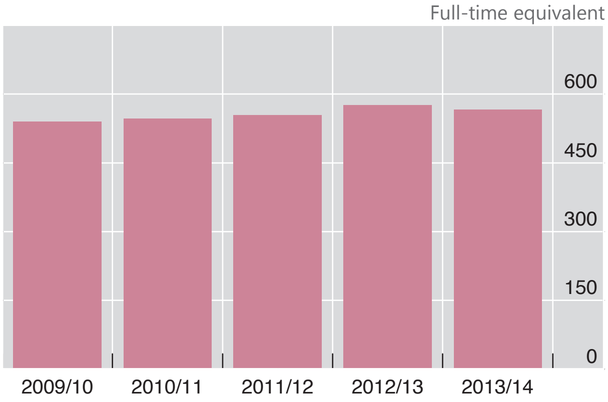
Net interest and valuation income



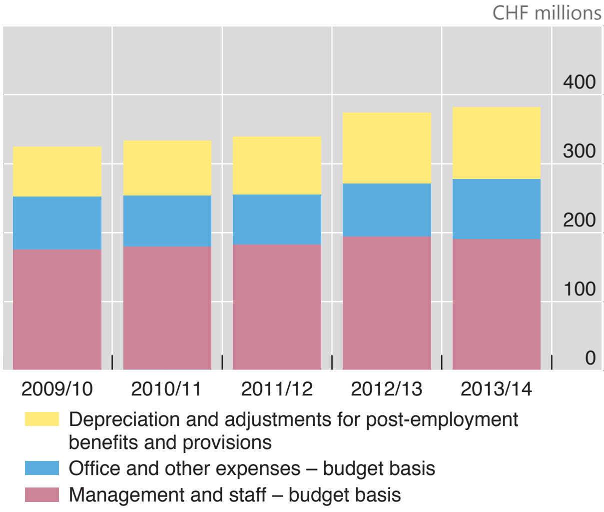
Average currency deposits (settlement date basis)



Average number of employees



Operating expense



The financial information in the Operating profit, Net profit and Operating expense panels have been restated to reflect a change in accounting policy for post-employment benefits made in this year's accounts.