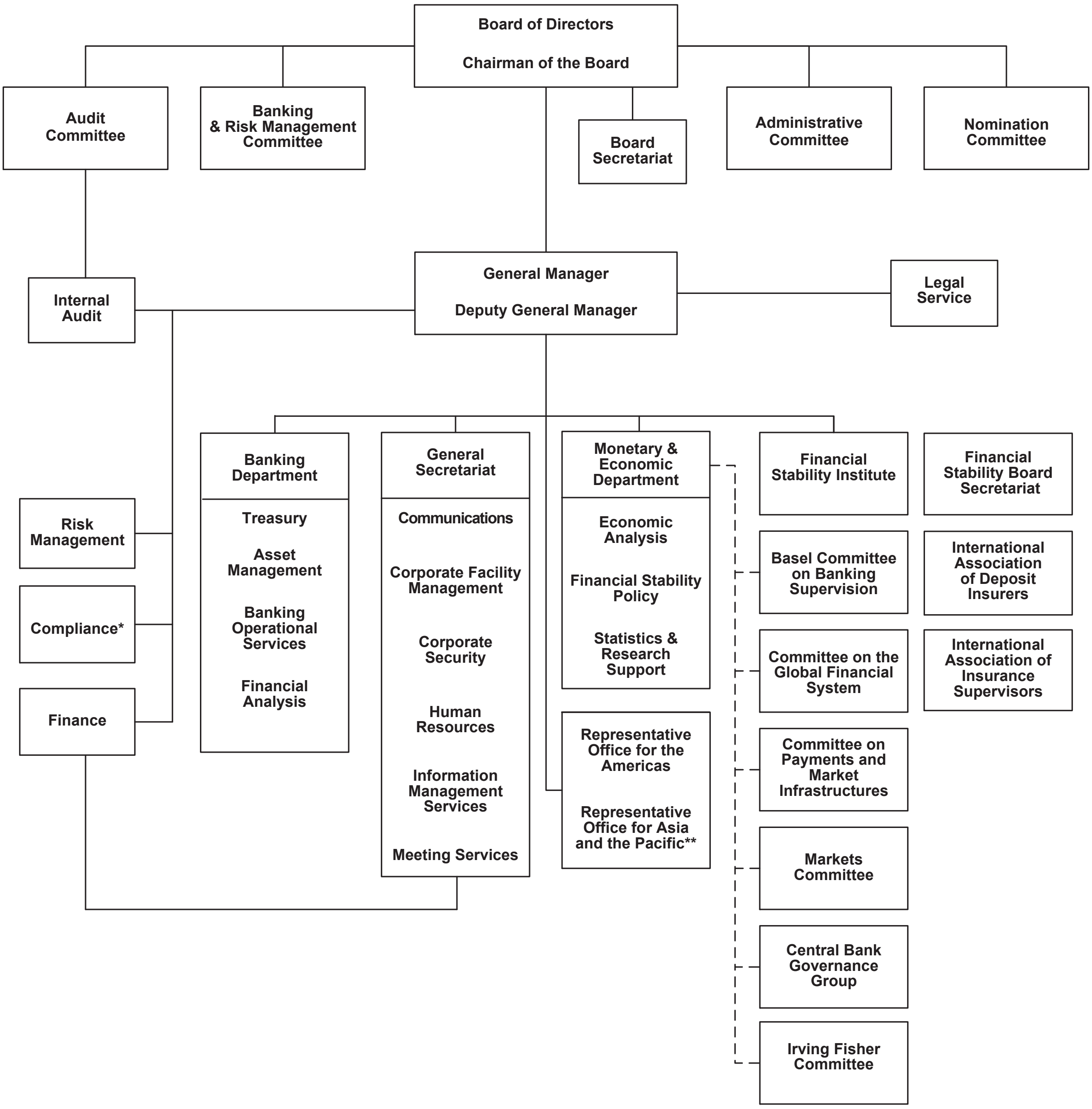
Organisation of the BIS as at 31 March 2017



* Direct access to the Audit Committee.

** Also provides banking services to the region's monetary authorities.

The BIS: mission, activities, governance and financial results

The Bank for International Settlements (BIS) serves central banks in their pursuit of monetary and financial stability, fosters international cooperation in those areas and acts as a bank for central banks. In outline, the BIS pursues this mission by:

- facilitating dialogue and collaboration among central banks and 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 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.

In the light of the above aims, this chapter reviews the BIS's activities, and those of the groups it hosts, for the financial year 2016/17; describes the institutional framework that supports their work; and presents the year's financial results.

The Basel Process

The Basel Process refers to the way in which the BIS promotes international cooperation among monetary authorities and financial supervisory officials. By offering a forum for discussion among central banks and other financial authorities, and by hosting and supporting international groups, the BIS, through the Basel Process, plays a key role in helping to strengthen the stability and resilience of the global financial system.

Bimonthly meetings and other regular consultations

Governors and other senior officials of BIS member central banks hold bimonthly meetings, normally in Basel, to discuss current developments and the outlook for the world economy and financial markets. They also exchange views and experiences on issues of interest to central banks.

Global Economy Meeting

The Global Economy Meeting (GEM) comprises the Governors of 30 BIS member central banks in major advanced and emerging market economies (EMEs) that account for about four fifths of global GDP. The Governors of another 19 central banks attend the GEM as observers.[1] Chaired by Agustín Carstens, Governor of the

[1] The members of the GEM are from the central banks 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 ECB. The observers are from the central banks of 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.

Bank of Mexico, 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 Payments and Market Infrastructures and the Markets Committee.

The GEM's economic discussions focus on current macroeconomic and financial developments in major advanced and emerging market economies. Specific topics discussed by the GEM over the past year included: snapback risks in core bond markets; inflation targets; consumption-led expansion; and the mix of monetary, fiscal and structural policies.

Economic Consultative Committee

The Economic Consultative Committee (ECC) is an 18-member group that supports the work of the GEM. Also led by the GEM Chairman and comprising all Governors participating in the BIS Board meeting, and the BIS General Manager, the ECC conducts analyses and prepares proposals for the GEM's consideration. In addition, the ECC Chairman makes 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 Chairman of the Board. It convenes to discuss selected topics of general interest to its members. In 2016/17, the topics discussed were foreign exchange market intervention; the issues arising from cyber risk for central banks; promoting economic resilience; the macroeconomic implications of global value chains; and global dollar intermediation: patterns and risks.

By agreement with the GEM and the BIS Board, the All Governors' Meeting is responsible for overseeing the work of two other groups that have a broader network or membership than the GEM. These are the Central Bank Governance Group, which also meets during the bimonthly meetings, and the Irving Fisher Committee on Central Bank Statistics.

Central Bank Governors and Heads of Supervision

The Group of Central Bank Governors and Heads of Supervision (GHOS) is a high-level forum responsible for international collaboration on banking supervision. Chaired by Mario Draghi, President of the ECB, the GHOS meets periodically to decide on global banking regulations and oversee the work of the Basel Committee on Banking Supervision (see page 140).

Other meetings of Governors

The central bank Governors of major EMEs meet three times a year – during the January, May and September bimonthly meetings – to discuss issues of importance to their economies. The topics discussed in 2016/17 included inflationary and deflationary pressures, challenges facing banks in EMEs, and the implications of political events on the outlook for EMEs.

Regular meetings were also held for the Governors of central banks in small open economies.

Other consultations

In addition, the Bank regularly organises various meetings that bring together senior central bank officials and, occasionally, representatives from other financial authorities, the private financial sector and the academic community to discuss topics of shared interest. Some of these meetings are organised by the BIS's representative offices in Hong Kong SAR and Mexico City.

During the past year, these events included:

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

BIS-hosted committees and associations

The BIS hosts and supports a set of international groups – six committees and three associations – engaged in standard setting and the pursuit of financial stability. Co-location at the BIS facilitates communication and collaboration among these groups as well as their interaction with central bank Governors and other senior officials in the context of the BIS's regular meetings programme.

The limited size of these groups is conducive to flexibility and openness in the exchange of information, thereby facilitating coordination and preventing overlaps and gaps in their work programmes. The BIS also supports the work of these committees and associations with its expertise in economic research and statistics and its practical experience in banking.

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 seeks to strengthen micro- and macroprudential supervision;
- the Committee on the Global Financial System (CGFS): monitors and analyses issues relating to financial markets and systems;
- the Committee on Payments and Market Infrastructures (CPMI): 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 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 25 countries; coordinates 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.

Activities of BIS-hosted committees and the FSI

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) is the primary global standard setter for the prudential regulation of banks and provides a forum for cooperation on banking supervisory matters. Its mandate is to strengthen the regulation, supervision and practices of banks worldwide with the purpose of enhancing global financial stability.

The Committee consists of senior representatives of banking supervisory authorities and central banks responsible for banking supervision or financial stability in the Committee's member jurisdictions. It is chaired by Stefan Ingves, Governor of Sveriges Riksbank, and generally meets four times a year. The Committee reports to the Group of Governors and Heads of Supervision (GHOS) and seeks its endorsement for major decisions and strategic priorities.

Current work programme

During the past year, the Basel Committee made substantial progress in finalising its Basel III post-crisis reforms. The post-crisis reforms are aimed at reducing excessive variability in risk-weighted assets (RWAs), with a view to restoring the credibility of the risk-weighted framework.

In addition, the Committee continued to promote strong supervision, effective cooperation and full, timely and consistent implementation of the Basel regulatory framework.

The key themes of the Committee's current work programme and strategic priorities are:

- **Finalising ongoing policy initiatives:** this includes key policy issues related to accounting provisions, the assessment methodology for global systemically important banks and the regulatory treatment of sovereign exposures.
- **Monitoring emerging risks and exploring appropriate responses:** the Committee will continue to monitor risks and behavioural changes in the banking system from a micro- and macroprudential perspective and develop appropriate supervisory and policy responses as needed.
- **Assessing the implementation and impact of the Committee's post-crisis reforms:** the Committee will build on its existing assessment of the impact of its post-crisis reforms, particularly regarding their effectiveness in reducing excessive variability of RWAs. The Committee will continue its monitoring and assessment of its members' implementation of Basel standards.
- **Promoting strong supervision:** this work aims to (i) foster the timely, consistent and effective implementation of the Committee's standards and guidelines; and (ii) seek improvements in practices and principles in banking supervision, particularly in Basel Committee member countries, by identifying emerging risks and supervisory challenges; developing and implementing supervisory policies;

improving supervisory tools and techniques; promoting cooperation and coordination; and supporting assessments of supervisory effectiveness.

Policy reform

The Committee finalised or issued for consultation a number of global standards for banks during the year.

Standardised measurement approach for operational risk. Issued in March 2016, this updated consultative document sets out revised proposals that emerged from the Committee's broad review of the capital framework. Revisions to the standardised approaches for calculating operational risk capital charges were originally proposed in October 2014. The revised framework will be based on a single non-model-based approach for the estimation of operational risk capital requirements. Building on the simplicity and comparability of a standardised approach, the new proposal embodies the risk sensitivity of an advanced approach. The combination, in a standardised way, of financial statement information and banks' internal loss experience is designed to promote consistency and comparability in operational risk capital measurement.

Pillar 3 disclosure requirements: consolidated and enhanced framework. Published in March 2016, the proposed enhancements issued in this consultation build on revisions to the Pillar 3 disclosure requirements that the Committee finalised in January 2015. Taken together, they form the consolidated and enhanced Pillar 3 framework, which seeks to promote market discipline through regulatory disclosure requirements.

Reducing variation in credit risk-weighted assets: constraints on the use of internal model approaches. This consultative document, issued in March 2016, sets out the Committee's proposed changes to the advanced and foundation internal ratings-based (IRB) approaches. The proposed changes include a number of complementary measures that aim to (i) reduce the complexity of the regulatory framework and improve comparability; and (ii) address excessive variability in the capital requirements for credit risk. Specifically, the Committee proposed to (i) remove the option to use the IRB approaches for certain exposures where it is judged that the model parameters cannot be estimated with sufficient reliability for regulatory capital purposes; (ii) adopt floors on the model parameters at the exposure level to ensure a minimum of conservatism for portfolios where the IRB approaches remain available; and (iii) provide greater specification of parameter estimation practices to reduce variability in RWAs for portfolios where the IRB approaches remain available.

Revisions to the Basel III leverage ratio framework. This consultation document, issued in April 2016, sets out the Committee's proposed revisions to the design and calibration of the Basel III leverage ratio framework, which introduced a simple, transparent, non-risk-based leverage ratio to act as a supplementary measure to the risk-based capital requirement. The proposed changes have been informed by the monitoring process in the parallel run period since 2013, and by feedback from market participants and stakeholders received since the January 2014 release of the standard Basel III leverage ratio framework and disclosure requirements.

Interest rate risk in the banking book (IRRBB). Published in April 2016, this standard revises the Committee's 2004 *Principles for the management and supervision of* *interest rate risk*, which set out supervisory expectations for banks' identification, measurement, monitoring and control of IRRBB as well as its supervision. It reflects changes in market and supervisory practices since the Principles were first published, and is a measure that is particularly pertinent in the light of the current exceptionally low interest rates in many jurisdictions. The revised standard is expected to be implemented by 2018.

Revisions to the securitisation framework. In July 2016, the Committee published an updated standard for the regulatory capital treatment of securitisation exposures that includes the regulatory capital treatment for "simple, transparent and comparable" (STC) securitisations. This amends the Committee's 2014 capital standards for securitisations and sets out additional criteria for differentiating the capital treatment of STC securitisations from that of other securitisation transactions.

Regulatory treatment of accounting provisions. In October 2016, the Committee released in parallel a consultative document and a discussion paper on the policy considerations related to the regulatory treatment of accounting provisions under the Basel III regulatory capital framework. Accounting standard boards have adopted provisioning standards that require the use of expected credit loss (ECL) models rather than incurred loss models. These new accounting standards modify provisioning standards to incorporate forward-looking assessments in the estimation of credit losses. The consultative document sets out proposals to retain, for an interim period, the current regulatory treatment of provisions under the standardised and the IRB approaches. The discussion paper seeks input on policy options for the long-term regulatory treatment of provisions under the new ECL standards.

TLAC holdings standard. This document, released in October 2016, is the final standard on the regulatory capital treatment of banks' investments in instruments that comprise total loss-absorbing capacity (TLAC) for global systemically important banks (G-SIBs). The standard aims to reduce the risk of contagion within the financial system should a G-SIB enter resolution. It applies to both G-SIBs and non-G-SIBs that hold such investments. The standard also reflects changes to Basel III to specify how G-SIBs must take account of the TLAC requirement when calculating their regulatory capital buffers.

The Committee also published a series of responses to frequently asked questions. These covered:

- market risk capital requirements;
- the Basel III leverage ratio framework;
- the revised Pillar 3 disclosure requirements;
- the supervisory framework for measuring and controlling large exposures; and
- the Net Stable Funding Ratio (NSFR).

Policy implementation

Implementation of the regulatory framework remains a key priority for the Committee. The Regulatory Consistency Assessment Programme (RCAP) monitors progress by Committee member jurisdictions on implementation and assesses the consistency and completeness of the adopted standards. The RCAP also facilitates dialogue among Committee members and assists the Committee in developing standards.

During the year, RCAP jurisdictional assessments were conducted for Argentina, Indonesia, Japan, Korea, Russia, Singapore and Turkey. The frameworks for SIBs were reviewed in member jurisdictions that are home to G-SIBs: China, the European

Union, Japan, Switzerland and the United States. The Committee completed its review of the implementation of the risk-based capital framework by all its members in December 2016. Work is under way to assess the consistency of capital and the Liquidity Coverage Ratio (LCR) regulations in Australia, Brazil, Canada, China, the European Union, Switzerland and the United States.

In addition, the Committee published several other reports relating to the implementation of the Basel framework.

RCAP: Analysis of risk-weighted assets for credit risk in the banking book. This report is the second to analyse variations in RWAs in banks using internal ratings-based models to calculate credit risk capital requirements. The report also describes sound practices observed in the independent model validation functions of banks, including the governance of the validation process, the methodology and scope of banks' validation functions, and the role of the validation function across different phases of model development and implementation.

Progress reports on adoption of the Basel regulatory framework. Issued in April and October 2016, these semiannual reports provide a high-level view of Basel Committee members' progress in adopting Basel III standards. The reports focus on the status of domestic rule-making to ensure that the Basel standards are turned into national law or regulation according to the internationally agreed time frames. The reports cover the Basel III risk-based capital standards, the leverage ratio, the LCR, the NSFR, the SIB frameworks, Pillar 3 disclosure requirements and the large exposure framework.

Report to G20 Leaders on implementation of the Basel III regulatory reforms. This report, issued in August 2016, updated G20 Leaders on progress and challenges in the implementation of the Basel III regulatory reforms since November 2015, when the Committee last reported to the G20. It summarises the steps taken by the Committee's member jurisdictions to adopt the Basel III standards, banks' progress in bolstering their capital and liquidity positions, the consistency of implementation in jurisdictions assessed since the Committee's last report and the Committee's implementation work plan.

RCAP: Handbook for Jurisdictional Assessments. Based on experience with the RCAP to date, the Committee updated the procedures and process for conducting jurisdictional assessments under the RCAP in one document, the *Handbook for Jurisdictional Assessments*, published in March 2016. The Handbook describes the assessment methodology and also introduces the RCAP questionnaires that member jurisdictions complete ahead of the assessment. The Handbook and the RCAP questionnaires will help regulators, supervisors and financial stability authorities to evaluate their own progress in the implementation of the Basel III framework and identify areas for improvement. These documents will be kept under review and updated as the scope of the RCAP expands to include other aspects of the Basel III framework.

Basel III monitoring. The Committee published two monitoring reports, in September 2016 and February 2017, as part of the rigorous reporting process to regularly review the implications of the Basel III standards. The results of previous exercises have been published since 2012, in twice-yearly reports. With data as of 30 June 2016, on a fully phased-in basis, the latest report shows that virtually all participating banks meet both the Basel III risk-based capital minimum Common Equity Tier 1 (CET1) requirement of 4.5% and the target level CET1 requirement of

7.0% when including the capital conservation buffer (plus the surcharges on G-SIBs as applicable).

Supervision

During the year, the Committee published several documents to aid supervisors in undertaking effective supervision of banks.

Prudential treatment of problem assets: definitions of non-performing exposures and forbearance. Issued in April 2016, the definitions proposed in this consultation document aim to foster harmonisation in the measurement and application of two important measures of asset quality, thereby promoting consistency in supervisory reporting and disclosures by banks. Hitherto, banks have categorised problem loans in a variety of ways, and therefore consistent international standards for categorising problem loans are lacking.

Guidance on the application of the Core principles for effective banking supervision *to the regulation and supervision of institutions relevant to financial inclusion*. Issued in September 2016, this document builds on past work by the Committee to elaborate additional guidance in the application of the Committee's *Core principles* to the supervision of financial institutions that provide services to the hitherto financially unserved and underserved. This work includes a report on the *Range of practice in the regulation and supervision of institutions relevant to financial inclusion*, and expands on *Microfinance activities and the Core principles for effective banking supervision*.

Revisions to the annex on correspondent banking. In this document, published in November 2016, the Committee consults on proposed revisions that are consistent with the Financial Action Task Force (FATF) guidance on *Correspondent banking services* issued in October 2016 and serve the same purpose of clarifying rules applicable to banks conducting correspondent banking activities. They form part of a broader international initiative to assess and address the decline in correspondent banking.

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 for financial stability and central bank policy. Chaired by William C Dudley, President of the Federal Reserve Bank of New York, the Committee comprises Deputy Governors and other senior officials from 23 central banks of major advanced and emerging market economies, as well as the Head of the BIS's Monetary and Economic Department and its Economic Adviser.

In the past year, the Committee's conjunctural discussions focused on topics relating to asset prices and the financial activity of financial and non-financial firms. It monitored the implications for financial stability of bond and equity valuations and of currency market conditions as they relate to global demand for US dollar funding. It examined banking sector profitability, the changing patterns of capital flows, and the management of corporate balance sheets in terms of cash management and debt issuance. It discussed the potential risks from yield curve steepening in view of signs of increasing inflation expectations and an uptick in longer-term rates.

Additionally, in-depth studies are commissioned from groups of central bank experts. Three such reports were published in 2016/17. Two of them pertain to the Committee's ongoing interest in topics related to macroprudential policy. The report on *Experiences with the ex ante appraisal of macroprudential instruments* provides an overview of central banks' experiences with methodologies used to assess the effect of instruments; with the selection of the appropriate policy instrument, its calibration and its timing; and with the assessment of financial risks and vulnerabilities. The second report, on *Objective-setting and communication of macroprudential policies*, argues that adopting a systematic policy framework that channels policymaking through a set of predictable procedures can help address these challenges. A key part of such a framework is a communication strategy that clearly explains how macroprudential actions can contribute to achieving financial stability. The report provides an overview of how objectives are set in macroprudential policy and how policy is communicated in practice. One of the report's conclusions is that explaining the macroprudential policy framework facilitates policy actions early on in the cycle, when instruments may be more effective and adjustment less costly.

The report on *Designing frameworks for central bank liquidity assistance: addressing new challenges* was motivated by the recognition that central banks have made advances in building capacity to deal with future systemic crises, but a number of open issues remain that are related to the provision of liquidity assistance. The report presents eight principles in three areas: the provision of liquidity assistance to internationally active financial intermediaries, transparency on liquidity assistance operations, and the provision of assistance to a market. The report underlines the need for central banks to enhance preparedness in calm times and, in particular, to consider how the interaction of national frameworks might affect cross-border coordination and assistance, and how they might engage ex ante in bilateral discussions to facilitate the timely execution of an operation when necessary.

CGFS: www.bis.org/cgfs

Committee on Payments and Market Infrastructures

The Committee on Payments and Market Infrastructures (CPMI) promotes the safety and efficiency of payment, clearing, settlement and reporting systems and arrangements. The CPMI is a global standard setter in this field. It also serves as a forum for central banks to monitor and analyse developments and cooperate in related oversight, policy and operational matters, including the provision of central bank services. Chaired by Benoît Cœuré, a member of the ECB's Executive Board, the Committee comprises senior officials from 25 central banks.

Monitoring implementation of standards for financial market infrastructures

The CPMI-IOSCO *Principles for financial market infrastructures* (PFMI), published in April 2012 together with the International Organization of Securities Commissions, set out international regulatory standards for systemically important financial market infrastructures (FMIs) and specify the responsibilities for the authorities that oversee, supervise or regulate them.

Monitoring the implementation of the PFMI, a high priority for the CPMI, involves three phases: Level 1, on the adoption of the PFMI in domestic regulatory frameworks; Level 2, on the completeness and consistency of these regulatory frameworks; and Level 3, on the consistency in the outcomes of the PFMI implementation across jurisdictions.

Level 1: In June 2016, the CPMI and IOSCO published a third update to the Level 1 assessments, which showed that the 28 participating jurisdictions continue to make good progress in implementing the PFMI. In particular, the report highlighted that 19 of them had completed their implementation measures for all FMI types, up from 15 jurisdictions in 2015.

Level 2: In June 2016, the CPMI and IOSCO started Level 2 assessments of implementation measures applicable to all FMI types in Hong Kong SAR and Singapore. Reports are scheduled to be published in the first half of 2017.

Level 3: In August 2016, the CPMI and IOSCO published *Implementation monitoring of PFMI: Level 3 assessment – Report on the financial risk management and recovery practices of 10 derivatives CCPs*. The assessment found that central counterparties (CCPs) have made important progress in implementing arrangements consistent with the standards. Some gaps and shortcomings were nevertheless identified, notably in the areas of recovery planning and credit and liquidity risk management. The report also identified a number of differences in the outcomes of implementation across CCPs.

CCP resilience and recovery

The CPMI and IOSCO published in August 2016 a consultative report outlining further guidance on financial risk management and recovery planning for CCPs. The report is based on the workplan agreed in April 2015 by the BCBS, CPMI, FSB and IOSCO to coordinate their respective international policy work on the resilience, recovery planning and resolvability of CCPs and to work in close collaboration.[2]

Harmonisation of OTC derivatives data

Since November 2014, the CPMI and IOSCO have been working to develop guidance on the harmonisation of key over-the-counter (OTC) derivatives data, including uniform transaction and product identifiers. Following three consultative reports in 2015, the group published further consultation reports, on the *Harmonisation of the Unique Product Identifier* in August 2016 and on the *Harmonisation of critical OTC derivatives data elements (other than UTI and UPI) – second batch* in October 2016.

Retail payments

Published in November 2016, the report on *Fast payments* sets out key characteristics of fast retail payments, defined as payments that make funds immediately available to the payee on a 24/7 basis. It takes stock of various initiatives in CPMI jurisdictions, analyses supply and demand factors that may foster or hinder their development, discusses the benefits and risks, and examines the potential implications for different stakeholders, in particular central banks.

Correspondent banking

The CPMI's report on *Correspondent banking*, published in July 2016, provides basic definitions, outlines the main types of correspondent banking arrangement,

[2] See www.bis.org/cpmi/publ/d134b.pdf.

summarises recent developments and touches on the underlying drivers. The report sets out recommendations on technical measures relating to (i) know-your-customer (KYC) utilities; (ii) use of the Legal Entity Identifier (LEI) in correspondent banking; (iii) information-sharing initiatives; (iv) payment messages; and (v) use of the LEI as additional information in payment messages.

Cyber resilience in FMIs

Building on their previous separate work on cyber resilience, the CPMI and IOSCO established a joint working group on cyber resilience for FMIs in December 2014 with a view to considering additional guidance and identifying other relevant issues. After public consultation, the *Guidance on cyber resilience for financial market infrastructures* ("Cyber Guidance") was published in June 2016. In accordance with the Cyber Guidance, FMIs are expected to take immediate steps, in concert with relevant stakeholders, to improve their cyber resilience. Notably, the Cyber Guidance calls for the development, within 12 months of its publication, of concrete plans to meet the stringent recovery time objectives applicable to this industry.

Wholesale payments security

In mid-2016, the CPMI started to look into the security of wholesale payments in the light of the recent increase in cyber fraud. With this work, the CPMI aims to ensure that adequate protections and controls are in place at each stage of the wholesale payments process. This effort builds on previous CPMI work on cyber security and operational risk and, more generally, existing procedures to continuously test and strengthen infrastructure.

Digital innovations

In 2016, the CPMI began work on the potential effects of digital innovations in payment, clearing and settlement systems. The CPMI hosted an industry workshop with the FSB in October on the use of distributed ledger technologies in the financial markets and issues for financial authorities. This was followed by the publication of the CPMI report on *Distributed ledger technology in payment, clearing and settlement: an analytical framework* in February 2017. The report is designed to help central banks and other authorities to review and analyse the use of distributed ledgers in this part of the financial system.

Payment aspects of financial inclusion

The final report on *Payment aspects of financial inclusion* was published in April 2016. Setting out guiding principles designed to assist countries that seek to advance financial inclusion in their markets through payment services and technology, the report was produced by a joint task force set up by the CPMI and the World Bank Group in mid-2014.

Red Book statistics

The CPMI published in December 2016 its annual update of the *Statistics on payment, clearing and settlement systems in the CPMI countries*.

CPMI: www.bis.org/cpmi

Markets Committee

The Markets Committee is a forum where senior central bank officials jointly monitor developments in financial markets and assess their implications for market functioning and central bank operations. With a membership of 21 central banks, the Committee is chaired by Jacqueline Loh, Deputy Managing Director at the Monetary Authority of Singapore. She succeeded Guy Debelle, Deputy Governor of the Reserve Bank of Australia, who served as the Committee's Chair until January 2017.

The Committee's discussions during the year focused on changes in the monetary policy stance by the major central banks as well as on policy and financial conditions in EMEs. Among the topics discussed were unconventional policy measures and their implications for market functioning, exchange rate movements, digital innovations and their potential impact on monetary policy operations and the impact of money market fund reform on short-term US dollar funding markets.

In December 2016, the Committee issued a report on *Market intelligence gathering at central banks*, with the aim of shedding light on their efforts to gain a better understanding of market functioning. It shows that market intelligence gathering can be conducted via a number of different models depending on the central bank and its remit, size and resources. A key focus is on the recent evolution of such activity, in terms of the markets and institutions about which market intelligence is gathered, as well as on the organisational models for its collection, synthesis and dissemination.

In January 2017, the Committee issued a report on *The sterling "flash event" of 7 October 2016*. Investigating the sudden sell-off in sterling during early Asian trading that day, the report points to a confluence of factors that catalysed the episode. Significant weight is placed on the time of day and mechanistic amplifiers, including options-related hedging flows, as contributory factors. The report notes that the 7 October event does not represent a new phenomenon, but rather a new example of what appears to be a series of flash events that are now apt to occur in a broader range of markets than before.

In addition to monitoring near-term developments, the Committee also considered longer-term structural and operational issues. It oversaw work on the foreign exchange part of the 2016 Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity. Based on these data, the Committee discussed the implications of the evolution of the market ecosystem for market functioning. The Committee continued its work of producing a single global code of conduct for the foreign exchange market, collaborating with a group of market participants from the major financial centres in both advanced and emerging market economies. The code, together with proposals for measures that would ensure greater adherence to the code, is scheduled to be finalised in May 2017.

Markets Committee: www.bis.org/markets

Central Bank Governance Group

The Central Bank Governance Group is a venue for Governors to exchange views on the design and operation of their institutions. The focus is on the institutional and organisational setting in which central banks perform their functions, including the choice of functions, independence of decision-making and decision-making structures. The group comprises nine Governors and is currently chaired by Stefan Ingves, Governor of Sveriges Riksbank.

Discussions are based on information collected through the Central Bank Governance Network, comprising almost 50 of the BIS member central banks. This and other information is made available to central bank officials. Selected examples of this research are published.

In the past year, the Governance Group convened during several BIS bimonthly meetings to discuss, among other topics, conflicts of interest relating to payment system functions, appointment and dismissal arrangements for top central bank officials, trends in profitability, and parliamentary oversight mechanisms. 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) is a forum for central bank economists and statisticians to address statistical topics related to monetary and financial stability. Governed by the BIS member central banks, it is hosted by the BIS and associated with the International Statistical Institute (ISI). The IFC has 85 institutional members, including almost all BIS shareholder central banks, and is currently chaired by Claudia Buch, Vice President of the Deutsche Bundesbank.

The IFC organised several activities in 2016/17 with the support of its member central banks and a number of international organisations. A key event was the Eighth Biennial Conference of central bank statisticians, on "Statistical implications of the new financial landscape" in September 2016. Together with the European Committee of Central Balance Sheet Data Offices (ECCBSO) and the Central Bank of the Republic of Turkey, the IFC also organised a conference on the "Uses of central balance sheet data office information" in September 2016. In March 2017, the IFC participated in the Asian Regional Statistics Conference co-hosted by the ISI and Bank Indonesia.

A significant part of the IFC's work has been conducted in cooperation with the G20-endorsed international Data Gaps Initiative (DGI) to enhance economic and financial statistics. One key DGI recommendation relates to data-sharing, for which the IFC was invited to conduct a survey to identify good practices to foster collaboration and micro data-sharing both within central banks and among public institutions. A report based on this stocktaking exercise, published in December 2016, served as an input to the international set of recommendations being prepared for the G20.

Another IFC report published in 2016 related to national policies and practices for financial inclusion. Its recommendations covered the definition of financial inclusion, the mandate of central banks in this area, internal coordination, data gaps to be addressed and international cooperation.

Lastly, and reflecting the strong interest of central banks in the topic of big data, the Committee has decided to focus on a few pilot projects related to using new information derived from internet activity and to the various large micro-data sets that are already available in administrative and commercial records. This preliminary work was presented at the IFC satellite seminar on big data during the ISI's March 2017 meetings.

IFC: www.bis.org/ifc

Financial Stability Institute

The Financial Stability Institute (FSI) assists supervisors worldwide in strengthening their financial systems by disseminating global financial standards, identifying relevant policy implementation issues, and facilitating adoption of sound supervisory practices. The FSI carries out these tasks through outreach events; FSI Connect, an e-learning tool; and policy implementation work.

In the latter part of 2016/17, the FSI started to implement a new strategy focused on (i) strengthening its outreach to senior policymakers worldwide; (ii) enhancing its policy implementation work by increasing the number of FSI publications and meetings that explore the range of policy options applied by different jurisdictions on key regulatory and supervisory issues, and highlight the main practical considerations attending their implementation; and (iii) intensifying efforts to gather input from key stakeholders to ensure that the FSI's work continues to reflect the interests and needs of financial sector supervisory authorities.

Outreach events

FSI outreach events include high-level meetings, policy implementation meetings, conferences, seminars and webinars. In 2016, more than 2,000 central bankers, financial sector supervisors and senior industry representatives attended 51 events.

High-level meetings

The FSI organises high-level meetings jointly with the Basel Committee on Banking Supervision (BCBS). These meetings, designed for Deputy Governors of central banks and heads of supervisory authorities, focus on policy discussions relating to current and emerging issues in the global and regional financial sector.

In 2016/17, high-level meetings were held in Africa, Latin America, and the Middle East and North Africa. The topics discussed included the remaining work to finalise the Basel III framework; supervisory approaches to enhance bank governance and culture; and the emergence of financial technology and its implications for banks' business models and risks.

Policy implementation meetings

Policy implementation meetings are aimed at senior officials at financial authorities who play key decision-making roles in implementing regulatory policies at the national level. The purpose of these meetings is to discuss policy and supervisory issues from a practical perspective.

Six policy implementation meetings were held in 2016. The meetings focused on topics such as Basel III implementation; expected loss provisioning and its interaction with regulatory capital; and supervisory approaches to financial technology innovations.

Conferences, seminars and webinars

These events provide a venue for supervisors around the world to discuss the technical aspects of financial sector regulation and supervision. Separate events cover banking, insurance, and cross-sectoral areas.

In 2016, the FSI organised 24 banking-related seminars and webinars. These included 15 regional events, which were organised in cooperation with 12 regional supervisory groups,[3] and two webinars. The main topics covered included regulation and supervision of different banking risks; approaches to dealing with financial stability issues; and problem bank identification and early supervisory intervention.

The FSI held seven insurance-related seminars and eight webinars, most of which were organised in collaboration with the International Association of Insurance Supervisors (IAIS). The main topics covered were the new solvency and capital standards for insurers; the policy framework for global systemically important insurers (G-SIIs); and the emerging resolution framework for insurers.

Three cross-sectoral events were organised jointly with different partner institutions: a conference with the Global Partnership for Financial Inclusion (GPFI) on the supervision of digital financial inclusion; a conference with the International Association of Deposit Insurers (IADI) on bank resolution and deposit insurance; and a seminar with the International Organization of Securities Commissions (IOSCO) on trading book and market infrastructure issues.

FSI Connect

FSI Connect offers about 300 tutorials covering a wide range of financial sector regulatory and supervisory topics. It now has around 10,000 users from about 300 central banks and other financial authorities.

In 2016, the FSI released 37 new and updated tutorials on topics such as the TLAC standard; the revised market risk framework; the framework for domestic systemically important banks (D-SIBs); the framework for G-SIIs; and macroprudential surveillance in insurance.

Policy implementation work

In 2016, the FSI produced two occasional papers. One was developed jointly with the Association of Supervisors of Banks of the Americas (ASBA), and provided a qualitative discussion of the current supervisory treatment of interest rate risk in the banking book in Latin America. The second paper presented the results of a survey on supervisory priorities and challenges in non-BCBS member jurisdictions.

FSI: www.bis.org/fsi

Activities of BIS-hosted associations

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) promotes international financial stability by coordinating national financial authorities and international standard-setting

3 Africa: Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI). Americas: Association of Supervisors of Banks of the Americas (ASBA); Center for Latin American Monetary Studies (CEMLA); and 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); and Central Banks of South East Asia, New Zealand and Australia (SEANZA) Forum of Banking Supervisors. Europe: European Banking Authority (EBA); European Supervisor Education Initiative (ESE); Group of Banking Supervisors from Central and Eastern Europe (BSCEE). Middle East: Arab Monetary Fund (AMF); and Gulf Cooperation Council (GCC) Committee of Banking Supervisors.

bodies as they develop strong regulatory, supervisory and other financial sector policies. It fosters a level playing field by encouraging coherent implementation of these policies across sectors and jurisdictions. The FSB's mandate, membership and framework of committees and management are described in its Annual Report. The FSB is chaired by Mark Carney, Governor of the Bank of England.

The FSB was set up by the G20 in 2009 to coordinate the development and implementation of the package of G20 financial regulatory reforms. The FSB's regional consultative groups (RCGs) broaden the range of countries engaged in the FSB's work to promote international financial stability. The RCGs bring together FSB members and approximately 65 non-member jurisdictions to exchange views on vulnerabilities affecting financial systems and initiatives to promote financial stability.

During 2016/17, the FSB continued its policy work to address the causes of the financial crisis, focusing increasingly on implementing the reforms and understanding their effects.

Reducing the moral hazard posed by global systemically important financial institutions

G-SIFI identification and higher loss absorbency

The identification of global systemically important financial institutions (G-SIFIs) is an important step towards understanding which financial institutions pose a risk to the financial system. Each year, the FSB publishes new lists of G-SIFIs based upon updated data and using methodologies developed by the BCBS and IAIS. The latest lists of global systemically important banks (G-SIBs) and global systemically important insurers (G-SIIs), were published in November 2016. The following month, the FSB issued a consultation on further guidance to implement the total loss-absorbing capacity (TLAC) standard agreed in November 2015.

G-SIFI resolution

Developing policy for effective recovery and resolution of global financial institutions is a key part of the FSB's ongoing work to address the failings highlighted by the financial crisis. In August 2016, the FSB published its fifth annual progress report to assess the implementation of agreed reforms and report on the resolvability of G-SIFIs. The report highlighted steps for FSB jurisdictions to take when developing policies for effective resolution of G-SIFIs and called for further action by G20 Leaders on the implementation of effective resolution regimes. The focus is on developing policy frameworks so that no firm is considered "too big to fail" and all firms can be effectively resolved without exposing taxpayers to the risk of loss. In June 2016, the FSB published guidance on resolution planning for systemically important insurers, and two consultations on resolution and resolution planning for central counterparties, in August 2016 and February 2017.

In August 2016, the FSB published guidance on temporary funding and on the operational continuity of banks in resolution and, in October 2016, it published a methodology to assess the implementation of the FSB's *Key Attributes of Effective Resolution Regimes for Financial Institutions* in the banking sector. In December 2016, a consultative paper was issued on possible arrangements to support the continued access to financial market infrastructures (FMIs) by firms in resolution.

More intense supervisory oversight

Following the 2015 publication of the FSB peer review on supervisory frameworks and approaches for domestic systemically important banks, work on supervisory effectiveness has been taken forward by various BCBS working groups and initiatives. The IAIS has also worked on supervisory effectiveness for G-SIIs, and more broadly for internationally active insurance groups, through its ComFrame project.

Making OTC derivatives markets safer

Improvements to over-the-counter derivatives markets were a key pillar of the G20 reforms. Trade reporting of OTC derivatives; central clearing and, where appropriate, exchange or electronic platform trading of standardised OTC derivatives; and higher capital and minimum margin requirements for non-centrally cleared derivatives were designed to mitigate systemic risk, increase transparency and reduce market abuse.

In August 2016, the FSB published a progress report on reforms to these markets, noting that, while reforms continued to be implemented, there were significant delays in implementing margin requirements for non-cleared derivatives, and platform trading frameworks were relatively undeveloped.

The FSB also published a report in the same month assessing member jurisdictions' plans to address legal barriers to reporting and accessing OTC derivatives transaction data. The report set out the steps jurisdictions are committed to taking to address these barriers, given the importance of trade reporting for the identification of risks in the OTC derivatives markets.

The FSB continued to support the harmonisation of key data elements necessary to support OTC derivatives data aggregation, notably the unique transaction identifier (UTI), unique product identifier (UPI) and Legal Entity Identifier (LEI). The FSB's working group to address UTI and UPI governance, formed in April 2016, is engaging with stakeholders ahead of finalising its recommendations.

Transforming shadow banking into resilient market-based finance

In November 2016, the FSB announced it would assess progress in transforming shadow banking into resilient market-based finance and would aim to complete this exercise in time for the G20 Leaders' Summit in Hamburg in July 2017. This work will review shadow banking activities since the global financial crisis and related financial stability risks, and whether the policies and monitoring put in place by FSB members are adequate to address these risks.

In January 2017, the FSB published recommendations to address structural vulnerabilities from asset management activities that could potentially present financial stability risks. This followed a consultation in June 2016 that set out potential financial stability risks and measures to address them.

Measures to reduce misconduct risk

Ethical conduct, and compliance with both the letter and spirit of applicable laws and regulations, are critical to public trust and confidence in the financial system. Misconduct is relevant to prudential oversight, as it can potentially affect the safety and soundness of individual financial institutions and ultimately the financial system. Following significant examples of misconduct by banks, in May 2015 the FSB launched a misconduct workplan that seeks to (i) examine whether reforms to incentives, for instance to governance and compensation structures, are having a sufficient effect on reducing misconduct; (ii) improve global standards of conduct in the fixed income, commodities and currency markets; and (iii) reform major financial benchmarks. The FSB published a progress report on the implementation of its recommendations to reform major interest rate benchmarks in July 2016. In September, it also published a progress report on its misconduct workplan, including a section that considered the effectiveness of compensation tools in addressing misconduct risks.

Addressing the decline in correspondent banking

A reduction in the number of correspondent banking relationships is a source of concern because it may affect the ability to send and receive international payments, or it could drive some payment flows underground, with potential consequences for economic growth, financial inclusion and the stability and integrity of the financial system. The FSB has a four-point action plan to assess and address the causes of this decline. As part of this work, and collaborating closely with other international organisations, the FSB undertook a data collection exercise covering over 300 banks in some 50 jurisdictions to assess the issues. The FSB progress reports were published in August and December 2016.

Lessons from international experience on macroprudential policies

The IMF, FSB and BIS published a report in August 2016 to take stock of the lessons learned from national and international experience on the development and implementation of macroprudential policies.

Addressing data gaps

The global financial crisis highlighted significant information gaps that the authorities faced in the lead-up to the crisis, making it more difficult to identify emerging risks. As a result, the Data Gaps Initiative (DGI) was created in 2009 and is now in its second phase. The first progress report of this second phase was published in September 2016. Additionally, the FSB and the IAIS organised a thematic workshop to explore data gaps in systemic risk in the insurance sector in March 2017.

Advancing transparency through the Legal Entity Identifier

The FSB continued to provide secretariat support to the LEI Regulatory Oversight Committee. The global LEI System expanded its coverage, with nearly half a million LEIs issued since its establishment. It also prepared for the collection of ownership data on direct and ultimate parents of legal entities, which will be implemented during 2017 to support data aggregation at the level of corporate groups.

Strengthening accounting standards

Effective accounting and audit standards are essential for maintaining financial stability. In July 2016, the FSB encouraged work being undertaken by auditors to enhance the quality of the audits of SIFIs. The FSB also received updates on progress by accounting standard setters in finalising the accounting standards on expected loan loss provisions.

Task Force on Climate-related Financial Disclosure (TCFD)

In December 2015, the FSB established the TCFD to develop a set of voluntary, consistent disclosure recommendations for use by companies in providing information to investors, lenders and insurers about climate-related financial risks. In April 2016, the TCFD published its phase 1 report setting out its initial work and, in December 2016, published draft recommendations for public consultation. The TCFD's final recommended disclosures will be sent to the G20 Leaders' Summit in July 2017.

Assessing risks from fintech

The FSB workplan on assessing possible financial stability risks from fintech includes stocktakes of innovation facilitators developed by authorities, fintech credit intermediation, and issues for authorities in the use of distributed ledger technology. In November 2016, the FSB agreed a workplan, cooperating with other international organisations, to identify the supervisory and regulatory financial stability issues faced by the growth in fintech. The FSB will publish a report on its work ahead of the G20 Leaders' Summit in July 2017.

Monitoring implementation and evaluating the effects of reforms

The FSB, working with standard-setting bodies, has started to assess how far the post-crisis regulatory reforms have achieved their intended policy outcomes. The FSB published its second annual implementation and effects report in August 2016.

The FSB also undertook a number of peer reviews over this period. In May 2016, the FSB published a peer review evaluating the progress made by FSB member jurisdictions in implementing its policy framework for strengthening oversight and regulation of shadow banking. The review concluded that implementation of the framework remains at a relatively early stage and that more work is needed to enable jurisdictions to comprehensively assess and respond to potential shadow banking risks posed by non-bank financial entities. Additionally, the FSB published the country peer reviews of India and Japan in August and December 2016, respectively. The FSB also launched a thematic peer review on corporate governance as well as country peer reviews of Argentina, Brazil, France, Hong Kong SAR, Korea and Singapore.

For the July 2017 G20 Leaders' Summit, the FSB has developed a comprehensive workplan on the effects of reforms. It includes the development of a framework for post-implementation evaluation of the effects of the G20 financial regulatory reforms; work for the third annual implementation and effects report that will be published ahead of the Summit; a call for evidence from members on the effects of reforms; and two workshops – one with market participants and one with academics – to share experience in analysing the effects of reforms and evidence to date.

FSB: www.fsb.org

International Association of Deposit Insurers

The International Association of Deposit Insurers (IADI) is the global standard-setting body for deposit insurance systems. IADI contributes to the stability of financial systems by advancing standards and guidance for effective deposit insurance systems and promoting international cooperation among deposit insurers, bank resolution authorities and other safety-net organisations.

The number of organisations affiliated with IADI stands at 107, comprising 83 deposit insurers as members, 10 central banks and bank supervisors as associates, and 14 institutional partners. Thus, almost 70% of all jurisdictions with explicit deposit insurance systems are represented within IADI's membership. The President and Chair of IADI's Executive Council is Thomas M Hoenig, Vice President of the US Federal Deposit Insurance Corporation.

Strategic goals

IADI's strategic goals focus on three key objectives: promoting compliance with the IADI Core Principles for Effective Deposit Insurance Systems; advancing deposit insurance research and policy development; and providing IADI members with technical support to modernise and upgrade their systems. IADI's Core Principles are incorporated in the FSB's Key Standards for Sound Financial Systems, and are used in the Financial Sector Assessment Program (FSAP) reviews conducted by the IMF and the World Bank.

In support of its strategic goals, IADI completed a review of its governance structure and funding arrangements in May 2016. As a result, IADI's seven Standing Committees have been replaced by four newly established Council Committees (CCs), each carrying out an oversight and advisory role for the Association. Three of the CCs (Core Principles and Research; Member Relations; and Training and Technical Assistance) focus on one or more of the strategic goals, while the fourth (Audit and Risk) exercises an internal control function.

International conferences and events

Crisis prevention and management, together with the role of deposit insurers in crises, was the focus of IADI's 15th Annual Conference, held in October 2016 in Seoul, Korea.

In December 2016, IADI and the FSI held their seventh annual joint conference on bank resolution, crisis management and deposit insurance issues. The conference took place in Basel, bringing together more than 200 delegates from financial safety-net organisations in 75 jurisdictions.

IADI's Fourth Biennial Research Conference, to be held in June 2017 at the BIS in Basel, will provide a forum for researchers and safety net practitioners to advance their knowledge on a wide range of contemporary issues facing deposit insurers.

IADI also hosted global and regional seminars in a wide variety of locations, on topics identified in IADI member survey results, including deposit protection and mobile money, enhancing asset recovery, depositor reimbursement, and legal frameworks.

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 mission is to promote effective and globally consistent insurance supervision and contribute to global financial stability so that policyholders benefit from fair, safe and stable insurance markets. The Executive Committee is chaired by Victoria Saporta, Executive Director of Prudential Policy at the Bank of England.

ComFrame

In 2011, the IAIS began a multi-year initiative to design a common framework, or ComFrame, for the supervision of internationally active insurance groups. In June 2016, the IAIS approved a plan to restructure ComFrame and integrate it directly into the IAIS-developed Insurance Core Principles (ICPs). In March 2017, it released for public consultation the first set of ComFrame material integrated with relevant ICPs (covering governance, supervisory measures, supervisory cooperation, and coordination and resolution). The IAIS is due to adopt ComFrame in late 2019, after which it will be available for implementation by members.

Global insurance capital standards

As part of ComFrame, the IAIS is developing the global risk-based insurance capital standard (ICS). In May 2016, the IAIS launched the second field-testing exercise designed to provide an evidence-based approach to ICS development. Forty-one volunteer insurance groups representing approximately 30% of global insurance premium volume participated. The field-testing exercise incorporated confidential reporting on the previously developed Basic Capital Requirement and Higher Loss Absorbency policy measure. In July 2016, the IAIS published its second ICS consultation paper, generating more than 2,000 pages of feedback from 75 organisations. The IAIS is using this feedback and lessons from field-testing to develop ICS Version 1.0 for extended field-testing, which will be published in July 2017.

Global systemically important insurers

Global systemically important insurers (G-SIIs) are insurance entities whose distress or disorderly failure would cause significant disruption to the global financial system and economic activity. As part of its scheduled three-year review cycle, the IAIS published the Updated G-SII Assessment Methodology in June 2016. The IAIS applied this updated methodology in making recommendations to the Financial Stability Board (FSB) as part of the FSB's annual G-SII identification process.

In July 2013, the IAIS published a framework of G-SII policy measures, including a classification table of typical insurance products and activities. After finding that the notion of non-traditional non-insurance activities and products required further clarification, the IAIS replaced this with a more granular and nuanced assessment of product features in a paper published in June 2016.

Implementation

The Self-Assessment and Peer Review process is a key component of the IAIS implementation programme. In 2016, 90 jurisdictions participated in IAIS assessments, with an average of 73 jurisdictions participating in each one. Assessments were completed on ICP 3 (Information Sharing and Confidentiality Requirements) and ICP 25 (Supervisory Cooperation and Coordination), as well as ICP 13 (Reinsurance and Other Forms of Risk Transfer) and ICP 24 (Macroprudential Surveillance and Insurance Supervision). Assessment results help identify areas for potential revision of supervisory material and provide critical inputs into the implementation efforts of the IAIS and its partners.

The IAIS collaborates with the FSI on insurance seminars and an online training seminar for insurance supervision professionals known as FIRST-ONE, consisting of webinars and tutorials. This web-based programme is delivered over a four-month period through live webinars and self-directed FSI Connect modules. In 2016, 215 supervisors from more than 50 authorities participated.

To continue to enhance the capacity of insurance supervisors, the IAIS made further revisions to the Core Curriculum – a comprehensive learning and resource tool for supervisors. The IAIS also continued its engagement with the Access to Insurance Initiative to advance capacity-building for insurance supervisors in support of inclusive insurance markets.

The IAIS Multilateral Memorandum of Understanding, a global framework for cooperation and information exchange, continued to gain new signatories, with six more jurisdictions joining it. This brings the total number of signatories to 63 jurisdictions accounting for nearly 71% of worldwide premium volume.

International accounting and auditing

The IAIS submitted comments on the following International Auditing and Assurance Standards Board papers: "Enhancing audit quality in the public interest", "Strategic objectives & work plan for 2017–18", and "Exploring the growing use of technology in audit, with a focus on data analytics".

Insurance Core Principles

Insurance Core Principles developed by the IAIS provide a globally accepted regulatory and supervisory framework for the insurance sector. In March 2017, the IAIS released the following revised ICPs for public consultation: ICP 3, ICP 9 (Supervisory Review and Reporting), ICP 10 (Preventive Measures, Corrective Measures and Sanctions), ICP 12 (Exit from the Market and Resolution) and ICP 25.

Macroprudential policy and surveillance framework

In January 2017, the IAIS released its *2016 Global Insurance Market Report* covering the global insurance sector from a supervisory perspective with a focus on sector performance and key risks. A key component of the IAIS macroprudential policy and surveillance framework, the report shows that the (re)insurance sector has remained well functioning and stable, while operating in an increasingly difficult macroeconomic and financial environment characterised by weak global demand, low inflation rates, very low interest rates, and bursts of financial market volatility.

Supporting materials

In August 2016, the IAIS published an *Issues paper on cyber risk to the insurance sector* and, in November 2016, an *Application paper on approaches to supervising the conduct of intermediaries*.

IAIS: www.iaisweb.org

Economic analysis, research and statistics

The BIS's economic analysis and research on monetary and financial stability policy issues are conducted within its Monetary and Economic Department (MED). Economists are located 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. Through its economic analysis, research and statistics, the BIS helps to meet the needs of monetary and supervisory authorities for policy insight and data.

Analysis and research

Analysis and research at the BIS are the basis of its background notes for bimonthly and other meetings of central bank officials, analytical support for the Basel-based Committees, and the Bank's own publications. Research seeks to strike a balance between responsiveness to short-term issues and proactivity in exploring themes that are of strategic importance for central banks and prudential authorities.

Collaborative efforts with central bank and academic researchers around the world stimulate broad dialogue on key policy questions. As part of its efforts to strengthen research collaboration with senior professionals from academia and research institutions, the BIS in 2016 appointed Markus Brunnermeier, the Edwards S Sanford Professor of Economics at Princeton University, as the BIS's first Alexandre Lamfalussy Senior Research Fellow. This fellowship complements the visiting fellows programme for academic researchers and the Central Bank Research Fellowship (CBRF) Programme.

The BIS also organises conferences and workshops to bring together participants from policy, research and business. The flagship event for central bank Governors is the BIS Annual Conference. In June 2016, the 15th BIS Annual Conference focused on long-term issues for central banks, including financial structure and growth, and inequality and globalisation. Moreover, the semiannual meetings of the BIS Research Network provide an opportunity to discuss current macroeconomic and financial topics.

Most of the BIS's analysis and research activities are undertaken at its Basel headquarters, but an important part of the effort is carried out at its two representative offices. Both offices have developed research programmes as well as active secondment and exchange schemes to collaborate with member central banks in their respective regions. The Representative Offices also oversee a programme of conferences and collaborative research networks.

Regular reports of the research activities of the Asian Office are presented to the Asian Consultative Council (ACC), comprising the Governors of the 12 BIS member central banks in the Asia-Pacific region.[4] Research activities in the Americas Office are organised in cooperation with the Consultative Council for the Americas (CCA), a group of eight central banks in the Americas,[5] most notably the annual research conference and research networks, under the direction of a Scientific Committee of CCA central bank research heads. In May 2016, the Central Reserve Bank of Peru hosted the seventh BIS CCA Annual Research Conference on "Inflation dynamics: the role of labour markets, productivity and globalisation".

As part of its broader effort to strengthen research, last year BIS Management commissioned an external review of BIS research, which was presented to the Board in January 2017. The review's independent perspective on BIS research is a key input into the strategy to further enhance the quality and usefulness of BIS research and policy analysis for central banks. In March 2017, the BIS Board endorsed an action plan prepared by BIS Management which sets out the course of action for reinforcing BIS research over the coming years. The plan identifies areas for

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

5 The central banks of Argentina, Brazil, Canada, Chile, Colombia, Mexico, Peru and the United States.

improvement in the three main stages of the research process: planning, execution and dissemination.

Most BIS research is published in *BIS Working Papers,* the *BIS Quarterly Review* and *BIS Papers*, in both print and online versions. It also informs the discussion of policy challenges outlined in the Annual Report. BIS economists present their research at international conferences and publish in professional journals and other external publications.

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

Research topics

Reflecting the Bank's mission, BIS research centres on monetary and financial stability. The main areas of research are currently changes in financial intermediation; new frameworks for monetary and financial stability policy; and the global economy and spillovers. Within these broad areas, research projects span a broad range of topics and analytical angles.

The research on financial intermediation aims at understanding the behaviour of financial institutions and their interaction with financial markets. Analysing the way different intermediaries operate and markets function is an important foundation for this work. The perspectives gained help policymakers evaluate changes in the financial system, monitor financial vulnerabilities, and inform the design of financial stability and monetary policies.

In the past year, work in this area included research on the impact of regulatory changes on the behaviour of banks; determinants of cash holdings by asset managers; the risk-taking channel of the exchange rate; the drivers of low long-term interest rates; and the determinants and implications of recent pricing anomalies in global financial markets.

Research on post-crisis monetary and financial stability policy frameworks aims to strengthen the analytical foundations of central bank policy. The gap between the theory and practice of central bank policy remains large as central banks continue to operate in uncharted territory, and the role of financial stability considerations in monetary policy remains the subject of intense debate.

During the past year, specific projects in this area studied the impact of commodity price cycles on credit growth and resource allocation; the relationship between household debt and private consumption; and how the characteristics of credit booms and busts affect cost-benefit assessments of monetary policies that lean against the build-up of financial imbalances.

Research on the global economy and spillovers focuses on the implications of the tight real and financial integration of the global economy for monetary and financial stability. Understanding these linkages is of particular importance for policymakers in an environment where the benefits of globalisation are under increased scrutiny.

One focus of research in this area during the year was the evolution of global value chains and their impact on inflation dynamics. Others included cross-border effects of macroprudential policies, and the global role of the US dollar as a funding currency. The BIS international banking statistics provide key information for these studies.

Research at the Asian Office is carried out under staggered two-year programmes. In 2016, the Office completed one on "Financial systems and the real economy". It also started the 2016–17 programme on "The price, real and financial effects of exchange rates", which covers topics such as the effect of currency movements on output and inflation and the risk-taking channel of exchange rates.

For the 2017–18 programme, the chosen theme is "Fixed income markets in Asia and the Pacific: structure, participation and pricing", which will cover topics such as the international role of Asia-Pacific fixed income assets, the price and liquidity dynamics in these markets, the interaction between bond and foreign exchange market volatility, and the implications for monetary and financial stability policy of global interest rate shocks.

In the Americas, the research network on "The commodity cycle: macroeconomic and financial stability implications" culminated in a conference hosted by the Americas Office in Mexico City in August 2016. A new research network on exchange rates, with a focus on exchange rate pass-through analysis using disaggregated data, started in early 2017. A working group analysed the effectiveness of macroprudential policies using credit registry data. Using the same type of data, a new initiative is studying the impact of the changes of funding on bank business models and monetary policy transmission.

International statistical initiatives

The BIS's unique set of international banking and financial statistics underpins the Basel Process by supporting the analysis of global financial stability. This involves close cooperation with other financial international organisations, especially through the BIS's participation in the Inter-Agency Group on Economic and Financial Statistics (IAG).[6] This is the international body tasked with coordinating and monitoring the implementation of the recommendations to address the data gaps revealed by the financial crisis, in accord with the FSB and IMF proposals to the G20. Following the completion of the initiative's first phase in 2015, a second five-year phase is now under way with the aim of implementing the regular collection and dissemination of comparable, timely, integrated, high-quality and standardised statistics for policy use.

To close the data gaps related to international banking activities, the BIS has continued to expand its key international banking statistics (IBS) data set, reported by central banks under the guidance of the CGFS. In the past year, this expansion included the publication of additional detail in the locational banking statistics, shedding further light on the geography of international banking, specifically the claims and liabilities of banks in each reporting country on counterparties in more than 200 countries. In parallel, data reported for banks located in China and Russia were published for the first time. The BIS has been also working with all reporting countries to address remaining data gaps, to review options for improving the consistency between the consolidated IBS and supervisory data, and to support efforts to make data more widely available.

In addition to banking statistics, the BIS publishes a variety of other statistics on its website, including property prices, debt securities, debt service ratios, credit to the private and public sectors, global liquidity, effective exchange rates, foreign exchange markets, derivatives and payment systems. Last year, new time series on credit-to-GDP gaps and commercial property price indicators as well as historical time series on consumer prices were added to this offering. The BIS also started to publish daily data on nominal effective exchange rates.

These data appear in the *BIS Statistical Bulletin*, published concurrently with the *BIS Quarterly Review* and accompanied by explanatory charts illustrating the

6 The IAG comprises the BIS, the ECB, Eurostat, the IMF, the OECD, the United Nations and the World Bank Group (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).

latest developments. They are also available in the *BIS Statistics Warehouse*, an interactive search tool for customised queries, and the *BIS Statistics Explorer,* a simpler search tool that allows for pre-defined views of the most current data.

The BIS's statistical work also focuses on long-term financial stability indicators to support its own research agenda as well as the initiatives of the Basel Process and the G20. It relies extensively on the BIS Data Bank, which contains, in particular, key economic indicators shared among BIS member central banks.

Finally, the BIS hosts the International Data Hub, where information about systemically important financial institutions is stored and analysed on behalf of a limited number of participating supervisory authorities. The analysis supports participating supervisors in their engagement with reporting firms and enriches the dialogue between supervisors across jurisdictions. The first phase of this FSB-led initiative, covering firms' credit exposures, was completed in 2013. The second phase involved the gathering of data covering these institutions' funding dependencies, and was completed in 2015. The third phase, to be implemented in 2017–18, involves the collection of additional information about reporting institutions' consolidated balance sheets, and greater information-sharing with international financial institutions that hold a financial stability mandate.

BIS statistics: www.bis.org/statistics

Other areas of international cooperation

The BIS participates in international forums such as the G20 and collaborates with key international financial institutions such as the International Monetary Fund and the World Bank Group. The BIS also contributes to the activities of central banks and regional central bank organisations by participating in their events as well as occasionally hosting joint events. During the past year, it co-organised events or collaborated with the following regional organisations on the topics outlined below:

- CEMLA (Center for Latin American Monetary Studies) – banking regulation and supervision;
- EMEAP (Executives' Meeting of East Asia-Pacific Central Banks) – monetary and financial stability, financial markets, banking regulation and supervision;
- MEFMI (Macroeconomic and Financial Management Institute of Eastern and Southern Africa) – reserves management, bank regulation and supervision, payment and settlement systems; and
- SEACEN (South East Asian Central Banks) Research and Training Centre – banking regulation and supervision, payment and settlement systems, central bank governance, monetary policy.

Financial services

Through its Banking Department, the BIS offers a wide range of financial services designed to support the reserves management activities of central banks and other official monetary authorities, and to foster international cooperation in this area. Some 140 institutions, as well as a number of international organisations, make use of these services.

Safety and liquidity are the key features of BIS credit intermediation, which is supported by rigorous internal risk management. Independent control units reporting directly to the BIS Deputy General Manager monitor and control the related risks. A compliance unit monitors compliance risk, while financial risks – ie credit, market and liquidity risks – and operational risk are overseen by a risk management unit that is also responsible for ensuring 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 is well placed to understand the needs of reserves managers – their primary focus on safety and liquidity as well as the evolving need to diversify their exposures. To meet those needs, the BIS offers investments that vary by currency, maturity and liquidity. In addition, the Bank provides short-term liquidity facilities and extends credit to central banks, usually on a collateralised basis. Moreover, the Bank can act as trustee and collateral agent in connection with international financial operations.

Tradable instruments are available in maturities ranging from one week to five years, in the form of 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 offered are money market placements, such as sight/notice accounts and fixed-term deposits.

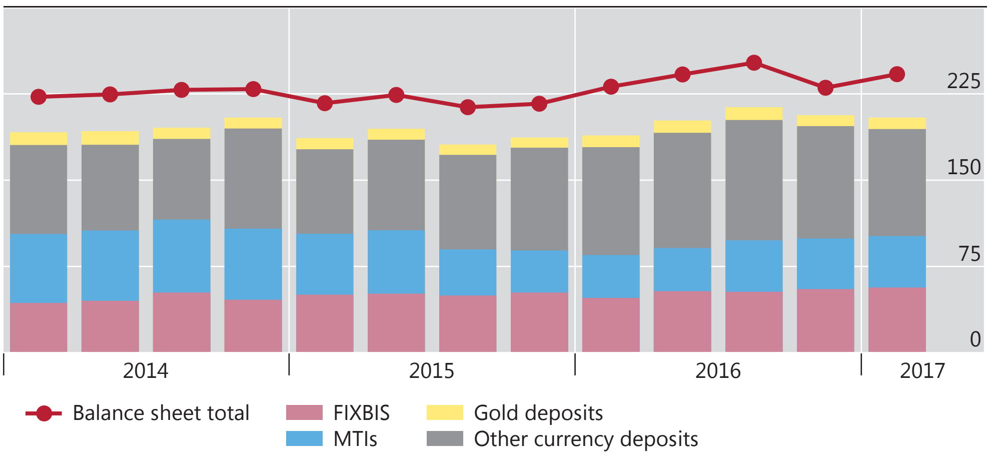
On 31 March 2017, total deposits stood at SDR 204 billion, of which about 95% were denominated in currencies and the remainder in gold (see graph).

The Bank transacts foreign exchange and gold on behalf of its customers, thereby providing access to a large liquidity base in the context of their rebalancing of reserve portfolios. The Bank's foreign exchange services 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 that include buying and selling, sight accounts, fixed-term deposits, earmarked accounts, quality upgrading, refining and location exchanges.

The BIS provides asset management products in the form of (i) dedicated portfolio management mandates tailored to each customer's preferences; or (ii) BIS Investment Pools (BISIPs), which are open-end fund structures that allow customers

Balance sheet total and deposits by product

End-quarter figures, in billions of SDR



The sum of the bars indicates total deposits.

to invest in a common pool of assets. The BISIP structure is also used for the Asian Bond Fund (ABF) initiative sponsored by EMEAP to foster the development of local currency bond markets. Also based on this structure are the following initiatives developed with a group of advising central banks: the BISIP ILF1 (a US inflation-protected government securities fund); the BISIP CNY (a domestic Chinese sovereign fixed income fund); and the BISIP KRW (a domestic Korean sovereign fixed income fund).

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

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 cooperation and foster the exchange of information and data within each region by supporting regional institutions and Basel-based committees, and conducting research. The offices also organise outreach meetings.

The Asian Office

The Asian Consultative Committee (ACC) guides the activities of the Asian Office. The Chair of the ACC is currently Graeme Wheeler, Governor of the Reserve Bank of New Zealand. In addition to supporting cooperative activities and conducting research, the Asian Office provides banking services to the region's monetary authorities. It is also through the office in Hong Kong that the Financial Stability Institute delivers a programme of meetings and seminars in the region that are closely tailored to local priorities.

As well as the research activities mentioned above, the Asian Office organised eight high-level BIS meetings during the year. Most of these were organised jointly with a central bank or a regional central banking organisation, especially the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) and the South East Asian Central Banks (SEACEN). These meetings included the Working Party on Monetary Policy in Asia, held in Sydney in May 2016; the Research Conference on Financial Inclusion and Central Banks, jointly organised in Cebu by the BIS and Bangko Sentral ng Pilipinas in June; the workshop in Hong Kong in August for the research programme on exchange rate effects; a conference in Kuala Lumpur in October that presented the results of the Office's research programme on "Financial systems and the real economy"; the SEACEN-BIS High-level Seminar held in Manila in September; the 11th Meeting on Monetary Policy Operating Procedures, held in Hong Kong in November; and two meetings of the EMEAP-BIS Forum on Financial Markets, one in Auckland in June and the other in Beijing in December.

BIS Asian Office: www.bis.org/about/repoffice_asia.htm

The Americas Office

The cooperative activities of the Office are conducted under the guidance of the Consultative Council for the Americas (CCA). The CCA is currently chaired by Stephen S Poloz, Governor of the Bank of Canada. The CCA met four times in the year under review. The CCA also convened its third Roundtable with chief executive officers of large financial institutions, which was held in October 2016 in Washington DC, hosted by the Bank of Canada.

Cooperative activities beyond research are also organised under two functional groups. The Consultative Group of Directors of Operations (CGDO) holds regular teleconferences to exchange views on financial market developments and central bank operations. A CGDO study group produced a report on foreign exchange liquidity in the Americas. The Consultative Group of Directors of Financial Stability (CGDFS), which focuses on financial stability issues, held its annual meeting in Viña del Mar in September 2016, hosted by the Central Bank of Chile.

As for outreach activities, the Americas Office co-organised with the Center for Latin American Monetary Studies (CEMLA) a roundtable in Santo Domingo on inflation measurement, expectations and monetary policy. Jointly with the Inter-American Development Bank (IDB), a workshop on macroprudential policy was organised in Buenos Aires in November 2016, hosted by the Central Bank of Argentina. Finally, two sessions were sponsored and organised at the Annual Meeting of the Latin American and Caribbean Economic Association (LACEA) in Medellín, Colombia.

BIS Americas Office: www.bis.org/about/repoffice_americas.htm

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, decides on the distribution of a dividend and elects the Bank’s auditor.

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
Danmarks Nationalbank (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)
Narodowy Bank Polski (Poland)
Bank of Portugal
National Bank of Romania
Central Bank of the Russian Federation
Saudi Arabian Monetary Authority
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.

Pursuant to Article 27 of the BIS Statutes, 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.[7] The Board elects a Chairman from among its members for a three-year term and may elect a Vice-Chairman. The present Chairman is Jens Weidmann, President of the Deutsche Bundesbank.

Changes to Article 27 of the BIS Statutes regarding Board composition

At its meeting on 12 September 2016, the BIS Board of Directors decided to summon an Extraordinary General Meeting (EGM) on 7 November 2016 to adopt, among other changes, the following amendments to Article 27 of the Bank's Statutes:

- The total number of Directors would be reduced from 21 to 18 to further enhance the functioning of the Board.
- The number of Directors to be appointed by the six ex officio Directors (Article 27(2)) would be reduced from six to one. It was agreed that the President of the Federal Reserve Bank of New York would be appointed.
- The number of elected Directors would be raised accordingly from nine to 11.

With the reduction of the number of appointed Directors from six to one, the representation of European and non-European regions would become more balanced. This change, together with the increase in the number of elected Directors, would also allow for more flexibility in the Board's composition.

On 7 November 2016, the EGM of BIS shareholders adopted the changes to Article 27 (and to Articles 28 and 29).①

Article 27 is one of the few articles whose change requires approval by the "Signatory Governments to the Convention respecting the BIS of 20 January 1930", ie the governments of Belgium, France, Germany, Italy, the United Kingdom and Switzerland. These governments were therefore approached after the EGM and, by letter dated 3 May 2017, the Swiss government notified the BIS that the new Article 27 had been finally approved by all these six governments.

At its meeting on 8 May 2017, the BIS Board of Directors further decided that the new Article 27 would come into effect on 1 January 2019, by when the running terms of the Directors who were appointed under Article 27(2) will have expired.

① Changes to Articles 28 and 29 of the BIS Statutes are more of a technical nature. The change to Article 28 related to the possibility of electing a new Director for a full term of three years instead of just for the remainder of the predecessor's term. Article 29 was deleted (the desirability for Directors to reside in Europe had become obsolete).

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 Haruhiko Kuroda.
- 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

[7] In addition, one member of the Economic Consultative Committee (see page 138) serves as an observer to BIS Board meetings on a rotating basis.

the Bank's internal control systems and financial reporting. The Committee meets at least four times a year and is chaired by Stephen S Poloz.

- 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, Jens Weidmann.

In memoriam

It was with great sadness that the Bank learned of the deaths of:

- Luc Coene on 5 January 2017 at the age of 69. A former Governor of the National Bank of Belgium (2011–15), Mr Coene was a BIS Director from April 2011 to March 2015. He was again appointed to the BIS Board from January 2016. He chaired the BIS Audit Committee from 2013 to 2015.
- Hans Tietmeyer on 27 December 2016 at the age of 85. Mr Tietmeyer was President of the Deutsche Bundesbank (1993–99) and served as a BIS Director from October 1993 until December 2010. He chaired the BIS Consultative Committee and its successor, the BIS Administrative Committee (2003–10), and also the BIS Audit Committee (2003–07). He was the Bank's Vice-Chairman from 2003 to 2010.
- Carlo Azeglio Ciampi on 16 September 2016 at the age of 95. Mr Ciampi was Governor of the Bank of Italy (1979–93) and served as a BIS Director from November 1979 to April 1993. He again served as a BIS Director from July 1994 to May 1996, when he was also the Bank's Vice-Chairman.

Board of Directors[8]

Chairman: Jens Weidmann, Frankfurt am Main
Mark Carney, London
Agustín Carstens, Mexico City
Andreas Dombret, Frankfurt am Main
Mario Draghi, Frankfurt am Main
William C Dudley, New York
Ilan Goldfajn, Brasília
Stefan Ingves, Stockholm
Thomas Jordan, Zurich
Klaas Knot, Amsterdam
Haruhiko Kuroda, Tokyo
Anne Le Lorier, Paris
Fabio Panetta, Rome
Urjit R Patel, Mumbai
Stephen S Poloz, Ottawa
Jan Smets, Brussels
François Villeroy de Galhau, Paris
Ignazio Visco, Rome
Pierre Wunsch, Brussels

8 As at 1 June 2017. The list includes the rotating observer mentioned above.

Janet L Yellen, Washington
Zhou Xiaochuan, Beijing

Alternates

Jon Cunliffe, London
Stanley Fischer, Washington
Jean Hilgers, Brussels
Paolo Marullo Reedtz, Rome
Marc-Olivier Strauss-Kahn, Paris
Joachim Wuermeling, Frankfurt am Main

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 assisted by the Deputy General Manager and advised by the Executive Committee of the BIS. The Executive Committee, chaired by the General Manager, further comprises 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, the Chairman of the Financial Stability Institute and the Head of Risk Management.

General Manager	Jaime Caruana
Deputy General Manager	Luiz Awazu Pereira da Silva
Secretary General and Head of General Secretariat	Monica Ellis
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 Banking Department	Jean-François Rigaudy
Deputy Head of Monetary and Economic Department	Dietrich Domanski
Deputy Secretary General	Bertrand Legros
Chairman, Financial Stability Institute	Fernando Restoy
Head of Risk Management	Jens Ulrich

Compliance

The Board of Directors and Management attach the highest importance to compliance. The Bank's compliance charter, adopted by the Board in 2005 and available on the Bank's website, calls for the activities of the institution and its staff to be conducted in accordance with the highest ethical standards and all applicable laws and regulations, as well as internal rules, policies and procedures. The Chief Compliance Officer leads an independent compliance function and assists Management in identifying and assessing compliance issues and in guiding and educating staff on related matters. The Chief Compliance Officer reports to the Deputy General Manager and has direct access to the Audit Committee.

BIS budget policy

Management prepares the annual BIS expenditure budget by establishing an overall business plan consistent with the strategic direction and financial framework agreed with the BIS Board of Directors. Within that context, business areas specify their detailed plans and 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. The budget distinguishes between administrative and capital expenditures.

The Bank's administrative expense in 2016/17 was CHF 275.4 million.[9] Of this, Management and staff expense, including remuneration, pensions, and health and accident insurance accounted for around 71%. New staff positions were added during the year in accordance with the Bank's business plan, which emphasised mainly economic research and the Basel Process as well the management of cyber-security risk. A further 27% of BIS administrative expense related to "office and other expense", including information technology, buildings and equipment, and general operational costs.

Capital expenditure can vary significantly from year to year, depending on projects in progress. For 2016/17, capital expenditure amounted to CHF 25.2 million, of which 60% related to IT investment and 40% to buildings and equipment.

BIS remuneration policy

At the end of the 2016/17 financial year, the BIS employed 633 staff members[10] from 61 countries. The jobs performed by staff members are classified into job grades associated with a structure of salary ranges. The salaries of individual staff members move within the ranges of the structure on the basis of performance.

Every three years, a comprehensive survey benchmarks BIS salaries against compensation in comparable institutions and market segments, with adjustments

9 The Bank's budget includes the costs of its post-employment benefit arrangements on a cash basis. The operating expense in the Bank's annual financial statements includes these costs in accordance with IAS 19. The IAS 19 expense for the next financial year depends on the actuarial valuations as at 31 March each year, which are only finalised in April after the budget has been discussed by the Board. As such, any additional IAS 19 charges are treated outside the scope of the budget. Total administrative expense in 2016/17 comprised administrative expense within the budget of CHF 291.0 million plus additional IAS 19 charges of CHF 83.1 million.

10 This corresponds to 610.3 full-time equivalent positions. At the end of the 2015/16 financial year, the Bank employed 632 staff members, corresponding to 602.1 full-time equivalent positions. Including positions related to hosted organisations and not funded by the Bank, the number of staff was 683 in 2015/16 and 689 in 2016/17.

taking place as of 1 July in the following year. In benchmarking, the Bank focuses on the upper half of market compensation in order to attract highly qualified staff. The analysis takes into account the differing rates of taxation on compensation at the surveyed institutions.

In years between comprehensive salary surveys, the salary structure is adjusted as of 1 July on the basis of Switzerland's inflation rate and the weighted average real wage development in advanced countries. As of 1 July 2016, this adjustment produced an increase of 0.28% 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 2016, the annual remuneration of senior officials, before expatriation allowances, is based on the salary structure of CHF 732,260 for the General Manager;[11] CHF 619,600 for the Deputy General Manager; and CHF 563,270 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 as well as 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 1,147,128 as of 1 April 2017. In addition, Board members receive an attendance fee for each Board meeting in which they participate. Assuming that the full Board is represented in all Board meetings, the annual total of these attendance fees amounts to CHF 1,068,240.

Financial activities and results

The Bank's balance sheet

The Bank's balance sheet increased by SDR 10.9 billion over the year, following an increase of SDR 14.5 billion in 2015/16. The balance sheet total on 31 March 2017 was SDR 242.2 billion.

Deposits, primarily from central banks, constitute the largest share of the Bank's liabilities. About 95% of the deposits are denominated in currencies, with the remainder in gold. On 31 March 2017, total deposits amounted to SDR 204.4 billion, compared with SDR 189.0 billion at the end of March 2016.

Currency deposits at 31 March 2017 stood at SDR 194.4 billion, which was SDR 15.7 billion higher than at the previous year-end. The currency composition of deposits remained stable, with deposits in US dollars at 76%, in euros at 11% and in sterling at 6%. Gold deposits stood at SDR 9.9 billion on 31 March 2017, a decrease of SDR 0.3 billion over the financial year.

Funds received from deposit liabilities are invested in assets that are managed conservatively. At 31 March 2017, 39% of total assets comprised government and other securities or treasury bills. Sight account balances (mainly at central banks) were 20%, and reverse repurchase agreements (primarily with sovereign bonds as collateral) were 18%, while gold and gold loans made up a further 11%. The gold balance included 103 tonnes in the Bank's own investment portfolio.

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

Financial performance

The net profit for 2016/17 was SDR 828 million, which was SDR 415 million higher than in 2015/16, due to three main factors.

First, the net interest and valuation income (SDR 1,034 million) was SDR 508 million higher than in the previous year due to an increase in the net interest on the currency banking portfolios, which reflected three developments: (a) average currency deposits were SDR 20 billion higher in 2016/17 than in the previous year. The higher volume contributed additional profit; (b) the intermediation profit earned during the year was higher than in the previous year, primarily because of higher earnings during periods of wide FX swap spreads; and (c) the spreads to Libor on government and other securities in the currency banking portfolios tightened during the year, producing a valuation gain, by comparison with valuation losses in 2015/16, when the spreads to Libor widened.

Second, the net gain on sales of available for sale securities (SDR 49 million) was SDR 30 million lower than in the previous year. These gains arise when portfolios are rebalanced to their benchmarks. Gains were lower in 2016/17 primarily because of the effects of the increase in the US dollar yield curve.

Third, the net gain on sales of gold investment assets (SDR 23 million) was SDR 61 million lower than in the previous year. This reflected the sale of 1 tonne, compared with the 4 tonnes sold in 2015/16.

The Bank's total comprehensive income also includes three valuation changes which are reflected directly in equity. First, the net movement on revaluation of available for sale securities (SDR –164 million) arose from revaluation losses due to an increase in SDR yield curves (in particular, the US dollar), along with the realisation of SDR 49 million of gains in profit. This compares with a gain of SDR 17 million when interest rates declined in the previous year. Second, the net movement on the revaluation of gold investment assets (SDR 111 million) reflected a 4.6 % rise in the gold price, partly offset by the realisation of SDR 23 million of gains into profit. This compares with a valuation loss of SDR 36 million in the previous year, when the gold price rose less (by only 1.9%) and more gold was sold (and hence more gains were realised). The final valuation change relates to the actuarial re-measurement of the Bank's post-employment defined benefit obligations. This resulted in a gain of SDR 64 million, mostly due to an increase in the value of pension fund assets. This compares with a loss of SDR 162 million the previous year, when the value of pension fund assets fell and the IAS 19 discount rate was reduced. The total comprehensive income for 2016/17 was SDR 839 million (2015/16: SDR 231 million).

Allocation and distribution of profit

Proposed dividend

The dividend policy of the Bank considers the Bank's capital adequacy and leverage ratio requirements. The policy incorporates a normal sustainable dividend, which increases by SDR 10 per share per annum, and a supplementary dividend, which is decided ex post, while keeping leverage and economic capital within the desired range. Consistent with the BIS's dividend policy, it is proposed to declare a normal dividend of SDR 225 per share for the financial year 2016/17 and a supplementary dividend of SDR 75 per share. The dividend is payable on 558,125 shares, and will result in a total payment of SDR 167.4 million.

Proposed allocation of net profit for 2016/17

In accordance with Article 51 of the BIS Statutes, the Board of Directors recommends that the General Meeting allocate the 2016/17 net profit of SDR 827.6 million in the following manner:

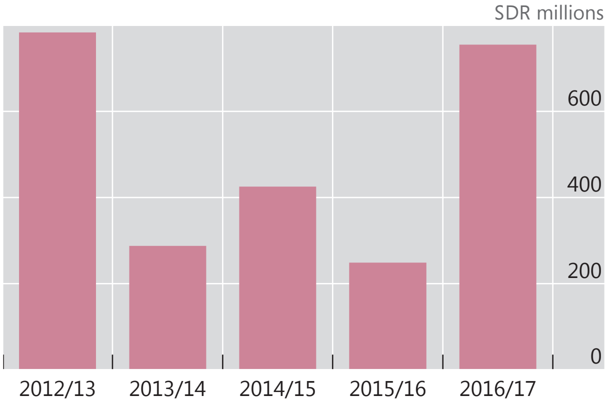
(a) SDR 167.4 million to be paid as a dividend of SDR 300 per share;

(b) SDR 33.0 million to be transferred to the general reserve fund; and

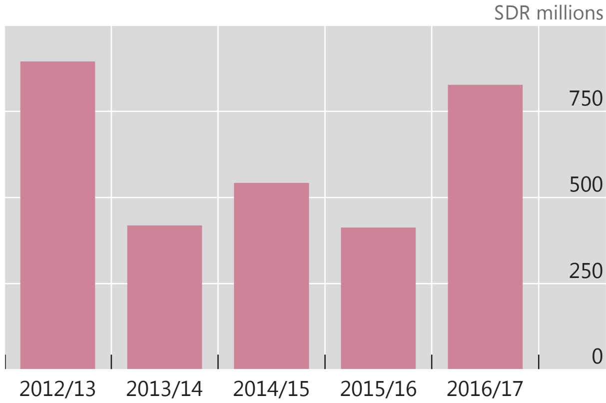
(c) SDR 627.2 million, representing the remainder of the available profit, to be transferred to the free reserve fund.

Five-year graphical summary

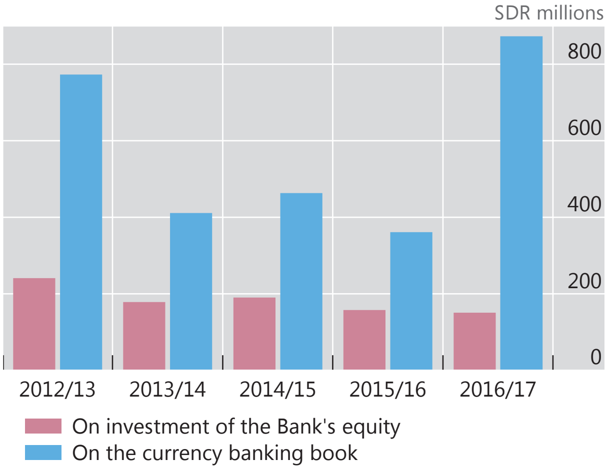
Operating profit



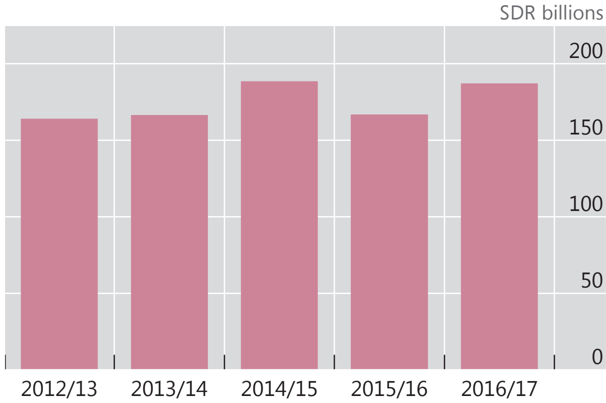
Net profit



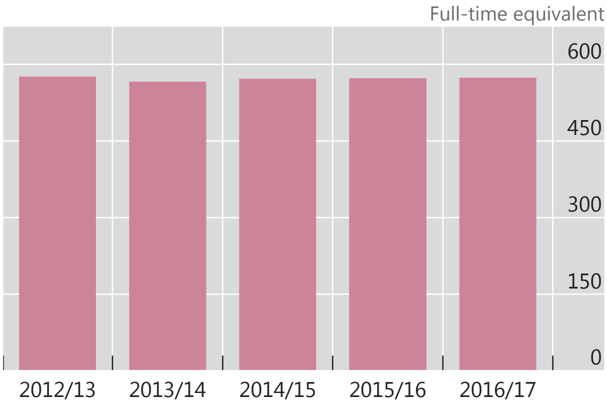
Net interest and valuation income



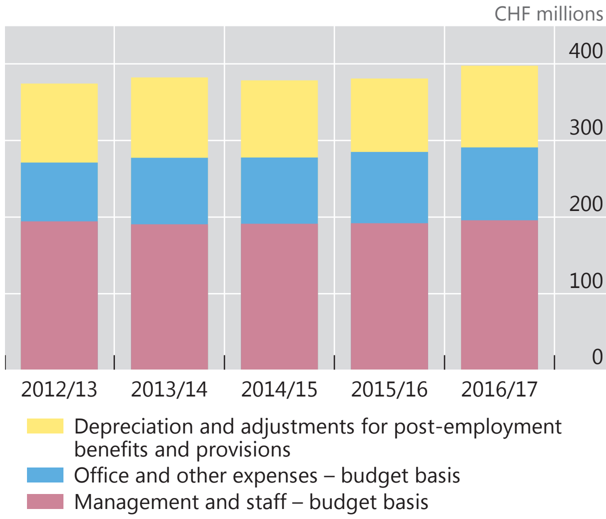
Average currency deposits (settlement date basis)



Average number of employees



Operating expense



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. The Board policy is to rotate the auditor on a regular basis. The financial year ended 31 March 2017 was the fifth consecutive year of Ernst & Young's term as auditor.

Report of the auditor

The BIS financial statements for the year ended 31 March 2017 have been audited by Ernst & Young, who confirm that they give a true and fair view of the Bank's financial position and of its financial performance and its cash flows for the year then ended. The audit report can be found on page 248–9.

Financial statements

as at 31 March 2017

The financial statements on pages 179–247 for the financial year ended 31 March 2017 were approved on 8 May 2017 for presentation to the Annual General Meeting on 25 June 2017. 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	Luiz Awazu Pereira da Silva Deputy General Manager

Balance sheet

As at 31 March

SDR millions	Note	**2017**	2016
Assets			
Cash and sight accounts	1	48,295.5	25,847.0
Gold and gold loans	2	27,276.0	13,176.8
Treasury bills	3	36,163.6	39,578.6
Securities purchased under resale agreements	3	43,929.9	56,218.6
Loans and advances	3	21,136.8	17,337.4
Governments and other securities	3	57,402.5	67,128.4
Derivative financial instruments	4	2,220.7	1,685.3
Accounts receivable and other assets	5	5,626.5	10,215.9
Land, buildings and equipment	6	196.9	196.4
Total assets		**242,248.4**	231,384.4
Liabilities			
Gold deposits	7	9,934.5	10,227.6
Currency deposits	8	194,442.4	178,790.5
Securities sold under repurchase agreements	9	1,418.6	1,447.7
Derivative financial instruments	4	1,823.5	3,902.2
Accounts payable	10	14,443.5	17,548.8
Other liabilities	11	1,088.7	1,089.0
Total liabilities		**223,151.2**	213,005.8
Shareholders' equity			
Share capital	13	698.9	698.9
Less: shares held in treasury	13	(1.7)	(1.7)
Statutory reserves	14	15,289.9	14,997.0
Profit and loss account		827.6	412.9
Other equity accounts	15	2,282.5	2,271.5
Total equity		**19,097.2**	18,378.6
Total liabilities and equity		**242,248.4**	231,384.4

Profit and loss account

For the financial year ended 31 March

SDR millions	Note	**2017**	2016
Interest income	16	2,521.0	1,804.1
Interest expense	17	(1,558.6)	(975.3)
Net interest income		**962.4**	828.8
Net valuation movement	18	71.5	(302.9)
Net interest and valuation income		**1,033.9**	525.9
Net fee and commission income	19	4.0	5.1
Net foreign exchange movement	20	9.2	(1.2)
Total operating income		**1,047.1**	529.8
Operating expense	21	(292.3)	(280.9)
Operating profit		**754.8**	248.9
Net gain on sales of available for sale securities	22	49.4	79.7
Net gain on sales of gold investment assets	23	23.4	84.3
Net profit		**827.6**	412.9

Statement of comprehensive income

For the financial year ended 31 March

SDR millions	Note	**2017**	2016
Net profit		**827.6**	412.9
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 movement on revaluation of available for sale securities	15A	(163.6)	16.8
Net movement on revaluation of gold investment assets	15B	111.0	(36.4)
Items that will not be reclassified subsequently to profit and loss			
Re-measurement of defined benefit obligations	15C	63.6	(162.2)
		11.0	(181.8)
Total comprehensive income		**838.6**	231.1

Statement of cash flows

For the financial year ended 31 March

SDR millions	Note	**2017**	2016
Cash flow from / (used in) operating activities			
Interest and similar income received		2,063.9	2,154.9
Interest and similar expenses paid		(908.4)	(581.1)
Net fee and commission income	19	4.0	5.1
Net foreign exchange transaction gain	20	5.5	13.9
Administrative expense	21	(275.1)	(265.4)
Non-cash flow items included in operating profit			
Net valuation movement	18	71.5	(302.9)
Net foreign exchange translation movement	20	3.7	(15.1)
Change in accruals and amortisation		(192.2)	(745.1)
Change in operating assets and liabilities			
Currency deposit liabilities held at fair value through profit and loss		28,902.6	(7,678.9)
Currency banking assets		19,913.8	8,860.3
Sight and notice deposit account liabilities		(10,187.2)	4,221.9
Gold deposits		(293.1)	370.3
Gold and gold loans		(13,995.5)	925.1
Accounts receivable		0.8	(4.3)
Accounts payable and other liabilities		63.1	30.7
Net derivative financial instruments		(2,614.1)	7,013.4
Net cash flow from operating activities		**22,563.3**	14,002.8
Cash flow from / (used in) investment activities			
Net change in currency investment assets available for sale		(761.5)	611.7
Securities sold under repurchase agreements		733.4	(97.7)
Net change in gold investment assets		30.5	101.6
Capital expenditure	6	(18.4)	(17.9)
Net cash flow from / (used in) investment activities		**(16.0)**	597.7

SDR millions	Notes	**2017**	2016
Cash flow from / (used in) financing activities			
Dividends paid		(120.0)	(125.6)
Net cash flow used in financing activities		**(120.0)**	(125.6)
Total net cash flow		**22,427.3**	14,474.9
Net effect of exchange rate changes on cash and cash equivalents		(220.5)	69.7
Net movement in cash and cash equivalents		22,647.8	14,405.2
Net change in cash and cash equivalents		**22,427.3**	14,474.9
Cash and cash equivalents, beginning of year	1	**26,378.9**	11,904.0
Cash and cash equivalents, end of year	1	**48,806.2**	26,378.9

Movements in the Bank's equity

SDR millions	Note	Share capital	Shares held in treasury	Statutory reserves	Profit and loss	Other equity accounts: Defined benefit obligations	Other equity accounts: Gold and securities revaluation	Movement in total equity
Balance as at 31 March 2015		**698.9**	**(1.7)**	**14,579.7**	**542.9**	**(249.0)**	**2,702.3**	**18,273.1**
Payment of 2014/15 dividend		–	–	–	(125.6)	–	–	(125.6)
Allocation of 2014/15 profit		–	–	417.3	(417.3)	–	–	–
Total comprehensive income	15	–	–	–	412.9	(162.2)	(19.6)	231.1
Balance as at 31 March 2016		**698.9**	**(1.7)**	**14,997.0**	**412.9**	**(411.2)**	**2,682.7**	**18,378.6**
Payment of 2015/16 dividend		–	–	–	(120.0)	–	–	(120.0)
Allocation of 2015/16 profit		–	–	292.9	(292.9)	–	–	–
Total comprehensive income	15	–	–	–	827.6	63.6	(52.6)	838.6
Balance as at 31 March 2017		**698.9**	**(1.7)**	**15,289.9**	**827.6**	**(347.6)**	**2,630.1**	**19,097.2**

Introduction

The Bank for International Settlements (BIS, "the Bank") is an international financial institution which was established pursuant to the Hague Agreements of 20 January 1930 as well as the Bank's Constituent Charter and its Statutes.

The headquarters of the Bank are at Centralbahnplatz 2, 4002 Basel, Switzerland. The 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. In the course of its activities, the Bank accepts deposits from customers, which it then invests. The Bank also invests its own equity.

Sixty central banks are currently members of the Bank. The governance and management of the BIS are discussed in "The BIS: mission, activities, governance and financial results" in this Annual Report

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 any rights and obligations, lie with the Bank.

As part of its activities, the Bank undertakes financial transactions in its own name but for the economic benefit of other parties. These include transactions on a custodial or agency basis, such as those undertaken on behalf of investment entities operated by the Bank and on behalf of the staff pension fund, which do not have separate legal personality from the Bank. Unless otherwise stated, such transactions are not included in these financial statements.

The preparation of the financial statements requires the Bank's Management to make assumptions and use estimates to arrive at reported amounts. In doing so, Management exercises judgment based on reliable information. Actual results could differ significantly from these estimates.

The notes to the financial statements containing areas of estimation uncertainty considered to require critical judgment and which have the most significant effect on the amounts recognised in the financial statements are: note 12, "Post-employment obligations"; note 28, "Fair value hierarchy"; and note 31, "Contingent liabilities".

All figures in these financial statements are presented in SDR millions unless otherwise stated. Amounts are subject to rounding and consequently there may be small differences both within and between disclosures.

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 composition of the SDR is subject to periodic review. Following such a review by the IMF during 2015, changes were be made to the SDR basket effective from 1 October 2016.

As currently calculated, one SDR is equivalent to the sum of USD 0.58252, EUR 0.38671, Renminbi 1.0174, JPY 11.9 and GBP 0.085946.

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

3. Presentation of interest

In the profit and loss account, interest income includes "negative" interest on liabilities while interest expense includes "negative" interest on assets. Interest on derivatives is presented as interest income. Notes to the financial statements separately analyse components of interest income and interest expense.

4. Classification of financial instruments

Upon initial recognition, the Bank classifies each financial instrument into 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 classification 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 classification of each financial instrument determines the accounting methodology that is applied, as described in the accounting policies below. Where the financial instrument is classified as held at fair value through profit and loss, the Bank does not subsequently change this classification.

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 classifies 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 treated as loans and receivables, and all gold financial liabilities are treated 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 with a fixed duration benchmark of bonds.

Currency assets in investment portfolios, with the exception of cash and sight accounts and notice accounts (Sections 6 and 7 below), are classified as available for sale.

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

6. Cash and sight accounts

Cash and sight accounts 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 cash equivalents for the purposes of the statement of cash flows.

These financial instruments are classified as loans and receivables because they are not quoted in an active market, and because they comprise fixed or determinable payments. They are included in the balance sheet at their principal value plus accrued interest. Interest is included under "Interest income" or "Interest expense" (negative interest) 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".

These financial instruments are classified as financial liabilities measured at amortised cost because they are not quoted in an active market and include fixed or determinable payments.

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 classifies 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. As the Bank does not acquire the risks or rewards associated with ownership of these collateral securities, they are not recognised as assets in the Bank's balance sheet.

The collateralised loans relating to securities purchased under resale agreements are 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 classified 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 classifies all of the relevant assets in its currency banking portfolios 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" or "Interest expense" (negative interest) 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 classified at fair value through profit and loss

All currency deposit liabilities, with the exception of sight and notice deposit account liabilities, are classified 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" or "Interest income" (negative interest) 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.

The Bank's currency investment assets are classified as available for sale investments and 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 movements 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 "Net movement on revaluation of available for sale securities". Realised profits on disposal are included in the profit and loss account under "Net gain on sales of available for sale securities".

14. Gold and gold loans

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 15 below.

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.

15. Realised and unrealised gains or losses on gold

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

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

Gold derivatives included in the portfolios are 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 movement" 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 movement" as net translation gains or losses.

B. Investment portfolios, comprising gold investment assets

The Bank's own holdings of gold are 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 "Net movement on revaluation of 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 per ounce that was applied from 1979 to 2003 following a decision by the Bank's Board of Directors, translated at the 31 March 2003 exchange rate.

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

16. 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 26, "Off-balance sheet items").

17. 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. As the Bank retains the risks and rewards associated with ownership of these securities, they continue to be recognised as assets in the Bank's balance sheet.

Where the repurchase agreement is associated with currency assets available for sale, the collateralised deposit transaction is accounted for 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 classified 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" or "Interest income" (negative interest) on an effective interest rate basis. After initial measurement, the transactions classified 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."

18. Securities lending

The Bank participates in securities lending transactions in which it lends debt securities in exchange for a fee. The transactions are conducted under standard agreements employed by financial market participants. The securities which have been transferred are not de-recognised from the balance sheet since the risks and rewards of ownership are not transferred, even if the borrower has the right to sell or re-pledge the securities. Such Bank-owned securities transferred to a borrower are presented on the balance sheet as part of "Government and other securities" and "Treasury bills". Note 3 provides further details.

19. Derivatives

Derivatives are used either to manage the Bank's market risk or for trading purposes. They are accounted for 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.

20. Valuation policy

The Bank's classification of each financial instrument determines those instruments' valuation basis and accounting treatment. 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 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 as appropriate, and relies as little as possible on its own estimates. Such valuation models comprise discounted cash flow analyses and option pricing models.

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.

21. Impairment of financial assets

Financial assets, other than those 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.

22. Accounts receivable and accounts payable

Accounts receivable and accounts payable are principally very short-term amounts relating to the settlement of financial transactions. They are recognised on a trade date basis and subsequently accounted for at amortised cost until their settlement.

23. Land, buildings and equipment

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

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

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

24. Provisions

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

25. Taxation

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

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

However, income and gains received by the Bank may be subject to tax imposed in the country of origin. Such income and gains are recognised on a gross basis, with the corresponding tax recognised as an expense.

26. 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 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 a duration approximating that of the related liability.

The amount charged to the profit and loss account represents the sum of the current service cost of the benefits accruing for the year under the scheme, and interest at the discount rate on the net of the defined benefit obligation less the fair value of the 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 and post-employment health and accident benefits

The liability, defined benefit obligation, amount charged to the profit and loss account, and gains and losses arising from re-measurement in respect of the Bank's other post-employment benefit arrangements are calculated on a similar basis to that used for the staff pension fund.

27. Statement of cash flows

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

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. Cash and sight accounts

The Bank holds cash and sight accounts predominantly with central banks. Cash and cash equivalents as shown in the statement of cash flows comprise cash and sight accounts as well as notice accounts, which are disclosed under "Loans and advances". The balances are analysed in the table below:

As at 31 March

SDR millions	**2017**	2016
Balance at central banks	48,274.4	25,729.9
Balance at commercial banks	21.1	117.1
Total cash and sight accounts	**48,295.5**	25,847.0
Notice accounts	510.7	531.9
Total cash and cash equivalents	**48,806.2**	26,378.9

2. Gold and gold loans

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

As at 31 March

SDR millions	**2017**	2016
Gold	27,276.0	9,834.8
Gold loans	–	3,342.0
Total gold and gold loan assets	**27,276.0**	13,176.8
Comprising:		
Gold investment assets	3,048.5	2,944.6
Gold banking assets	24,227.5	10,232.2

Included in "Gold banking assets" is SDR 14,086.9 million (438 tonnes) of gold (2016: nil) that the Bank holds in connection with its gold swap contracts. See note 4 for more details.

3. Currency assets

Currency assets comprise the following products:

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.

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.

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 2017

SDR millions	Fair value through profit and loss	Available for sale	Amortised cost	Total
Treasury bills	**35,871.1**	**292.5**	**–**	**36,163.6**
Securities purchased under resale agreements	**42,520.8**	**1,409.1**	**–**	**43,929.9**
Loans and advances	**20,626.1**	**–**	**510.7**	**21,136.8**
Government and other securities				
Government	20,952.5	13,175.8	–	34,128.3
Financial institutions	9,473.3	1,100.9	–	10,574.2
Other	12,597.6	102.4	–	12,700.0
	43,023.4	**14,379.1**	**–**	**57,402.5**
Total currency assets	**142,041.4**	**16,080.7**	**510.7**	**158,632.8**

As at 31 March 2016

SDR million	Fair value through profit and loss	Available for sale	Amortised cost	Total
Treasury bills	39,578.6	–	–	39,578.6
Securities purchased under resale agreements	55,340.0	878.6	–	56,218.6
Loans and advances	16,805.5	–	531.9	17,337.4
Government and other securities				
Government	29,582.1	13,985.6	–	43,567.7
Financial institutions	10,966.0	692.2	–	11,658.2
Other	11,776.8	125.7	–	11,902.5
	52,324.9	14,803.5	–	67,128.4
Total currency assets	164,049.0	15,682.1	531.9	180,263.0

Note 15A provides further analysis of the securities revaluation account. Note 22 provides further analysis of the net gain on sales of available for sale securities.

The Bank lends some of its securities in exchange for a fee. Government and other securities and treasury bills which are transferred in securities lending transactions (and are not subject to de-recognition from the balance sheet to the extent of the Bank's continuing involvement) represented SDR 82.7 million as at 31 March 2017 (2016: nil).

4. Derivative financial instruments

The main types of derivative instruments used by the Bank for economic hedging and trading purposes are as follows:

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

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

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

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

Futures contracts include bond and interest rate futures, which represent contractual agreements to receive or pay a net amount based on changes in bond prices or interest rates at a future date. Futures contracts are settled daily with the exchange. Associated margin payments are settled by cash or marketable securities.

Swaptions are contractual agreements under which the seller grants the purchaser the right, 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.

The Bank recognises all derivatives transacted in its name, including those for which the economic benefit lies with a third party. In such circumstances, the Bank recognises both the original derivative contract and an exactly offsetting derivative contract with the beneficial party.

As at 31 March	**2017**			2016		
	Notional amounts	Fair values		Notional amounts	Fair values	
SDR millions		Assets	Liabilities		Assets	Liabilities
Cross-currency swaps	1,231.0	36.6	(3.5)	1,251.0	4.8	(40.0)
Currency and gold forwards	1,391.7	8.3	(3.6)	4,380.7	21.9	(42.9)
Currency and gold options	620.9	–	(0.4)	1,170.4	0.2	(2.7)
Currency and gold swaps	163,218.0	1,585.8	(1,207.1)	124,721.0	486.0	(2,738.5)
Forward rate agreements	32,968.1	0.6	(1.3)	12,837.8	6.3	(1.9)
Futures contracts	9,206.1	2.3	(1.3)	13,116.5	0.9	(1.1)
Interest rate swaps	288,900.9	587.1	(598.2)	247,718.5	1,165.2	(1,075.1)
Swaptions	736.2	–	(8.1)	–	–	–
Total derivative financial instruments	**498,272.9**	**2,220.7**	**(1,823.5)**	405,195.9	1,685.3	(3,902.2)

5. Accounts receivable and other assets

As at 31 March

SDR millions	**2017**	2016
Financial transactions awaiting settlement	5,613.1	10,201.7
Other assets	13.4	14.2
Total accounts receivable and other assets	**5,626.5**	10,215.9

"Financial transactions awaiting settlement" relates to short-term receivables, typically due in three business days or less, where transactions have been effected but cash has not yet been received.

6. Land, buildings and equipment

For the financial year ended 31 March SDR millions	Land	Buildings and installations	IT and other equipment	**2017** Total	2016 Total
Historical cost					
Balance at beginning of year	**46.4**	**277.3**	**72.3**	**396.0**	386.3
Capital expenditure	–	6.7	11.7	18.4	18.1
Disposals and retirements	–	(1.3)	(6.4)	(7.7)	(8.4)
Balance at end of year	**46.4**	**282.7**	**77.6**	**406.7**	396.0
Depreciation					
Balance at beginning of year	**–**	**161.6**	**38.0**	**199.6**	192.2
Depreciation	–	8.8	8.4	17.2	15.5
Disposals and retirements	–	(0.9)	(6.1)	(7.0)	(8.1)
Balance at end of year	**–**	**169.5**	**40.3**	**209.8**	199.6
Net book value at end of year	**46.4**	**113.2**	**37.3**	**196.9**	196.4

The net book value of IT and other equipment at 31 March 2017 included intangible assets, comprising computer software, of SDR 26.4 million (2016: SDR 23.8 million).

7. Gold deposits

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

8. Currency deposits

Currency deposits comprise the following products:

Sight and notice deposit accounts are very short-term financial liabilities, typically having a notice period of three days or less.

Medium-Term Instruments (MTIs) are fixed rate investments at the Bank issued with initial maturities of between one and 10 years.

Callable MTIs (CMTIs) are MTIs that are callable at the option of the Bank at an exercise price of par. At 31 March 2017, one CMTI had a call date in December 2017. The other CMTIs at 31 March 2017 and all CMTIs at 2016 had options which had expired by the reporting date. The balance sheet total for CMTIs 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 Bank, typically with an initial maturity of less than one year.

Dual Currency Deposits (DCDs) are fixed-term deposits that are repayable on the maturity date either in the original currency or at a fixed amount in a different currency at the option of the Bank. The balance sheet total for DCDs includes the fair value of the embedded foreign exchange option. These deposits all mature between April 2017 and June 2017 (2016: in April 2016 and May 2016).

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.

The amount the Bank is contractually obliged to pay at maturity in respect of its total currency deposits, including interest accrued to 31 March 2017, is SDR 194,499.0 million (2016: SDR 178,433.9 million).

Sight and notice deposit accounts are included on an amortised cost basis, while all other deposits are included at their fair value.

As at 31 March

SDR millions	**2017**	2016
Repayable at one to three days' notice		
Sight and notice deposit accounts	15,989.7	26,176.9
Medium-Term Instruments (MTIs)	43,227.4	36,700.2
Callable MTIs (CMTIs)	1,487.4	730.6
Fixed Rate Investments at the BIS (FIXBIS)	56,689.0	47,626.5
	117,393.5	111,234.2
Other currency deposits		
Floating Rate Investments of the BIS (FRIBIS)	81.2	121.0
Fixed-term deposits	76,702.0	67,028.3
Dual Currency Deposits (DCDs)	265.7	407.0
	77,048.9	67,556.3
Balance at end of year	**194,442.4**	178,790.5

9. Securities sold under repurchase agreements

Securities sold under repurchase agreements ("repurchase agreements") are analysed in the table below:

As at 31 March

SDR millions	**2017**	2016
Amortised cost	1,409.0	878.6
Fair value through profit and loss	9.6	569.1
Total securities sold under repurchase agreements	**1,418.6**	1,447.7

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

10. Accounts payable

Accounts payable consist of financial transactions awaiting settlement, relating to short-term payables where transactions have been effected but cash has not yet been transferred.

11. Other liabilities

The Bank's other liabilities consist of:

As at 31 March

SDR millions	**2017**	2016
Post-employment benefit obligations (see note 12)		
Staff pensions	461.3	503.2
Directors' pensions	11.2	10.8
Health and accident benefits	590.0	555.0
Other liabilities	26.2	20.0
Balance at end of year	**1,088.7**	1,089.0

12. Post-employment benefit obligations

The Bank operates three post-employment arrangements:

1. A defined benefit pension arrangement for its staff in the event of retirement, disability or death. Under this arrangement, benefits accrue according to years of participation and pensionable remuneration. These benefits are paid out of a fund, without separate legal personality. Contributions are made to this fund by the Bank and by staff. The fund is the beneficial owner of assets on which it receives a return. These assets are administered by the Bank for the sole benefit of participants in the arrangement. Except as shown in this note and as described in note 4, "Derivative financial instruments", these assets are not recognised as assets of the Bank. The Bank remains ultimately liable for all benefits due under the arrangement.

2. An unfunded defined benefit arrangement for its Directors, whose entitlement is based on a minimum service period of 49 months.

3. An unfunded post-employment health and accident benefit arrangement for its staff and their dependants. 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 2017/18, the Bank expects to make contributions of SDR 33.7 million to its post-employment arrangements.

A. Amounts recognised in the balance sheet

As at 31 March	Staff pensions			Directors' pensions			Post-employment health and accident benefits		
SDR millions	**2017**	2016	2015	**2017**	2016	2015	**2017**	2016	2015
Present value of obligations	(1,601.8)	(1,551.4)	(1,468.7)	(11.2)	(10.8)	(10.2)	(590.0)	(555.0)	(498.7)
Fair value of fund assets	1,140.5	1,048.2	1,121.1	–	–	–	–	–	–
Liability at end of year	**(461.3)**	(503.2)	(347.6)	**(11.2)**	(10.8)	(10.2)	**(590.0)**	(555.0)	(498.7)

B. Present value of defined benefit obligations

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

As at 31 March	Staff pensions			Directors' pensions			Post-employment health and accident benefits		
SDR millions	**2017**	2016	2015	**2017**	2016	2015	**2017**	2016	2015
Present value of obligations at beginning of year	(1,551.4)	(1,468.7)	(1,398.6)	(10.8)	(10.2)	(8.8)	(555.0)	(498.7)	(431.4)
Employee contributions	(6.9)	(6.7)	(6.6)	–	–	–	–	–	–
Benefit payments	47.7	41.8	49.4	0.5	0.5	0.4	3.1	3.0	2.9
Net current service cost	(59.0)	(56.3)	(61.5)	(0.6)	(0.6)	(0.4)	(27.8)	(24.3)	(12.1)
Interest cost on obligations at opening discount rate	(9.1)	(11.4)	(27.3)	–	(0.1)	(0.2)	(3.3)	(3.9)	(8.5)
Actuarial gain / (loss) arising from experience adjustments	13.0	12.5	30.3	–	–	–	3.7	(5.3)	(41.2)
Actuarial gain / (loss) arising from changes in demographic assumptions	(15.3)	(4.3)	19.5	(0.1)	–	(0.2)	(17.4)	(2.2)	30.9
Actuarial gain / (loss) arising from changes in financial assumptions	(29.4)	(70.7)	(45.0)	(0.2)	(0.6)	(0.8)	3.5	(27.7)	(30.3)
Foreign exchange differences	8.6	12.4	(28.9)	–	0.2	(0.2)	3.2	4.1	(9.0)
Present value of obligations at end of year	**(1,601.8)**	(1,551.4)	(1,468.7)	**(11.2)**	(10.8)	(10.2)	**(590.0)**	(555.0)	(498.7)

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

As at 31 March	Staff pensions			Directors' pensions			Post-employment health and accident benefits		
Years	**2017**	2016	2015	**2017**	2016	2015	**2017**	2016	2015
Weighted average duration	**18.4**	18.3	18.2	**13.9**	13.4	13.0	**26.4**	23.6	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	**2017**	2016	2015	**2017**	2016	2015	**2017**	2016	2015
Net current service cost	(59.0)	(56.3)	(61.5)	(0.6)	(0.6)	(0.4)	(27.8)	(24.3)	(12.1)
Interest cost on net liability	(2.9)	(2.6)	(6.3)	–	(0.1)	(0.2)	(3.3)	(3.9)	(8.5)
Amounts recognised in operating expense	**(61.9)**	(58.9)	(67.8)	**(0.6)**	(0.7)	(0.6)	**(31.1)**	(28.2)	(20.6)

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	**2017**	2016	2015	**2017**	2016	2015	**2017**	2016	2015
Return on plan assets in excess of opening discount rate	103.0	(65.8)	30.5	–	–	–	–	–	–
Actuarial gain or loss arising from experience adjustments	13.0	12.5	30.3	–	–	–	3.7	(5.3)	(41.2)
Actuarial gain or loss arising from changes in demographic assumptions	(15.3)	(4.3)	19.5	(0.1)	–	(0.2)	(17.4)	(2.2)	30.9
Actuarial gain or loss arising from changes in financial assumptions	(29.4)	(70.7)	(45.0)	(0.2)	(0.6)	(0.8)	3.5	(27.7)	(30.3)
Foreign exchange gain or loss on items in other comprehensive income	1.7	0.6	(2.0)	–	0.1	–	1.1	1.2	(1.8)
Amounts recognised in other comprehensive income	**73.0**	(127.7)	33.3	**(0.3)**	(0.5)	(1.0)	**(9.1)**	(34.0)	(42.4)

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	**2017**	2016	2015
Fair value of fund assets at beginning of year	1,048.2	1,121.1	1,062.1
Employer contributions	29.5	29.0	28.2
Employee contributions	6.9	6.7	6.6
Benefit payments	(47.7)	(41.8)	(49.4)
Interest income on plan assets calculated on opening discount rate	6.2	8.8	21.0
Return on plan assets in excess of opening discount rate	103.0	(65.8)	30.5
Foreign exchange differences	(5.6)	(9.8)	22.1
Fair value of fund assets at end of year	**1,140.5**	1,048.2	1,121.1

F. Composition and fair value of assets for the pension fund

The table below analyses the assets of the pension fund and the extent to which the fair values of those assets have been calculated using quoted prices in active markets. The pension fund does not invest in financial instruments issued by the Bank.

As at 31 March	**2017**			2016		
SDR millions	Quoted in active market	Unquoted	Total	Quoted in active market	Unquoted	Total
Cash and sight accounts (including margin accounts)	78.8	–	78.8	32.0	–	32.0
Debt securities	261.5	–	261.5	269.2	–	269.2
Fixed income funds	174.2	–	174.2	175.8	–	175.8
Equity funds	425.3	41.1	466.4	404.6	35.1	439.7
Real estate funds	63.6	45.8	109.4	17.7	41.8	59.5
Commodity-linked notes	–	51.5	51.5	–	50.3	50.3
Derivative instruments	(0.5)	(0.8)	(1.3)	–	21.7	21.7
Total	**1,002.9**	**137.6**	**1,140.5**	899.3	148.9	1,048.2

G. Principal actuarial assumptions used in these financial statements

As at 31 March	2017	2016
Applicable to staff pension and post-employment health and accident benefit arrangements		
Discount rate	0.70%	0.60%
Applicable to Directors' pension arrangements		
Discount rate	0.50%	0.40%
Applicable to staff and Directors' pension arrangements		
Assumed increase in pensions payable	1.00%	0.80%
Applicable to staff pension arrangement		
Assumed salary increase rate	3.00%	2.80%
Applicable to Directors' pension arrangement		
Assumed Directors' pensionable remuneration increase rate	1.00%	0.80%
Applicable to post-employment health and accident benefit arrangement		
Long-term medical cost inflation assumption	4.00%	4.00%

The assumed increases in staff salaries, Directors' pensionable remuneration and pensions payable incorporate an inflation assumption of 1.00% at 31 March 2017 (2016: 0.80%).

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	2017	2016
Current life expectancy of members aged 65		
Male	20.3	20.1
Female	22.4	22.4
Life expectancy of members aged 65 projected forward in 10 years' time		
Male	21.6	21.1
Female	23.5	23.3

I. Sensitivity analysis of significant actuarial assumptions

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

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

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

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

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

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

The table below shows the estimated impact on the defined benefit obligations resulting from a change in key actuarial assumptions (see tables 12G and 12H):

As at 31 March	Staff pensions Increase / (decrease) in defined benefit obligation	
SDR millions	**2017**	2016
Discount rate		
Increase by 0.5%	(136.2)	(131.9)
Decrease by 0.5%	157.0	150.5
Rate of salary increase		
Increase by 0.5%	41.6	41.9
Decrease by 0.5%	(38.4)	(38.8)
Rate of pension payable increase		
Increase by 0.5%	105.7	100.8
Decrease by 0.5%	(96.1)	(91.5)
Life expectancy		
Increase by 1 year	62.5	60.5
Decrease by 1 year	(62.5)	(59.0)

As at 31 March	Directors' pensions Increase / (decrease) in defined benefit obligation	
SDR millions	**2017**	2016
Discount rate		
Increase by 0.5%	(0.7)	(0.7)
Decrease by 0.5%	0.8	0.8
Rate of pension payable increase		
Increase by 0.5%	0.7	0.6
Decrease by 0.5%	(0.6)	(0.6)
Life expectancy		
Increase by 1 year	0.6	0.6
Decrease by 1 year	(0.6)	(0.6)

As at 31 March	Post-employment health and accident benefits Increase / (decrease) in defined benefit obligation	
SDR millions	**2017**	2016
Discount rate		
Increase by 0.5%	(69.0)	(59.9)
Decrease by 0.5%	82.0	70.5
Medical cost inflation rate		
Increase by 1.0%	161.0	137.1
Decrease by 1.0%	(116.8)	(101.6)
Life expectancy		
Increase by 1 year	50.1	35.0
Decrease by 1 year	(46.6)	(33.3)

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

13. Share capital

The Bank's share capital consists of:

As at 31 March

SDR millions	**2017**	2016
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	**2017**	2016
Issued shares	559,125	559,125
Shares held in treasury	(1,000)	(1,000)
Outstanding shares eligible for dividend	**558,125**	558,125

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

14. Statutory reserves

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

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

General reserve fund. After payment of any dividend, 5% of the remainder of the Bank's annual net profit currently must be allocated to the general reserve fund.

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

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

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

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

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

SDR millions	Legal reserve fund	General reserve fund	Special dividend reserve fund	Free reserve fund	Total statutory reserves
Balance at 31 March 2015	**69.8**	**3,621.0**	**184.0**	**10,704.9**	**14,579.7**
Allocation of 2014/15 profit	–	20.9	–	396.4	417.3
Balance at 31 March 2016	**69.8**	**3,641.9**	**184.0**	**11,101.3**	**14,997.0**
Allocation of 2015/16 profit	–	14.6	–	278.3	292.9
Balance at 31 March 2017	**69.8**	**3,656.5**	**184.0**	**11,379.6**	**15,289.9**

At 31 March 2017, statutory reserves included share premiums of SDR 1,059.6 million (2016: 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	**2017**
Net profit	**827.6**
Proposed dividend:	
SDR 300 per share on 558,125 shares	(167.4)
Profit available for allocation	**660.2**
Proposed transfers to reserves:	
General reserve fund	(33.0)
Free reserve fund	(627.2)
Balance after allocation to reserves	–

15. Other equity accounts

Other equity accounts comprise the revaluation accounts for available for sale assets (gold and currency investment assets) as well as the re-measurement gains or losses on defined benefit obligations.

As at 31 March

SDR millions	**2017**	2016
Securities revaluation account	88.1	251.7
Gold revaluation account	2,542.0	2,431.0
Re-measurement of defined benefit obligations	(347.6)	(411.2)
Total other equity accounts	**2,282.5**	2,271.5

A. Securities revaluation account

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

For the financial year ended 31 March

SDR millions	**2017**	2016
Balance at beginning of year	251.7	234.9
Net gain on sales	(49.4)	(79.7)
Fair value and other movements	(114.2)	96.5
Net movement on revaluation of currency investment assets	**(163.6)**	16.8
Balance at end of year	**88.1**	251.7

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 2017	16,080.7	15,992.6	**88.1**	126.7	(38.6)
As at 31 March 2016	15,682.1	15,430.4	251.7	252.7	(1.0)

B. Gold revaluation account

The movements in the gold revaluation account were as follows:

For the financial year ended 31 March

SDR millions	**2017**	2016
Balance at beginning of year	2,431.0	2,467.4
Net gain on sales	(23.4)	(84.3)
Gold price movement	134.4	47.9
Net movement on revaluation of gold investment assets	**111.0**	(36.4)
Balance at end of year	**2,542.0**	2,431.0

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	**2017**	2016
Balance at beginning of year	(411.2)	(249.0)
Staff pensions	73.0	(127.7)
Directors' pensions	(0.3)	(0.5)
Post-employment health and accident insurance	(9.1)	(34.0)
Net movement on the re-measurement of defined benefit obligations	**63.6**	(162.2)
Balance at end of year	**(347.6)**	(411.2)

Note 12D provides further analysis of the re-measurement of the Bank's post-employment benefit obligations.

16. Interest income

For the financial year ended 31 March

SDR millions	**2017**	2016
Currency assets available for sale		
Securities purchased under resale agreements	0.3	1.8
Government and other securities	150.6	162.3
	150.9	164.1
Currency assets held at fair value through profit and loss		
Treasury bills	57.7	80.9
Securities purchased under resale agreements	46.2	62.6
Loans and advances	137.5	91.2
Government and other securities	491.4	548.6
	732.8	783.3
Assets designated as loans and receivables		
Sight and notice accounts	8.3	0.4
Gold investment assets	9.9	6.7
Gold banking assets	0.4	0.2
	18.6	7.3
Derivative financial instruments held at fair value through profit and loss	**1,501.8**	818.0
Interest income on liabilities	**116.9**	31.4
Total interest income	**2,521.0**	1,804.1

17. Interest expense

For the financial year ended 31 March

SDR millions	**2017**	2016
Liabilities held at fair value through profit and loss		
Currency deposits	**1,004.6**	748.3
Liabilities designated as financial liabilities measured at amortised cost		
Sight and notice deposit accounts	79.3	46.1
Securities sold under repurchase agreements	0.5	1.4
	79.8	47.5
Interest expense on assets	**474.2**	179.5
Total interest expense	**1,558.6**	975.3

18. Net valuation movement

The net valuation movement arises entirely on financial instruments classified 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 2017 and 31 March 2016.

For the financial year ended 31 March

SDR millions	**2017**	2016
Currency assets		
Unrealised valuation movements on currency assets	(211.0)	(188.8)
Realised gains on currency assets	27.6	63.0
	(183.4)	(125.8)
Currency liabilities		
Unrealised valuation movements on financial liabilities	341.0	118.8
Realised losses on financial liabilities	(12.2)	(104.2)
	328.8	14.6
Valuation movements on derivative financial instruments	**(73.9)**	(191.7)
Net valuation movement	**71.5**	(302.9)

19. Net fee and commission income

For the financial year ended 31 March

SDR millions	**2017**	2016
Net third-party asset management fee income	12.7	12.7
Other fee income	3.3	2.3
Other fees, withholding taxes and commission expenses	(12.0)	(9.9)
Net fee and commission income	**4.0**	5.1

20. Foreign exchange movement

For the financial year ended 31 March

SDR millions	**2017**	2016
Net transaction gain	5.5	13.9
Net translation movement	3.7	(15.1)
Net foreign exchange movement	**9.2**	(1.2)

21. 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	**2017**	2016
Board of Directors		
Directors' fees	2.1	2.1
Pensions to former Directors	0.9	0.9
Travel, external Board meetings and other costs	1.2	1.9
	4.2	4.9
Management and staff		
Remuneration	131.9	129.4
Pensions	84.2	79.7
Other personnel-related expense	62.5	57.4
	278.6	266.5
Office and other expense	**75.7**	73.2
BIS administrative expense	**358.5**	344.6
Direct contributions to hosted organisations	15.6	15.2
Total administrative expenses	**374.1**	359.8
Administrative expense in SDR millions	275.1	265.4
Depreciation in SDR millions	17.2	15.5
Operating expense in SDR millions	**292.3**	280.9

The average number of full-time equivalent employees during the financial year ended 31 March 2017 was 574 (2016: 573). In addition, at 31 March 2017, the Bank was the legal employer of 75 staff members (2016: 67) working in the secretariats 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 the IAIS, and these amounts are shown under "Direct contributions to hosted organisations". The Bank also provides logistical, administrative and staffing-related support for these organisations, the cost of which is included within the Bank's regular administrative expense categories.

22. Net gain on sales of available for sale securities

For the financial year ended 31 March

SDR millions	**2017**	2016
Disposal proceeds	6,383.9	7,041.9
Amortised cost	(6,334.5)	(6,962.2)
Net gain on sales of available for sale securities	**49.4**	79.7
Comprising:		
Gross realised gains	66.7	80.8
Gross realised losses	(17.3)	(1.1)

23. Net gain on sales of gold investment assets

For the financial year ended 31 March

SDR millions	**2017**	2016
Disposal proceeds	28.2	103.7
Deemed cost	(4.8)	(19.4)
Net gain on sales of gold investment assets	**23.4**	84.3

24. Dividend per share

For the financial year ended 31 March	**2017**	2016
Net profit for the financial year (SDR millions)	827.6	412.9
Weighted average number of shares entitled to dividend	558,125	558,125
Dividend per share (SDR per share)		
Normal	225.0	215.0
Supplementary	75.0	
Total dividend per share	300.0	215.0
Total dividend (SDR millions)	**167.4**	120.0

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

In line with the Bank's dividend policy, it is proposed to declare a normal dividend for 2016/17 of SDR 225 per share, SDR 10 per share higher than for the previous year. The medium-term guidance of the dividend policy allows for the possibility that a supplementary dividend could also be paid in years where profits are high, and the Bank's financial circumstances allow. A supplementary dividend of SDR 75 per share is also proposed for the 2016/17 financial year. Therefore, the total proposed dividend for 2016/17 is SDR 300 per share.

The proposed dividend for 2017 represents a payout ratio of 20% of net profit (2016: 29%).

25. Exchange rates

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

	Spot rate as at 31 March		Average rate for the financial year	
	2017	2016	**2017**	2016
USD	**0.736**	0.710	**0.724**	0.717
EUR	**0.787**	0.808	**0.795**	0.791
JPY	**0.0066**	0.00632	**0.0067**	0.00597
GBP	**0.922**	1.022	**0.946**	1.081
Renminbi	**0.107**	0.110	**0.108**	0.112
CHF	**0.736**	0.740	**0.733**	0.737
Gold (per ounce)	**917.3**	876.9	**910.7**	824.9

26. Off-balance sheet items

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

As at 31 March

SDR millions	**2017**	2016
Gold bars held under earmark arrangements	11,703.3	12,487.5
Nominal value of securities:		
Securities held under safe custody arrangements	3,349.6	4,977.2
Securities held under collateral pledge agreements	39.5	38.1
Net asset value of portfolio management mandates:		
BISIPs	10,792.5	11,041.0
Dedicated mandates	4,225.5	4,187.6

Gold bars held under earmark arrangements comprise specific gold bars which have been deposited with the Bank on a custody basis. They are included at their weight in gold (translated at the gold market price and the USD exchange rate into SDR). At 31 March 2017, gold bars held under earmark amounted to 397 tonnes of gold (2016: 443 tonnes).

Portfolio management mandates include BIS Investment Pools (BISIPs) and dedicated mandates.

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 Bank has an agency relationship with the BISIPs, such that the assets of the BISIPs are held in the name of the BIS, but the economic benefit lies with central bank customers. 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. They are held for the financial benefit of the customer.

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

27. Commitments

The Bank provides a number of committed standby facilities for its customers on a collateralised or uncollateralised basis. At 31 March 2017, SDR 2,451.4 million of the outstanding commitments were collateralised (2016: SDR 3,121.6 million) and SDR 220.9 million were uncollateralised (2016: SDR 212.9 million). As at 31 March 2017, total outstanding commitments amounted to SDR 2,672.3 million (2016: SDR 3,334.5 million).

The BIS 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). In each case, the Bank has a separate agreement specifying the terms of support and commitment. The Bank is the legal employer of FSB, IADI and IAIS staff, with the regular ongoing staff costs borne by each association. The commitment by the BIS to IADI is subject to an annual budgetary decision of the Board. The agreement with the FSB currently ends in January 2023. The agreement with the IAIS currently ends in 2019.

28. Fair value hierarchy

The Bank categorises its financial instrument fair value measurements using a hierarchy that reflects the observability of inputs used in measuring that value. A valuation level is assigned according to the least observable input that is significant to the fair value measurement in its entirety. 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.

At 31 March 2017, the Bank had no financial instruments categorised as level 3 (31 March 2016: nil).

As at 31 March 2017

SDR millions	Level 1	Level 2	Total
Financial assets held at fair value through profit and loss			
Treasury bills	30,741.2	5,129.9	35,871.1
Securities purchased under resale agreements	–	42,520.8	42,520.8
Fixed-term loans	–	20,626.1	20,626.1
Government and other securities	31,347.8	11,675.6	43,023.4
Derivative financial instruments	2.6	2,218.1	2,220.7
Financial assets designated as available for sale			
Treasury bills	255.6	36.9	292.5
Government and other securities	13,799.5	579.6	14,379.1
Securities purchased under resale agreements	–	1,409.1	1,409.1
Total financial assets accounted for at fair value	**76,146.7**	**84,196.1**	**160,342.8**
Financial liabilities held at fair value through profit and loss			
Currency deposits	–	(178,452.7)	(178,452.7)
Securities sold under repurchase agreements	–	(9.6)	(9.6)
Derivative financial instruments	(1.5)	(1,822.0)	(1,823.5)
Total financial liabilities accounted for at fair value	**(1.5)**	**(180,284.3)**	**(180,285.8)**

As at 31 March 2016

SDR millions	Level 1	Level 2	Total
Financial assets held at fair value through profit and loss			
Treasury bills	31,792.1	7,786.5	39,578.6
Securities purchased under resale agreements	–	55,340.0	55,340.0
Fixed-term loans	–	16,805.5	16,805.5
Government and other securities	40,077.9	12,247.0	52,324.9
Derivative financial instruments	1.9	1,683.4	1,685.3
Financial assets designated as available for sale			
Government and other securities	14,395.9	407.6	14,803.5
Securities purchased under resale agreements	–	878.6	878.6
Total financial assets accounted for at fair value	86,267.8	95,148.6	181,416.4
Financial liabilities held at fair value through profit and loss			
Currency deposits	–	(152,613.6)	(152,613.6)
Securities sold under resale agreements	–	(569.1)	(569.1)
Derivative financial instruments	(2.1)	(3,900.1)	(3,902.2)
Total financial liabilities accounted for at fair value	(2.1)	(157,082.8)	(157,084.9)

A. Transfers between levels in the fair value hierarchy

Of the assets categorised as level 1 at 31 March 2017, SDR 935.3 million related to assets that were categorised as level 2 at 31 March 2016. Of the assets categorised as level 2 at 31 March 2017, SDR 1,132.1 million related to assets that had been categorised as level 1 at 31 March 2016. 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 liabilities were transferred between fair value hierarchy levels.

B. Assets and liabilities measured at fair value level 3

During the financial years ended 31 March 2017 and 31 March 2016, the Bank did not classify any assets or liabilities as level 3 in the fair value hierarchy.

C. Financial instruments not measured at fair value

In accordance with its accounting policies, the Bank does not account for certain financial instruments at fair value. Using the same valuation techniques as used for fair valued financial instruments, the Bank estimates that the fair values of these financial instruments would be materially the same as the carrying values shown in these financial statements for both 31 March 2017 and 31 March 2016. 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.

D. Impact of changes in the Bank's creditworthiness

The fair value of the Bank's liabilities may be affected by any change in its creditworthiness. If the Bank's creditworthiness deteriorated, the value of its liabilities should 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.

E. The valuation of financial assets and liabilities

Certain of the Bank's financial assets and financial liabilities are valued using valuation techniques which require estimation of appropriate valuation parameters. Changes in estimates of these parameters could significantly affect the reported fair values. The valuation impact of a 1 basis point change in interest rate assumptions of key financial instruments is shown in the table below:

For the financial year ended 31 March

SDR millions	**2017**	2016
Treasury bills	1.1	1.4
Securities purchased under resale agreements	0.3	0.2
Loans and advances	0.3	0.3
Government and other securities	9.7	10.8
Currency deposits	8.7	8.8
Derivative financial instruments	0.9	0.8

29. Geographical analysis

A. Total liabilities

As at 31 March

SDR millions	**2017**	2016
Africa and Europe	78,594.2	76,999.3
Asia-Pacific	107,454.7	100,801.6
Americas	23,975.6	23,762.9
International organisations	13,126.7	11,442.0
Balance at end of year	**223,151.2**	213,005.8

B. Off-balance sheet items

As at 31 March

SDR millions	**2017**			2016		
	Gold bars held under earmark	Nominal value of securities	Net asset value of portfolio management mandates	Gold bars held under earmark	Nominal value of securities	Net asset value of portfolio management mandates
Africa and Europe	4,791.0	–	3,535.5	4,579.8	–	3,379.1
Asia-Pacific	3,155.5	3,349.6	9,561.2	4,724.8	4,977.2	9,637.8
Americas	3,756.8	39.5	1,921.3	3,182.9	38.1	2,211.7
Total	**11,703.3**	**3,389.1**	**15,018.0**	12,487.5	5,015.3	15,228.6

C. Credit commitments

As at 31 March

SDR millions	**2017**	2016
Africa and Europe	236.2	242.4
Asia-Pacific	2,436.1	2,879.2
Total	**2,672.3**	3,121.6

A geographical analysis of the Bank's assets by default risk is provided in the "Risk management" section in note 3B under "Default risk by geographical region".

30. 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 12 provides details of the Bank's post-employment benefit arrangements.

A. Related party individuals

Note 21 provides details of the total compensation of the Board of Directors.

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

For the financial year ended 31 March

CHF millions	**2017**	2016
Salaries, allowances and medical cover	7.5	8.0
Post-employment benefits	2.1	2.2
Total compensation	**9.6**	10.2
SDR equivalent	7.1	7.5

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

For the financial year ended 31 March

CHF millions	**2017**	2016
Balance at beginning of year	14.6	18.9
Deposits taken and other inflows	4.1	3.7
Withdrawals and other outflows	(7.2)	(8.0)
Balance at end of year	**11.5**	14.6
SDR equivalent	8.5	10.8
Interest expense on deposits in CHF millions	**0.1**	0.1
SDR equivalent	0.1	0.1

Balances related to individuals who are appointed as members of the Board of Directors or as senior officials of the Bank during the financial year are included in the table above as other inflows. Balances related to individuals who ceased to be members of the Board of Directors or senior officials of the Bank during the financial year are included in the table above as other outflows.

In addition, the Bank operates a blocked personal deposit account for certain staff members who were previously members of the Bank's savings fund, which closed on 1 April 2003. The terms of these blocked accounts are such that staff members cannot make further deposits or withdrawals and the balances are paid out when they leave the Bank. The accounts bear interest at a rate determined by the Bank based on the rate offered by the Swiss National Bank on its staff accounts plus 1%. The total balance of blocked accounts at 31 March 2017 was SDR 10.6 million (2016: SDR 12.9 million). They are reported under the balance sheet heading "Currency deposits".

B. Related party customers

The BIS provides banking services to its customers, which are predominantly central banks, monetary authorities and international financial institutions. In fulfilling this role, the Bank, in the normal course of business, enters into transactions with customers which are related parties (as defined above). These transactions include making advances, and taking currency and gold deposits. It is the Bank's policy to enter into transactions with related party customers on similar terms and conditions to transactions with other, non-related party customers. The following tables show balances relating to these transactions, which are representative of the general level of business undertaken with related party customers during the year.

Balances with related party customers

As at 31 March	**2017**			2016		
	Balance sheet total	Balance with related parties		Balance sheet total	Balance with related parties	
SDR millions / percentages	*SDR millions*	*SDR millions*	*%*	*SDR millions*	*SDR millions*	*%*
Assets						
Cash and sight accounts	48,295.5	**47,843.7**	99.1	25,847.0	25,538.7	98.8
Gold and gold loans	27,276.0	**27,257.6**	99.9	13,176.8	12,067.2	91.6
Securities purchased under resale agreements	43,929.9	**2,011.7**	4.6	56,218.6	1,609.3	2.9
Government and other securities	57,402.5	**295.5**	0.5	67,128.4	1,227.6	1.8
Derivative assets	2,220.7	**13.7**	0.6	1,685.3	11.6	0.7
Liabilities						
Currency deposits	(194,442.4)	**(85,320.8)**	43.9	(178,790.5)	(70,537.9)	39.5
Gold deposits	(9,934.5)	**(7,685.7)**	77.4	(10,227.6)	(7,491.2)	73.2
Derivative liabilities	(1,823.5)	**(7.3)**	0.4	(3,902.2)	(64.1)	1.6

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

For the financial year ended 31 March	**2017**			2016		
	Profit and loss total	Balance with related parties		Profit and loss total	Balance with related parties	
SDR millions / percentages	*SDR millions*	*SDR millions*	*%*	*SDR millions*	*SDR millions*	*%*
Interest income	2,521.0	**111.6**	4.4	1,804.1	38.1	2.1
Interest expense	(1,558.6)	**(647.5)**	41.5	(975.3)	(395.7)	40.6

31. Contingent liabilities

In the opinion of the Bank's Management, there were no significant contingent liabilities at 31 March 2017 (31 March 2016: nil).

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 has no national supervisor, the Bank is committed to maintaining its superior credit quality and financial strength, in particular in situations of financial stress.

The Bank assesses its capital adequacy on a continuous basis throughout the year. It operates an annual capital planning process that focuses on two elements: an economic capital framework and a financial leverage framework. The disclosures in this section relating to credit, market, operational and liquidity risk are based on the Bank's own assessment of capital adequacy derived in accordance with these two BIS frameworks.

Regulatory capital ratios are not used as indicators of BIS capital adequacy because key aspects of the business model for the BIS banking activities are not adequately captured. In the main, these relate to the high level of solvency targeted by the Bank as well as the way regulatory capital ratios reflect portfolio concentrations and interest rate risk in the banking book.

To facilitate comparability, the Bank has implemented a framework that is consistent with the revised *International Convergence of Capital Measurement and Capital Standards* (Basel II framework) issued by the Basel Committee on Banking Supervision (BCBS) in June 2006. Following that framework, the Bank discloses a Tier 1 capital ratio (Pillar 1), risk-weighted assets and more detailed related information. In addition, the Bank calculates for reference a Common Equity Tier 1 capital ratio, leverage ratio and liquidity coverage ratio taking account of banking supervisory recommendations related to Basel III.

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 following table:

As at 31 March

SDR millions	**2017**	2016
Share capital	698.9	698.9
Statutory reserves per balance sheet	15,289.9	14,997.0
Less: shares held in treasury	(1.7)	(1.7)
Share capital and reserves	**15,987.1**	15,694.2
Securities revaluation account	88.1	251.7
Gold revaluation account	2,542.0	2,431.0
Re-measurement of defined benefit obligations	(347.6)	(411.2)
Other equity accounts	**2,282.5**	2,271.5
Profit and loss account	**827.6**	412.9
Total equity	**19,097.2**	18,378.6

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 accounts ("sustainable supplementary capital"). Only this "allocatable capital" is available for allocation to the various categories of risk. The portion of revaluation accounts that is considered more transitory in nature is assigned to the "capital filter" together with the profit accrued during the financial period.

As at 31 March

SDR millions	2017	2016
Share capital and reserves	15,987.1	15,694.2
Re-measurement of defined benefit obligations	(347.6)	(411.2)
Tier 1 capital	**15,639.5**	15,283.0
Sustainable supplementary capital	1,660.5	1,917.0
Allocatable capital	**17,300.0**	17,200.0
Capital filter	1,797.2	1,178.6
Total equity	**19,097.2**	18,378.6

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. Reflecting the high level of solvency targeted by the Bank, the economic capital framework measures economic capital to a 99.995% confidence level assuming a one-year horizon, except for FX settlement risk (included in the utilisation for credit risk) and "other risks". The amount of economic capital set aside for FX settlement risk and other risks is based on an assessment by Management. The Bank's economic capital framework is subject to regular review and calibration.

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

As at 31 March

	2017		2016	
SDR millions	Allocation	Utilisation	Allocation	Utilisation
Insolvency and transfer risk	9,200.0	8,715.5	9,100.0	7,789.1
FX settlement risk	300.0	300.0	300.0	300.0
Credit risk	9,500.0	9,015.5	9,400.0	8,089.1
Market risk	4,000.0	3,326.1	4,000.0	3,491.1
Operational risk	1,200.0	1,200.0	1,200.0	1,200.0
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	**17,300.0**	**16,141.6**	17,200.0	15,380.2

3. Financial leverage

The Bank complements its capital adequacy assessment with a prudently managed financial leverage framework. The Bank monitors its financial leverage using a ratio that compares the BIS adjusted common equity with its total exposure. However, to reflect the scope and nature of its banking activities, the definition of the BIS adjusted common equity limits the recognition of revaluation accounts to the proportion of the gold and securities revaluation accounts that is considered sustainable ("sustainable supplementary capital"). Further, the exposure measure is supplemented by the inclusion of committed and uncommitted facilities, and pension fund assets.

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

As at 31 March

SDR millions	**2017**	2016
Share capital and reserves	15,987.1	15,694.2
Sustainable supplementary capital	1,660.5	1,917.0
Share capital, reserves and sustainable supplementary capital	**17,647.6**	17,611.2
Re-measurement losses on defined benefit obligations	(347.6)	(411.2)
Intangible assets	(26.4)	(23.8)
Prudential adjustments	**(374.0)**	(435.0)
Total BIS adjusted common equity (A)	**17,273.6**	17,176.2
Total balance sheet assets	**242,248.4**	231,384.4
Derivatives	(232.9)	(498.1)
Securities purchased under resale agreements	5.1	–
Committed and uncommitted facilities	4,424.9	4,427.2
Pension fund assets	1,140.5	1,048.2
Exposure adjustments	**5,337.6**	4,977.3
Total BIS exposure (B)	**247,586.0**	236,361.7
BIS leverage ratio (A) / (B)	**7.0%**	7.3%

The Bank also calculates a leverage ratio that is consistent with Basel III recommendations. The Bank's Basel III leverage ratio differs from the BIS leverage ratio in using Common Equity Tier 1 as its capital measure instead of BIS adjusted common equity as defined above. The calculation of Common Equity Tier 1 capital is included in section 4B. At 31 March 2017, the Bank's Basel III leverage ratio stood at 7.4% (2016: 7.6%).

4. Capital ratios

The economic capital framework and the financial leverage framework described above are the main tools used for assessing the Bank's capital adequacy. Risk-weighted assets, minimum capital requirements and capital ratios are disclosed to facilitate comparability. Guidance issued by the BCBS includes several approaches for calculating risk-weighted assets and the corresponding minimum capital requirements. In principle, the minimum capital requirements are determined by taking 8% of the risk-weighted assets.

For credit risk, the Bank has adopted the advanced internal ratings-based approach for the majority of its exposures. Under this approach, the risk weighting for a transaction is determined by the relevant Basel II risk weight function using the Bank's own estimates for key inputs. Expected loss is calculated for credit risk exposures subject to the advanced internal ratings-based approach. 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 2017 (2016: nil). In accordance with the requirements of the Basel frameworks, the expected loss is compared with the impairment provision and any shortfall is deducted from the Bank's Tier 1 capital. For securitisation exposures and relevant other assets, the Bank has adopted the standardised approach. Under this approach, risk weightings are mapped to exposure types.

Risk-weighted assets for market risk are derived following an internal models approach. 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.

A. Tier 1 capital ratio

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 under the Basel II framework:

As at 31 March		**2017**			2016		
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%	166,485.1	14,574.9	1,166.0	155,351.0	11,244.4	899.6
Securitisation exposures and other assets	Standardised approach, where (B) is derived as (A) x 8%	282.7	220.9	17.7	540.1	277.0	22.2
Market risk							
Exposure to foreign exchange risk and gold price risk	Internal models approach, where (A) is derived as (B) / 8%	–	8,906.4	712.5	–	8,226.0	658.1
Operational risk							
	Advanced measurement approach, where (A) is derived as (B) / 8%	–	10,802.9	864.2	–	10,476.9	838.2
Total			**34,505.1**	**2,760.4**		30,224.3	2,418.1

The capital ratio measures capital adequacy by comparing the Bank's Tier 1 capital with its risk-weighted assets. The Tier 1 capital ratio, consistent with the Basel II framework, is provided in the following table:

As at 31 March

SDR millions	**2017**	2016
Share capital and reserves	15,987.1	15,694.2
Re-measurement losses on defined benefit obligations	(347.6)	(411.2)
Tier 1 capital	**15,639.5**	15,283.0
Expected loss	(32.3)	(22.7)
Tier 1 capital net of expected loss (A)	**15,607.2**	15,260.3
Total risk-weighted assets (B)	**34,505.1**	30,224.3
Tier 1 capital ratio (A) / (B)	**45.2%**	50.5%

B. Common Equity Tier 1 capital ratio

To facilitate comparability, information on risk-weighted assets and related minimum capital requirements calculated under the Basel III framework is provided in the following table. Credit risk-weighted assets differ, mainly due to the asset value correlation multiplier for large financial institutions. Relating to market risk, Basel III risk-weighted assets are calculated as the sum of the Basel II market risk-weighted assets (presented in the previous section) and market risk-weighted assets derived from a stressed VaR.

As at 31 March		**2017**			2016		
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%	166,486.6	16,433.1	1,314.6	155,351.0	12,415.2	993.2
Securitisation exposures and other assets	Standardised approach, where (B) is derived as (A) x 8%	282.7	220.9	17.7	540.1	277.0	22.2
Market risk							
Exposure to foreign exchange risk and gold price risk	Internal models approach, where (A) is derived as (B) / 8%	–	23,727.9	1,898.2	–	24,639.7	1,971.2
Operational risk							
	Advanced measurement approach, where (A) is derived as (B) / 8%	–	10,802.9	864.2	–	10,476.9	838.2
Total			**51,184.8**	**4,094.7**		47,808.8	3,824.8

The Common Equity Tier 1 capital ratio calculated under the Basel III framework is set out in the following table:

As at 31 March

SDR millions	**2017**	2016
Share capital and reserves	15,987.1	15,694.2
Revaluation accounts	2,630.1	2,682.7
Share capital, reserves and revaluation accounts	**18,617.2**	18,376.9
Re-measurement losses on defined benefit obligations	(347.6)	(411.2)
Expected loss	(32.3)	(22.7)
Intangible assets	(26.4)	(23.8)
Prudential adjustments	**(406.3)**	(457.7)
Total Common Equity Tier 1 capital (A)	**18,210.9**	17,919.2
Total risk-weighted assets (B)	**51,184.8**	47,808.8
Common Equity Tier 1 capital ratio (A) / (B)	**35.6%**	37.5%

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 management and compliance functions. The General Manager and the Deputy General Manager are supported by senior management advisory committees.

The key advisory committees are the Executive Committee, 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 strategic operational risk management issues. The Finance Committee advises the General Manager on the financial management and policy issues related to the banking business, including the allocation of economic capital to risk categories. The Compliance and Operational Risk Committee, chaired by the Deputy General Manager, provides a forum for considering important compliance and operational risk matters, ensures the coordination of compliance matters and operational risk management throughout the Bank and informs or advises the Executive Committee as appropriate.

The risk management functions for financial risks and operational risks are performed by the Risk Management unit. The Head of Risk Management reports to the Deputy General Manager. The Head of the Operational Risk Management unit within Risk Management has reporting lines to the Deputy General Manager and the Head of Risk Management.

The Bank's compliance function is performed by the Compliance unit. The objective of this function is to assist Management in ensuring that all activities of the BIS and its staff are conducted in accordance with compliance laws, rules and standards. The Chief Compliance Officer reports to the Deputy General Manager and also has a right of direct access to the Audit Committee on compliance matters. The Audit Committee 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 a valuation control function, produces the Bank's financial statements and controls the Bank's expenditure by setting and monitoring the annual budget. The objective of the valuation control function is to ensure that the Bank's valuations comply with its valuation policy and procedures. The Finance unit reports to the Deputy General Manager and the Secretary General.

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

The Internal Audit function evaluates and improves the effectiveness of risk management, control, and governance systems and processes. Internal Audit provides an independent, objective assurance function, and advises on best practice. Internal Audit has reporting lines to the General Manager and the Deputy General Manager, and to the Audit Committee.

B. Risk monitoring and reporting

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

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

C. Risk methodologies

The Bank revalues virtually all of its financial instruments to fair value on a daily basis and reviews its valuations monthly, taking into account necessary adjustments for impairment. It uses a comprehensive range of quantitative methodologies for valuing financial instruments and for measuring risk to its net profit and equity. The Bank reassesses its quantitative methodologies in the light of its changing risk environment and evolving best practice.

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

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

The Bank's economic capital framework covers credit risk, market risk, 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. Reflecting the high level of solvency targeted by the Bank, the economic capital framework measures economic capital to a 99.995% confidence level assuming a one-year holding period. An additional amount of economic capital is set aside for FX settlement risk (included in the utilisation for credit risk) and "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 prudent financial leverage framework. The stress testing framework supplements the Bank's risk assessment, including its VaR and economic capital calculations for financial risk. The Bank's key market risk factors and credit exposures are stress-tested. The stress testing includes the analysis of severe historical and adverse hypothetical macroeconomic scenarios, as well as sensitivity tests of extreme but still plausible movements of the key risk factors identified. The Bank also performs stress tests related to liquidity risk. The financial leverage framework focuses on a ratio that sets the BIS adjusted common equity in relation to its total balance sheet exposure.

3. Credit risk

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

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

A. Credit risk assessment

Credit risk is continuously controlled at both a counterparty and an aggregated level. The independent risk management function performs individual counterparty credit assessments following a well defined internal rating process. As part of this process, counterparty financial statements and market information are analysed. The rating methodologies depend on the nature of the counterparty. Based on the internal rating and specific counterparty features, the Bank sets a series of credit limits covering individual counterparties and countries. Internal ratings are assigned to all counterparties. 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 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, except in the case of very short-term financial instruments (sight and notice accounts) and gold. 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 liabilities issued, 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 2017, the Bank did not have any financial assets that were considered to be impaired (2016: nil). At 31 March 2017, no financial assets were considered past due (2016: nil). No credit loss was recognised in the current period (2016: nil).

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 2017

SDR millions	Sovereign and central banks	Public sector	Banks	Corporate	Securitisation	Total
On-balance sheet exposures						
Cash and sight accounts	48,274.4	–	21.1	–	–	48,295.5
Gold and gold loans	–	–	18.5	–	–	18.5
Treasury bills	34,081.2	2,082.4	–	–	–	36,163.6
Securities purchased under resale agreements	2,011.7	–	37,166.9	4,751.3	–	43,929.9
Loans and advances	942.4	542.1	19,652.3	–	–	21,136.8
Governments and other securities	34,230.0	9,154.7	5,565.4	8,375.1	77.3	57,402.5
Derivative financial instruments	142.4	16.9	2,059.8	1.6	–	2,220.7
Accounts receivable	1.1	6.2	178.9	5.6	–	191.8
Total on-balance sheet exposure	**119,683.2**	**11,802.3**	**64,662.9**	**13,133.6**	**77.3**	**209,359.3**
Commitments						
Undrawn unsecured facilities	220.9	–	–	–	–	220.9
Undrawn secured facilities	2,451.4	–	–	–	–	2,451.4
Total commitments	**2,672.3**	**–**	**–**	**–**	**–**	**2,672.3**
Total exposure	**122,355.5**	**11,802.3**	**64,662.9**	**13,133.6**	**77.3**	**212,031.6**

As at 31 March 2016

SDR millions	Sovereign and central banks	Public sector	Banks	Corporate	Securitisation	Total
On-balance sheet exposures						
Cash and sight accounts with banks	25,729.9	–	117.1	–	–	25,847.0
Gold and gold loans	2,246.7	–	1,109.6	–	–	3,356.3
Treasury bills	37,533.9	2,044.7	–	–	–	39,578.6
Securities purchased under resale agreements	1,609.3	–	46,077.8	8,531.5	–	56,218.6
Loans and advances	491.1	514.3	16,332.0	–	–	17,337.4
Government and other securities	43,567.5	10,415.9	5,123.6	7,692.5	328.9	67,128.4
Derivative financial instruments	177.5	11.9	1,495.2	0.7	–	1,685.3
Accounts receivable	6.1	0.5	27.7	7.5	–	41.8
Total on-balance sheet exposure	111,362.0	12,987.3	70,283.0	16,232.2	328.9	211,193.4
Commitments						
Undrawn unsecured facilities	212.9	–	–	–	–	212.9
Undrawn secured facilities	3,121.6	–	–	–	–	3,121.6
Total commitments	3,334.5		–		–	3,334.5
Total exposure	114,696.5	12,987.3	70,283.0	16,232.2	328.9	214,527.9

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. Exposures are allocated to regions based on the country of incorporation of each legal entity.

As at 31 March 2017

SDR millions	Africa and Europe	Asia-Pacific	Americas	International institutions	Total
On-balance sheet exposures					
Cash and sight accounts	39,887.0	8,371.0	37.5	–	48,295.5
Gold and gold loans	18.5	–	–	–	18.5
Treasury bills	7,976.6	20,512.5	5,592.1	2,082.4	36,163.6
Securities purchased under resale agreements	41,182.1	–	2,747.8	–	43,929.9
Loans and advances	13,794.2	4,433.7	2,366.8	542.1	21,136.8
Government and other securities	28,523.6	9,873.2	13,961.4	5,044.3	57,402.5
Derivative financial instruments	1,448.3	324.1	431.4	16.9	2,220.7
Accounts receivable and other assets	178.8	1.2	7.8	4.0	191.8
Total on-balance sheet exposure	**133,009.1**	**43,515.7**	**25,144.8**	**7,689.7**	**209,359.3**
Commitments					
Undrawn unsecured facilities	–	220.9	–	–	220.9
Undrawn secured facilities	236.2	2,215.2	–	–	2,451.4
Total commitments	**236.2**	**2,436.1**	**–**	**–**	**2,672.3**
Total exposure	**133,245.3**	**45,951.8**	**25,144.8**	**7,689.7**	**212,031.6**

As at 31 March 2016

SDR millions	Africa and Europe	Asia-Pacific	Americas	International institutions	Total
On-balance sheet exposures					
Cash and sight accounts with banks	21,876.7	3,963.7	6.6	–	25,847.0
Gold and gold loans	3,300.2	–	56.1	–	3,356.3
Treasury bills	10,472.6	20,111.5	6,949.8	2,044.7	39,578.6
Securities purchased under resale agreements	52,975.8	–	3,242.8	–	56,218.6
Loans and advances	11,623.3	4,436.2	763.7	514.2	17,337.4
Government and other securities	33,494.2	7,883.6	19,216.1	6,534.5	67,128.4
Derivative financial instruments	1,280.8	217.2	179.9	7.4	1,685.3
Accounts receivable	39.9	1.7	0.2	–	41.8
Total on-balance sheet exposure	135,063.5	36,613.9	30,415.2	9,100.8	211,193.4
Commitments					
Undrawn unsecured facilities		212.9			212.9
Undrawn secured facilities	242.4	2,879.2	–	–	3,121.6
Total commitments	242.4	3,092.1	–	–	3,334.5
Total exposure	135,305.9	39,706.0	30,415.2	9,100.8	214,527.9

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 2017

SDR millions	AAA	AA	A	BBB	BB and below	Unrated	Total
On-balance sheet exposures							
Cash and sight accounts	29,400.3	7,424.4	10,134.2	1,336.5	0.1	–	48,295.5
Gold and gold loans	–	–	18.5	–	–	–	18.5
Treasury bills	1,455.1	10,037.6	21,984.2	2,686.7	–	–	36,163.6
Securities purchased under resale agreements	–	6,762.9	30,304.2	6,862.8	–	–	43,929.9
Loans and advances	854.8	335.7	18,576.4	780.5	589.4	–	21,136.8
Government and other securities	9,657.0	30,464.4	16,218.0	1,063.1	–	–	57,402.5
Derivative financial instruments	–	57.8	2,031.2	15.9	106.4	9.4	2,220.7
Accounts receivable	7.9	0.3	133.7	37.8	0.4	11.7	191.8
Total on-balance sheet exposure	**41,375.1**	**55,083.1**	**99,400.4**	**12,783.3**	**696.3**	**21.1**	**209,359.3**
Commitments							
Undrawn unsecured facilities	–	–	–	220.9	–	–	220.9
Undrawn secured facilities	–	622.2	584.6	1,008.4	236.2	–	2,451.4
Total commitments	**–**	**622.2**	**584.6**	**1,229.3**	**236.2**	**–**	**2,672.3**
Total exposure	**41,375.1**	**55,705.3**	**99,985.0**	**14,012.6**	**932.5**	**21.1**	**212,031.6**

As at 31 March 2016

SDR millions	AAA	AA	A	BBB	BB and below	Unrated	Total
On-balance sheet exposures							
Cash and sight accounts with banks	19,153.4	1,492.9	5,200.1	0.3	0.3	–	25,847.0
Gold and gold loans	–	2,246.7	1,109.6	–	–	–	3,356.3
Treasury bills	2,568.7	11,919.2	21,630.2	3,460.5	–	–	39,578.6
Securities purchased under resale agreements	–	10,140.8	35,739.1	10,338.7	–	–	56,218.6
Loans and advances	721.4	–	15,622.1	497.1	496.8	–	17,337.4
Government and other securities	15,385.6	37,181.1	13,416.9	1,112.2	32.6	–	67,128.4
Derivative financial instruments	0.5	53.7	1,589.8	26.4	3.8	11.1	1,685.3
Accounts receivable	–	0.2	28.2	0.6	1.1	11.7	41.8
Total on-balance sheet exposure	37,829.6	63,034.6	94,336.0	15,435.8	534.6	22.8	211,193.4
Commitments							
Undrawn unsecured facilities	–	–	–	212.9	–	–	212.9
Undrawn secured facilities	–	930.8	952.4	996.0	242.4	–	3,121.6
Total commitments	–	930.8	952.4	1,208.9	242.4	–	3,334.5
Total exposure	37,829.6	63,965.4	95,288.4	16,644.7	777.0	22.8	214,527.9

C. Credit risk mitigation

Netting

Netting agreements give the Bank a legally enforceable right to net transactions with counterparties under potential future conditions, notably an event of default. Such master netting or similar agreements apply to counterparties with which the Bank conducts most of its derivative transactions, as well as to counterparties used for repurchase and reverse repurchase agreement transactions. Where required, netting is applied when determining the amount of collateral to be requested or provided, but the Bank does not 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 mitigates credit risk by requiring counterparties to provide collateral. The Bank receives collateral in respect of most derivative contracts and reverse repurchase agreements and for advances made under collateralised facility agreements. During the term of these transactions, further collateral may be called or collateral may be released based on the movements in value of both the underlying instrument and the collateral that has been received. The Bank is required to provide collateral in respect of repurchase agreements.

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

Under the terms of its collateral arrangements, the Bank is permitted to sell ("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 2017, the Bank had lent out SDR 0.1 million of the collateral it held (2016: nil).

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

As at 31 March

SDR millions	**2017**	2016
Collateral held in respect of:		
Derivatives	170.9	247.6
Securities purchased under resale agreements	28,919.2	40,423.5
Total	**29,090.1**	40,671.1

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 2017		Effect of risk mitigation				Analysed as:	
SDR millions	Gross carrying amount as per balance sheet	Adjustments for settlement date effects	Enforceable netting agreements	Collateral (received) / provided (limited to balance sheet value)	Exposure after risk mitigation	Amounts not subject to risk mitigation agreements	Amounts subject to risk mitigation agreements
Financial assets							
Securities purchased under resale agreements	43,929.9	(13,356.4)	–	(30,571.3)	2.2	–	2.2
Advances	589.4	–	–	(589.4)	–	–	–
Derivative financial assets	2,220.7	–	(1,525.1)	(240.6)	455.0	20.6	434.4
Financial liabilities							
Securities sold under repurchase agreements	(1,418.6)	–	–	1,417.8	.	.	.
Derivative financial liabilities	(1,823.5)	–	1,525.1	–	.	.	.

As at 31 March 2016		Effect of risk mitigation				Analysed as:	
SDR millions	Gross carrying amount as per balance sheet	Adjustments for settlement date effects	Enforceable netting agreements	Collateral (received) / provided (limited to balance sheet value)	Exposure after risk mitigation	Amounts not subject to risk mitigation agreements	Amounts subject to risk mitigation agreements
Financial assets							
Securities purchased under resale agreements	56,218.6	(14,456.4)	–	(41,762.2)	–	–	–
Advances	496.8	–	–	(496.8)	–	–	–
Derivative financial assets	1,685.3	–	(1,357.8)	(168.6)	158.9	106.9	52.0
Financial liabilities							
Securities sold under repurchase agreements	(1,447.7)	203.0	–	1,244.7	.	.	.
Derivative financial liabilities	(3,902.2)	–	1,357.8	–	.	.	.

D. Economic capital for credit risk

The Bank determines economic capital for credit risk (except for FX settlement risk, which is included in the utilisation for credit risk) using a VaR methodology on the basis of a portfolio VaR model, assuming a one-year time horizon and a 99.995% confidence level. The amount of economic capital set aside for FX settlement risk reflected in the Bank's economic capital calculations is based on an assessment by Management.

For the financial year	**2017**				2016			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Economic capital utilisation for credit risk	7,825.4	9,015.5	7,100.1	**9,015.5**	8,498.9	9,182.0	7,785.6	8,089.1

E. Minimum capital requirements for credit risk

Exposure to sovereigns, banks and corporates

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

As a general rule, under this approach risk-weighted assets are determined by multiplying the credit risk exposures with risk weights derived from the relevant 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 on- and off-balance sheet credit exposures, except for securities and derivative contracts. 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 each counterparty PD estimate through a mapping of internal rating grades to external credit assessments taking external default data into account. Similarly, LGD estimates are derived from external data. Where appropriate, these estimates are adjusted to reflect the risk-reducing effects of collateral obtained giving consideration to market price volatility, re-margining and revaluation frequency. The recognition of the risk-reducing effects of collateral obtained for derivative contracts, reverse repurchase agreements and collateralised advances is accounted for in calculating the EAD.

The table below details the calculation of risk-weighted assets. The exposures are measured taking netting and collateral benefits into account. The total amount of exposures reported in the table as at 31 March 2017 includes SDR 142.2 million for interest rate contracts (2016: SDR 118.9 million) and SDR 435.0 million for FX and gold contracts (2016: SDR 283.5 million). In line with the Basel II framework, the minimum capital requirement is determined as 8% of risk-weighted assets.

As at 31 March 2017

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	40,818.0	0.01	37.0	1.9	788.5
AA	50,913.9	0.02	44.0	7.8	3,957.7
A	68,510.2	0.04	53.8	10.3	7,068.4
BBB	6,233.8	0.28	58.7	44.1	2,751.0
BB and below	9.2	1.72	59.0	100.7	9.3
Total	**166,485.1**				**14,574.9**

As at 31 March 2016

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	37,006.0	0.01	35.7	2.4	879.5
AA	54,277.8	0.02	39.6	6.4	3,496.3
A	58,498.3	0.04	48.4	9.1	5,296.6
BBB	5,518.4	0.17	51.1	27.6	1,525.0
BB and below	50.5	1.20	53.4	93.1	47.0
Total	155,351.0				11,244.4

At 31 March 2017, the minimum capital requirement for credit risk related to exposures to sovereigns, banks and corporates was SDR 1,166.0 million (2016: SDR 899.6 million).

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

SDR millions	Amount of exposure after taking netting into account	Benefits from collateral arrangements	Amount of exposure after taking into account netting and collateral arrangements
As at 31 March 2017	212,369.1	45,884.0	**166,485.1**
As at 31 March 2016	213,873.1	58,522.1	155,351.0

Securitisation exposures

The Bank invests in highly rated securitisation exposures based on traditional, ie non-synthetic, securitisation structures. Given the scope of the Bank's activities, risk-weighted assets under the Basel II framework are determined according to the standardised approach for securitisation. Under this approach, external credit assessments of the securities are used to determine the relevant risk weights. External credit assessment institutions used for this purpose are Moody's Investors Service, Standard & Poor's and Fitch Ratings. Risk-weighted assets are then derived as the product of the market values 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 2017

SDR millions	External rating	Amount of exposures	Risk weight	Risk-weighted assets
Securities backed by other receivables (government-sponsored)	AAA	77.3	20%	15.5
Total		**77.3**		**15.5**

As at 31 March 2016

SDR millions	External rating	Amount of exposures	Risk weight	Risk-weighted assets
Securities backed by other receivables (government-sponsored)	AAA	328.9	20%	65.8
Total		328.9		65.8

At 31 March 2017, the minimum capital requirement for securitisation exposures was SDR 1.2 million (2016: SDR 5.3 million).

4. Market risk

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

In line with the Bank's objective of maintaining its superior credit quality, economic capital is measured at the 99.995% confidence level assuming a one-year holding period. The Bank calculates the economic capital utilisation for market risk on the basis of a stressed market data set. The Bank's Management manages market risk economic capital usage within a framework set by the Board of Directors. VaR limits are supplemented by operating limits.

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

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

A. Gold price risk

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

The Bank is exposed to gold price risk principally through its holdings of gold investment assets. These gold investment assets are held in custody or placed on deposit with commercial banks. At 31 March 2017, the Bank's net gold investment assets were 103 tonnes with a value of SDR 3,048.5 million (2016: 104 tonnes, SDR 2,944.6 million), approximately 16% of its equity (2016: 16%). The Bank sometimes also has small exposures to gold price risk arising from its banking activities with central and commercial banks. Gold price risk is measured within the Bank's VaR methodology, including its economic capital framework and stress tests.

B. Interest rate risk

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

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

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

As at 31 March 2017

SDR millions	Up to 6 months	6 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Euro	13.0	(8.7)	(18.5)	(26.7)	(21.8)	(41.4)	(63.8)	(167.9)
Japanese yen	8.9	0.8	0.1	(0.1)	–	–	–	9.7
Pound sterling	(3.0)	(0.5)	(7.2)	(13.9)	(10.1)	(3.0)	10.8	(26.9)
Renminbi	(2.8)	(4.1)	(5.4)	(2.3)	–	–	–	(14.6)
Swiss franc	8.5	(0.5)	(0.2)	(0.3)	(0.9)	(1.1)	(3.6)	1.9
US dollar	11.8	(19.1)	(43.8)	(34.5)	(68.5)	(48.5)	(18.0)	(220.6)
Other currencies	(0.6)	(0.2)	(0.5)	(0.3)	(1.3)	1.1	0.1	(1.7)
Total	**35.8**	**(32.3)**	**(75.5)**	**(78.1)**	**(102.6)**	**(92.9)**	**(74.5)**	**(420.1)**

As at 31 March 2015

SDR millions	Up to 6 months	6 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Euro	(1.3)	(5.5)	(33.5)	1.5	(45.6)	(48.3)	(74.0)	(206.7)
Japanese yen	1.5	(0.3)	0.2	(0.2)	–	–	–	1.2
Pound sterling	(1.6)	(0.8)	(10.4)	(17.0)	(19.7)	(5.8)	–	(55.3)
Renminbi	–	0.1	–	–	–	(0.5)	(0.2)	(0.6)
Swiss franc	7.5	(0.4)	(0.8)	(0.2)	–	–	1.4	7.5
US dollar	(2.7)	(12.2)	(37.8)	(56.5)	(51.3)	(59.2)	(7.7)	(227.4)
Other currencies	1.0	0.1	(1.2)	(1.0)	(1.0)	(0.1)	0.3	(1.9)
Total	4.4	(19.0)	(83.5)	(73.4)	(117.6)	(113.9)	(80.2)	(483.2)

C. Foreign exchange risk

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

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

As at 31 March 2017

SDR millions	SDR	USD	EUR	GBP	JPY	RMB	CHF	Gold	Other currencies	Total
Assets										
Cash and sight accounts	–	6.8	29,976.5	818.9	8,354.4	1.5	8,659.3	–	478.1	48,295.5
Gold and gold loans	–	–	–	–	–	–	–	27,276.0	–	27,276.0
Treasury bills	–	4,985.8	8,149.6	322.5	19,394.4	36.9	55.3	–	3,219.1	36,163.6
Securities purchased under resale agreements	–	3,199.1	25,654.4	10,720.8	4,355.6	–	–	–	–	43,929.9
Loans and advances	498.6	10,434.2	6,398.5	1,146.8	5.8	–	272.9	–	2,380.0	21,136.8
Government and other securities	–	25,847.6	16,033.4	6,102.9	2,494.2	2,272.9	101.6	–	4,549.9	57,402.5
Derivative financial instruments	2,091.0	49,267.9	(35,776.0)	(448.0)	(2,147.6)	1,244.4	(3,802.2)	(7,925.8)	(283.0)	2,220.7
Accounts receivable	–	4,791.8	71.4	37.3	–	1.1	9.5	–	715.4	5,626.5
Land, buildings and equipment	182.1	–	–	–	–	–	14.8	–	–	196.9
Total assets	**2,771.7**	**98,533.2**	**50,507.8**	**18,701.2**	**32,456.8**	**3,556.8**	**5,311.2**	**19,350.2**	**11,059.5**	**242,248.4**
Liabilities										
Gold deposits	–	–	–	–	–	–	–	(9,934.5)	–	(9,934.5)
Currency deposits	(2,875.2)	(147,534.4)	(21,788.8)	(11,348.0)	(1,451.4)	(2,249.0)	(359.9)	–	(6,835.7)	(194,442.4)
Securities sold under repurchase agreements	–	(9.6)	(1,244.0)	(165.0)	–	–	–	–	–	(1,418.6)
Derivative financial instruments	–	56,660.6	(11,338.9)	(4,925.4)	(28,435.2)	478.1	(4,534.7)	(6,366.2)	(3,361.8)	(1,823.5)
Accounts payable	–	(167.5)	(11,120.7)	(948.3)	(1,320.4)	–	–	–	(886.6)	(14,443.5)
Other liabilities	–	(0.4)	–	–	–	–	(1,087.0)	–	(1.3)	(1,088.7)
Total liabilities	**(2,875.2)**	**(91,051.3)**	**(45,492.4)**	**(17,386.7)**	**(31,207.0)**	**(1,770.9)**	**(5,981.6)**	**(16,300.7)**	**(11,085.4)**	**(223,151.2)**
Net currency and gold position	**(103.5)**	**7,481.9**	**5,015.4**	**1,314.5**	**1,249.8**	**1,785.9**	**(670.4)**	**3,049.5**	**(25.9)**	**19,097.2**
Adjustment for gold	–	–	–	–	–	–	–	(3,049.5)	–	(3,049.5)
Net currency position	**(103.5)**	**7,481.9**	**5,015.4**	**1,314.5**	**1,249.8**	**1,785.9**	**(670.4)**	**–**	**(25.9)**	**16,047.7**
SDR-neutral position	103.5	(6,926.2)	(4,916.6)	(1,279.4)	(1,268.9)	(1,760.1)	–	–	–	**(16,047.7)**
Net currency exposure on SDR-neutral basis	**–**	**555.7**	**98.8**	**35.1**	**(19.1)**	**25.8**	**(670.4)**	**–**	**(25.9)**	**–**

As at 31 March 2016

SDR millions	SDR	USD	EUR	GBP	JPY	CHF	Gold	Other currencies	Total
Assets									
Cash and sight accounts	–	5.6	13,066.4	3.6	3,842.9	8,606.0	–	322.5	25,847.0
Gold and gold loans	–	2.8	–	–	–	–	13,174.0	–	13,176.8
Treasury bills	–	6,486.4	10,900.5	507.6	19,660.0	–	–	2,024.1	39,578.6
Securities purchased under resale agreements	–	4,821.6	39,462.2	10,103.7	1,831.1	–	–	–	56,218.6
Loans and advances	514.2	7,453.0	5,158.2	1,476.1	5.6	(2.6)	–	2,732.9	17,337.4
Government and other securities	–	31,211.5	22,081.3	6,323.8	1,328.0	–	–	6,183.8	67,128.4
Derivative financial instruments	(1,035.6)	(2,773.4)	5,017.6	(852.7)	3.1	639.2	–	687.1	1,685.3
Accounts receivable	–	7,971.2	211.5	87.5	–	9.0	–	1,936.7	10,215.9
Land, buildings and equipment	184.5	–	–	–	–	11.9	–	–	196.4
Total assets	(336.9)	55,178.7	95,897.7	17,649.6	26,670.7	9,263.5	13,174.0	13,887.1	231,384.4
Liabilities									
Gold deposits	–	–	–	–	–	–	(10,227.6)	–	(10,227.6)
Currency deposits	(2,048.6)	(135,519.5)	(19,604.2)	(11,849.9)	(1,791.2)	(359.1)	–	(7,618.0)	(178,790.5)
Securities sold under repurchase agreements	–	(569.1)	(878.6)	–	–	–	–	–	(1,447.7)
Derivative financial instruments	3,588.4	89,641.8	(57,575.9)	(3,820.3)	(22,362.5)	(8,297.1)	(0.1)	(5,076.5)	(3,902.2)
Accounts payable	–	(1,810.2)	(12,811.7)	(301.6)	(1,421.1)	–	–	(1,204.2)	(17,548.8)
Other liabilities	–	(0.5)	–	–	–	(1,087.4)	–	(1.1)	(1,089.0)
Total liabilities	1,539.8	(48,257.5)	(90,870.4)	(15,971.8)	(25,574.8)	(9,743.6)	(10,227.7)	(13,899.8)	(213,005.8)
Net currency and gold position	1,202.9	6,921.2	5,027.3	1,677.8	1,095.9	(480.1)	2,946.3	(12.7)	18,378.6
Adjustment for gold	–	–	–	–	–	–	(2,946.3)	–	(2,946.3)
Net currency position	1,202.9	6,921.2	5,027.3	1,677.8	1,095.9	(480.1)	–	(12.7)	15,432.3
SDR-neutral position	(1,202.9)	(6,661.9)	(4,864.5)	(1,615.0)	(1,088.0)	–	–	–	(15,432.3)
Net currency exposure on SDR-neutral basis	–	259.3	162.8	62.8	7.9	(480.1)	–	(12.7)	–

D. Economic capital for market risk

The Bank measures market risk based on a VaR methodology using a Monte Carlo simulation technique taking correlations between risk factors into account. Economic capital for market risk is also calculated following this methodology measured to the 99.995% confidence level and assuming a one-year holding period. The Bank calculates the economic capital utilisation for market risk on the basis of a stressed market data set. The stressed data set is subject to regular review and calibrated to take account of the Bank's key market risk exposures and market risk drivers.

The Bank measures its gold price risk relative to changes in the USD value of gold. The foreign exchange risk component, resulting from changes in the USD exchange rate versus the SDR, is included in the measurement of foreign exchange risk. The following table shows the key figures of the Bank's exposure to market risk in terms of economic capital utilisation over the past two financial years:

For the financial year	**2017**				2016			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Economic capital utilisation for market risk	3,442.7	3,716.2	3,162.9	**3,326.1**	3,310.7	3,539.6	3,132.9	3,491.1

The following table provides a further analysis of the Bank's economic capital utilisation for market risk by category of risk:

For the financial year	**2017**				2016			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Gold price risk	2,297.3	2,477.9	2,123.5	**2,318.8**	2,030.8	2,323.6	1,871.2	2,227.1
Interest rate risk	2,276.4	2,545.0	2,058.4	**2,090.8**	2,485.8	2,662.9	2,311.9	2,402.2
Foreign exchange risk	682.1	1,089.7	567.5	**761.9**	843.3	973.2	653.8	669.1
Diversification effects	(1,813.1)	(2,173.7)	(1,617.9)	**(1,845.4)**	(2,049.2)	(2,346.9)	(1,782.3)	(1,807.3)
Total				**3,326.1**				3,491.1

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 for interest rate risk. The related minimum capital requirement is derived using the VaR-based internal models method. Under this method, VaR calculations are performed using the Bank's VaR methodology, assuming a 99% confidence level and a 10-day holding period.

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

As at 31 March	**2017**			2016		
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%	237.5	8,906.4	**712.5**	219.4	8,226.0	658.1

5. Operational risk

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

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

Operational risk includes legal risk, but excludes strategic risk.

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

The Bank has established a procedure of immediate reporting for operational risk-related incidents. The Operational Risk Management 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 the 99.995% confidence level assuming a one-year holding period. The following table shows the key figures of the Bank's exposure to operational risk in terms of economic capital utilisation over the past two financial years:

For the financial year	**2017**				2016			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Economic capital utilisation for operational risk	1,200.0	1,200.0	1,200.0	**1,200.0**	1,200.0	1,200.0	1,200.0	1,200.0

B. Minimum capital requirements for operational risk

In line with the key parameters of the Basel II framework, the calculation of the minimum capital requirement for operational risk is determined assuming a 99.9% confidence level and a one-year time horizon. The following table shows the minimum capital requirements for operational risk, and the related risk-weighted assets:

For the financial year	**2017**			2016		
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%	864.2	10,802.9	**864.2**	838.2	10,476.9	838.2

6. Liquidity risk

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

The Bank's currency and gold deposits, principally from central banks and international institutions, comprise 92% (2016: 89%) of its total liabilities. At 31 March 2017, currency and gold deposits originated from 169 depositors (2016: 167 depositors). Within these deposits, there are significant individual customer concentrations, with four customers each contributing in excess of 5% of the total on a settlement date basis (2016: five customers).

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

A. Maturity profile of cash flows

The following tables show the maturity profile of cash flows for assets and liabilities. The amounts disclosed are the undiscounted cash flows to which the Bank is committed. Options are included in the table at fair value and are shown in the "Up to 1 month" category.

As at 31 March 2017

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	48,295.5	–	–	–	–	–	–	–	48,295.5
Gold and gold loans	27,276.0	–	–	–	–	–	–	–	27,276.0
Treasury bills	8,920.1	11,922.8	6,886.6	8,432.2	–	–	–	–	36,161.7
Securities purchased under resale agreements	16,715.8	13,850.4	–	–	–	–	–	–	30,566.2
Loans and advances	9,926.9	6,980.4	4,159.0	–	–	–	–	–	21,066.3
Government and other securities	3,950.3	2,390.5	5,606.5	11,217.3	11,386.6	21,891.6	2,038.9	–	58,481.7
Total assets	**115,084.6**	**35,144.1**	**16,652.1**	**19,649.5**	**11,386.6**	**21,891.6**	**2,038.9**	**–**	**221,847.4**
Liabilities									
Gold deposits	(9,934.5)	–	–	–	–	–	–	–	(9,934.5)
Currency deposits									
Deposit instruments repayable at 1–2 days' notice	(13,589.5)	(30,328.4)	(16,378.7)	(17,801.8)	(16,647.6)	(5,767.9)	(17.1)	–	(100,531.0)
Other currency deposits	(47,793.2)	(19,446.3)	(12,072.1)	(10,809.8)	–	–	–	–	(90,121.4)
Securities sold under repurchase agreements	(1,269.2)	(148.9)	–	–	–	–	–	–	(1,418.1)
Total liabilities	**(72,586.4)**	**(49,923.6)**	**(28,450.8)**	**(28,611.6)**	**(16,647.6)**	**(5,767.9)**	**(17.1)**	**–**	**(202,005.0)**
Derivatives									
Net settled cash flows									
Options and interest rate contracts	(4.4)	(11.6)	(10.7)	20.0	32.9	(30.8)	(0.5)	–	(5.1)
Gross settled cash flows									
Interest rate contracts									
Inflows	179.8	371.2	3.1	6.9	651.4	36.8	–	–	1,249.2
Outflows	(178.4)	(353.2)	–	(1.3)	(628.8)	(36.7)	–	–	(1,198.4)
Subtotal	1.4	18.0	3.1	5.6	22.6	0.1	–	–	50.8
Currency and gold contracts									
Inflows	47,504.0	40,805.6	14,300.0	17,527.3	3.9	–	–	–	120,140.8
Outflows	(47,149.2)	(40,792.9)	(13,990.1)	(17,431.3)	(2.4)	–	–	–	(119,365.9)
Subtotal	354.8	12.7	309.9	96.0	1.5	–	–	–	774.9
Total derivatives	**351.8**	**19.1**	**302.3**	**121.6**	**57.0**	**(30.7)**	**(0.5)**	**–**	**820.6**
Total future undiscounted cash flows	**42,850.0**	**(14,760.4)**	**(11,496.4)**	**(8,840.5)**	**(5,204.0)**	**16,093.0**	**2,021.3**	**–**	**20,663.0**

As at 31 March 2016

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	25,847.0	–	–	–	–	–	–	–	25,847.0
Gold and gold loans	10,846.2	585.1	–	1,755.6	–	–	–	–	13,186.9
Treasury bills	6,209.4	13,918.6	8,710.5	9,846.8	–	–	–	–	38,685.3
Securities purchased under resale agreements	33,583.8	7,933.9	242.1	–	–	–	–	–	41,759.8
Loans and advances	5,406.9	9,111.1	2,614.2	27.6	–	–	–	–	17,159.8
Government and other securities	2,622.7	3,482.1	12,018.0	14,778.3	10,389.7	21,898.0	2,550.4	40.6	67,779.8
Total assets	84,516.0	35,030.8	23,584.8	26,408.3	10,389.7	21,898.0	2,550.4	40.6	204,418.6
Liabilities									
Gold deposits	(10,198.7)	(28.9)	–	–	–	–	–	–	(10,227.6)
Currency deposits									
Deposit instruments repayable at 1–2 days' notice	(14,238.8)	(18,088.1)	(10,620.8)	(14,592.2)	(13,238.7)	(12,219.5)	(66.1)	–	(83,064.2)
Other currency deposits	(58,332.2)	(13,950.4)	(6,417.8)	(8,436.4)	(650.1)	–	–	–	(87,786.9)
Securities sold under repurchase agreements	(1,041.6)	(202.9)	–	–	–	–	–	–	(1,244.5)
Total liabilities	(83,811.3)	(32,270.3)	(17,038.6)	(23,028.6)	(13,888.8)	(12,219.5)	(66.1)	–	(182,323.2)
Derivatives									
Net settled cash flows									
Options and interest rate contracts	(3.0)	22.9	(5.5)	113.8	13.7	(38.1)	(6.0)	–	97.8
Gross settled cash flows									
Interest rate contracts									
Inflows	80.2	29.9	3.4	77.3	536.9	510.9	–	–	1,238.6
Outflows	(75.5)	(28.7)	–	(74.9)	(544.8)	(524.5)	–	–	(1,248.4)
Subtotal	4.7	1.2	3.4	2.4	(7.9)	(13.6)	–	–	(9.8)
Currency and gold contracts									
Inflows	73,473.9	36,669.6	12,211.7	14,267.4	–	–	–	–	136,622.6
Outflows	(74,426.1)	(37,186.8)	(12,485.2)	(14,605.9)	–	–	–	–	(138,704.0)
Subtotal	(952.2)	(517.2)	(273.5)	(338.5)	–	–	–	–	(2,081.4)
Total derivatives	(950.5)	(493.1)	(275.6)	(222.3)	5.8	(51.7)	(6.0)	–	(1,993.4)
Total future undiscounted cash flows	(245.8)	2,267.4	6,270.6	3,157.4	(3,493.3)	9,626.8	2,478.3	40.6	20,102.0

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

Contractual expiry date *SDR millions*	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	5 to 10 years	Maturity undefined	Total
As at 31 March 2017	–	2,215.2	236.2	220.9	–	–	–	–	**2,672.3**
As at 31 March 2016	–	–	242.4	212.9	–	–	–	2,879.2	3,334.5

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 assets and liabilities. Within the Bank's liquidity framework, the Board of Directors has set a limit for the Bank's liquidity ratio which requires the liquidity available to be at least 100% of the potential liquidity requirement.

The following table provides information on the development of the Bank's liquidity ratio for the last two years:

For the financial year	**2017**				2016			
Percentages	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Liquidity ratio	139.1%	156.5%	120.8%	**151.0%**	140.0%	164.2%	112.6%	140.2%

The liquidity available is determined as the cash inflow from financial instruments over a one-month horizon, along with potential additional liquidity which could be generated from the disposal of highly liquid securities, or by entering into sale and repurchase agreements for a part of the Bank's remaining unencumbered high-quality liquid securities. In calculating the amount of potential additional liquidity, an assessment is performed to identify securities which are of high credit quality and highly liquid. This is followed by a projection of the amounts that could reasonably be generated through selling these securities or entering into repurchase transactions.

The Bank determines the liquidity required as the sum of the cash outflow from financial instruments over a one-month horizon, the estimated early withdrawal of currency deposits, and the estimated drawings of undrawn facilities. As regards currency deposits, it is assumed that all deposits that mature within the time horizon are not rolled over and that a proportion of non-maturing currency deposits is withdrawn from the Bank prior to contractual maturity. At 31 March 2017, the estimated outflow of currency deposits in response to the stress scenario amounted to 44.6% (2016: 49.8%) of the total stock of currency deposits. Moreover, it is assumed that undrawn facilities committed by the Bank would be fully drawn by customers, along with a proportion of undrawn uncommitted facilities.

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

As at 31 March

SDR billions	**2017**	2016
Liquidity available		
Estimated cash inflows	94.0	74.1
Estimated liquidity from sales of highly liquid securities	35.8	51.7
Estimated sale and repurchase agreements	5.9	3.0
Total liquidity available (A)	**135.7**	128.8
Liquidity required		
Estimated withdrawal of currency deposits	84.3	84.5
Estimated drawings of facilities	4.6	5.1
Estimated other outflows	1.1	2.3
Total liquidity required (B)	**90.0**	91.9
Liquidity ratio (A) / (B)	**151.0%**	140.2%

For reference, the Bank also calculates an LCR following the principles set out in the guidance issued by the BCBS. At 31 March 2017, the Bank's LCR stood at 198.2% (2016: 208.5%).

Independent auditor’s report

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of the Bank for International Settlements, which comprise the statement of financial position as at 31 March 2017, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank for International Settlements as at 31 March 2017 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the Bank for International Settlements in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Switzerland, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank for International Settlement’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank for International Settlement or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank for International Settlement’s financial reporting process.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank for International Settlement's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank for International Settlement's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank for International Settlements to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Basel, 8 May 2017

Ernst & Young Ltd

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