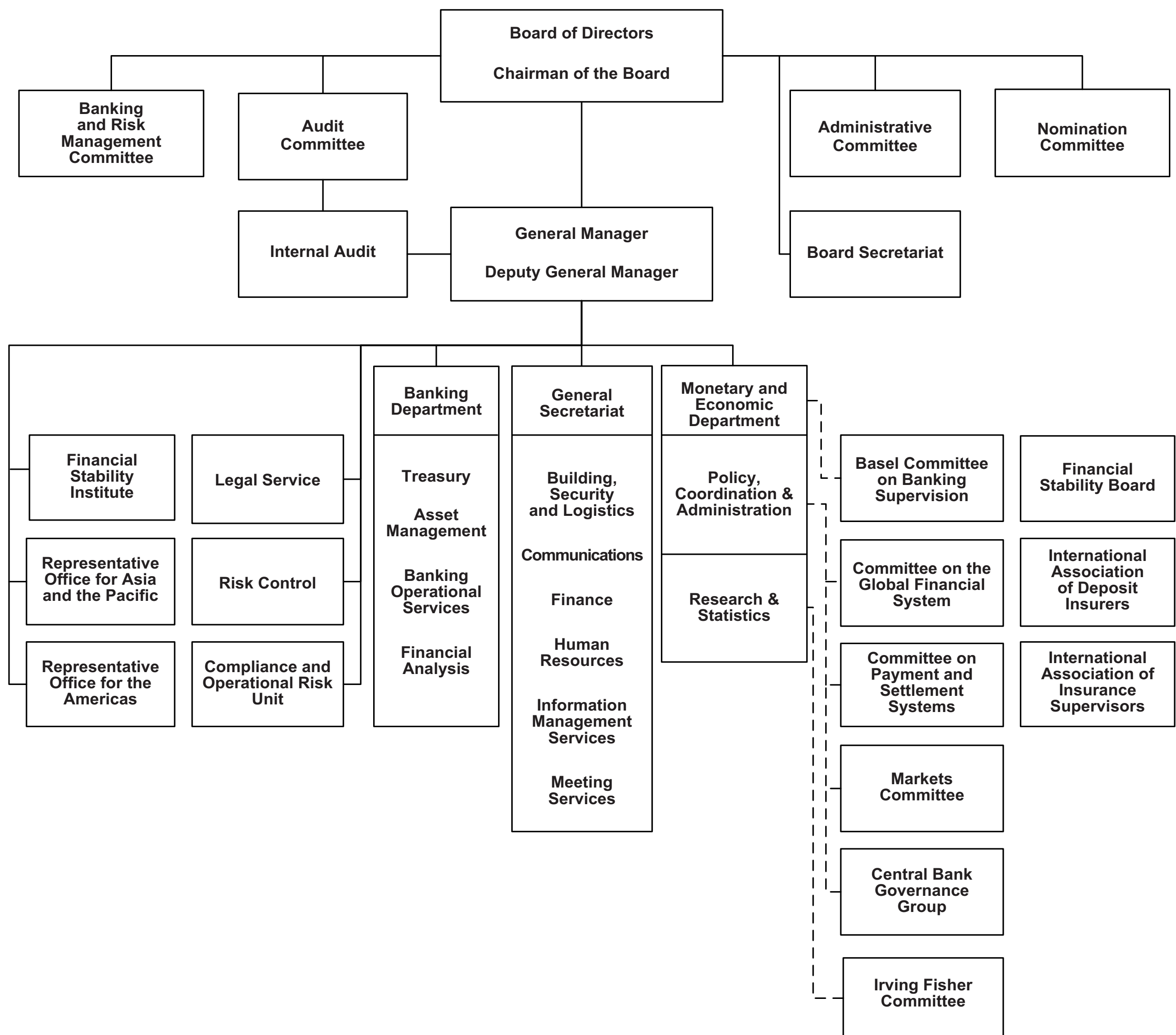


Organisation of the BIS as at 31 March 2010

The BIS: mission, activities, governance and financial results

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

In the light of the Bank's mission, this chapter reviews the activities of the BIS and the groups it hosts for the financial year 2009/10; describes the institutional framework that supports their work; and presents the year's financial results.

In broad outline, the BIS pursues its mission by:

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

The BIS promotes international monetary and financial cooperation and coordination through its meetings programmes for central bank officials and through the Basel Process – hosting international committees and standard-setting bodies and facilitating their interaction. In particular, the BIS hosts the Financial Stability Board and supports its mandate: to coordinate at the international level the work of national financial authorities and international standard-setting bodies in order to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies.

The BIS research and statistics function addresses the needs of monetary authorities and supervisory authorities for data and policy insight.

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

The meetings programmes and the Basel Process

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

- through hosting bimonthly and other meetings of central bank officials; and
- through the Basel Process, which facilitates cooperation of the committees and standard-setting bodies hosted by the BIS in Basel.

Bimonthly meetings and other regular consultations

At bimonthly meetings, normally held in Basel, Governors and other senior central bank officials discuss current developments and the outlook for the world economy and financial markets. They also exchange views and experiences on issues of special and topical interest to central banks. In addition to the bimonthly meetings, the Bank regularly hosts gatherings that variously include public and private sector representatives and the academic community.

The principal bimonthly meetings of Governors and other senior officials of the BIS member central banks are the Global Economy Meeting and the All Governors' Meeting.

The members of the Global Economy Meeting (GEM) consist of Governors from 30 BIS shareholding central banks in major advanced and emerging market economies that account for 82% of global GDP. Governors from another 15 central banks attend the GEM as observers.[1] The GEM's main role has been to monitor economic and financial developments and assess the risks and opportunities in the world economy and the global financial system.

In the course of 2009/10, the BIS Board of Directors added a new responsibility to the duties of the GEM when it decided on an important reform of the process of guiding the activities of the main central bank committees. The responsibility of providing guidance to those committees – the Committee on the Global Financial System, the Committee on Payment and Settlement Systems and the Markets Committee – which had been in the hands of G10 Governors for decades, was transferred to the GEM with effect from January 2010. Therefore the GEM now sets work priorities for those committees and, on the proposal of the Chairman of the new Economic Consultative Committee (discussed below), appoints committee chairs and approves changes in the composition and organisation of the committees. The GEM also now receives reports from the chairs of the committees and decides on publication.

As the Global Economy Meeting is quite large, the Board created a new, informal group called the Economic Consultative Committee (ECC) to assist it by preparing proposals for discussion and decision by the GEM. The ECC, limited to 18 participants, includes all Board member Governors, the central bank Governors from India and Mexico, and the BIS General Manager.

Jean-Claude Trichet, President of the ECB and Chairman of the Global Economy Meeting in its former capacity, has been elected by the Board to continue his chairmanship of the GEM in its enhanced capacity and also to become the Chairman of the new ECC.

In the All Governors' Meeting, chaired by the BIS Chairman, the Governors of all shareholding member central banks participate, discussing selected

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

topics that are of general interest to the members. In 2009/10, the topics discussed were:

- systemic risks in OTC derivatives markets: analysis and policy options;
- systemic financial risk: drivers, measurement, policy tools;
- the comprehensive response of the BCBS to the global banking crisis;
- policy responses to capital inflows; and
- interest rate risk in the financial system.

In reviewing the governance of BIS cooperative activities, the Board and the GEM also agreed that the All Governors' Meeting should remain in charge of guiding the work of both the Central Bank Governance Group (which oversees the operations of the Central Bank Governance Forum) and the Irving Fisher Committee on Central Bank Statistics, in particular because the membership of the two groups goes beyond the participants in the GEM.

Regarding the Basel Committee on Banking Supervision (BCBS), the Bank hosts regular meetings of the Group of Central Bank Governors and Heads of Supervision, which oversees the work of the BCBS. This oversight body met twice during the period under review to endorse the comprehensive reform package being developed to strengthen the regulation, supervision and risk management of the banking sector.

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

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

The Basel Process

The Basel Process directly supports the work of the international secretariats hosted at the BIS, including the Financial Stability Board (FSB), which coordinates at the international level the work of national financial authorities and international standard-setting bodies. Another aspect of the BIS's facilitative role is the mandate of its Financial Stability Institute (FSI), which is to assist financial sector supervisory authorities worldwide in strengthening oversight of their financial systems.

Features of the Basel Process

The Basel Process is based on four key features: (i) the synergies of co-location; (ii) flexibility and openness in the exchange of information; (iii) support

from the economic research expertise at the BIS and its banking experience; and (iv) the dissemination of work.

Synergies. The BIS hosts the secretariats of nine groups, including the FSB, that contribute to the pursuit of financial stability. The following six enjoy a significant degree of autonomy in setting their agendas and structuring their activities:

- the Basel Committee on Banking Supervision (BCBS): addresses supervision at the level of individual institutions and its relation to macroprudential supervision;
- the Committee on the Global Financial System (CGFS): monitors and analyses macrofinancial stability issues;
- the Committee on Payment and Settlement Systems (CPSS): analyses and sets standards for the payment, clearing and settlement infrastructure;
- the Markets Committee: examines the functioning of financial markets;
- the Central Bank Governance Group: examines issues related to the design and operation of central banks; and
- the Irving Fisher Committee on Central Bank Statistics (IFC): addresses statistical issues of concern to central banks, including those relating to economic, monetary and financial stability.

In contrast to the above six groups, the FSB has its own governance and reporting lines, as do the remaining two groups hosted at the BIS, the International Association of Deposit Insurers (IADI) and the International Association of Insurance Supervisors (IAIS).

The synergies created by physical proximity and the resulting exchange of ideas among these groups have been considerable.

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

Supportive BIS expertise and experience. The work of the Basel-based committees is informed by the BIS's economic research and by its banking experience. The latter is derived from the BIS Banking Department's working relationships with market participants and its implementation of regulatory standards and financial controls for the conduct of its banking operations.

Dissemination. Dissemination of the standard-setting bodies' work to official organisations is facilitated by the FSI.

Activities of BIS-hosted groups in 2009/10

The following pages review the year's principal activities of the nine groups hosted at the BIS.

Financial Stability Board

The Financial Stability Board (FSB) was established by the G20 declaration of 2 April 2009 as the successor to the Financial Stability Forum (FSF). The charter that formally confirms its objectives, mandate, membership and organisational processes became effective on 25 September 2009, when it was endorsed by G20 leaders at the Pittsburgh summit.

The FSB promotes international financial stability by coordinating the work of national financial authorities and international standard-setting bodies in developing strong regulatory, supervisory and other financial sector policies. It fosters a level playing field though coherent implementation across sectors and jurisdictions.

More specifically, as part of its mandate, the FSB:

- assesses vulnerabilities affecting the global financial system and identifies and reviews the regulatory, supervisory and related actions needed to address them and their outcomes;
- promotes coordination and information exchange among authorities responsible for financial stability;
- monitors and advises on market developments and their implications for regulatory policy;
- advises on and monitors best practice in meeting regulatory standards;
- undertakes joint strategic reviews of the policy development work of the international standard-setting bodies to ensure that their work is timely, coordinated, and focused on priorities and addressing gaps;
- sets guidelines for and supports the establishment of supervisory colleges;
- supports contingency planning for cross-border crisis management, particularly with respect to systemically important firms; and
- collaborates with the IMF to conduct early warning exercises.

The FSB comprises senior officials from finance ministries, central banks and financial regulators in 24 countries and territories (including all countries in the G20) as well as from the ECB and the European Commission. It also includes representatives of international financial institutions (the BIS, IMF, OECD and World Bank) and international standard-setting and central bank bodies (the BCBS, CGFS, CPSS, the International Accounting Standards Board (IASB), the IAIS and the International Organization of Securities Commissions (IOSCO)). The FSB is chaired by Mario Draghi, Governor of the Bank of Italy.

The FSB operates through plenary meetings of its membership as well as through the following groups:

- a Steering Committee, chaired by Mario Draghi;
- a Standing Committee for Assessment of Vulnerabilities, chaired by Jaime Caruana, General Manager of the BIS;
- a Standing Committee for Supervisory and Regulatory Cooperation, chaired by Adair Turner, Chairman of the UK Financial Services Authority; and
- a Standing Committee for Standards Implementation, chaired by Tiff Macklem, Associate Deputy Minister of the Department of Finance of Canada.

At its plenary meetings – in June and September 2009 and January 2010 – the FSB advanced the international regulatory policy reform agenda to

strengthen financial stability, setting out clear principles and timetables for implementation. Its September 2009 report, *Improving financial regulation*, set out a reform programme in the following key areas:

Strengthening the global capital and liquidity framework for banks

The FSB and the BCBS, in collaboration with the IMF, are jointly assessing the macroeconomic implications of the implementation of the BCBS capital and liquidity reform proposals. The BCBS will take this assessment into account in framing the appropriate transitional arrangements.

Making global liquidity more robust

In addition to the BCBS-proposed liquidity reforms for banks, the FSB is coordinating work on international policy actions to address system-wide cross-border liquidity risks, including the particular issues that arise for emerging markets.

Reducing the moral hazard posed by systemically important financial institutions

The FSB is developing by end-October 2010 a package of measures to reduce the "too big to fail" problems that these institutions pose. This work covers three areas: reducing the probability and impact of a systemically important firm's failure; improving the capacity to undertake an orderly resolution of a failing firm; and strengthening the core infrastructures and markets. A preliminary assessment and possible policy options will be presented to the June 2010 G20 summit.

Strengthening accounting standards

The FSB continues to encourage work to improve standards on valuation and provisioning and achieve a single set of high-quality global accounting standards. This includes monitoring the implementation of the FSF's April 2009 recommendations that encourage accounting standard setters to consider ways of dampening the potential adverse dynamics of fair value accounting, as part of an effort to enhance transparency and accounting treatments while mitigating procyclicality.

Improving compensation practices

In April 2009, the FSF released *Principles for sound compensation practices* for significant financial institutions. The FSB followed up in September 2009 by issuing implementation standards for those principles. An FSB peer review published in March 2010 said that significant progress had been made by its members in incorporating the principles and standards into domestic regulatory and supervisory frameworks, but it found that effective implementation was far from complete. A follow-up review on compensation will be undertaken in the second quarter of 2011.

Expanding oversight of the financial system

Work is progressing to ensure that all systemically important activities – including those of hedge funds and credit rating agencies – are subjected

to appropriate oversight and regulation. The FSB welcomed the Joint Forum's January 2010 report on the differentiated nature and scope of regulation, which makes recommendations to address current gaps in supervision and regulation, and to increase the consistency of approach across sectors. The FSB will monitor policy development on the issues the report identifies and propose action where issues raised are not yet being addressed.

Strengthening the robustness of the OTC derivatives market

Standards are being strengthened to address systemic risks, including covering capital requirements to reflect the risks of OTC derivatives and further incentivise the move to central counterparties and, where appropriate, organised exchanges. The FSB has established a working group to report by October 2010 on policy options to increase the standardisation of OTC derivatives and to develop a clear process to consistently implement mandatory clearing and trading requirements at the global level.

Relaunching securitisation on a sound basis

The official sector must provide the framework that ensures discipline in the securitisation market as it revives. The FSB is assessing what further steps are needed in areas such as transparency, disclosure and the alignment of incentives.

Promoting adherence to international standards

The FSB is fostering a race to the top by encouraging all jurisdictions to raise their level of adherence to international financial standards. FSB member jurisdictions will lead by example, including by implementing financial standards and disclosing their level of adherence. FSB member jurisdictions are undergoing thematic and single-country peer reviews to evaluate their adherence. The March 2010 peer review of compensation practices was the first such review.

The FSB is also encouraging the adherence of all jurisdictions to international financial standards, including through an initiative launched in March 2010 to identify non-cooperative jurisdictions and assist them in improving their adherence.

Other work

In November 2009, the FSB published reports on three other issues:

- A note reviewing policies to withdraw from exceptional financial support measures set out principles that such exit policies should be preannounced, flexible, transparent and credible. The note includes a report by the staffs of IADI and the IMF on strategies to unwind temporary deposit insurance arrangements.
- A joint report by the IMF, BIS and FSB, *Guidance to assess the systemic importance of financial institutions, markets and instruments: initial considerations*, outlines conceptual and analytical approaches for use by national authorities. It discusses a possible form for general guidelines

that would be sufficiently flexible to apply to a broad range of countries and circumstances.

- A joint report by the IMF and FSB, *The financial crisis and information gaps*, identifies gaps and sets forth proposals for strengthening data collection to better capture the build-up of risk in the financial sector, improve data on international financial network connections, monitor the vulnerability of domestic economies to shocks, and improve the communication of official statistics. The FSB has formed a working group to handle its part of the implementation work.

  FSB: www.financialstabilityboard.org

Basel Committee on Banking Supervision

The Basel Committee on Banking Supervision, chaired by Nout Wellink, President of the Netherlands Bank, seeks to improve supervisory understanding and the quality of banking supervision worldwide. It supports supervisors by providing a forum for exchanging information on national supervisory arrangements, by improving the effectiveness of techniques for supervising international banking, and by setting minimum supervisory standards.

Response to the financial crisis

The Basel Committee's reform programme is at the core of global efforts to mitigate systemic risk and promote more sustainable economic growth. An essential lesson of the financial crisis is the need to build up capital and liquidity buffers in the banking system: the quality and amount of capital must be increased; the leverage ratio must act as a backstop to the risk-based requirement and as a brake on the build-up of sector-wide leverage; and a global liquidity standard must be introduced to provide greater resilience to liquidity shocks both on and off the balance sheet.

Another key lesson is the need to focus supervision not just on the soundness of individual banks but also on broader financial stability objectives. That is, the microprudential foundation of supervision needs to be supplemented with a macroprudential overlay. To mitigate the procyclical behaviour of financial markets, the Committee is promoting capital conservation, countercyclical buffers and loss provisioning that is more forward-looking. In addition, it is proposing a number of steps to address the systemic linkages of global banks and the associated moral hazard these create.

In July 2009, the Committee approved a final package of measures to strengthen the 1996 rules governing trading book capital and to enhance the three pillars of the Basel II Framework.

In December 2009, it published for consultation a comprehensive reform package to substantially reduce the probability and severity of economic and financial stress by strengthening global capital and liquidity regulations. The Committee is conducting an impact assessment of those proposals during the first half of 2010. The Committee's goal is to deliver a fully calibrated set of standards by the end of 2010, with a two-year phase-in to ensure a smooth transition.

Bank capital: improving its quality

A key element of the December 2009 proposals is raising the quality, consistency and transparency of the capital base. The proposal's focus on common shares and retained earnings as the predominant form of Tier 1 capital will help ensure that any large, internationally active bank is in a better position to absorb losses, whether as a going concern or as a firm that is being wound down. The Committee is harmonising the other elements of the capital structure.

The December 2009 proposals also include a review of issues regarding contingent and convertible capital instruments: the criteria by which to judge their loss absorbency and the role of these instruments more generally both within the regulatory capital minimum and as buffers.

Bank capital: expanding risk coverage

During the crisis, the majority of bank losses were in the trading book, which is where most of the industry's leverage was built up. The Committee's July 2009 package called for higher capital requirements to capture the credit risk of complex trading activities; and it introduced a stressed value-at-risk requirement, intended to dampen the cyclicality of the minimum regulatory capital framework.

The July 2009 enhancements to the Basel II Framework strengthened Pillar 1 (minimum capital requirements) by raising the risk weights for resecuritisation exposures – so-called CDOs of ABS (collateralised debt obligations of asset-backed securities). The Committee also applied stricter standards to short-term liquidity facilities for off-balance sheet conduits.

The December 2009 proposals included strengthening the capital requirements for counterparty credit risk exposures arising from derivatives, repurchase agreements (repos) and securities financing activities. These enhancements will also increase incentives to move over-the-counter derivative exposures to central counterparties and exchanges.

Bank capital: introducing a supplementary leverage ratio

The December 2009 package introduced a leverage ratio as a supplementary measure to the Basel II risk-based framework with a view to migrating to a Pillar 1 treatment based on appropriate review and calibration. The supplementary ratio would help contain the build-up of excessive leverage in the banking system, introduce additional safeguards against attempts to game the risk-based requirements and help address model risk. To ensure comparability, the details of the leverage ratio will be harmonised internationally, fully adjusting for any remaining differences in accounting. The ratio will be calibrated so that it serves as a credible supplementary measure to the risk-based requirements, taking into account the forthcoming changes to the Basel II Framework.

Bank capital: reducing procyclicality

One of the most destabilising elements of the crisis was procyclicality – the amplification of financial shocks throughout the financial system and the broader economy. Procyclicality arose through a variety of channels, including accounting standards for both mark to market assets and held-to-maturity

loans, margining practices, and the build-up and release of leverage among financial institutions, firms and consumers.

The Committee has proposed measures to make the banking sector serve as a shock absorber instead of a transmitter of risk: building up capital buffers in good times so that they can be drawn upon in periods of stress; and making provisioning more forward-looking by calculating it on the basis of expected losses.

The build-up of buffers would be achieved through capital conservation measures, including limits on excessive dividend payments, share buybacks and compensation. The Committee is also reviewing a mechanism that would adjust capital buffers countercyclically through a linkage with credit variables.

A move to expected-loss provisioning would capture actual losses more transparently and would be less procyclical than the current incurred-loss provisioning model.

Bank capital: addressing systemic risk and interconnectedness

To assist supervisors in measuring the systemic significance of particular banks, and to reduce the probability and impact of the failure of a systemically important bank, the Committee is evaluating the concept of a capital surcharge for such banks and related supervisory measures.

Improving liquidity risk management and supervision

The inaccurate and ineffective management of liquidity risk was central to the financial crisis. To help address the problem and promote consistent supervisory expectations – and building on the Committee's *Principles for sound liquidity risk management and supervision*, issued in 2008 – the BCBS has recently focused on further enhancing the resilience of internationally active banks to liquidity stresses as well as increasing international harmonisation of liquidity risk supervision.

For such banks, the December 2009 consultative package introduced a global minimum liquidity ratio, which included a 30-day coverage ratio. That ratio would be underpinned by a longer-term structural ratio and a minimum set of tools aimed at identifying and analysing trends in liquidity risk at both the bank and system-wide levels.

Enhancing risk management

The July 2009 enhancements to Basel II included supplemental guidance under Pillar 2 (the supervisory review process) to address the risk management flaws revealed by the crisis. The guidance, which became effective immediately, covered:

- firm-wide governance and risk management;
- the risk of off-balance sheet exposures and securitisation activities;
- risk concentrations; and
- incentives for banks to better manage risk and return over the long term.

The supplemental guidance incorporates the Financial Stability Forum's April 2009 *Principles for sound compensation practices*. Further, the Committee in January 2010 issued a supervisory assessment methodology to promote sound compensation practices at banks.

In May 2009, the Committee issued *Principles for sound stress testing practices and supervision* to address the weaknesses in bank stress tests that were highlighted by the crisis.

Strengthening corporate governance

In March 2010, the Committee released for consultation a set of best governance practices for banks in *Principles for enhancing corporate governance*. The document addresses fundamental deficiencies that became apparent during the financial crisis. Supervisors also have a critical role in this area. Under the Committee's principles, they should establish guidance or rules for implementing best practice and regularly evaluate a bank's policies and practices according to the Committee's principles.

Accounting for financial instruments

The application of fair value accounting to a wider range of financial instruments, together with experiences from the crisis, has highlighted the critical importance of robust risk management and control processes. Hence, in April 2009 the Committee issued guidance for banks in its *Supervisory guidance for assessing banks' financial instrument fair value practices*. The document also provides guidance to supervisors under the Pillar 2 supervisory review process.

In August 2009, the Committee released a set of high-level *Guiding principles for the replacement of IAS 39* to assist the International Accounting Standards Board (IASB) in addressing issues related to provisioning, fair value measurement and related disclosures. The principles will help the IASB produce standards that improve the usefulness and relevance of financial reporting for key stakeholders. Moreover, the G20 recently recommended that the IASB and the Financial Accounting Standards Board, in the United States, achieve convergence between the International Financial Reporting Standards and the United States' generally accepted accounting principles (US GAAP). The Committee's high-level guiding principles will advance those joint efforts, and they will also ensure that accounting reforms address broader concerns about procyclicality and systemic risk.

Improving transparency

The July 2009 Basel II package included enhancements to Pillar 3 (market discipline) to strengthen disclosure requirements for securitisations, off-balance sheet exposures and trading activities. These additional requirements will help reduce market uncertainties about the strength of banks' balance sheets in relation to capital market activities.

Facilitating cross-border bank resolution

In March 2010, the Committee issued its final *Report and recommendations of the Cross-border Bank Resolution Group*. The financial crisis exposed gaps in techniques and tools needed for the complex and multidimensional process of resolving a cross-border bank in an orderly fashion. First issued for consultation in September 2009, the report sets out 10 recommendations

covering three topics: strengthening national resolution powers and their cross-border implementation; firm-specific contingency planning; and reducing contagion.

Establishing and improving deposit insurance systems

In June 2009, the Committee and the International Association of Deposit Insurers published *Core Principles for Effective Deposit Insurance Systems*. The document responds to the need for effective deposit insurance to help maintain public confidence during a crisis. In addressing issues such as coverage, funding and prompt reimbursement, the Core Principles set an important benchmark in establishing or reforming deposit insurance systems.

Expanded Committee membership

In 2009, the Committee and its governing body, the Group of Central Bank Governors and Heads of Supervision, acted to enhance the Committee's ability to pursue its worldwide mission. They agreed to expand the number of member jurisdictions, and thus the Committee's membership, by inviting representatives from Hong Kong SAR and Singapore and from the G20 countries that were not already represented: Argentina, Australia, Brazil, China, India, Indonesia, Korea, Mexico, Russia, Saudi Arabia, South Africa and Turkey. The Basel Committee now consists of 27 member jurisdictions represented by 44 central banks and supervisory authorities.

Basel Committee: www.bis.org/bcbs

Committee on the Global Financial System

The Committee on the Global Financial System (CGFS), chaired by Donald L Kohn, Vice Chairman of the Board of Governors of the Federal Reserve System, monitors financial market developments and analyses their implications for financial stability. CGFS members consist of the Deputy Governors and other senior officials of 23 central banks from advanced and emerging market economies and the Economic Adviser of the BIS.

The analysis of private and public sector responses to the financial crisis shaped the Committee's work in the period under review. In particular, various CGFS groups reviewed specific aspects of international banking and funding markets. The reports prepared by these groups were published during the first half of 2010:

- A joint CGFS–Markets Committee study group investigated the performance of cross-border funding markets during the crisis and possible ways to enhance their resilience.
- A CGFS study group reviewed changes in the funding strategies and liquidity management of internationally active banks in response to the financial crisis.
- A CGFS study group analysed the role of margining practices and haircut setting in over-the-counter derivatives and securities lending transactions and recommended policy measures for mitigating procyclicality arising from such practices.

Moreover, the CGFS investigated the implications of the development of macroprudential frameworks and instruments for central banks.

The Committee completed a review of enhancements to credit risk transfer statistics. Also, in March 2010 the CGFS established an ad hoc group to review various requests for enhancements to the BIS statistics collected under its auspices.

In addition to these special initiatives, the CGFS continued its extended monitoring of, inter alia:

- the balance sheet constraints of major banks and the implications for credit supply;
- funding market conditions and the impact of unconventional central bank policies; and
- the financial system implications of rising government debt and growing market concerns about sovereign credit risk.

CGFS: www.bis.org/cgfs

Committee on Payment and Settlement Systems

The Committee on Payment and Settlement Systems (CPSS) contributes to the strengthening of financial market infrastructure by promoting safe and efficient payment, clearing and settlement arrangements. During the year, the membership of the Committee was extended to include 25 central banks from both developed and emerging market economies. The CPSS is chaired by William C Dudley, President and Chief Executive Officer of the Federal Reserve Bank of New York.

The CPSS reviewed its existing *Recommendations for central counterparties* to provide guidance on how the recommendations should be applied to central counterparties (CCPs) that clear over-the-counter (OTC) derivatives. The review was carried out jointly with the Technical Committee of the International Organization of Securities Commissions (IOSCO). When the recommendations were originally published, in 2004, they were aimed at CCPs for exchange-traded derivatives. The recent development of CCPs for OTC derivatives, such as credit default swaps, thus required a review of the ways in which differences between these two types of derivatives – exchange-traded and OTC – affect how the recommendations should be implemented. The CPSS and IOSCO are also providing guidance for the design and operation of trade repositories in OTC derivatives markets.

The CPSS and IOSCO also began a comprehensive review of all three sets of their key standards: the *Core principles for systemically important payment systems* (2001), the *Recommendations for securities settlement systems* (2001) and the above-mentioned *Recommendations for central counterparties* (2004). The review is intended to apply the experience gained since the standards were issued – particularly experience during the financial crisis – to clarify, extend and, where necessary, strengthen the standards and the accompanying guidance. A consultation document will also incorporate the new guidance for CCPs and trade repositories in OTC derivatives.

The Committee continued to facilitate cooperation among non-member central banks and provided support and expertise to workshops and seminars on payment and settlement system issues organised in cooperation with regional central banking organisations.

CPSS: www.bis.org/cpss

Markets Committee

The Markets Committee, chaired by Hiroshi Nakaso, Assistant Governor of the Bank of Japan, is a forum for senior officials from 21 central banks to jointly monitor financial market developments and assess their implications for market functioning and central bank operations.

The post-crisis rebound of global financial markets, accompanied by an uneven recovery in real activity and rising fiscal concerns in some countries, shaped the Committee's discussion in the past year. The Committee examined factors driving the revival of money, credit and asset markets and the role played by public sector support. In particular, the conduct of unconventional central bank policies, whether for alleviating market dislocations or for easing monetary conditions, remained a key theme in Committee deliberations – though the focus shifted over time towards the preparation for prospective exit. The relative calm that prevailed during the period under review also allowed the Committee more time to discuss longer-term structural issues such as the implications of proposed OTC derivatives market reforms.

In addition, the Committee participated with the CGFS in two study groups. One examined the conceptual and practical issues related to unconventional central bank policies; the other assessed the functioning and resilience of cross-border funding markets during the recent crisis. The latter group published a report in March 2010. The Committee updated its *MC compendium: monetary policy frameworks and central bank market operations*, and it participated in the preparation of the 2010 BIS Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity.

Markets Committee: www.bis.org/markets

Central Bank Governance Group

The BIS supports research on the design of the central bank as a public policy institution through its hosting of the Central Bank Governance Group, chaired by Stanley Fischer, Governor of the Bank of Israel. The Group and the Central Bank Governance Network – an informal mechanism to facilitate the flow of information on central bank governance issues between central banks and the BIS – together make up the Central Bank Governance Forum, served by its secretariat at the BIS.

During the past year, the Governance Group produced a report on *Issues in the governance of central banks*. The document reviews current governance arrangements in central banks around the world and discusses issues that arise when decisions are made about the mandate, structure and operations of the central bank.

Beyond that report, the focus of work was on the governance implications of changing financial stability responsibilities of central banks: the macroprudential responsibilities that the central bank might undertake and the relationship between such responsibilities and the governance of the institution. In addition, the BIS continued to meet the needs of individual central banks for governance information. Central banks can access this information through a password-protected website.

Irving Fisher Committee on Central Bank Statistics

Sixty-six central banks and international and regional organisations formally involved in central banking issues are institutional members of the Irving Fisher Committee on Central Bank Statistics, which is chaired by Manuel Marfán, Vice-President of the Central Bank of Chile. The Committee provides a forum for central bank economists and statisticians to address statistical topics related to monetary and financial stability.

In August, the Committee organised 10 sessions at the 57th biennial World Congress of the International Statistical Institute, held in Durban, South Africa. On that occasion, it also co-sponsored a seminar with the South African Reserve Bank for the central banks of the Southern African Development Community; the topic was statistical requirements to support regional economic and financial integration amid the global financial crisis. In addition, the Committee sponsored two regional workshops on inflation measurement, one for the Asian central banks associated with the South East Asian Central Banks (SEACEN) Research and Training Centre and the other for the central banks of the Gulf Cooperation Council. It also organised, in collaboration with Eurostat and the International Association of Official Statistics, a conference on methodological issues related to indices of residential property prices.

IFC: www.bis.org/ifc

International Association of Deposit Insurers

The International Association of Deposit Insurers (IADI) contributes to the stability of financial systems by promoting international cooperation and encouraging wide international contact among deposit insurers and other interested parties. IADI's principal activities involve:

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

Currently, 78 organisations from around the world are involved in IADI's activities. Sixty of the organisations are deposit insurer members. The others include a number of central banks and other organisations that have an

interest in promoting the adoption or operation of effective deposit insurance systems.

One of the Association's main objectives is to improve the effectiveness of deposit insurance systems through the development of principles and practices.

In June 2009, IADI and the Basel Committee on Banking Supervision, in collaboration with the European Forum of Deposit Insurers (EFDI), published the first international set of *Core Principles for Effective Deposit Insurance Systems*. The Core Principles are designed to serve as a benchmark for jurisdictions in strengthening existing deposit insurance systems and developing new ones. IADI, the BCBS and the IMF are currently collaborating on the development of a Deposit Insurance Core Principles Methodology that can be used in the IMF's Financial Sector Assessment Program (FSAP) to assess and improve national deposit insurance systems, and by the FSB for peer reviews. The EFDI, the European Commission and the World Bank are also participating in this effort, which is to be completed by the end of 2010. After the completion of the methodology, the FSB plans to include the Core Principles in its Compendium of Standards.

At the request of the FSB, IADI and the IMF prepared a joint memorandum on "Unwinding temporary deposit insurance arrangements" that identified specific actions which various jurisdictions had carried out to enhance deposit insurance systems in response to the financial crisis and steps taken to date to unwind temporary measures and full guarantees.

IADI continued to work closely with the FSI on the joint development of training programmes and conferences for deposit insurers, financial sector supervisors and central banks worldwide. The Association was partnered by the FSI and the Basel Committee in hosting its Eighth Annual Conference at the BIS in September 2009, the topic of which was the Core Principles for Effective Deposit Insurance Systems. The event provided a forum to consider how the Core Principles could be applied in supervision and deposit insurance, prerequisites for effective systems, individual principles and practitioners' experience, as well as the next steps – implementation and assessment. During the conference, IADI organised the International Exhibition on Deposit Insurance to share training and research materials.

IADI also entered into a partnership with the FSI to provide IADI members with co-sponsored seminars, such as that on Cross-border Banking Resolution Issues, as well as conferences and e-learning.

IADI's Research and Guidance Committee (RGC) has, together with the BIS's Monetary and Economic Department, developed a worldwide deposit insurance system database that constitutes a critical component of IADI's research priorities. The database will manage IADI's survey data on deposit insurance systems worldwide. IADI recently collected responses to its *Survey on interventions to protect depositors through higher coverage limits or blanket guarantees* and its *Survey on strategic questions on payout systems and processes*. The RGC also released guidance papers on governance, public awareness and funding. Two papers (*Deposit insurance coverage* and *Organizational risk management for deposit insurers*) and four Research Plans have been released for public consultation.

During its eighth year of operation, IADI continued to provide a number of forums for deposit insurers and other safety net participants. Activities included a capacity-building programme and an Executive Training Program component to address deposit insurance programme weaknesses (claims management, payout system tools for meeting fast payout challenges, cross-border issues, and resolution of problem banks). The bank resolution training seminar agenda included the least cost test for determining a bank resolution alternative, large and small bank resolutions, and the use of bridge banks and conservatorships for an orderly resolution process.

IADI's seven regional committees and 12 partner organisations brought together professionals for events such as the Conference on Bank Insolvency in the Caribbean: Law and Best Practice and seminars on Understanding the Fundamentals of Islamic Banking and Deposit Insurance (Middle East and North Africa region and Asia), the Role of Deposit Insurance in the Current Crisis (Latin America) and the Design of Deposit Insurance Systems (Africa) as well as various regional outreach conferences.

IADI: www.iadi.org

International Association of Insurance Supervisors

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

The IAIS has been actively involved in assessing the impact of the financial crisis on the insurance sector and responding to recommendations for regulatory reforms from the FSB and G20. The IAIS established the Financial Stability Committee with the primary aim of discussing financial stability issues and supporting the IAIS's participation in the FSB. The Committee's activities include reporting on systemic risk and the insurance sector, consideration of macroprudential tools, and the development of proposals on macroprudential surveillance.

The Joint Forum – the joint working group of the BCBS, IOSCO and the IAIS – published its *Review of the differentiated nature and scope of financial regulation* in January 2010. New Joint Forum workstreams coming out of this report are currently being considered.

Accounting

The IAIS has a strong interest in ensuring high-quality financial reporting that offers a meaningful, economically sound portrayal of insurers' financial health. It closely monitors the international financial reporting developments that will most influence the overall accounting model for regulated insurance enterprises. The International Accounting Standards Board project on accounting for insurance contracts will continue to benefit from the active involvement of the IAIS.

In 2009, the IAIS adopted an issues paper on *The roles of and relationship between the actuary and the external auditor in the preparation and audit of financial reports*. The paper, which discusses the issue from the perspective of the insurance supervisor, discusses roles and responsibilities, communication, reporting, the relationship between external auditor and insurance supervisor, professional standards, and qualifications and regulation.

Capital adequacy and solvency

In October 2009, the IAIS adopted both a standard and a guidance paper on *The structure of capital resources for solvency purposes*. The guidance paper outlines a number of approaches a supervisor could adopt for determining capital resources.

Governance and compliance

In July 2009, the IAIS adopted an issues paper on *Corporate governance*, prepared jointly with the Organisation for Economic Co-operation and Development. The paper discusses governance structures, functions of the board of directors, control functions, the actuarial function and auditors, disclosure and transparency, relationships with stakeholders, and interaction with the supervisor.

Group-wide supervision

In October 2009, the IAIS adopted the guidance paper on *The use of supervisory colleges in group-wide supervision*. The paper discusses supervisory colleges as a mechanism to facilitate cooperation and exchange of information among involved supervisors and the coordination of supervisory activities on a group-wide basis. The paper complements the guidance paper on *The role and responsibilities of a group-wide supervisor*, adopted in 2008.

Internationally active insurance groups

In January 2010, the IAIS Executive Committee approved the development of the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame). ComFrame will be a multilateral framework reaching beyond the regulatory approaches of individual jurisdictions and regions. It will provide parameters for assessing group structures and group business from a risk management perspective; set out quantitative and qualitative requirements that are specific and focused but not rules-based; and cover the necessary areas of supervisory cooperation and coordination. ComFrame should lead to more consistency and better comparability and alignment regarding each jurisdiction's supervision of internationally active insurance groups. The IAIS will develop ComFrame over the next three years, after which it will undertake an impact assessment.

Reinsurance

Global reinsurers are important to the efficient functioning of insurance markets. They bolster the ultimate security of ceding insurers, thereby protecting customers and contributing to overall financial stability.

The annual IAIS *Global Reinsurance Market Report* is based on unique data provided by more than 50 leading global reinsurers worldwide. These firms have been actively engaged with the IAIS as it seeks to facilitate better understanding, regulation and supervision of this key financial industry. The 2009 report showed that, despite the ongoing financial turmoil, the global reinsurance market has again demonstrated its robustness and resilience. In June 2009, the IAIS published the first midyear edition of the report, *Developments in (re)insurance securitisation*. It supplemented the year-end report by providing a qualitative analysis of the main characteristics, functions and developments in the insurance securitisation market.

Multilateral memorandum of understanding

The IAIS multilateral memorandum of understanding (MMoU) is a framework for cooperation and the exchange of information to improve the effectiveness of cross-border supervision of insurance companies. It is also expected to contribute to the global efforts to enhance the regulation of systemically important financial institutions. The MMoU became operational in June 2009. As of March 2010, a total of eight insurance supervisory authorities are signatories, and another 16 applicants are being validated.

Training

Each year, the IAIS organises some 10–12 regional seminars and workshops to assist insurance supervisors in implementing its principles and standards. These training events are conducted in collaboration with the FSI, national insurance supervisory authorities and other bodies. The FSI has also begun releasing online tutorials addressing insurance sector supervision.

IAIS: www.iaisweb.org

Financial Stability Institute

To fulfil its mandate to support financial stability globally, the Financial Stability Institute (FSI) of the BIS conducts a two-pronged programme designed to disseminate supervisory standards and sound practices.

Meetings, seminars and conferences

The first prong of the FSI programme is its well established series of high-level meetings, seminars and conferences targeted at banking and insurance sector supervisors. In 2009, the FSI organised 52 such events at venues around the world, many of which were held in partnership with regional groups of supervisors. In response to the recent financial crisis and the revisions to key standards being made by standard-setting bodies, the FSI placed special emphasis on issues related directly to financial regulatory reform. More than 2,000 representatives of central banks and banking and insurance supervisory authorities participated in the 2009 events. The FSI also continued its series of high-level meetings for Deputy Governors of central banks and heads of supervisory authorities, with such meetings taking place in Africa, Asia, Latin

America and the Middle East. Last year, besides covering ongoing supervisory issues such as implementation of Basel II, these meetings focused on the financial crisis and regulatory responses such as a macroprudential approach to regulation and supervision.

FSI Connect

The second prong of the FSI programme is FSI Connect, an online information resource and learning tool for financial sector supervisors at all levels of experience and expertise. It includes more than 175 tutorials covering a wide range of topics. The subscribers to FSI Connect consist of more than 200 central banks and supervisory authorities representing more than 8,000 users. The second phase of development of FSI Connect continued in 2009. In October, the first 10 tutorials specifically addressing insurance sector supervision were launched, and work is under way to develop tutorials for IADI.

Research and statistics

The BIS carries out research and analysis on issues of interest to central banks and, increasingly, financial supervisory authorities. Most of this work appears in the Bank's regular outlets, such as the *Annual Report*, the *Quarterly Review* and the *BIS Papers* and *Working Papers* series, as well as in external professional publications and on the Bank's website (www.bis.org). In addition, the research function develops background material for meetings of senior central bankers and provides secretariat and analytical services to the various groupings hosted by the BIS in Basel.

The BIS also collects, aggregates, analyses and disseminates statistical information for central banks and the general public on key elements of the international financial system. The Financial Stability Board and IMF have made recommendations to the G20 regarding data gaps and the financial crisis. Discussions in various forums regarding follow-up to those recommendations have illustrated the importance of BIS statistical activities and the need to continue strengthening them in key areas.

Research focus

In line with the Bank's mission, the focus of BIS research is on monetary and financial stability. As in the previous year, a core theme of the work this year was the global financial crisis – its causes, dynamics and policy implications. One strand of the research used the BIS international banking statistics to cast light on the turmoil. The statistics were the only source that could help identify the US dollar shortage in international markets; and that shortage highlighted the banks' dependence on cross-currency, short-term funding and the consequent disruptions to foreign exchange swap markets. The BIS statistics also helped trace the changes in the geography of international banking associated with the crisis.

A second strand of research focused on the short-term policy responses to the crisis, including financial support packages and unconventional

monetary policy measures. That work was complemented by research on the transmission mechanism of monetary policy, notably the impact of changes in interest rates on risk-taking.

A third strand explored the long-term policy responses within regulatory and supervisory frameworks. Such responses included proposals to implement a stronger macroprudential orientation: methodologies to measure systemic risk, the calibration of prudential tools with respect to the systemic significance of financial institutions, and arrangements for countercyclical capital requirements.

The BIS staff also examined possible improvements to the financial infrastructure, including the use of central counterparties for derivatives and mechanisms to put securitisation on a stronger footing.

The BIS research function organises conferences and workshops, typically bringing together senior policymakers, leading academics and market participants. A principal venue for such gatherings has become the BIS Annual Conference. In June 2009, the Eighth BIS Annual Conference addressed the interactions between the financial system and the macroeconomy, revisiting a theme addressed two years earlier in the light of the new insights provided by the crisis. In September, the BIS and the ECB jointly organised a conference on monetary policy and financial stability.

International financial statistics

The financial crisis has demonstrated that the banking sector raises serious systemic risk issues. The BIS international banking statistics have proven particularly useful for monitoring and analysing financial vulnerabilities. Collected by the BIS in cooperation with central banks, the data cover the international activities of some 7,000 banking institutions from about 40 countries. Last year, central banks from two additional countries began participating: Cyprus and South Africa. Efforts are under way to ensure the participation of the few remaining G20 central banks not reporting such data to the BIS.

The statistics are available on the traditional basis of residency, which follows balance of payments reporting concepts, as well as on a consolidated basis, which tracks cross-border exposures of internationally active banks headquartered in a particular country. The datasets are complementary and provide key breakdowns by currency, maturity and instrument as well as by counterparty sector and country.

The 2010 Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity has been prepared in cooperation with the more than 50 central banks that will participate. It will measure average daily transactions in global markets in April 2010 and amounts outstanding as of June 2010.

Data repository

The BIS also provides a centralised repository of statistical data covering almost all BIS member central banks (the BIS Data Bank), through which

participating institutions share key macroeconomic data. Given the attention paid to financial stability issues, steps have been taken to improve the coverage of these data in several areas. As a follow-up to FSB-IMF recommendations, a growing number of central banks have agreed to post their reported national data on residential property prices on the BIS website.

International statistical initiatives

The BIS has continued its active cooperation with other international organisations and national and international statistical agencies. The BIS is a member of the Inter-Agency Group on Economic and Financial Statistics, together with the ECB, Eurostat, the IMF, the OECD, the United Nations and the World Bank. This group has been tasked with following up on a number of recommendations made by the FSB and IMF to the G20 regarding data gaps and the financial crisis. The group also co-sponsors with the IMF a new dataset website called Principal Global Indicators. The Working Group on Securities Databases, which includes the BIS, ECB and IMF, released the first part of a *Handbook on securities statistics* in May 2009, covering the issuance of debt securities.

The BIS is represented in a number of international committees focused on statistics, inter alia: the IMF Balance of Payments Committee; the IMF Reference Group on Financial Soundness Indicators; the OECD Statistics Committee; the OECD Working Group on Financial Statistics; the UN Statistical Commission; and the ECB Statistics Committee and its various working groups. All these groups worked during the year to address the information gaps revealed by the financial turmoil.

Together with the IMF, the OECD and the World Bank, the BIS maintains the Joint External Debt Hub, which consolidates information on external debt from creditor and debtor sources. The BIS co-sponsors Statistical Data and Metadata Exchange (SDMX), which produces and maintains technical standards and content-oriented guidelines for the dissemination of statistical information. The BIS and a number of central banks have started to use SDMX to provide their statistics on their websites in standardised electronic formats. SDMX is also used for all exchanges of data between the BIS and the central banks participating in the international financial statistics programme and the BIS Data Bank.

Other central bank initiatives to which the BIS lends support

The BIS supports regional central bank groupings and training initiatives as well as central bank cooperation in the areas of counterfeit deterrence, information technology and internal audit.

Regional central bank groupings and central bank training institutes

The BIS contributes to the activities of regional central bank groupings by providing speakers with relevant expertise for their meetings. Such speakers, including from the secretariats of the Basel-based groups and the BIS Representative Offices, were made available to:

- the Centre for Latin American Monetary Studies (capital flows, payment systems, reserve management);
- the South East Asian Central Banks (inflation measurement, payment systems, macroeconomic and monetary policy);
- the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (open market operations, payment systems, reserve management);
- the Gulf Cooperation Council (inflation measurement); and
- the Centre Africain d'Etudes Supérieures en Gestion (Masters in Banking and Finance programme).

BIS experts also contributed to events organised by:

- the Joint Vienna Institute;
- the Bank of France's International Banking and Finance Institute;
- the Bank of England's Centre for Central Banking Studies; and
- the Swiss National Bank's Study Centre in Gerzensee.

At the end of 2009, the mandate for the BIS to support the process of coordinating technical cooperation and training for central banks of former planned economies was officially terminated.

Central Bank Counterfeit Deterrence Group

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

Group of Computer Experts

The Group of Computer Experts (GCE) is drawn from a number of BIS member central banks in industrial countries and financial centres. It provides a twice-yearly forum for sharing technical and organisational experiences in the information technology (IT) area.

Common themes for both of the past year's GCE meetings were: the continuing impact of the financial crisis on central bank IT organisations; the increasing use of virtualisation to reduce the number of servers and their associated costs and space requirements; secure remote access; and pandemic preparations. Meeting sessions also covered the adoption of "green IT" and the ongoing migration from mainframes to distributed processing environments.

Additionally, the Working Party on Security Issues (WPSI) meets twice a year on issues related to IT security. Security threats have not diminished in the past year, and central bank IT systems are experiencing more targeted attacks. Information sharing among central banks is working towards more effective alerting about these attacks and safeguarding against them. From the

WPSI perspective, secure communications and business continuity planning remain areas of focus in central banks.

Internal auditors of central banks

Internal auditors of a number of central banks from industrial countries meet regularly to share experience and knowledge. In June 2009, the 23rd Annual Plenary Conference of Heads of Internal Audit was co-hosted by the BIS and the Swiss National Bank. It covered topics such as changes and trends in internal controls, outsourcing issues, talent management practices in internal audit, organisation of compliance functions, and enterprise risk management. In addition, twice a year, the BIS hosts the meetings of the Working Party on IT Audit Methodologies.

BIS Internal Audit has also established information sharing networks for internal audit heads from central banks and monetary authorities in the Asia-Pacific region, and in Latin America and the Caribbean. In September 2009, the sixth meeting of heads of internal audit from central banks in the Asia-Pacific region was hosted by the Bank of Thailand. Discussions focused on the auditing of dealing room activities, fraud prevention and the use of continuous auditing techniques.

Financial services of the Bank

The BIS offers a wide range of financial services tailored specifically to assist central banks and other official monetary authorities in the management of their foreign reserves. Some 130 such institutions, as well as a number of international institutions, make active use of these services.

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

Scope of services

In response to the diverse – and constantly evolving – needs of central banks, the BIS offers an extensive array of investment possibilities in terms of currency denomination, liquidity and maturity. In addition to traditional money market placements such as sight/notice accounts and fixed-term deposits, the Bank offers tradable instruments (Fixed-Rate Investments at the BIS – FIXBIS, and Medium-Term Instruments – MTIs), in maturities ranging from one week to five years, and structured products with embedded optionality. The BIS also provides short-term liquidity facilities and extends credits to central banks, usually on a collateralised basis. The Bank also acts as trustee and collateral agent (see below).

The Bank transacts foreign exchange and gold on behalf of its customers, providing access to a large liquidity base in the context of, for example,

regular rebalancing of reserve portfolios or major changes in reserve currency allocation. The foreign exchange services of the Bank encompass spot transactions in major currencies and Special Drawing Rights (SDR), as well as swaps, outright forwards, options and dual currency deposits (DCDs). In addition, the Bank provides gold services such as sight accounts, fixed-term deposits, earmarked accounts, upgrading and refining, and location exchanges.

The BIS provides asset management services in sovereign securities and high-grade credit fixed income instruments. These may take the form of either a dedicated portfolio mandate negotiated between the BIS and a customer or an open-end fund structure – the BIS Investment Pool (BISIP) – allowing customers to invest in a common pool of assets. Both investment structures are offered as either single currency or multicurrency mandates in the major world reserve currencies: US dollar, euro, sterling and yen. For multicurrency mandates, the investor can choose from portfolios that are either hedged back into the base currency or left unhedged.

Dedicated mandates are designed according to each customer's particular preferences with regard to investment guidelines and benchmarks. In contrast, BISIPs are similar to mutual funds or unit trust funds but specifically cater to the investment criteria typical of central banks and international institutions. The two Asian Bond Funds (ABF1 and ABF2) are administered by the BIS under the BISIP umbrella: ABF1 is managed by the BIS and ABF2 by a group of external fund managers.

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

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

Financial operations in 2009/10

After an extended period of turbulence, financial markets began to show clearer signs of recovery in the second quarter of 2009. Against this more favourable background, the Bank's customer currency deposit base stabilised at SDR 195.8 billion, after having contracted by SDR 38.9 billion in the previous financial year.

The total balance sheet increased marginally by SDR 3.5 billion in 2009/10, after recording a contraction of SDR 55.8 billion in 2008/09. As a result, the balance sheet total amounted to SDR 258.9 billion at 31 March 2010.

Liabilities

Customer currency and gold placements constitute the largest share of total liabilities (see graph). On 31 March 2010, customer placements (excluding repurchase agreements) amounted to SDR 227.8 billion, compared with SDR 220.3 billion at the end of the previous financial year. Around 86% of customer placements are denominated in currencies, with the remainder in gold.

Currency deposits decreased from SDR 197.2 billion a year ago to SDR 195.8 billion at end-March 2010 – representing some 3.2% of the world's total foreign exchange reserves of nearly SDR 5.3 trillion, up from SDR 4.5 trillion at end-March 2009.[2] The share of currency placements denominated in US dollars was 67%, whereas euro- and sterling-denominated funds accounted for 22% and 5%, respectively.

The net contraction of customer currency placements resulted mainly from the combined decreases of 39% and 9% in investments in MTIs and sight and notice accounts, respectively, and an 80% increase in fixed-term deposits.

Gold deposits amounted to SDR 32.1 billion at end-March 2010, an increase of SDR 9.0 billion over the financial year.

A breakdown of placements with the BIS by geographical region shows that Asian customers account for the highest share.

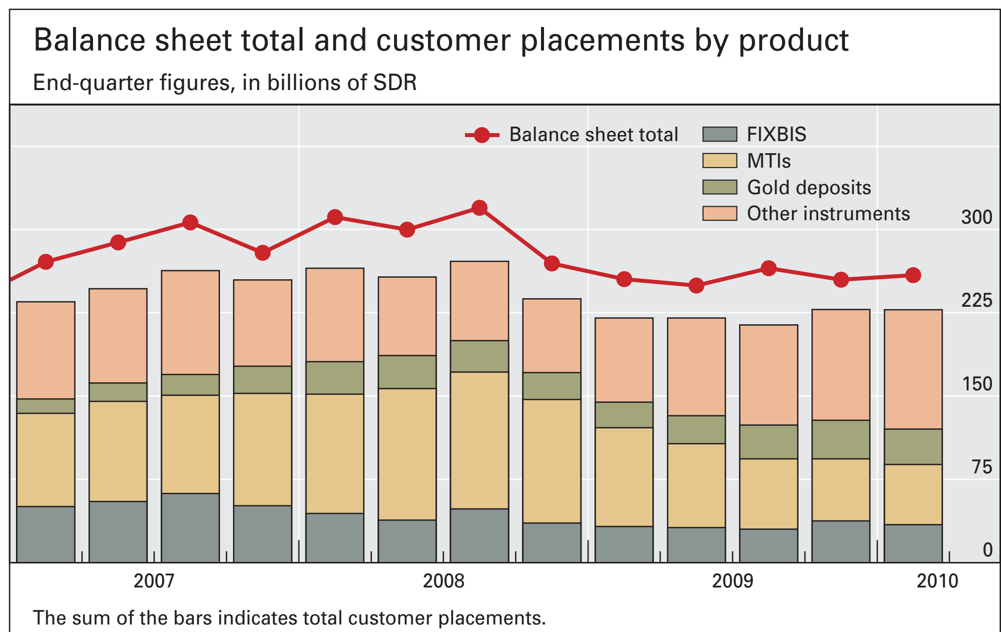
Assets

Most of the assets held by the BIS consist of government and quasi-government securities, including reverse repurchase agreements and, to an extent similar to that in the previous financial year, investments with highly rated commercial banks of international standing. In addition, the Bank owned 120 tonnes of fine gold at 31 March 2010. The Bank's credit exposure is managed in a conservative manner, with almost all of it rated A– or higher at 31 March 2010 (see note 3, "Credit risk", in the "Risk management" section of the financial statements).

The Bank's holdings of currency assets totalled SDR 200.0 billion on 31 March 2010, down from SDR 209.3 billion at the end of the previous financial year.

Balance sheet total and customer placements by product

End-quarter figures, in billions of SDR



The sum of the bars indicates total customer placements.

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

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

Trustee for international government loans

The Bank continued to perform its functions as trustee for the funding bonds 1990–2010 of the Dawes and Young Loans (for details, see the *63rd Annual Report* of June 1993). The Deutsche Bundesbank, as paying agent, notified the Bank that in 2009 the Bundesamt für zentrale Dienste und offene Vermögensfragen (BADV – Federal Office for Central Services and Unresolved Property Issues) had arranged for payment of approximately €4.6 million for redemption of funding bonds and interest. Redemption values and other details were published by the BADV in the *Bundesanzeiger* (*Federal Gazette*).

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

Representative Offices

The BIS has a Representative Office for Asia and the Pacific (the Asian Office), located in the Hong Kong Special Administrative Region of the People's Republic of China; and a Representative Office for the Americas (the Americas Office), located in Mexico City. The Representative Offices promote cooperation within each region by organising meetings, conducting policy research and fostering the exchange of information and data. The Asian Office also provides banking services to the region's monetary authorities.

The Asian Office

The BIS focused on the policy challenges facing shareholding central banks in the Asia-Pacific region by organising high-level meetings and by pursuing research. A Governor-level research conference on "The International Financial Crisis and Policy Challenges in Asia and the Pacific", organised with the People's Bank of China in Shanghai in August 2009, was the culmination of the three-year BIS Asian Research Programme. After the conference, the Bank placed the resources for research in Asia on a more permanent footing and divided them between work on issues of monetary stability and work on those of financial stability.

Working with the Monetary and Economic Department and the Banking Department of the BIS, the Asian Office held 11 events, typically organised jointly with a central bank or held in collaboration with the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) or the South East Asian Central Banks (SEACEN) organisation. These included the previously mentioned August 2009 Governor-level research conference in Shanghai; the Fifth High-Level Seminar on Financial Markets, organised with the Central Bank of Malaysia, in Kota Kinabalu in December 2009; and the Special Governors'

Meeting, organised with the Reserve Bank of Australia (RBA), in Sydney in February 2010.

In addition, the Financial Stability Institute and EMEAP held the Sixth FSI-EMEAP Working Group on Banking Supervision High-Level Meeting in Tokyo. The theme of the meeting was "Lessons Learned from the Financial Crisis: An International and Asian Perspective".

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

The Asian Consultative Council (ACC), established in 2001 as an advisory committee to the BIS Board, continued to offer Governors of shareholding central banks in Asia and the Pacific an effective way of communicating with the Board and an important forum for providing advice to the Asian Office. With Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, as chair, the ACC held two meetings during the year. At these meetings, Governors gave the benefit of their views on meetings to be organised and research to be carried out.

The February 2010 Special Governors' Meeting in Sydney coincided with other events commemorating the 50th anniversary of the RBA. As in previous such meetings, the 12 representatives of central banks in the region were joined by other Governors from around the globe. They discussed recent economic and financial developments, what exit strategies to follow as the economies in the region continue to recover, and what policies to put in place to foster more resilient financial systems.

Banking activity and the Asian Bond Funds

Central banks in Asia continued to make good use of the services provided by the regional treasury in the Asian Office's dealing room. Indeed, an increasing number of these central banks have now been dealing with the regional treasury in a wider range of products. Beyond offering these products, the BIS Banking Department is working on strengthening its business continuity management, in which the Asian Office is playing a key role. Additional staff resources were shifted from Basel to the Hong Kong back office. Regular cross-training and business continuity tests in the Asian Office's banking operations have been conducted in 2010 to help ensure that, in the event of a business interruption in Basel, critical tasks would be performed through the regional treasury.

As fund administrator, the BIS supported the second Asian Bond Fund (ABF2) initiative of EMEAP, which sought to advance the development of local currency bond markets. In March 2005, the 11 EMEAP central banks had provided seed money from their international reserves to invest in sovereign and quasi-sovereign local currency bonds in eight markets in the region. The Pan Asia Bond Index Fund (PAIF) was listed as an exchange-traded fund on the Tokyo Stock Exchange in June 2009. The overall size of the ABF2 reached $3.52 billion at the end of March 2010, up from $2.86 billion at the end of March 2009. Private sector investment increased to $797 million at the end of March 2010, from $427 million at the end of March 2009. Central bank holdings, which stood at $2.72 billion, were up from $2.43 billion at the end of March 2009.

Research in the Asian Office

The choice of research projects at the Asian Office was influenced by the policy challenges arising from both the lingering imprint of the international financial crisis and the budding recovery in Asia and the Pacific. Progress was made on a series of research projects that were intended to help regional authorities improve monetary policy and operations, develop financial markets, maintain financial stability and strengthen prudential policy.

Early in 2009/10, the research effort was directed at how the international financial crisis had affected the region and at the associated policy challenges. Later in the year, the focus of research shifted to policy issues arising from Asia's leading role in the recovery of the global economy.

On the monetary stability front, the Asian Office emphasised identifying and assessing the new monetary policy challenges facing the region's central banks. The work examined the ability of the region's diverse monetary policy frameworks to deliver low inflation, explored the key spillover channels to the region revealed during the crisis, and deepened the understanding of the challenges posed by capital inflows for central banks in the region.

On the financial stability front, research focused on analysing channels of financial market contagion. These channels included the role of time-varying risk appetites in the pricing of sovereign risk as well as the interaction of credit default swaps and cash bond markets. Methods of identifying systemically important financial institutions in the region were analysed to complement an ongoing monitoring of proposed revisions to supervisory frameworks in terms of their effects on the region's financial institutions. Another strand of research assessed the effectiveness of policy measures to alleviate financial system instability, including a study of loan loss provisioning in the region.

Building on the strong foundation laid by the Asian Research Programme, collaborative research on topics of interest to central banks and supervisors in the region continued to be organised with almost every BIS shareholding central bank in Asia and the Pacific as well as the regional organisations of central banks. This research not only fed into the numerous meetings organised with regional central banks but also led to the publication of several articles in refereed journals and the *BIS Quarterly Review*.

The Americas Office

The economies in Latin America and the Caribbean were affected in various ways by the international financial crisis that began in the major developed countries. Policymakers and researchers in the region have shown a heightened interest in the ensuing international analysis and discussion on how to revise key standards and strengthen financial stability. The Americas Office has thus centred its efforts on closely monitoring developments that would indicate the continued potential for contagion in the economies of Latin America and the Caribbean and on regional dissemination of research and analysis undertaken at the BIS.

As in the past, the Office has devoted its regional efforts not only to BIS member central banks but also to contacts and events with non-shareholding

central banks, regulatory authorities and the academic community. These activities generated several publications.

The Office again sponsored events at the annual meeting of the Latin American and Caribbean Economic Association. For the 2009 meeting, the events included a panel discussion with academics, directors from regional central banks and former Governors and parallel sessions featuring contributed papers.

The Office also co-organised and contributed to meetings at regional central banks, including: the Open Economies Meeting hosted by the Central Bank of the Dominican Republic; the Working Party on Monetary Policy in Latin America, convened at the Central Bank of Chile; a meeting on risk management for reserve managers, held in cooperation with the Central Bank of Brazil; and several training events organised by the Financial Stability Institute in cooperation with regional groupings of supervisors. In November 2009, the Office hosted workshops and meetings for the Group of Computer Experts.

The Office provided speakers to various conferences and meetings convened by regional central banks and by regional organisations such as the Centre for Latin American Monetary Studies (CEMLA), the Fondo Latinoamericano de Reservas (FLAR), the Central American Monetary Council (CMCA) and the Latin American Regional Committee of the International Association of Deposit Insurers (IADI-LARC).

Consultative Council for the Americas

The Office provides the Secretariat to the Consultative Council for the Americas (CCA). The CCA, which comprises the Governors of the BIS member central banks in the Americas, was established in May 2008 as an advisory committee to the BIS Board of Directors. Martín Redrado, then Governor of the Central Bank of Argentina, chaired the CCA until January 2010. Since March 2010, it has been chaired by Henrique de Campos Meirelles, Governor of the Central Bank of Brazil.

CCA members are regularly informed of the work of the BIS and the Americas Office in the region and are invited to comment on ongoing work. The most noteworthy initiative by the CCA in the past year was a March 2010 research conference on "Systemic Risk, Bank Behaviour and Regulation over the Business Cycle". It was conducted with the participation of CCA central banks and academics and hosted by the Central Bank of Argentina.

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 BIS has its head office in Basel, Switzerland. At the end of the financial year, the BIS employed 589 staff members from 54 countries.

The General Meeting of BIS member central banks

Fifty-six central banks and monetary authorities are currently members of the BIS.[3] These 56 institutions 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 decides the distribution of the dividend and profit of the BIS, approves the annual report and the accounts of the Bank, makes adjustments in the allowances paid to Board members and selects the Bank's external auditors.

The BIS Board of Directors

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

BIS shareholding institutions and members of the BIS Board of Directors are listed on the following pages.

[3] It will be recalled that, due to the constitutional changes in 2003 that transformed the Federal Republic of Yugoslavia, the legal status of the Yugoslav issue of the capital of the BIS had been under review for several years. Following a Board decision of September 2009 and with effect from 23 October 2009, the National Bank of Serbia became the Bank's 56th shareholder. It exercises the rights corresponding to the former Yugoslav issue of BIS shares, which has been redenominated as the Serbian issue.

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

Croatian National Bank

Czech National Bank

National Bank of Denmark

Bank of Estonia

European Central Bank

Bank of Finland

Bank of France

Deutsche Bundesbank (Germany)

Bank of Greece

Hong Kong Monetary Authority

Magyar Nemzeti Bank (Hungary)

Central Bank of Iceland

Reserve Bank of India

Bank Indonesia

Central Bank & Financial Services Authority of Ireland

Bank of Israel

Bank of Italy

Bank of Japan

Bank of Korea

Bank of Latvia

Bank of Lithuania

National Bank of the Republic of Macedonia

Central Bank of Malaysia

Bank of Mexico

Netherlands Bank

Reserve Bank of New Zealand

Central Bank of Norway

Bangko Sentral ng Pilipinas (Philippines)

National Bank of Poland

Bank of Portugal

National Bank of Romania

Central Bank of the Russian Federation

Saudi Arabian Monetary Agency

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

Bank of England

Board of Governors of the Federal Reserve System (United States)

BIS Board of Directors

Christian Noyer, Paris
Chairman of the Board of Directors

Hans Tietmeyer, Frankfurt am Main
Vice-Chairman

Ben S Bernanke, Washington
Mark Carney, Ottawa
Mario Draghi, Rome
William C Dudley, New York
Philipp Hildebrand, Zurich
Stefan Ingves, Stockholm
Mervyn King, London
Jean-Pierre Landau, Paris
Henrique de Campos Meirelles, Brasília
Guy Quaden, Brussels
Fabrizio Saccomanni, Rome
Masaaki Shirakawa, Tokyo
Jean-Claude Trichet, Frankfurt am Main
Paul Tucker, London
Axel A Weber, Frankfurt am Main
Nout H E M Wellink, Amsterdam
Zhou Xiaochuan, Beijing

Alternates

Andreas Dombret or Karlheinz Bischofberger, Frankfurt am Main
Paul Fisher or Michael Cross, London
Pierre Jaillet or Denis Beau, Paris
Donald L Kohn or D Nathan Sheets, Washington
Peter Praet or Jan Smets, Brussels
Ignazio Visco, Rome

Committees of the Board of Directors

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

Changes among the Board of Directors

Christian Noyer, Governor of the Bank of France, was elected by the Board in March 2010 to succeed Guillermo Ortiz as Chairman of the Board of Directors for a three-year term commencing on 7 March 2010. The term of Mr Ortiz as Governor of the Bank of Mexico had finished at the end of 2009, at which time he therefore stepped down as a member of the BIS Board and as its Chairman.

In June 2009, the Board had re-elected Mr Ortiz and three other members to three-year terms ending on 30 June 2012. The other re-elected members were Jean-Claude Trichet, President of the European Central Bank; Nout H E M Wellink, President of the Netherlands Bank; and Zhou Xiaochuan, Governor of the People's Bank of China.

In January 2010, the Board elected Henrique de Campos Meirelles, Governor of the Central Bank of Brazil, as a member of the Board for the remainder of Mr Ortiz's term.

At the end of 2009, Jean-Pierre Roth retired as Chairman of the Governing Board of the Swiss National Bank and stepped down from the Board. He had served as a member of the Board since 2001 and as its Chairman from 2006 to 2009. In the month preceding Mr Roth's retirement, his successor as Chairman at the Swiss National Bank, Philipp Hildebrand, was elected by the Board as a member for the remainder of Mr Roth's term, ending on 31 March 2010. In March, the Board re-elected Mr Hildebrand to a three-year term ending on 31 March 2013.

Alfons Vicomte Verplaetse, Honorary Governor of the National Bank of Belgium, retired from the Board at the end of his term, 31 December 2009. Vicomte Verplaetse had been a member of the Board since 1989 and had served as Chairman of the Board between 1997 and 1999.

Ben S Bernanke, Chairman of the Board of Governors of the Federal Reserve System, reappointed William C Dudley, President of the Federal Reserve Bank of New York, to a three-year term ending on 12 September 2012. Mario Draghi, Governor of the Bank of Italy, appointed Fabrizio Saccomanni, Director General of the Bank of Italy, to a three-year term ending on 31 December 2012.

In September 2009, the Board re-elected two members to three-year terms ending on 12 September 2012: Mark Carney, Governor of the Bank of Canada, and Masaaki Shirakawa, Governor of the Bank of Japan.

In memoriam

The Board noted with deep regret the deaths of Johann Schöllhorn on 6 December 2009 at the age of 87, of Lord Richardson of Duntisbourne on 22 January 2010 at the age of 94 and of Philippe Wilmès on 24 May 2010 at the age of 72. All three had served as members of the Board, Mr Schöllhorn from 1976 to 1989, Lord Richardson from 1973 to 1993 and Mr Wilmès from 1991 to 1999.

During the bimonthly meetings in May 2010, the Board and other Governors of BIS shareholding institutions held a minute's silence in memory of Mr Sławomir Skrzypek, President of the National Bank of Poland, who died in

the tragic air crash near Smolensk on 10 April 2010. Mr Skrzypek was one of many Polish dignitaries to lose their lives in the crash.

BIS Management

BIS Management is under the overall direction of the General Manager, who is responsible to the Board of Directors for the conduct of the Bank. The General Manager is advised by the Executive Committee of the BIS, which consists of the General Manager as chair, the Deputy General Manager, the Heads of the three BIS departments – the General Secretariat, the Banking Department and the Monetary and Economic Department – and the General Counsel.

Other senior officials are the Deputy Heads of the departments and the Chairman of the Financial Stability Institute.

General Manager	Jaime Caruana
Deputy General Manager	Hervé Hannoun
Secretary General and Head of General Secretariat	Peter Dittus
Economic Adviser and Head of Monetary and Economic Department	Stephen G Cecchetti
Head of Banking Department	Günter Pleines
General Counsel	Diego Devos
Deputy Secretary General	Jim Etherington
Deputy Head of Banking Department	Louis de Montpellier
Deputy Head of Monetary and Economic Department (Research and Statistics)	Claudio Borio
Deputy Head of Monetary and Economic Department (Policy, Coordination and Administration)	Philip Turner
Chairman, Financial Stability Institute	Josef Tošovský

In January 2010, the Board reappointed Hervé Hannoun as Deputy General Manager until 31 August 2015.

Bank budget policy

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

The budget distinguishes between administrative and capital expenditures. In common with organisations similar to the BIS, Management and staff expense – including remuneration, pensions and health, and accident insurance – amounts to around 70% of administrative costs. The other major expenditure categories, each accounting for about 10% of administrative spending, are information technology (IT), telecommunications, and buildings and equipment. Capital spending mainly relates to building expenses and IT investment and can vary significantly from year to year.[4] Most of the Bank's administrative and capital expenditure is incurred in Swiss francs.

Administrative expenses before depreciation for the financial year 2009/10 amounted to 252.2 million Swiss francs, 2.7% below the budget of 259.2 million Swiss francs, while capital expenditure, at 19.2 million Swiss francs, was 2.6 million under budget. The largest sources of the underspending in administrative expenses were lower than budgeted outlays for pensions, IT and telecommunications.[5]

Administrative and capital expenditure in 2009/10 reflected the main priority in the budget, which was to reinforce the Bank's response to the global financial crisis with the following measures:

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

In addition, the budget for 2009/10 advanced the Bank's global outreach activities, further developing them through support for the Consultative Council for the Americas; and through the creation of a permanent economics research unit at the Asian Office following the completion of the three-year Asian Research Programme in September 2009.

In March 2010, the Board approved an increase in the administrative budget for the financial year 2010/11 of 0.9%, to 261.6 million Swiss francs. It approved an increase in the capital budget of 1.6 million Swiss francs, to 23.5 million.

The Bank's business plan, on which the proposed administrative budget for 2010/11 is based, builds on last year's plan and continues to give priority to reinforcing the response of the BIS to the global financial crisis. The budget for 2010/11 provides a further increase in human and financial resources

[4] Some facilities in the BIS Tower were upgraded this year after more than 30 years of use.

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

devoted to financial stability issues, in particular to strengthen support of the FSB and BCBS.

Dealing with the aftermath of the financial crisis will be the main priority of the Banking Department and the Risk Control, Finance and Compliance units. Work in the banking business will continue to be oriented towards: carefully managing the balance sheet; enhancing risk management, operational controls and management accounting; and strengthening asset management activities.

Bank remuneration policy

The jobs performed by BIS staff members are assessed on the basis of a number of objective criteria, including qualifications, experience and responsibilities, and are classified into distinct job grades. The job grades are associated with a structure of salary ranges. Every three years, a comprehensive salary survey is conducted in which BIS salaries are benchmarked against compensation in comparable institutions and market segments. When benchmarking BIS salaries against comparators, the Bank focuses on the upper half of market compensation in order to attract highly qualified staff. The analysis takes into account differences in the taxation of compensation for the staff of the surveyed institutions. The most recent such survey took place in the second half of 2007. In years between comprehensive salary surveys, the salary structure is adjusted primarily on the basis of the rate of inflation in Switzerland and the weighted average real wage increase in industrial countries. As of 1 July 2009, the salary structure was accordingly increased by 2.1%. Movements of salaries of individual staff members within the ranges of the salary structure are based on performance.

BIS staff members have access through the Bank to a contributory health insurance plan and a contributory defined benefit pension plan. Non-locally hired, non-Swiss staff members recruited for a position at the Bank's headquarters, including senior officials, are entitled to an expatriation allowance. In proportion to annual salary, it currently amounts to 14% for unmarried staff members and 18% for married staff members, subject to a ceiling. Expatriate staff members are also entitled to receive an education allowance for their children subject to certain conditions.

With regard to employment in the Representative Offices, a distinction is made between staff members on an international assignment from the headquarters and staff members recruited directly for a position in a Representative Office. The employment conditions of the former are determined in accordance with the Bank's international assignment policy. For staff recruited directly, employment conditions are aligned with those in the market in which the Office is located. Those staff members have access to the same health insurance and pension plans as staff engaged at the Bank's headquarters.

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

the current practice of annually adjusting the salaries of senior officials for the rate of Swiss inflation.

As of 1 July 2009, the annual remuneration of senior officials, before expatriation allowances, is based on the following salary structure:

- General Manager[6] 758,600 Swiss francs
- Deputy General Manager 641,900 Swiss francs
- Heads of Department 583,550 Swiss francs

The Annual General Meeting approves the remuneration of members of the Board of Directors, with adjustments taking place every three years. The total fixed annual remuneration paid to the Board of Directors was 1,049,520 Swiss francs as at 1 April 2010. In addition, Board members receive an attendance fee for each Board meeting in which they participate. Assuming the full Board is represented in all Board meetings, the annual total of these attendance fees amounts to 973,788 Swiss francs.

Net profit and its distribution

The Bank recorded an exceptionally high net profit of SDR 1,859.8 million for the 80th financial year, ended 31 March 2010. This compares with a profit of SDR 446.1 million for the preceding financial year. This profit, which is unlikely to be repeated in the coming financial years, was achieved against a background of recovery in global financial markets, and in particular in the credit markets, where many credit spreads against Libor narrowed back to levels not seen since before September 2008. The lower profit in the previous financial year was incurred in the exceptional market turmoil following the events of September 2008, when a number of important financial institutions failed or were threatened with failure. The principal factors behind the 2009/10 result are discussed below.

Principal factors behind the 2009/10 profit

Net interest income amounted to SDR 1,431.2 million in the financial year 2009/10 compared with the equivalent figure of SDR 1,601.9 million in the preceding financial year. This decrease was mainly attributable to a lower average volume of customer currency deposits in 2009/10 than in the previous year. Intermediation margins, which had been wide in the first six months of the financial year, narrowed as the market turmoil subsided in the second half of the financial year. In these more normal market conditions, interest spreads above Libor earned on risk-weighted assets and interest spreads below Libor paid on the Bank's liabilities both declined.

Net valuation movements amounted to a gain of SDR 520.5 million, compared with a loss of SDR 1,181.7 million last year. The valuation gain in the current financial year was attributable to the impact of narrowing credit spreads (around SDR 670 million), which increased the fair values of the

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

bonds in the Bank's credit portfolios. Most of the valuation gain took place in the first half of the financial year. The valuation loss for the preceding financial year was mainly attributable to the impact of an exceptional widening of credit spreads on the Bank's borrowed funds bond portfolios in the financial market turmoil at that time.

Operating expense (see note 25 to the financial statements) amounted to SDR 190.8 million, 14.6% above the preceding year's figure of SDR 166.5 million. In terms of Swiss francs, the currency in which most of the Bank's administrative expenses are incurred, operating expense rose by 10.6%. Administrative expenses before depreciation amounted to SDR 177.7 million, 15.1% above the previous year's figure of SDR 154.4 million. The depreciation charge of SDR 13.1 million was SDR 1.0 million above the equivalent figure for 2008/09 (SDR 12.1 million).

After taking into account the above factors, the Bank's operating profit amounted to SDR 1,754.4 million, SDR 1,509.1 million above the equivalent figure of SDR 245.3 million recorded in 2008/09.

A net gain of SDR 105.4 million was realised on the sale of investment securities during the financial year, which the Bank acquired when interest rates were higher. In 2008/09, a net gain of SDR 123.8 million was recorded for the sale of investment securities and included gains on sales of securities that were incurred when the investment securities portfolio duration benchmark was reduced from four years to three.

There were no sales of gold investment assets during 2009/10. In 2008/09, a gain (SDR 77.0 million) was recorded on the sale of five tonnes of the Bank's own gold.

As a result of these factors, the net profit for the financial year 2009/10 amounted to SDR 1,859.8 million, SDR 1,413.7 million above the equivalent figure of SDR 446.1 million in the preceding year.

Movements in equity

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

The securities revaluation account decreased by SDR 112.5 million as a result of net unrealised losses on investment securities (–SDR 7.1 million) and the transfer to the profit and loss account of realised gains (–SDR 105.4 million) on sales of securities.

The gold revaluation account increased by SDR 456.8 million as a result of unrealised gains on the Bank's own gold holdings of 120 tonnes, which were attributable to the year-on-year appreciation of the gold price.

After taking these gains into account, the Bank's total return[7] for 2009/10 was SDR 2,204.1 million. This represented a return of 14.9% on average equity

[7] The total return is shown as "Total comprehensive income" in the table entitled "Statement of comprehensive income" on page 151 in the financial statements.

(SDR 14,795 million). In 2008/09, the total return was SDR 757.6 million, and the return on average equity (SDR 13,149 million) was 5.8%. Taking into account the payment of the dividend for 2008/09, the Bank's equity increased by SDR 2,059.4 million during the year ended 31 March 2010. This compares with an equivalent increase of SDR 612.9 million in 2008/09.

Proposed dividend

The Board reviewed the dividend policy of the BIS during the financial year 2009/10. The review took into consideration the Bank's capital needs and the interests of BIS shareholders in obtaining a fair and sustainable return on their investments in BIS shares. In framing the new dividend policy, the Board adopted a number of governing principles, which are:

- First, the need for the Bank to maintain a strong capital base at all times, including during financial stress.
- Second, the dividend should be relatively stable, set at a sustainable level and changing in a predictable manner each year.
- Third, while the Bank's dividend policy should provide guidance for the medium term, the dividend should continue to reflect the prevailing financial circumstances of the Bank and should remain an annual decision of the Board.

The dividend policy, which will be subject to further review by the Board of Directors in five years' time, now takes into account the Bank's capital adequacy requirements rather than the payout ratio. The policy incorporates:

- a normal sustainable dividend in conformity with the medium-term dividend policy decided ex ante which would increase by SDR 10 per annum; and
- a supplementary dividend, which would be decided ex post, while keeping leverage and economic capital within desired ranges.

The policy will ensure that earnings are retained to augment the Bank's capital at a sufficient rate to support the Bank's business and maintain its capital position relative to the size of the balance sheet and its economic capital requirements. In normal circumstances, it will result in a steady progression in annual dividends, while retaining the flexibility to be operable in years of low or high profits. In addition, the final approval of the dividend each May would coincide with the outcome of the annual economic capital allocation process (see note 2 of the capital adequacy section of the financial statements), enabling the Board to pay an appropriate dividend, while ensuring that the Bank's capital base remains strong.

Consistent with the new dividend policy, it is proposed for the financial year 2009/10 to declare:

- a normal dividend of SDR 285 per share, SDR 20 above the dividend for 2008/09. Prior to last year, the dividend had increased by SDR 10 each year in accordance with the medium-term policy agreed by the Board in 2005. The increase of SDR 20 per share would consist of an annual increase of SDR 10 per share and a further increase of SDR 10 per share to compensate for the absence of an increase in the dividend in 2008/09; and

- a supplementary dividend of SDR 400 per share, which would be paid in recognition of the exceptionally high net profit for 2009/10.

Proposed distribution of the net profit for the year

On the basis of Article 51 of the Statutes, the Board of Directors recommends to the Annual General Meeting that the net profit of SDR 1,859.8 million for the financial year 2009/10 be applied by the General Meeting in the following manner:

(a) SDR 374.1 million in payment of:
  - a normal dividend of SDR 285 per share, costing SDR 155.6 million; and
  - a supplementary dividend of SDR 400 per share, costing SDR 218.5 million;

(b) SDR 148.6 million to be transferred to the general reserve fund;[8]

(c) SDR 12.0 million to be transferred to the special dividend reserve fund; and

(d) SDR 1,325.1 million, representing the remainder of the available net profit, to be transferred to the free reserve fund.

If approved, the two dividends could be paid out in one amount of SDR 685 per share on 8 July 2010 according to each shareholder's instructions in any constituent currency of the SDR, or in Swiss francs, to the shareholders named in the Bank's share register on 31 March 2010.

The full dividend will be paid on 546,125 shares. The number of issued and paid-up shares is 547,125. Of these shares, 1,000 were held in treasury at 31 March 2010, namely the suspended shares of the Albanian issue. No dividend will be paid on these treasury shares.

Report of the auditors

The Bank's financial statements have been duly audited by Deloitte AG, who have confirmed that they give a true and fair view of the Bank's financial position at 31 March 2010 and the results of its operations for the year then ended. Their report is to be found immediately following the financial statements.

[8] Since the general reserve fund exceeded four times the Bank's paid-up capital at 31 March 2010, Article 51 of the Bank's Statutes requires that 10% of the profit after payment of the dividend shall be paid into this fund, until its balance equals five times the paid-up capital.

Financial statements

as at 31 March 2010

The financial statements on pages 150–204 for the financial year ended 31 March 2010 were approved on 10 May 2010 for presentation to the Annual General Meeting on 28 June 2010. They are presented in a form approved by the Board of Directors pursuant to Article 49 of the Bank's Statutes and are subject to approval by the shareholders at the Annual General Meeting.

Jaime Caruana	Hervé Hannoun
General Manager	Deputy General Manager

Balance sheet

As at 31 March 2010

SDR millions	Notes	**2010**	2009
Assets			
Cash and sight accounts with banks	3	1,516.2	915.2
Gold and gold loans	4	43,039.8	25,416.2
Treasury bills	5	84,714.8	96,421.9
Securities purchased under resale agreements	5	42,305.9	38,594.4
Loans and advances	6	19,288.6	18,512.7
Government and other securities	5	53,687.7	55,763.7
Derivative financial instruments	7	10,114.7	13,749.1
Accounts receivable	8	4,035.7	5,822.5
Land, buildings and equipment	9	189.9	191.0
Total assets		**258,893.3**	255,386.7
Liabilities			
Currency deposits	10	195,755.1	197,222.2
Gold deposits	11	32,064.1	23,052.1
Derivative financial instruments	7	4,187.4	6,816.8
Accounts payable	13	10,792.4	14,211.5
Other liabilities	14	319.0	368.2
Total liabilities		**243,118.0**	241,670.8
Shareholders' equity			
Share capital	15	683.9	683.9
Statutory reserves	16	10,668.7	10,367.3
Profit and loss account		1,859.8	446.1
Less: shares held in treasury	17	(1.7)	(1.7)
Other equity accounts	18	2,564.6	2,220.3
Total equity		**15,775.3**	13,715.9
Total liabilities and equity		**258,893.3**	255,386.7

Profit and loss account

For the financial year ended 31 March 2010

SDR millions	Notes	**2010**	2009
Interest income	20	4,051.9	8,254.9
Interest expense	21	(2,620.7)	(6,653.0)
Net interest income		**1,431.2**	1,601.9
Net valuation movement	22	520.5	(1,181.7)
Net interest and valuation income		**1,951.7**	420.2
Net fee and commission income	23	10.7	0.4
Net foreign exchange loss	24	(17.2)	(8.8)
Total operating income		**1,945.2**	411.8
Operating expense	25	(190.8)	(166.5)
Operating profit		**1,754.4**	245.3
Net gain on sales of securities available for sale	26	105.4	123.8
Net gain on sales of gold investment assets	27	–	77.0
Net profit for the financial year		**1,859.8**	446.1

Basic and diluted earnings per share (in SDR per share)	28	**3,405.4**	816.8

Statement of comprehensive income

For the financial year ended 31 March 2010

SDR millions	Notes	**2010**	2009
Net profit for the financial year		**1,859.8**	446.1
Unrealised gain / (loss) on securities available for sale	18A	(112.5)	159.1
Unrealised gain on gold investment assets	18B	456.8	152.4
Total comprehensive income for the financial year		**2,204.1**	757.6

Statement of cash flows

For the financial year ended 31 March 2010

SDR millions	Notes	**2010**	2009
Cash flow from / (used in) operating activities			
Interest and similar income received		4,875.0	6,710.8
Interest and similar expenses paid		(2,522.8)	(4,802.1)
Net fee and commission income	23	10.7	0.4
Foreign exchange transaction income	24	0.3	11.6
Operating expenses paid		(177.6)	(154.4)
Non-cash flow items included in operating profit			
Valuation movements on operating assets and liabilities	22	520.5	(1,181.7)
Foreign exchange translation loss	24	(17.5)	(20.4)
Impairment charge on gold assets		–	(18.3)
Change in accruals and amortisation		(921.2)	(288.4)
Change in operating assets and liabilities			
Currency deposit liabilities held at fair value through profit and loss		3,220.0	(29,289.7)
Currency banking assets		6,472.1	44,724.0
Sight and notice deposit account liabilities		(2,839.8)	(8,910.2)
Gold deposits		9,012.0	(6,049.3)
Gold and gold loan banking assets		(17,170.5)	6,055.2
Accounts receivable		(0.7)	(0.3)
Other liabilities / accounts payable		339.9	41.8
Net derivative financial instruments		1,005.0	(5,733.6)
Net cash flow used in operating activities		**1,805.4**	1,095.4
Cash flow from / (used in) investment activities			
Net change in currency investment assets available for sale	5B	(606.4)	1,021.2
Net change in currency investment assets held at fair value through profit and loss		131.1	15.0
Net change in securities sold under repurchase agreements		–	(1,894.1)
Net change in gold investment assets	4B	3.7	295.7
Net purchase of land, buildings and equipment	9	(12.1)	(12.7)
Net cash flow used in investment activities		**(483.7)**	(574.9)

SDR millions	Notes	**2010**	2009
Cash flow used in financing activities			
Dividends paid		(144.7)	(144.7)
Shares repurchased in 2001 – payments to former shareholders		–	(0.1)
Net cash flow used in financing activities		**(144.7)**	(144.8)
Total net cash flow		**1,177.0**	375.7
Net effect of exchange rate changes on cash and cash equivalents		49.8	(23.2)
Net movement in cash and cash equivalents		1,127.2	398.9
Net change in cash and cash equivalents		**1,177.0**	375.7
Cash and cash equivalents, beginning of year	29	**1,311.8**	936.1
Cash and cash equivalents, end of year	29	**2,488.8**	1,311.8

Movements in the Bank's equity

For the financial year ended 31 March 2010

SDR millions	Notes	Share capital	Statutory reserves	Profit and loss	Shares held in treasury	Other equity accounts	Total equity
Equity at 31 March 2008		**683.9**	**9,967.3**	**544.7**	**(1.7)**	**1,908.8**	**13,103.0**
Total comprehensive income	18	–	–	446.1	–	311.5	757.6
Payment of 2007/08 dividend		–	–	(144.7)	–	–	(144.7)
Allocation of 2007/08 profit		–	400.0	(400.0)	–	–	–
Equity at 31 March 2009		**683.9**	**10,367.3**	**446.1**	**(1.7)**	**2,220.3**	**13,715.9**
Total comprehensive income	18	–	–	1,859.8	–	344.3	2,204.1
Payment of 2008/09 dividend		–	–	(144.7)	–	–	(144.7)
Allocation of 2008/09 profit		–	301.4	(301.4)	–	–	–
Equity at 31 March 2010 per balance sheet before proposed profit allocation		**683.9**	**10,668.7**	**1,859.8**	**(1.7)**	**2,564.6**	**15,775.3**
Proposed dividends – normal	15	–	–	(155.6)	–	–	(155.6)
Proposed dividends – supplementary	15	–	–	(218.5)	–	–	(218.5)
Proposed transfers to reserves		–	1,485.7	(1,485.7)	–	–	–
Equity at 31 March 2010 after proposed profit allocation		**683.9**	**12,154.4**	**–**	**(1.7)**	**2,564.6**	**15,401.2**

At 31 March 2010 statutory reserves included share premiums of SDR 811.7 million (2009: SDR 811.7 million).

Statement of proposed profit allocation

For the financial year ended 31 March 2010

SDR millions	Notes	2010
Net profit for the financial year		**1,859.8**
Transfer to legal reserve fund	16	–
Proposed dividends on 546,125 shares:		
Normal – SDR 285 per share		(155.6)
Supplementary – SDR 400 per share		(218.5)
Total proposed dividends		**(374.1)**
Proposed transfers to reserves:		
General reserve fund	16	(148.6)
Special dividend reserve fund	16	(12.0)
Free reserve fund	16	(1,325.1)
Balance after allocation to reserves		**–**

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

Movements in the Bank's statutory reserves

For the financial year ended 31 March 2010

						2010
SDR millions	Notes	Legal reserve fund	General reserve fund	Special dividend reserve fund	Free reserve fund	Total statutory reserves
Balance at 31 March 2009		**68.3**	**3,049.8**	**154.0**	**7,095.2**	**10,367.3**
Allocation of 2008/09 profit	16	–	30.1	–	271.3	301.4
Balance at 31 March 2010 per balance sheet before proposed profit allocation		**68.3**	**3,079.9**	**154.0**	**7,366.5**	**10,668.7**
Proposed transfers to reserves	16	–	148.6	12.0	1,325.1	1,485.7
Balance at 31 March 2010 after proposed profit allocation		**68.3**	**3,228.5**	**166.0**	**8,691.6**	**12,154.4**

Accounting policies

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

1. Scope of the financial statements

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

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

2. Functional and presentation currency

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

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

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

3. Currency translation

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

4. Designation of financial instruments

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

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

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

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

5. Asset and liability structure

Assets and liabilities are organised into two sets of portfolios:

A. Banking portfolios

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

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

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

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

B. Investment portfolios

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

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

Except for the currency assets described in the next paragraph, currency assets (other than cash and sight and notice accounts with banks) are designated as available for sale. Related securities sold under repurchase agreements are designated as financial liabilities measured at amortised cost.

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

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

6. Cash and sight accounts with banks

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

7. Notice accounts

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

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

8. Sight and notice deposit account liabilities

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

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

9. Use of fair values in the currency banking portfolios

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

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

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

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

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

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

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

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

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

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

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

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

12. Currency assets available for sale

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

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

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

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

13. Short positions in currency assets

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

14. Gold

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

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

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

15. Gold loans

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

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

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

16. Gold deposits

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

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

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

17. Realised and unrealised gains or losses on gold

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

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

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

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

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

B. Investment portfolios, comprising gold investment assets

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

Unrealised gains or losses on the Bank's gold investment assets over their deemed cost are taken to the gold revaluation account in equity, which is reported under the balance sheet heading "Other equity accounts". The movement in fair value is included in the statement of comprehensive income under the heading "Unrealised gain on gold investment assets".

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

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

18. Securities sold under repurchase agreements

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

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

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

19. Derivatives

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

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

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

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

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

20. Valuation policy

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

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

The use of fair values ensures that the financial reporting to the Board and shareholders reflects the way in which the

banking business is managed and is consistent with the risk management and economic performance figures reported to Management.

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

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

The Bank has an independent valuation control function which periodically reviews the value of its financial instruments, taking into account both the accuracy of the valuations and the valuation methodologies used. Other valuation controls include the review and analysis of daily profit and loss.

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

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

22. Accounts receivable and accounts payable

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

23. Land, buildings and equipment

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

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

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

24. Provisions

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

25. Post-employment benefit obligations

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

A. Staff pensions

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

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

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

B. Directors' pensions

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

C. Post-employment health and accident benefits

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

D. Corridor accounting

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

26. Cash flow statement

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

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

Notes to the financial statements

1. Introduction

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

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

2. Use of estimates

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

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

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

Subsequent actual results could differ materially from those estimates.

A. The valuation of financial assets and liabilities

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

For the financial year ended 31 March

SDR millions	**2010**	2009
Treasury bills	0.3	–
Securities purchased under resale agreements	0.1	0.1
Loans and advances	0.3	0.2
Government and other securities	9.8	9.5
Currency deposits	15.0	18.5
Derivative financial instruments	5.6	8.9

B. The valuation of corporate bonds

In the financial market environment at 31 March 2009 the degree of judgment involved in valuing financial instruments was significant. With few actual market trades in certain financial assets held by the Bank, a high degree of judgment was necessary to select valuation parameters from within a wide range of potential alternative assumptions. This was particularly relevant for the Bank's holdings of corporate bonds (included under the balance sheet heading "Government and other securities"), for which the potential range of alternative spread assumptions was of the order of tens of basis points. Due to improved market conditions, the degree of uncertainty at 31 March 2010 was lower.

Management believes that all of the valuation parameters used by the Bank reflect market conditions at the balance sheet date in a fair and prudent manner.

C. Impairment provision – financial assets

Gold loans include a provision of SDR 23.5 million following an impairment review as at 31 March 2010 (31 March 2009: SDR 18.3 million). The impairment review was conducted at an individual counterparty level, identifying those counterparties which were experiencing significant financial difficulties at the balance sheet date. The increase in the

provision during the financial year ended 31 March 2010 is due to changes in gold prices, which are included under the profit and loss account heading "Net foreign exchange loss". No additional impairment charge was recognised during the financial year (2009: SDR 18.3 million). Impairment charges, when recognised, are included in the profit and loss account under the heading "Net interest income".

D. Actuarial assumptions and medical cost inflation

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

3. Cash and sight accounts with banks

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

4. Gold and gold loans

A. Total gold holdings

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

As at 31 March

SDR millions	**2010**	2009
Gold bars held at central banks	41,596.9	22,616.5
Total gold loans	1,442.9	2,799.7
Total gold and gold loan assets	**43,039.8**	25,416.2
Comprising:		
Gold investment assets	2,811.2	2,358.1
Gold and gold loan banking assets	40,228.6	23,058.1

Included in "Gold bars held at central banks" is SDR 8,160.1 million (346 tonnes) (2009: nil) of gold, which the Bank held in connection with gold swap operations, under which the Bank exchanges currencies for physical gold. The Bank has an obligation to return the gold at the end of the contract.

B. Gold investment assets

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

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

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

For the financial year ended 31 March

SDR millions	**2010**	2009
Balance at beginning of year	2,358.1	2,424.4
Net change in gold investment assets		
Disposals of gold	–	(102.0)
Impairment, sight account and other net movements	(3.7)	(193.7)
	(3.7)	(295.7)
Gold price movement	456.8	229.4
Balance at end of year	**2,811.2**	2,358.1

At 31 March 2010 the Bank's gold investment assets amounted to 120 tonnes of fine gold (2009: 120 tonnes).

5. Currency assets

A. Total holdings

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

Currency assets held at fair value through profit and loss comprise those currency banking assets that represent the reinvestment of customer deposits and those currency investment assets that are part of more actively managed portfolios. Currency assets available for sale comprise the remainder of the Bank's currency investment assets and represent, for the most part, the investment of the Bank's equity.

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

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

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

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

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

As at 31 March 2010	Banking assets	Investment assets			**Total currency assets**
SDR millions	Held at fair value through profit and loss	Available for sale	Held at fair value through profit and loss	Total	
Treasury bills	**84,652.5**	**–**	**62.3**	**62.3**	**84,714.8**
Securities purchased under resale agreements	**42,305.9**	**–**	**–**	**–**	**42,305.9**
Fixed-term loans and advances	**18,316.0**	**–**	**–**	**–**	**18,316.0**
Government and other securities					
Government	7,863.1	9,563.8	8.9	9,572.7	17,426.9
Financial institutions	18,878.3	677.7	543.2	1,220.9	20,108.1
Other (including public sector securities)	14,838.0	1,314.7	–	1,314.7	16,152.7
	41,579.4	**11,556.2**	**552.1**	**12,108.3**	**53,687.7**
Total currency assets	**186,853.8**	**11,556.2**	**614.4**	**12,170.6**	**199,024.4**

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

B. Currency assets available for sale

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

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

For the financial year ended 31 March

SDR millions	**2010**	2009
Balance at beginning of year	10,859.3	11,707.4
Net change in currency assets available for sale		
Additions	5,233.1	10,805.7
Disposals	(3,941.1)	(4,633.8)
Other net movements	(685.6)	(7,193.1)
	606.4	(1,021.2)
Net change in transactions awaiting settlement	97.6	(109.8)
Fair value and other movements	(7.1)	282.9
Balance at end of year	**11,556.2**	10,859.3

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

6. Loans and advances

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

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

As at 31 March

SDR millions	**2010**	2009
Fixed-term loans and advances	18,316.0	18,116.1
Notice accounts	972.6	396.6
Total loans and advances	**19,288.6**	18,512.7

The amount of the change in fair value recognised in the profit and loss account on fixed-term loans and advances is SDR 38.5 million (2009: SDR – 50.0 million).

7. Derivative financial instruments

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

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

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

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

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

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

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

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

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

As at 31 March	2010			2009		
	Notional amounts	Fair values		Notional amounts	Fair values	
SDR millions		Assets	Liabilities		Assets	Liabilities
Bond futures	754.9	0.8	–	1,862.4	1.2	(1.4)
Cross-currency interest rate swaps	345.8	56.1	(401.9)	2,708.0	95.6	(400.7)
Currency and gold forwards	736.2	2.7	(1.1)	3,047.4	7.3	(173.0)
Currency and gold options	6,034.1	47.9	(47.2)	5,030.1	156.6	(158.2)
Currency and gold swaps	108,476.1	3,282.5	(199.8)	99,578.6	2,860.4	(1,294.1)
Forward rate agreements	7,975.6	0.7	(2.9)	10,875.9	20.0	(13.3)
Interest rate futures	2,015.9	–	–	12,430.4	0.3	(0.9)
Interest rate swaps	309,000.7	6,721.1	(3,532.8)	393,413.7	10,600.8	(4,761.2)
Swaptions	845.2	2.9	(1.7)	2,016.9	6.9	(14.0)
Total derivative financial instruments at end of year	**436,184.5**	**10,114.7**	**(4,187.4)**	530,963.4	13,749.1	(6,816.8)
Net derivative financial instruments at end of year			**5,927.3**			6,932.3

8. Accounts receivable

As at 31 March		
SDR millions	**2010**	2009
Financial transactions awaiting settlement	4,023.9	5,811.5
Other assets	11.8	11.0
Total accounts receivable	**4,035.7**	5,822.5

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

9. Land, buildings and equipment

For the financial year ended 31 March				2010	2009
SDR millions	Land	Buildings	IT and other equipment	Total	Total
Historical cost					
Balance at beginning of year	**41.2**	**238.5**	**81.9**	**361.6**	349.1
Capital expenditure	–	5.4	6.7	12.1	12.7
Disposals and retirements	–	–	–	–	(0.2)
Balance at end of year	**41.2**	**243.9**	**88.6**	**373.7**	361.6
Depreciation					
Accumulated depreciation at beginning of year	**–**	**107.8**	**62.8**	**170.6**	158.7
Depreciation	–	7.4	5.8	13.1	12.1
Disposals and retirements	–	–	–	–	(0.2)
Balance at end of year	**–**	**115.2**	**68.6**	**183.7**	170.6
Net book value at end of year	**41.2**	**128.7**	**20.0**	**189.9**	191.0

The depreciation charge for the financial year ended 31 March 2010 includes an additional charge of SDR 0.1 million for IT and other equipment following an impairment review (2009: SDR 0.4 million).

10. Currency deposits

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

As at 31 March		
SDR millions	**2010**	2009
Deposit instruments repayable at one to two days' notice		
Medium-Term Instruments (MTIs)	52,420.8	86,243.7
Callable MTIs	1,717.3	2,652.9
FIXBIS	34,223.7	32,664.4
	88,361.8	121,561.0
Other currency deposits		
FRIBIS	116.9	204.3
Fixed-term deposits	78,434.1	43,633.2
Dual Currency Deposits (DCDs)	95.8	237.4
Sight and notice deposit accounts	28,746.5	31,586.3
	107,393.3	75,661.2
Total currency deposits	**195,755.1**	197,222.2
Comprising:		
Designated as held at fair value through profit and loss	167,008.6	165,635.9
Designated as financial liabilities measured at amortised cost	28,746.5	31,586.3

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

Callable MTIs are MTIs that are callable at the option of the Bank at an exercise price of par, with call dates between June 2010 and December 2010 (2009: June 2009 and December 2009). The balance sheet total for callable MTIs includes the fair value of the embedded interest rate option.

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

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

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

Dual Currency Deposits (DCDs) are fixed-term deposits that are repayable on the maturity date either in the original currency or at a fixed amount in a different currency at the option of the Bank. The balance sheet total for DCDs includes the fair value of the embedded foreign exchange option. These deposits all mature between 21 April 2010 and 12 May 2010 (2009: between 2 April 2009 and 15 May 2009).

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

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

A. Valuation of currency deposits

Currency deposits (other than sight and notice deposit accounts) are included in the balance sheet at fair value. This value differs from the amount that the Bank is contractually required to pay at maturity to the holder of the deposit. For total currency deposits the amount that the Bank is contractually required to pay at maturity to the holder of the deposit, plus accrued interest to 31 March 2010, is SDR 193,896.3 million (2009: SDR 193,629.2 million).

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

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

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

B. Impact of changes in the Bank's creditworthiness

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

11. Gold deposits

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

12. Securities sold under repurchase agreements

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

As at 31 March 2010 there were no securities sold under repurchase agreements (2009: nil).

13. Accounts payable

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

14. Other liabilities

As at 31 March

SDR millions	**2010**	2009
Post-employment benefit obligations (see note 19)		
Staff pensions	12.1	2.4
Directors' pensions	5.2	4.8
Health and accident benefits	217.5	191.6
Short positions in currency assets	66.0	151.6
Payable to former shareholders	0.5	0.5
Other	17.7	17.3
Total other liabilities	**319.0**	368.2

15. Share capital

The Bank's share capital consists of:

As at 31 March

SDR millions	**2010**	2009
Authorised capital: 600,000 shares, each of SDR 5,000 par value, of which SDR 1,250 is paid up	3,000.0	3,000.0
Issued capital: 547,125 shares	2,735.6	2,735.6
Paid-up capital (25%)	**683.9**	683.9

The number of shares eligible for dividend is:

As at 31 March	**2010**	2009
Issued shares	547,125	547,125
Less: shares held in treasury	(1,000)	(1,000)
Outstanding shares eligible for full dividend	**546,125**	546,125
Dividends per share (in SDR)		
Normal	285	265
Supplementary	400	–
Total dividends per share	**685**	265

16. Statutory reserves

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

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

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

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

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

Receipts from the subscription of 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.

17. Shares held in treasury

For the financial year ended 31 March	**2010**	2009
Number of shares at beginning of year	1,000	1,000
Movements during the year	–	–
Number of shares at end of year	**1,000**	1,000

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

18. Other equity accounts

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

Other equity accounts comprise:

As at 31 March

SDR millions	**2010**	2009
Securities revaluation account	318.6	431.1
Gold revaluation account	2,246.0	1,789.2
Total other equity accounts	**2,564.6**	2,220.3

A. Securities revaluation account

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

The movements in the securities revaluation account were as follows:

For the financial year ended 31 March

SDR millions	**2010**	2009
Balance at beginning of year	431.1	272.0
Net valuation movement		
Net gain / (loss) on sales	(105.4)	(123.8)
Fair value and other movements	(7.1)	282.9
	(112.5)	159.1
Balance at end of year	**318.6**	431.1

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

As at 31 March 2010 *SDR millions*	Fair value of assets	Historical cost	Securities revaluation account	Gross gains	Gross losses
Government and other securities and total	**11,556.2**	**11,237.6**	**318.6**	**322.2**	**(3.6)**

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

B. Gold revaluation account

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

The movements in the gold revaluation account were as follows:

For the financial year ended 31 March

SDR millions	**2010**	2009
Balance at beginning of year	1,789.2	1,636.8
Net valuation movement		
Net gain on sales	–	(77.0)
Gold price movement	456.8	229.4
	456.8	152.4
Balance at end of year	**2,246.0**	1,789.2

19. Post-employment benefit obligations

The Bank operates three post-employment arrangements:

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

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

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

All arrangements are valued annually by independent actuaries.

A. Amounts recognised in the balance sheet

As at 31 March	Staff pensions				
SDR millions	**2010**	2009	2008	2007	2006
Present value of obligation	(913.1)	(747.4)	(709.7)	(653.7)	(606.4)
Fair value of fund assets	762.4	619.6	714.3	648.6	602.2
Funded status	(150.7)	(127.8)	4.6	(5.1)	(4.2)
Unrecognised actuarial losses	138.6	125.4	41.2	47.3	46.8
Unrecognised past service cost	–	–	(45.8)	(42.2)	(42.6)
Liability at end of year	**(12.1)**	(2.4)	–	–	–

As at 31 March	Directors' pensions				
SDR millions	**2010**	2009	2008	2007	2006
Present value of obligation	(6.5)	(5.7)	(5.4)	(4.6)	(4.6)
Fair value of fund assets	–	–	–	–	–
Funded status	(6.5)	(5.7)	(5.4)	(4.6)	(4.6)
Unrecognised actuarial losses	1.3	0.9	0.6	0.3	0.3
Unrecognised past service cost	–	–	–	–	–
Liability at end of year	**(5.2)**	(4.8)	(4.8)	(4.3)	(4.3)

As at 31 March	Post-employment health and accident benefits				
SDR millions	**2010**	2009	2008	2007	2006
Present value of obligation	(284.2)	(225.4)	(208.0)	(186.3)	(183.8)
Fair value of fund assets	–	–	–	–	–
Funded status	(284.2)	(225.4)	(208.0)	(186.3)	(183.8)
Unrecognised actuarial losses	72.3	40.1	30.3	42.0	57.2
Unrecognised past service cost	(5.6)	(6.3)	(7.7)	(7.8)	(8.6)
Liability at end of year	**(217.5)**	(191.6)	(185.4)	(152.1)	(135.2)

B. Present value of benefit obligation

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

As at 31 March	Staff pensions			Directors' pensions			Post-employment health and accident benefits		
SDR millions	**2010**	2009	2008	**2010**	2009	2008	**2010**	2009	2008
Present value of obligation at beginning of year	747.4	709.7	653.7	5.7	5.4	4.6	225.4	208.0	186.3
Current service cost	32.0	29.8	30.5	0.2	0.2	0.2	8.5	7.9	8.2
Employee contributions	4.5	3.9	3.7	–	–	–	–	–	–
Interest cost	24.5	24.9	21.3	0.2	0.2	0.1	7.5	7.4	6.1
Actuarial (gain) / loss	84.3	29.3	(55.7)	–	0.3	–	30.2	11.5	(13.9)
Benefit payments	(28.3)	(24.5)	(23.1)	(0.3)	(0.3)	(0.3)	(2.2)	(1.9)	(1.8)
Exchange differences	48.7	(25.7)	79.3	0.7	(0.1)	0.9	14.8	(7.5)	23.1
Present value of obligation at end of year	**913.1**	747.4	709.7	**6.5**	5.7	5.4	**284.2**	225.4	208.0

C. Fair value of fund assets for staff pensions

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

For the financial year ended 31 March			
SDR millions	**2010**	2009	2008
Fair value of fund assets at beginning of year	619.6	714.3	648.6
Expected return on fund assets	31.8	34.0	33.1
Actuarial gain / (loss)	74.4	(99.3)	(44.8)
Employer contributions	20.0	18.3	17.3
Employee contributions	4.5	3.9	3.7
Benefit payments	(28.3)	(24.5)	(23.1)
Exchange differences	40.4	(27.1)	79.5
Fair value of fund assets at end of year	**762.4**	619.6	714.3

D. Amounts recognised in the profit and loss account

For the financial year ended 31 March	Staff pensions			Directors' pensions			Post-employment health and accident benefits		
SDR millions	**2010**	2009	2008	**2010**	2009	2008	**2010**	2009	2008
Current service cost	32.0	29.8	30.5	0.2	0.2	0.2	8.5	7.9	8.2
Interest cost	24.5	24.9	21.3	0.2	0.2	0.1	7.5	7.4	6.1
Less: expected return on fund assets	(31.8)	(34.0)	(33.1)	–	–	–	–	–	–
Less: past service cost	–	–	(1.5)	–	–	–	(1.1)	(6.3)	(1.0)
Net actuarial losses recognised in year	4.4	–	–	0.1	–	–	1.4	–	1.6
Total included in operating expense	**29.1**	20.7	17.2	**0.5**	0.4	0.3	**16.3**	9.0	14.9

The Bank expects to make a contribution to its post-employment arrangements of SDR 24.1 million in 2010/11.

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

As at 31 March

Percentages	**2010**	2009
European equities	7.1	7.4
Other equities	33.4	16.8
European fixed income	18.5	49.9
Other fixed income	30.9	21.8
Other assets	10.1	4.1
Actual return on fund assets	14.4%	–10.5%

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

F. Principal actuarial assumptions used in these financial statements

As at 31 March	**2010**	2009
Applicable to all three post-employment benefit arrangements		
Discount rate – market rate of highly rated Swiss corporate bonds	2.75%	3.25%
Applicable to staff and Directors' pension arrangements		
Assumed increase in pensions payable	1.50%	1.50%
Applicable to staff pension arrangement only		
Expected return on fund assets	5.00%	5.00%
Assumed salary increase rate	4.10%	4.10%
Applicable to Directors' pension arrangement only		
Assumed Directors' pensionable remuneration increase rate	1.50%	1.50%
Applicable to post-employment health and accident benefit arrangement only		
Long-term medical cost inflation assumption	5.00%	5.00%

The assumed increases in staff salaries, Directors' pensionable remuneration and pensions payable incorporate an inflation assumption of 1.5% at 31 March 2010 (2009: 1.5%).

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

The assumption for medical inflation has a significant effect on the amounts recognised in the profit and loss account. A 1% change in the assumption for medical inflation compared to that used for the 2009/10 calculation would have the following effects:

For the financial year ended 31 March

SDR millions	**2010**	2009
Increase / (decrease) of the total service and interest cost		
6% medical inflation	5.2	5.0
4% medical inflation	(3.9)	(3.6)

As at 31 March

SDR millions	**2010**	2009
Increase / (decrease) of the benefit obligation		
6% medical inflation	70.0	56.3
4% medical inflation	(53.1)	(42.5)

20. Interest income

For the financial year ended 31 March

SDR millions	**2010**	2009
Currency assets available for sale		
Securities purchased under resale agreements	–	18.5
Government and other securities	317.7	365.0
	317.7	383.5
Currency assets held at fair value through profit and loss		
Treasury bills	529.9	1,253.1
Securities purchased under resale agreements	156.7	1,880.8
Loans and advances	101.7	1,321.1
Government and other securities	959.1	1,766.8
	1,747.4	6,221.8
Assets designated as loans and receivables		
Sight and notice accounts	2.0	16.0
Gold investment assets	2.7	6.4
Gold banking assets	3.1	5.0
Impairment charge on gold banking assets	–	(18.3)
	7.8	9.1
Derivative financial instruments held at fair value through profit and loss	**1,979.0**	1,640.5
Total interest income	**4,051.9**	8,254.9

21. Interest expense

For the financial year ended 31 March

SDR millions	**2010**	2009
Liabilities held at fair value through profit and loss		
Currency deposits	**2,573.8**	6,160.4
Liabilities designated as financial liabilities measured at amortised cost		
Gold deposits	2.0	3.3
Sight and notice deposit accounts	44.9	472.0
Securities sold under repurchase agreements	–	17.3
	46.9	492.6
Total interest expense	**2,620.7**	6,653.0

22. Net valuation movement

The net valuation movement arises entirely on financial instruments designated as held at fair value through profit and loss. Included in the table below for 2009 is a net valuation loss of SDR 4.6 million arising from credit losses on default (2010: nil).

For the financial year ended 31 March

SDR millions	**2010**	2009
Currency assets held at fair value through profit and loss		
Unrealised valuation movements on currency assets	698.6	59.8
Realised gains on currency assets	53.2	34.8
	751.8	94.6
Currency liabilities held at fair value through profit and loss		
Unrealised valuation movements on financial liabilities	1,977.4	(1,549.1)
Realised losses on financial liabilities	(928.4)	(1,139.6)
	1,049.0	(2,688.7)
Valuation movements on derivative financial instruments	**(1,280.3)**	1,412.4
Net valuation movement	**520.5**	(1,181.7)

23. Net fee and commission income

For the financial year ended 31 March

SDR millions	**2010**	2009
Fee and commission income	18.8	8.1
Fee and commission expense	(8.1)	(7.7)
Net fee and commission income	**10.7**	0.4

24. Net foreign exchange loss

For the financial year ended 31 March

SDR millions	**2010**	2009
Net transaction gain	0.3	11.6
Net translation loss	(17.5)	(20.4)
Net foreign exchange loss	**(17.2)**	(8.8)

25. Operating expense

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

For the financial year ended 31 March

CHF millions	**2010**	2009
Board of Directors		
Directors' fees	2.3	2.0
Pensions to former Directors	0.6	0.5
Travel, external Board meetings and other costs	1.3	1.6
	4.2	4.1
Management and staff		
Remuneration	118.8	114.1
Pensions	51.8	34.3
Other personnel-related expense	44.2	45.4
	214.8	193.8
Office and other expense	**73.7**	65.8
Administrative expense in CHF millions	**292.7**	263.7
Administrative expense in SDR millions	177.7	154.4
Depreciation in SDR millions	13.1	12.1
Operating expense in SDR millions	**190.8**	166.5

The average number of full-time equivalent employees during the financial year ended 31 March 2010 was 540 (2009: 532).

26. Net gain on sales of securities available for sale

For the financial year ended 31 March

SDR millions	**2010**	2009
Disposal proceeds	3,941.1	4,633.8
Amortised cost	(3,835.7)	(4,510.0)
Net gain	**105.4**	123.8
Comprising:		
Gross realised gains	107.7	128.9
Gross realised losses	(2.3)	(5.1)

27. Net gain on sales of gold investment assets

For the financial year ended 31 March

SDR millions	**2010**	2009
Disposal proceeds	–	102.0
Deemed cost (see note 18B)	–	(25.0)
Net realised gain	**–**	77.0

28. Earnings per share

For the financial year ended 31 March	**2010**	2009
Net profit for the financial year (SDR millions)	1,859.8	446.1
Weighted average number of shares entitled to dividend	546,125	546,125
Basic and diluted earnings per share (SDR per share)	**3,405.4**	816.8

The dividends proposed for the financial year ended 31 March 2010 comprise a normal dividend of SDR 285 per share (2009: SDR 265) and a supplementary dividend of SDR 400 per share (2009: nil), for a total of SDR 685 per share (2009: SDR 265).

29. Cash and cash equivalents

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

As at 31 March

SDR millions	**2010**	2009
Cash and sight accounts with banks	1,516.2	915.2
Notice accounts	972.6	396.6
Total cash and cash equivalents	**2,488.8**	1,311.8

30. Taxes

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

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

31. Exchange rates

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

	Spot rate as at 31 March		Average rate for the financial year ended	
	2010	2009	**2010**	2009
USD	**0.658**	0.670	**0.644**	0.648
EUR	**0.889**	0.890	**0.909**	0.908
JPY	**0.00704**	0.00677	**0.00694**	0.00654
GBP	**0.998**	0.962	**1.027**	1.088
CHF	**0.625**	0.590	**0.606**	0.584
Gold (in ounces)	**732.9**	614.6	**657.4**	560.4

32. Off-balance sheet items

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

As at 31 March

SDR millions	**2010**	2009
Safe custody arrangements	11,115.6	11,082.0
Collateral pledge agreements	88.8	90.0
Portfolio management mandates	8,981.2	6,919.0
Gold bars held under earmark	5,003.9	4,078.9
Total	**25,189.5**	22,169.9

The above table includes the nominal value of securities held under safe custody and collateral pledge arrangements, and the net asset value of portfolio management mandates. Portfolio management mandates include BIS Investment Pools (BISIPs), which are collective investment arrangements for central banks, and dedicated mandates for single central bank investors.

Gold bars held under earmark are included at their weight in gold (translated at the gold market price and USD exchange rate into SDR). At 31 March 2010 gold bars held under earmark amounted to 212 tonnes of fine gold (2009: 212 tonnes).

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

33. Commitments

The Bank provides a number of committed standby facilities for its customers. As at 31 March 2010 the outstanding commitments to extend credit under these committed standby facilities amounted to SDR 4,919.8 million (2009: SDR 8,646.8 million), of which SDR 2,420.7 million was uncollateralised (2009: SDR 234.5 million).

34. The fair value hierarchy

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

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

Level 2 – inputs other than those in level 1 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 – inputs to valuation models that are not observable in financial markets.

A. Assets measured at fair value

As at 31 March 2010

SDR millions	Level 1	Level 2	Level 3	Total
Financial assets held at fair value through profit and loss				
Treasury bills	62,644.6	22,070.2	–	84,714.8
Securities purchased under resale agreements	–	42,305.9	–	42,305.9
Fixed-term loans	–	18,316.0	–	18,316.0
Government and other securities	13,354.7	28,685.4	91.4	42,131.5
Derivative financial instruments	2.5	10,112.2	–	10,114.7
Financial assets designated as available for sale				
Government and other securities	10,699.4	856.8	–	11,556.2
Total financial assets accounted for at fair value	**86,701.2**	**122,346.5**	**91.4**	**209,139.1**
Financial liabilities held at fair value through profit and loss				
Currency deposits	–	(167,008.6)	–	(167,008.6)
Derivative financial instruments	(12.6)	(4,174.8)	–	(4,187.4)
Other liabilities (short positions in currency assets)	–	(66.0)	–	(66.0)
Total financial liabilities accounted for at fair value	**(12.6)**	**(171,249.4)**	**–**	**(171,262.0)**

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

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

A small percentage of the Bank's financial instruments valuations are produced using valuation techniques that utilise significant unobservable inputs. The financial instruments valued in this manner are categorised as level 3. The financial instruments categorised as level 3 at 31 March 2009 and 2010 comprise illiquid corporate bonds.

The accuracy of the Bank's valuations is ensured through an independent price verification exercise performed by the valuation control function.

B. Reconciliation of assets and liabilities measured at fair value level 3

As at 31 March 2010

SDR millions	Financial assets held at fair value through profit and loss	Financial assets designated as available for sale	Total
Balance at beginning of year	566.6	28.5	595.1
Gains or losses in profit or loss	109.0	–	109.0
Gains or losses in equity	–	1.0	1.0
Total gains or losses	**109.0**	**1.0**	**110.0**
Disposals	(40.5)	–	(40.5)
Transfers out of level 3	(617.5)	(29.5)	(647.0)
Transfers into level 3	73.8	–	73.8
Balance at end of year	**91.4**	**–**	**91.4**
Gains or losses in profit or loss for assets and liabilities held at the end of the reporting period	28.2	–	28.2

35. Effective interest rates

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

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

As at 31 March 2010

Percentages	USD	EUR	GBP	JPY	Other currencies
Assets					
Gold loans	–	–	–	–	0.49
Treasury bills	0.31	0.72	0.49	0.11	2.19
Securities purchased under resale agreements	0.12	0.21	0.47	0.05	–
Loans and advances	0.41	0.40	0.51	0.07	0.07
Government and other securities	1.96	2.66	2.19	0.66	4.75
Liabilities					
Currency deposits	1.03	0.73	1.34	0.12	0.28
Gold deposits	–	–	–	–	0.42
Short positions in currency assets	1.68	–	–	–	–

As at 31 March 2009

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

36. Geographical analysis

A. Total liabilities

As at 31 March

SDR millions	**2010**	2009
Africa and Europe	93,697.7	109,733.3
Asia-Pacific	100,001.4	82,770.5
Americas	40,988.6	40,344.5
International organisations	8,430.3	8,822.5
Total	**243,118.0**	241,670.8

B. Off-balance sheet items

As at 31 March

SDR millions	**2010**	2009
Africa and Europe	6,107.7	5,361.6
Asia-Pacific	17,911.3	16,165.1
Americas	1,170.5	643.2
Total	**25,189.5**	22,169.9

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

C. Credit commitments

As at 31 March

SDR millions	**2010**	2009
Africa and Europe	2,861.7	1,073.3
Asia-Pacific	2,058.1	7,573.5
Americas	–	–
Total	**4,919.8**	8,646.8

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

37. Related parties

The Bank considers the following to be its related parties:

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

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

A. Related party individuals

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

For the financial year ended 31 March

CHF millions	**2010**	2009
Salaries, allowances and medical cover	6.9	6.4
Post-employment benefits	1.9	1.7
Total compensation in CHF millions	**8.8**	8.1
SDR equivalent	5.5	4.7

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

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

For the financial year ended 31 March

CHF millions	**2010**	2009
Balance at beginning of year	12.8	18.0
Deposits taken including interest income (net of withholding tax) and new entrants	8.6	3.4
Withdrawals and departures	(1.7)	(8.6)
Balance at end of year in CHF millions	**19.7**	12.8
SDR equivalent	12.3	7.6
Interest expense on deposits in CHF millions	0.4	0.7
SDR equivalent	0.2	0.4

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

In addition, the Bank operates a blocked personal deposit account for certain staff members who were previously members of the Bank's savings fund, which closed on 1 April 2003. The terms of these blocked accounts are such that staff members cannot make further deposits and balances are paid out when they leave the Bank. The accounts bear interest at a rate determined by the Bank based on the rate offered by the Swiss National Bank on staff accounts plus 1%. The total balance of blocked accounts at 31 March 2010 was SDR 20.0 million (2009: SDR 19.2 million). They are reported under the balance sheet heading "Currency deposits".

B. Related party central banks and connected institutions

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

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

Currency deposits from related party central banks and connected institutions

For the financial year ended 31 March

SDR millions	**2010**	2009
Balance at beginning of year	50,475.4	53,998.3
Deposits taken	356,011.2	120,912.0
Maturities, repayments and fair value movements	(351,789.4)	(123,325.4)
Net movement on notice accounts	2,815.4	(1,109.5)
Balance at end of year	**57,512.6**	50,475.4
Percentage of total currency deposits at end of year	29.4%	25.6%

Gold deposits from related party central banks and connected institutions

For the financial year ended 31 March

SDR millions	**2010**	2009
Balance at beginning of year	19,468.7	26,336.1
Deposits taken	40.8	55.0
Net withdrawals and gold price movements	(40.8)	(218.8)
Net movement on gold sight accounts	8,220.0	(6,703.6)
Balance at end of year	**27,688.7**	19,468.7
Percentage of total gold deposits at end of year	86.4%	84.5%

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

For the financial year ended 31 March

SDR millions	**2010**	2009
Balance at beginning of year	4,602.5	3,271.9
Collateralised deposits placed	903,642.0	889,828.4
Maturities and fair value movements	(903,301.8)	(888,497.8)
Balance at end of year	**4,942.7**	4,602.5
Percentage of total securities purchased under resale agreements at end of year	11.7%	11.9%

Other balances with related party central banks and connected institutions

The Bank maintains sight accounts in currencies with related party central banks and connected institutions, the total balance of which was SDR 1,417.9 million as at 31 March 2010 (2009: SDR 881.5 million). Gold held in sight accounts with related party central banks and connected institutions totalled SDR 41,575.7 million as at 31 March 2010 (2009: SDR 22,605.8 million).

Derivative transactions with related party central banks and connected institutions

The BIS enters into derivative transactions with its related party central banks and connected institutions, including foreign exchange deals and interest rate swaps. The total nominal value of these transactions with related party central banks and connected institutions during the year ended 31 March 2010 was SDR 19,431.3 million (2009: SDR 6,510.0 million).

38. Contingent liabilities

At 31 March 2010, the Bank had no material contingent liabilities.

Capital adequacy

1. Capital

The table below shows the composition of the Bank's Tier 1 and total capital as at 31 March 2010.

As at 31 March

SDR millions	**2010**	2009
Share capital	683.9	683.9
Statutory reserves per balance sheet	10,668.7	10,367.3
Less: shares held in treasury	(1.7)	(1.7)
Tier 1 capital	**11,350.9**	11,049.5
Profit and loss account	1,859.8	446.1
Other equity accounts	2,564.6	2,220.3
Total capital	**15,775.3**	13,715.9

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

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

2. Economic capital

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

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

As at 31 March

SDR millions	**2010**	2009
Credit risk	5,659.8	5,673.7
Market risk	2,708.7	3,099.8
Operational risk	475.0	425.0
Other risks	300.0	300.0
Total economic capital utilisation	**9,143.5**	9,498.5

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

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

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

As at 31 March		**2010**			2009		
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%	207,871.9	9,027.4	722.2	225,017.7	10,114.8	809.2
Securitisation exposures, externally managed portfolios and other assets	Standardised approach, where (B) is derived as (A) x 8%	2,820.7	1,159.5	92.8	3,342.2	1,291.0	103.3
Market risk							
Exposure to foreign exchange risk and gold price risk	Internal models approach, where (A) is derived as (B) / 8%	–	10,768.1	861.4	–	15,783.5	1,262.7
Operational risk	Advanced measurement approach, where (A) is derived as (B) / 8%	–	2,256.3	180.5	–	2,250.0	180.0
Total			**23,211.3**	**1,856.9**		29,439.3	2,355.2

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

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

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

4. Tier 1 capital ratio

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

As at 31 March

SDR millions	**2010**	2009
Tier 1 capital	11,350.9	11,049.5
Less: expected loss	–	(13.9)
Tier 1 capital net of expected loss (A)	**11,350.9**	11,035.6
Total risk-weighted assets (B)	23,211.3	29,439.3
Tier 1 capital ratio (A) / (B)	**48.9%**	37.5%

As required by the Basel II Framework, expected loss is calculated for credit risk exposures subject to the advanced internal ratings-based approach. The expected loss is calculated at the balance sheet date taking into account the impairment provision which is reflected in the Bank's financial statements. Note 2 provides details of the impairment provision. In accordance with the requirements of the Basel II Framework, the expected loss is compared with the impairment provision and any shortfall is deducted from the Bank's Tier 1 capital. At 31 March 2010, the impairment provision exceeded the expected loss.

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

Risk management

1. Risks faced by the Bank

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

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

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

2. Risk management approach and organisation

General approach

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

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

A. Organisation

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

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

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

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

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

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

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

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

B. Risk monitoring and reporting

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

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

C. Risk methodologies

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

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

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

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

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

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

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

3. Credit risk

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

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

A. Credit risk assessment

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

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

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

B. Credit risk mitigation

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

The Bank obtains collateral, under reverse repurchase agreements, some derivative financial instrument contracts and certain drawn-down facility agreements, to mitigate counterparty default risk in accordance with the respective policies and procedures. The collateral value is monitored on an ongoing basis and, where appropriate, additional collateral is requested.

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

C. Default risk

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

Default risk by asset class and issuer type

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

As at 31 March 2010 *SDR millions*	Sovereign and central banks	Public sector	Banks	Corporate	Securitisation	Total
On-balance sheet						
Cash and sight accounts with banks	1,419.9	–	96.3	–	–	1,516.2
Gold and gold loans	–	–	1,440.6	23.5	–	1,464.1
Treasury bills	84,714.8	–	–	–	–	84,714.8
Securities purchased under resale agreements	4,942.7	–	35,497.5	1,865.7	–	42,305.9
Loans and advances	2,887.0	655.4	15,746.2	–	–	19,288.6
Government and other securities	24,325.0	12,411.4	12,464.5	2,378.4	2,108.4	53,687.7
Derivatives	48.7	139.1	9,926.1	0.8	–	10,114.7
Accounts receivable	182.6	–	378.8	9.4	–	570.8
Total on-balance sheet exposure	**118,520.7**	**13,205.9**	**75,550.0**	**4,277.8**	**2,108.4**	**213,662.8**
Commitments						
Undrawn unsecured facilities	2,420.7	–	–	–	–	2,420.7
Undrawn secured facilities	2,499.1	–	–	–	–	2,499.1
Total commitments	**4,919.8**	**–**	**–**	**–**	**–**	**4,919.8**
Total exposure	**123,440.5**	**13,205.9**	**75,550.0**	**4,277.8**	**2,108.4**	**218,582.6**

As at 31 March 2009 *SDR millions*	Sovereign and central banks	Public sector	Banks	Corporate	Securitisation	Total
On-balance sheet						
Cash and sight accounts with banks	884.6	–	30.6	–	–	915.2
Gold and gold loans	–	–	2,672.1	138.3	–	2,810.4
Treasury bills	96,421.9	–	–	–	–	96,421.9
Securities purchased under resale agreements	4,691.5	–	32,970.0	932.9	–	38,594.4
Loans and advances	7,542.6	502.0	10,468.1	–	–	18,512.7
Government and other securities	20,437.1	11,889.9	19,161.3	1,849.3	2,426.1	55,763.7
Derivatives	102.0	49.9	13,597.2	–	–	13,749.1
Accounts receivable	–	–	722.5	11.0	–	733.5
Total on-balance sheet exposure	130,079.7	12,441.8	79,621.8	2,931.5	2,426.1	227,500.9
Commitments						
Undrawn unsecured facilities	234.5	–	–	–	–	234.5
Undrawn secured facilities	8,412.3	–	–	–	–	8,412.3
Total commitments	8,646.8	–	–	–	–	8,646.8
Total exposure	138,726.5	12,441.8	79,621.8	2,931.5	2,426.1	236,147.7

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

Default risk by geographical region

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

As at 31 March 2010

SDR millions	Africa and Europe	Asia-Pacific	Americas	International institutions	Total
On-balance sheet					
Cash and sight accounts with banks	1,425.4	0.8	90.0	–	1,516.2
Gold and gold loans	967.5	258.8	237.8	–	1,464.1
Treasury bills	43,846.7	40,642.0	226.1	–	84,714.8
Securities purchased under resale agreements	37,363.3	4,777.9	164.7	–	42,305.9
Loans and advances	14,323.0	3,554.4	822.5	588.7	19,288.6
Government and other securities	33,323.6	4,219.2	9,656.9	6,488.0	53,687.7
Derivatives	7,106.0	237.3	2,771.4	–	10,114.7
Accounts receivable	99.7	91.6	379.5	–	570.8
Total on-balance sheet exposure	**138,455.2**	**53,782.0**	**14,348.9**	**7,076.7**	**213,662.8**
Commitments					
Undrawn unsecured facilities	2,223.4	197.3	–	–	2,420.7
Undrawn secured facilities	638.3	1,860.8	–	–	2,499.1
Total commitments	**2,861.7**	**2,058.1**	**–**	**–**	**4,919.8**
Total exposure	**141,316.9**	**55,840.1**	**14,348.9**	**7,076.7**	**218,582.6**

As at 31 March 2009

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

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

Default risk per class of financial asset

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

As at 31 March 2010 *SDR millions*	AAA	AA	A	BBB	BB and below	Unrated	Totals
On-balance sheet							
Cash and sight accounts with banks	1,418.2	6.6	90.7	0.6	–	0.1	1,516.2
Gold and gold loans	–	347.4	1,093.2	23.5	–	–	1,464.1
Treasury bills	29,892.4	45,901.5	8,920.9	–	–	–	84,714.8
Securities purchased under resale agreements	164.8	9,935.1	32,206.0	–	–	–	42,305.9
Loans and advances	1,731.9	3,962.9	12,705.2	230.8	657.8	–	19,288.6
Government and other securities	33,369.9	12,306.2	7,710.4	301.2	–	–	53,687.7
Derivatives	147.4	1,563.4	8,365.3	1.4	37.2	–	10,114.7
Accounts receivable	467.7	91.6	–	–	–	11.5	570.8
Total on-balance sheet exposures	**67,192.3**	**74,114.7**	**71,091.7**	**557.5**	**695.0**	**11.6**	**213,662.8**
Percentages	*31.4%*	*34.7%*	*33.3%*	*0.3%*	*0.3%*	–	*100%*
Commitments							
Unsecured	2,223.4	–	–	197.3	–	–	2,420.7
Secured	219.1	468.3	700.1	871.7	239.9	–	2,499.1
Total commitments	**2,442.5**	**468.3**	**700.1**	**1,069.0**	**239.9**	**–**	**4,919.8**
Total exposure	**69,634.8**	**74,583.0**	**71,791.8**	**1,626.5**	**934.9**	**11.6**	**218,582.6**

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

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

A financial asset is considered past due when a counterparty fails to make a payment on the contractual due date. The Bank revalues virtually all of its financial assets to fair value on a daily basis and reviews its valuations monthly, taking into account necessary adjustments for impairment.

Gold loans include a provision of SDR 23.5 million following an impairment review as at 31 March 2010 (31 March 2009: SDR 18.3 million). The increase in the provision during the financial year ended 31 March 2010 is due to changes in gold prices.

D. Credit risk mitigation and collateral

As at 31 March	**2010**		2009	
SDR millions	Fair value of relevant contracts	Fair value of collateral	Fair value of relevant contracts	Fair value of collateral
Collateral obtained for				
Securities purchased under resale agreements	34,301.6	35,055.3	33,625.0	33,725.5
Loans and advances	1,512.8	2,170.6	3,136.5	5,013.4
Derivatives	4,144.6	4,425.2	4,957.3	4,542.4
Total	**39,959.0**	**41,651.1**	41,718.8	43,281.3

The Bank did not provide collateral on any of its financial instruments contracts at 31 March 2010 (2009: nil).

The above table shows the collateral obtained by the Bank. It excludes transactions which have yet to settle (on which neither cash nor collateral have been exchanged). The Bank obtains collateral as part of reverse repurchase agreements and collateral agreements for certain derivatives. The Bank is allowed to sell or pledge this collateral, but must deliver equivalent financial instruments upon the expiry of the contract. Furthermore, the Bank grants to its customers collateralised loans and advances under committed and uncommitted standby facilities.

The Bank accepts sovereign securities as collateral for derivatives. Eligible collateral for reverse repurchase agreements comprises sovereign and supranational debt as well as US agency securities. Eligible collateral for loans and advances includes currency deposits with the Bank and units in the BIS Investment Pools (BISIPs) and securities in portfolios managed by the BIS. As at 31 March 2010 the total amount of undrawn committed collateralised facilities which could be drawn down subject to collateralisation by the customer was SDR 2,499.1 million (2009: SDR 8,412.3 million).

Due to the default of a counterparty during the financial year ended 31 March 2009, the Bank seized and sold SDR 735.5 million of US Treasury bills held as collateral. No default occurred during the financial year ended 31 March 2010, thus the Bank did not seize any collateral during the reporting period.

E. Economic capital for credit risk

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

For the financial year ended 31 March	**2010**				2009			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Economic capital utilisation for credit risk	5,653.2	6,072.9	5,110.5	**5,659.8**	6,080.1	6,596.3	5,389.1	5,673.7

F. Minimum capital requirements for credit risk

Exposures to sovereigns, banks and corporates

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

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

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

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

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

The table below details the calculation of risk-weighted assets. The exposures are measured taking netting and collateral benefits into account. The total amount of exposures reported in the table as at 31 March 2010 includes SDR 4,687.7 million (2009: SDR 7,024.8 million) for interest rate contracts and SDR 6,028.4 million (2009: SDR 5,108.0 million) for FX and gold contracts.

As at 31 March 2010

Internal rating grades expressed as equivalent external rating grades	Amount of exposure	Exposure-weighted PD	Exposure-weighted average LGD	Exposure-weighted average risk weight	Risk-weighted assets
Percentages / SDR millions	*SDR millions*	*%*	*%*	*%*	*SDR millions*
AAA	64,185.5	0.006	31.8	2.7	1,705.0
AA	70,006.0	0.02	28.3	3.8	2,689.4
A	70,804.3	0.06	21.0	5.9	4,147.2
BBB	1,916.2	0.31	16.9	12.0	230.8
BB and below	959.9	9.85	6.2	26.6	255.0
Total	**207,871.9**				**9,027.4**

As at 31 March 2009

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

Securitisation exposures

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

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

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

As at 31 March 2010

SDR millions	External rating	Amount of exposures	Risk weight	Risk-weighted assets
Residential mortgage-backed securities	AAA	471.6	20%	94.3
Securities backed by credit card receivables	AAA	857.6	20%	171.5
Securities backed by other receivables (government-sponsored)	AAA	747.2	20%	149.5
Total		**2,076.4**		**415.3**

As at 31 March 2009

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

4. Market risk

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

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

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

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

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

A. Gold price risk

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

The Bank is exposed to gold price risk principally through its holdings of gold investment assets, which amount to 120 tonnes (2009: 120 tonnes). These gold investment assets are held in custody or placed on deposit with commercial banks. At 31 March 2010 the Bank's net gold investment assets was SDR 2,811.2 million (2009: SDR 2,358.1 million), approximately 18% of its equity (2009: 17%). The Bank sometimes also has small exposures to gold price risk emerging from its banking activities with central and commercial banks. Gold price risk is measured within the Bank's VaR methodology, including its economic capital framework and stress tests.

B. Interest rate risk

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

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

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

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

As at 31 March 2010

SDR millions	Up to 6 months	6 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Euro	(3.7)	(8.4)	(12.8)	(20.4)	(11.3)	(16.4)	(48.1)
Japanese yen	0.3	(2.6)	(6.7)	(12.2)	(16.0)	(5.8)	(0.9)
Pound sterling	0.6	(1.0)	(4.9)	(7.3)	(12.8)	(6.3)	–
Swiss franc	0.2	(0.2)	(0.4)	(0.6)	(0.7)	(2.9)	4.6
US dollar	16.8	(18.4)	(17.4)	(34.1)	(49.0)	(20.7)	(19.4)
Other currencies	16.9	15.5	(9.4)	0.5	(0.4)	(0.4)	–
Total	**31.1**	**(15.1)**	**(51.6)**	**(74.1)**	**(90.2)**	**(52.5)**	**(63.8)**

As at 31 March 2009

SDR millions	Up to 6 months	6 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years
Euro	(5.4)	(5.5)	(11.9)	(16.5)	(24.0)	(15.1)	(13.9)
Japanese yen	1.0	(1.3)	(6.6)	(11.3)	(14.6)	(5.1)	(1.7)
Pound sterling	0.2	(1.3)	(3.6)	(12.9)	(8.7)	(1.7)	(1.9)
Swiss franc	(0.1)	(0.2)	(0.6)	(0.6)	(0.7)	(1.4)	2.7
US dollar	(0.6)	(7.6)	(41.5)	(13.8)	(29.1)	(22.6)	(29.3)
Other currencies	(0.1)	(6.0)	(1.2)	(10.8)	(0.8)	–	–
Total	(5.0)	(21.9)	(65.4)	(65.9)	(77.9)	(45.9)	(44.1)

C. Foreign exchange risk

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

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

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

As at 31 March 2010 *SDR millions*	SDR	USD	EUR	GBP	JPY	CHF	Gold	Other currencies	Total
Assets									
Cash and sight accounts with banks	–	92.1	110.2	6.7	–	1,303.0	–	4.2	1,516.2
Gold and gold loans	–	11.1	–	–	–	–	43,028.7	–	43,039.8
Treasury bills	–	226.1	37,727.4	3,309.1	40,642.0	374.8	–	2,435.4	84,714.8
Securities purchased under resale agreements	–	164.8	33,618.8	3,744.4	4,777.9	–	–	–	42,305.9
Loans and advances	474.0	8,424.2	4,049.1	552.6	460.2	4,492.9	–	835.6	19,288.6
Government and other securities	–	24,646.8	22,876.5	3,088.0	1,587.0	32.6	–	1,456.8	53,687.7
Derivative financial instruments	3.3	92,178.4	(34,182.7)	455.8	(41,264.4)	(661.0)	(5,295.8)	(1,118.9)	10,114.7
Accounts receivable	0.1	2,300.2	1,456.2	66.4	92.7	8.6	–	111.5	4,035.7
Land, buildings and equipment	185.8	–	–	–	–	4.1	–	–	189.9
Total	**663.2**	**128,043.7**	**65,655.5**	**11,223.0**	**6,295.4**	**5,555.0**	**37,732.9**	**3,724.6**	**258,893.3**
Liabilities									
Currency deposits	(1,821.3)	(132,064.1)	(43,134.8)	(10,403.6)	(4,423.6)	(1,240.5)	–	(2,667.2)	(195,755.1)
Gold deposits	–	(7.1)	–	–	–	–	(32,057.0)	–	(32,064.1)
Derivative financial instruments	12.1	12,211.3	(8,789.8)	515.2	99.4	(4,305.3)	(2,867.1)	(1,063.2)	(4,187.4)
Accounts payable	–	(2,064.0)	(8,619.2)	(17.6)	(91.6)	–	–	–	(10,792.4)
Other liabilities	–	(67.2)	(0.3)	–	–	(251.5)	–	–	(319.0)
Total	**(1,809.2)**	**(121,991.1)**	**(60,544.1)**	**(9,906.0)**	**(4,415.8)**	**(5,797.3)**	**(34,924.1)**	**(3,730.4)**	**(243,118.0)**
Net currency and gold position	**(1,146.0)**	**6,052.6**	**5,111.4**	**1,317.0**	**1,879.6**	**(242.3)**	**2,808.8**	**(5.8)**	**15,775.3**
Adjustment for gold investment assets	–	–	–	–	–	–	(2,808.8)	–	(2,808.8)
Net currency position	**(1,146.0)**	**6,052.6**	**5,111.4**	**1,317.0**	**1,879.6**	**(242.3)**	**–**	**(5.8)**	**12,966.5**
SDR neutral position	1,146.0	(5,866.7)	(5,145.9)	(1,272.2)	(1,827.7)	–	–	–	(12,966.5)
Net currency exposure on SDR neutral basis	**–**	**185.9**	**(34.5)**	**44.8**	**51.9**	**(242.3)**	**–**	**(5.8)**	**–**

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

D. Economic capital for market risk

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

For the financial year ended 31 March

	2010				2009			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Economic capital utilisation for market risk	2,803.0	3,097.8	2,374.1	**2,708.7**	2,614.0	3,386.9	1,928.0	3,099.8

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

For the financial year ended 31 March

	2010				2009			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Gold price risk	1,870.9	2,013.0	1,721.9	**1,900.9**	1,690.5	2,325.1	1,312.6	2,009.1
Interest rate risk	1,790.8	2,182.7	1,434.4	**1,647.9**	1,972.7	2,519.9	1,404.8	2,209.1
Foreign exchange risk	715.2	800.4	651.3	**658.4**	502.7	769.0	301.6	769.0
Correlation and diversification effects	(1,573.9)	(1,815.3)	(1,454.9)	**(1,498.5)**	(1,551.9)	(2,073.7)	(1,164.2)	(1,887.4)

E. Minimum capital requirements for market risk

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

The actual minimum capital requirement is derived as the higher of the VaR on the calculation date and the average of the daily VaR measures on each of the preceding 60 business days (including the calculation date) subject to a multiplication factor of three plus a potential add-on depending on backtesting results. For the period under consideration, the number of backtesting outliers observed remained within the range where no add-on is required. The table below summarises the market risk development relevant to the calculation of minimum capital requirements over the reporting period and shows the Bank's minimum capital requirement for market risk and the related risk-weighted assets as at 31 March 2010.

As at 31 March	**2010**			2009		
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%	287.1	10,768.1	**861.4**	420.9	15,783.5	1,262.7

5. Liquidity risk

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

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

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

The Bank's currency and gold deposits, principally from central banks and international institutions, comprise 93% (2009: 91%) of its total liabilities. At 31 March 2010 currency and gold deposits originated from 174 depositors (2009: 161). Within these deposits, there are significant individual customer concentrations, with six customers each contributing in excess of 5% of the total on a settlement date basis (2009: seven customers).

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

As at 31 March 2010 *SDR millions*	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	5 to 10 years	Over 10 years	Total
Assets									
Cash and sight accounts with banks	1,516.2	–	–	–	–	–	–	–	1,516.2
Gold and gold loans	41,621.2	188.2	0.2	233.8	285.6	743.1	–	–	43,072.1
Treasury bills	18,983.6	44,817.9	10,718.1	10,160.9	–	–	–	–	84,680.5
Securities purchased under resale agreements	30,810.0	2,779.5	749.9	–	–	–	–	–	34,339.4
Loans and advances	8,977.2	9,138.4	132.8	3.7	17.2	957.9	–	–	19,227.2
Government and other securities	1,798.3	3,172.6	5,605.1	10,821.8	9,349.3	18,426.1	7,214.9	533.3	56,921.4
Total	**103,706.5**	**60,096.6**	**17,206.1**	**21,220.2**	**9,652.1**	**20,127.1**	**7,214.9**	**533.3**	**239,756.8**
Liabilities									
Currency deposits									
Deposit instruments repayable at 1–2 days' notice	(7,600.9)	(15,852.5)	(10,355.5)	(9,688.4)	(16,571.6)	(27,601.1)	(3,398.3)	–	(91,068.3)
Other currency deposits	(78,823.0)	(17,938.3)	(6,997.4)	(1,095.1)	–	–	–	–	(104,853.8)
Gold deposits	(31,382.9)	–	–	(232.7)	(66.6)	(386.5)	–	–	(32,068.7)
Securities sold short	(0.3)	(0.7)	(2.0)	(1.0)	(4.0)	(12.0)	(20.2)	(78.9)	(119.1)
Total	**(117,807.1)**	**(33,791.5)**	**(17,354.9)**	**(11,017.2)**	**(16,642.2)**	**(27,999.6)**	**(3,418.5)**	**(78.9)**	**(228,109.9)**
Derivatives									
Net settled									
Interest rate contracts	863.1	376.2	625.1	573.6	899.0	609.7	36.8	–	3,983.5
Gross settled									
Exchange rate and gold price contracts									
Inflows	31,532.0	50,905.4	15,319.8	10,702.2	–	–	–	–	108,459.4
Outflows	(30,879.9)	(49,419.5)	(14,768.8)	(10,284.6)	–	–	–	–	(105,352.8)
Subtotal	652.1	1,485.9	551.0	417.6	–	–	–	–	3,106.6
Interest rate contracts – gross settled									
Inflows	35.7	219.0	203.8	136.1	110.8	1,013.0	373.9	–	2,092.3
Outflows	(42.9)	(248.5)	(253.6)	(166.4)	(139.2)	(1,148.2)	(417.0)	–	(2,415.8)
Subtotal	(7.2)	(29.5)	(49.8)	(30.3)	(28.4)	(135.2)	(43.1)	–	(323.5)
Total derivatives	**1,508.0**	**1,832.6**	**1,126.3**	**960.9**	**870.6**	**474.5**	**(6.3)**	**–**	**6,766.6**
Total future undiscounted cash flows	**(12,592.6)**	**28,137.7**	**977.5**	**11,163.9**	**(6,119.5)**	**(7,398.0)**	**3,790.1**	**454.4**	**18,413.5**

As at 31 March 2009

SDR millions	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	5 to 10 years	Over 10 years	Total
Assets									
Cash and sight accounts with banks	915.2	–	–	–	–	–	–	–	915.2
Gold and gold loans	22,856.0	458.0	265.1	630.6	375.3	698.4	167.0	–	25,450.4
Treasury bills	17,346.9	48,193.3	15,306.8	15,178.4	–	–	–	–	96,025.4
Securities purchased under resale agreements	25,396.5	240.8	1,444.0	–	–	–	–	–	27,081.3
Loans and advances	9,533.3	7,931.7	804.1	–	–	–	–	–	18,269.1
Government and other securities	3,800.4	7,106.2	3,880.8	4,934.0	12,920.3	17,782.8	9,247.2	921.8	60,593.5
Total	79,848.3	63,930.0	21,700.8	20,743.0	13,295.6	18,481.2	9,414.2	921.8	228,334.9
Liabilities									
Currency deposits									
Deposit instruments repayable at 1–2 days' notice	(11,144.1)	(19,693.4)	(15,143.3)	(20,590.2)	(18,218.1)	(29,301.2)	(7,309.7)	–	(121,400.0)
Other currency deposits	(68,805.4)	(4,635.1)	(1,348.5)	(22.6)	–	–	–	–	(74,811.6)
Gold deposits	(21,768.0)	(200.1)	(216.8)	(296.7)	(195.7)	(216.3)	(165.4)	–	(23,059.0)
Securities sold short	(0.8)	(1.7)	(2.5)	(4.9)	(9.8)	(29.7)	(49.9)	(185.4)	(284.7)
Total	(101,718.3)	(24,530.3)	(16,711.1)	(20,914.4)	(18,423.6)	(29,547.2)	(7,525.0)	(185.4)	(219,555.3)
Derivatives									
Net settled									
Interest rate contracts	(1,304.0)	588.3	940.4	1,049.2	1,483.8	1,486.7	187.4	0.1	4,431.9
Gross settled									
Exchange rate and gold price contracts									
Inflows	29,504.3	53,304.7	8,576.4	10,940.4	–	–	–	–	102,325.8
Outflows	(28,771.1)	(52,297.6)	(8,568.4)	(11,221.9)	–	–	–	–	(100,859.0)
Subtotal	733.2	1,007.1	8.0	(281.5)	–	–	–	–	1,466.8
Interest rate contracts – gross settled									
Inflows	2.8	53.4	320.9	164.5	610.2	665.5	841.1	–	2,658.4
Outflows	(2.1)	(67.1)	(339.2)	(197.2)	(695.6)	(747.4)	(920.3)	–	(2,968.9)
Subtotal	0.7	(13.7)	(18.3)	(32.7)	(85.4)	(81.9)	(79.2)	–	(310.5)
Total derivatives	(570.1)	1,581.7	930.1	735.0	1,398.4	1,404.8	108.2	0.1	5,588.2
Total future undiscounted cash flows	(22,440.1)	40,981.4	5,919.8	563.6	(3,729.6)	(9,661.2)	1,997.4	736.5	14,367.8

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

Written options

SDR millions	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	5 to 10 years	Over 10 years	Total
As at 31 March 2010	–	(5.9)	(8.4)	(32.0)	(1.2)	(1.4)	–	–	**(48.9)**
As at 31 March 2009	(1.2)	(10.2)	(8.4)	(138.4)	(1.8)	(7.9)	(4.3)	–	(172.2)

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

Contractual expiry date

SDR millions	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	5 to 10 years	Maturity undefined	Total
As at 31 March 2010	2,683.8	–	–	375.2	–	–	–	1,860.8	**4,919.8**
As at 31 March 2009	33.5	335.0	–	6,601.2	–	–	–	1,677.1	8,646.8

6. Operational risk

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

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

Operational risk includes legal risk, but excludes strategic risk.

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

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

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

A. Economic capital for operational risk

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

For the financial year ended 31 March

	2010				2009			
SDR millions	Average	High	Low	At 31 March	Average	High	Low	At 31 March
Economic capital utilisation for operational risk	460.4	475.0	450.0	**475.0**	412.5	425.0	400.0	425.0

B. Minimum capital requirements for operational risk

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

As at 31 March	**2010**			2009		
SDR millions	VaR	Risk-weighted assets (A)	Minimum capital requirement (B)	VaR	Risk-weighted assets (A)	Minimum capital requirement (B)
Operational risk, where (A) is derived as (B) / 8%	180.5	2,256.3	**180.5**	180.0	2,250.0	180.0

Report of the auditors

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

We have audited the accompanying financial statements of the Bank for International Settlements. These financial statements incorporate the balance sheet as at 31 March 2010, the profit and loss account for the year then ended as required by the Bank's Statutes, and the statement of cash flows and notes thereto. The financial statements have been prepared by the Management of the Bank in accordance with the Statutes and with the principles of valuation described under significant accounting policies in the notes. The Management of the Bank is responsible for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. Our responsibility under the Statutes of the Bank is to form an independent opinion on the balance sheet and profit and loss account based on our audit and to report our opinion to you.

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

In our opinion, the financial statements, including the notes thereto, have been properly drawn up and give a true and fair view of the financial position of the Bank for International Settlements at 31 March 2010 and the results of its operations for the year then ended in conformity with the accounting principles described in the notes to the financial statements and the Statutes of the Bank.

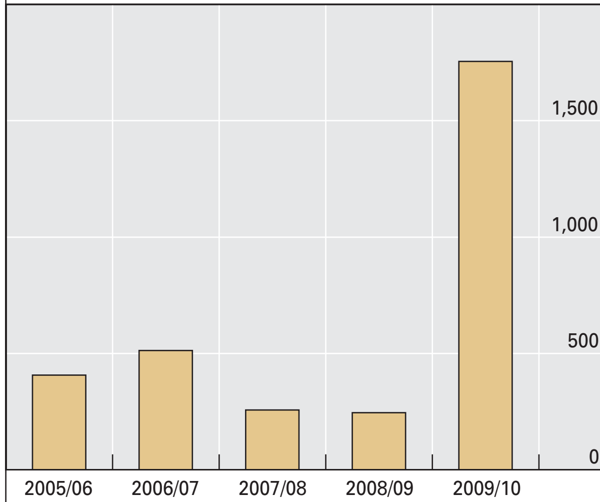
Deloitte AG

Mark D. Ward   Erich Schaerli

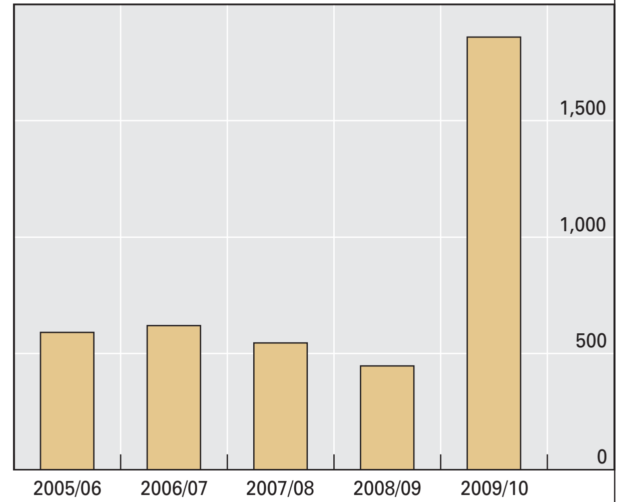
Zurich, 10 May 2010

Five-year graphical summary

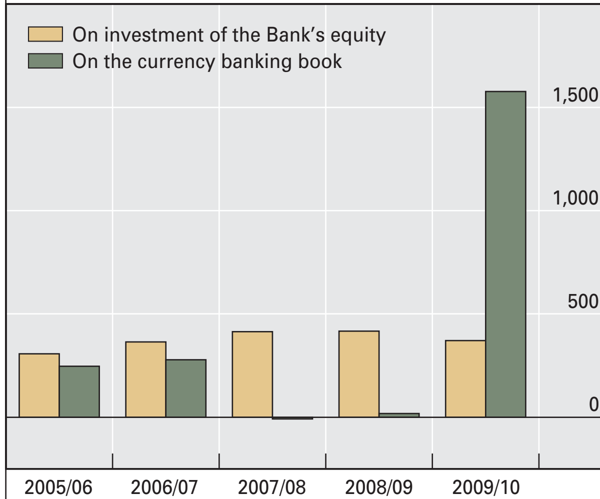
Operating profit
SDR millions



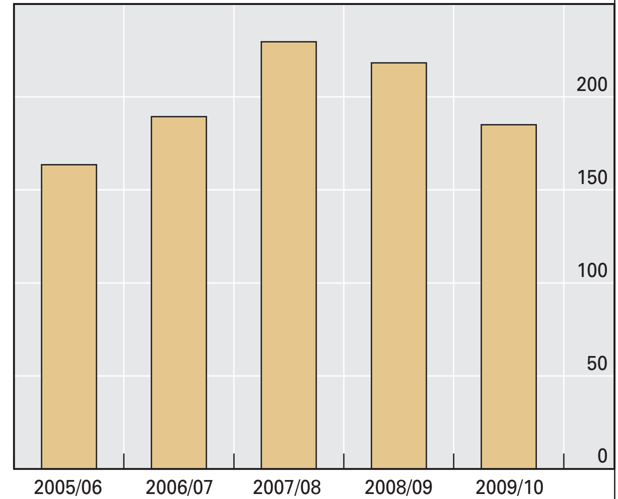
Net profit
SDR millions



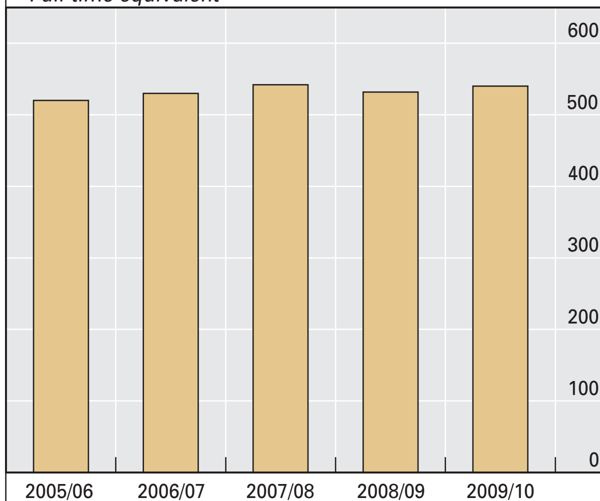
Net interest earned on currency investments
SDR millions



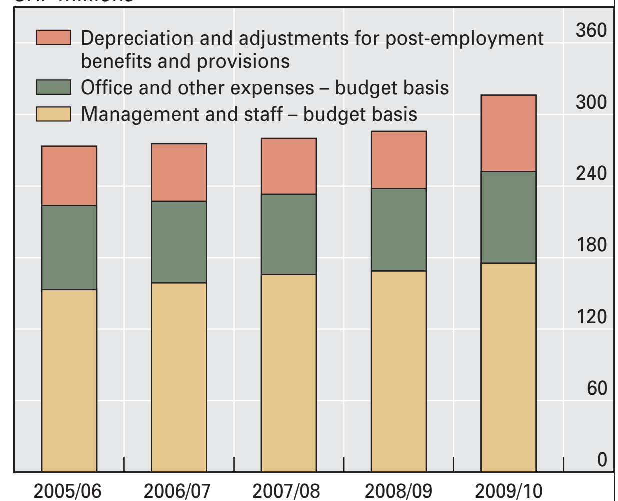
Average currency deposits (settlement date basis)
SDR billions



Average number of employees
Full-time equivalent



Operating expense
CHF millions



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

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