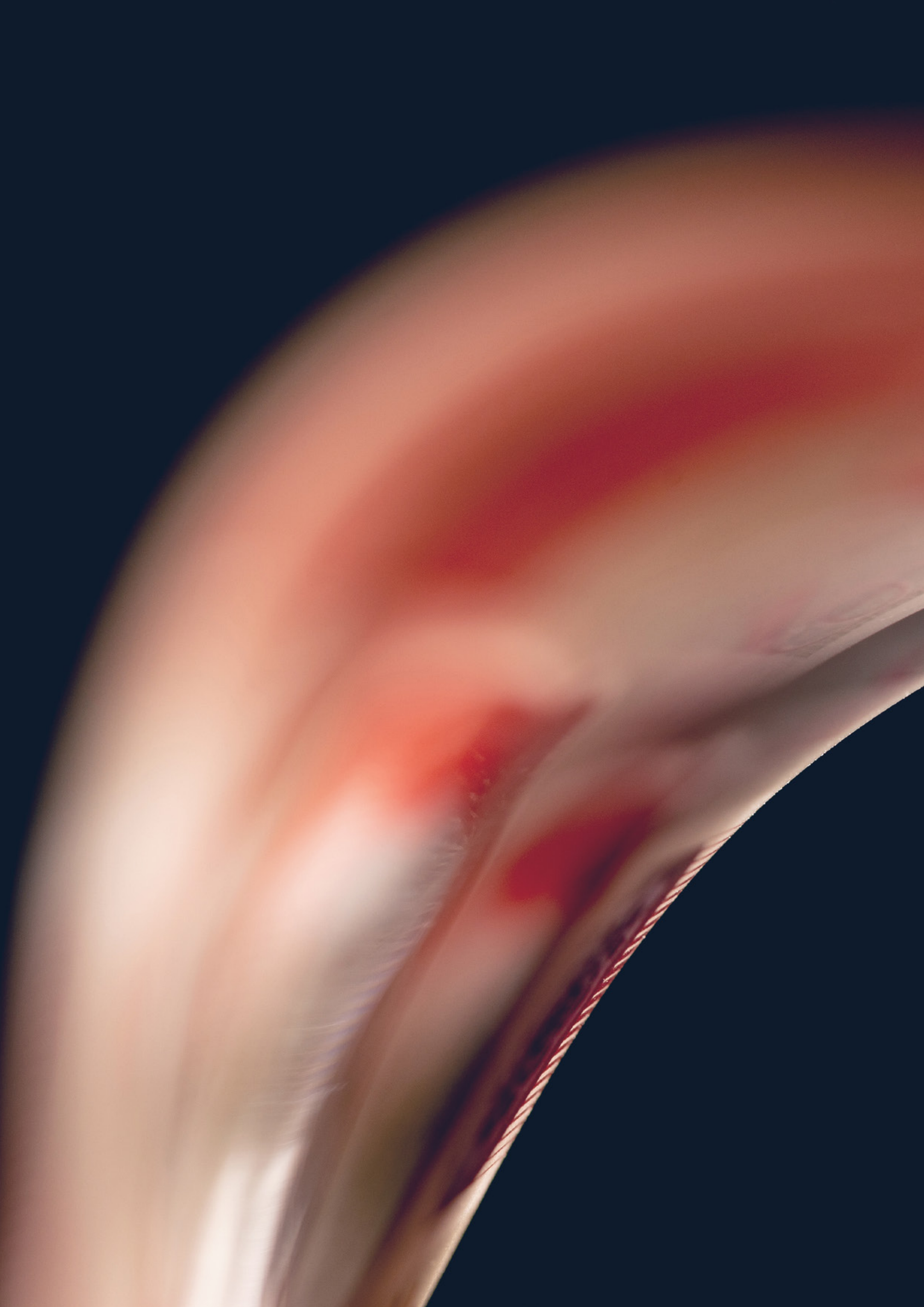
Bank of England

Annual Report and Accounts

1 March 2022–28 February 2023



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Annual Report and Accounts

1 March 2022 to 28 February 2023

Presented to Parliament by the Chief Secretary to the Treasury
by Command of His Majesty

The contents of this Report encompass the requirements of Section 4 of the Bank of England Act 1998, and include: (1) a report by the Court of Directors (Court) on the matters which it reviews, monitors or otherwise considers in the performance of its oversight functions (S4(2)(a)); (2) a report by Court on the activities of the Financial Policy Committee of the Bank (S4(2)(aa)); (3) a copy of the statements for the year prepared under section 7(2) and 7(2A) and the report of the Bank's auditors on them (S4(2)(b)); (4) a statement of the rates at which non-executive directors of the Bank have been remunerated (S4(4)(a)); and (5) a statement of the Bank's objectives and strategy for the next year, as determined by Court (S4(4)(b)). The Bank, in its capacity as the Prudential Regulation Authority, has published a separate report as required by paragraph 19 of Schedule 1ZB of the Financial Services and Markets Act 2000. The Bank has also published a separate report, as required by section 203B of the Banking Act 2009, paragraph 33 of Schedule 17A of the Financial Services and Markets Act 2000 and Regulation 25 of the Central Counterparties (Amendment, etc, and Transitional Provision) (EU Exit) Regulations 2018/1184, on its supervision of Financial Market Infrastructures.

Contents

Financial statements:

Overview: Statement by the Chair of Court

David Roberts
Chair of Court

I joined the Bank in autumn last year, formally taking up my role as Chair of Court in October. In the short time I have been in role, I have been able to see first-hand how effectively the Bank is able to respond to the shocks it has faced – from developing schemes to provide funding to pension funds to responding to the failure of Silicon Valley Bank. Having had the privilege of seeing the Bank operate at its very best, I have been impressed by the dedication, skill, and sheer hard work that I have seen over a sustained period. I would therefore like to start by thanking all colleagues for their support in helping the Bank to deliver its mission in what has been a very challenging period.

In its current activities, the Bank and the policy committees have a clear focus, determined by their statutory objectives. The Monetary Policy Committee needs to return CPI inflation to the 2% target following its sharp rise driven by a number of factors – including the impact on energy and food prices of the illegal invasion of Ukraine by Russia. Events over the past year have also highlighted the importance of deepening understanding and oversight of the non-bank financial system. And the Bank is supporting Parliament to update the financial regulatory framework following the UK's departure from the European Union. In response to the changing world, the Bank together with HM Treasury has also set out its thinking on the potential need for a central bank digital currency and possible design choices.

Our role as Court is to oversee performance and to help the Bank to execute its functions effectively and efficiently. My priority for Court in my time as Chair is to make certain the Bank is equipped for the challenges ahead. We will need to continue to invest in our people to ensure our capabilities reflect new opportunities, for example in advanced analytics, in parallel with increased investment in our technology infrastructure to capture the opportunities arising from the industry-wide move to a modern technology architecture. The Bank, in common with other organisations, needs to move quickly in this fast-evolving area. The Bank's work is also heavily dependent on data and analytics; that is why Court has asked its Independent Evaluation Office to consider the Bank's approach to using data to fulfil its policy objectives, with a report due later this year.

Court also needs to maintain its focus on the Bank's Diversity, Equity and Inclusion strategy. This year marked the first anniversary of the Court Review of Ethnic Diversity and Inclusion Action Plan. The Bank has made good progress towards its representation targets this year and Court will continue to hold the Bank to account on achieving the aims of that plan in the coming year. As well as the great work by the People team in helping the Bank progress in this area, I have been struck by the dedication of colleagues who undertake work with the Bank's Employee Networks alongside their day jobs.

On a personal level, the Bank's mission to serve the people of the UK helps me focus on the need to understand the impact of the Bank's decisions on the lives of everyone, particularly in these difficult times. I recently visited Liverpool to participate in a Citizens' Forum, and met staff and service users at three charities as well as local business leaders. It was humbling to hear about the lived experiences of as many people as possible, particularly as the challenges with the cost of living hit hard. The steps forward in outreach that the Bank has made over recent years are critical to making sure we are able to meet our statutory objectives with humanity and humility. The Bank serves all corners of the United Kingdom, and I will be visiting all its regions and countries over the coming year to hear first-hand the views of citizens and businesses.

It is both an honour and a privilege to join the Bank's Court as Chair. I am grateful to Sir Bradley Fried for his immense contribution to the Bank during his time as Chair and his personal support to me as I took on the role. This year we also said goodbye to Baroness Dido Harding and Dorothy Thompson – I would like to thank both of them for their significant contributions as Court members and as Deputy Chair of Court and Chair of ARCO respectively. We have welcomed Sabine Chalmers, Tom Shropshire and Lord Jitesh Gadhia as Non-Executive Directors. And at our February meeting, we also appointed Sir Ron Kalifa as our Senior Independent Director and Diana Noble to Deputy Chair. I would like to thank them for taking up these positions.

The year ahead will no doubt bring many challenges and I am confident the Bank stands ready to respond and fulfil its mission of serving the people of the United Kingdom.

David Roberts
14 June 2023

Statement by the Governor

Andrew Bailey
Governor

This past year has been marked by a succession of events that have had a substantial impact on the Bank's objectives. Our focus during this time, as always, has been to rise to these challenges and deliver our mission to promote the good of the people of the United Kingdom. I am very proud to work alongside colleagues who are dedicated to serving this mission and I would like to thank all Bank staff for their hard work under challenging circumstances.

Russia's appalling and unprovoked invasion of Ukraine has been a key factor in influencing our work over the past year. We had to deal with the substantial economic consequences of the invasion, most notably through higher energy and food prices. We have also played our part to support Ukraine and hold Russia to account by working with HM Government in the domestic and international response, in particular sanctions. I was particularly proud when we were able to support the Bank of Ukraine with armoured vehicles for banknote distribution, which Bank colleagues drove to the Ukraine-Poland border.

Russia's invasion of Ukraine has contributed to a set of unprecedented economic circumstances that are more challenging than anything the Monetary Policy Committee (MPC) has had to deal with in its 25 years. Consumer price inflation is much too high and the effects of a fall in our real national income are being felt by households across the UK, most acutely by those on lower incomes. Bringing inflation back to the 2% target sustainably is the MPC's absolute priority and the Committee has pursued a much tighter monetary policy stance to achieve this objective.

The MPC's assessment of the economic data is supplemented by the important insights we receive from businesses, organisations and charities across the country via our Agents' network and directly from the public via our outreach programmes. Over the course of the year, I have visited all of our 12 Agencies and met with a range of businesses, schools and charities.

The Bank has taken a number of actions in pursuit of its objectives to address risks posed by both banks and non-bank financial institutions. In September and October 2022, the Bank temporarily intervened in gilt markets to avoid dysfunction prompted by widespread sales from liability-driven investment funds. Then in March 2023, in response to the failure of Silicon Valley Bank, the Bank used its statutory powers to conduct a resolution of the firm's UK subsidiary, avoiding disruption to depositors.

The UK banking system maintains robust capital and strong liquidity positions. It is well regulated – in line with standards implemented by UK authorities that are at least as great as those required by international baseline standards – and subject to robust supervision. Outside the banking sector, there does however remain an urgent need to increase resilience in market-based finance. Alongside international policy work led by the Financial Stability Board, which the Bank is contributing extensively to, the Financial Policy Committee and UK authorities are working together to reduce vulnerabilities domestically where effective and practical.

Regulatory reform has continued at pace and the Bank has worked with HM Government in the design of the Future Regulatory Framework. The passage of the Financial Services and Markets Bill will represent new opportunities, which, as events have shown, we will need to combine with the importance of maintaining robust support for international standards in the pursuit of the Prudential Regulation Authority's primary safety and soundness objective. The Bank is committed to the principles of transparency and Parliamentary accountability of rule-making powers transferred to us.

It is vital that, as an organisation, we continue to advance in step with the changing world to ensure we can support the UK in the future as well as today. Investing in our core payments systems and moving to the design phase of a digital pound are key examples. And across the organisation, we are investing in improvements to our technology, enhancing our use of data and developing the skills of our people. We are also continuing to build a diverse workforce and, next year, we will advance our plans to expand our hub in Leeds following a successful trial of our regional hubs.

The passing of Her Majesty Queen Elizabeth II saddened us all and it was my honour to be able to represent the Bank at the state funeral and more recently the coronation of King Charles III. In December 2022, we unveiled the design of the King Charles III banknotes. And in March 2023, a group of colleagues accompanied me to present our 'Loyal Greetings' to the King alongside 26 other 'Privileged Bodies'.

Finally, I would like to extend a warm welcome to David Roberts and thank Sir Bradley Fried for his service on the Bank of England Court from 2012 to 2022. Bradley was unstinting in the time he gave to the Bank and particularly his care for and attention to issues facing staff, which along with Court I will continue to prioritise.

Andrew Bailey

Andrew Bailey
14 June 2023

Very sadly, after this report was finalised we received the news of the passing of Melanie Beaman, our Executive Director for Resolution.

Mel was an outstanding and unique colleague, the life and soul of the Bank, and an outstanding bank supervisor. I first worked with Mel nearly thirty years ago and I know from extensive experience that she was deeply proud of her work, but also very humble about her achievements. The tributes that we have received from around the world are evidence of the deep respect for Mel.

Our thoughts and prayers go to Mel’s family. She will be missed greatly, but not forgotten.

Court and the Bank's policy committees

The Court of Directors acts as a unitary Board, with executive and non-executive members and an independent non-executive chair.

Court sets the Bank's strategy and budget, takes key decisions on resourcing and appointments, and keeps the Bank's performance and financial management under review. The Court meets at least seven times a year, and its minutes are published.[1]

Members of Court are appointed by the Crown, for periods of eight years in the case of the Governor, five years for the Deputy Governors, and up to four years per term for the non-executive directors (NEDs). The Chancellor of the Exchequer appoints a Chair to lead Court as a NED.

Court delegates the day-to-day management of the Bank to the Governor and through him to other members of the executive. But it reserves to itself a number of key decisions, including:

- the Bank's strategy and objectives;
- the Bank's (including the PRA's) expenditure budget;
- major capital projects;
- the Bank's financial framework;
- the Bank's risk tolerance framework;
- approval of the accounts and the appointment of auditors;
- the remit for managing the Bank's balance sheet;
- senior appointments within the Bank and succession planning; and
- major changes in staff remuneration and pension arrangements.

The permanent sub-committees of Court are the Audit and Risk Committee, the Remuneration Committee and the Nominations Committee. Terms of reference of these and other committees are published on the Bank's website.[2]

Members of Court have been indemnified by the Bank against personal civil liability arising from the carrying out or purported carrying out of their functions, provided they have acted honestly and in good faith and have not acted recklessly. These indemnities were first granted in 2000 and approved by HM Treasury in accordance with the practice of the Government in relation to board members of Non-Departmental Public Bodies.

1. www.bankofengland.co.uk/about/people/court-of-directors.
2. www.bankofengland.co.uk/about/people/court-of-directors/governance-of-the-bank-of-england-including-matters-reserved-to-court.

The Court of Directors as at 14 June 2023

David Roberts
Chair of Court

Appointed NED 24 October 2022
Term expires on 23 October 2026

- Advisory Board Member, The Mentoring Foundation
- Advisor to Chair, Campion Willcocks Limited
- Advisory Board Member, Henley Business School, University of Reading

Andrew Bailey
Governor

Appointed 16 March 2020
Term expires on 15 March 2028

- Chair, Standing Committee on Supervisory and Regulatory Co-operation, Financial Stability Board
- Chair, Plenary of the Central Bank Counterfeit Deterrence Group
- Co-President, the Heart of the City of London
- Director and Member of the Audit Committee, BIS
- Member, Bretton Woods Committee
- Member, Plenary and Steering Committee, Financial Stability Board
- Member, Group of Governors and Heads of Supervision, Basel Committee on Banking Supervision
- Member, G7 and G20 Central Bank Governors Group
- Vice President, City of London Endowment Trust for St Paul's Cathedral
- UK Alternate Governor, IMF

Ben Broadbent
Deputy Governor, Monetary Policy

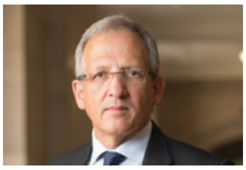
Appointed 1 July 2014
Term expires on 30 June 2024

- Member, OECD Working Party No. 3
- UK Central Bank Deputy, G20
- Member, Bellagio Group (ex officio)
- Trustee, National Gallery Trust Foundation

Sabine Chalmers

Appointed NED 1 January 2023
Term expires on 31 December 2026

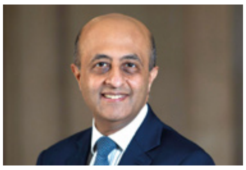
- General Counsel, and Director of Regulatory & Company Secretary, British Telecom
- Director, Continental Grain
- Non-Executive Director, Anheuser-Busch InBev SA/NV
- Non-Executive Director, Ardian
- Trustee, Royal National Theatre



Sir Jon Cunliffe
Deputy Governor, Financial Stability

Appointed 1 November 2013
Term expires on 31 October 2023

- Member, Plenary and Steering Committee, Financial Stability Board
- Chair, Committee on Payments and Market Infrastructure, BIS
- Member, Committee on the Global Financial System, BIS
- UK Central Bank Deputy, G7
- Committee Member, UK Holocaust Memorial Foundation



Lord Jitesh Gadhia

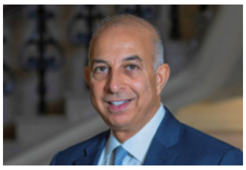
Appointed NED 24 October 2022
Term expires on 23 October 2026

- Member, House of Lords
- Member, Advisory Credit Committee, HM Treasury
- Non-Executive Director, Rolls-Royce Holdings
- Non-Executive Director, Taylor Wimpey
- Non-Executive Director, Compare the Market
- Non-Executive Director, Accord Healthcare
- Non-Executive Director, Bard Topco
- Trustee and Chair, The British Asian Trust

Anne Glover

Appointed NED 1 June 2018
Term expires on 31 May 2026

- Co-founder and CEO, Amadeus Capital Partners
- Director, BKraft Holding
- Director, Nu Quantum
- Director and sole owner, Calderstone Capital
- Member, Investment Committee, Yale Corporation
- Member, Campaign Committee for Old Court, Clare 700
- Member, Venture Capital Investment Committee, BII Group
- Member of UK Investment Council
- Member, External Advisory Board, Monataro Global Innovations Fund
- Special Advisor, BEIS Sub-Committee on National Security and Investment
- Trustee and Chair, Investment Committee of UnLtd
- Trustee, the Professor John Glover Memorial Fund



Sir Ron Kalifa
Senior Independent Director

Appointed NED 1 June 2019
Term expires on 31 May 2027

- Chair, Network International
- Director, RMK Consulting Services
- Trustee and Chair of Finance Committee, The Royal Foundation
- Non-Executive Director and Member of Audit Committee, England & Wales Cricket Board
- Member, and Member of Finance Committee, Council of Imperial College, London

Diana Noble
Deputy Chair

Appointed NED 1 June 2018
Term expires on 31 May 2026

- Chair, The Children's Society
- Founder, Kirkos Partners
- Non-Executive Director, MedAccess Guarantee Limited
- Non-Executive Director, Brookfield Asset Management

Frances O'Grady

Appointed NED 1 June 2019
Term expires on 31 May 2027

- Council member, Institute for Fiscal Studies
- Commissioner, The Economy 2030 Inquiry, Resolution Foundation
- Member, House of Lords
- Review on Closing the Gender Pay Gap for the Labour Party
- Trustee, TUC Aid

Sir Dave Ramsden
Deputy Governor, Markets and Banking

Appointed 4 September 2017
Term expires on 3 September 2027

- Alternate member, Committee on the Global Financial System, BIS
- Governor, National Institute of Economic and Social Research
- Member, Standing Committee on the Assessment of Vulnerabilities, Financial Stability Board
- Member, Council of the Institute for Fiscal Studies
- Member, CCP Advisory Board
- President, Society of Professional Economists
- President, Money Macro and Finance Research Group
- Visiting Professor, King's College London

Tom Shropshire

Appointed NED 1 November 2022
Term expires on 31 October 2026

- General Counsel & Company Secretary, Diageo
- Director, Comic Relief
- Patron, Amos Bursary
- Trustee, Charitable Projects (Comic Relief)
- Trustee, New York University School of Law

Sam Woods
Deputy Governor, Prudential Regulation

Appointed 1 July 2016
Term expires on 30 June 2026

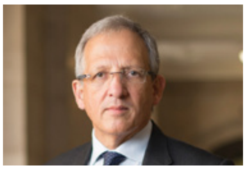
- Board Member, Financial Conduct Authority
- Member, Standing Committee on Supervisory and Regulatory Co-operation, Financial Stability Board
- Member, Group of Governors and Heads of Supervision, Basel Committee on Banking Supervision
- BIS Financial Stability Institute Advisory Board

Policy committees: Monetary Policy Committee (MPC)

Members as at 14 June 2023[3]

Andrew Bailey
Governor,
Chair of the MPC

Ben Broadbent
Deputy Governor,
Monetary Policy

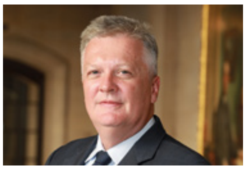


Sir Jon Cunliffe
Deputy Governor,
Financial Stability

Swati Dhingra
External member
Term: 9 August 2022 – 8 August 2025

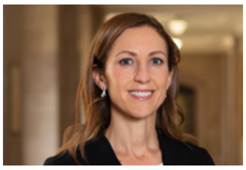
Jonathan Haskel
External member
Term: 1 September 2018 – 31 August 2024

Catherine L Mann
External member
Term: 1 September 2021 – 31 August 2024



Huw Pill
Chief Economist and Executive Director, Monetary Analysis
Term: 6 September 2021 – 5 September 2024

Sir Dave Ramsden
Deputy Governor,
Markets and Banking



Silvana Tenreyro
External member
Term: 5 July 2017 – 4 July 2023

The Bank of England's MPC contributes to the Bank's mission to achieve monetary stability by setting monetary policy to:

- **maintain price stability; and, subject to that,**
- **support HM Government's economic policies, including its objectives for growth and employment.**

At least once a year, HM Government updates its definition of price stability and the description of its economic policy in the MPC's remit. In November 2022, the Chancellor of the Exchequer reconfirmed the target as an inflation rate of '2 per cent as measured by the

3. Michael Saunders was a member of the MPC until the end of his term on 8 August 2022. Megan Greene has been appointed to the MPC for a three-year term, which will take effect from 5 July 2023. She will replace Silvana Tenreyro, who will come to the end of her second term on 4 July 2023.

12-month increase in the Consumer Prices Index'. The economic policy objective of the Government is 'to achieve strong, sustainable and balanced growth'.[4]

The MPC has nine members. Five members are Bank of England staff: the Governor; three Deputy Governors; and the Chief Economist and Executive Director for Monetary Analysis. The Committee also includes four external members appointed by the Chancellor of the Exchequer. A non-voting representative from HM Treasury also sits with the Committee at its meetings.

The MPC meets at least eight times a year to set policy and the MPC's Minutes are published alongside the Committee's decisions after each meeting. The Bank's quarterly Monetary Policy Report includes the MPC's projections for inflation and output.

Members of the MPC are indemnified by the Bank against personal civil liability on the same terms as members of Court (see page 11).

4. **www.bankofengland.co.uk/-/media/boe/files/letter/2022/november/2022-mpc-remit-letter.pdf**.

Financial Policy Committee (FPC)

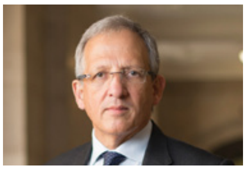
Members as at 14 June 2023[5]

Andrew Bailey
Governor,
Chair of the FPC

Dame Colette Bowe
External member
Term: 1 September 2019 – 31 August 2025

Sarah Breeden
Executive Director,
Financial Stability Strategy and Risk

Ben Broadbent
Deputy Governor,
Monetary Policy



Sir Jon Cunliffe
Deputy Governor,
Financial Stability

Jonathan Hall
External member
Term: 1 September 2020 – 31 August 2026

Randall Kroszner
External member
Term: 1 February 2023 – 31 January 2026

Sir Dave Ramsden
Deputy Governor,
Markets and Banking

Nikhil Rathi
Chief Executive of the FCA
Term: 1 October 2020 – 30 September 2025

Elisabeth Stheeman
External member
Term: 12 February 2018 – 11 February 2024

Carolyn A. Wilkins
External member
Term: 21 June 2021 – 20 June 2024

Sam Woods
Deputy Governor,
Prudential Regulation and Chief Executive of the PRA

The Bank of England's FPC contributes to the Bank's mission to achieve financial stability by:

- **identifying, monitoring and taking action to reduce systemic risks with a view to protecting and enhancing the resilience of the UK financial system; and, subject to that,**
- **supporting the Government's economic policies, including its objectives for growth and employment.**

5. Anil Kashyap was a member of the FPC until the end of his term on 30 September 2022.

The FPC also advises Court on the Bank's Financial Stability Strategy.

At least once a year, the Government must make recommendations about the FPC's responsibilities for financial stability and also about its growth and employment objectives. The FPC must respond formally to these, and provide reasons if it proposes not to follow the recommendations.[6]

The FPC has 13 members. Six members are Bank of England staff: the Governor; four Deputy Governors; and the Executive Director for Financial Stability Strategy and Risk. The Committee also includes the Chief Executive of the Financial Conduct Authority (FCA), five external members appointed by the Chancellor of the Exchequer, and a non-voting representative from HM Treasury.

The FPC meets at least quarterly. It may give directions to the Prudential Regulation Authority (PRA) and the FCA in relation to macroprudential measures prescribed by secondary legislation under the Bank of England Act 1998. The FPC also has powers to make recommendations to any other body. It publishes a record of its formal policy meetings and is responsible for producing the (at least) twice-yearly Financial Stability Report.

Members of the FPC are indemnified by the Bank against personal civil liability on the same terms as members of Court (see page 11).

6. The most recent remit and recommendations is at **www.bankofengland.co.uk/-/media/boe/files/letter/2022/november/2022-fpc-remit-letter.pdf**. And the FPC's response is at **www.bankofengland.co.uk/-/media/boe/files/letter/2022/december/2022-remit-response.pdf**.

Prudential Regulation Committee (PRC)

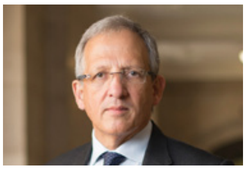
Members as at 14 June 2023[7]

Andrew Bailey
Governor,
Chair of the PRC

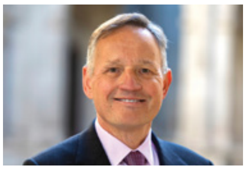
Julia Black
External member
Term: 30 November 2018
– 29 November 2024

Ben Broadbent
Deputy Governor,
Monetary Policy
Term: 1 March 2017
– 30 June 2024

Tanya Castell
External member
Term: 1 September 2021
– 31 August 2024



Sir Jon Cunliffe
Deputy Governor,
Financial Stability



Antony Jenkins
External member
Term: 5 April 2021
– 4 April 2024

Jill May
External member
Term: 23 July 2018
– 22 July 2024

Marjorie Ngwenya
External member
Term: 5 September 2022
– 4 September 2025

Sir Dave Ramsden
Deputy Governor,
Markets and Banking

Nikhil Rathi
Chief Executive of the FCA
Term: 1 October 2020
– 30 September 2025

John Taylor
External member
Term: 14 January 2021
– 13 January 2024

Sam Woods
Deputy Governor,
Prudential Regulation and
Chief Executive of the PRA

The PRC is the body within the Bank responsible for exercising the Bank's functions as the Prudential Regulation Authority (PRA) as set out in the Bank of England Act 1998 and the Financial Services and Markets Act 2000 (FSMA). The PRC is on the same legal footing as the Monetary Policy Committee and the Financial Policy Committee.

7. The Bank of England Act 1998 provides for one member to be appointed by the Governor with the approval of the Chancellor. The Governor appointed Ben Broadbent.

The PRC's terms of reference provide for 12 members. Five members are Bank of England staff: the Governor; and four Deputy Governors. The Committee also includes the Chief Executive of the Financial Conduct Authority (FCA), and at least six members appointed by the Chancellor of the Exchequer.

- The PRC is independent in all its decision-making functions, including making rules and the PRA's most important supervisory and policy decisions.
- The PRA functions are exercised by the Bank and are funded by PRA fees, with the PRC responsible for consulting on and setting the level of those fees.
- The PRC is required to report annually to the Chancellor of the Exchequer on the adequacy of resources allocated to the PRA functions and the extent to which the exercise of those functions is independent of the exercise of the Bank's other functions.[8]
- Members of the PRC are indemnified by the Bank against personal civil liability on the same terms as members of Court (see page 11).

The statutory objectives of the PRA, which underpin its forward-looking, judgement-based approach to supervision, are:

- a general objective to promote the safety and soundness of the firms it regulates;
- specifically for insurers, to contribute to the securing of an appropriate degree of protection for those who are or may become insurance policyholders; and
- a secondary objective to, so far as is reasonably possible, act in a way which facilitates effective competition in the markets for services provided by PRA-authorised persons in carrying on regulated activities.

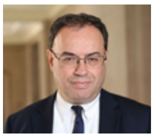
In December 2022, HM Treasury issued 'Recommendations for the Prudential Regulation Committee'.[9] This sets out aspects of HM Government's economic policy to which the PRC should have regard when considering how to advance its objectives, and when considering the application of the regulatory principles in FSMA.

FSMA also requires the PRA to review, if necessary revise, and publish annually its strategy in relation to how it will deliver its statutory objectives. The strategy is set by the PRC, in consultation with the Bank's Court of Directors. The PRA's strategy was published with the PRA Business Plan 2023/24 in May 2023.[10]

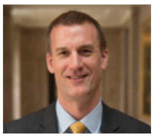
8. Available on pages 16–19 in the PRA Annual Report 2022/23, **www.bankofengland.co.uk/prudential-regulation/publication/2023/june/pra-annual-report-2022-23**.
9. The recommendations are at **www.gov.uk/government/publications/recommendations-for-the-prudential-regulation-committee-december-2022**. And the PRC's response is at **www.bankofengland.co.uk/-/media/boe/files/letter/2023/prc-remit-letter-to-chancellor.pdf**.
10. **www.bankofengland.co.uk/prudential-regulation/publication/2023/may/pra-business-plan-2023-24**.

Our organisation as at 14 June 2023[11], [12]

The senior executive and their membership, where relevant, of the FPC, MPC and PRC are indicated below.



Andrew Bailey
Governor
(FPC, MPC, PRC)

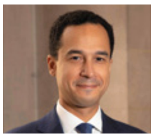


David Bailey
Executive Director,
UK Deposit Takers
Supervision

Melanie Beaman
Executive Director,
Resolution

James Benford
Executive Director,
Data and Analytics
and Chief Data
Officer

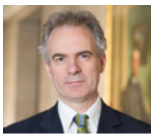
James Bell
Executive Director,
Communications



Nathanaël Benjamin
Executive Director,
Authorisations,
RegTech and
International
Supervision

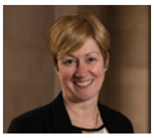
Sonya Branch
Executive Director,
General Counsel

Sarah Breeden
Executive Director,
Financial Stability
Strategy and Risk
(FPC)



Ben Broadbent
Deputy Governor,
Monetary Policy
(FPC, MPC, PRC)

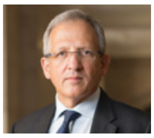
Stephen Brown
Executive Director,
Risk



Jane Cathrall
Executive Director,
People and Culture

Victoria Cleland
Executive Director,
Payments

11. The following Executive Directors commenced their appointments in 2022/23: Melanie Beaman (January 2023), James Benford (April 2023), Sasha Mills (September 2022), Paul Robinson (Interim, October 2022), Sushil Saluja (June 2022).
12. The following held Executive Director posts during 2022/23: Sasha Mills (Resolution, until September 2022), Gareth Ramsay (Data and Analytics, until October 2022), Paul Robinson (Data and Analytics, Interim, until April 2023), Christina Segal-Knowles (Financial Markets Infrastructure, until September 2022), Anna Sweeney (Insurance Supervision, until September 2022), Oliver Tweedie (Technology, Interim, until June 2022).



Sir Jon Cunliffe
Deputy Governor, Financial Stability (FPC, MPC, PRC)

Jonathan Curtiss
Executive Director, Shared Services

Charlotte Gerken
Executive Director, Insurance Supervision

Andrew Hauser
Executive Director, Markets

Sarah John
Executive Director, Banking and Chief Cashier

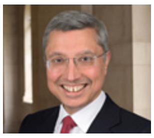
Afua Kyei
Chief Financial Officer

Duncan Mackinnon
Executive Director, Supervisory Risk Specialists

Sasha Mills
Executive Director, Financial Market Infrastructure

Huw Pill
Chief Economist and Executive Director, Monetary Analysis (MPC)

Sir Dave Ramsden
Deputy Governor, Markets and Banking (FPC, MPC, PRC)



Sushil Saluja
Technology and Chief Information Officer

Victoria Saporta
Executive Director, Prudential Policy

Ben Stimson
Chief Operating Officer

Sam Woods
Deputy Governor, Prudential Regulation and Chief Executive of the PRA (FPC, PRC)

Review of 2022–23

Our timeless mission, as set out in our original Charter in 1694, is to 'promote the good of the people of the United Kingdom'. The way in which we have discharged this mission has evolved over time, and in step with the changing world around us.

In this context, our strategic priorities summarised in Figure A (overleaf) reflect our role as a central bank in a way that is purposeful, sustainable and forward-looking. They are designed to support the achievement of our timeless outcomes: stable prices; a resilient financial system; secure and reliable payments, banking services, and banknotes; and safe, sound and resolvable firms.

In this Review we first summarise how we have worked together to make full use of the knowledge, resources and skills from across the organisation in support of our mission and timeless outcomes. The Review then ends by detailing the progress we have made in delivering our strategic priorities.

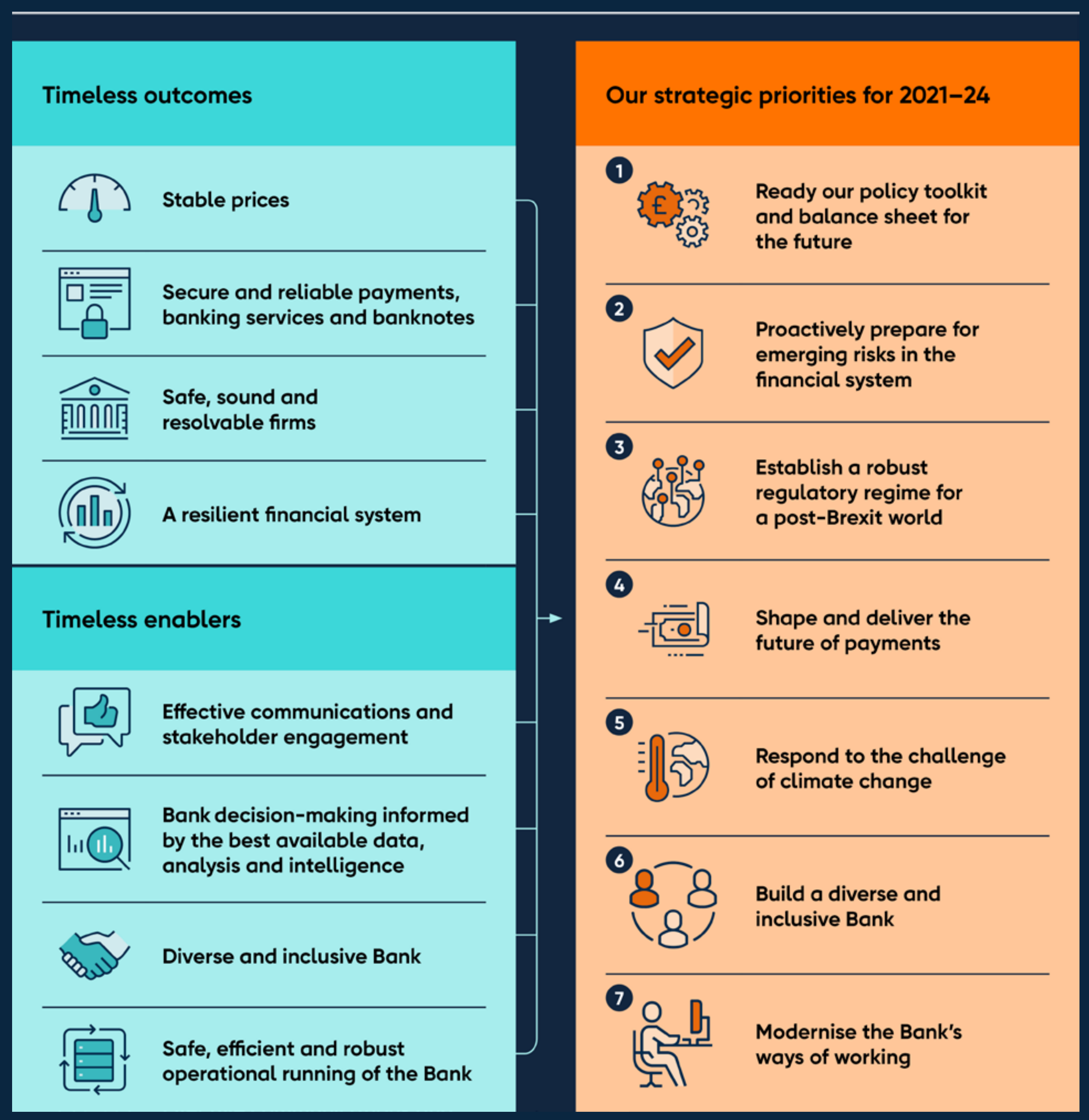
Stable prices

We carry out our mission to maintain monetary stability by working to keep inflation low and stable in the UK. The Government has set us a target of keeping annual inflation at 2%. They also ask us to consider how we can support UK economic growth and jobs when we decide what to do to meet the target.

The Monetary Policy Committee (MPC) is responsible for our work in this area. It meets around every six weeks or so to decide what interest rate is consistent with meeting the inflation target over the medium term. That is because any action we decide takes time to reach its full effect.

This year, inflation has been well above our target. Higher prices of energy and food are one of the main reasons for that. Russia's invasion of Ukraine led to large increases in the price of gas. Higher prices for the goods we buy from abroad have likewise played a big role. There is also pressure on prices from developments in the UK. Businesses are charging more for their products because of the higher costs they face.

Figure A: Bank of England strategic priorities: 2021–24



Many people are rightly worried about the increasing cost of living. And we know how hard the impact of higher inflation has been on people over the past year. Inflation hits the least well off the hardest. Since December 2021, we have raised interest rates from 0.1% to 4.5%, as this is the best way we have of bringing inflation down. At the time of writing, we expected inflation to halve by the end of 2023, and be back to our 2% target by the end of 2024.

We know that higher interest rates have a real impact on people's lives. But low and stable inflation is the foundation of a healthy economy that can grow, create new jobs, and prosper.

Colleagues from across the organisation have worked together on a number of analytical issues to support the MPC's decision-making this year. Key areas include: energy prices; the labour market; domestic price pressures; potential supply; the monetary transmission mechanism; and the outlook for inflation. The analysis and rationale supporting the MPC's decisions are set out more fully in the published minutes of the Committee's policy meetings and its Monetary Policy Reports.

It is important that we earn and maintain the legitimacy to perform the functions given to us by Parliament by being open, accountable and transparent. During the year, the MPC has presented evidence at eight Parliamentary hearings, including those of the Treasury Committee and Economic Affairs Committee, and MPC members have given around 50 interviews and speeches.

A resilient financial system

A financial system connects people who want to save, invest or borrow money. It's a vital part of our economy. Our objective is to maintain financial stability in the UK and the Financial Policy Committee (FPC) leads our work in this area. Its role is to identify, monitor and take action to remove or reduce systemic risks with a view to protecting and enhancing the resilience of the UK financial system. The FPC also has a secondary objective to support the economic policy of the Government.

Banking system

In March 2023, Silicon Valley Bank (SVB) became the largest US bank to fail since the 2008 global financial crisis. SVB owned a smaller bank based in the UK called Silicon Valley Bank UK. It showed signs that it would not be able to survive too.

At that point, we stepped in to resolve the bank using the authority given to us by Parliament. Our aim was to avoid any wider disruption. With Silicon Valley Bank UK, the best option was to transfer its business to another stronger bank (HSBC). That meant that all its services continued as normal.

The UK banking system remains resilient, with a strong financial position and robust regulation. It's our job to make sure banks in the UK have enough financial resources kept aside, in case they ever need to use them. Each year we test the UK's largest banks, building societies and insurers to see if they are prepared for an economic crisis. We call it stress testing. The tests we carried out in 2022 showed that the UK's banking sector is resilient to a severe economic downturn. That reflects the large financial buffers they have built up since the 2008 global financial crisis.

We also set the UK countercyclical capital buffer (CCyB) rate each quarter. The CCyB provides banks with an additional ‘rainy day’ buffer to absorb potential future losses without restricting lending to those that are able to repay. To help ensure UK banks have the resilience to lend in a stress, we are increasing the CCyB rate from 1% to 2% from July 2023. We are able to release this buffer if needed to make it easier for the banks to lend to UK households and businesses.

Non-bank system

More business lending and other financial services now come from financial institutions other than banks. This non-bank sector includes different types of firms, operating within and outside of the UK.

In September 2022, rapid and large moves in the interest rates on UK government debt exposed weaknesses in liability-driven investment (LDI) funds which are used by UK pension schemes. This weakness threatened UK financial stability and we had to intervene temporarily in government debt markets so that the LDI funds could increase their resilience. Had we not acted, the stress could have significantly affected households’ and businesses’ ability to access credit.

We have previously highlighted the need for urgent international action to strengthen the resilience of, and reduce risks in, the non-bank sector. For our part, we will also begin an exploratory scenario exercise focused on non-bank financial institutions. This will help us better understand and reduce the risks associated with them.

Colleagues have worked together on a number of analytical issues to support the FPC’s decision-making this year. Key areas include: commodity markets; and LDI funds. The work of the FPC is set out more fully in the twice-yearly Financial Stability Report and in the records of the FPC’s quarterly policy meetings.

During the year, the FPC has presented evidence at nine Parliamentary hearings, including those of the Treasury Committee, and FPC members have given around 20 interviews and speeches.

Secure and reliable payments, banking services and banknotes

Payments

Payment systems are essential to our economy. They are used to buy goods and services, receive salaries and benefits, and withdraw money from cash machines.
We play a major role in supporting payments in the UK through our Real-Time Gross Settlement (RTGS) service. RTGS lies at the heart of every retail and wholesale payment in the UK, including those made using Visa, MasterCard and the Faster Payments system. RTGS also supports our high-value CHAPS system that people typically use when buying and selling property.

In 2022/23 RTGS settled, on average, over £775 billion of payments every working day. Any problem with this service could have a large impact on the UK economy. So we have a target that it should be available at least 99.95% of the time. We met this target in 2022/23.

The work we have done this year to shape and deliver the future of payments is covered on pages 33–34.

Banking services

To support our mission we provide safe, confidential and reliable banking and custodial services to HM Government, certain financial firms and over 100 central banks around the world.

For HM Government we provide foreign currency accounts and payment services, and securities custody and settlement services. We also act as HM Treasury's agent in the day to-day management of the Exchange Equalisation Account, which holds the UK's reserves of gold, foreign currency, and other assets.

We also provide banking services for certain financial sector firms, where there are clear financial stability reasons to do so. One type of firm we provide banking services to is central counterparties (CCPs). CCPs provide an important link in the financial system by acting as an intermediary between buyers and sellers in a trade. The work we have done this year on CCP resilience and recovery is covered on page 32.

Banknotes

Maintaining public confidence in the currency is core to our mission. We need to make sure the banknotes we produce are high quality, long lasting and difficult to counterfeit.

In December 2022, we unveiled the design of updated banknotes featuring a portrait of His Majesty King Charles III. His Majesty's portrait will appear on existing designs of all four polymer banknotes (£5, £10, £20 and £50). This will be a continuation of the current polymer series and no additional changes to the banknote designs will be made. The notes are expected to enter circulation by mid-2024.

In line with guidance from the Royal Household to minimise the environmental and financial impact of the change of monarch, notes with His Majesty's portrait will only be printed to replace worn banknotes and to meet any overall increase in demand for banknotes. That will mean banknotes featuring the portrait of HM Queen Elizabeth II will co-circulate with those featuring His Majesty.

Safe, sound and resolvable firms

The Prudential Regulation Authority (PRA) is responsible for the prudential regulation and supervision of around 1,400 banks, building societies, credit unions, insurers and major investment firms.

The PRA has two primary objectives: a general objective to promote the safety and soundness of the firms it regulates; and an objective specific to insurance firms, to contribute to ensuring that policyholders are appropriately protected. The PRA also has a secondary objective to facilitate effective competition in the markets for services provided by firms.

The PRA advances these objectives through regulation and supervision. Through regulation, it develops standards and policies that set out what is required and expected of firms. Through supervision, it monitors and assesses whether firms are meeting requirements and expectations. Where they do not, the PRA can take action – supervisory or enforcement – to reduce the risks that might arise. The approach to regulation and supervision is forward looking, judgement-based, and focused on the issues and firms that pose the greatest risk to the stability of the UK financial system and to policyholders.

Since 2020, HM Government has been considering how the financial services regulatory framework in the UK should be shaped following our departure from the EU. The outcomes of this Future Regulatory Framework Review are now being implemented through the Financial Services and Markets Bill (the 'Bill'). The Bill will repeal most retained EU law in financial services and enable the regulators to make new rules in relevant areas.

As a result, the PRA expects to take on new responsibilities in several areas. It also provides an opportunity for us to strengthen our accountability to Parliament and the public, and to make our rules more accessible. Being accountable means having clear justifications for our policies and being open and responsive to challenge. The Bill also proposes the introduction of an additional secondary objective for the PRA to facilitate, subject to alignment with international standards, the international competitiveness of the UK economy and its growth in the medium to long term.

In September 2022, the PRA published the first in a series of publications that set out how it intends to take full advantage of the opportunities that the measures in the Bill will create. Moreover, the PRA has already taken action, where it can, to establish a robust, safe and open future regulatory regime. This is covered later in this Review on pages 31–33.

Strategic priorities

Ready our policy toolkit and balance sheet for the future

Our balance sheet has become much larger and more complex over time as we have developed new policy tools to achieve our mission. Over the past year, we have continued to expand our policy toolkit in the light of new challenges.

In September 2022, against the backdrop of an unprecedented repricing in UK assets, we announced a temporary and targeted programme of asset purchases to restore market functioning and maintain financial stability. Soon after, in October 2022, we launched a new market operation, the Short-Term Repo, as part of our toolkit to ensure that short-term market rates remain close to Bank Rate as the MPC continues to unwind quantitative easing.

Recent and emerging trends mean that we need to adapt our policy toolkit and balance sheet so that we can maintain monetary and financial stability. One trend is the increasing role non-banks play in the financial system. In response, we are considering whether to develop new tools to provide liquidity to a wider set of market participants.

New forms of digital money may also have implications for our balance sheet. For instance, were we to develop a digital pound (see page 34), we would need to examine how our balance sheet would need to adjust to support its safe and effective provision. Alongside this, we are continuing to further our understanding of the monetary policy toolkit and its interactions with other policy tools, our balance sheet, and digital money.

Although our balance sheet has started to reduce in size as we begin to unwind quantitative easing, the continued expansion of our policy toolkit in response to these trends, alongside increased demand from market participants for central bank reserves, means that our balance sheet will likely remain larger than in the past.

Proactively prepare for risks in the financial system

We need to have the toolkit, frameworks and capabilities to ensure we can proactively prepare for, and respond effectively to, risks to the financial system.

Operational resilience

It is crucial that the UK financial system is resilient to any disruptions to its operations. That means making sure that the firms we regulate can absorb and adapt to shocks, rather than contribute to them. Our operational resilience policy took effect in March 2022. Since then, we have engaged with firms to review their work and to assess where further work is required. Firms have also published their high-level findings.

Rising cyber-threats and increased third-party outsourcing have increased the need for visibility of emerging risks. In support of that, we are continuing work on an exploratory cyber stress test. The test is being used to explore firms' capabilities and the potential financial stability impact of a hypothetical scenario where payments data had been corrupted. We will use what we learn from the stress test to ensure that, in the future, firms will be better prepared to respond to similar severe but plausible scenarios.

On third-party outsourcing, the Financial Services and Markets Bill will give HM Treasury the ability to designate certain third parties as critical, and give us new powers to oversee them. In preparation, we published a joint discussion paper with the FCA in July 2022 on how these proposed powers could be used to assess and strengthen the resilience of services provided by critical third parties to firms, thereby reducing the risk of systemic disruption.

Non-ring-fenced bodies

In March 2022, the independent Skeoch report recommended that we ensure sufficient plans are in place as part of our contingency planning to provide liquidity to non-ring-fenced bodies (NRFBs) of major UK banks in a stress scenario.

In June 2022, we published our assessment of the resolvability of major UK banks for the first time. That assessment showed that the banks needed to improve their ability to identify and forecast collateral available in stressed conditions. We subsequently undertook an exercise with these banks, including NRFBs, to help banks improve their capabilities in this area, and follow up work on that continues.

The Skeoch report also made recommendations on the risks from proprietary trading. In response, we, alongside the other UK authorities, continue to monitor the risks undertaken by banks and non-banks, and put in place mitigations where necessary.

Resolution

We continue to work on ensuring that we have a comprehensive and effective resolution regime that can deal with failures in a way that maintains critical economic functions to households and businesses.

In October 2022, we published the results of our first supervisory stress test of central counterparties (CCPs). Overall, the results showed UK CCPs were resilient to market stress scenarios that were calibrated to be of equal or greater severity than the worst historical market stresses.

The CCP stress test supports our commitment, in line with the UK's status as a global financial centre, to regulating CCPs with due transparency and in line with international best practice. We will continue to engage CCPs on the findings from the exercise, which will also inform our ongoing supervisory and regulatory work at both the domestic and international level.

This year we have also continued to play a leading role in international work on examining the size of CCP margin calls following the 'dash for cash' event at the start of the Covid pandemic. And in June 2022 we published our final policy on amending the scope of the clearing obligation to reflect changes in market activity as a result of interest rate benchmark reform.

More detail on these and other activities are provided in our Supervision of Financial Market Infrastructures Annual Report, published in December 2022.

Establish a robust, safe and open future regulatory regime

Earlier in this Review we noted that the Financial Services and Markets Bill will create opportunities for how we regulate and supervise firms in the UK. Our overall aim is to build a fit for purpose UK regulatory regime, grounded in international standards, which underpins a resilient and dynamic international financial sector that is safely open to the rest of the world. In support of that aim, our focus this year has been to address the opportunities that stem from the Bill in a responsive and dynamic manner, and in a way that is appropriately tailored to the circumstances of the UK.

We have continued to develop a 'Strong and Simple' prudential framework for banks and building societies that we consider to be neither systemically important nor internationally active. The objective of this Simpler-regime framework would be to maintain the resilience of those firms and of the financial sector while using simplified prudential regulation, thereby enabling a dynamic and diverse UK banking sector. In April 2022, we published a consultation paper that set out the definition of a Simpler-regime regulated firm, as a first step in designing a Strong and Simple framework. This was followed in February 2023 with a consultation paper on the first set of measures that will apply to Simpler-regime firms.

We have also continued to work on the set of international standards on banks' capital and liquidity requirements under the so-called Basel III international regulatory accord. In November 2022, we published a consultation paper on how we would implement the remaining Basel III standards in the UK to ensure that firms' capital requirements are more consistent and comparable.

Finally, we have been working with HM Treasury to examine how our main arm of insurance regulation (Solvency II) can be tailored to work better for the UK.[13] HM Treasury has set three objectives for the review, which we support: a competitive insurance sector; investment to support growth; and policyholder protection. Consistent with these objectives, we plan to publish a consultation paper to cover an initial set of Solvency II reforms by end-2023 Q2.

Shape and deliver the future of payments

To meet our monetary policy and financial stability objectives we need continually to innovate our payments infrastructure and regulatory framework so that they are resilient and relevant in the light of changing technology, financial system developments and public needs.

Payments

We are making our payments systems ready for the future by renewing our core RTGS service.

A key part of this work is to move to the global standard for payments messaging called ISO 20022 that creates a common language for payments across the globe. We are planning to introduce ISO 20022 messaging for CHAPS in June 2023. This follows a successful programme of testing in collaboration with CHAPS participants. We then plan to introduce a new RTGS core settlement engine in Summer 2024.

We are also continuing to shape international work designed to ensure international standards for payment systems reflect innovation in the payments landscape. One such innovation is stablecoins: assets which peg to other assets in order to stabilise their value. We played a key role in CPMI-IOSCO work published in July 2022 which was a major step forward in applying the principle of 'same risk, same regulatory outcome' to systemically important stablecoin arrangements that are used for payments. We also worked with other international bodies, including the Financial Stability Board, to update recommendations for

13. **www.gov.uk/government/consultations/solvency-ii-review-consultation**.

global stablecoins arrangements, as well as the G20 Roadmap for Enhancing Cross-border Payments.

Digital currency

In February 2023, we issued a joint consultation paper with HM Treasury on a potential central bank digital currency, or digital pound. The consultation was launched because we want to ensure the public have access to safe money that is convenient to use as our everyday lives become more digital, while at the same time supporting private sector innovation, choice and efficiency in digital payments.

A digital pound would be issued by us and could be used by households and businesses for everyday payments in-store and online. It would be accessed through digital wallets offered to consumers by the private sector through smartphones or smartcards. If introduced, a digital pound would complement and be interchangeable with cash and bank deposits. It is important to stress that we will keep issuing physical cash as long as people want to use it.

Work has now moved onto a design phase which will look at the technology and policy requirements for a digital pound. A decision about whether to implement a digital pound will be taken around the middle of this decade. The earliest stage at which the digital pound could be launched would be the second half of the decade.

Cash distribution

Although we have seen a large decrease in the use of cash as a means of payment, cash remains vital for many in society. It also acts as an important backstop should other forms of payment become unavailable. However, the declining use of cash is putting pressure on the wholesale cash distribution system. This is creating risks of disruption to those who rely on having access to cash when they need it.

In December 2022, we consulted on how we might respond to this challenge by using new powers given to us by HM Government to ensure wholesale cash distribution remains effective, resilient and sustainable into the future. This will ensure that individuals and businesses across the UK continue to have access to cash for years to come.

Respond to the challenge of climate change

The physical effects of climate change and the transition to a net-zero economy are relevant to our mission. They can create financial risks and economic consequences, which affect the safety and soundness of the firms we regulate; the stability of the financial system; and the economic outlook in a way that could have a bearing on the appropriate monetary policy stance.

Our approach to climate change is therefore to play a leading role, through our policies and operations, in ensuring the financial system and we ourselves are resilient to the risks from climate change, and in understanding its macroeconomic implications. Where there is alignment with our objectives, we act to support the transition to a net-zero emissions economy. We ensure our strategy is focused on those areas that may have the most material impact on our statutory objectives, and is balanced against our limited resources.

A focus for us this year was the active supervision of banks and insurers against our climate expectations. We published the results of our Climate Biennial Exploratory Scenario exercise, accompanied by the provision of detailed feedback to participating firms. Complementing this, in October 2022, we hosted a research conference on climate change and the regulatory capital framework, followed by the publication of key findings.

Our annual climate disclosure, which is published alongside this report, provides more information on our approach to managing climate risks across our policy functions and internal operations. For the first time this year we will also publish our Climate Transition Plan.

Looking ahead, we have a broad climate agenda. This includes advancing our thinking on the impacts of climate risks on financial stability, and further progress our thinking on how climate change and the transition impacts the macroeconomy and monetary policy. We will continue to engage firms on their management of climate-related financial risks and develop views on how these risks should be reflected in regulatory frameworks, including those related to regulatory capital.

Build a diverse and inclusive Bank

A truly diverse, equitable and inclusive culture is vital to delivering our mission. Enabling all colleagues, regardless of their personal backgrounds and characteristics, to fulfil their potential will make us more effective as an organisation.

Our vision is to build a workforce that reflects the society we serve, so we can build and maintain trust and support effective decision-making. We aim to make the experience of all colleagues positive, and to give equal opportunity to all to contribute, develop and to reach their full potential.

The work we have done this year to build a more diverse and inclusive organisation is covered in the Our people section on pages 62–73.

Modernise the Bank's ways of working

To meet our mission in a changing world, we need to upgrade our ability to make the best use of data, analytics and technology. This includes building modern technology foundations and digital working capabilities, and improving our ability to adapt, innovate and change with greater agility.

In support of this aim, we are upgrading the organisation-wide support to help our people use data and analytics (D&A). For example, this year we have on-boarded around 200 colleagues and dozens of data sets to our D&A Platform, and launched a helpdesk to help people make the best use of the available D&A support. We have also further improved management of our critical reference data, created a new business-partnering function, and delivered new insights, including an enhanced dashboard to help identify what is driving changes in the diversity of our workforce.

We have continued implementation of our plan to transform our data collection from the UK financial sector. Our joint programme with the FCA and industry involves around a dozen full-time nominees from industry, with a further 100 industry experts and leaders involved in the advisory teams and committees. The joint team delivered recommendations for improving the first batch of collections, which the Bank accepted and began to implement. Meanwhile we have begun work on the next set of data collections to be treated.

Looking ahead, we will continue to invest in our ability to get data and use data, and in making better use of data to support business outcomes in our front-line functions. During 2023/24 we will continue to improve and exploit the platforms, tools, training, and reference data that we have established. We will strengthen our governance around data and analytics in support of a consistently implemented strategic approach, with reference to an enterprise-wide data architecture, and refresh our data and analytics strategy in the light of the conclusion of the Independent Evaluation Office review. We will investigate and form a strategy to support the use of machine learning and artificial intelligence across the organisation and also drive better use of data in several priority business initiatives, and mature our approach to benefits realisation management. And we will realise the first round of benefits from our plan to transform data collection, and start to map out how we will scale the transformation over the rest of the decade.

Public Sector Equality Duty

The Public Sector Equality Duty (PSED) applies to public authorities and others who may be exercising public functions. Under this duty, public authorities are required to: have due regard to the need to eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act 2010; advance equality of opportunity between people who share a protected characteristic and those who do not; and foster good relations between people who share a protected characteristic and those who do not. We recognise that in the exercise of our public functions we must have due regard to the PSED. Examples of how we take into consideration our PSED obligations are set out below.

Financial Policy Committee (FPC)

By striving to make financial crises both rarer and less severe, the FPC's actions are intended to reduce the probability and impact of financial crises in which the costs can fall disproportionately on lower income and vulnerable households (households in which individuals sharing particular protected characteristics, including those of race and sex, can be disproportionately represented). Further, while focused on improving the resilience of the UK financial system, the FPC's policies are explicitly designed to limit any significant adverse effects on growth of the UK economy. In so doing the FPC supports the provision of sustainable access to finance for households (including lower income and vulnerable households). The FPC continues to have due regard to the PSED when exercising its public functions.[14]

Monetary Policy Committee (MPC)

The MPC is tasked with setting monetary policy and meeting the Government's target of keeping inflation at 2%. The distributional impact of monetary policy is difficult to measure with precision but analysis by staff suggests that the overall effect of monetary policy, including quantitative easing, on standard measures of income and wealth inequality (which have the potential to reflect the position of individuals sharing particular protected characteristics under equality legislation) has been small.

Wholesale cash distribution

An increasing number of individuals and businesses are benefiting from the convenience, security, and speed of digital payments. Conversely, the transactional use of cash has declined, a trend that has been exacerbated by the Covid pandemic. In spite of that, cash remains a valued form of money for many in society, including the elderly and those on lower incomes (households in which individuals with certain protected characteristics, including those of race and sex, can be disproportionately represented), with many using it to budget and manage their household finances. As such, a lack of access to cash can highly impact certain groups who share protected characteristics, including age and disability.

14. Section 150(4) and Schedule 19 of the Equality Act 2010 states that the Bank is subject to the public sector equality duty in relation to the exercise of its public functions.

In 2020, the Government committed to give us powers to oversee and supervise the wholesale distribution of cash. The new powers are included in the Financial Services and Markets Bill which was introduced to Parliament in 2022. We published a consultation paper in December 2022 on our supervisory approach to wholesale cash distribution. The consultation closed in February 2023, and we are currently considering the feedback received which will inform our work as a regulator of wholesale distribution firms, and as the UK's central bank.

Equality objectives

Our objectives in relation to our public sector equality duty referred to above, include representation targets that help ensure that we are on the right path, with momentum, towards attracting and retaining an ethnically diverse workforce at all levels and being a minority ethnic employer of choice. We see these targets as contributing to our mission and functions by enabling the development of appropriate policies and practices within the organisation that will encourage decision-making that better reflects the society we serve. Our latest representation targets and an update on our progress towards these can be found in the Our people section (pages 62–73).

Top: Launch of our first book, ‘Can’t we just print more money?’.

Middle: Parents+ Network wins at Working Families Awards!

Bottom: Interactive storytelling at the Bank’s Museum, on Bring Your Children to Work Day.

Financial review of 2022–23

Financial statements highlights

The Bank operates as 'One Bank', a single unified institution, and the financial review is presented in a way that is consistent with this operating principle.

Under the 1844 Bank Charter Act, the Bank was divided for accounting purposes into the Issue Department, covering banknote issuance activity, and the Banking Department, which encompasses all other activities.

Under the Bank of England and Financial Services Act 2016 separate PRA disclosures are presented in the Annual Report on pages 203–12, these reflect the operations of the Bank acting as the PRA, and are a subset of the Banking Department.

Under the Bank of England Act 1998, the financial statements are prepared on a non-consolidated basis. The 'combined' income statement and balance sheet data in this section represent the aggregation of the Banking Department and Issue Department, and are presented for information purposes only.

Court considers the operation of the Bank's financial framework in fulfilling its responsibilities under the Bank of England Act 1998. For the Banking Department, the Bank compiles its medium-term spending plans within a financial framework which has four main tenets:

First, that policy functions of the Bank (monetary policy and financial stability) are financed by the Cash Ratio Deposits (CRD) scheme. Under the CRD regime, banks and building societies are required to place an interest-free deposit at the Bank which is a ratio of their eligible liabilities. The Bank then invests those deposits in interest-yielding assets, generating income to fund its policy functions. The CRD requirements are set by HM Treasury through a Statutory Instrument at least every five years. This was last set in May 2018 and saw a change from a single fixed ratio to a variable one from 1 June 2018.[15] See Cash Ratio Deposit scheme section below for detail on future developments in respect of the scheme.

Second, that the remunerated activities of the Bank – banking services, services to HM Treasury and lending operations for the Bank's own account – will be expected to break

15. The current requirements were agreed in May 2018; see **www.legislation.gov.uk/uksi/2018/633/pdfs/uksi_20180633_en.pdf** for the 2018 Cash Ratio Deposit legislation.

even over the medium term, although the Bank remains committed to providing value for money, and so manages its cost base in this context. Any gains or losses from these activities will not flow back to CRD payers, but instead be recognised in the Bank's capital.

Third, the Bank acting as the PRA, operating under the Financial Services and Markets Act 2000, may levy regulated firms to recover all costs incurred in the performance of the PRA's functions under the Act. From August 2018, the Bank introduced a levy to cover its Financial Market Infrastructure (FMI) supervisory costs in response to an Independent Evaluation Office recommendation. This applies to all FMIs which are supervised by the Bank under the Banking Act 2009 or the Financial Services and Markets Act 2000.

Fourth, that if spending on policy functions is in line with CRD income and other functions break even, the profit of the Bank should be broadly equivalent to the return on the assets in which its capital and reserves are invested – largely gilts.

Cash Ratio Deposit scheme

The CRD scheme is reviewed at least every five years and was most recently updated in 2018. It is intended to result in policy income and expenditure breaking even over the five-year cycle. Despite recent increases in gilt yields, income on CRD investments continues to fall short of policy expenditure.

The CRD ratio is 0.403% as at 28 February 2023 (2022: 0.406%). The CRD ratio is reindexed to prevailing gilt yields every six months. This variable ratio makes it more responsive to changes in gilt yields and better able to deliver the income required to fund the Bank's monetary policy and financial stability costs.

Despite increasing yields in the year, even with indexation, CRD income was again unable to recover fully the Bank's policy expenditure, leading to a further shortfall in 2023 of £75mn (2022: £65mn).

During 2021, the Bank established, together with HM Treasury, a Joint Steering Group to review the funding arrangements and consider alternative options to fund the Bank's policy expenditure with the intention of mitigating future shortfalls.

A consultation paper was published by HM Treasury in September 2021,[16] which consulted on potential alternative funding options. The outcome of this consultation was to move forward with the introduction of a levy to fully cover the costs of the Bank's monetary policy

16. www.gov.uk/government/consultations/review-of-the-cash-ratio-deposit-scheme-consultation.

and financial stability functions. Legislation to implement this new levy, the Bank of England levy, was included as part of the Financial Services and Markets Bill 2022, which is expected to receive Royal Assent during 2023. HM Treasury and the Bank will consult later in 2023 on secondary legislation to introduce the levy from 2024. Further details of this levy scheme can be found in the policy statement published by HM Treasury on 7 June 2022.[17]

Capital

	2023 (£mn)	2022 (£mn)
Total capital	5,424	5,777
Deductions (net of deferred tax):		
Intangible assets	(230)	(202)
Pension and property reserves	(679)	(1,230)
Illiquid investments	(1,121)	(1,065)
Loss-absorbing capital	**3,394**	**3,280**

The capital framework, introduced in June 2018 following agreement between HM Treasury and the Bank, states that the proportion of Banking Department profits payable to HM Treasury will be determined by the level of loss-absorbing capital (LAC) held by the Bank and where this sits within a set of parameters.[18]

LAC is the Bank's total capital less any capital components that cannot absorb losses, which include: intangible assets (net of deferred tax); net pension scheme assets and property revaluation reserves (net of deferred tax); and illiquid investments (net of deferred tax).

The Bank's LAC increased to £3,394mn (2022: £3,280mn). The increase in LAC is attributable to an increase in profit and a decrease in the deduction in respect of pension and property reserves. The decrease in the value of retirement benefit assets was primarily driven by lower than expected returns on the Pension Fund's assets, as index-linked gilt yields have increased significantly over the year. Corporate bond yields have also risen significantly over the year resulting in a reduction in liabilities, though not to the same extent as the assets. Overall the Fund is in a net surplus position as liabilities are lower than the assets.

17. www.gov.uk/government/consultations/review-of-the-cash-ratio-deposit-scheme-consultation.
18. See Section 2.B of the agreed financial relationship between HM Treasury and the Bank of England: Memorandum of Understanding for detail of the parameters; www.bankofengland.co.uk/letter/2018/banks-financial-framework-june-2018.

As such, and in line with the capital framework codified in the Memorandum of Understanding on the Financial Relationship between HM Treasury and the Bank, no payment in lieu of dividend to HM Treasury will be made.

Financial statement highlights

The table below presents highlights of the combined 2023 financial statements. Further explanation and commentary is provided below.

Financial statement highlights

	2023 (£mn)	2022 (£mn)	Movement (£mn)
Balance sheet			
Combined balance sheet[1]	1,075,582	1,134,409	(58,827)
Cash Ratio Deposits (CRD)	13,417	13,043	374
Notes in circulation	85,907	86,440	(533)
Loss-absorbing capital[2]	3,394	3,280	114
Funded pension scheme net assets	719	1,279	(560)
Combined loans and advances	1,043,097	1,102,416	(59,319)
On balance sheet: Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises (TFSME)	180,502	192,360	(11,858)
Income statement			
Combined income	804	740	64
of which:			
Income from PRA regulatory activity	326	293	33
Management fees	83	111	(28)
Trading income	171	200	(29)
of which:			
CRD income	157	136	21
Combined expenditure[3]	758	711	47
Combined profit before tax	46	29	17
Combined profit after tax	39	7	32
Payment to HM Treasury in lieu of dividend	–	–	–

	2023 (£mn)	2022 (£mn)	Movement (£mn)
Other items of note			
Net seigniorage income paid to the National Loans Fund	1,681	93	1,588
TFS income(4)	–	17	(17)
TFSME income(5)	3,785	223	3,562
Income statement net surplus/shortfall from policy functions(6)	(75)	(65)	(10)
Average number of employees (headcount)(7)	4,971	4,675	296

(1) Banking Department total assets (£1,073,936mn) + Issue Department total assets (£85,907mn) – Issue Department deposit with Banking Department (£84,261mn).
(2) See page 42.
(3) See page 46.
(4) All positions on the Term Funding Scheme (TFS) matured in February 2022. TFS income reflected Bank Rate received on the TFS loans, and excluded any TFS fees, (which were transferred to the Bank of England Asset Purchase Facility Fund (BEAPFF), following an agreement that BEAPFF continue to receive TFS fees after the transfer of the scheme from BEAPFF to the Bank).
(5) TFSME income reflects Bank Rate on TFSME loans, and TFSME fees receivable in the year. TFS income is net interest income and capital neutral as Bank Rate income is offset by the Bank's liabilities on the corresponding reserves created.
(6) See page 41.
(7) See page 45.

Balance sheet movements

The combined balance sheet decreased by £58.8bn in 2023. The largest movement in assets was a decrease in 'Loans and advances' of £59.3bn, primarily attributable to a decrease in the loan to the Bank of England Asset Purchase Facility Fund (BEAPFF). The Bank has been implementing the Monetary Policy Committee (MPC) decision to begin the unwind of corporate bonds and gilts held in the Asset Purchase Facility (APF). As part of this decision the APF ceased reinvesting the proceeds of maturing gilts and corporate bonds, and commenced a programme of corporate bond sales in September 2022 and gilt sales in November 2022. The proceeds of these activities have been used to repay the loan from the Bank.

CRDs required from banks increased marginally from £13bn to £13.4bn.

The balance of the Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises (TFSME), decreased to £180.5bn from £192.4bn primarily driven by early redemptions. The TFSME closed for new borrowings in October 2021.

'Notes in circulation' decreased marginally year on year from £86.4bn to £85.9bn.

Income statement movements

Profit before tax increased year on year to £46mn, an increase of £17mn. Combined income increased by £64mn in 2023 primarily due to an increase in net interest income, as a result of successive Bank Rate increases in the year.

This offset a reduction in income from Management fees which fell by £28mn in year. This was primarily driven by a decrease in the recovery of notes issue costs as a result of a reduction in note issuance in 2023. Note issuance volumes were higher in 2022 as a result of new polymer notes issue.

The £21mn increase in CRD income was a result of higher gilt yields in the year. The combined cost base for the Bank increased by 6.6% in 2023 to £758mn (2022: £711mn).

The year on year increase in the Bank's costs of £47mn was driven primarily by a £43mn increase in staff costs as a result of increasing headcount, as the Bank implements new financial stability market tools, and continues the development of the Real-Time Gross Settlement (RTGS) system replacement.

There was a decrease of £24mn in other administration and general expenses, as a result of a decrease in note issuance volumes, as the Bank completed the rollout of polymer notes across all denominations.

Other items of note

Funding arrangements for Issue Department

The Issue Department is funded by interest-yielding assets which are held to back the notes in circulation. The interest earned on these assets is used to fund the costs of note production and supply. The net profits/losses of the Issue Department are referred to as seigniorage, and paid/claimed directly to/from HM Treasury via the National Loans Fund (NLF). The £1,681mn net seigniorage income is comprised of income and profits of £1,779mn, less £64mn expenses and a buffer withheld by the bank of £34mn. The large increase in income and profits is driven by rising interest rates, which have led to increased interest earned on the Issue Department's deposit with the Banking Department.

Combined income statement

Combined expenditure by function[1]

	2023 (£mn)	2022 (£mn)
Policy functions		
Total policy expenditure	236	206
Expenditure on policy functions	**236**	**206**
Remunerated functions		
Notes issue costs recharged to the Issue Department	66	93
Government agency services	14	13
Payment and settlement	78	64
Banking services	30	34
Other functions	8	11
Expenditure on remunerated functions	**196**	**215**
Operations funded by levies		
PRA operational expenditure	313	280
PRA special projects	10	10
PRA enforcement fines	3	3
Financial Market Infrastructure	11	10
Expenditure on operations funded by levies	**337**	**303**
Net legacy items in relation to pensions and property[2]	(11)	(13)
Expenditure on other functions	**(11)**	**(13)**
Total Banking Department	**758**	**711**
Issue Department	**64**	**85**
Internal charges and settlements under seigniorage arrangements	(64)	(85)
Total combined expenditure	**758**	**711**

(1) Combined expenditure by function represents the aggregation of the Banking Department and Issue Department, adjusted for internal charges and eliminations under seigniorage arrangements. The separation of Banking and Issue Department for accounting purposes is required by statute. A summary 'combined' income statement and balance sheet as at 28 February 2023, aggregating the Banking Department and Issue Department is provided in this financial review. It is provided for information purposes only.

(2) Net legacy items relate to expenditure items funded from the Bank's retained earnings primarily driven by interest income on the net pension assets and the cost of running Roehampton.

Total expenditure for 2023 was £758mn. This was lower than the Bank's cost budget of £760mn.

This year, the Bank's priority has been to deliver its core purposes of monetary and financial stability consistent with its statutory objectives, against the backdrop of demanding geopolitical developments and continued uncertainty and volatility in the UK and global economy.

Alongside this, the Bank has continued to assess the case for a UK Central Bank Digital Currency (CBDC), while also implementing new Financial Stability market tools, and continuing the development of the RTGS system replacement.

Policy functions

	2023 (£mn)	2022 (£mn)
Income		
CRD income	157	136
SONIA (Sterling Overnight Index Average) licence income	1	2
Access to the Sterling Monetary Framework (SMF) income	3	3
Total policy income(1)	**161**	**141**
Expenditure (by policy area)		
Monetary Analysis and MPC	41	39
Markets, Banking and Payments(2)	63	56
Research, Data and Analytics	30	26
Financial Stability Strategy and Risk	30	25
Resolution	19	16
FMI(3)	18	14
PRA(4)	14	12
International	13	13
Central Bank Digital Currency (CBDC) and Fintech	8	5
Expenditure on policy functions(5)	**236**	**206**
Net surplus/(deficit)(6)	**(75)**	**(65)**

(1) SONIA Licence and SMF access fee income are specific income streams for activities included within policy function expenditure.
(2) The prior period has been adjusted as a result of the reclassification of certain costs from Markets, Banking and Payments to CBDC and fintech in order to reflect how the functions are reported for internal management reporting.
(3) Relates to FMI policy costs that are funded by the CRD scheme. A portion of FMI costs are separately funded by an FMI levy.
(4) Relates to work completed by the PRA on behalf of the Bank's financial policy areas. These costs are recovered through the CRD scheme and not the PRA levy.
(5) The policy costs by business area are split between monetary policy and financial stability based on the cost of the activities in each area that are deemed to support monetary policy and financial stability objectives respectively.
(6) See page 41.

CRD income increased by £21mn in year to £157mn. Expenditure on policy functions funded by CRD income was £30mn higher than the prior year at £236mn, this was driven by policy analysis and support of the Bank's data and research agendas, including research into the case for a UK CBDC, the future of the Bank's balance sheet and is in addition to increased supervisory responsibilities and the costs of readying the Bank for the implementation of a new payments standard. This expenditure continues to result in a growing CRD shortfall.

Remunerated functions

Expenditure decreased by £19mn to £196mn (2022: £215mn). This was driven by lower note production volumes as the Bank completed the roll-out of polymer notes across all denominations.

Prudential Regulation Authority

Combined operational expenditure and special project costs for 2023 increased by £33mn to £323mn (2022: £290mn). This increase in costs reflects the Bank's continuing investment in a robust regulatory regime following the UK's withdrawal from the European Union, as the PRA continues to see an expansion in its role as a rule-maker. Expenditure also reflects the PRA's proactive preparation for emerging risks in the financial system, including operational resilience, and higher overhead costs allocated to the PRA for services provided by the Bank.

Issue Department

Expenditure on the Issue Department decreased by £21mn to £64mn (2022: £85mn), due to lower note production volumes.

Combined balance sheet

	2023 (£mn)	2022 (£mn)
Assets		
Loans and advances	1,043,097	1,102,416
Securities held at fair value through profit or loss	5,193	9,969
Financial instruments held	19,280	18,707
Other assets	8,012	3,317
Total assets	**1,075,582**	**1,134,409**
Liabilities		
Deposits	966,794	1,035,083
Notes in circulation	85,907	86,440
Foreign currency commercial paper in issue	5,598	2,713
Foreign currency bonds in issue	6,447	2,936
Other liabilities	5,412	1,460
Capital and reserves	5,424	5,777
Total equity and liabilities(1)	**1,075,582**	**1,134,409**

(1) Banking Department (£1,073,936mn) + Issue Department total assets (£85,907mn) – Issue Department deposit with Banking Department (£84,261mn).

As mentioned in the financial highlights, the combined balance sheet decreased by £58.8bn in 2022/23, primarily driven by a decrease in the loan to BEAPFF in line with current activity on the APF.

Financial review of the Banking and Issue Departments

Banking Department

The Banking Department's financial statements for the year ended 28 February 2023 are shown on pages 109–97 and reflect a profit before tax of £46mn (2022: £29mn) and tax charge of £7mn (2022: £22mn). The profit retained by the Bank was £39mn (2022: £7mn), and the amount payable to HM Treasury in lieu of dividend amounts to £nil (2022: £nil) due to the loss absorbing capital position being below the £3.5bn threshold, in line with the capital framework.

The statement of comprehensive income reflects a net decrease for the year of £302mn (2022: decrease of £30mn), comprising a post-tax operating profit of £39mn (2022: £7mn) and ‘Other comprehensive loss’ totalling £392mn, net of deferred tax (2022: loss of £58mn).

‘Other comprehensive loss’ includes a net increase in the fair value of assets held at ‘fair value through other comprehensive income’ of £56mn (2022: decrease of £53mn), retirement benefit remeasurement decrease of £394mn (driven by increasing gilt yields resulting in decreasing asset values), net of deferred tax (2022: increase of £20mn) and property revaluation losses of £54mn, net of deferred tax (2022: loss of £25mn).

The total balance sheet of the Banking Department decreased during the year, from £1,130.4bn as at 28 February 2022 to £1,073.9bn as at 28 February 2023.

The main change in Banking Department assets was a decrease in the loan to the BEAPFF in line with current activity on the APF.

‘Capital and reserves’ decreased to £5.4bn (2022: £5.8bn). The Bank’s retained earnings, together with CRDs, are predominantly invested in gilts. The Banking Department’s holdings of gilt securities and other supranational bonds totalled £16.6bn at 28 February 2023 (2022: £16.0bn).

At 28 February 2023, the Banking Department balance sheet contained £12bn of liabilities associated with the management of the Bank’s foreign exchange reserves (2022: £5.6bn).

Issue Department

The statements of account for the Issue Department (which are provided on pages 198–202) reflect net profits from note issue of £1,681mn (2022: £93mn), payable in full to HM Treasury. The increase of £1,588mn was due to increased interest earned on the deposit with the Banking Department during the year following successive Bank Rate rises. In 2023, gilt revaluations contributed £nil to income (2022: £nil).

Notes in circulation decreased year on year, and totalled £85.9bn as at 28 February 2023 (2022: £86.4bn). The market valuation of gilts held by the Issue Department was £1.2bn as at 28 February 2023 (2022: £1.3bn). The ‘Ways and Means advance’ to HM Treasury remained at £370mn as at 28 February 2023.

Risk management

In order to discharge our timeless mission to promote the good of the people of the United Kingdom, the Bank must ensure its own financial and non-financial risks are well-managed.

During September and October 2022, the Bank intervened in the gilt market following a deterioration in market conditions. This was the first time the Bank acted to deliver its financial stability objective through a temporary, targeted gilt market intervention. The Bank also established the Temporary Expanded Collateral Repo Facility to help ease liquidity pressures on liability-driven investment funds. Once stability was restored, the temporary portfolio of gilts was fully unwound. Financial and non-financial risks to the Bank's balance sheet and operations were closely monitored and controlled throughout this period of activity.

The Bank continues to monitor financial stability and microprudential risks following the failure in March 2023 of Silicon Valley Bank, and subsequent events in the global banking sector. In the case of SVB UK Limited, the Bank stepped in to resolve the firm using our statutory powers, ultimately transferring its business to another bank.

Inflation continued to rise during the year to 28 February 2023. This brought higher energy costs and higher costs of living generally. We have carefully monitored the potential implications for the Bank's own risk profile including on collateral valuations alongside the potential for people-related risks to impact the Bank's operations.

Mindful of Russia's illegal invasion of Ukraine, the Bank remains alert to developments in geopolitical tensions and the potential implications for the Bank's own risk profile.

Risk governance

The Court of Directors

Court has responsibility for the overall governance of the Bank, including the Bank's risk management and internal control systems. Court determines the strategy for managing risk and approves the Bank's risk tolerance. It takes the lead in setting a strong risk management culture across the Bank and oversees the governance structures through which the Bank's risk management strategy is implemented.

Court has performed its annual review of the effectiveness of the Bank's risk management and internal control systems and assessed the Bank's principal and emerging risks. Court confirms that an ongoing process of identifying, evaluating and managing risk operated throughout the year covered in this Report, and up to the date of its approval.

Court's review and confirmation was facilitated by an attestation exercise through which Executive Directors and Directors with a direct reporting line to a Governor or the Chief Operating Officer confirm compliance with the Bank's risk management and internal control requirements in the areas for which they are responsible.

The Audit and Risk Committee (ARCo)

ARCo is a sub-committee of Court. It assists Court in meeting its responsibilities for an effective system of risk management, internal control and financial reporting. ARCo receives reports on the Bank's risk profile, the operation of the risk framework and the risk management processes and systems in place. ARCo also has responsibility for reviewing the findings of internal and external auditors and monitoring outstanding actions for timely completion.

The Bank voluntarily complies with the core principles of the Senior Managers Regime. Consistent with that framework, the Chair of ARCo has responsibility for ensuring and overseeing the integrity and the independence of the Bank's Risk, Compliance, and Internal Audit functions. The Bank's Internal Auditor has a direct reporting line to the Chair of ARCo.

Executive responsibility for risk

Within the Senior Managers Regime framework, the Governor has overall executive responsibility for risk. Responsibility for the Bank's first line risk management functions is delegated to business owners, under the relevant Deputy Governor or Executive Director.

Responsibility for the Bank's second line financial and non-financial risk management functions is consolidated under the Executive Director, Risk. The Bank's central Compliance function also sits within this Directorate. The Executive Director, Risk reports directly to the Governor and has an indirect reporting line to the Chair of ARCo.

The Bank's Executive Risk Committee (ERC) is the principal forum for discussion, oversight, and challenge of material risks to delivering the Bank's mission and mitigating actions. ERC: monitors the operation of the Bank's Risk Management Framework; oversees the key risks faced by the Bank and its risk profile against tolerance; prioritises mitigating actions and targeting of resources to address key risks; and commissions deep dive reviews into key risk areas.

ERC is chaired by the Deputy Governor for Prudential Regulation and has 10 further members including the Deputy Governor for Markets and Banking and the Bank's Chief Operating Officer (COO); seven of the Bank's Executive Directors; and one of the Bank's Directors. All Deputy Governors can attend ERC as decision-making members. ERC meets at least six times each year. Following discussion at ERC, quarterly risk reporting is shared and agreed with the Executive Operational Co-ordination Committee, which includes the Governors and COO, prior to submission to ARCo and Court.

The Risk Directorate has unrestricted access to other specialist risk and compliance functions (for example, anti-money laundering activities within the Markets and Banking areas) through a 'hub and spoke' arrangement. This ensures there is an informed cross-Bank view of the Bank's risk profile in order to make judgements about the relative weighting and prioritisation of risks; and further improve the Bank's capacity to impose compliance with its policies.

Three Lines of Defence

The Bank operates a 'Three Lines of Defence' model to distinguish between those areas which:

1. Own risk and implement controls. This is delivered by first line management. The Governors and the Executive Directors manage risk on a day-to-day basis across the Bank's directorates, identifying, assessing and mitigating the risks associated with the Bank's functions, processes and systems.

2. Provide independent forward-looking assessment, oversight and challenge of risks in real time across all operations and business lines, and define risk management frameworks and tools, and promotes a strong risk and compliance culture across the Bank. This second line of defence is delivered by the Bank's Risk Directorate.

3. Provide assurance that the risk management framework is robust and that internal controls are appropriate and effective by independently and objectively evaluating internal controls, risk management and governance processes. This third line is delivered by the Bank's Internal Audit function as part of its role in helping Court and executive management protect the Bank and its subsidiaries.

The Bank's Risk Management Framework

The Bank's mission is to promote the good of the people of the United Kingdom by maintaining monetary and financial stability. The Monetary Policy Committee, Financial Policy Committee and Prudential Regulation Committee are responsible for making statutory policy decisions, which the Bank implements. While the management of policy risks are reserved to these committees, the implementation of policy decisions exposes the Bank to a wide variety of risks which it seeks to manage through its risk framework. It is the responsibility of the Governor and other Executive members of the policy committees to brief policy committees on any material risks relevant to their remit.

The Bank's Risk Management Framework supports a consistent approach to identifying, assessing and monitoring the risks to which the Bank is exposed, and the actions required to mitigate them. Risk management processes and systems of internal control are embedded within the Bank's operations according to the materiality of the risks involved and the relative costs and benefits of specific controls. Controls are designed to manage rather than eliminate risk and, as such, provide reasonable, but not absolute, assurance against material misstatement or loss.

The Risk Management Framework specifies the Bank's risk tolerance and provides an approach for managing both financial and non-financial risks within tolerance. The Bank tolerates a level of risk appropriate to the achievement of its policy objectives. It seeks to keep its exposure to risk low and to have a control environment and risk culture which supports this.

For financial risk, the Bank translates its tolerance into a set of limits and monitoring thresholds in order to facilitate day-to-day control of financial exposures and appropriate senior management involvement. If it is determined that the expected benefits to monetary or financial stability outweigh the risk, the Governors may, with approval from Court, exceed the Bank's usual limits.

Risk assessment is forward looking and seeks to identify material risks to which the Bank may become exposed in conducting its day-to-day operations. For each of the Bank's key business functions a Risk and Control Self-Assessment is undertaken. A likelihood and impact matrix is used to determine risk ratings, taking into account the potential impact to the Bank's critical operations, financial position and reputation in the event of a risk crystallising.

Each non-financial Key Risk type in the Bank's Risk Taxonomy has an associated set of 'Critical Metrics' with defined thresholds. These metrics and thresholds provide a quantitative articulation of risk versus tolerance for each Key Risk type. Where risks are out of tolerance, action plans are developed to bring those risks back within tolerance.

A sound risk culture is a key pillar of effective risk management. During the year, the Risk Directorate continued its programme within the Bank to strengthen and further embed risk awareness, and the behaviours enabling effective risk management.

Principal risks

The key risks managed by the Bank during the year are summarised here. These risks arise through policy implementation and the day-to-day operations which support the Bank's mission. The Bank assesses these risks and seeks to develop appropriate mitigation plans.

We categorise risks under five main principal risk types: operational risks; financial risks; legal risks; conduct risks; and climate change risks. Risks associated with statutory policy decision-making are reserved to the Bank's policy committees. The policy committees account for their activities directly to Parliament as appropriate and policy decision-making is therefore outside the Bank's risk management framework.

Operational risks

The Bank is exposed to a broad range of operational risks through policy implementation and day-to-day operations. These include: the provision of liquidity to sterling markets; the operation of the Real-Time Gross Settlement service; the production and distribution of banknotes; and the collection and analysis of a wide range of economic and supervisory data.

During the year, the Bank continued to invest in mitigating a number of prominent operational risk themes including:

Technology obsolescence: detailed planning is underway to address the risks of ageing technology by implementing more widely adopted industry-standard solutions to replace older bespoke applications.

Projects and change management: the Bank is progressing a broad range of change projects – including the renewal of the Bank's Real Time Gross Settlement System – to keep pace with its evolving responsibilities. The Bank's change portfolio is demanding and spans many key functions with a number of complex dependencies and specialist technical requirements. Many of these projects encompass new processes and technology. Project delivery risk is closely managed by the Bank's specialist project portfolio team, and closely monitored and managed by individual project boards, executive governance and Court.

People: the Bank's people are its most valuable resource. Retention and recruitment continued to be a key focus for the Bank, to minimise the risk of loss of key skills and knowledge. Actions included undertaking targeted recruitment to support the Bank's Strategic Priorities and associated investment needs as well as a higher volume of recruitment to address a higher rate of attrition in a highly competitive job market.

Cyber: the cyber-risk environment remains elevated with continuing high-profile, well-publicised cyber attacks both in the UK and abroad. The Bank remains closely engaged with the National Cyber Security Centre and continues to invest significantly in its cyber defences through a dedicated cyber programme, which includes rehearsing its ability to respond to and recover from a cyber attack.

Operational resilience: The Bank's approach to operational resilience is aligned to the expectations that have been set for firms and FMIs.[19] The Bank aims to maintain robust and flexible business continuity and critical incident management arrangements such that mission-critical processes are resilient to disruptive events. The Risk Directorate also maintains an incident reporting system to support the analysis of existing and emerging risks that have crystallised. This analysis helps to identify control weaknesses, and allows lessons to be learnt to minimise the likelihood of reoccurrence.

Financial risks

The Bank is exposed to credit, market and liquidity risk in its operations to implement monetary and financial stability policies. Those operations include notes and payments systems operations as well as its operations in financial markets. Other activities, such as budget management and procurement activities, also expose the Bank to financial risk. Financial risks are managed so that the occurrence of a material loss in the Bank's operations resulting from policy decisions is very unlikely. The Bank seeks to maintain a level of its own financial resources that provides it with sufficient resilience to be able to withstand a set of severe but plausible scenarios without its capital falling below a defined capital floor.

Financial risk management at the Bank is underpinned by a financial framework agreed with HM Treasury in June 2018 and codified in a Memorandum of Understanding.[20] The framework ensures that the Bank has the financial resources to undertake the financial operations necessary to deliver its objectives, including under severe but plausible stress scenarios.

19. **www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/publication/2021/building-operational-resilience-impact-tolerances-for-important-business-services.pdf**.
20. **www.bankofengland.co.uk/-/media/boe/files/memoranda-of-understanding/financial-relationship-between-hmt-and-the-boe-memorandum-of-understanding.pdf**.

On 28 September 2022 the Bank announced a programme of temporary gilt purchases with the purpose of restoring orderly market conditions in line with its financial stability objectives, as well as the introduction of the Temporary Expanded Collateral Repo Facility launched on 10 October 2022. Between 28 September and 14 October 2022, the Bank purchased a total of £19.3bn UK government bonds.

Following the restoration of orderly market conditions, sales of temporary gilt purchases started on 29 November 2022 and the portfolio was unwound by 12 January 2023. Setting up the emergency purchase facility was a complex cross-Bank effort completed at pace, and with material focus on how both the financial and non-financial risks were appropriately identified and mitigated.

The Energy Market Financing Scheme (EMFS) was established jointly by HM Treasury and the Bank in response to the extraordinary liquidity requirements faced by energy firms operating in the UK.[21] It entailed the Bank standing ready to provide financial guarantees to commercial lenders to cover additional credit facilities extended to eligible energy firms for margining purposes. This guarantee would be fully indemnified by HM Treasury with the Bank bearing no credit risk. In the end, the scheme, which ran from 17 October 2022 to 27 January 2023, was not used.

The UK government and corporate bonds purchased by the Bank under its quantitative easing (QE) programme are held within a wholly owned subsidiary, the Bank of England Asset Purchase Facility Fund Limited (APF). The APF is funded by a loan from the Bank with interest charged at Bank Rate. The APF is fully indemnified by HM Treasury meaning that any gains or losses within the APF accrue to the Treasury and not the Bank. Under the indemnity arrangement, net cash flows generated by the APF are transferred quarterly between the APF and HM Treasury. Since the inception of the APF in 2012, a net amount of £118.8 billion as of 28 February 2023 (£119.7 billion as of 28 February 2022) had been transferred to HM Treasury. Until July 2022, cash flows had only been in one direction, from the APF to HM Treasury, for a total amount of £123.8bn. Cash flows started to reverse in 2022 Q3, with payments totalling £5.0 billion (net of any profits resulting from sales of Gilts Market Functioning Facility (GMFF) holdings, (see below)) being made from HM Treasury to the APF in October 2022 and January 2023.[22] The Bank conducts detailed modelling of the future cash flows between HM Treasury and the APF under a wide range of scenarios. In

21. www.bankofengland.co.uk/markets/market-notices/2022/october/joint-hmt-boe-emfs-market-notice-17-october-2022.
22. For further details of the Indemnity and cash flows between the Company and HM Treasury please see Box D of 'QE at the Bank of England: a perspective on its functioning and effectiveness'; www.bankofengland.co.uk/quarterly-bulletin/2022/2022-q1/qe-at-the-bank-of-england-a-perspective-on-its-functioning-and-effectiveness.

order to promote transparency in relation to the APF, since May 2022 the Bank has published a chart that includes quarterly updates of its forecasts for APF cash flows.

The purchases of the conventional and inflation-linked bonds made for financial stability purposes in late September – early October 2022 (GMFF) were undertaken on the APF balance sheet; however these were held in a separate portfolio, subject to different unwind guidance from QE holdings. As of 28 February 2023, the GMFF portfolio is fully unwound with sales having taken place between end-November 2022 and mid-January 2023. The relevant cash flows associated with the portfolio, including any profits realised on the sales, were incorporated into the usual quarterly cash transfer process between the APF and HM Treasury.

Conduct risks

The Bank is exposed to conduct risk through the actions of its staff, should they act or be perceived to act, in a way that undermines the public trust on which the Bank's mission depends, including failure to comply with the Bank's policies. The Compliance function works with policy owners and other areas of the Bank to ensure compliance with all internal policies, making sure they are accessible, and supported by appropriate controls. Compliance also has a clearly defined role in: dealing with any breaches of the Bank's policies; increasing understanding of the Bank's policies through training; and for fostering a culture of compliance across the organisation for example through the Our Code annual attestation process which outlines the behaviours expected of everyone at the Bank.

Compliance also houses the Bank's Data Protection Officer and the Privacy team, which creates, implements and advises on policies and procedures that are designed to ensure compliance with applicable data protection legislation. This also includes providing specialist data protection training. The Privacy team also manage and train a network of local privacy leads across the Bank who are responsible for supporting risk owners in managing first line risk and escalating matters to the Privacy team where appropriate.

Climate change

The Bank's exposure includes the risk of failing to meet expectations in helping to ensure that the UK financial system is resilient to climate change risks and in supporting a smooth transition to net zero.

The Bank must also manage the climate-related transition and physical risks arising from its own operations, including those from the financial assets it holds for policy and other purposes, as it seeks to meet its emissions targets.

Legal risk

Legal risk is the risk that the Bank, or its staff, act unlawfully or fail to take the necessary action to protect the Bank's position. Court has determined that the Bank has no tolerance for a deliberate breach of any statutory, regulatory or other legal requirement.

Emerging risks

The Bank conducts horizon scanning for emerging risks to which it may be exposed. Such risks may arise, for example, from a changing external environment and events beyond the Bank's immediate control. The Bank's emerging risks include:

- Heightened risk of global geopolitical spill-overs from the Russian invasion of Ukraine as the conflict moves into its second year.

- Learnings from the widespread sales from LDI funds in September and October 2022, and the firm failures in March 2023.

- In February 2023 HM Treasury and the Bank published a joint consultation paper that sets out the case for the launch of a Central Bank Digital Currency (CBDC) in the UK. As this work progresses from a 'research and exploration phase' to a 'design' phase, a key component of the CBDC design will be assessing and mitigating the key financial and non financial risks arising from CBDC.

- The Bank is vulnerable, like any organisation, to being impersonated via the web and social media, which could have consequences for market behaviour and more generally public trust. We monitor potentially harmful activity and take proportionate action where necessary.

Top: Flying the Ukranian flag on Ukranian Independence Day.

Middle: Honour Guard in our Garden Court, at the Remembrance Service.

Bottom: Eid celebrations at Threadneedle Street.

Our people

Our people are critical to our ability to deliver our statutory objectives to maintain monetary and financial stability for the good of the people of the United Kingdom. Over the past year, our colleagues have consistently demonstrated their skills, commitment and resilience to deliver on our critically important mission.

Our employment offer

Our employment offer is key to us attracting talented and dedicated people into public service. The core of our employment offer is the opportunity to undertake critically important and interesting work to deliver against the mission entrusted to us by the public.

Our employment offer

Importance of our mission	Inclusive and flexible working environment	Great opportunities for learning and career development	Committed to fair pay
Working at the Bank gives colleagues the opportunity to undertake fulfilling and purposeful work that makes a difference for the public good.	We support all colleagues to deliver to the best of their ability by focusing on creating an environment where all can thrive.	Colleagues are supported to fulfil their career aspirations through high-quality learning and development opportunities.	We are committed to paying colleagues fairly for the work they do. This includes paying a minimum of the London living wage, and ensuring that our roles are regularly benchmarked against relevant external comparators.

A human and humble Bank, in step with the changing world

In a fast-moving world our mission requires us to keep evolving. Our ambition is to be a human and humble Bank, in step with the changing world.

Hybrid ways of working

We have adapted to a balance of home and office working since the Covid pandemic. We have set out our current Ways of Working norms to help colleagues balance working at home and in the office, while capturing the benefits of being together in person and enabling flexibility. Central to our ways of working is two-way flexibility, with the aim that all colleagues (where their roles allow) should spend at least half their time working together as a team including everyone, with a minimum requirement of 40% of their time over the course of a month on site.

Diversity, equity and inclusion

Ethnicity

Court commissioned a review of ethnic diversity and inclusion (the Court Review) that was published in September 2020. It was launched in response to feedback from the Bank's Ethnic Minorities Network (BEEM) and in recognition that we had not yet made sufficient progress on the important issue of ethnic diversity and inclusion. It had two overarching aims: to ensure that we are on the right path, with momentum, towards attracting and retaining an ethnically diverse workforce at all levels; and that we will become a minority ethnic employer of choice.

The Court Review concluded that while we had made progress on minority ethnic diversity, equity and inclusion, this was not sufficient. In response, we set targets and identified a set of interventions to evolve our culture, behaviours and processes.[23]

Specifically, we set ourselves five minority ethnic diversity targets for 2028, with a formal review point in December 2025. While no specific targets were set for 2022/23, progress on a straight-line basis towards 2025 is encouraging:

- of the three targets relating to all minority ethnic staff, two show diversity ahead of where we need to be, and the third is behind our expectation for 2022, albeit this is a target to be measured cumulatively in 2025; and
- of the two targets relating specifically to black or mixed race with black heritage, one is ahead while the second is tracking very close to where it needs to be, with real progress shown since the start point.

Gender

Alongside the targets for minority ethnic representation that were developed as a result of the Court Review we also set gender targets. These are in line with our commitments as signatories of the Women in Finance Charter.

Specifically, we set ourselves three gender targets for 2028, with a formal review point in December 2025. While no specific targets were set for 2022/23, progress on a straight-line basis towards 2025 is encouraging:

- of the three targets relating to gender representation one is ahead of where we need to be, one is tracking very close to where it needs to be. The third is currently lagging behind although this is a target to be measured cumulatively in 2025.

Broader diversity and inclusion

While we have specific targets for gender and minority ethnic representation, the activity we have planned in these areas will provide broader benefits to the entire Bank community. We also recognise the need for ensuring that we recognise each of our colleagues as whole individuals. To enable us to do this we collect and review data across a range of facets of individual identity including disability, faith and LGBTQ+.

In tandem with improving representation of as outlined above, we recognise the need to ensure the lived experiences of colleagues within the organisation mean that everyone feels

23. www.bankofengland.co.uk/-/media/boe/files/annual-report/2022/boe-2022.pdf.

valued and able to thrive. We continue to develop and implement our action plan to sustain our improvement, address our pay gaps and meet our ambitions. We are supported in this by our excellent employee networks.

While these results demonstrate momentum towards a truly diverse Bank at all levels, it is recognised that there are still many years of hard work ahead and our progress to date give us no cause for complacency.

Information sharing

To help give us a clearer picture of our diversity, we have been concentrating on increasing colleagues' disability, sexual orientation, faith and socio-economic information sharing. This will enable us to better understand the composition of our workforce, ensure all colleagues are supported effectively and will us help us understand how reflective of the UK population we are. 8.1% of colleagues have declared that they have a disability, compared to 6.2% last year. The proportion of colleagues who identify themselves as lesbian, gay, bisexual and other (LGB+) is 5.0%, up from 4.2% last year.

Rewarding colleagues fairly – our gender and ethnicity pay gaps

We are committed to paying colleagues fairly for the work they do. This includes paying a minimum of the London living wage, and ensuring that our roles are regularly benchmarked against relevant external comparators.

In line with Government guidance we report on our gender pay gap each year; and we also voluntarily report on our ethnicity pay gap each year based on a similar methodology.

The gender and ethnicity pay gaps look at the difference between average hourly earnings across the whole organisation, regardless of role or level. This differs to equal pay for equal work, which compares pay for those undertaking similar roles.

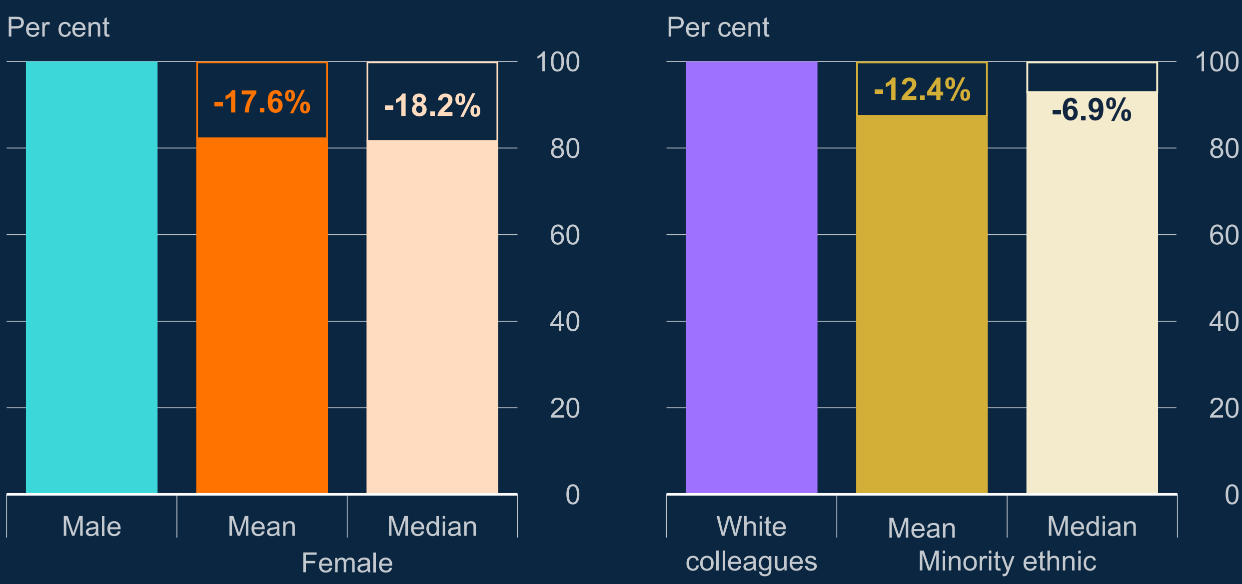
The gender and ethnicity pay gaps at the Bank are predominantly driven by an imbalance of male to female and white to minority ethnic staff at different levels of seniority. Achieving our 2028 target on representation including at senior levels across both gender and ethnicity, along with improving parity across scales will have a positive impact to help reduce our pay gaps in future years.

For 2023:

- Our mean gender pay gap has decreased and as of March 2023 is 17.6%, down from 18.5% in 2022. The median gender pay gap also decreased, from 20.1% last year, to 18.2% this year. The reduction in the gender pay gap can primarily be attributed to an increase in female representation at senior scales.

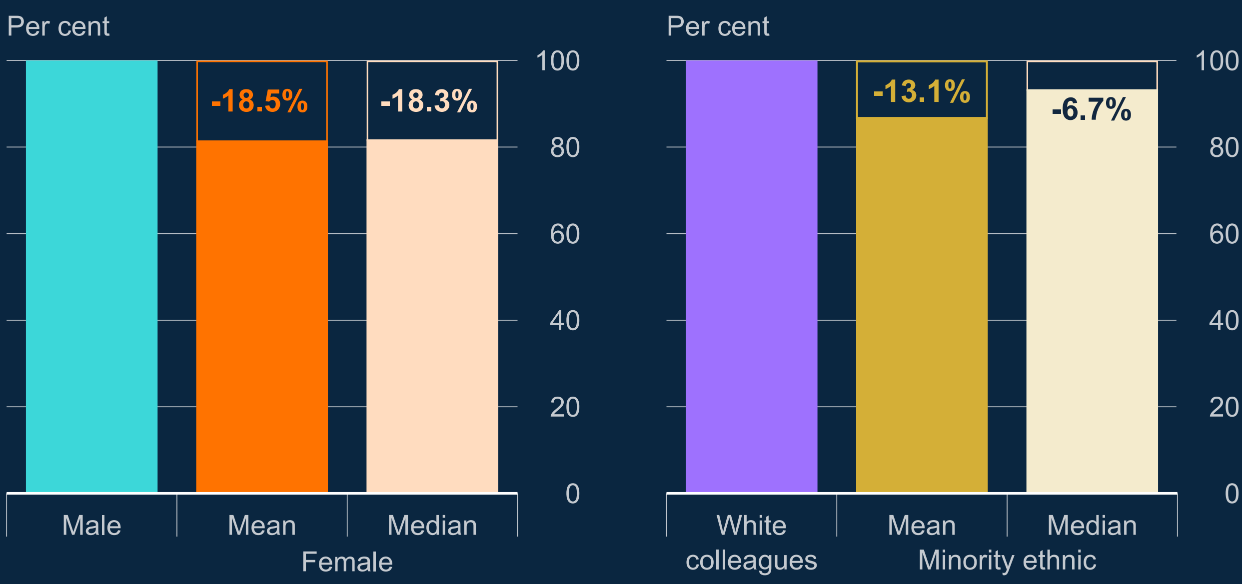
- Our mean ethnicity pay gap has increased and as of March 2023 is 12.4% up from 10.9% in 2022. The median pay gap has increased, from 5.5% last year to 6.9% this year. Over the last year we have hired significant numbers of new staff, with success in increasing the minority ethnic diversity, with the intention of building a diverse talent pipeline for the future as well as attracting more senior talent. In building a diverse future talent pipeline at mid to lower levels of the organisation, the average hourly pay of minority ethnic colleagues, relative to that of white colleagues, has reduced in the medium term, and has as a result impacted our ethnicity pay gap in 2023. We are continuing to build a diverse talent pipeline, with our longer-term intention to reduce the gap as we rebalance representation across the organisation.

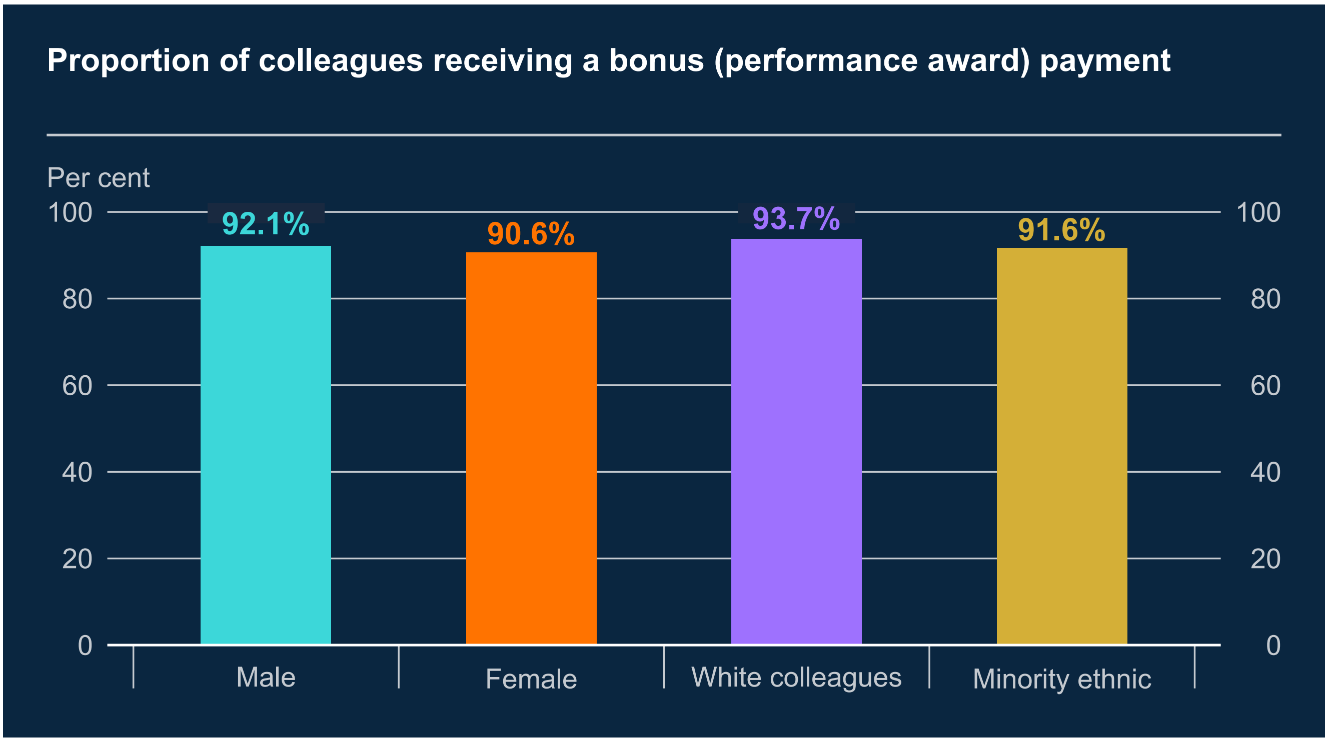
Pay gaps



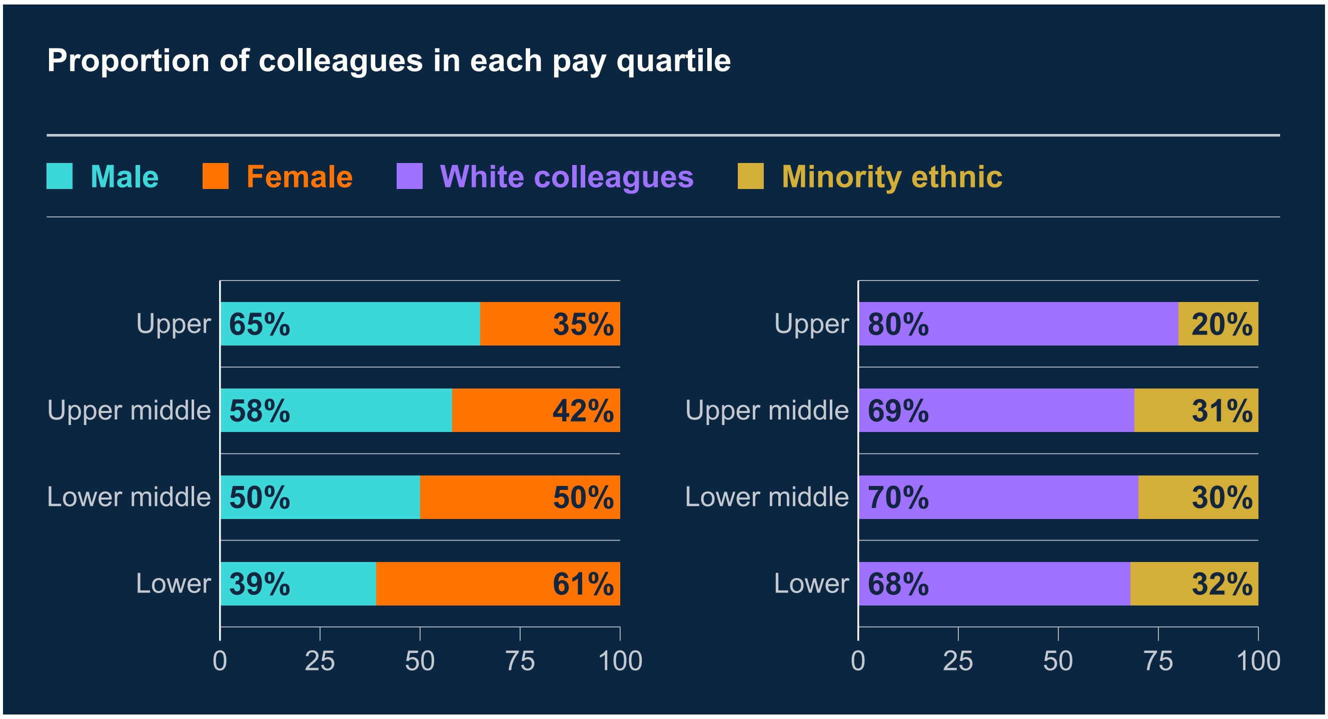
The pay gap figures are based on hourly rate of pay as at 31 March 2023 and bonuses paid in the year to March 2023.

Bonus (performance award) gap





All colleagues at the Bank (excluding Governors and COO) are eligible for a discretionary annual performance award, dependant on performance and start date within the performance year.



This chart shows the gender and ethnicity split when we order hourly rate of pay from highest to lowest and group into four equal quartiles.

Below are two case studies of interventions introduced as part of our action plan.

Case study: Private Office Insight Scheme – one of the interventions introduced as a result of the Court Review to improve our talent pipeline and so increase the levels of minority ethnic colleagues in senior roles

Funmi Ibirogba,
Senior Supervisor

I decided to apply for the Private Office Insight Scheme because as a career-returnee, it availed me a good opportunity to get an understanding of different areas of the Bank and how decisions are made at a senior level.

I found the scheme to be very insightful and much more than a 'shadowing day'. My tasks and assignments were varied and exciting. It was a great way of seeing what was going on across the directorate and the wider Bank. I can see better now how my tasks are linked to the overall picture which has been useful in executing my day-to-day tasks. I have found the experience beneficial, and the scheme has widened my view of potential career opportunities in the Bank.

Case study: Meeting Varied People

Our Markets Directorate is delivering the Meeting Varied People initiative. This aims to increase the diversity of our external contacts for market intelligence gathering, so we interact with the widest range of people to reflect a diversity of views as we perform our core policy functions.

Ensuring our information comes from many different perspectives enables us to: better track market developments; explore different possible interpretations of market trends; and challenge the market consensus and identify emerging risks.

This has resulted in more diversity of thought in outputs to the Financial and Monetary Policy Committees and increased the depth of colleagues' technical markets, and diversity, equity and inclusion knowledge.

Recruitment

We continue to attract talented people to join the Bank. Of the experienced hires who joined over the past year, 51% were female and 25% minority ethnic. We also continued with our Career Returners Programme with 25 hires, of which 88% were female and 32% minority ethnic in the year ending 28 February 2023.

Apprenticeships

We now offer 40 different apprenticeships and currently have 235 colleagues undertaking an apprenticeship in disciplines such as Assistant Accountant to Solicitor, mechanical and electrical engineering across Level 3–7 courses (see case studies below).

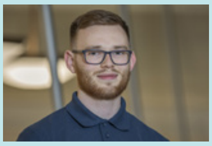
The external apprentice intake in 2022 had a cohort of 26 apprentices. It was 57.7% female and 57.7% minority ethnic.

Case study: Professional Economist Degree Apprenticeship Programme – one of the new apprenticeship schemes at the Bank

Angel Rai,
Senior Research Assistant

In September 2022, I joined the Bank through the Professional Economist Degree Apprenticeship Programme. As a recent school leaver, I found the real-life work experience invaluable as it has allowed me to apply my university learning practically in my day-to-day work, providing me with great opportunities to develop new skills, while working towards a degree. By working with experienced professionals in the Bank, I have received guidance and mentorship helping my personal and professional growth. Finding the balance between work and study can be challenging. However, my time management has been helped by the support networks provided at the Bank, through clear communication and flexibility. I couldn't have asked for a better experience that has provided me with many opportunities and continues to foster my career growth.

Case study: Electrical/Mechanical Building Services Technician Apprenticeship



Oliver Wetherell,
Fourth Year Apprentice

In September 2019, I joined the Operations and Maintenance Team in Property on a four-year apprenticeship. This is an innovative dual apprenticeship that includes building services maintenance and electrical installation. The apprenticeship is structured to build experience of working in different settings: a factory; a modern office building; and a Grade 1 listed building. I attend college two days a week to study and develop skills which are then taken into the workplace to build experience and my portfolios.

The team in every location have been so helpful and supportive throughout my apprenticeship. Many of my colleagues have completed an apprenticeship themselves and I think they recognise that they can now coach and support me as others did with them. This opportunity has got my engineering career off to an excellent start and I'm now starting to look at my next career goals.

Case study: Trainee Solicitor Programme

Charlotte Duffy,
Trainee Solicitor and Private Secretary

At the beginning of 2021, I became the Bank's first 'solicitor apprentice'. Being one of a kind meant that there could have been some obstacles to overcome, but my supervisors and colleagues have been extremely supportive and encouraging from the outset. I have had the opportunity to work in two teams now (Financial Stability Division and General Counsel's Office) and both roles have offered a wealth of experience for my portfolio, providing exposure to challenging, varied and topical legal work. It is really rewarding to work at the heart of the UK economy, on legal issues which are so pertinent, with such friendly and experienced colleagues to learn from.

Graduate intake

Over the course of the year, 103 graduates joined us from 33 academic institutions with degrees in 28 disciplines, ranging from Psychology to Economics to History.

Of our 2022 graduate intake, 37.9% were female and 46.6% minority ethnic with 9.7% being Black/Black Heritage. Our 2023 graduate recruitment is progressing well and we expect the diversity of our 2023 graduate intake to increase further.

Learning and development

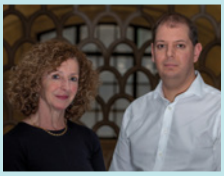
Enabling colleagues to fulfil their potential is at the heart of our learning and development offer. Colleagues have access to a range of learning opportunities that enable them to invest in themselves and their careers.

Our learning offer covers a syllabus from technical training delivered through our Regulatory Learning Framework, through management and leadership to core business skills. We use a range of channels including instructor-led training supported by a substantive digital content offering to enable colleagues to self-serve and deliver just-in-time development.

In addition to our central learning offer, a suite of technical and professional skills learning and development is available through our part time study programmes, digital and data analytics skills offering as we invest in future capabilities required to become a modern Bank; and the opportunity to broaden experience by undertaking short-term opportunities across the Bank under our Opportunities Exchange programme.

Case study: First graduation of global CBQ

The Global Central Banking Qualification (Global CBQ) is a suite of post-graduate qualifications resulting from a partnership between the Bank and the University of Warwick, where students can learn from experts in both research and practice. It is our flagship programme for technical training, a key part of our graduate training programme and is available to colleagues from the wider Bank. Colleagues can study for a single module for a post-graduate award, or for a Certificate, Diploma or MSc. The programme is open to professionals from around the world. It is a distance learning programme with some face-to-face teaching.



The first cohort of three Bank students, including Jamie Long, enrolled on Global CBQ in October 2019 and by February 2023, 47 colleagues had studied on the programme. Jamie commented, ‘Having undertaken a career change to join the Bank, I’ve found the Global CBQ to be essential in getting my head round the vast number of policy issues that central banks are currently facing’.

Social responsibility

Outreach

Our three main outreach programmes provide opportunities for members of the public to engage with the Bank of England on a range of issues. During the year we held ten in-person regional panel events for our citizens' forum members and two virtual events, mainly focused around the impact of the rising cost of living. Attendees shared openly about their experiences, and were able to question Bank staff about our policies and decisions.

The cost of living also dominated discussions at our community forum events, which we hold in partnership with charities and community groups across the UK. These sessions provide an opportunity for harder-to-reach groups, such as those suffering financial hardship, to share their experiences. Our youth forum for 16 to 25 year olds also had a dedicated workstream focused on how inflation was impacting the lives of young people. The youth forum, a partnership with the British Youth Council, also delivered projects on climate change and financial education, and produced a series of podcasts on digital currencies. A summary of the findings from our outreach programmes was published in March 2023.[24]

Community

We are supporting Carers UK, Demelza Hospice Care for Children and WWF-UK as our partnership charities and have worked with them since November 2021. Our staff nominate, shortlist and vote for the charities they want to support, and we will begin working with three new charities in November 2023. A total of just over £110,700 has been donated between the three charities as a result of the first year of our partnership which was achieved through staff fundraising and matched funding by the Bank.

On an individual basis many colleagues volunteer to support charities they are passionate about. We support this with matched funding both for fundraising and volunteering, as well as volunteering leave. On an annual basis our Court of Directors recognises those colleagues who show exceptional commitment to the community, as a result of a high number of hours they volunteer for schools or charities, or funds raised. In addition to financial support to charities through matched funding, where colleagues volunteer or fundraise, we also support

24. www.bankofengland.co.uk/about/get-involved/citizens-panels/insights-from-the-bank-of-englands-outreach-programmes.

charities across the UK through donations from our network of Agencies. In addition, our staff networks choose to make a donation to a charity closely related to the cause they represent.

Colleagues also volunteer as mentors; work with young pupils at schools in Tower Hamlets; and support schools local to them as either school governors or as part of parent teacher associations. Colleagues enjoy volunteering together to support the community by improving conservation and local green spaces; cleaning litter from the foreshore of the River Thames; and by donating food to support local foodbanks.

Work experience

In 2022 we continued to focus our work experience on reaching young people across the UK. We began to use data to target areas of lower social mobility and predominantly offered virtual placements. In 2023 we are targeting areas of southeast Wales near Newport; areas of Norfolk including Norwich; and the Leeds City Region. In 2022 we hosted 84 students from across the UK and in 2023 are aiming to host 100.

Our work experience programme gives an insight to the work of the Bank of England. There is an opportunity for the students to hear about colleagues' career experiences and to develop their skills through project work and presentations. We aim to raise aspirations and broaden the horizons of the young people we welcome onto the programme and will continue to focus opportunities across the UK, working with our Agency colleagues to give students an insight into their local economies.

Education

Our education programme is open to all state schools across the UK and we continue to focus on schools and communities that are located in areas of high deprivation and/or with low levels of social mobility. During the year Bank staff delivered a total of 428 school talks on a range of topics from inflation and monetary policy to their own career journeys. This compares with 266 visits in the previous 12 months. The proportion of visits to schools outside London and the South East increased from 55% to 64%. We also continued to develop our suite of education resources, with the launch of a new English Language GCSE resource linked to our successful book, Can't We Just Print More Money? This complements existing resources for economic and financial literacy for primary and secondary school students.

Museum

It was a very busy year for the Bank of England Museum which has been attracting high visitor numbers since reopening in April 2022. A new regular programme of late-night openings on the third Thursday of each month has proved successful in attracting new audiences to the Museum. These Museum Lates often have a special theme, with Museum staff or guest speakers delivering talks and tours. Some of these were linked to the Slavery & the Bank exhibition which will now remain open until Spring 2024. The exhibition, which explores the Bank's historic links with transatlantic slavery, has received praise from the public and heritage sector professionals. It has also attracted a more diverse audience to the Museum. Our Museum education programme has expanded to include interactive 'storytelling' sessions based around stories from the Bank's history and loan boxes available to state schools across the UK.

Top: Court Awards honouring colleagues who have supported Bank charities.

Middle left: The Bank's first clothes swap event; fundraising for Bank charities.

Middle right: Donations made at Christmas time, to support local foodbanks.

Bottom: The Lord Mayor's Show in 2022, promoting our charity partners.

Environment

We are committed to reducing the environmental impact of our operations and improving sustainability. In recognition of our efforts this year, we were awarded the Chairs Cup in the Clean City Award Scheme, along with a Commendation for our work on Air Quality & Climate Action, and Gold Status in the Plastic Free City and Resource & Circular Economy categories.

Greenhouse gas emissions

Consistent with the commitment made last year, we have updated our carbon reduction commitment by publishing our Climate Transition Plan which targets net-zero greenhouse gas emissions from physical operations no later than 2040. Details of the trajectory and milestones are available in the Climate Transition Plan published alongside the Bank's Climate Change Disclosure and this report.

The Bank started recording its carbon footprint in 2015/16 and tracks progress in reducing greenhouse gas emissions against that financial year. Initially the Bank's analysis and target setting focused on the emissions over which it had the greatest influence. Now that our capabilities have improved, we have chosen to extend the boundary of emissions sources for our new Physical Greenhouse Gas Emissions Target (PGGET) to include all material sources of emissions from physical operations.

We will begin reporting against our new PGGET in next year's Climate Change Disclosure (2023/24). The annex on page 82 provides a reconciliation between the much larger boundary of emissions that fall within the PGGET and the emissions on which the Bank currently reports in its Climate Change Disclosure. The main driver for the increase is inclusion of scope 3 emissions relating to the Bank's supply chain (excluding financed emissions). Further details are available in the Bank's Climate Transition Plan.

The Bank continues to report against the '2030 Target', to reduce selected[25] greenhouse gas emissions by 63% from 2016 to 2030, which is incorporated within the CTP transition pathway. This target is in line with the aims of the Paris Agreement and consistent with limiting global warming to 1.5°C above pre-industrial levels. The Bank is on track to meet its PGGET and 2030 Target.

25. The scope of emissions included in this interim target is set out in Annex 3 of the Bank's climate-related financial disclosure 2022.

Energy management

This year energy efficiency has been a major operational objective. Our engineers identified opportunities to optimise the way in which the most significant elements of our onsite plant operates. This included improving the calibration of fan and pump speeds to demand, and refining the operational parameters we set for our heating and cooling systems.

Waste and resources management

We continue to work to ensure a consistent, best-practice approach to waste management across our sites. This year in particular we have worked closely with our contractors to improve participation in the circular economy. Ensuring that items and materials with residual utility are streamed back into our local communities. We observed a reduction of circa 34% in waste volume from 1,461 tonnes to 956 tonnes. This was driven by a 53% reduction in banknote waste stream which fell from 1,025 tonnes to 486 tonnes. The overall recycling rate including banknotes stood at 43% while the day-to-day waste recycling rate was 62%. We have also worked to track waste volumes and recycling rates through waste compositional audits as we explore opportunities to further streamline our waste streams to improve recycling rate.

Banknotes

In 2022/23, our carbon emissions from polymer substrate production were 68% lower than in 2021/22, largely reflecting the impact of lower banknote production volumes. The Bank continues to engage with its polymer substrate suppliers on carbon reduction initiatives. The Bank's polymer suppliers also offset any remaining carbon emissions. Further details on the carbon emissions from substrate production can be found in the Bank's Climate Change Disclosure.

This year just under 440 million unfit banknotes were returned to the Bank and required disposal; just over 80% of these were paper banknotes with the vast majority being paper £20s and £50s following the launch of the polymer £20 and £50. The Bank works with partner organisations to reduce the environmental impact of the destruction of notes. For paper notes, this includes composting and an 'energy from waste' solution.

The majority of polymer banknote waste is recycled and used by third parties to make plastic items such as storage boxes and building materials.

Employee engagement

We hold regular Bank-wide engagement campaigns throughout the year. This year we covered topics including energy efficiency at home and in the office, an introduction to voluntary carbon offsets and markets, wholesale energy price volatility, and a campaign to discourage purchase of single-use items from onsite catering services.

Procurement

We strive to incorporate the three pillars of Environment, Social and Governance (ESG) when engaging with our supply chain. This year we have made enhancements to our internal training plan to closer align with the United Nations Sustainable Development Goals, notably modules relating to Climate Action, Gender Equality and Good Health & Well-Being. This will help to develop staff awareness and lend greater focus on the environmental and social aspects of activities throughout the procurement lifecycle. We have also continued to work with our supply chain to address the environmental impact of our operations while supporting a more conscious and collaborative approach to purchasing goods and services from responsible, sustainable sources where possible. This process has seen a drive on using specific ESG based evaluation criteria within our procurement process.

Health and Safety

We monitor our health and safety performance and report to the Audit and Risk Committee annually.

We continue to adapt to the new ways of working following the Covid pandemic, safely managing the increase to office-based working while ensuring appropriate support is provided to enable colleagues to work as effectively from their home as they can from our premises.

Our employees work in a relatively low-risk environment and are not exposed to significant occupational health and safety hazards. During the year to 31 December 2022 there were a total of six recorded accidents involving employees. None of those recorded accidents were a reportable injury as defined by the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations. Accidents are recorded and investigated, where remedial actions were identified these were implemented to help prevent any reoccurrence.

Case study: Sustainable Procurement

Matt Gill,
Supplier Management Analyst

I help to encourage best practice among suppliers by providing insights into our supply chain's sustainability performance and alignment with the Bank's values. Part of this involved the launch of the supplier assurance process, which is designed to highlight best practice as well as areas where the Bank can work with its suppliers to improve their sustainability initiatives. This coming year we will also be working on a sustainable procurement policy, which will help to inform us on how we can best procure and manage our suppliers in line with the Bank's commitment to improving the environmental, social and economic impacts of its supply chain.

Annex: The Bank's greenhouse gas emissions footprint from physical operations

Type of emissions	Activity	2015/16 (tCO_2e)	2022/23 (tCO_2e)
Scope 1	Natural gas	2,890	2,106
	Oil – generators	5	1
	Vehicles fleet	97	23
	Refrigerants	53	90
	Subtotal	**3,045**	**2,220**
Scope 2	Electricity	5,563	0
Scope 3 – Category 1 purchased goods and services	Polymer (notes)	2,333	2,108
	Paper (notes)	3,360	–
	Water	60	23
	Office paper	96	3
	Subtotal	**5,849**	**2,134**
Scope 3 – Category 3 fuel and energy related	Electricity (transmission and distribution)	1,271	–
Scope 3 – Category 5 waste	Waste	32	17
Scope 3 – Category 6 business travel	Air travel(1)	4,334	1,751
	Rail travel	33	28
	Subtotal	**4,367**	**1,779**
Total emissions (calculated using the boundary from the Bank's FY21/22 Climate Change Disclosure)(2)		**20,127**	**6,150**
Scope 3 emissions included as expansion of ambition		124,141	93,028
Adjustments versus previously disclosed baseline(3)		109	113
Total emissions within the boundary of the PGGET		**144,377**	**99,291**

(1) Air travel total for 2022/23 now includes emissions associated with hotel stays.

(2) See the CTP for a detailed description of the boundaries preivously disclosed.

(3) Adjustments versus previously disclosed baseline includes scope 1 emissions for Roehampton the Grange, which was not included in the previous reporting. Further details are in the Bank's Climate Transition Plan.

Report of the Remuneration Committee

Introduction

The Bank's reward package aims to attract and retain a diverse range of talented people to public service, with the skills required for our current and future success. We are a unique employer with a public purpose offering an opportunity to make a difference. We provide an inclusive working environment which supports each individual through flexible working, a variety of career opportunities and initiatives to support wellbeing.

For the 2022/23 financial year a Bankwide discretionary pay award budget of 1.5% was allocated, with pay awards effective from 1 March 2022.

The Bank has recently concluded its pay review for 2023/24, with pay awards effective from 1 March 2023. A discretionary pay award budget of 3.5% was allocated with a priority to focus pay awards on colleagues across the Bank who were lower paid and/or paid lower relative to their role, recognising that inflation affects the least well-off the most.

Our principles are to pay our colleagues a reward package which takes into account the level of experience, knowledge and specialism required to undertake the role. The total remuneration package for all colleagues includes the following:

- base salary;
- flexible benefits;
- discretionary performance award budget linked to achievement of individual objectives and values; and
- Career Average Revalued Earnings (CARE) pension.

A feature of the Bank's pension scheme is that it allows individuals to vary their rate of pension accrual annually, either by surrendering pension accrual for a cash supplement, or by sacrificing salary to secure more pension. Individuals who reach relevant tax limits have the option to opt-out of the pension altogether and receive a cash supplement in lieu of pension.

When reviewing policy and making remuneration decisions, we take account of external comparisons from the public and private sector.

We continue to report on our gender and ethnicity pay gaps which are linked to the Bank's inclusion agenda and can be found in the 'Our people' section of this report on pages 62–73.

Role of the Remuneration Committee

The Remuneration Committee (RemCo) determines the remuneration of the Governors and Executive Directors, and advises Court on the remuneration of other senior executives and of the external members of the FPC, the MPC and the PRC. RemCo also advises on major changes to remuneration structures within the Bank, including pension schemes. RemCo's aim is to ensure the remuneration policy and remuneration decisions support the Bank in recruiting and retaining the people it needs, taking account of the market in which we operate and our duty to work in the public interest.

Each year RemCo reviews and approves the rates at which pension is surrendered for a cash supplement and salary is sacrificed to secure more pension. In reaching this decision RemCo takes into account the scheme funding valuation, market movements and the Bank's broader remuneration strategy.

The Governors

Governors receive a salary and specified benefits, but they do not receive any additional benefits allowance or any performance award or other performance-related pay. Governors are eligible to participate in the Career Average section of the Bank's Pension Fund on the same basis as all colleagues. When relevant tax limits are reached, similar to all colleagues, they may choose to reduce their accrual rates or to opt-out of the pension altogether, receiving a salary supplement in lieu of pension. In March 2022, pay for Governors and the Chief Operating Officer (COO) was increased by 1.0%. Mr Bailey declined to accept this increase.

Governors' remuneration policy

The Governor is appointed by the Crown for a non-renewable term of eight years, and Deputy Governors, are each appointed by the Crown for five-year terms, which may be renewed once. As office-holders, the Governors have no termination provisions, although RemCo has discretion to impose a period of restricted duties, for which they will be paid for up to six months, before they can accept roles outside the Bank.

For clarity, the Bank's COO, is an employee of the Bank rather than an office-holder and is included alongside the Governors, as their remuneration structure is the same.

Under the Bank of England Act 1998, the Governor and Deputy Governors are required to provide remunerated services only to the Bank. With Court's approval, other directorships relevant to the Bank's work may be accepted, but any fees must be waived or surrendered to the Bank. Directorships held during the past year have been the (statutory) appointment to the Financial Conduct Authority Board held by Mr Woods as Deputy Governor for Prudential Regulation; Mr Bailey on the Board of the Bank for International Settlements; Mr Stimson is a Non-Executive Director of Premier Marinas and until July 2022 was a Trustee of the Youth Sport Trust.

Governors' remuneration

£	Andrew Bailey		Ben Broadbent		Sir Jon Cunliffe	
	2022/23	2021/22	2022/23	2021/22	2022/23	2021/22
Base salary	495,000	495,000	288,700	285,841	288,700	285,841
Taxable benefits	2,170	2,170	1,302	3,501(1)	1,736	1,736
Pension benefits	–	–	–	–	–	–
Payment in lieu of pension	99,000	99,000	86,539	85,682	86,539	85,682
Total pension benefits	**99,000**	**99,000**	**86,539**	**85,682**	**86,539**	**85,682**
Other remuneration	1,782	1,782	1,039	1,029	1,039	1,029
Total remuneration	**597,952**	**597,952**	**377,580**	**376,053**	**378,014**	**374,288**

£	Ben Stimson		Sir Dave Ramsden		Sam Woods	
	2022/23	2021/22	2022/23	2021/22	2022/23	2021/22
Base salary	288,700	41,410	288,700	285,841	288,700	285,841
Taxable benefits	2,170	312	1,302	1,302	1,302	2,098
Pension benefits	–	–	–	–	–	77,033
Payment in lieu of pension	57,692	8,282	57,692	57,121	86,539	14,292
Total pension benefits	**57,692**	**8,282**	**57,692**	**57,121**	**86,539**	**91,325**(3)
Other remuneration	1,039	199	1,039	1,029	1,039	1,029
Total remuneration	**349,601**	**50,203**(2)	**348,733**	**345,293**	**377,580**	**380,293**

(1) The taxable benefits received include a payment of £2,199 for two-days' leave buy-back for Mr Broadbent in 2021/22.

(2) The total remuneration for Mr Stimson in 2021/22 reflects that he joined the Bank in January 2022.

(3) Mr Woods opted-out of pension accrual from 1 January 2022 and hence the table reflects his accrued pension from 1 March to 31 December 2021 and the cash in lieu of pension from 1 January to 28 February 2022.

Remuneration of Non-executive Directors

The Bank of England Act 1998 provides for the remuneration of the Non-executive Directors to be determined by the Bank with the approval of the Chancellor of the Exchequer. With effect from 1 June 2009, these rates were set at £15,000 p.a. for Directors, £20,000 p.a. for the Senior Independent Director, the Deputy Chair and Committee Chairs, rising to £25,000 p.a. for the Senior Independent Director and Deputy Chair when also a Committee Chair.

The Chair of Court is paid £48,000 p.a. Non-executive Directors do not receive any post-retirement or medical benefits from the Bank, nor any additional fees for serving on Committees. The Bank meets appropriate travel and subsistence expenses.

External members of the FPC, the MPC and the PRC

The external members of the FPC, the MPC and the PRC are appointed on a part-time basis, and their remuneration reflects the different time commitments involved for each committee. In 2022/23, the external members of the FPC were each paid at a rate of £99,200 p.a., independent PRC members were paid at a rate of £111,900 p.a. and the external MPC members were paid at a rate of £159,700 p.a. For 2022/23, all fees were increased by 1.0%, rounded to the nearest hundred. MPC members, who work on average three days a week in the Bank, are also entitled to join the Bank's private medical insurance scheme.

Members of the policy committees must not during their terms of office retain or accept other appointments or interests that would create a conflict with their responsibilities at the Bank. On leaving the Bank, members are paid their fee for a further period of three months, during which time the Bank has the right to veto any employment that would conflict with their former FPC, MPC or PRC responsibilities, and requires continued adherence to the relevant committee's code of conduct.

Executive Directors' salaries and benefits

The remuneration framework for Executive Directors is consistent with that offered to all colleagues across the Bank, including a salary commensurate to their role, flexible benefits, a discretionary performance award and a career average defined benefit pension.

The table below shows, for Executive Directors serving at the end of 2022/23, the first two elements of their remuneration as well as their individual pension accrual rates. In recommending salaries for Executive Directors, RemCo takes into account the differences in their performance as well as their pension accrual and external benchmarks for their roles so as to achieve fair and justifiable total remuneration. In recommending individual performance awards RemCo takes account of both performance against objectives and values.

Year to 28 February 2023 £	Salary	Benefits	Contractual pension accrual
David Bailey	187,566	14,880	1/65th
Melanie Beaman(1)	173,487	13,828	1/95th
James Bell	162,400	13,000	1/50th
Nathanaël Benjamin	186,246	14,782	1/95th
Sonya Branch	225,272	17,697	1/95th
Sarah Breeden	192,259	15,231	1/50th
Stephen Brown	176,830	14,078	1/50th
Jane Cathrall	164,000	13,120	1/95th
Victoria Cleland	185,501	14,726	1/50th
Jonathan Curtiss	171,065	13,647	1/50th
Charlotte Gerken	198,367	15,687	1/95th
Andrew Hauser	193,252	15,305	1/50th
Sarah John(1)	156,379	12,550	1/50th
Afua Kyei	198,674	15,710	1/95th
Duncan Mackinnon	180,204	14,330	1/95th
Sasha Mills	191,255	15,156	1/95th
Huw Pill	182,700	14,517	1/95th
Sushil Saluja(2)(3)	132,820	10,560	1/95th
Victoria Saporta	190,858	15,126	1/50th

(1) Denotes those who were promoted during the year and salary reflects time spent in their previous and current roles.
(2) Denotes those who work part-time or were absent for a period during the year.
(3) Denotes those who joined the Bank during the year and their salary is pro-rated to reflect time in their role.

The Bank's overall pension contribution is driven by both the current CARE pension scheme, as well as the now closed Final Salary scheme. Long-serving colleagues at the Bank will have built a pension entitlement which is partly linked to their final salary, so even though the

Final Salary scheme is closed to new accrual, any increase in their salary will have an impact on their pension entitlement.

Former Final Salary members of the Bank's pension scheme were granted a discretion to draw their CARE benefits unabated from age 60. As part of a review of the normal pension age during 2018, RemCo agreed that all active members of the Bank's pension scheme would have a Normal Pension Age (NPA) of 65 for any benefits they accrue from 2020 onwards.

Year to 28 February 2023	Accrued pension £p.a. February 2023	Accrued pension £p.a. February 2022	Increase in pension £p.a.
David Bailey	22,022	19,628	2,394
Melanie Beaman	21,080	18,250	2,830
James Bell	55,944	54,258(1)	1,686
Nathanaël Benjamin	15,759	12,799	2,960
Sonya Branch	19,134	15,537	3,597
Sarah Breeden*	–	–	–
Stephen Brown	43,680	40,923	2,757
Jane Cathrall*	–	–	–
Victoria Cleland*	–	–	–
Jonathan Curtiss*	–	–	–
Charlotte Gerken*	–	–	–
Andrew Hauser	91,175	87,862	3,313
Sarah John	55,857	47,192	8,665
Afua Kyei	7,922	5,399	2,523
Duncan Mackinnon	19,961	15,900	4,061
Sasha Mills*	–	–	–
Huw Pill	4,265	1,335	2,930
Victoria Saporta*	–	–	–
Sushil Saluja*	–	–	–

(1) Revised to include accrued CARE pension for the period 1 April 2021–28 February 2022 of £1,132.
* Denotes those who have opted out of pension accrual and receive cash in lieu. Ms Breeden was granted a deferred pension of £60,686 p.a. in 2016; Ms Cleland was granted a deferred pension of £60,533 p.a. in 2016; Mr Curtiss was granted a deferred pension of £60,075 p.a. in 2014; Ms Gerken was granted a deferred pension of £1,844 p.a. in 2016; Ms Mills was granted a deferred pension of £1,801 p.a. in 2016 and Ms Saporta was granted a deferred pension of £67,956 p.a. in 2020.

Fair pay

To show the relationship between levels of remuneration for the Governor and all colleagues, we are reporting our Bank-wide pay ratio again this year. Remuneration for the purpose of this calculation includes salary, benefits (whether monetary or in kind), on a full-time equivalent basis and performance awards for the year ending 28 February 2023. It does not include severance payments or employer pension contributions.

The remuneration of the highest paid director (Mr Bailey) was £498,952 in 2022/23. This was 8.0 times the median remuneration of the workforce, which was £62,189.

At the 25th percentile the remuneration of the workforce was £44,002 (a ratio of 11.3) and at the 75th percentile, the remuneration of the workforce was £85,989 (a ratio of 5.8).

Other Executives' salaries and benefits

The following table shows remuneration ranges as at 28 February 2023 for all colleagues below Executive Director level with remuneration in excess of £80,000 p.a. on a full-time equivalent basis, excluding employer pension contributions and performance awards. The Bank's total headcount has grown over the last year to support our increased scope and strategic priorities. The proportion of colleagues earning over £80,000 p.a. has slightly increased from 23% to 24% of the overall population and continues to represent just under a quarter of Bank colleagues.

Remuneration range as at 28 February 2023 £	Number of colleagues
200,000–249,999	1
190,000–199,999	3
180,000–189,999	6
170,000–179,999	8
160,000–169,999	20
150,000–159,999	25
140,000–149,999	41
130,000–139,999	54
120,000–129,999	81
110,000–119,999	115
100,000–109,999	183
90,000–99,999	265
80,000–89,999	435
Total	**1,237**

Report on Oversight Functions

Court – the Oversight of the Bank

Court is responsible for managing the affairs of the Bank, as distinct from the decisions taken by the three statutory policy committees. The minutes of each Court meeting are published on the Bank's website, typically two weeks after the following meeting. It will be seen from these that Court's discussions and decisions cover a wide range of issues: the Bank's strategy; its finances, balance sheet and income; its risk profile, talent management and remuneration; IT security; data management; banknotes; and its culture and diversity.

Court also has 'Oversight' responsibilities for monitoring the Bank's performance against its statutory and other objectives, the Bank's financial management and controls, and the procedures of the policy committees, whose objectives are those of the Bank and whose meetings non-executive members of Court are entitled to attend as observers. Court is required to make an annual report on these 'Oversight Functions'.

In delivering these functions, Court is supported by an Independent Evaluation Office (IEO), led by a senior executive with a direct reporting line to the Chair of Court. The IEO's work programme is determined by Court, and typically consists of one or two major published reviews in each year, supplemented by a number of formal and informal reviews and briefings of Court members. The IEO's usual focus is on policy rather than administrative issues, and it operates at arm's length from other areas so as not to compromise the independence of the Bank's policymaking.

The separate reports of the Remuneration Committee (pages 83–90) and the Audit and Risk Committee (pages 95–98), insofar as they relate to the Court's Oversight responsibilities, should be seen as part of this Report.

Financial management and controls

During the year, Court maintained its focus on the implications for the Bank's risk, controls and operational performance, as the Bank responded to the changing economic environment. Court monitored that the Bank was able to maintain its controls successfully as the Bank took steps to respond to a number of economic factors, including the gilt market intervention in Autumn 2022. Court observed that the Bank's hybrid home/office working model has been working effectively. The Audit and Risk Committee has monitored the Bank's risk profile throughout this time.

Budgets

The Bank underspent its headline budget during 2022/23, reflecting staff recruitment lags, and on total costs underspent the budget of £760m by £2m. Court were presented with, for the first time, three year-business plans for each area of the Bank. This represents a key milestone as the Bank refines its approach to budget setting and prioritisation.

RTGS Renewal

The renewal of the Real-Time Gross Settlement (RTGS) system is by some measure the Bank's biggest project. A Court sub-committee – the RTGS Renewal Committee – was disbanded at the start of the year as the programme shifted focus to implementation. A new Executive Committee – the Renewal Executive Board – took over decision-making responsibility. Given the strategic importance of the Programme, Court received updates on this at every meeting.

Succession planning and appointments

Court has continued to monitor and approve senior appointments, and individual non-executive members have participated in panels for key appointments. Conflicts monitoring across all of the Bank's policy committees is routinely reported to Court. The Secretariat looks after the conflicts of interest policies, monitors them, and reports to Court.

In the interests of transparency, Court decided to publish a register of interests for its most senior officials in 2023. This register includes members of the Bank's Court of Directors and statutory policy committees, the Monetary Policy Committee (MPC), the Financial Policy Committee (FPC) and the Prudential Regulation Committee (PRC).

Diversity and inclusion

A major focus for the Court has been improving the diversity of the Bank's workforce, especially at senior levels. The first anniversary of the Bank's response to the Court-led review into ethnic diversity and inclusion occurred at the start of 2023. Court received updates on progress made. Court received updates on the results of the staff Viewpoint survey and the Bank's response to that.

Court has regular engagement with staff networks. This year, Court reviewed the work of the Bank's LGBTQ+ and disAbility network.

Additionally, Unite, the Union at the Bank, presented its second annual report to Court. Reflecting the strategic importance of building a diverse and inclusive Bank, Court agreed to expand the remit of the Nominations Committee (NomCo). NomCo will have a greater focus on culture, capability, succession planning and diversity and inclusion.

Central services optimisation

Court have been updated and consulted on the Bank's approach to reforming its central services function, with a particular focus on addressing technology obsolescence risk.

Court judged that the Bank's cyber resilience function is performing well and has built a strong defensive capability.

Central bank digital currency

Court received updates on work being undertaken in relation to the proposed Central Bank digital currency, and discussed the possible implications for the Bank.

The policy committees

The three policy committees – the FPC, the MPC and the PRC – operate under their own statutory remits. Court has a responsibility – statutory in the cases of the FPC and the MPC – to keep the processes of the Committees under review, and in the case of the MPC, to ensure that it takes account of regional and sectoral information. Court members observe the meetings of all three committees, and ensure that their conflicts codes are monitored and observed.

Annual surveys of members are undertaken and discussed in Court. The Chair of Court supplements the surveys with individual discussions with all Committee members.

Transactions outside of the ordinary course of business

A sub-committee of Court met a number of times this year to advise the Governor on transactions outside the ordinary course of business, such as the use of the Bank's balance sheet for new facilities. This committee is referred to as TransCo. TransCo met in September 2022, as the Bank acted to respond to dysfunction in gilt markets. This is a normal convention in the Bank's usual governance arrangements.

Members of Court attendance

Year to 28 February 2023 Attendance	Court (7)	Audit & Risk (6)	RemCo (10)	NomCo (3)	RTGS Renewal (1)
Sir Bradley Fried(1)	2 of 2	3 of 3	4 of 4	2 of 2	–
Mr Roberts(2)	3 of 3	2 of 2	4 of 4	1 of 1	–
Ms Chalmers(3)	1 of 1	1 of 1	–		–
Lord Gadhia(4)	3 of 3	1 of 2	–	0 of 1	–
Ms Glover	7	1 of 1	9	3	–
Baroness Dido Harding(5)	3 of 3	–	5 of 5	2 of 2	–
Sir Ron Kalifa	7	6	–	2	1
Ms Noble(6)	7	6	4 of 5	3	–
Baroness Frances O'Grady	2	–	2	3	
Mr Shropshire(7)	2 of 2	–	1 of 1	1 of 1	–
Ms Thompson(8)	3 of 3	5 of 5	–	2 of 2	1
Mr Bailey	7	–	–	–	–
Mr Broadbent	7	–	–	–	–
Sir Jon Cunliffe	7	–	–	–	–
Sir David Ramsden	7	5	–	–	1
Mr Woods	6	3	–	–	–

(1) Stepped down from Court on 30 June 2022.
(2) Joined Court on 24 October 2022.
(3) Joined Court on 1 January 2023.
(4) Joined Court on 24 October 2022.
(5) Chair of July 2022 Court meeting. Stepped down from Court on 31 July 2022.
(6) Chair of September 2022 Court meeting.
(7) Joined Court on 1 November 2022.
(8) Stepped down from Court on 31 July 2022, attended 2 ARCo meetings as Adviser.

Report of the Audit and Risk Committee

Audit and Risk Committee

The Audit and Risk Committee (ARCo) assists Court in meeting its responsibilities for maintaining effective financial reporting, risk management, and internal controls. As a sub-committee of Court, its remit is approved by Court and set out in its Terms of Reference.[26] ARCo meetings are separated into two parts, covering audit matters and risk matters.

A key focus for ARCo during the year was to monitor the resilience of the Bank's balance sheet in the light of the changing economic environment, as well as monitoring non-financial risks relating to new balance sheet operations (including the gilt market operation and the Energy Markets and Financing Scheme launched in October 2022). In common with most large organisations, the Bank is facing significant challenges in technology transition. As part of its oversight of operational risks, ARCo focused on risks relating to technology obsolescence and the work necessary to update the Bank's technology estate (together with the short and long-term plans for mitigating such risks). In the light of the higher volume of recruitment that had been required by the Bank over the past year, ARCo also focused on issues related to people risk including recruitment and retention.

Audit

During 2022/23, in the audit matters part of its meetings, ARCo received, discussed and, where required approved:

- Regular reports from the Finance Directorate including updates on the quarterly financial forecast, the Bank's budget and multi-year financial and business plans, the prioritisation trade-offs on the Bankwide demands for resources, the Bank's tax strategy and other tax matters, updates on the Finance systems modernisation programme, the triennial valuation of the Bank's pension fund, updates on the transition from Cash Ratio Deposits to the proposed Bank of England levy and the annual Finance skills and capabilities assessment.

- The approach taken to the preparation of the Bank's Annual Financial Statements, including a review of the Bank's draft financial statements (incorporating the PRA's financial reporting requirements); the Bank of England Asset Purchase Facility Fund Limited

26. Annex A of Matters Reserved to Court, available at **www.bankofengland.co.uk/about/people/court-of-directors/governance-of-the-bank-of-england-including-matters-reserved-to-court**.

(BEAPFF) draft annual report and accounts; and the Covid Corporate Financing Facility Ltd (CCFF) draft annual report and accounts.

- Regular reports from KPMG, the Bank's external auditor, and the National Audit Office, the external auditor for BEAPFF and CCFF. These included the external audits' strategy and scope, updates and reviews of the external auditors' findings, and the external auditors' reflections on their Audits.

- The external auditors' Management Letters for the Bank, BEAPFF, and CCFF, Management's response to the findings of the external auditors, and Letters of Representation to the external auditors ahead of their approval by Court.

- Proposals in relation to process and timetable for the tender for the Bank's external auditors (ahead of commencement in 2023).

- The updated policy for non-audit services undertaken by the external auditors, and reports on non-audit work commissioned by the Bank.

- Internal Audit's Charter, Annual Audit Plan and resources; implementation of the Plan during the year, including any changes; and Internal Audit's Annual Report.

- Regular reports from Internal Audit. As part of this, ARCo reviewed material Audit findings and monitored management progress in addressing agreed actions.

- An annual report on Court members' expenses.

Risk

During 2022/23, in the risk matters part of its meetings, ARCo received, discussed and, where required, approved:

- Regular reports from the Chief Operating Officer covering major operational, control and risk matters including those relating to the strategic transformation programme in Central Services.

- Regular reports from the Chief Risk Officer and quarterly risk reports and updates from the Enterprise Risk & Resilience Division and Financial Risk & Resilience Division covering the main operational and financial risks to the Bank (including the PRA). These included updates on recruitment challenges and technology obsolescence.

- Reports on the investment portfolio and an ARCo review of investment projects. As part of ARCo's monitoring of improvements to project governance, updates on the management of significant projects and related controls.

- Regular updates on cyber risks and security from the Chief Information Security Officer (CISO); and updates from the Executive Director for Technology and the CISO on the implementation of cyber initiatives, including a CBEST cyber-security test, and enhancements to systems resilience.

- Deep dive reports, including into model risk, resolution, financial operation controls in Markets & Banking Directorate, counterfeiting of banknotes, staff resourcing and the energy resilience of the Bank in the event of power outages.

- Updates on the Diversity & Inclusion Court Review action plan.

- Reports on a range of operational matters, including the process and assurance in relation to the Bank's Climate Change Disclosure; health and safety; and the Bank's insurance arrangements.

- Annual reports from the Money Laundering Reporting Officer; the Chief Compliance Officer; the Data Privacy Officer; Employee Relations and the Secretary on the Bank's internal whistleblowing arrangements.

- An evaluation of the effectiveness of ARCo.

Audit and Risk Committee: regular attendees 2022/23[1]

Members	ARCo meetings (6)
ARCo	
Dorothy Thompson (Chair until 30 June 2022)[2]	5 of 5
Diana Noble (interim Chair with effect from 1 July 2022)	6
Sir Ron Kalifa	6
Lord (Jitesh) Gadhia (with effect from 24 October 2022)	1 of 2
Sabine Chalmers (with effect from 1 January 2023)	1 of 1
Sir Bradley Fried[3]	3 of 3
David Roberts (Chair of Court with effect from 24 October 2022)[4]	3 of 3
Anne Glover	1 of 1
Executive	
Sir David Ramsden	5 of 6
Sam Woods	3 of 6
Ben Stimson	6
Afua Kyei	6
Andrew Hauser	5 of 6
Sarah John	1 of 1
Executive Director, Risk	
Stephen Brown	6
Internal Auditor	
Edward Moore	6
External Auditor (KPMG)[5]	
Richard Faulkner	6
Ryno Swart	6
NAO[5]	
Simon Helps	6
Marcus Ward	2 of 2
Aditi Chandramouli	2 of 2

(1) Covering ARCo meetings held on 1 April 2022, 10 May 2022, 30 June 2022, 28 September 2022, 24 November 2022 and 25 January 2023.

(2) Stepped down from Court on 30 June 2022 but continued as an Adviser to ARCo until 24 November 2022.

(3) Sir Bradley Fried was not a member of the Committee from 1 July 2018 however, as Chair of Court, he attended the meetings by invitation. He stepped down from Court on 30 June 2022.

(4) David Roberts is not a member of the Committee however, as Chair of Court, he attends the meetings by invitation.

(5) KPMG and NAO attend the Audit part of the meeting and to present their reports.

Statement of the responsibilities of the Court of Directors in relation to the financial statements

The Court of Directors is responsible for ensuring that the financial statements of the Banking Department are properly prepared on the basis set out therein, as at 28 February 2023 and for the year to that date.

The statements of account of the Issue Department are prepared in accordance with provisions agreed between the Bank and HM Treasury to implement the requirements of the Currency and Bank Notes Acts 1928 and 1954, the National Loans Act 1968 and the Currency Act 1983. The Court of Directors is responsible for ensuring that the statements of account are prepared in accordance with these requirements as at 28 February 2023 and for the year to that date.

The Prudential Regulation Authority financial statement of accounts has been prepared in accordance with the Bank of England Act 1998 (as amended) and the accounts direction given by HM Treasury. The Court of Directors is responsible for ensuring that the statement of accounts of the Prudential Regulation Authority is properly prepared on the basis set out therein, as at 28 February 2023 and for the year to that date. The Court of Directors is also responsible for ensuring that the money levied by the Prudential Regulation Authority under Parliamentary Authority recorded in the statement of accounts of the Prudential Regulation Authority is only applied to the purposes intended by Parliament.

The Court of Directors is responsible for ensuring proper accounting records are kept, which disclose at any time the financial position of the Bank and enable Court to ensure that the financial statements comply with the requirements set out in note 2 of the accounts. The Court of Directors is also responsible for such internal control as they determine is necessary to enable preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for safeguarding the assets of the Bank and its subsidiaries, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Court of Directors confirms that suitable accounting policies, consistently applied and supported by reasonable and prudent judgement and estimates, have been used in the preparation of the financial statements of the Banking Department, which have been prepared on the going-concern basis. The accounting framework adopted is set out on pages 117–20.

The Directors who held office at the date of approval of this Annual Report confirm that, so far as they are aware, there is no relevant audit information of which the Bank's auditors are unaware; and each Director has taken all steps that they ought to have taken as a Director to make themselves aware of any relevant information and to establish that the Bank's auditors are aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Bank's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Financial statements: Report of the Independent Auditor

Independent Auditor's Report to the Governor and Company of the Bank of England ('the Bank') and its Shareholder

Report on the audit of the financial statements

Opinion

We have audited:

- the financial statements of the Banking Department for the year ended 28 February 2023, set out on pages 109–97, which comprise the Banking Department statement of income, statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows, and the related notes, including the accounting policies in note 2;

- the statements of account of the Issue Department for the year ended 28 February 2023, set out on pages 198–202, which comprise the Issue Department account, statement of balances, and the related notes, including the accounting policies in note 1; and

- the statement of accounts of the Prudential Regulation Authority ('PRA') for the year ended 28 February 2023, set out on pages 203–12, which comprise the PRA income statement, statement of balances, and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements of the Banking Department for the year ended 28 February 2023 have been properly prepared, in all material respects, in accordance with the special purpose basis of preparation set out in note 2 on pages 117–20;

- the statements of account of the Issue Department for the year ended 28 February 2023 have been properly prepared, in all material respects, in accordance with the special purpose basis of preparation set out in note 1 on page 200; and

- the statement of accounts of the PRA for the year ended 28 February 2023 have been properly prepared, in all material respects, in accordance with the special purpose basis of preparation set out in note 1 on pages 205–07.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800, applicable law and the terms of our engagement by the Bank. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Bank in accordance with, UK ethical requirements including the Financial Reporting Council (FRC) Ethical Standard as applied to public interest entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Emphasis of matter – special purpose basis of preparation

We draw attention to note 2 of the financial statements of the Banking Department, note 1 of the statements of account of the Issue Department, and note 1 of the statement of accounts of the PRA, which describe their respective bases of preparation. As explained in those notes, the financial statements are prepared to assist the Bank in complying with the financial reporting provisions of legislation applicable to the Bank, including the Bank of England Act 1998 which provides, among other things, that the Bank can disregard a disclosure requirement if it considers it necessary to do so having regard to its financial stability objective. As a result, the financial statements of the Banking Department, the statements of account of the Issue Department and statement of accounts of the PRA may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Going concern

The Members of Court have concluded that it is appropriate to prepare the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA on a going-concern basis. They have also concluded that there are no material uncertainties that could cast significant doubt over the Bank's ability to continue as a going concern for at least a year from the date of approval of the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA ('the going-concern period').

In our evaluation of the Members of Court's conclusions, we used our knowledge of the Bank and the general economic environment to identify the inherent risks to the Bank and analysed how those risks might affect the Bank's financial resources or ability to continue operations over the going-concern period. We specifically considered the potential impact of severe, but plausible economic scenarios on the liquidity and loss absorbing capital of the Bank. Our procedures included critically assessing assumptions used in the Members of Court's downside scenarios and in their impact assessment.

We also assessed the appropriateness of the going-concern disclosure. Our conclusions based on this work:

- we consider that the Members of Court's use of the going-concern basis of accounting in the preparation of the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA is appropriate;

- we have not identified, and concur with the Members of Court's assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Bank's ability to continue as a going concern for the going-concern period; and

- we consider that the disclosures relating to going concern in note 2c on page 118 to the financial statements is appropriate.

However, we cannot predict all future events or conditions and subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ('fraud risks') we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- inquiry of the Members of Court, the Audit and Risk Committee and internal audit as to the Bank's high-level policies and procedures in place to prevent and detect fraud, including the internal audit function, and the Bank's 'whistleblowing' function, as well as whether they have knowledge of any actual, suspected or alleged fraud;

- inspecting minutes of meetings of the Members of Court and the Audit and Risk Committee; and

- using analytical procedures to identify any unusual or unexpected journal entries.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards and taking into account our overall knowledge of the control environment we perform procedures to address the risk of management override of controls, in particular the risk that Bank management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a significant fraud risk related to revenue recognition given the fact that revenue is not complex and is not a performance driver for the Bank. We did not identify any additional fraud risks.

In determining the audit procedures, we took into account the results of our evaluation and testing of the operating effectiveness of the Bank-wide fraud risk management controls.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management, those posted and approved by the same user and those posted to seldom used accounts.

- Performing testing over the payments process and specifically controls around the authorisation of payments.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA, from our experience of the Bank and through inquiry with the Members of Court and management (as required by auditing standards), and discussed with the Members of Court and other management the policies and procedures in place regarding compliance with laws and regulations.

Our assessment of risks related to compliance with laws and regulations involved gaining an understanding of the control environment including the Bank's procedures for compliance.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit and regulations.

The potential effect of these laws and regulations on the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA varies considerably. First, the Bank is subject to laws and regulations that directly affect the financial statements (including the financial reporting provisions of legislation applicable to the Bank, including the Bank of England Act 1998, and taxation legislation (direct and indirect)) and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items. Second, the Bank is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA, for instance through the imposition of fines or litigation

We identified the following areas as those most likely to have such an effect: anti-money laundering; sanctions and financial crime, data protection, employment and social security. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Members of Court and other management and inspection of legal correspondence, if any. Therefore, if a breach of applicable law or regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation
Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remains a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Other information

The Members of Court are responsible for the other information presented in the Annual Report and Accounts together with the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA. Our opinions on these statements do not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our audit work over the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA, the information therein is materially misstated or inconsistent with the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA or our audit knowledge.

Based solely on that work:

- we have not identified material misstatements in the other information; and
- in our opinion the information given in the Report of the Remuneration Committee, the Financial Review, the Risk Management section, and the Report on Oversight Functions for the financial year for which the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA are prepared is consistent with the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA.

Members of Court's responsibilities

As explained more fully in their statement set out on page 99, the Members of Court are responsible for: the preparation of the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA in accordance with applicable law and the special purpose bases of preparation set out in note 2 on pages 117–20, note 1 on page 200 and note 1 on page 205, respectively; determining that the bases of preparation are acceptable in the circumstances; and such internal control as they determine is necessary to enable the preparation of financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA that are free from material misstatement, whether due to fraud or error. They are also responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going-concern basis of accounting unless they either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA.

A fuller description of our responsibilities is provided on the FRC's website at **www.frc.org.uk/auditorsresponsibilities**.

Report on other legal and regulatory matters

Opinion on regularity

In our opinion, in all material respects, the money levied by the PRA under Parliamentary Authority recorded in the statement of accounts of the PRA has been applied to the purposes intended by Parliament.

Basis for opinion on regularity

We are required by Section 7(5A) of the Bank of England Act 1998 to report whether we are satisfied that the Bank has complied with the requirements of Part 3 of Schedule 1ZB to the Financial Services and Markets Act 2000 (Prudential Regulation Authority fees and penalties) (FSMA) in relation to the preparation of a statement of accounts by the Bank by virtue of its functions as the PRA. In giving this opinion, we have had regard to the requirements in Part 2 of Practice Note 10 'Audit of financial statements of public sector bodies in the United Kingdom' issued by the Financial Reporting Council.

Our opinion on regularity relates solely to the Bank's compliance with the requirements of Part 3 of Schedule 1ZB to FSMA. We are not required to and do not provide a regularity opinion on any other operations of the PRA or the Bank.

The Court of Directors' responsibilities in relation to regularity are set out in the Statement of the responsibilities of the Court of Directors in relation to the financial statements on pages 99–100.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Governor and Company of the Bank of England and its Shareholder, as a body, in accordance with Section 7 of the Bank of England Act 1998 and the terms of our engagement by the Bank. Our audit work has been undertaken so that we might state to the Governor and Company of the Bank of England and its Shareholder those matters we are required to state to them in an auditor's report, and the further matters we are required to state to them in accordance with the terms agreed with the Bank, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Governor and Company of the Bank of England and its Shareholder, as a body, for our audit work, for this report, or for the opinions we have formed.

Richard Faulkner
for and on behalf of KPMG LLP

Chartered Accountants
15 Canada Square
Canary Wharf
London E14 5GL

14 June 2023

Banking Department statement of income for the year to 28 February 2023

	Note	2023 (£mn)	2022 (£mn)
Net interest income		98	13
Fee income	5a	35	34
Other income from financial instruments	5a	171	200
Management fees	5a	83	111
Income from regulatory activity	5a	337	303
Other income	5a	80	79
Net operating income		**804**	**740**
Staff costs	5b	(491)	(448)
Infrastructure costs	5b	(151)	(140)
Administration and general costs	5b	(116)	(123)
Operating expenses		**(758)**	**(711)**
Profit before tax		**46**	**29**
Taxation	6	(7)	(22)
Profit after tax		**39**	**7**

The notes on pages 116–97 are an integral part of these financial statements.

Banking Department statement of comprehensive income for the year to 28 February 2023

	Note	2023 (£mn)	2022 (£mn)
Profit for the year attributable to shareholder		**39**	**7**
Other comprehensive income/(loss) not recycled to profit or loss:			
Property revaluation reserve			
Net losses from changes in fair value		(60)	(13)
Current and deferred tax	6	6	(12)
Financial assets at fair value through other comprehensive income reserve			
Net gains from changes in fair value	17	75	39
Current and deferred tax	6	(19)	(92)
Other			
Retirement benefit remeasurements	26	(525)	55
Current and deferred tax	6	131	(35)
Total other comprehensive loss not recycled to profit or loss		**(392)**	**(58)**
Total comprehensive loss for the year		**(353)**	**(51)**

The notes on pages 116–97 are an integral part of these financial statements.

Banking Department statement of financial position as at 28 February 2023

	Note	2023 (£mn)	2022 (£mn)
Assets			
Cash and balances with other central banks	7	6,406	708
Loans and advances to banks and other financial institutions	8	192,784	203,219
Other loans and advances	9	843,797	896,134
Securities held at fair value through profit or loss	13	5,193	9,969
Derivative financial instruments	20	493	354
Securities held at amortised cost	16	16,619	15,959
Securities held at fair value through other comprehensive income	17	1,495	1,420
Investments in subsidiaries	24	–	–
Inventories		3	2
Property, plant and equipment	29	391	456
Intangible assets	30	237	202
Retirement benefit assets	26	719	1,279
Other assets	31	5,799	654
Total assets		**1,073,936**	**1,130,356**
Liabilities			
Deposits from central banks	10	17,533	30,739
Deposits from banks and other financial institutions	11	913,168	971,357
Deposits from banks – Cash Ratio Deposits	18	13,417	13,043
Other deposits	12	106,937	102,331
Foreign currency commercial paper in issue	14	5,598	2,713
Foreign currency bonds in issue	15	6,447	2,936
Derivative financial instruments	20	183	97
Deferred tax liabilities	34	448	559
Retirement benefit liabilities	26	133	216
Other liabilities	32	4,648	588
Total liabilities		**1,068,512**	**1,124,579**

	Note	2023 (£mn)	2022 (£mn)
Equity			
Capital	19	15	15
Capital reserves and other reserves	19	1,209	1,200
Retained earnings	19	2,940	3,304
Revaluation reserves		1,260	1,258
Total equity attributable to shareholder		**5,424**	**5,777**
Total liabilities and equity attributable to shareholder		**1,073,936**	**1,130,356**

On behalf of the Governor and Company of the Bank of England:

Mr A Bailey, Governor

Mr S Woods, Deputy Governor

Mr D Roberts, Chair of Court

Ms A Kyei, Chief Financial Officer

The notes on pages 116–97 are an integral part of these financial statements.

Banking Department statement of changes in equity for the year to 28 February 2023

		Attributable to equity shareholder						
	Note	Capital (£mn)	Capital reserves[1] (£mn)	Other reserves[2] (£mn)	Equity investments reserves (£mn)	Property revaluation reserve (£mn)	Retained earnings (£mn)	Total (£mn)
Balance at 28 February 2021		**15**	**1,180**	**12**	**1,118**	**218**	**3,285**	**5,828**
Post-tax comprehensive income/(loss) for the period		–	–	–	(53)	(25)	27	(51)
Payable to HM Treasury in lieu of dividend	28	–	–	–	–	–	–	–
Transfer to other reserves		–	–	8	–	–	(8)	–
Balance at 28 February 2022		**15**	**1,180**	**20**	**1,065**	**193**	**3,304**	**5,777**
Post-tax comprehensive income/(loss) for the period		–	–	–	56	(54)	(355)	(353)
Payable to HM Treasury in lieu of dividend	28	–	–	–	–	–	–	–
Transfer to other reserves		–	–	9	–	–	(9)	–
Balance at 28 February 2023		**15**	**1,180**	**29**	**1,121**	**139**	**2,940**	**5,424**

(1) Capital reserves comprise the capital injection from HM Treasury received on 22 March 2019.
(2) Other reserves comprise post-tax income arising from the investment of the capital injection. This is ring-fenced in accordance with the agreement with HM Treasury.

The notes on pages 116–97 are an integral part of these financial statements.

Banking Department statement of cash flows for the year to 28 February 2023

	Note	2023 (£mn)	2022 (£mn)
Cash flows from operating activities			
Profit before taxation		**46**	**29**
Adjustments for:			
Amortisation of intangibles	30	23	19
Depreciation of property, plant and equipment	29	37	36
Loss on write down of tangible fixed assets	29	–	2
Loss on write down of intangible fixed assets	30	–	1
Dividends received	5a	(14)	(26)
Net movement in accrued interest and provisions, including pensions		(2,524)	(209)
Changes in operating assets and liabilities:			
Decrease/(increase) in loan advanced to the Bank of England Asset Purchase Facility Fund Ltd	9	51,211	(121,523)
Decrease in loan advanced to the Covid Corporate Financing Facility Ltd	9	1,079	10,744
Decrease/(increase) in deposit with Bank of England Alternative Liquidity Facility Ltd	9	45	(105)
Net decrease/(increase) in other advances		10,412	(81,555)
Net decrease/(increase) in securities held at fair value through profit or loss		4,339	(305)
Net (decrease)/increase in deposits		(66,789)	187,522
Net increase in foreign currency commercial paper		2,535	2,714
Net increase/(decrease) in foreign currency bonds in issue		1,959	(1,318)
Net decrease in financial derivatives		1,794	317
Net increase in other accounts		–	(5)
Net (increase)/decrease in inventories		(1)	3
Net cash inflow/(outflow) from operating activities		**4,152**	**(3,659)**
Cash flows from investing activities			
Purchase of securities at amortised cost	16	(2,226)	(3,895)
Proceeds from redemption of securities at amortised cost	16	1,463	806

	Note	2023 (£mn)	2022 (£mn)
Dividends received	5a	14	26
Purchase of intangible assets	30	(58)	(92)
Purchase of property, plant and equipment	29	(30)	(25)
Net cash outflow from investing activities		**(837)**	**(3,180)**
Cash flows from financing activities			
Net increase in Cash Ratio Deposits	18	374	1,890
Payment to HM Treasury under Section 1 (4) of the Bank of England Act 1946	28	–	–
Net cash inflow from financing activities		**374**	**1,890**
Net increase/(decrease) in cash and cash equivalents		**3,689**	**(4,949)**
Cash and cash equivalents at 1 March	22	7,455	12,404
Cash and cash equivalents at 28 February	**22**	**11,144**	**7,455**

Notes to the Banking Department financial statements
Section 1: Overview

The overview includes the general information and bases of preparation for the accounts of the Bank including the detail of the disclosure exemptions taken under the Bank of England Act 1998.

1: General information

The Bank of England is the central bank of the United Kingdom and is incorporated under a Royal Charter of 1694. It is located at Threadneedle Street, London EC2R 8AH.

Legislation covering its operations includes the Charter of the Bank of England 1694, the Bank Charter Act of 1844, the Bank of England Act 1946 and 1998, the Banking Act 2009, the Financial Services Act 2012 and the Bank of England Act 1998 (as amended).

The Bank Charter Act 1844 requires that the Bank's note issue function is separated from its other activities. For accounting purposes, the Bank is therefore divided into Issue Department and Banking Department. Neither is an organisational unit of the Bank under the definition of IFRS 8.

The Banking Department comprises all activities of the Bank, with the exception of the Issue Department. Following agreement of the capital framework between the Bank and HM Treasury, the percentage of Banking Department profits payable to HM Treasury will be determined by the level of loss-absorbing capital held by the Bank and where this sits within a set of parameters (see note 28).

The statements of account of the Issue Department are given on pages 198–202, and show the bank note issue, the assets backing the issue, the income generated by those assets and the costs incurred in the production, issue, custody and payment of bank notes. The net income of the Issue Department is paid over to the National Loans Fund (NLF).

Under the Bank of England Act 1998 (as amended) a separate statement of accounts in relation to the Prudential Regulation Authority is required. This is a subset of the Banking Department and is managed internally as a business area. The Prudential Regulation Authority statement of accounts have been set out on pages 203–12.

2: Bases of preparation

The principal accounting policies applied in the preparation of the financial statements of the Banking Department are set out in the relevant areas of the notes to the accounts. These policies have been applied consistently to all of the years presented, unless otherwise stated.

a: Form of presentation of the financial statements

The financial statements of the Banking Department comprise the statement of income, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and related notes.

Under the Bank of England Act 1998, the Bank, in preparing the financial statements of the Banking Department, is subject to requirements corresponding to the Companies Act 2006 requirements relating to a banking company. The Bank may, however, disregard a requirement to the extent that it considers it necessary to do so having regard to its financial stability objective.

The financial statements of the Banking Department have been prepared in accordance with the measurement and recognition requirements of UK-adopted international accounting standards ('IFRS').

Disclosure limitations

IFRS and the Companies Act 2006 have been used as a model for the presentation and disclosure framework to provide additional information related to key items in the financial statements, unless disclosure is deemed unnecessary due to the Bank's financial stability objective.

In exceptional circumstances, as part of its central banking functions, the Bank may act as 'lender of last resort' to financial institutions in difficulty. Although the effects of these operations will be reflected in the financial statements in the year in which they occur, it may not be in the best interests of overall confidence in the financial system as a whole for specific circumstances to be disclosed. However, the existence of such support will be reported in the Annual Report when there is no longer a need for secrecy or confidentiality.

As a result, the financial statements of the Banking Department disclose less detail of certain elements than would be required under either adopted IFRS or the Companies Act 2006. Disclosure limitations include:

- presentation of the Statement of Income disclosures;
- operating segments;
- contingent liabilities and guarantees;
- information on credit and liquidity risk;
- fair value of collateral pledged and held;
- related party disclosure; and
- off balance sheet arrangements.

b: Accounts of the Prudential Regulation Authority

The activities of the Bank acting as the Prudential Regulation Authority are reported within the Banking Department's financial statements, on the bases described here. The separate financial statements of the Prudential Regulation Authority, as required by Sections 7(2A) of the Bank of England Act 1998, have been prepared in line with the requirements of the Act and with the accounts direction received from HM Treasury (further details are included in PRA financial statements on pages 203–12).

c: Going concern

The financial statements for the Banking Department, Issue Department and PRA have been prepared on the going-concern basis. Court has assessed the key financial risks impacting the Bank as disclosed in this report, and the budget for the period of 12 months from the signing of the accounts, and has determined that there are no material uncertainties that may cast significant doubt about the Bank's ability to continue as a going concern and that therefore the going-concern basis is an appropriate assumption to use in preparing the accounts. The Bank has put in place measures to enable it to continue functioning operationally, further details of these have been included in the front section of the Annual Report, on pages 52–60. This included the consideration of operational risk and other matters.

The Bank specifically considered the potential impact of severe, but plausible economic scenarios on the liquidity and loss-absorbing capital of the Bank as well as the impact on expected credit losses (ECL) and pensions. The Bank has considered the output of stress testing in its going-concern assessment, see note 21 'Financial risk management'.

The Bank also assessed the appropriateness of the going-concern disclosure.

d: Consolidation

Under the Bank of England Act 1998, the financial statements are prepared on a non-consolidated basis. As such the financial statements of the Bank's subsidiaries, including the Bank of England Asset Purchase Facility Fund Ltd (BEAPFF), the Bank of England Alternative Liquidity Facility Ltd (BEALF) and the Covid Corporate Financing Facility Ltd (CCFF), have not been consolidated. Investments in subsidiaries are stated in the balance sheet at cost, less any provision for impairment in value. Dividends from subsidiaries are recognised in the income statement when declared.

e: Foreign currency translation

i: Functional and presentation currency

The financial statements of the Banking Department are presented in sterling, which is the Bank's functional currency.

ii: Transactions and balances

Foreign currency transactions are translated into sterling using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement. Where a gain or loss on a non-monetary item is recognised directly in other comprehensive income, such as equity investments, the related exchange gain or loss is also recognised in other comprehensive income.

f: Commitments on behalf of HM Treasury

In its operation of the Exchange Equalisation Account, the Bank acts as a custodian of gold on behalf of HM Treasury, and provides accounting, trading and operational services. These commitments are not included in the financial statements.

3: Significant accounting estimates and judgements in applying accounting policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimates

a: Post-retirement benefits

Post-retirement benefits are long-term liabilities whose value can only be estimated using assumptions about developments over a long period. The Bank has employed actuarial advice in arriving at the figures in the financial statements (see note 26, which includes relevant sensitivity analysis). Members of Court consider the assumptions used by the actuary in their calculations to be appropriate for this purpose.

b: Fair value of equity investments

The Bank's accounting policy for the valuation of financial instruments is described in Section 3. The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. Details of valuation techniques for the different classifications are given in Section 3.

Fair values of the Bank's equity investments rely to a greater extent on unobservable inputs and therefore require some degree of estimation to calculate a fair value. These equity investments, disclosed in note 17, are held by the Bank for the long term as part of its central banking activities and may not be readily saleable. The values have generally been established using an adjusted net asset value basis (see Section 4, which includes relevant sensitivity analysis).

Judgements

Expected credit loss

Impairment under IFRS 9 adopts a staging approach, with Stage 1 representing the lowest credit risk and Stage 3 the highest. When a new asset is originated it is classified as Stage 1 (normal origination). Moving from Stage 1 to Stage 2 is a key judgment, and is based on management defined criteria of whether there is a significant increase in credit risk. Given the immaterial impact of expected credit loss this is not considered to be a significant judgement under IAS 1.

4: Post balance sheet events

The Bank has evaluated post balance sheet events up to the date of the Annual Report and Accounts signing and note there are no events that have occurred which require adjustments to the disclosures in the financial statements.

Section 2: Results for the year

This section analyses the financial performance of the Bank for the year.

Accounting policies

Interest income

Interest income is recognised in the income statement using the effective interest rate method for all interest-bearing financial instruments except for assets measured at fair value through profit and loss.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability on initial recognition. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument, and any revisions to these estimates are recognised in the income statement. The calculation includes amounts paid or received that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

Valuation gains and losses

Gains and losses arising from changes in the fair value of assets classified as fair value through profit or loss are included in the income statement in the period in which they arise.

Fee income and management fees

Fees are recognised as the service is provided, as this is the point at which the performance obligation, with the identified customer, is considered to be satisfied.

Income from regulatory activity

Fee income comprises levy fees collected from regulated firms through the Annual Funding Requirement (AFR) consultation process, along with fees for specific regulatory activity. This fee income, which is deemed to be equivalent to the value of relevant expenditure incurred in the year, is recognised in the income statement as the service to regulated entities occurs.

Cost recoveries

Costs in relation to reports under section 166 of the Financial Services and Markets Act 2000 are fully recovered directly from the specific entities under review. The recovery of these costs is matched directly to the costs incurred in the income statement within expenditure.

Dividends

Dividends on equity investments that are fair value through other comprehensive income (FVOCI) are recognised in the income statement when declared.

Sundry income

The Bank accrues for income relating to the RTGS Renewal project in line with costs incurred. This income will be recovered from RTGS members once the system goes live.

5a: Net operating income

	Note	2023 (£mn)	2022 (£mn)
Fee income			
Payment services fee income		22	21
Banking operations		13	13
		35	**34**
Other income from financial instruments			
Net (expense)/income from financial instruments designated at fair value		(42)	9
Income from securities held at amortised cost	16	213	191
		171	**200**
Management fees			
Fee for services to BEAPFF	27	2	2
Fee for services to the CCFF	27	1	3
Charges to HM Government bodies	27	80	106
		83	**111**
Income from regulatory activity			
Income from PRA regulatory activity		326	293
Income from Financial Market Infrastructure levy		11	10
		337	**303**
Other income			
Dividend income[(1)]		14	26
Onerous lease provision release		–	1
Premises income		7	7
Sundry income		59	45
		80	**79**
Net operating income (excluding net interest income)		**706**	**727**

(1) In 2023, £14m dividend income was received from the Bank's unlisted equity investment in BIS (2022: £26 million). See Accounting Policies on page 146.

5b: Operating expenses

	Note	2023 (£mn)	2022 (£mn)
Staff costs[1]	25	491	448
Total staff costs		**491**	**448**
Infrastructure costs			
Property and equipment		89	82
Depreciation of property, plant and equipment	29	27	28
Lease interest		1	–
Operating lease rentals		1	2
Amortisation of intangible assets	30	23	19
Depreciation on Right of Use assets	29	10	8
Impairment of property, equipment and intangible assets		–	1
Total infrastructure costs		**151**	**140**
Administration and general costs			
Consultancy, legal and professional fees		71	55
Subscriptions, publications, stationery and communications		2	3
Travel and accommodation		3	1
Other administration and general expenses		40	64
Total administration and general costs		**116**	**123**
Operating expenses		**758**	**711**

(1) Staff costs have increased by £43m. This was primarily a result of increasing headcount, as the Bank implements new financial stability market tools, regulatory reform in the PRA; and continues the development of the Real-Time Gross Settlement system replacement.

6: Taxation

Accounting policies

Corporation tax payable on profits, based on UK tax laws, is recognised as an expense in the period in which profits arise. The Bank is entitled to tax relief on the amount due to HM Treasury as a payment in lieu of a dividend in accordance with Section 1 (4) Bank of England Act 1946.

Tax relief on any amounts due to HM Treasury is credited directly to the income statement in accordance with paragraph 52B of IAS 12.

Under the agreement with HM Revenue and Customs (HMRC), the fees paid by regulated institutions for regulatory purposes, and corresponding expenditure, are not subject to corporation tax. The net fee income/expenses in the statement of income is £nil; any excess or shortfall of fees over regulatory expenses are held on account.

The tax charged within the income statement is made up as follows:

	Note	2023 (£mn)	2022 (£mn)
Corporation tax – current year		–	–
Corporation tax – prior year		–	–
Deferred tax – current year		5	21
Deferred tax – prior year		2	1
Tax charge on profit	34	**7**	**22**

The tax charged within the income statement differs from the amount calculated at the basic rate of tax on the profit for the year and is explained below:

	2023 (£mn)	2022 (£mn)
Profit before tax	**46**	**29**
Tax calculated at rate of 19.00% (2022: 19.00%)	9	6
Non-taxable income	(4)	(5)
Non-deductible expenses	1	1
Difference between current and deferred tax rate	(1)	19
Prior year adjustments	2	1
Total tax charge for the period	**7**	**22**

Tax (credited)/charged to equity through other comprehensive income:

	Note	2023 (£mn)	2022 (£mn)
Tax (credited)/charged to equity through other comprehensive income			
Current tax		–	–
Deferred tax	34	(118)	139
Tax (credited)/charged to equity through other comprehensive income		**(118)**	**139**

	2023 (£mn)	2022 (£mn)
Tax (credited)/charged to equity through other comprehensive income		
Revaluation of FVOCI securities	19	92
Tax losses carried forward	-	(1)
Revaluation of property	(6)	12
Remeasurements of retirement benefits	(131)	36
Tax (credited)/charged to equity through other comprehensive income	**(118)**	**139**

The rate applicable for the year ended 28 February 2023 is 19% (2022: 19%).

Section 3: Financial assets and liabilities

This section analyses the financial assets and liabilities held by the Bank in fulfilling its policy objectives.

Financial instruments

Accounting policies

Financial instruments: assets
i: Classification of financial assets

Classification and measurement

IFRS 9 Financial Instruments: Recognition and Measurement outlines the requirements for the recognition and measurement of financial assets and liabilities.

Financial instruments are initially recognised when an entity becomes a party to the contractual provisions of the instrument, and are classified into various categories depending upon the type of instrument, which then determines the subsequent measurement of the instrument.

IFRS 9 classification is based on two aspects: the business model within which the asset is held (the business model test) and the contractual cash flows of the asset in relation to the solely payments of principal and interest ('SPPI') test.

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVPL). The Bank determines the classification at initial recognition.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are classified as measured at FVPL.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice.
- How the performance of the portfolio is evaluated and reported to management.
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed.
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair-value basis are measured at FVPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Solely payments of principal and interest (SPPI) criteria

Under IFRS 9, the SPPI test requires that the contractual terms of the financial asset (as a whole) give rise to cash flows that are solely payments of principal and interest on the principal amounts outstanding ie cash flows that are consistent with a basic lending arrangement.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (eg liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (eg non-recourse asset arrangements); and
- features that modify consideration of the time value of money – eg periodical reset of interest rates.

Financial assets at amortised cost

The Bank classifies financial assets at amortised cost where the business model is to hold these assets to collect contractual cash flows and the SPPI criteria has been met.

This category includes sterling debt securities, TFSME, secured lending agreements held at amortised cost and the loans to BEAPFF, BEALF and the CCFF. Assets in this category exclude those reverse repurchase agreements which are designated at fair value through profit or loss.

Financial assets at fair value through profit or loss

A financial asset is mandatorily classified in this category if it is acquired principally for the purpose of selling in the short term, or if it fails the SPPI test.

A financial asset can be classified in this category by choice if so designated by management at inception. This designation is because the relevant assets and liabilities (including derivatives) are managed together and internal reporting is evaluated on a fair-value basis.

The Bank defines fair value as the price, as at the measurement date, that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

The Bank does not currently hold any financial assets for trading but has elected to designate the following at fair value through profit or loss at inception:

- securities and reverse repurchase agreements matching the Bank’s issued foreign currency securities; and

- securities and reverse repurchase agreements matching the fixed-term deposits placed at the Bank by other central banks.

Financial assets at fair value through other comprehensive income

The Bank has made an irrevocable election to designate unlisted equity investments at fair value through other comprehensive income. These are designated at fair value through other comprehensive income as they are not held for trading.

The unlisted equity investments held by the Bank are held as part of its functions as a central bank and are thus of a long-standing nature. It includes the Bank’s investment in the Bank for International Settlements which consists of shares of 5,000 Special Drawing Rights.

ii: Initial recognition of financial assets

All financial assets are initially recognised at fair value plus or minus directly attributable transaction costs. Loans and advances and reverse repurchase agreements designated at fair value through profit or loss are recognised on a settlement-date basis. Purchases of all other categories of financial assets are recognised on a trade-date basis.

iii: Subsequent valuation of financial assets

Gains and losses arising from changes in the fair value of assets classified as fair value through profit or loss are included in the income statement in the period in which they arise.

Gains and losses arising from changes in the fair value of debt instruments classified as fair value through comprehensive income are recognised as other comprehensive income until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised as other comprehensive income is recognised in the income statement. Any premium or discount paid on the purchase of securities held at amortised cost is amortised through the income statement using the effective interest rate method.

The fair values of quoted investments in active markets are based on current bid prices. In other cases, the Bank establishes fair value by using appropriate valuation techniques. The policy for establishing fair values of securities in non-active markets is described in note 3 ‘Significant accounting estimates and judgements in applying accounting policies’ on pages 119–20.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has either transferred substantially all of the risks and rewards of ownership or the Bank deems that it no longer retains control of the risks and rewards of ownership.

The Bank has no modified financial instruments.

iv: Impairment of financial assets

IFRS 9 requires impairment assessment on all of the following financial instruments that are not measured at FVPL, under the expected credit loss model:

- financial assets that are debt instruments measured at amortised cost or FVOCI;

- lease receivables; and

- loan commitments and financial guarantee contracts issued.

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month Expected Credit Loss (ECL) or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date. Under IFRS 9, no impairment loss is recognised on equity investments.

The term 'expected credit loss' does not imply that losses are anticipated, rather that there is recognition of the potential risk of loss.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and are measured as follows:

- on financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – ie the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive; and

- on financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows.

Definition of default

Under IFRS 9, the Bank will consider a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held).

Significant increase in credit risk

Under IFRS 9, when determining whether the credit risk (ie risk of default) on a financial instrument has increased significantly since initial recognition, the Bank will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's historical experience, expert credit assessment and forward-looking information.

The Bank has established a framework that incorporates both quantitative and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework aligns with the Bank's internal credit risk management process, which keeps the creditworthiness of counterparties under review, and would highlight any counterparty that showed indications of a significant increase in credit risk.

Impairment under IFRS 9 adopts a staging approach. When a new asset is originated it is classified as Stage 1 (normal origination). Moving from Stage 1 to Stage 2 is a judgement based on management defined criteria of whether there is a significant increase in or absolute amount of credit risk (note 3). Staging determines whether 12-month ECL (Stage 1) or lifetime ECL (Stage 2 and 3) is applicable. If the indicators of significant increase in credit risk are no longer present then the asset returns from Stage 2 to Stage 1. The move from Stage 2 to Stage 3 is based upon 'default'. If an asset ceases to be 'defaulted' then it will return to Stage 2. Staging and cure (being no longer in default) is assessed using the Bank's internal credit rating framework.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL and lifetime ECL measurements.

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are the term structures of the following variables:

- probability of default (PD);
- exposure at default (EAD); and

- loss given default (LGD).

PD estimates are based on a mix of internally compiled data, rating agency outputs and expert judgement, comprising both quantitative and qualitative factors. The calculation is provided by Financial Risk and Resilience Division (FRRD) and relates to the credit risk rating scale provided by the Financial Risk Management Division (FRMD).

EAD is the magnitude of the exposure if there is a default. The Bank derives EAD parameters based on the risk characteristics of the collateral used for loans, and considering the potential for changes in the value of that collateral from the point of lending until the collateral could be liquidated post-default.

LGD is the proportion of an exposure that is lost as a result of a counterparty default.

Forward-looking information

IFRS 9 Financial Instruments requires that in determining the Expected Credit Loss, estimates of forward-looking macroeconomic factors are incorporated in multiple scenarios about the future economy. The Bank formulates a base case view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios and consideration of a variety of external actual and forecast information, taking into account management's current assessment of the possible impacts of Covid. This process involves developing four different economic scenarios, which represent a range of scenarios linked to economic variables such as house prices and interest rates. The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments, choosing scenarios that specifically test the resilience of the Bank to financial stress.

ECL calculation

Expected credit losses are calculated by identifying scenarios in which a loan or receivable defaults, estimating the cash shortfall that would be incurred and then multiplying that loss by the probability of the default happening.

When an ECL is identified, the carrying amount of the asset would be reduced and the amount of ECL is recognised in the income statement. At 28 February 2023 the Bank recognised an ECL provision less than £1mn (2022: less than £1mn).

Financial instruments: liabilities

i: Classification of financial liabilities

The Bank classifies its financial liabilities in the following categories: liabilities measured at amortised cost and financial liabilities at fair value through profit and loss.

Liabilities measured at amortised cost

Short-term customer deposits held are carried at cost with interest expense accruing on an effective interest rate basis. Cash Ratio Deposits are taken to fund certain activities of the Bank in accordance with the Bank of England Act 1998. These deposits are held at cost and are interest free. Money market instruments are carried at cost and are issued at a discount which is amortised through the income statement on an effective interest rate basis.

Financial liabilities at fair value through profit or loss

The Bank designates the following financial liabilities at fair value through profit or loss:

- commercial paper with tenor not less than one day or more than 364 days denominated in non-sterling currencies;
- three-year bonds denominated in US dollars, which were issued as part of the Bank's annual medium-term issuance programme; and
- fixed-term deposits placed by other central banks.

This designation is to eliminate, or significantly reduce, inconsistencies that would otherwise arise from measuring assets and liabilities on different bases. The relevant assets and liabilities (including derivatives) are managed together and internal reporting is evaluated on a fair-value basis.

ii: Initial recognition of financial liabilities

Fixed-term deposits taken from central banks are recognised on a settlement-date basis. Money market instruments issued, short-term deposits, commercial paper issued and bonds issued by the Bank are recognised on a trade-date basis.

iii: Subsequent valuation of financial liabilities

Gains and losses arising from changes in the fair value of liabilities classified at fair value through profit or loss are included in the income statement in the period in which they arise.

The fair values of quoted financial liabilities are based on current offer prices, as this is considered to be the price that would be paid to transfer a liability in an orderly transaction between market participants.

Financial liabilities are derecognised when the obligation to pay cash flows relating to the financial liabilities has expired. If the Bank buys any of its own securities as part of its operations, these are removed from the balance sheet.

Collateral pledged under sale and repurchase agreements

Securities sold subject to repurchase agreements are assets provided as collateral where the transferee has the right by contract or custom to sell the collateral. These securities remain on the balance sheet and the liability is included in deposits from banks and other financial institutions. Securities purchased under agreements to resell ('reverse repurchase agreements') are not recognised on the balance sheet; the payment to buy the securities is included in loans and advances to banks and other financial institutions. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements.

Securities loaned to counterparties also remain on the balance sheet. Securities borrowed are not recognised on the balance sheet, unless they are sold to third parties, in which case the obligation to return the securities is recorded at fair value as a liability.

The Bank may accept its own securities as collateral for reverse repurchase agreements. Such reverse repurchase transactions are treated as collateralised and are treated in the same way as other reverse repurchase transactions.

7: Cash and balances with other central banks

	Note	2023 (£mn)	2022 (£mn)
Cash and balances with other central banks	22	6,406	708
		6,406	**708**

Cash and balances with other central banks are held in correspondent accounts used for Bank and customer business.

8: Loans and advances to banks and other financial institutions

	2023 (£mn)	2022 (£mn)
Secured lending agreements held at amortised cost	2,850	536
Reverse repurchase agreements held at fair value through profit and loss	9,431	10,322
Other loans and advances	1	1
Term Funding scheme with additional incentives for Small and Medium-sized Enterprises (TFSME) loans	180,502	192,360
	192,784	**203,219**

These balances include advances, secured lending and reverse repurchase agreements arising as part of the Bank's open market operations, as well as advances matching the deposits taken (notes 10 to 12).

The level and composition of the Bank's open market operations depends on movements in the Bank's balance sheet as detailed on the web pages of the Bank of England Market Operations Guide.[27]

Accrued interest on secured lending agreements held at amortised cost is recognised in note 31 'Other assets'.

At 28 February 2023 loans and advances to banks and other financial institutions included cash and cash equivalents of £4,738mn (2022: £4,764mn) which are disclosed in note 22.

Term Funding scheme with additional incentives for SMEs

In March 2020, the Bank's policy committees announced a comprehensive package of measures to help UK businesses and households manage the economic disruption caused by the Covid virus. Part of this package involved the launch of the Term Funding scheme with additional incentives for SMEs (TFSME).

The TFSME is designed to:

- help reinforce the transmission of the reduction in Bank Rate to the real economy to ensure that businesses and households benefit from the MPC's actions;
- provide participants with a cost-effective source of funding to support additional lending to the real economy, providing insurance against adverse conditions in bank funding markets;

27. www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide.

- incentivise banks to provide credit to businesses and households to bridge through a period of economic disruption; and

- provide additional incentives for banks to support lending to SMEs that typically bear the brunt of contractions in the supply of credit during periods of heightened risk aversion and economic downturns.

The drawdown period ran until 31 October 2021, or 30 April 2021 for participants which opted out of the TFSME extension. The term of each transaction is for four years from the date of drawdown. Participants in a TFSME Group that contains one or more accredited lenders under the British Business Bank's Bounce Back Loan Scheme (BBLS) will be able to extend the term of some transactions to align with the term of loans made through the BBLS. Participants may terminate any transaction, in part or in full, before its maturity date. The Bank charges interest on TFSME transactions equal to Bank Rate plus a scheme fee. The fee is determined based on the net lending of each participant over the reference period of the scheme. This fee ranges from 0 basis points to 25 basis points. The reference period ran from 31 December 2019 to 30 June 2021, or 31 December 2020 for participants which opted out of the TFSME extension. TFSME scheme fees arising on lending are recognised as income on an accruals basis.

TFSME income reflects Bank Rate on TFSME loans and £1.4mn (2022: £5.5mn) scheme fees receivable in the year. TFSME scheme fees are retained by the Bank as income.

Accrued interest for TFSME is disclosed in note 31 'Other assets'.

9: Other loans and advances

	Note	2023 (£mn)	2022 (£mn)
Loan to the Bank of England Asset Purchase Facility Fund Ltd	27b	843,736	894,947
Loan to the Covid Corporate Financing Facility Ltd	27b	–	1,079
Term loans		1	3
Deposit with Bank of England Alternative Liquidity Facility Ltd	27b	60	105
		843,797	**896,134**

Loan to the Bank of England Asset Purchase Facility Fund Ltd

In January 2009, the Chancellor of the Exchequer authorised the Bank to set up an Asset Purchase Facility (APF) to buy high-quality assets financed by the issue of Treasury bills. The aim of the APF was to improve liquidity in credit markets. The Chancellor also announced that the APF provided an additional tool that the Monetary Policy Committee (MPC) could use for monetary policy purposes. When the APF is used for monetary policy purposes, purchases of assets are financed by the creation of central bank reserves.

The APF transactions are undertaken by a subsidiary company of the Bank of England – the Bank of England Asset Purchase Facility Fund Limited (BEAPFF). The transactions are funded by a loan from the Bank.

The unwind of monetary policy asset purchases commenced in February 2022 when the MPC voted to cease reinvesting the proceeds of maturing gilts and corporate bonds. During the year the MPC also voted to begin sales of the corporate bond and gilt from the APF to support the MPC's monetary policy remit. The Bank commenced its programme of corporate bond sales in September 2022 and gilt sales in November 2022. Consequently BEAPFF has commenced partial repayment of the loan from the Bank in March 2022.

The loan amount excluding accrued interest due from BEAPFF as at 28 February 2023 is £843.7bn (2022: £894.9bn).

Accrued interest of £2.5bn on the loan is recognised in note 31 'Other assets'.

Loan to the Covid Corporate Financing Facility Ltd (CCFF)

On 17 March 2020, HM Treasury announced a number of measures designed to support public services, people and businesses through the period of disruption caused by Covid. Within that overall package, the CCFF facility was designed to support liquidity among larger firms, helping them to bridge Covid-related disruption to their cash flows through the purchase of short-term debt in the form of commercial paper.

The CCFF was operated by the Bank of England on behalf of HM Treasury. The Bank acts as the agent of the CCFF for all commercial paper purchases, following eligibility guidelines as agreed with HM Treasury. HM Treasury, as the ultimate risk-owner of the CCFF, held the final decision on whether an issuer is eligible to use the facility. The CCFF is a wholly owned subsidiary of the Bank of England and it's transactions were funded by a loan from the Bank.

The final commercial paper balances owed to the CCFF were repaid in March 2022, and the loan to the Bank excluding accrued interest was repaid at this time. As such the outstanding loan balance as at 28 February 2023 was £nil (2022: £1.1bn). The CCFF fully repaid the accrued interest on the loan in May 2022. The outstanding balance at 28 February 2023 was £nil (2022: £19mn). The CCFF was placed in solvent liquidation in October 2022.

10: Deposits from central banks

	2023 (£mn)	2022 (£mn)
Deposits repayable on demand	4,001	5,855
Term deposits held at fair value through profit and loss	13,532	24,884
	17,533	**30,739**

Term deposits held at fair value through profit and loss largely constitutes deposits the Bank accepts from its central bank customers to support sterling as a global reserve currency and to support the reserve management requirements of other central banks. Funds are placed on a secured basis.

Accrued interest on deposits repayable on demand is recognised within ‘Short-term creditors and other liabilities’ in note 32 ‘Other liabilities’.

11: Deposits from banks and other financial institutions

	2023 (£mn)	2022 (£mn)
Deposits repayable on demand	913,168	971,141
Repurchase agreements	–	216
	913,168	**971,357**

Accrued interest on deposits repayable is recognised within ‘Short-term creditors and other liabilities’ in note 32 ‘Other liabilities’.

The majority of deposits repayable on demand comprises reserves accounts held at the Bank. Reserves accounts are sterling current accounts for banks and building societies. They are the most liquid asset a bank or building society can hold and are the ultimate means of settlement between banks and building societies.

The rate paid by the Bank on reserves account balances is also the means by which the Bank keeps market interest rates in line with Bank Rate. All reserves balances are remunerated at Bank Rate.

12: Other deposits

	2023 (£mn)	2022 (£mn)
Deposit by Issue Department	84,261	82,387
Public deposits repayable on demand	4,347	12,919
Other deposits repayable on demand	18,329	7,025
	106,937	**102,331**

Public deposits are the balances on HM Government accounts, including Exchequer, National Loans Fund, Debt Management Office (DMO), National Debt Commissioners and dividend accounts.

Other deposits repayable on demand comprises of the BEAPFF cash deposit of £17.8bn (2022: £6.3bn) in note 27 ‘Related parties’ and other customer deposits.

Accrued interest on other deposits is recognised within ‘Short-term creditors and other liabilities’ in note 32 ‘Other liabilities’.

Foreign exchange reserves

13: Securities held at fair value through profit or loss

	2023 (£mn)	2022 (£mn)
Money market instruments	422	6,476
Listed foreign government securities	4,771	3,493
	5,193	**9,969**

The holdings of foreign government securities are funded by the Bank's issuance of foreign currency commercial paper (note 14), medium-term securities (note 15) and fixed-term deposits held at fair value through profit and loss (FVPL) placed by other central banks (note 10). Designation at FVPL is to eliminate, or significantly reduce, inconsistencies that would otherwise arise from measuring assets and liabilities on different bases. The relevant assets and liabilities (including derivatives) are managed together and internal reporting is evaluated on a fair value basis.

At 28 February 2023 money market instruments included cash and cash equivalents of £nil (2022: £2.0bn) which are disclosed in note 22 'Cash and cash equivalents'.

14: Foreign currency commercial paper in issue

In September 2021 the Bank announced the issuance of short-term securities to support balance sheet management practices of foreign exchange reserves.[28] The tenor of the Notes shall be not less than one day or more than 364 days from and including the date of issue, to (but excluding) the maturity date.

	2023				2022(1)			
	Fair value (£mn)	Nominal (US$mn)	Fair value (£mn)	Nominal (EUR €mn)	Fair value (£mn)	Nominal (US$mn)	Fair value (£mn)	Nominal (EUR €mn)
Total amounts issued to third parties	4,433	5,474	1,165	1,350	2,713	3,646	–	–

(1) As at 28 February 2022, all foreign currency commercial paper denominated in euro and issued during the prior year had fully matured.

28. www.bankofengland.co.uk/markets/market-notices/2021/september/foreign-currency-reserves-september-2021-market-notice.

15: Foreign currency bonds in issue

	2023		2022	
	Fair value (£mn)	Nominal (US$mn)	Fair value (£mn)	Nominal (US$mn)
Total amounts issued to third parties	6,447	8,000	2,936	4,000

The Bank's foreign exchange reserves can be used by the Bank to intervene in the foreign exchange market in pursuit of its monetary policy objectives. This was set out in the Monetary Policy Framework[29] introduced by the Government in 1997. Discussion of the Bank of England's foreign exchange reserves is included in the 2011 Q3 Quarterly Bulletin,[30] page 194.

At 28 February 2023, as part of the Bank's annual medium-term security issuance programme, the Bank had four US$2,000mn three-year dollar bonds in issue (2022: two US$2,000mn three-year dollar bonds); the first maturing on 28 April 2023, the second on 8 March 2024, the third on 21 March 2025 and the fourth on 6 March 2026.

The most recent bond (the 17th in the overall programme) was issued on 28 February 2023 with settlement on 7 March 2023. This bond matures on 6 March 2026. Refer to the Foreign Currency Reserves 2023 Market Notice[31] for further details of the issuance.

Of the above liabilities to third parties, £1,644mn (2022: £nil) fall due within one year.

29. www.bankofengland.co.uk/-/media/boe/files/letter/1997/chancellor-letter-060597.
30. www.bankofengland.co.uk/-/media/boe/files/quarterly-bulletin/2011/markets-and-operations-2011-q3.pdf.
31. www.bankofengland.co.uk/markets/market-notices/2023/february/foreign-currency-reserves-28-february-2023-market-notice.

Section 4: Investments, capital management, funding and risk management

This section analyses the financial assets and liabilities held by the Bank to fund its activities.

The Bank is funded in a variety of ways which are described in more detail in the Financial Review section of the report (pages 40–51).

Under the Cash Ratio Deposit (CRD) scheme, institutions place non-interest bearing deposits at the Bank of England, as reported in note 18.

The Bank invests these deposits (mainly in gilts), as reported in note 16, and the income earned is used to fund the costs of its monetary policy and financial stability operations, which benefit sterling deposit-takers.

Under the Bank of England Act 1998, the percentage and threshold used in calculating the CRDs is set by HM Treasury, after considering the financial needs of the Bank and subject to approval of both Houses of Parliament. This is reviewed, at the latest, every five years and was last reviewed in May 2018. See Cash Ratio Deposit scheme section on page 41 for detail on future developments in respect of the scheme.

The PRA is funded through a levy, further details can be found in the PRA statements (pages 203–12).

Accounting policies

Debt securities

British Government securities and other sterling securities are held as investments and are one of the principal sources of income for the Bank. The Bank holds these securities for the long term, generally to maturity. All debt securities have fixed coupons.

See Section 3 for accounting policies on financial assets.

Indemnified operations

The Bank may enter into arrangements where it is fully protected, without charge, from loss by HM Treasury. Surpluses from such indemnified operations, after the deduction of fees, operating costs and tax, are treated as a capital contribution and taken directly to equity as distributable reserves.

BEAPFF's operations are fully indemnified for loss by HM Treasury and any surplus for these operations is due to HM Treasury.

The CCFF was operated by the Bank of England on behalf of HM Treasury. The CCFF's operations were fully indemnified for loss by HM Treasury, with any surplus for these operations due to HM Treasury. The CCFF entered solvent liquidation in October 2022.

16: Securities held at amortised cost

	2023 (£mn)	2022 (£mn)
British Government securities listed on UK exchange	16,619	15,959
	16,619	**15,959**

	2023 (£mn)	2022 (£mn)
At 1 March	15,959	13,060
Purchases	2,226	3,835
Redemptions	(1,463)	(806)
Amortisation of premium/discount and movement in accrued interest	(103)	(130)
At 28 February	**16,619**	**15,959**

Securities held at amortised cost relate to the Cash Ratio Deposit (CRD) scheme and the Bank's free capital and reserves. Under the CRD scheme, institutions place non-interest bearing deposits at the Bank of England, as reported in note 18. The Bank invests these deposits (mainly in gilts) and the income earned is used to fund the costs of its monetary policy and financial stability operations, which benefit sterling deposit-takers.

Items in the course of settlement for securities held at amortised cost at the year ended 28 February 2023 were £nil (2022: £nil). The cash purchases for the year are £2,226mn (2022: £3,895mn).

Income recognised in the year ended 28 February 2023 for the Bank's securities held at amortised cost was £213mn (2022: £191mn). In the current and prior year this comprises interest income and purchase premium amortisation.

Accounting policies

Unlisted equity investments

The unlisted equity investments held by the Bank are held as part of its functions as a central bank and are thus of a long-standing nature. The Bank's holdings in any particular institution may change from time to time as part of realignments of holdings among the shareholders and participants.

Fair values of unlisted equity investments reflect the price that a knowledgeable willing party would pay in an arm's length transaction.

The Bank's investment in the Bank for International Settlements (BIS) (incorporated in Switzerland) consists of shares of 5,000 Special Drawing Rights (SDR), which are 25% paid. At 28 February 2023 the holding represents 8.4% (2022: 8.4%) of the issued share capital.

The investment has been valued based on the adjusted net asset value basis providing a value of £1,495mn (2022: £1,420mn).

The fair value of the BIS shares is estimated to be 70% of the Bank's interest in the net asset value of the BIS at the reporting date. The 30% discount to net asset value is based on the discount rate used by the BIS for all share repurchases since the 1970s and was further endorsed by a decision by the International Court at the Hague relating to the last share repurchase conducted by the BIS (in 2001). The Bank's financial statements incorporates the most recently available data from the BIS. The Bank expects the value of the BIS shares to fluctuate over time in conjunction with the strength of the BIS balance sheet and exchange rates. If the value of the net assets of the BIS changed by 1%, the value of the investments would change by £15mn (2022: £14mn).

Since 1930 there has also been an amount in respect of uncalled capital on the Bank's investment in the BIS, now denominated in Special Drawing Rights. The sterling equivalent of this amount based on the SDR price at the balance sheet date was £197mn (2022: £186mn). The balance of £197mn is callable at three months' notice by a decision of the BIS Board of Directors. As this amount has not been called since being established in 1930, it is considered a remote possibility, and so is not considered or disclosed as a contingent liability, in line with IAS 37. Any foreign currency gains or losses are taken to the statement of other comprehensive income in the year when they have arisen.

17: Unlisted equity investments at fair value

	2023 (£mn)	2022 (£mn)
Unlisted equity investments at fair value	1,495	1,420
	1,495	**1,420**

	2023 (£mn)	2022 (£mn)
At 1 March	1,420	1,381
Revaluation of securities	(3)	29
Foreign currency gains	78	10
At 28 February	**1,495**	**1,420**

18: Cash Ratio Deposits

	2023 (£mn)	2022 (£mn)
Cash Ratio Deposits	13,417	13,043
	13,417	**13,043**

Under the Cash Ratio Deposit (CRD) scheme, institutions place non-interest bearing deposits at the Bank. The Bank invests these deposits (mainly in gilts) and the income earned is used to fund the costs of its monetary policy and financial stability operations, which benefit sterling deposit-takers.

As part of the Financial Services and Markets Bill 2022 legislation has been included to replace the CRD scheme with the Bank of England Levy. This proposal is the outcome of the latest review of the CRD scheme which found that despite recent increases in gilt yields, income on CRD investments continues to fall short of policy expenditure, and will not result in policy income and expenditure breaking even.

19: Capital and retained earnings

	2023 (£mn)	2022 (£mn)
Capital	15	15
Capital reserve and other reserves	1,209	1,200
Retained earnings	2,940	3,304
	4,164	**4,519**

The entire capital comprising £14,553,000 of Bank Stock is held by the Treasury Solicitor on behalf of HM Treasury. The Bank uses these funds to support its normal operations. The agreed capital framework between the Bank and HM Treasury states that Banking Department profits payable to HM Treasury will be determined by the level of loss-absorbing capital held by the Bank and where this sits within a set of parameters.[32]

20: Derivative financial instruments

Accounting policies

Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, or valuation techniques such as discounted cash-flow models. Generally the best evidence of the fair value of a derivative at initial recognition is the transaction price (ie the fair value of the consideration given or received). All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivatives are used for matching exposures on assets and liabilities, both individually and of portfolios. The Bank does not apply the hedge accounting rules of IFRS 9.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a current and legally enforceable right to offset the amounts recognised and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

32. For more details on these, see **www.bankofengland.co.uk/-/media/boe/files/memoranda-of-understanding/financial-relationship-between-hmt-and-the-boe-memorandum-of-understanding.pdf**.

The Bank mainly uses derivatives to manage the currency and interest rate exposures on its portfolio of financial assets and financial liabilities. They may also be used as an instrument in monetary policy transactions.

Cross-currency interest rate swaps, interest rate swaps and forward exchange contracts are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or coupons (eg fixed rate for floating rate) or a combination of these. An exchange of principal occurs for cross-currency interest rate swaps and forward exchange contracts. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligations. The risk is monitored on an ongoing basis with reference to the current fair value. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities and will take collateral, either securities or cash, if the net replacement cost of all transactions with the counterparty exceeds relevant thresholds.

The notional amounts of derivative financial instruments provide a basis for comparison with other instruments recognised in the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and therefore do not indicate the Bank's exposure to credit or price risks. The derivative instruments move into profit (in which case they are treated as assets) or loss (in which case they are treated as liabilities) as a result of fluctuations in market prices relative to their terms. The aggregate contractual or notional amount of derivative financial instruments outstanding, the extent to which instruments have moved into profit or not, and thus the aggregate fair values of derivative financial instruments, can fluctuate significantly over time. The fair values of derivative instruments are set out below.

a: As at 28 February 2023

	Contract notional amount (£mn)	Fair values Assets (£mn)	Fair values Liabilities (£mn)
Cross-currency interest rate swaps	4,909	341	(63)
Interest rate swap	2,642	1	(6)
Forward exchange contracts	11,484	151	(114)
Total recognised derivative assets/(liabilities)		**493**	**(183)**

b: As at 28 February 2022

	Contract notional amount (£mn)	Fair values Assets (£mn)	Fair values Liabilities (£mn)
Cross-currency interest rate swaps	2,865	73	(83)
Interest rate swaps(1)	279	–	–
Forward exchange contracts	16,905	281	(14)
Total recognised derivative assets/(liabilities)		**354**	**(97)**

(1) As at 28 February 2022, the fair values of interest rate swaps assets and liabilities were £244,436 and £67,797 respectively.

The net movement on derivatives in the year is £53mn from a net asset position of £257mn as at 28 February 2022 to £310mn as at 28 February 2023 (2022: movement of £442mn from a net liability position of £185mn as at 28 February 2021 to a net asset position of £257mn as at 28 February 2022).

21: Financial risk management

The Bank is required to manage the financial risks that arise on its balance sheet and as a consequence of its operations to deliver its policy objectives. These include credit risk, market risk and liquidity risk.

The Bank's management seeks to ensure that effective risk management processes exist for assessing, managing and monitoring risk, within clear risk policies. There are governance arrangements set out in a Balance Sheet Remit and financial risk standards (approved by the Executive Risk Committee) and documented delegated authorities for implementation of financial risk management and oversight of the Bank's operations. The financial risk standards also set out how the Bank's financial risk tolerance is translated into practice through a cross-balance sheet set of limits and monitoring thresholds, which delineate the Bank's usual risk levels. These are review points beyond which an active decision is required that the extra risk is justified by the expected policy benefits.

The Bank applies fundamentally the same risk management policies for off balance sheet risks as it does for its on balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances.

Specialist teams and committees support senior management in ensuring that agreed standards and policies are followed:

- The Financial Risk Management Division (FRMD) within the Bank's Markets Directorate is responsible for analysing the financial risks faced by the Bank in its operations in financial markets, and exercising control on financial risks as they are taken through those operations.

- The Financial Risk and Resilience Division (FRRD) is responsible for providing forward-looking assessment and challenge of financial risks to the Bank's balance sheet across all its financial operations, and for setting the framework within which financial risk is taken.

- Middle Office is responsible for the pricing, valuation and financial control of exposures and collateral positions arising from the Bank's market operations, including counterparty and instrument management.

The Bank makes extensive use of stress tests to assess financial risk across its balance sheet. These stress tests are designed by FRRD to test the Bank's ability to withstand severe but plausible scenarios, and cover credit, market and liquidity risks.

Key risk features captured by the stress tests include (but may not be limited to):

- Potential expansion of the Bank's balance sheet in a stress eg through additional liquidity provision;

- Rating migration and potential default of counterparties;

- Shocks on asset prices, both where the Bank has positions on its balance sheet, and where these assets are held as collateral.

The stress tests applied to the Bank's own balance sheet are calibrated such that they are suitably severe – at least as severe as the FPC's and PRC's annual concurrent banking stress test, given the Bank's role as lender of last resort. For credit risk, the Bank uses a stressed Exposure at Default (EAD) metric to measure the potential financial loss that could be incurred in the event of counterparty default, net of collateral held, where that collateral is also stressed. The same exposure measurement methodology is used for IFRS 9 expected credit loss assessment, but calibrated for a range of different economic scenarios. For market risk, the Bank uses a stressed loss metric to measure the potential mark-to-market losses from shocks to asset prices.

The stress tests used by the Bank are reviewed periodically by internal committees, to continue to capture key risk drivers of the balance sheet and current market conditions, as well as potential future risks that could arise due to changing economic outlooks.

This forward-looking view is embedded in the financial framework agreed between HM Treasury and the Bank in June 2018 and codified into a Memorandum of Understanding (MoU).[33] Its objective is to ensure that the Bank has the financial resources needed to undertake the financial operations necessary to deliver its objectives even under severe but plausible scenarios. The MoU sets out the principles underpinning which types of operations would be backed by the Bank's own capital, and the types of operations for which the Bank may request an indemnity from HM Treasury:

Principle 1 – Purpose of Bank capital: operations that lie within the Bank's objectives of maintaining monetary and financial stability should be backed by its own capital, unless those operations bear a level of risk beyond the tolerance approved by Governors and Court.

Principle 2 – Nature of operations backed by capital: consistent with Principle 1 above, the following types of operations should be backed by capital:

- secured lending in line with the Bank's published frameworks, including against eligible collateral; and

- asset purchase operations to support conventional monetary policy implementation, the Bank's official customer business or the funding of the Bank.

33. www.bankofengland.co.uk/-/media/boe/files/memoranda-of-understanding/financial-relationship-between-hmt-and-the-boe-memorandum-of-understanding.pdf.

Principle 3 – Size of operations backed by capital: the actual level of the Bank's loss-absorbing capital at any point in time should allow it to continue to undertake the operations under Principle 2, both in normal market and liquidity conditions and under a set of severe but plausible scenarios, without falling below the capital floor. These scenarios are approved by Governors and Court.

Principle 4 – Other operations: The financial backing for other operations, including those covered under the 'Memorandum of Understanding on resolution planning and financial crisis management', unconventional monetary policy asset purchases and Market Maker of Last Resort operations should be assessed on a case-by-case basis. The presumption is that such operations would only be backed by the Bank's capital where the resultant exposures do not exceed the Bank's loss-absorbing capital, when (i) evaluated according to the set of severe but plausible scenarios agreed by Governors and Court and (ii) added to the Bank's existing commitments described in Principles 1–3.

a: Credit risk

Credit risk is the risk of loss arising from the failure of a borrower, issuer, counterparty or customer to meet its financial obligations to the Bank. The Bank is exposed to credit risk both through direct exposures and contingent exposures. Credit exposure can arise from (i) operations implementing monetary or financial stability policy, (ii) the management of the Bank's balance sheet, or (iii) contingently as part of an insurance contract. Insurance contracts can be used to mitigate exposures arising in several areas, including but not necessarily restricted to buildings, motor vehicles and other property of the Bank, as well as contingent exposures related to banknote issuance and circulation activities.

The primary source of credit risk arises as a result of the Bank providing liquidity to financial institutions via the Term Funding scheme with additional incentives for SMEs,[34] and Sterling Monetary Framework; intraday in the Bank's provision of liquidity to facilitate the operation of the sterling high-value payment system (CHAPS) and the securities settlement system, CREST; and elsewhere in the Bank's management of its balance sheet, for example in the investment of the Bank's own funds and in the course of the banking services it provides to its customers. In addition, the Bank incurs credit risk in connection with any support operations it may undertake.

Credit exposures (measured using a stressed EAD metric) are controlled by a system of limits and monitoring thresholds based on internal credit ratings, which apply to all credit exposures across the balance sheet. Limits and monitoring thresholds exist to control the

34. Two other schemes (the Funding for Lending Scheme and the Term Funding Scheme) had balances outstanding during the prior year but were fully repaid by 28 February 2022.

maximum credit exposures to a single counterparty group, as well as aggregate exposure to individual countries.

Credit assessments are performed on all market counterparties, issuers and customers to which the Bank may be exposed. These are performed both regularly, following a timetable that reflects the risk of the actual or potential exposure, and dynamically, in response to market or specific entity conditions.

Internal committees, chaired by the Head of FRMD, review the creditworthiness of issuers, counterparties and customers to whom the Bank may have credit exposures. These committees are supported by a credit risk analysis team. Counterparty ratings are recommended by Head of FRMD with the Head of FRRD given an opportunity to challenge the rating recommendations. The final ratings are then sent to Middle Office for implementation.

Credit risk on the securities held outright by the Bank is managed by holding only securities internally rated as equivalent to investment-grade in routine circumstances, which are issued chiefly by governments, government agencies and supranational organisations; and by a schedule of credit limits that vary based on internal rating.

Collateral management

In providing short-term liquidity via the Bank's Sterling Monetary Framework operations and, intraday, via the Bank's operation of wholesale payment systems, credit risk is mitigated by ensuring that exposures are fully collateralised (with appropriate haircuts) by securities, which are issued chiefly by governments, government agencies and supranational organisations, which meet the Bank's minimum standards of liquidity and credit risk. The new Short-Term Repo facility, which became operational in October 2022, is collateralised by the same highly liquid securities.

In the Bank's Indexed Long-Term Repo Operations, Discount Window Facility, Contingent Term Repo Facility and Term Funding scheme with additional incentives for SMEs, the Bank accepts a wide range of private sector collateral. The collateral can include mortgage-backed securities, covered bonds backed by mortgages or public sector securities, other asset-backed securities (such as those backed by credit card receivables, student loans or auto loans), or portfolios of loans in unsecuritised form. The collateral must meet published eligibility criteria. In the case of the Temporary Expanded Collateral Repo Facility which operated between 10 October and 10 November 2022, the eligible collateral range was expanded to include a broader range of non-financial corporate bonds.

A summary of eligible collateral, including which collateral is eligible for which facility, can be found on the Bank's website.

The Bank manages the risk in this wider collateral portfolio by applying haircuts to take account of market risk, liquidity risk, credit risk, and all other material risks to the realisable value of the collateral. The usual level of protection targeted through haircuts is at least a 99% level of confidence that, in the event of a counterparty default, the value of the collateral will be sufficient to cover the outstanding amount owed to the Bank, even in stressed scenarios. The Bank may vary haircuts at its discretion, including on individual securities.

The Bank values securities daily and calls for additional collateral where the haircut-adjusted value is less than the value of its exposure. Where possible the Bank uses a market price to value securities; where a market price is not available the Bank uses a model to approximate a market value. The pricing methodologies and the models are under regular review, including via a Valuation Review Committee, chaired by the Head of Middle Office.

A Collateral Risk Committee, chaired by the Head of FRMD, reviews issues relating to the full range of collateral and considers policy issues relating to stress testing, valuation and eligibility of collateral including in response to market or entity-specific conditions. It also reviews eligibility of a counterparty to pledge portfolios of loans as collateral, based on an assessment of the firm's risk management policies, and also reviews eligibility of individual portfolios.

Models used for pricing and for calculating haircuts are independently reviewed and validated by FRRD.

Geographical concentration of assets and liabilities

The Bank undertakes its operations in the United Kingdom. It does, however, accept deposits from overseas central banks. An analysis of the Bank's assets and liabilities by geographical area, based upon the location of the counterparty, is given below:

	2023 (£mn)	2022 (£mn)
Assets		
United Kingdom	1,052,623	1,109,795
Rest of Europe	13,073	12,898
Rest of the world	8,240	7,663
Total assets	**1,073,936**	**1,130,356**

	2023 (£mn)	2022 (£mn)
Liabilities and equity		
United Kingdom	1,050,769	1,086,176
Rest of Europe	8,207	24,774
Rest of the world	14,960	19,406
Total liabilities and equity	**1,073,936**	**1,130,356**

b: Market risk

Market risk is defined as the risk of losses arising from movements in market prices. The risks which give rise to market risk include, but are not limited to, interest rate risk and foreign exchange risk. The Bank is exposed to market risk as a consequence of its operations to deliver its policy objectives and, in the course of managing the Bank's balance sheet, principally through changes in the relative interest rates received on its assets and paid on its liabilities. Limited exposure may also be incurred due to changes in exchange rates and to changes in the liquidity of asset markets.

Market risk on the Bank's balance sheet is controlled by a system of limits and monitoring thresholds based on stress testing. Limits and monitoring thresholds control the maximum mark-to-market loss that the Bank would sustain under severe scenarios. The scenarios capture the key market risks that the Bank is exposed to: interest rate risks (including basis risks) and foreign exchange risk.

Interest rate risk

The Bank is exposed to sterling interest rate risk through the investment of the Bank's capital and Cash Ratio Deposits in high-quality securities in the sterling bond portfolio. These are bought and, in normal circumstances, held to maturity with the intention of maintaining the value of the Bank's capital and generating income to pay for the Bank's policy functions. The Bank monitors the market risk on the Sterling Bond Portfolio, via stress testing.

The Bank has a small exposure to foreign currency interest rate risk through its foreign currency operations.

Foreign exchange risk

The majority of the foreign currency exposures are hedged for interest rate risk and FX risk to match the Bank's FX liabilities, mainly through the use of foreign exchange contracts, interest rate and cross-currency swaps. The Bank has no significant net foreign currency exposures.

c: Liquidity risk

Liquidity risk is the risk of encountering difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

For sterling, liquidity risk does not arise as the Bank is able to create sterling liquidity through its market operations.

For foreign currency, in addition to holding appropriate cash balances, the Bank manages liquidity through cash-flow matching and the use of forward exchange contracts and currency swaps; the Bank also holds a portfolio of liquid foreign exchange reserves.

The Bank's Balance Sheet Remit, Financial Risk Standards and supporting policies specify parameters to control exposure to foreign currency liquidity risk. These include limits on cash flow and maturity mismatches, and for bond holdings, minimum issue size and concentration limits.

The following tables analyse the Bank's foreign currency financial assets and liabilities at the balance sheet dates into relevant maturity groupings based on the remaining period to the contractual maturity date. These cash flows have not been discounted.

Foreign currency liquidity risk

	Up to 1 month (£mn)	1–3 months (£mn)	3–12 months (£mn)	1–5 years (£mn)	Over 5 years (£mn)	Total (£mn)
As at 28 February 2023						
Assets						
Cash and balances with other central banks	6,405	–	–	–	–	6,405
Loans and advances to banks and other financial institutions	2,318	3,933	3,286	–	–	9,537
Securities held at fair value through profit and loss	418	270	600	4,235	–	5,523
Derivative financial instruments:						
Cash inflow	2,344	4,716	1,026	1,193	–	9,279
Cash outflow	(2,333)	(4,682)	(971)	(1,101)	–	(9,087)
Other assets	–	–	–	–	–	–
Total assets	**9,152**	**4,237**	**3,941**	**4,327**	**–**	**21,657**
Liabilities						
Deposits from central banks	1,946	5,876	456	–	–	8,278
Deposits from banks and other financial institutions	–	–	–	–	–	–
Other deposits	145	–	–	–	–	145
Foreign currency commercial paper in issue	1,395	1,473	2,835	–	–	5,703
Foreign currency bonds in issue	–	1,652	–	4,955	–	6,607
Derivative financial instruments:						
Cash inflow	(1,458)	(3,681)	(273)	(1,616)	–	(7,028)
Cash outflow	1,874	4,408	248	1,306	–	7,836
Other liabilities	–	–	–	–	–	–
Total liabilities	**3,902**	**9,728**	**3,266**	**4,645**	**–**	**21,541**
Net liquidity gap	**5,250**	**(5,491)**	**675**	**(318)**	**–**	**116**
Cumulative gap	**5,250**	**(241)**	**434**	**116**	**116**	**–**

Foreign currency liquidity risk

	Up to 1 month (£mn)	1–3 months (£mn)	3–12 months (£mn)	1–5 years (£mn)	Over 5 years (£mn)	Total (£mn)
As at 28 February 2022						
Assets						
Cash and balances with other central banks	708	–	–	–	–	708
Loans and advances to banks and other financial institutions	1,971	5,715	2,633	–	–	10,319
Securities held at fair value through profit and loss	1,011	3,981	2,112	2,882	–	9,986
Derivative financial instruments:						
Cash inflow	1,369	4,366	1,916	709	–	8,360
Cash outflow	(1,251)	(4,293)	(1,855)	(733)	–	(8,132)
Other assets	–	–	–	–	–	–
Total assets	**3,808**	**9,769**	**4,806**	**2,858**	**–**	**21,241**
Liabilities						
Deposits from central banks	2,397	8,037	3,003	–	–	13,437
Deposits from banks and other financial institutions	216	–	–	–	–	216
Other deposits	362	–	–	–	–	362
Foreign currency commercial paper in issue	437	1,129	1,151	–	–	2,717
Foreign currency bonds in issue	–	–	–	2,981	–	2,981
Derivative financial instruments:						
Cash inflow	(1,809)	(3,871)	(1,820)	(2,149)	–	(9,649)
Cash outflow	1,870	4,630	2,557	2,106	–	11,163
Other liabilities	–	–	–	–	–	–
Total liabilities	**3,473**	**9,925**	**4,891**	**2,938**	**–**	**21,227**
Net liquidity gap	**335**	**(156)**	**(85)**	**(80)**	**–**	**14**
Cumulative gap	**335**	**179**	**94**	**14**	**14**	**–**

d: Fair value of financial assets and liabilities

The table below shows the financial instruments carried at fair value by valuation method:

	Note	Level 1 (£mn)	Level 2 (£mn)	Level 3 (£mn)	Total (£mn)
As at 28 February 2023					
Assets					
Loans and advances to banks and other financial institutions	8	–	9,431	–	9,431
Securities held at fair value through profit or loss	13	5,089	104	–	5,193
Derivative financial instruments	20	–	493	–	493
Unlisted equity investments at fair value	17	–	–	1,495	1,495
Total assets		**5,089**	**10,028**	**1,495**	**16,612**
Liabilities					
Deposits from central banks	10	–	13,532	–	13,532
Foreign currency commercial paper in issue	14	–	5,598	–	5,598
Foreign currency bonds in issue	15	4,803	1,644	–	6,447
Derivative financial instruments	20	–	183	–	183
Total liabilities		**4,803**	**20,957**	**–**	**25,760**

	Note	Level 1 (£mn)	Level 2 (£mn)	Level 3 (£mn)	Total (£mn)
As at 28 February 2022					
Assets					
Loans and advances to banks and other financial institutions	8	–	10,322	–	10,322
Securities held at fair value through profit or loss	13	7,886	2,083	–	9,969
Derivative financial instruments	20	–	354	–	354
Unlisted equity investments at fair value	17	–	–	1,420	1,420
Total assets		**7,886**	**12,759**	**1,420**	**22,065**
Liabilities					
Deposits from central banks	10	–	24,884	–	24,884
Foreign currency commercial paper in issue	14	–	2,713	–	2,713
Foreign currency bonds in issue	15	2,936	–	–	2,936
Derivative financial instruments	20	–	97	–	97
Total liabilities		**2,936**	**27,694**	**–**	**30,630**

There have been no transfers between levels in the year.

Level 1: Valued using unadjusted quoted prices in active markets for identical financial instruments.

Level 2: Valued using techniques that rely upon relevant observable market data. This category of instruments comprised derivatives, repurchase transactions, commercial paper and deposits.

Level 3: Valued using techniques where at least one input that could have a significant impact on the valuation is not based on observable market data. During the year this category consisted entirely of unlisted equity investments, primarily the Bank's investment in the Bank for International Settlements (note 17).

The fair values of financial liabilities classified as deposits at amortised cost approximate to their carrying values due to their short-term nature. All these financial liabilities would be classified as Level 2.

22: Cash and cash equivalents

Analysis of cash balances

	Note	At 1 March 2022 (£mn)	Cash flows (£mn)	At 28 February 2023 (£mn)
Cash and balances with other central banks	7	708	5,698	6,406
Loans and advances to banks and other financial institutions	8	4,764	(26)	4,738
Securities held at fair value through profit and loss	13	1,983	(1,983)	–
		7,455	**3,689**	**11,144**

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with a maturity less than or equal to 92 days from the date of acquisition, consisting of cash and balances with other central banks, loans and advances to banks and other financial institutions, amounts due from banks and short-term government securities.

23: Contingent liabilities and commitments

Accounting policies

Contingent liabilities

Contingent liabilities and commitments, some of which are offset by corresponding obligations of third parties, may arise in the normal course of business, including contingent liabilities in respect of guarantees and indemnities in connection with liquidity support operations. As part of its normal business, the Bank acts as custodian of its customers' assets and fulfils an agency role. The Bank has no liability to recognise or contingent liability to disclose in accordance with the requirements of IAS 37 in respect of these transactions.

Capital commitments

Capital commitments outstanding at 28 February 2023 amounted to £26mn (2022: £36mn), relating primarily to the provision of service agreements and plant and machinery purchases, preparing site for new machines and decommissioning of old machinery.

Contingent capital commitments outstanding at 28 February 2023 amounted to £0.3mn (2022: £0.3mn), relating to a central bank sterling account.

Guarantees

The Bank has provided a guarantee for the principal value of deposits placed by participating banks with BEALF. As at 28 February 2023 deposits with a value of £140mn were guaranteed (2022: £95mn).

24: Investments in subsidiaries

The Bank has a number of subsidiaries, which are wholly owned and incorporated in the United Kingdom, that are stated in the Bank's balance sheet at an aggregate cost under £1m. These are:

– The Securities Management Trust Ltd 1,000 ordinary shares of £1, principal activity is that of a nominee company.

– Bank of England Asset Purchase Facility Fund Ltd 100 ordinary shares of £1, principal activity is to fulfil the remit given to the Bank by the Chancellor of the Exchequer and for monetary policy.

– Bank of England Alternative Liquidity Facility Ltd 100 ordinary shares of £1, principal activity is to offer a non-interest based deposit facility backed by the central bank to commercial banks that cannot pay or receive interest.

– BE Pension Fund Trustees Ltd two ordinary shares of £1, principal activity is that of provision of trustee services to the Bank of England Pension Fund.

– Covid Corporate Financing Facility Ltd 1 ordinary share of £1, principal activity is to operate the CCFF on behalf of HM Treasury. The CCFF entered solvent liquidation in October 2022.

The registered office for all subsidiaries is 8 Lothbury, London EC2R 7HH.

Section 5: People and related parties

This section describes a range of employment and post-employment benefits provided to our people and our relationships with other related parties.

25: Staff costs

Accounting policies

Short-term employee benefits are those expected to be settled wholly before 12 months after the end of the annual reporting period during which employee services are rendered to the Bank. The Bank recognises the amount of short-term employee benefits expected to be paid as expenses or as a liability (accrued expense), after deducting any amount already paid.

	2023 (£mn)	2022 (£mn)
Wages and salaries	346	318
Social security costs	43	48
Pension and other post-retirement costs	101	80
Costs of restructuring	1	2
	491	**448**

Staff costs per average number of employees have increased by 3.3% (2022: 0.3%).

Average number of employees

The average number of persons employed by the Bank during the year was made up as follows:

	2023	2022
Governors and other members of Executive Team	27	27
Managers and analysts	3,794	3,534
Other staff	1,150	1,114
	4,971	**4,675**

The number of persons employed by the Bank at the end of February 2023 was 5,239 of which 4,529 were full-time and 710 part-time (2022: 4,740; with 4,099 full-time and 641 part-time). These staff numbers relate to the costs disclosed in this note.

26: Retirement benefits

i: Funded pension scheme

The Bank operates a non-contributory defined-benefit pension scheme providing benefits based on career average pensionable pay. The Bank has a final salary section within the pension scheme that provides pensions based on members' pensionable service and final salary at retirement. The pension is payable for life and increases in payment in line with inflation. This section of the scheme ceased to accrue benefits on a final salary basis from 1 April 2015. Former members of this section can continue to accrue benefits in the career average revalued earnings (CARE) section.

For new employees, the Bank offers a CARE section of the pension scheme that provides pensions based on members' earnings each year revalued in line with inflation up to retirement. The pension is payable for life and increases in payment in line with inflation.

Defined-benefit and career average

The assets of the scheme are held by the Bank in an independent trustee-administered fund. The Bank also provides other post-retirement benefits, principally healthcare, for certain pensioners.

The pension scheme is an HMRC registered pension scheme and is subject to standard UK pensions and tax law. This means that the payment of contributions and benefits are subject to the appropriate tax treatments and restrictions and the scheme is subject to the scheme funding requirements outlined in section 224 of the Pensions Act 2004.

In accordance with UK trust and pensions law, the pension scheme has appointed trustees who are independent of the Bank. Although the Bank bears the financial cost of the scheme, the responsibility for the management and governance of the scheme lies with the trustees, who have a duty to act in the best interest of members at all times.

Valuation for funding purposes

The main pension scheme, the Bank of England Pension Fund, is valued for funding purposes at intervals of not more than three years by an independent qualified actuary, with interim reviews in the intervening years. The latest valuation for funding purposes was as at 28 February 2020; it used the Defined Accrued Benefit Method. Under this method, active members are assumed to leave the Fund on the date of the valuation and hence the past service liability does not include an allowance for any salary increases or in-service CARE revaluation after that date. Instead members' benefits are assumed to increase in line with the deferred pension revaluation assumptions.

	£mn
The valuation as at 29 February 2020	
Value of Fund assets	4,933
Actuarial value of scheme liabilities in respect of:	
– In-service members	(1,296)
– Deferred pensioners	(1,021)
– Current pensioners and dependants	(2,297)
– GMP equalisation reserve	(14)
– RPI consultation reserve	(125)
– Members' additional voluntary contributions	(1)
Total	**(4,754)**
Scheme surplus	**179**
Funding level	**104%**
Service contribution rate for March	**52.2%**

For the 2020 valuation, the liabilities were valued by the actuary on an index-linked gilt yield discount rate, and no credit was taken in advance for the possibility that returns on investments held by the Fund would exceed the long-term interest rate. Allowance was made for past and prospective mortality improvements. The rate of RPI inflation used in the valuation and the pension increase assumption was based upon the RPI inflation curve.

As the scheme was in surplus as at the valuation date, no deficit reduction contributions are currently required to be paid into the scheme. Expected future contributions are only in respect of meeting the cost of future benefit accrual.

Excluded from the contribution rate is the cost of administration and other services which is met by the Bank.

Summary of amounts recognised in the financial statements under IAS 19

In the statutory financial statements the Bank accounts for pension costs, other post-retirement benefits and related redundancy provisions in accordance with IAS 19 (Employee Benefits). Under the standard, the difference between the market values of scheme assets and the present value of scheme liabilities is reported as a surplus or deficit in the balance sheet. The accounting value is different from the result obtained using the funding basis.

The accounts show a significantly greater surplus than the surplus in the scheme funding valuation. The main reason for this is the different assumptions used to value the liabilities in the accounting and funding valuations for the main scheme.

The scheme funding valuation assumptions are used to determine the contributions that the Bank is required to pay into the scheme to ensure that the scheme has sufficient assets to pay all the benefits due in future. Regulations require that the scheme funding assumptions are set conservatively and take account of the scheme's investment strategy. As the scheme's assets are invested primarily in index-linked gilts, the discount rate used to value the liabilities is set based on an index-linked gilt yield. In addition, the mortality assumption is set based on prudent principles (ie assuming members have long life expectancies). These assumptions place a relatively high value on the scheme's liabilities.

By contrast, accounting regulations require all companies to value their pension scheme liabilities on 'best estimate' assumptions, and to use a discount rate that is based on high-quality corporate bond yields. As corporate bond yields are generally higher than gilt yields, this approach places a lower value on pension scheme liabilities. The use of a best estimate mortality assumption for accounting purposes also reduces the value placed on the liabilities compared to the prudent scheme funding valuation.

ii: Redundancy provisions

As part of redundancy arrangements with staff in place until 5 April 2010, the Bank could give enhanced pension entitlement in the form of added years' service or early pension rights. The costs of such benefits cannot be charged to the Pension Fund. The costs are therefore borne in the Bank's accounts, and represent the future cost of decisions that have already been taken. Provision was made for the costs of these benefits at the time the redundancy offer was announced based on actuarial advice. No further similar entitlements will be given by the Bank.

The valuation of these provisions has been performed using the relevant assumptions applied for the IAS 19 valuation of pension schemes and updated annually.

iii: Other pension schemes

Previously, for Governors subject to the pensions earnings cap introduced in the Finance Act 1989, the Bank offered additional unfunded pensions so that their total pensions broadly match what would have been provided by the former Court Pension Scheme in the absence of a cap. Provision is made for these in the Bank's accounts. In addition certain former Governors and Directors and the widows of some former Governors and Directors were granted ex-gratia pensions. Provision for these was made in the Bank's accounts when the grants were made.

The valuation of these schemes has been performed by using the relevant assumptions applied for the IAS 19 valuation of pension schemes and updated annually.

iv: Medical scheme

Some current and former staff are entitled to receive healthcare benefits in retirement. Separate provision is made for these in the Bank's accounts as these cannot be paid out of the pension scheme. The defined-benefit liability is the expected cost to the Bank of the claims expected to be incurred by the eligible members once in retirement.

Accounting policies

In the preparation of their valuations under IAS 19 referred to in this note, the actuary has used the assumptions indicated below, which members of Court have accepted for the purposes of accounting and disclosure under the standard.

Recognition of scheme assets

The assets of the scheme are held by the Bank in an independent trustee-administered fund. The asset recognised in the balance sheet in respect of the defined-benefit pension scheme is the fair value of the scheme's assets less the present value of the defined-benefit obligation at the balance sheet date.

Recognition of scheme liabilities

The defined-benefit obligation is calculated annually by an independent actuary using the projected unit method. The present value of the defined-benefit obligation is determined by discounting the estimated cash outflows using interest rates of high-quality sterling corporate bonds that have terms to maturity approximating to the terms of the related pension liability.

Recognition of remeasurements

Remeasurements on retirement benefits comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what actually occurred), as well as the effects of changes in actuarial assumptions. Remeasurements on retirement benefits are recognised immediately in equity and reflected in other comprehensive income. Current and past service costs are recognised immediately in the income statement. Any net defined-benefit surplus is limited to the benefit that is available to the Bank.

The Bank also provides other post-retirement benefits, principally related to redundancy provisions and healthcare for certain pensioners, which are accounted for on a similar basis to the accounting for pension obligations.

Recognition of the net pension surplus

The Bank has recognised the net surplus in full on the balance sheet as it can realise any surplus on the winding up of the scheme after all other benefits have been paid in full in accordance with the Fund's rules. The Trustee does not have any unilateral powers which would prevent this and the rules can only be amended by agreement between the Bank and the Trustee.

Amounts recognised as assets/(liabilities) in the balance sheet

	Note	2023 (£mn)	2022 (£mn)
Funded pension schemes	(i)	719	1,279
Unfunded post-retirement benefits:			
Redundancy provisions	(ii)	(50)	(63)
Other pension schemes	(iii)	(7)	(7)
Medical scheme	(iv)	(76)	(146)
Unfunded post-retirement benefits		**(133)**	**(216)**
		586	**1,063**

Pension expense recognised in the income statement

	Note	2023 (£mn)	2022 (£mn)
Funded pension schemes	(i)	94	72
Unfunded post-retirement benefits:			
Redundancy provisions	(ii)	1	1
Other pension schemes	(iii)	–	–
Medical scheme	(iv)	3	4
		98	**77**

Remeasurements recognised in the statement of comprehensive income

	Note	2023 (£mn)	2022 (£mn)
Funded pension schemes	(i)	(603)	67
Unfunded post-retirement benefits:			
Redundancy provisions	(ii)	10	(1)
Other pension schemes	(iii)	1	–
Medical scheme	(iv)	67	(11)
		(525)	**55**

Risks

The main risks to which the Bank is exposed in relation to the funded pension scheme are:

- Mortality risk – the assumptions adopted by the Bank make allowance for future improvements in life expectancy. However, if life expectancy improves at a faster rate than assumed, this would result in greater payments from the Fund and consequently increases in the scheme's liabilities. The Bank and the Trustee review the mortality assumption on a regular basis to minimise the risk of using an inappropriate assumption;

- Investment risk – the Fund invests the majority of its assets in a portfolio of UK Government bonds as the changes in the value of the bonds more closely match the movements in the Fund's liabilities. There are risks with the selected portfolios such that it does not match the liabilities closely enough, or that as it matures there is a risk of not being able to reinvest the assets at the assumed rates. The scheme's trustees review the structure of the portfolio on a regular basis to minimise these risks; and

- Inflation risk – the majority of the scheme's liabilities increase in line with inflation; and so if inflation is greater than expected, the liabilities will increase. The scheme's investment strategy contains RPI and CPI linked liabilities and the Fund is hedged with RPI-linked assets, so this risk is mostly mitigated.

The redundancy provision and other pension schemes are primarily exposed to the mortality and inflation risks above. As they are not backed by any assets, these risks cannot be so easily managed. However, these arrangements (and therefore the risks associated with them) are small in comparison to the funded pension scheme.

The two main risks to which the Bank is exposed in relation to the medical scheme are mortality risk, as described above, and increases in the costs incurred being greater than assumed, either due to inflation of future medical costs or the frequency of members' claims.

Components of pension expense in the income statement

	2023			2022		
	Main pension scheme (£mn)	Other pensions (£mn)	Medical scheme (£mn)	Main pension scheme (£mn)	Other pensions (£mn)	Medical scheme (£mn)
Current service cost	114	–	1	96	–	1
Past service cost	–	–	–	–	–	–
Net interest on the net defined liability/asset	(20)	1	2	(24)	1	3
Total pension expense	**94**	**1**	**3**	**72**	**1**	**4**

Remeasurements recognised in other comprehensive income

	2023			2022		
	Main pension scheme (£mn)	Other pensions (£mn)	Medical scheme (£mn)	Main pension scheme (£mn)	Other pensions (£mn)	Medical scheme (£mn)
Remeasurements recognised at the beginning of the period	473	(32)	(32)	406	(31)	(21)
Actuarial gains arising from changes in demographic assumptions	5	1	33	4	–	–
Actuarial gains/(losses) arising from changes in financial assumptions	1,568	18	34	(84)	1	(10)
Actuarial losses arising from experience on the scheme's liabilities	(356)	(8)	–	(116)	(2)	(1)
(Losses)/return on scheme's assets excluding interest income	(1,820)	–	–	263	–	–
Remeasurements recognised at the end of the period	**(130)**	**(21)**	**35**	**473**	**(32)**	**(32)**

Reconciliation of present value of defined-benefit obligation

	2023			2022		
	Main pension scheme (£mn)	Other pensions (£mn)	Medical scheme (£mn)	Main pension scheme (£mn)	Other pensions (£mn)	Medical scheme (£mn)
Present value of defined-benefit obligation at the beginning of the period	3,814	70	146	3,577	72	136
Current service cost	114	–	1	96	–	1
Past service cost	–	–	–	–	–	–
Interest expense	58	1	2	72	1	3
Actuarial gains arising from changes in demographic assumptions	(5)	(1)	(33)	(4)	–	–
Actuarial (gains)/losses arising from changes in financial assumptions	(1,568)	(18)	(34)	84	(1)	10
Actuarial (gains)/losses arising from experience on the scheme's liabilities	356	8	–	116	2	1
Benefits paid out	(124)	(3)	(6)	(127)	(4)	(5)
Present value of defined obligation at the end of the period	**2,645**	**57**	**76**	**3,814**	**70**	**146**

During the reporting period there have been no plan amendments, curtailments or settlements.

Reconciliation of the fair value of assets

	2023			2022		
	Main pension scheme (£mn)	Other pensions (£mn)	Medical scheme (£mn)	Main pension scheme (£mn)	Other pensions (£mn)	Medical scheme (£mn)
Fair value of scheme's assets at the beginning of the period	5,093	–	–	4,731	–	–
Interest income	78	–	–	96	–	–
(Losses)/return on scheme's assets excluding interest income	(1,820)	–	–	263	–	–
Bank contributions	137	3	6	130	4	5
Benefits paid out	(124)	(3)	(6)	(127)	(4)	(5)
Fair value of scheme's assets at the end of the period	**3,364**	**–**	**–**	**5,093**	**–**	**–**

Summary of significant assumptions

Under IAS 19 measurement of scheme liabilities must be calculated under the projected unit method, which requires certain demographic and financial assumptions, including an assumption about future salary growth. The assumptions used are applied for the purposes of IAS 19 only.

The significant financial and other assumptions used by the independent actuary to calculate scheme liabilities over the life of the scheme on an IAS 19 basis were:

	2023 (%)	2022 (%)
Discount rate	4.2	1.5
CPI inflation	2.0	2.0
Rate of increase in salaries	3.0	3.0
Rate of increase of pensions in payment(1)	2.2	2.2
Rate of increase for deferred pensioners(1)	2.3	2.3

(1) This represents a weighted average of RPI and CPI, which are the indices used in the scheme.

The discount rate assumption reflects the investment return on a high-quality corporate bond at the balance sheet date, as required by the standard.

Future CPI assumption is assumed to be 2.0% per annum, in line with the Bank's long-term target.

RPI inflation assumption is assumed to be 1.0% per annum higher than CPI inflation before 2030 and in line with RPI inflation from 2030 onwards.

The assumption on salary growth is for the long term over the life of the scheme.

An age-related promotion scale has been added to the increase in salaries assumption.

The assumption for life expectancy for the scheme assumes that a male member reaching 60 in 2023 will live for 27.3 years (2022: 27.2 years) and a female member 29.6 years (2022: 29.6 years), and a male member reaching 60 in 2042 will live for 29.3 years (2022: 28.7 years) and a female member 31 years (2022: 31 years).

The Bank has adopted the latest available mortality projections model, which reduces the Fund's liabilities as a result of recent improvements in mortality being slightly lower than previously assumed.

As per the 2022 disclosures, allowance has been made for the impact of Covid-19 on life expectancies taking account of the immediate impact of the pandemic and the characteristics of the scheme's membership. This has been allowed for via an adjustment to the weighting applied to the base table assumptions. Allowance has also been made for future expected impacts of Covid-19 on longer-term health and economic benefits via an adjustment to the mortality projections assumed.

The overall effect of the changes to the mortality assumptions has been to slightly increase the value of the liabilities.

Investments

The pension fund investment strategy aims to provide a high degree of certainty in the financial position of the Fund and its ability to meet its liabilities under a wide range of future economic and financial conditions, and to improve the strength of funding over time in a measured and proportionate way through long-term investment returns above gilts.

The assets in the scheme were:

		2023				2022			
		Level 1 (£mn)	Level 2 (£mn)	Level 3 (£mn)	Total (£mn)	Level 1 (£mn)	Level 2 (£mn)	Level 3 (£mn)	Total (£mn)
Bonds[1]	Quoted	1,775	737	–	2,512	2,863	921	–	3,784
	Unquoted	–	451	–	451	168	638	–	806
Pooled investment vehicles[2]	Quoted	–	–	–	–	–	–	–	–
	Unquoted	41	–	448	489	–	415	27	442
Derivatives	Quoted	–	–	–	–	–	(1)	–	(1)
	Unquoted	–	22	–	22	–	50	–	50
Additional Voluntary Contributions (AVC) investments	Quoted	–	–	–	–	–	–	–	–
	Unquoted	–	–	1	1	–	–	1	1
Other investment balances[3]	Quoted	13	3	–	16	10	2	–	12
	Unquoted	12	(48)	–	(36)	17	(38)	–	(21)
Amounts payable under repurchase agreements	Quoted	–	–	–	–	–	–	–	–
	Unquoted	–	(114)	–	(114)	–	–	–	–
Total net investments at fair value		**1,841**	**1,051**	**449**	**3,341**	**3,058**	**1,987**	**28**	**5,073**
Current assets	Unquoted	27	–	–	27	22	–	–	22
Current liabilities	Unquoted	(4)	–	–	(4)	(2)	–	–	(2)
Net assets of the Fund		**1,864**	**1,051**	**449**	**3,364**	**3,078**	**1,987**	**28**	**5,093**

(1) 'Bonds' balances have been adjusted to exclude accrued interest. The accrued interest on bonds is included in 'Other investment balances'.

(2) An investment of £26mn has been reclassified from Level 2 to Level 3 to ensure consistent presentation year on year.

(3) Other investments comprise investment cash, derivative margin balances, items in the course of settlement and collection and accrued interest in respect of the bond investments and repurchase agreements.

For the purposes of IAS 19, the asset values stated are at the balance sheet date. Market values of the scheme's assets, which are not intended to be realised in the short term, may be subject to significant change before they are realised.

The fair value of financial instruments has been determined using the following fair value hierarchy:

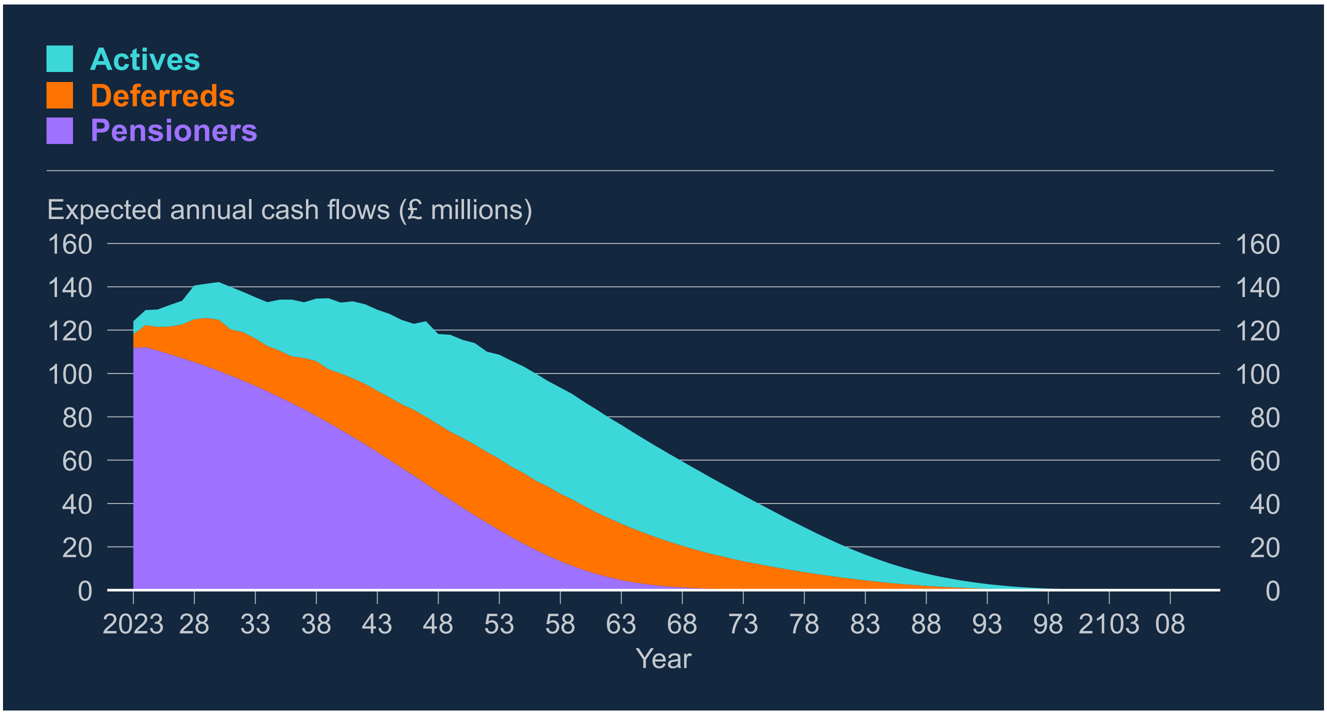
- Level 1 – were valued using an unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 – were valued using inputs other than quoted prices included within Level 1 that are observable (ie developed using market data) either directly or indirectly.
- Level 3 – where inputs were unobservable (ie for which market data is unavailable).

Main scheme

	2023 (£mn)	2022 (£mn)
Present value of defined-benefit obligations:		
– Active members	(610)	(1,114)
– Deferred members	(490)	(777)
– Pensioners	(1,539)	(1,915)
– GMP equalisation reserve	(6)	(8)
Total present value of defined-benefit obligations	**(2,645)**	**(3,814)**
Assets at fair value	3,364	5,093
Defined-benefit asset	**719**	**1,279**

The Bank has recognised the net surplus in full on the balance sheet as it can realise any surplus on the winding up of the scheme after all other benefits have been paid in full in accordance with the scheme's rules, which can only be amended with agreement between the Bank and the Trustees.

The duration of the pension scheme liabilities is in the region of 15 years. The expected future monthly cash flows from the scheme (based only on the past service liabilities built up by 28 February 2023) are shown in the chart below.



Sensitivity analysis

	2023 (£mn)	2022 (£mn)
A percentage change to the discount rate would change the surplus on the pension scheme by:		
+/- 0.1%	40	77
+/- 0.25%	100	190
+1.0%	(350)	(660)
-1.0%	450	900
A percentage change to the assumed difference between CPI and RPI inflation would change the present value of defined-benefit obligations for the pension scheme by:		
+/- 0.1%	25	47
+/- 0.25%	65	120
+1.0%	300	530
-1.0%	(230)	(410)

A +/- 0.5% change to the assumed rate of increases in salaries would change the surplus on the pension scheme by +/- £9mn (2022: +/- £20mn).

If mortality rates were adjusted such that individuals were assumed to live for an additional year, the scheme's liabilities at the year end would increase by approximately £79mn (2022: £143mn).

The Bank paid contributions of £146mn during the year (2022: £136mn).

Redundancy provisions

	2023 (£mn)	2022 (£mn)
Unfunded defined-benefit liability	**(50)**	**(63)**

More details regarding the composition and valuation of redundancy provisions are provided on page 167.

The Bank expects to make payments of £4mn in the forthcoming year (2022: £4mn).

Other pension schemes

	2023 (£mn)	2022 (£mn)
Unfunded defined-benefit liability	**(7)**	**(7)**

More details regarding the composition and valuation of other pension schemes are provided on pages 167–68.

The Bank expects to make payments of less than £1mn in the forthcoming year (2022: less than £1mn).

During the year to 28 February 2023 the Bank incurred service costs of less than £1mn (2022: less than £1mn).

Medical scheme

Some staff are entitled to receive healthcare benefits in retirement. Separate provision is made for these in the Bank's accounts as these cannot be paid out of the Pension Fund.

Summary of significant assumptions

The discount rates used for the purposes of measuring post-retirement medical benefit liabilities are the same as used in the IAS 19 valuation of pension scheme liabilities (see Summary of significant assumptions on pages 174–75). The level at which claims are assumed to arise on average has been taken in line with that used for the 2022 disclosures. For accounting purposes the following assumptions have been made in respect of medical expense inflation:

	2023 (%)	2022 (%)
Initial medical trend	5.0	5.0
Ultimate medical trend	5.0	5.0
Years to ultimate	**–**	**–**

Post-retirement benefits – medical

	2023 (£mn)	2022 (£mn)
Unfunded defined-benefit liability	**(76)**	**(146)**

Sensitivity analysis provided by the actuary indicates that 0.1% decrease in the discount rate would change the deficit on the other post-retirement benefits by £1mn (2022: £2mn) and a 1% increase in the rate of medical claims by £11mn (2022: £24mn). If the mortality rates were adjusted such that individuals were assumed to live for an additional year, the other post-retirement liabilities at the year end would increase by approximately £4mn (2022: £7mn).

The Bank expects to pay premiums of £5mn in the forthcoming year (2022: £5mn).

27: Related parties

Transactions with those commercial banks which are related parties but not wholly-owned by HM Treasury have not been disclosed as the Bank does not believe such disclosures to be necessary having regard to its financial stability objective.

a: HM Government

The Bank provides a range of activities to its shareholder, HM Treasury, and to other Government departments and bodies:

- provision of banking services, including holding the principal accounts of Government;
- management of the Exchange Equalisation Account (EEA); and
- management of the note issue.

The Bank also engaged in transactions with the Financial Services Compensation Scheme and other related parties.

The aggregate balances on HM Treasury and other public sector accounts are disclosed in note 12 as public deposits. The total charges made to the Government totalled £80mn (2022: £106mn) as disclosed in note 5a. The breakdown is as follows:

- services provided to the EEA of £14mn (2022: £13mn);
- Issue Department £64mn (2022: £91mn);
- banking services to HM Government £2mn (2022: £2mn).

Debt Management Office and Debt Management Account

The Bank has entered into agreements with the Debt Management Account (DMA) through the UK Debt Management Office (DMO) whereby the DMA lends UK government securities to the Bank with the simultaneous agreement that the Bank would deliver equivalent securities to the DMA on termination of those agreements.

The DMA placed interest-bearing deposits with the Bank during the year, which is included within note 12 as public deposits. The interest paid in respect of DMO deposits was £106mn in 2023 (2022: £7mn).

HM Treasury

HM Treasury continued to indemnify the activities of the Bank of England Asset Purchase Facility Fund Ltd (BEAPFF).

Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS) is the United Kingdom's statutory fund of last resort for customers of authorised financial services firms set up under the Financial Services and Markets Act 2000 (FSMA). The FSCS is independent from the Prudential Regulation Authority and Financial Conduct Authority, although accountable to them and ultimately to HM Treasury.

The FSCS placed interest-bearing deposits with the Bank during the year, which are included within note 12 as public deposits.

Financial Conduct Authority

The Financial Conduct Authority (FCA) charges the Bank an administration fee relating to the invoicing and collection of fee and other income from PRA levy payers. Charges for this service totalled £73,000 in the year (2022: £153,000). The Bank is also charged for the shared use of some FCA software applications to support regulation. The total charge for this service was £5.4mn (2022: £5.9mn).

b: Subsidiaries

Full details of the subsidiaries of the Bank are disclosed in note 24.

Bank of England Asset Purchase Facility Fund Ltd (BEAPFF)

BEAPFF is a wholly-owned subsidiary of the Bank. It was established on 30 January 2009 in order to fulfil the remit of the Chancellor of the Exchequer given to the Bank on 19 January 2009. This remit was subsequently expanded to enable the Company's operations to be used as a monetary policy tool at the request of the Monetary Policy Committee of the Bank.

BEAPFF operations are fully indemnified for loss by HM Treasury and any surplus for these operations is due to HM Treasury.

At 28 February 2023 the loan from the Bank to BEAPFF was £843.7bn (2022: £894.9bn). Interest on this loan is receivable at Bank Rate and amounted to £17.4bn for the year ending 28 February 2023 (2022: £1.3bn).

At the year end BEAPFF held a deposit at the Bank of £17.8bn (2022: £6.3bn), which is included in other deposits (note 12). Interest on this deposit is payable at Bank Rate and totalled £261mn for the year ending 28 February 2023 (2022: £11mn).

A management fee payable by BEAPFF to the Bank in respect of the year ended 28 February 2023 is £2.3mn (2022: £2.1mn). This is in line with the arrangements agreed between the Bank and HM Treasury.

Bank of England Alternative Liquidity Facility Ltd (BEALF)

BEALF is a wholly-owned subsidiary of the Bank. BEALF was incorporated on 14 December 2018. The principal activity of BEALF is to offer a non-interest based deposit facility backed by the Bank to commercial banks that cannot pay or receive interest. It houses a deposit facility to allow UK banks to hold sterling deposits at the Bank in a similar way to conventional banks under the Bank's Sterling Money Framework. Relatedly, the deposit capacity of the Alternative Liquidity Facility (ALF) is limited to the size of the backing fund, which may be reviewed from time to time.

At 28 February 2023 the loan from the Bank to BEALF was £60mn (2022: £105mn).

The Bank has provided a guarantee for the principal value of deposits placed by participating banks with BEALF (see page 163).

Management fee and project costs payable by BEALF to the Bank in respect of the year ended 28 February 2023 is £127,362 (2022: £49,000) and £726,000 (2022: £nil), respectively.

Covid Corporate Financing Facility (CCFF)

The CCFF closed for new purchases on 23 March 2021 and the final commercial paper balances owed to the Company were repaid on 18 March 2022. The CCFF entered solvent liquidation in October 2022.

At 28 February 2023 the CCFF's loan from the Bank totalled £nil (2022: £1.1bn), as the CCFF repaid the loan in full in March 2022. Interest on the loan was charged at Bank Rate and amounted to £173,749 for the year ending 28 February 2023 (2022: £5.1mn). The interest on the loan was also repaid by the CCFF in year.

The management fee payable by the CCFF to the Bank in respect of the year ended 28 February 2023 was £0.6mn (2022: £2.6mn). This was paid by the CCFF in year.

At the year end the CCFF held a deposit at the Bank of £43,503 (2022: £88mn). Interest on this deposit is payable at Bank Rate and totalled £8,503 for the year ending 28 February 2023 (2022: £0.1mn).

c: Key management personnel

Members of Court are covered by an indemnity from the Bank, granted in 2000 (see page 11). Members of the FPC, MPC and PRC are also covered by an indemnity granted by the Bank (see pages 16–21).

The following information is presented only in respect of those employees of the Bank who would be considered as key management personnel, as defined under IAS 24 (Related Party Disclosures). This comprised the Governors, members of the Executive Team and Non-executive Directors.

At 28 February 2023, the number of key management personnel was 39 (2022: 38).

The following particulars relate to loans between the Bank and key management personnel and persons connected with them:

	2023 (£000)	2022 (£000)
Loans		
Balance brought forward	32	60
Loans made during year	–	–
Loans repaid during year	(19)	(28)
	13	**32**
Interest income earned	–	1
Number of key management personnel with loans at 28 February	1	2

No expected credit losses have been recognised in respect of loans given to related parties (2022: nil) as the ECL amount is immaterial.

There were no other transactions that would be required to be shown under the provisions of the Companies Act 2006. None of the key management personnel had a material interest, directly or indirectly, at any time during the year in any other significant transaction or arrangement with the Bank or any of its subsidiaries.

Key management remuneration

	2023 (£000)	2022 (£000)
Salaries and short-term benefits	7,443	7,904
Post-employment benefits	908	845
	8,351	**8,749**

Post-employment benefits have been estimated using an expected cost of pension on a funding valuation basis.

Full information on the remuneration (including pension arrangements) of the Members of Court is given in the Report of the Remuneration Committee on pages 83–90.

d: The Bank's pension scheme

The Bank provides the secretariat, accounting services and some banking and custodial services to the Bank's funded pension scheme. In the year to 28 February 2023 no charge was made for these services (2022: nil). These activities are undertaken on behalf of, and under the supervision of, the Trustee of the Pension Fund. The contribution paid to the scheme during the year was £136mn (2022: £130mn). There were no other material transactions between the Bank and the pension scheme during the year to 28 February 2023. At 28 February 2023 the balances on accounts held with the Bank were £16mn (2022: £13mn).

e: Other entities with links to the Bank

In the normal course of its activities as a central bank, the Bank has relationships, involving some representation at management level and participation in funding, with international and domestic institutions. The Bank does not consider these institutions to be related parties.

Section 6: Operating assets and liabilities

This section analyses the operational assets utilised by the Bank in fulfilling its objectives and the related liabilities.

28: Payable to HM Treasury under Section 1 (4) of the Bank of England Act 1946

The Bank of England Act 1946, as amended by the Bank of England Act 1998, requires the Bank to pay HM Treasury, in lieu of dividend on the Bank's capital, on 5 April and 5 October, a sum equal to a percentage of the Banking Department's post-tax profit for the previous financial year as agreed by the Bank and HM Treasury. The cash amount paid in 2023 was £nil (2022: £nil). When the due date falls on a non-business day, the payment is made on the last business day before the due date. These payments have been accrued and charged to equity at 28 February 2023. The payments are deductible for corporation tax in the year to which the payments relate.

	2023 (£mn)	2022 (£mn)
Payable 5 April 2023 (2022: 5 April)	–	–
Payable 5 October 2023 (2022: 5 October)	–	–
	–	**–**

Following agreement of the capital framework[35] between the Bank and HM Treasury, the proportion of Banking Department profits payable to HM Treasury will be determined by the level of loss-absorbing capital held by the Bank and where this sits within a set of parameters as outlined in section 2b of the financial relationship between HM Treasury and the Bank of England: memorandum of understanding. No dividend will be paid to HM Treasury for the financial year to 28 February 2023 as the Bank's loss-absorbing capital is below the £3.5bn threshold, in line with the capital framework.

35. **www.bankofengland.co.uk/letter/2018/banks-financial-framework-june-2018**.

29: Property, plant and equipment

Accounting policies

i: Initial recognition

The amount capitalised at initial recognition is the purchase price of the asset along with any further costs incurred in bringing the asset to its present condition and location.

ii: Subsequent valuation

Subsequent costs are added to an asset's carrying amount, or are recognised as a separate asset as appropriate, only when it is probable that they will generate future economic benefits to the Bank and the cost of the item can be reliably measured. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Professional valuations of the Bank's properties are carried out each year with subsequent additions included at cost and provisions made for depreciation as explained below. Any surplus arising on revaluation is recognised directly in a revaluation reserve within equity, except to the extent that the surplus reverses a previous revaluation deficit on the same asset recognised in the income statement, in which case the credit is to the income statement.

The figures for freehold land and buildings reflect independent professional valuations performed in accordance with the Royal Institution of Chartered Surveyors (RICS) on a market-value basis as at 28 February 2023 by Gerald Eve, members of RICS.

iii: Depreciation

Land is not depreciated. Depreciation on other property, plant and equipment is charged on a straight-line basis:

- Freehold buildings: over the estimated future lives which range from 10 to 75 years.
- Leasehold improvements: over the estimated remaining life of the lease.
- Plant within buildings: over periods ranging from 5 to 20 years.
- Lease right of use (ROU) assets: over the estimated remaining life of the lease.
- IT equipment: over periods ranging from 3 to 7 years.
- Other equipment: over periods ranging from 3 to 20 years.

The depreciable amount of a revalued asset is based on its revalued amount less any residual value. The revaluation surplus is not transferred to retained earnings until the asset's ultimate disposal.

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date.

Assets that are subject to depreciation are reviewed at each reporting date to assess whether there is any indication that an asset may be impaired. An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value (less costs to sell) and value in use.

iv: Gain or losses on the disposal of property, plant and equipment

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

	Freehold land and buildings (£mn)	Leasehold improvements (£mn)	Equipment[1] (£mn)	Lease ROU assets (£mn)	Total (£mn)
For the period to 28 February 2023					
Cost or valuation					
At 1 March 2022	304	15	192	78	589
Additions	15	–	17	–	32
Disposals/write-offs		–	(9)	–	(9)
Revaluation of properties	(64)	–	–	–	(64)
At 28 February 2023	**255**	**15**	**200**	**78**	**548**
Accumulated depreciation					
At 1 March 2022	2	9	95	27	133
Charge for the period	5	1	21	10	37
Disposals/write-offs	–	–	(9)	–	(9)
Revaluation of properties	(4)	–	–	–	(4)
At 28 February 2023	**3**	**10**	**107**	**37**	**157**
Net book value at 1 March 2022	302	6	97	51	456
Net book value at 28 February 2023	**252**	**5**	**93**	**41**	**391**

(1) Net book value of equipment at 28 February 2023 included £nil held under finance leases.

Additions for the year includes accrued amounts of £5mn (2022: £3mn). The cash purchases for the year are £30mn (2022: £25mn).

	Freehold land and buildings (£mn)	Leasehold improvements (£mn)	Equipment[(1)] (£mn)	Lease ROU assets (£mn)	Total (£mn)
For the period to 28 February 2022					
Cost or valuation					
At 1 March 2021	313	14	202	78	607
Additions	9	1	13	–	23
Disposals/write-offs	(1)	–	(23)	–	(24)
Revaluation of properties	(17)	–	–	–	(17)
At 28 February 2022	**304**	**15**	**192**	**78**	**589**
Accumulated depreciation					
At 1 March 2021	1	8	95	19	123
Charge for the period	5	1	22	8	36
Disposals/write-offs	–	–	(22)	–	(22)
Revaluation of properties	(4)	–	–	–	(4)
At 28 February 2022	**2**	**9**	**95**	**27**	**133**
Net book value at 1 March 2021	312	6	107	59	484
Net book value at 28 February 2022	**302**	**6**	**97**	**51**	**456**

(1) Net book value of equipment at 28 February 2022 included £nil held under finance leases.

30: Intangible assets

Accounting policies

i: Initial recognition

Intangible assets mainly consist of computer software and the costs associated with the development of software for internal use.

Costs associated with externally purchased software and costs directly associated with the internal production of software products, which are controlled by the Bank and which will generate economic benefits exceeding those costs, are recognised as intangible assets. Economic benefits include those that help the Bank to achieve its mission.

ii: Amortisation

These costs are amortised over the expected useful lives of the software, which range from three to five years. Costs associated with software maintenance are recognised as an expense when incurred. Intangible assets are tested for impairment annually. Intangible assets are also subject to an impairment review if there are events or changes in circumstances that indicate that the current valuation may be too high.

	2023 (£mn)	2022 (£mn)
Cost		
At 1 March	260	201
Additions	58	92
Disposals/write-offs	–	(33)
At 28 February	**318**	**260**
Accumulated amortisation		
At 1 March	58	71
Charge for the year	23	19
Disposals/write-offs	–	(32)
At 28 February	**81**	**58**
Net book value at 1 March	202	130
Net book value at 28 February	**237**	**202**

Additions for the year includes accrued amounts of £nil (2022: £nil). The cash purchases for the year are £58mn (2022: £92mn).

31: Other assets

Accounting policies

Long leases granted on property owned by the Bank are treated as finance leases. Finance lease receivables are stated in the balance sheet at the amount of the net investment in the lease, being the minimum lease payments and any unguaranteed residual value discounted at the interest rate implicit in the lease.

	2023 (£mn)	2022 (£mn)
Finance lease receivables	5	5
Short-term debtors and other assets	3,866	649
Items in course of settlement	1,928	–
	5,799	**654**

Finance lease receivables includes £5mn due in more than one year (2022: £5mn). Within short-term debtors and other assets there is accrued interest of £2,526mn (2022: £337mn). Short-term debtors and others assets includes the accrued interest earned on the loan to BEAPFF and accrued fees on TFSME loans and are reflective of the increase in Bank rate. Items in the course of settlement mainly includes the cash receivable related to the most recent bond issuance on 28 February 2023 with settlement on 7 March 2023. This bond matures on 6 March 2026. Refer to Note 15, Foreign currency bonds in issue, for further details of the issuance.

32: Other liabilities

Accounting policies

Other liabilities are recognised to the extent that the goods or services have been received, irrespective of having been invoiced, or where an obligation on the Bank has arisen.

Provisions

Provisions are recognised in respect of restructuring, onerous leases and legal claims arising from past events, where a present legal or constructive obligation exists, where it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Lease liabilities

Lease liabilities are recognised in respect of premises occupied by the Bank. Lease liabilities are recognised on the balance sheet and are measured at the present value of the remaining lease payments discounted at the weighted average lessee's incremental borrowing rate.

i: Analysis of other liabilities

	2023 (£mn)	2022 (£mn)
Items in course of collection	1,644	1
Payable to HM Treasury	25	49
Short-term creditors and other liabilities	2,936	478
Lease liabilities	38	47
Provisions	5	13
Balance at 28 February	**4,648**	**588**

Items in the course of collection mainly includes the cash payable related to purchase of foreign government securities funded by the most recent bond issuance on 28 February 2023 with settlement on 7 March 2023. This bond matures on 6 March 2026. Refer to Note 15, Foreign currency bonds in issue, for further details of the issuance. Payable to HM Treasury includes payment in lieu of dividend (note 28), enforcement fines (net of costs) payable to HM Treasury, and any over/under recoveries of management fees for the management of the notes issue and the Exchange Equalisation Account.

ii: Analysis of provisions

	Restructuring provision (£mn)	Onerous lease provision (£mn)	Other provisions (£mn)	Total (£mn)
Balance at 1 March 2022	2	–	11	13
Provisions utilised during the year	–	–	(4)	(4)
Provisions made during the year	–	–	–	–
Provisions reversed during the year	–	–	(4)	(4)
Balance at 28 February 2023	**2**	**–**	**3**	**5**

iii: Analysis of lease liabilities

	2023 (£mn)	2022 (£mn)
Expiring within one year	11	11
Expiring between one and five years	24	34
Expiring between five and ten years	3	2
Balance at 28 February	**38**	**47**

iv: Lease liability movements

	2023 (£mn)	2022 (£mn)
Balance at 1 March 2022	47	59
New leases entered into in year	–	–
Payments in the year	(10)	(13)
Interest expense on lease liabilities	1	1
Balance at 28 February	**38**	**47**

Section 7: Other miscellaneous notes

This section includes miscellaneous notes to the accounts not included in other sections.

33: Auditor's remuneration

	2023 (£000)	2022 (£000)
For the period to 28 February		
Fees relating to audit services performed for the current year	795	466
Fees relating to prior year	–	28
Fees payable to the Auditor for services provided to the Bank		
Non-audit assurance services for the current year	55	50
Total	**850**	**544**

Non-audit assurance services for the current year comprise £32,000 for providing assurance to HM Treasury on the allocation of costs (2022: £29,000), and £23,000 for the submission for Whole of Government Accounts (2022: £21,000).

34: Deferred tax

Accounting policies

Deferred tax

Deferred tax is provided in full, using the liability method, on losses, tax credits and on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by 28 February 2023 and which are expected to apply when the related deferred tax asset or liability is realised. Deferred tax liabilities are presented net of deferred tax assets in the statement of financial position as the Bank has the legal right to settle current tax amounts on a net basis and all tax amounts relate to amounts owing to HMRC in the same jurisdiction. It is the Bank's intention to settle amounts on a net basis.

Rate

Deferred tax is calculated on temporary differences, losses and tax credits using the tax rate of 25.00% (2022: 25.00%), because the rate of corporation tax increased from 19.00% to 25.00% effective from 1 April 2023.

The rate change on the Bank's net deferred tax liabilities was accounted for in the year ended 28 February 2022, when the rate change was substantively enacted. The overall impact of the rate change was to increase the Bank's net deferred tax liabilities by £126mn. The Bank allocated the impact of the rate change between the income statement and reserves based on where the temporary differences arose. This resulted in a net £19mn charge to the income statement, and a net £107mn charge to reserves.

Principal differences

The principal temporary differences arise from:

- revaluation of certain financial assets;
- provisions for pensions and other post-retirement benefits;
- depreciation of property, plant and equipment;
- property revaluations; and
- intangibles.

Recognition

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences, losses and tax credits can be utilised.

Deferred tax related to securities held at FVOCI under IFRS 9 and actuarial gains and losses on retirement benefit obligations is credited or charged directly to other comprehensive income and is subsequently recognised in the income statement together with the current or deferred gain or loss if and when realised.

	Note	2023 (£mn)	2022 (£mn)
Deferred tax			
Net liability at 1 March		559	399
Income statement charge	6	7	22
Tax (credited)/charged through other comprehensive income or directly to equity	6	(118)	139
Other movements		–	(1)
Net liability at 28 February		**448**	**559**

	2023 (£mn)	2022 (£mn)
Deferred tax liability relates to:		
FVOCI equity investments through comprehensive income	373	355
Pensions and other post-retirement benefits	147	266
Losses carried forward	(74)	(67)
Other	2	5
Total	**448**	**559**

The Bank has deductible temporary differences of £86m (2022: £52mn) (worth £21mn (2022: £13mn) in deferred tax at 25%) relating to revalued property on which no deferred tax is recognised. The accounting standard requires deferred tax to be recognised on these properties on a basis of sale. At the balance sheet date it was not probable the Bank would sell any of these properties, but if it was to, these deductible temporary differences would generate capital losses, which under UK tax law can only be utilised against capital gains in the same or future years.

At the balance sheet date it was not probable we would make any capital gains on which any resultant capital losses from selling the properties could be to utilised against.

Issue Department account for the period ended 28 February 2023

	2023 (£mn)	2022 (£mn)
Income and profits		
Securities of, or guaranteed by, the British Government	65	71
Other securities and assets[1]	1,714	126
	1,779	**197**
Expenses		
Cost of production of banknotes	(28)	(51)
Cost of issue, custody and payment of banknotes	(26)	(24)
Other expenses	(10)	(10)
	(64)	**(85)**
Buffer withheld by Bank[2]	(34)	(19)
Net seigniorage income paid to the National Loans Fund	**1,681**	**93**

(1) Significantly higher in 2023 due to increased interest earned on the deposit with the Banking Department following successive Bank Rate rises.

(2) Net income paid to the NLF excludes a buffer held back to meet future expenditure. At the 2023 year end this was £34mn (2022: £19mn). Amounts held back in the buffer are paid over to the NLF in the subsequent year but are not included in that year’s net income paid to NLF reported here.

Issue Department statement of balances for the period ended 28 February 2023

	Note	2023 (£mn)	2022 (£mn)
Assets			
Securities of, or guaranteed by, the British Government	3	1,536	1,698
Other securities and assets including those acquired under reverse repurchase agreements	4	84,371	84,742
Total assets		**85,907**	**86,440**
Liabilities			
Notes issued:			
In circulation	5	85,907	86,440
Total liabilities		**85,907**	**86,440**

On behalf of the Governor and Company of the Bank of England:

Mr A Bailey, Governor

Mr S Woods, Deputy Governor

Mr D Roberts, Chair of Court

Ms A Kyei, Chief Financial Officer

Notes to the Issue Department statements of account

1: Basis of preparation

The statements of account are prepared in accordance with the requirements of the Currency and Bank Notes Act 1928 and 1954, the National Loans Act 1968 and the Currency Act 1983. All profits of the Issue Department are payable to the National Loans Fund (NLF).

- The statements of account are prepared on the basis of amounts received and paid as modified by the effects of a revaluation of securities.

- All securities are revalued quarterly at their clean mid-market price and are stated, with purchased accrued interest, in the balance sheet at this valuation. The last valuation was made as at 28 February 2023.

- If a revaluation of securities shows a net gain, this is included in income. A deficit is not taken against income but is settled by a transfer from the NLF. Total deficits paid by the NLF amounted to £162mn (2022: £105mn).

- Notes in circulation exclude those old series notes which have been written off. The value of the note is still given by the Bank on presentation. The Bank is reimbursed by HM Treasury in these instances.

2: Expenses

The expenses of £64mn (2022: £85mn) represent charges from the Banking Department for costs incurred of £70mn (2022: £93mn) in relation to note issuance production costs plus or minus amounts over/under-collected in prior years.

3: Securities of, or guaranteed by, the British Government

	2023 (£mn)	2022 (£mn)
British Government Stocks	1,166	1,328
Ways and Means advance to the National Loans Fund	370	370
	1,536	**1,698**

The Ways and Means advance earns interest at Bank Rate.

4: Other securities and assets including those acquired under reverse repurchase agreements

	2023 (£mn)	2022 (£mn)
Deposit with Banking Department	84,261	82,387
Reverse repurchase agreements	110	2,355
	84,371	**84,742**

The deposit with Banking Department earns interest at Bank Rate.

5: Notes in circulation

	2023 (£mn)	2022 (£mn)
£5	1,956	1,995
£10	13,560	14,365
£20	52,297	50,484
£50	13,450	14,790
Other notes(1)	4,644	4,806
	85,907	**86,440**

(1) Includes higher-value notes used as backing for the note issues of banks in Scotland and Northern Ireland.

6: Assets and liabilities

a: Interest rate exposure

As the liabilities of the Issue Department are interest free, the income of the Issue Department is directly exposed to movements in interest rates. As at 28 February 2023, the assets of the Issue Department had the following repricing period profile.

	2023 (£mn)	2022 (£mn)
Repricing up to one month	84,740	85,112
Repricing in greater than three months but less than six months	–	–
Repricing in greater than 12 months	1,167	1,328
	85,907	**86,440**

b: Currency exposure

All the assets and liabilities of the Issue Department are denominated in sterling. The collateral provided under reverse repurchase agreements may be in currencies other than sterling but this does not give rise to any direct currency exposure.

c: Credit risk

Credit risk is the risk of loss arising from the failure of a borrower, issuer, counterparty or customer to meet its financial obligations to the Bank. The Bank is exposed to credit risk both through direct exposures and through contingent exposures, such as custody arrangements and holdings of collateral. Credit risk arises in the course of the operations of the Notes Circulation Scheme, Agency Notes Store and Notes Printing Contract; and as a result of the Bank providing liquidity to financial institutions via open market operations.

In providing liquidity via routine open market operations, credit risk is managed by ensuring that exposures are fully collateralised (with appropriate margin) by securities that are internally rated as equivalent to investment-grade.

Credit risk on the securities held outright by the Bank is managed by holding only securities internally rated as equivalent to investment-grade in routine circumstances, which are issued chiefly by governments, government agencies and supranational organisations; and by a schedule of credit limits that vary based on internal rating.

7: Accrued interest

At 28 February 2023 the unrecognised accrued interest on the assets held on the Issue Department statement of balances was £30mn (2022: £22mn).

8: Date of approval

The Members of Court approved the statements of account on pages 198–202 on 14 June 2023.

PRA income statement for the period ended 28 February 2023

	Note	2023 (£mn)	2022 (£mn)
Income			
Fee income	2	313	281
Enforcement fine income	5	3	3
Other income	3	10	9
Total income		**326**	**293**
Expenses			
Administrative expenses	4	(326)	(293)
Total expenses		**(326)**	**(293)**
Surplus/(deficit)		–	–

The amounts for the PRA are reported within the Banking Department, and are presented here in accordance with the requirements of Section 7(2A) of the Bank of England Act 1998.

The notes on pages 205–12 are an integral part of these financial statements.

PRA statement of balances for the period ended 28 February 2023

	Note	2023 (£mn)	2022 (£mn)
Assets			
Current assets			
Cash balance held internally by the Bank of England		10	35
Fee and other receivables	8	1	3
Intangible assets	9	18	19
Total assets		**29**	**57**
Liabilities			
Current liabilities			
Trade and other liabilities	10	29	57
Total liabilities		**29**	**57**

The balances for the PRA are reported within the Banking Department, and are presented here in accordance with the requirements of Section 7(2A) of the Bank of England Act 1998.

On behalf of the Governor and Company of the Bank of England:
Mr A Bailey, Governor
Mr S Woods, Deputy Governor
Mr D Roberts, Chair of Court
Ms A Kyei, Chief Financial Officer

The notes on pages 205–12 are an integral part of these financial statements.

Notes to the PRA statement of accounts

1: Basis of preparation

Form of presentation of the statement of accounts

The statement of accounts comprise the income statement, the statement of balances, and related notes, and are presented as a subset of the financial statements provided for the Bank.

Under the Bank of England Act 1998 (as amended) (the Act), the Bank is required to present financial and other disclosures in respect of its activities as the Prudential Regulation Authority.

Section 7(2A) of the Act requires that the Bank prepare for each of its financial years a statement of accounts in relation to the:

(a) income received and assets accrued by the Bank by virtue of its functions as the Prudential Regulation Authority; and

(b) expenses and liabilities incurred by the Bank by virtue of its functions as the Prudential Regulation Authority.

Section 7(4A) of the Act requires the Bank to comply with any directions given by HM Treasury as to:

(a) the information to be contained in the statement and the manner in which it is to be presented; and

(b) the methods and principles according to which the statement is to be prepared.

The direction from HM Treasury requires the accounting policies and disclosures applied to be aligned with those standards applicable to the Bank and also to include specific disclosures in relation to:

(a) fair pay;
(b) sickness absence;
(c) exit packages; and
(d) losses and special payments.

The statement of accounts has been prepared and shows the amounts related to the Bank's activities as the PRA that are reported within the Banking Department financial statements.

The additional disclosures have been included within the notes to the statement of accounts.

The Court of Directors confirms that the money levied by the Prudential Regulation Authority under Parliamentary Authority recorded in these statement of accounts of the PRA has been applied to the purposes intended by Parliament.

Accounting policies

The principal accounting policies applied in the preparation of the statement of accounts are the same as those applied by the Bank.

Income from regulatory activity

Fee income comprises levy fees collected from regulated firms through the Annual Funding Requirement (AFR) consultation process, along with fees for specific regulatory activity. This fee income is recognised to the value of relevant expenditure incurred in the year, in the income statement.

Special project fees

Special project fee income is recognised to match expenditure incurred on activity that has been designated as a special project, for which fees are raised separately in arrears.

There are special project fee activities for which fees are collected in advance, in anticipation of the total spending requirements in the year. Income is recognised through the income statement against cost incurred. Any surplus or deficit is returned or recovered in subsequent financial years.

Model Maintenance Fees

Model Maintenance Fees are collected from eligible fee payers in anticipation of the total cost of providing internal model reviews throughout the year, and recognised through the income statement in its entirety throughout the year.

Other sundry income includes authorisation fees paid by firms and individuals, which is recognised in the income statement as incurred.

Enforcement income

Financial penalty monies are recognised as revenue, capped at the level of enforcement expenditure in the year, where they have been levied and received in the financial year, in accordance with the PRA Financial Penalty Scheme. Where financial penalties specific to a single case exceed its costs, the excess penalty monies received can be used to cover expenditure on other cases in the current period. This is returned to fee payers (excluding those fined) in the following financial year. Any financial penalty monies received in excess of total enforcement expenditure in the current period is paid over to HM Treasury, and is not recognised as revenue in the Bank's accounts.

Cost recoveries

Costs in relation to reports under section 166 of the Financial Services and Markets Act are fully recovered directly from the specific entities under review. The recovery of these costs is matched directly to the costs incurred in the income statement within expenditure. Where cost cannot be fully recovered from the entities under review, the costs are recovered through levy fees.

Cash balance held internally by the Bank of England

Cash held internally by the Bank of England is a notional cash balance at the reporting date and represents the difference between cash inflows and outflows during the year in respect of work delivered by the PRA.

Treatment of a surplus or deficit

Any surplus or deficit between fees collected and income recognised in the year will be held as a payable or receivable on the balance sheet as the intention is to return any surplus or claim any deficit in the following financial year.

2: Fee income

	2023 (£mn)	2022 (£mn)
Fee income	313	281
Total	**313**	**281**

3: Other income

	2023 (£mn)	2022 (£mn)
Model Maintenance Fee income	8	7
Other sundry income	2	2
Total	**10**	**9**

4: Administrative costs

	Note	2023 (£mn)	2022 (£mn)
Staff costs	6	162	149
Costs incurred centrally and allocated to the PRA		144	133
Professional and membership fees		6	6
Amortisation of intangible assets		5	3
Travel and accommodation		1	–
Other administration and general expenses		8	2
Cost recoveries		–	–
Total		**326**	**293**

Included within administrative expenses are costs incurred centrally and allocated to the PRA for provision of IT, Finance, Property and Procurement, and Human Resource services.

5: Enforcement fine income

Enforcement fines of £28.6mn (2022: £51.9mn) were raised and collected during the year. Enforcement income of £2.6mn (2022: £2.7mn) was recognised in the year, with the balance of fines collected of £26.0mn payable to HM Treasury (2022: £49.2mn). This payment was made post year-end. Enforcement fines received and then paid over to HM Treasury are not recognised as income.

6: Staff costs

	2023 (£mn)	2022 (£mn)
Wages and salaries	112	106
Social security costs	13	12
Pension and other post-retirement costs	37	31
Total	**162**	**149**

HM Treasury has made a direction under Section 7(4A) of the Bank of England Act 1998 requiring the Bank to disclose the following in respect of staff deemed to work exclusively for the PRA.

Fair pay

The banded remuneration of the highest paid director (full time equivalent base salary plus benefits and excluding pension) in the financial year 2022/23 was £291,041 (2021/22: £288,968).[36] This comprises a salary of £288,700 as at 28 February 2023 (2021/22: £285,841), plus non pension related benefits of £2,341 (2021/22: £3,127). This was 4.24 (2021/22: 4.09) times the median remuneration of the workforce, which was £68,587 (2021/22: £70,626). The increase in the ratio from the prior year reflects the Bank's annual pay rise and an increase in the total number of employees, which has shifted the median pay.

During 2022/23 no employee received remuneration in excess of the highest paid director. Remuneration ranged from £24,512 to £275,152 (2022: £23,439 to £275,182).

Exit package

There were no compulsory redundancies during the year.

There were two exit packages agreed during the year, in the ranges set out below:

£0–£10,000	1
£40,000–£50,000	1

Sickness absence

The average level of sickness absence in the organisation, calculated as working days lost per financial year based on the number of full-time equivalent employees was seven days (six in 2022).

36. Prior year comparatives have been updated to align methodology with the fair pay disclosures made in the Report of the Remuneration Committee, see page 89.

Average staff numbers

The average number of persons employed by the Bank deemed to work exclusively for the PRA during the year was made up as follows:

	2023	2022
Governors and other members of Executive Team	8	7
Managers and analysts	1,254	1,198
Other staff	187	162
Total	**1,449**	**1,367**

The number of persons employed by the Bank and working for the PRA was 1,529 at 28 February 2023, of which 1,304 were full-time staff and 225 were part-time (2022 1,356; with 1,153 full-time and 203 part-time).

7: Taxation

Under the agreement with HM Revenue and Customs, the fees paid by regulated institutions for regulatory purposes are not subject to corporation tax, but net interest income on deposits and any other investment income are subject to corporation tax as non-trade credits. Such net interest or other investment income was £nil during the year (2022: £nil).

8: Fee and other receivables

	2023 (£mn)	2022 (£mn)
Fees receivable	1	3
Total	**1**	**3**

Fees receivable at the reporting date includes £nil (2022: £nil) on account invoicing relating to the annual funding requirement from counterparties for the 2022/23 fee year.

9: Intangible assets

	2023 (£mn)	2022 (£mn)
Cost		
At 1 March	48	41
Additions	4	7
At 28 February	**52**	**48**
Accumulated amortisation		
At 1 March	29	26
Charge for the year	5	3
At 28 February	**34**	**29**
Net book value at 1 March	19	15
Net book value at 28 February	**18**	**19**

Intangible assets comprise software development to enable the PRA to fulfil its regulatory duties.

There were no additions of intangible assets purchased but not paid for at the balance sheet date (2022: £nil).

10: Trade and other liabilities

	Note	2023 (£mn)	2022 (£mn)
Fees received in advance		–	5
Financial penalties received – due to HM Treasury	5	26	49
Financial penalties received – payable to fee payers	5	3	3
Total		**29**	**57**

In accordance with the PRA Financial Penalty Scheme, financial penalty monies received are payable to HM Treasury where they are in excess of enforcement costs incurred during the year, with the remainder due to fee payers.

11: Financial risk

The PRA's principal financial assets are cash, together with fees and other receivables.

Credit risk

Credit risk is the risk of loss arising from the failure of a counterparty to meet its financial obligations to the PRA. The credit risk that the PRA faces arises when the PRA collects regulatory fees and special project fees from counterparties in the financial services industry.

The Bank monitors the credit risk exposure, and the collection of fees from counterparties, on behalf of the PRA. The PRA has a strong record of collecting fees with outstanding amounts at the year-end relating to regulatory services already consumed by those counterparties almost negligible.

Liquidity risk

Liquidity risk is the risk of encountering difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

In sterling, liquidity risk does not arise as the Bank is able to create sterling liquidity through its market operations.

12: Losses and special payments

There were no reportable losses or special payments in the year.

13: Date of approval

The Members of Court approved the statements of account on pages 203–12 on 14 June 2023.

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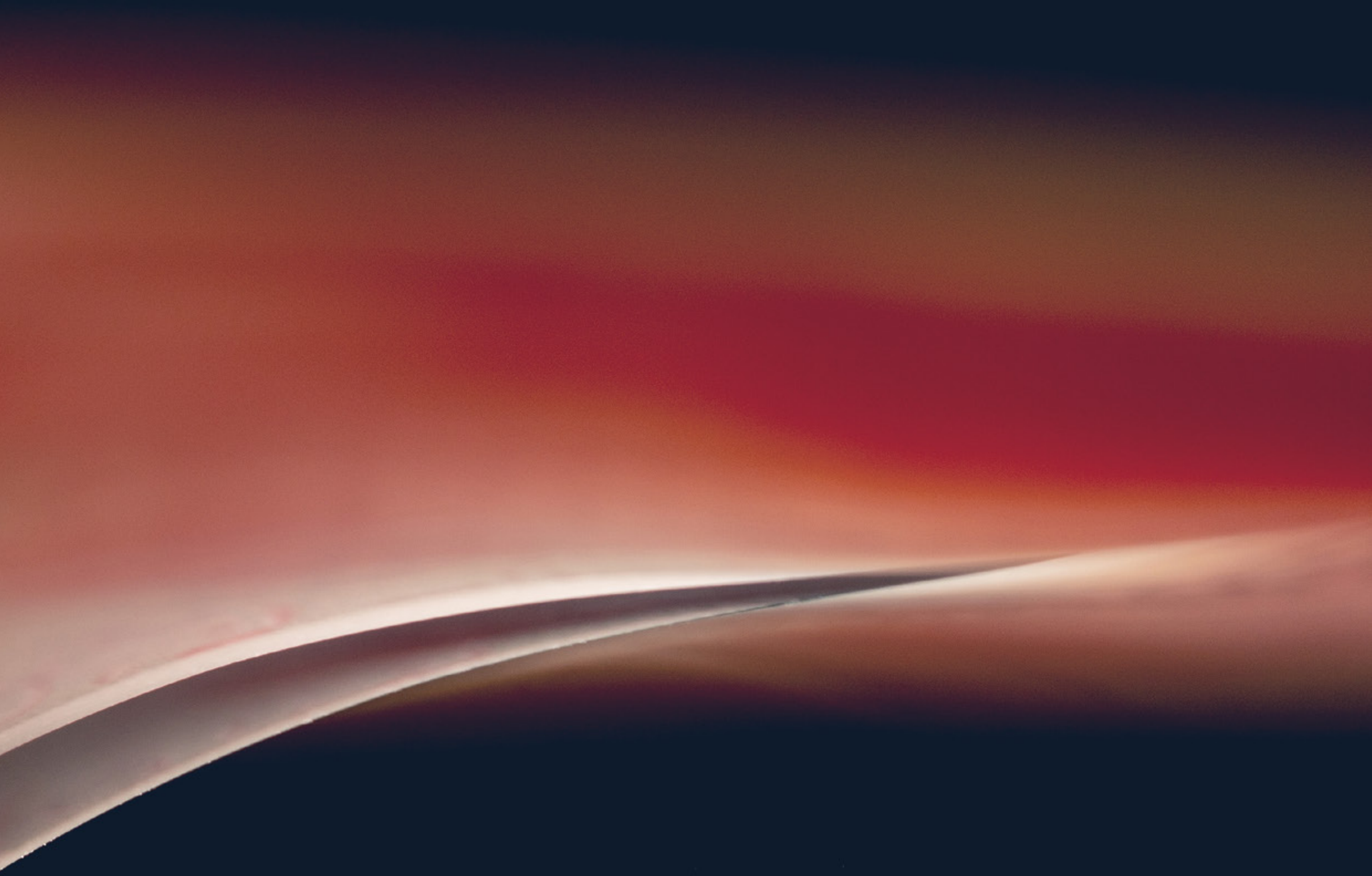

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