

Report of the Independent Auditor

Independent Auditor's Report to the Governor and Company of the Bank of England

We have audited the financial statements of the Banking Department ('financial statements'), which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, Statement of Recognised Income and Expenses and the related notes, and the statements of account of the Issue Department ('statements of account') for the year ended 28 February 2009. These financial statements and statements of account have been prepared under the accounting policies set out therein.

This report is made solely to the Governor and Company of the Bank of England and its Shareholder in accordance with Section 7 of the Bank of England Act 1998. 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 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 for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Members of Court and the auditor

The responsibilities of the Members of Court for preparing the *Annual Report*, including the financial statements and statements of account, in accordance with applicable law and International Financial Reporting Standards as adopted by the EU are set out in the Statement of the Responsibilities of the Court of Directors in relation to the Financial Statements on pages 37 to 42.

Our responsibility is to audit the financial statements and statements of account in accordance with relevant legal and regulatory requirements and having regard to International Standards on Auditing (United Kingdom and Ireland).

We report to you our opinion as to whether the financial statements of the Banking Department and statements of account of the Issue Department have been properly prepared in accordance with the bases of preparation set out in note 2 on pages 56 to 63 and note 1 on page 98 respectively. We also report to you whether, in our opinion, the information given in the Remuneration report; the Governance, Financial Statements and Risk report; and the Report by the Non-executive Directors on pages 43 to 48 is consistent with the financial statements and statements of account.

In addition we report to you if, in our opinion, the Bank has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding remuneration to Members of Court or other transactions are not disclosed.

We read the other information contained in the *Annual Report* and consider whether it is consistent with the audited financial statements and statements of account. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements or statements of account. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit having regard to International Standards on Auditing (United Kingdom and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and statements of account. It also includes an assessment of the significant estimates and judgements made by the Members of Court in the preparation of the financial statements and statements of account, and of whether the accounting policies are appropriate to the Bank's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and statements of account are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements, the basis of which is described in note 1 on page 56, and in the statements of account, the basis of which is described in note 1 on page 98.

Opinion

In our opinion:

- The financial statements of the Banking Department on pages 52 to 96 for the year ended 28 February 2009 have been properly prepared in accordance with the basis of preparation set out in note 2 on pages 56 to 63.
- The statements of account of the Issue Department on pages 97 to 99 for the year ended 28 February 2009 have been properly prepared in accordance with the basis of preparation set out in note 1 on page 98.
- The information given in the Remuneration report, the Governance, Financial Statements and Risk report and the Report by the Non-executive Directors is consistent with the financial statements and statements of account.

KPMG Audit Plc
London
Chartered Accountants
Registered Auditor
14 May 2009