# Report of the Independent Auditors

### TO THE GOVERNOR AND COMPANY OF THE BANK OF ENGLAND

We have audited the financial statements of the Banking Department on pages 58 to 84, and the statements of account of the Issue Department on pages 85 to 87.

### RESPECTIVE RESPONSIBILITIES OF THE MEMBERS OF COURT AND AUDITORS

The Members of Court are responsible for preparing the Annual Report, including as described on page 50, the financial statements and the statements of account. We have taken our responsibilities, as independent auditors, to be those which would have applied if they had been established primarily by the United Kingdom Companies Acts, and those applied by the Auditing Practices Board of the United Kingdom, and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements of the Banking Department give a fair presentation and are properly prepared on the basis of note 1 (a). We also report to you our opinion as to whether the statements of account of the Issue Department give a fair presentation, and are properly prepared on the basis described on page 86. Furthermore, we report to you if, in our opinion, the Report from Members of Court on pages 47 to 53 is not consistent with the financial statements and the statements of account, if the Bank has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements or the statements of account.

### BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards 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 the 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 the 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 the 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 of the Banking Department, the basis of which is described in note 1(a) and the statements of account of the Issue Department, the basis of which is described on page 47.

## OPINION

In accordance with the Bank of England Act 1998, the financial statements of the Banking Department have been prepared on the basis set out in note 1(a) to comply with the requirements of Schedule 9 to the Companies Act 1985 and applicable Accounting Standards in the United Kingdom except in so far as the Bank has not considered it appropriate to do so having regard to its functions.

### In our opinion

1/ The financial statements on pages 58 to 84 present fairly, on the basis referred to above, the state of affairs of the Banking Department at 28 February 2001 and the profit and cash flows for the year then ended.

2/ The statements of account on pages 85 to 87 present fairly, on the basis described on page 86, the outcome of the transactions of the Issue Department for the year ended 28 February 2001 and its balances at that date.

PRICEWATERHOUSECOOPERS
*Chartered Accountants and Registered Auditors*

London
9 May 2001

Notes

a/ The maintenance and integrity of the Bank of England website is the responsibility of the Members of Court; the work carried out by the independent auditors does not involve consideration of these matters and, accordingly, the independent auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

b/ Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Banking Department

## Profit and loss account for the year ended 28 February 2001

| | Notes | 2001 £m | *2000 £m* |
|---|---|---|---|
| Profit after provisions and before tax | 2 | 156 | *123* |
| Payable to HM Treasury under Section 1(4) of the Bank of England Act 1946 | 5 | (68) | *(50)* |
| Tax on profit on ordinary activities | 6 | (20) | *(23)* |
| Retained profit for the year | 20 | **68** | ***50*** |

The difference between the reported profit before tax and retained profit and their historical cost equivalents is shown in note 2(b).

## Statement of total recognised gains and losses for the year ended 28 February 2001

| | Notes | 2001 £m | *2000 £m* |
|---|---|---|---|
| Profit transferred to reserves | | 68 | *50* |
| Unrealised surplus on revaluation of properties | 13 | 74 | *3* |
| Total recognised gains and losses for the year | | **142** | ***53*** |

# Balance sheet as at 28 February 2001

| | Notes | **2001** **£m** | *2000* *£m* |
|---|---|---|---|
| **Assets** | | | |
| Cash | | 5 | *5* |
| Items in course of collection | | 330 | *405* |
| Treasury and other eligible bills | 8 | 17 | *11* |
| Due from central banks in respect of TARGET | 9 | 64 | *13,652* |
| Loans and advances to banks, the money market and customers | 9 | 6,229 | *5,415* |
| Debt securities | 10 | 4,086 | *3,496* |
| Equity shares and participating interest | 11 | 27 | *27* |
| Shares in group undertakings | 12 | 18 | *18* |
| Tangible fixed assets | 13 | 278 | *358* |
| Prepayments, accrued income and other assets | | 506 | *511* |
| **Total assets** | | **11,560** | ***23,898*** |
| **Liabilities** | | | |
| Due to central banks in respect of TARGET | 9 | – | *13,583* |
| Deposits by central banks | 14 | 4,169 | *2,959* |
| Deposits by banks and building societies | 15 | 2,060 | *1,812* |
| Customer accounts | 16 | 807 | *1,497* |
| Debt securities in issue | 17 | 2,531 | *2,121* |
| Other liabilities | 18 | 509 | *584* |
| | | **10,076** | ***22,556*** |
| Capital | 19 | 15 | *15* |
| Revaluation reserves | 20 | 198 | *242* |
| Profit and loss account | 20 | 1,271 | *1,085* |
| Shareholder's funds | 21 | 1,484 | *1,342* |
| **Total liabilities** | | **11,560** | ***23,898*** |

| | |
|---|---|
| **E A J George** | Governor |
| **D C Clementi** | Deputy Governor |
| **Noakes** | Director |
| **G Midgley** | Finance Director |

# Cash flow statement for the year ended 28 February 2001

| | Notes | 2001 £m | 2000 £m |
|---|---|---|---|
| Net cash inflow/(outflow) from operating activities | 22 | 474 | (173) |
| Corporation tax paid | | (26) | (22) |
| Net sales/(purchases) of premises and equipment | | 157 | (18) |
| Capital expenditure and financial investment | 22 | 157 | (18) |
| | | **605** | ***(213)*** |
| Payment to HM Treasury under Section 1(4) of the Bank of England Act 1946 | | (50) | (70) |
| **Increase/(decrease) in cash** | 22 | **555** | ***(283)*** |

# Notes to the Banking Department financial statements

## 1/ ACCOUNTING POLICIES

### a/ Form of presentation of the financial statements

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 Acts requirements relating to a banking company. The Bank may, however, disregard a requirement to the extent that it considers it appropriate to do so having regard to its functions. The financial statements have, therefore, been prepared so as to present fairly the state of affairs of the Banking Department and its profit, cash flows and total recognised gains and losses and in accordance with the requirements of Section 255 of, and Part 1 of Schedule 9 to, the Companies Act 1985 (except as explained in (g) below) and applicable Accounting Standards in the United Kingdom in so far as they are appropriate having regard to its functions: that is, in particular, with the limitations explained below. This basis for preparing the financial statements has been followed for a number of years.

In exceptional circumstances, as part of its central banking functions, the Bank may act as "lender of last resort" to financial institutions in difficulty in order to prevent a loss of confidence spreading through the financial system as a whole. In some cases, confidence can best be sustained if the Bank's support is disclosed only when conditions giving rise to potentially systemic disturbance have improved. Accordingly, although the financial effects of such operations will be included in the Banking Department's financial statements in the year in which they occur, these financial statements may not explicitly identify the existence of such support. However, the existence of such support will be disclosed in the Annual Report when the need for secrecy or confidentiality has ceased.

As a result, the Bank's financial statements disclose less detail of the constituent elements of the profit and loss account, particularly of interest income and expense and any provisions for bad and doubtful debts, together with consequential restrictions in detailed disclosures in the balance sheet, cash flow statement and the notes to the financial statements than would be required under the Companies Acts and applicable Accounting Standards.

The financial statements have been prepared on the historical cost basis of accounting, modified to include the revaluation of land and buildings. The accounting policies set out below have been applied consistently. In preparing these financial statements the Bank has adopted, for the first time, Financial Reporting Standards 15, on tangible fixed assets, and 16 on current taxation. The adoption of these standards has had no material impact on the financial statements.

The Bank of England has no branches or operations abroad. The Members of Court consider that the activities of the Banking Department constitute a single business conducted in the United Kingdom and, accordingly, that no further analysis by business unit or geographic segment is appropriate for financial reporting purposes.

### b/ Treasury and other eligible bills

Treasury and other eligible bills are stated at cost plus accrued interest.

### c/ Debt securities, equity shares and participating interest

British government securities are held as investment securities and are stated at cost adjusted for the amortisation of premiums or discounts on a straight-line basis over the period to maturity; income includes the amortisation of premiums or discounts.

The treatment of securities of foreign governments or other foreign institutions held for the purposes of the TARGET settlement system is described in (d) below, and of those held as a hedge for the Bank's issue of euro-denominated medium term notes is described in (e) below.

Reverse repurchase agreements (repos) are accounted for as advances.

Equity shares and the participating interest are held as investments and stated in the balance sheet at cost less any provision for impairment where necessary. The cost of the participating interest in the European Central Bank is its original cost in foreign currency, translated at the exchange rate ruling at the date of acquisition.

### d/ Securities held for the purposes of the TARGET portfolio and the matching funding

Securities of foreign governments or other foreign institutions are held for repo contracts used to provide intra-day liquidity to the TARGET settlement system. They are held as investment securities and are recorded at cost, in euro, adjusted for the amortisation of premiums or discounts on a straight-line basis over the period to maturity. They are translated into sterling at the exchange rate ruling at the balance sheet date.

This portfolio is funded by a combination of currency swaps and Bank bills issued in euro. These bills (euro bills) are specifically issued to fund the TARGET portfolio. Accordingly, the bills and swaps are treated as hedging the foreign exchange exposure of the securities.

Euro bills are stated at issue proceeds plus accrued interest in euro. They are translated into sterling at the exchange rate ruling at the balance sheet date.

Any residual net unrealised gain arising from exchange rate movements on this portfolio and the swaps and the bills used to hedge the portfolio are taken to an investment securities revaluation reserve; a net unrealised loss is taken to the profit and loss account.

### e/ Securities funded by the Bank's issue of euro-denominated medium term notes

The Bank has invested the proceeds of its issue of euro-denominated medium term notes (Euro Notes) into a portfolio of securities of foreign governments and other foreign institutions, together with currency and interest rate swaps. These securities are held as investment securities and are recorded at cost, in the currency of issue or denomination, adjusted for the amortisation of premiums or discounts on a straight-line basis over the period to the maturity of the underlying notes. They are translated into sterling at the exchange rates ruling at the balance sheet date. Gains and losses on disposal of securities are amortised over the remaining life of the underlying notes.

Euro Notes are stated at issue proceeds, adjusted for the amortisation of premiums or discounts on a straight-line basis over the period to the maturity. They are translated into sterling at the exchange rate ruling at the balance sheet date. Accrued interest is included in other liabilities.

The portfolio of securities hedges the Bank's foreign exchange and interest rate exposure in the Euro Notes. Any residual net unrealised gain from exchange rate movements on the portfolio and the Euro Notes is taken to an investment securities revaluation reserve. A net unrealised loss is taken to the profit and loss account.

### f/ Financial Instruments

Financial instruments, including interest rate, currency and foreign exchange swaps, are held as part of hedging arrangements for the TARGET portfolio and euro-denominated medium term notes as described in (d) and (e) above. Such instruments are recorded on an accruals basis to match the cashflows of the relevant hedged items. Foreign exchange swaps used in money market operations are recorded at fair value.

### g/ Tangible fixed assets

The Bank's properties are stated at a professional valuation as at 28 February 2001. With effect from this valuation, the frequency of professional valuations has been changed from 5 years to 3 years. No account is taken of any liability to taxation which could arise if the properties were disposed of at their revalued amounts, except in respect of properties which are available for sale. One leasehold property sold during the year was classified as an investment property and in accordance with SSAP 19 was revalued annually as at end-February and stated at a professional valuation on an open market basis. The surplus or deficit on revaluation was transferred to a revaluation reserve. No depreciation has been charged on this property. The requirement of the Companies Act 1985 is to depreciate all properties, but this requirement conflicts with the generally accepted accounting principle set out in SSAP 19. The Members of Court consider that it was necessary to adopt SSAP 19 in order to present a fair view and accordingly the investment property has been revalued and not depreciated. If this policy had not been adopted, the profit for the year would have been reduced by depreciation on this property of £4 million *(2000 £5 million)* and increased by £44 million *(2000 £nil)* as a result of a greater profit on disposal.

Freehold land is not depreciated.
Equipment is stated at cost less depreciation.

Depreciation, on a straight-line basis, is charged as follows:

| | |
|---|---|
| Freehold buildings | over the estimated future lives which range from ten to thirty years |
| Leasehold land and buildings | over the period of the lease of twenty years |
| Plant within buildings | over periods ranging from five to twenty years |
| Computers | over periods ranging from three to five years |
| Other equipment | over periods ranging from three to twenty years |

### h/ Bad and doubtful debts

Provision for bad and doubtful debts is made as considered necessary having regard to both specific and general factors. The general element arises in relation to existing losses which, although not separately identified, are known from experience to be present in any portfolio of bank advances. Provision made (less amounts released) during the year is charged against profits.

### i/ Commitments on behalf of HM Treasury

Commitments on behalf of HM Treasury in foreign currencies and gold, or on a gold basis, arising in the course of operating the Exchange Equalisation Account, are not included in these financial statements as the Bank is concerned in such transactions only as agent.

### j/ Deferred tax

Deferred tax is provided, at the estimated rates at which future taxation will become payable, on all material timing differences where it is probable that a liability to taxation or an asset will crystallise in the foreseeable future.

### k/ Group undertakings

Shares in group undertakings are stated in the balance sheet at cost less provision for permanent impairment in value. Dividends from group undertakings are included as income when declared.

### l/ Leasing

Operating lease rentals are charged to the profit and loss account as incurred.

### m/ Retirement benefits

The cost of pensions is assessed in accordance with the advice of an independent actuary and accounted for on the basis of charging the cost to the profit and loss account, on a systematic basis, over the employees' service lives using the projected unit method. Variations from the regular cost are spread over the remaining service lives of the members of the scheme.

Other post-retirement benefits, principally healthcare for certain pensioners, are accounted for on a basis similar to that used to account for pension obligations. A deferred tax asset has been recognised in full in respect of this liability under UITF 6.

### n/ Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date. Other assets denominated in foreign currency when held for the long term are stated at cost, being the sterling equivalent of the foreign currency at the date of acquisition of the asset. Income and expenditure are translated into sterling at the exchange rate ruling at the time of the transaction.

## 2/ PROFIT AFTER PROVISIONS AND BEFORE TAX

### a/ Profit after provisions and before tax is stated after:

| | **2001** | *2000* |
|---|---|---|
| | **£m** | *£m* |
| i/ Staff costs (inc. Governors and Executive Directors): | | |
| – wages and salaries | 79 | *80* |
| – social security costs | 7 | *7* |
| – pension costs and other post-retirement benefits | 13 | *12* |
| – cost of severance schemes | 4 | *10* |
| ii/ Income: | | |
| – charges for services to HM Government, including charges to the Issue Department in respect of the Note Issue | 70 | *78* |
| – rents | 10 | *13* |
| – profit on disposal of land and buildings | 22 | *–* |
| iii/ Charges: | | |
| – operating lease rentals: property | 1 | *1* |
| equipment | 1 | *1* |
| – depreciation of premises and equipment | 19 | *18* |

The auditors' remuneration was £133,000 *(2000 £133,000)*.
The auditors' remuneration for non-audit work was £97,000 *(2000 £126,000)*.
For subsidiary companies which are not consolidated, the auditors' remuneration was £11,000 *(2000 £20,000)* and fees for non-audit work were £nil *(2000 £72,000)*.

More details of the Bank's operations during the year are given in the Annual Report.

### b/ Note of historical cost profits and losses for the year ended 28 February 2001

| | **2001** | *2000* |
|---|---|---|
| | **£m** | *£m* |
| Reported profit on ordinary activities before taxation | 156 | *123* |
| Realisation of property revaluation gains of previous years | 76 | *–* |
| Difference between a historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount | 7 | *6* |
| Historical cost profit on ordinary activities before taxation | **239** | ***129*** |
| Historical cost profit for the year retained after taxation, extraordinary items and dividends | **151** | ***56*** |

### 3/ EMOLUMENTS OF GOVERNORS AND DIRECTORS

| | 2001 | 2000 |
|---|---|---|
| | £ | £ |
| Remuneration of Governors and Directors | 726,337 | *709,011* |
| Payment in respect of notional benefits of travel on Bank business | 1,445 | *1,797* |
| | **727,782** | ***710,808*** |
| Pension costs in respect of - current executive members of Court | 101,200 | *234,600* |
| - former executive members of Court | 275,791 | *210,502* |
| | **1,104,773** | ***1,155,910*** |

Further details of the remuneration (including pension arrangements) of Governors and Directors, including the highest paid Member of Court, are given in the Remuneration Report on pages 43 and 46.

### 4/ PENSION COSTS AND OTHER POST-RETIREMENT BENEFITS

The Bank operates defined benefit pension schemes providing benefits based on final pensionable pay. The assets of the schemes are held separately by the Bank in independent trustee-administered funds. The Bank also provides other post-retirement benefits, principally healthcare, for certain pensioners.

The main pension scheme, the Bank of England Pension Fund, is valued every three years by an independent qualified actuary. The latest actuarial valuation was as at 28 February 1999, used the projected unit method and showed that the actuarial value of the Fund's assets represented 110% of the benefits that had accrued to members at that date, after allowing for future increases in earnings and pensions in payment. The market value of the Fund's assets at that time was £1,677 million and the required future service contribution rate for the year to 28 February 2001 was 23.3% *(2000 23.3%)* of pensionable earnings. The principal assumptions used in the valuation were that, over the long term, the return on new investments would exceed the rate of increase in salaries by 2.75% and the rate of increase in pensions by 4.5%. It was also assumed that the equity dividend growth would exceed the rate of future pension increases by 0.5%. The rate of inflation used in the valuation was consistent with the Bank's target rate. The actuarial surplus is being spread over the average remaining service lives of the current employees, which is assessed at 12 years. The Bank has no need to make a contribution and accordingly has not done so.

The other post-retirement benefits are unfunded and provision, based on actuarial advice, is made for the liability in the financial statements. The principal assumption used in determining the required provision was that the rate of increase in medical costs would exceed the rate of inflation by 3%.

£5 million *(2000 £10 million)*, representing the excess of the pension amounts funded over the cost, is included in other assets. £112 million *(2000 £107 million)* representing the provision in respect of other post-retirement benefits is included in other liabilities. The total cost of all post-retirement benefits for the year was £13 million *(2000 £12 million)*.

## 5/ PAYABLE TO HM TREASURY UNDER SECTION 1(4) OF THE BANK OF ENGLAND ACT 1946

| | **2001** | *2000* |
|---|---|---|
| | **£m** | *£m* |
| Payable 5 April | 33 | *24* |
| Payable 5 October | 35 | *26* |
| | **68** | ***50*** |

## 6/ TAX ON PROFIT ON ORDINARY ACTIVITIES

| | **2001** | *2000* |
|---|---|---|
| | **£m** | *£m* |
| United Kingdom corporation tax at an average rate of 30% *(2000 30.1%)* | 25 | *27* |
| Prior year - corporation tax | – | *–* |
| - deferred tax | – | *1* |
| Deferred taxation | (5) | *(5)* |
| | **20** | ***23*** |

The charge for taxation is computed on the residual profit on ordinary activities after deduction of the amount payable to HM Treasury. For 2001, the actual tax rate was lower than that calculated using the average UK corporation tax rate of 30 per cent as the profits from the sale of an investment property have been calculated under Capital Gains tax rules. The current tax liability of £16 million *(2000 £17 million)* is included in other liabilities.

The deferred tax asset of £16 million *(2000 £11 million)*, included in other assets, is comprised as follows:

| | **2001** | *2000* |
|---|---|---|
| | **£m** | *£m* |
| Accelerated capital allowances | 2 | *2* |
| Other timing differences | (18) | *(13)* |
| | **(16)** | ***(11)*** |

The movement on the balance for deferred taxation is as follows:

| | £m |
|---|---|
| At 1 March 2000 | (11) |
| Profit and loss account | (5) |
| At 28 February 2001 | **(16)** |

## 7/ ASSETS AND LIABILITIES

### a/ Sterling/non-sterling analysis of assets and liabilities

| | **2001** | *2000* |
|---|---|---|
| | **£m** | *£m* |
| Assets: | | |
| Denominated in sterling | 4,818 | *2,500* |
| Denominated in currencies other than sterling | 6,742 | *21,398* |
| | **11,560** | ***23,898*** |
| Liabilities: | | |
| Denominated in sterling | 5,117 | *5,157* |
| Denominated in currencies other than sterling | 6,443 | *18,741* |
| | **11,560** | ***23,898*** |

An analysis by currency of the assets and liabilities denominated in foreign currency is given in table (d) below. Major movements in the balance sheet are described on page 48 of the Annual Report.

### b/ Derivatives and other financial instruments

The Bank uses foreign exchange swaps as a technique for its open market operations. The Bank also uses currency, foreign exchange and interest rate swaps to hedge the securities held in relation to TARGET, which are predominantly financed via euro bills and in the portfolio matching the Euro Note issue. Further information about the Bank's use of financial instruments and the management of the associated risks is given in the Annual Report. In particular, market risk is covered on pages 52 to 53. The effect of these instruments is included in the interest rate repricing and currency analysis tables. These tables include short-term debtors and creditors.

### c/ Interest rate repricing

The following table summarises the Bank's interest rate exposure in the form of an interest rate repricing table. This shows when the interest rate earned or charged on assets and liabilities can change. The table can therefore be used as the basis for an assessment of the sensitivity of the Bank's net income to interest rate movements.

**Year ended 28 February 2001**

| | Not more than 3 months | More than 3 months but not more than 6 months | More than 6 months but not more than 1 year | More than 1 year but not more than 5 years | More than 5 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m |
| **Assets:** | | | | | | | |
| Treasury and other eligible bills | 17 | – | – | – | – | – | 17 |
| Due from central banks in respect of TARGET | 64 | – | – | – | – | – | 64 |
| Loans and advances to banks, the money market and customers | 5,107 | 1,084 | 32 | 3 | 2 | 1 | 6,229 |
| Debt securities and equity shares (excluding TARGET and Euro-note securities) | 83 | – | – | 560 | 950 | 27 | 1,620 |
| TARGET securities | – | – | 1,169 | 1,009 | – | – | 2,178 |
| Euro-note securities | – | – | – | 315 | – | – | 315 |
| Other assets:- | | | | | | | |
| financial | – | – | – | – | – | 819 | 819 |
| non-financial | – | – | – | – | – | 318 | 318 |
| **Total assets** | **5,271** | **1,084** | **1,201** | **1,887** | **952** | **1,165** | **11,560** |
| **Liabilities:** | | | | | | | |
| Deposits by central banks | 3,027 | 1,083 | 32 | – | – | 27 | 4,169 |
| Deposits by banks and building societies | 152 | – | – | – | – | 1,908 | 2,060 |
| Customer accounts | 361 | 1 | – | – | – | 445 | 807 |
| Debt securities in issue | 1,649 | 564 | – | 318 | – | – | 2,531 |
| Other liabilities:- | | | | | | | |
| financial | – | – | – | – | – | 301 | 301 |
| non-financial | – | – | – | – | – | 208 | 208 |
| Shareholder's funds | – | – | – | – | – | 1,484 | 1,484 |
| **Total liabilities** | **5,189** | **1,648** | **32** | **318** | **–** | **4,373** | **11,560** |
| Off-balance sheet items | 2,033 | 335 | (1,255) | (893) | – | (220) | – |
| Interest rate repricing gap | 2,115 | (229) | (86) | 676 | 952 | (3,428) | |
| Cumulative gap | 2,115 | 1,886 | 1,800 | 2,476 | 3,428 | | |

A positive repricing gap means that more assets than liabilities reprice in this period. Subject to the broad time bands above and the mix of currencies involved, a positive repricing gap means that the Bank's net interest income would benefit in the short term as a result of an increase in interest rates.

**Year ended 29 February 2000**

| | Not more than 3 months £m | More than 3 months but not more than 6 months £m | More than 6 months but not more than 1 year £m | More than 1 year but not more than 5 years £m | More than 5 years £m | Non-interest bearing £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Assets:** | | | | | | | |
| Treasury and other eligible bills | 11 | – | – | – | – | – | 11 |
| Due from central banks in respect of TARGET | 13,652 | – | – | – | – | – | 13,652 |
| Loans and advances to banks, the money market and customers | 5,176 | 192 | 40 | 3 | 3 | 1 | 5,415 |
| Debt securities and equity shares (excluding TARGET) | 55 | 10 | 5 | 527 | 799 | 27 | 1,423 |
| TARGET securities | – | – | 135 | 1,965 | – | – | 2,100 |
| Other assets:- | | | | | | | |
| financial | – | – | – | – | – | 900 | 900 |
| non-financial | – | – | – | – | – | 397 | 397 |
| **Total assets** | **18,894** | **202** | **180** | **2,495** | **802** | **1,325** | **23,898** |
| **Liabilities:** | | | | | | | |
| Due to central banks in respect of TARGET | 13,583 | – | – | – | – | – | 13,583 |
| Deposits by central banks | 2,701 | 191 | 40 | – | – | 27 | 2,959 |
| Deposits by banks and building societies | 144 | – | – | – | – | 1,668 | 1,812 |
| Customer accounts | 1,051 | – | – | – | – | 446 | 1,497 |
| Debt securities in issue | 1,579 | 542 | – | – | – | – | 2,121 |
| Other liabilities:- | | | | | | | |
| financial | – | – | – | – | – | 379 | 379 |
| non-financial | – | – | – | – | – | 205 | 205 |
| Shareholder's funds | – | – | – | – | – | 1,342 | 1,342 |
| **Total liabilities** | **19,058** | **733** | **40** | – | – | **4,067** | **23,898** |
| Off-balance sheet items | 1,904 | 331 | (132) | (1,946) | – | (157) | – |
| Interest rate repricing gap | 1,740 | (200) | 8 | 549 | 802 | (2,899) | |
| Cumulative gap | 1,740 | 1,540 | 1,548 | 2,097 | 2,899 | | |

### d/ Currency exposure year ended 28 February 2001

| | Foreign currency monetary assets and liabilities | | | | | |
|---|---|---|---|---|---|---|
| | US dollar £m | Gold £m | Euro £m | Yen £m | Other £m | Total £m |
| **Assets:** | | | | | | |
| Due from central banks in respect of TARGET | – | – | 64 | – | – | 64 |
| Loans and advances to banks, money market and customers | 1,915 | 841 | 1,110 | 2 | 1 | 3,869 |
| TARGET securities | – | – | 2,178 | – | – | 2,178 |
| Euro-note securities | – | – | – | 315 | – | 315 |
| Equity shares and participating interest | – | – | 25 | – | 2 | 27 |
| Other assets | – | – | 289 | – | – | 289 |
| | **1,915** | **841** | **3,666** | **317** | **3** | **6,742** |
| **Liabilities:** | | | | | | |
| Deposits by central banks | 1,644 | 841 | 1,020 | – | 1 | 3,506 |
| Deposits by banks and building societies | 22 | – | 63 | – | – | 85 |
| Customer accounts | 122 | – | 56 | 2 | – | 180 |
| Debt securities in issue | – | – | 2,531 | – | – | 2,531 |
| Other liabilities | – | – | 141 | – | – | 141 |
| | **1,788** | **841** | **3,811** | **2** | **1** | **6,443** |
| Net | **127** | **–** | **(145)** | **315** | **2** | **299** |
| Off-balance sheet items | **(127)** | | **182** | **(317)** | | **(262)** |

The functional currency of all operations is sterling.

Included in assets denominated in US dollars are deposits equivalent to £127 million *(2000 £nil)* which are matched by foreign exchange swaps that are off balance sheet so that no significant foreign currency exposure arises. These deposits together with the swaps match sterling deposits taken in from central banks.

Included in assets denominated in euro are securities and deposits held in relation to TARGET. These assets were predominantly matched by euro bills together with currency, foreign exchange and interest rate swaps, which are off-balance sheet, so that no significant currency exposure exists.

Included in Japanese Yen denominated assets are securities that are part of the portfolio matching the Euro Notes. These are matched with currency swaps, which are off-balance sheet, so that no significant currency exposure exists. The forward leg amount of these euro-yen swaps are shown as an off balance sheet item in the table above.

### Currency exposure year ended 29 February 2000

| | Foreign currency monetary assets and liabilities | | | | |
|---|---|---|---|---|---|
| | **US dollar** | **Gold** | **Euro** | **Other** | **Total** |
| | **£m** | **£m** | **£m** | **£m** | **£m** |
| **Assets:** | | | | | |
| Due from central banks in respect of TARGET | – | – | 13,652 | – | 13,652 |
| Loans and advances to banks, money market and customers | 4,186 | 542 | 629 | 47 | 5,404 |
| TARGET securities | – | – | 2,100 | – | 2,100 |
| Equity shares and participating interest | – | – | 25 | 2 | 27 |
| Other assets | – | – | 215 | – | 215 |
| | **4,186** | **542** | **16,621** | **49** | **21,398** |
| **Liabilities:** | | | | | |
| Due to central banks in respect of TARGET | – | – | 13,583 | – | 13,583 |
| Deposits by central banks | 1,566 | 542 | 561 | 44 | 2,713 |
| Deposits by banks and building societies | – | – | 66 | – | 66 |
| Customer accounts | 124 | – | 34 | 3 | 161 |
| Debt securities in issue | – | – | 2,121 | – | 2,121 |
| Other liabilities | – | – | 97 | – | 97 |
| | **1,690** | **542** | **16,462** | **47** | **18,741** |
| Net | **2,496** | **–** | **159** | **2** | **2,657** |
| Off-balance sheet items | **(2,496)** | **–** | **(126)** | **–** | **(2,622)** |

Included in US dollar assets in the above table are deposits placed of £2,496 million arising from swap transactions and on which no significant exchange exposure arises. The forward leg of the transactions is translated at market rates and the difference from the contract rates is included in other assets or other liabilities, as appropriate. The principal amount is shown as an off-balance sheet item. These swaps have been undertaken as part of the Bank's operations in the money market.

## e/ Fair values of financial assets, financial liabilities and derivatives

The table below compares the book value and fair value of financial assets, financial liabilities and derivatives where there is a fair value, which can be ascertained. No meaningful fair values can readily be obtained for the other assets and liabilities, in the absence of appropriate and liquid markets.

| | **2001** Book value £m | **2001** Fair value £m | *2000* Book value £m | *2000* Fair value £m |
|---|---|---|---|---|
| **Assets:** | | | | |
| Treasury and other eligible bills | 17 | 17 | *11* | *11* |
| TARGET securities (hedged) | 2,178 | 2,155 | *2,100* | *2,051* |
| Euro-note securities (hedged) | 315 | 317 | *–* | *–* |
| Other debt securities | 1,593 | 1,821 | *1,396* | *1,597* |
| | **4,103** | **4,310** | ***3,507*** | ***3,659*** |
| **Liabilities:** | | | | |
| Euro bills | 2,213 | 2,213 | *2,121* | *2,120* |
| Euro Notes | 318 | 318 | *–* | *–* |
| | **2,531** | **2,531** | ***2,121*** | ***2,120*** |

| | **Notional principal £m** | **Book value £m** | **Fair value £m** | *Notional principal £m* | *Book value £m* | *Fair value £m* |
|---|---|---|---|---|---|---|
| **Derivatives matched to securities and euro liabilities:** | | | | | | |
| - Cross currency swaps | | | | | | |
| Positive value | 1,895 | 250 | 510 | *2,653* | *298* | *598* |
| Negative value | 2,421 | (179) | (425) | *1,363* | *(192)* | *(459)* |
| - Foreign exchange swaps | | | | | | |
| Negative value | 73 | – | (1) | *71* | *–* | *–* |
| - Interest rate swaps | | | | | | |
| Positive value | 857 | 124 | 110 | *820* | *91* | *102* |
| Negative value | 74 | (32) | (2) | *70* | *(33)* | *(29)* |
| **Other derivative instruments:** | | | | | | |
| Foreign exchange swaps used for open market operations | – | – | – | *2,496* | *(46)* | *(46)* |
| Other foreign exchange swaps | 130 | – | – | | *–* | *–* |
| | 5,450 | 163 | 192 | *7,473* | *118* | *166* |

Notes:

i/ Market values have been used to determine the fair values for Treasury and other eligible bills, debt securities, euro bills and Euro Notes.

ii/ Foreign debt securities and foreign exchange swaps are translated into sterling at the rates ruling at the balance sheet date. Euro bills and Euro Notes are translated into sterling at the rates ruling at the balance sheet date.

iii/ The forward leg of the transactions, which hedge the currency exposure are translated at the same exchange rates as the underlying positions.

iv/ The fair value of the swaps is based on the discounted cash flows.

### f/ Maturity of notional principal amounts year ended 28 February 2001

At 28 February 2001, the notional principal amounts and replacement cost, by residual maturity, of the Bank's derivatives were as follows:

| | **2001** | | *2000* | |
|---|---|---|---|---|
| | **1 year or less** | **More than 1 year but not more than 5 years** | *1 year or less* | *More than 1 year but not more than 5 years* |
| | **£m** | **£m** | *£m* | *£m* |
| **Derivatives matched to securities and euro liabilities:** | | | | |
| - Cross currency swaps | | | | |
| Notional value | 2,180 | 2,136 | *173* | *3,843* |
| Replacement cost | 270 | 240 | *30* | *568* |
| - Foreign exchange swaps | | | | |
| Notional value | 73 | – | *71* | *–* |
| - Interest rate swaps | | | | |
| Notional value | 356 | 575 | *–* | *890* |
| Replacement cost | 59 | 51 | *–* | *102* |
| **Other derivative instruments:** | | | | |
| Notional principal | | | | |
| Foreign exchange swaps used for open market operations | – | – | *2,496* | *–* |
| Other foreign exchange swaps | 130 | – | *–* | *–* |
| Total notional principal | 2,739 | 2,711 | *2,740* | *4,733* |
| Total replacement cost | **329** | **291** | ***30*** | ***670*** |

### g/ Unrecognised gains and losses on hedging instruments

As explained above, the Bank uses currency, foreign exchange and interest rate swaps to hedge exposures in relation to TARGET securities and the euro bills and on the euro-note portfolio. These swaps are accounted for on an accruals basis in line with the underlying items being hedged. Any gains or losses that would occur if these items were carried at market value are therefore not recognised.

At 28 February 2001, the unrecognised gains on financial instruments used for hedging were £29 million *(2000 £48 million)*. Net gains arising before 29 February 2000 and recognised in the year to 28 February 2001 amounted to £26 million. Net gains of £7 million arose in the year to 28 February 2001 but were not recognised in the year. Of the unrecognised gains of £29 million at 28 February 2001, £25 million of net gains are expected to be recognised in the year to 28 February 2002 and the remainder in subsequent years.

## 8/ TREASURY AND OTHER ELIGIBLE BILLS

| | **2001** | *2000* |
|---|---|---|
| | **£m** | *£m* |
| British government Treasury bills | **17** | *11* |

These bills are acquired and sold as part of the Bank's open market operations.

## 9/ TARGET BALANCES AND LOANS AND ADVANCES TO BANKS, THE MONEY MARKET AND CUSTOMERS

### a/ TARGET balances

These balances, denominated in euro, arise from the operation of the TARGET settlement system. This system, which links the real-time settlement systems in all countries of the European Union (EU), enables payments to be made across borders within the EU. Such payments result in claims arising between the central banks in the member countries and with the European Central Bank. With effect from 30 November 2000, the individual positions that arise intra-day between the central banks are netted into a single position with the European Central Bank. Previously, no such netting agreement existed and consequently the TARGET balances were shown gross in the balance sheet at 29 February 2000.

The position at 28 February 2001 was as follows:

| | **2001** | | *2000* | |
|---|---|---|---|---|
| | **£m** | **€m** | *£m* | *€m* |
| Due from central banks in respect of TARGET | 64 | 101 | *13,652* | *22,384* |
| Due to central banks in respect of TARGET | – | – | *(13,583)* | *(22,270)* |

### b/ Loans and advances to banks, the money market and customers

These balances include advances and reverse repos, arising as part of the Bank's open market operations, as well as advances matching the deposits taken from central banks (note 14). Amounts are stated after provisions, where appropriate. The level and composition of the Bank's open market operations, including the split between Banking and Issue Departments depends upon market conditions.

| | **2001** | *2000* |
|---|---|---|
| | **£m** | *£m* |
| Remaining maturity: | | |
| Loans and advances | | |
| - over 5 years | 2 | *3* |
| - 5 years or less but over 1 year | 2 | *3* |
| - 1 year or less but over 3 months | 1,237 | *233* |
| - 3 months or less | 4,175 | *4,918* |
| - Repayable on demand | 813 | *258* |
| | **6,229** | ***5,415*** |

Included in the above is an advance to a public sector customer of £78 million *(2000 £nil)*, repayable on demand.

## 10/ DEBT SECURITIES

| | 2001 | | 2000 | |
|---|---|---|---|---|
| | **Balance sheet £m** | **Market value £m** | *Balance sheet £m* | *Market value £m* |
| **Investment securities:** | | | | |
| British government securities, listed on a recognised UK exchange | 1,593 | 1,821 | *1,396* | *1,597* |
| Foreign government securities, listed on recognised exchanges | 2,486 | 2,465 | *2,093* | *2,045* |
| Other foreign securities, listed on recognised exchanges | 7 | 7 | *7* | *6* |
| | **4,086** | **4,293** | ***3,496*** | ***3,648*** |
| Due within one year | 1,252 | 1,240 | *205* | *205* |
| Due one year and over | 2,834 | 3,053 | *3,291* | *3,443* |
| | **4,086** | **4,293** | ***3,496*** | ***3,648*** |

Movements in debt securities were as follows:

| | Cost £m | Discounts & (premiums) £m | Carrying value £m |
|---|---|---|---|
| **British government securities:** | | | |
| At 1 March 2000 | 1,295 | 101 | 1,396 |
| Amortisation of discounts | | 10 | 10 |
| Amortisation of premiums | | (7) | (7) |
| Purchases | 266 | (2) | 264 |
| Redemptions | (59) | (11) | (70) |
| At 28 February 2001 | **1,502** | **91** | **1,593** |

| | **2001 £m** | *2000 £m* |
|---|---|---|
| Unamortised discounts on British government securities | 46 | *55* |
| Unamortised (premiums) on British government securities | (61) | *(44)* |
| | **(15)** | ***11*** |

British Government 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.

| | Cost £m | Discounts & (premiums) £m | Carrying value £m |
|---|---|---|---|
| **Foreign government and other foreign securities:** | | | |
| At 1 March 2000 | 2,137 | (37) | 2,100 |
| Amortisation of discounts | | 1 | 1 |
| Amortisation of premiums | | (28) | (28) |
| Purchases | 454 | – | 454 |
| Redemptions | (163) | 10 | (153) |
| Foreign currency revaluation effects | 119 | – | 119 |
| At 28 February 2001 | **2,547** | **(54)** | **2,493** |

| | **2001 £m** | *2000 £m* |
|---|---|---|
| Unamortised discounts on foreign securities | 2 | *–* |
| Unamortised (premiums) on foreign securities | (37) | *(49)* |
| | **(35)** | ***(49)*** |

The portfolio of foreign government and other foreign securities is held for two purposes. The majority of the portfolio, denominated in euro, is held to enable the Bank to provide liquidity in the TARGET settlement system (note 9). These securities, amounting to £2,178 million at 28 February 2001 *(2000 £2,100 million)* are used to generate this liquidity via intra-day repo contracts. Starting in the year ended 28 February 2001, a part of the portfolio is held to match the Bank's issue of Euro Notes (note 17). At 28 February 2001, this portfolio was mainly denominated in Japanese Yen with currency swaps into euro. The movement in both the book and market values compared to 2000 is due mainly to the acquisition of securities for the euro-note portfolio and to exchange rate effects.

## 11/ EQUITY SHARES AND PARTICIPATING INTEREST

| | **2001** | | *2000* | |
|---|---|---|---|---|
| | **Balance sheet-cost £m** | **Members of Court valuation £m** | *Balance sheet-cost £m* | *Members of Court valuation £m* |
| Investment securities - unlisted equity shares | 2 | 83 | *2* | *77* |
| Participating interest - unlisted | 25 | 25 | *25* | *25* |
| | **27** | **108** | ***27*** | ***102*** |

### a/ Investment securities

The principal holding of equity shares included in investment securities is as follows:

| | Percentage held | |
|---|---|---|
| | **2001** | *2000* |
| Bank for International Settlements shares of 2,500 Swiss gold francs (25% paid) (Incorporated in Switzerland) | **9.0** | ***9.2*** |

### b/ Participating interest

**The European Central Bank**

This is the sterling cost of the Bank's contribution of €36.7 million to the capital of the European Central Bank (ECB). This contribution, which is not refundable, represents 5% of the capital contribution of the UK's full share (of the ECB's capital) that would have been payable had the UK participated in monetary union. This contribution has been accounted for as an investment.

## 12/ SHARES IN GROUP UNDERTAKINGS

| | **2001 £m** | *2000 £m* |
|---|---|---|
| Cost of shares in group undertakings | **18** | ***18*** |

The financial statements of the subsidiaries detailed below have not been consolidated with those of the Banking Department because, in the opinion of the Members of Court, the effect of including their assets, liabilities and results with those of the Banking Department would not be material.

### a/ Minories Finance Ltd

Throughout the year ended 28 February 2001, the Bank held the entire issued share capital of 12.5 million £1 ordinary shares in Minories Finance Ltd (MFL), which is incorporated in Great Britain. The investment in this company is included in the Bank's balance sheet at 28 February 2001 at £13 million *(2000 £13 million)*. As a condition of reductions in capital in June 1987 and November 1996, the Bank gave indemnities whereby any future deficit in MFL's shareholders' funds would be made good by the Bank up to a maximum of £63 million in total.

MFL's financial statements as at 31 December 2000 bear an unqualified audit report. The company has continued its principal activity of realisation of loans and other non-liquid assets, which, with income generating monetary assets, comprise its remaining assets. MFL will continue to pursue repayment of its remaining outstanding loans and advances. A dividend of £5 million has been declared and reflected in the Bank's financial statements.

The financial statements of MFL show:

| | |
|---|---|
| Profit for the year to 31 December 2000 | £0.8 million |
| Accumulated reserves as at 31 December 2000 after provision for dividends | £3 million |
| Net assets at 31 December 2000 after provision for dividends | £15 million |

### b/ Other group undertakings

Investments in other group undertakings, all of which are wholly owned and incorporated in Great Britain, are stated in the Bank's balance sheet at an aggregate cost of £5 million and include the following subsidiaries:

| | |
|---|---|
| Debden Security Printing Ltd | 100,000 shares of £1 |
| B.E. Property Holdings Ltd (Non-trading) | 5,000,000 shares of £1 |

The aggregate net assets of these subsidiary companies are £6 million.

The result of the trading subsidiary company attributable to the Bank has been dealt with in the financial statements of the Banking Department.

## 13/ TANGIBLE FIXED ASSETS

| | Freehold land and buildings | Leases of 50 years or more unexpired | Lease of less than 50 years unexpired | Equipment | £m Total |
|---|---|---|---|---|---|
| **Cost or valuation** | | | | | |
| At 1 March 2000 | 205 | 156 | 2 | 111 | 474 |
| Additions | 15 | – | – | 6 | 21 |
| Disposals | – | (156) | – | (15) | (171) |
| Revaluation | 31 | – | 3 | – | 34 |
| At 28 February 2001 | **251** | **–** | **5** | **102** | **358** |
| **Accumulated depreciation** | | | | | |
| At 1 March 2000 | 29 | – | – | 87 | 116 |
| Charge for the year | 11 | – | – | 8 | 19 |
| On disposals | – | – | – | (15) | (15) |
| Written back on revaluation | (40) | – | – | – | (40) |
| At 28 February 2001 | **–** | **–** | **–** | **80** | **80** |
| **Net book value at 28 February 2001** | **251** | **–** | **5** | **22** | **278** |
| *Net book value at 29 February 2000* | ***176*** | ***156*** | ***2*** | ***24*** | ***358*** |
| Cost or valuation at 28 February 2001 comprised: | | | | | |
| At 2001 valuation | 251 | – | 5 | – | 256 |
| At cost | – | – | – | 102 | 102 |
| | **251** | **–** | **5** | **102** | **358** |

Included in leasehold premises of 50 years and more at 1 March 2000, was an investment property held at open market value of £156 million, which was sold during the year. The figures for other property interests reflect a professional valuation, on an existing use value basis, of Bank freehold and leasehold properties as at 28 February 2001 by Insignia Richard Ellis. At 28 February 2001, the property held on a lease of less than 50 years unexpired was subject to a contract for sale, which was completed after the year-end. Within freehold land and buildings, a property valued at £5 million was similarly subject to a contract for sale, which was completed after the year-end. The net proceeds were not significantly different from the book values at 28 February 2001, after revaluation.

The Bank occupies its properties for its own purposes with the exception of an immaterial proportion.

Contracts for capital expenditure authorised by the Members of Court and outstanding at 28 February 2001 totalled £7 million *(2000 £15 million)*.

## 14/ DEPOSITS BY CENTRAL BANKS

| | **2001** | *2000* |
|---|---|---|
| | **£m** | *£m* |
| Remaining maturity: | | |
| - 1 year or less but over 3 months | 1,115 | *231* |
| - 3 months or less but not repayable on demand | 2,306 | *2,428* |
| - Repayable on demand | 748 | *300* |
| | **4,169** | ***2,959*** |

The Bank takes deposits from central banks in sterling, other currencies and gold. The movement between the two years reflects an increase in business, together with the effect of exchange rates.

## 15/ DEPOSITS BY BANKS AND BUILDING SOCIETIES

| | **2001** | *2000* |
|---|---|---|
| | **£m** | *£m* |
| Cash ratio deposits | 1,422 | *1,292* |
| Euro deposits repayable on demand | 63 | *66* |
| Other deposits repayable on demand | 575 | *454* |
| | **2,060** | ***1,812*** |

Cash ratio deposits are computed on the basis of banks' and building societies' eligible liabilities. Any change in the amount due, as a result of either becoming or ceasing to be an eligible institution for the purpose of the Bank of England Act 1998, the twice yearly recalculation of deposits or a change in the percentage used for calculation, is payable immediately. Under the Bank of England Act 1998, the percentage used in calculating the cash ratio deposits is set by HM Treasury, having regard to the financial needs of the Bank and subject to the approval of both Houses of Parliament. Other deposits, in both euro and sterling, are held by banks for operational reasons connected to settlement systems.

## 16/ CUSTOMER ACCOUNTS

| | **2001** | *2000* |
|---|---|---|
| | **£m** | *£m* |
| **Remaining maturity:** | | |
| 1 year or less but over 3 months: | | |
| - Other deposits | 1 | – |
| 3 months or less but not repayable on demand: | | |
| - Public deposits | 2 | *17* |
| - Other deposits | 37 | – |
| Repayable on demand: | | |
| - Public deposits | 460 | *495* |
| - Deposit by Issue Department | 50 | *668* |
| - Other deposits | 257 | *317* |
| | **807** | ***1,497*** |

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

## 17/ DEBT SECURITIES IN ISSUE

### a/ Summary

| | **2001** | *2000* |
|---|---|---|
| | **£m** | *£m* |
| Euro Notes | 318 | – |
| Euro bills | 2,213 | *2,121* |
| | **2,531** | ***2,121*** |

### b/ Euro bills

Original maturity of bills in issue

| | **2001** | *2000* |
|---|---|---|
| | **£m** | *£m* |
| 1 month | 127 | *122* |
| 3 months | 951 | *911* |
| 6 months | 1,135 | *1,088* |
| | **2,213** | ***2,121*** |

These bills are issued by the Bank and denominated in euro. They form a regular rolling programme on the Bank's balance sheet and fund the TARGET securities (note 10). Of the above, £1,648 million *(2000 £1,579 million)* are due within 3 months or less.

### c/ Euro Notes

On 29 January 2001, the Bank created €2.2 billion of Euro Notes, with a maturity of 3 years. These are to be sold by auction in tranches of €500 million each quarter. The Bank will retain the balance of €200 million for its own use. Pending sale to third parties, the Notes are retained by the Bank. Whilst in the Bank's ownership it is appropriate to show only the Notes sold to third parties as liabilities on the balance sheet. The position at 28 February 2001 was as follows:

| | **£m** | €m |
|---|---|---|
| Total amount created | 1,403 | 2,200 |
| Held by the Bank of England | (1,085) | (1,700) |
| Liabilities to third parties | **318** | **500** |

## 18/ OTHER LIABILITIES

| | **2001** | *2000* |
|---|---|---|
| | **£m** | *£m* |
| Include: | | |
| Payable to HM Treasury | 68 | *50* |
| Due to subsidiaries | 27 | *27* |
| Provision for post-retirement benefits (note 4) | 112 | *107* |
| Current tax liability (note 6) | 16 | *17* |

## 19/ CAPITAL

The entire capital comprising £14,553,000 of Bank Stock is held by the Treasury Solicitor on behalf of Her Majesty's Treasury.

## 20/ RESERVES

| | | | | £m |
|---|---|---|---|---|
| | Profit and loss account | Revaluation reserve | Investment property revaluation reserve | Total |
| Balance at 1 March 2000 | 1,085 | 124 | 118 | 1,327 |
| Retained profit for the year | 68 | – | – | 68 |
| Surplus on revaluation of properties | – | 74 | – | 74 |
| Transfer of net revaluation surplus to profit and loss account | 118 | – | (118) | – |
| Balance at 28 February 2001 | **1,271** | **198** | **–** | **1,469** |

Following the sale of the investment property, the balance on the investment property revaluation reserve has been transferred to the profit and loss account.

The investment securities revaluation reserve is less than £1 million and accordingly is not shown separately in the above table.

## 21/ STATEMENT OF RECONCILIATION OF SHAREHOLDER'S FUNDS

| | 2001 £m | 2000 £m |
|---|---|---|
| Shareholder's funds at 1 March 2000 | 1,342 | *1,289* |
| Retained profit for the year | 68 | *50* |
| Surplus on revaluation of properties | 74 | *3* |
| Shareholder's funds at 28 February 2001 | **1,484** | ***1,342*** |

## 22/ CASH FLOW STATEMENT

### a/ Reconciliation of operating profit to net cash inflow/(outflow) from operating activities

| | 2001 £m | 2000 £m |
|---|---|---|
| Profit after provisions and before tax | 156 | *123* |
| Increase/decrease in interest receivable and prepaid expenses | (1) | *89* |
| Decrease in interest payable and accrued expenses | (4) | *(60)* |
| Depreciation | 19 | *18* |
| Profit on sale of tangible fixed assets | (22) | *(1)* |
| Effect of other deferrals and accruals on cash flow | (6) | *47* |
| Net inflow from Euro Notes | 314 | – |
| Net inflow from euro bills | – | *2,264* |
| Decrease in net TARGET balances with central banks | 5 | *530* |
| Net outflow of euro deposits | (1) | *(508)* |
| Net increase in foreign currency deposits | 833 | *828* |
| Net decrease in other deposits | (67) | *(5,353)* |
| Net decrease/(increase) in foreign currency advances to banks (including swaps) | 1,456 | *(317)* |
| Net (increase)/decrease in Treasury and other eligible bills | (6) | *7* |
| Net (increase)/decrease in advances to banks and customers (including reverse repurchase agreements) | (1,760) | *2,394* |
| Purchase of foreign securities | (459) | *(30)* |
| Redemption of foreign securities | 165 | – |
| Purchase of debt securities | (292) | *(188)* |
| Redemption of debt securities | 70 | *170* |
| Net (increase)/decrease in other assets | (1) | *2* |
| Decrease/(increase) in items in course of collection | 75 | *(188)* |
| **Net cash inflow/(outflow) from operating activities** | **474** | ***(173)*** |

### b/ Capital expenditure and financial investment

| | 2001 £m | 2000 £m |
|---|---|---|
| Purchases of premises and equipment | (22) | *(21)* |
| Proceeds from sales of premises and equipment | 179 | *3* |
| | **157** | ***(18)*** |

### c/ Analysis of cash balances

| | At 1 March 2000 £m | Cashflows £m | At 28 February 2001 £m |
|---|---|---|---|
| Cash | 5 | – | 5 |
| Advances to banks repayable on demand | 258 | 555 | 813 |
| | 263 | 555 | 818 |

**d/** The cash flow statement has been prepared under FRS1 (Revised). The definition of cash in the Standard is not wholly appropriate to the Bank. The Bank requires a stock of liquidity for operational purposes and regards advances to the money market and banks, Treasury and other eligible bills, and reverse repurchase agreements as a pool of assets for these purposes. The allocation of this liquidity between the components depends upon prevailing market conditions. The Bank's total liquidity position at 28 February 2001 was as follows:

| | At 1 March 2000 £m | Cashflows £m | At 28 February 2001 £m |
|---|---|---|---|
| Cash | 5 | - | 5 |
| Advances to money market and certain banks (including reverse repurchase agreements) | 2,450 | (273) | 2,177 |
| Treasury and other eligible bills | 11 | 6 | 17 |
| | 2,466 | (267) | 2,199 |

## 23/ RELATED PARTIES

### a/ HM Government

The Bank provides several services to its shareholder, HM Treasury, and to other Government departments and bodies.

The main services during the year to 28 February 2001 were:

- provision of banking services, including holding the principal accounts of the Government
- provision of registration services in respect of gilt-edged stocks
- management of the Exchange Equalisation Account
- management of the Note Issue, including printing of notes
- operation of sanctions against specific countries.

The aggregate balances on HM Treasury and other public sector accounts are disclosed in note 9 as advances or note 16 as public deposits. The total charges made to the Government are disclosed in note 2.

### b/ Group undertakings

All material transactions and balances between the Bank and its subsidiaries are disclosed in note 12.

### c/ Governors, Directors and Officers

The following particulars relate to loans given or arranged by the Bank of England to Governors, Directors and Officers of the Bank and persons connected with them:

| | **2001** Total amount outstanding £000 | **2001** Number | *2000* Total amount outstanding £000 | *2000* Number |
|---|---|---|---|---|
| Governors and Directors | – | – | *–* | *–* |
| Officers | 57 | 13 | *1,291* | *15* |

There were no other transactions that would be required to be shown under the provisions of the Companies Act 1985. None of the Governors, Directors or Officers 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.

The above information concerning Officers is presented only in respect of those employees of the Bank who would be considered as managers, either within the meaning of the Banking Act 1987 or as defined under Financial Reporting Standard 8. The Executive Directors are included under Officers.

### d/ The Bank's pension schemes

The Bank provides the Secretariat, the investment management and some banking and custodial services to the Bank's pension schemes. In the year to 28 February 2001 a charge of £1.4 million *(2000 £1.3 million)* was made for these services. These activities are undertaken on behalf of, and under the supervision of, the trustees of the schemes. There were no other material transactions between the Bank and the pension schemes during the year to 28 February 2001. The balances on accounts held with the Bank were £13 million *(2000 £15 million)*.

### 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.

## 24/ GENERAL

### a/ Operating lease commitments

| | **2001** Land and buildings £m | **2001** Computer and other equipment £m | *2000* Land and buildings £m | *2000* Computer and other equipment £m |
|---|---|---|---|---|
| At the year end, annual commitments under non-cancellable operating leases were: | | | | |
| - expiring within one year | – | 1 | *–* | *1* |
| - expiring in five years or more | 1 | – | *1* | *–* |
| | **1** | **1** | ***1*** | ***1*** |

### b/ Average number of employees

The average number of persons employed by the Bank during the year was made up as follows:

| | **2001** | *2000* |
|---|---|---|
| Governors and Executive Directors | 6 | *6* |
| Managers and analysts | 434 | *403* |
| Clerical staff | 1,039 | *1,114* |
| Technical/other | 865 | *958* |
| | **2,344** | ***2,481*** |

## 25/ CONTINGENT LIABILITIES

Contingent liabilities and commitments, some of which are offset by corresponding obligations of third parties, arise in the normal course of business, including contingent liabilities in respect of guarantees and indemnities in connection with liquidity support operations. There are also forward contracts for the purchase and sale of foreign currencies. Provision is made for any estimated irrecoverable liability that may arise from these transactions.

As part of its normal business, the Bank acts as custodian of its customers' assets and fulfils an agency role. No significant irrecoverable liability arises from these transactions.

In 1993 and 1994, writs were issued against the Bank by certain depositors in the Bank of Credit and Commerce International SA claiming substantial but unquantified damages. On 30 July 1997, Mr (now Lord) Justice Clarke dismissed all the claims against the Bank. On 4 December 1998, the Court of Appeal upheld his judgment.
On 18 May 2000, the House of Lords upheld these judgments in relation to the claim based on Community law but on 22 March 2001 they allowed the claim for misfeasance in public office to proceed to trial. The Bank's Members of Court are of the opinion that the Bank has a strong defence against the claim and will oppose it vigorously. Accordingly no provision is made in these financial statements.

Since 1930 there has also been a contingent liability, denominated in Swiss gold francs, in respect of uncalled capital on the Bank's investment in the Bank for International Settlements. The sterling equivalent of this liability based on the gold market price at the balance sheet date was £155 million *(2000 £150 million)*.

## 26/ DATE OF APPROVAL

The Members of Court approved the financial statements on pages 58 to 84 on 9 May 2001.

# Issue Department

## Account for the year ended 28 February 2001

| | Notes | 2001 £m | *2000 £m* |
|---|---|---|---|
| Income and profits: | | | |
| Securities of, or guaranteed by, the British Government | | 776 | *791* |
| Other securities and assets | | 859 | *591* |
| Other income | | – | *1* |
| | | **1,635** | ***1,383*** |
| Expenses: | 2 | | |
| Cost of production of Bank notes | | 33 | *41* |
| Cost of issue, custody and payment of Bank notes | | 13 | *18* |
| Other expenses | | 5 | *7* |
| | | **51** | ***66*** |
| Payable to HM Treasury | | **1,584** | ***1,317*** |

## Statement of balances: 28 February 2001

| | Notes | 2001 £m | *2000 £m* |
|---|---|---|---|
| **Assets** | | | |
| Securities of, or guaranteed by, the British Government | 3 | 13,500 | *3,763* |
| Other securities and assets including those acquired under reverse repurchase agreements | 4 | 13,700 | *21,377* |
| **Total assets** | | **27,200** | ***25,140*** |
| **Liabilities** | | | |
| Notes issued: | | | |
| In circulation | 5 | 27,195 | *25,135* |
| In Banking Department | | 5 | *5* |
| **Total liabilities** | | **27,200** | ***25,140*** |

| | |
|---|---|
| **E A J George** | Governor |
| **D C Clementi** | Deputy Governor |
| **Noakes** | Director |
| **G Midgley** | Finance Director |

# Notes to the Issue Department Statements of Account

### 1/ ACCOUNTING POLICIES

The statements of account are prepared in accordance with the requirements of the Currency and Bank Notes Act 1928 and the National Loans Act 1968. All profits of the note issue are payable to the National Loans Fund.

a/ The statements of account are prepared on the basis of amounts received and paid as modified by the effects of the revaluation of securities.

b/ All securities are revalued and are stated in the balance sheet at this valuation. Longer-dated stocks are valued at mid-market prices. Bills are valued at an average price approximating to market price. The last valuation was made at 27 February 2001.

c/ If the 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 National Loans Fund.

### 2/ EXPENSES

The expenses shown represent charges from the Banking Department for costs incurred in relation to the Note Issue.

### 3/ SECURITIES OF, OR GUARANTEED BY, THE BRITISH GOVERNMENT

| | **2001** | *2000* |
|---|---|---|
| | **£m** | *£m* |
| British Government Stocks | 130 | *183* |
| Ways and Means advance to the National Loans Fund | 13,370 | *3,580* |
| | **13,500** | ***3,763*** |

### 4/ OTHER SECURITIES AND ASSETS INCLUDING THOSE ACQUIRED UNDER REVERSE REPURCHASE AGREEMENTS

| | **2001** | *2000* |
|---|---|---|
| | **£m** | *£m* |
| Commercial bills | 564 | *929* |
| Deposit with Banking Department | 50 | *668* |
| Reverse repurchase agreements | 13,086 | *19,780* |
| | **13,700** | ***21,377*** |

## 5/ NOTES IN CIRCULATION

| | **2001** | *2000* |
|---|---|---|
| | **£m** | *£m* |
| £5 | 1,041 | *1,045* |
| £10 | 6,107 | *5,683* |
| £20 | 14,381 | *13,198* |
| £50 | 4,657 | *4,195* |
| Other notes (a) | 1,009 | *1,014* |
| | **27,195** | ***25,135*** |

a/ Includes higher value notes used internally in the Bank, for example as cover for the note issues of banks in Scotland and Northern Ireland in excess of their permitted issues.

## 6/ ASSETS AND LIABILITIES

### a/ Interest rate exposure

As the liabilities of Issue Department are interest free, the income of Issue Department is directly exposed to movements in interest rates. With the exception of the British Government stocks, all the assets of Issue Department have a repricing period of 3 months or less.

### b/ Currency exposure

All the assets and liabilities of Issue Department are denominated in sterling.

## 7/ DATE OF APPROVAL

The Members of Court approved the statements of account on pages 85 to 87 on 9 May 2001.

# Addresses and Telephone Numbers

**HEAD OFFICE**

Threadneedle Street
London EC2R 8AH
020 7601 4444*

**REGISTRAR'S DEPARTMENT**

Southgate House
Southgate Street
Gloucester GL1 1UW
01452 398080

**PRINTING WORKS**

Langston Road
Loughton
Essex IG10 3TN
020 8508 6221

**REGIONAL AGENCIES**

**The South East and East Anglia**

**a/ London**
London EC2R 8AH
020 7601 4335

**b/ Cambridge**
24 Newmarket Road
Cambridge CB5 8EW
01223 368256

**Greater London**
London EC2R 8AH
020 7601 5001

**Central Southern England**
PO Box 793
Notebeme House
84 High Street
Southampton SO14 2SU
023 80 231060

**South West**
Redcliff Quay
120 Redcliff Street
Bristol BS1 6HU
0117 927 7251

**Wales**
Emperor House
Scott Harbour
Pierhead Street
Cardiff CF10 4WA
029 20453600

**West Midlands**
Cornwall Court
19 Cornwall Street
Birmingham B3 2DT
0121 200 2599

**East Midlands**
3 College Street
Nottingham NG1 5AQ
0115 947 4577

**Yorkshire and the Humber**
Regent House
5 Queen Street
Leeds LS1 2TW
0113 242 0355

**Northern Ireland**
Harvester House
4/8 Adelaide Street
Belfast BT2 8GD
028 9024 1692

**North West**

**a/ Manchester**
PO Box 301
82 King Street
Manchester M60 2HP
0161 834 6199

**b/ Liverpool**
Lancaster House
Mercury Court
Tithebarn Street
Liverpool L2 2QP
0151 227 2553

**North East and Cumbria**
Alderman Fenwick's House
PO Box 2BE
98-100 Pilgrim Street
Newcastle Upon Tyne
NE99 2BE
0191 261 1411

**Scotland**
19 St Vincent Place
Glasgow G1 2DT
0141 221 7972

* General enquiries relating to the Bank may be made on 020 7601 4878 or by e-mail on enquiries@bankofengland.co.uk Information about the Bank and its publications and additional telephone numbers and e-mail addresses are available on the Bank's website at http://www.bankofengland.co.uk There is a page on the Bank's website dedicated to euro-related information and publications at http://www.bankofengland.co.uk/euro

Enquiries relating to the *Bank of England Quarterly Bulletin* and *Inflation Report* may be made on 020 7601 4030; *Financial Stability Review* on 020 7601 5010; and *Bank of England: Monetary and Financial Statistics* on 020 7601 5353.

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