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 60 to 89, and the statements of account of the Issue Department on pages 90 to 92.

RESPECTIVE RESPONSIBILITIES OF THE MEMBERS OF COURT AND AUDITORS

The responsibilities of the Members of Court for preparing the Annual Report, including the financial statements and statements of account, in accordance with applicable United Kingdom law and accounting standards, are set out on page 52.

Our responsibility is to audit the financial statements and statements of account. We have taken this responsibility to be that which would have applied if it had been established primarily by the United Kingdom Companies Acts and United Kingdom Auditing Standards issued by the Auditing Practices Board.

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 91. Furthermore, we report to you if, in our opinion, the Report from Members of Court on pages 49 to 55 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 91.

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 insofar 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 60 to 89 present fairly, on the basis referred to above, the state of affairs of the Banking Department at 28 February 2002 and the profit and cash flows for the year then ended.

2/ The statements of account on pages 90 to 92 present fairly, on the basis described on page 91, the outcome of the transactions of the Issue Department for the year ended 28 February 2002 and its balances at that date.

PRICEWATERHOUSECOOPERS
Chartered Accountants and Registered Auditors

London
8 May 2002

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 2002

	Notes	2002 £m	*2001 £m*
Profit after provisions and before tax	2	103	*156*
Payable to HM Treasury under Section 1(4) of the Bank of England Act 1946	5	(42)	*(68)*
Tax on profit on ordinary activities	6	(19)	*(20)*
Retained profit for the year	20	**42**	***68***

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 2002

	2002 £m	*2001 £m*
Profit transferred to reserves	42	*68*
Unrealised surplus on revaluation of properties	–	*74*
Total recognised gains and losses for the year	**42**	***142***

Balance sheet as at 28 February 2002

	Notes	2002 £m	2001 £m
Assets			
Cash		6	*5*
Items in course of collection		421	*330*
Treasury and other eligible bills	8	–	*17*
Balance with the European Central Bank	9	76	*64*
Loans and advances to banks, the money market and customers	9	5,293	*6,229*
Debt securities	10	6,517	*4,086*
Equity shares and participating interest	11	27	*27*
Shares in group undertakings	12	18	*18*
Tangible fixed assets	13	262	*278*
Prepayments, accrued income and other assets		527	*506*
Total assets		**13,147**	***11,560***
Liabilities			
Deposits by central banks	14	4,039	*4,169*
Deposits by banks and building societies	15	1,898	*2,060*
Customer accounts	16	1,216	*807*
Debt securities in issue	17	3,962	*2,531*
Other liabilities	18	506	*509*
		11,621	***10,076***
Capital	19	15	*15*
Revaluation reserves	20	192	*198*
Profit and loss account	20	1,319	*1,271*
Shareholder's funds	21	1,526	*1,484*
Total liabilities		**13,147**	***11,560***

E A J George Governor
D C Clementi Deputy Governor
D J S Cooksey Director
P A C Smout Finance Director

Cash flow statement for the year ended 28 February 2002

	Notes	**2002 £m**	*2001 £m*
Net cash (outflow)/inflow from operating activities	22	(487)	*474*
Corporation tax paid		(27)	*(26)*
Net (purchases)/sales of premises and equipment		(1)	*157*
Capital expenditure and financial investment	22	(1)	*157*
		(515)	***605***
Payment to HM Treasury under Section 1(4) of the Bank of England Act 1946		(68)	*(50)*
(Decrease)/increase in cash	22	**(583)**	***555***

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, applicable Accounting Standards in the United Kingdom and Statements of Recommended Accounting Practice issued by the British Bankers' Association in so far as they are appropriate having regard to its functions: that is, in particular, with the limitations explained below.

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. In preparing these financial statements the Bank has adopted, for the first time, Financial Reporting Standards 18 on accounting policies and 19 on deferred taxation. The adoption of these standards has had no material impact on the financial statements. The Bank has adopted FRS 17 (Retirement Benefits) for the first time. Under transitional arrangements this requires supplementary disclosures only for the current period and these are set out in Note 4. Otherwise the accounting policies set out below have been applied consistently.

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 and other sterling debt 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 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 used via repo contracts 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 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 bills used to hedge it is 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 3-year euro-denominated notes

The Bank has invested the proceeds of its issue of Euro Notes in 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.

Euro Notes are stated at issue proceeds, 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. 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. Gains and losses on disposal of securities are amortised over the remaining life of the underlying notes.

f/ Financial instruments

Financial instruments, including interest rate, currency and foreign exchange swaps, are held as part of hedging arrangements for general banking business, the TARGET portfolio and euro-denominated notes as described in (d) and (e) above. Such instruments are recorded on an accruals basis to match the cash flows 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 plus the cost of subsequent additions and less depreciation. The frequency of professional valuations is three 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 where a binding sale contract has been agreed.

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 twenty-five 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.

Specific provisions relate to identified advances at risk and are raised when it is considered that recovery of the outstanding balance is in serious doubt. The provision is the amount necessary to reduce the carrying value of the advance to its expected net realisable value including available collateral.

The general provision is reviewed on a regular basis to ensure that it remains appropriate in the context of the perceived risk inherent in the lending portfolio and the prevailing economic climate.

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, and on property revaluations where there is a binding sale contract. This represents a change of accounting policy on the introduction of FRS 19. Previously, deferred tax was only provided for where it was probable that a liability to tax or an asset would crystallise. The change in policy has had no material effect on the profit and loss account for either 2002 or 2001.

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.

Additional disclosures are made under the transitional arrangements of FRS 17.

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, namely equity shares and participating interests, 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:

	2002	*2001*
	£m	*£m*
i/ Staff costs (inc. Governors and Executive Directors):		
– wages and salaries	80	*79*
– social security costs	7	*7*
– pension costs and other post-retirement benefits	15	*13*
– cost of severance schemes	9	*4*
ii/ Income:		
– charges for services to HM Government, including charges to the Issue Department in respect of the Note Issue	65	*70*
– rents	1	*10*
– profit on disposal of land and buildings	–	*22*
iii/ Charges:		
– operating lease rentals: property	2	*1*
equipment	1	*1*
– depreciation of premises and equipment	16	*19*

The auditors' remuneration was £135,000 *(2001 £133,000)*.
The auditors' remuneration for non-audit work was £299,500 *(2001 £97,000)*.
For subsidiary companies which are not consolidated, the auditors' remuneration was £11,000 *(2001 £11,000)* and fees for non-audit work were £10,000 *(2001 £nil)*.

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 2002

	2002 £m	*2001 £m*
Reported profit on ordinary activities before taxation	103	*156*
Realisation of property revaluation gains of previous years	6	*76*
Difference between a historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	5	*7*
Historical cost profit on ordinary activities before taxation	**114**	***239***
Historical cost profit for the year retained after taxation, extraordinary items and dividends	**53**	***151***

3/ EMOLUMENTS OF GOVERNORS AND DIRECTORS

	2002 £	*2001 £*
Remuneration of Governors and Directors	742,457	*726,337*
Payment in respect of notional benefits of travel on Bank business	794	*1,445*
	743,251	***727,782***
Pension costs in respect of - current executive members of Court		
current year's cost	210,000	101,200
revaluation of past years' service	543,922	–
- former executive members of Court	408,382	*275,791*
Total pension costs	**1,162,304**	***376,991***

The provision for unfunded pension costs is based upon actuarial advice. For the year ended 28 February 2002, the actuary has changed the assumptions used in line with those adopted for the Court pension scheme. Although there has been no change in the benefits, this revaluation has required an increase in the provision for previous years. Full information on the benefits to which the Members of Court are entitled is given in the Remuneration Report on pages 45 to 48.

4/ PENSION COSTS AND OTHER POST-RETIREMENT BENEFITS

a/ Pension costs and other post-retirement benefits in the financial statements

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 with interim reviews in the intervening years. The latest available actuarial valuation was as at 28 February 1999; it used the projected unit method, and showed that the actuarial value of the Fund's assets at 28 February 1999 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 2002 was 23.3% *(2001 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% p.a. and the rate of increase in pensions by 4.5% p.a. It was also assumed that the equity dividend growth would exceed the rate of future pension increases by 0.5% p.a. 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 full valuation as at 28 February 2002 will be prepared by the actuary during the year and reflected in next year's financial statements.

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%.

£nil *(2001 £5 million)*, representing the excess of the pension amounts funded over the cost, is included in other assets. £118 million *(2001 £112 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 £15 million *(2001 £13 million)*.

b/ Redundancy provisions

As part of redundancy arrangements with staff, the Bank may 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. Provision is made for the costs of these benefits at the time the redundancy offer is announced based on actuarial advice. The provisions (a separate one is made in respect of each offer) are revalued by the actuary every three years with the latest being in 1999, updated to 2002, using the same assumptions as for the pension fund. Interest is added to the provisions at inflation plus 4.25% on the advice of the actuary. The cost for the year was £9 million *(2001 £4 million)*. Total provisions at 28 February 2002 were £40 million *(2001 £39 million)*.

c/ Additional information required by FRS 17 is as follows:

Pending finalisation of the full actuarial valuation, the actuaries have updated the 28 February 1999 valuation as at 28 February 2002 using the following assumptions, which Members of Court have accepted for the purposes of this disclosure:

	2002
	%
Rate of increase in salaries	4.3
Rate of increase in pensions in payment	2.5
Discount rate	5.8
Inflation assumption	2.5

The assets in the scheme and the expected rate of return were:

	2002	
	Long-term rate of return expected	**Value**
	%	**£m**
Equities	7.9	1,267
Bonds	5.0	226
Properties	6.9	110
Cash and other assets	4.6	31
Total market value of investments	7.4	**1,634**
Present value of scheme liabilities		1,428
Surplus in the scheme		**206**
Related deferred tax liability		(61)
Net pension asset		**145**

Other post-retirement benefits, calculated under FRS 17 using the above assumptions together with a medical claims escalation rate of 5.6%, would be £65 million, with an associated deferred tax asset of £20 million. The provisions for redundancy-related pension costs arising under (b) above, if calculated according to the requirements of FRS 17, would amount to £48 million, with an associated deferred tax asset of £14 million. The reduction in the provision for other post-retirement benefits under FRS 17 is due to the discount rate, as now prescribed by the standard, differing from that considered appropriate under current accounting requirements.

If these amounts had been recognised in the financial statements, the assets, liabilities and profit and loss reserve at 28 February 2002 would have been as follows:

	£m
Assets excluding pension asset	13,147
Less deferred tax asset (in other assets)	(21)
	13,126
Pension assets (net of deferred tax)	145
Total assets including pension asset	13,271
Total liabilities excluding shareholder's funds per balance sheet	11,621
Less provisions already made for unfunded post-retirement benefits and redundancy costs	(158)
Deferred tax other than in respect of post-retirement assets and liabilities	27
	11,490
Unfunded post-retirement and redundancy liability under FRS 17 (net of deferred tax)	78
Total liabilities including pension liabilities	11,568
Profit and loss account per balance sheet	1,319
Add provisions made for unfunded post-retirement benefits (net of deferred tax)	111
	1,430
Pension reserve	66
Profit and loss account	1,496
Share capital	15
Revaluation reserve	192
Total liabilities and shareholder's funds including pension reserve under FRS 17	13,271

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

	2002	*2001*
	£m	*£m*
Payable 5 April	21	*33*
Payable 5 October	21	*35*
	42	***68***

6/ TAX ON PROFIT ON ORDINARY ACTIVITIES

	2002 £m	*2001 £m*
UK corporation tax at an average rate of 30% *(2001 30%)*	25	*25*
Prior year - corporation tax	(1)	*–*
Deferred taxation	(5)	*(5)*
	19	***20***

The charge for taxation is computed on the residual profit on ordinary activities after deduction of the amount payable to HM Treasury. The current tax liability of £13 million *(2001 £16 million)* is included in other liabilities.

A reconciliation of the reported current tax charge for the year to the charge that would result from applying the standard UK corporation tax rate to profit before tax is given below:

	2002 £m	*2001 £m*
Profit on ordinary activities before tax and after dividend	**61**	***88***
Profit on ordinary activities multiplied by standard rate of UK corporation tax of 30%	18	*26*
Depreciation in excess of capital allowances	1	*1*
Tax effect of capital gains	–	*(7)*
Post-retirement cost not allowable in year	5	*3*
Other disallowables	2	*4*
Income from subsidiaries	(1)	*(2)*
Current tax charge for period	**25**	***25***

The deferred tax asset of £21 million *(2001 £16 million)*, included in other assets, is made up as follows:

	2002 £m	*2001 £m*
Accelerated capital allowances	2	*2*
Other timing differences	(23)	*(18)*
	(21)	***(16)***

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

	£m
At 1 March 2001	(16)
Profit and loss account	(5)
At 28 February 2002	**(21)**

7/ ASSETS AND LIABILITIES

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

	2002 £m	2001 £m
Assets:		
Denominated in sterling	5,109	4,818
Denominated in currencies other than sterling	8,038	6,742
	13,147	**11,560**
Liabilities:		
Denominated in sterling	5,945	5,117
Denominated in currencies other than sterling	7,202	6,443
	13,147	**11,560**

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 50 of the Annual Report.

b/ Derivatives and other financial instruments

The Bank may use foreign exchange swaps as a technique for its open market operations or as hedges for currency exposure in the deposit book. 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 Report from Members of Court. In particular, market risk is covered on pages 54 to 55. 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 2002

	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	–	–	–	–	–	–	–
Balance with European Central Bank	76	–	–	–	–	–	76
Loans and advances to banks, the money market and customers	3,169	878	1,230	2	2	12	5,293
Debt securities and equity shares (excluding those relating to TARGET and Euro Notes)	–	110	174	397	1,801	27	2,509
TARGET securities	524	184	183	1,289	–	–	2,180
Securities hedging Euro Notes	–	–	–	1,855	–	–	1,855
Other assets:-							
financial	–	–	–	–	–	928	928
non-financial	–	–	–	–	–	306	306
Total assets	**3,769**	**1,172**	**1,587**	**3,543**	**1,803**	**1,273**	**13,147**
Liabilities:							
Deposits by central banks	1,908	877	1,230	–	–	24	4,039
Deposits by banks and building societies	303	–	–	–	–	1,595	1,898
Customer accounts	1,183	1	–	–	–	32	1,216
Debt securities in issue	1,582	544	–	1,836	–	–	3,962
Other liabilities:-							
financial	–	–	–	–	–	262	262
non-financial	–	–	–	–	–	244	244
Shareholder's funds	–	–	–	–	–	1,526	1,526
Total liabilities	**4,976**	**1,422**	**1,230**	**1,836**	**–**	**3,683**	**13,147**
Off balance sheet items	1,992	(242)	(230)	(1,240)	–	(280)	–
Interest rate repricing gap	785	(492)	127	467	1,803	(2,690)	
Cumulative gap	785	293	420	887	2,690		

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 that time band as a result of an increase in interest rates.

Year ended 28 February 2001

	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	17	–	–	–	–	–	17
Balance with European Central Bank	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 those relating to TARGET and Euro Notes)	83	–	–	560	950	27	1,620
TARGET securities	–	–	1,169	1,009	–	–	2,178
Securities hedging Euro Notes	–	–	–	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		

d/ Currency exposure year ended 28 February 2002

	Foreign currency monetary assets and liabilities					
	US dollar	Gold	Euro	Yen	Other	Total
	£m	£m	£m	£m	£m	£m
Assets:						
Balance with European Central Bank	–	–	76	–	–	76
Loans and advances to banks, the money market and customers	2,099	563	867	–	115	3,644
TARGET securities	–	–	2,180	–	–	2,180
Securities hedging Euro Notes	53	–	726	1,070	6	1,855
Equity shares and participating interest	–	–	25	–	2	27
Other assets	–	–	235	21	–	256
	2,152	**563**	**4,109**	**1,091**	**123**	**8,038**
Liabilities:						
Deposits by central banks	1,144	563	821	–	114	2,642
Deposits by banks and building societies	105	–	93	74	–	272
Customer accounts	192	–	11	–	1	204
Debt securities in issue	–	–	3,962	–	–	3,962
Other liabilities	1	–	119	2	–	122
	1,442	**563**	**5,006**	**76**	**115**	**7,202**
Net	**710**	**–**	**(897)**	**1,015**	**8**	**836**
Off balance sheet items	**(710)**		**926**	**(1,018)**	**(6)**	**(808)**

The functional currency of all operations is sterling.

Included in assets denominated in US dollars are deposits equivalent to £669 million *(2001 £127 million)* 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 tables.

Currency exposure year ended 28 February 2001

	Foreign currency monetary assets and liabilities					
	US dollar	Gold	Euro	Yen	Other	Total
	£m	£m	£m	£m	£m	£m
Assets:						
Balance with European Central Bank	–	–	64	–	–	64
Loans and advances to banks, the money market and customers	1,915	841	1,110	2	1	3,869
TARGET securities	–	–	2,178	–	–	2,178
Securities hedging Euro Notes	–	–	–	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)**

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.

	2002		2001	
	Book value £m	Fair value £m	*Book value £m*	*Fair value £m*
Assets:				
Treasury and other eligible bills	–	–	*17*	*17*
TARGET securities (hedged)	2,180	2,125	*2,178*	*2,155*
Securities hedging Euro Notes (hedged)	1,855	1,865	*315*	*317*
Other debt securities	2,482	2,670	*1,593*	*1,821*
	6,517	**6,660**	***4,103***	***4,310***
Liabilities:				
Euro bills	2,126	2,126	*2,213*	*2,213*
Euro Notes	1,836	1,840	*318*	*318*
	3,962	**3,966**	***2,531***	***2,531***

	Notional value principal £m	Book value £m	Fair value £m	*Notional value principal £m*	*Book value £m*	*Fair value £m*
Derivatives matched to securities and euro liabilities:						
- Cross-currency swaps						
Positive value	689	244	193	*1,895*	*250*	*510*
Negative value	1,755	(120)	(65)	*2,421*	*(179)*	*(425)*
- Foreign exchange swaps						
Positive value	210	(1)	1	*–*	*–*	*–*
Negative value	–	–	–	*73*	*–*	*(1)*
- Interest rate swaps						
Positive value	2,040	160	83	*857*	*124*	*110*
Negative value	1,390	(118)	(43)	*74*	*(32)*	*(2)*
Other derivative instruments used as hedges:						
Foreign exchange swaps	658	5	(9)	*130*	*–*	*–*
	6,742	**170**	**160**	***5,450***	***163***	***192***

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 and replacement costs

At 28 February 2002, the notional principal amounts and replacement costs, by residual maturity, of the Bank's derivatives were as follows:

	2002		*2001*	
	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 principal	1,258	1,186	*2,180*	*2,136*
Replacement cost	112	81	*270*	*240*
- Foreign exchange swaps				
Notional principal	210	–	*73*	–
- Interest rate swaps				
Notional principal	970	2,460	*356*	*575*
Replacement cost	57	26	*59*	*51*
Other derivative instruments used as hedges:				
Notional principal				
Foreign exchange swaps	658	–	*130*	–
Total notional principal	**3,096**	**3,646**	*2,739*	*2,711*
Total replacement cost	**169**	**107**	***329***	***291***

All derivative counterparties are financial institutions. The maximum credit exposure after taking account of netting agreements was £168 million *(2001 £195 million)*. The exposure, net of collateral held by the Bank was £64 million *(2001 £175 million)*.

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 Notes portfolio and the deposit book. 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 2002, the unrecognised losses on financial instruments used for hedging were £10 million *(2001 gains £29 million)*. Net gains arising before 1 March 2001 and recognised in the year to 28 February 2002 amounted to £29 million *(2001 £26 million)*. Net losses of £10 million arose in the year to 28 February 2002 *(2001 gains £7 million)* but were not recognised in the year. Of the unrecognised loss of £10 million at 28 February 2002 *(2001 gains £29 million)*, £37 million *(2001 £25 million)* of net gains are expected to be recognised in the year to 28 February 2003 and losses of £47 million in subsequent years.

8/ TREASURY AND OTHER ELIGIBLE BILLS

	2002 **£m**	*2001* *£m*
British government Treasury bills	**–**	***17***

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

9/ BALANCE WITH THE EUROPEAN CENTRAL BANK AND LOANS AND ADVANCES TO BANKS, THE MONEY MARKET AND CUSTOMERS

a/ Balance with the European Central Bank

This balance, denominated in euro, arises 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. The individual positions that arise intra-day between the central banks are netted into a single position with the European Central Bank.

	2002		*2001*	
	£m	**€m**	*£m*	*€m*
Due to European Central Bank in respect of TARGET	**76**	**124**	***64***	***101***

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.

	2002 **£m**	*2001* *£m*
Remaining maturity:		
Loans and advances		
- over 5 years	2	*2*
- 5 years or less but over 1 year	2	*2*
- 1 year or less but over 3 months	2,109	*1,237*
- 3 months or less	2,951	*4,175*
- Repayable on demand	229	*813*
	5,293	***6,229***

Included in the above for 2001 is an advance to a public sector customer of £78 million, repayable on demand. There were no corresponding advances outstanding at 28 February 2002.

10/ DEBT SECURITIES

	2002 Balance sheet £m	2002 Market value £m	*2001 Balance sheet £m*	*2001 Market value £m*
Investment securities:				
British government securities, listed on a recognised UK exchange	1,800	1,988	*1,593*	*1,821*
Other sterling securities, listed on recognised exchanges	682	682	*–*	*–*
	2,482	**2,670**	***1,593***	***1,821***
Foreign government securities, listed on recognised exchanges	4,028	3,983	*2,486*	*2,465*
Other foreign securities, listed on recognised exchanges	7	7	*7*	*7*
	4,035	**3,990**	***2,493***	***2,472***
	6,517	**6,660**	***4,086***	***4,293***
Due within one year	1,175	1,185	*1,252*	*1,240*
Due one year and over	5,342	5,475	*2,834*	*3,053*
	6,517	**6,660**	***4,086***	***4,293***

Movements in debt securities were as follows:

	Cost £m	Discounts & (premiums) £m	Carrying value £m
British government and other sterling securities:			
At 1 March 2001	1,502	91	1,593
Amortisation of discounts		9	9
Amortisation of premiums		(10)	(10)
Purchases	979	(6)	973
Redemptions	(80)	(3)	(83)
At 28 February 2002	**2,401**	**81**	**2,482**

	2002 £m	*2001 £m*
Unamortised discounts on British government and other sterling securities	29	*46*
Unamortised (premiums) on British government and other sterling securities	(165)	*(61)*
	(136)	***(15)***

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.

	Cost £m	Discounts & (premiums) £m	Carrying value £m
Foreign government and other foreign securities:			
At 1 March 2001	2,547	(54)	2,493
Amortisation of discounts	–	3	3
Amortisation of premiums		(30)	(30)
Purchases	2,879	(12)	2,867
Redemptions	(1,152)	32	(1,120)
Foreign currency revaluation effects	(178)	–	(178)
At 28 February 2002	**4,096**	**(61)**	**4,035**

	2002 **£m**	*2001* *£m*
Unamortised discounts on foreign securities	15	*2*
Unamortised (premiums) on foreign securities	(200)	*(37)*
	(185)	***(35)***

The portfolio of foreign government and other foreign securities is held for two purposes. Part of the portfolio, denominated in euro, is held to enable the Bank to provide liquidity in the TARGET settlement system (note 9(a)). These securities, amounting to £2,180 million at 28 February 2002 *(2001 £2,178 million)* are used to generate this liquidity via intra-day repo contracts. The remainder of the portfolio is held to match the Bank's issue of Euro Notes (note 17(b)). At 28 February 2002, this portfolio was mainly denominated in euro but with a portion in US dollars and Japanese Yen, with currency swaps into euro.

The increase in both the book and market values compared to 2001 is due mainly to the acquisition of securities for the Euro Note portfolio.

11/ EQUITY SHARES AND PARTICIPATING INTEREST

	2002		*2001*	
	Balance sheet cost £m	**Members of Court valuation £m**	*Balance sheet cost £m*	*Members of Court valuation £m*
Investment securities - unlisted equity shares	2	85	*2*	*83*
Participating interest - unlisted	25	25	*25*	*25*
	27	**110**	***27***	***108***

a/ Investment securities

	Percentage held **2002**	*2001*
Bank for International Settlements shares of 2,500 Swiss gold francs (25% paid) (incorporated in Switzerland)	**9.0**	***9.0***

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 United Kingdom's full share (of the ECB's capital) that would have been payable had the United Kingdom participated in economic and monetary union. This contribution has been accounted for as an investment.

12/ SHARES IN GROUP UNDERTAKINGS

	2002	*2001*
	£m	*£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 (In members' voluntary liquidation)

Throughout the year ended 28 February 2002, 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 2002 at £12.5 million *(2001 £12.5 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 £62.5 million in total.

On 22 February 2002 MFL was put into members' voluntary liquidation, as the company's directors considered that no further benefit would be obtained by keeping the company in operation. The liquidator will continue to realise the remaining loans and other assets.

MFL's financial statements as at 31 December 2001, which were prepared on the break-up basis in view of the pending liquidation, bear an unqualified audit report. The company had continued during 2001 its principal activity of realisation of loans and other non-liquid assets, which, with income-generating monetary assets, comprise its remaining assets. A dividend of £2.35 million has been declared and reflected in the Bank's financial statements.

The financial statements of MFL show:

Loss for the year to 31 December 2001	£0.4 million
Accumulated reserves as at 31 December 2001 after provision for dividends	£nil million
Net assets at 31 December 2001 after provision for dividends	£12.5 million

The Bank expects to recover in excess of its investment and accordingly no provision has been made in these financial statements.

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	Lease of less than 50 years unexpired	Equipment	£m Total
Cost or valuation				
At 1 March 2001	251	5	102	358
Additions	5	–	5	10
Disposals	(5)	(5)	(5)	(15)
At 28 February 2002	**251**	**–**	**102**	**353**
Accumulated depreciation				
At 1 March 2001	–	–	80	80
Charge for the year	10	–	6	16
On disposals	–	–	(5)	(5)
At 28 February 2002	**10**	**–**	**81**	**91**
Net book value at 28 February 2002	**241**	**–**	**21**	**262**
Net book value at 28 February 2001	***251***	***5***	***22***	***278***
Cost or valuation at 28 February 2002 comprised:				
At 2001 valuation	246	–	–	246
At cost	5	–	102	107
	251	**–**	**102**	**353**

The figures for 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.

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 2002 totalled £20 million *(2001 £7 million)*.

14/ DEPOSITS BY CENTRAL BANKS

	2002 £m	*2001 £m*
Remaining maturity:		
- 1 year or less but over 3 months	2,107	*1,115*
- 3 months or less but not repayable on demand	1,147	*2,306*
- Repayable on demand	785	*748*
	4,039	***4,169***

The Bank takes deposits from central banks in sterling, other currencies and gold.

15/ DEPOSITS BY BANKS AND BUILDING SOCIETIES

	2002 £m	*2001 £m*
3 months or less but not repayable on demand:		
Repurchase agreement	94	*–*
Repayable on demand:		
Cash ratio deposits	1,552	*1,422*
Euro deposits repayable on demand	73	*63*
Other deposits repayable on demand	179	*575*
	1,898	***2,060***

Cash ratio deposits are computed on the basis of banks' and building societies' eligible liabilities and are interest free. 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. Cash deposits in US dollars are taken from counterparties as collateral for certain currency swaps within the TARGET portfolio.

16/ CUSTOMER ACCOUNTS

	2002 £m	*2001 £m*
Remaining maturity:		
1 year or less but over 3 months:		
- Other deposits	1	*1*
3 months or less but not repayable on demand:		
- Public deposits	46	*2*
- Other deposits	80	*37*
Repayable on demand:		
- Public deposits	792	*460*
- Deposit by Issue Department	50	*50*
- Other deposits	247	*257*
	1,216	***807***

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

17/ DEBT SECURITIES IN ISSUE

a/ Summary

	2002 £m	*2001 £m*
Euro Notes	1,836	*318*
Euro bills	2,126	*2,213*
	3,962	***2,531***

b/ Euro Notes

On 28 January 2002, the Bank created €2.2 billion of Euro Notes maturing on 28 January 2005. This is the second issue in the series of three-year Bank of England Euro Notes. As with the first issue of Notes in 2001, these securities were sold by auction; the first tranche of €1,000 million was sold in January 2002 and two further auctions of €500 million each were held on 19 March and 16 April 2002. The Bank allots any roundings for the auction process to itself and also retains 10% of each tranche, which may be made available for sale and repurchase transactions with market-makers in the programme. Pending sale to third parties, the Notes are retained by the Bank. It is appropriate to show only the Notes sold to third parties as liabilities on the balance sheet. The position at 28 February 2002 was as follows:

	2002		*2001*	
		nominal		*nominal*
	£m	**€m**	*£m*	*€m*
Total amount issued	2,772	4,400	*1,403*	*2,200*
Held by the Bank of England	(936)	(1,400)	*(1,085)*	*(1,700)*
Liabilities to third parties	**1,836**	**3,000**	***318***	***500***

c/ Euro bills

Original maturity of bills in issue

	2002	*2001*
	£m	*£m*
1 month	–	*127*
3 months	1,035	*951*
6 months	1,091	*1,135*
	2,126	***2,213***

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, £1,582 million *(2001 £1,648 million)* are due within three months or less. With effect from January 2002 the Bank stopped issuing one-month bills, and increased its issuance at the three-month maturity.

18/ OTHER LIABILITIES

	2002	*2001*
	£m	*£m*
Include:		
Payable to HM Treasury	42	*68*
Due to subsidiaries	20	*27*
Provision for post-retirement benefits (note 4)	118	*112*
Current tax liability (note 6)	13	*16*

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

	Profit and loss account	Revaluation reserve	Total £m
Balance at 1 March 2001	1,271	198	1,469
Retained profit for the year	42	–	42
Transfer of net revaluation surplus to profit and loss account	6	(6)	–
Balance at 28 February 2002	**1,319**	**192**	**1,511**

Balances on the revaluation reserve relating to properties sold have 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

	2002 £m	*2001 £m*
Shareholder's funds at 1 March 2001	1,484	*1,342*
Retained profit for the year	42	*68*
Surplus on revaluation of properties	–	*74*
Shareholder's funds at 28 February 2002	**1,526**	***1,484***

22/ CASH FLOW STATEMENT

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

	2002	*2001*
	£m	*£m*
Profit after provisions and before tax	103	*156*
Increase in interest receivable and prepaid expenses	(9)	*(1)*
Increase/(decrease) in interest payable and accrued expenses	5	*(4)*
Depreciation	16	*19*
Profit on sale of tangible fixed assets	–	*(22)*
Effect of other deferrals and accruals on cash flow	30	*(6)*
Net inflow from Euro Notes	1,575	*314*
(Increase)/decrease in net TARGET balances with European Central Bank	(12)	*5*
Net inflow/(outflow) of euro deposits	9	*(1)*
Net (decrease)/increase in foreign currency deposits	(762)	*833*
Net increase/(decrease) in other deposits	859	*(67)*
Net decrease in foreign currency advances to banks (including swaps)	156	*1,456*
Net decrease/(increase) in Treasury and other eligible bills	17	*(6)*
Net decrease/(increase) in advances to banks and customers (including reverse repurchase agreements)	210	*(1,760)*
Purchase of foreign securities	(2,907)	*(459)*
Redemption of foreign securities	1,224	*165*
Purchase of debt securities	(993)	*(292)*
Redemption of debt securities	83	*70*
Net increase in other assets	–	*(1)*
(Increase)/decrease in items in course of collection	(91)	*75*
Net cash (outflow)/inflow from operating activities	**(487)**	***474***

b/ Capital expenditure and financial investment

	2002	*2001*
	£m	*£m*
Purchases of premises and equipment	(12)	*(22)*
Proceeds from sales of premises and equipment	11	*179*
	(1)	***157***

c/ Analysis of cash balances

	At 1 March 2001	Cash flows	**At 28 February 2002**
	£m	£m	£m
Cash	*5*	1	6
Advances to banks repayable on demand	*813*	(584)	229
	818	**(583)**	**235**

d/ The cash flow statement has been prepared under FRS 1 (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 2002 was as follows:

	At 1 March 2001	Cash flows	**At 28 February 2002**
	£m	£m	£m
Cash	*5*	1	6
Advances to money market and certain banks (including reverse repurchase agreements)	*2,177*	(545)	1,632
Treasury and other eligible bills	*17*	(17)	–
	2,199	**(561)**	**1,638**

The reduction in the stock of liquidity reflects the Bank's decision to increase its holding of medium-term debt securities.

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 2002 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 and individuals.

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:

	2002 Total amount outstanding £000	**2002** Number	*2001* Total amount outstanding £000	*2001* Number
Governors and Directors	–	–	*–*	*–*
Officers	28	9	*57*	*13*

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 Financial Services and Markets Act 2000 or as defined under FRS 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 2002 a charge of £1.4 million *(2001 £1.4 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 2002. The balances on accounts held with the Bank were £9 million *(2001 £13 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

	2002 Land and buildings £m	**2002** Computer and other equipment £m	*2001* Land and buildings £m	*2001* Computer and other equipment £m
At the year end, annual commitments under non-cancellable operating leases were:				
- expiring within one year	–	1	*–*	*1*
- between one and five years	1	–	*–*	*–*
- expiring in five years or more	1	–	*1*	*–*
	2	**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:

	2002	2001
Governors and Executive Directors	6	*6*
Managers and analysts	438	*434*
Clerical staff	989	*1,039*
Technical/other	808	*865*
	2,241	***2,344***

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 damages. On 22 March 2001 the House of Lords allowed the claim for misfeasance in public office to proceed to trial. The trial is currently scheduled to start after Easter 2003. 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. In June 2001 the Claimants provided figures as to the amount of their claim whilst reserving the right to amend those figures. The Claimants said: "In summary the Liquidators' best estimate of the value of the depositor claimants' deposits as at 30 April 2001 is approximately £577 million applying simple interest of 8% or £748 million applying interest of 8% per annum compounded annually." Quite apart from its rejection of the claim itself, the Bank does not accept that the Claimants have provided adequate particulars or set out a proper basis for calculation of the claim. 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 £175 million *(2001 £155 million)*.

26/ DATE OF APPROVAL

The Members of Court approved the financial statements on pages 60 to 89 on 8 May 2002.

Issue Department

Account for the period ended 28 February 2002

	Notes	2002 £m	*2001 £m*
Income and profits:			
Securities of, or guaranteed by, the British Government		682	*776*
Other securities and assets		777	*859*
		1,459	***1,635***
Expenses:	2		
Cost of production of Bank notes		31	*33*
Cost of issue, custody and payment of Bank notes		14	*13*
Other expenses		4	*5*
		49	***51***
Payable to HM Treasury		**1,410**	***1,584***

Statement of balances: 28 February 2002

	Notes	2002 £m	*2001 £m*
Assets			
Securities of, or guaranteed by, the British Government	3	13,991	*13,500*
Other securities and assets including those acquired under reverse repurchase agreements	4	15,399	*13,700*
Total assets		**29,390**	***27,200***
Liabilities			
Notes issued:			
In circulation	5	29,384	*27,195*
In Banking Department		6	*5*
Total liabilities		**29,390**	***27,200***

E A J George Governor
D C Clementi Deputy Governor
D J S Cooksey Director
P A C Smout 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 quarterly 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 2002.

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. Total such deficits in the year to 28 February 2002 amounted to £19 million *(2001 £1 million)*.

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

	2002	*2001*
	£m	*£m*
British Government Stocks	126	*130*
Treasury Bills	495	*–*
Ways and Means advance to the National Loans Fund	13,370	*13,370*
	13,991	***13,500***

The Ways and Means advance earns interest at the Bank's repo rate.

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

	2002	*2001*
	£m	*£m*
Commercial bills	1,358	*564*
Deposit with Banking Department	50	*50*
Reverse repurchase agreements	13,991	*13,086*
	15,399	***13,700***

5/ NOTES IN CIRCULATION

	2002 **£m**	*2001* *£m*
£5	1,044	*1,041*
£10	5,928	*6,107*
£20	16,335	*14,381*
£50	5,203	*4,657*
Other notes (a)	874	*1,009*
	29,384	***27,195***

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 three months or less.

b/ Currency exposure

All the assets and liabilities of Issue Department are denominated in sterling. The collateral provided under reverse repurchase operations may be in currencies other than sterling but this does not give rise to any direct currency exposure.

7/ DATE OF APPROVAL

The Members of Court approved the statements of account on pages 90 to 92 on 8 May 2002.

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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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