

Report of the Independent Auditor

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

We have audited the financial statements of the Banking Department ('financial statements') for the year ended 28 February 2013, set out on pages 52 to 98, and the statements of account of the Issue Department ('statements of account') for the year ended 28 February 2013, set out on pages 99 to 101. The financial reporting framework that has been applied in their preparation is applicable law and the accounting policies set out therein.

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

Respective responsibilities of Members of Court and auditor

As explained more fully in the Statement of the Responsibilities of the Court of Directors set out on page 39, the Members of Court are responsible for the preparation of the financial statements and statements of account in accordance with applicable law and the bases of preparation set out in note 2 on pages 57 to 65 and note 1 on page 100 respectively.

Our responsibility is to audit, and express an opinion on, the financial statements and statements of account in accordance with applicable law and International Standards on Auditing (United Kingdom and Ireland). Those standards require us to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements and statements of account

An audit involves obtaining evidence about the amounts and disclosures in the financial statements and statements of account sufficient to give reasonable assurance that the financial statements and statements of account are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Bank's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Members of Court; and the overall presentation of the financial statements and statements of account. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and statements of account. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements and statements of account

In our opinion:

- the financial statements of the Banking Department on pages 52 to 98 for the year ended 28 February 2013 have been properly prepared, in all material respects, in accordance with the bases of preparation set out in note 2 on pages 57 to 65.
- the statements of account of the Issue Department on pages 99 to 101 for the year ended 28 February 2013 have been properly prepared, in all material respects, in accordance with the bases of preparation set out in note 1 on page 100.

Opinion on other matter

In our opinion the information given in the Remuneration report, the Financial Review, the Risk Management and Business Practices Report, and the Report by the Non-executive Directors for the financial year for which the financial statements and statements of account are prepared is consistent with the financial statements and statements of account.

David Todd
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

15 Canada Square

Canary Wharf

London

E14 5GL

28 May 2013

Banking Department

Income Statement for the year to 28 February 2013

	Note	2013 £m	2012* £m
Profit before tax	4	125	100
Corporation tax net of tax relief on payment to HM Treasury	7	(15)	(15)
Profit for the year attributable to shareholder		110	85

* The prior year has been restated. See note 2b for details.

Statement of Comprehensive Income for the year to 28 February 2013

	Note	2013 £m	2012* £m
Profit for the year attributable to shareholder		110	85
Other comprehensive income:			
Revaluation of available for sale securities	14	(44)	382
Revaluation of properties	16	–	(5)
Remeasurements on retirement benefits	18	(95)	306
Corporation tax relating to components of other comprehensive income	7	49	(166)
Other comprehensive income for the year, net of tax		(90)	517
Total comprehensive income for the year		20	602

* The prior year has been restated. See note 2b for details.

Balance Sheet as at 28 February 2013

	Note	2013 £m	2012 £m
Assets			
Cash and balances with other central banks	9	787	372
Loans and advances to banks and other financial institutions	10	11,719	15,157
Other loans and advances	11	375,196	286,582
Securities held at fair value through profit and loss	12	3,573	4,782
Derivative financial instruments	13	334	461
Current tax assets		12	–
Available for sale securities	14	5,179	5,340
Investments in subsidiaries	15	–	–
Property, plant and equipment	16	243	218
Intangible assets	17	11	10
Retirement benefit assets	18	460	564
Other assets	19	211	1,986
Total assets		397,725	315,472
Liabilities			
Deposits from central banks	20	14,371	14,806
Deposits from banks and other financial institutions	21	297,124	217,623
Other deposits	22	78,063	70,163
Foreign currency bonds in issue	23	4,007	5,104
Derivative financial instruments	13	229	232
Current tax liabilities		–	44
Deferred tax liabilities	24	166	201
Retirement benefit liabilities	18	202	252
Other liabilities	25	211	3,660
Total liabilities		394,373	312,085
Equity			
Capital	26	15	15
Retained earnings		2,465	2,477
Other reserves		872	895
Total equity attributable to shareholder		3,352	3,387
		397,725	315,472

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

Sir Mervyn King Governor
Mr C R Bean Deputy Governor
Sir David Lees Chairman of Court
Mr W R Jones Finance Director

Statement of Changes in Equity for the year to 28 February 2013

	Note	Attributable to equity shareholder				Total £m
		Share capital £m	Available for sale reserve £m	Property revaluation reserve £m	Retained earnings £m	
Balance at 1 March 2011		15	458	150	3,800	4,423
Post-tax comprehensive income for the period		–	292	(5)	315	602
Post-tax surplus from indemnified operations		–	–	–	26	26
Tax recoverable on surplus from indemnified operations		–	–	–	634	634
Payable to HM Treasury in lieu of dividend*	8	–	–	–	(2,298)	(2,298)
Balance at 29 February 2012		15	750	145	2,477	3,387
Post-tax comprehensive income for the period		–	(23)	–	43	20
Payable to HM Treasury in lieu of dividend	8	–	–	–	(55)	(55)
Balance at 28 February 2013		15	727	145	2,465	3,352

* The Special Liquidity Scheme ('SLS') was launched on 21 April 2008 to improve the liquidity in the United Kingdom banking system. The SLS was conducted under an indemnity from HM Treasury and as such the surplus arising on the SLS was designated as a capital contribution recognised in the Statement of Changes of Equity and not the Income Statement. The Scheme came to an end on 30 January 2012 and the gross surplus of £2,262 million was paid to HM Treasury as a payment in lieu of dividend on 5 April 2012.

Statement of Cash Flows for the year to 28 February 2013

	Note	2013 £m	2012* £m
Cash flows from operating activities			
Profit before taxation		125	100
Adjustments for:			
Amortisation of intangibles	17	4	3
Depreciation of property, plant and equipment	16	11	10
Dividends received	4	(14)	(14)
Net movement in accrued interest and provisions, including pensions		125	65
Changes in operating assets and liabilities:			
Increase in loan advanced to the Bank of England Asset Purchase Facility Fund Ltd	11	(88,614)	(86,775)
Net decrease in other advances		1,120	681
Net increase in securities held at fair value through profit or loss		(214)	(39)
Net increase in deposits		87,035	84,457
Net increase/(decrease) in foreign currency bonds in issue		7	(10)
Net decrease/(increase) in financial derivatives	13	124	(281)
Net increase in other accounts		(54)	–
Corporation tax paid		(56)	(42)
Net cash outflow from operating activities		(401)	(1,845)
Cash flows from investing activities			
Purchase of available for sale securities	14	(235)	(323)
Proceeds from redemption of available for sale securities	14	297	257
Dividends received	4	14	14
Purchase of intangible assets	17	(5)	(3)
Purchase of property, plant and equipment	16	(37)	(17)
Net cash inflow/(outflow) from investing activities		34	(72)
Cash flows from financing activities			
Cash generated from indemnified operations		–	53
Tax on financing activities		633	(15)
Payment to HM Treasury under Section 1 (4) of the Bank of England Act 1946		(2,298)	(64)
Net cash outflow from financing activities		(1,665)	(26)
Net decrease in cash and cash equivalents		(2,032)	(1,943)
Cash and cash equivalents at 1 March	27	6,172	8,115
Cash and cash equivalents at 28 February	27	4,140	6,172

* The prior year has been restated. See note 2b for details.

Notes to the Banking Department Financial Statements

1 General information

The Bank of England is the central bank of the United Kingdom and is incorporated under a Royal Charter of 1694. Legislation covering its operations includes the Bank Charter Acts of 1694 and 1844, the Bank of England Acts 1946 and 1998, the Banking Act 2009 and the Financial Services Act 2012. The Core Purposes of the Bank are set out on page 1.

The Bank Charter Act 1844 requires that the Bank's note issue function be separated from its other activities. Accordingly, for accounting purposes, the Bank is divided into Issue Department and Banking Department, which are accounting designations and reporting entities. Neither is an organisational unit of the Bank. The Issue Department is solely concerned with the note issue and the assets backing the issue. The statements of account of the Issue Department are given on pages 99 to 101, and show the note issue, the assets backing the issue, the income generated by those assets and the costs incurred in production, issue, custody and payment of notes. The net income of the Issue Department is paid over to HM Treasury. Securities held on Issue Department are revalued quarterly at their clean market price. If a revaluation of securities shows a net gain this is included in income. A deficit is not taken against income but is settled by a transfer from the National Loans Fund. The Banking Department comprises all other activities of the Bank. The post-tax profits of the Banking Department are effectively shared equally with HM Treasury unless the Bank and HM Treasury agree otherwise (see note 8).

2 Bases of preparation

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

a Form of presentation of the financial statements

The financial statements of the Banking Department comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and related notes.

Under the Bank of England Act 1998, the Bank, in preparing the financial statements of the Banking Department, is subject to requirements corresponding to the Companies Act 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 of the Banking Department have been prepared in accordance with the measurement and recognition requirements of the International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRICs) as adopted by the EU (together, 'adopted IFRS').

The financial statements have been prepared on the historical cost basis of accounting, modified to include the revaluation of land and buildings, financial assets that are available for sale and all financial assets and financial liabilities (including derivatives) that are held at fair value through profit or loss.

Adopted IFRS and the Companies Act have been used as a model for the presentation and disclosure framework to provide additional information and analysis of key items in the financial statements except insofar as the Bank considers disclosures inappropriate to its functions.

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 reported in the Annual Report when the need for secrecy or confidentiality has ceased.

Notes to the Banking Department Financial Statements continued

2 Bases of preparation continued

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

- Constituent elements of the Income Statement.
- Note disclosures for income and expenses, particularly relating to net interest income and provisions and related disclosures in the Balance Sheet and Statement of Cash Flows.
- Operating segments.
- Contingent liabilities and guarantees.
- Information on credit risk.
- Fair value of collateral pledged and held.
- Related party disclosure.

b New and amended accounting standards

The following revised standard has been applied in 2012/13:

Amended IAS 19 (Employee benefits)

The amendments to IAS 19 effective for periods starting on or after 1 January 2012 have been applied for the first time. The Bank has opted to adopt this standard ahead of the EU deadline. As a consequence of the revision to the standard, the basis of the calculation of the income statement expense has changed; the effect of this is to reduce the net expense to £16 million from £65 million. All changes have been made retrospectively in line with IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), with the prior year expense restated from £48 million to £30 million and the corresponding impact effected in the Statement of Comprehensive Income.

In addition the Bank has considered the potential effect of forthcoming EU endorsed standards which have not been adopted in the financial statements; none of these is expected to materially impact the Bank.

c Consolidation

The financial statements of Bank's subsidiaries, including the Bank of England Asset Purchase Facility Fund Ltd and the Prudential Regulation Authority, have not been consolidated. Under the Bank of England Act 1998 the financial statements are prepared on a non-consolidated basis. Investments in subsidiaries are stated in the balance sheet at cost, less any provision for impairment in value. Dividends from subsidiaries are recognised in the income statement when declared.

d Foreign currency translation

i Functional and presentational currency

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

ii Transactions and balances

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

e Financial instruments: assets

i Classification of financial assets

The Bank classifies its financial assets in the following categories: loans and advances; financial assets at fair value through profit or loss; and financial assets that are available for sale. The Bank determines the classification at initial recognition.

Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money or services directly to a counterparty with no intention of trading the receivable. Assets in this category exclude reverse repurchase agreements which are designated at fair value through profit or loss.

Financial assets at fair value through profit or loss

A financial asset is classified in this category if it is acquired principally for the purpose of selling in the short-term or if so designated by management.

Derivatives must be held at fair value through profit or loss. The Bank does not currently hold any financial assets for trading but designates the following at fair value through profit or loss at inception:

- Assets matching the Bank's issued foreign currency securities.
- Assets matching the fixed-term deposits placed at the Bank by other central banks.

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

Available for sale

Available for sale investments are those intended to be held for an indefinite period of time, which may be sold as part of the Bank's official operations or otherwise. They include sterling debt securities and unlisted equity investments.

ii Initial recognition of financial assets

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

iii Subsequent valuation of financial assets

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

Gains and losses arising from changes in the fair value of financial assets that are available for sale are recognised as other comprehensive income until the financial asset is derecognised or impaired (see (iv) below), at which time the cumulative gain or loss previously recognised as other comprehensive income is recognised in the income statement. Any premium or discount paid on the purchase of available for sale debt instruments is amortised through the income statement using the effective interest rate method.

The fair values of quoted investments in active markets are based on current bid prices. In other cases, the Bank establishes fair value by using appropriate valuation techniques. The policy for establishing fair values of securities in non-active markets is described in note 3 'Significant accounting estimates and judgements in applying accounting policies' on page 65.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all of the risks and rewards of ownership.

Notes to the Banking Department Financial Statements continued

2 Bases of preparation continued

iv Impairment of financial assets

Loans and advances

At each balance sheet date the Bank assesses whether there is objective evidence that a financial asset or group of assets is impaired. If there is objective evidence that an impairment loss on loans and advances has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows relating to that loan discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. A loan is normally written off, either partially or in full, when there is no realistic prospect of recovery of the principal amount and, for a collateralised loan, after taking into account any value of the security which has been realised.

Available for sale financial assets

At each balance sheet date the Bank assesses whether there is objective evidence that a financial asset or group of assets is impaired. If such evidence exists for financial assets that are available for sale, the cumulative loss measured as the difference between acquisition cost and the current fair value, less any impairment loss previously recognised, is removed from equity and recognised in the income statement.

If, in a subsequent period, the fair value of a debt instrument designated as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement.

If, in a subsequent period, the fair value of an equity investment designated as available for sale increases the impairment loss is not reversed through the income statement except on realisation.

v Interest income

Interest income is recognised in the income statement using the effective interest method.

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

vi Dividends

Dividends on equity investments that are available for sale are recognised in the income statement when declared.

f Derivative financial instruments

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

Derivatives are used for matching exposures on assets and liabilities, both individually and of portfolios. The Bank does not apply the hedge accounting rules of IAS 39.

g Offsetting financial instruments

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

h Property, plant and equipment

i Initial recognition

Expenditure on property, plant and equipment is capitalised if the asset is expected to have a useful economic life of three years or more. The amount capitalised at initial recognition is the purchase price of the asset along with any further costs incurred in bringing the asset to its present condition and location.

ii Subsequent valuation

Subsequent costs are added to an asset's carrying amount or are recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be reliably measured. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Professional valuations of the Bank's properties are carried out each year with subsequent additions included at cost, and provisions made for depreciation as explained below.

Any surplus arising on revaluation is recognised directly in a revaluation reserve within equity, except to the extent that the surplus reverses a previous revaluation deficit on the same asset recognised in the income statement, in which case the credit is to the income statement.

iii Depreciation

Land is not depreciated. Depreciation on other property, plant and equipment is charged on a straight-line basis:

Freehold buildings	over the estimated future lives which range from ten to twenty-five years
Leasehold improvements	over the estimated remaining life of the lease
Plant within buildings	over periods ranging from five to twenty years
IT equipment	over periods ranging from three to seven years
Other equipment	over periods ranging from three to twenty years

The depreciable amount of a revalued asset is based on its revalued amount. The revaluation surplus is not transferred to retained earnings until the asset's ultimate disposal.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to depreciation are reviewed at each reporting date to assess whether there is any indication that an asset may be impaired. An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value (less costs to sell) and value in use.

iv Gain or losses on the disposal of property, plant and equipment

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

Notes to the Banking Department Financial Statements continued

2 Bases of preparation continued

i Leases

i As lessee

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Where property, plant and equipment have been financed by lease agreements under which substantially all the risks and rewards of ownership are transferred to the Bank, they are treated as if they have been purchased outright and classified as finance leases. Finance leases are capitalised at the commencement of the lease at the lower of the present value of the minimum lease payments or the fair value of the leased asset. Finance charges payable are recognised over the period of the lease based on the interest rate implicit in the lease to give a consistent periodic rate of return.

ii As lessor

Long leases granted on property owned by the Bank are treated as finance leases. Finance lease receivables are stated in the balance sheet at the amount of the net investment in the lease being the minimum lease payments and any unguaranteed residual value discounted at the interest rate implicit in the lease. Finance lease income is allocated across accounting periods giving a constant periodic rate of return before tax on the net investment. Unguaranteed residual values are subject to regular review to identify potential impairment. If there has been a reduction in the estimated unguaranteed residual value, the income allocation is revised and any reduction in respect of amounts accrued is recognised immediately.

j Intangible assets

Intangible assets primarily consist of computer software and the costs associated with the development of software for internal use. Costs directly associated with the internal production of unique and separately identifiable software products, which are controlled by the Bank and which will generate economic benefits exceeding those costs are recognised as intangible assets. These costs are amortised over the expected useful lives of the software, which range from three to five years. Costs associated with maintaining software programs are recognised as an expense when incurred. Intangible assets are tested for impairment annually. Intangible assets are also subject to an impairment review if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

k Financial instruments: liabilities

i Classification of financial liabilities

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

Liabilities measured at amortised cost

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

Financial liabilities at fair value through profit or loss

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

- Three three-year bonds denominated in US dollars, which were issued as part of the Bank's annual medium-term issuance programme; and
- Fixed-term deposits placed by other central banks.

ii Initial recognition of financial liabilities

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

iii Subsequent valuation of financial liabilities

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

The fair values of these liabilities are based on current offer prices.

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

I Current and deferred tax

Corporation tax payable on profits, based on the United Kingdom tax laws, is recognised as an expense in the period in which profits arise. The Bank is entitled to tax relief on the amount due to HM Treasury as a payment in lieu of a dividend in accordance with section 1 (4) Bank of England Act 1946. Tax relief on amount due to HM Treasury is credited directly to the income statement in accordance with paragraph 52B of IAS 12.

The Bank was granted corporation tax credit in relation to the Special Liquidity Scheme surplus payment to HM Treasury.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted and which are expected to apply when the related deferred tax asset or liability is realised.

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets, property revaluations, and provisions for pensions and other post-retirement benefits.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences and losses can be utilised.

Deferred tax related to fair value re-measurement of available for sale securities and actuarial gains and losses on retirement benefit obligations is credited or charged directly to other comprehensive income and is subsequently recognised in the income statement together with the current or deferred gain or loss if and when realised.

Notes to the Banking Department Financial Statements continued

2 Bases of preparation continued

m Retirement benefits

The Bank operates a non-contributory defined-benefit pension scheme providing defined benefits based on final and career average pensionable pay. The final salary element of the scheme is closed to new members. The assets of the scheme are held by the Bank in an independent trustee-administered fund. The asset recognised in the balance sheet in respect of the defined-benefit pension scheme is the fair value of the scheme's assets less the present value of the defined-benefit obligation at the balance sheet date. The defined-benefit obligation is calculated annually by an independent actuary using the projected unit method. The present value of the defined-benefit obligation is determined by discounting the estimated cash outflows using interest rates of high-quality sterling corporate bonds that have terms to maturity approximating to the terms of the related pension liability. Remeasurements on retirement benefits comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what actually occurred), as well as the effects of changes in actuarial assumptions. Remeasurements on retirement benefits are recognised immediately in equity and reflected in other comprehensive income. Current and past service costs are recognised immediately in the income statement. Any net defined-benefit surplus is limited to the benefit that is available to the Bank.

The Bank also provides other post-retirement benefits, principally related to redundancy provisions and healthcare for certain pensioners, which are accounted for on a similar basis to the accounting for pension obligations.

n Equity capital

The entire equity capital comprising £14,553,000 of Bank Stock is held by the Treasury Solicitor on behalf of HM Treasury.

Under Section 1 (4) of the Bank of England Act 1946, as amended by the Bank of England Act 1998, subsequent to the end of each year HM Treasury receives payments of half the post-tax profits unless the Bank and HM Treasury agree otherwise. The payments are deductible for corporation tax and charged to equity in the year to which they relate on the basis agreed at the end of the relevant year.

o Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, consisting of cash and balances with other central banks, loans and advances to banks and other financial institutions, amounts due from banks and short-term government securities.

p Fees and commission income

Fees and commissions other than those associated with financial instruments are recognised as the service is provided. Where the level of fee is contingent on a particular outcome, the Bank only recognises the fee that is known to be recoverable.

q Provisions

Provisions are recognised in respect of restructuring, redundancy, onerous leases and legal claims arising from past events where it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

r Indemnified operations

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

s Collateral pledged under sale and repurchase agreements

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

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

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

t Commitments on behalf of HM Treasury

Commitments on behalf of HM Treasury in foreign currencies and gold 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.

3 Significant accounting estimates and judgements in applying accounting policies

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

a Post-retirement benefits

Post-retirement benefits are long-term liabilities whose value can only be estimated using assumptions about developments over a long period. The Bank has employed actuarial advice in arriving at the figures in the financial statements (see note 18, which includes relevant sensitivity analysis). Members of Court consider the assumptions used by the actuary in their calculations to be appropriate for this purpose.

b Fair value of equity investments that are available for sale

The Bank's accounting policy for the valuation of financial instruments is described in note 2 (e) and (k). The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. Details of valuation techniques for the different classifications are given in note 28. Fair values of equity investments classified for accounting purposes as available for sale rely to a greater extent on unobservable inputs and therefore require a greater level of management judgement to calculate a fair value than those based on wholly observable inputs. These equity investments, disclosed in note 14, are held by the Bank for the long term as part of its central banking activities and may not be readily saleable. The values have generally been established by discounting expected future dividends reflecting the benefit that the Bank derives from the investments (see note 14b, which includes relevant sensitivity analysis).

c Intangible assets

Management has made certain judgements when capitalising intangible assets. Various costs incurred in the production of an internal project are capitalised if a number of criteria are met. Management has made judgements and assumptions when assessing whether a project meets these criteria and when measuring the costs and economic life attributable to such projects.

d Onerous lease provision

The Bank has recognised an onerous lease provision in respect to certain leased property previously occupied by the FSA and which was vacated on the commencement of the new regulatory regime.

In determining the provision Management has made certain judgements in respect of; the likelihood of sub-letting space, the anticipated income receivable and an appropriate discount rate. The provision is included within note 25.

Notes to the Banking Department Financial Statements continued

4 Profit before tax

	Note	2013 £m	2012* £m
Income includes			
Charges for services to HM Government (including charges to the Issue Department in respect of the Note Issue)		88	82
Banking charges and tariff income		21	19
Dividend income		14	14
Expenses include			
Staff costs	5	132	137
Legal fees		2	2
Amortisation of intangible assets	17	4	3
Depreciation of property, plant and equipment	16	11	10
Software expenditure		9	6
Operating lease rentals — property		1	1
— other		—	—
Onerous lease provision		19	—
Other administrative expenses		99	108

* The prior year has been restated. See note 2b for details.

The Bank incurred £48.5 million of costs relating to the set up of the PRA during the year (2012: £14.7 million, 2011: £1.5 million) and has charged the current and previous years' transition costs to the PRA. A receivable has been recognised on the balance sheet. The PRA Board has agreed to recover these costs from fee-payers over a period of five years.

5 Staff costs

	Note	2013 £m	2012* £m
Wages and salaries		105	97
Social security costs		11	10
Pension and other post-retirement costs	18	16	30
		132	137

* The prior year has been restated. See note 2b for details.

Wages and salaries include £7 million (2012: £4 million) to be recovered from the PRA and £2 million of costs capitalised as intangible assets (2012: £2 million).

Average number of employees

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

	2013	2012
Governors and other members of Executive Team	13	14
Managers and analysts	855	790
Other staff	1,305	1,151
	2,173	1,955

The number of persons employed by the Bank at the end of February 2013 was 2,307, of which 2,029 were full-time and 278 were part-time (2012: 2,045; of which 1,791 full-time and 254 part-time).

6 Auditor's remuneration

	2013 £000	2012 £000
Audit fees for the Bank's audit:		
— Fees relating to current year	260	260
— Fees relating to prior year	–	(5)
Fees payable to the Auditor for services provided to the Bank:		
— Audited-related assurance services	43	65
— Taxation advisory services	38	27
— All other non-audit services	70	21
	411	368

In addition, fees of £30,000 for audit services and £9,000 for other services in relation to Bank of England Asset Purchase Facility Fund Ltd paid by the Bank were recovered via a management fee (2012: £30,000 and £nil respectively). Audit-related assurance services include £25,000 for providing assurance to HM Treasury on the allocation of costs (2012: £30,000) and £18,000 for the review of the Whole of Government Accounts submissions (2012: £35,000).

The Bank will be recovering £32,938 (2012: £21,910) of costs associated with the PRA transition from the PRA.

7 Taxation

The tax charged within the Income Statement is made up as follows:

	2013 £m	2012* £m
Current year corporation tax	6	1
Prior year corporation tax	–	–
Deferred tax — current year	9	14
Tax charge on profit	15	15

The tax charged within the Income Statement differs from the amount calculated at the basic rate of tax on the profit for the year as follows:

	2013 £m	2012* £m
Profit before tax	125	100
Tax calculated at rate of 24.17% (2012: 26.17%)	30	26
Tax relief on payment to HM Treasury	(13)	(9)
Non-deductible expenses	1	–
Dividend not subject to corporation tax	(3)	(4)
Movement in unrecognised deferred tax on properties	–	1
Change in tax rate to 23% (2012: 25%)	–	1
Total tax charge for the period	15	15

* The prior year has been restated. See note 2b for details.

Notes to the Banking Department Financial Statements continued

7 Taxation continued

Tax (credited)/charged to equity comprises:

	2013 £m	2012* £m
The tax (credited)/charged to equity through the Statement of Comprehensive Income		
Current year corporation tax	(5)	84
Deferred tax	(44)	82
	(49)	166
Other tax (credited)/charged directly to equity		
Current year corporation tax	–	(634)
Tax (credited) to equity	(49)	(468)

Tax (credited)/charged to equity is attributable as follows:

	2013 £m	2012* £m
Tax (credited)/charged to equity through the Statement of Comprehensive Income		
Revaluation of available for sale securities	(11)	100
Remeasurements on retirement benefits	(23)	78
Change in tax rate to 23% (2012: 25%)	(15)	(12)
	(49)	166
Other tax (credited) directly to equity		
Surplus from indemnified operations	–	(634)
Tax (credited) to equity	(49)	(468)

* The prior year has been restated. See note 2b for details.

The main UK corporation tax rate is 24% with effect from 1 April 2012. The rate reduction on the deferred tax balances as at 28 February 2013 has been disclosed in note 24.

8 Payable to HM Treasury under Section 1 (4) of the Bank of England Act 1946

	2013 £m	2012 £m
Payable 5 April	25	2,279
Payable 4 October (2012: 5 October)	30	19
	55	2,298

The Bank of England Act 1946, as amended by the Bank of England Act 1998, requires the Bank to pay HM Treasury, in lieu of dividend on the Bank's capital, on 5 April and 5 October, a sum equal to 25% of the Banking Department's post-tax profit for the previous financial year or such other sum as the Bank and HM Treasury may agree. When the due date falls on a non-business day, the payment is made on the last business day before the due date. These payments have been accrued and charged to equity at 28 February 2013. The payments are deductible for corporation tax in the year to which the payments relate. The overall effect is that the Bank and HM Treasury will normally share Banking Department's post-tax profits equally. In the prior year the Bank and HM Treasury agreed to an additional payment in lieu of dividend for £2,262 million relating to the gross surplus arising from the Special Liquidity Scheme, which ended on 30 January 2012.

9 Cash and balances with other central banks

	2013 £m	2012 £m
Cash	–	–
Balances with other central banks	787	372
	787	372

Balances with other central banks are correspondent accounts with other central banks used for Bank and customer business.

10 Loans and advances to banks and other financial institutions

	2013 £m	2012 £m
Items in course of collection	–	–
Reverse repurchase agreements held at amortised cost	570	1,755
Reverse repurchase agreements held at fair value through profit or loss	11,145	12,984
Other loans and advances	4	418
	11,719	15,157

These balances include advances and reverse repurchase agreements arising as part of the Bank's open market operations, as well as advances matching the deposits taken (notes 20 to 22). Amounts are stated after provisions for impairment, where appropriate. The level and composition of the Bank's open market operations, including the split between Banking and Issue Departments, depends on movements in the Bank's balance sheet as described in the published *Framework for the Bank of England's Operations in the Sterling Money Markets* (updated July 2012).

At 28 February 2013 loans and advances to banks and other financial institutions included cash and cash equivalents of £3.4 billion (2012: £5.7 billion) which are disclosed in note 27i.

11 Other loans and advances

	2013 £m	2012 £m
Overdrafts	–	–
Loan to the Bank of England Asset Purchase Facility Fund Ltd	375,193	286,579
Term loans	3	3
	375,196	286,582

Loan to Bank of England Asset Purchase Facility Fund Ltd (BEAPFF)

Upon receipt of notification of BEAPFF's intention to draw down under the loan, the Bank is required to make the advance and may only obtain repayment with the agreement of BEAPFF. The loan is ultimately repayable on termination of BEAPFF's operations.

Notes to the Banking Department Financial Statements continued

12 Securities held at fair value through profit or loss

	2013 £m	2012 £m
Money market instruments	–	129
Listed foreign government securities	3,573	4,653
	3,573	4,782

The holdings of foreign government and other foreign currency securities are funded by the Bank's issuance of medium-term securities (note 23). In the current year, the securities issued related entirely to the Bank's foreign exchange reserves portfolio. As at 28 February 2013 this portfolio was financed by three \$2 billion three-year bonds (2012: four \$2 billion three-year bonds) issued through the Bank's annual programme of syndicated foreign currency bond issuance. In March 2013, the Bank launched a \$2 billion three-year bond replacing the 2010 bond which matured on 18 March 2013. The assets in the portfolio are denominated in US dollars, euros and Japanese yen.

At 28 February 2013 securities held at fair value through profit or loss included cash and cash equivalents of £nil (2012: £0.1 billion) which are disclosed in note 27i.

13 Derivative financial instruments

The Bank uses the derivative instruments described below. The main purpose of these is to manage the currency and interest rate exposures on the Bank's portfolio of financial assets and financial liabilities. They may also be used as an instrument in monetary policy transactions.

Cross-currency interest rate swaps, interest rate swaps and forward exchange contracts are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or coupons (e.g. fixed rate for floating rate) or a combination of these. An exchange of principal occurs for cross-currency interest rate swaps and forward exchange contracts, but no such exchange of principal usually occurs for interest rate swaps. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligations. This risk is monitored on an ongoing basis with reference to the current fair value. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities and will take collateral if the net replacement cost of all transactions with the counterparty exceeds relevant thresholds.

At 28 February 2013 securities with a fair value of £205 million (2012: £265 million) and cash collateral of £nil (2012: £nil) were held as collateral in respect of derivative financial instruments.

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

a As at 28 February 2013

	Contract notional amount £m	Fair values	
		Assets £m	Liabilities £m
Cross-currency interest rate swaps	2,712	163	–
Interest rate swaps	7,928	36	(59)
Forward exchange contracts	13,350	135	(170)
Total recognised derivative assets/(liabilities)		334	(229)

b As at 29 February 2012

	Contract notional amount £m	Fair values	
		Assets £m	Liabilities £m
Cross-currency interest rate swaps	3,684	35	(62)
Interest rate swaps	10,779	56	(75)
Forward exchange contracts	14,146	370	(95)
Total recognised derivative assets/(liabilities)		461	(232)

Notes to the Banking Department Financial Statements continued

14 Available for sale securities

	2013 £m	2012 £m
Debt securities at fair value		
British Government securities listed on a recognised UK exchange	4,265	4,406
Other sterling securities listed on a recognised exchange	435	446
	4,700	4,852
Unlisted equity investments at fair value	479	488
	5,179	5,340

The movement in available for sale securities comprises:

	2013 £m	2012 £m
Available for sale debt securities		
At 1 March	4,852	4,524
Purchases	235	323
Redemptions	(297)	(257)
Mark-to-market movements through equity	(35)	311
Amortisation of premium/discount	(52)	(49)
Movement in accrued interest	(3)	–
At 28 February	4,700	4,852
Available for sale unlisted equity investments		
At 1 March	488	417
Revaluation of securities	(9)	71
Disposal of securities	–	–
At 28 February	479	488
	5,179	5,340

There were no gains or losses on the sale of available for sale securities transferred to the Income Statement during the year (2012: gains of less than £1 million).

a Debt securities

British Government securities and other sterling securities are held as investments and are one of the principal sources of income for the Bank. The Bank holds these securities for the long term, generally to maturity. However, as the Bank can envisage circumstances in which they might be sold before maturity they have been classified as assets that are available for sale.

All debt securities have fixed coupons.

b Unlisted equity investments

The unlisted equity investments held by the Bank are held as part of its functions as a central bank and are thus of a long-standing nature. The Bank's holdings in any particular institution may change from time to time as part of realignments of holdings among the shareholders and participants. Fair values of unlisted equity investments reflect the price that a knowledgeable willing party would pay in an arm's length transaction.

The Bank's investment in the Bank for International Settlements (incorporated in Switzerland) consists of shares of 5,000 Special Drawing Rights, which are 25% paid. At 28 February 2013 the holding represents 8.5% (2012: 8.7%) of the issued share capital. The investment has been valued on a dividend yield basis providing a value of £474 million (2012: £484 million) at the year end. A discount rate of 6.5% (2012: 6.3%) was used. Increasing the discount rate by 1 percentage point would deflate the valuation by £108 million, while decreasing the discount rate by one percentage point would inflate the valuation by £202 million.

The Bank's holding in the European Central Bank (ECB) represents 0.8% (2012: 0.9%) of the ECB's paid-up share capital. In accordance with the Treaty on the Functioning of the European Union, and in line with other non euro area national central banks, the Bank is only required to pay up 'a minimal percentage' by way of contribution to the operational costs of the ECB; in the Bank's case this is currently 3.75% amounting to €59 million (2012: 3.75% amounting to €59 million) of its total allocation of the ECB's subscribed capital of €1.6 billion (2012: €1.6 billion). If the United Kingdom were to participate in Economic and Monetary Union a further contribution would be required and the Bank's paid-up share capital would then amount to 14.5% (2012: 14.5%). Contributions are non-refundable and as a non euro area member the Bank is not entitled to any dividends. The fair value of the holding has therefore been assessed as £nil (2012: £nil).

15 Investments in subsidiaries

The Bank has a number of subsidiaries, which are wholly owned, that are stated in the Bank's balance sheet at an aggregate cost under £1 million. These are:

The Securities Management Trust Ltd	1,000 ordinary shares of £1
Bank of England Asset Purchase Facility Fund Ltd	100 ordinary shares of £1
Houblon Nominees	2 ordinary shares of £1
Bank of England Nominees Ltd	2 ordinary shares of £1
BE Pension Fund Trustees Ltd	2 ordinary shares of £1
Prudential Regulation Authority	1 ordinary share of £1

Notes to the Banking Department Financial Statements continued

16 Property, plant and equipment**For the year to 28 February 2013**

	Freehold land and buildings £m	Leasehold improvements £m	Equipment* £m	Total £m
Cost or valuation				
At 1 March 2012	204	–	50	254
Additions	13	10	14	37
Disposals/write-offs	(1)	–	(7)	(8)
Revaluation of properties	(6)	–	–	(6)
At 28 February 2013	210	10	57	277
Accumulated depreciation				
At 1 March 2012	–	–	36	36
Charge for the year	6	–	5	11
Disposals/write-offs	–	–	(7)	(7)
Revaluation of properties	(6)	–	–	(6)
At 28 February 2013	–	–	34	34
Net book value at 1 March 2012	204	–	14	218
Net book value at 28 February 2013	210	10	23	243

* Net book value of equipment at 28 February 2013 included £4 million held under finance leases.

Included within property, plant and equipment is £22.8 million of capital expenditure relating to the set up of the PRA.

For the year to 29 February 2012

	Freehold land and buildings £m	Leasehold improvements £m	Equipment* £m	Total £m
Cost or valuation				
At 1 March 2011	203	–	49	252
Additions	12	–	5	17
Disposals/write-offs	–	–	(4)	(4)
Revaluation of properties	(11)	–	–	(11)
At 29 February 2012	204	–	50	254
Accumulated depreciation				
At 1 March 2011	–	–	36	36
Charge for the year	6	–	4	10
Disposals/write-offs	–	–	(4)	(4)
Revaluation of properties	(6)	–	–	(6)
At 29 February 2012	–	–	36	36
Net book value at 1 March 2011	203	–	13	216
Net book value at 29 February 2012	204	–	14	218

* Net book value of equipment at 29 February 2012 included £4 million held under finance leases.

The figures for freehold land and buildings reflect independent professional valuations on a market value basis as at 28 February 2013 by Deloitte LLP, members of the Royal Institution of Chartered Surveyors (RICS). These valuations have been incorporated into the financial statements and were performed in accordance with the RICS Valuation Standards.

17 Intangible assets

	2013 £m	2012 £m
Cost		
At 1 March	35	33
Additions	5	3
Disposals/write-offs	(3)	(1)
At 28 February	37	35
Accumulated amortisation		
At 1 March	25	23
Charge for the year	4	3
Disposals/write-offs	(3)	(1)
At 28 February	26	25
Net book value at 1 March	10	10
Net book value at 28 February	11	10

Intangible assets primarily comprise computer software and related costs.

Notes to the Banking Department Financial Statements continued

18 Retirement benefits

The Bank operates a non-contributory defined-benefit pension scheme providing benefits based on final and career average pensionable pay. The final salary element of the scheme is closed to new members. The assets of the scheme are held by the Bank in an independent trustee-administered fund. The Bank also provides other post-retirement benefits, principally healthcare, for certain pensioners.

The pension scheme is an HMRC registered pension scheme and is subject to standard UK pensions and tax law. This means that the payment of contributions and benefits are subject to the appropriate tax treatments and restrictions and the scheme is subject to the scheme funding requirements outlined in section 224 of the Pensions Act 2004.

In accordance with UK trust and pensions law, the pension scheme has appointed trustees who are independent of the Bank. Although the Bank bears the financial cost of the scheme, the responsibility for the management and governance of the scheme lies with the trustees, who have a duty to act in the best interest of members at all times.

The pension scheme's assets are mostly invested in fixed interest and index-linked gilts which are intended to match the nature of the future benefit payments due from the scheme. The effect of the liability-matching investment policy is not fully reflected in the accounting figures as the assumptions used for the purposes of the valuation under IAS 19 are different from those used for the funding valuation.

Valuation for funding purposes

The main pension scheme, the Bank of England Pension Fund, is valued for funding purposes at intervals of not more than three years by an independent qualified actuary, with interim reviews in the intervening years. The latest valuation for funding purposes was as at 28 February 2011; it used the current unit method, and thus the funding target was based on each active member's current earnings, with the effect of future earnings increases on the accrued liabilities being included in normal future service contribution.

The valuation as at 28 February 2011

	£m
Value of Fund assets	2,522
Actuarial value of scheme liabilities in respect of:	
— In-service members	(442)
— Deferred pensioners	(499)
— Current pensioners and dependants	(1,682)
— Members' additional voluntary contributions	(4)
Total	(2,627)
Scheme deficit	(105)

For the 2011 valuation, the liabilities were valued by the actuary on an index-linked gilts yield discount rate, and no credit was taken in advance for the possibility that returns on investments held by the Fund would exceed the long-term interest rate. Allowance was made for past and prospective mortality improvements. The rate of RPI inflation used in the valuation and the pension increase assumption was 3.1%.

The Bank and the Pension Fund Trustees had previously agreed a deficit reduction plan following the 2008 valuation. This was reviewed after the valuation in 2011 and it was agreed to maintain the previously agreed plan, at the balance sheet date there were two payments of £27 million of the previously agreed plan remain to be paid.

Excluded from the contribution rate is the cost of administration and other services.

Summary of amounts recognised in the financial statements under IAS 19

In the statutory financial statements the Bank accounts for pension costs, other post-retirement benefits and related redundancy provisions in accordance with IAS19 (Employee Benefits). Under the standard, the difference between the market values of scheme assets and the present value of scheme liabilities is reported as a surplus or deficit in the balance sheet. The accounting value is different from the result obtained using the funding basis.

The accounts show the main scheme in surplus, while the Bank is making good the deficit revealed by the funding valuation. The main reason for this is the different assumptions used to value the liabilities in the accounting and funding valuations for the main scheme. The aim of the liability matching policy is that by investing in a range of assets (mostly government bonds) that broadly match the expected future benefit payments from the scheme, no surplus or deficit will arise.

The funding valuation, therefore, discounts expected future benefit payments at the appropriate yield available on government bonds to produce the value of the funding liabilities. The accounting standard requires that expected future benefit payments are discounted at the appropriate yield available on high quality corporate bonds, which is higher than the corresponding yield available on government bonds. The value placed on the liabilities for accounting purposes is, therefore, lower than for the funding valuation.

In the preparation of their valuations under IAS 19 referred to in this note, the actuary has used the assumptions indicated below, which Members of Court have accepted for the purposes of accounting and disclosure under the standard.

Effect of applying revised IAS 19

The amendments to IAS 19 endorsed by the EU on 5 June 2012 have been adopted by the Bank. As a consequence of the revision to the standard, the basis of the calculation of the income statement expense has changed, with the expected rate of return on assets aligned with the discount rate applied to the scheme's liabilities. The effect of this is to reduce the net expense for the year ending 28 February 2013 to £16 million from £65 million. In line with IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) all changes have been applied retrospectively leading to a restatement of balances for the year ending 29 February 2012 to £30 million from £48 million. In addition there have been amendments made to the disclosure requirements which have been implemented in the note.

Amounts recognised as assets/(liabilities) in the balance sheet

		2013 £m	2012 £m
Funded pension schemes	(a)	460	564
Unfunded post-retirement benefits:			
Redundancy provisions	(b)	(81)	(78)
Other pension schemes	(c)	(8)	(7)
Medical scheme	(d)	(113)	(167)
		258	312

Pension expense recognised in the income statement

		2013 £m	2012* £m
Funded pension schemes	(a)	4	18
Unfunded post-retirement benefits:			
Redundancy provisions	(b)	4	4
Other pension schemes	(c)	–	–
Medical scheme	(d)	8	8
		16	30

* 2012 expense has been restated following the application of revised IAS 19.

Notes to the Banking Department Financial Statements continued

18 Retirement benefits continued

Remeasurements recognised in the Statement of Comprehensive Income

		2013 £m	2012* £m
Funded pension schemes	(a)	(148)	324
Unfunded post-retirement benefits:			
Redundancy provisions	(b)	(4)	(4)
Other pension schemes	(c)	(1)	–
Medical scheme	(d)	58	(14)
		(95)	306

* 2012 expense has been restated following the application of revised IAS 19.

a Funded pension scheme

As described above, The Bank has a final salary section within the pension scheme that provides pensions based on members' pensionable service and final salary at retirement. The pension is payable for life and increases in payment in line with inflation. Existing members of this section of the scheme continue to accrue future benefits but it is closed to new members.

For new employees, following a one year waiting period, the Bank offers a career average revalued earnings (CARE) section of the pension scheme that provides pensions based on members' earnings each year revalued in line with inflation up to retirement. The pension is payable for life and increases in payment in line with inflation.

b Redundancy provisions

As part of redundancy arrangements with staff in place until 5 April 2010, the Bank could give enhanced pension entitlement in the form of added years service or early pension rights. The costs of such benefits cannot be charged to the Pension Fund. The costs are therefore borne in the Bank's accounts, and represent the future cost of decisions that have already been taken. Provision was made for the costs of these benefits at the time the redundancy offer was announced based on actuarial advice. No further similar entitlements will be given by the Bank.

The valuation of these provisions has been performed using the relevant assumptions applied for the IAS 19 valuation of pension schemes and updated annually.

c Other pension schemes

As explained in the Remuneration section of the *Annual Report* on page 44, for Governors subject to the pensions earnings cap introduced in the Finance Act 1989, the Bank offers additional unfunded pensions so that their total pensions broadly match what would have been provided by the former Court scheme in the absence of a cap. Provision is made for these in the Bank's accounts. In addition certain former Governors and Directors and the widows of some former Governors and Directors were granted *ex-gratia* pensions. Provision for these was made in the Bank's accounts when the grants were made.

The valuation of this scheme has been performed by using the relevant assumptions applied for the IAS 19 valuation of pension schemes and updated annually.

d Medical scheme

Some current and former staff are entitled to receive healthcare benefits in retirement. Separate provision is made for these in the Bank's accounts as these cannot be paid out of the pension scheme. The defined benefit liability is the expected cost to the Bank of the claims expected to be incurred by the eligible members once in retirement.

Risks

The main risks to which the Bank is exposed in relation to the funded pension scheme are:

- Mortality risk — the assumptions adopted by the Bank make allowance for future improvements in life expectancy. However, if life expectancy improves at a faster rate than assumed, this would result in greater payments from the Fund and consequently increases in the scheme's liabilities. The Bank and the scheme's trustees review the mortality assumption on a regular basis to minimise the risk of using an inappropriate assumption.
- Investment risk — the Fund invests the vast majority of its assets in a portfolio of UK Government bonds to match the profile of the Fund's liabilities. There remains the residual risk that the selected portfolio does not match the liabilities closely enough or that as it matures there is a risk of not being able to reinvest the assets at the assumed rates. The scheme's trustees review the structure of the portfolio on a regular basis to minimise these risks.
- Yield risk — a fall in government bond yields will increase both the scheme's assets and liabilities. As the scheme's liabilities, on the funding basis used to calculate the Bank's contributions to the scheme, are greater than its assets until the deficit is made good, during that time the liabilities may grow by more in monetary terms, increasing the deficit in the scheme.
- Inflation risk — the majority of the scheme's liabilities increase in line with inflation and so if inflation is greater than expected, the liabilities will increase. The scheme's investment strategy is to hold government bonds that are also linked to inflation to match those liabilities that are linked to inflation so this risk is mostly mitigated.

The redundancy provision and other pension schemes are primarily exposed to the mortality and inflation risks above. As they are not backed by any assets, these risks cannot be so easily managed. However, these arrangements (and therefore the risks associated with them) are small in comparison to the funded pension scheme.

The two main risks to which the Bank is exposed in relation to the medical scheme are mortality risk, as described above, and increases in the costs incurred being greater than assumed, either due to inflation of future medical costs or the frequency of members' claims.

Components of pension expense in the Income Statement

	2013			2012		
	Main pension scheme £m	Other pensions £m	Medical scheme £m	Main pension scheme £m	Other pensions £m	Medical scheme £m
Current service cost	32	–	1	32	–	1
Net interest on the net defined (liability)/asset	(28)	4	7	(14)	4	7
Total pension expense	4	4	8	18	4	8

Remeasurements recognised in other comprehensive income

	2013			2012		
	Main pension scheme £m	Other pensions £m	Medical scheme £m	Main pension scheme £m	Other pensions £m	Medical scheme £m
Remeasurements recognised at the beginning of the period	223	(21)	(53)	(101)	(17)	(39)
Actuarial gains/(losses) arising from changes in demographic assumptions	62	–	68	38	1	(2)
Actuarial losses arising from changes in financial assumptions	(210)	(5)	(12)	(122)	(4)	(11)
Actuarial losses/(gains) arising from experience on the scheme's liabilities	(18)	–	2	(14)	(1)	(1)
Return on schemes' assets excluding interest income	18	–	–	422	–	–
Remeasurements recognised at the end of the period	75	(26)	5	223	(21)	(53)

Notes to the Banking Department Financial Statements continued

18 Retirement benefits continued

Reconciliation of present value of defined-benefit obligation

	2013			2012		
	Main pension scheme £m	Other pensions £m	Medical scheme £m	Main pension scheme £m	Other pensions £m	Medical scheme £m
Present value of defined-benefit obligation at the beginning of the period	2,470	85	167	2,327	82	149
Current service cost	32	–	1	32	–	1
Interest expense	109	4	7	111	4	7
Actuarial (gains)/losses arising from changes in demographic assumptions	(62)	–	(68)	(38)	(1)	2
Actuarial losses arising from changes in financial assumptions	210	5	12	122	4	11
Actuarial losses/(gains) arising from experience on the scheme's liabilities	18	–	(2)	14	1	1
Benefits paid out	(101)	(5)	(4)	(98)	(5)	(4)
Present value of defined obligation at the end of the period	2,676	89	113	2,470	85	167

During the reporting period there have been no plan amendments, curtailments or settlements.

Reconciliation of the fair value of assets

	2013			2012		
	Main pension scheme £m	Other pensions £m	Medical scheme £m	Main pension scheme £m	Other pensions £m	Medical scheme £m
Fair value of schemes' assets at the beginning of the period	3,034	–	–	2,518	–	–
Interest income	137	–	–	125	–	–
Return on schemes' assets excluding interest income	18	–	–	422	–	–
Bank contributions	48	5	4	67	5	4
Benefits paid out	(101)	(5)	(4)	(98)	(5)	(4)
Fair value of schemes assets at the end of the period	3,136	–	–	3,034	–	–

Summary of assumptions

Under IAS 19 measurement of scheme liabilities must be calculated under the projected unit method, which requires certain demographic and financial assumptions, including an assumption about future salary growth. The assumptions used are applied for the purposes of IAS 19 only.

The significant financial and other assumptions used by the independent actuary to calculate scheme liabilities over the life of the scheme on an IAS 19 basis were:

	2013 %	2012 %
Discount rate	4.1	4.5
Rate of increase in salaries	4.55	4.55
Rate of increase of pensions in payment*	3.1	3.1
Rate of increase for deferred pensioners*	3.1	3.1

* This represents a weighted average of RPI and CPI, which are the indices used in the scheme.

The discount rate assumption reflects the investment return on a high quality corporate bond at the balance sheet date, as required by the standard.

The assumption on salary growth is for the long term over the life of the scheme. For the purposes of the valuation this assumption has been modified to reflect the Bank continuing to abide by public sector pay guidelines.

An age-related promotion scale has been added to the increase in salaries assumption.

The assumption for life expectancy for the scheme assumes that a male member reaching 60 in 2013 will live for 29.6 years (2012: 29.5 years) and a female member 30.3 years (2012: 30.0 years), and a male member reaching 60 in 2033 will live for 32.7 years (2012: 32.5 years) and a female member 33.3 years (2012: 33.2 years).

The mortality assumptions used in the scheme valuations are based on standard tables published by the Institute and Faculty of Actuaries which were adjusted in line with both current industry experience and the actual experience of the relevant scheme.

The assets in the scheme were:

	2013		2012	
	Value £m	Percentage of total value %	Value £m	Percentage of total value %
UK Government fixed interest bonds	242	7.7	145	4.8
UK Government index-linked bonds	2,468	78.7	2,466	81.3
Corporate index-linked bonds	405	12.9	401	13.2
Cash and other assets	21	0.7	22	0.7
Total market value of investments	3,136	100.0	3,034	100.0

For the purposes of IAS 19, the asset values stated are at the balance sheet date. Market values of the scheme's assets, which are not intended to be realised in the short-term, may be subject to significant change before they are realised. Of the corporate index-linked bonds £93 million were quoted and £312 million were unquoted (2012: £88 million quoted and £313 million unquoted), of the unquoted bonds £290 million (2012: £286 million) were guaranteed by the UK Government.

Notes to the Banking Department Financial Statements continued

18 Retirement benefits continued

Main scheme

	2013 £m	2012 £m
Present value of defined-benefit obligations	(2,676)	(2,470)
Assets at fair value	3,136	3,034
Defined-benefit asset (liability)	460	564

The duration of the pension scheme liabilities is in the region of 19 years. A +/- 0.1% change to the discount rate would change the surplus on the pension scheme by +/- £48 million (2012: +/- £42 million).

A +/- 0.1% change to the assumed difference between CPI and RPI inflation would change the present value of defined-benefit obligations for the pension scheme by +/- £39 million with a similar offsetting change expected in the value of the pension scheme's assets given the matching nature of the investment strategy.

A +/- 0.5% change to the assumed rate of increases in salaries would change the surplus on the pension scheme by +/- £32 million.

If mortality rates were adjusted such that individuals were assumed to live for an additional year, the scheme's liabilities at the year end would increase by approximately £71 million (2012: £72 million).

The Bank expects to pay contributions of £74 million in respect of 2013/14 (2012/13: £48 million).

Redundancy provisions

	2013 £m	2012 £m
Unfunded defined-benefit liability	(81)	(78)

The Bank expects to make payments of £5 million in the forthcoming year (2012: £5 million).

Other pension schemes

	2013 £m	2012 £m
Unfunded defined-benefit liability	(8)	(7)

The Bank expects to make payments of less than £1 million in the forthcoming year (2012: less than £1 million).

During the year to 28 February 2013 the Bank incurred services costs of less than £1 million (2012: less than £1 million).

Medical scheme

Some staff are entitled to receive healthcare benefits in retirement. Separate provision is made for these in the Bank's accounts as these cannot be paid out of the Pension Fund.

Summary of assumptions

The discount rates used for the purposes of measuring post-retirement benefit liabilities is the same as used in the IAS 19 valuation of pension scheme liabilities (see (a)). Following a review of the recent experience of the medical scheme, the level at which claims are assumed to arise on average has been updated. This has resulted in a reduction of £58 million in the unfunded defined-benefit recognised. Additionally, for accounting purposes the following assumptions have been made in respect of medical expense inflation:

	2013	2012
Initial medical trend	5.5%	6.5%
Ultimate medical trend	5.0%	5.0%
Years to ultimate	1	2
	2013 £m	2012 £m
Unfunded defined-benefit liability	(113)	(167)

Sensitivity analysis provided by the actuary indicates that 0.1% decrease in the discount rate would change the deficit on the other post-retirement benefits by £2 million (2012: £3 million) and a 1% increase in the rate of medical claims by £22 million (2012: £33 million). If the mortality rates were adjusted such that individuals were assumed to live for an additional year, the other post-retirement liabilities at the year end would increase by approximately £4 million (2012: £7 million).

The Bank expects to pay premiums of £4 million in the forthcoming year (2012: £4 million).

19 Other assets

	2013 £m	2012 £m
Items in course of settlement	–	1,247
Finance lease receivables	6	6
Short-term debtors and other assets*	205	733
	211	1,986

* Includes £56 million due in more than 1 year (2012: £6 million).

20 Deposits from central banks

	2013 £m	2012 £m
Deposits repayable on demand	1,994	1,216
Term deposits held at fair value through profit or loss	12,377	13,590
	14,371	14,806

Notes to the Banking Department Financial Statements continued

21 Deposits from banks and other financial institutions

	Note	2013 £m	2012 £m
Deposits repayable on demand:			
Sterling		294,488	214,719
Non-sterling		157	270
Repurchase agreements		–	248
Cash Ratio Deposits		2,479	2,386
		297,124	217,623

Cash Ratio Deposits are computed on the basis of banks' and building societies' eligible liabilities and are non-interest bearing. 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 or threshold used for calculation, is payable immediately. Under the Bank of England Act 1998, the percentage and threshold 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.

22 Other deposits

	2013 £m	2012 £m
Deposit by Issue Department	52,744	47,562
Public deposits:		
Repayable on demand	949	1,234
Other deposits repayable on demand	24,370	21,367
	78,063	70,163

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

23 Foreign currency bonds in issue

	2013		2012	
	£m Fair value	\$m Nominal	£m Fair value	\$m Nominal
Total amounts issued to third parties	4,007	6,000	5,104	8,000

All changes in fair values since 1 March 2012 are considered attributable to changes in prevailing interest rates and movements in relative foreign currency exchange rates.

At 28 February 2013, as part of the Bank's annual medium-term security issuance programme the Bank had three \$2 billion three-year dollar bonds in issue (2012: four \$2 billion three-year dollar bonds); the first maturing on 18 March 2013, the second on 7 March 2014 and the third on 6 March 2015.

The most recent bond (the seventh in the overall programme) was issued on 11 March 2013 with settlement on 19 March 2013. This bond matures on 21 March 2016.

Of the above liabilities to third parties, £1,339 million (2012: £1,282 million) fall due within one year.

24 Deferred tax liabilities

Deferred tax is calculated on all temporary differences under the liability method using an effective tax rate of 23% (2012: 25%).

A reduction in the rate from 25% to 24% (effective from 1 April 2012) was substantially enacted on 26 March 2012 and then a further reduction in the rate from 24% to 23% (effective from 1 April 2013) was substantively enacted on 17 July 2012 and therefore the effect of the rate reduction on the deferred tax balances as at 28 February 2013 has been included in the figures below.

In the 2013 Budget on 28 March 2013 the Chancellor announced that the UK main corporation tax rate will be reduced to 21% with effect from 1 April 2014, the effect of the rate would create an additional reduction in the deferred tax liability of approximately £15m. This has not been reflected in the figures below as it was not substantively enacted at the balance sheet date.

The Chancellor also proposed changes to further reduce the main rate of corporation tax to 20% by 1 April 2015, but these changes have not yet been substantively enacted. The effect of the further reductions from 21% to 20%, if applied to the deferred tax balance at 28 February 2013 would be to reduce the deferred tax liability by a further £7 million approximately. This is in addition to the reduction of approximately £15 million arising from the reduction in the tax rate from 23% to 21% with effect from 1 April 2014.

The movement on the deferred tax account is as follows:

	Note	2013 £m	2012* £m
Deferred tax			
Net liability at 1 March		(201)	(105)
Income statement charge	7	(9)	(14)
Tax credited/(charged) directly to equity		44	(82)
Net liability at 28 February		(166)	(201)

	2013 £m	2012* £m
Deferred tax liability relates to:		
Available for sale securities	(110)	(127)
Pensions and other post-retirement benefits	(59)	(77)
Other provisions	3	3
	(166)	(201)

* The prior year has been restated. See note 2b for details.

Notes to the Banking Department Financial Statements continued

25 Other liabilities

	Note	2013 £m	2012 £m
Items in course of collection		1	1,260
Payable to HM Treasury	8	55	2,298
Short term creditors and other liabilities		136	102
Onerous lease provision		19	–
		211	3,660

Onerous Lease Provision

The Bank has undertaken to bear the costs arising from certain leased property previously occupied by the FSA and which was vacated upon the commencement of the new regulatory regime.

This obligation crystallised when the Bank agreed, on 27 April 2012, to lease a property at 20 Moorgate from which to operate the PRA. The amount provided for represents the net present value of the future lease payments and the cost of dilapidations required as part of the lease less any expected lease income from sub-letting the floor space. The lease expires in November 2018. The cash flows are discounted at a risk free rate as at 28 February 2013.

26 Capital

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

The Bank regards its shareholder's funds as the capital it uses to support its normal operations. For special operations it may also obtain indemnities from HM Treasury.

27 Cash and cash equivalents

i Analysis of cash balances

	Note	At 1 March 2012 £m	Cash flows £m	At 28 February 2013 £m
Cash and balances with other central banks	9	372	415	787
Loans and advances to banks and other financial institutions	10	5,671	(2,318)	3,353
Securities held at fair value through profit or loss	12	129	(129)	–
		6,172	(2,032)	4,140

ii Stock of liquidity

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and amounts due from banks within three months from the date of acquisition. This definition, which is required by IAS 7 (Cash Flow Statements), covers the Bank's stock of liquidity for operational purposes, but is not well suited to the Bank which as the central bank is the ultimate source of sterling liquidity. These include advances to the money market and banks, and reverse repurchase agreements which are regarded as a pool of assets for these purposes. The allocation of this liquidity between the components depends upon prevailing market conditions.

28 Financial risk management

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

The Bank's management seek to ensure that effective risk management processes exist for assessing, managing and monitoring risk, within clear risk policies. There are governance arrangements set out in a Balance Sheet Remit and financial risk standards approved by the Governor, and documented delegated authorities for implementation of financial risk management and oversight of the Bank's operations.

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

The Risk Management Division (RMD) within the Bank's Markets Directorate is responsible for analysing the financial risks faced by the Bank in its operations in financial markets. RMD is responsible for the development of the appropriate framework for the management of financial risks. The Market Strategy and Risk Operations Division (MSROD) is responsible for the implementation of the agreed risk framework, including reporting on credit, market and liquidity risk. It is also responsible for operational risk management processes across the Markets Directorate and for preparations for contingencies with respect to financial operations.

a Credit risk

Credit risk is the risk of loss arising from the failure of a borrower, issuer, counterparty or customer to meet its financial obligations to the Bank. The Bank is exposed to credit risk through both direct exposures and contingent exposures, such as via collateral or insurance contracts. The primary source of credit risk arises as a result of the Bank providing liquidity to financial institutions via the Sterling Monetary Framework; intraday in the Bank's provision of liquidity to facilitate the operation of the sterling high-value payment system (CHAPS) and the securities settlement system, CREST; and elsewhere in the Bank's management of its balance sheet, for example in the investment of the Bank's own funds and in the course of the banking services it provides to its customers. In addition, the Bank incurs credit risk in connection with any support operations it may undertake.

The Bank's credit risk policies define high-level risk parameters under which credit risk is monitored and controlled. Credit exposures are controlled by a system of limits based on internal credit ratings. This system applies to all unsecured credit exposures, including intra-day exposures, foreign exchange settlement exposures and exposures arising from settling securities trades for customers. Separately, limits exist to control the maximum outright (uncollateralised) exposures to a single entity. Credit assessments are performed on all market counterparties, issuers and customers to which the Bank may be exposed. These are performed both regularly, following a timetable that reflects the risk of the actual or potential exposure, and dynamically, in response to market or specific entity conditions.

The Bank's Credit Ratings Advisory Committee (CRAC), chaired by the Head of RMD, reviews the creditworthiness of issuers, counterparties and customers with whom the Bank may have credit exposures. CRAC makes recommendations to the Executive Director for Markets, who is responsible for decisions on internal credit ratings. CRAC is supported by a credit risk analysis team.

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

Banking services are provided to the United Kingdom government and other public sector entities, overseas central banks, international institutions, infrastructure providers, Bank staff and pensioners, and other customers. The Bank may incur credit exposures to its customers in the course of providing such services. The reinvestment of customer deposits via secured on-placements may also give rise to credit exposures.

Notes to the Banking Department Financial Statements continued

28 Financial risk management continued

Collateral management

In providing liquidity via the Bank's Sterling Monetary Framework operations and, intra-day, via the Bank's operation of wholesale payment systems, credit risk is managed by ensuring that exposures are fully collateralised (with appropriate haircuts) by securities, which are issued chiefly by governments, government agencies and supranational organisations, which meet the Bank's minimum standards of liquidity and credit risk. A summary of eligible collateral can be found on the Bank's web site.⁽¹⁾

In the Bank's Indexed Long-Term Repo Operations, Discount Window Facility, Extended Collateral Term Repo Operations and Funding for Lending Scheme⁽²⁾, the Bank may take a range of private sector collateral. Depending on the facility, the collateral may include mortgage-backed securities, covered bonds backed by mortgages or public sector securities, other asset-backed securities (such as asset-backed securities backed by credit card receivables, student loans or auto loans), or pools of loans. The collateral must meet published eligibility criteria.

The Bank manages the risk in this wider collateral portfolio by applying haircuts to market or, where necessary, model prices to take account of liquidity (price) risk and credit risk. Where appropriate the Bank undertakes stress testing of securities in order to ensure that haircuts are sufficient to protect against idiosyncratic risk in the underlying collateral pool and counterparty risk. The Bank may vary haircuts at its discretion, including on individual securities.

The Bank values securities daily and calls for additional collateral where the haircut-adjusted value is less than the value of its exposure. Where possible, the Bank uses a market price to value securities. Where no such market price exists, the Bank uses a model price designed to deliver a price that is as close as possible to what a market price would be had such a price existed. The valuations methodology, the use of spreads in models and the collateral are under review regularly. A Collateral Risk Committee chaired by the Head of RMD reviews issues relating to the wider collateral portfolio and considers policy issues relating to stress testing, valuation and eligibility of collateral including in response to market specific entity conditions.

In the Discount Window Facility, Extended Collateral Term Repo Operations and Funding for Lending Scheme, the Bank may also take portfolios of loans in unsecured form as collateral. A Collateral Eligibility Committee chaired by the Head of RMD reviews eligibility of a counterparty to pledge portfolios of loans as collateral, based on an assessment of the firm's risk management policies. The Committee also reviews eligibility of individual portfolios and maximum advance rates.

In non-routine circumstances, the Bank will seek appropriate methods of mitigating financial credit risk, including indemnities from HM Treasury.

(1) See www.bankofengland.co.uk/markets/Pages/money/eligiblecollateral.aspx.

(2) See Review 2012/13 on page 15.

Geographical concentration of assets and liabilities

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

	2013 £m	2012 £m
Assets		
United Kingdom	389,508	304,263
Rest of Europe	6,133	8,854
Rest of the world	2,084	2,355
	397,725	315,472
Liabilities & Equity		
United Kingdom	369,064	300,174
Rest of Europe	14,993	3,471
Rest of the world	13,668	11,827
	397,725	315,472

b Market risk

Market risk is defined as the risk of loss as a result of changes in market risk factors, including prices of securities, interest rates, foreign exchange rates, commodity prices and credit spreads. The Bank is exposed to market risk, as a consequence of its operations to deliver its policy objectives in the course of managing the Bank's balance sheet, principally through changes in the relative interest rates received on its assets and paid on its liabilities. Limited exposure may also be incurred to changes in exchange rates (see below) and to shifts in general market conditions, such as the liquidity of asset markets.

The Bank's market risk policies set out risk management parameters, governance and control frameworks as well as reporting arrangements for key risk indicators.

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

Value at Risk measurement

The Bank measures the Value at Risk (VaR) of all its positions. VaR estimates, to a confidence level of 99%, the potential loss that might arise if existing positions were unchanged for ten business days under normal market conditions, given the historical volatility of the returns on different assets, and the historical correlation between those returns.

VaR on the Bank's balance sheet is calculated against the risk factors to which the Bank is exposed. During the year VaR arose mostly from market volatility on the Bank's sterling bond portfolio.

	2013 £m	2012 £m
At 28 February	76.7	92.0
Average	86.5	84.5

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A 99% confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a 1% probability that losses could exceed the VaR.
- A ten-day holding period assumes that it is possible to hedge or dispose of positions within that period. This may not be realistic in a situation where there is severe market illiquidity.
- VaR data is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the day.
- The model uses historical data from 1 March 2011 to 28 February 2013 as a basis for determining the possible ranges of outcomes and may not always cover all possible scenarios, especially those of an exceptional nature.

Notes to the Banking Department Financial Statements continued

28 Financial risk management continued

The Bank back tests its VaR by comparing actual profit or loss to the VaR estimation. The results of the back-testing process are one of the methods by which the Bank monitors the ongoing suitability of its VaR model.

The Bank also undertakes stress tests on positions on its balance sheet. The results of the stress testing complement the VaR measure in informing management about financial risk on the balance sheet.

Currency risk

The Bank may take currency risk in the context of foreign exchange intervention and in the course of balance sheet management. However, the majority of these potential exposures are matched, mainly through the use of forward exchange contracts and currency swaps, and residual foreign exchange exposures are hedged on a regular basis. Therefore the Bank has no significant net foreign currency exposure, other than the Bank's investment in the Bank for International Settlements which is denominated in Special Drawing Rights and held at fair value of £474 million (2012: £484 million). Excluding this, the Bank's net foreign exchange exposure at 28 February 2013 was £17 million (2012: £8 million).

c Liquidity risk

Liquidity risk is the risk of encountering difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

In sterling, liquidity risk does not arise as the Bank is able to create sterling liquidity through its market operations.

For foreign currency, in addition to holding appropriate cash balances, the Bank manages liquidity through cash-flow matching and the use of forward exchange contracts and currency swaps; the Bank also holds a portfolio of liquid foreign exchange reserves. Throughout 2012/13 the Bank continued weekly tender operations (which had recommenced in May 2010) to lend US dollar funds for 7 days against eligible collateral. Since October 2011, monthly US dollar tender operations with a 3-month term have also been offered. US dollar funding to facilitate these operations would be provided through a reciprocal swap agreement with the US Federal Reserve.

The Bank's Balance Sheet Remit and Liquidity Risk standard and supporting policies set out risk tolerances and detailed parameters and controls to minimise the foreign currency liquidity risk that arises. These include limits over cash flow and maturity mismatches, and for bond holdings, minimum issue size and concentrations limits are set as well as reporting requirements for key risk indicators.

The following tables analyse the Bank's foreign currency financial assets and liabilities at the balance sheet dates into relevant maturity groupings based on the remaining period to the contractual maturity date.

Foreign currency liquidity risk
As at 28 February 2013

	Up to 1 month £m	1-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Assets						
Cash and balances with other central banks	786	–	–	–	–	786
Loans and advances to banks and other financial institutions	1,344	6,040	3,766	–	–	11,150
Securities held at fair value through profit and loss	564	483	470	2,059	–	3,576
Derivative financial instruments						
Cash inflow	2,427	4,128	2,032	1,869	–	10,456
Cash outflow	(2,121)	(4,037)	(1,982)	(1,731)	–	(9,871)
Other assets	–	–	–	–	–	–
Total assets	3,000	6,614	4,286	2,197	–	16,097
Liabilities						
Deposits from central banks	1,240	4,384	3,698	–	–	9,322
Deposits from banks and other financial institutions	157	–	–	–	–	157
Other deposits	410	–	–	–	–	410
Foreign currency bonds in issue	1,351	–	12	2,654	–	4,017
Derivative financial instruments						
Cash inflow	(1,574)	(302)	(1,691)	(4)	–	(3,571)
Cash outflow	1,885	2,042	1,789	29	–	5,745
Other liabilities	–	–	–	–	–	–
Total liabilities	3,469	6,124	3,808	2,679	–	16,080
Net liquidity gap	(469)	490	478	(482)	–	17
Cumulative gap	(469)	21	499	17	17	

Notes to the Banking Department Financial Statements continued

28 Financial risk management continued

As at 29 February 2012

	Up to 1 month £m	1-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Assets						
Cash and balances with other central banks	372	–	–	–	–	372
Loans and advances to banks and other financial institutions	4,687	3,544	5,252	–	–	13,483
Securities held at fair value through profit and loss	530	502	272	3,501	–	4,805
Derivative financial instruments						
Cash inflow	2,446	1,058	2,962	2,304	–	8,770
Cash outflow	(2,759)	(1,694)	(4,024)	(2,233)	–	(10,710)
Other assets	1,246	–	–	–	–	1,246
Total assets	6,522	3,410	4,462	3,572	–	17,966
Liabilities						
Deposits from central banks	3,279	1,883	3,702	–	–	8,864
Deposits from banks and other financial institutions	519	–	–	–	–	519
Other deposits	414	–	–	–	–	414
Foreign currency bonds in issue	1,310	–	12	3,818	–	5,140
Derivative financial instruments						
Cash inflow	(3,777)	(915)	(864)	(371)	–	(5,927)
Cash outflow	3,927	1,910	1,359	418	–	7,614
Other liabilities	1,334	–	–	–	–	1,334
Total liabilities	7,006	2,878	4,209	3,865	–	17,958
Net liquidity gap	(484)	532	253	(293)	–	8
Cumulative gap	(484)	48	301	8	8	

d Fair value of financial assets and liabilities

The table below shows the financial instruments carried at fair value by valuation method:

As at 28 February 2013

	Note	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets					
Loans and advances to banks and other financial institutions	10	–	11,145	–	11,145
Securities held at fair value through profit or loss	12	3,573	–	–	3,573
Derivative financial instruments	13	–	334	–	334
Available for sale securities	14	4,700	–	479	5,179
		8,273	11,479	479	20,231
Liabilities					
Deposits from central banks	20	–	12,377	–	12,377
Foreign currency bonds in issue	23	4,007	–	–	4,007
Derivative financial instruments	13	–	229	–	229
		4,007	12,606	–	16,613

As at 29 February 2012

		Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets					
Loans and advances to banks and other financial institutions		–	12,984	–	12,984
Securities held at fair value through profit or loss		4,653	129	–	4,782
Derivative financial instruments		–	461	–	461
Available for sale securities		4,852	–	488	5,340
		9,505	13,574	488	23,567
Liabilities					
Deposits from central banks		–	13,590	–	13,590
Foreign currency bonds in issue		5,104	–	–	5,104
Derivative financial instruments		–	232	–	232
		5,104	13,822	–	18,926

There have been no transfers between levels in the year.

- Level 1 Valued using unadjusted quoted prices in active markets for identical financial instruments.
- Level 2 Valued using techniques that rely upon relevant observable market data curves. This category of instruments comprised derivatives, repurchase transactions, commercial paper and deposits.
- Level 3 Valued using techniques where at least one input that could have a significant impact on the valuation is not based on observable market data. During the year this category consisted primarily of the Bank's investment in the Bank for International Settlements (note 14).

The fair values of financial assets and liabilities classified as loans and receivables and deposits at amortised cost approximate to their carrying values due to their short-term nature.

Notes to the Banking Department Financial Statements continued

29 Contingent liabilities and commitments

a 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.

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.

Since 1930 there has also been a contingent liability in respect of uncalled capital on the Bank's investment in the Bank for International Settlements, now denominated in Special Drawing Rights (SDR). The sterling equivalent of this liability based on the SDR price at the balance sheet date was £179 million (2012: £175 million).

The Bank has been required to subscribe to the share capital of the European Central Bank (ECB) since its establishment in 1998. Subscriptions depend on shares which are fixed in accordance with Article 29.3 of the European System of Central Banks (ESCB) Statute and which must be adjusted every five years and on the accession of new states to the European Union. The next quinquennial adjustment is due in 2014.

In accordance with the Treaty on the Functioning of the European Union, and in line with other non euro area national central banks, the Bank is only required to pay a 'minimal percentage' of its subscribed share capital, currently 3.75% amounting to €59 million (2012: 3.75% amounting to €59 million) by way of contribution to the operational costs of the ECB. The 'minimal percentage' can be varied by the General Council of the ECB. The Bank has not been notified of any intentions to change the 'minimal percentage'.

b Capital commitments

Capital commitments outstanding at 28 February 2013 amounted to £11 million (2012: £4 million).

In addition the Bank did not have any contingent capital commitments outstanding at 28 February 2013 (2012: £6 million).

c Operating lease commitments — minimum lease payments

	2013		2012	
	Land and buildings £000	Computer and other equipment £000	Land and buildings £000	Computer and other equipment £000
At the year end, minimum lease payments under non-cancellable operating leases were:				
Expiring within one year	7,865	194	59	109
Between one and five years	31,353	282	829	90
Expiring in five years or more	50,884	–	820	–
	90,102	476	1,708	199

The Bank leases the premises occupied by its Agencies and the PRA.

30 Related parties

Transactions with those commercial banks which are related parties but not wholly-owned by HM Treasury have not been disclosed as the Bank does not believe such disclosures to be appropriate having regard to its functions.

a HM Government

The Bank provides a range of activities to its shareholder, HM Treasury, and to other Government departments and bodies:

- Provision of banking services, including holding the principal accounts of Government.
- Management of the Exchange Equalisation Account.
- Management of the note issue.

The Bank also engaged in transactions with the Financial Services Compensation Scheme and other related parties.

The aggregate balances on HM Treasury and other public sector accounts are disclosed in note 22 as public deposits. The total charges made to the Government are disclosed in note 4.

Debt Management Office and Debt Management Account

The Bank has entered into agreements with the United Kingdom Debt Management Office (DMO) through the Debt Management Account (DMA) whereby the DMA lends UK government securities to the Bank with the simultaneous agreement that the Bank would deliver equivalent securities to the DMA on termination of those agreements.

At 28 February 2013 the Bank had a loan from the DMA of £193 million (2012: £508 million) in relation to the provision of funding to the Bank of England Asset Purchase Facility Fund Ltd.

At 28 February 2013 the Bank had borrowed Treasury bills with a nominal value of £15.2 billion (2012: £nil) under the Bank's Funding for Lending Scheme. The Bank has paid the DMA a loan fee for the Treasury bills borrowed.

In addition, the DMA placed interest bearing deposits with the Bank during the year, which is included within note 22 as public deposits.

HM Treasury

HM Treasury continued to indemnify the activities of the Bank of England Asset Purchase Facility Fund Ltd during the year.

The Bank has requested HM Treasury to require the Financial Services Compensation Scheme (FSCS) to make a payment reimbursing the sum of £2.9 million in respect of expenses incurred by the Bank in connection with the resolution of Dunfermline Building Society in accordance with the Financial Services and Markets Act 2000 (Contribution to Costs of Special Resolution Regime Regulations 2009).

Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS) is the United Kingdom's statutory fund of last resort for customers of authorised financial services firms set up under the Financial Services and Markets Act 2000 (FSMA). The FSCS is independent from the PRA and the FCA (formerly the FSA), although accountable to them and ultimately to HM Treasury.

The FSCS placed interest bearing deposits with the Bank during the year, which are included within note 22 as public deposits.

Notes to the Banking Department Financial Statements continued

30 Related parties continued

Bradford & Bingley plc and Northern Rock (Asset Management) plc

Bradford & Bingley plc and Northern Rock (Asset Management) plc are wholly-owned by HM Treasury through the holding company UK Asset Resolution Ltd and placed interest bearing deposits with the Bank during the year, which are included within note 21.

b Subsidiaries

Full details of the subsidiaries of the Bank are disclosed in note 15.

Bank of England Asset Purchase Facility Fund Ltd (BEAPFF)

BEAPFF is a wholly-owned subsidiary of the Bank. It was established on 30 January 2009 in order to fulfil the remit of the Chancellor of the Exchequer given to the Bank on 19 January 2009. This remit was subsequently expanded to enable the Fund to be used as a monetary policy tool at the request of the Monetary Policy Committee.

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

Purchases of assets by BEAPFF are financed via a loan from the Bank. From 6 March 2009 to 4 February 2010 and from 7 October 2011 advances on this loan were financed by the issuance of central bank reserves. Prior to 6 March 2009 and from 4 February 2010 to 6 October 2011 advances on this loan were financed by a loan from the DMO.

At 28 February 2013 the loan from the Bank to BEAPFF was £375.2 billion (2012: £286.6 billion). Interest on this loan is receivable at Bank Rate and amounted to £1.7 billion for the year ending 28 February 2013 (2012: £1.1 billion).

At the year end BEAPFF held a deposit at the Bank of £24.1 billion (2012: £20.7 billion), which is included in other deposits (note 22). Interest on this deposit is payable at Bank Rate and totalled £132 million for the year ending 28 February 2013 (2012: £85 million).

A management fee of £2 million was payable by BEAPFF to the Bank in respect of the year ended 28 February 2013 (2012: £2 million).

Prudential Regulation Authority (PRA)

The PRA is a wholly-owned subsidiary of the Bank. The company was established on 21 November 2011 and began to operate when the new regulatory framework for the United Kingdom's financial sector came into effect on 1 April 2013. To fulfil the requirements of the Financial Services Act 2012 the PRA is responsible for the prudential regulation of banks, building societies and credit unions, insurers and major investment firms. As prudential regulator, the PRA will promote the safety and soundness of these firms, seeking to minimise the adverse effects that they can have on the stability of the UK financial system; and contribute to ensuring that insurance policyholders are appropriately protected.

The Bank incurred costs in relation to the set up of the PRA of £48.5 million in the year (2012: £14.7 million, 2011: £1.5 million) and has charged the current and previous years' costs to the PRA. The PRA Board has agreed that the costs of the transition will be recovered from the fee-payers over a period of five years. The PRA has a liability to the Bank and the Bank has a receivable from the PRA as at the year end of £64.7 million (2012: £nil) which is disclosed within note 19. The Bank held on balance sheet as at 28 February 2013 £22.8 million of property, plant and equipment related to the set up of the PRA which is disclosed within note 16.

c Key management personnel

Members of Court are covered by an indemnity from the Bank, granted in 2000 (see page 4).

The following information is presented only in respect of those employees of the Bank who would be considered as key management personnel, as defined under IAS 24 (Related Party Disclosures). This comprised the Governors, members of the Executive Team and Non-executive Directors. At 28 February 2013, the number of key management personnel was 22 (2012: 22).

The following particulars relate to loans and deposits between the Bank and key management personnel and persons connected with them:

	2013 £000	2012 £000
Loans		
Balance brought forward	32	44
Loans made during year	22	12
Loans repaid during year	(26)	(24)
	28	32
Interest income earned	2	1
Number of key management personnel with loans at 28 February	3	3

No provisions have been recognised in respect of loans given to related parties (2012: £nil).

	2013 £000	2012 £000
Deposits		
Governors and Executive Directors		
Balance brought forward	745	849
Deposits taken during year	592	683
Deposits repaid during year	(465)	(787)
	872	745
Non-executive Directors		
Balance brought forward	5,548	4,538
Deposits taken during year	611	1,010
Deposits repaid during year	–	–
	6,159	5,548
Interest expense on above deposits	16	15
Number of key management personnel with deposits at 28 February	7	7

There were no other transactions that would be required to be shown under the provisions of the Companies Act 2006. None of the key management personnel had a material interest, directly or indirectly, at any time during the year in any other significant transaction or arrangement with the Bank or any of its subsidiaries.

All employees, excluding the Governor, Deputy Governors, and external MPC members, are entitled to season ticket loans (repayable monthly over five to twelve months) and may choose to take personal loans (for periods of up to five years and at a variable interest rate equal to HMRC's Official Rate of Interest currently 4%) as part of their remuneration package.

Staff, including Governors and Executive Directors, holding current and interest-bearing deposit accounts at the Bank of England receive interest at commercial rates.

30 Related parties continued

Key management remuneration

	2013 £000	2012* £000
Salaries and short-term benefits	3,329	3,369
Post-employment benefits	374	330
	3,703	3,699

* The prior year has been restated.

Post-employment benefits have been calculated on a funding valuation basis.

Full information on the remuneration (including pension arrangements) of the Members of Court is given in the Remuneration report on pages 44 to 46.

d The Bank's pension scheme

The Bank provides the secretariat, accounting services and some banking and custodial services to the Bank's funded pension scheme. In the year to 28 February 2013 no charge was made for these services (2012: £nil). These activities are undertaken on behalf of, and under the supervision of, the Trustee of the Pension Fund. The contribution paid to the scheme during the year was £48 million (2012: £67 million). There were no other material transactions between the Bank and the pension scheme during the year to 28 February 2013. At 28 February 2013 the balances on accounts held with the Bank were £11 million (2012: £19 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.

31 Date of approval

The Members of Court approved the financial statements on pages 52 to 98 on 28 May 2013.

Issue Department

Account: for the period ended 28 February 2013

	Note	2013 £m	2012 £m
Income and profits			
Securities of, or guaranteed by, the British Government		330	666
Other securities and assets		262	258
		592	924
Expenses			
Cost of production of Bank notes		40	36
Cost of issue, custody and payment of Bank notes		27	26
Other expenses		8	9
		75	71
Payable to HM Treasury		517	853

Statement of Balances: 28 February 2013

	Note	2013 £m	2012 £m
Assets			
Securities of, or guaranteed by, the British Government	3	5,263	5,749
Other securities and assets including those acquired under reverse repurchase agreements	4	52,759	49,172
Total assets		58,022	54,921
Liabilities			
Notes issued:			
In circulation	5	58,022	54,921
Total liabilities		58,022	54,921

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

Sir Mervyn King Governor
Mr C R Bean Deputy Governor
Sir David Lees Chairman of Court
Mr W R Jones Finance Director

Notes to the Issue Department Statements of Account

1 Bases of preparation

The statements of account are prepared in accordance with the requirements of the Currency and Bank Notes Acts 1928 and 1954, the National Loans Act 1968 and the Currency Act 1983. All profits of the note issue are payable to the National Loans Fund.

- The statements of account are prepared on the basis of amounts received and paid as modified by the effects of a revaluation of securities.
- All securities are revalued quarterly at their clean mid-market price and are stated, with purchased accrued interest, in the balance sheet at this valuation. The last valuation was made as at 27 February 2013.
- If a revaluation of securities shows a net gain this is included in income. A deficit is not taken against income but is settled by a transfer from the National Loans Fund. Total such gains taken to income in the year to 28 February 2013 amounted to £82 million (2012: gain £396 million) and total deficits paid by the National Loan Funds amounted to £195 million (2012: deficit £2 million).
- Notes in circulation exclude those old series notes which have been written off. The value of the note is still given by the Bank on presentation. The Bank is reimbursed by HM Treasury in these instances.

2 Expenses

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

On an accruals basis, the cost of note issue for the year to 28 February 2013 was £78 million (2012: £72 million).

3 Securities of, or guaranteed by, the British Government

	2013 £m	2012 £m
British Government Stocks	4,893	5,379
Ways and Means advance to the National Loans Fund	370	370
	5,263	5,749

The Ways and Means advance earns interest at Bank Rate.

4 Other securities and assets including those acquired under reverse repurchase agreements

	2013 £m	2012 £m
Deposit with Banking Department	52,744	47,562
Reverse repurchase agreements	15	1,610
	52,759	49,172

5 Notes in circulation

	2013 £m	2012 £m
£5	1,526	1,477
£10	7,234	6,841
£20	35,163	33,129
£50	10,323	9,899
Other notes*	3,776	3,575
	58,022	54,921

* Includes higher value notes used as cover for the note issues of banks in Scotland and Northern Ireland.

6 Assets and liabilities

a Interest rate exposure

As the liabilities of the Issue Department are interest free, the income of the Issue Department is directly exposed to movements in interest rates. As at the year end 28 February 2013, the assets of the Issue Department had the following repricing period profile.

	2013 £m	2012 £m
Repricing up to one month	53,129	49,542
Repricing in greater than one month but less than three months	–	–
Repricing in greater than three months but less than six months	–	379
Repricing in greater than six months but less than twelve months	404	–
Repricing in greater than twelve months	4,489	5,000
	58,022	54,921

b Currency exposure

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

c Credit risk

Credit risk is the risk of loss arising from the failure of a borrower, issuer, counterparty or customer to meet its financial obligations to the Bank. The Bank is exposed to credit risk both through direct exposures and through contingent exposures, such as via collateral. The source of credit risk arises in course of the circulation of bank notes (including under the Notes Circulation Scheme, Agency Notes Store and Notes Printing Contract) and as a result of the Bank providing liquidity to financial institutions via open market operations.

In providing liquidity via routine open market operations credit risk is managed by ensuring that exposures are fully collateralised (with appropriate margin) by internally rated as equivalent to investment-grade securities.

Credit risk on the securities held by the Bank is managed by holding only internally rated as equivalent to investment-grade securities in routine circumstances, issued chiefly by governments and central banks.

7 Accrued interest

At 28 February 2013 the unrecognised accrued interest on the assets held on the Issue Department Statement of Balances was £80 million (2012: £86 million).

8 Date of approval

The Members of Court approved the statements of account on pages 99 to 101 on 28 May 2013.

Glossary of key abbreviations

ALCo – Assets and Liabilities Advisory Committee.
APF – Asset Purchase Facility.
ARCo – Audit and Risk Committee.
ATM – Automated Teller Machine.
BAME – Black, Asian and Minority Ethnic.
BCBS – Basel Committee on Banking Supervision.
BEAPFF – Bank of England Asset Purchase Facility Fund Ltd.
BRC – Business Risk Committee.
BU – Banking Union.
CCP/SSS – Central Counterparties and Security Settlement Systems.
CHAPS – Clearing House Automated Payment System.
CPI – Consumer Prices Index.
CPSS – Committee on Payment and Settlement Systems.
CRD – Cash Ratio Deposit.
CRD/CRR – Capital Requirements Directive and Regulation.
DWF – Discount Window Facility.
ECB – European Central Bank.
ECTR – Extended Collateral Term Repo.
ED – Executive Director.
EEA – Exchange Equalisation Account.
ELA – Emergency Liquidity Assistance.
EMIR – European Market Infrastructure Regulation.
ESMA – European Securities and Markets Authority.
ESRB – European Systemic Risk Board.
ET – Executive Team.
FLS – Funding for Lending Scheme.
FMI – Financial Market Infrastructure.
FMLC – Financial Markets Law Committee.
FPC – Financial Policy Committee.
FRC – Financial Reporting Council.
FSA – Financial Services Authority.
FSAC – Financial System Advisory Committee.
FSB – Financial Stability Board.
FSMA – Financial Services Markets Act.
FSR – Financial Stability Report.
GDP – Gross Domestic Product.
G-SIFI – Globally Systemically Important Financial Institution.
ICB – Independent Commission on Banking.
IOSCO – International Organization of Securities Commissions.
ISTD – Information Systems Technology Division.
LCR – Liquidity Coverage Ratio.
MI – Market Intelligence.
MPC – Monetary Policy Committee.
MSROD – Markets Strategy and Risk Operations Division.
NCS – Notes Circulation Scheme.
NedCo – Non-Executive Directors’ Committee.
ORC – Operational Risk Committee.
OTC – Over The Counter.
PRA – Prudential Regulation Authority.
RMD – Risk Management Division.
ROU – Risk Oversight Committee.
RTGS – Real Time Gross Settlement.
SCP – Single Collateral Pool.
SHE – Safety, Health and Environment.
SLS – Special Liquidity Scheme.
SME – Small and Medium-Sized Enterprise.
SMF – Sterling Monetary Framework.
SRR – Special Resolution Regime.
VAT – Value Added Tax.

Contacts

Head Office

Threadneedle Street
London EC2R 8AH
020 7601 4444*

Agencies

The South East and East Anglia

Threadneedle Street
London EC2R 8AH
020 7601 5711

Greater London

Threadneedle Street
London EC2R 8AH
020 7601 5504

Central Southern England

First Floor
Unit 4, Fulcrum 2
Solent Way
Solent Business Park
Whiteley
Fareham PO15 7FN
01489 570603

South West

11-15 Dix's Field
Exeter EX1 1QA
01392 438302

Wales

4 Village Way
Greenmeadow Springs
Tongwynlais
Cardiff CF15 7NE
029 2061 4678

West Midlands and Oxfordshire

Cornwall Court
19 Cornwall Street
Birmingham B3 2DT
0121 200 2599

East Midlands

6 Experian Way
ng2 Business Park
Nottingham NG2 1EP
0115 985 0174

Yorkshire and the Humber

West One
Wellington Street
Leeds LS1 1BA
0113 242 0355

Northern Ireland

Harvester House
4-8 Adelaide Street
Belfast BT2 8GA
028 9024 1692

North East

Dobson Building
Prestwick Business Park
Newcastle Upon Tyne
NE20 9SJ
01661 871432

North West

Suite 401
Thomson House
Faraday Street
Birchwood Park
Warrington WA3 6GA
01925 813703

Scotland

177 West George Street
Glasgow G2 2LB
0141 221 7972

* General enquiries relating to the Bank may be made on 020 7601 4878 or by email to enquiries@bankofengland.co.uk. Information about the Bank and its publications and additional telephone numbers and email addresses are available on the Bank's website at www.bankofengland.co.uk. Enquiries relating to the Bank of England *Quarterly Bulletin* and *Inflation Report* may be made on 020 7601 4030 and *Financial Stability Report* on 020 7601 4314.

