BANK OF ENGLAND

Annual Report and Accounts

1 March 2017–28 February 2018

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1 March 2017 to 28 February 2018

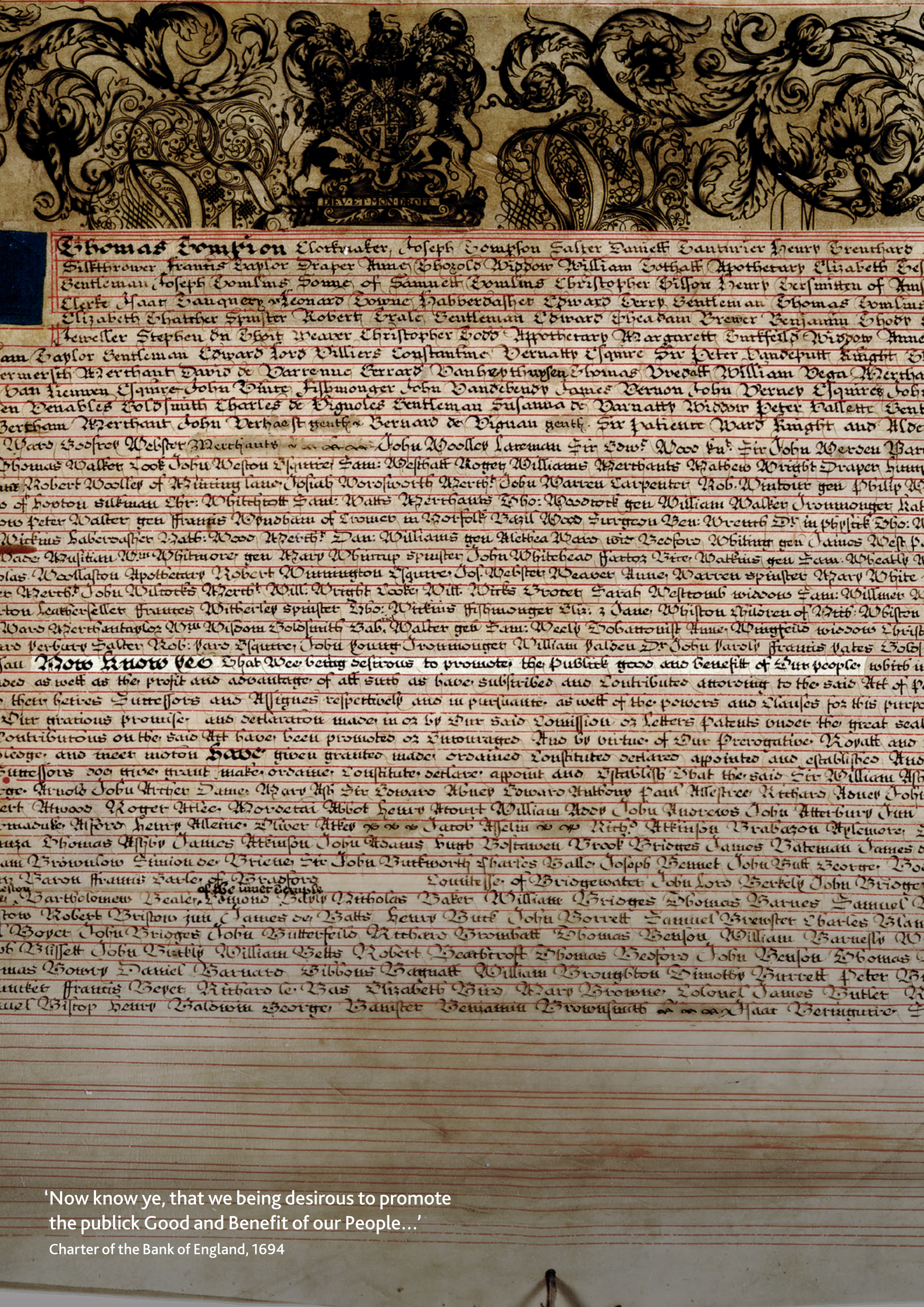
Presented to Parliament by the Chief Secretary to the Treasury
by Command of Her Majesty

The contents of this Report encompass the requirements of Section 4 of the Bank of England Act 1998, and include: (1) a report by the Court of Directors (Court) on the matters which it reviews, monitors or otherwise considers in the performance of its oversight functions (S4(2)(a)); (2) a report by Court on the activities of the Financial Policy Committee of the Bank (S4(2)(aa)); (3) a copy of the statements for the year prepared under section 7(2) and 7(2A) and the report of the Bank's auditors on them; (4) a statement of the rates at which Non-executive Directors of the Bank have been remunerated (S4(4)(a)); and (5) a statement of the Bank's objectives and strategy for the next year, as determined by Court (S4(4)(b)).

The Bank, in its capacity as the Prudential Regulation Authority, has published a separate report as required by paragraph 19 of Schedule 1ZB of the Financial Services and Markets Act 2000.

The Bank has also published a separate report, as required by section 203B of the Banking Act 2009 and paragraph 33 of Schedule 17A of the Financial Services and Markets Act 2000, on its supervision of financial market infrastructures.

Contents



'Now know ye, that we being desirous to promote the publick Good and Benefit of our People…'

Charter of the Bank of England, 1694

Statement by the Chair of Court

Sir Anthony Habgood
Chair of Court

As my four-year term as Chair of Court draws to a close, I want to take this opportunity to thank my committed, public-spirited and exceptionally able colleagues for all they have done to support the Bank's mission to promote the public good by maintaining monetary and financial stability.

Over the past four years — indeed over the two decades since independence — the Bank has consistently demonstrated that it can adapt and thrive in the face of challenge. In my own time we have seen the successful integration of the PRA, the coming of age of the FPC, the successful switch to polymer banknotes and the comprehensive and highly effective contingency planning carried out first for the Scottish and EU referenda, and subsequently for the substance of EU withdrawal.

That excellence in the face of change has continued over the past year. The Bank's remit has continued to adapt, with the acceptance of new responsibilities for operating the UK's high value payments system (CHAPS) and for administering the benchmark interest rate SONIA. And the organisation has continued to analyse the implications for its mission of challenges such as climate change and FinTech.

It is not only the economic and financial context that is changing. The commercial environment is changing too. Cyber-security continues to be one of the most pressing issues facing all companies. Court, as the Bank's Board, continues to focus on the institution's essential work to maintain and strengthen its cyber-defences. The Bank has made major strides here over the past few years, and fully recognises it needs to make further progress to keep pace with technological change.

Cyber-security is just one area where the need for excellence in professional standards and business practices is as critical in public life as it is in the private sector. And the importance of continuous professionalisation has been an area of particular focus for me and for my Court colleagues over the past few years. We have made many other advances, ranging from improvements in talent management and succession planning, to the investments made in the Bank's risk management approach.

The Bank's evolving remit means that efficiency and prioritisation have moved up the agenda. There is now a need to embed more firmly the Bank's culture of cost containment. The National Audit Office's first review of the Bank was a valuable reminder of the importance of keeping costs under scrutiny, and of providing clarity up front about the aims of planned investments. And the Bank's Vision 2020 strategy is supporting the organisation's aim of becoming more flexible and agile in the way that it works.

In my time as Chair, Court's effectiveness has been strengthened by greater transparency about its work as well as streamlined governance arrangements. These have been underpinned by the 2016 Bank of England and Financial Services Act. The Act has supported the integration of different parts of the Bank, including by putting the three main policy committees (MPC, FPC, PRC) on the same statutory footing. The Act has also reinforced Court's work as the Bank's unitary board, with non-executives and executives working together in a forum designed and sized to encourage fuller participation.

Court's statutory duty to keep the performance of the Bank under review continues to be supported by its Independent Evaluation Office (IEO). The IEO has published two in-depth reviews of the Bank's work over the past year. It has carried out an in-depth assessment of the effectiveness of the Bank's reforms to its sterling liquidity facilities — reforms which were in part driven by a previous Court review in 2012. The IEO has also reviewed the effectiveness of the Bank's resolution arrangements. In both cases, the IEO observed that while much had been achieved, there remained opportunities for different parts of the Bank to deepen their co-operation in support of the organisation's mission.

As well as these regular evaluations, the IEO supported the review carried out by Court Non-Executive Directors of the Bank's approach to conflicts of interest. That review was published in August 2017. Court remains firmly focused on ensuring its recommendations — and those of IEO reviews more generally — are effectively implemented and followed up in a timely manner.

The Bank can only ever be as good as the people who work for it. Diversity — in terms of protected characteristics, but also in terms of thought and approach — is a proven ingredient of corporate success. The need to build a diverse and inclusive culture is right at the top of every boardroom agenda, and the Bank is no exception. While substantial progress has been made over the past few years, the Bank is clear that it needs to do more. That includes accelerating the progress of talented female and ethnic minority colleagues into senior executive positions, which in turn will help close the organisation's gender and BAME pay gaps.

A well-functioning relationship between Chair and Chief Executive is essential in all organisations. And I have been privileged to serve alongside an exceptionally able and dedicated Governor, Mark Carney. I would like to thank him, his Deputy Governors and Court as a whole for all that they have done over the past four years. I am also grateful for the ongoing support for the work of the Bank provided by both HM Treasury and the Treasury Committee.

Over the past year, Court has welcomed the appointment of Dave Ramsden as Deputy Governor for Markets and Banking and Joanna Place as Chief Operating Officer, succeeding Charlotte Hogg. And after six years of service, Tim Frost is stepping down as a Court Non-Executive Director. On behalf of the whole Bank, I would like to thank Tim for his many contributions to the work of the institution, including the emphasis that he has rightly placed on the need for the Bank to adapt itself and its approach to the shifting technological and financial landscape.

I am delighted that Bradley Fried will be succeeding me as Chair of Court. He has been an outstanding Deputy Chair of the Bank and has an extremely strong background in Financial Services. I also welcome the re-appointments of Dido Harding, Don Robert and Dorothy Thompson who have made excellent contributions to Court and its committees since they joined in August 2014. The appointment of Anne Glover and Diana Noble as new Non-Executive Directors is also an extremely positive step, not least in that it means that a majority of our non-executives will be women. I am leaving the Bank in great hands, and with the confidence that Court will ensure that the Bank continues to professionalise and reinvent itself in the face of change.

Anthony Habgood
4 June 2018

Report by the Governor

Mark Carney
Governor

The Bank is focusing on improving how we can work and communicate to promote the good of the people of the United Kingdom by maintaining monetary and financial stability.

To these ends, in 2017 the Bank launched its new three-year Strategic Plan, Vision 2020. In its first year we have made major changes to focus our priorities, to improve our decision-making and to explain more clearly our work to the people we serve.

Strategic goals

A series of major initiatives are required to maintain monetary and financial stability as the United Kingdom departs from the European Union. Meeting these additional demands, together with other policy challenges, has meant we have had to reprioritise. To focus our efforts on doing what matters most, the Bank has set out seven Strategic Goals that will make the biggest contribution to our mission over the next three years. By prioritising the resources on these goals, we will do less in some other areas.

The Bank has continued preparations to deliver a **post-EU framework for financial stability**. The Financial Policy Committee (FPC) has overseen contingency planning efforts across the financial system, including for the unlikely scenario of a disorderly exit. In November last year, based on stress tests and scenario planning, the Committee judged the banking system had sufficient capital to continue lending even in a cliff-edge Brexit. The FPC has also set out a checklist of major risks which need to be addressed to avoid disruption of financial services to the real economy and is providing quarterly updates on progress. We are working closely with HM Treasury to tackle the issues that can be addressed domestically. To address cross-border issues, we have convened a technical working group with the European Central Bank to co-ordinate our approaches to managing risks around Brexit.

In support of our monetary policy and financial stability objectives, we are deepening our understanding of the causes and implications of a '**lower for longer**' interest rate environment. Thus far, our work has concentrated on disentangling the forces that have been pushing down interest rates, and assessing how they are likely to evolve. We have also been analysing how the structure and resilience of the financial system could be affected and what mitigating actions might be appropriate. To this end we conducted the first 'Biannual Exploratory Scenario', which explored the impact of an extended period of low interest rates, coupled with fierce competition, on the UK banking sector.

We are working to **understand and apply FinTech to help fulfil the Bank's mission**. The UK is at the leading edge of technological innovation in financial services and home to many FinTech firms. To leverage these advantages, the Bank launched our FinTech Hub this year to co-ordinate our engagement with private firms and to develop and apply new technologies.

Interest in crypto-assets has surged over the past year, along with concern about the risks they might pose on issues such as money laundering and investor protection. The FPC judged in March 2018 that existing crypto-assets do not currently pose a material risk to UK financial stability. The Bank is, however, continuing to assess the implications of crypto-assets in co-ordination with other national and international authorities.

While crypto-assets themselves are unlikely to be the future of money, their existence underscores society's growing demands for fully reliable, real-time, distributed peer-to-peer transactions. As part of the solution, reforms of the Bank's payment systems are underway.

We are **delivering the medium-term blueprint for the governance and infrastructure of the Real-Time Gross Settlement (RTGS) system**. Our programme to renew RTGS, the UK's core payment settlement system, is aimed at delivering a service which responds to the changing structure of the financial system, while maintaining high resilience. Earlier this year the Bank took over the direct running of the UK's CHAPS high value payment scheme, providing strengthened end-to-end risk management. We have launched a proof-of-concept to understand how RTGS could be capable of supporting settlement in systems operating on innovative payment technologies, such as those built on distributed ledger technology. And we have allowed non-bank payment system providers to access RTGS for the first time.

We are continuing work to support fair and effective markets and to improve the resilience of the financial system. As part of our goal of **catalysing structural reforms in Fixed Income, Currency and Commodity markets**, the Bank took over the administration of Sterling Overnight Index Average (SONIA) benchmark earlier this year, bringing in reforms to strengthen this crucial benchmark for sterling markets. We are also working with market participants to manage the transition away from Libor towards SONIA as the new preferred risk-free rate. The Bank played an instrumental role in developing a global code of conduct for the foreign exchange market, launched in May 2017, and is working to foster its adoption by adhering to the code in its own activities and encouraging market participants to do similarly.

Another focus is on **establishing operational resilience in our prudential frameworks**. Operational incidents at private institutions can undermine the Bank's financial stability objective, as well as having severe consequences for customers. Enhancing resilience to cyber-attacks is a particular priority. Our Cyber Action Plan sets out clear expectations for financial firms in terms of resilience, testing, and arrangements for responding to attacks. We have continued to show international leadership, including by co-chairing with the US Treasury a G7 experts group on cyber.

Last year's stress test of major UK banks found that, for the first time since the financial crisis, no bank needed to strengthen its capital position. The ability of banks to withstand extreme shocks is testament to the series of measures taken over the last decade to boost capital standards. As a further step, the FPC in November raised the countercyclical capital buffer from 0.5% to 1%, to build up the resources banks would be able to draw on in a downturn to maintain lending to households and businesses.

While banks have become much more resilient, we do not run a zero-failure regime. The Bank is dedicated to ending 'Too Big to Fail' and is pursuing a series of measures so that institutions can be resolved in an orderly manner.

We have continued to **make the resolution framework operational**, to ensure that we can deal with failures in an orderly way which maintains critical economic functions and avoids recourse to the taxpayer. Over the past year, a focus has been implementing plans to set up ring fence bank plans and requirements for issuance of bail-inable capital, so-called minimum requirements on eligible liabilities or 'MREL'. We have given UK banks indications on the amount of loss absorbency they will need to hold to be resolvable. Banks are also finalising their ring-fencing arrangements, which will take effect in 2019.

Improving our ways of working and communicating

We are now using more agile operating models across the Bank to make sure we can redeploy the right people across the Bank to the most pressing issues as they arise. We are applying new technologies to make sure staff have access to the information they need to do their jobs and to facilitate co-operation across traditional organisational boundaries.

The Bank's Mission rests on the quality of decisions we make, and much of our work is focussed on creating more effective decision-making processes. As part of Vision 2020, we are adopting a new approach to making decisions at all levels in the organisation to be more inclusive, transparent and efficient. That means: shorter more focused meetings; with the author of the note in the room; open debate; and clear follow up. We are already seeing results.

An effective organisation requires good managers, at all levels. We have placed renewed emphasis on the role of managers supporting them with a new competency framework and training. We are also making sure that managers recognise their central role in making the Bank a diverse and inclusive organisation, and have the tools needed to achieve this.

We have set a series of challenging targets to close our gaps on pay and senior representation of women and BAME. We are publishing updated figures in this report, including becoming one of the few organisations to publish our BAME pay gap.

Last year saw a pause after several years of steady progress. More needs to be done. To regain momentum we are launching new initiatives, including: a pilot sponsorship programme, aimed at supporting those who face the greatest barriers to progression; better co-ordination of senior management appointments; an external outreach programme to learn lessons from recent initiatives at other organisations; and steps to improve the content and accessibility of diversity data.

We know that for our policies to be effective, the Bank needs to be understood, credible and trusted. We are reforming the way we communicate, both within the Bank and with the public. As an open and accountable organisation, it is essential that we take the time to explain properly our decisions in accessible ways to everyone who wants to access them, such as the one taken in November to raise Bank Rate for the first time in ten years.

Last November we published our first layered *Inflation Report*, with different communications to suit different audiences. The more accessible messages and visual charts allowed us to reach over 125,000 people, around five times more than before, and with stronger engagement via social media.

We also launched the Bank's new website last year to make the site more user-friendly. Each page has been edited or rewritten to ensure we are communicating with the public as clearly and effectively as possible.

As well as speaking, we are committed to listening. We are engaging with the public at the local level, to better understand the issues that affect them and inform our policy decisions. Last year, the Bank's regional agents met with over 8,000 agency contacts and arranged around 50 regional visits for committee members. In partnership with a range of charities, we have conducted eight Town Hall meetings around the UK, helping us build a constructive dialogue about the UK economy and the Bank's role within it. And, in partnership with Speakers for Schools, we held in November a 'Future Forum' in Liverpool to engage students on our work.

One issue this engagement has highlighted is the importance of people being able to understand how economic issues affect them and make well-informed personal finance decisions. There is strong demand for economics to be taught in schools, but current provision is limited. The Bank has committed to help bridge this gap. Our accredited EconoMe programme has been developed together with educational experts to demystify economics for young people. We are on track for this free resource to reach over 100,000 pupils by 2020. We are also sending Bank Ambassadors into classrooms around the country, both to inform and to be challenged. I am delighted that over 300 staff have so far volunteered to take on this valuable and stimulating role.

These changes to focus resources on strategic priorities and to improve how we work and how we communicate are testament to the professional approach that Sir Anthony Habgood has instilled in the Bank during his four years here as Chair. Anthony has also overhauled the Bank's governance. We now have: a smaller and more diverse unitary board, in line with best practice; oversight by Court of all of the Bank's activities that are not lodged with a policy Committee; and a best-in-class independent evaluation office. Supported by these firmer foundations, we will continue to seek to maximise our potential and the impact of our policies for the good of the people of the United Kingdom.

Mark Carney
4 June 2018

Court, and the Bank's policy committees

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

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

Members of Court are appointed by the Crown, for periods of eight years in the case of the Governor, five years for the Deputy Governors, and up to four years for the Non-executive Directors. One of the Non-executive Directors is designated by the Chancellor of the Exchequer to chair Court.

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

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

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

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

1 www.bankofengland.co.uk/publications/minutes/Pages/court/default.aspx.

2 www.bankofengland.co.uk/-/media/boe/files/about/legislation/matters-reserved-to-court.pdf.

The Court of Directors*
as at 31 May 2018






Clockwise from top left

Sir Anthony Habgood
Chair of Court

Appointed NED
1 July 2014

Term expires on
30 June 2018

- Chair, RELX Group plc
- Chair, Preqin Holding Limited
- Visiting Fellow, Oxford University

Mark Carney
Governor

- Chair, Financial Stability Board
- First Vice-Chair, European Systemic Risk Board
- Member, ECB General Council
- Member, Board of Directors, Bank for International Settlements
- Chair, Global Economy Meeting and Economic Consultative Committee, Bank for International Settlements
- Member, Group of Thirty
- Member, Board of Trustees, World Economic Forum

Ben Broadbent
Deputy Governor, Monetary Policy

- Alternate, ECB General Council
- Member, OECD Working Party No. 3

Sir Jon Cunliffe
Deputy Governor, Financial Stability

- Member, Financial Stability Board
- Member, European Systemic Risk Board
- Member, Board of Directors, Bank for International Settlements
- Alternate, ECB General Council

Sir Dave Ramsden
Deputy Governor, Markets and Banking

- President of Society of Professional Economists
- Trustee of Pro Bono Economics
- Visiting Professor Kings College London
- Member, Committee for Global Financial System, Bank for International Settlements

Sam Woods
Deputy Governor, Prudential Regulation

- Chief Executive, Prudential Regulation Authority
- Board Member, Financial Conduct Authority
- Member, Board of Supervisors, European Banking Authority
- Member, Group of Governors and Heads of Supervision, Basel Committee on Banking Supervision
- Alternate, ECB General Council

* Bradley Fried has been appointed as Chair of Court with effect from 1 July 2018. He will replace Sir Anthony Habgood.

* Diana Noble and Anne Glover have been appointed as non-executive directors effective 1 June 2018.






Clockwise from top left

Bradley Fried
Deputy Chair
of Court

Appointed NED
1 June 2012
Term expires on
31 May 2019

- Partner, Grovepoint
- Board Member, Financial Conduct Authority
- Board Member, Payment Systems Regulator
- Fellow of Magdalene College, Cambridge
- Governor, London Business School

Tim Frost

Appointed NED
1 June 2012
Term expired on
31 May 2018

- Chair, Cairn Capital Group Limited
- Trustee, Stepchange
- Emeritus Governor, London School of Economics

Baroness (Dido) Harding of Winscombe

Appointed NED
1 August 2014
Term expires on
31 May 2022

- Chair, NHS Improvement
- Life Peer taking the Conservative Whip, Member Economics Affairs Committee
- Steward of the Jockey Club
- Trustee of DotEveryone
- Member of the UK Holocaust Memorial Foundation

Dave Prentis

Appointed NED
1 June 2012
Term expires on
31 May 2019

- General Secretary of UNISON
- Member of the Trades Union Congress Executive Council
- Member of the Labour Party Joint Policy Committee
- Vice-President of the European Public Services Union
- President of Public Services International
- President of Unity Trust Bank

Don Robert

Appointed NED
1 August 2014
Term expires on
31 May 2022

- Chair, Experian Plc
- Senior Independent Director, Compass Group plc
- Chair, Achilles Group Limited
- Chair, Validis Holdings Limited
- Visiting Fellow, Oxford University

Dorothy Thompson

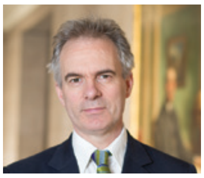
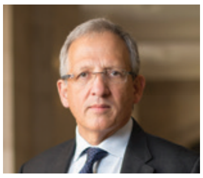
Appointed NED
1 August 2014
Term expires on
31 May 2022

- Non-Executive Director, Eaton Corporation plc

* Charlotte Hogg was a member of Court until 28 April 2017.

Policy committees

Monetary Policy Committee (MPC)





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

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

At least once a year, the Government updates its price stability target and its economic policy objectives. In November 2017, the Chancellor of the Exchequer announced that the annual Monetary Policy Committee (MPC) remit for the Bank will be issued alongside autumn Budgets, and re-confirmed the target for monetary policy[1] is an inflation rate of '2 per cent, measured by the 12-month increase in the Consumer Prices Index'. The economic policy objective of the Government is 'to achieve strong, sustainable and balanced growth'.

The MPC has nine members. Five are Bank Governors and officials and four are external members appointed by the Chancellor. An HM Treasury representative also sits with the Committee at its meetings. The Committee meets eight times a year to set policy. The MPC's Minutes are published alongside the Committee's decisions after each meeting. The Bank's quarterly *Inflation Report* includes the MPC's projections for inflation and output.

Since February 2016 members of the MPC have been indemnified by the Bank against personal civil liability on the same terms as members of Court (see page 7).

Members as at 4 June 2018*
Top row, left to right

Mark Carney
Governor

Ben Broadbent
Deputy Governor, Monetary Policy

Sir Jon Cunliffe
Deputy Governor, Financial Stability

Sir Dave Ramsden
Deputy Governor, Markets and Banking

Andy Haldane
Executive Director and Chief Economist

Bottom row, left to right

Ian McCafferty
External member
Term: 1 September 2012 – 31 August 2018

Michael Saunders
External member
Term: 9 August 2016 – 8 August 2019

Silvana Tenreyro
External member
Term: 5 July 2017 – 4 July 2020

Gertjan Vlieghe
External member
Term: 1 September 2015 – 31 August 2021

1 www.bankofengland.co.uk/letter/2017/mpc-remit-november-2017.

* Kristin Forbes was a member of the MPC until the end of her term on 30 June 2017.

* Charlotte Hogg was a member of the MPC until 28 April 2017.

* Professor Jonathan Haskel has been appointed to the MPC for a three-year term, which will take effect from 1 September 2018. He will replace Ian McCafferty, who will come to the end of his second term on 31 August 2018.

Financial Policy Committee (FPC)

Members as at 4 June 2018*

Top row, left to right

Mark Carney
Governor

Ben Broadbent
Deputy Governor, Monetary Policy

Sir Jon Cunliffe
Deputy Governor, Financial Stability

Sir Dave Ramsden
Deputy Governor, Markets and Banking

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

Middle row, left to right

Alex Brazier
Executive Director, Financial Stability Strategy and Risk

Andrew Bailey
Chief Executive, Financial Conduct Authority

Anil Kashyap
External member
Term: 1 October 2016 – 30 September 2019

Donald Kohn
External member
Term: 1 April 2013 – 31 March 2021

Bottom row, left to right

Elisabeth Stheeman
External member
Term: 12 February 2018 – 11 February 2021

Richard Sharp
External member
Term: 1 April 2013 – 31 March 2019

Martin Taylor
External member
Term: 1 April 2013 – 31 March 2021

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

- identifying, monitoring and taking action to reduce risks to the financial system; and, subject to that,
- supporting the Government's economic policies, including its objectives for growth and employment.

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

At least once a year, the Government must make recommendations about the FPC's responsibilities for financial stability and also about its growth and employment objectives. The FPC must respond formally to these, and provide reasons if it proposes not to follow the recommendations.[1]

The FPC has thirteen members. Six are Bank Governors and officials, and seven are external members — the Chief Executive of the Financial Conduct Authority, five members appointed by the Chancellor and a non-voting member from HM Treasury. The Committee meets at least quarterly. It may give Directions to the PRA and the Financial Conduct Authority in relation to macroprudential measures prescribed by secondary legislation under the Bank of England Act 1998. The FPC also has powers to make Recommendations to any other body. It publishes a record of its formal policy meetings and is responsible for producing the twice-yearly *Financial Stability Report*.

Since February 2016 members of the FPC have been indemnified by the Bank against personal civil liability on the same terms as members of Court (see page 7).

1 The most recent remit and recommendations is at www.bankofengland.co.uk/letter/2017/remit-for-the-fpc-2017. And the FPC's response is at www.bankofengland.co.uk/letter/2017/repsonse-to-the-remit-letter-for-the-fpc-2017.

* Martin Taylor appointed for a full term, but on the understanding he will step down no later than June 2019.

* Charlotte Hogg was a member of the FPC until 28 April 2017.

Prudential Regulation Committee (PRC)

Members as at 4 June 2018*

Top row, left to right

Mark Carney
Governor, Chair of the PRC

Ben Broadbent
Deputy Governor, Monetary Policy

Sir Jon Cunliffe
Deputy Governor, Financial Stability

Sir Dave Ramsden
Deputy Governor, Markets and Banking

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

Bottom row, left to right

Andrew Bailey
Chief Executive of the Financial Conduct Authority
1 March 2017 –

David Belsham
External member
Term: 1 May 2018 – 30 April 2021

Sandy Boss
External member
Term: 1 September 2017 – 31 August 2020

Norval Bryson
External member
Term: 1 September 2015 – 31 August 2018

Mark Yallop
External member
Term: 1 December 2017 – 30 November 2020

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

The PRC's terms of reference provide for 12 members, consisting of five Bank Governors and officials, the Chief Executive of the Financial Conduct Authority (FCA), and at least six members appointed by the Chancellor of the Exchequer.[1]

- The PRC is independent in all its decision-making functions, including making rules and the PRA's most important supervisory and policy decisions.
- The PRA functions are exercised by the Bank and are funded by the PRA levy, with the PRC responsible for consulting on and setting the level of that levy.
- The PRC is required to report annually to the Chancellor on the adequacy of resources allocated to the PRA functions and the extent to which the exercise of those functions is independent of the exercise of the Bank's other functions.

1 The Bank of England announced on 9 March 2018 that David Thorburn had resigned from the PRC. HM Treasury announced on 5 January 2018 that Charles Randell had been appointed Chair of the FCA and the Payments Services Regulator effective 1 April 2018. He stepped down from the PRC on 31 March 2018. HM Treasury is conducting a recruitment exercise to find successors for both external members.

* Charlotte Hogg was a member of the PRC until 28 April 2017.

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

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

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

On 8 March 2017, HM Treasury issued 'Recommendations for the Prudential Regulation Committee'.[1] This sets out aspects of the Government's economic policy to which the PRC should have regard when considering how to advance its objectives, and when considering the application of the regulatory principles in FSMA.

FSMA also requires the PRA to review, and if necessary revise, and publish annually its strategy in relation to how it will deliver its statutory objectives. The strategy is set by the PRC, in consultation with the Bank's Court of Directors. The PRA's strategy was published with the PRA Business Plan 2018/19 on 9 April 2018.[2]

1 www.bankofengland.co.uk/about/people/prudential-regulation-committee.

2 www.bankofengland.co.uk/prudential-regulation/publication/2018/pra-business-plan-2018-19.

Our organisation

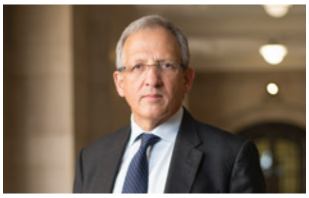
The executive and their membership, where relevant, of the MPC, FPC and PRC are indicated below.

Governor

Mark Carney
(MPC, FPC, PRC)

Deputy Governors

Ben Broadbent
Monetary Policy
(MPC, FPC, PRC)



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

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

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

Joanna Place
Chief Operating Officer

Executive Directors[1,2]

David Bailey
Financial Market Infrastructure

Sonya Branch
General Counsel

Alex Brazier
Financial Stability Strategy and Risk (FPC)

Sarah Breeden
International Banks Supervision

Stephen Brown
The Auditor

Victoria Cleland
Banking, Payments and Financial Resilience

Jonathan Curtiss
Human Resources (jobshare)

Geoff Davies
Resolution (Acting)

Rob Elsey
Technology

John Footman
Secretary of the Bank

Andy Haldane
Monetary Analysis and Chief Economist (MPC)

Andrew Hauser
Markets

Lyndon Nelson
Supervisory Risk Specialists and Regulatory Operations; Deputy Chief Executive, PRA

Lea Paterson
Human Resources (jobshare)

Rommel Pereira
Finance

James Proudman
UK Deposit-Takers Supervision

Gareth Ramsay
Communications

David Rule
Insurance Supervision

Victoria Saporta
Prudential Policy

1 The following Executive Directors commenced their appointments in 2017/18: David Bailey (1 June 2018), Jonathan Curtiss (1 January 2018 — Mr Curtiss had previously held the role on an acting basis), Victoria Cleland (1 June 2018), Andrew Hauser (29 May 2018), Lea Paterson (1 March 2018) and Gareth Ramsay (1 September 2017).

2 The following held Executive Director posts during 2017/18: Andrew Hauser (Banking, Payments and Financial Resilience, until 28 May 2018), Andrew Gracie (Resolution, until 21 May 2018), Chris Salmon (Markets, until 8 March 2018) and Mike Peacock (Communications — Acting, until 31 August 2017).

The Bank's Strategic Plan

The Bank of England has been working to promote the good of the people of the United Kingdom since 1694.

In our 2014–17 Strategic Plan we committed to work together as One Bank. Our plan was supported by four pillars: Diverse and Talented, Analytic Excellence, Outstanding Execution, and Open and Accountable. That plan has served us extremely well by integrating the PRA, boosting our research and analytic capabilities, and establishing new programmes ranging from Inclusion to Cyber.

We now have an opportunity to build on these foundations. In 2017, we undertook an extensive process of internal consultation and external outreach in order to develop our strategy to 2020. From that process it became clear that our staff want to be more empowered and the Bank to be even more inclusive; and we needed to do a better job of explaining what we do and why to those we serve.

Our new three-year Strategic Plan, Vision 2020, is our response. Through the plan, we aim to make the Bank more accessible and so better understood, in order that our policies have greater impact; and we will make changes to our internal working practices to build empowerment and inclusion so we can maximise our potential.

The plan has two main platforms for change:

How We Communicate

We will make our messages more creative and targeted so that our policies are accessible to a wider set of audiences. And we will make the Bank more permeable so that our analysis can be more easily seen and debated externally.

We will also tailor our internal communications to support better policies and internal decision-making. Our decision-making process will be as effective and empowering as possible.

How We Work

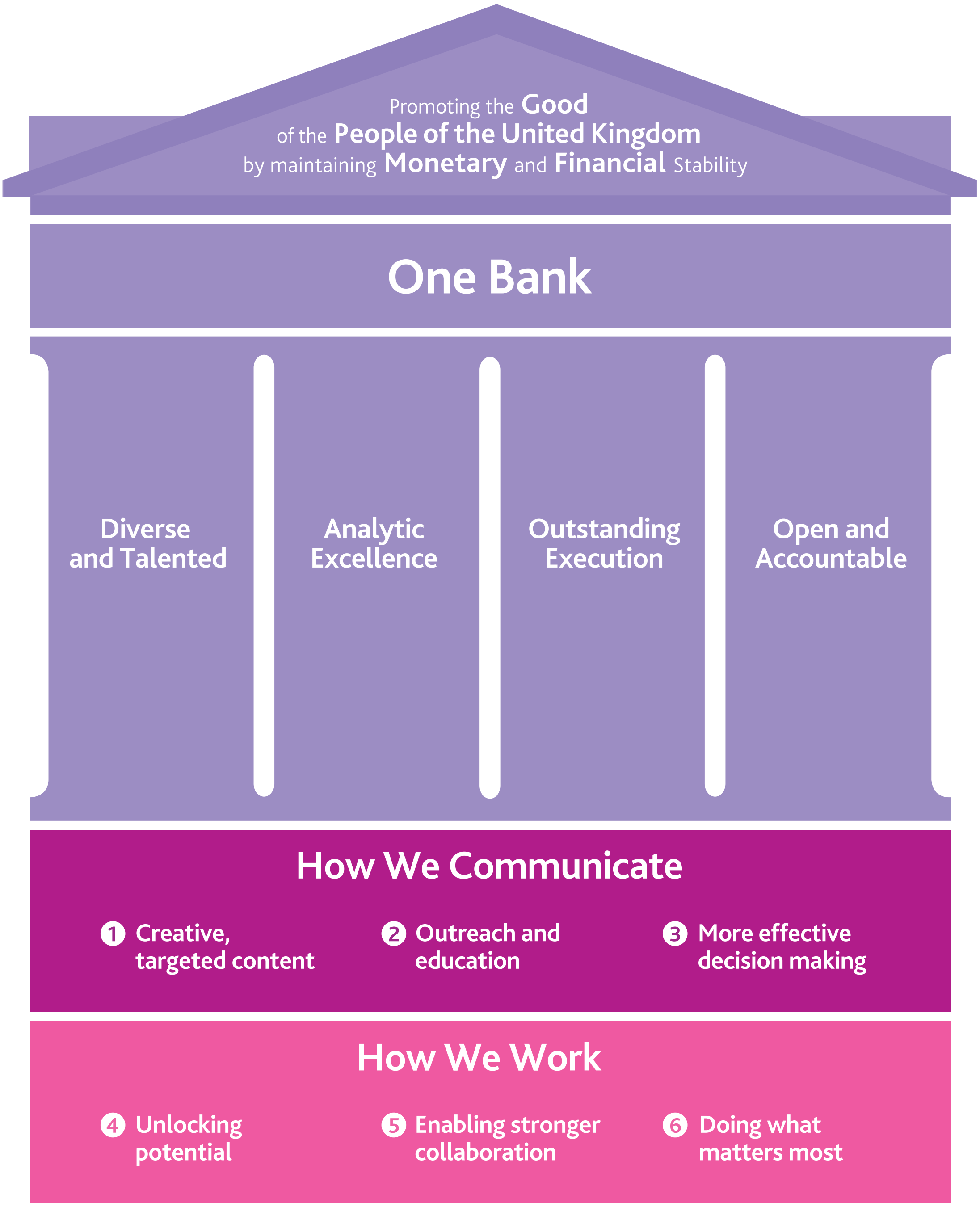
We all do our best work when we work on the right issues, with the right people, with the right skills, supported by the right technology.

We want to ensure we can bring together people with deep expertise in different areas to solve problems in an agile manner and as effectively as possible. And we will invest in our managers so they can support and unlock the potential of all our people against the backdrop of our inclusion agenda.

Vision 2020

Vision 2020

The Bank of England's mission is to promote the Good of the People of the United Kingdom by maintaining Monetary and Financial Stability.



Strategic Initiatives

The plan includes six strategic initiatives to transform the Bank, in a programme stretching over the next three years.

How We Communicate

(1) Creative, Targeted Content

Good communication is a policy tool in its own right. Yet much of what we have to say can seem complicated and technical. So we will tailor our output to suit different audiences, providing different levels of detail as needed. The aim is to build awareness, engagement, understanding and trust, in order to ultimately make our policies more effective.

(2) Education and Outreach

We will ensure that our policy messages reach a broader range of people and have impact. We will have more dialogue with the public, so that we are more aware of the issues that affect them. We will develop resources to support young people in understanding the economy, as well as our role in it.

(3) More Effective Decision-Making

Our decision-making processes should be as effective and empowering as possible. We want to maximise the use of our time and ensure that the right judgements are made at the right level by the right people with the right information.

How We Work

(4) Unlocking Potential

Delivering the Bank's challenging mission means bringing people with different expertise, skills and outlook to solve problems together. We will support our managers to get the most from our staff, and ensure we can respond to changing demands quickly and effectively.

(5) Enabling Stronger Collaboration

We need a workplace that enables people to connect, communicate and collaborate more easily right across the Bank. Through Vision 2020 we will use technology to connect skills and experience and encourage greater working across local boundaries. We will create a flexible working environment that promotes strong collaboration.

(6) Doing What Matters Most

Our efforts will be focused on work that makes the biggest contribution to the Bank's mission. Clarity on the Bank's strategic goals and regular local area prioritisation will ensure we utilise agile organisational structures to the best of our ability: to bring people together on what matters most.

Building on Our Values

As part of the first Strategic Plan, we defined the Bank's five core values: collaborative, inclusive, empowering, decisive and open. Over the past three years, we have embedded these into our performance review process to reflect the importance of not just what we do, but how we do it.

While we have made significant progress there is still more to be done. Our values and the pillars that support our initiatives are enduring, and they will be critical to the success of Vision 2020.

Review of 2017/18

This Review begins by covering the highlights of the work on monetary policy, financial policy and prudential regulation. It goes on to detail a number of areas where colleagues have worked together to make full use of the knowledge, resources and skills from across the organisation in support of our Mission to maintain monetary and financial stability. The Review then ends by detailing the progress made in delivering the Bank's new Strategic Plan, Vision 2020.

Highlights include the work done across the Bank in: preparing for EU withdrawal; launching our new polymer £10 note; making the key messages in our *Inflation Report* more accessible to a public audience; and empowering our people to work across local boundaries.

Overall, the Bank is on track to meet the strategic priorities set out in Vision 2020.

Monetary policy

The Bank of England's Monetary Policy Committee (MPC) contributes to the Bank's mission to achieve monetary stability by setting monetary policy to meet the 2% inflation target. Subject to that, it supports the economic policy of the Government, including its objectives for growth and employment.

The MPC cut interest rates to exceptionally low levels during the financial crisis to support spending and to reduce the number of people out of work. Over the past few years interest rates have needed to remain very low as we recovered from the global financial crisis.

But things have been changing. The world economy is now growing robustly. In the UK, the share of people without a job is at its lowest level for over 40 years, and businesses are finding it harder to recruit. And although it has fallen in recent months, inflation is above our 2% target.

That means the economy needs a little less support than before. So last November, the MPC raised interest rates from 0.25% to 0.5%. If the economy performs broadly as we expect, then we will need to reduce the amount of support we are providing to make sure inflation returns sustainably to the target. We think that will probably require further modest rises in interest rates over the next few years. We expect any rises in interest rates to happen at a gradual pace and to a limited extent. Interest rates are likely to remain substantially lower than a decade ago.

Staff have worked with colleagues from across the Bank on a number of analytical issues this year. One such issue has been the potential implications of a 'lower for longer' interest rate environment. Work so far has concentrated on what factors have pushed down on interest rates and how those factors might change in the future. It has also looked at how an extended period of low interest rates could impact the structure and the resilience of the financial system, including through the profitability and solvency of banks, insurers and pension funds. Other key areas of work this year have been the development of the Decision Maker Panel which samples around 2,500 companies each month; and the MPC's annual assessment of the supply side of the economy. Conclusions of both these workstreams were published in the February *Inflation Report*.

The analysis and rationale supporting the MPC's decisions are set out more fully in the Minutes of the Committee's policy meetings and its *Inflation Reports*.[1]

Strategic goal:

Understand the causes and implications of a 'lower-for-longer' interest rate environment

1 www.bankofengland.co.uk/monetary-policy.

Financial policy

The Bank of England's Financial Policy Committee (FPC) contributes to the Bank's mission to achieve financial stability by identifying, monitoring and taking action to remove or reduce systemic risks with a view to protecting and enhancing the stability of the United Kingdom's financial system. Subject to that, it supports the economic policy of the Government, including its objectives for growth and employment.

Each year the Bank stress tests the largest UK banks to see if they can cope with extreme economic events. Our tests this year showed that banks are strong enough to keep lending to households and businesses in a scenario that is more severe than the financial crisis.

We estimated that UK banks would lose around £50 billion during the first two years of the test — losses that would have made the UK banking system insolvent ten years ago. But today UK banks' capital position is three times stronger than back then. For the first time since we began stress testing in 2014, no UK bank needs to strengthen its capital position as a result of the tests.

Consistent with its policy for the standard risk environment we are experiencing, the FPC raised the UK countercyclical capital buffer rate (CCyB) from 0.5% to 1.0% in November. This will establish a system-wide CCyB of £11.4 billion which can be used to support households and companies in a downturn. The FPC will be watching closely how risks to UK banks, including from Brexit, evolve. In particular, the FPC will reconsider whether a 1% CCyB is still appropriate in June given the evolution of domestic risks.

We're also working to make sure banks are prepared for long-term challenges and risks. Those include the possibility of an extended low growth, low interest rate environment, and also increasing competitive pressures enabled by new financial technologies.

To ensure a stable financial system we need a resolution framework that can deal with bank failures in a way that maintains critical economic functions to households and companies. To support that we have worked with banks to finalise their ring-fencing arrangements and their requirements for issuance of debt that can be bailed-in at the point of resolution.

The work of the FPC is set out more fully in the twice-yearly Financial Stability Report and in the records of the FPC's quarterly policy meetings.[1]

Financial market infrastructures (FMIs)

The Bank's supervision of FMIs — payment systems, central security depositories and central counterparties— has also played an important part in delivering our overall financial stability objective. Over the past year a particular focus has been on FMI's operational resilience given their crucial importance to the financial system.

There have also been important changes to the population of FMIs we supervise. Importantly, the Bank now has responsibility for operating the UK's high-value payment system, CHAPS. And this year the New Payment System Operator is scheduled to take on responsibility for operating two of the payments systems the Bank supervises: Bacs and the Faster Payments Service.

More detail on these and other activities are provided in the Bank's *Supervision of FMIs Annual Report*,[2] published in February 2018.

Strategic goals:

Catalyse structural reforms in fixed-income, currency and commodity markets

Make the resolution framework operational

1 www.bankofengland.co.uk/financial-stability.

2 www.bankofengland.co.uk/news/2018/february/supervision-of-financial-market-infrastructures-annual-report-2018.

Benchmark interest rates

Benchmark interest rates are a convenient and widely accepted measure of short-term interest rates, and are widely used in financial contracts to determine interest rate payments. In 2014, the Financial Stability Board (FSB) recommended that certain financial transactions are better suited to using benchmark rates that are closer to risk free, rather than to rates which include a term bank credit risk component, such as Libor. In line with this recommendation the Bank has taken two important steps towards the implementation of a sterling risk free rate.

We have worked with private sector market participants on the Working Group on Sterling Risk-Free Reference Rates which recommended Sterling Overnight Index Average (SONIA) as the preferred sterling risk free rate. SONIA is a critical benchmark in sterling markets. It is widely used as the variable-rate reference for sterling overnight indexed swaps, which market participants use to hedge or speculate on changes in future short-term interest rates.

We have also taken on the administration of SONIA, and instituted a reform process to strengthen it, which became effective on 23 April 2018. The implementation of the reforms to SONIA is an important milestone in the Bank's delivery of improvements to the resilience and effectiveness of financial markets. The reforms improve the sustainability and representativeness of this key piece of the sterling market infrastructure.

The Working Group's mandate is to catalyse a broad-based transition to SONIA so that SONIA is established as the primary sterling interest rate benchmark by end-2021. To provide time for transition to SONIA to take place, the Financial Conduct Authority has confirmed bank panel support for the Libor benchmark until the end of 2021.

Prudential regulation

The Prudential Regulation Committee (PRC) contributes to the Bank's mission to achieve financial stability through its responsibility for the prudential regulation and supervision of around 1,500 banks, building societies, credit unions, insurers and major investment firms.

The Prudential Regulation Authority (PRA) has three statutory objectives: a general objective to promote the soundness and safety of regulated firms; a specific objective for insurance firms to contribute to the securing of an appropriate degree of protection for those who are or may become insurance policyholders; and a secondary objective to, as far as reasonably possible, facilitate effective competition.

Over the past year the PRA has focused particularly on implementing ring-fencing in the UK, implementing Solvency II and extending the Senior Managers and Certification Regime to insurance companies. It has also continued to support the Bank's work to promote an orderly UK withdrawal from the European Union.

More detail on these and other activities are provided in the PRA's *Annual Report*, published in June 2018.[1]

EU Withdrawal

The United Kingdom's withdrawal from the European Union is a large and complex process that has significant implications for the way we discharge our responsibilities. Many parts of the Bank have worked closely together to assess the potential impact of Brexit on our policy objectives of monetary and financial stability. This collaboration has also extended to our policy committees, with joint FPC and MPC meetings to discuss the channels through which Brexit might affect our mission.

Strategic goal:

Deliver a post-EU framework for financial stability

1 www.bankofengland.co.uk/prudential-regulation/publication/2018/annual-report-2018.

There are many possible outcomes as the United Kingdom withdraws from the EU. Consistent with our financial stability mandate we have focused on scenarios that even if they are the least likely to occur, could have the greatest impact on UK financial stability. These include scenarios in which there is no agreement or transition period in place as the UK exits the EU.

In November 2017 we published the results of our annual stress test. The scenario underlying the test encompassed a wide range of macroeconomic risks that could arise from EU withdrawal. Based on our stress test we judge that the banking system has enough financial resources in the form of capital to continue to support households and businesses even in the unlikely event of a disorderly Brexit.

But there is a risk that a 'no deal' Brexit could disrupt the provision of UK financial services more directly. To mitigate this risk we have identified a checklist of issues that need to be addressed. These include: ensuring UK legal and regulatory frameworks are in place; having timely agreement on an implementation period; legislating to preserve continuity of existing cross-border insurance and derivatives contracts; and ensuring fallback arrangements are in place to permit the ongoing provision of cross border financial services as necessary.

Mitigating risks in some areas requires actions by both UK and EU authorities. In April 2018 HM Treasury and the EU Commission asked the Bank and the European Central Bank to convene a technical working group on risk management in financial services in the period around 30 March 2019.

Whatever the UK's future relationship with the EU becomes, keeping the UK's financial system open to foreign institutions is in the best interests of everyone. Our financial system not only brings substantial benefits to the UK but also allows EU households and firms to access a broad range of services efficiently and reliably.

While financial institutions from overseas bring great benefits, they also bring risks. That is why we have proposed an updated approach to authorising and supervising foreign banks and insurers. This approach will reflect how important (or systemic) individual foreign banks and insurers are to the UK, and how similar the foreign regulatory regime is in meeting international standards.

Importantly, the approach will also assess the level of co-operation with the institution's home supervisor. Consistent with our long history of co-operation with our counterparts in the EU and our commitment to an open financial system, we currently continue to presume that a high degree of co-operation with EU supervisors continues following Brexit.

We have also worked to mitigate potential disruption to the provision of FMI services resulting from EU withdrawal. This encompasses: ensuring the new UK legal and regulatory framework for FMIs is in place for exit day; that UK FMIs and their members have made appropriate contingency plans; that the Bank is ready for any new responsibilities (for example, relevant responsibilities currently undertaken by EU bodies); and that the impact on services provided to UK clients by foreign FMIs has been appropriately addressed.

Technology

We need to continually adapt our technology if we are to meet our mission to promote the good of the people of the United Kingdom. And we need to proactively grow our information security to make the Bank safer, stronger and more secure. Recent technological advances within the financial system are changing the business models of financial companies at a greater rate than at any time in the past, and have required many parts of the Bank to work closely together to inform our approach.

FinTech

Developments in FinTech are one area that has the potential to materially impact our mission. These changes could transform: the way people access financial services; the infrastructure underlying these services; and the nature of firms in the financial sector.

Our work focuses on how developments in FinTech might affect our policies. We seek to identify and understand which of these are most likely to impact, either positively and negatively, the stability of the financial system, the safety and soundness of financial firms, and our ability to perform our operational and regulatory roles.

To support this aim we have a track record of engaging with both FinTech and established financial firms to understand how new technologies are being adopted, and how they might relate to our statutory objectives of monetary and financial stability. Through our FinTech Accelerator we have continued to work in partnership with technology firms to run a series of targeted, rapid proofs of concepts for solutions to real issues facing us as policymakers. This year we have run seven proofs of concept that cover three areas: distributed ledger technology; data analysis; and machine learning.

To cement our engagement with the industry we launched our FinTech Hub in March 2018. The Hub provides a central point of contact for firms to engage with us, and acts to coordinate our work on FinTech across the Bank.

Payments

Payments systems are essential to our economy. They are used to buy goods and services, to receive salary and benefits payments, and to withdraw cash from cash machines. In response to technological change and the regulatory landscape we have announced that we are renewing our core settlement system, Real-Time Gross Settlement (RTGS), which sits at the heart of our payments infrastructure.

The renewed service will be more adaptable to new technologies and offer greater functionality for all users of payments — banks, businesses, and ultimately individuals — by supporting more effective management of personal and company finances, and by helping innovation to flourish. In support of that aim we have allowed non-Bank payment system providers to access RTGS for the first time.

Crypto-assets

Cryptocurrencies, or crypto-assets, may also impact on how we maintain monetary and financial stability. Some of the underlying technologies behind crypto-assets are highly innovative, and in time could enhance financial stability, support more efficient and reliable payment systems, and have wider applications far beyond their origins.

But on the flip side, financial stability risks could rise if retail participation significantly increased, or if linkages between crypto-asset providers and the rest of the financial sector grew without material improvements in market integrity, anti-money laundering standards and cyber defences.

Strategic goals:

Understand and apply FinTech to help fulfil the Bank's mission

Deliver the medium-term blueprint for the governance and infrastructure of RTGS

So we, like other prudential regulators, are in the process of clarifying how the existing regulatory requirements — including for capital — which institutions at the core of the financial system must meet, should also apply to any future crypto-asset activity undertaken and exposures acquired. We are also working with the FSB and G20 on these issues given the diversity of possible approaches and the decentralised and cross-border nature of crypto-assets.

Operational resilience

It is crucial that firms and the finance sector as a whole can absorb the impact of unexpected events and can continue to perform their most important functions for the UK economy. And it is vital that we hold ourselves to the same high standards that we demand of the firms we regulate. That way we can ensure our own organisation, people and processes and technology are designed to adapt, so critical services continue to be delivered through any disruption.

To that end, we are taking the opportunity to rationalise our technology estate to strengthen our infrastructure resilience, reduce cost and manage obsolescence. Central to this is our investment in modern data centre facilities, which will enable us to adopt best practice infrastructure, practices and procedures. And we are utilising cloud technology where appropriate to help us manage data, respond to changes in payments systems and improve our cyber defences.

Cyber-attacks continue to present an ongoing concern for the Bank and the financial sector. In response we have set out a Cyber Action Plan that consists of four priorities: to set clear baseline expectations for firms' resilience that reflect their importance for the financial system; to perform regular testing of cyber resilience by firms and supervisors; to identify firms that are outside the regulatory perimeter, but which may be important for regulated firms; and to embed clear and tested arrangements to respond to cyber-attacks when they occur. Given the breadth of their potential impact we are working closely with other organisations including HM Treasury, FCA and the National Cyber Security Centre to build resilience and to act quickly and effectively in response to cyber-attacks. Internationally, we are leading the action on cyber, including through co-chairing with the US Treasury a G7 experts group on cyber.

Internally we have also put in place a comprehensive programme called Cyber 2020 to protect our critical information assets. This programme will ensure the Bank maintains up-to-date defences against cyber-attacks, and will reduce the likelihood and potential impact of a cyber-attack impacting one of our critical services. It also will enhance our existing robust governance of risk and compliance and management of information security policies.

Strategic goal:

Establish operational resilience in our prudential frameworks

Environment

Climate change

Climate change could impact the Bank's monetary and financial stability remit in a variety of ways. We have deepened our work to assess the financial risk from climate change and the impact that can have on financial stability and the safety and soundness of regulated firms.

Financial risk can arise from physical risks (events like storms, floods and droughts), which can directly affect insurance firms through higher claims and can also lead to economic losses, impairing asset values. Financial risks can also arise in the transition to a low carbon economy — for example following changes in policy (such as tightening energy efficiency standards) and technology (such as the growth of renewable energy).

These changes could prompt a reassessment of the value of a large range of assets as changing costs and opportunities become apparent. The size and scale of the transition required is significant, implying the re-allocation of tens of trillions of dollars. Risks to financial stability will be minimised if the transition begins early and follows a predictable path. Once climate change becomes a clear and present danger to financial stability, it may already be too late.

Having started its work in insurance some time ago, the Bank published its broader response to climate change in June 2017. It has two core elements. The first involves engaging with regulated firms on climate-related risks through prudential supervision, including deepening activities in insurance and undertaking a review of climate-related risks to the UK banking sector, to be published later this year. The second involves enhancing the resilience of the UK financial system by engaging with initiatives to support an orderly market transition to a lower-carbon economy, including taking a close interest in the Financial Stability Board's Task Force on Climate-related Financial Disclosure (TCFD).

As of December 2017, financial institutions responsible for managing $80 trillion of assets have publicly supported the Taskforce, including 20 globally systemic banks and 8 of the top 10 global asset managers. The Bank is also member of the Central Bank and Supervisors Network for Greening the Financial System (NGFS) alongside colleagues from a number of other countries including China, France, Germany, Mexico, Morocco, Netherlands, Singapore and Sweden. This has included co-organising a conference on climate risk in Amsterdam in April 2018, attended by supervisors from over 30 countries, and 50 supervisory institutions.

Polymer notes

Maintaining public confidence in the currency is core to the Bank's mission. We need to make sure the notes we produce are high quality, long-lasting and difficult to counterfeit.

Recently we have started to print new notes on polymer: a thin, flexible plastic. Moving to polymer notes will deliver lasting environmental benefits. Polymer notes are expected to last at least two-and-a-half times longer than our old paper notes. Consequently, the Carbon Trust has certified that the carbon footprint of a polymer fiver is around 15% lower than its paper predecessor. Polymer notes also deliver benefits to users as they are cleaner, safer and stronger than paper notes.

In September 2017 we successfully issued our latest polymer note: the £10 note featuring Jane Austen. This note incorporated a tactile feature made up of raised dots to help blind and partially sighted people identify the value of the note. A polymer £20 note featuring JMW Turner will enter circulation in 2020.

The Bank's Strategic Plan

Staff from across the organisation have worked together to deliver some major changes to how we communicate and how we work in support of the Bank's Mission.

How We Communicate

This year we have moved towards a layered approach to our communications. That means we are now producing different communications to suit different audiences. We are bringing out more clearly the key messages we want to communicate. And we are making those messages more accessible to a wider set of audiences through digital and social media.

In November 2017 we launched our first layered *Inflation Report*. Each layer was tailored to suit a different audience. For example, we provided a simple overarching narrative for the public, while retaining the detailed *Report* for our technical audience. This was followed in February 2018 with our first *Inflation Report* to be made available entirely online.

We were able to reach around 125,000 people with much higher rates of engagement than our typical social media content. Our more accessible content featured in all live media blogs, and several media companies used their own versions of our visual summary charts directly in their coverage.

Engaging in a constructive dialogue about the economy with the public is another strategic aim. To support that, we have embarked on a series of Town Hall events across the UK facilitated by our network of regional Agents. We have partnered with local and national charities to engage directly with the public. We hope that, in time, these events will ripple out to smaller, community-level groups, with a view to creating a national network of engaged, informed citizens, with whom we can have an ongoing conversation about the economy and our role within it.

From our programme of external outreach we have learned that the economy is more relevant than ever to young people, but it is not a subject many understand or engage with. So in April 2018 we launched a schools programme that will help equip the next generation with the tools and skills they need to understand the economy, as well as our role in it.

Our programme contains a range of engaging classroom resources, called EconoMe, to help provide young people with the analytical skills and knowledge to make informed decisions that will benefit themselves and the world around them.

The resources have been produced and reviewed by educational experts in consultation with the Bank of England and are designed to have clear links to the curriculum programmes of study in, among other subjects, Personal, Social, Health, and Economic (PSHE) education, Citizenship, and Economics. The resources have been accredited by the PSHE Association as a Quality Assured Resource, and Young Money as a Recommended Financial Education Resource.

To complement these resources, we have launched an outreach programme specific to schools, where we offer visits by Bank staff to talk about the Bank and the economy, and support the teaching of our EconoMe resources. The response has been tremendous. In the first ten days alone we received around 400 requests from schools. And within the Bank over 300 staff have volunteered to visit at least one school this year, including most of our Governors and Executive Directors.

We have also worked this year on communicating better within the Bank. Part of this initiative is about empowering staff to be more effective at decision making. In April 2018 we launched a clearer approach to decision making, called 'Our decisions, clearly made' on how we commission, prepare, decide and debrief through the decision-making process. Brought together we think the approach will achieve real cultural change across the organisation. Importantly, it will mean staff will have more influence on the policy and operational decisions we make.

How We Work

Our focus has been to embed new structures and systems to get the right people, using the right tools, on the work that matters most. In support of this, we have introduced more agile resourcing models, such as Communities of Interest set up digitally across the organisation to support collaboration on a particular topic. We are also empowering people to work across the boundaries of their traditional business units.

Key to this has been the launch of a new internal online space called Bank Exchange. Bank Exchange allows staff to exchange thoughts, views and ideas with each other. Since its launch it has grown rapidly and there are now over 120 communities regularly posting online. Within Bank Exchange is a dedicated space called Opportunities Exchange where staff can apply for the chance to work with colleagues outside of their local area and expand their skills and experience. Since its launch in July 2017 there have been close to 300 opportunities listed, ranging from covering short-term leave to supporting our African-Caribbean Scholarship Assessment Centres.

To support our vision of a more empowered organisation we have set out a new approach to build the capabilities of managers in the Bank. To deliver outstanding management we are tackling four areas: management competencies; training; performance; and selection. In turn, this will help us unlock the potential of all our people which is fundamental to achieving our aims within Vision 2020. For the first time, the Bank is using its best managers to train the next generation of managers.

To help us focus on doing what matters most we have defined clear strategic goals for the next three years that will make the biggest contribution to the Bank's mission. These activities will drive real change across the organisation and represent specific outcomes we are seeking to achieve, rather than timeless responsibilities. They are to:

- Deliver a post-EU framework for financial stability.
- Establish operational resilience in our prudential frameworks.
- Understand the causes and implications of a 'lower for longer' interest rate environment.
- Catalyse structural reforms in Fixed Income, Currency and Commodity markets.
- Make the resolution framework operational.
- Understand and apply FinTech to help fulfil the Bank's mission.
- Deliver the medium-term blueprint for the governance and infrastructure of the Real-Time Gross Settlement system.

Some of these goals, particularly delivering a post-EU framework, will consume a considerable amount of our resources. So to make space for this work, while maintaining our budget, we have decided to stop, postpone or re-scope a range of other activities.

Financial review 2017/18

Financial statements highlights

The table below presents highlights of the combined 2018 financial statements. Further explanation and commentary is provided below.

Financial statement highlights

	2018 £m	2017 £m
Banking Department total balance sheet size	606,813	517,679
Banking Department profit before tax	138	222
Cash Ratio Deposits (held on balance sheet)	4,708	4,424
Funding for Lending Scheme	28,598	52,170
Funding for Lending Scheme income	108	146
Notes in circulation	73,250	73,198
Net seigniorage income[1]	229	432
Combined cost base	647	568
PRA cost base	280	254
Payment to HM Treasury in lieu of dividend	65	101

Financial framework

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

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

The Prudential Regulation Authority (PRA) was a separate legal entity, operating under the Financial Services and Markets Act 2000 (as amended), until the enactment of the Bank of England and Financial Services Act 2016 which transferred the activities, assets and liabilities of the PRA to the Bank of England on 1 March 2017. From this date the PRA has operated as a directorate of the Bank, while preserving independence of PRA functions.

Under the Bank of England Act 1998 (as amended) separate PRA disclosures are presented in the *Annual Report* on pages 135 to 141. These reflect the operations of the Bank acting as the PRA, and are a subset of the Banking Department.

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

1 Net profit for the year from Issue Department.

The key elements of the financial framework of each component of the Bank are detailed below.

For the Banking Department, the Bank compiles its medium-term spending plans within a financial framework which has four main tenets:

- First, that policy functions of the Bank (monetary policy and financial stability) are financed by the Cash Ratio Deposit (CRD) scheme. Under the CRD regime, banks and building societies are required to place an interest-free deposit at the Bank which is a set percentage of their deposit base. The Bank then invests those deposits in interest-yielding assets, generating income to fund its policy functions. The CRD requirements are set by HM Treasury through a Statutory Instrument every five years.[1] Following the 2018 CRD review,[2] led by a joint HM Treasury-Bank steering group, the effective CRD ratio has increased to address the shortfall in the Bank's funding and changed from a single fixed ratio to a variable one from 1 June 2018. This resulted in the ratio increasing from 0.18% to an initial ratio of 0.29%[3] of qualifying institutions eligible liabilities above the £600m threshold. The ratio will be re-indexed to prevailing gilt yields every six months; this change to a variable ratio makes it responsive to changes in gilt yields and better able to deliver the income required to fund the Bank's monetary policy and financial stability costs.
- Second, that the remunerated activities of the Bank — banking and lending operations for the Bank's own account — will be expected to break even over the medium term. In these areas the focus will be on net spending, although the Bank will remain committed to providing value for money, without running undue risks. Any gains or losses from these activities will not flow back to CRD payers, but instead be recognised in the Bank's capital. The Funding for Lending Scheme (FLS) is considered a remunerated activity.
- Third, the Bank of England, in its capacity as the PRA, operating under the Financial Services and Markets Act 2000, may levy regulated firms to recover all costs incurred in the performance of the PRA's functions under the Act.
- Fourth, that if spending on policy functions is in line with CRD income and other functions break even, the profit of the Bank should be broadly equivalent to the return on the assets in which its capital and reserves are invested — largely gilts. Under the Bank of England Act 1998, the Bank's post-tax profit is shared 50:50 with HM Treasury unless otherwise agreed.

The Issue Department is funded by buying interest yielding assets to back the notes in circulation. The interest earned on these assets is used to fund the costs of note production and supply. The net profits/losses of the Issue Department are referred to as seigniorage, and paid/claimed directly to/from HM Treasury via the National Loans Fund.

Court considers the operation of the Bank's financial framework in fulfilling its Responsibilities under the Bank of England Act 1998.

1 The current requirements were agreed in May 2018; see www.legislation.gov.uk/uksi/2018/633/introduction/made for the 2018 Cash Ratio Deposit legislation.

2 www.gov.uk/government/consultations/review-of-the-cash-ratio-deposit-scheme-consultation-on-proposed-changes.

3 This is the current rate given movements in gilt yields since the consultation, where a fixed ratio equivalent of 0.35% was forecast.

Combined income statement

The combined income statement reflects a profit before tax of £138m (2017: £222m). This is effectively equal to the Banking Department profit before tax as the PRA operates a cost recovery model, and Issue Department profits are payable in full to HM Treasury.

Year-on-year fall in profit before tax of £84m was driven by increased expenditure on policy and remunerated functions, decreases in Funding for Lending Scheme (FLS) fee income and decreased mark-to-market gains on foreign currency deposits offset by increased management charges.

Summary combined income statement[1]

	2018 £m	2017 £m
Income	**785**	**790**
Banking Department	785	634
Issue Department	361	538
PRA[2]	–	254
less internal income recoveries and seigniorage income		
Banking Department corporate service management fee to the PRA	–	(98)
Issue Department income transferred under seigniorage arrangements[1]	(361)	(538)
Expenses	**(647)**	**(568)**
Banking Department	(647)	(412)
Issue Department	(132)	(106)
PRA[2]	–	(254)
less internal cost recoveries and seigniorage expenses		
Issue Department costs under seigniorage arrangements[1]	132	106
PRA corporate services management charge from the Banking Department	–	98
Combined profit before tax	**138**	**222**
Taxation	(9)	(20)
Payment in lieu of dividend	(65)	(101)
Profit after tax and dividend for the year ended 28 February	**64**	**101**

1 The separation of the Banking and Issue Department for accounting purposes is required by statute. A summary 'combined' income statement and balance sheet as at 28 February 2018, aggregating the Banking Department and Issue Department is provided in this financial review. It is provided for information purposes only.

2 PRA 2017 balances relate to subsidiary. In 2018 they form part of Banking Department.

Expenditure by function

Total expenditure for 2018 of £647m was below the 2018 budget.[1] This is primarily due to lower staff and pension costs reflecting lower headcount than forecast.

The 2019 cost budget has been set at £644m, the year on year decrease being driven primarily by lower banknote production costs due to lower anticipated printing volumes. Budgeted costs excluding banknote production costs and pensions are targeted to remain flat to 2018. The overall cost budget of £644m includes £274m for the PRA (including direct and centrally allocated costs).

Combined expenditure by function[2]

	2018 Actual £m	2017 Actual £m
Policy functions		
Monetary policy	71	66
Financial stability	100	92
Expenditure on policy functions	**171**	**158**
Remunerated functions		
Notes issue costs recharged to the Issue Department	128	105
Government agency services	11	10
Payment and settlement	23	14
Banking services	35	36
Other functions	9	7
Expenditure on remunerated functions	**206**	**172**
Operations funded by levies		
PRA operational expenditure[3]	251	–
PRA special project and Solvency II costs[3]	29	–
Expenditure on operations funded by levies	**280**	–
Net legacy items in relation to pensions and property	(10)	(16)
Corporate service costs recharged to the PRA[3]	–	98
Expenditure on other functions	**(10)**	**82**
Total Banking Department	**647**	**412**
Issue Department	**132**	**106**
Operational expenditure	–	243
Special project and Solvency II costs	–	11
Prudential Regulation Authority	–	**254**
Issue Department costs settled under seigniorage arrangements	(132)	(106)
PRA corporate services management charge from the Banking Department[3]	–	(98)
Internal charges and settlements under seigniorage arrangements	**(132)**	**(204)**
Total combined expenditure	**647**	**568**

1 The budget of £659m presented in the 2017 *Annual Report*.

2 Combined expenditure by function represents the aggregation of the Banking Department, Issue Department and the PRA, adjusted for internal charges and eliminations under seigniorage arrangements.

3 Following desubsidiarisation on 1 March 2017, costs borne by the Bank in respect of the PRA are no longer recharged. Amounts included in the prior year comparatives for PRA corporate services management charge are included within PRA operational expenditure for the current year. PRA related costs are presented as a subset of the financial statements provided for the Bank on pages 133–141.

Policy functions

Expenditure on policy functions was £171m, a year-on-year increase of £13m (2017: £158m), due to continued investment in the Financial Stability function and the Bank's research and analytical capability.

Remunerated functions

Expenditure increased by £34m to £206m (2017: £172m), this was driven by the increased cost of notes production for polymer £10 notes and the production of launch stocks, as well as increased payment and settlement system costs following the integration of CHAPS into the Bank and system renewal programmes.

The Bank's remunerated functions (operating on a full and fair cost recovery basis) continue to make a surplus as a consequence of FLS income of £108m (2017: £146m).

Prudential Regulation Authority

Operating costs for 2018 of £280m (2017: £254m) were lower than the budget of £288m, predominantly due to lower than expected resource requirements for EU withdrawal activity and reduction in spend on Structural Reform programme.

Issue Department

Expenditure of £132m on the Issue Department increased by £26m year-on-year due to spend on the switch to polymer notes in 2018, specifically the introduction of the £10 polymer note.

Combined balance sheet

The combined balance sheet grew by £83.2 billion in 2018. The largest movement in assets was an increase in 'Loans and advances' of £84.7 billion, primarily attributable to an increase in the Loan to the Bank of England Asset Purchase Facility Fund (BEAPFF) to fund asset purchases and lending under the term funding scheme (TFS).[1]

'Notes in circulation' (NIC) remained flat year on year with the total liability being £73.3 billion (2017: £73.2 billion).

Drawings on the FLS as at 28 February of £28.6 billion have decreased on the prior year balance (£52.2 billion), due to usage of the Term Funding Scheme (TFS) in preference to FLS. FLS is a fully collateralised scheme, classified as off balance sheet under a collateral swap arrangement, which allows participants to borrow UK Treasury bills in exchange for eligible collateral.

Combined balance sheet

	2018 £m	2017 £m
Assets		
Loans and advances	588,323	503,593
Securities held at fair value through profit or loss	7,993	9,157
Available for sale securities	11,037	11,226
Other assets	3,630	3,852
Total assets	**610,983**	**527,828**
Liabilities		
Deposits	525,061	440,846
Notes in circulation	73,250	73,198
Foreign currency bonds in issue	5,797	6,450
Other liabilities	2,394	2,580
Capital and reserves	4,481	4,754
Total equity and liabilities	**610,983**	**527,828**
Off balance sheet — Funding for Lending Scheme		
Funding for Lending drawdowns	**28,598**	**52,170**

1 Term funding scheme: www.bankofengland.co.uk/markets/market-notices/2016/asset-purchase-facility-term-funding-scheme-market-notice.

Financial review of Banking and Issue Departments

Banking Department

The Banking Department's financial statements for the year ended 28 February 2018 are shown on pages 72–127 and reflect a profit before tax of £138 million (2017: £222 million) and tax charge of £9 million (2017: £20 million). The Bank and HM Treasury share Banking Department's post-tax profits equally, with profit transferred to reserves of £64 million (2017: £101 million), and the amount payable to HM Treasury in lieu of dividend accounts of £65 million (2017: £101 million).

The statement of comprehensive income reflects a net decrease for the year of £208 million (2017: increase of £265 million), comprising post-tax operating profits of £129 million (2017: £202 million) and 'other comprehensive income' totalling a loss of £337 million (2017: gain of £63 million). 'Other comprehensive income' includes a net decrease in the fair value of available for sale assets of £271 million (2017: gain of £145 million), retirement benefit remeasurement decreases of £67 million (2017: £76 million) and property revaluation gains of £1 million (2017: losses of £6 million).

The total balance sheet of the Banking Department increased during the year, from £517.7 billion at 28 February 2017 to £606.8 billion as at 28 February 2018.

The main change in Banking Department assets was an increase in 'Loans and advances' of £84.7 billion, due to continuation of asset purchases announced by the MPC in August 2016 and lending made under the TFS.

'Capital and reserves' decreased to £4.5 billion (2017: £4.8 billion), due to changes in the market valuations of available for sale assets and comprehensive income in the year. The Bank's retained earnings, together with Cash Ratio Deposits, are predominantly invested in gilts and supranational sterling bonds. The Banking Department's holdings of gilt securities and other supranational bonds totalled £7.4 billion at 28 February 2018 (2017: £7.2 billion).

At 28 February 2018, the Banking Department balance sheet contained £5.8 billion of liabilities associated with the management of the Bank's foreign exchange reserves (2017: £6.5 billion).

The main movement in Banking Department liabilities was an increase of £86.3 billion in 'deposits repayable on demand'.

Issue Department

The statements of account for the Issue Department (which are provided on pages 128–132) reflect net profits from note issue of £229 million (2017: £432 million), payable in full to HM Treasury. The decrease in profits was due to a reduction in interest earned and higher note production costs. In 2018, gilt revaluations contributed nil to income (2017: £137 million).

'Notes in circulation' remained flat year on year, and totalled £73.3 billion at 28 February 2018 (2017: £73.2 billion). Gilt purchases to back banknote issuance, introduced in January 2008, remained on hold during the year whilst the Bank of England Asset Purchase Facility Fund Ltd undertook gilt purchase operations. The market valuation of gilts on Issue Department was £2.5 billion at 28 February 2018 (2017: £2.8 billion). The 'Ways and Means advance' to HM Treasury remained at £370 million as at 28 February 2018.

Risk management

Court is responsible for risk management and internal control systems in the Bank and its subsidiaries.

The responsibility for day-to-day operations is delegated to the Governors and Executive Directors and monitored by the Audit and Risk Committee (ARCo). The risk management and internal control systems are based upon what Court considers to be appropriate to the Bank's activities, to the materiality of the financial and other risks inherent in those activities, and to the relative costs and benefits of implementing specific controls. The systems are designed to manage, rather than eliminate, the risk of failure to achieve the Bank's mission and, as such, provide reasonable, but not absolute, assurance against material mis-statement or loss.

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

Court's review and confirmation was facilitated by a report from the Bank's Governors on the annual Attestation exercise through which Executive Directors, Directors, and Heads of Divisions with a direct reporting line to a Deputy Governor attest to compliance with the Bank's risk management and internal control requirements by the areas for which they are responsible. This includes a review of the risk and control issues identified and reported during the year.

Risk governance

The Court of Directors

Court takes responsibility for the overall governance framework of the Bank, including the Bank's risk management and internal control systems. Court determines the strategy for managing risk and the Bank's tolerance for risk. It takes the lead in setting a strong risk management culture across the Bank and oversees a sound governance structure to ensure its risk management strategy is implemented through frameworks, policies and risk reporting.

The Audit and Risk Committee (ARCo)

ARCo assists Court in meeting its responsibilities for maintaining an effective system of financial reporting, internal control and risk management. It has responsibility for reviewing the findings of internal and external auditors and monitoring outstanding actions for timely completion. The Committee receives reports on the Bank's risk profile, the operation of the risk framework and the risk management processes and systems in place. ARCo reviews accounting policies and the annual financial accounts for approval by Court. The Chair of ARCo is responsible for the performance of the Committee. The Bank voluntarily complies with the core principles of the Senior Managers Regime framework. As part of that framework, the Chair of ARCo has responsibility for ensuring and overseeing the integrity and the independence of the Bank's Risk and Compliance functions. The Bank's Internal Auditor, Head of Risk and Head of Compliance have reporting lines to the Chair of ARCo.

Executive responsibility

Within the Senior Managers Regime framework, the Governor has overall executive responsibility for risk. Since March 2017, the Governor has delegated line management responsibility for oversight of the Bank's risk profile and the second-line management of non-financial risk to the Deputy Governor for Prudential Regulation, who reports to ARCo on risk matters.

Compliance and risk governance arrangements, including the extent to which the reporting lines and internal structures were adequate, were subject to a review into the Bank's approach to conflicts of interest conducted by the Non-Executive Directors of the Bank's Court and published in August 2017.[1] It recommended that Court revisit executive responsibility for risk, and associated reporting lines. A review is planned for 2018.

Court delegates to the Governor the day-to-day management of the Bank, including the discharge of statutory functions, while reserving certain key decisions for itself. The Balance Sheet Remit sets out the Governor's onward delegation of certain responsibilities in relation to balance sheet management to Deputy Governors (principally the Deputy Governor for Markets and Banking), who in turn delegate some of those responsibilities to certain Executive Directors and Directors. The Balance Sheet Remit governs the management of the Bank's balance sheet for both routine activities and in the event of contingencies. It sets out the high level purposes, responsibilities, constraints and associated delegated authorities with respect to those activities.

Executive Risk Committee (ERC)

The ERC, chaired by Deputy Governor for Prudential Regulation oversees the operation of the Bank's Risk Management Framework, including proactive monitoring of the Bank's risk profile against tolerance and identification of emerging risks; reviewing and challenging those risks before escalation to ARCo.

Three Lines of Defence

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

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

2. provide independent forward-looking assessment and challenge of overall risks across operations and business lines, and define risk management frameworks and tools. This is delivered by second line risk functions, including an independent central Bank-wide risk function, a second line financial risk division and a compliance division; and

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

1 www.bankofengland.co.uk/news/2017/august/the-banks-approach-to-conflicts-of-interest-review-by-the-non-executive-directors.

The Bank's risk management framework

The Bank's mission is to maintain monetary and financial stability. The Monetary Policy Committee, Financial Policy Committee and Prudential Regulation Committee are responsible for making statutory policy decisions, which the Bank implements. While policy formulation risks are the remit of the Committees, the implementation of policy decisions exposes the Bank to a wide variety of risks which it seeks to manage through its risk framework. It is the responsibility of the Governor/Deputy Governors to brief the relevant Committee on material risk issues.

The Bank has developed a Risk Management Framework which supports a consistent and holistic approach to identifying, assessing and monitoring the risks to which it is exposed, and the actions required to mitigate them. Risk management processes and systems of internal control are embedded within its operations.

Within the framework, a Risk Tolerance Statement, owned by Court, provides an approach for managing both financial and non-financial risks within agreed tolerance levels. Generally, the Bank seeks to keep its exposure to risk low and aims to have a control environment and risk culture which supports this.

Risk assessment is forward looking and seeks to identify material risks to which the Bank may become exposed in conducting its day-to-day operations, and emerging risks from the changing external environment. For non-financial risk, a likelihood and impact matrix is used to determine a risk rating, which takes into account both the potential reputational and financial impact to the Bank in the event of a risk crystallising. Where risks are assessed as out of tolerance, action plans are developed to bring those risks within the Bank's tolerance threshold.

For financial risk, the Bank translates its tolerance into a set of limits and monitoring thresholds in order to facilitate day-to-day control of financial exposures and appropriate senior management involvement. In certain circumstances, informed by robust analysis, a decision may be taken by the Governors, with approval from Court, to exceed the Bank's usual limits and expose the balance sheet to significant risk of material financial loss, if it is determined that the expected benefits to monetary and financial stability outweigh the risk.

Principal risks

The principal risks to which the Bank is exposed, through policy implementation and its day-to-day operations, include operational risks; financial risks; and conduct risks. Further detail is as follows:

Operational risks

The Bank is exposed to a broad range of operational risks through its policy implementation and day-to-day operations. These operations include provision of liquidity to sterling markets; operation of the United Kingdom's Real-Time Gross Settlement and the High Value Payments (CHAPS) system, and the production and distribution of banknotes. In general, the Bank has a very low tolerance for operational risks which impact business-critical functions.

The Bank has a very low tolerance for information security risk, involving compromise of the confidentiality, integrity and availability of its information, data, systems and digital assets as a result of, for example, cyber threats. To protect its information assets the Bank maintains robust technology solutions, security policies and processes.

The Bank mitigates operational risks by designing robust processes which are continuously reviewed and improved, and by maintaining sound internal controls. A proportion of the Bank's annual investment budget supports this ongoing programme of improvements. During the year, information security risks continued to be mitigated through the Bank's Cyber2020 programme and the Bank has a programme underway to ensure its readiness for the General Data Protection Regulation. The Bank also continued to focus on enhancing its physical security through its ongoing Security Enhancement Programme.

The Bank aims to maintain a robust and flexible capability such that when events disrupt processes critical to its mission it is able to respond quickly and recover safely. More generally, the Bank maintains an incident reporting system, to support the analysis of existing and emerging risks that have crystallised. That analysis helps identify control weaknesses, and allows lessons to be learnt to minimise the likelihood of reoccurrence.

Financial risk

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

Conduct risk

Within the risk management framework, Court has determined that the Bank has no tolerance for a deliberate breach of any statutory, regulatory and/or other legal requirement. The Bank maintains controls to protect against money laundering, terrorist financing and sanctions compliance risks.

Strategic risk

The Bank faces significant strategic risks, for example when deciding the best way of executing a policy, or *not* to pursue a certain opportunity. An actual or perceived risk that the Bank's strategies are ineffective or insufficiently resilient to changes in the external environment could impact the achievement of the Bank's mission and consequently damage its reputation. The Bank has a low tolerance for threats to the effective delivery of its strategic initiatives.

Our people

To deliver our mission, we need diverse ideas and open debate, as well as to develop and empower people at all levels to take the initiative.

We are determined to attract and inspire the best people into public service, and to reflect the diversity of the people of the United Kingdom (UK).

We take diversity seriously as the more ideas we can share, the better we will be at making decisions. If we reflect the diversity of the UK, we are also more likely to be trusted and will be better at speaking in a way that everyone understands.

Currently, we employ 4,378 people of 80 different nationalities. Our people work in 15 different locations across the UK.

Four years ago, we made 'Diverse and Talented' the first pillar of our inaugural Strategic Plan. During 2017, we launched our Inclusion Strategy to help strengthen our diverse and inclusive culture — bringing together our work in diversity, community and well-being.

We define diversity as both who we are (identity diversity, such as gender or ethnicity) and how we think (cognitive diversity). Inclusion means promoting an environment that brings cognitive differences to the fore and a culture that allows everyone to contribute and maximise their potential.

This section and the Corporate Responsibility section (pages 46–51) set out the main steps we have taken over the past 12 months to continue building a more inclusive workplace for our people.

This section also includes our statutory gender pay gap reporting for 2018. We have chosen to extend our reporting this year to include the pay gap for those who have self-declared as Black, Asian and Minority Ethnic (BAME) — one of only a few major institutions to provide this level of transparency.

Our work to strengthen the diversity and inclusiveness of our culture is having an impact for the better. For example, in our annual employee survey, 66% of colleagues say they have seen their local areas make progress in support of the Bank's diversity goals and 86% say they are treated with respect as an individual.

But we need to do more. Following strong initial improvements, we have seen some of our diversity metrics level off. We need to redouble our efforts to maintain momentum. We have done just that, piloting initiatives such as a sponsorship programme and the introduction of anonymous recruitment. The Bank keeps its diversity metrics under continual review, and will continue to take action in this important area as needed.

Targets

The Bank has set itself challenging targets to broaden the range of thought, skills and experience within the institution. This is supported by a rigorous approach to monitoring progress, including through continuous review and challenge by Court.

Our targets are to increase the representation of female colleagues in our senior roles[1] to 35% by 2020, and of BAME colleagues in these roles to 13% by 2022. Below senior management, we have set a target of 50% female, and 20% BAME by 2020.

We employ:

4,378

people

of 80

different nationalities

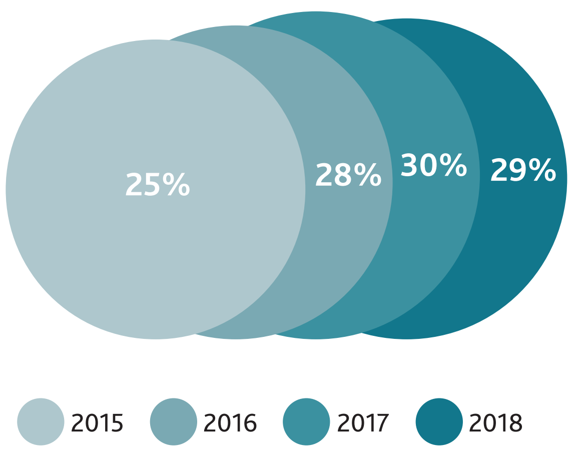
Our people work in 15 different locations across the UK

1 We define senior roles as those at Head of Department level and above.

Diversity and inclusion metrics

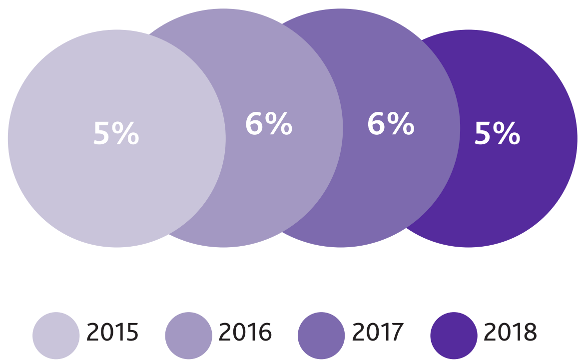
Female representation
Senior management

Target by 2020 **35%**



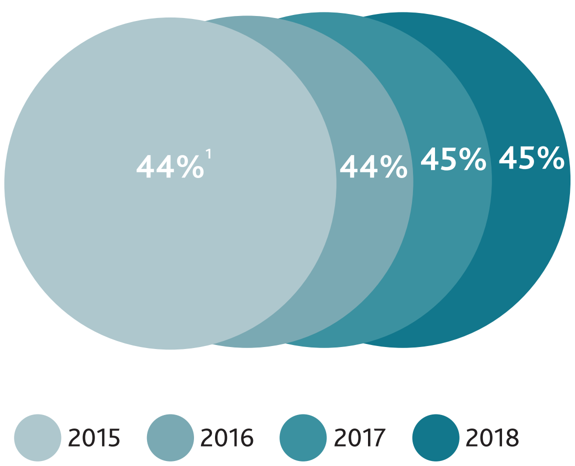
BAME representation
Senior management

Target by 2022 **13%**



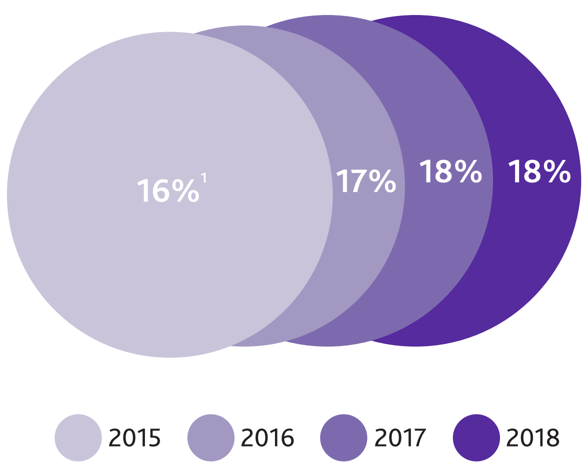
Female representation
Below senior management

Target by 2020 **50%**



BAME representation
Below senior management

Target by 2020 **20%**



1 The 2015 data for female and BAME representation below senior management were misreported in previous *Annual Reports* due to rounding errors.

Overall split

Female representation

2015	43%
2016	44%
2017	44%
2018	45%

BAME representation

2015	15%
2016	17%
2017	18%
2018	18%

Female representation

Of those newly hired

2015	41%
2016	42%
2017	44%
2018	43%

Of those promoted

2015	44%
2016	43%
2017	43%
2018	45%

Of those working part-time

2015	82%
2016	83%
2017	83%
2018	80%

Of those leaving the Bank[1]

2015	34%
2016	37%
2017	40%
2018	38%

BAME representation

Of those newly hired

2015	21%
2016	23%
2017	25%
2018	25%

Of those promoted

2015	16%
2016	17%
2017	16%
2018	18%

Of those working part-time

2015	11%
2016	12%
2017	11%
2018	13%

Of those leaving the Bank[1]

2015	20%
2016	18%
2017	25%
2018	23%

1 Leavers' data for 2015 and 2016 is based on resignations only; for 2017 and 2018 the data includes all leavers.

Female and BAME representation across the functions of the Bank

	Female (per cent)			BAME (per cent)		
	2016	2017	2018	2016	2017	2018
Governor's Office	66	64	**65**	14	13[1]	**13**
Chief Operating Officer's Unit	36	37	**36**	18	19[1]	**20**
Financial Stability	39	42	**45**	13	16[1]	**17**
Markets and Banking	49	50	**49**	14	16	**15**
Monetary Policy	48	48	**49**	11	12	**13**
Prudential Regulation Authority	43	43	**44**	20	20	**21**

1 Due to a transposition error in the 2016/17 *Annual Report* the 2017 BAME representation figures for Governor's Office, Chief Operating Officer's Unit and Financial Stability have been corrected.

During 2017/18, female representation below senior management was 45% and at senior management was 29%, down slightly from 30% in 2016/17.

Declared BAME representation below senior management was 18%, above BAME representation for the UK population as a whole.[1] We recognise that there is further to go to increase the representation of BAME staff in senior management. This fell to 5% from 6% in 2017.

In 2017 we were recognised with the Global Equality & Diversity Transparency Award 2017 for our work to increase transparency around our targets and metrics.

In 2017 we also signed the Women in Finance Charter and are fully compliant with all of its requirements. The requirements include setting gender targets and assigning an executive (Joanna Place, Chief Operating Officer) to be responsible for gender diversity at all levels.

Other diversity and inclusion metrics

The proportion of colleagues who identify themselves as lesbian, gay, bisexual and transgender is 3%. Among our senior management, the figure is 5%.

Currently 3% of colleagues have declared a disability (with 2% representation in senior management). This is unchanged from last year.

In 2017, we were recognised as one of Vercida's Top 10 recruiters for disability and LGBT.

Flexible working is encouraged. Our people are empowered to structure their workload in a way that works for them, rather than being tied to specific hours. Currently 13% of colleagues work on a formal part-time arrangement, compared with 12% last year.

The commitment to flexible working applies at all levels. Currently 18% of our senior management work part-time. This year saw our first job share appointment at Executive Director level.

In 2017 the Bank was named a Top 30 Working Families employer, in recognition of our efforts to champion an inclusive culture.

Our people are:

45% **female**

18% **declared BAME**

3% **declared LGBT**

3% **declared disability**

13% **part-time**

1 UK Census numbers 2011.

Our Gender and BAME Pay Gap

As well as addressing an imbalance of diversity within the Bank, we must also support equality through fair pay. This year's *Annual Report* includes our 2018 gender pay gap. We are also publishing our BAME pay gap for the first time, one of only a few major organisations to do so.

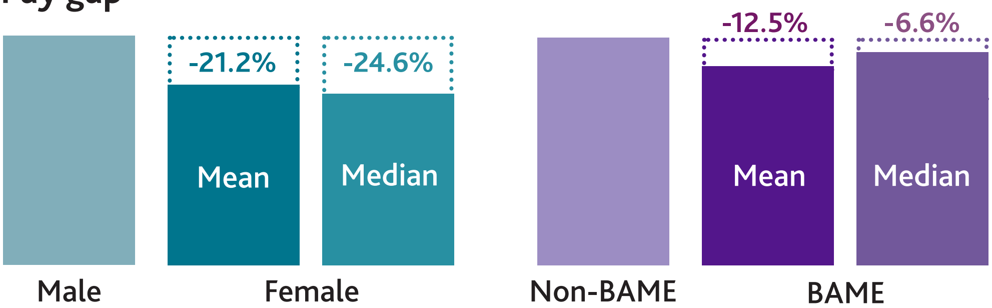
The mean gender pay gap at the Bank this year is 21.2%, up slightly from 21.0% in 2017, and the median gender pay gap is 24.6%, up slightly from 24.2% in 2017. These small increases are accounted for by changes at Deputy Governor level over the past year. The mean BAME pay gap this year is 12.5%, and the median pay gap is 6.6%.[1] The gender and BAME pay gaps look at average hourly earnings across the whole organisation, regardless of role or level.

We are confident that colleagues are paid equally for doing the same job at the Bank. The main reason for our organisation-wide pay gaps is an imbalance of male and female and non-BAME and BAME colleagues across the Bank. At the moment there are fewer women and BAME colleagues in senior roles than men and non-BAME. There is also a higher proportion of women relative to men in lower scales.

Looking at base pay alone, we have a gender pay gap of 18.8%, which has reduced from 22.0% since 2013. For BAME, the base pay gap is 10.5%, down from 13.9% in 2013.

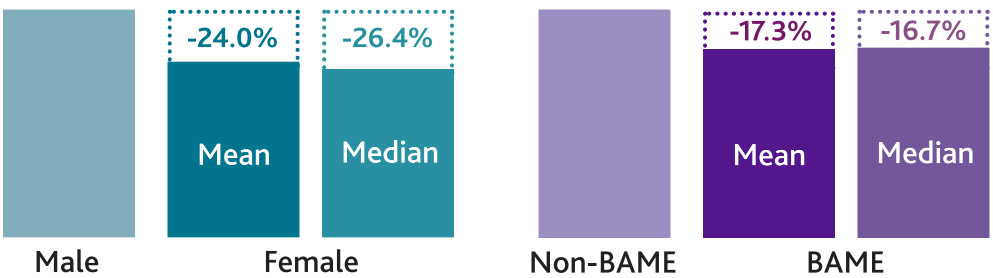
Addressing the disparity in representation at senior levels will take time but we are making steady progress. Working towards achieving our gender and BAME targets will make a meaningful impact on our pay gaps in future years.

Pay gap



The pay gap figures are based on hourly rate of pay as at 30 March 2018 and bonuses (performance awards) paid in the year to March 2018.

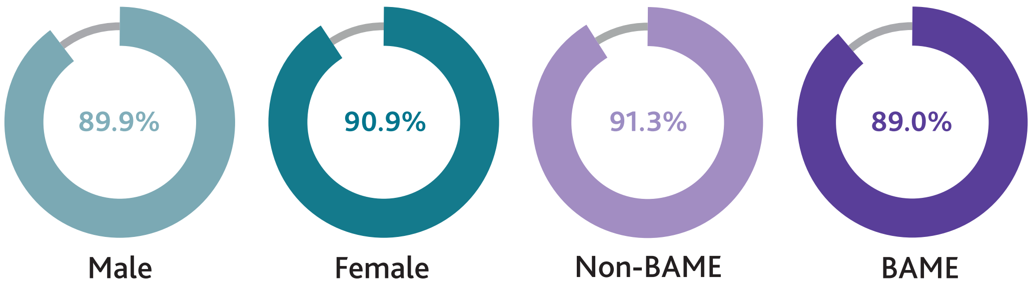
Bonus (performance award) gap



All colleagues at the Bank (excluding Governors) are entitled to an annual performance award, dependent on performance.

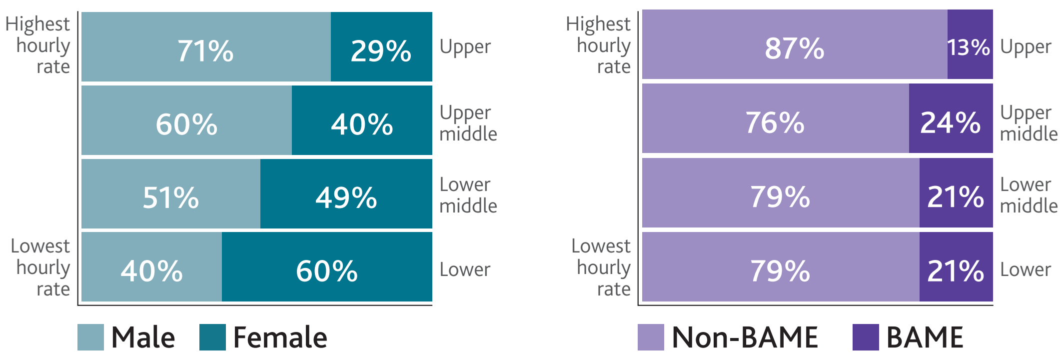
1 The mean pay gap is the difference between the average hourly earnings of men and women (or non-BAME and BAME). The median pay gap is the difference between the midpoints of the ranges of hourly earnings of men and women (or non-BAME and BAME). It takes all hourly earnings in the sample, lines them up from lowest to highest and picks the middle-most figure.

Proportion of colleagues receiving a bonus (performance award) payment



All colleagues at the Bank (excluding Governors) are entitled to an annual performance award, dependent on performance.

Proportion of colleagues in each pay quartile



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

Recruitment

Our people are recruited at many different stages of their career, from a wide range of backgrounds. We recruit school leavers, graduates, and experienced professionals who are mid-career.

Our school leavers' programme is reaching a more diverse population than ever before. We provide support and education on skills development and 'Insight' days in the Bank. We engage with schools across the UK through a series of presentations and careers conventions to demystify work at the Bank. Over 90% of these sessions are held at state schools, reaching around 1,000 students last year alone.

Our 2017 graduate intake came from 35 different UK universities, and from a wide range of degree disciplines (only around half of our new graduate entrants have studied economics). Of those newly hired to the graduate programme in 2017,[1] 44% were female, 22% BAME and 53% were from lower socio-economic backgrounds.

We are also continuing our efforts to increase awareness of the Bank in underrepresented communities. This includes initiatives such as our African Caribbean Scholarship programme, which offers financial support to students from Black or Mixed African or Caribbean backgrounds who are due to start undergraduate degree courses.

This year, we were pleased to be named 'Most Popular Graduate Recruiter in Banking, Insurance and Financial Services' at the TargetJobs awards for the second year running. And our work was recognised in 2017 by the Social Mobility Commission when we were placed in the top 50 employers for social mobility.

We recruit a wide range of experienced professionals.

We use specialist external recruitment consultants and professional networks to help us reach diverse talent and those who work part-time.

We have also partnered with Women Returners, a specialist return to work organisation, to introduce our first Career Returners programme, with the aim to attract and support returning professionals who have been temporarily out of employment.

This year we have extended the use of anonymous CVs, previously used for our Early Careers programmes, to cover all recruitment processes. We continue to strive for balanced shortlists and interview panels.

Of the 622 new hires who joined the Bank last year, 43% were women and over 25% came from a declared BAME background.

Developing and retaining our people

We encourage our people to invest in themselves and their careers. Colleagues have access to a wide range of training opportunities, at all stages of their careers. This supports the retention of our people: Bankwide, our resignation rate is around 8%.

For our graduates, we have introduced our Central Banking Qualification (CBQ) — designed in collaboration with Warwick University. The CBQ allows us to hire graduates from a broader set of disciplines and train them as economists and technical specialists. Our first CBQ intake completed the two-year certificate programme in 2017. Of the 74 completing the Certificate, around half have continued on to the additional Diploma year. They will be joined by around a further 60 colleagues from across the Bank.

1 This excludes those returning from internships and industrial placements with the Bank as limited personal data is available.

Following the introduction of the Apprenticeship Levy in April 2017, we are continuing to expand our apprenticeship offering. Our apprentices are a mixture of existing colleagues and new recruits, including school leavers.

We support colleagues taking parental leave and host Keep in Touch days to help those parents get ready to return to work. Currently we have an over 90% return rate for colleagues on maternity leave.

We continue to help colleagues develop the skills they need to contribute to our diverse and inclusive culture. This includes rolling out mandatory e-learning on inclusion, and supporting colleagues' mental health by delivering personal resilience training to all staff.

We recognise that our people can also build management and leadership skills through their wider work in the community, and encourage colleagues both to volunteer in their community and to take part in charitable giving (see our Corporate Responsibility section).

Employee network groups

We are proud to have a number of employee network groups including our Women in the Bank Network, LGBT+ and Allies Network, Bank of England Ethnic Minority network, Mental Health Network, Disability Network, Carers Network, Parents Network, and three Faith Networks (Muslim Network, Jewish Network and Christian Union). These networks help to raise awareness of important issues and hold our senior leadership to account.

Key network initiatives over the past year included: the 10th anniversary of the Women in the Bank network; undertaking the Business Disability Forum benchmarking and creating an action plan for improving key services across the Bank; Marching in Pride, where for the second year we flew the Pride Flag on top of our Threadneedle Street building; celebrating Chinese New Year, Eid and Diwali; lighting a Menorah for Hanukah; and holding a carols service for Christmas. We also lit the Bank green to raise awareness during Mental Health Awareness Week.

The Bank has an obligation to publish annual information relating to pay under Schedule 1 of the Equality Act 2010 (Specific Duties and Public Authorities) Regulations 2017 (the 'Regulations'). Schedule 2 to the Regulations lists the public authorities required to publish this information, and lists 'The Bank of England, in respect of its public functions'. For the avoidance of doubt, the Bank does not consider itself a public authority and is also a private sector employer, however given the administrative burden of separating employees into those performing a public function and those who are not, the Bank has chosen to publish exclusively under the Regulations (and therefore abide by the earlier date of publication of 31 March) rather than publishing separately under the Gender Pay Gap regulations which govern private and voluntary sector employers.

Corporate Responsibility

'Doing Good Together' is the Bank's commitment to Corporate Responsibility (CR). Our CR programme is integral to how we deliver our mission responsibly and sustainably. By building diversity in our workforce, we can better reflect and understand the society we serve; through our expertise and leadership we can become a more sustainable and responsible organisation, while contributing to solving global challenges; and by supporting a wide range of organisations and individuals in our community, we can build greater trust and understanding in what we do and why.

Since the development of our CR and inclusion strategies in 2016 and 2017 we have come a long way. We have won a number of awards in the fields of Diversity, Community and the Environment that show external recognition of the transformation we have made through Doing Good Together. And through our Viewpoint staff survey, we know that our colleagues feel that the Bank is a more inclusive and supportive organisation. For instance, in the most recent survey 86% of staff responded positively to the statement 'I am treated with respect as an individual', and 78% responded positively to the statement 'the Bank takes diversity seriously'.

But there is more we want to achieve. Next year we will be working towards a range of targets across our CR activities to embed a culture where we value our people, support our community and protect our environment. These targets cover our diversity metrics, carbon emissions, paper use, and engagement with schools.

In this review we detail the key initiatives that the Bank has undertaken in support of our CR aims this year. Highlights include: working together to raise a record of over £320,000 for our charities of the year, Haven House Children's Hospice and Macmillan Cancer Support; and the rapid cultural change that has taken place across the organisation to reduce the Bank's impact on the environment.

Integrity and Impartiality

In carrying out its responsibilities for monetary and financial stability, and its prudential oversight of banks and insurers, the Bank takes decisions that affect the lives of everyone in the United Kingdom. Exercising its powers requires analysis and judgment, and also the highest standards of integrity and impartiality. The Bank's Code of Conduct — Our Code — reflects the Nolan Principles of Public Life and expresses our commitment to how we work and conduct ourselves. It applies to all staff including the Governors and other policy committee members.

Our Code, and the detailed policies that underpin it, seeks to ensure that individual judgments are not coloured by personal concerns or connections: by relationships, investments, the receipt of gifts or entertainment, or by political affiliations. The policies are reviewed regularly by Court. Specific and detailed conflicts codes have been put in place for the policy committees. Understanding of Our Code provisions starts with staff induction, and is checked each year through an attestation process, and adherence is checked by the Compliance Division.

As part of Our Code, staff are encouraged to raise concerns about any aspect of work in the Bank — conduct, treatment of colleagues, disregard of procedures and rules, possible fraud or other risks to the Bank — and if necessary escalate them to designated individuals outside their immediate management chain. The whistleblowing arrangements are the responsibility of the Bank Secretary and safeguard the anonymity of those who speak up: generic information is reported regularly to the Audit and Risk Committee.

We raised over £320,000 for our charities of the year

Haven House children's hospice

We are Macmillan. Cancer Support

During the year the Bank's provisions relating to conflicts management were reviewed by a Committee of Court non-executives, and their recommendations (see pages 62–63) were accepted in September 2017. These included the formal appointment of a Conflicts Officer with responsibility, under the Bank Senior Managers' Regime, for the conduct codes and for the identification and management of conflicts throughout the Bank and especially at senior level.

Diversity and inclusion

We are committed to attracting and inspiring the best people to public service. We view this as our duty to the people of the United Kingdom. We also believe it is necessary if we are to reach the right policy and operational decisions in support of our mission. More detail on the main steps we have taken to continue to build a more inclusive workplace for our people, as well as legal requirements to monitor and publish diversity data is given in 'Our People' (see pages 38–45).

Community

The Bank has a long history of community involvement, and of support of the voluntary sector. We encourage staff to become involved in initiatives that maximise their positive impact and influence in the community.

This year we have broadened our offering and improved internal processes to help make use of the skills our people have. For example we have introduced an online portal to enable more volunteering in the community, and refocused our work experience programme to help those from socially disadvantaged backgrounds.

Next year we will continue to develop our network of Community Champions to build more engagement with our community programme. We will extend the range of skills-based volunteering opportunities, raise awareness of how colleagues can share their skills in the community, and target an increase the number of volunteering days.

Volunteering

The Bank offers its employees paid leave to perform voluntary duties in the community, or to undertake public and civic duties in a way that caters for a variety of staff levels and time commitments. Volunteering helps build relationships with our communities, support recruitment and retention, and provides real situations in which to develop our skills.

Staff involvement in community activity, either through personal volunteering and civic duties or through participating in our community programme, rose substantially from 785 days in 2016/17 to 1,139 days this year. We estimate the total value of non-cash community contribution, including time spent by staff on community involvement, travel costs for volunteers and the costs of hosting charitable events at the Bank, to be £631,000 in 2017/18 (2016/17: £460,000). Of this, £431,000 was for staff time involved either in volunteering and undertaking civic duties or volunteering leave.

In recognition of our efforts in the community, we received a GivX Community Value Award, and were ranked as one of their Top 25 employers. We also refocused our social mobility initiatives which provide work experience opportunities for young people from lower socio-economic backgrounds. In 2017 we welcomed 76 students from the local community for work experience. Colleagues in our Legal Directorate also volunteer as mentors on a scheme connected to the Stephen Lawrence Charitable Trust.

Charitable giving

The Bank and its employees support local and national communities through a range of schemes that support charitable giving. Through our matched funding scheme the Bank helps staff to maximise monies raised for the charities and causes they are committed to.

We received several awards for our efforts in the community and charitable giving:

The Bank supports two charities each year. This year our staff chose Haven House Children's Hospice and Macmillan Cancer Support. Through various fundraising activities, including the proceeds from a charity banknote auction (£270,000) we raised over £320,000.

The monies raised will have lasting impact. Haven House is using the funds to support their core services including vital respite and overnight care. And Macmillan is using the monies to support funding of their nurses who help people living with cancer and their families receive essential medical, practical and emotional support.

We also donated a third of the proceeds from the banknote auction to Candlelighters who provide support to families of children with cancer.

The Bank continued to be one of the few national recipients of a Platinum Award from Pennies from Heaven. Nearly a half of our staff currently round down their monthly income and donate this money to charity via the Pennies from Heaven scheme. The Bank also achieved the Payroll Giving Silver Award 2017 for succeeding in generating sustainable income sources for UK charities through Payroll Giving.

During 2017/18, the Bank contributed a total of £1,210,000 in support of its community programme (2016/17: £1,055,000). Cash donations totalled £585,000 (2016/17: £765,000). More detail is provided in the annex. No donation was made for any political purpose in 2017/18 (2016/17: nil). And no paid leave was granted to staff for political purposes (2016/17: nil).

Wellbeing

The Bank provides a wide range of services, benefits, initiatives and policies to support staff in managing their mental, physical and social wellbeing under our 'think well, live well, be well' programme. These include a regular series of Working Life Seminars that offer practical advice on work and family issues, an Employee Assistance Programme that offers counselling and additional support, and benefits including discounted gym memberships and flexible leave options. We also offer sessions for staff on how they can best support their own personal resilience, in addition to training for managers on how to support the wellbeing of their teams.

To support the wellbeing agenda, we have an established network of around 50 Wellbeing Champions. The network plays a vital role in helping communicate the importance of our wellbeing agenda, supporting local initiatives, and raising awareness of the support that is available to staff.

Over the past year the Bank has delivered a number of new initiatives to support wellbeing. These include a new on-site physiologist to help staff with issues such as nutrition, exercise, stress, and emotional wellbeing, and a virtual GP offering video and phone GP appointments for colleagues who are not based in London.

Next year, we will maintain our efforts to raise awareness of wellbeing support using our Wellbeing Champions network. A key focus will be helping colleagues to get their work-life balance right, and we will be supporting this through the rollout of personal resilience sessions for all staff.

Outreach and Education

One of the aims of our new Strategic Plan, Vision 2020, is to equip the next generation with the tools and skills they need to understand the economy, as well as our role in it. Key to achieving that is our new education and outreach programme which is described in detail in the Review of 2017/18.

Staff involvement in personal volunteering and civic duties rose from 785 days in 2016/17 to 1,139 days this year

In June 2017 the Governor planted a tree at Haven House to mark our relationship with the charity

Environment

We are committed to reduce the environmental impact of our operations. By reducing our carbon emissions, improving our energy efficiency, reducing our consumption of natural resources, and managing our waste production and disposal.

During the year we have worked hard to increase colleagues' awareness of environmental good practice. Through our programme 'Greener Bank' we have developed a network of more than 80 Green Champions to drive change in their local areas, and we have delivered new approaches to measure, monitor and communicate our progress. Central to this has been the launch of an environmental certification scheme for local areas to track their progress against a set of clear achievement levels.

In September 2017 the Bank staged its first Green Week. This included a series of events and talks from external speakers on how they are reducing their carbon emissions and tackling Climate Change. A number of our Green Champions were presented with awards in recognition of their work in supporting our Greener Bank Programme.

Looking forward, we plan to improve our building energy efficiency and increase our engagement with RE:FIT London, review our use of renewable energy, and take steps to improve biodiversity at our Debden site. We will build on our success on waste with the aim of phasing out single-use plastic at the Bank. We will also further embed a paperless culture at the Bank, with a target to reduce our printing by a further 20% and work to reduce the carbon footprint of our travel.

Carbon emissions

We have set ourselves the challenging target of reducing our overall carbon emissions from direct operations by 20% between 2016 and 2020. During 2017/18 the Bank's total emissions of CO_2e was 4.9 tonnes per full time equivalent staff (see Annex). This is a 16% reduction over 2016/17. Since 2016 our total carbon emissions have reduced by 16%, which means we are on track to meet our emissions target.

Energy management

The Bank has actively engaged in the Mayor of London's award-winning RE:FIT programme which is aimed at reducing emissions in public buildings. Through this programme we have identified a number of energy efficiency measures that will help us cut costs and increase the life of our plant and equipment. We estimate that the first phase will bring at a minimum over 7% of energy savings at our Threadneedle Street building with a reduction in carbon emissions of around 650 tonnes.

Waste and resources management

We have continued to reduce the volume of waste we produce and to increase the amount of recycling we do. This year we have reduced catering waste through a 40% fall in the use of disposable containers, a 50% increase in the use of reusable cups, and by replacing our plastic food containers and straws with more environmentally friendly plant-based alternatives.

We have also managed to reduce our paper consumption by 20% through a number of initiatives including switching from paper to digital media subscriptions, and driving through the adoption of IT solutions to encourage colleagues to reduce their paper use.

For our efforts on waste and resources management we have won the Green Apple Award for environmental best practice and Special Commendation in the Clean City Awards. The Clean City Awards judges were *'impressed with the steep culture change that the Bank of England is embracing'*.

We have reduced our paper use by

⅓

since 2015

Banknotes

This year nearly 1,200 million unfit banknotes were returned to the Bank and required disposal. The Bank works with various partner organisations to reduce the environmental impacts associated with the destruction of notes. This year we recycled most paper notes into compost. And all polymer banknotes requiring disposal are recycled in the UK.

The Bank's decision to move to polymer notes will deliver lasting environmental benefits. There will be less environmental burdens associated with raw material production, and with polymer banknotes lasting at least 2.5 times longer than paper notes, fewer banknotes will have to be produced to replace unfit ones. The Carbon Trust has certified that over their full life cycle, the carbon footprint of our £5 and £10 polymer banknotes is respectively 16% and 8% lower than their paper note equivalent. For our efforts in cutting carbon emissions, we won the Carbon Trust 2017 award for the best performance in product carbon footprinting.

Health and safety

The Bank attaches the utmost importance to the health and safety of its staff. Through our safety management system we deliver a safe working environment and promote and maintain a positive health and safety culture.

Monitoring the performance of the system is an integral part of effective safety management and demonstrates our commitment to ensuring the health, safety and welfare of all persons who enter Bank premises. Consequently, we monitor the Bank's performance on a regular basis, and report annually to Court.

Training is also a vital part of effective health and safety, and the Bank continues to offer safety-related training to all staff. An extensive programme of first aid training was completed this year at the Bank's premises in London. This has enhanced our first aid response by allowing trained staff volunteers to provide a quicker response. Comprehensive health and safety training has also been provided to those areas undertaking higher risk functions such as projects and property maintenance.

During 2017/18 there were a total of 18 recorded accidents involving employees (2016/17: 20). Three of those accidents resulted in reportable injuries as defined by the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations, compared to one last year. As a result of the larger proportion of reportable accidents this year, the Bank's Annual Injury Rate rose to 78, up from 27 in 2016/17.[1] We undertook a comprehensive investigation into this rise and concluded that there was no systemic cause, and so no remedial actions were required.

Annex

Cash donations

During 2017/18 cash donations totalled £585,000 including:

- £65,000 to community organisations via the matched funding scheme;
- £60,000 to charities supported by the Bank's regional Agencies;
- £50,000 to match record staff fundraising for the staff charities of the year;
- £29,500 via the Bank of England Court Awards through which donations are made to community organisations in recognition of outstanding volunteering contributions by members of staff including those who volunteer as school governors;
- £275,000 made to partner charitable organisations and membership subscriptions; and
- £104,000 in donations to support academic research.

CARBON TRUST
REDUCING CO2

The Bank won the Carbon Trust Award for our efforts in cutting carbon emissions for £5 and £10 notes

1 The Accident Injury Rate is an index calculated by dividing the number of reportable accidents by annualised employee numbers and multiplying the figure by 100,000, in line with the Health and Safety Executive guidance.

Carbon footprint (Greenhouse gas emissions)[1]

		2017/18		2016/17	
Type of emissions	**Activity**	tCO_{2e}	% of total	tCO_{2e}	% of total
Direct (Scope 1)	Natural gas	3,300	15.4	3,158	12.7
	Oil — generators	17	0.1	49	0.2
	Vehicles fleet	126	0.6	151	0.6
	Refrigerants	1	0.0	138	0.6
	Subtotal	**3,444**	**16.1**	**3,497**	**14.1**
Direct (Scope 2)	Electricity	12,591	58.8	15,079	60.6
	Subtotal	**12,591**		**15,079**	
Indirect (Scope 3)	Electricity — T&D[2]	1,177	5.5	1,364	5.5
	Air travel	3,769	17.6	4,710	18.9
	Rail travel	40	0.2	39	0.2
	Water	94	0.4	74	0.3
	Office paper	71	0.3	86	0.3
	Waste	233	1.1	35	0.1
	Subtotal	**5,384**		**6,307**	
Total gross emissions (tCO_{2e})		**21,419**		**24,883**	
Intensity metric					
Average number of employees		4,368		4,261	
Tonnes of CO_{2e} per employee		4.90		5.84	

1 Emissions associated with the Transmission and Distribution of electricity from its production point to the end user.

2 Emissions associated with the use of refrigerants were not accounted in 2016.

Assessment parameters

Baseline year	2016
Reporting organisation	Bank of England
Person responsible	Energy and environmental manager
Reporting period covered	1 March 2016–28 February 2017/1 March 2017–28 February 2018
Organisational boundaries	Facilities over which the Bank of England has operational control
Methodology used	ISO 14064-1 and DEFRA Reporting guidelines (2013)
Emissions factors used	UK Government conversion factors for Company Reporting set
External verification 2016 baseline	Limited assurance to ISO 14064-3 provided by the Carbon Trust
Exclusions	Emissions associated with the use of refrigerants were not accounted in 2016

Report of the Remuneration Committee

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

The Committee takes account of external comparisons from the public and private sector when reviewing policy and making remuneration decisions, as well as reviewing internal comparators to help ensure that colleagues are appropriately and fairly rewarded. Like many organisations, the UK gender pay gap reporting requirements have been a focus for the Committee this year and the Bank's first gender pay gap report was published in November 2017. This links directly to the Bank's inclusion agenda and we are reporting our 2018 gender pay gap in the 'Our People' section of this report on pages 38–45.

The Governors

The remuneration structure for Governors remains straightforward. Governors do not receive a benefits allowance or any performance awards or other performance-related pay. In addition to their annual salaries, the Governors are eligible to participate in the Career Average section of the Bank Pension Fund. When relevant tax limits are reached they may choose to reduce their accrual rates or to opt out altogether, receiving a salary supplement in lieu of pension. They may also choose to increase pension accrual subject to a reduction in salary calculated at rates consistent with the Bank's funding valuation. During 2017/18, the Committee reviewed the policy on pension accrual for Governors and agreed that for new appointments, we would reduce the rate of pension accrual from 1/65ths to 1/95ths of salary, so as to be consistent with the policy for all new joiners to the Bank.

In recent years, the Committee has approved pay increases for Governors in line with public sector norms. This approach was taken for 2017/18 and Deputy Governors' pay has increased by 1% again this year. As in previous years, Mr Carney declined to accept the increase.

Governors' remuneration policy

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

Two Deputy Governor appointments were made during 2017/18, following the resignations of Dame Minouche Shafik and Charlotte Hogg. Both Dame Minouche Shafik and Ms Hogg were subject to a period of restricted duties for three months. Ms Hogg was succeeded as COO by Joanna Place, with effect from 27 July 2017[1] and Sir Dave Ramsden was appointed as Deputy Governor, Markets and Banking with effect from 4 September 2017.

Both Ms Place and Sir Dave Ramsden were appointed on the same salary as for other Deputy Governors and their pensions are aligned with the new policy of 1/95ths accrual.

Under the Bank of England Act 1998, Governors and Deputy Governors are required to provide remunerated services only to the Bank. With Court's approval other directorships relevant to the Bank's work may be accepted, but any fees must be waived or surrendered to the Bank. Directorships held during the past year have been the (statutory) appointment to the Financial Conduct Authority Board held by Mr Woods as Deputy Governor for Prudential Regulation; and Mr Carney and Sir Jon Cunliffe sit on the Board of the Bank for International Settlements.

The Committee keeps under review other benefits available to the Governors. It is the Bank's policy to provide for relocation support as necessary to those appointed to senior positions. Mr Carney receives, as was announced on his appointment, an annual accommodation allowance of £250,000 per annum to reflect the additional cost of living in London rather than in Ottawa. Insurances and health checks were the principal other non-salary benefits received by Governors during the year.

1 The COO role has the status and remuneration of a Deputy Governor, but is not a statutory appointment.

Governors' remuneration*

	Mr M J Carney		Dr B Broadbent		Sir Jon Cunliffe		Ms C Hogg	
£	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
Base salary	480,000	480,000	273,333	268,170	273,333	270,626	45,104	270,626
Taxable benefits	252,254	253,365	1,174	1,187	2,005	1,798	–	–
Pension benefits	135,153	12,510	2,606	63,401	–	–	17,529	85,311
Payment in lieu of pension	12,000	132,000	77,264	23,071	82,000	81,188	–	–
Total pension benefits	**147,153**	**144,510**	**79,870**	**86,472**	**82,000**	**81,188**	**17,529**	**85,311**
Other remuneration	2,167	2,167	1,423	974	984	1,413	163	1,465
Total remuneration	**881,574**	**880,042**	**355,800**	**356,803**	**358,322**	**355,025**	**62,796**	**357,402**

	Ms J Place		Sir Dave Ramsden		Dame Minouche Shafik		Mr S Woods	
£	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
Base salary	162,958	–	134,914	–	67,657	270,626	273,333	180,417
Taxable benefits	739	–	618	–	169	1,978	(405)	2,254
Pension benefits	–	–	–	–	10,229	70,670	84,395	60,305
Payment in lieu of pension	31,179	–	26,983	–	3,744	13,396	–	–
Total pension benefits	**31,179**	–	**26,983**	–	**13,973**	**84,066**	**84,395**	**60,305**
Other remuneration	737	–	486	–	244	974	984	607
Total remuneration	**195,613**	–	**163,001**	–	**82,043**	**357,644**	**358,307**	**243,583**

* As at 28 February 2018, only Mr Carney and Mr Woods were accruing pension. Mr Carney's total accrued pension is £27,298 p.a. and Mr Woods' accrued pension is £9,357p.a.

* Dame Minouche Shafik received remuneration for the period to 31 May 2017, and Ms Hogg received remuneration for the period to 28 April 2017.

Remuneration of Non-executive Directors

The Bank of England Act 1998 provides for the remuneration of the Non-executive Directors to be determined by the Bank with the approval of the Chancellor of the Exchequer. With effect from 1 June 2009, these rates were set at £15,000p.a. for Directors, £20,000p.a. for Committee Chairs, and £25,000p.a. for the Senior Independent Director and Deputy Chair. The Chair of Court is paid £48,000p.a. Non-executive Directors do not receive any post-retirement or medical benefits from the Bank, nor any additional fees for serving on Committees. The Bank meets appropriate travel and subsistence expenses.

External members of the FPC, the MPC and the PRC

The external members of the FPC, the MPC and the PRC are appointed on a part-time basis, and their remuneration reflects the different time commitments involved for each committee. In 2017/18, the external members of the FPC were each paid at a rate of £93,920p.a., independent PRC members were paid at a rate of £105,949 and the external MPC members were paid £151,179. For 2018/19, all fees were increased by 1%. MPC members, who work on average three days a week in the Bank, are also entitled to join the Bank's private medical insurance scheme.

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

Executive Directors' salaries and benefits

The remuneration framework for Executive Directors is consistent with that offered to all colleagues across the Bank, comprising a salary commensurate to their role, a 7% flexible benefit allowance, discretionary performance award budget of 10% and a Career Average defined benefit pension.

The table opposite shows, for Executive Directors serving at the end of 2017/18, the first two elements of their remuneration as well as their individual pension accrual rates. In recommending salaries for Executive Directors the Committee takes into account the differences in their pension accrual so as to achieve a greater consistency in their total remuneration. In recommending individual performance awards the Committee takes account of both performance against objectives and values. For 2018/19 performance awards for Executive Directors will also be linked to progress made against local area inclusion plans.

A feature of the Bank's pension scheme is that it allows individuals to vary their rate of pension accrual annually, either by surrendering pension accrual for a cash supplement or by sacrificing salary to secure more pension. Each year the Committee reviews and approves the rates at which pension is exchanged for cash and vice versa to ensure they are consistent with the scheme funding valuation, and updated to reflect market movements and changes in actuarial assumptions. Currently these rates are elevated by the low levels of risk-free interest rates, and as such the decision was taken to cap rates at 2016/17 levels ranging from 29% of salary (1/95th accrual) to 55% of salary (1/50th accrual) to prevent costs increasing.

£ Year to 28 February 2018	Salary[1]	Benefits	Contractual pension accrual
Sonya Branch	209,887	15,790	1/95th
Alex Brazier	178,518	14,138	1/50th
Sarah Breeden	175,875	13,941	1/50th
Stephen Brown	165,773	13,185	1/50th
Jonathan Curtiss	144,500	11,593	1/50th
Rob Elsey	200,000	15,746	1/95th
John Footman	189,168	15,074	1/65th
Andrew Gracie	186,280	14,719	1/65th
Andy Haldane	185,748	14,679	1/50th
Andrew Hauser	178,518	14,138	1/50th
Lyndon Nelson	223,735	17,521	1/95th
Rommel Pereira	210,000	16,494	1/95th
James Proudman	176,750	14,145	1/50th
Gareth Ramsay	153,089	12,357	1/50th
David Rule	222,732	17,446	1/95th
Chris Salmon	185,748	14,801	1/50th
Victoria Saporta	175,875	13,941	1/50th

1 Pro-rated for those who joined the Bank, were promoted during the year or who work part-time. For details see the footnotes on page 14.

The Bank's overall pension contribution is driven by both the current CARE scheme, as well as the now closed final salary scheme. Long-serving employees from the Bank will have built up a much greater accrued pension during their years of service and participation in the final salary scheme. While the final salary scheme is now closed, any increases in salary for those individuals will result in a consequent increase in their accrued pension which in turn will drive the Bank's contribution. The table overleaf shows the accrued pension in the Bank's defined benefit schemes of those Executive Directors who were active members during the year.

	Accrued pension £p.a. Feb 18	Accrued pension £p.a. Feb 17	Increase in pension £p.a.	Pensionable age
Sonya Branch	6,666	4,574	2,092	65
Alex Brazier	–	–	–	60
Sarah Breeden	–	–	–	60
Stephen Brown	32,778	30,081	2,697	60
Jonathan Curtiss*	–	–	–	60
Rob Elsey	3,812	2,102	1,710	65
John Footman*	–	–	–	65
Andrew Gracie	14,861	12,907	1,954	65
Andy Haldane	88,729	86,258	2,471	60
Andrew Hauser	77,538	75,229	2,239	60
Lyndon Nelson*	–	–	–	65
Rommel Pereira	3,353	1,108	2,245	65
James Proudman*	–	–	–	60
Gareth Ramsay	48,659	42,581	6,078	60
David Rule*	–	–	–	65
Chris Salmon*	–	–	–	60
Victoria Saporta	61,409	59,584	1,825	60

* Denotes those who have opted out of further pension accrual and receive cash in lieu.

Mr Salmon was granted a deferred pension of £73,253p.a. in 2014; Mr Proudman was granted a deferred pension of £65,490p.a. in 2015; Mr Brazier was granted a deferred pension of £47,288p.a. in 2016; Ms Breeden was granted a deferred pension of £60,686p.a. in 2016; Mr Curtiss was granted a deferred pension of £60,075p.a. in 2014; Mr Rule was granted a deferred pension of £2,782p.a. in 2016.

Other Executives' salaries and benefits

The following table shows remuneration ranges for the year to February 2018 for all colleagues below Executive Director level with remuneration in excess of £80,000 p.a. on a full-time equivalent basis, excluding employer pension contributions and performance awards. All participate in the Career Average defined benefit pension with flexible accrual rates, receive a flexible benefits allowance equal to 7% of base salary and are eligible for a discretionary performance award.

Remuneration range £	Number of colleagues
200,000–249,999	5
190,000–199,999	4
180,000–189,999	9
170,000–179,999	10
160,000–169,999	14
150,000–159,999	27
140,000–149,999	35
130,000–139,999	44
120,000–129,999	50
110,000–119,999	94
100,000–109,999	124
90,000–99,999	187
80,000–89,999	277
Total	**880**

Report on Oversight Functions

Court — the Oversight of the Bank

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

Court also has responsibilities for monitoring the Bank's performance against its statutory and other objectives, the Bank's financial management and controls, and the procedures of the policy committees, whose objectives are objectives of the Bank and whose meetings non-executive members of Court are entitled to attend as observers. Court is required to make an annual report on these 'Oversight Functions'. Other parts of this *Annual Report*, notably the reports of the Remuneration Committee and the Audit and Risk Committee, should be seen, insofar as they relate to Court's Oversight responsibilities, as part of this report.

Court is supported by an Independent Evaluation Office (IEO), led by a Director with a direct reporting line to the Chair of Court. The IEO's work programme is determined by Court, and typically consists of two major published reviews in each year, supplemented by a number of formal and informal briefings of Court members. The IEO's focus is on policy rather than administrative issues, although it did during the year under review also undertake a review of the Bank's processes for managing conflicts of interest, which was published in August 2017 and led to a number of changes described in more detail below.

Cost containment and reprioritisation

The Bank has set a budget for the coming year that implies no increase in nominal spending, so that the significant additional costs arising from EU exit will be met from savings in other areas — initially streamlining of the 2018 stress test, adjusting the PRA supervisory approach, reducing collateral reviews and postponing some planned reforms to liquidity facilities. The assumption for future years is similarly challenging, and a cost containment programme has been developed and discussed with Court.

The National Audit Office has consulted the Court about a review of the Bank's central service function. This is likely to be conducted over the summer, with a Report to Parliament before the end of 2018.

The policy committees

The Financial Policy Committee (FPC)

The Bank has a Financial Stability Objective — to 'protect and enhance the stability of the financial system' — and the FPC contributes to that by identifying, monitoring and taking action to remove or reduce systemic risks so that the UK financial system can support the real economy, even in difficult conditions. It oversees the annual stress test of the UK banking system and sets the countercyclical capital buffer for major banks. It assesses and reports on other financial and operational risks, including those arising from UK withdrawal from the EU and from the emergence of disruptive new technologies. Its conclusions, decisions and recommendations are published in a biannual review, the *Financial Stability Report*.

Court has delegated to the FPC responsibility for formulating the Bank's Financial Stability Strategy. The current strategy is set out on pages 32–35 of last year's *Annual Report*.

Court keeps under review the FPC's processes, receiving regular reports on its deliberations and observing its meetings. Court oversees an annual survey of FPC members to assess the Committee's effectiveness and the support provided by the Bank, and the Chair of Court interviews individual committee members. In response to past surveys changes have been made to the routine reporting and to the management of FPC agendas and the latest shows a high level of satisfaction with processes, though opportunities were seen to improve the FPC's external publications and, internally, IT support. The external members consider the Committee to be working well, with productive discussions and effective policy interventions.

The Monetary Policy Committee (MPC)
Court receives regular reports from the MPC, and individual members of Court have observed meetings of the Committee. As with the FPC, a structured survey of members is conducted annually supported by the Chair of Court meeting with individual members. Responses to the survey indicate a continuing high level of satisfaction with the quality of staff support, with improvements in the scores for the policy round, minutes, the joint FPC/MPC meetings and the contribution of the wider Bank outside Monetary Analysis. Some questions were raised about the way in which Bank research was prioritised and communicated — as noted below, that is now a topic that the IEO will review. It has also been considering the content of the *Inflation Report* following the success of the 'layered' presentation adopted in November.

As part of its review of MPC procedures, Court is required to determine whether the Committee has collected the regional, sectoral and other information necessary for formulating monetary policy. Court is satisfied that the MPC continues to benefit from the intelligence provided by the Bank's network of regional Agencies, and the regional visits that individual members undertook during the year. Additionally the Bank as a whole has benefitted from a range of regional events during the year, including most notably the Future Forum in Liverpool. In terms of data, Bank staff have been making increasing use of disaggregated information to assess the labour market and external trade.

The Prudential Regulation Committee (PRC)
The objectives of the PRA are to promote the safety and soundness of the firms it regulates, to contribute to the securing of an appropriate degree of protection for insurance policyholders, and to facilitate effective competition in the services provided by authorised firms. Court is consulted about the PRA's strategy for meeting those objectives. The PRA's *Annual Report* sets out the present strategy, the individual strategic goals to which the PRA is committed, and the PRA's plans for achieving them against a background of considerable change in the regulatory landscape.

Since March 2017 the PRA has been a part of the Bank (rather than a subsidiary, as previously) and is governed through the PRC. Court receives regular reports on the PRC's activities, and individual Court members attend its meetings. The Chair of Court undertakes an annual review of the PRC's effectiveness.

The PRC makes the PRA's strategy, rules and policies, approves the PRA's annual report, and is required to report to the Chancellor on the adequacy of the PRA's resources and the exercise of the PRA's functions is independent of the Bank's other functions. It also reserves to itself key supervisory decisions in relation to the most significant regulated firms. Its meetings are consequently more frequent than those of the other committees. It is thus more operational than the other policy committees.

The annual effectiveness review by the Chair of Court concluded that the Committee was working well, with an appropriate mix of skills and experience and well-planned agendas that allowed time for broad thematic reviews as well as individual policy and supervisory decisions. Members also noted significant improvements in management information which made it possible to take informed decisions about prioritisation in the future.

Reviews by the IEO

In the year under review the IEO undertook two policy studies: one into the Bank's approach to providing sterling liquidity, the other into the developing resolution framework. Both are being published.

The Bank's approach to providing sterling liquidity

Court asked the IEO to review changes the sterling liquidity framework since the Winters Review (2012) in the light of the broader 'One Bank' strategy. The evaluation was published in January 2018. It observed substantial progress in opening up access to the Bank's facilities and making them cheaper and more flexible.

The effectiveness of the 'One Bank' approach was evidenced by the comprehensive plans for potential liquidity stress around the EU referendum. However the IEO noted that the recent absence of severe liquidity crunches meant that the Bank's range of facilities had not been fully tested. It could go further to ensure its sterling facilities are understood better, to future proof them, and to consolidate lessons from past experience. There were opportunities to clarify some issues internally, such as the interaction between a firm's liquidity buffers and the Bank's sterling liquidity facilities, as well as policies on disclosure. And there was also some scope to clarify aspects of the Bank's approach externally: its high-level purpose and scope; the operation of facilities; and financial risk management. It recommended the establishment of a senior, cross-Bank forum to support the work of the Governors, Court and the policy committees.

Resolution

With policies for orderly resolution now largely in place, Court asked the IEO to evaluate the effectiveness of the Bank's approach in exercising its resolution responsibilities. A key objective of the Bank is that the major UK Banks should be fully resolvable by 2022. But much remains to be done, and the IEO recommend injection of more formal project discipline to ensure that the work remains on track, especially as other priorities and external shocks emerge, with a gradual rebalancing of the composition of the Bank's Resolution Directorate towards supervisory skills. Enhancing the Bank's internal infrastructure to support cross-institution working would contribute to this: while the regimes for resilience against failure (the PRA) and orderly resolution (the Bank's Resolution Directorate) must legally be separate, there is scope for synergies and feedback loops between the two regimes.

Meanwhile the Bank needs to maintain its capability to run a resolution, potentially at short notice. The IEO recommended formalising the governance arrangements and processes — including preparing for a 'fast death' arising from operational events (for example a cyber-attack). Simulation exercises should be conducted on a more systematic basis, and the IEO recommended that the Bank continues to lever existing initiatives so that internal resources can be rapidly mobilised as needed.

Future Work

The IEO plans to conduct two further reviews during the coming year: one into the Bank's stress testing framework, the other into the Bankwide research programme.

Ethics and conflicts of interest

Court sets conflict of interest codes for the Monetary Policy Committee, the Financial Policy Committee and the Prudential Regulation Committee, and separately sets and keeps under review internal codes and rules relating to business practice, conduct and the management of conflicts of interest.

As noted in last year's report, Court appointed a Committee of Non-Executives chaired by Mr Fried to review and evaluate the Bank's approach to identifying and managing potential conflicts of interest and the supporting governance arrangements. The review, which was supported by the IEO and drew on further observations from Herbert Smith and the National Audit Office, reported in September and the Bank undertook to implement all of the recommendations. These included:

- Designation of a Conflicts Officer, to be responsible for the Bank's policies on business practice and conduct and to be responsible to the Governor and to Court for conflict identification and management throughout the Bank and particularly at senior level, for promoting the importance of conflict identification and management throughout the organisation, and to liaise with HM Treasury on future appointments to the Bank.

- Clarification of reporting requirements for personal relationships.

- Improved centralised systems for capturing, reviewing and analysing relevant data, with appropriate protections for privacy.

- A review of executive responsibilities for the management of risk within the Bank, and the place of Compliance within that.

The Review recommended that Court should continue to approve all relevant changes to conduct policies, receive regular reports from the Conflicts Officer, and be 'appropriately consulted' about approvals of conflicts that take place in the Policy Committees.

Court designated the Secretary of the Bank as Conflicts Officer at its meeting in September 2017; and a review of risk governance was commissioned in May. The Conflicts officer has subsequently made regular reports to Court on the delivery of the remaining recommendations of the review and their integration into the Bank's processes.

Members of Court attendance

Attendance	Court (8)	Audit & Risk (6)	RemCo (7)	NomCo(4)
Sir Anthony Habgood	8	6	7	4
Mr Fried	8	6	–	4
Mr Frost	8	6	7	–
Mr Prentis	6 of 8	–	3 of 7	–
Baroness Harding	8	–	7	–
Mr Robert	8	5 of 6	–	–
Ms Thompson	7 of 8	5 of 6	–	3 of 4
Mr Carney	8	–	–	–
Sir Jon Cunliffe	8	–	–	–
Mr Broadbent	8	–	–	–
Mr Woods	6 of 8	5 of 6	–	–
Ms Hogg	1 of 2	1 of 1	–	–
Sir David Ramsden	4 of 4	3 of 3	–	–

Report of the Audit and Risk Committee

The Audit and Risk Committee (ARCo) is a sub-Committee of Court. Among other duties, ARCo assists Court in meeting its responsibilities for maintaining effective systems of financial reporting, internal control, and risk management. The Committee's remit is set out in '*Matters Reserved to Court*'.[1] ARCo meetings are split between audit matters and risk matters so that each is given an appropriate focus.

Membership and Meetings

ARCo consists of four Non-Executive Directors of Court. Court satisfies itself that at least one member of ARCo has recent and relevant financial experience.

The Chair of Court, the Deputy Governors for Prudential Regulation and Markets & Banking, the Chief Operating Officer, the Finance Director, the Executive Directors for Markets and for Banking, Payments & Financial Resilience, the Head of Internal Audit, and the Head of Risk attend ARCo meetings by standing invitation. The Bank's external auditors and the National Audit Office (NAO) attend the audit part of ARCo meetings. ARCo invites other individuals to be present for particular agenda items as required.

ARCo met six times during the 2017–18 financial year. In addition to its regular meetings, the Committee members meet the Governor once a year for a private bilateral discussion. Similar meetings are held with each of the Deputy Governors, the Chief Operating Officer, the internal and external auditors, the Heads of Risk and Compliance and the Conflicts Officer.

Separately, the Chair of ARCo regularly has meetings with the Chief Operating Officer, the Finance Director, the Heads of Risk and Internal Audit, and other Bank executives as necessary.

In the year under review the Chair of ARCo chaired the Court non-executive Directors' internal review of the Bank's approach to identifying and managing conflicts of interest and the supporting governance arrangements (see Report on Oversight Functions, pages 59–63).

Section 1 — Audit Related Items

Integrity of financial reporting

During the year, ARCo reviewed and discussed regular reports from the Finance Director, including on accounting and taxation matters. ARCo has considered the accounting policies and practices adopted in the preparation of the Bank's annual financial statements, including in relation to disclosures. At its May 2018 meeting, ARCo reviewed the draft annual reports and financial statements for the Bank (incorporating the PRA's financial reporting requirements).

External auditors

ARCo received and discussed regular updates from KPMG, the Bank's external auditors, and from the NAO, the external auditors of the Bank's Asset Purchase Facility Fund (BEAPFF) since 1 March 2017. These included the nature and scope of the external audit plans for the Bank and BEAPFF and a review of the findings of the audits. ARCo also reviewed the external auditors' Management Letters for the Bank and BEAPFF. ARCo reviewed the Letters of Representation to the external auditors before they were approved by Court.

ARCo approved the recommendation to reappoint KPMG as the Bank's external auditors following a competitive tender, ahead of the proposal going to Court for approval. ARCo regularly considers the extent to which the external auditors provide non-audit services to the Bank and the associated fees.

1 www.bankofengland.co.uk/-/media/boe/files/about/legislation/matters-reserved-to-court.pdf.

Internal Audit

The Internal Audit Department helps Court and executive management to protect the assets and reputation of the Bank. It does this by evaluating the effectiveness of internal controls, risk management and governance processes in all areas of the Bank. The Head of Internal Audit reports directly to the Chair of ARCo and has unfettered access both to ARCo and executive management. During the year, the Committee considered and approved Internal Audit's Charter and resources, and confirmed that it was satisfied that the Internal Audit function was appropriately resourced. ARCo reviews and approves Internal Audit's annual audit plan and monitors its execution. Internal Audit presents regular reports to the Committee who discuss material findings and monitor progress made by management in implementing agreed actions.

Section 2 — Risk Related Items

Risk and control processes

ARCo is responsible for reviewing and reporting on the effectiveness of the Bank's risk management framework. It reviews regular reports on the Bank's risk profile and evaluates the actions being taken by management to mitigate any risks outside tolerance.

During 2017–18 ARCo considered the Bank's risk framework and risk tolerance statement prepared by Bank-wide Risk Division (BRD). It reviewed Quarterly Risk Reports from BRD and Banking, Payments & Financial Resilience Division (BPFRD) covering the main operational and financial risks to the Bank (including the PRA). This included discussion of the impact of EU withdrawal, including on Bank resources. ARCo also considered regular reports from the Executive Directors of Markets, BPFRD and the Finance Director on developments relating to the Bank's balance sheet. Complementing these arrangements, ARCo also considered and discussed individual 'deep dive' risk reports from the Bank's Executive Directors and Directors.

Separately, ARCo discussed reports from the Banking & Markets Directorate on projects to take over responsibility for CHAPS and the SONIA benchmark. It also considered the processes by which the Bank ensures adherence to the new financial market Codes of Conduct.

ARCo received and discussed regular updates and reports from the Bank's Chief Operating Officer summarising major operational, control and risk matters including those relating to strategic Bank initiatives and projects. For 2017/18 these included Vision 2020 initiatives; a cost-containment initiative aiming to increase efficiency and add value; preparations ahead of the implementation of the General Data Protection Regulation (GDPR); and a post-incident report of a network outage that the Bank experienced in January 2018.

ARCo received reports on the management of current significant projects and related controls, and monitored the progress of large infrastructure projects. In 2017/18 these included Structural Reform and the RTGS renewal programme. The Committee received regular updates from the Executive Director for Technology and from the Chief Information Security Officer on initiatives and projects relating to the implementation of the Bank's Cyber 2020 initiative and systems resilience and security generally. It also considered the Compliance Division's report on the annual staff attestation against the Bank's Code of Conduct.

ARCo reviewed annual reports on the adequacy of the Bank's insurance arrangements; the Bank's compliance with the Bribery Act 2010; business continuity; Freedom of Information requests; Health and Safety; anti-money laundering; and cyber threats. ARCo also considered the annual report from the Bank Secretary on the Bank's arrangements for its employees to raise concerns in confidence about possible fraud, malpractice or misconduct ('Speaking Up').

Review of the Audit and Risk Committee's effectiveness

The effectiveness of the Audit and Risk Committee was reviewed as part of the Chair of Court's annual evaluation of Court and its Sub-Committees. The evaluation concluded that ARCo was working effectively and that meetings were well run.

Other responsibilities

ARCo reviewed a summary of the annual expenses of the members of Court.

Audit and Risk Committee: regular attendees 2017–18[1]

ARCo members	ARCo meetings (6)
Mr Fried (Chair)	6
Mr Frost	6
Mr Robert	5 of 6
Ms Thompson	5 of 6
Sir Anthony Habgood[2]	6
Executive	
Sir David Ramsden	5 of 5
Mr Woods	5 of 6
Ms Place	5 of 6
Mr Hauser	5 of 6
Mr Pereira	6
Mr Salmon	4 of 4
Ms Cleland	2 of 2[3]
Internal Auditor	
Mr Brown	6
External Auditor (KPMG)[4]	
Ms Hinchliffe	6
Mr Iyer	1 of 1
Mr Subesinghe	2 of 2
Mr Withers	1 of 1
NAO[4]	
Mr Bateson	2 of 2
Ms Lewis	3 of 4
Mr Broadley	3 of 4
Mr Kitson	1 of 1

1 Covering ARCo meetings held on 26 June 2017, 2 October 2017, 29 November 2017, 29 January 2018, 29 March 2018 and 14 May 2018.

2 Sir Anthony Habgood is not a member of the Committee but attends the meetings by invitation.

3 Ms Cleland attended as an observer ahead of her appointment as Executive Director for Markets and Banking.

4 KPMG and NAO attend the Audit part of the meeting and to present their reports.

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

The Court of Directors is responsible for ensuring that the financial statements of the Banking Department are properly prepared on the basis set out therein, as at 28 February 2018 and for the year to that date.

The statements of account of the Issue Department are prepared in accordance with provisions agreed between the Bank and HM Treasury to implement the requirements of the Currency and Bank Notes Acts 1928 and 1954, the National Loans Act 1968 and the Currency Act 1983. The Court of Directors is responsible for ensuring that the statements of account are prepared in accordance with these requirements as at 28 February 2018 and for the year to that date.

The Prudential Regulation Authority financial statement of accounts have been prepared in accordance with the Bank of England Act 1998 (as amended), and the accounts direction given by HM Treasury. The Court of Directors is responsible for ensuring that the statement of accounts of the Prudential Regulation Authority are properly prepared on the basis set out therein, as at 28 February 2018 and for the year to that date. The Court of Directors are also responsible for ensuring that the money levied by the Prudential Regulation Authority under Parliamentary Authority recorded in the statement of accounts of the Prudential Regulation Authority is only applied to the purposes intended by Parliament.

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

The Court of Directors confirms that suitable accounting policies, consistently applied and supported by reasonable and prudent judgement and estimates, have been used in the preparation of the financial statements of the Banking Department, which have been prepared on the going concern basis. The accounting framework adopted is set out on pages 77 to 89.

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

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

Report of the Independent Auditor

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

Report on the audit of the financial statements

Opinion

We have audited:

- the financial statements of the Banking Department for the year ended 28 February 2018, set out on pages 72 to 127, which comprise the Banking Department statement of income, statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows, and the related notes, including the accounting policies in note 2;
- the statements of account of the Issue Department for the year ended 28 February 2018, set out on pages 128 to 132, which comprise the Issue Department account, statement of balances, and the related notes, including the accounting policies in note 1; and
- the statement of accounts of the Prudential Regulation Authority ('PRA') for the year ended 28 February 2018, set out on pages 133 to 141, which comprise the PRA income statement, statement of balances, and the related notes, including the accounting policies in note 1.

In our opinion:

- The financial statements of the Banking Department have been properly prepared, in all material respects, in accordance with the special purpose basis of preparation set out in note 2 on pages 77 to 89.
- The statements of account of the Issue Department have been properly prepared, in all material respects, in accordance with the special purpose basis of preparation set out in note 1 on page 130.
- The statement of accounts of the PRA have been properly prepared, in all material respects, in accordance with the special purpose basis of preparation set out in note 1 on page 135.

Basis for opinion

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

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Emphasis of matter — special purpose basis of preparation

We draw attention to note 2 of the financial statements of the Banking Department, which describes their bases of preparation. As explained in that note, the financial statements are prepared to assist the Bank in complying with the financial reporting provisions of the Bank of England Act 1998 ('the 1998 Act'). The financial statements of the Banking Department do not include all of the disclosures that would be required under International Financial Reporting Standards as adopted by the European Union since under the 1998 Act, the Bank may disregard a disclosure requirement if it considers it appropriate to do so having regard to its financial stability objective. As a result, the financial statements of the Banking Department may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least 12 months from the date of approval of the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA. We have nothing to report in these respects.

Other information

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

Our responsibility is to read the other information and, in doing so, consider whether, based on our audit work over the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA, the information therein is materially misstated or inconsistent with the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Opinion on other matters as prescribed by the terms of our engagement letter

In our opinion the information given in the Report of the Remuneration Committee, the Financial Review, the Risk Management and Business Practices, and the Report on Oversight Functions for the financial year for which the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA are prepared is consistent with the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA.

Respective responsibilities

Members of Court's responsibilities

As explained more fully in their statement set out on page 67, the Members of Court are responsible for: the preparation of the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA in accordance with applicable law and the special purpose bases of preparation set out in note 2 on page 77, note 1 on page 130 and note 1 on page 135, respectively; determining that the bases of preparation are acceptable in the circumstances; and such internal control as they determine is necessary to enable the preparation of financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA that are free from material misstatement, whether due to fraud or error. They are also responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA.

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

Report on other legal and regulatory matters

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

Basis for opinion on regularity
We are required by Paragraph 5A of Schedule 1 to the Bank of England and Financial Services Act 2016, to report whether we are satisfied that the Bank has complied with the requirements of Part 3 of Schedule 1ZB to the Financial Services and Markets Act 2000 (Prudential Regulation Authority fees and penalties) ('FSMA') to the extent that the money levied by the PRA under Parliamentary Authority recorded in the statement of accounts of the PRA has been applied to the purposes intended by Parliament set out in the levying legislation, being Part 3 of Schedule 1ZB to FSMA. In giving this opinion, we have had regard to the requirements in Part 2 of Practice Note 10 'Audit of financial statements of public sector bodies in the United Kingdom' issued by the Financial Reporting Council.

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

The Court of Director's responsibilities in relation to regularity are set out in the Statement of the responsibilities of the Court of Directors in relation to the financial statements on page 67.

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

Michelle Hinchliffe
for and on behalf of KPMG LLP

Chartered Accountants
15 Canada Square
Canary Wharf
London E14 5GL

4 June 2018

Banking Department statement of income
for the year to 28 February 2018

	Note	2018 £m	2017 £m
Net interest income		14	15
Fee income	4	132	169
Other income from financial instruments	4	177	210
Management fees	4	140	214
Income from regulatory activity	4	280	–
Other income	4	42	26
Net operating income		**785**	**634**
Staff costs	4	(399)	(357)
Infrastructure costs	4	(92)	(84)
Administration and general costs	4	(156)	(122)
Less: Costs recharged to the PRA		–	151
Operating expenses		**(647)**	**(412)**
Profit before tax		**138**	**222**
Taxation	7	(9)	(20)
Profit after tax		**129**	**202**

The notes on pages 77 to 127 are an integral part of these financial statements.

In the prior year the income statement was represented to show gross costs incurred by the Bank less costs recharged to the PRA. Following de-subsidiarisation of the PRA on 1 March 2017 all costs were incurred by the Bank and no recharge was made.

Banking Department statement of comprehensive income
for the year to 28 February 2018

	2018 £m	2017 £m
Profit for the year attributable to shareholder	**129**	**202**
Other comprehensive income/(loss) that may be recycled to profit or loss:		
Available for sale reserve		
Net (losses)/gains from changes in fair value	(325)	154
Current and Deferred tax	54	(9)
Property revaluation reserve		
Net gains/(losses) from changes in fair value	1	(9)
Deferred tax	–	3
Total other comprehensive income that may be recycled to profit or loss	**(270)**	**139**
Other comprehensive income/(loss) not recycled to profit or loss:		
Retirement benefit remeasurements	(81)	(100)
Deferred tax	14	24
Total other comprehensive income/(loss) not recycled to profit or loss	**(67)**	**(76)**
Total comprehensive income/(loss) for the year	**(208)**	**265**

The notes on pages 77 to 127 are an integral part of these financial statements.

Banking Department statement of financial position
as at 28 February 2018

	Note	2018 £m	2017 £m
Assets			
Cash and balances with other central banks	9	776	1,641
Loans and advances to banks and other financial institutions	10	14,195	9,843
Other loans and advances	11	572,017	485,154
Securities held at fair value through profit or loss	12	7,993	9,157
Derivative financial instruments	13	122	308
Available for sale securities	14	8,571	8,402
Investments in subsidiaries	15	–	–
Inventories	16	4	4
Property, plant and equipment	17	404	400
Intangible assets	18	31	21
Current tax assets		34	34
Retirement benefit assets	19	866	917
Other assets	20	1,800	1,798
Total assets		**606,813**	**517,679**
Liabilities			
Deposits from central banks	21	15,809	15,094
Deposits from banks and other financial institutions	22	501,794	415,488
Other deposits	23	76,536	73,313
Foreign currency bonds in issue	24	5,797	6,450
Derivative financial instruments	13	423	108
Current tax liabilities		–	–
Deferred tax liabilities	25	319	377
Retirement benefit liabilities	19	219	229
Other liabilities	26	1,435	1,866
Total liabilities		**602,332**	**512,925**
Equity			
Capital	27	15	15
Retained earnings		3,033	3,036
Other reserves		1,433	1,703
Total equity attributable to shareholder		**4,481**	**4,754**
Total liabilities and equity attributable to shareholder		**606,813**	**517,679**

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

Mr M Carney Governor
Mr B Broadbent Deputy Governor
Sir Anthony Habgood Chair of Court
Mr R Pereira Finance Director

Banking Department statement of changes in equity
for the year to 28 February 2018

		Attributable to equity shareholder				
	Note	Share capital £m	Available for sale reserve £m	Property revaluation reserve £m	Retained earnings £m	Total £m
Balance at 29 February 2016		**15**	**1,335**	**229**	**3,011**	**4,590**
Post-tax comprehensive income/(loss) for the period		–	145	(6)	126	265
Payable to HM Treasury in lieu of dividend	8	–	–	–	(101)	(101)
Balance at 28 February 2017		**15**	**1,480**	**223**	**3,036**	**4,754**
Post-tax comprehensive income/(loss) for the period		–	(271)	1	62	(208)
Payable to HM Treasury in lieu of dividend	8	–	–	–	(65)	(65)
Balance at 28 February 2018		**15**	**1,209**	**224**	**3,033**	**4,481**

The notes on pages 77 to 127 are an integral part of these financial statements.

Banking Department statement of cash flows
for the year to 28 February 2018

	Note	2018 £m	2017 £m
Cash flows from operating activities			
Profit before taxation		**138**	**222**
Adjustments for:			
Amortisation of intangibles	18	11	5
Depreciation of property, plant and equipment	17	22	22
Dividends received	4	(16)	(11)
Net movement in accrued interest and provisions, including pensions		(847)	100
Changes in operating assets and liabilities:			
Increase in loan advanced to the Bank of England Asset Purchase Facility Fund Ltd	11	(86,863)	(109,956)
Net (increase)/decrease in other advances		(2,008)	3,662
Net increase/(decrease) in securities held at fair value through profit and loss		84	228
Net increase in deposits		89,960	108,123
Net increase/(decrease) in foreign currency bonds in issue		12	518
Net (increase)/decrease in financial derivatives	13	501	(188)
Net decrease in other accounts		36	23
Net increase in inventories		–	(2)
Corporation tax (paid)/received		–	(34)
Net cash inflow from operating activities		**1,030**	**2,712**
Cash flows from investing activities			
Purchase of available for sale securities	14	(1,222)	(870)
Proceeds from redemption of available for sale securities	14	652	483
Dividends received	4	16	11
Purchase of intangible assets	18	(11)	(11)
Purchase of property, plant and equipment	17	(22)	(46)
Net cash outflow from investing activities		**(587)**	**(433)**
Cash flows from financing activities			
Net increase/(decrease) in Cash Ratio Deposits		284	288
Payment to HM Treasury under Section 1 (4) of the Bank of England Act 1946		(101)	(105)
Net cash outflow from financing activities		**183**	**183**
Net increase in cash and cash equivalents		**626**	**2,462**
Cash and cash equivalents at 1 March	28	9,136	6,674
Cash and cash equivalents at 28 February	**28**	**9,762**	**9,136**

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 and is located at Threadneedle Street, London, EC2R 8AH. 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, the Financial Services Act 2012 and the Bank of England Act 1998 (as amended).

The Bank Charter Act 1844 requires that the Bank's note issue function 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 128 to 132, and show the note issue, the assets backing the issue, the income generated by those assets and the costs incurred in the production, issue, custody and payment of notes. The net income of the Issue Department is paid over to the National Loans Fund. Securities held by the 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).

Under the Bank of England Act 1998 (as amended) a separate statement of accounts in relation to the Prudential Regulation Authority is required. This is a subset of the Banking Department, and is managed internally as a directorate. The Prudential Regulation Authority statement of accounts have been set out on pages 133 to 141.

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 statement of income, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and related notes.

Under the Bank of England Act 1998, the Bank, in preparing the financial statements of the Banking Department, is subject to requirements corresponding to the Companies Act 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 financial stability objective.

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, financial liabilities (including derivatives) that are held at fair value through profit or loss and retirement benefit assets and liabilities.

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 financial stability objective.

In exceptional circumstances, as part of its central banking functions, the Bank may act as 'lender of last resort' to financial institutions in difficulty 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:

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

Following de-subsidiarisation of the Prudential Regulation Authority activities on 1 March 2017, the activities of the Bank acting as the Prudential Regulation Authority are reported within the Banking Department's financial statements, on the bases described here. The separate financial statements of the Prudential Regulation Authority, as required by Sections 7(2A) of the Bank of England Act 1998, have been prepared in line with the requirements of the Act and with the accounts direction received from HM Treasury (further details are included in PRA financial statements on pages 133 to 141).

b New and amended accounting standards

i Future accounting developments

The IASB has published IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases'. IFRS 9, IFRS 15 and IFRS 16 have been endorsed for use in the EU.

ii IFRS 9 'Financial Instruments'

In July 2014, the IASB issued IFRS 9 'Financial Instruments', which is the comprehensive standard to replace IAS 39 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVPL). It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

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

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

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

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

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

All other financial assets are classified as measured at FVPL.

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

Business model assessment

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

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

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

Solely payments of principle and interest (SPPI) criteria

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

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

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

Impairment

IFRS 9 replaces the incurred loss model in IAS 39 with a forward-looking expected credit loss model (ECL). This will require considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model applies to the following financial instruments that are not measured at FVPL:

- financial assets that are debt instruments;
- lease receivables; and
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

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

Notes to the Banking Department financial statements continued

2 Bases of preparation continued

Measurement of ECLs

ECLS are a probability-weighted estimate of credit losses and will be measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls — ie the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows.

Financial assets that are credit-impaired are defined by IFRS 9 in a similar way to financial assets that are impaired under IAS 39.

Definition of default

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

Significant increase in credit risk

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

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

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

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

Inputs into measurement of ECLs

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

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

These parameters will be derived from internally developed statistical models. They will be adjusted to reflect forward-looking information as described below.

Inputs into measurement of ECLs

PD estimates are estimates at a certain date, which are calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models will be based on a mix of internally compiled data, rating agency outputs and expert judgement, comprising both quantitative and qualitative factors. The calculation is provided by Financial Risk and Resilience Division (FRRD) and relates to the credit risk rating scale provided by Financial Risk Management Division (FRMD).

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

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

Forward-looking information

The Bank will formulate a base case view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios and consideration of a variety of external actual and forecast information. This process will involve developing two or more additional economic scenarios, which represent severe shocks. The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments, choosing scenarios that specifically test the resilience of the Bank to financial stress.

Hedge accounting

The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. However they do not explicitly address macro hedge accounting strategies, which are particularly important for banks. As a result, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting.

The Bank does not apply hedge accounting; as such there is no anticipated impact from these amendments.

Transitional impact

The Bank will apply IFRS 9 initially on 1 March 2018. The classification, measurement and impairment requirements are applied retrospectively by adjusting the opening statement of financial position at the date of initial application, with no requirement to restate comparative periods. The Bank does not intend to restate comparatives.

The standard will affect the classification and measurement of financial assets for the year ended 28 February 2019 as follows. Debt securities in the sterling bond portfolio were previously classified as available for sale under IAS 39, and will be reclassified to amortised cost under IFRS 9, due to the business model of 'hold and collect'. The gilts on the statement of financial position will be adjusted from market value to amortised cost, with a corresponding reduction to the available for sale reserves.

The total estimated adjustment (net of tax) of the adoption of IFRS 9 on the opening balance of the Bank's equity at 1 March 2018 is approximately £261 million, representing:

- A reduction of approximately £314 million related to classification and measurement requirements; and
- An increase of approximately £53 million related to deferred tax impacts.

The Bank will irrevocably designate the unlisted equity investments that were previously classified as available for sale under IAS 39 as FVOCI under IFRS 9.

No other financial instruments will be reclassified under IFRS 9.

ECL calculation

Expected credit losses are calculated by identifying scenarios in which a loan or receivable defaults, estimating the cash shortfall that would be incurred (exposure at default) and then multiplying that loss by the probability of the default happening. As at 28 February 2018 expected credit losses from exposures identified are expected to be immaterial.

Notes to the Banking Department financial statements continued

2 Bases of preparation continued

iii IFRS 15 'Revenue from Contracts with Customers'

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers'. The standard is effective for annual periods beginning on or after 1 January 2018 with early application permitted. IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for performance obligations as they are satisfied. The Bank will adopt the standard from 1 March 2018. The Bank has assessed the impact of IFRS 15 and does not consider there to be a significant impact, when applied, on the financial statements.

iv IFRS 16 'Leases'

In January 2016, the IASB issued IFRS 16 'Leases' with an effective date for annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as under IAS 17. The Bank is currently assessing the impact of IFRS 16. Existing operating lease commitments are set out in note 31.

IFRS 16 replaces existing lease guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a lease, SIC-15 Operating Leases — Incentives and SIC-27 Evaluating the substance of transactions involving the legal form of lease.

c Consolidation

The financial statements of the Bank's subsidiaries, including the Bank of England Asset Purchase Facility Fund Ltd, 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 presentation 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 measured at amortised cost

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 those reverse repurchase agreements which are designated at fair value through profit or loss.

Financial assets at fair value through profit or loss

A financial asset is 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:

- Securities and reverse repurchase agreements matching the Bank's issued foreign currency securities; and
- Securities and reverse repurchase agreements matching the fixed-term deposits placed at the Bank by other central banks.

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.

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

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 89.

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

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.

Notes to the Banking Department financial statements continued

2 Bases of preparation continued

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.

No impairments to financial assets have been recognised in the current or prior year.

v Interest income

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

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 (ie the fair value of the consideration given or received). All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivatives are used for matching exposures on assets and liabilities, both individually and of portfolios. The Bank does not apply the hedge accounting rules of 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 seventy-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 less any residual value. The revaluation surplus is not transferred to retained earnings until the asset's ultimate disposal.

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

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

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

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 associated with externally purchased software and 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

Notes to the Banking Department financial statements continued

2 Bases of preparation continued

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:

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

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

ii Initial recognition of financial liabilities

Fixed-term deposits taken from central banks are recognised on a settlement date basis. Money market instruments issued, short-term deposits 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, as this is considered to be the price that would be paid to transfer a liability in an orderly transaction between market participants.

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

l Current and deferred tax

Corporation tax payable on profits, based on the UK tax laws, is recognised as an expense in the period in which profits arise. The Bank is entitled to tax relief on the amount due to HM Treasury as a payment in lieu of a dividend in accordance with Section 1 (4) Bank of England Act 1946. Tax relief on amount due to HM Treasury is credited directly to the income statement in accordance with paragraph 52B of IAS 12. Under the agreement with HM Revenue and Customs (HMRC), the fee paid by regulated institutions for regulatory purposes is not included within the charge to corporation tax.

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, 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 remeasurement 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.

m Retirement benefits

The Bank operates a non-contributory defined-benefit pension scheme providing defined benefits based on career average pensionable pay. The final salary element of the scheme is closed to future accrual for service but a link to final salary remains for current active 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 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.

PRA fees

Fee income comprises levy fees collected from regulated firms through the Annual Funding Requirement (AFR) consultation process. This fee income is recognised to the value of relevant expenditure incurred in the year, in the 'income statement'.

Any surplus or deficit between fees collected and income recognised in the year will be held as a payable or receivable on the balance sheet as the intention is to return any surplus or claim any deficit in the following financial year.

Notes to the Banking Department financial statements continued

2 Bases of preparation continued

Ringfencing, EU Withdrawal and IFRS 9 special project fees are collected from fee payers in anticipation of the total spending requirements in the year. Income is recognised through the income statement against cost incurred. Any surplus or deficit is returned or recovered in subsequent financial years.

Solvency II special project fees were collected in prior years. These were deferred to the balance sheet and recognised as income in subsequent periods as assets related to Solvency II are amortised.

Special project fee income is recognised to the value of relevant expenditure.

Enforcement income

Financial penalty monies are recognised as revenue where they have been levied and received in the financial year, in accordance with the PRA Financial Penalty Scheme. Where financial penalties specific to a single case exceed its costs, the excess penalty monies received can be used to cover expenditure on other cases in the current period. This is returned to fee payers (excluding those fined) in the following financial year. Any income received in excess of total enforcement expenditure in the current period is paid over to HM Treasury.

Cost recoveries

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

q Provisions

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

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.

u Inventories

Inventories comprise the raw materials utilised in the production of polymer banknotes.

Inventories are valued at the lower of cost and net realisable value.

3 Significant accounting estimates and judgements in applying accounting policies

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

Estimates

a Post-retirement benefits

Post-retirement benefits are long-term liabilities whose value can only be estimated using assumptions about developments over a long period. The Bank has employed actuarial advice in arriving at the figures in the financial statements (see note 19, 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 29. Fair values of equity investments classified for accounting purposes as available for sale rely to a greater extent on unobservable inputs and therefore require some degree of estimation 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 using an adjusted net asset value basis (see note 14b, which includes relevant sensitivity analysis).

c Intangible assets

Management has made certain assessments and estimates 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 assessments, estimates and assumptions when assessing whether a project meets these criteria and when measuring the costs and economic life attributable to such projects.

Judgements

The Bank does not consider there to be any significant accounting judgements used in preparing the annual accounts.

Notes to the Banking Department financial statements continued

4a Net operating income

	Note	2018 £m	2017 £m
Fee income			
Funding for Lending Scheme fees	30	108	146
Payment services fee income		14	13
Banking operations		10	10
Net fee income		**132**	**169**
Other income from financial instruments			
Net income from financial instruments designated at fair value		8	34
Income from available for sale securities	14	169	176
Net other income from financial instruments		**177**	**210**
Management fees			
Fee for services to BEAPFF	32	5	4
Charges to HM Government bodies	32	135	112
PRA corporate services fee[1]		–	98
Total management fees		**140**	**214**
Income from regulatory activity			
Income from regulatory activity[2]		280	–
Total Income from regulatory activity		**280**	**–**
Other income			
Dividend income		16	11
Premises income		11	11
Sundry income		15	4
Total other income		**42**	**26**
Net operating income (excluding net interest income)		**771**	**619**

1 PRA corporate services fee was recognised as management fee income in the prior year in respect of support services provided to the separate PRA subsidiary company.

2 Income from regulatory activity represents income received by the Bank in its capacity as the PRA. Prior to the desubsidiarisation of the PRA this income was recorded in the PRA subsidiary's financial statements only.

4b Operating expenses

	Note	2018 £m	2017 £m
Infrastructure costs			
Property and equipment		51	51
Depreciation of property, plant and equipment	17	22	22
Operating lease rentals		8	6
Amortisation of intangible assets	18	11	5
Impairment of property, equipment and intangible assets		–	–
Less: PRA infrastructure recharge		–	–
Total infrastructure costs		**92**	**84**
Administration and general costs			
Consultancy, legal and professional fees		50	29
Subscriptions, publications, stationery and communications		6	6
Travel and accommodation		6	6
Other administration and general expenses		94	81
Less: PRA administration and general costs[1]		–	(13)
Total administration and general costs		**156**	**109**
Staff costs	**5**	**399**	**357**
Less: PRA staff costs[1]		–	(138)
Total staff costs		**399**	**219**
Operating expenses		**647**	**412**

1 Following the desubsidiarisation of the PRA, costs borne by the Bank in respect of the PRA are no longer recharged. PRA related costs are presented as a subset of the financial statements provided for the Bank on pages 133–141.

Notes to the Banking Department financial statements continued

5 Staff costs

	2018 £m	2017 £m
Wages and salaries	294	290
Social security costs	35	34
Pension and other post-retirement costs	69	30
Costs of restructuring	1	3
	399	**357**

Average number of employees

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

	2018	2017
Governors and other members of Executive Team	22	22
Managers and analysts	2,991	2,802
Other staff	1,355	1,437
	4,368	**4,261**

The number of persons employed by the Bank at the end of February 2018 was 4,378 of which 3,830 were full-time and 548 part-time (2017: 4,380; with 3,883 full-time and 497 part-time).

6 Auditor's remuneration

	2018 £000	2017 £000
For the period to 28 February 2018		
Fees relating to audit services performed for the current year	359	262
Fees relating to prior year	11	–
Fees payable to the Auditor for services provided to the Bank		
Non-audit assurance services for the current year	58	43
Taxation advisory services	–	4
All other services	20	18
	448	**327**

Audit-related services comprise £25,000 for providing assurance to HM Treasury on the allocation of costs (2017: £25,000), and £18,000 for the submission for Whole Government Accounts (2017: £18,000). All other services principally relate to advisory services to the Bank.

7 Taxation

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

	2018 £m	2017 £m
Current year corporation tax	3	12
Prior year corporation tax	(1)	–
Deferred tax – current year	7	8
Deferred tax – prior year	–	–
Tax charge on profit	**9**	**20**

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

	2018 £m	2017 £m
Profit before tax	**138**	**222**
Tax calculated at rate of 19.08% (2017: 20.00%)	27	44
Tax relief on payment to HM Treasury	(12)	(20)
Matured AFS recycled to income statement	(1)	(1)
Dividend not subject to corporation tax	(3)	(2)
Difference between current and deferred tax rate	(1)	(1)
Prior year items	(1)	0
Total tax charge for the period	**9**	**20**

Notes to the Banking Department financial statements continued

7 Taxation continued

Tax credited to other comprehensive income comprises:

	2018 £m	2017 £m
Tax credited to equity through the statement of comprehensive income		
Current year corporation tax	(3)	(46)
Deferred tax	(65)	28
Tax credited to other comprehensive income	**(68)**	**(18)**

Tax credited to other comprehensive income comprises:

	2018 £m	2017 £m
Tax credited to equity through the statement of comprehensive income		
Revaluation of available for sale securities	(36)	65
Use of tax losses carried back	–	(33)
Tax losses carried forward	(25)	–
Revaluation of property	–	(2)
Remeasurements of retirement benefits	(15)	(20)
Difference between current and deferred tax rate	8	(28)
Tax credited to other comprehensive income	**(68)**	**(18)**

The main UK corporation tax rate was 19% for the year beginning 1 April 2017 (1 April 2016: 20%). The effective rate for the year ended 28 February 2018 is 6.31% (2017: 9.01%).

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

	2018 £m	2017 £m
Payable April 2018 (2017: 5 April)	34	51
Payable October 2018 (2017: 5 October)	31	50
	65	**101**

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 2018. 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.

9 Cash and balances with other central banks

	2018 £m	2017 £m
Balances with other central banks	776	1,641
	776	**1,641**

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

	2018 £m	2017 £m
Secured lending agreements held at amortised cost	2,780	2,400
Reverse repurchase agreements held at fair value through profit and loss	11,259	7,440
Other loans and advances	76	3
Items in course of collection	80	–
	14,195	**9,843**

These balances include advances, secured lending and reverse repurchase agreements arising as part of the Bank's open market operations, as well as advances matching the deposits taken (notes 21 to 23). 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 Bank of England's *Sterling Monetary Framework* (Updated June 2015). Accrued interest on secured lending agreements held at amortised cost is recognised in note 20.

At 28 February 2018 loans and advances to banks and other financial institutions included cash and cash equivalents of £8,791m (2017: £6,448m) which are disclosed in note 28i.

Notes to the Banking Department financial statements continued

11 Other loans and advances

	2018 £m	2017 £m
Loan to the Bank of England Asset Purchase Facility Fund Ltd	572,012	485,149
Term loans	5	5
	572,017	**485,154**

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

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

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

In line with the MPC's most recent decision in relation to the asset purchase programme; the APF has increased the level of assets by the creation of central bank reserves to £572,012m. During the year DMO paid back the loan of £193m in relation to corporate facilities advanced to it by the APF. The total loan from the Bank to BEAPFF is £572,012m (2017: £485,149m). Accrued interest of £161m on the loan is recognised in note 20.

12 Securities held at fair value through profit or loss

	2018 £m	2017 £m
Money market instruments	2,274	2,944
Listed foreign government securities	5,719	6,213
	7,993	**9,157**

The holdings of foreign government securities are funded by the Bank's issuance of medium-term securities (note 24) and fixed term deposits placed by other central banks.

At 28 February 2018 money market instruments included cash and cash equivalents of £195m (2017: £1,047m) which are disclosed in note 28i.

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

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

a As at 28 February 2018

	Contract notional amount £m	Fair Values	
		Assets £m	Liabilities £m
Cross-currency interest rate swaps	4,143	1	(298)
Interest rate swaps	8,499	3	(27)
Forward exchange contracts	14,813	118	(98)
Total recognised derivative assets/(liabilities)		**122**	**(423)**

b As at 28 February 2017

	Contract notional amount £m	Fair Values	
		Assets £m	Liabilities £m
Cross-currency interest rate swaps	4,335	246	(20)
Interest rate swaps	8,505	7	(15)
Forward exchange contracts	11,308	55	(73)
Total recognised derivative assets/(liabilities)		**308**	**(108)**

Notes to the Banking Department financial statements continued

14 Available for sale securities

	2018 £m	2017 £m
Debt securities at fair value		
British Government securities listed on a recognised UK exchange	7,375	7,032
Other sterling securities listed on a recognised exchange	–	124
	7,375	**7,156**
Unlisted equity investments at fair value	1,196	1,246
	8,571	**8,402**

The movement in available for sale securities comprises:

	2018 £m	2017 £m
Available for sale debt securities		
At 1 March	7,156	6,833
Purchases	1,222	870
Redemptions	(652)	(483)
Mark-to-market movements through equity	(275)	19
Amortisation of premium/discount and movement in accrued interest	(76)	(83)
At 28 February	**7,375**	**7,156**
Available for sale unlisted equity investments		
At 1 March	1,246	1,111
Revaluation of securities	5	34
Foreign currency gains/(losses)	(50)	101
Disposal of securities	(5)	–
At 28 February	**1,196**	**1,246**
	8,571	**8,402**

There were no items in the course of settlement for available for sale securities at the year ended 28 February 2018 (2017: £nil).

There were gains of £5 million on the sale of available for sale securities transferred to the income statement during the year (2017: £nil).

Net income recognised in the year ended 28 February 2018 for the Bank's available for sale investments was £169m (2017: £176m). In the current and prior year this comprises interest income and purchase premium amortisation.

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 (BIS) (incorporated in Switzerland) consists of shares of 5,000 Special Drawing Rights, which are 25% paid. At 28 February 2018 the holding represents 8.5% (2017: 8.5%) of the issued share capital.

The investment has been valued based on the adjusted net asset value basis providing a value of £1,196 million (2017: £1,241 million).

The fair value of the BIS shares is estimated to be 70% of the Bank's interest in the net asset value of the BIS at the reporting date. The 30% discount to net asset value is based on the discount rate used by the BIS for all share repurchases since the 1970s and was further endorsed by a decision by the International Court at the Hague relating to a share repurchase by the BIS in 2001 (the last share repurchase conducted by the BIS). The Bank's financial statements incorporate the most recently available data from the BIS. The Bank expects the value of the BIS shares to fluctuate over time in conjunction with the strength of the BIS balance sheet and exchange rates. If the value of the net assets of the BIS changed by 1%, the value of the investments would change by £12m (2017: £12m).

Since 1930 there has also been an amount in respect of uncalled capital on the Bank's investment in the BIS, now denominated in Special Drawing Rights (SDR). The sterling equivalent of this amount based on the SDR price at the balance sheet date was £187m (2017: £195 million). The balance of £187 million is callable at three months' notice by a decision of the BIS Board of Directors. As this amount has not been called since being established in 1930, it is considered a remote possibility, and so is not considered or disclosed as a contingent liability, in line with IAS 37.

The Bank's holding in the European Central Bank (ECB) represents 0.7% (2017: 0.7%) 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 €56 million (2017: 3.75% amounting to €56 million) of its total allocation of the ECB's subscribed capital of €1.5 billion (2017: €1.5 billion).

Contributions to the ECB 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 (2017: £nil). The status of the Bank's capital contribution is kept under review in the context of the negotiations under Article 50 of the Treaty on European Union.

15 Investments in subsidiaries
The Bank has a number of subsidiaries, which are wholly owned and incorporated in the United Kingdom, that are stated in the Bank's balance sheet at an aggregate cost under £1m. These are:

The Securities Management Trust Ltd 1,000 ordinary shares of £1, principal activity is that of a nominee company.
Bank of England Asset Purchase Facility Fund Ltd 100 ordinary shares of £1, principal activity is to fulfil the remit given to the Bank by the Chancellor of the Exchequer and for monetary policy.
BE Pension Fund Trustees Ltd 2 ordinary shares of £1, principal activity is that of provision of trustee services to the Bank of England Pension Fund.
Prudential Regulation Authority Ltd 1 ordinary share of £1, principal activity was that of the United Kingdom's prudential regulator.
Bank of England Nominees Ltd, a wholly owned subsidiary, was liquidated during the year.
Chaps Co Ltd, 26 ordinary shares of 10p, principle activity was that of a payments scheme operator. The company was purchased in the year for £2.50.
The registered office for all subsidiaries is 8 Lothbury, London, EC2R 7HH.

Notes to the Banking Department financial statements continued

16 Inventories

	2018 £m	2017 £m
Raw materials (at cost)	4	4
	4	4

During 2018, £38m (2017: £24m) was recognised as an expense for inventories carried at net realisable value. This is recognised in other general and administration expenses.

17 Property, plant and equipment

For the period to 28 February 2018	Freehold land and buildings £m	Leasehold improvements £m	Equipment[1] £m	Total £m
Cost or valuation				
At 1 March 2017	312	13	128	453
Additions	5	–	20	25
Disposals/write-offs	–	–	(15)	(15)
Transfer of assets from PRA	–	–	–	–
Revaluation of properties	(4)	–	–	(4)
At 28 February 2018	**313**	**13**	**133**	**459**
Accumulated depreciation				
At 1 March 2017	–	4	49	53
Charge for the period	5	1	16	22
Disposals/write-offs	–	–	(15)	(15)
Transfer of assets from PRA	–	–	–	–
Revaluation of properties	(5)	–	–	(5)
At 28 February 2018	–	**5**	**50**	**55**
Net book value at 1 March 2017	312	9	79	400
Net book value at 28 February 2018	**313**	**8**	**83**	**404**

1 Net book value of equipment at 28 February 2018 included £0.7m held under finance leases.

The figures for freehold land and buildings reflect independent professional valuations performed in accordance with the Royal Institution of Chartered Surveyors (RICS) on a market value basis as at 28 February 2018 by Deloitte LLP, members of RICS.

Included within additions is £6.1m (2017: £3m) of assets purchased but not paid for at the balance sheet date.

For the period to 28 February 2017	Freehold land and buildings £m	Leasehold improvements £m	Equipment[1] £m	Total £m
Cost or valuation				
At 1 March 2016	317	12	106	435
Additions	8	1	30	39
Disposals/write-offs	–	–	(8)	(8)
Revaluation of properties	(13)	–	–	(13)
At 28 February 2017	**312**	**13**	**128**	**453**
Accumulated depreciation				
At 1 March 2016	–	3	40	43
Charge for the period	4	1	17	22
Disposals/write-offs	–	–	(8)	(8)
Revaluation of properties	(4)	–	–	(4)
At 28 February 2017	**–**	**4**	**49**	**53**
Net book value at 1 March 2016	317	9	66	392
Net book value at 28 February 2017	**312**	**9**	**79**	**400**

1 Net book value of equipment at 28 February 2017 included £1m held under finance leases.

Notes to the Banking Department financial statements continued

18 Intangible assets

	2018 £m	2017 £m
Cost		
At 1 March	33	26
Additions	11	8
Disposals/write-offs	(1)	(1)
Transfer of assets from PRA	24	–
At 28 February	**67**	**33**
Accumulated amortisation		
At 1 March	12	8
Charge for the year	11	5
Disposals/write-offs	(1)	(1)
Transfer of assets from PRA	14	–
At 28 February	**36**	**12**
Net book value at 1 March	21	18
Net book value at 28 February	**31**	**21**

Intangible assets primarily comprise computer software and related costs.

Included within additions is less than £1m (2017: £1m) of intangible assets purchased but not paid for at the balance sheet date.

19 Retirement benefits

Defined benefit and career average

The Bank operates a non-contributory defined benefit pension scheme providing benefits based on career average pensionable pay. The final salary element of the scheme is closed to future accrual for service but a link to final salary remains for active 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. This means that as the value of liabilities fluctuates due to changes in bond yields, the value of the scheme's assets moves in a similar manner. This helps to reduce volatility in the funding level on the scheme funding basis and, to a lesser extent, in the statement of financial position in the Bank's accounts. The effect of the liability-matching investment policy is not fully reflected in the accounting figures as the assumptions dictated 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 2017; it used the Defined Accrued Benefit Method. Under this method, active members are assumed to leave the Fund on the date of the valuation and hence the past service liability does not include an allowance for any salary increases or in-service CARE revaluation after that date. Instead members' benefits are assumed to increase in line with the deferred pension revaluation assumptions.

The valuation as at 28 February 2017	£m
Value of Fund assets	4,438
Actuarial value of scheme liabilities in respect of:	
– In-service members	(1,103)
– Deferred pensioners	(1,089)
– Current pensioners and dependants	(2,187)
– Members' additional voluntary contributions	(2)
Total	(4,381)
Scheme (deficit)/surplus	**57**
Funding level	101%
Service contribution rate for March	42.9%

For the 2017 valuation, the liabilities were valued by the actuary on an index-linked gilt yield discount rate, and no credit was taken in advance for the possibility that returns on investments held by the Fund would exceed the long-term interest rate. Allowance was made for past and prospective mortality improvements. The rate of RPI inflation used in the valuation and the pension increase assumption was 3.3% per annum.

As the scheme was in surplus as at the valuation date, no deficit reduction contributions are currently required to be paid into the scheme. Expected future contributions are only in respect of meeting the cost of future benefit accrual.

Excluded from the contribution rate is the cost of administration and other services which is met by the Bank.

Summary of amounts recognised in the financial statements under IAS 19

In the statutory financial statements the Bank accounts for pension costs, other post-retirement benefits and related redundancy provisions in accordance with IAS 19 (Employee Benefits). Under the standard, the difference between the market values of scheme assets and the present value of scheme liabilities is reported as a surplus or deficit in the balance sheet. The accounting value is different from the result obtained using the funding basis.

The accounts show a significantly greater surplus than the surplus in the scheme funding valuation. The main reason for this is the different assumptions used to value the liabilities in the accounting and funding valuations for the main scheme.

The scheme funding valuation assumptions are used to determine the contributions that the Bank is required to pay into the scheme to ensure that the scheme has sufficient assets to pay all the benefits due in future. Regulations require that the scheme funding assumptions are set conservatively and take account of the scheme's investment strategy. As the scheme's assets are invested primarily in index-linked gilts, the discount rate used to value the liabilities is set based on an index-linked gilt yield. In addition, the mortality assumption is set based on prudent principles (ie assuming members have long life expectancies). These assumptions place a relatively high value on the scheme's liabilities.

By contrast, accounting regulations require all companies to value their pension scheme liabilities on 'best estimate' assumptions, and to use a discount rate that is based on high-quality corporate bond yields. As corporate bond yields are generally higher than gilt yields, this approach places a lower value on pension scheme liabilities. The use of a best estimate mortality assumption for accounting purposes also reduces the value placed on the liabilities compared to the prudent scheme funding valuation.

Notes to the Banking Department financial statements continued

19 Retirement benefits continued

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 scheme aims to match expected future cashflows from assets to the expected benefit payments due from the scheme. The extent to which these projected cashflows match each other is a measure of risk in the scheme i.e. the closer the match, the lower the risk.

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.

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

	Note	2018 £m	2017 £m
Funded pension schemes	(i)	866	917
Unfunded post-retirement benefits:			
Redundancy provisions	(ii)	(73)	(79)
Other pension schemes	(iii)	(9)	(9)
Medical scheme	(iv)	(137)	(141)
		647	**688**

Pension expense recognised in the income statement

	Note	2018 £m	2017 £m
Funded pension schemes	(i)	60	21
Unfunded post-retirement benefits:			
Redundancy provisions	(ii)	2	3
Other pension schemes	(iii)	–	–
Medical scheme	(iv)	4	5
		66	**29**

Remeasurements recognised in the statement of comprehensive income

	Note	2018 £m	2017 £m
Funded pension schemes	(i)	(87)	(62)
Unfunded post-retirement benefits:			
Redundancy provisions	(ii)	3	(8)
Other pension schemes	(iii)	–	(1)
Medical scheme	(iv)	3	(29)
		(81)	**(100)**

(i) 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. This section of the scheme ceased to accrue benefits on a final salary basis from 1 April 2015. Former members of this section can continue to accrue benefits in the career average revalued earnings (CARE) section.

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

(ii) Redundancy provisions

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

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

(iii) Other pension schemes

Previously for Governors subject to the pensions earnings cap introduced in the Finance Act 1989, the Bank offered additional unfunded pensions so that their total pensions broadly match what would have been provided by the former Court Pension Scheme in the absence of a cap. Provision is made for these in the Bank's accounts. In addition certain former Governors and Directors and the widows of some former Governors and Directors were granted ex-gratia pensions. Provision for these was made in the Bank's accounts when the grants were made.

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

(iv) Medical scheme

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

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 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.

- 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 so this risk is mostly mitigated.

Notes to the Banking Department financial statements continued

19 Retirement benefits continued

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

	2018			2017		
	Main pension scheme £m	Other pensions £m	Medical scheme £m	Main pension scheme £m	Other pensions £m	Medical scheme £m
Current service cost	82	–	1	56	–	1
Past service cost	–	–	–	–	–	–
Net interest on the net defined liability/asset	(22)	2	3	(35)	3	4
Total pension expense	**60**	**2**	**4**	**21**	**3**	**5**

Remeasurements recognised in other comprehensive income

	2018			2017		
	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	327	(35)	(20)	389	(26)	9
Actuarial gains/(losses) arising from changes in demographic assumptions	3	1	2	112	2	(2)
Actuarial losses arising from changes in financial assumptions	77	1	2	(807)	(14)	(27)
Actuarial losses/(gains) arising from experience on the scheme's liabilities	(23)	1	(1)	43	3	–
Return on scheme's assets excluding interest income	(144)	–	–	590	–	–
Remeasurements recognised at the end of the period	**240**	**(32)**	**(17)**	**327**	**(35)**	**(20)**

Reconciliation of present value of defined-benefit obligation

	2018			2017		
	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	3,517	88	141	2,825	81	113
Current service cost	82	–	1	56	–	1
Interest expense	85	2	3	104	3	4
Actuarial (gains)/losses arising from changes in demographic assumptions	(3)	(1)	(2)	(112)	(2)	2
Actuarial losses arising from changes in financial assumptions	(77)	(1)	(2)	807	14	27
Actuarial losses/(gains) arising from experience on the scheme's liabilities	23	(1)	1	(43)	(3)	–
Benefits paid out	(153)	(5)	(5)	(120)	(5)	(6)
Present value of defined-benefit obligation at the end of the period	**3,474**	**82**	**137**	**3,517**	**88**	**141**

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

Reconciliation of the fair value of assets

	2018			2017		
	Main pension scheme £m	Other pensions £m	Medical scheme £m	Main pension scheme £m	Other pensions £m	Medical scheme £m
Fair value of scheme's assets at the beginning of the period	4,434	–	–	3,757	–	–
Interest income	107	–	–	139	–	–
Return on scheme's assets excluding interest income	(144)	–	–	590	–	–
Bank contributions	96	5	5	68	5	6
Benefits paid out	(153)	(5)	(5)	(120)	(5)	(6)
Fair value of scheme's assets at the end of the period	**4,340**	**–**	**–**	**4,434**	**–**	**–**

Notes to the Banking Department financial statements continued

19 Retirement benefits continued

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:

	2018 %	2017 %
Discount rate	2.5	2.4
Rate of increase in salaries	3.5	3.5
Rate of increase of pensions in payment[1]	3.0	3.0
Rate of increase for deferred pensioners[1]	3.2	3.2

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.

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 2018 will live for 27.6 years (28 February 2017: 27.8 years) and a female member 29.5 years (28 February 2017: 29.4 years), and a male member reaching 60 in 2038 will live for 29.4 years (28 February 2017: 29.7 years) and a female member 31.4 years (28 February 2017: 31.4 years).

The Bank has adopted the latest available mortality projections model, which reduces the Fund's liabilities as a result of recent improvements in mortality being slightly lower than previously assumed. The Bank has also adopted a slightly lower long-term rate of assumed future mortality improvements, again further reducing the Fund's liabilities, partly to reflect the recent experience described above and partly to be more in line with wider market practice.

The assets in the scheme were:

	Maturity profile £m			2018 Total value	2018 Percentage of total value	2017 Total value	2017 Percentage of total value
	0–5 years	5–15 years	over 5 years	£m	%	£m	%
UK Government fixed-interest bonds	156	118	216	490	11	404	9
UK Government index-linked bonds	277	603	1,658	2,538	58	2,699	61
Corporate index-linked bonds	–	271	1,012	1,283	30	1,310	30
Cash and other assets	29	–	–	29	1	21	–
Total market value of investments	**462**	**992**	**2,886**	**4,340**	**100**	**4,434**	**100**

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 £336m were quoted and £947m were unquoted (2017: £868m quoted and £442m unquoted). Of the corporate index-linked bonds £1,257m (2017: £1,273m) were guaranteed by the UK Government.

The fair value of financial instruments has been determined using the following fair value hierarchy:

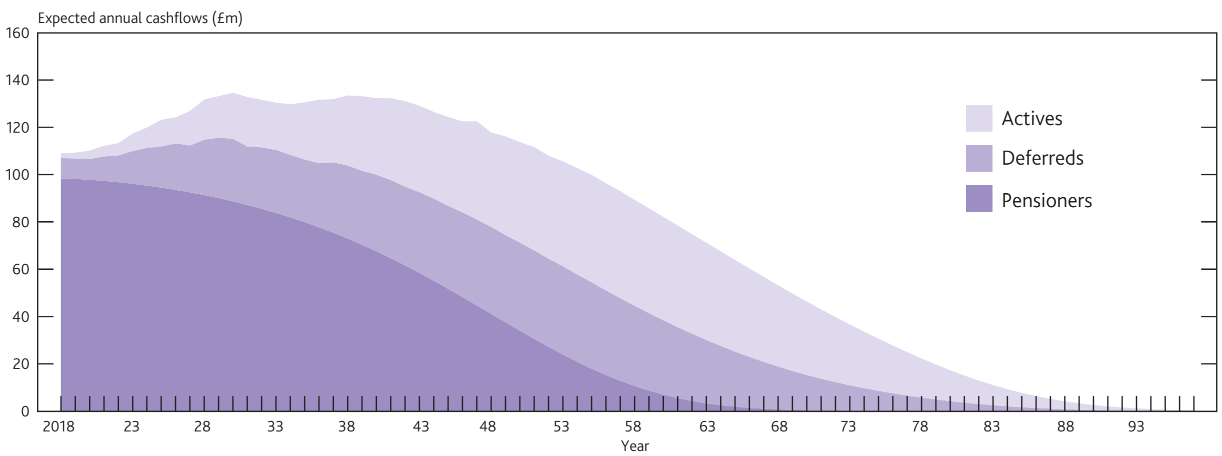
- Level 1 £3,353m — were valued using an unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 £11m — were valued using inputs other than quoted prices included within Level 1 that are observable (ie developed using market data) either directly or indirectly.
- Level 3 £949m — where inputs were unobservable (ie for which market data is unavailable).

Main scheme

	2018 £m	2017 £m
Present value of defined-benefit obligations:		
– Active members	(811)	–
– Deferred members	(767)	–
– Pensioners	(1,896)	–
Total present value of defined-benefit obligations	(3,474)	(3,517)
Assets at fair value	4,340	4,434
Defined-benefit asset (liability)	**866**	**917**

The Bank has recognised the net surplus in full on the balance sheet as it can realise any surplus on the winding up of the scheme after all other benefits have been paid in full in accordance with the Fund's rules. The Trustee does not have any unilateral powers which would prevent this and the rules can only be amended with agreement between the Bank and the Trustees.

The duration of the pension scheme liabilities is in the region of 20 years. The expected future monthly cashflows from the scheme (based only on the past service liabilities built up by 28 February 2018) are shown in the chart below.



Notes to the Banking Department financial statements continued

19 Retirement benefits continued

A +/- 0.1% change to the discount rate would change the surplus on the pension scheme by +/- £69m (28 February 2017: +/- £71m).

A +/- 0.1% change to the assumed difference between CPI and RPI inflation (ie a +/- 0.1% change to RPI inflation) would change the present value of defined-benefit obligations for the pension scheme by +/- £52m (28 February 2017: +/- £55m).

A +/- 0.5% change to the assumed rate of increases in salaries would change the surplus on the pension scheme by +/- £27m (28 February 2017: +/- £29m).

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 £117m (28 February 2017: £115m).

The Bank expects to pay contributions of £97m in the forthcoming year (2017: £96m).

Redundancy provisions

	2018 £m	2017 £m
Unfunded defined-benefit liability	(73)	(79)

The Bank expects to make payments of £6m in the forthcoming year (2017: £5m).

Other pension schemes

	2018 £m	2017 £m
Unfunded defined-benefit liability	(9)	(9)

The Bank expects to make payments of less than £1m in the forthcoming year (2017: less than £1m).

During the year to 28 February 2018 the Bank incurred services costs of less than £1m (2017: less than £1m).

Medical scheme

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

Summary of significant assumptions

The discount rates used for the purposes of measuring post-retirement medical benefit liabilities is the same as used in the IAS 19 valuation of pension scheme liabilities (see Summary of assumptions on page 108). The level at which claims are assumed to arise on average has been taken in line with that used for the 2017 disclosures. For accounting purposes the following assumptions have been made in respect of medical expense inflation:

	2018 %	2017 %
Initial medical trend	5.0	5.0
Ultimate medical trend	5.0	5.0
Years to ultimate	–	–

Post-retirement benefits — medical

	2018 £m	2017 £m
Unfunded defined-benefit liability	(137)	(141)

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 £2m (28 February 2017: £2m) and a 1% increase in the rate of medical claims by £23m (28 February 2017: £25m). 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 £6m (28 February 2017: £6m).

The Bank expects to pay premiums of £6m in the forthcoming year (2017: £5m).

Notes to the Banking Department financial statements continued

20 Other assets

	2018 £m	2017 £m
Finance lease receivables	6	6
Short term debtors and other assets	348	149
Amounts due from the PRA	–	37
Items in course of settlement	1,446	1,606
	1,800	**1,798**

Finance lease receivables also include £6m due in more than one year (2017: £6m).

21 Deposits from central banks

	2018 £m	2017 £m
Deposits repayable on demand	1,143	3,713
Term deposits held at fair value through profit and loss	14,666	11,381
	15,809	**15,094**

Accrued interest on deposits repayable on demand is recognised in note 26.

22 Deposits from banks and other financial institutions

	2018 £m	2017 £m
Deposits repayable on demand	497,086	411,064
Cash Ratio Deposits	4,708	4,424
	501,794	**415,488**

Accrued interest on deposits repayable on demand is recognised in note 26.

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

The rate paid by the Bank on reserves account balances is also the means by which the Bank keeps market interest rates in line with Bank Rate. All reserves balances are remunerated at Bank Rate. Under the Cash Ratio Deposit (CRD) scheme, institutions place non interest bearing deposits at the Bank of England. The Bank invests these deposits (mainly in gilts) and the income earned is used to fund the costs of its monetary policy and financial stability operations, which benefit sterling deposit-takers.

Under the Bank of England Act 1998, the percentage and threshold used in calculating the CRDs is set by HM Treasury, having regard to the financial needs of the Bank and subject to approval of both Houses of Parliament. This is reviewed, at the latest, every five years and was last reviewed in May 2018.

23 Other deposits

	2018 £m	2017 £m
Deposit by Issue Department	69,079	63,049
Public deposits repayable on demand	2,838	3,745
Other deposits repayable on demand	4,619	6,519
	76,536	**73,313**

Public deposits are the balances on HM Government accounts, including Exchequer, National Loans Fund, Debt Management Office, National Debt Commissioners and dividend accounts. Accrued interest on other deposits is recognised in note 26.

24 Foreign currency bonds in issue

	2018		2017	
	£m Fair value	US$m Nominal	£m Fair value	US$m Nominal
Total amounts issued to third parties	**5,797**	**8,000**	**6,450**	**8,000**

All changes in fair values since 1 March 2017 are considered attributable to changes in prevailing interest rates and movements in relative foreign currency exchange rates, as well as issuance and maturity of bonds.

At 28 February 2018, as part of the Bank's annual-medium term security issuance programme the Bank had four US$2,000m three-year dollar bonds in issue (2017: four US$2,000m three-year dollar bonds); the first maturing on 16 March 2018, the second on 14 March 2019, the third on 6 March 2020 and the fourth on 5 March 2021.

The most recent bond (the twelfth in the overall programme) was issued on 26 February 2018 with settlement on 5 March 2018. This bond matures on 5 March 2021. Refer to www.bankofengland.co.uk/markets/Pages/reserves/default.aspx for further details of the issuance. As this bond settled on 5 March 2018 the proceeds due have been recognised as an item in course of settlement in Other assets (note 20).

Of the above liabilities to third parties, £1,459m (2017: £1,614m) fall due within one year.

Notes to the Banking Department financial statements continued

25 Deferred tax liabilities

Deferred tax is calculated on all temporary differences under the liability method using a tax rate of 17% (2017: 17%).

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted in October 2015. Further reductions to 18% (effective from 1 April 2020) were substantively enacted in October 2015 and to 17% in September 2016. This will reduce the Bank's current tax charge in future years accordingly.

The movement on the deferred tax account is as follows:

	Note	2018 £m	2017 £m
Deferred tax			
Net liability at 1 March		377	341
Income statement charge	7	7	8
Tax credited/(charged) directly to other comprehensive income		(65)	28
Net liability at 28 February		**319**	**377**

	2018 £m	2017 £m
Deferred tax liability relates to:		
Available for sale equity investments through comprehensive income	198	206
Revaluation of available for sale debt securities	53	100
Transitional adjustment on available for sale debt securities	(34)	(58)
Available for sale transitional losses carried forward	(21)	–
Pensions and other post-retirement benefits	110	117
Other provisions	13	12
	319	**377**

26 Other liabilities

i Analysis of other liabilities

	2018 £m	2017 £m
Items in course of collection	973	1,610
Payable to HM Treasury	67	100
Short term creditors and other liabilities	388	147
Provisions	7	9
	1,435	**1,866**

Payable to HM Treasury includes payment in lieu of dividend (note 8) and any over/under recoveries of management fees for the management of the notes issue and the Exchange Equalisation Account.

Items in course of collection relates to foreign government bonds purchased pre-year end but settled post year-end.

ii Analysis of provisions

	Restructuring provision £m	Onerous lease provision £m	Other provisions £m	Total £m
Balance at 1 March 2017	4	4	1	9
Provisions utilised during the year	(2)	(2)	–	(4)
Provisions made during the year	1	–	4	5
Provisions reversed during the year	(1)	(1)	(1)	(3)
Balance at 28 February 2018	**2**	**1**	**4**	**7**

Onerous lease provision

The Bank has undertaken to bear the costs arising from certain leased property previously occupied by the Financial Services Authority and which was vacated upon the commencement of the new regulatory regime. 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. Of the above provision £1m (2017: £2m) falls due within one year.

Other provisions relates to costs to conduct an independent review of prudential supervision as announced by HM Treasury. These are expected to be incurred during the forthcoming financial year.

27 Capital

	2018 £m	2017 £m
Capital	**15**	**15**

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.

28 Cash and cash equivalents

i Analysis of cash balances

	Note	At 1 March 2017 £m	Cash flows £m	At 28 February 2018 £m
Cash and balances with other central banks	9	1,641	(865)	776
Loans and advances to banks and other financial institutions	10	6,448	2,343	8,791
Securities held at fair value through profit and loss	12	1,047	(852)	195
		9,136	**626**	**9,762**

Notes to the Banking Department financial statements continued

28 Cash and cash equivalents continued

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.

29 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 Executive Risk Committee) and documented delegated authorities for implementation of financial risk management and oversight of the Bank's operations.

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

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

The Financial Risk Management Division (FRMD) within the Bank's Markets Directorate is responsible for analysing the financial risks faced by the Bank in its operations in financial markets.

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

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

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

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

- Potential expansion of the Bank's balance sheet in a stress eg through additional liquidity provision.
- Rating migration and potential default of counterparties.
- Shocks on asset prices, both where the Bank has positions on its balance sheet, and where these assets are held as collateral.

The stress tests applied to the Bank's own balance sheet are calibrated such that they are suitably severe — at least as severe as the FPC's and PRC's annual concurrent banking stress test, given the Bank's role as lender of last resort. For credit risk, the Bank uses a Stressed Exposure at Default (EAD) metric to measure the potential financial loss that could be incurred in the event of counterparty default, net of collateral held, where that collateral is also stressed. For market risk, the Bank uses a Stressed Loss metric to measure the potential mark-to-market losses from shocks to asset prices.

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

a Credit risk

Credit risk is the risk of loss arising from the failure of a borrower, issuer, counterparty or customer to meet its financial obligations to the Bank. The Bank is exposed to credit risk both through direct exposures and contingent exposures. Credit exposure can arise from (i) operations implementing monetary or financial stability policy, (ii) the management of the Bank's balance sheet, or (iii) contingently as part of an insurance contract. Insurance contracts can be used to mitigate exposures arising in several areas, including but not necessarily restricted to buildings, motor vehicles and other property of the Bank, as well as contingent exposures related to banknote issuance and circulation activities. The primary source of credit risk arises as a result of the Bank providing liquidity to financial institutions via the Funding for Lending Scheme and Sterling Monetary Framework; intraday in the Bank's provision of liquidity to facilitate the operation of the sterling high-value payment system (CHAPS) and the securities settlement system, CREST; and elsewhere in the Bank's management of its balance sheet, for example in the investment of the Bank's own funds and in the course of the banking services it provides to its customers. In addition, the Bank incurs credit risk in connection with any support operations it may undertake.

The Bank's balance sheet remit and risk standard define high-level risk parameters under which credit risk is monitored and controlled. Unsecured credit exposures are controlled by a system of limits based on internal credit ratings. This system applies to all unsecured credit exposures, including intraday 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.

Internal committees, chaired by the Head of FRMD, review the creditworthiness of issuers, counterparties and customers to whom the Bank may have credit exposures. These committees are supported by a credit risk analysis team. Counterparty ratings are signed off by the Head of FRRD.

The Bank provides wholesale banking services to the UK Government, other central banks, and, where there are financial stability reasons to do so, certain other financial sector firms. 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.

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

Collateral management

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

In the Bank's Indexed Long-Term Repo Operations, Discount Window Facility, Contingent Term Repo Facility and Funding for Lending Scheme, the Bank accepts a wide range of private sector collateral. The collateral can include mortgage-backed securities, covered bonds backed by mortgages or public sector securities, other asset-backed securities (such as those backed by credit card receivables, student loans or auto loans), or portfolios of loans in unsecuritised form. The collateral must meet published eligibility criteria.

The Bank manages the risk in this wider collateral portfolio by applying haircuts to take account of market risk, liquidity risk, credit risk, and all other material risks to the realisable value of the collateral. 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 a market price is not available the Bank uses a model to approximate a market value. The pricing methodologies and the use of spreads in models are under regular review, including via a Valuation Review Committee chaired by the Head of Middle Office.

Notes to the Banking Department financial statements continued

29 Financial risk management continued

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

Models used for calculating haircuts are designed by FRMD, then independently reviewed and validated by FRRD.

In non-routine circumstances, the Bank may seek other methods of mitigating credit risk, which may include indemnities from HM Treasury.

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:

	2018 £m	2017 £m
Assets		
United Kingdom	589,099	498,928
Rest of Europe	12,585	12,114
Rest of the world	5,129	6,637
Total assets	**606,813**	**517,679**
Liabilities and equity		
United Kingdom	583,626	496,582
Rest of Europe	7,080	6,212
Rest of the world	16,107	14,885
Total liabilities and equity	**606,813**	**517,679**

b Market risk

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

The Bank has a low risk tolerance to market risk. The Bank's balance sheet remit and risk standard sets out risk management parameters, governance and control frameworks as well as reporting arrangements for key risk indicators.

Interest rate risk

The Bank is exposed to interest rate risk through the investment of the Bank's capital and Cash Ratio Deposits in high quality securities in the sterling bond portfolio. These are bought and, in normal circumstances held to maturity, with the intention of maintaining the value of the Bank's capital and generating income to pay for the Bank's policy functions. A parallel increase of 100 basis points to sterling interest rates would change the value of the sterling bond portfolio at 28 February 2018 by approximately £470m (28 February 2017: £410m).

The Bank has a small exposure to foreign currency interest rate risk through its foreign currency operations.

Foreign Exchange Risk

The majority of the foreign currency exposures are hedged, mainly through the use of foreign exchange contracts and currency swaps. The Bank has no significant net foreign currency exposures.

c Liquidity risk

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

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.

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. These cash flows have not been discounted.

Notes to the Banking Department financial statements continued

29 Financial risk management continued

Foreign currency liquidity risk

As at 28 February 2018	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	776	–	–	–	–	776
Loans and advances to banks and other financial institutions	5,122	4,415	1,864	–	–	11,401
Securities held at fair value through profit and loss	804	1,492	1,413	2,658	–	6,367
Derivative financial instruments:						
Cash inflow	6,307	4,900	1,690	2,335	–	15,232
Cash outflow	(6,257)	(4,871)	(1,599)	(2,399)	–	(15,126)
Other assets	1,446	–	–	–	–	1,446
Total assets	**8,198**	**5,936**	**3,368**	**2,594**	–	**20,096**
Liabilities						
Deposits from central banks	5,575	5,044	1,784	–	–	12,403
Deposits from banks and other financial institutions	–	–	–	–	–	–
Other deposits	340	–	–	–	–	340
Foreign currency bonds in issue	1,451	–	–	2,902	–	4,353
Derivative financial instruments:						
Cash inflow	(1,172)	(146)	(193)	(933)	–	(2,444)
Cash outflow	1,597	429	1,474	960	–	4,460
Other liabilities	973	–	–	–	–	973
Total liabilities	**8,764**	**5,327**	**3,065**	**2,929**	–	**20,085**
Net liquidity gap	**(566)**	**609**	**303**	**(335)**	–	11
Cumulative gap	**(566)**	**43**	**346**	**11**	**11**	–

As at 28 February 2017	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	1,641	–	–	–	–	1,641
Loans and advances to banks and other financial institutions	3,779	2,853	807	–	–	7,439
Securities held at fair value through profit and loss	1,254	1,926	1,921	4,048	–	9,149
Derivative financial instruments:						
Cash inflow	3,745	3,202	905	2,200	–	10,052
Cash outflow	(3,533)	(3,194)	(867)	(2,086)	–	(9,680)
Other assets	1,766	–	–	–	–	1,766
Total assets	**8,652**	**4,787**	**2,766**	**4,162**	–	**20,367**
Liabilities						
Deposits from central banks	5,239	4,035	1,390	–	–	10,664
Deposits from banks and other financial institutions	–	–	–	–	–	–
Other deposits	305	–	–	–	–	305
Foreign currency bonds in issue	1,635	–	34	4,934	–	6,603
Derivative financial instruments:						
Cash inflow	(3,526)	(736)	(557)	(1,125)	–	(5,944)
Cash outflow	3,480	1,226	1,146	1,124	–	6,976
Other liabilities	1,763	–	–	–	–	1,763
Total liabilities	**8,896**	**4,525**	**2,013**	**4,933**	–	**20,367**
Net liquidity gap	**(244)**	**262**	**753**	**(771)**	–	–
Cumulative gap	**(244)**	**18**	**771**	–	–	–

Notes to the Banking Department financial statements continued

29 Financial risk management continued

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 2018	Note	Level 1 £m	Level 2 £m	Level 3[1] £m	Total £m
Assets					
Loans and advances to banks and other financial institutions	10	–	11,259	–	11,259
Securities held at fair value through profit or loss	12	7,993	–	–	7,993
Derivative financial instruments	13	–	122	–	122
Available for sale securities	14	7,375	–	1,196	8,571
Total assets		**15,368**	**11,381**	**1,196**	**27,945**
Liabilities					
Deposits from central banks	21	–	14,666	–	14,666
Foreign currency bonds in issue	24	5,797	–	–	5,797
Derivative financial instruments	13	–	423	–	423
Total liabilities		**5,797**	**15,089**	–	**20,886**

As at 28 February 2017	Note	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets					
Loans and advances to banks and other financial institutions	10	–	7,440	–	7,440
Securities held at fair value through profit or loss	12	9,157	–	–	9,157
Derivative financial instruments	13	–	308	–	308
Available for sale securities	14	7,156	–	1,246	8,402
Total assets		**16,313**	**7,748**	**1,246**	**25,307**
Liabilities					
Deposits from central banks	21	–	11,381	–	11,381
Foreign currency bonds in issue	24	6,450	–	–	6,450
Derivative financial instruments	13	–	108	–	108
Total liabilities		**6,550**	**11,489**	–	**17,939**

1 Level 3 assets comprise entirely of unlisted equity investments, movements are disclosed in note 14.

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 14b).

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, all these financial assets and liabilities would be classified as Level 2.

30 Off balance sheet arrangements — Funding for Lending Scheme

The Funding for Lending scheme (FLS) is designed to incentivise banks and building societies to boost their lending to the UK real economy.

It does this by providing funding for an extended period, with both the price and quantity of funding provided linked to their lending performance.

				2018		2017	
	Up to 1 year £m	1 to 3 years £m	3 to 5 years £m	Nominal £m	Fair value £m	Nominal £m	Fair value £m
Securities lent to banks and other financial institutions	12,281	12,584	3,733	28,598	28,556	52,170	52,110
Securities borrowed from the DMO	(12,281)	(12,584)	(3,733)	(28,598)	(28,556)	(52,170)	(52,110)
Total obligations	–	–	–	–	–	–	–

As of the end of February 2018 there were 43 banking groups signed up to the latest part of the FLS extension, and a further 15 groups had signed up to earlier parts of the scheme but were not participating in the extension. 17 groups had outstanding drawings as at the end of February 2018 (2017: 43 groups). Treasury bills with a market value of £28.6bn had been lent to the participants at year-end (2017: £52.1bn). The Bank has borrowed these Treasury bills from the DMO to whom they are owed back. In the year to 28 February 2018, the Bank recognised income of £108m from FLS (2017: £146m).

Notes to the Banking Department financial statements continued

31 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.

b Capital commitments

Capital commitments outstanding at 28 February 2018 amounted to £4m (2017: £11m), relating primarily to machinery purchases.

In addition the Bank did not have any contingent capital commitments outstanding at 28 February 2018 (2017: nil).

c Operating lease commitments — minimum lease payments

	2018		2017	
	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	6,305	127	7,794	153
Between one and five years	22,522	89	23,440	151
Expiring in five years or more	23,145	2,131	29,166	–
	51,972	**2,347**	**60,400**	**304**

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

32 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 financial stability objective.

a HM Government

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

- Provision of banking services, including holding the principal accounts of Government.
- Management of the Exchange Equalisation Account (EEA).
- 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 23 as public deposits. The total charges made to the Government are disclosed in note 4a. A management fee of £135m (2017: £112m) was payable by HM Government in the year ended 28 February 2018 to the Bank in respect of services provided to the EEA of £5m (2017: £5m) of a total cost of £11m, under the current temporary arrangement to share the costs of the EEA, Issue Department of £128m (2017: £105m), and for banking services to HM Government of £2m (2017: £2m).

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Debt Management Office and Debt Management Account
The Bank has entered into agreements with the UK 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 2018 the Bank had a loan from the DMA of £nil (2017: £193m) in relation to the provision of funding to the Bank of England Asset Purchase Facility Fund Ltd.

At 28 February 2018 the Bank had borrowed Treasury bills with a nominal value of £28.6bn (2017: £52.2bn) 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 23 as public deposits.

The interest paid in respect of DMO deposits was £5m in 2018 (2017: £5m).

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

The Bank, in discussion with HM Treasury, recovered the sum of £2.9m 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 2010. As at the reporting date, this recovery remained outstanding. The Bank subsequently received the total amount in March 2018.

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

The FSCS placed interest-bearing deposits with the Bank during the year, which are included within note 23 as public deposits.

Financial Conduct Authority
The Financial Conduct Authority charges the Bank an administration fee relating to the invoicing and collection of fee and other income from levy payers. Charges for this service totalled £90,000 (2017: £90,000) in the year. The Bank is also charged for the shared use of some FCA software applications to support regulation. The total charge for this service was £7.5m (2017: £7.5m).

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 asset purchase facility operated by the company 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 and lending through the Term Funding Scheme 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 2018 the loan from the Bank to BEAPFF was £572.0bn (2017: £485.2bn). Interest on this loan is receivable at Bank Rate and amounted to £1.8bn for the year ending 28 February 2018 (2017: £1.4bn).

At the year end BEAPFF held a deposit at the Bank of £4.3bn (2017: £6.2bn), which is included in other deposits (note 23). Interest on this deposit is payable at Bank Rate and totalled £13m for the year ending 28 February 2018 (2017: £14m).

A management fee of £5m was payable by BEAPFF to the Bank in respect of the year ended 28 February 2018 (2017: £4m).

Notes to the Banking Department financial statements continued

32 Related parties continued

Prudential Regulation Authority Ltd (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. Following desubsidiarisation of the PRA on 1 March 2017 the regulatory activity, along with the assets and liabilities, of the PRA transferred to the Bank. This transfer is treated as a transaction between entities under common control and the assets and liabilities transferred to the Bank from the PRA are at carrying value. As the assets and liabilities transferred were equal there was no consideration due from the Bank to the PRA. For a breakdown of the assests and liabilities transferred see the 2016/17 *PRA Annual Report and Accounts*.

There has been no activity in the company in the current year.

c Key management personnel

Members of Court are covered by an indemnity from the Bank, granted in 2000 (see page 7). Members of the FPC, MPC and PRC are also covered by an indemnity granted by the Bank (see pages 10–13).

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 2018, the number of key management personnel was 37 (2017: 29).

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

	2018 £000	2017 £000
Loans		
Balance brought forward	49	26
Loans made during year	21	50
Loans repaid during year	(29)	(27)
	41	**49**
Interest income earned	1	1
Number of key management personnel with loans at 28 February	7	6

No provisions have been recognised in respect of loans given to related parties (2017: £nil).

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 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 2.5%) 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.

	2018 £000	2017 £000
Deposits		
Governors and Executive Directors		
Balance brought forward	–	193
Deposits taken during year	–	326
Deposits repaid during year	–	(519)
	–	–
Interest expense on above deposits	–	–
Number of key management personnel with deposits at 28 February	–	–

Key management remuneration

	2018 £000	2017 £000
Salaries and short-term benefits	6,230	6,119
Post-employment benefits	1,603	1,856
	7,833	7,975

Post-employment benefits have been estimated using an expected cost of pension on a funding valuation basis.

Full information on the remuneration (including pension arrangements) of the Members of Court is given in the Report of the Remuneration Committee on pages 52 to 58.

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 2018 no charge was made for these services (2017: £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 £96m (2017: £68m). There were no other material transactions between the Bank and the pension scheme during the year to 28 February 2018. At 28 February 2018 the balances on accounts held with the Bank were £11m (2017: £12m).

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.

33 Post balance sheet events

The Members of Court approved the financial statements on pages 72 to 127 on 4 June 2018.

Issue Department account
for the period ended 28 February 2018

	2018 £m	2017 £m
Income and profits		
Securities of, or guaranteed by, the British Government	121	281
Other securities and assets	240	257
	361	**538**
Expenses		
Cost of production of banknotes	(90)	(66)
Cost of issue, custody and payment of banknotes	(31)	(29)
Other expenses	(11)	(11)
	(132)	**(106)**
Net income paid to National Loans Fund[1]	**196**	**432**

1 Net income paid to the National Loans Fund excludes a buffer held back to meet future expenditure. At the 2018 year end this was £33m (2017: £nil).

Issue Department statement of balances
for the period ended 28 February 2018

	Note	2018 £m	2017 £m
Assets			
Securities of, or guaranteed by, the British Government	3	2,836	3,194
Other securities and assets including those acquired under reverse repurchase agreements	4	70,414	70,004
Total assets		**73,250**	**73,198**
Liabilities			
Notes issued:			
In circulation	5	73,250	73,198
Total liabilities		**73,250**	**73,198**

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

Mr M Carney	Governor
Mr B Broadbent	Deputy Governor
Sir Anthony Habgood	Chair of Court
Mr R Pereira	Finance Director

The notes on pages 130 to 132 are an integral part of these statements of account.

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 Act 1928 and 1954, the National Loans Act 1968 and the Currency Act 1983. All profits of the Issue Department are payable to the National Loans Fund.

- 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 2018.
- 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 gains taken to income in the year to 28 February 2018 amounted to nil (2017: £137m) and total deficits paid by the National Loans Fund amounted to £165m (2017: £171m).
- Notes in circulation exclude those old series notes which have been written off. The value of the note is still given by the Bank on presentation. The Bank is reimbursed by HM Treasury in these instances.

2 Expenses

The expenses of £132m (2017: £106m) represent charges from the Banking Department for costs incurred in relation to the note issue of £128m (2017: £105m) plus amounts over-collected in prior years.

3 Securities of, or guaranteed by, the British Government

	2018 £m	2017 £m
British Government Stocks	2,466	2,824
Ways and Means advance to the National Loans Fund	370	370
	2,836	**3,194**

The Ways and Means advance earns interest at Bank Rate.

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

	2018 £m	2017 £m
Deposit with Banking Department	69,079	63,049
Reverse repurchase agreements	1,335	6,955
	70,414	**70,004**

The deposit with Banking Department earns interest at Bank Rate.

5 Notes in circulation

	2018 £m	2017 £m
£5	1,910	1,912
£10	7,789	8,006
£20	42,692	43,357
£50	16,508	15,601
Other notes[1]	4,351	4,322
	73,250	**73,198**

1 Includes higher-value notes used as backing for the note issues of banks in Scotland and Northern Ireland.

6 Assets and liabilities

a Interest rate exposure

As the liabilities of the Issue Department are interest free, the income of the Issue Department is directly exposed to movements in interest rates. As at 28 February 2018, the assets of the Issue Department had the following repricing period profile.

	2018 £m	2017 £m
Repricing up to one month	70,843	70,374
Repricing in greater than one month but less than three months	–	–
Repricing in greater than three months but less than six months	–	201
Repricing in greater than six months but less than twelve months	–	–
Repricing in greater than twelve months	2,407	2,623
	73,250	**73,198**

b Currency exposure

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

c Credit risk

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

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

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

Notes to the Issue Department statements of account continued

7 Accrued interest

At 28 February 2018 the unrecognised accrued interest on the assets held on the Issue Department statement of balances was £41m (2017: £42m).

8 Date of approval

The Members of Court approved the statements of account on pages 128 to 132 on 4 June 2018.

PRA income statement
for the period ended 28 February 2018

	Note	2018 £m	2017 £m
Income			
Fee income	3	251	243
Enforcement fine income	6	–	1
Income on bank deposits		–	–
Other income	4	29	10
Total income		**280**	**254**
Expenses			
Administrative expenses	5	(280)	(254)
Total expenses		**(280)**	**(254)**
Surplus before taxation		–	–
Taxation	8	–	–
Surplus after taxation		–	–

Following de-subsidiarisation of the PRA on 1 March 2017, the prudential regulatory activities of the PRA, along with its assets and liabilities transferred to the Bank of England. The 2017 comparatives were reported in the Prudential Regulation Authority separate financial statements. The 2018 balances are reported within the Banking Department, and are presented here in accordance with the requirements of Section 7(2A) of the Bank of England Act 1998.

The notes on pages 135 to 141 are an integral part of these financial statements.

PRA statement of balances
for the period ended 28 February 2018

	Note	2018 £m	2017 £m
Assets			
Current assets			
Cash balance held internally by the Bank of England	9	8	48
Fee and other receivables	10	128	16
Intangibles	11	6	9
Total assets		**142**	**73**
Liabilities			
Current liabilities			
Trade and other payables	12	142	73
Total liabilities		**142**	**73**

Following de-subsidiarisation of the PRA on 1 March 2017, the prudential regulatory activities of the PRA, along with its assets and liabilities transferred to the Bank of England. The 2017 comparatives were reported in the Prudential Regulation Authority separate financial statements. The 2018 balances are reported within the Banking Department, and are presented here in accordance with the requirements of Section 7(2A) of the Bank of England Act 1998.

The notes on pages 135 to 141 are an integral part of these financial statements.

Notes to the PRA statement of accounts

1 Basis of preparation

Form of presentation of the statement of accounts

The statement of accounts comprise the income statement, the statement of balances, and related notes, and are presented as a subset of the financial statements provided for the Bank.

Under the Bank of England Act 1998 (as amended) (the Act), the Bank is required to present financial and other disclosures in respect of its activities as the Prudential Regulation Authority.

Section 7(2A) of the Act requires that the Bank prepare for each of its financial years a statements of accounts in relation to the
(a) income received and assets accrued by the Bank by virtue of its functions as the Prudential Regulation Authority; and
(b) expenses and liabilities incurred by the Bank by virtue of its functions as the Prudential Regulation Authority.

Section 4A of the Act requires the Bank to comply with any directions given by HM Treasury as to:
(a) the information to be contained in the statement and the manner in which it is to be presented; and
(b) the methods and principles according to which the statement is to be prepared.

The direction from HM Treasury requires the accounting policies and disclosures applied to be aligned with those standards applicable to the Bank and also to include specific disclosures in relation to:
(a) fair pay;
(b) sickness absence;
(c) exit packages; and
(d) losses and special payments.

The statement of accounts have been prepared and show the amounts related to the Bank's activities as the PRA that are reported within the Banking Department financial statements. The statement of accounts comprise the income statement, the statement of balances and related notes.

The additional disclosures have been included within the notes to the statement of accounts.

The Court of Directors confirm that the money levied by the Prudential Regulation Authority under Parliamentary Authority recorded in these statement of accounts of the PRA has been applied to the purposes intended by Parliament.

2 Accounting policies

The principal accounting policies applied in the preparation of the statement of accounts are the same as those applied by the Bank, as on pages 77–89.

3 Fee income

	2018 £m	2017 £m
Fee income	251	243
Total	**251**	**243**

Notes to the PRA statement of accounts
continued

4 Other income

	2018 £m	2017 £m
Solvency II income	2	2
Ringfencing income	20	7
IFRS 9 income	3	–
EU withdrawal project income	2	–
Special project fee income	1	1
Other sundry income	1	–
Total	**29**	**10**

- Solvency II income is recognised to match expenditure incurred during the year on Solvency II activity.
- Ringfencing income is recognised to match expenditure incurred on activity that has been designated as being related to the ringfencing implementation project, for which fees are raised separately.
- IFRS 9 income is recognised to match expenditure incurred on activity that has been designated as being related to the IFRS 9 project, for which fees are raised separately.
- EU withdrawal income is recognised to match expenditure incurred on activity that has been designated as being related to the EU withdrawal project, for which fees are raised separately.
- Special project fee income is recognised to match expenditure incurred on activity that has been designated as a special project, for which fees are raised separately.
- Other sundry income includes authorisation fees paid by firms and individuals, which is recognised in the income statement as incurred.

5 Administrative costs

	Note	2018 £m	2017 £m
Staff costs	7	150	138
Costs incurred centrally and allocated to the PRA		109	98
Professional and membership fees		14	8
Impairment of assets		–	2
Amortisation of intangible assets		4	5
Travel and accommodation		2	2
Other administration and general expenses		2	3
Cost recoveries		(1)	(2)
Total		**280**	**254**

Included within administrative expenses are costs incurred centrally and allocated to the PRA for provision of IT, Finance, Property and Procurement, and Human Resource services.

6 Enforcement fine income

	Note	2018 £m	2017 £m
Fines raised in the year		–	28
Fine receivables brought forward[1]		–	–
Financial penalties due to HMT	12	–	(27)
Fine receipts due in future years	12	–	–
Fines written off/down in the year		–	–
Fine income recognised[1]		**–**	**1**

1 Enforcement fine income of £58,000 was recognised in the year.

7 Staff costs

	2018 £m	2017 £m
Wages and salaries	108	105
Social security costs	13	13
Pension and other post-retirement costs	29	20
Seconded staff recoveries	–	–
Total	**150**	**138**

HM Treasury has made a direction under paragraph 22 of Schedule 1ZB of FSMA requiring the Bank to disclose the following in respect of staff deemed to work exclusively for the PRA:

Fair pay

The banded remuneration of the highest paid director (full-time equivalent base salary plus benefits and excluding pension) in the financial year 2017/18 was £275,185 (2016/17 £272,380). This comprises a salary of £273,333 (2016/17 £270,626) as at 28 February 2018, plus non-pension related benefits of £1,851 (2016/17: £1,754). This was 4.35 (2016/17 4.19) times the median remuneration of the workforce, which was £63,203 (2016/17 £64,521). During 2017/18 no employees received remuneration in excess of the highest paid director. Remuneration ranged from £20,330 to £275,185 (2016/17 £20,330 to £272,380).

The increase in the ratio from the prior year reflects the Bank's annual pay rise and initiatives to manage the Bank's overall staff costs.

Exit package

There were 3 compulsory redundancies during the year, in the ranges set out below:

£10,999–£19,999 1
£50,000–£59,999 1
£70,000–£79,999 1

There were 9 exit packages agreed during the year, in the ranges set out below:

£0–£9,999 6
£10,000–£19,999 2
£30,000–£39,999 1

Notes to the PRA statement of accounts
continued

Sickness absence

The level of sickness absence in the organisation, calculated as working days lost per financial year based on the number of full-time equivalent employees was six days (six in 2017).

Average staff numbers:

The average number of persons employed by the Bank deemed to work exclusively for the PRA during the year was made up as follows:

	2018	2017
Governors and other members of Executive Team	6	6
Managers and Analysts	1,190	1,124
Other staff	203	197
Total	**1,399**	**1,327**

The number of staff employed by the Bank and working for the PRA was 1,427 at 28 February 2018, of which 1,253 were full-time staff and 174 were part-time.

8 Taxation

Under the agreement with HM Revenue and Customs (HMRC), the fees paid by regulated institutions for regulatory purposes are not subject to corporation tax, but net interest income on deposits and any other investment income are subject to corporation tax as non-trade credits. Following the desubsidiarisation of the PRA on 1 March 2017, no interest income was received as the notional cash balance for utilisation by the PRA was held internally by the Bank (2017: £315k and £63k interest on cash deposits and tax charge respectively).

9 Cash and cash equivalents

	2018 £m	2017 £m
Cash balance held at the Bank of England[1]	8	48
Total	**8**	**48**

1 Cash balance at the reporting date represents the notional cash balance held internally at the Bank of England.

10 Current trade and other receivables

	2018 £m	2017 £m
Fees receivable	128	2
Transition costs recoverable from fee payers	–	14
Total	**128**	**16**

Fees receivable at the reporting date includes £127 million on account invoicing relating to the annual funding requirement from counterparties for the 2018/19 fee year.

Transition costs were recovered from fee payers over a five year period commencing 2013.

11 Intangible assets

	2018 £m	2017 £m
Cost		
At 1 March	23	26
Additions	1	1
Disposals/write-offs	–	(4)
At 28 February	**24**	**23**
Accumulated amortisation		
At 1 March	14	10
Charge for the year	4	6
Disposals/write-offs	–	(2)
At 28 February	**18**	**14**
Net book value at 1 March	9	16
At 28 February	**6**	**9**

Intangible assets comprise software development to enable the PRA to fulfil its regulatory duties.

There were no additions of intangible assets purchased but not paid for at the balance sheet date (2017: £nil).

Notes to the PRA statement of accounts
continued

12 Current trade and other liabilities

	Note	2018 £m	2017 £m
Fees received in advance		125	–
Fees received in advance — Ringfencing		3	–
Fees received in advance — IFRS 9		1	–
Fees received in advance — EU withdrawal		4	–
Deferred income — Solvency II		5	7
Financial penalties due	6	–	–
Financial penalties due to HMT	6	–	27
Financial penalties received — payable to fee payers	6	–	1
Amounts due to the Bank of England		–	38
Provisions		4	–
Total		**142**	**73**

Analysis of provisions

	Other provisions £m
Balance at 1 March 2017	–
Provisions utilised during the year	–
Provisions made during the year	4
Provisions reversed during the year	–
Balance at 28 February 2018	**4**

The provision relates to costs to conduct an independent review of prudential supervision as announced by HM Treasury.

Fees received in advance comprise fees collected in relation to the annual funding requirement, Ringfencing, IFRS 9 and EU Withdrawal in excess of related expenditure.

In accordance with the PRA Financial Penalty Scheme, financial penalty monies received are payable to HMT where they are in excess of costs incurred during the year, with the remainder due to fee payers.

Amounts due to the Bank of England of £38 million were settled on 1 March 2017, on transfer of the assets and liabilities of the PRA to the Bank.

13 Financial risk

The PRA's principal financial assets are cash, together with fee and other receivables.

Credit risk

Credit risk is the risk of loss arising from the failure of a counterparty to meet its financial obligations to the Bank in its capacity as the PRA. The credit risk that PRA faces arises when the PRA invoices counterparties from the financial services industry for the collection of regulatory fees.

The Bank monitors the credit risk exposure, and the collection of fees from counterparties, on behalf of the PRA. The PRA has a strong record of collecting fees with outstanding amounts at the year-end relating to regulatory services already consumed by those counterparties almost negligible.

Liquidity risk

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

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

14 Losses and special payments

There were no reportable losses or special payments in the year.

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BANK OF ENGLAND

The Bank of England's mission is to promote the Good of the People of the United Kingdom by maintaining Monetary and Financial Stability

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