BANK OF ENGLAND

Annual Report

Annual Report and Accounts

1 March 2018–28 February 2019

Bank of England

Annual Report and Accounts

1 March 2018 to 28 February 2019

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, paragraph 33 of Schedule 17A of the Financial Services and Markets Act 2000 and Regulation 25 of the Central Counterparties (Amendment, etc, and Transitional Provision) (EU Exit) Regulations 2018, on its supervision of financial market infrastructures.

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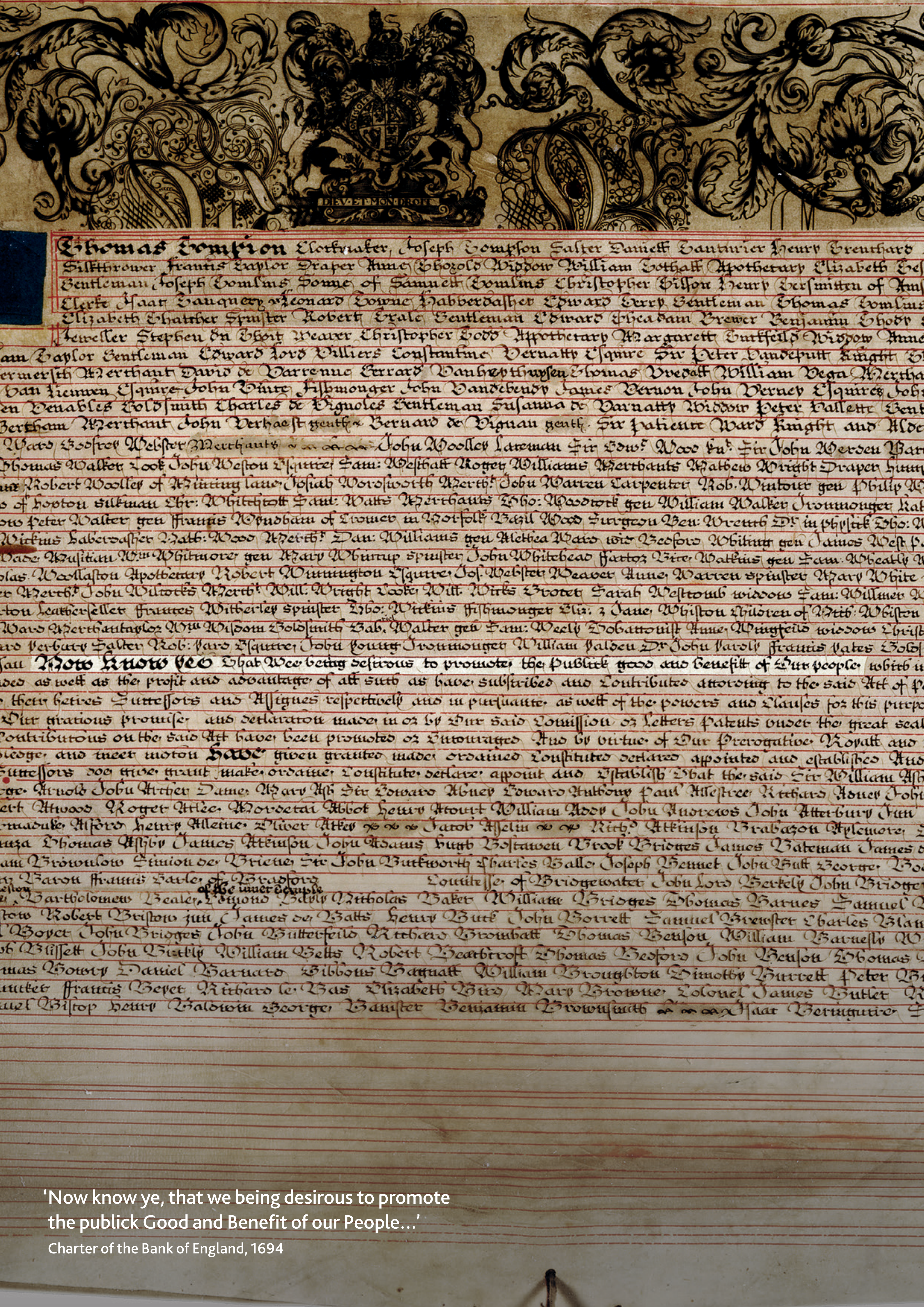


‘Now know ye, that we being desirous to promote the publick Good and Benefit of our People…’

Charter of the Bank of England, 1694

Statement by the Chair of Court

Bradley Fried
Chair of Court

We now have a Bank that has been designed to respond to the challenges of our time. I would like to recognise the role that all Bank staff have played in delivering the changes that we have achieved so far and that will enable us to continue to fulfil our mission in the future.

This is Mark Carney's last full year as Governor of the Bank. Under his leadership, the Bank has been modernised and the organisation has been successfully brought together to exploit the synergies of having monetary policy, macroeconomic policy and microprudential regulation together in one institution.

In 2014, we launched the One Bank Strategy, clarifying our mission to promote the good of the people of the United Kingdom. That strategy has successfully delivered significant changes in the way that the Bank operates. It included a commitment to increasing 'Openness and Accountability', which is crucially important for a 21st century central bank with significant powers. Related to that, we have seen significant reforms to Court. These, including the creation of the Independent Evaluation Office (IEO), have strengthened Court's oversight of the Bank. This year, the IEO has published an evaluation of the Bank's approach to stress testing and is undertaking an evaluation of research, and in particular whether the aim to improve research in the 2014 Strategic Plan has been met. Alongside our regular interactions with the Treasury Committee, we welcome the scrutiny of the Bank by the National Audit Office (NAO) and the Public Accounts Committee (PAC), which has been helpful in support of our strategic change programme. We will respond to the PAC's report by the end of June.

In 2017, we built on that strategy with Vision 2020, which set out to improve how we communicate and how we work. Two years into that strategy, we have already seen significant changes to our flagship publications via 'layered' content, allowing us to communicate more broadly and effectively than in the past. And we have embarked on a programme of visits to listen to people up and down the country so that we can be a Bank for the entire United Kingdom.

We have also introduced a reprioritisation process and developed agile working structures, allowing effective One Bank working across boundaries. Agile structures have brought together staff to deliver significant projects including preparations for Brexit and one of the largest ever reforms to the structure of the UK banking sector, with large UK banks having successfully ring-fenced their core retail banking activities from their investment and international banking activities by the beginning of this year. More generally, these changes allow the Bank to meet its objectives with a flat nominal budget as the challenges we face evolve.

That changing backdrop is reflected in our Strategic Priorities. They include a focus on fintech, helping the financial sector build its operational resilience and delivering the next generation of our core payments system, RTGS.

We need systems and processes to support our modernisation. And, as highlighted in the NAO report last year, there is further to go in modernising the Bank's internal processes and procedures. We have recognised that for a number of years, and our Central Services Transformation programme is designed to deliver significant improvements to our own operational resilience, data and HR systems. This all needs to be achieved with a clear focus on value for money.

Underlying all of this is a commitment to diversity and inclusion. We need to make sure that our staff reflect the face of the UK — at all levels. And that we provide an atmosphere where colleagues feel able to bring their whole self to work. Court provides continuous review and challenge of the Bank's approach to diversity and inclusion. There has been major progression, particularly against our target for women in senior roles. But there is much more to do. Although BAME representation has increased overall, it has not changed materially at senior levels and there is more to do in improving retention for BAME colleagues. With that in mind, Court has specifically focused on BAME diversity this year, leading to the creation of a taskforce, which includes the three co-chairs of our Ethnic Minorities Network.

Diversity and inclusion does not just reflect what goes on inside the Bank. We also need to ensure that we are engaging with the United Kingdom as a whole. That means reaching out beyond our traditional audience and contacts in the financial and business sectors to those in the third sector and people from all walks of life. As part of that our staff have visited nearly 300 schools and we have run 12 town halls and citizens panels over the past year. The Bank's outward-facing approach was also reflected in our public consultation on the face of the new polymer £50 note, which received over 200,000 nominations.

Successful institutions need to maintain productive relationships with their key stakeholders. I would like to thank Her Majesty's Treasury and the UK Parliament for their support of the Bank's work.

This is my first year as Chair of the Bank's Court. I have been particularly fortunate to succeed Sir Anthony Habgood in that role. Sir Anthony was instrumental in making the Court an effective modern board, in which the executive and non-executive members worked closely together to deliver the Bank's objectives.

The ease with which new members have been able to assimilate themselves on Court, and with which I have been able to take over as Chair, are both testament to Sir Anthony's achievement.

Court has seen a number of other changes over the past year. I'd like to take this opportunity to thank Don Robert and Dave Prentis for their service to the Bank over many years.

I look forward to continuing to work alongside the Governor, over his final year, Court and other Bank colleagues in support of the Bank's continuing mission to promote the public good by maintaining monetary and financial stability.

Bradley Fried
21 May 2019

Report by the Governor

Mark Carney
Governor

The Bank continues to safeguard the monetary and financial stability of the United Kingdom through a period of immense change. In parallel, we are laying the foundations of the future of the financial system. And we are deepening cultural change within our institution by choosing inclusion, increasing collaboration and expanding openness.

The Bank has continued to ensure monetary and financial stability through a period of intense uncertainty surrounding the UK's withdrawal from the EU. This has been delivered through the work of each of our three core functions: monetary policy, macroprudential policy, and microprudential supervision and regulation. To achieve its mission, the Bank has focused on seven strategic goals and maintained momentum on our Vision 2020 agenda to improve how we communicate and how we work.

Core functions

The **Monetary Policy Committee** (MPC) has responded to the changes in the economic outlook, setting policy to meet the 2% inflation target.

Over the past decade, our economy has needed interest rates to stay very low as a result of broader structural factors, including the increased saving that has come with ageing populations, lower productivity growth in the wake of the financial crisis and the onset of the Fourth Industrial Revolution. In combination these factors have depressed structural interest rates globally. Within that context as the economy started to grow more quickly, and with inflation above the 2% target, it has needed somewhat less support. The MPC therefore raised Bank Rate from 0.25% to 0.5% in November 2017 and then from 0.5% to 0.75% in August 2018 to ensure inflation returns sustainably to target.

If the economy continues to perform as the MPC expects, upward pressure on prices is likely to build. That means the Committee is likely to have to raise interest rates further in order to keep inflation at target. Any rises in interest rates are expected to happen at a gradual pace and to a limited extent. Interest rates are likely to remain substantially lower than before the financial crisis.

The MPC's view that a gradual and limited rise in interest rates may be needed is based on an assumption that there will be a smooth Brexit, in which the UK and EU agree a deal and there is a period of time during which businesses can adjust to the new relationship. This is by no means assured, and the exact nature of Brexit will affect the path of the economy. The appropriate response of monetary policy will depend on the balance of its effects on demand, supply and the exchange rate. Whatever happens, the MPC will set interest rates to keep inflation low and support jobs and growth.

The quality and security of banknotes are also central to monetary stability. Polymer notes are safer than paper notes, and last more than twice as long. They are also better for the environment due to both their longevity and recyclability. We have continued work on the new polymer £20 note, which will launch next year. And we received over 200,000 nominations from the British public for the new £50 note character, who will be a scientist.

The **Financial Policy Committee** (FPC) aims to ensure the UK financial system is resilient to, and prepared for, the wide range of risks it could face — so that the system can serve UK households and businesses in bad times as well as good.

The Bank continues to do everything within our powers to ensure the UK financial system is ready for **Brexit**, whatever form it takes. The core banking system is now strong enough to withstand the economic and financial shocks that would accompany a worst case disorderly Brexit. Major UK banks' capital ratios are more than three times higher than before the global financial crisis. With over £1 trillion of liquid assets, major UK banks are able to meet their maturing obligations for many months without any need to access wholesale funding or foreign exchange markets.

The Bank is able to lend in all major currencies to financial institutions that have pre-positioned collateral in its Sterling Market Framework facilities.

Over the past few years, the FPC has identified the major risks of Brexit for UK financial stability, and then catalysed action to address them. Most risks to UK financial stability that could arise from disruption to cross-border financial services in a no-deal Brexit have now been mitigated. This follows extensive legislative and other preparations by UK authorities, as well as actions EU authorities have taken to mitigate risks of material disruption to cleared derivatives markets. However, some disruption to cross-border services is possible, and the Bank continues work with domestic authorities and EU counterparts towards their mitigation.

The **2018 stress test** showed the UK banking system is resilient to deep simultaneous recessions in the UK and global economies that are more severe overall than the global financial crisis, and that are combined with large falls in asset prices and a separate stress of misconduct costs. The global stress included in the scenario reflected an assessment that global debt vulnerabilities are material overall, and highly elevated in China. In addition, market-based finance has accounted for all of the increase in foreign lending to emerging market economies (EMEs) since the crisis, and this could amplify spillovers to the global economy from a crystallisation of risks in EMEs.

Reflecting its assessment that underlying vulnerabilities in the domestic and global economies have not, on balance, changed over the year, the FPC has maintained the **UK countercyclical buffer rate** at 1%.

The Committee has also continued work to mitigate a number of **other cross-cutting or sector-specific risks**. The FPC reviewed rapid growth globally in leverage lending and concluded that UK banks' exposures are very small and adequately covered in the Bank's 2018 stress test.

It also assessed risks associated with leverage from the use of derivatives in the non-bank financial system, concluding that risks of forced sales to meet derivative margin calls currently appear limited.

The FPC added the provision of cloud services to its 'close monitoring' list of fast-growing and evolving areas beyond the core banking sector, joining exchange-traded funds, financial technology innovation and risks from fast markets. The FPC also launched an exploratory pilot cyber stress test to test firms' systems if payments were to become unavailable, which will also assess interdependencies between different parts of the system.

The **Prudential Regulation Committee** has continued to oversee the Prudential Regulation Authority's (PRA's) regulation and supervision of banks and insurers in the UK, including the protection of insurance policyholders. The PRA's *Annual Report* covers this in detail.

One of the PRA's major achievements this year is the completion of ring-fencing reforms to the banking system, the largest transformation project in the history of the UK financial system. Large banks' everyday retail banking services within are now separated from investment banking and international activities. The ring-fencing rules went live on 1 January 2019, and the PRA continues to monitor banks' compliance with the letter and spirit of those rules.

We have continued to emphasise high-quality management for banks and insurers. To that end, we have extended the Senior Managers and Certification Regime to insurance firms.

Throughout the year we have also considered the implications of the PRA's rules on competition. With that in mind, we have set up a New Insurer Start-up Unit jointly with the Financial Conduct Authority (FCA). This follows the success of the New Bank Start-up Unit which we launched in 2016.

The PRA's supervision has been central in reducing risks to firms' safety and soundness as the UK prepares to leave the EU, bringing together policy development, authorisation and supervision. We have also ensured the necessary legal and regulatory frameworks were in place for financial services, including in the event that the UK left the EU without a deal.

Strategic goals

Over the past year, we have made significant progress on our strategic goals and updated them to maintain our focus going forward.

As discussed, each of the Bank's three policy committees has been closely involved with our preparations for **Brexit**.

We are **transforming our central services**. This year we have established a new strategic goal to help the Bank continue delivering value for money in the future. We have held our budget flat for the financial year and will do so in the medium term. In November 2018 the National Audit Office (NAO) published a report on the Bank's central services. While recognising that the Bank performed well compared to central bank peers, some of our systems and processes can be made yet more cost-effective. The NAO concluded we are moving in the right direction. By incorporating the NAO's recommendations into our existing transformation plans, we will make the Bank's central services streamlined and fully up-to-date.

To promote **fair and effective markets**, we are making sure market participants have a reliable measure of short-term interest rates that they can use to determine interest payments. Following international best practice, we are working with the private sector to help manage a transition away from Libor and towards the Sterling Overnight Index Average (SONIA), which is more robust. The FPC is monitoring progress towards SONIA. We have welcomed work led in the private sector on interest rate benchmarks that reflect longer-term costs of borrowing. It will also be important for derivative contracts to be able to transition in an orderly way.

A new economy requires a new finance. Finance must adapt to serve the changing needs of its customers, in part by seizing the opportunities offered by new technologies. It will offer products that are more cost-effective, more keenly priced, better tailored, and more accessible for businesses and consumers. The UK's leading **fintech** companies are creating this new finance.

We are also identifying where we can use technology to improve the quality of our supervision. We are using advanced analytics to understand the interconnectedness of the PRA rulebook, to identify ways to simplify our rules and make compliance easier for firms. We are also exploring ways to make reporting more automated. These initiatives will, in time, help us unlock the power of AI in order to make supervision more efficient and more effective.

Finance will need also to channel funds needed by the major transitions shaping the new economy such as the rapid rise of emerging economic powers and the evolving response to climate change. The transition to a low-carbon economy, in particular, will require on some estimates as much as US$100 trillion of investment globally over the next decade. Earlier this year, we published a Supervisory Statement and Policy Statement that together set out our expectations for banks and insurers regarding their governance, risk management, strategic resilience and disclosure of climate-related financial risks.

To ensure we adjust fully to change, the Bank has announced a review to develop a vision for the future of the UK financial system, including recommendations for how the Bank should respond. Huw van Steenis is leading this review and will publish his conclusions this summer. At the same time, the Bank will announce concrete steps to create an environment for a more resilient, effective and efficient financial system.

Financial resilience — capital and liquidity — has long been the focus of the supervision of financial market infrastructures, insurers and banks. We have now made **operational resilience** a strategic priority, to make sure firms can recover from system failures, recognising that such failures can never be completely avoided.

In July 2018, the Bank, the PRA and the FCA published a discussion paper to share our thinking on operational resilience. Operational resilience is a relatively new topic in financial supervision, but we can draw on lessons in other industries; the UK authorities are at the forefront. We are currently incorporating operational resilience in firms' supervision plans. We will publish a consultation paper later in 2019.

The Bank continues to prioritise **resolvability** — ending 'too big to fail' by making sure the financial firms we supervise can be resolved safely when they fail. The UK already has an effective resolution regime in place for banks. This year we have finalised policy on the level of loss absorbency for the largest banks and we have consulted on a new framework for banks to assess their resolvability and disclose this to the market. This will make resolution more transparent and more credible.

We are **renewing RTGS**. The Real-Time Gross Settlement system sits at the core of the UK's payment system. It ensures payments go from one account to another account at exactly the same time, ensuring transactions cannot go missing or get duplicated. We are now building the new generation of this system.

Our vision is to develop a service with the requisite resilience, functionality and end-to-end risk management to support the payments ecosystem that the UK will need in the future.

Finally, we have closed out one of our objectives from the previous year. We completed our analysis of the causes and implications of 'low for long' interest rates and have removed that as a strategic goal now the work has been delivered.

Vision 2020: improving how we communicate and work together

In the second year of our Vision 2020 strategic plan, we have maintained momentum behind cultural changes that will prepare the Bank for 2020 and beyond.

To improve our communications, we are reaching out in new ways to a broader range of stakeholders. We have launched a new 'Bank Overground' blog and the readership and understanding of our revamped *Inflation* and *Financial Stability Reports* have improved. Senior leaders across the Bank have hosted 10 Town Hall sessions with members of the public and we hosted online Q&A sessions, culminating in a 'Future Forum' to discuss the future of money. Over 1,300 schools have registered for our free school resources to teach children about effective financial decision-making.

To improve how we work, we are investing in our managers and focusing on collaboration and inclusion. We have rolled out a new competence framework for managers and are embedding new agile operating models. In 2018, 15% of colleagues' time was spent on cross-Bank priority projects. We are making good progress towards our diversity targets to increase the representation of female colleagues in our senior roles to 35% by 2020; and below senior management, for 50% female and 20% Black, Asian and Minority Ethnic (BAME) colleagues by 2020. We recognise we have further to go to increase representation of BAME colleagues in our senior management and we have set up a new taskforce and signed the Race at Work Charter in March to ensure our inclusion agenda works for BAME colleagues.

These changes are helping everyone at the Bank do their best work, from high-quality analysis, to policy support, robust supervision, resilient operations and beyond. This spirit of dedication, innovation and collaboration has been exceptionally important in a challenging year during which colleagues at the Bank have retained their focus on the Bank's mission to promote monetary and financial stability for the good of the people of the United Kingdom.

Mark Carney
21 May 2019

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 per term 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 permanent sub-committees of Court are the Audit and Risk Committee, the Remuneration Committee and the Nominations Committee. An RTGS Renewal Committee has been formed to oversee the implementation of the Bank's Real-Time Gross Settlement service Renewal Programme. 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/about/people/court-of-directors.

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

The Court of Directors
as at 21 May 2019

Bradley Fried
Chair of Court

Appointed NED
1 June 2012

Term expires on
30 June 2022

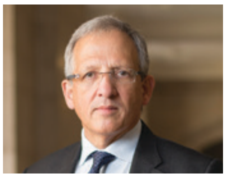
- Partner, Grovepoint
- Fellow of Magdalene College, Cambridge
- Governor, London Business School

Ben Broadbent
Deputy Governor, Monetary Policy

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

Mark Carney
Governor

- 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



Sir Jon Cunliffe
Deputy Governor, Financial Stability

- Member, Financial Stability Board
- Member, European Systemic Risk Board
- Alternate, ECB General Council

Anne Glover

Appointed NED
1 June 2018

Term expires on
31 May 2022

- Co-founder and CEO, Amadeus Capital Partners Limited
- Board Member, Glysure and Lightship Medical – Amadeus Investee Companies
- Founder and Director, Calderstone Capital Limited
- Trustee and Chair, Investment Committee of UnLtd – The Foundation for Social Entrepreneurs
- Member of the Investment Committee of Yale Corporation
- Member of the Prime Minister's Council for Science and Technology
- Honorary Fellow, Royal Academy of Engineering

Baroness (Dido) Harding of Winscombe
Deputy Chair of Court

Appointed NED
1 August 2014

Term expires on
31 July 2022

- Chair, NHS Improvement
- Life Peer taking the Conservative Whip, Member Economics Affairs Committee
- Non-Executive Director, MyAgro
- Senior Independent Director, MindGym plc
- Steward of the Jockey Club
- Trustee of DotEveryone
- Member of the UK Holocaust Memorial Foundation

Diana Noble

Appointed NED
1 June 2018
Term expires on
31 May 2022

- Non-Executive Director, Business Growth Fund
- Non-Executive Director, MedAccess Guarantee Limited
- Founder, Kirkos Partners

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

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

Dorothy Thompson
Senior Independent Director

Appointed NED
1 August 2014
Term expires on
31 July 2022

- Non-Executive Director, Eaton Corporation plc
- Chair of the Board, Tullow Oil plc

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

Policy committees

Monetary Policy Committee (MPC)

Members as at 21 May 2019
Top row, left to right

Mark Carney
Governor, Chair of the MPC

Ben Broadbent
Deputy Governor, Monetary Policy

Sir Jon Cunliffe
Deputy Governor, Financial Stability

Andy Haldane
Executive Director and Chief Economist

Jonathan Haskel
External member
Term: 1 September 2018 – 31 August 2021

Bottom row, left to right

Sir Dave Ramsden
Deputy Governor, Markets and Banking

Michael Saunders
External member
Term: 9 August 2016 – 9 August 2022

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

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

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 October 2018, the Chancellor of the Exchequer reconfirmed the target for monetary policy[1] is an inflation rate of '2 per cent as 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).

1 www.bankofengland.co.uk/letter/2018/mpc-remit-october-2018.

Financial Policy Committee (FPC)

Members as at 21 May 2019*

Top row, left to right

Mark Carney
Governor, Chair of the FPC

Andrew Bailey
Chief Executive, Financial Conduct Authority

Alex Brazier
Executive Director, Financial Stability Strategy and Risk

Ben Broadbent
Deputy Governor, Monetary Policy

Sir Jon Cunliffe
Deputy Governor, Financial Stability

Middle row, left to right

Anil Kashyap
External member
Term: 1 October 2016 – 30 September 2022

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

Sir Dave Ramsden
Deputy Governor, Markets and Banking

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

Bottom row, left to right

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

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

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 13 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/2018/remit-for-the-fpc-2018. And the FPC's response is at www.bankofengland.co.uk/letter/2018/response-to-the-remit-letter-for-the-fpc-2018.

* HM Treasury announced on 3 January 2019 that Dame Colette Bowe and Dame Jayne-Anne Gadhia were appointed as external members of the FPC. Dame Colette Bowe's term will commence on 1 September 2019. Dame Jayne-Anne Gadhia will join the Committee in April 2020.

* Martin Taylor appointed for a full term, but on the understanding he will step down when Dame Jayne-Anne Gadhia joins the Committee in 2020.

Prudential Regulation Committee (PRC)

Members as at 21 May 2019*

Top row, left to right

Mark Carney
Governor, Chair of the PRC

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

David Belsham
External member
Term: 1 March 2017 – 30 April 2021

Julia Black
External member
Term: 30 November 2018 – 29 November 2021

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

Middle row, left to right

Ben Broadbent
Deputy Governor, Monetary Policy

Norval Bryson
External member
Term: 1 March 2017 – 31 August 2021

Sir Jon Cunliffe
Deputy Governor, Financial Stability

Jill May
External member
Term: 23 July 2018 – 22 July 2021

Bottom row, left to right

Sir Dave Ramsden
Deputy Governor, Markets and Banking

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

Mark Yallop
External member
Term: 1 March 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.

- 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 PRA fees, with the PRC responsible for consulting on and setting the level of those fees.
- The PRC is required to report annually to the Chancellor of the Exchequer 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]
- Since February 2016 members of the PRC have been indemnified by the Bank against personal civil liability on the same terms as members of Court (see page 7).

1 Available on pages 10–11 in the *PRA Annual Report 2018/19*, www.bankofengland.co.uk/prudential-regulation/publication/2019/annual-report-2019.

* 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 2019/20 on 15 April 2019.[2]

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

2 www.bankofengland.co.uk/prudential-regulation/publication/2019/pra-business-plan-2019-20.

Our organisation

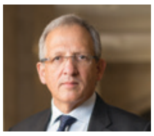
The executive and their membership, where relevant, of the MPC, FPC and PRC are indicated below.

Governor

Mark Carney
(MPC, FPC, PRC)

Deputy Governors

Ben Broadbent
Monetary Policy
(MPC, FPC, PRC)



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

Joanna Place
Chief Operating Officer

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

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

Executive Directors[1,2,3,4,5]

David Bailey
Financial Market Infrastructure

Sonya Branch
General Counsel

Alex Brazier
Financial Stability Strategy and Risk (FPC)

Sarah Breeden
International Banks Supervision

Stephen Brown
Risk

Victoria Cleland
Banking, Payments and Innovation

Jonathan Curtiss
Human Resources (jobshare)

Rob Elsey
Technology

John Footman
Secretary of the Bank

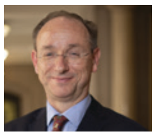
Andy Haldane
Monetary Analysis and Chief Economist (MPC)

Andrew Hauser
Markets

Sasha Mills
Resolution

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

Lea Paterson
Human Resources (jobshare)



James Proudman
UK Deposit-Takers Supervision

Gareth Ramsay
Communications

David Rule
Insurance Supervision

Victoria Saporta
Prudential Policy

Rob Thompson
Finance (Acting)

1 The following Executive Directors commenced their appointments in 2018/19: Sasha Mills (20 August 2018), Rob Thompson (Acting, since 1 January 2019).
2 The following held Executive Director posts during 2018/19: Geoff Davies (Resolution, Acting, until 31 August 2018), Rommel Pereira (Finance, until 31 December 2018).
3 Sarah Breeden will move to be Executive Director for UK Deposit-Takers Supervision on 1 July. She will replace James Proudman who is leaving the Bank on 30 June.
4 David Bailey will move to be Executive Director of International Banks Supervision once a new Executive Director for Financial Market Infrastructure has been appointed.
5 Gareth Ramsay will move to be Executive Director responsible for Data to form and implement a One Bank data strategy. He will take up the role in the summer.

Review of 2018/19

This Review begins by summarising our 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 Strategic Plan, Vision 2020.

Highlights include the work done across the Bank in: preparing for EU withdrawal; ring-fencing the largest UK banks' retail services; and providing international leadership on understanding the risks from climate change and green finance.

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.

Over the past few years, our economy has needed interest rates to stay very low as we recovered from the global financial crisis. That has reflected broader structural factors, including the increased saving that has come with ageing populations, that have depressed structural interest rates globally.

But things have been changing. As our economy started to grow more quickly, and with inflation above the 2% target, it needed a little less support. That is why the MPC raised the official interest rate from 0.5% to 0.75% in August 2018. If the economy performs as we expect, upward pressure on prices will probably build over the next few years and the MPC will need to raise interest rates a bit more to keep inflation at target.

Any rises in interest rates are expected to happen at a gradual pace and to a limited extent, and interest rates are likely to remain substantially lower than before the financial crisis.

That outlook continues to depend significantly on the nature and timing of EU withdrawal, in particular: the new trading arrangements between the European Union and the United Kingdom; whether the transition to them is abrupt or smooth; and how households, businesses and financial markets respond. The appropriate path of monetary policy will depend on the balance of these influences on demand, supply and the exchange rate.

We regularly survey the public on their attitudes to inflation, their opinion of the Bank, and their awareness of what we do. In the survey, conducted by the research agency Kantar TNS on our behalf, respondents are asked, among other questions, to assess the way the Bank is 'doing its job to set interest rates to control inflation'. The latest net satisfaction balance — the proportion satisfied minus the proportion dissatisfied — was +30% in February 2019. This was unchanged from a year earlier.

Colleagues from across the Bank have worked together on a number of analytical issues in support of our monetary stability remit. Key areas this year include: the Bank's report for the Treasury Select Committee on the impact of various Brexit scenarios on the UK economy; the review of guidance on the level of Bank Rate at which the MPC would consider starting to unwind its stock of purchased assets made under Quantitative Easing; a stocktake of the equilibrium interest rate (the rate that if allowed to prevail for several years would mean economic activity would be at its potential and inflation would be at our 2% target); and the MPC's annual assessment of the supply side of the economy.

We recognise that we need to earn and maintain the legitimacy to perform the functions given to us by Parliament by being open, accountable and transparent. During the year, the MPC has presented evidence at seven Parliamentary hearings, including those of the Treasury Select Committee, and MPC members have given around 100 interviews and speeches.

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

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 are resilient to extreme economic events. Our tests this year showed that the UK banking system could maintain lending to UK companies and households in the event of deep simultaneous recessions in the UK and global economies that are more severe overall than the global financial crisis, combined with large falls in asset prices and a separate stress of misconduct costs.

The Bank continues to do all it can to reduce financial stability risks around Brexit just as we did around the EU referendum when we engaged in extensive contingency planning with HM Treasury, foreign central banks and private institutions.

For example, the FPC reviewed a disorderly Brexit scenario, with no deal and no transition period, leading to a severe economic shock. Based on a comparison of this scenario with the stress test, the FPC judges that the UK banking system is strong enough to continue to serve UK households and businesses even in the event of a disorderly Brexit.

For risks that private financial institutions cannot self-solve, the Bank is working with HM Treasury to find solutions. And where the issues are cross-border, the Bank is working with the European Central Bank to manage risks in the period around Brexit related to financial services.

There is a risk that a disorderly Brexit could disrupt the provision of financial services that EU firms provide to UK households and businesses. To mitigate this risk the FPC has continued to publish a regular checklist of actions to avoid disruption to end-users of financial services during Brexit. Most risks to UK financial stability that could arise from disruption to cross-border financial services in a no-deal Brexit have been mitigated. Extensive legislative and other preparations have been made by UK authorities to ensure UK households and businesses can use existing and new services from EU financial institutions. EU authorities have mitigated risks of material disruption to cleared derivatives markets.

Strategic priority:

Brexit
Maintaining monetary and financial stability during Brexit and beyond

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

In its most recent meeting, the FPC judged that the tightening of financial conditions and the slowing in domestic and global growth in late 2018 represented the partial realisation of some risks that had been previously identified by the FPC, rather than an increase in underlying vulnerabilities. In the global economy, debt vulnerabilities remained material in China and some emerging markets, the US corporate sector and Italy. In the UK, credit growth had slowed but is in line with income growth and debt-servicing burdens remained low, consistent with a standard level of underlying vulnerability. Measures of implied volatility and the valuation of some assets factored in a relatively benign outlook for inflation, and appeared inconsistent with the degree of uncertainty about a range of economic policies in the global economy.

Consistent with that view, the FPC has maintained the UK countercyclical capital buffer (CCyB) rate at 1.0% (it was last raised from 0.5% to 1.0% in November 2017). The FPC stands ready to move the UK CCyB rate in either direction as the risk environment evolves.

Staff have worked with colleagues from across the Bank on a number of analytical issues in support of our financial stability remit. Key areas this year include: analysis presented in the November 2018 *Financial Stability Report* on the resilience of the UK financial system to a disorderly Brexit; analysis of the risks posed by the rapid growth in leveraged lending, including detailed work to identify the investors in securitisations of leveraged loans; and an in-depth assessment of the risks associated with leverage from the use of derivatives in the non-bank financial system.

During the year, the FPC has presented evidence at nine Parliamentary hearings, including those of the Treasury Select Committee, and FPC members have given close to 70 interviews and speeches.

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 — is central to delivering our overall financial stability objective.

Over the past year we have continued to work to ensure that FMIs are suitably prepared for Brexit, including in the event that the UK leaves the EU without a deal. We have taken the necessary steps to avoid interruption to the vital services that FMIs provide. That has included close monitoring of UK FMIs' Brexit contingency plans and, where appropriate, joint work with the relevant UK and EU authorities to reduce the risk of disruption.

In addition to contingency planning, the Bank has provided advice to the UK Government on its work nationalising EU law to enable FMIs to continue to operate within a legal framework that is based on the existing EU framework.

We have also made progress on a number of other areas including: clarifying the objectives of FMI supervision; expanding our supervisory remit to include service providers to systemically important payment systems; and work with the Prudential Regulation Authority and Financial Conduct Authority to enhance the operational resilience of FMIs.

More detail on these and other activities are provided in the Bank's *Supervision of FMIs Annual Report*,[2] published in February 2019.

Resolution

The UK now has in place a comprehensive and effective bank resolution regime that can deal with bank failures in a way that maintains critical economic functions to households and companies.

Strategic priority:

Resolvability
Ending 'too big to fail' by making sure firms we supervise can fail in an orderly way

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

2 www.bankofengland.co.uk/news/2019/february/supervision-of-financial-market-infrastructures-annual-report-2019.

In June 2018 the Bank completed the final part of its policy around the financial resources that firms must hold within their groups to make resolution credible. The largest UK banks are already able to absorb losses of around 25% of their risk-weighted assets in a resolution, and are well on their way towards the requirement of around 28% of risk-weighted assets by 2022.

In December 2018 the Bank and PRA published consultations on a new assessment and disclosure framework that will ensure that banks are taking responsibility for their own resolvability, in part by ensuring banks are transparent about the effectiveness of their preparations for resolution.

These proposals put in place the final major piece in the UK's resolution regime for banks and therefore are an important step in the Bank's commitment to Parliament that major UK banks will be fully resolvable by 2022. They would make resolution more transparent, better understood and more successful. They would also build on key post-crisis work imposing losses on the investors in failed banks, not taxpayers.

Benchmark interest rates

Benchmark interest rates are a convenient and widely accepted measure of short-term interest rates, and are used in financial contracts to determine interest rate payments.

In April 2018, the Bank took on the end-to-end production of the Sterling Overnight Index Average (SONIA) interest rate benchmark. At the same time it introduced changes to the calculation methodology to make it more robust and resilient to attempted manipulation. In July 2018, the Bank published an externally audited assessment that it was fully compliant with the intent of the IOSCO Principles for Financial Benchmarks, which are viewed as international best practice for benchmark administrators.

A SONIA Oversight Committee has been formed to provide challenge to the Bank on all aspects of the SONIA benchmark production. The Committee is made up of both internal and external members and meets on a regular basis. During the year it discussed topics including the Bank's preparations to commence publishing SONIA; the Bank's approach to minimise the risks of the benchmark being manipulated, through both benchmark design and ongoing surveillance processes; and the changing uses of SONIA as sterling markets transition to it, and away from Libor.

Following the recommendation of the Financial Stability Board we are also working with private sector market participants to catalyse a broad-based transition away from sterling Libor and towards the preferred risk-free rate in sterling markets of SONIA. In June 2018, the FPC agreed it would continue to monitor progress on the risks associated with financial markets' reliance on Libor. Since then, there have been encouraging signs of transition to SONIA.

We have also welcomed two important market-led consultations. The Working Group on Sterling Risk-Free Reference Rates launched a consultation on a forward-looking term benchmark based on SONIA. A term benchmark is seen by some market participants as essential for transition away from Libor.

In addition, the International Swaps and Derivatives Association (ISDA) launched a consultation on the fallback rate for Libor in over-the-counter derivatives contracts, if Libor is discontinued. The implementation of fallback clauses is an important backstop to mitigate financial stability risks.

Both organisations published the results from their consultations in November 2018.

Strategic priority:

Fair and Effective Markets
Catalysing reforms in financial markets

Despite these developments, important challenges for the market and authorities remain. In particular, many new long-dated contracts are still referencing Libor. The FPC will continue to monitor progress and report regularly on outstanding risks.

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 safety and soundness 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, among other things, focused on preparations for EU withdrawal to ensure a fully functioning legal and regulatory framework for financial services, implementing the ring-fencing of the largest UK banks' retail banking services, delivering a series of improvements to our implementation of Solvency II, and developing its microprudential supervisory approach to operational resilience.

More detail on these and other activities will be provided in the PRA's *Annual Report*, published in June 2019.[1]

Structural reform

Ten years on from the financial crisis, we have delivered one of the largest ever reforms to the structure of the UK banking industry. Large UK banks were legally required to separate, or 'ring-fence', their core retail banking services from their investment and international banking activities by 1 January 2019. This separation helps to protect access to the banking services we all depend on every day. Major UK banks including Barclays, HSBC, Lloyds, RBS, Santander UK, Virgin Money, Clydesdale Bank and TSB have implemented the separation such that around three quarters of UK consumer deposits have been ring-fenced. This has been accomplished with little disruption to their customers and counterparties.

Work on ring-fencing is ongoing. UK banks and the PRA have to continue to ensure that ring-fencing is firmly established as part of the UK regulatory regime, that operational separation within the banking groups is maintained, and that banks have the necessary arrangements in place to monitor compliance with their new obligations.

Fintech

Recent advances in financial technology (fintech) provide a clear example of how the Bank needs continually to adapt and change as society itself changes if we are to meet our mission to promote the good of the people of the United Kingdom. Fintech is advancing rapidly and the Bank is itself changing to ensure it can accommodate rapid change in the UK financial system.

Strategic priority:

Fintech
Embracing fintech to deliver our mission

1 www.bankofengland.co.uk/prudential-regulation/publication/2019/annual-report-2019.

Future of finance

To support our thinking on future policies and capabilities, the Bank announced in May 2018 that it had asked Huw van Steenis (most recently Global Head of Strategy at Schroders) to lead a project on the 'Future of Finance'. The project is examining how financial services might evolve over the next decade, and what this means for individuals, businesses and financial service providers.

The forthcoming Future of Finance report will include a set of implications for the Bank, including how we can support an evolving financial system while continuing to meet our main objectives of maintaining monetary and financial stability. These will help us ensure that financial services continue to serve UK households and businesses effectively.

Cryptoassets

Cryptoassets and the distributed ledger technology (DLT) that underpins them have the potential to deliver substantial benefits, both in financial services and other sectors. But there could be potential financial stability risks associated with cryptoassets that could harm consumers and markets.

In October 2018, the Bank, joint with HM Treasury and the Financial Conduct Authority, published a report that assessed the associated risks and potential benefits from cryptoassets. The report noted that the authorities will take action to protect consumers and markets, allow innovation to thrive, and maintain the UK's international reputation as a safe and transparent place to do business in financial services with high regulatory standards.

To achieve that aim the authorities will support the development of DLT, and will consult on a range of issues including implementing a strong Anti-Money Laundering regime with regards to the use of cryptoassets, and banning the sale of derivatives referencing cryptoassets. The authorities will continue to convene twice a year to monitor how the market develops.

Payments

Payment 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, user demand and the need for ever greater resilience we are renewing our core settlement system, Real-Time Gross Settlement (RTGS), which sits at the heart of the UK's payments infrastructure. The RTGS Renewal Programme is a large and complex project that is on schedule to be completed in 2025. Our vision is to develop an RTGS service that is fit for the future, increasing resilience and access, widening interoperability, improving user functionality and strengthening end-to-end risk management. Our changes will help to increase competition and innovation in the wider banking and payments markets.

The RTGS Renewal Programme has already achieved a number of key milestones including in July 2017 we announced that non-bank payment service providers could hold accounts in RTGS to enable settlement as direct members of payment systems. Over the longer term, this should create a more diverse payments sector with fewer single points of failure. A number of non-bank payment service providers joined during the year, and more are in the pipeline. The Bank also took over direct responsibility for the CHAPS payments system in November 2017. This marked an important milestone in our ongoing work to make CHAPS and RTGS safer, more secure, and more accessible, in line with our vision and international best practice.

Strategic priority:

Real-Time Gross Settlement (RTGS)
Delivering the next generation of our core payments system

In June 2018 the Bank launched a consultation on the adoption of a common ISO 20022 messaging standard for payments in the UK, and in November 2018 we published our response. Implementing ISO 20022 will enrich the data carried in payments messages, improve compatibility across technology platforms and create opportunities for collaboration and innovation.

Operational resilience

Operational resilience refers to the ability of firms and the financial system as a whole to prevent, adapt and respond to, and recover and learn from, operational disruption. We expect firms to plan on the assumption that any part of their infrastructure could be impacted, whatever the reason. Firms need to consider whether they can ensure that the important business services they provide can be delivered through disruption. And it requires the most critical firms not only to consider their own direct impact, but also any systemic impact that an operational failure at their own firm might have.

In July 2018, the Bank, PRA and FCA published a discussion paper to share the supervisory authorities' thinking regarding operational resilience and obtain feedback from all parts of the financial sector, as well as from consumers, market participants and other stakeholders, including other regulatory organisations. The authorities are currently examining this feedback with the aim of publishing a consultation paper on operational resilience in the second half of 2019.

In that regard, we welcome the Treasury Select Committee's inquiry into IT failures in the financial services sector, and have responded to the inquiry jointly with the FCA.

Environment

Climate change

Climate change, and society's response to it, presents financial risks that could impact the Bank's monetary and financial stability objectives.

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).

Given this combination of immediate physical risks and prospective transition risks, the Bank has been leading international work on central banks' climate change and green finance.

In September 2018, the PRA published a review of the financial risks from climate change facing the UK banking sector. The review found that the majority of banks have started to treat risks from climate change like other financial risks, rather than viewing them simply as a corporate responsibility issue. However, only a small number of banks are taking a longer-term, strategic approach to managing these risks.

In April 2019, the PRA set out its expectations for banks and insurers regarding firms' approaches to managing the financial risks from climate change. These expectations cover four key areas: governance; risk management; scenario analysis; and disclosure.

Recognising the need to build capacity and to develop best practice, the PRA and FCA have established a Climate Financial Risk Forum to work with firms from across the financial system to advance approaches to managing climate-related financial risks.

Strategic priority:

Operational resilience
Building greater operational resilience in the financial system

Given the need for a collective, co-ordinated response, the Bank is also working closely with counterparts both domestically and internationally. For example, the Bank is a co-founding member of the Central Banks and Supervisors' Network for Greening the Financial System. Since its inception in December 2017, it has grown to nearly 30 members and observers. It aims to share best practice and analysis on the financial risks from climate change and green finance.

In line with the expectations that we set out for regulated firms, the Bank will disclose its approach to managing the financial risks from climate change on its operations as part of its annual reporting from next year. This disclosure will be in line with the recommendations of the Task Force for Climate-related Financial Disclosures.

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.

Our move to polymer notes is delivering lasting environmental benefits. Polymer notes are expected to last at least two-and-a-half times longer than our old paper notes. Polymer notes also deliver benefits to users as they are cleaner, safer and stronger than paper notes.

The Bank's programme to introduce a polymer £20 note featuring JMW Turner is progressing well and the notes are expected to enter circulation on schedule in 2020.

In Autumn 2018 we also announced that we would be introducing a new polymer £50 note. In line with our principles of openness and transparency, we asked the public to help us decide who in the field of science should be the face of the new £50 note. We had an enormous response with over 225,000 nominations. From these nominations we created a list of almost 1,000 people who meet our criteria. The Banknote Character Advisory Committee is reviewing the candidates and we will announce which character will appear on the new £50 note in Summer 2019.

The Banknote Character Advisory Committee is made fully aware of the importance of consciously considering the Public Sector Equality Duty, all the protected characteristics and diversity more generally, throughout the character selection process.

Value for Money

The Bank strives constantly to provide value for money. We have held our budget flat over the past two years and have committed to do so over the medium term. The Bank has managed that while meeting major new demands arising from the decision to leave the European Union. This is delivered through regular prioritisation at a Bank-wide level to ensure we are doing what matters most, and through longer-term projects to deliver sustainable savings.

The Bank is subject to regular reviews by the National Audit Office (NAO) who scrutinise delivery of value for money by government departments and other public institutions. On 19 December 2018 the NAO published a report that examined whether the Bank has a sufficiently ambitious strategy for developing efficient and cost-effective central services, appropriate to support the Bank to deliver change and control costs. The report was subject to a hearing at the Public Accounts Committee (PAC) which published its own report in March 2019. We welcome the scrutiny of the Bank by the NAO and PAC and we will respond to the PAC's report by the end of June.

The NAO's review was timely because it looked at the Bank's Central Services Transformation: a series of programmes initiated in 2017 borne out of a recognition that we could provide our central services more efficiently. The NAO concluded that the Bank was moving in the right direction, and provided helpful recommendations including to undertake more benchmarking against comparable organisations, to ensure cost and performance data are tracked together and to set out a clear plan on sustainable savings. The Bank supports those recommendations and they are entirely consistent with the Bank's plans for cost containment. The Public Accounts Committee highlighted the importance of two other workstreams the Bank had under way that had already been subject to review by Court: the implementation of a new procurement policy; and delivering a value-for-money strategy for the Bank's properties over the longer term.

Research

The Bank aims to conduct cutting-edge research and analysis at the intersection of monetary policy, financial policy and prudential regulation. Outstanding research and analysis underpin everything we do.

During the year we have published over 40 papers in academic journals, and over 200 research projects are currently in progress across the Bank. Several research projects have had a concrete impact on internal policy and external debate. This includes informing our analysis on EU withdrawal scenarios; a recent letter from US Senators to the Chair of the Federal Reserve citing our work on climate change; and several of our research papers being cited in a Financial Stability Board report on incentives to centrally clear OTC derivatives.

The Bank's Strategic Plan

In 2017, the Bank of England launched its three-year Strategic Plan, Vision 2020, which was designed to reinforce and build on the success of the previous One Bank Strategy.

Vision 2020 is focused on how we communicate and how we work. It aims to make it easier for the public to engage with the Bank so our policies have greater impact and reach. It also aims to encourage a more agile way of working with a greater focus on prioritisation and moving resources to what matters most for the people of the United Kingdom. Underpinning both of these aims is a desire to continue to build empowerment and inclusion. More detail on the main steps we have taken to continue to build a more inclusive workplace for our people, as well as our diversity data is given in 'Our people' (see pages 41–49).

How We Communicate

Our focus this year has been to make our communications simpler and more accessible. To support that aim, we have continued to embed a layered approach to our communications. That means producing different communications to suit different audiences, bringing out more clearly the key messages we want to communicate, and making those messages more accessible to a wider set of audiences through digital and social media. We are also working towards making our website achieve level AA in web content accessibility standards.

Following on from the success of layering our *Inflation Reports* we now also produce fully digital layered *Financial Stability Reports*. Through layering these reports we have managed to generate close to 500,000 interactions this year, and we have continued to see much higher rates of engagement on social media, as well as increased use of our messages and charts by media companies.

We also want to share more of the internal high-quality staff analysis that informs our decisions with the outside world. So in January 2019 we launched a new digital channel for staff analysis, Bank Overground. Its purpose is to share bite-sized summaries of analysis that supported a policy or operational decision. In many cases that work would not previously have been shared externally. We hope that over time this channel will be seen as a key part of the way the Bank communicates with our external stakeholders.

We know that for our policies to be effective the Bank needs to be understood, credible and trusted. Alongside transforming our content, we are delivering on an ambitious programme of outreach and education which is described in detail in the Corporate Sustainability and Responsibility section (see page 53).

How We Work

We have put prioritisation and business planning at the heart of How We Work. We are increasingly using more agile operating models across the Bank to ensure we can redeploy the right people working on what matters most. In practice this has meant over 500 colleagues working on priority projects in collaboration with colleagues outside their local area.

To support our vision of a more empowered organisation we have successfully rolled out our new management training framework. The framework tackles four areas: management competencies; training; performance; and selection. So far around 400 managers across the organisation have received the new set of training resources. While feedback from managers has been positive, we are planning various improvements to the framework including a greater emphasis on diversity and inclusion, and a clearer link between the training and managers' development plans.

To enable stronger collaboration we have continued to grow our internal online community, Bank Exchange. Bank Exchange allows staff to exchange thoughts, views and ideas with each other. Since the beginning of the year, the percentage of staff that are regular users of the platform has risen rapidly from around 10% to almost 25%.

We have also developed new technology to ensure that all new opportunities, in all areas of the Bank, become available as they arise, in the most open and inclusive way as possible. Since the launch, we have seen a rise in the number of opportunities advertised on this platform to over 600. We have also exceeded our original target of 10% of our time being spent working across boundaries, achieving 15%.

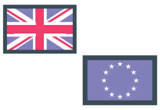
Over its 325-year history, the Bank has always evolved, but at its core has been a timeless mission to promote the good of the people of the United Kingdom by maintaining monetary and financial stability. To achieve this and to continue to ensure we are focusing on the work that matters most, we have developed a series of strategic goals for the organisation. These are the key changes we need to make today to deliver our core functions more effectively in the future, and we are transforming how we work and communicate in order to achieve them.

Our strategic goals for 2019 are shown in the infographic on the following page. There is one important change from last year. We have added a new goal to further improve the Bank's Central Services making them safer and stronger in order to better support all of our policy objectives. This strategic goal will help us materially improve the Bank's operational resilience by reducing risks to physical security, information security and technology infrastructure. The other change was to close out the strategic goal to understand the causes and implications of a 'lower-for-longer' interest rate environment. That work has been delivered.

Strategic priority:

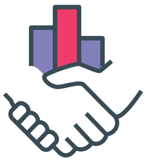
Central services transformation
Enhancing the strength, security and efficiency of the Bank's internal operations

Our strategic goals for 2019



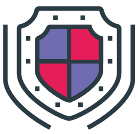
BREXIT
Maintaining monetary and financial stability during Brexit and beyond

CENTRAL SERVICES TRANSFORMATION
Enhancing the strength, security and efficiency of the Bank's internal operations



FAIR AND EFFECTIVE MARKETS
Catalysing reforms in financial markets

FINTECH
Embracing fintech to deliver our mission



OPERATIONAL RESILIENCE
Building greater operational resilience in the financial system

RESOLVABILITY
Ending 'too big to fail' by making sure firms we supervise can fail in an orderly way

RTGS
Delivering the next generation of our core payments system

Financial review 2018/19

Financial statements highlights

The table below presents highlights of the combined 2019 financial statements.
Further explanation and commentary is provided below.

Financial statement highlights

	2019 £m	2018 £m
Banking Department total balance sheet size	601,583	606,813
Banking Department profit before tax	118	138
Cash Ratio Deposits	7,884	4,708
Income from Cash Ratio Deposits	123	105
Funding for Lending Scheme	15,959	28,598
Funding for Lending Scheme income	52	108
Notes in circulation	74,171	73,250
Net seigniorage income	442	196
Combined cost base	646	647
PRA cost base	278	280
Payment to HM Treasury in lieu of dividend	54	65

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.

Under the Bank of England and Financial Services Act 2016 separate Prudential Regulation Authority (PRA) disclosures are presented in the *Annual Report* on pages 152–60, 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 in this section represent the aggregation of the Banking Department and Issue Department, and are presented for information purposes only.

The key elements of the financial framework 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 ratio of their eligible liabilities. 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 at least every five years. This was last set in May 2018.[1] The 2018 CRD review was completed during the year,[2] led by a joint HM Treasury-Bank steering group. The effective CRD ratio 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% of qualifying institutions eligible liabilities above the £600m threshold. The ratio is currently 0.30%.[3] The ratio is re-indexed to prevailing gilt yields every six months; this change to a variable ratio makes it more 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 services, services to HM Treasury and lending operations for the Bank's own account — will be expected to break even over the medium term, although the Bank remains committed to providing value for money, and so manages its cost base in this context. 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 acting 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. From August 2018, the Bank introduced a levy to cover its Financial Market Infrastructure (FMI) supervisory costs in response to an Independent Evaluation Office (IEO) recommendation. This applies to all FMI which are supervised by the Bank under the Banking Act 2009 or the Financial Services and Markets Act 2000 (FSMA).

- 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.

Following agreement of the new financial relationship between HM Treasury and the Bank in June 2018, a new capital framework between both parties was introduced. The capital framework states that the proportion of Banking Department profits payable to HM Treasury will be determined by the level of loss-absorbing capital held by the Bank and where this sits within a set of parameters.[4]

1 The current requirements were agreed in May 2018; see www.legislation.gov.uk/uksi/2018/633/pdfs/uksi_20180633_en.pdf for the 2018 Cash Ratio Deposit legislation.

2 See https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/680352/Consultation_cash_ratio_deposit_web.pdf.

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

4 See Section 2b of the newly agreed financial relationship between HM Treasury and the Bank of England: memorandum of understanding for detail of the parameters; www.bankofengland.co.uk/letter/2018/banks-financial-framework-june-2018.

For the year ended 28 February 2019 the Bank will make a payment in lieu of dividend of £54m (2018: £65m) to HM Treasury.

The Bank's loss-absorbing capital was £2.3bn as at 28 February 2019. Loss-absorbing capital is the Bank's total capital (£4.4bn) less any capital components that cannot absorb losses, which include: intangible assets, net pension scheme assets, investments net of tax and property revaluation reserves.

Following the financial year end and as agreed in an exchange of letters between the Governor of the Bank and the Chancellor of the Exchequer on 21 June 2018,[1] the Bank received a capital injection from HM Treasury for an amount of £1.2bn on 22 March 2019 to increase the Bank's loss-absorbing capital to £3.5bn.

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 (NLF). In the year ended 28 February 2019 £442m (2018: £196m) was paid to the NLF.

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

1 Exchange of letters between the Governor of the Bank and the Chancellor of the Exchequer 21 June 2018; www.bankofengland.co.uk/letter/2018/banks-financial-framework-june-2018.

Combined income statement

The combined income statement reflects a profit before tax of £118m (2018: £138m). 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 £20m was driven by decreases in Funding for Lending Scheme (FLS) fee income and management fees offset by increased income from financial instruments. Expenditure remained flat year on year.

Summary combined income statement[1]

	2019 £m	2018 £m
Income	**764**	**785**
Banking Department	764	785
Issue Department	593	361
less seigniorage income		
Issue Department income transferred under seigniorage arrangements[1]	(593)	(361)
Expenses	**(646)**	**(647)**
Banking Department	(646)	(647)
Issue Department	(116)	(132)
less seigniorage expenses		
Issue Department costs under seigniorage arrangements[1]	116	132
Combined profit before tax	**118**	**138**
Taxation	(9)	(9)
Payment in lieu of dividend	(54)	(65)
Profit after tax and dividend for the year ended 28 February	**55**	**64**

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 2019, aggregating the Banking Department and Issue Department is provided in this financial review. It is provided for information purposes only.

Expenditure by function

Total expenditure for 2019 of £646m was £2m above budget.[1] The Bank strives to provide value for money, which has been demonstrated by its cost-conscious approach to budgeting in recent years. We are continuing to hold our cost base (excluding note production, pensions and RTGS Renewal) flat and have committed to do so in the medium term, while RTGS Renewal, note production and pensions have dedicated cost-control mechanisms. The total cost budget for 2020 (including note production, pensions and RTGS Renewal) has been set at £640m, which includes £273m for the PRA. The year-on-year decrease is due to lower pension costs.

Combined expenditure by function[2]

	2019 £m	2018 £m
Policy functions		
Total policy expenditure	166	171
Expenditure on policy functions	**166**	**171**
Remunerated functions		
Notes issue costs recharged to the Issue Department	118	128
Government agency services	11	11
Payment and settlement	26	23
Banking services	34	35
Other functions	9	9
Expenditure on remunerated functions	**198**	**206**
Operations funded by levies		
PRA operational expenditure	237	251
PRA special projects and Solvency II costs	41	29
Financial Market Infrastructure	6	–
Expenditure on operations funded by levies	**284**	**280**
Net legacy items in relation to pensions and property	(2)	(10)
Expenditure on other functions	**(2)**	**(10)**
Total Banking Department	**646**	**647**
Issue Department	**116**	**132**
Issue Department costs settled under seigniorage arrangements	(116)	(132)
Internal charges and settlements under seigniorage arrangements	**(116)**	**(132)**
Total combined expenditure	**646**	**647**

1 The final budget of £644m presented to Court in May 2018.

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

Policy functions

	2019 £m	2018 £m
Income		
CRD income	123	105
Total policy income	**123**	**105**
Expenditure (by policy area)		
Monetary Analysis and MPC	34	34
Markets and Banking	41	43
Research and statistics	21	20
Financial Stability Strategy and Risk	24	25
Resolution	10	10
FMI[1]	10	13
International	13	12
PRA[2]	13	14
Expenditure on policy funtions[3]	**166**	**171**
Net surplus/(deficit)[4]	**(43)**	**(66)**

Expenditure on policy functions funded by CRD income was £166m, a reduction from 2018 due to the £6m of costs now being funded by the FMI levy. Other costs remained flat year on year.

Remunerated functions

Expenditure decreased by £8m to £198m (2018: £206m), this was driven by the decreased cost of notes production.

Prudential Regulation Authority

Operating costs for 2019 of £278m (2018: £280m) were higher than the budget of £274m, predominantly due to increased EU withdrawal activity. Costs continued to include exceptional and non-recurring items such as the Structural Reform Programme, and the UK's withdrawal from the EU.

Issue Department

Expenditure of £116m on the Issue Department decreased by £16m following the launch of the £10 polymer note, which had driven up prior year costs.

1 Relates to Financial Market Infrastructure (FMI) policy costs that are funded by the CRD scheme. A portion of FMI costs are separately funded by an FMI levy.

2 Relates to work completed by the PRA on behalf of the Bank's financial policy areas. These costs are recovered through the CRD scheme and not the PRA levy.

3 The policy costs by business area are split between Monetary Policy and Financial Stability based on the cost of the activities in each area that are deemed to support Monetary Policy and Financial Stability objectives respectively.

4 The CRD scheme runs in five-year cycles (current cycle began June 2018). Over the five-year period we expect policy income and expenditure to break even therefore in any one year there may be a surplus or deficit reported.

Combined balance sheet

The combined balance sheet fell by £3.9bn in 2019. The largest movement in assets was a decrease in ‘Loans and advances’ of £3.6bn, primarily attributable to a decrease in the reverse repurchase agreements with banks and other financial institutions. On the liabilities side this was reflected within a reduction in the ‘Deposits’ balance.

‘Notes in circulation’ (NIC) increased year on year by £0.9bn, bringing the total liability to £74.2bn (2018: £73.3bn).

Drawings on the Funding for Lending Scheme (FLS) as at 28 February of £16.0bn have decreased on the prior year balance (£28.6bn), as participants continue to terminate drawings. 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.

The most significant item on the balance sheet is the loan to the Bank of England Asset Purchase Facility Fund (BEAPFF), which has been made to facilitate the quantitative easing programme. During the year the Term Funding Scheme (TFS) loans held by BEAPFF (funded by a loan from the Bank), totalling £121.4bn, were transferred to the Bank. As consideration for the transfer the loan to BEAPFF reduced by a corresponding amount, both movements were reflected within ‘Loans and advances’.

Combined balance sheet

	2019 £m	2018 £m
Assets		
Loans and advances	584,662	588,323
Securities held at fair value through profit or loss	6,064	7,993
Financial instruments held	13,913	11,037
Other assets	2,416	3,630
Total assets	**607,055**	**610,983**
Liabilities		
Deposits	521,312	525,061
Notes in circulation	74,171	73,250
Foreign currency bonds in issue	6,042	5,797
Other liabilities	1,180	2,394
Capital and reserves	4,350	4,481
Total equity and liabilities	**607,055**	**610,983**
Off balance sheet — Funding for Lending Scheme		
Funding for Lending drawdowns	**15,959**	**28,598**

Financial review of Banking and Issue Departments

Banking Department

The Banking Department's financial statements for the year ended 28 February 2019 are shown on pages 78–146 and reflect a profit before tax of £118m (2018: £138m) and tax charge of £9m (2018: £9m). The Bank and HM Treasury share Banking Department's post-tax profits equally, with profit transferred to reserves of £55m (2018: £64m), and the amount payable to HM Treasury in lieu of dividend accounts of £54m (2018: £65m).

The statement of comprehensive income reflects a net increase for the year of £183m (2018: decrease of £208m), comprising post-tax operating profits of £109m (2018: £129m) and 'other comprehensive income' totalling a gain of £74m (2018: loss of £337m). 'Other comprehensive income' includes a net increase in the fair value of assets held at 'fair value through other comprehensive income' of £44m (2018: loss of £271m on assets held as 'available for sale'), retirement benefit remeasurement increases of £31m (2018: decrease of £67m) and property revaluation losses of less than £1m (2018: gains of £1m).

The total balance sheet of the Banking Department decreased during the year, from £606.8bn at 28 February 2018 to £601.6bn as at 28 February 2019.

The main change in Banking Department assets was a decrease in reverse repurchase agreements held with banks and other financial institutions along with the change in composition of assets following the transfer of the TFS loans from BEAPFF to the Bank.

'Capital and reserves' decreased to £4.4bn (2018: £4.5bn), due to the impact of transitioning to IFRS 9, which required a reversal of the available for sale reserve held of £0.3bn. The Bank's retained earnings, together with Cash Ratio Deposits, are predominantly invested in gilts. The Banking Department's holdings of gilt securities and other supranational bonds totalled £10.3bn at 28 February 2019 (2018: £7.4bn).

At 28 February 2019, the Banking Department balance sheet contained £6.0bn of liabilities associated with the management of the Bank's foreign exchange reserves (2018: £5.8bn).

Issue Department

The statements of account for the Issue Department (which are provided on pages 147–151) reflect net profits from note issue of £442m (2018: £196m), payable in full to HM Treasury. The increase in profits was due to an increase in interest earned, following the increase in Bank Rate, and lower note production costs. In 2018, gilt revaluations contributed £18m to income (2018: £nil).

'Notes in circulation' continued to increase year on year, and totalled £74.2bn at 28 February 2019 (2018: £73.3bn). Gilt purchases to back banknote issuance, introduced in January 2008, remained on hold during the year because the Bank of England Asset Purchase Facility Fund Ltd undertook gilt purchase operations. The market valuation of gilts on Issue Department was £2.4bn at 28 February 2019 (2018: £2.5bn). The 'Ways and Means advance' to HM Treasury remained at £370m as at 28 February 2019.

Risk management

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

The responsibility for the Bank's day-to-day operations is delegated to the Governor. This involves ensuring that the Bank has a risk profile consistent with meeting its objectives. The risk management and internal control systems which underpin this are based upon the materiality of the financial and other risks inherent in the Bank's activities, and 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 Governor, confirm compliance with the Bank's risk management and internal control requirements in the areas for which they are responsible.

Risk governance

The Court of Directors

Court has 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 the governance structures through which the Bank's risk management strategy is implemented.

The Audit and Risk Committee (ARCo)

ARCo, a committee of Court, assists Court in meeting its responsibilities for maintaining effective systems of financial reporting, internal control and risk management. With respect to risk, it has responsibility for reviewing the findings of internal and external auditors and monitoring outstanding actions for timely completion. ARCo receives reports on the Bank's risk profile, the operation of the risk framework and the risk management processes and systems in place. The Bank voluntarily complies with the core principles of the Senior Managers Regime framework. Consistent with 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 has a reporting line to the Chair of ARCo.

Executive responsibility

Within the Senior Managers Regime framework, the Governor has overall executive responsibility for risk.

Below the Governor, executive responsibility for Risk Management within the Bank, and the place of Compliance within that, was reviewed during the year.[1] The box on page 37 summarises the actions and changes in approach that have followed the review.

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. The Governors and the Executive Directors manage risk on a day-to-day basis across the Bank's 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 second line risk management is delivered by the Risk Directorate, which includes independent central Bank-wide (non-financial) Risk, Financial Risk and Resilience, and Compliance divisions; 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.

The Bank's risk management framework

The Bank's mission is to promote the good of the people of the United Kingdom by maintaining 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 these 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 and other Executive members of the three policy Committees to brief the relevant policy committee on material risk issues.

The Bank has developed a Risk Management Framework which supports a consistent 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 the Bank's 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 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 each of the Bank's functions a Risk and Control Self-Assessment is undertaken regularly. A likelihood and impact matrix is used to determine risk ratings, across operational, financial, conduct and strategic risks. This takes into account the potential impact to the Bank in the event of a risk crystallising.

1 Revisiting executive responsibility for Risk was a recommendation of the August 2017 Review of the Bank's approach to conflicts of interest carried out by the Non-Executive Directors of Court. See www.bankofengland.co.uk/news/2017/august/the-banks-approach-to-conflicts-of-interest-review-by-the-non-executive-directors.

Executive responsibility for risk

The Bank has enhanced its risk management function over the past few years. In 2015, second line financial risk management functions were brought together in a Financial Risk and Resilience Division, and non-financial risk management functions were strengthened. And in 2017, a new risk tolerance framework, owned by Court, was introduced.

During 2018, the Bank's Governors reviewed executive responsibilities for risk and the associated reporting lines, including the role of the Bank's Executive Risk Committee (ERC), and its interaction with the rest of the Bank.

Following this, in October 2018:

- Responsibility for the Bank's second line financial and non-financial risk management functions was consolidated under a new Executive Director, Risk. The Bank's central Compliance function was also moved into this new Directorate. The Executive Director, Risk reports directly to the Governor and has a dotted reporting line to the Chair of the Audit and Risk Committee (ARCo). The Internal Audit function continues to report directly to the Chair of ARCo while their executive (dotted) reporting line was moved from the Bank's COO to the Executive Director, Risk.

- The new Risk Directorate was given unrestricted access to other specialist second line and compliance functions (for example specialist anti money-laundering activities within the Markets and Banking areas) through a 'hub and spoke' arrangement. This was to emphasise the importance of having an informed cross-Bank view of the Bank's risk profile in order to make judgements about the relative weighting and prioritisation of risks; and further improve the Bank's capacity to impose compliance with its policies.

- The ERC was repositioned as a direct input to the Governors with subsequent reporting to ARCo. Previously the ERC was structured as reporting directly to ARCo. 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. It has 17 members, including the Deputy Governor for Prudential Regulation, the Deputy Governor for Markets and Banking and the Bank's COO, 10 of the Bank's Executive Directors, three of the Bank's Directors and the Head of Divisions for Risk and Compliance. It meets six times each year to review and challenge the Bank's risk profile.

Looking forward, the Risk Directorate is focused on further enhancing the Bank's approach to Risk and Compliance in three ways:

- Further development of the Bank's risk framework to ensure that risk tolerances are clearly and accurately stated; provide adequate protection for public funds; dovetail with the Bank's new capital framework agreed with Her Majesty's Treasury in 2018; and consider risks related to climate change. In particular, this will promote consistency among risk policies for both financial and non-financial risk; further raise risk awareness; and further embed consideration of risk matters in decision-making throughout the organisation.

- Devise clearer, more focused risk reporting for Governors and ARCo, with an emphasis on horizon scanning and risks outside of tolerance.

- Further strengthen compliance processes across the Bank, to ensure a consistent, proportionate and robust approach to any breaches.

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 non-policy risks

The principal risks to which the Bank is exposed, through policy implementation and its day-to-day operations, include operational risks; financial risks; strategic 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; the production and distribution of banknotes; and the administration of the Sterling Overnight Index Average (SONIA) interest rate benchmark.

The Bank has a very low tolerance for operational risks which impact business-critical functions. In particular, 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. For example, during the past year, the Bank has continued to mitigate risk through a number of ongoing programmes, including:

- **Cyber2020 programme:** further enhancing the Bank's cyber security to protect critical national infrastructure maintained and operated by the Bank;
- **Security Enhancement programme:** improving physical security of the Bank's buildings;
- **One Bank Services Transformation programme:** reforming the design of the Bank's Central Services, and reducing the number and complexity of services provided to the business and the process risks underlying them;
- **Data Centre Migration programme:** strengthening the resilience of the Bank's technology architecture and network; and
- **Procurement 2020 programme:** enhancing the Bank's central procurement policy and controls to mitigate risks related to suppliers.

During the year the Bank made preparations for the UK's withdrawal from the EU — whatever form that may take. This has involved operational contingency planning to enable the Bank to meet its mission to maintain monetary and financial stability (see Review of 2018/19, page 16). In addition, it has required management of specific non-financial risks, such as people risk (for example related to staff stretch, resources reallocated or new skills required) and supplier risks.

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 risks

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 unlikely 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.

In the past year, the Bank's financial risk management has been strengthened by the new financial framework agreed with HM Treasury in June 2018, and codified in a Memorandum of Understanding.[1] The new framework provides a robust and transparent process to ensure that the Bank has the financial resources needed to undertake the financial operations necessary to deliver its objectives including under severe but plausible scenarios.

As part of the Bank's preparations for EU withdrawal, financial risks are being managed to minimise any potential impact to public funds, while maintaining the ability to fulfil the Bank's core mission of supporting financial and monetary stability.

Strategic risks

The Bank faces significant strategic risks, for example when deciding the best way of executing a policy, or *not* pursuing 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.

Conduct risks

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's central Compliance Division provides second-line oversight of staff conduct matters set out in the policies under the Bank's code of conduct 'Our Code'. In 2018 the Compliance Division became part of the new Risk Directorate and, in early 2019, the Bank's privacy team, headed by its Data Protection Officer became part of the Compliance Division.

1 www.bankofengland.co.uk/-/media/boe/files/memoranda-of-understanding/financial-relationship-between-hmt-and-the-boe-memorandum-of-understanding.pdf.

The Compliance Division's remit includes working with policy owners and local compliance functions within the Bank, such as the Markets and Banking compliance function with responsibility for money laundering, financial sanctions and terrorist financing controls.

The Compliance Division also contributes to post-incident reviews and in-depth reviews, such as to provide assurance that the Bank is compliant with Bribery Act requirements.

Looking forward, the Compliance Division is focused on further strengthening the Bank's policies and compliance arrangements to ensure that, in all areas, there is a consistent, proportionate and robust approach to identifying and responding to any breaches.

Our people

Our people are central to the successful delivery of our mission to maintain monetary and financial stability for the good of the people of the United Kingdom.

We are committed to continuing to build an environment where all colleagues can fulfil their potential, develop skills for the future, look after their wellbeing, receive fair pay and be part of a diverse and inclusive workforce.

We currently employ 4,502 people of 83 different nationalities, and have people aged from 18–72 years working alongside one another.

Our people work in 12 different regions across the whole of the UK.

In this section, we set out the steps we have taken to build the best work environment for our people. We also publish our gender pay gap and BAME pay gap reports (see pages 44–45).

Culture and values

Inclusion is key to building a culture where all our colleagues feel empowered and able to speak up. Our core values (which are inclusive, collaborative, empowering, decisive and open) are embedded in all that we do, including feeding directly into the performance assessment — and pay — of all colleagues. Our Vision 2020 strategy is changing the way we work, to better enable all colleagues to feel included in our culture and to deliver their best work (see page 23).

In 2018, we asked colleagues to take part in a cognitive diversity survey for the first time to gain a better picture of how our people feel about inclusivity at the Bank. The results indicate colleagues are generally positive about inclusiveness at the Bank on every metric measured by the survey. But we know that there is more to do, including in making the Bank feel a more inclusive place for Black, Asian and Minority Ethnic (BAME) colleagues and for colleagues with a disability.

We want colleagues to feel comfortable bringing their whole selves to work, and in disclosing protected characteristics such as sexual orientation and disability (visible and invisible). The proportion of colleagues who identify themselves as lesbian, gay, bisexual and transgender is 3%. Currently 3% of colleagues have declared a disability, which is unchanged from last year.

Our work to strengthen our values-based culture is having an impact for the better. In our latest employee survey, 89% of colleagues said they are proud to work for the Bank, 80% said they believe the Bank is committed to building a diverse and inclusive work environment and 72% said there is a good balance between their work and home lives.

Attracting and recruiting talent

We recognise the need to build strong pipelines at the Bank by recruiting people at all stages of their careers. In 2018, we recruited 402 experienced hires, of which 47% were female and 28% BAME.

We recognise many people choose to take career breaks and may require support to return to the workplace. In 2018, we piloted a Career Returners programme, in partnership with Women Returners, a specialist return-to-work organisation. Sixteen career returners joined the PRA on a six-month placement, and were provided with coaching and training support. We are pleased that 15 of those have joined us permanently.

We employ:

4,502

people

of 83

different nationalities

Our people work in 12 different locations across the UK

Sheema Chahal, Career Returner

'After a career break of almost four years, and having previously worked in banking, I was doubtful of my ability to find a role that would be both interesting and fit my need to work flexibly, however the Career Returners Insight Day persuaded me that the Bank could do both.

I joined the Overseas Banks Supervision team in the PRA and was given responsibility for supervising a group of small African and Asian banks. From the outset, I was meeting senior management at firms, helping them navigate real issues and was delighted to be entrusted to do so at an early stage. I love being intellectually challenged again in my day job and still being able to manage my personal commitments — something I had thought was an impossible ask!'

Our early years recruitment programmes, aimed at those starting out in their careers, are helping us build our pipeline of future leaders and form an important part of our workplace: almost 10% of our colleagues are aged under 24.

Our 2018 graduate intake came from 31 different universities, compared to only six universities 10 years ago, and from a wide range of degree disciplines; around half of our new graduate entrants have studied economics. Of our 2019 graduate intake due to join us in September, 46% are female and 39% are declared BAME, up from 32% female and 29% BAME in 2018. In 2018, we won the TARGETjobs 'Most Popular Graduate Recruiter in Banking, Insurance and Financial Services' for the second year running. We were also on the Social Mobility Awards Honour Roll for 2018.

Our Future Capability programme is aimed at talented individuals keen to get their careers started after leaving school. This 18-month programme develops technical skills across a range of the Bank's work. 90% of our 2018 Future Capability intake were from state schools. 50% were female and 20% BAME.

We are also continuing our efforts to increase awareness of the Bank in underrepresented communities, through initiatives like our African-Caribbean Scholarship programme. This offers three students a year up to £30,000 over the course of their undergraduate degree and two students up to £3,000 as a contribution towards their living expenses and other costs of study.

In March 2018, we piloted name-blind recruitment, removing personal data from candidate applications to help mitigate against unconscious bias. Adopting name-blind recruitment has helped us to improve the diversity of our recruits, and to further achieve gender balance in our offers both externally and internally.

Developing and progressing our people

We have put a range of measures in place to support progression of our talented colleagues. That includes the co-ordination of recruitment for senior management (Head of Department and above) roles. This co-ordinated (or 'pooled') approach has enabled us to encourage a more diverse range of applicants to apply for senior management roles.

We have also taken steps to strengthen our pipeline of future talent. Our 'high potential' talent pipeline at just below Head of Department level are 50% female and 16% BAME, and this year we have been piloting a sponsorship programme to support their progression. The pilot sponsorship group consisted of 19 colleagues and was 84% female and 74% BAME. Early feedback from the programme has been very positive, and we will this year be extending it to a larger number of colleagues, including those who have a declared disability.

We recognise the importance of investing in the skills of the future and offer a wide range of technical, leadership and specialist training courses and online materials. In 2018, 79% of colleagues said the Bank offers good opportunities for learning and development.

We are continuing to invest in our apprenticeships offering. Over the past year we have created two new apprenticeship entry programmes: a GCSE entry scheme and an A-level entry degree programme which launches in September.

In early 2019, the Bank was recognised for its work on apprenticeships, as winner of the Just IT higher level 4 Apprenticeship Employer of the year. The Bank was nominated for this award by one of its current apprentices.

Amaan Islaam, Apprentice

'The Software Tester Apprenticeship has been very rewarding so far. Both the technical expertise and the soft skills gained have been invaluable for me. The support systems that the Bank has in place for apprentices have been very useful in guiding myself and the rest of my cohort in the early stages of our careers. The support I have received from my line manager and my project team has been great and allowed me to learn at a quick pace and get stuck in with real work. All in all, the Bank has been a great place to kick-start my career while doing the Higher Apprenticeship.'

For our graduates, we introduced our Central Banking Qualification (CBQ) in 2015 — designed in collaboration with Warwick Business School (WBS). The CBQ allows us to hire graduates from a broader set of disciplines and train them across the range of skills and disciplines required for modern central banking.

Our 2015 graduate intake are in the final stages of achieving their Masters and will be the first cohort to have completed all levels of the CBQ.

Wellbeing and work-life balance

We have numerous initiatives in place to support colleagues in managing their wellbeing under our 'think well, live well, be well' programme. These include an onsite Wellbeing Centre, an in-house counselling service, an Employee Assistance Programme, and benefits including flexible leave options.

We have been recognised for our work and this year appeared in the top 20 of the highest-rated companies for work-life balance in the UK.

We help colleagues work at times and in a way that works for them, rather than being tied to specific hours at a fixed location. Currently 14% of colleagues work on a formal part-time arrangement; among senior management, this proportion is 18%. Many more benefit from our flexible working arrangements that allow our people to balance their work commitments with other parts of their lives.

This year saw our first job share at Executive Director level, our HR Directors, recognised as power job sharers on the Timewise top 50 list.

Over the past year, we have continued to offer training to line managers on how to support the wellbeing and mental health of their teams, and all colleagues have had the opportunity to participate in personal resilience training. Ninety colleagues across the Bank have volunteered to be Wellbeing Champions. This network plays a vital role in helping communicate the importance of our wellbeing agenda.

We have continued to champion the importance of mental health, and have supported a range of initiatives to support colleagues and to reduce the stigma attached to mental health issues. Our mental health network introduced a peer support initiative, training volunteers to provide signposting to colleagues who need mental health support.

During the year, we submitted evidence to the Stevenson-Farmer review into workplace mental health, and received recommendations from the City Mental Health Alliance through their 'Thriving At Work' programme.

Tara Clarke, Wellbeing Champion, Human Resources

'I became a wellbeing champion when the network launched in 2016. I studied psychology at University so have a real interest in mental wellbeing and wanted to help promote wellbeing in my department. During Inclusion Week in April 2018, I helped to arrange 'Wellbeing Walks' for my department to help encourage colleagues to get out and about at lunchtimes. During my time as a wellbeing champion, I've also encouraged my team and colleagues to utilise the monthly 'Action for Happiness' calendar, which promotes kind actions. While these are small changes, it shows that taking a few minutes out of the day to do something differently has really helped people to better manage their wellbeing and to think more about how to be healthy at work.'

Rewarding colleagues fairly

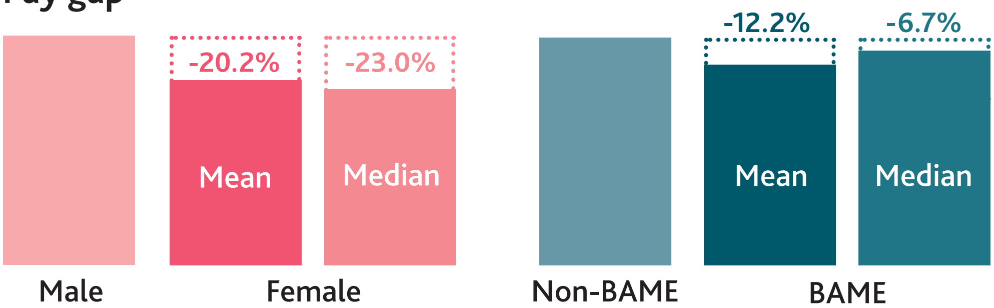
We are committed to supporting equality through fair pay. As last year, we are publishing our 2019 gender and BAME pay gaps in our *Annual Report*. This is the second year we are publishing our BAME pay gap, having been one of the first major organisations to do so last year.

The gender and BAME pay gaps[1] look at average hourly earnings across the whole organisation, regardless of role or level. The mean gender pay gap at the Bank this year is 20.2%, down from 21.2% in 2018. The median gender pay gap is 23.0%, down from 24.6% in 2018. The reduction in the pay gap can be attributed to a rebalancing of gender representation across the Bank, with an increase in the proportion of female colleagues at senior levels and a decrease at more junior levels.

The mean BAME pay gap this year is 12.2%, down from 12.5% in 2018. The median BAME pay gap has increased marginally from 6.6% in 2018 to 6.7%. The decrease in the mean pay gap is accounted for by the increase in BAME representation at senior management and above.

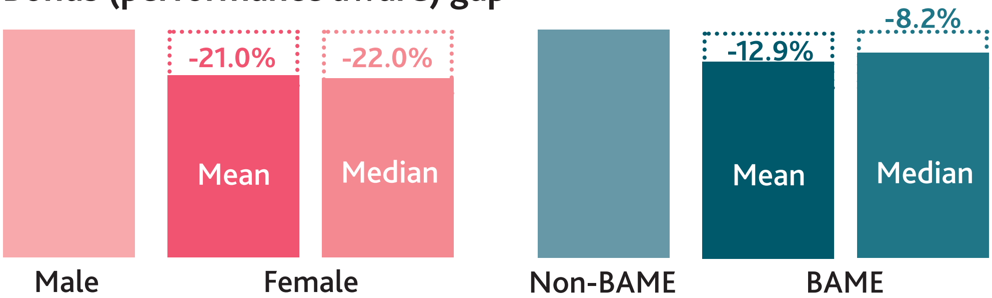
The pay gaps include most cash elements of pay — including base pay and allowances. Looking at base pay alone, we have a mean gender pay gap of 18.1%, down from 18.8% in 2018. For BAME, the mean base pay gap has remained unchanged compared to 2018 at 10.5%.

Pay gap



The pay gap figures are based on hourly rate of pay as at 31 March 2019 and bonuses paid in the year to March 2019.

Bonus (performance award) gap



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

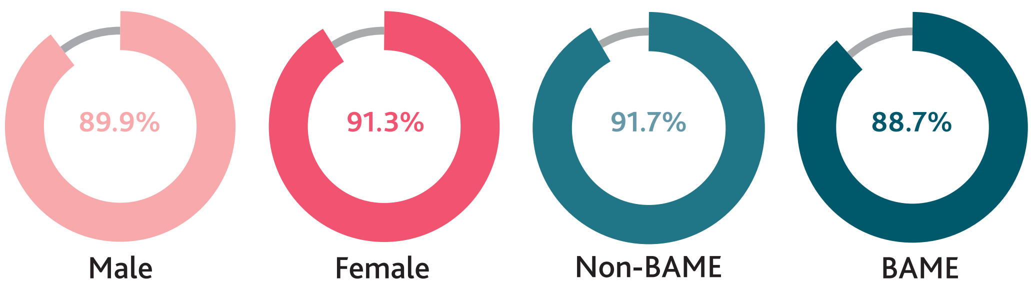
1 The mean pay gap is the difference between the average hourly earnings of men and women (or non-BAME and BAME). The median pay gap is the difference between the midpoints of the ranges of hourly earnings of men and women (or non-BAME and BAME). It takes all hourly earnings in the sample, lines them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

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 continues to be an imbalance of male and female and non-BAME and BAME colleagues across the Bank. Although we have seen an improvement since last year, there are still fewer women and BAME colleagues in senior roles than men and non-BAME, and a higher proportion of women relative to men at lower scales.

Addressing the disparity in representation across the Bank will take time and we are working towards achieving our gender and BAME targets which will have an impact on our pay gaps in future years. This includes through the measures we have taken to embed inclusive recruitment throughout the organisation (such as through name-blind recruitment and our Career Returners Scheme (page 41)), and to ensure that we are nurturing diverse talent (for example, through our sponsorship scheme (page 42)).

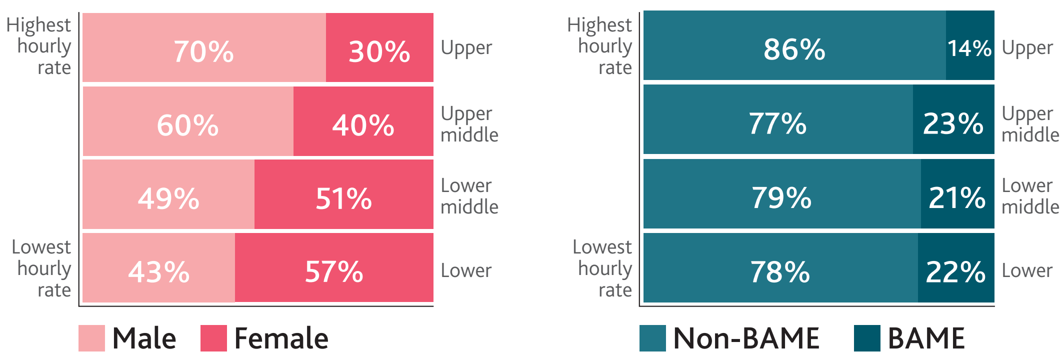
The Bank has an obligation to publish annual information relating to pay under Schedule 1 of the Equality Act 2010 (Specific Duties and Public Authorities) Regulations 2017 (the 'Regulations'). Schedule 2 to the Regulations lists the public authorities required to publish this information, and lists '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.

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.

Female and BAME representation across the functions of the Bank

	Female (per cent)			BAME (per cent)		
	2017	2018	2019	2017	2018	2019
Governor's Area[1]	64	65	**63**	13	13	**16**
Central Services[2]	37	36	**36**	19	20	**21**
Financial Stability	42	45	**44**	16	17	**19**
Markets and Banking	50	49	**48**	16	15	**15**
Monetary Policy	48	49	**49**	12	13	**13**
Prudential Regulation Authority	43	44	**45**	20	21	**21**
Bankwide	44	45	**45**	18	18	**19**

Diversity

In recent years, we have made significant progress in improving the diversity of our workforce. Because of this, we are broadly on track to reach the stretching 2020 diversity targets that we set ourselves five years ago.

Our targets are to increase the representation of female colleagues in our senior roles 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 representation, and 20% BAME by 2020.

During 2018/19, we made significant progress to increase the representation of women in senior roles. Female representation at senior levels increased from 29% to 31%, and is materially higher than the 17% of 2013. If this progress continues, and with our pipeline in place, we should be on course to meet our target of 35% during 2020.

Below senior management, female representation has also improved — from 43% in 2013 to 46% in 2018/19. We continue to work towards our Bankwide target of 50%. To support progress, we have put a number of initiatives in place — including interventions to attract, recruit and progress talented women (pages 41–43). We are proud signatories of the Women in Finance Charter, and are fully compliant with all its requirements.

We have made significant progress in improving BAME representation across the organisation. Declared BAME representation below senior management has risen from 13% in 2013 to 19% in 2018/19. This is higher than BAME representation for the UK population as a whole (14.5%) and close to our target of 20% for 2020. But we recognise that there is further to go to increase the representation of BAME colleagues in senior management, which has remained at 5%. We are also undertaking work to improve BAME retention rates.

1 This includes the Governor's and Deputy Governors' offices and our Communications, Secretaries, Legal and Risk departments.

2 This includes our HR, Finance and Technology departments.

Court has had a specific focus on BAME diversity this year, leading to the creation of a taskforce, which includes the three co-chairs of our Ethnic Minorities Network. The taskforce will oversee the delivery of a series of actions aimed at not only improving retention and progression rates for BAME colleagues, but also improving the individual experiences of BAME staff within the organisation.

The work of the taskforce is supported by a number of other initiatives we have put in place over the past year, such as our sponsorship programme and pooled recruitment at our most senior levels (see page 42). We are signatories of the BITC Race at Work Charter and the EMpower ethnicity pay gap mandate. We believe that these interventions will — taken together — help to accelerate progress in this important area.

Employee networks

We are proud to have a number of employee networks, focused on raising awareness of issues and enhancing existing policies to ensure they are as inclusive as possible. In 2018, our Networks organised many important events. These ranged from a seminar on the holocaust hosted by our Jewish Network, to an event focused on shared parental leave organised by our Parents Network, to a panel event on being colour brave — talking about race organised by the Bank of England Ethnic Minorities network during Black History Month.

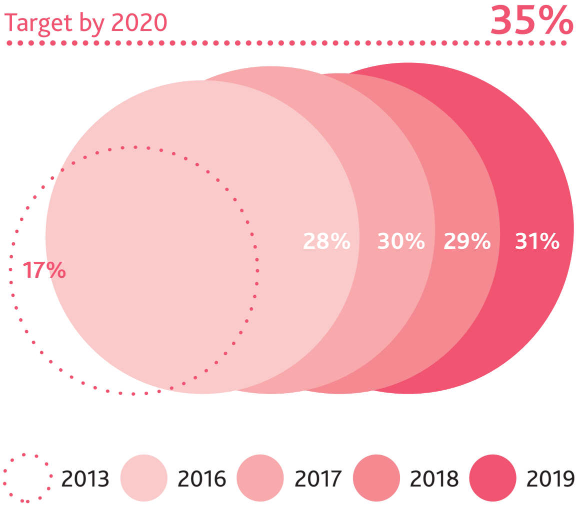
Our networks play a key part in ensuring we continue to create an environment where staff can bring their whole selves to work. Among the numerous initiatives that our networks have led over the past year has been the rollout of rainbow lanyards by our LGBT+ network — these are now worn by more than 1,000 colleagues. Our disAbility Network also directed a film of various colleagues sharing their experiences of disabilities entitled 'This is me'. And we have continued to show support for initiatives such as Mental Health Awareness Week, lighting the Bank green in May 2018.

Alistair Baker, co-chair of the disAbility Network

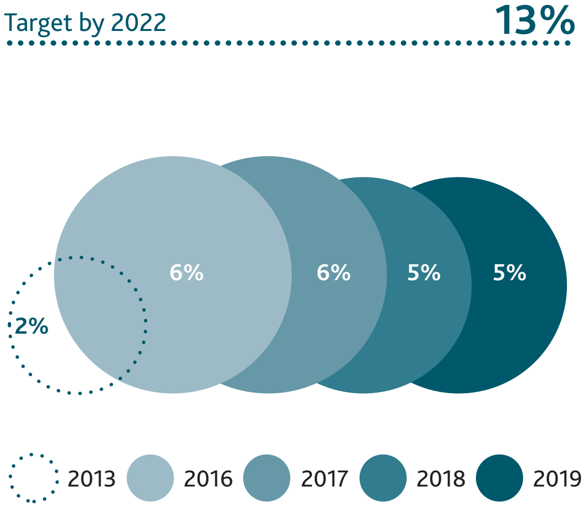
'I felt very proud of what the disAbility Network has achieved as we reached our 10th birthday last year. If you ask me to name the network's biggest achievements, I would say the difference we have helped make to physical access (most notably the wheelchair-accessible front entrance) and our 'This is me' film which premiered at our 10th anniversary event. I have also been very encouraged by the growth in membership and the enthusiasm we have had from the most senior management. Most notably the Chair of Court gave us his opening remarks at our 10th anniversary celebration.'

Diversity and inclusion metrics

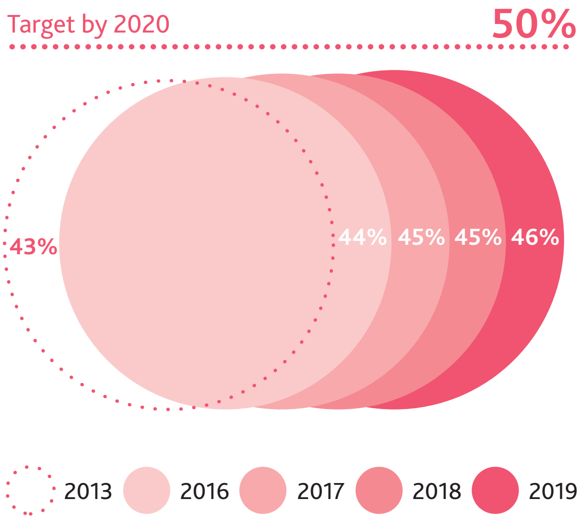
Female representation Senior management



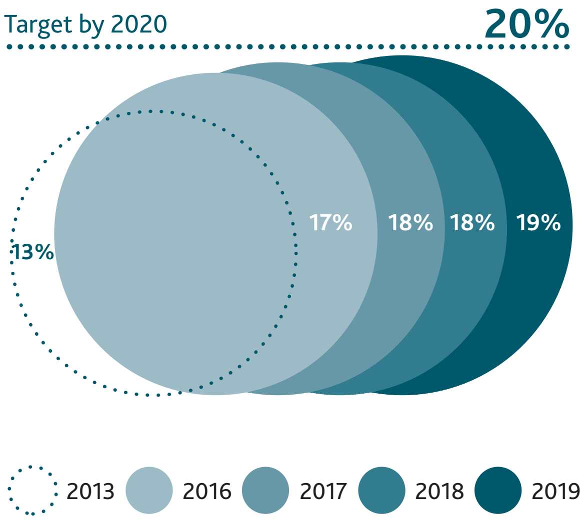
BAME representation Senior management



Female representation Below senior management



BAME representation Below senior management



Overall split

Female representation

Year	%
2016	44%
2017	44%
2018	45%
2019	45%

BAME representation

Year	%
2016	17%
2017	18%
2018	18%
2019	19%

Female representation

Of those newly hired

Year	%
2016	42%
2017	44%
2018	43%
2019	43%

Of those promoted

Year	%
2016	43%
2017	43%
2018	45%
2019	52%

Of those working part-time

Year	%
2016	83%
2017	83%
2018	80%
2019	79%

Of those leaving the Bank[1]

Year	%
2016	37%
2017	40%
2018	38%
2019	40%

BAME representation

Of those newly hired

Year	%
2016	23%
2017	25%
2018	25%
2019	27%

Of those promoted

Year	%
2016	17%
2017	16%
2018	18%
2019	18%

Of those working part-time

Year	%
2016	12%
2017	11%
2018	13%
2019	12%

Of those leaving the Bank[1]

Year	%
2016	18%
2017	25%
2018	23%
2019	26%

1 Leavers' data for 2016 are based on resignations only; for all other years the data include all leavers.

Corporate Sustainability and Responsibility

'Doing Good Together' is the Bank's commitment to Corporate Sustainability and Responsibility (CSR). Our CSR initiatives enable us to make positive contributions to the communities we serve, above and beyond our core financial and economic functions. By building diversity in our workforce, we can better reflect and understand the society we serve; 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; and by reducing our environmental impacts, we can play our part in addressing climate change. To support our aims we engage with other organisations to learn and share best practice. And we look to inspire others to contribute to the success of our CSR initiatives.

Our commitment to sustainability also extends to how we work with our suppliers. This year we released the Bank's first Supplier Code of Practice, which sets out our expectations from our suppliers of goods and services on a broad set of issues material to the Bank. The Code includes a set of key principles which we expect all our suppliers to adhere to, including embracing diversity in their workplace and taking steps to reduce the environmental impacts of their products or services.

In this review we detail the key initiatives that the Bank has undertaken in support of our CSR aims this year. Working towards being a more sustainable organisation is a journey, and we know there is more to do. Next year we will increase uptake of volunteering opportunities, further encourage openness and discussion of mental health issues, and define an ambitious carbon target beyond 2020.

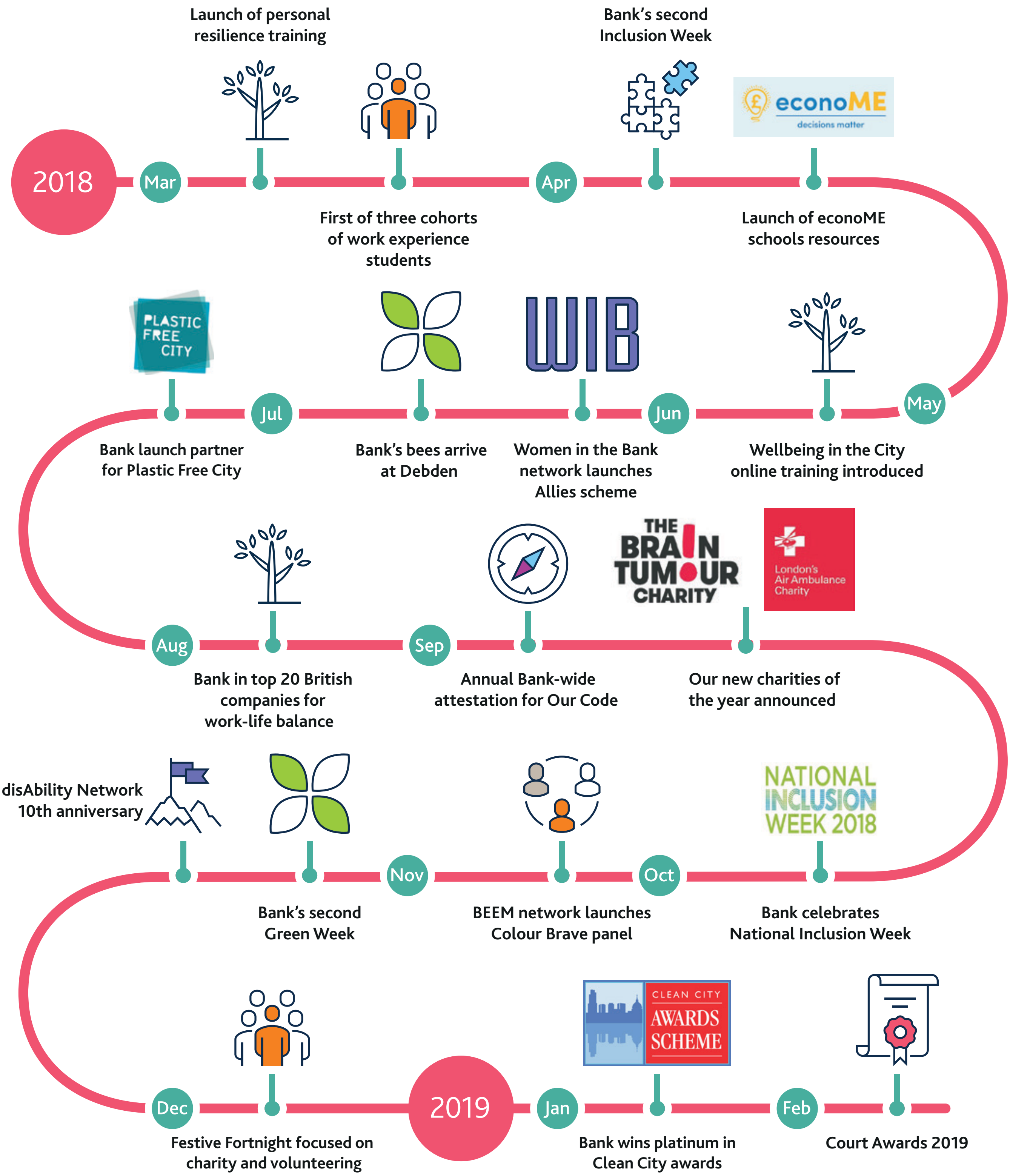
Integrity and impartiality

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 judgement, 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 all other policy committee members.

Our Code, and the detailed policies that underpin it, seeks to ensure that individual judgements 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, with adherence 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.

Highlights of our CSR programme this year



Diversity and inclusion

We are committed to attracting and inspiring the best people to public service. We believe it is necessary if we are to reach the right policy and operational decisions in support of our mission. And we believe it is our duty to reflect the people of the United Kingdom whom we serve. During the year we held events during our own Inclusion Week to highlight the diversity and inclusion agenda to colleagues, as well as holding events during National Inclusion Week. More detail on the main steps we have taken to continue to build a more inclusive workplace for our people, enhance their wellbeing, together with our legal requirements to monitor and publish diversity data is given in 'Our people' (see pages 41–49).

Community

To support our mission of promoting the good of the people and our wider inclusion agenda, we are committed to contributing to our local communities. Our community programme stretches back as far as our foundation: we can trace back our first donations to the local community to 1694. Fast forward to today and our staff support the community through initiatives that maximise our positive impact and influence.

We have a number of dedicated community champions throughout the organisation. This year they have helped to select the shortlist for our charities of the year for the Bank-wide staff voting process and to promote volunteering opportunities to colleagues.

Our focus next year will be to increase involvement with volunteering opportunities, as well as promoting charitable giving. We will also review our work experience programme to ensure we are providing the best possible opportunities for young people to experience working at the Bank and in the City.

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.

In April 2018 we held an event for colleagues on the 'Impact of volunteering on society, economy, and the individual'. This included representatives from charities and organisations we have worked with such as Samaritans and the National Council for Voluntary Organisations. Partly as a result of awareness-raising events such as these, during the year 148 colleagues volunteered as school governors, mentored young people or supported pupils at local primary and secondary schools to help develop literacy, logic or numeracy skills.

The introduction of an online volunteering portal last year has made it easier for colleagues to volunteer for a broader range of charities than ever before. During December 2018, colleagues volunteered in the local community, supporting the homeless at the Whitechapel Mission and volunteering at foodbanks in various locations around London. The steps we have taken to digitise our processes and make it easier for colleagues to volunteer has helped drive a rise in volunteering days to 1,282 in 2018/19 (1,139 in 2017/18).

We recognise colleagues' dedication to these causes through our annual Court Awards, donating to the charities that colleagues support, according to their commitment and activities undertaken. This also includes schools where colleagues act as school governors or volunteer with the parent teacher associations.

Welcoming work experience students

Our community work experience programme is held three times a year and we host students in different Bank departments for a week. The young people are from across London and do not have a personal connection to the Bank.

The programme gives opportunities to work with our staff and learn about their career paths; includes an overview of the structure of the Bank; and gives an insight to some of our key functions. We also focus on equipping the students with the skills needed to enter the workplace and explain how we recruit young people.

Many colleagues from across the organisation volunteer in schools or support our work experience programme, giving their time to the young people we host to help raise their aspirations and help them plan for their future. This year we hosted 167 students for work experience, of which 81 came from different communities across London, who did not have a personal connection to the Bank. This is to give students from the local area the opportunity to experience working at the Bank, regardless of whether or not they have family or friends working here. As we move into the third year of our community programme we will focus on giving the young people opportunities to develop their interview skills.

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.

Colleagues choose the charities we support and this year the number of nominations from staff doubled for our charities of the year. Colleagues across the Bank voted for The Brain Tumour Charity and London's Air Ambulance and the relationship with our new charities began in November 2018.

Staff are committed to fundraising for the charities they choose and during the year we raised £136,000 for Child Bereavement UK and Samaritans. This was achieved through a wide range of fundraising initiatives, including cake sales; sponsored events; and sporting challenges including the London Marathon.

Colleagues also support our charities of the year through the Pennies from Heaven scheme. This year we have again been awarded a Platinum Award as over 50% of our staff donate through the scheme. In addition we were again awarded Bronze for the donations made by our pensioners.

The money we donated to Child Bereavement UK has the potential to fund over 2,500 calls to their helpline, and the money donated to Samaritans will fund nearly 14,000 calls to their helpline which receives a call every 6 seconds.

During 2018/19, the Bank contributed a total of £1,200,000 in support of its community programme (2017/18: £1,210,000). Cash donations totalled £485,000 (2017/18: £585,000). More detail is provided in the annex. No donation was made for any political purpose in 2018/19 (2017/18: nil). And no paid leave was granted to staff for political purposes (2017/18: nil).

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. During the year, Bank staff conducted close to 300 school visits. We also undertook 12 Town Hall and Citizens Panels events in partnership with a range of charities.

Through these events we were able to listen directly to the public on the issues they care about like jobs, pay and the cost of living. We also held a virtual 'Future Forum' to discuss, and gather views on, the future of money.

Our charities of the year:

We received external recognition for our efforts this year:

In April 2018 we launched a series of free schools resources for 11–16 year olds called econoME. The aim of the resources is to help young people make informed decisions that will benefit themselves and the world around them. Since launch over 1,300 schools have registered for the resource.

Environment

We are committed to reducing the environmental impact of our operations. Our 'Greener Bank' programme is focused on reducing our carbon emissions, improving our energy efficiency, reducing our consumption of natural resources and managing our waste production and disposal.

Employee engagement

This year we have continued to engage with our colleagues to increase their awareness of environmental good practice. This is supported by our Green Champions, a community of over 100 volunteers who are responsible for driving change in their local areas. Business areas' progress is tracked against a set of clear achievement levels, as part of our bespoke internal environmental certification scheme. Currently over 60% of our colleagues are working in an area that has been certified under the scheme, up from 6% at the end of 2017/18.

We encourage colleagues to think about some of the biggest environmental challenges facing the planet and practical steps to help the Bank reduce its environmental impacts. In November 2018 the Bank staged its second annual Green Week including a series of internal events. A number of our Green Champions were presented with awards in recognition of their work in supporting our Greener Bank programme.

Carbon emissions

In 2016 we set ourselves the target of reducing our overall carbon emissions from direct operations by 20% by 2020. During 2018/19 the Bank's total emissions of CO_{2e} per full-time equivalent staff was 4.7 tonnes (see annex), a 26% reduction since 2015/16. Since 2015/16 our total carbon emissions have reduced by 19%, which means we have in most part already met our 2020 emissions target for emissions reduction. This is in part due to a reduction in the carbon intensity of the grid energy mix in the UK. We are already actively considering a range of options for our next target beyond 2020, so as to define a more ambitious carbon reduction trajectory for the Bank.

Aside from our energy use, a key area of action to tackle our emissions will be our use of international air travel. This year we updated our travel policy to include a reminder for colleagues to consider environmental impacts when making travel decisions. We know there is more to do: for instance next year we aim to further increase our use of videoconferencing.

Energy management

Since 2016, and despite a 9% rise in staff numbers, total energy use across our buildings has been stable. This reflects our efforts to improve the energy efficiency of our operations.

We have worked to upgrade lighting to LED technology across the Bank's sites, which can reduce lighting energy consumption by up to 50%. As part of the Mayor of London's RE:FIT programme we are upgrading office areas in our Threadneedle Street building to LED lighting. We have also upgraded over 2,000 lamps to LED in the underground levels at Threadneedle Street.

Taking econoME to schools

econoME
decisions matter

Our schools programme includes a set of resources for 11–16 year olds called econoME. The resources help provide young people with the analytical skills and knowledge to make informed decisions that will benefit themselves and the world around them.

Feedback from teachers and students on our schools visits using the resources has been very positive. For example, Paul Darbyshire, Felpham College's curriculum leader for Business and Vocational Studies, said: 'This visit was a big success and added to students' knowledge of real life economic and banking situations. This is a really good initiative from the Bank of England to go out to schools and work with the local community'.

One student added: 'The workshop was really interesting as it gave us lots of examples of what the Bank of England is involved with. I had no idea they do so much!'

Our operations and maintenance teams in Moorgate have worked to optimise energy control systems and operations, leading to 10% gas and electricity energy savings at that site compared to last year and a reduction in carbon emissions. And similar efforts are under way at our Debden site in collaboration with our banknotes printing contractor.

We have a number of projects planned for the coming year to help further reduce our energy and water consumption. This includes steps to improve metering of energy use, implement heat recovery technology, and further optimise our energy systems control strategies. We are also considering our energy supply mix and the potential for adopting renewable energy sources.

Waste and resources management
We fully embrace the Reduce, Reuse, Recycle principles, and strive to reduce the volume of waste we produce and to increase the amount of recycling we do.

We have taken bold steps to reduce single-use plastic items use on our premises, such as cups and food boxes. We were a launch partner for the City of London's Plastic Free City initiative and delivered on our platinum pledge to reduce our reliance on unnecessary single-use plastics. Bank staff have fully embraced the change and our overall use of disposable catering items has reduced by over 80% since 2016. For instance 8 out of 10 hot drinks at the Bank are now served in reusable cups — meaning over 600,000 disposable cups a year are saved from waste. The vast majority of our remaining single-use catering items are now plastic free and made of plant-based alternatives.

This year we have actively encouraged colleagues to further embrace digital ways of working, and as a result have reduced our printing by a further 25% (against a 20% target), meaning we have reduced our printing by half since 2014/15. We have plans to further embed a paperless culture at the Bank, with a target to reduce our printing by a further 25% in 2019.

For our sustained efforts on waste and resources management we received platinum recognition for the third year running in the Clean City Awards 2018.

Banknotes
Our decision to move to polymer notes will deliver lasting environmental benefits due to their durability. The Carbon Trust has certified that over their full life cycle, the carbon footprint of a £5 polymer banknote is 16% lower than the £5 paper banknote, while the carbon footprint of a £10 polymer banknote is 8% lower than the £10 paper banknote. These stem from the reduced environmental burdens associated with raw material production and processing of new banknotes to replace unfit ones, with polymer banknotes lasting at least 2.5 times longer than paper notes.

This year nearly 625 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. As the availability of composting solutions for paper notes have reduced, we added to our treatment options an 'energy from waste' solution as a preferable alternative to landfill.

The Bank has also arranged for all polymer banknotes requiring disposal to be treated using a UK-based innovative recycling solution. This work was shortlisted in the National Recycling Awards 2018 for Partnership Excellence. Third parties make new plastic items out of the melted polymer shreds, such as 'Made from 100% recycled banknotes' storage boxes and building materials.

Biodiversity

We are working to improve biodiversity at our Debden site, in order that the area of grassland at the site is managed to best preserve — and improve — its ecological value. At this site, we have introduced a beehive, installed several bird boxes and planted more native species. We have commissioned an ecological survey of the area, which provided us with a baseline to measure progress against and further recommendations that we will implement in the coming year.

Health and safety

The health and safety of staff and visitors is of the utmost importance and we strive to create a safe working environment and to promote and maintain a positive health and safety culture. We constantly monitor the Bank's health and safety performance, and report this annually to Court.

Training is a vital part of effective health and safety management, and we continue to offer safety-related training to all staff.

We provide specialist training to those undertaking higher-risk roles such as property maintenance. Next year, asbestos awareness training will be conducted across the maintenance teams, as this has been identified as a risk in the work that these teams will carry out in the coming year.

During 2018/19 there were a total of 31 recorded accidents involving employees, compared to 18 in 2017/18. This increase is linked to a rise in trip and falls in the office environment, a potential cause being the increased use of mobile technology while moving around the building.

Three of the recorded accidents resulted in reportable injuries as defined by the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations. While the reportable figure of three remained the same as last year, the Annual Injury Rate[1] dropped from 78 to 74, as a result of an increase in employee numbers. Investigations were conducted, and where remedial actions were identified these were implemented to help prevent any re-occurrence.

In addition to the services provided by our medical unit, qualified workstation assessors support staff who may require further assistance in setting up their work environment. Over 200 appointments were attended by colleagues taking advantage of this service. We have worked with Occupational Health to provide reasonable adjustments as needed to help colleagues with additional requirements to achieve their full potential. The medical centre also provides a flu vaccination programme, for which we saw a significant increase in demand compared with last year.

Taking action on declining bee populations

After careful planning, our Debden Green Champions took receipt of 20,000 bees in June 2018. The bees have made their home in the grassy area outside the Debden Cash Centre, which offers a perfect environment for us to support their population.

A team of Bank colleagues have undergone basic training to look after the hive, which includes learning how to maintain the hive, how to spot any damage and how to keep the bees hydrated. The beehive is our small contribution to the challenge of the declining bee population in the UK.

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.

Annex

Cash donations

During 2018/19 cash donations totalled £485,000 including:

- £78,500 to community organisations via the matched funding scheme;
- £60,000 to charities supported by the Bank's regional Agencies;
- £50,000 to match staff fundraising for the staff charities of the year;
- £30,000 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; and
- £266,500 made to partner charitable organisations and membership subscriptions.

Carbon footprint (Greenhouse gas emissions)[1]

		2018/19			2015/16 Baseline year
Type of emissions	Activity	tCO_{2e}	% of total	% change from baseline	tCO_{2e}
Direct (Scope 1)	Natural gas	3,030	14.7		3,320
	Oil — generators	17	0.1		5
	Vehicles fleet	86	0.4		97
	Refrigerants	32	0.2		n.a.[1]
	Subtotal	**3,165**		**-8**	**3,422**
Direct (Scope 2)	Electricity	11,231	55		16,195
	Subtotal	**11,231**		**-31**	**16,195**
Indirect (Scope 3)	Electricity — T&D[2]	983	4.8		1,337
	Air travel	4,937	24.0		4,334
	Rail travel	37	0.2		34
	Water	111	0.5		83
	Office paper	49	0.2		96
	Waste	57	0.3		20
	Subtotal	**6,174**		**+5**	**5,904**
Total gross emissions (tCO_{2e})		**20,570**		**-19**	**25,521**
Intensity metric					
Average number of employees		4,356			3,983
Tonnes of CO_{2e} per employee		4.7		-26	6.4

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

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

Assessment parameters

Baseline year	2015/16
Reporting organisation	Bank of England
Person responsible	Energy and Carbon manager
Reporting period covered	1 March 2018–28 February 2019
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 Executive Directors, 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 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 staff are appropriately and fairly rewarded. Like many organisations, fair pay has continued to be a focus for the Committee this year; as well as gender pay gap reporting, we have chosen to report on our BAME pay gap and we are actively working to ensure there is no bias in pay decisions through our policies. This links directly to the Bank's inclusion agenda and we are reporting our 2019 gender and BAME pay gap in the 'Our people' section of this report on pages 41–49.

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 on the same basis as employees. 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.

In recent years, the Committee has approved pay increases for Governors in line with public sector norms. A similar approach was taken for 2018/19 with pay for Deputy Governors increasing by 1.25%. 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.

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 sits 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.

Governors' remuneration[1]

	Mark Carney		Ben Broadbent		Sir Jon Cunliffe	
£	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
Base salary	480,000	480,000	276,066	273,333	276,066	273,333
Taxable benefits	252,286	252,254	1,181	1,174	1,575	2,005
Pension benefits	149,545	135,153	–	2,606	–	–
Payment in lieu of pension	–	12,000	82,820	77,264	82,820	82,000
Total pension benefits	**149,545**	**147,153**	**82,820**	**79,870**	**82,820**	**82,000**
Other remuneration	2,080	2,167	994	1,423	1,346	984
Total remuneration	**883,911**	**881,574**	**361,061**	**355,800**	**361,807**	**358,322**

	Jo Place		Sir Dave Ramsden		Sam Woods	
£	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
Base salary[2]	276,066	162,958	276,066	134,914	276,066	273,333
Taxable benefits[3]	8,285	739	1,181	618	1,181	(405)
Pension benefits	–	–	–	–	87,046	84,395
Payment in lieu of pension	55,214	31,179	55,214	26,983	–	–
Total pension benefits	**55,214**	**31,179**	**55,214**	**26,983**	**87,046**	**84,395**
Other remuneration	994	737	994	486	994	984
Total remuneration	**340,559**	**195,613**	**333,455**	**163,001**	**365,287**	**358,307**

1 As at 28 February 2019, only Mark Carney and Sam Woods were accruing pension. Mark Carney's total accrued pension is £35,598p.a. and Sam Woods' accrued pension is £13,990p.a.

2 The 2017/18 base salary figure for Jo Place is pro-rated from her appointment on 27 July 2017 and the 2017/18 base salary figure for Sir Dave Ramsden is pro-rated from his appointment on 4 September 2017.

3 The taxable benefits received by Jo Place includes a payment of £7,433 for seven days leave buy-back.

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 2018/19, the external members of the FPC were each paid at a rate of £94,859p.a., independent PRC members were paid at a rate of £107,008 and the external MPC members were paid £152,691. For 2019/20, all fees were increased by 1.25%, rounded to the nearest hundred. 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 staff across the Bank, comprising a salary commensurate to their role, a 7% flexible benefit allowance, a 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 2018/19, 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 performance as well as their pension accrual and external benchmarks for their roles so as to achieve fair and justifiable total remuneration. In recommending individual performance awards the Committee takes account of both performance against objectives and values. For 2019/20 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, including opting out entirely, 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 hold opt out rates at 2016/17 levels ranging from 29% (1/95th accrual) to 55% (1/50th accrual) cash in lieu of pension, to prevent costs increasing.

£ Year to 28 February 2019	Salary	Benefits	Contractual pension accrual
David Bailey	174,387	13,834	1/65th
Sonya Branch	212,258	15,880	1/95th
Alex Brazier	182,981	14,477	1/50th
Sarah Breeden	179,393	14,209	1/50th
Stephen Brown	168,260	13,376	1/50th
Victoria Cleland**	157,145	12,781	1/50th
Jonathan Curtiss	160,000	12,758	1/50th
Rob Elsey	203,000	15,975	1/95th
John Footman	191,060	15,082	1/65th
Andy Haldane	187,605	14,823	1/50th
Andrew Hauser	182,088	14,410	1/50th
Sasha Mills**	178,572	14,147	1/95th
Lyndon Nelson	224,854	17,610	1/95th
Lea Paterson*	128,000	10,363	1/50th
Rommel Pereira	210,000	16,499	1/95th
James Proudman	181,169	14,342	1/50th
Gareth Ramsay	162,400	12,937	1/50th
David Rule*	204,344	16,075	1/95th
Victoria Saporta	178,513	14,143	1/50th

* Denotes those who work part-time.

** Denotes those who were promoted during the year and salary reflects time spent in their previous and current roles.

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 a pension entitlement which is partly linked to their final salary, so even though the final salary scheme is closed to new accrual, any increase in their salary will have an impact on their pension entitlement.

Former final salary members of the Bank's pension scheme were granted a discretion to draw their CARE benefits unabated from age 60. As part of a review of the normal pension age during 2018, the Committee agreed that all active members of the Bank's pension scheme would have a NPA of 65 for any benefits they accrue from 2020 onwards.

Year to 28 February 2019	Accrued pension £p.a. Feb. 19	Accrued pension £p.a. Feb. 18	Increase in pension £p.a.	Pensionable age
David Bailey	12,454	9,417	3,037	65
Sonya Branch	8,868	6,666	2,202	65
Alex Brazier*	–	–	–	60
Sarah Breeden*	–	–	–	60
Stephen Brown	41,505	32,778	8,727	60
Victoria Cleland*	–	–	–	60
Jonathan Curtiss*	–	–	–	60
Rob Elsey	5,660	3,812	1,848	65
John Footman*	–	–	–	65
Andy Haldane	91,345	88,729	2,616	60
Andrew Hauser	80,726	77,538	3,188	60
Sasha Mills*	–	–	–	65
Lyndon Nelson*	–	–	–	65
Lea Paterson	32,466	25,227	7,239	60
Rommel Pereira	5,705	3,353	2,352	65
James Proudman*	–	–	–	60
Gareth Ramsay	50,993	48,659	2,334	60
David Rule*	–	–	–	65
Victoria Saporta	63,960	61,409	2,551	60

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

Mr Proudman was granted a deferred pension of £65,409p.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; Ms Cleland was granted a deferred pension of £60,533p.a. in 2016 and Ms Mills was granted a deferred pension of £1,801p.a. in 2016.

Other Executives' salaries and benefits

The following table shows remuneration ranges for the year to February 2019 for all staff below Executive Director level with remuneration in excess of £80,000p.a. on a full-time equivalent basis, excluding employer pension contributions and performance awards.

Remuneration range £	Number of colleagues
200,000–249,999	2
190,000–199,999	4
180,000–189,999	7
170,000–179,999	12
160,000–169,999	16
150,000–159,999	24
140,000–149,999	36
130,000–139,999	51
120,000–129,999	55
110,000–119,999	94
100,000–109,999	127
90,000–99,999	197
80,000–89,999	305
Total	**930**

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; diversity, 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'. During the course of the year Court approved a new Travel and Expenses policy, which was published for the first time.[1] 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 senior executive with a direct reporting line to the Chair of Court. The IEO's work programme is determined by Court, and typically consists of one or 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, and operates at arm's length from other areas so as not to compromise the independence of the Bank's policymaking.

Financial management and controls

Both for the past year and for 2019/20 the Bank has set a budget (excluding pension and note production costs and more recently the investment in RTGS renewal) that implies no increase in nominal spending. The Bank thus absorbing the additional costs of EU exit preparations and technology investment by savings in other areas. These have included streamlining the 2018 stress test, adjusting the PRA supervisory approach, reducing collateral reviews and postponing some planned reforms to liquidity facilities. Over the next two years further savings will be achieved through transforming the way central services are managed and delivered across the Bank, with investment in a single new system that will integrate core HR, finance and procurement systems, simplify processes and improve management information. Court has kept under close review the plans for this significant and transformational programme. During the year Court approved proposals to make more intensive use of the Threadneedle Street site. This will require a considerable programme of infrastructure work, but will over the next few years significantly reduce the Bank's property costs and improve the work environment.

The Bank's eight priorities for the coming year (page 26) were reviewed and approved by Court in December. It was noted that the strategy prioritised issues that had been raised by staff through the annual Viewpoint survey, including the need for reform of internal processes and prioritisation.

1 www.bankofengland.co.uk/freedom-of-information/2018/boe-travel-and-expenses-policy.

The National Audit Office (NAO)
Court is consulted by the NAO on its work programme in the Bank, and it was agreed that the Central Services Transformation Programme would be a suitable topic for the 2019 Review. The subsequent report was published in December and was the subject of a hearing at the Public Accounts Committee, which published its own report in March 2019.

Diversity and inclusion
A major focus for the Court has been the Bank's approach to improving the diversity of its workforce. This priority is fully shared by the Executive and a number of initiatives have been taken during the year, in particular to improve gender and BAME representation in the senior management grades. An action plan for improving BAME representation across the Bank as a whole was discussed by Court in February. The results both in terms of management representation and pay differentials are being monitored closely and are summarised on pages 44–45 of this *Report*.

RTGS renewal
The most substantial investment in the Bank's portfolio is the renewal of the Real-Time Gross Settlement system. In September a new Court sub-committee — the RTGS Renewal Committee — was formed to take key decisions on the overall scope of the programme and to approve spending and procurement decisions within the overall budget envelope set by Court.

Brexit contingency planning
In all of its meetings this year Court has been updated on the Bank's planning for operating after Brexit, including in the event that the UK leaves without an agreement or a transition period.

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 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. External members feel the FPC has played an important and constructive role in the Bank's work on Brexit, putting necessary issues into the public domain, including the *FSR* checklist of measures to avoid disruption to users of financial services, which was considered to be well-judged and effective.

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's meetings 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. MPC meetings are thought to be working well, with good robust discussions. The external members have welcomed recent enhancements to some meeting processes, and had some suggestions for further changes. All felt that Brexit issues had been well-handled by the MPC.

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.

The Prudential Regulation Committee (PRC)

The PRC is the body within the Bank responsible for exercising the Bank's functions as the PRA. 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 (as a secondary objective) 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.

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 and discusses trends across the industry on a thematic basis.

A survey of members of the Committee, supported by the Chair of Court's meetings with individual members, indicated satisfaction with the meetings overall and the support provided to members. PRC meetings are considered to be effective, with the appropriate amount of discussion and challenge. Members welcomed the ongoing work on the PRA's risk appetite, and the opportunity to consider how advances in data collection and technology could generate improvements in the functioning of the PRA as a regulator.

Policy reviews by the IEO

The IEO is an independent unit that sits within the Bank. It operates at arm's length from other areas so as not to compromise the independence of the Bank's policymaking. The Director of the IEO reports directly to the Chair of Court, who sets the IEO's remit and work programme, typically in consultation with other Court Directors. During the year Melissa Davey succeeded Lea Paterson as IEO Director.

In the year under review the IEO undertook two policy studies: one into the Bank's Resolution arrangements, and a second into the developing framework for stress testing the banking system. The first of these was published in June 2018; the second in April 2019.

The IEO also took stock of the implementation of its 2015 Review of forecasting performance. It found that all of the recommendations had been adopted but that the Bank could still go further in integrating into its processes tools that had been developed in response to that review .

During the coming year the IEO plans to complete and publish a review of the Bank's research capabilities. Work on this started in December 2018.

Ethics and conflicts of interest

Following its review of conflicts policies in 2017, Court has been kept closely informed on the reporting and management of conflicts across the Bank and the policy committees, and has kept the relevant policies under close review. A new edition of the Bank's code was agreed in July, and the Codes of Conduct for the policy committees were reviewed in December. As envisaged by the Court Review and reported on page 37, the Bank has now completed its review of the executive responsibilities for Risk and Compliance and a new Executive Director responsible for both functions has been appointed.

Members of Court attendance

Attendance	Court (7)	Audit & Risk (6)	RemCo (5)	NomCo(1)
Sir Anthony Habgood[1]	2 of 2	3 of 3	1 of 1	–
Mr Fried	7	6	4 of 4	1 of 1
Mr Frost[2]	2 of 2	2 of 2	1 of 1	–
Mr Prentis	5 of 7	–	2 of 5	–
Baroness Harding	7	–	5	1 of 1
Mr Robert	7	6	–	0 of 1
Ms Thompson	7	6	–	1 of 1
Ms Glover[3]	5 of 5	–	4 of 4	–
Ms Noble[3]	5 of 5	3 of 3	–	–
Mr Carney	7	–	–	–
Sir Jon Cunliffe	5 of 7	–	–	–
Mr Broadbent	7	–	–	–
Mr Woods	7	3 of 6	–	–
Sir David Ramsden	7	6	–	–

1 Retired from Court 30 June 2018.

2 Retired from Court 31 May 2018.

3 Appointed to Court 1 June 2018.

Report of the Audit and Risk Committee

The Audit and Risk Committee (ARCo) is a sub-Committee of Court. The Committee's remit is set out in its Terms of Reference as approved by Court.[1] Among other duties, ARCo assists Court in meeting its responsibilities for maintaining effective systems of financial reporting, internal control, and risk management. ARCo meetings are separated into two sequential parts, covering audit and then risk matters, so that each is given an appropriate focus.

Membership and Meetings

ARCo comprises no fewer than three Non-executive Directors of Court, and the Chair of Court attends ARCo meetings by standing invitation. The Deputy Governors for Markets & Banking and for Prudential Regulation, the Chief Operating Officer, the Finance Director, the Executive Directors for Markets and for Banking, Payments & Innovation, the Executive Director for Risk, and the Head of Internal Audit also attend ARCo meetings by standing invitation. The Bank's external auditors and the National Audit Office (NAO) attend the audit part of ARCo meetings. The Committee invites other individuals to be present for particular agenda items as required.

ARCo met six times during the 2018–19 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, and the Executive Director for Risk.

Separately, the Chair of ARCo has regular meetings with the Chief Operating Officer, the Finance Director, and the Executive Director for Risk, the Head of Internal Audit, and other Bank executives as necessary. The Chair of ARCo also has regular meetings with the Bank's External Auditor.

Section 1 — Audit Related Items

Integrity of financial reporting

During the year, ARCo reviewed and discussed regular reports from the Finance Directorate, including on accounting and taxation matters. ARCo considered the accounting policies and practices adopted in the preparation of the Bank's annual financial statements, including in relation to disclosures and enhancements to the readability of the accounts. At its May 2018 meeting, ARCo reviewed the draft annual reports and financial statements for the Bank (incorporating the PRA's financial reporting requirements), and the Bank of England Asset Purchase Facility Fund Limited (BEAPFF) draft annual report and accounts.

External auditors

ARCo approves the letter of appointment for the external auditors. During the year the Committee received and discussed regular updates from KPMG, the Bank's external auditors, and from the NAO, the external auditors of 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 considered the extent of non-audit work undertaken by the Bank's external audit firm and the associated fees; and reviewed the Bank's policy for commissioning such work.

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 Bank's assets and reputation. 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 Chair of ARCo and on a dotted line basis to the Executive Director for Risk. The Head of Internal Audit has unfettered access both to ARCo and senior executive management.

During the year, ARCo considered and approved Internal Audit's Charter and resources, and confirmed that it was satisfied that the Internal Audit function was appropriately resourced. ARCo reviewed and approved Internal Audit's annual audit plan and monitored its execution. Internal Audit presented regular reports to the Committee who discussed material findings and monitored 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 risks.

During the financial year 2018–19 ARCo considered some revisions to the Bank's risk framework and risk tolerance statement prepared by the Risk Directorate. ARCo also reviewed quarterly risk reports from the Risk Directorate 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.

Following a review of the Bank's risk arrangements in 2018, the appointment of an Executive Director for Risk and the creation of a new Risk Directorate, ARCo received regular reports and updates from the Executive Director for Risk. ARCo also considered reports from the Executive Directors of Markets, and Banking, Payments & Innovation and the Finance Director on customer banking activities, and on developments relating to the Bank's balance sheet, including the review of the memorandum of understanding between the Bank and HMT relating to the Bank's Financial Framework. ARCo also considered and discussed individual 'deep dive' risk reports from the Bank's Executive Directors and Directors.

Separately, ARCo considered a report from the Banking & Markets Directorate on preparations for the launch of the SONIA benchmark in April 2018, and reports and updates on Brexit-related planning and operational readiness.

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 2018/19 these included progress in relation to the Bank's diversity and inclusion agenda; a number of security enhancements and technology developments; and the implementation and embedding of the General Data Protection Regulation (GDPR) in the Bank.

ARCo received reports on the management of current significant projects and related controls, and monitored the progress of large infrastructure projects. ARCo also considered the Bank's project governance arrangements; a cost-containment initiative to increase efficiency and add value; and a report on Bank-wide compliance arrangements. The Committee received updates from the Executive Director for Technology and from the Security & Privacy Division on initiatives and projects relating to the implementation of cyber initiatives and systems resilience and security more generally.

ARCo received annual reports on the adequacy of the Bank's insurance arrangements; the Bank's compliance with the Bribery Act, 2010; business continuity and critical incident management exercises; Freedom of Information requests; Health and Safety; anti-money laundering; and cyber threats. It also discussed the Compliance Division's report on the annual staff attestation against the Bank's Code of Conduct. ARCo also considered the annual report from the Bank Secretary on the Bank's 'Speak Up' arrangements for its employees to raise concerns in confidence about possible fraud, malpractice or misconduct (whistleblowing).

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.

Other responsibilities

ARCo reviewed the annual expenses of the members of Court.

Audit and Risk Committee: regular attendees 2018–19[1]

ARCo members	ARCo meetings (6)
Mr Fried[2] (Chair until 30 June 2018)	6
Mr Frost (until 31 May 2018)	2 of 2
Mr Robert	6
Ms Thompson (Chair wef 1 July 2018)	6
Ms Noble (wef 1 June 2018)	3 of 3
Sir Anthony Habgood[3]	3 of 3
Executive	
Sir David Ramsden	6
Mr Woods	3 of 6
Ms Place	6
Mr Hauser	5 of 6
Mr Pereira (until 31 December 2018)	5 of 5
Ms Cleland	3 of 4
Mr Thompson (interim Finance Director wef 1 January 2019)	1 of 1
Executive Director, Risk	
Mr Brown (wef 3 October 2018)	2 of 2
Internal Auditor	
Mr Brown (until 2 October 2018)	4 of 4
Sarah Sodeau (interim Internal Auditor wef 3 October 2018)	2 of 2
External Auditor (KPMG)[4]	
Ms Hinchliffe	5 of 6
Mr Subesinghe	5 of 6
Mr Withers	2 of 2
NAO[4]	
Ms Lewis	6
Mr Broadley	1 of 2
Ms Ramjan	2 of 2
Mr Kitson	1 of 1

1 Covering ARCo meetings held on 29 March 2018, 14 May 2018, 26 June 2018, 2 October 2018, 19 November 2018 and 30 January 2019.

2 Bradley Fried is not a member of the Committee from 1 July 2018 but attends the meetings by invitation.

3 Sir Anthony Habgood is not a member of the Committee but attends the meetings by invitation. He stepped down from Court on 30 June 2018.

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 2019 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 2019 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 2019 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 83 to 88.

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 2019, set out on pages 78 to 146, 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 2019, set out on pages 147 to 151, 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 2019, set out on pages 152 to 160, 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 83 to 88.
- 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 149.
- 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 154.

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.

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 73, 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 83, note 1 on page 149 and note 1 on page 154, 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 73.

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

21 May 2019

Banking Department statement of income
for the year to 28 February 2019

	Note	2019 £m	2018 £m
Net interest income		25	14
Fee income	5a	81	132
Other income from financial instruments	5a	217	177
Management fees	5a	126	140
Income from regulatory activity	5a	284	280
Other income	5a	31	42
Net operating income		**764**	**785**
Staff costs	5b	(420)	(399)
Infrastructure costs	5b	(81)	(92)
Administration and general costs	5b	(145)	(156)
Operating expenses		**(646)**	**(647)**
Profit before tax		**118**	**138**
Taxation	6	(9)	(9)
Profit after tax		**109**	**129**

The notes on pages 83 to 146 are an integral part of these financial statements.

Banking Department statement of comprehensive income
for the year to 28 February 2019

	Note	2019 £m	2018 £m
Profit for the year attributable to shareholder		**109**	**129**
Other comprehensive income/(loss) that may be recycled to profit or loss:			
Available for sale reserve			
Net losses from changes in fair value		–	(325)
Current and deferred tax		–	54
Total other comprehensive loss that may be recycled to profit or loss:		**–**	**(271)**
Other comprehensive income/(loss) not recycled to profit or loss:			
Property revaluation reserve			
Net (losses)/gains from changes in fair value		(1)	1
Deferred tax		–	–
Financial assets at fair value through other comprehensive income reserve			
Net gains from changes in fair value	18	53	–
Current and deferred tax		(9)	–
Other			
Retirement benefit remeasurements	28	38	(81)
Deferred tax		(7)	14
Total other comprehensive income/(loss) not recycled to profit or loss:		**74**	**(66)**
Total comprehensive income/(loss) for the year		**183**	**(208)**

The notes on pages 83 to 146 are an integral part of these financial statements.

Banking Department statement of financial position
as at 28 February 2019

	Note	2019 £m	2018 £m
Assets			
Cash and balances with other central banks	7	698	776
Loans and advances to banks and other financial institutions	8	136,222	14,195
Other loans and advances	9	445,002	572,017
Securities held at fair value through profit or loss	13	6,064	7,993
Derivative financial instruments	21	156	122
Available for sale securities	16	–	8,571
Securities held at amortised cost	17	10,302	–
Securities held at fair value through other comprehensive income	18	1,249	–
Investments in subsidiaries	26	–	–
Inventories		5	4
Property, plant and equipment	31	412	404
Intangible assets	32	47	31
Current tax assets		–	34
Retirement benefit assets	28	927	866
Other assets	33	499	1,800
Total assets		**601,583**	**606,813**
Liabilities			
Deposits from central banks	10	9,922	15,809
Deposits from banks and other financial institutions	11	495,406	497,086
Deposits from banks — cash ratio deposits	19	7,884	4,708
Other deposits	12	76,799	76,536
Foreign currency bonds in issue	14	6,042	5,797
Derivative financial instruments	21	111	423
Current tax liabilities		–	–
Deferred tax liabilities	36	289	319
Retirement benefit liabilities	28	207	219
Other liabilities	34	573	1,435
Total liabilities		**597,233**	**602,332**
Equity			
Capital	20	15	15
Retained earnings	20	3,076	3,033
Other reserves		1,259	1,433
Total equity attributable to shareholder		**4,350**	**4,481**
Total liabilities and equity attributable to shareholder		**601,583**	**606,813**

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

Mr M Carney Governor
Mr S Woods Deputy Governor
Mr B Fried Chair of Court
Mr R Thompson Finance Director

Banking Department statement of changes in equity
for the year to 28 February 2019

		Attributable to equity shareholder					
	Note	Capital £m	Available for sale reserve £m	Equity investments Reserves £m	Property revaluation reserve £m	Retained earnings £m	Total £m
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	30	–	–		–	(65)	(65)
Balance at 28 February 2018		**15**	**1,209**	**–**	**224**	**3,033**	**4,481**
Impact on transition to IFRS 9			(1,209)	992	–	(43)	(260)
Balance at 1 March 2018		15	–	992	224	2,990	4,221
Post-tax comprehensive income/(loss) for the period		–	–	44	(1)	140	183
Payable to HM Treasury in lieu of dividend	30	–	–		–	(54)	(54)
Balance at 28 February 2019		**15**	**–**	**1,036**	**223**	**3,076**	**4,350**

The notes on pages 83 to 146 are an integral part of these financial statements.

Banking Department statement of cash flows
for the year to 28 February 2019

	Note	2019 £m	2018 £m
Cash flows from operating activities			
Profit before taxation		**118**	**138**
Adjustments for:			
Amortisation of intangibles	32	11	11
Depreciation of property, plant and equipment	31	23	22
Dividends received	5a	(12)	(16)
Net movement in accrued interest and provisions, including pensions		1,027	(847)
Changes in operating assets and liabilities:			
Decrease/(increase) in loan advanced to the Bank of England Asset Purchase Facility Fund Ltd		127,015	(86,863)
Net increase in other advances		(125,089)	(2,008)
Net decrease in securities held at fair value through profit and loss		376	84
Net (decrease)/increase in deposits		(7,304)	89,960
Net increase in foreign currency bonds in issue		1,176	12
Net (increase)/decrease in financial derivatives	21	(346)	501
Net decrease in other accounts		–	36
Net increase in inventories		(1)	–
Corporation tax (paid)/received		–	–
Net cash inflow/(outflow) from operating activities		**(3,006)**	**1,030**
Cash flows from investing activities			
Purchase of securities at amortised cost	17	(3,474)	(1,222)
Proceeds from redemption of securities at amortised cost	17	201	652
Dividends received	5a	12	16
Purchase of intangible assets	32	(27)	(11)
Purchase of property, plant and equipment	31	(26)	(22)
Net cash outflow from investing activities		**(3,314)**	**(587)**
Cash flows from financing activities			
Net increase in Cash Ratio Deposits		3,176	284
Payment to HM Treasury under Section 1 (4) of the Bank of England Act 1946		(65)	(101)
Net cash outflow from financing activities		**3,111**	**183**
Net (decrease)/increase in cash and cash equivalents		**(3,209)**	**626**
Cash and cash equivalents at 1 March 2018	23	9,762	9,136
Cash and cash equivalents at 28 February 2019	**23**	**6,553**	**9,762**

Section 1: Overview

The overview includes the general information and bases of preparation for the accounts of the Bank including the detail of the disclosure exemptions taken under the Bank of England Act 1998.

1 General information

The Bank of England is the central bank of the United Kingdom and is incorporated under a Royal Charter of 1694, located at Threadneedle Street, London, EC2R 8AH.

Legislation covering its operations includes the Charter of the Bank of England 1694, the Bank Charter Act of 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 is separated from its other activities. For accounting purposes, the Bank is therefore divided into Issue Department and Banking Department. Neither is an organisational unit of the bank under the definition of IFRS 8.

The Banking Department comprises all activities of the Bank, with the exception of the Issue Department. Following agreement of the new capital framework between the Bank and HM Treasury, the percentage of Banking Department profits payable to HM Treasury will be determined by the level of loss absorbing capital held by the Bank and where this sits within a set of parameters (see note 30).

The statements of account of the Issue Department are given on pages 147 to 151, and show the bank 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 bank notes. The net income of the Issue Department is paid over to the National Loans Fund.

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 152 to 160.

2 Bases of preparation

The principal accounting policies applied in the preparation of the financial statements of the Banking Department are set out in the relevant areas of the notes to the accounts. 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').

Adopted IFRS and the Companies Act have been used as a model for the presentation and disclosure framework to provide additional information related to key items in the financial statements, unless disclosure is deemed inappropriate to the Bank's financial stability objective.

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 held at amortised cost, financial assets that are held at fair value through other comprehensive income (FVOCI), and all financial assets and financial liabilities (including derivatives) that are held at fair value through profit or loss (FVPL) and retirement benefit assets and liabilities.

Section 1: Overview continued

2 Bases of preparation continued

In exceptional circumstances, as part of its central banking functions, the Bank may act as 'lender of last resort' to financial institutions in difficulty. Although the effects of these operations will be reflected in the financial statements in the year in which they occur, it may not be in the best interests of overall confidence in the financial system as a whole for specific circumstances to be disclosed. However, the existence of such support will be reported in the *Annual Report* when there is no longer a need for secrecy or confidentiality.

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.

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 152 to 160).

The financial statements for the Banking Department, Issue Department and PRA have been prepared on the going concern basis. Court have assessed the key financial risks impacting the Bank as disclosed in this report, and the budget for the year ahead, and have determined that there are no material uncertainties that may cast significant doubt about the Bank's ability to continue as a going concern and that therefore the going concern basis is an appropriate assumption to use in preparing the accounts.

b New and amended accounting standards

i IFRS 9 'Financial Instruments'

The Bank applied IFRS 9 effective from 1 March 2018. The classification, measurement and impairment requirements were applied retrospectively by adjusting the opening statement of financial position at the date of initial application. This is the first year of IFRS 9 adoption and comparatives have not been restated.

Debt securities in the sterling bond portfolio were previously classified as available for sale under IAS 39, and have been reclassified to amortised cost under IFRS 9, due to the business model of 'hold and collect'. The gilts on the statement of financial position have been adjusted from market value to amortised cost, with a corresponding reduction to the available for sale reserves.

The Bank has irrevocably designated the unlisted equity investments that were previously classified as available for sale under IAS 39 as fair value through other comprehensive income (FVOCI) under IFRS 9, as they are not held for trading.

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities as at 1 March 2018.

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets				£m	£m
Cash and balances with other central banks	7	Loans and receivables	Amortised cost	776	776
Loans and advances to banks and other financial institutions	8				
- Secured lending agreements held at amortised cost		Loans and receivables	Amortised cost	2,780	2,780
- Reverse repurchase agreements held at fair value		FVPL (designated)	FVPL (designated)[1]	11,259	11,259
- Other loans and advances		Loans and receivables	Amortised cost	76	76
- Items in course of collection		Loans and receivables	Amortised cost	80	80
Other loans and advances	9	Loans and receivables	Amortised cost	572,017	572,017
Securities held at fair value through profit or loss	13	FVPL	FVPL	7,993	7,993
Derivative financial instruments	21	FVPL	FVPL	122	122
Securities held at amortised cost	16, 17	Available for sale	Amortised cost	7,375	7,061
Unlisted equity investments	16, 18	Available for sale	FVOCI (designated)	1,196	1,196
Other assets	33	Loans and receivables	Amortised cost	1,800	1,800
Total financial assets				**605,474**	**605,160**
Financial liabilities					
Deposits from central banks	10				
- Deposits repayable on demand		Amortised cost	Amortised cost	1,143	1,143
- Term deposits held at fair value		FVPL (designated)	FVPL (designated)[1]	14,666	14,666
Deposits from banks and other financial institutions	11	Amortised cost	Amortised cost	497,086	497,086
Deposits from banks — cash ratio deposits	19	Amortised cost	Amortised cost	4,708	4,708
Other deposits	12	Amortised cost	Amortised cost	76,536	76,536
Foreign currency bonds in issue	14	FVPL	FVPL	5,797	5,797
Derivative financial instruments	21	FVPL	FVPL	423	423
Other liabilities	34	Amortised cost	Amortised cost	1,435	1,435
Total financial liabilities				**601,794**	**601,794**

1 Designation at fair value through profit or loss (FVPL) is due to the relevant assets and liabilities being managed together and internal reporting is evaluated on a fair value basis.

Section 1: Overview continued

2 Bases of preparation continued

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition on 1 March 2018.

	IAS 39 carrying amount 28 February 2018 £m	Reclassification £m	IFRS 9 carrying amount 1 March 2018 £m
Available for sale			
Securities:			
Opening balance	7,375	–	7,375
IFRS 9 adjustment: Reclassification to amortised cost	–	(7,375)	(7,375)
Closing balance	**7,375**	**(7,375)**	**–**
Amortised cost			
Securities:			
Opening balance	–	–	–
IFRS 9 adjustment: Reclassification from available for sale		7,375	7,375
IFRS 9 adjustment: Mark to market to amortised cost	–	(314)	(314)
Closing balance	**–**	**7,061**	**7,061**

The following table shows the effects of the reclassification of financial assets from IAS 39 categories into the amortised cost category under IFRS 9. This disclosure is made in the first year of transition only.

From available for sale financial assets under IAS 39	£m
Fair value at 28 February 2018	7,375
Fair value gain that would have been recognised during the year in other comprehensive income if the financial asset had not been reclassified	359

ii IFRS 16 'Leases'

In January 2016 the IASB issued IFRS 16 *Leases*, which was subsequently endorsed by the EU in November 2017, and will replace IAS 17 *Leases* for period beginning on or after 1 January 2019. IFRS 16 will apply to all leases with the exception of licenses of intellectual property, rights held by licensing agreement within the scope of IAS 38 *Intangible Assets*, service concession arrangements, leases of biological assets within the scope of IAS 41 *Agriculture*, and leases of minerals, oil, natural gas and similar non-regenerative resources. A lessee may elect not to apply IFRS 16 to remaining assets within the scope of IAS 38 *Intangible Assets*.

IFRS 16 will not result in a significant change to lessor accounting; however, for lessee accounting there will no longer be a distinction between operating and finance leases. Lessees will be required to recognise both: i. a lease liability, measured at the present value of remaining cash flows on the lease, and ii. a right of use (ROU) asset, measured at the amount of the initial measurement of the lease liability, plus any lease payments made prior to commencement date, initial direct costs, and estimated costs of restoring the underlying asset to the condition required by the lease, less any lease incentives received.

Subsequently the lease liability shall be measured by i. increasing the carrying amount to reflect interest on the liability, ii. reducing the carrying amount to reflect the lease payments made, and iii. remeasuring the carrying amount to reflect any reassessment or modifications. The right of use asset will amortise to the income statement over the life of the lease. IFRS 16 implementation has been led by Finance. The project has identified the contracts impacted by IFRS 16, which are predominantly existing property leases. Other lease types are not material. The project has also established appropriate accounting policies, determined the appropriate transition options to apply, and updated Finance systems and processes to reflect the new accounting and disclosure requirements.

As permitted by the standard, the Bank intends to apply IFRS 16 on a retrospective basis but to take advantage of the option not to restate comparative periods by applying the modified retrospective approach. The Bank intends to take advantage of the following transition options available under the modified retrospective approach:

- To calculate the right of use asset equal to the lease liability, adjusted for prepaid or accrued payments;
- Apply the recognition exemption for leases with a term not exceeding 12 months, and continue to apply similar accounting as for an operating lease under IAS 17;
- Apply the recognition exemption for leases with a low value, and continue to apply similar accounting treatment as for an operating lease under IAS 17; and
- Use hindsight in determining the lease term if the contract contains options to extend or terminate the lease.

An impact assessment was undertaken to identify the impact to the statement of financial position of adopting IFRS 16, resulting in an estimated increase in assets of £78.9m and an increase in liabilities of £78.9m with no material impact on retained earnings had the standard been applied in the year ended 28 February 2019.

iii IFRS 15 'Revenue from Contracts with Customers'

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers' effective for annual periods beginning on or after 1 January 2018. 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 adopted the standard from 1 March 2018; the standard did not have a material effect, when applied, on the financial statements.

c Consolidation

The financial statements of the Bank's subsidiaries, including the Bank of England Asset Purchase Facility Fund Ltd (BEAPFF), 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.

Section 1: Overview continued

2 Bases of preparation continued

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, the related exchange gain or loss is also recognised in other comprehensive income.

e Commitments on behalf of HM Treasury

In its operation of the Exchange Equalisation Account, the Bank acts as a custodian for gold on behalf of HM Treasury, and provides accounting, trading and operational services. These commitments are not included in the financial statements.

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 28, 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

The Bank's accounting policy for the valuation of financial instruments is described in Section 3. 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 Section 3.

Fair values of the Bank's equity investments rely to a greater extent on unobservable inputs and therefore require some degree of estimation to calculate a fair value. These equity investments, disclosed in note 18, 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 Section 4, which includes relevant sensitivity analysis).

Judgements

Expected credit loss

Impairment under IFRS 9 adopts a staging approach, with stage 1 representing the lowest credit risk and stage 3 the highest. When a new asset is originated it is classified as Stage 1 (normal origination). Moving from Stage 1 to Stage 2 is a key judgment, and is based on management defined criteria of whether there is a significant increase in credit risk. Given the impact of ECL this is not considered to be a significant judgement under IAS 1.122.

4 Post balance sheet events

The financial statements were authorised for issue by the Court of Directors on 21 May 2019. On 22 March 2019 Parliamentary approval was granted to HMT to draw on the Consolidated Fund under the Banking Act 2009, in order to provide the Bank with a capital injection of £1.2bn to increase its loss-absorbing capital to £3.5bn. The capital injection has been received post year end but prior to the signing of the financial statements.

The capital injection will affect the financial statements materially, with an increase of £1.2bn to the Bank's reserves.

No adjustment has been made to the financial statements in respect to this transaction.

The Members of Court approved the financial statements on pages 78 to 146 on 21 May 2019.

Section 2: Results for the year

This section analyses the financial performance of the Bank for the year.

Accounting Policies

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.

Valuation gains and losses

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.

Fee income and Management fees

Fees are recognised as the service is provided, as this is the point at which the performance obligation, with the identified customer, is considered to be satisfied.

Income from regulatory activity

Fee income comprises levy fees collected from regulated firms through the Annual Funding Requirement (AFR) consultation process, along with fees for specific regulatory activity. This fee income is recognised as the service to regulated entities occurs, which is deemed to be equivalent to the value of relevant expenditure incurred in the year, in the 'income statement'.

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.

Dividends

Dividends on equity investments that are FVOCI are recognised in the income statement when declared.

5a Net operating income

	Note	2019 £m	2018 £m
Fee income			
Funding for Lending Scheme fees	15	52	108
Payment services fee income		19	14
Banking operations		10	10
Net fee income		**81**	**132**
Other income from financial instruments			
Net income from financial instruments designated at fair value		33	8
Income from available for sale securities	17	–	169
Income from securities held at amortised cost	17	184	–
Net other income from financial instruments		**217**	**177**
Management fees			
Fee for services to BEAPFF	29	2	5
Charges to HM Government bodies	29	124	135
Total management fees		**126**	**140**
Income from regulatory activity			
Income from regulatory activity[1]		278	280
Income from Financial Market Infrastructure levy		6	–
Total Income from regulatory activity		**284**	**280**
Other income			
Dividend income		12	16
Premises income		10	11
Sundry income		9	15
Total other income		**31**	**42**
Net operating income (excluding net interest income)		**739**	**771**

1 Income from regulatory activity represents income received by the Bank in its capacity as the PRA.

Section 2: Results for the year continued

5b Operating expenses

	Note	2019 £m	2018 £m
Infrastructure costs			
Property and equipment		41	51
Depreciation of property, plant and equipment	31	23	22
Operating lease rentals		6	8
Amortisation of intangible assets	32	11	11
Impairment of property, equipment and intangible assets		–	–
Total infrastructure costs		**81**	**92**
Administration and general costs			
Consultancy, legal and professional fees		46	50
Subscriptions, publications, stationery and communications		5	6
Travel and accommodation		6	6
Other administration and general expenses		88	94
Total administration and general costs		**145**	**156**
Staff costs	27	420	399
Total staff costs		**420**	**399**
Operating expenses		**646**	**647**

6 Taxation

Accounting Policies

Corporation tax payable on profits, based on 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 amounts 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, and corresponding expenditure, are not subject to corporation tax. The net fee income/expenses in the statement of income is nil; any excess or shortfall of fees over regulatory expenses are held on account.

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

	2019 £m	2018 £m
Current year corporation tax	3	3
Prior year corporation tax	–	(1)
Deferred tax — current year	7	7
Deferred tax — prior year	(1)	–
Tax charge on profit	**9**	**9**

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:

	2019 £m	2018 £m
Profit before tax	**118**	**138**
Tax calculated at rate of 19.00% (2018: 19.00%)	23	27
Tax relief on payment to HM Treasury	(10)	(12)
Matured AFS recycled to income statement	–	(1)
Dividend not subject to corporation tax	(2)	(3)
Difference between current and deferred tax rate	(1)	(1)
Prior year items	(1)	(1)
Total tax charge for the period	**9**	**9**

Section 2: Results for the year continued

6 Taxation continued

Tax credited to other comprehensive income comprises:

	2019 £m	2018 £m
Tax credited to equity through the statement of comprehensive income		
Current year corporation tax	(3)	(3)
Deferred tax	(37)	(65)
Tax credited to other comprehensive income	**(40)**	**(68)**

	2019 £m	2018 £m
Tax credited to equity through the statement of comprehensive income		
Revaluation of FVOCI securities	(36)	(36)
Use of tax losses carried back	–	–
Tax losses carried forward	(13)	(25)
Revaluation of property	–	–
Remeasurements of retirement benefits	7	(15)
Difference between current and deferred tax rate	2	8
Tax credited to other comprehensive income	**(40)**	**(68)**

The main UK corporation tax rate was 19% for the year beginning 1 April 2018 (1 April 2017: 19%). The effective rate for the year ended 28 February 2019 is 7.46% (2018: 6.31%).

Section 3: Financial assets and liabilities

This section analyses the financial assets and liabilities held by the Bank in fulfilling its policy objectives.

Financial instruments

Accounting Policies

Financial instruments: assets

The Bank applied IFRS 9 effective from 1 March 2018. All comparative numbers for financial year 2017/18 were prepared under IAS 39. This is the first year of IFRS 9 adoption and comparatives have not been restated.

Bases of preparation for 2019 figures under IFRS 9

i Classification of financial assets

Classification and measurement

IFRS 9 Financial Instruments: Recognition and Measurement outlines the requirements for the recognition and measurement of financial assets and liabilities and replaces IAS 39.

Financial instruments are initially recognised when an entity becomes a party to the contractual provisions of the instrument, and are classified into various categories depending upon the type of instrument, which then determines the subsequent measurement of the instrument.

IFRS 9 classification is based on two aspects; the business model within which the asset is held (the business model test) and the contractual cash flows of the asset which meet the solely payments of principal and interest ('SPPI') test.

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). The Bank determines the classification at initial recognition.

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.

All other financial assets are classified as measured at FVPL.

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.

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.

Section 3: Financial assets and liabilities continued

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; and
- 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

Under IFRS 9, the SPPI test requires that the contractual terms of the financial asset (as a whole) give rise to cash flows that are solely payments of principal and interest on the principal amounts outstanding ie cash flows that are consistent with a basic lending arrangement.

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 (eg 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 (eg non-recourse asset arrangements); and
- features that modify consideration of the time value of money — eg periodical reset of interest rates.

Financial assets at amortised cost

The Bank classifies financial assets at amortised cost where the business model is to hold these assets to collect contractual cash flows and the SPPI criteria has been met.

This category includes sterling debt securities, the Term Funding Scheme, secured lending agreements held at amortised cost and the loan to BEAPPF. 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 mandatorily classified in this category if it is acquired principally for the purpose of selling in the short term, or if it fails the SPPI test. Derivatives are classified as FVPL as they do not meet the SPPI criteria.

A financial asset can be classified in this category by choice if so designated by management at inception. This designation is because 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.

The Bank does not currently hold any financial assets for trading but has elected to designate 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.

Financial assets at fair value through other comprehensive income

The Bank has made an irrevocable election to designate unlisted equity investments at fair value through other comprehensive income. These are designated at fair value through other comprehensive income as they are not held for trading.

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. It includes the Bank's investment in the Bank for International Settlements which consists of shares of 5,000 Special Drawing Rights.

ii Initial recognition of financial assets

All financial assets are initially recognised at fair value plus or minus directly attributable transaction costs. 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.

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 debt instruments classified as fair value through comprehensive income are recognised as other comprehensive income until the financial asset is derecognised or impaired, 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 securities held at amortised cost 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 88.

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.

The Bank has no modified financial instruments.

iv Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. IFRS 9 requires impairment assessment on all of the following financial instruments that are not measured at FVPL:

- financial assets that are debt instruments measured at amortised cost or FVOCI;
- lease receivables; and
- loan commitments and financial guarantee contracts issued.

Section 3: Financial assets and liabilities continued

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 Expected Credit Loss (ECL) 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.

The term 'expected credit loss' does not imply that losses are anticipated, rather that there is recognition of the potential risk of loss.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and are 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.

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 (ie 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.

Impairment under IFRS 9 adopts a staging approach. When a new asset is originated it is classified as Stage 1 (normal origination). Moving from Stage 1 to Stage 2 is a key judgment, and is based on management defined criteria of whether there is a significant increase in or absolute amount of credit risk. If the indicators of significant credit risk are no longer present then the asset returns from Stage 2 to Stage 1. The move from Stage 2 to Stage 3 is based upon 'default'. Once an asset ceases to be 'defaulted' then it will return to Stage 2. Staging and cure (being no longer in default) is assessed using the Bank's internal credit rating framework.

The Bank monitors 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 the term structures of the following variables:

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

Inputs into measurement of ECLs

PD estimates are 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 formulates 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 involves developing four different economic scenarios, which represent a range of scenarios linked to housing and interest rate variables. 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.

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 and then multiplying that loss by the probability of the default happening.

When an ECL is identified, the carrying amount of the asset would be reduced and the amount of ECL is recognised in the income statement.

At 28 February 2019 the Bank recognised an ECL provision less than £1m.

Bases of preparation of 2018 comparative figures under IAS 39

i Classification of financial assets

The Bank classified 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 determined the classification at initial recognition.

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.

Section 3: Financial assets and liabilities continued

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

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

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

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 quoted financial 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.

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.

Section 3: Financial assets and liabilities continued

7 Cash and balances with other central banks

	2019 £m	2018 £m
Balances with other central banks	698	776
	698	**776**

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

8 Loans and advances to banks and other financial institutions

	2019 £m	2018 £m
Secured lending agreements held at amortised cost	6,891	2,780
Reverse repurchase agreements held at fair value through profit and loss	7,916	11,259
Other loans and advances	15	76
Items in course of collection	–	80
TFS loans	121,400	–
	136,222	**14,195**

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 10 to 12).

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 Bank of England's published *Sterling Monetary Framework* (Updated June 2015).

Accrued interest on secured lending agreements held at amortised cost is recognised in note 33 Other assets.

At 28 February 2019 loans and advances to banks and other financial institutions included cash and cash equivalents of £5,729m (2018: £8,791m) which are disclosed in note 23.

TFS Loans

The Governor announced in his Mansion House speech on 21 June 2018 that the Bank and HM Treasury (HMT) had reached a new capital settlement and updated financial framework. In line with the agreement, the loans advanced under the Term Funding Scheme (TFS) with a fair value of £121.4 billion were transferred from the balance sheet of BEAPFF Ltd to the balance sheet of the Bank of England on 21 January 2019. As consideration for the transfer of TFS loans from BEAPFF Ltd, the loan to BEAPFF Ltd (note 9) was reduced by an equal amount.

TFS loans are cash loans made to eligible participants financed by the issuance of central bank reserves, secured against eligible collateral. The term of each loan is four years; participants can terminate, in part or in full, before the maturity date. Participants are charged interest on the loans equal to Bank Rate plus a Scheme fee. The fee is determined based on the net lending of each participant over the reference period of the scheme. This fee ranges from 0 basis points to 25 basis points.

The Bank made an agreement with BEAPFF Ltd that they should continue to receive TFS scheme fees after the transfer. The Bank treats scheme fees as an agent, collecting the fees from counterparties and passing them over to BEAPFF Ltd when they are received, and does not recognise them as income.

9 Other loans and advances

	2019 £m	2018 £m
Loan to the Bank of England Asset Purchase Facility Fund Ltd	444,997	572,012
Term loans	5	5
	445,002	**572,017**

Loan to Bank of England Asset Purchase Facility Fund Ltd

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.

When it was launched, the Term Funding Scheme (TFS) was operated as part of the APF. However, as part of the Bank's new capital framework, in January 2019 all TFS drawings, and the collateral backing them, were transferred from the APF to the Bank of England's balance sheet, see note 8.

Following the transfer of the TFS, the total loan from the Bank to BEAPFF reduced by £121.4 billion. Accrued interest of £201m on the loan is recognised in note 33 Other assets.

10 Deposits from central banks

	2019 £m	2018 £m
Deposits repayable on demand	1,553	1,143
Term deposits held at fair value through profit and loss	8,369	14,666
	9,922	**15,809**

Term deposits held at fair value through profit and loss largely constitutes deposits the Bank accepts from its central bank customers to support sterling as a global reserve currency and to support the reserve management requirements of other central banks. Funds are on-placed on a secured basis.

Accrued interest on deposits repayable on demand is recognised in note 34 Other liabilities.

Section 3: Financial assets and liabilities continued

11 Deposits from banks and other financial institutions

	2019 £m	2018 £m
Deposits repayable on demand	494,657	497,086
Repurchase agreements	749	–
	495,406	**497,086**

Accrued interest on deposits repayable is recognised in note 34 Other liabilities.

The majority of deposits repayable on demand comprises 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.

12 Other deposits

	2019 £m	2018 £m
Deposit by Issue Department	68,700	69,079
Public deposits repayable on demand	1,880	2,838
Other deposits repayable on demand	6,219	4,619
	76,799	**76,536**

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 34 Other liabilities.

Foreign exchange reserves

13 Securities held at fair value through profit or loss

	2019 £m	2018 £m
Money market instruments	441	2,274
Listed foreign government securities	5,623	5,719
	6,064	**7,993**

The holdings of foreign government securities are funded by the Bank's issuance of medium-term securities (note 14) and fixed-term deposits held at fair value through profit and loss placed by other central banks (note 10). Designation at FVPL 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.

At 28 February 2019 money market instruments included cash and cash equivalents of £126m (2018: £195m) which are disclosed in note 23.

14 Foreign currency bonds in issue

	2019		2018	
	Fair value £m	Nominal US$m	Fair value £m	Nominal US$m
Total amounts issued to third parties	6,042	8,000	5,797	8,000

The Bank's foreign exchange reserves can be used by the Bank to intervene in the foreign exchange market in pursuit of its monetary policy objectives. This was set out in the Monetary Policy Framework[1] introduced by the Government in 1997. Discussion of the Bank of England's foreign exchange reserves is included in the 2011 Q3 *Quarterly Bulletin*,[2] page 194.

All changes in fair values since 1 March 2018 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 2019, 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 (2018: four US$2,000m three-year dollar bonds); the first maturing on 14 March 2019, the second on 6 March 2020, the third on 5 March 2021 and the fourth on 22 February 2022.

The most recent bond (the 13th in the overall programme) was issued on 12 February 2019 with settlement on 20 February 2019. This bond matures on 22 February 2022. Refer to the Foreign Currency Reserves 2019 Market Notice[3] for further details of the issuance.

Of the above liabilities to third parties, £1,512m (2018: £1,459m) fall due within one year.

1 www.bankofengland.co.uk/letter/1997/chancellor-letter-060597.

2 www.bankofengland.co.uk/quarterly-bulletin/2011/q3/markets-and-operations-2011-q3.

3 www.bankofengland.co.uk/markets/foreign-currency-reserves.

Section 3: Financial assets and liabilities continued

Off balance sheet arrangements

15 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. The FLS scheme is recorded as an off balance sheet arrangement because it is a collateral swap transaction and does not meet the recognition criteria of IFRS 9.

	Up to 1 year £m	1 to 3 years £m	3 to 5 years £m	2019 Nominal £m	2019 Fair value £m	2018 Nominal £m	2018 Fair value £m
Securities lent to banking groups and other financial institutions	12,257	3,702	–	15,959	15,921	28,598	28,556
Securities borrowed from the DMO	(12,257)	(3,702)	–	(15,959)	(15,921)	(28,598)	(28,556)
Total obligations	–	–	–	–	–	–	–

As of the end of February 2019 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. 15 groups had outstanding drawings as at the end of February 2019 (2018: 17 groups). Treasury bills with a market value of £15.9bn had been lent to the participants at year-end (2018: £28.6bn). The Bank has borrowed these Treasury bills from the DMO to whom they are owed back. In the year to 28 February 2019, the Bank recognised income of £52m from FLS (2018: £108m).

Section 4: Investments, capital management, funding and liquidity

This section analyses the financial assets and liabilities held by the Bank to fund its activities.

The Bank is funded in a variety of ways which are described in more detail in the Financial Review section of the report (page 28).

Under the Cash Ratio Deposit (CRD) scheme, institutions place non-interest bearing deposits at the Bank of England, as reported in note 19. The Bank invests these deposits (mainly in gilts), as reported in note 17, 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.

The PRA is funded through a levy, further details can be found in the PRA statements (pages 152 to 160).

Accounting Policies

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. All debt securities have fixed coupons.

See Section 3 for accounting policies on financial assets.

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 2019 the holding represents 8.5% (2018: 8.5%) of the issued share capital.

The investment has been valued based on the adjusted net asset value basis providing a value of £1,249 million (2018: £1,196 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 the last share repurchase conducted by the BIS (in 2001). The Bank's financial statements incorporates 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 £13m (2018: £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 £179m (2018: £187m). The balance of £179m 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. Any FX gains or losses are taken to the statement of other comprehensive income in the year when it has arisen.

Section 4: Investments, capital management, funding and liquidity continued

The Bank's holding in the European Central Bank (ECB) represents 0.7% (2018: 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 €58m (2018: 3.75% amounting to €56m) of its total allocation of the ECB's subscribed capital of €1.5 billion (2018: €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 (2018: £nil). On the event of the United Kingdom leaving the European Union, the Bank expects its contributions to be refunded; this will be recognised at the point it becomes a certainty.

Indemnified operations

The Bank may enter into arrangements where it is fully protected, 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.

16 Available for sale securities

	2019 £m	2018 £m
Debt securities at fair value		
British Government securities listed on a recognised UK exchange	–	7,375
Unlisted equity investments at fair value	–	1,196
	–	**8,571**

The movement in available for sale securities comprises:

	2019 £m	2018 £m
Available for sale debt securities		
At 28 February 2018	7,375	7,156
Reclassified to amortised cost under IFRS 9	(7,375)	–
Purchases	–	1,222
Redemptions	–	(652)
Mark-to-market movements through equity	–	(275)
Amortisation of premium/discount and movement in accrued interest	–	(76)
At 28 February 2019	–	**7,375**
Available for sale unlisted equity investments		
At 28 February 2018	1,196	1,246
Reclassified to FVOCI under IFRS 9	(1,196)	–
Revaluation of securities	–	5
Foreign currency gains/(losses)	–	(50)
Disposal of securities	–	(5)
At 28 February 2019	–	**1,196**
	–	**8,571**

The Bank applied IFRS 9 effective from 1 March 2018. The classification, measurement and impairment requirements were applied retrospectively by adjusting the opening statement of financial position at the date of initial application.

Debt securities in the sterling bond portfolio were previously classified as available for sale under IAS 39, and have been reclassified to amortised cost (note 17) under IFRS 9, due to the business model of 'hold and collect'. The gilts on the statement of financial position have been adjusted from market value to amortised cost, with a corresponding reduction to the available for sale reserves.

The Bank has irrevocably designated the unlisted equity investments that were previously classified as available for sale under IAS 39 as FVOCI (note 18) under IFRS 9, as they are not held for trading.

Section 4: Investments, capital management, funding and liquidity continued

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition on 1 March 2018.

	IAS 39 carrying amount 28 February 2018 £m	Reclassification £m	IFRS 9 carrying amount 1 March 2018 £m
Available for sale			
Securities:			
Opening balance	7,375	–	7,375
IFRS 9 adjustment: Reclassification to amortised cost	–	(7,375)	(7,375)
Closing balance	**7,375**	**(7,375)**	**–**
Amortised cost			
Securities:			
Opening balance	–	–	–
IFRS 9 adjustment: Reclassification from available for sale		7,375	7,375
IFRS 9 adjustment: Mark to market to amortised cost	–	(314)	(314)
Closing balance	**–**	**7,061**	**7,061**

17 Securities held at amortised cost

	2019 £m	2018 £m
At 28 February 2018	–	–
IFRS 9 adjustment: reclassified from available for sale	7,375	–
IFRS 9 adjustment: mark to market to amortised cost	(314)	–
Purchases	3,502	–
Redemptions	(201)	–
Amortisation of premium/discount and movement in accrued interest	(60)	–
At 28 February 2019	**10,302**	**–**

Under the Cash Ratio Deposit (CRD) scheme, institutions place non-interest bearing deposits at the Bank of England, as reported in note 19. 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.

There were no items in the course of settlement for securities held at amortised cost at the year ended 28 February 2019 (2018: £nil).

Net income recognised in the year ended 28 February 2019 for the Bank's securities held at amortised cost was £184m (2018: £169m under available for sale classification). In the current and prior year this comprises interest income and purchase premium amortisation.

18 Unlisted equity investments at fair value

	2019 £m	2018 £m
At 28 February 2018	–	–
IFRS 9 adjustment: reclassified from available for sale	1,196	–
Revaluation of securities	46	–
Foreign currency gains/(losses)	7	–
Disposal of securities	–	–
At 28 February 2019	**1,249**	**–**

19 Cash Ratio Deposits

	2019 £m	2018 £m
Cash Ratio Deposits	7,884	4,708
	7,884	**4,708**

The 2018 CRD review was completed during the year. The effective CRD ratio 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 an increase in the level of CRD deposits in the year. Refer to page 28 of the Financial review for more information on the CRD review.

20 Capital and retained earnings

	2019 £m	2018 £m
Capital	15	15
Retained earnings	3,076	3,033
Total capital and retained earnings	**3,091**	**3,048**

The entire capital comprising £14,553,000 of Bank Stock is held by the Treasury Solicitor on behalf of HM Treasury. The Bank uses these funds to support its normal operations. A capital framework has been agreed between the Bank and HM Treasury, further details are included on page 28.

Section 4: Investments, capital management, funding and liquidity continued

21 Derivative financial instruments

Accounting Policies

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 IFRS 9.

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.

The Bank mainly uses derivatives to manage the currency and interest rate exposures on its 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 2019

	Contract notional amount £m	Fair Values Assets £m	Fair Values Liabilities £m
Cross-currency interest rate swaps	3,766	85	(73)
Interest rate swaps	7,946	8	(17)
Forward exchange contracts	9,645	63	(21)
Total recognised derivative assets/(liabilities)		**156**	**(111)**

b As at 28 February 2018

	Contract notional amount £m	Fair Values Assets £m	Fair Values 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)**

22 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 seeks 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 financial risk standards also set out how the Bank's financial risk tolerance is translated into practice through a cross-balance sheet set of limits and monitoring thresholds.

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, and exercising control on financial risks as they are taken through those operations.
- 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, and for setting the framework within which financial risk is taken.
- 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.

Section 4: Investments, capital management, funding and liquidity continued

22 Financial risk management continued

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. The same exposure measurement methodology is used for IFRS 9 expected credit loss assessment, but calibrated for a range of difference economic scenarios. 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 reviewed periodically 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.

Such forward-looking view is embedded in the new financial framework agreed between HM Treasury and the Bank in June 2018 and codified into a Memorandum of Understanding (MoU), which now includes a new capital framework. Its objective is to ensure that the Bank has the financial resources needed to undertake the financial operations necessary to deliver its objectives even under severe but plausible scenarios. The MoU sets out the principles underpinning which types of operations would be backed by the Bank's own capital, and the types of operations for which the Bank may request an indemnity from the Treasury:

Principle 1 — Purpose of Bank capital: Operations that lie within the Bank's objectives of maintaining monetary and financial stability should be backed by its own capital, unless those operations bear a level of risk beyond the tolerance approved by Governors and Court.

Principle 2 — Nature of operations backed by capital: Consistent with Principle 1 above, the following types of operations should be backed by capital:

- secured lending in line with the Bank's published frameworks, including against eligible collateral; and
- asset purchase operations to support conventional monetary policy implementation, the Bank's official customer business or the funding of the Bank.

Principle 3 – Size of operations backed by capital: The actual level of the Bank's loss-absorbing capital at any point in time should allow it to continue to undertake the operations under Principle 2, both in normal market and liquidity conditions and under a set of severe but plausible scenarios, without falling below the capital floor. These scenarios are approved by Governors and Court.

Principle 4 – Other operations: The financial backing for other operations, including those covered under the 'Memorandum of Understanding on resolution planning and financial crisis management', unconventional monetary policy asset purchases and Market Maker of Last Resort operations should be assessed on a case-by-case basis. The presumption is that such operations would only be backed by the Bank's capital where the resultant exposures do not exceed the Bank's loss-absorbing capital, when (i) evaluated according to the set of severe but plausible scenarios agreed by Governors and Court and (ii) added to the Bank's existing commitments described in Principles 1–3.

The Bank had an indemnity from HM Treasury in relation to the TFS. This ended on 22 March 2019.

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, Term Funding 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 financial risk standards define high-level risk parameters under which credit risk is monitored and controlled. Credit exposures (measured using a stressed exposure at default metric) are controlled by a system of limits and monitoring thresholds based on internal credit ratings. The system of monitoring thresholds applies to all credit exposures across the balance sheet. Limits and monitoring thresholds exist to control the maximum credit exposures to a single counterparty group, as well as aggregate exposure to individual countries. The cross-balance sheet monitoring thresholds delineate the Bank's usual risk levels. These are review points beyond which an active decision is required that the extra risk is justified by the expected policy benefits.

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.

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, intraday, 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, Funding for Lending Scheme and Term Funding 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.

Section 4: Investments, capital management, funding and liquidity continued

22 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 pricing and for calculating haircuts are independently reviewed and validated by FRRD.

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:

	2019 £m	2018 £m
Assets		
United Kingdom	586,486	589,099
Rest of Europe	8,947	12,585
Rest of the world	6,150	5,129
Total assets	**601,583**	**606,813**

	2019 £m	2018 £m
Liabilities and equity		
United Kingdom	584,634	583,626
Rest of Europe	6,392	7,080
Rest of the world	10,557	16,107
Total liabilities and equity	**601,583**	**606,813**

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's balance sheet remit and financial risk standards define high-level risk parameters under which market risk is monitored and controlled. Outside of the Asset Purchase Facility, the Bank has a low exposure to market risk.

Interest rate risk

The Bank is exposed to sterling 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. The Bank monitors the market risk on the Sterling Bond Portfolio using a duration measure. As at 28 February 2019, the duration of the portfolio was 6.9 years.

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 economically hedged for interest rate risk and FX risk to match the Bank's FX liabilities, mainly through the use of foreign exchange contracts, interest rate and cross-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 Financial Risk Standards 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.

Section 4: Investments, capital management, funding and liquidity continued

Foreign currency liquidity risk

As at 28 February 2019	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	698	–	–	–	–	698
Loans and advances to banks and other financial institutions	3,128	3,838	955	–	–	7,921
Securities held at fair value through profit and loss	933	547	809	3,606	–	5,895
Derivative financial instruments:						
Cash inflow	2,756	2,210	612	1,438	–	7,016
Cash outflow	(2,649)	(2,205)	(589)	(1,398)	–	(6,841)
Other assets	–	–	–	–	–	–
Total assets	**4,866**	**4,390**	**1,787**	**3,646**	**–**	**14,689**
Liabilities						
Deposits from central banks	1,853	3,763	826	–	–	6,442
Deposits from banks and other financial institutions	749	–	–	–	–	749
Other deposits	542	–	–	–	–	542
Foreign currency bonds in issue	1,504	–	–	4,514	–	6,018
Derivative financial instruments:						
Cash inflow	(2,249)	(1,451)	(487)	(1,365)	–	(5,552)
Cash outflow	2,686	1,851	657	1,298	–	6,492
Other liabilities	–	–	–	–	–	–
Total liabilities	**5,085**	**4,163**	**996**	**4,447**	**–**	**14,691**
Net liquidity gap	**(219)**	**227**	**791**	**(801)**	**–**	**(2)**
Cumulative gap	**(219)**	**8**	**799**	**(2)**	**(2)**	**–**

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**	**–**

Section 4: Investments, capital management, funding and liquidity 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 2019	Note	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets					
Loans and advances to banks and other financial institutions	8	–	7,916	–	7,916
Securities held at fair value through profit or loss	13	6,064	–	–	6,064
Derivative financial instruments	21	–	156	–	156
Unlisted equity investments at fair value	18	–	–	1,249	1,249
Total assets		**6,064**	**8,072**	**1,249**	**15,385**
Liabilities					
Deposits from central banks	10	–	8,369	–	8,369
Foreign currency bonds in issue	14	6,042	–	–	6,042
Derivative financial instruments	21	–	111	–	111
Total liabilities		**6,042**	**8,480**	**–**	**14,522**

As at 28 February 2018	Note	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets					
Loans and advances to banks and other financial institutions	8	–	11,259	–	11,259
Securities held at fair value through profit or loss	13	7,993	–	–	7,993
Derivative financial instruments	21	–	122	–	122
Available for sale securities	16	7,375	–	1,196	8,571
Total assets		**15,368**	**11,381**	**1,196**	**27,945**
Liabilities					
Deposits from central banks	10	–	14,666	–	14,666
Foreign currency bonds in issue	14	5,797	–	–	5,797
Derivative financial instruments	21	–	423	–	423
Total liabilities		**5,797**	**15,089**	**–**	**20,886**

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 18).

The fair values of financial liabilities classified as 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.

23 Cash and cash equivalents

Analysis of cash balances

	Note	At 1 March 2018 £m	Cash flows £m	At 28 February 2019 £m
Cash and balances with other central banks	7	776	(78)	698
Loans and advances to banks and other financial institutions	8	8,791	(3,062)	5,729
Securities held at fair value through profit and loss	13	195	(69)	126
		9,762	**(3,209)**	**6,553**

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.

Section 4: Investments, capital management, funding and liquidity continued

24 Contingent liabilities and commitments

Accounting Policies

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. The Bank has no liability to recognise or contingent liability to disclose in accordance with the requirements of IAS 37 in respect of these transactions.

Capital commitments

Capital commitments outstanding at 28 February 2019 amounted to £7m (2018: £4m), relating primarily to plant in building and machinery purchases.

In addition the Bank did not have any contingent capital commitments outstanding at 28 February 2019 (2018: nil).

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, in note 33.

25 Operating lease commitments — minimum lease payments

	2019		2018	
	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	5,728	97	6,305	127
Between one and five years	21,778	157	22,522	89
Expiring in five years or more	17,616	2,130	23,145	2,131
	45,122	**2,384**	**51,972**	**2,347**

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

26 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.
- Bank of England Alternative Liquidity Facility Ltd (incorporated in the year) 100 ordinary shares of £1, principal activity is to provide structural support to the UK's Islamic finance sector.
- BE Pension Fund Trustees Ltd two ordinary shares of £1, principal activity is that of provision of trustee services to the Bank of England Pension Fund.
- Chaps Co Ltd 26 ordinary shares of 10p, principal activity was that of a payments scheme operator.
- Prudential Regulation Authority Ltd one ordinary share of £1, principal activity was that of the United Kingdom's prudential regulator. During the year the Prudential Regulation Authority and Chaps Co Ltd were both put into members' voluntary liquidation.

The registered office for all subsidiaries is 8 Lothbury, London, EC2R 7HH.

Section 5: People and related parties

This section describes a range of employment and post-employment benefits provided to our people and our relationships with other key people.

27 Staff costs

Accounting Policies

Short-term employee benefits are those expected to be settled wholly before 12 months after the end of the annual reporting period during which employee services are rendered to the Bank. The Bank recognises the amount of short-term employee benefits expected to be paid as an expenses or as a liability (accrued expense), after deducting any amount already paid.

	2019 £m	2018 £m
Wages and salaries	306	294
Social security costs	37	35
Pension and other post-retirement costs	74	69
Costs of restructuring	3	1
	420	**399**

Average number of employees

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

	2019	2018
Governors and other members of Executive Team	25	22
Managers and analysts	3,070	2,991
Other staff	1,261	1,355
	4,356	**4,368**

The number of persons employed by the Bank at the end of February 2019 was 4,450 of which 3,864 were full-time and 586 part-time (2018: 4,378; with 3,830 full-time and 548 part-time).

28 Retirement benefits

(i) Funded pension scheme

The Bank operates a non-contributory defined benefit pension scheme providing benefits based on career average pensionable pay. 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.

Defined benefit and career average

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.

Section 5: People and related parties continued

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.

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 ie the closer the match, the lower the risk.

(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.

Section 5: People and related parties continued

Accounting Policies

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.

Recognition of scheme assets

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.

Recognition of scheme liabilities

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.

Recognition of remeasurements

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.

Recognition of the net pension surplus

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 Trustee.

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

	Note	2019 £m	2018 £m
Funded pension schemes	(i)	927	866
Unfunded post-retirement benefits:			
Redundancy provisions	(ii)	(70)	(73)
Other pension schemes	(iii)	(8)	(9)
Medical scheme	(iv)	(129)	(137)
Subtotal unfunded post-retirement benefits		(207)	(219)
		720	**647**

Pension expense recognised in the income statement

	Note	2019 £m	2018 £m
Funded pension schemes	(i)	65	60
Unfunded post-retirement benefits:			
Redundancy provisions	(ii)	2	2
Other pension schemes	(iii)	–	–
Medical scheme	(iv)	4	4
		71	**66**

Remeasurements recognised in the statement of comprehensive income

	Note	2019 £m	2018 £m
Funded pension schemes	(i)	29	(87)
Unfunded post-retirement benefits:			
Redundancy provisions	(ii)	2	3
Other pension schemes	(iii)	–	–
Medical scheme	(iv)	7	3
		38	**(81)**

Section 5: People and related parties continued

Risks

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

- Mortality risk — the assumptions adopted by the Bank make allowance for future improvements in life expectancy. However, if life expectancy improves at a faster rate than assumed, this would result in greater payments from the Fund and consequently increases in the scheme's liabilities. The Bank and the scheme's trustees review the mortality assumption on a regular basis to minimise the risk of using an inappropriate assumption.

- Investment risk — the Fund invests the vast majority of its assets in a portfolio of UK Government bonds as the changes in the value of the bonds more closely match the movements in the Fund's liabilities. There are risks with the selected portfolios such that it does not match the liabilities closely enough, or that as it matures there is a risk of not being able to reinvest the assets at the assumed rates. The scheme's trustees review the structure of the portfolio on a regular basis to minimise these risks.

- 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.

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

	2019			2018		
	Main pension scheme £m	Other pensions £m	Medical scheme £m	Main pension scheme £m	Other pensions £m	Medical scheme £m
Current service cost	80	–	1	82	–	1
Past service cost	7	–	–	–	–	–
Net interest on the net defined liability/asset	(22)	2	3	(22)	23	3
Total pension expense	**65**	**2**	**4**	**60**	**2**	**4**

Remeasurements recognised in other comprehensive income

	2019			2018		
	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	240	(32)	(17)	327	(35)	(20)
Actuarial gains arising from changes in demographic assumptions	72	1	4	3	1	2
Actuarial gains/(losses) arising from changes in financial assumptions	(2)	–	–	77	1	2
Actuarial gains/(losses) arising from experience on the scheme's liabilities	(12)	1	3	(23)	1	(1)
Return on scheme's assets excluding interest income	(29)	–	–	(144)	–	–
Remeasurements recognised at the end of the period	**269**	**(30)**	**(10)**	**240**	**(32)**	**(17)**

Reconciliation of present value of defined-benefit obligation

	2019			2018		
	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	3,474	82	137	3,517	88	141
Current service cost	80	–	1	82	–	1
Past service cost	7	–	–	–	–	–
Interest expense	87	2	3	85	2	3
Actuarial (gains) arising from changes in demographic assumptions	(72)	(1)	(4)	(3)	(1)	(2)
Actuarial (gains)/losses arising from changes in financial assumptions	2	–	–	(77)	(1)	(2)
Actuarial (gains)/losses arising from experience on the scheme's liabilities	12	(1)	(3)	23	(1)	1
Benefits paid out	(148)	(4)	(5)	(153)	(5)	(5)
Present value of defined obligation at the end of the period	**3,442**	**78**	**129**	**3,474**	**82**	**137**

Section 5: People and related parties continued

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

Reconciliation of the fair value of assets

	2019			2018		
	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	4,340	–	–	4,434	–	–
Interest income	109	–	–	107	–	–
Return on scheme's assets excluding interest income	(29)	–	–	(144)	–	–
Bank contributions	97	4	5	96	5	5
Benefits paid out	(148)	(4)	(5)	(153)	(5)	(5)
Fair value of scheme's assets at the end of the period	**4,369**	**–**	**–**	**4,340**	**–**	**–**

Summary of significant 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:

	2019 %	2018 %
Discount rate	2.5	2.5
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]	3.1	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 2019 will live for 27.0 years (28 February 2018: 27.6 years) and a female member 29.0 years (28 February 2018: 29.5 years), and a male member reaching 60 in 2038 will live for 28.9 years (28 February 2018: 29.4 years) and a female member 30.9 years (28 February 2018: 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 assets in the scheme were:

	Maturity profile £m			2019 Total value £m	2019 Percentage of total value %	2018 Total value £m	2018 Percentage of total value %
	0–5 years	5–15 years	over 15 years				
UK Government fixed-interest bonds	122	102	248	472	11	490	11
UK Government index-linked bonds	266	619	1,644	2,529	58	2,538	58
Corporate index-linked bonds	8	649	658	1,315	30	1,283	30
Cash and other assets	53	–	–	53	1	29	1
Total market value of investments	**449**	**1,370**	**2,550**	**4,369**	**100**	**4,340**	**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 £841m were quoted and £474m were unquoted (2018: £817m quoted and £466m unquoted). Of the corporate index-linked bonds £1,288m (2018: £1,257m) were guaranteed by the UK Government.

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

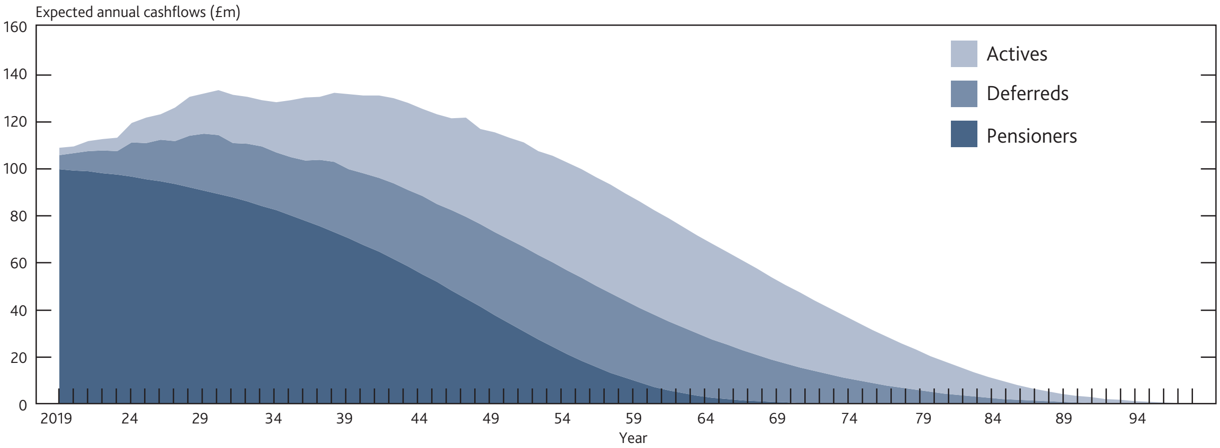
- Level 1 £3,002m — were valued using an unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 £1,315m — were valued using inputs other than quoted prices included within Level 1 that are observable (ie developed using market data) either directly or indirectly.
- Level 3 £1m — where inputs were unobservable (ie for which market data is unavailable).

Main scheme

	2019 £m	2018 £m
Present value of defined benefit obligations:		
– Active members	(835)	(811)
– Deferred members	(738)	(767)
– Pensioners	(1,862)	(1,896)
– GMP equalisation reserve	(7)	–
Total present value of defined benefit obligations	(3,442)	(3,474)
Assets at fair value	4,369	4,340
Defined benefit asset	**927**	**866**

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 2019) are shown in the chart below.

Section 5: People and related parties continued



A +/- 0.1% change to the discount rate would change the surplus on the pension scheme by +/- £67m (28 February 2018: +/- £69m).

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 +/- £50m (28 February 2018: +/- £52m).

A +/- 0.5% change to the assumed rate of increases in salaries would change the surplus on the pension scheme by +/- £25m (28 February 2018: +/- £27m).

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 £119m (28 February 2018: £117m).

The Bank expects to pay contributions of £99m in the forthcoming year (2018: £97m). This was paid in March 2019.

Redundancy provisions

	2019 £m	2018 £m
Unfunded defined-benefit liability	(70)	(73)

Other pension schemes

	2019 £m	2018 £m
Unfunded defined-benefit liability	(8)	(9)

The Bank expects to make payments of less than £1m in the forthcoming year (2018: less than £1m).

During the year to 28 February 2019 the Bank incurred services costs of less than £1m (2018: 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 132). The level at which claims are assumed to arise on average has been taken in line with that used for the 2018 disclosures. For accounting purposes the following assumptions have been made in respect of medical expense inflation:

	2019 %	2018 %
Initial medical trend	5.0	5.0
Ultimate medical trend	5.0	5.0
Years to ultimate	–	–

Post-retirement benefits — medical

	2019 £m	2018 £m
Unfunded defined-benefit liability	(129)	(137)

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 2018: £2m) and a 1% increase in the rate of medical claims by £21m (28 February 2018: £23m). 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 2018: £6m).

The Bank expects to pay premiums of £6m in the forthcoming year (2018: £6m).

Section 5: People and related parties continued

29 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 12 as public deposits. The total charges made to the Government totalled £124m (2018: £135m) as disclosed in note 5a. The breakdown is as follows:

- services provided to the EEA of £5m (2018: £5m) of a total cost to the Bank of £11m, under the current temporary arrangement to share the costs of the EEA;
- issue department £117m (2018: £128m);
- banking services to HM Government £2m (2018: £2m).

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 2019 the Bank had borrowed Treasury bills with a nominal value of £16.0bn (2018: £28.6bn) under the Bank's Funding for Lending Scheme. The Bank has paid the DMA a loan fee of £1m (2018: £1m) for the Treasury bills borrowed.

In addition, the DMA placed interest-bearing deposits with the Bank during the year, which is included within note 12 as public deposits. The interest paid in respect of DMO deposits was £9m in 2019 (2018: £5m).

HM Treasury

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

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 12 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 (2018: £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 (2018: £7.5m).

b Subsidiaries

Full details of the subsidiaries of the Bank are disclosed in note 26.

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.

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.

The loans advanced under the Term Funding Scheme (TFS) with a fair value of £121.4 billion were transferred from the balance sheet of BEAPPF to the balance sheet of the Bank on 21 January 2019. As consideration for the transfer of TFS loans to the Bank, the loan from the Bank was reduced by £121.4 billion.

At 28 February 2019 the loan from the Bank to BEAPFF was £445.0bn (2018: £572.0bn). Interest on this loan is receivable at Bank Rate and amounted to £3.6bn for the year ending 28 February 2019 (2018: £1.8bn).

At the year end BEAPFF held a deposit at the Bank of £4.9bn (2018: £4.3bn), which is included in other deposits (note 12). Interest on this deposit is payable at Bank Rate and totalled £30m for the year ending 28 February 2019 (2018: £13m).

A management fee of £2m was paid by BEAPFF to the Bank in respect of the year ended 28 February 2019 (2018: £5m).

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 to 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 2019, the number of key management personnel was 39 (2018: 37).

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

Section 5: People and related parties continued

	2019 £000	2018 £000
Loans		
Balance brought forward	41	49
Loans made during year	34	21
Loans repaid during year	(38)	(29)
	37	**41**
Interest income earned	1	1
Number of key management personnel with loans at 28 February	9	7

No expected credit losses have been recognised in respect of loans given to related parties (2018: £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 12 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.

Key management remuneration

	2019 £000	2018 £000
Salaries and short-term benefits	7,459	6,230
Post-employment benefits	1,580	1,603
	9,039	**7,833**

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 59 to 65.

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 2019 no charge was made for these services (2018: £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 £97m (2018: £96m). There were no other material transactions between the Bank and the pension scheme during the year to 28 February 2019. At 28 February 2019 the balances on accounts held with the Bank were £40m (2018: £11m).

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.

Section 6: Operating assets and liabilities

This section analyses the operational assets utilised by the Bank in fulfilling its objectives and the related liabilities.

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

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 2019. The payments are deductible for corporation tax in the year to which the payments relate.

	2019 £m	2018 £m
Payable 5 April 2019 (2018: 5 April)	27	34
Payable 5 October 2019 (2018: 5 October)	27	31
	54	**65**

Following agreement of the new capital framework[1] between the Bank and HM Treasury, the proportion of Banking Department profits payable to HM Treasury will be determined by the level of loss absorbing capital held by the Bank and where this sits within a set of parameters as outlined in section 2b of the newly agreed Financial relationship between HM Treasury and the Bank of England: memorandum of understanding. The overall effect is that the Bank and HM Treasury will currently share Banking Department's post-tax profits equally.

1 www.bankofengland.co.uk/-/media/boe/files/memoranda-of-understanding/financial-relationship-between-hmt-and-the-boe-memorandum-of-understanding.pdf.

31 Property, plant and equipment

Accounting Policies

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 they will generate future economic benefits 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.

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 2019 by Deloitte LLP, members of RICS.

Section 6: Operating assets and liabilities continued

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.

For the period to 28 February 2019	Freehold land and buildings £m	Leasehold improvements £m	Equipment[1] £m	Total £m
Cost or valuation				
At 1 March 2018	313	13	133	459
Additions	8	1	23	32
Disposals/write-offs	–	–	(4)	(4)
Revaluation of properties	(6)	–	–	(6)
At 28 February 2019	315	14	152	481
Accumulated depreciation				
At 1 March 2018	–	5	50	55
Charge for the period	5	1	17	23
Disposals/write-offs	–	–	(4)	(4)
Revaluation of properties	(5)	–	–	(5)
At 28 February 2019	**–**	**6**	**63**	**69**
Net book value at 1 March 2018	313	8	83	404
Net book value at 28 February 2019	**315**	**8**	**89**	**412**

1 Net book value of equipment at 28 February 2019 included less than £1m held under finance leases.

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)
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)
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 less than £1m held under finance leases.

Section 6: Operating assets and liabilities continued

32 Intangible assets

Accounting Policies

i Initial recognition

Intangible assets mainly 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 software products, which are controlled by the Bank and which will generate economic benefits exceeding those costs, are recognised as intangible assets.

ii Amortisation

These costs are amortised over the expected useful lives of the software, which range from three to five years. Costs associated with software maintenance 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 current valuation may be too high.

	2019 £m	2018 £m
Cost		
At 1 March	67	33
Additions	27	11
Disposals/write-offs	(1)	(1)
Transfer of assets from PRA	–	24
At 28 February	**93**	**67**
Accumulated amortisation		
At 1 March	36	12
Charge for the year	11	11
Disposals/write-offs	(1)	(1)
Transfer of assets from PRA	–	14
At 28 February	**46**	**36**
Net book value at 1 March	31	21
Net book value at 28 February	**47**	**31**

33 Other assets

Accounting Policies

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.

	2019 £m	2018 £m
Finance lease receivables	6	6
Short term debtors and other assets	493	348
Items in course of settlement	–	1,446
	499	**1,800**

Finance lease receivables also include £6m due in more than one year (2018: £6m). Within short-term debtors and other assets there is accrued interest of £214m (2018: £166m).

34 Other liabilities

Accounting Policies

Other liabilities are recognised to the extent that the goods or services have been received, irrespective of having been invoiced.

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.

Onerous lease provision

The Bank undertook 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 lease expired in November 2018, the amount provided for represents the net present value of the cost of dilapidations required. Of the provision, £1m (2018: £1m) falls due within one year.

Section 6: Operating assets and liabilities continued

i Analysis of other liabilities

	2019 £m	2018 £m
Items in course of collection	30	973
Payable to HM Treasury	54	67
Short-term creditors and other liabilities	484	388
Provisions	5	7
	573	**1,435**

Payable to HM Treasury includes payment in lieu of dividend (note 30) and any over/under recoveries of management fees for the management of the notes issue and the Exchange Equalisation Account.

ii Analysis of provisions

	Restructuring provision £m	Onerous lease provision £m	Other provisions £m	Total £m
Balance at 1 March 2018	2	1	4	7
Provisions utilised during the year	(2)	–	(1)	(3)
Provisions made during the year	3	–	–	3
Provisions reversed during the year	–	–	(2)	(2)
Balance at 28 February 2019	3	**1**	**1**	**5**

Section 7: Other miscellaneous notes

This section includes miscellaneous notes to the accounts not included in other sections.

35 Auditor's remuneration

	2019 £000	2018 £000
For the period to 28 February		
Fees relating to audit services performed for the current year	427	359
Fees relating to prior year	47	11
Fees payable to the Auditor for services provided to the Bank		
Non-audit assurance services for the current year	46	58
Taxation advisory services	–	–
All other services	321	20
	841	**448**

Non-audit assurance services comprise £27,000 for providing assurance to HM Treasury on the allocation of costs (2018: £25,000), and £19,000 for the submission for Whole Government Accounts (2018: £18,000). All other services principally relate to assurance services to the Bank.

All other services includes programme assurance work performed during the year.

36 Deferred tax liabilities

Accounting Policies

Deferred 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. Deferred tax liabilities are presented net of deferred tax assets in the statement of financial position as the Bank has the legal right to settle current tax amounts on a net basis and all tax amounts relate to amounts owing to HMT in the same jurisdiction. It is the Bank's intention to settle amounts on a net basis.

Rate

Deferred tax is calculated on all temporary differences under the liability method using the effective tax rate of 17% (2018: 17%). Reductions in the UK corporation tax rate to 17% was substantively enacted in September 2016, effective 1 April 2020. This will reduce the Bank's current tax charge in future years accordingly.

Principal differences

The principal temporary differences arise from:

- depreciation of property, plant and equipment;
- revaluation of certain financial assets;
- property revaluations; and
- provisions for pensions and other post-retirement benefits.

Section 7: Other miscellaneous notes continued

Recognition
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 (now classified as securities held at amortised cost under IFRS 9) 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.

	Note	2019 £m	2018 £m
Deferred tax			
Net liability at 1 March		319	377
Income statement charge	6	7	7
Tax credited/(charged) directly to other comprehensive income		(37)	(65)
Net liability at 28 February		**289**	**319**

	2019 £m	2018 £m
Deferred tax liability relates to:		
FVOCI equity investments through comprehensive income	207	198
Revaluation of available for sale debt securities	–	53
Transitional adjustment on available for sale debt securities	(19)	(34)
Available for sale transitional losses carried forward	(34)	(21)
Pensions and other post-retirement benefits	123	110
Other provisions	12	13
	289	**319**

Issue Department account
for the period ended 28 February 2019

	2019 £m	2018 £m
Income and profits		
Securities of, or guaranteed by, the British Government	130	121
Other securities and assets	463	240
	593	**361**
Expenses		
Cost of production of banknotes	(79)	(90)
Cost of issue, custody and payment of banknotes	(25)	(31)
Other expenses	(12)	(11)
	(116)	**(132)**
Net income paid to National Loans Fund[1]	**442**	**196**

1 Net income paid to the National Loans Fund excludes a buffer held back to meet future expenditure. At the 2019 year end this was £35m (2018: £33m).

Issue Department statement of balances
for the period ended 28 February 2019

	Note	2019 £m	2018 £m
Assets			
Securities of, or guaranteed by, the British Government	3	2,732	2,836
Other securities and assets including those acquired under reverse repurchase agreements	4	71,439	70,414
Total assets		**74,171**	**73,250**
Liabilities			
Notes issued:			
In circulation	5	74,171	73,250
Total liabilities		**74,171**	**73,250**

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

Mr M Carney	Governor
Mr S Woods	Deputy Governor
Mr B Fried	Chair of Court
Mr R Thompson	Finance Director

The notes on pages 149 to 151 are an integral part of these financial statements.

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 28 February 2019.
- 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 2019 amounted to £18m (2018: £nil) and total deficits paid by the National Loans Fund amounted to £62m (2018: £165m).
- 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 £116m (2018: £132m) represent charges from the Banking Department for costs incurred of £118m (2018: £128m) in relation to note issuance production costs plus amounts over/under-collected in prior years.

3 Securities of, or guaranteed by, the British Government

	2019 £m	2018 £m
British Government Stocks	2,362	2,466
Ways and Means advance to the National Loans Fund	370	370
	2,732	**2,836**

The Ways and Means advance earns interest at Bank Rate.

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

	2019 £m	2018 £m
Deposit with Banking Department	68,700	69,079
Reverse repurchase agreements	2,739	1,335
	71,439	**70,414**

The deposit with Banking Department earns interest at Bank Rate.

Notes to the Issue Department statements of account continued

5 Notes in circulation

	2019 £m	2018 £m
£5	1,979	1,910
£10	10,524	7,789
£20	40,128	42,692
£50	17,210	16,508
Other notes[1]	4,330	4,351
	74,171	**73,250**

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 2019, the assets of the Issue Department had the following repricing period profile.

	2019 £m	2018 £m
Repricing up to one month	71,809	70,843
Repricing in greater than one month but less than three months	–	–
Repricing in greater than three months but less than six months	–	–
Repricing in greater than six months but less than twelve months	–	–
Repricing in greater than twelve months	2,362	2,407
	74,171	**73,250**

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 securities that are internally rated as equivalent to investment grade.

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.

7 Accrued interest

At 28 February 2019 the unrecognised accrued interest on the assets held on the Issue Department statement of balances was £42m (2018: £41m).

8 Date of approval

The Members of Court approved the statements of account on pages 147 to 151 on 21 May 2019.

PRA income statement
for the period ended 28 February 2019

	Note	2019 £m	2018 £m
Income			
Fee income	2	237	251
Enforcement fine income	5	–	–
Income on bank deposits		–	–
Other income	3	41	29
Total income		**278**	**280**
Expenses			
Administrative expenses	4	(278)	(280)
Total expenses		**(278)**	**(280)**
Surplus/(deficit)		–	–

The 2019 amounts for the PRA 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 154 to 160 are an integral part of these financial statements.

PRA statement of balances
for the period ended 28 February 2019

	Note	2019 £m	2018 £m
Assets			
Current assets			
Cash balance held internally by the Bank of England		–	8
Fee and other receivables	8	124	128
Intangibles	9	6	6
Total assets		**130**	**142**
Liabilities			
Current liabilities			
Overdraft balance held internally by the Bank of England		6	–
Trade and other liabilities	10	124	142
Total liabilities		**130**	**142**

The 2019 balances for the PRA 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.

On behalf of the Governor and Company of the Bank of England:
Mr M Carney Governor/Chair of PRC
Mr S Woods Deputy Governor/Chief Executive of PRA
Mr B Fried Chair of Court
Mr R Thompson Finance Director

The notes on pages 154 to 160 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.

Accounting policies

The principal accounting policies applied in the preparation of the statement of accounts are the same as those applied by the Bank.

Income from regulatory activity

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

Special project fees

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 in arrears.

There are special project fee activities for which fees are collected in advance, 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.

Model Maintenance Fees are collected from eligible fee payers in anticipation of the total cost of providing internal model reviews throughout the year, and recognised through the income statement in its entirety throughout the year.

Other sundry income includes authorisation fees paid by firms and individuals, which is recognised in the income statement as incurred

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.

Cash balance held internally by the Bank of England

Cash held internally by the Bank of England is a notional cash balance at the reporting date and represents the difference between cash inflows and outflows during the year in respect of prudential regulatory activity.

Treatment of a surplus or deficit

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.

2 Fee income

	2019 £m	2018 £m
Fee income	237	251
Total	**237**	**251**

3 Other income

	2019 £m	2018 £m
Solvency II income	2	2
Structural reform income	15	20
IFRS 9 income	–	3
EU withdrawal project income	16	2
Model Maintenance Fee income	6	–
Special project fee income	–	1
Other sundry income	2	1
Total	**41**	**29**

Notes to the PRA statement of accounts
continued

4 Administrative costs

	Note	2019 £m	2018 £m
Staff costs	6	154	150
Costs incurred centrally and allocated to the PRA		114	109
Professional and membership fees		7	14
Impairment of assets		–	–
Amortisation of intangible assets		2	4
Travel and accommodation		2	2
Other administration and general expenses		–	2
Cost recoveries		(1)	(1)
Total		**278**	**280**

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.

5 Enforcement fine income

Enforcement fine income of £358,875 (2018: £58,000) was recognised in the year.

6 Staff costs

	2019 £m	2018 £m
Wages and salaries	111	108
Social security costs	14	13
Pension and other post-retirement costs	29	29
Seconded staff recoveries	–	–
Total	**154**	**150**

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 2018/19 was £277,938 (2017/18: £275,185). This comprises a salary of £276,066 (2017/18: £273,333) as at 28 February 2019, plus non-pension related benefits of £1,872 (2017/18: £1,851). This was 4.38 (2017/18: 4.35) times the median remuneration of the workforce, which was £63,481 (2017/18: £63,203).

During 2018/19 one employee received remuneration in excess of the highest paid director. Remuneration ranged from £20,758 to £390,000 (2017/18: £20,330 to £275,185).

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 no compulsory redundancies during the year.

There were two exit packages agreed during the year, in the ranges set out below:
£80,000–£89,000 1
£150,000–£159,999 1

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 five days (six in 2018).

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:

	2019	2018
Governors and other members of Executive Team	6	6
Managers and Analysts	1,215	1,190
Other staff	223	203
Total	**1,445**	**1,399**

The number of staff employed by the Bank and working for the PRA was 1,423 at 28 February 2019, of which 1,228 were full-time staff and 195 were part-time.

7 Taxation
Under the agreement with HM Revenue and Customs, 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.

Notes to the PRA statement of accounts
continued

8 Fee and other receivables

	2019 £m	2018 £m
Fees receivable	120	128
Fees receivable — EU withdrawal	4	–
Total	**124**	**128**

Fees receivable at the reporting date includes £117 million on account invoicing relating to the annual funding requirement from counterparties for the 2019/20 fee year.

9 Intangible assets

	2019 £m	2018 £m
Cost		
At 1 March	24	23
Additions	2	1
Disposals/write-offs	–	–
At 28 February	**26**	**24**
Accumulated amortisation		
At 1 March	18	14
Charge for the year	2	4
Disposals/write-offs	–	–
At 28 February	**20**	**18**
Net book value at 1 March	6	9
Net book value at 28 February	**6**	**6**

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 (2018: £nil).

10 Trade and other liabilities

	Note	2019 £m	2018 £m
Fees received in advance		119	125
Fees received in advance — Structural reform		1	3
Fees received in advance — IFRS 9		–	1
Fees received in advance — EU withdrawal		–	4
Deferred income — Solvency II		3	5
Financial penalties received — payable to fee payers	5	–	–
Provisions		1	4
Total		**124**	**142**

Fees received in advance comprise fees collected in relation to the annual funding requirement, structural reform, 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 enforcement costs incurred during the year, with the remainder due to fee payers.

Analysis of provisions

	Other provisions £m
Balance at 1 March 2018	4
Provisions utilised during the year	(1)
Provisions made during the year	–
Provisions reversed during the year	(2)
Balance at 28 February 2019	**1**

The provision relates to costs to conduct an independent review of prudential supervision as announced by HM Treasury.

Notes to the PRA statement of accounts
continued

11 Financial risk
The PRA's principal financial assets are cash, together with fees 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 and special project 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.

12 Losses and special payments
There were no reportable losses or special payments in the year.

13 Date of approval
The Members of Court approved the statements of account on pages 152 to 160 on 21 May 2019.

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BANK OF ENGLAND

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