Annual Report 2012/13

Bank of England Asset Purchase Facility Fund Limited

BANK OF ENGLAND

Directors' Report for the year ended 28 February 2013

The Directors present their report and the audited financial statements of the Bank of England Asset Purchase Facility Fund Limited ('the Company') for the year ended 28 February 2013.

Business review and principal activity

The Company was established as a wholly-owned subsidiary by the Bank of England ('the Bank') on 30 January 2009 in order to fulfil the remit of the Chancellor of the Exchequer given to the Bank on 19 January 2009[(1)] and detailed in an exchange of letters with the Governor of the Bank of England on 29 January 2009. This remit was subsequently expanded to enable the Company's operations to be used as a monetary policy instrument, at the request of the Monetary Policy Committee (MPC) of the Bank, as detailed in the exchange of letters on 17 February 2009 and 3 March 2009. The exchange of letters can be found on the Bank and HM Treasury websites.[(2)]

The Company is fully indemnified by the Her Majesty's Treasury (HMT): that is, any financial losses as a result of the asset purchases are borne by HMT, and any gains are owed to HMT. Initially, it was envisaged that payments due under the Indemnity would be settled when the asset purchase scheme ended. But as the scale and likely duration of the scheme has since increased significantly, on 9 November 2012 it was agreed that the Company would transfer the expected cash balance at 31 March 2013 as partial settlement of the Indemnity to HMT over a nine-month period, commencing January 2013. The expected amount is £34.7 billion.

A process was also established for quarterly cash transfers for cash accumulated from 1 April 2013.[(3)]

This arrangement will allow the Government to manage its cash more efficiently in line with standard cash management processes, and is also in line with the practices of the US Federal Reserve and the Bank of Japan.[(4)]

Directors

The Bank's Executive Directors for Monetary Analysis and Statistics and for Markets were Directors of the Company during the year:

Spencer Dale

Paul Fisher

The Directors have the benefit of an indemnity against personal civil liability granted to the Company by HM Treasury in 2009, provided that the Company is not in wilful default or reckless disregard of its obligations.

None of the Directors had a beneficial interest at any time during the financial year in the shares of the Company. As determined by the Directors, the annual report and accounts have been reviewed by the Audit and Risk Committee of the Bank.

Review of 2012/13

On 5 July 2012 the MPC increased the limit of the current purchase programme by £50.0 billion to £375.0 billion, these purchases were in addition to those made in the year to reflect the increased limit announced on 9 February 2012 (increase of £50.0 billion to £325.0 billion).

The Company is authorised to purchase up to £10.0 billion of private sector assets. These purchases can be financed either by the creation of central bank reserves (but subject to the limit for asset purchases financed by this means set out in the previous paragraph), or by Treasury bills and the Debt Management Office's cash management operations.

The Bank publishes a quarterly report on the transactions of the Company, and information about the MPC's decisions can be found in the *Inflation Report*. Both reports can be found on the Bank's website.[(5)]

Since the inception of the Company, total purchases net of sales and redemptions amounted to £375.0 billion (2012: £287.1 billion). Of which, gilts comprised £375.0 billion (2012: £286.8 billion) and corporate bonds less than £0.1 billion (2012: £0.3 billion).

By 28 February 2013 £7.5 billion of the £34.7 billion partial settlement of the Indemnity was paid over to HMT. The remainder will be paid in the 2013/14 financial year.

(1) The Chancellor's statement is available at www.hm-treasury.gov.uk/press_05_09.htm.
(2) The exchange of letters is available at www.hm-treasury.gov.uk/d/ck_letter_boe290109.pdf, www.bankofengland.co.uk/monetarypolicy/Documents/pdf/govletter090305.pdf and www.hm-treasury.gov.uk/d/chxletter_boe050309.pdf.
(3) See 'the profile of cash transfers between the Asset Purchase Facility and Her Majesty's Treasury', *Bank of England Quarterly Bulletin*, Vol. 53, No. 1 pages 29–37 available at www.bankofengland.co.uk/publications/Pages/quarterlybulletin/2013/f13.aspx.
(4) The exchange of letters is available at www.bankofengland.co.uk/monetarypolicy/Documents/pdf/govletter121109.pdf and www.hm-treasury.gov.uk/d/chx_letter_091112.pdf.
(5) See www.bankofengland.co.uk/publications/Pages/other/markets/apf/quarterlyreport.aspx for the *Asset Purchase Facility Quarterly Report* and www.bankofengland.co.uk/publications/Pages/inflationreport/2013/ir1301.aspx for the *Inflation Report*.

Risk management

The Company's operations are fully indemnified by HM Treasury and in return any surplus from these operations after the deduction of fees, operating costs and any tax payable are due to HM Treasury. As such, the Company is not exposed to financial risk, but manages the relevant risks on the underlying portfolio on HM Treasury's behalf.

The Company operates within a control framework agreed with HM Treasury. Subject to the policy objectives, the aim is to minimise overall risk through the appropriate choice of portfolio and risk management practices. A set of high-level financial risk parameters is in place for the Company's operations, relating to eligible asset classes, investment limits, credit risk, and counterparties.

A Steering Group chaired jointly by the Directors meets on a frequent basis to review the operations of the Company, and board meetings are held quarterly. In addition, an Asset Purchase Facility Corporate Risk Group, chaired by the Head of Risk Management Division of the Bank, supports the monitoring and, where appropriate, active management of high-risk exposures, and directs the development of Asset Purchase Facility corporate credit risk policy.

Financial results

The Company's financial statements for the year ended 28 February 2013 are given on pages 5–13. Debt securities showed a marked-to-market gain, attributable to an increase in the market value of the Company's gilt holdings. This was offset by an increase in the amount due to HM Treasury under the Indemnity. Because of the Indemnity, the Company will never show a profit or a loss.

The balance sheet of the Company stood at £416.6 billion at 28 February 2013 (2012: £329.3 billion). The Company's principal liability was the loan from the Bank of £375.3 billion (2012: £286.7 billion), the remaining liability representing the net amount payable to HM Treasury under the Indemnity of £41.3 billion (2012: £41.1 billion) and purchased securities in the course of settlement of £nil (2012: £1.5 billion). The fair value of the Company's holdings of securities was £392.5 billion (2012: £308.5 billion), of which £392.5 billion represented gilts (2012: £308.0 billion) and less than £0.1 billion corporate bonds (2012: £0.5 billion). The Company's cash holdings at the balance sheet date were £24.1 billion (2012: £20.7 billion), primarily representing coupons received.

The Company's accounts do not provide a meaningful guide to the overall impact of its purchases on the public finances. The amount due to or from HM Treasury under the Indemnity does not indicate whether the public sector as a whole made a profit or loss from the Company's asset purchases. The majority of the Company's holdings of securities are gilts, which are liabilities of the broader public sector. So the impact on the public sector as a whole of any change in the market value of the gilts held by the Company is matched by changes in the market value of those gilts on the liability side of the public sector balance sheet.(1) Further information on the broader impact of asset purchases on the economy and the public finances can be found in a speech made by Charles Bean, the Bank's Deputy Governor for Monetary Policy, in October 2009.(2)

Political and charitable contributions

The Company made no political or charitable donations or incurred any political expenditure during the year.

Disclosure of information to the Auditor

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

Statement of Directors' responsibilities in respect of the Directors' Report and the financial statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;

(1) The corresponding debt liabilities in the public accounts have not been marked to market.
(2) See 'Quantitative easing: an interim report', available at www.bankofengland.co.uk/publications/speeches/2009/speech405.pdf.

- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

By order of the board

S Dale	P Fisher
Director	Director

22 May 2013

Independent Auditor's Report to the members of Bank of England Asset Purchase Facility Fund Limited

We have audited the financial statements of Bank of England Asset Purchase Facility Fund Limited ('the Company') for the year ended 28 February 2013 set out on pages 5–13. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members 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 Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and the auditor

As explained more fully in the Directors' Responsibilities Statement set out on pages 2–3, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (United Kingdom and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website, available at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 28 February 2013 and of its result attributable to equity holders for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

David Todd (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL

22 May 2013

Statement of Comprehensive Income for the year to 28 February 2013

	Note	**2013 £m**	2012 £m
Interest received and similar income	4	132	85
Net interest income		132	85
Net loss from financial instruments at fair value	5	(130)	(83)
Total income		**2**	**2**
Administrative expenses	6	(2)	(2)
Profit before tax		–	–
Tax		–	–
Profit after tax and total comprehensive income attributable to equity shareholders		**–**	**–**

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

There were no changes in equity during the year. The entire capital comprising 100 ordinary shares of £1 was issued, fully paid to the Governor and Company of the Bank of England on 30 January 2009.

The notes on pages 8–13 are an integral part of these financial statements.

Balance Sheet as at 28 February 2013

	Note	**2013 £m**	2012 £m
Current assets			
Cash	7	24,052	20,714
Debt securities	8	392,512	308,547
Other assets	9	7	6
Total assets		**416,571**	**329,267**
Current liabilities			
Due to HM Treasury under Indemnity	10	41,265	41,105
Loans and other borrowings	11	375,306	286,659
Other liabilities	12	–	1,503
Total liabilities		**416,571**	**329,267**
Equity			
Capital	13	–	–
Retained earnings		–	–
Total equity attributable to shareholders		**–**	**–**
		416,571	**329,267**

The financial statements were approved by the board on 22 May 2013 and signed on its behalf by:

S Dale
Director

P Fisher
Director

Company number: 06806063

The notes on pages 8–13 are an integral part of these financial statements.

Statement of Cash Flows for the year to 28 February 2013

	Note	2013 £m	2012 £m
Profit after tax and Indemnity		–	–
Adjustments:			
Net interest income		(132)	(85)
Changes in operating assets and liabilities:			
Due to HM Treasury		7,675	31,274
Cash transfer paid to HM Treasury		(7,515)	–
Debt securities		(83,965)	(110,671)
Interest received		130	82
Other liabilities		(1,502)	1,502
		(85,177)	(77,813)
Net cash outflow from operating activities		**(85,309)**	**(77,898)**
Cash flows from financing activities			
Loans and other borrowings		88,647	86,803
Net cash inflow from financing activities		**88,647**	**86,803**
Net increase in cash and cash equivalents	14	**3,338**	**8,905**
Cash and cash equivalents at 1 March	14	20,714	11,809
Cash and cash equivalents at 28 February	14	**24,052**	**20,714**

The notes on pages 8–13 are an integral part of these financial statements.

Notes to the Financial Statements

1 Basis of preparation

Form of presentation of the financial statements

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

The Company's financial statements have been prepared and approved by the Directors in accordance with requirements of International Financial Reporting Standards (IFRS) and interpretations of International Financial Reporting Interpretations Committee as adopted by the EU (together, 'adopted IFRS').

The financial accounts have been prepared on a going-concern basis, under the historical cost convention, as modified to include the revaluation of financial assets and liabilities that are held at fair value through profit or loss and in accordance with the Companies Act 2006 and applicable accounting standards.

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied.

2 Accounting policies

The following principal accounting policies have been applied consistently in the preparation of the financial statements.

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

a) Functional and presentational currency

The financial statements are presented in sterling, which is the Company's functional and presentational currency.

b) Financial instruments: financial assets and liabilities designated at fair value through the profit or loss

i) Classification

The Company designates certain assets and liabilities at fair value through profit or loss to eliminate or significantly reduce the accounting mismatch that would otherwise arise from measuring financial assets and liabilities, or recognising gains or losses on them in the profit and loss account, on different bases. Such assets and liabilities are debt securities, the Indemnity and loans and other borrowings. The fair value designation is made on initial recognition and is irrevocable.

ii) Initial recognition of financial instruments

Financial instruments are initially recognised at fair value, and transaction costs are immediately recognised in, profit or loss. Financial securities are recognised/derecognised on the date the Company commits to purchase/sell the instrument (trade date accounting), the loan from the Bank of England is recognised on a settlement date basis.

iii) Subsequent measurement

Gains and losses arising from changes in the fair value of assets classified at fair value through profit or loss are included in the Statement of Comprehensive Income in the period in which they arise.

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' below.

c) HM Treasury Indemnity

The Company's operations are fully indemnified for loss by HM Treasury and in return any surplus from these operations, after deduction of fees, operating costs and any tax payable is due to HM Treasury. This arrangement is accounted for as a derivative under IAS 39 as it contains contractual obligations and rights as regards to the transfer of cash at a future date and the value changes in respect of the underlying assets and liabilities of the Company. As such, the Indemnity is fair valued on the basis of the difference between the fair value of the Company's assets and liabilities.

Following the alteration to the Indemnity agreement during the year a process for partial settlement of the Indemnity between the Company and HMT was established. The Indemnity is presented net of cash transfers made.

d) Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, consisting of cash and commercial paper.

e) Equity capital

The entire equity capital comprising 100 £1 ordinary shares is held by the Governor and Company of the Bank of England.

3 Significant accounting estimates and judgements in applying accounting policies

The Company makes estimates and assumptions that affect the reported amounts of assets within the financial statements. 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.

Fair value in non-active markets

Where possible, the Company uses a market price to value securities. In relation to the Indemnity, the instrument is valued on the basis of the difference between the fair value of the Company's assets and liabilities.

4 Interest receivable and similar income

	2013 £m	2012 £m
On cash held with related parties	132	85

5 Net loss from financial instruments at fair value

	2013 £m	2012 £m
Net loss on changes in fair value from financial instruments	(130)	(83)

Includes marked-to-market movements and interest on gilts, corporate bonds, commercial paper, loan from the Bank of England and the HM Treasury Indemnity.

6 Administrative expenses

	2013 £m	2012 £m
Management fee payable to Bank of England	(2)	(2)

All staff costs are contained within the management fee charged by the Bank of England. The Directors have not received any emoluments in respect of their services to the Company during the year ended 28 February 2013 (2012: £nil).

	2013 £000	2012 £000
Audit fees:		
Fees relating to current year	30	30
Fees payable for other services:		
Other fees	9	–

7 Cash

	2013 £m	2012 £m
Balance with the Bank of England	24,052	20,714

8 Debt securities

	2013 £m	2012 £m
Gilts	392,485	308,062
Corporate bonds	27	485
Total debt securities	**392,512**	308,547

As at 28 February 2013 gilts with a fair value of £0.5 billion were lent to the Debt Management Office (2012: £0.1 billion) (see note 17).

9 Other assets

	2013 £m	2012 £m
Accrued interest	**7**	6

10 Due to HM Treasury under Indemnity

As at 28 February 2013

	At 1 March 2012 £m	Cash transferred to HMT £m	Fair value adjustment £m	At 28 February 2013 £m
Due to HM Treasury under Indemnity	41,105	–	7,675	**48,780**
Cash transfer to HM Treasury	–	(7,515)	–	**(7,515)**
Net due to HM Treasury under Indemnity	41,105	(7,515)	7,675	**41,265**

As at 29 February 2012

	At 1 March 2011 £m	Cash transferred to HMT £m	Fair value adjustment £m	At 29 February 2012 £m
Due to HM Treasury under Indemnity	9,832	–	31,273	**41,105**
Cash transfer to HM Treasury	–	–	–	**–**
Net due to HM Treasury under Indemnity	9,832	–	31,273	**41,105**

An Indemnity has been given by HM Treasury against any loss incurred by the Company and any profit made by the Company will be passed to HM Treasury. The Indemnity is valued on a marked-to-market basis (see note 2(c)).

11 Loans and other borrowings

	2013 £m	2012 £m
Total loan from Bank of England	**375,306**	286,659

12 Other liabilities

	2013 £m	2012 £m
Accrued expense	–	1
Security purchases in course of settlement	–	1,502
Total other liabilities	**–**	1,503

13 Capital

The entire capital comprising of 100 authorised, issued and fully paid ordinary shares of £1 is held by the Governor and Company of the Bank of England.

In view of the Indemnity from HM Treasury, the Company requires only nominal capital.

14 Cash and cash equivalents

	Note	At 29 February 2012 £m	Cash flow £m	**At 28 February 2013 £m**
Cash	7	20,714	3,338	24,052
Total cash and cash equivalents		**20,714**	**3,338**	**24,052**

15 Contingent liabilities

There were no contingent liabilities as at 28 February 2013 (2012: £nil).

16 Financial risk management

The Company's operations are fully indemnified for loss by HM Treasury, and any surplus for these operations after deduction of fees, operating costs and any tax payable are due to HM Treasury. As such, the Company is not exposed to financial risk, but manages credit risk and monitors market risk on HM Treasury's behalf. The Company does not face liquidity risk.

The governance arrangements to manage and monitor these risks are described in a control framework document (which sets out the controls and procedures for undertaking transactions, monitoring risk, accounting and making payments), reviewed and approved annually by the Directors. There is also a set of high-level risk standards applying to the Company agreed between HM Treasury and the Bank.

The Company's management seek to ensure that effective risk management processes exist for monitoring and managing risk, within clear risk policies. The Bank of England's Risk Management Division within the Markets Directorate is responsible for the development of the appropriate framework and for the management and monitoring of financial risks. The Market Strategy and Risk Operations Division is responsible for the implementation of the agreed risk framework, including reporting on credit, market and liquidity risk.

a) Credit risk

Credit risk is the risk of loss arising from the failure of a counterparty or issuer to meet its financial obligations to the Company. Credit risk in the Company's asset portfolio arises as a result of purchasing debt security instruments issued by the UK Government and investment-grade companies.

The Company's credit risk polices are those defined by the Bank. The Bank defines high-level credit risk parameters under which credit risk is monitored and controlled. Credit exposures to companies are controlled by a system of limits.

The tables below represent an analysis of debt securities by credit risk groupings, based on external rating agency designation[(1)] or equivalent at 28 February 2013 with prior year comparatives:

Credit risk groupings of debt securities

	2013 £m	2012 £m
AAA	392,485	308,062
AA	–	39
A	13	232
BBB	14	214
Total	**392,512**	308,547

Sector concentration of assets

	2013 £m	2012 £m
UK Government debt securities	392,485	308,062
Corporate bonds	27	485
	392,512	308,547

(1) An analysis of external credit ratings as at 28 February 2013 of the company's debt securities by asset class, these ratings are based on the average of Moody's, Standard & Poor's and Fitch.

b) Market risk

Market risk is defined as the risk of loss as a result of changes in market risk factors. These include interest rates, foreign exchange rates, commodity prices and credit spreads. Market risk in the Company's asset portfolio arises as a natural consequence of its policy objectives, principally through the repricing of its assets as a result of changes in market interest rates.

The Company monitors interest rate risk in the form of 'delta', which is the change in valuation from a 1 basis point increase in market interest rates. The delta at 28 February 2013 was £373.6 million (2012: £303.2 million).

The Company also undertakes stress tests on the Company's operations, the results of which are reported to management alongside the delta measure.

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. The Company does not face liquidity risk. Upon receipt of notification of the Company's intention to draw down under the loan, the Bank of England is required to make the advance, provided that the request is within authorised limits. The Bank may only obtain repayment with the agreement of the Company. The loan is ultimately repayable on termination of the Company's operations.

d) Fair value

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

As at 28 February 2013

	Note	**Level 1 £m**	**Level 2 £m**	**Total £m**
Asset				
Debt securities	8	392,512	–	**392,512**
Liabilities				
Due to HM Treasury under Indemnity	10	–	41,265	**41,265**
Loans and borrowings	11	–	375,306	**375,306**

As at 29 February 2012

	Note	**Level 1 £m**	**Level 2 £m**	**Total £m**
Asset				
Debt securities	8	308,547	–	**308,547**
Liabilities				
Due to HM Treasury under Indemnity	10	–	41,105	**41,105**
Loans and borrowings	11	–	286,659	**286,659**

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. These categories of instruments comprise: secured and unsecured commercial paper, discounted using the overnight index swap curve plus a credit spread; the amount due under Indemnity to/(from) HM Treasury, calculated as the difference between the fair value of the assets and liabilities of the Company; and the loan from the Bank of England to the Company, effectively discounted at Bank Rate.

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. No assets or liabilities held by the Company have been valued on this basis.

In the balance sheet the carrying value of cash, other assets and other liabilities approximates to the fair value.

17 Collateral

At 28 February 2013 the Bank held securities with a fair value of £0.5 billion (2012: less than £0.1 billion) as collateral for gilts lent by the Company to the Debt Management Office with a face value of £0.5 billion (2012: less than £0.1 billion).

18 Related party transactions

The Company has related party transactions with its shareholder, the Bank of England, and other related parties.

The Bank of England

As at 28 February 2013 the Company had borrowed £375.3 billion (2012: £286.7 billion). Interest on this loan amounted to £1.7 billion (2012: £1.1 billion).

The Company was charged an administrative fee of £2 million (2012: £2 million) by the Bank of England.

HM Treasury

HM Treasury has indemnified the Company against any losses it may incur in connection with its operations. Any surplus from these operations after the deduction of fees, and any tax payable is due to HM Treasury. During the year £7.5 billion was transferred to HM Treasury as partial settlement of the Indemnity in accordance with the altered indemnity agreement (see note 2(c)).

Debt Management Office (DMO)

During the year the Company lent overnight a small proportion of its gilts portfolio to the DMO, the position at 28 February 2013 is shown in note 17.

Other related parties

As part of the asset purchase scheme, the Company has purchased assets in a competitive process from commercial banks in their capacity as market makers. These transactions were conducted in the ordinary course of the Company's business on terms comparable to those with other entities that were not government-related.

Key management

The Directors of the Company are considered to be the only key personnel as defined by IAS 24. The Directors have not received any emoluments in respect of their services to the Company during the year ended 28 February 2013 (2012: £nil).

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