BANK OF ENGLAND

Annual Report

Bank of England Asset Purchase Facility Fund Limited Annual Report and Accounts

1 March 2020–28 February 2021

HC 225

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Bank of England Asset Purchase Facility Fund Limited
Annual Report and Accounts
1 March 2020–28 February 2021

Presented to Parliament pursuant to section 7C(7) of the Bank of England Act 1998 by the Chief Secretary to the Treasury.

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Contents

Directors' Report for the year ended 28 February 2021

The Directors present their report and the audited financial statements of Bank of England Asset Purchase Facility Fund Limited ('the Company') for the year ended 28 February 2021.

Business review and principal activity

The Company was established as a wholly-owned subsidiary of 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 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 Her Majesty's Treasury (HM Treasury) websites.[2] The Company continues to act under this remit.

The Company is fully indemnified by HM Treasury (the 'Indemnity'): that is, any financial losses as a result of the asset purchases are borne by HM Treasury, and any gains are owed to HM Treasury. When the Company was first established, 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 increased, on 9 November 2012[3] it was agreed that the Company would transfer the expected cash balance at 31 March 2013 as partial settlement of the Indemnity to HM Treasury over a nine-month period, commencing January 2013. A process was also established for quarterly cash transfers for cash accumulated from 1 April 2013 onwards. The total amount transferred under these arrangements was £112.5 billion as at 28 February 2021, of which £13.7 billion transferred during the year. The quarterly cash transfer arrangement applies to both transfers from the Company to HM Treasury, and from HM Treasury to the Company should cash shortfalls in the Company arise at some point in the future.[4]

This arrangement has allowed 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.

On 21 June 2018, the Bank and HM Treasury agreed a new capital and income framework for the Bank, summarised in a Memorandum of Understanding on the Financial Relationship between HM Treasury and the Bank.[5]

As part of that framework the Term Funding Scheme (TFS) assets held by the Company were transferred to the Bank in January 2019. It was agreed that the Company would continue to receive those scheme fees above Bank Rate payable on balances outstanding at the date of transfer.[6]

A review of the current financial year is provided in the Strategic Report on page 8.

The Company has no branches outside the United Kingdom.

Directors

The Executive Director for Banking, Payments and Innovation, the Bank's Chief Economist and Executive Director for Monetary Analysis and Research, the Executive Director for Markets, and the Chief Financial Officer were Directors of the Company during the year:

Victoria Cleland
Andy Haldane
Andrew Hauser
Afua Kyei

(1) The Chancellor's statement is available at webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/press_05_09.htm.
(2) The exchange of letters is available at www.bankofengland.co.uk/letter/2009/apf-letter-march-2009 and webarchive.nationalarchives.gov.uk/20100408190827/http://www.hm-treasury.gov.uk/d/chxletter_boe050309.pdf.
(3) www.gov.uk/government/publications/asset-purchase-facility-cash-management-operations.
(4) See Mclaren, N and Smith, T (2013), 'The profile of cash transfers between the Asset Purchase Facility and Her Majesty's Treasury', *Bank of England Quarterly Bulletin*, 2013 Q1.
(5) www.bankofengland.co.uk/-/media/boe/files/memoranda-of-understanding/financial-relationship-between-hmt-and-the-boe-memorandum-of-understanding.pdf.
(6) These scheme fees are payable by a small proportion of institutions on account of their negative net lending over the relevant period.

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.

Statement of Corporate Governance Arrangements

The Company applies corporate governance arrangements judged by the Board to be appropriate to its policy objectives and also, as applicable, those of the Bank to its operations. In drawing up and operating these arrangements the Board has drawn on inputs from a range of specific codes of practice on corporate governance, but has decided not to apply any single code in its entirety, given the many provisions of such codes that are not applicable to the Company, in light of its unique purpose and its subsidiary status. Further information on the Bank's corporate governance arrangements including those relating to its people, risk management and internal control systems, corporate sustainability and responsibility initiatives can be found in the Bank's Annual Report and Accounts for 2020/21.

The Company has authorised the Bank to carry out the day-to-day activities and transactions relating to the asset purchase facility (the 'APF') on its behalf within set investment guidelines and controls. The Board meets at least quarterly to receive and discuss financial, legal, operational and risk updates on the Company and its operations and to make decisions on those matters that it has reserved to itself. Members of the Board attend relevant parts of the Bank's Audit and Risk Committee and a financial and risk management framework has been agreed by the Company with HM Treasury which sets out the high-level risks and standards for the Company's investment strategy. An internal control framework, which is reviewed annually by the Board, is also in place and addresses matters such as day-to-day governance of the APF and decision-making, the supporting processes and resources provided by the Bank, the implementation of APF operations and risk management and controls.

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; more detail is included in note 12 to the accounts.

Board meetings were held quarterly.

Engagement with suppliers, customers and others

All of the infrastructure and support required to carry out APF operations is either provided by the Bank, or procured by the Bank from third parties. Consequently it is the Bank rather than the Company that enters into arrangements with, and is responsible for, the day-to-day management of any relevant supplier relationships. The Bank depends on its suppliers to help fulfil its mission and is committed to developing its supplier relationships and building trust. It is a signatory to the Prompt Payment Code and has published a Supplier Code of Practice on its website, to which all of its suppliers are expected to adhere.

Given its role in assisting the Bank to implement the monetary policy decisions of the MPC, the Board considers the UK public to be a key stakeholder for the Company. The Bank uses a variety of communication tools including public speeches by senior officials, social media and its website to provide tailored information to the public on the Bank's monetary policy decisions including the operations of the APF. With this in mind the Board approved during the current reporting period a number of disclosures in the Bank's Annual Report on how the financial risks from climate change on the Company's operations are managed.

The Bank acts as the agent of the Company for both the gilt and corporate bond purchases made pursuant to its APF operations. Counterparties to these transactions must be participants in the Bank's Sterling Monetary Framework who are market makers in investment-grade Sterling denominated bonds and/or gilt-edged market makers. Alongside the routine day-to-day engagement with representatives of such entities by members of the Bank's Markets Directorate, detailed information on how to participate in the Company's APF schemes is provided through Market Notices and other communications made available on the Bank's website.

The Company's ultimate parent undertaking is HM Treasury. Officials from both the Bank and HM Treasury meet regularly to monitor the operation of the APF schemes operated by the Bank on behalf of the Company, to consider any risks to the public sector balance sheet, and to discuss the potential impacts of those schemes on specific sectors and markets.

Political contributions

The Company made no political donations and incurred no political expenditure during the year.

Dividend policy

As a result of the Indemnity, all profits and losses are passed onto HM Treasury. As a result there is no specific dividend policy required.

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 they ought to have taken as a Director to make themselves 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, Strategic Report and the financial statements

The Directors are responsible for preparing the Strategic Report, 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 UK 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 at that reporting date 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;
- ensure internal controls are in place as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- state whether they have been prepared in accordance with IFRS; 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.

The Directors confirm that the Annual Report and Accounts as a whole, is fair, balanced and understandable and provides the necessary information to users to assess the company's position, performance, purpose and strategy. The Company's financial statements for the period to 28 February 2021 are presented on pages 13–25.

Assessment of going concern

In making their going concern and viability assessments, the Directors have considered information relating to present and potential conditions, including cash flows and the ability of the Company to meet its liabilities as they fall due. Additionally the Company is fully indemnified by HM Treasury.

Energy and Carbon reporting

The Company is a wholly owned subsidiary of the Bank and uses the Bank's premises, processes, staff and systems to perform its activities. It is therefore not practical for it to obtain and disclose the energy and carbon reporting information required by the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 (the Regulations). The Bank has however disclosed information required by the Regulations in its climate-related financial disclosure report 2021, and those disclosures include the activities of its subsidiaries including the Company.

By order of the Board

V Cleland Director 26 May 2021	A Haldane Director 26 May 2021	A Hauser Director 26 May 2021	A Kyei Director 26 May 2021

Strategic Report for the year ended 28 February 2021

Review of 2020/21

During the year several packages of measures to support the UK economy in response to the Covid-19 pandemic were announced, as voted by the Monetary Policy Committee (MPC). On 19 March 2020 the MPC increased the target stock of asset purchases by £200 billion to £645 billion. Subsequently the MPC increased it by £100 billion to £745 billion on 16 June 2020 and by £150 billion to £895 billion on 4 November 2020.

During the year, there were four gilt redemptions, the cash flows associated with which were reinvested in gilts. As at 28 February 2021, the total amount of gilts held by the Company, valued at initial purchase price and net of redemptions was £753.4 billion (2020: £435.0 billion).

As at 28 February 2021, the stock of corporate bonds held by the Company under the Corporate Bonds Purchase Scheme (CBPS), valued at initial purchase price and net of sales and redemptions was £19.9 billion (2020: £9.8 billion). This increase reflects the fact that the MPC on 19 March 2020 increased its target for corporate bond purchases from £10 billion to £20 billion.

Since the inception of the Company until 28 February 2021, total purchases of gilts and eligible corporate bonds, net of redemptions and sales, valued at initial purchase price, was £773.4 billion.

Following the implementation of the capital and income framework for the Bank in 2018, administrative expenses incurred by the Bank in connection with the operation of the Company of up to £5 million per annum are recovered by the Bank from income derived through the Cash Ratio Deposit (CRD) scheme, rather than charged to the Company.

In terms of forward outlook, as mentioned above the Company's operations can be used as a monetary policy instrument of the MPC, and as such the Company's activities in the coming year will continue to be determined by that committee.

Financial results

The Company's financial statements for the year ended 28 February 2021 are provided on pages 13–25. Debt securities showed a mark-to-market loss of £52.8 billion, attributable to a decrease in the market value of the Company's gilt and corporate bond holdings. According to the MPC's March 2021 minutes, this loss arose due to a significant rise in advanced economy longer-term government bond yields in January and February, which appeared to be driven by positive news on global economic growth, including on some vaccination programmes and vaccine effectiveness, as well as the size of the US fiscal support package, and followed a period of record low government bond yields during the earlier stages of the pandemic.(7) This was matched by a decrease in the amount due to HM Treasury under the Indemnity. Because of the Indemnity, the Company will never show an overall profit or a loss.

The balance sheet of the Company totalled £788.7 billion as at 28 February 2021 (2020: £514.4 billion). The Company's principal liability was the loan from the Bank of England of £773.5 billion (2020: £445.3 billion), the remaining liabilities represent the net amount payable to HM Treasury under the Indemnity of £15.3 billion (2020: £69.1 billion) and interest expense. The fair value of the Company's holdings of securities was £785.4 billion (2020: £509.7 billion), of which £766.1 billion represented gilts and £19.3 billion represented corporate bonds (2020: £499.9 billion represented gilts, £9.8 billion represented corporate bonds). The Company's cash holdings at the balance sheet date were £3.3 billion (2020: £4.6 billion), primarily representing coupon income received, net of transfers to HM Treasury.

Section 172(1) Statement

The Board acts in good faith to promote the success of the Company. It does so by ensuring that the Company achieves its primary purpose of assisting the Bank with its central banking functions, in particular its monetary policy objective, through the implementation and operation of the APF schemes. The Board is conscientious about its responsibilities and duties to its stakeholders under Section 172 of the Companies Act 2006. Information about engagement with the Company's key stakeholders (which include the UK public, APF market counterparties, suppliers

(7) For further details please see www.bankofengland.co.uk/-/media/boe/files/monetary-policy-summary-and-minutes/2021/march-2021.pdf.

and its ultimate parent undertaking HM Treasury) can be found in the Directors' Report. The Bank's Annual Report for 2020/21 also contains information on its community initiatives and how financial risks from climate change are managed across its entire operations including those of the Company.

Principal risks and uncertainties

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 is 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'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.

A range of information has been published[8] on the broader impact of quantitative easing on the economy and the public finances.

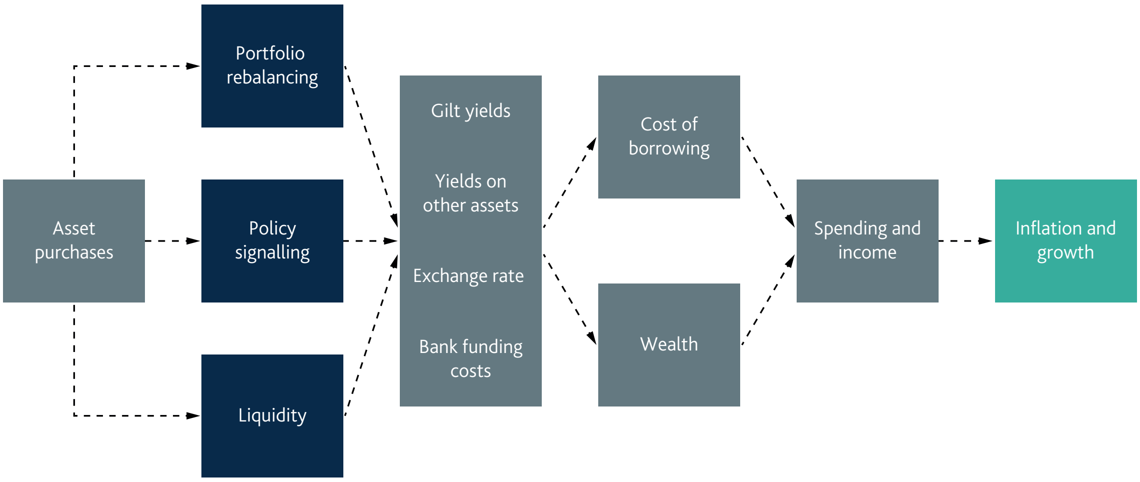
Asset purchases affect the economy and, ultimately, inflation through a variety of channels, via households, corporates and financial markets and institutions. Purchases of government securities will also impact the economy in a slightly different manner to purchases of corporate bonds. As such, Figure 1 is a simplified and stylised representation of the transmission mechanism of asset purchases, rather than a full description.

The company makes use of the Bank's processes, staff and systems as a wholly owned subsidiary. For further information on risk management please see the Bank's Annual Report and Accounts for 2020/21.

By order of the Board

V Cleland Director 26 May 2021	A Haldane Director 26 May 2021	A Hauser Director 26 May 2021	A Kyei Director 26 May 2021

Figure 1 Stylised transmission mechanism for asset purchases[a]



(a) *Bank of England Staff Working Paper No. 899*, 'The central bank balance sheet as a policy tool: past, present and future', December 2020. Available at www.bankofengland.co.uk/working-paper/2020/the-central-bank-balance-sheet-as-a-policy-tool-past-present-and-future.

(8) www.bankofengland.co.uk/independent-evaluation-office/ieo-report-january-2021/ieo-evaluation-of-the-bank-of-englands-approach-to-quantitative-easing and committees.parliament.uk/writtenevidence/23385/html.

The Certificate And Report of the Comptroller and Auditor General to the House of Commons

Opinion on financial statements

I certify that I have audited the financial statements of Bank of England Asset Purchase Facility Fund Limited (the Company) for the year ended 28 February 2021 under the Bank of England Act 1998. The financial statements comprise the Company's Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity; and the related notes, including the significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

In my opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 28 February 2021 and of the profit after tax for the year then ended; have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the Companies Act 2006 and Treasury directions issued under the Bank of England Act 1998.

Opinion on regularity

In my opinion, in all material respects the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for opinion(s)

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and applicable law and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate.

Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2019. I have also elected to apply the standards relevant to listed entities. I am independent of the Company in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the Company's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this certificate.

Other Information

The other information comprises information included in the Strategic Report and the Directors' Report but does not include the financial statements and my auditor's certificate thereon. The directors are responsible for the other information. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic and Directors' Reports have been prepared in accordance with applicable legal requirements.

Matters on which I report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, I have not identified material misstatements in the Strategic Report or the Directors' Report.

I have nothing to report in respect of the following matters:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit.

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities, the directors are responsible for:

- the preparation of the financial statements in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- assessing the Company's ability to continue as a going concern, disclosing, if applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Bank of England Act 1998 and International Standards on Auditing (ISAs) (UK).

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate and report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:

- Inquiring of management, the Company's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Company's policies and procedures relating to:
  - Identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Company's controls relating to the Bank of England Act 1998.

- Discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: revenue recognition, posting of unusual journals, bias in managements estimates and transactions which are unusual or outside of the normal course of business.
- Obtaining an understanding of the Company's framework of authority as well as other legal and regulatory frameworks that the Company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Company. The key laws and regulations I considered in this context included the Bank of England Act 1998 and Companies Act 2006. We also considered the limits as set out in the letters between the Chancellor and Governor.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- reading minutes of meetings of those charged with governance and the Board;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business;
- testing over the regularity of debt security and corporate bond purchases, including confirming that the Company had not exceeded purchase limits overall and per bond in each auction, and verifying that corporate bond purchases in year met the published eligibility criteria.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my certificate. In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General
3 June 2021

National Audit Office
157–197 Buckingham Palace Road
Victoria, London
SW1W 9SP

Statement of comprehensive income for the year to 28 February 2021

	Note	2021 £m	2020 £m
Interest received		9	45
Net gains/(losses) on financial instruments		(56,108)	32,453
Coupon income received on financial instruments		16,662	14,483
Other income		–	–
Total Income		**(39,437)**	**46,981**
Interest paid on the loan from the Bank of England		(745)	(3,347)
Administrative expenses	4	(2)	-
Net indemnity for the year due (to)/from HM Treasury	8	40,184	(43,634)
Total Expenses		**39,437**	**(46,981)**
Profit before taxation		**–**	**–**
Taxation		–	–
Profit after tax and total comprehensive income attributable to equity shareholder		**–**	**–**

Statement of other comprehensive income for the year to 28 February 2021

There were no items of other comprehensive income during the year ended 28 February 2021 (2020: £nil).

The notes on pages 17–25 are an integral part of these financial statements.

Statement of financial position as at 28 February 2021

	Note	2021 £m	2020 £m
Assets			
Cash	10	3,325	4,632
Debt securities	5	785,405	509,732
Other assets	6	18	31
Total assets		**788,748**	**514,395**
Liabilities			
Loans and other borrowings	7	773,477	445,280
Due to HM Treasury under Indemnity	8	15,269	69,115
Other liabilities	4	2	-
Total liabilities		**788,748**	**514,395**
Equity			
Capital	9	–	–
Retained earnings		–	–
Total equity attributable to shareholders		**–**	**–**
Total liabilities and equity attributable to shareholders		**788,748**	**514,395**

In accordance with section 7C(4) of the Bank of England Act 1998, the Bank of England Asset Purchase Facility Fund Limited is exempt from the requirements of Part 16 (Audit) of the Companies Act 2006.

Company number: 06806063

The financial statements were approved by the Board on 26 May 2021 and signed on its behalf by:

V Cleland
Director

A Haldane
Director

A Hauser
Director

A Kyei
Director

The notes on pages 17–25 are an integral part of these financial statements.

Statement of changes in equity for the year to 28 February 2021

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

The notes on pages 17–25 are an integral part of these financial statements.

Statement of cash flows for the year to 28 February 2021

	Note	2021 £m	2020 £m
Cash flows from operating activities			
Profit after tax and indemnity		–	–
Adjustments for:			
Interest income		(9)	(45)
Interest on Bank of England loan		745	3,347
		736	3,302
Changes in operating assets and liabilities:			
Increase/(decrease) in amount due to HM Treasury	8	(53,846)	36,497
(Increase)/decrease in value of debt securities	5	(275,673)	(36,845)
(Increase)/decrease in value of TFS loans		–	–
(Increase)/decrease in other assets		13	18
Increase/(decrease) in other liabilities		2	–
Cash generated from operations		(328,768)	2,972
Interest received		9	45
Net cash from operating activities		**(328,759)**	**3,017**
Cash flows from financing activities			
Loans and other borrowings	7	328,197	82
Interest expense		(745)	(3,347)
Net cash from financing activities		**327,452**	**(3,265)**
Net increase/(decrease) in cash and cash equivalents	**10**	**(1,307)**	**(248)**
Cash and cash equivalents at 1 March 2020	10	4,632	4,880
Cash and cash equivalents at 28 February 2021	**10**	**3,325**	**4,632**

The notes on pages 17–25 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, Statement of Financial Position, 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 the requirements of Companies Act 2006 as applicable to companies using International Financial Reporting Standards (IFRS), as adopted by the UK.

The financial statements 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.

In making their going concern and viability assessments, the Directors have considered information relating to present and potential conditions, including cash flows and the ability of the Company to meet its liabilities as they fall due. Additionally the Company is fully indemnified by HM Treasury.

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.

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 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. Departure from this treatment would create a mismatch in the measurement of the HM Treasury Indemnity financial asset (see 2(c)), the value of which equates to the difference between the fair value of the Company's assets and liabilities. Such assets and liabilities are the TFS scheme fees, the Indemnity and loans and other borrowings.

Debt securities are designated at fair value through profit and loss in accordance with IFRS 9. 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.

Fair value is deemed to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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 Company establishes fair value by using appropriate valuation techniques. The policy for establishing fair values of securities in non-active markets and TFS scheme fees 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 financial instrument under IFRS 9 as it contains contractual obligations and rights as regards to the transfer of cash at a future date, so meets the definition of a financial instrument per IAS 32, and the value changes in respect of the underlying assets and liabilities of the Company. As such, the Indemnity is valued on the basis of the difference between the fair value of the Company's assets and liabilities. This is deemed to be the most appropriate accounting treatment as it provides the most accurate value of the Company as at the balance sheet reporting date.

Following the alteration to the Indemnity agreement in November 2012, a process for partial settlement of the Indemnity between the Company and HM Treasury was established. The Indemnity is presented after giving effect to payments made or received.

d) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash equivalents with less than three months' maturity from the date of acquisition.

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 TFS scheme fees

As part of the transfer of TFS loans to the Bank on 21 January 2019, the nominal value of the loans were de-recognised from the Statement of financial position in a prior year having met the criteria per IFRS 9. Ahead of the transfer of these assets, it was agreed that the Company would continue to receive any scheme fees, being those additional scheme fees above Bank Rate payable on balances outstanding at the date of transfer. As such these scheme fees remained on the Company balance sheet and are included in other assets.

Fair value in non-active markets

Where possible, the Company uses a market price to value securities, as at 28 February 2021 this applies to the Company's entire portfolio of debt securities (see note 5). In other cases, the Company establishes fair value by using appropriate valuation techniques (see note 13). Loans and other borrowings are held at fair value. 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, which is the amount due under the Indemnity.

4 Administrative expenses

	2021 £m	2020 £m
Management fee payable to Bank of England	2	–

Until May 2018, the Bank met all of the costs of the Company, including staff costs, and recharged them in full to the Company. Following the implementation of the Cash Ratio Deposit (CRD) regime, costs of up to £5 million per annum (effective from 1 June 2018) are recovered from CRD income.

Under this arrangement the Bank recovered £5 million (2020: £4 million) through the CRD scheme and recovered £2 million (2020: £nil) from the Company. The total administrative expense for the year was £7 million (2020: £4 million). The £3 million increase in costs reflects that the Company's asset holdings have increased significantly with gilt holdings from £435.0 billion to £753.4 billion and corporate bonds from £9.8 billion to £19.9 billion. This has increased the associated costs to manage the portfolio in an effectively controlled and risk managed environment.

The Directors have not received any emoluments in respect of their services to the Company during the year ended 28 February 2021 (2020: £nil).

	2021 £000	2020 £000
Audit fees:		
Fees relating to current year	41	38
Fees payable for other services:		
Other fees	–	–

Fees in relation to audit services fees are paid for by the Bank and recharged to the Company through the management fee except where they are recovered by the Bank via the CRD scheme.

5 Debt securities

	2021 £m	2020 £m
Gilts	766,139	499,884
Corporate bonds	19,266	9,848
Total debt securities	**785,405**	**509,732**

The increase in value of debt securities in the year was £275.7 billion as presented in the statement of cash flows.

As at 28 February 2021, of the total gilts balance of £766.1 billion, gilts with a fair value of £2.1 billion were lent to the Debt Management Office (2020: £1.5 billion) (see note 13).

The Corporate Bond Purchase Scheme (CBPS) was set up to purchase high-quality private sector assets financed by the creation of central bank reserves. The CBPS targets purchases of £20 billion worth of sterling-denominated bonds issued by companies (including their finance subsidiaries) where the Company makes a material contribution to economic activity in the United Kingdom.

The Company considers a number of factors in making its eligibility decisions. Companies with significant employment in the United Kingdom or with their headquarters in the United Kingdom will normally be regarded as meeting this requirement, but the Company will also consider whether the company generates significant revenues in the United Kingdom, serves a large number of customers in the United Kingdom or has a number of operating sites in the United Kingdom.

6 Other assets

	2021 £m	2020 £m
Accrued interest	–	3
TFS scheme fee asset	18	28
Total other assets	**18**	**31**

The Bank and the Company signed a separate agreement on 18 January 2019 setting out the transfer of the TFS scheme fees (an additional fee over Bank Rate applied to 8 out of the 62 participants) from the Bank to the Company following the TFS transfer.

These scheme fees have been recognised at fair value in accordance with IFRS 9 (see note 2b(i)) and valued using present value methodology (note 3).

7 Loans and other borrowings

	2021 £m	2020 £m
Total loan from Bank of England	**773,477**	**445,280**

The increase in value of loans and other borrowings in the year was £328.2 billion as presented in the statement of cash flows.

The Company will commence full or partial repayment of the loan from the Bank of England at such time as the Bank's MPC votes to begin an unwind of the quantitative easing programme. Interest charges on the loan are accrued and paid to the Bank of England on each scheduled MPC meeting date.

8 Due to HM Treasury under Indemnity

	2021 £m	2020 £m
Net due to HM Treasury under Indemnity 1 March 2020	69,115	32,618
Change in fair value of indemnity	(40,184)	43,634
Cash paid to HM Treasury	(13,662)	(7,137)
Net due to HM Treasury under Indemnity 28 February 2021	**15,269**	**69,115**

The decrease in the amount due to HM Treasury under Indemnity in the year was £53.8 billion as presented in the statement of cash flows.

An indemnity has been provided 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)).

9 Capital

The Company is a private company limited by shares.

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.

10 Cash and cash equivalents

	At 29 February 2020 £m	Cash flow £m	At 28 February 2021 £m
Cash	**4,632**	**(1,307)**	**3,325**

11 Contingent liabilities

There were no contingent liabilities as at 28 February 2021 (2020: £nil).

12 Financial risk management

The Company's operations are fully indemnified for loss by HM Treasury, and any surplus/deficit for these operations after deduction of fees, operating costs and any tax payable is due to/from HM Treasury. As such, the Company is not exposed to financial risk, but manages credit risk and market risk on HM Treasury's behalf. Financial risk management is carried out by the Bank on behalf of the Company.

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 periodically 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 Directors seek to ensure that effective risk management processes exist for monitoring and managing risk, within clear risk policies. Specialist teams and committees support senior management in ensuring that agreed standards and policies are followed.

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

The Bank's Financial Risk and Resilience Division (FRRD) is responsible for challenge of risk decisions and risk management frameworks.

The Bank's Middle Office is responsible for the pricing, valuation and financial control of exposures arising from the Company's market operations.

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 at the point of purchase. Debt securities are closely monitored to identify those at rating downgrade risk, including those which may fall below investment grade.

The Company's credit risk policies are those defined by the Bank within the arrangements agreed with HM Treasury. The Bank defines high-level credit risk parameters under which credit risk is monitored and managed. Credit exposures to companies are controlled by a system of limits. Credit assessments are performed on all issuers to whom the Company is exposed. These are performed both regularly, following a timetable that reflects the risk attached to the company's investments, and dynamically, in response to market or specific entity conditions.

The Bank's internal committee, chaired by the Head of Financial Risk Management Division, reviews the creditworthiness of issuers, to whom the Company has credit exposures. The Bank's internal committee is supported by a credit risk analysis team.

The table below represents an analysis of debt securities by credit risk groupings, based on external rating agency designations(9) at 28 February 2021 with prior year comparatives:

Credit risk groupings of debt securities

	2021 £m	2020[1] £m
AAA	274	49
AA	767,604	500,616
A	5,638	2,806
BBB	11,764	6,229
BB	125	32
Total	**785,405**	**509,732**

1 Note that for administrative reasons, the 2020 comparatives have been subject to a number of non-material reclassifications, compared to those presented in the 2020 financial statements.

(9) Analysis of external credit ratings as at 28 February 2021 of the Company's debt securities by credit risk groupings, these ratings are based on the average of several market providers.

The table below shows the geographical concentration of the Company's financial assets:

Location – geographical concentration of assets

	2021 £m	2020 £m
United Kingdom	777,383	506,017
Rest of Europe	5,418	2,630
Other	2,604	1,085
Total	**785,405**	**509,732**

Assets categorised outside of the United Kingdom are held in the CBPS scheme and meet the required eligibility criteria. See note 5 for additional information on CBPS eligibility criteria.

The purpose of the CBPS is to impart monetary stimulus by lowering the yields on corporate bonds, thereby reducing the cost of borrowing for companies; by triggering portfolio rebalancing into riskier asset by sellers of assets; and by stimulating new issuance of corporate bonds. The Company purchases, via the CBPS, a portfolio of sterling corporate bonds representative of issuance by firms making a material contribution to the UK economy. The table below shows the sectorial concentration of these assets:

Corporate bonds – sectorial concentration of assets

	2021		2020	
	£m	Per cent	£m	Per cent
Communications	2,446	13	1,107	11
Consumer, Cyclical	2,324	12	1,051	11
Consumer, Non-cyclical	3,274	17	1,614	16
Electricity	4,084	21	1,997	20
Energy	555	3	269	3
Gas	1,160	6	744	8
Industrial and Transport	1,989	10	1,202	12
Property and Finance	1,073	6	570	6
Water	2,361	12	1,294	13
Total	**19,266**	**100**	**9,848**	**100**

b) Market risk

Market risk is defined as the risk of losses arising from movements in market prices. 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 2021 was £875.9 million (2020: £543.5 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 loan is ultimately repayable on termination of the Company's operations.

d) Other financial risk

The Company has a £773.5 billion (2020: £445.3 billion) loan from the Bank. A 1 basis point increase in Bank Rate would increase the funding cost by £77.4 million (2020: £44.5 million) per annum.

e) Fair value

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

As at 28 February 2021

	Note	Level 1 £m	Level 2 £m	Total £m
Assets				
Debt securities	5	785,405	–	**785,405**
TFS scheme fee asset	6	–	18	**18**
Liabilities				
Loans and borrowings	7	–	773,477	**773,477**
Due to HM Treasury under Indemnity	8	–	15,269	**15,269**

As at 29 February 2020

	Note	Level 1 £m	Level 2 £m	Total £m
Assets				
Debt securities	5	509,732	–	**509,732**
TFS scheme fee asset	6	–	28	**28**
Liabilities				
Loans and borrowings	7	–	445,280	**445,280**
Due to HM Treasury under Indemnity	8	–	69,115	**69,115**

There have been no transfers between levels in the year.

Level 1: Valuation techniques using quoted market prices: debt securities are valued using unadjusted quoted prices in active markets for identical financial instruments.

Level 2: Valuation techniques using observable inputs: financial instruments with quoted prices and models where inputs are observable. The categories of instruments comprise: the Indemnity to/(from) HM Treasury (calculated as the difference between the fair value of the assets and liabilities of the Company), the loan from the Bank to the Company and TFS scheme fees.

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

f) Maturity analysis

Maturities of debt securities at their carrying amount as at 28 February 2021

	Note	Up to 1 year £m	1–5 years £m	5–10 years £m	Over 10 years £m	Total £m
Assets						
Gilts	5	26,607	202,260	195,646	341,626	766,139
Corporate bonds	5	558	3,865	4,930	9,913	19,266
Total assets		**27,165**	**206,125**	**200,576**	**351,539**	**785,405**

Maturities of debt securities at their carrying amount as at 29 February 2020

	Note	Up to 1 year £m	1–5 years £m	5–10 years £m	Over 10 years £m	Total £m
Assets						
Gilts	5	35,051	95,452	105,351	264,030	499,984
Corporate bonds	5	188	2,265	3,168	4,227	9,848
Total assets		**35,239**	**97,717**	**108,519**	**268,257**	**509,732**

13 Collateral

At 28 February 2021 the Company held securities with a fair value of £2.1 billion (2020: £1.5 billion) as collateral for gilts lent by the Company to the Debt Management Office through the Debt Management Account with a notional value of £0.6 billion (2020: £0.4 billion). This lending is performed as part of the normal course of business of the Company and within the agreed scheme framework.

The Company has not sold any of these assets to third parties but, subject to applicable law and regulations, is entitled to do so.

14 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 2021 the Company had borrowed £773.5 billion (2020: £445.3 billion) from the Bank. Interest on this loan amounted to £0.7 billion (2020: £3.3 billion).

The Company was charged an administrative fee of £2 million (2020: £nil) by the Bank. Following the implementation of the Cash Ratio Deposit (CRD) regime in June 2018, costs of up to £5 million per annum are recovered from CRD income. Under this arrangement the Bank recovered £5 million (2020: £4 million) through the CRD scheme. The total administrative expense for the year was £7 million (2020: £4 million). During the year, on behalf of the Company, the Bank collected and paid over £10 million in TFS penalty fees, reducing the TFS scheme asset from £28 million to £18 million (note 6).

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 £13.7 billion (2020: £7.1 billion) was transferred to HM Treasury as partial settlement of the Indemnity in accordance with the altered Indemnity agreement (see note 2(c) and note 8).

Debt Management Office (DMO) and Debt Management Account (DMA)

During the year the Company lent overnight a small proportion of its gilts portfolio to the DMO through the DMA. The position at 28 February 2021 is shown in note 5.

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. At the point of the transaction some of those commercial banks may have been under the ownership/part-ownership of the UK government. 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 2021 (2020: £nil) or entered into any other transactions with the Company.

15 Ultimate parent company

The ultimate parent company of BEAPFF Limited is HM Treasury.

16 Preparation of accounts

The accounts were approved by the Board for distribution on 26 May 2021.

Bank of England Asset Purchase Facility Fund Limited
8 Lothbury
London EC2R 8AH

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