BANK OF ENGLAND
LONDON EC2R 8AH

12 July 2012

Andrew Tyrie MP
Chairman
Treasury Select Committee
House of Commons
7 Millbank
London
SW1P 3JA

Dear Andrew,

You will recall that in my letter of 10 August 2011 I presented a set of simple indicators that might form a useful starting point for our discussions at Treasury Committee hearings on financial stability policy – indeed you included these in your Report on the Accountability of the Bank of England. I sent a further update of that table on 12 January 2012, ahead of the Treasury Committee hearing on 17 January, to which I added historical averages of the measures where available, and 2007 values, for comparison with the latest readings. Following the hearing, Andrew Haldane wrote to you on 25 January 2012, with further detail on the definition of the Bank's preferred leverage ratio and an explanation of how it is used.

I attach an update of the table which the Committee might find useful ahead of the hearing on 17 July. As I have previously noted, it is important to keep in mind that these indicators can only provide a snapshot, with the more complete picture reflected in the Bank's most recent Financial Stability Report (published on 29 June). As your Report notes, the range of such indicators used must be flexible and must remain under constant review.

With all best wishes.

Yours ever

Table of financial stability indicators

	Average, 1997-2007 (1)	Average 2007 (1)	Latest value
Simple aggregate leverage ratio of major UK banks (2)	24.5	35.6 (3)	23.6 (end 2011)
Aggregate leverage ratio of major UK banks (4)	n/a	33.3 (3)	18 (end 2011)
Household debt to income ratio (5)	130%	170%	148% (Q1 2012)
12m growth in lending to UK non-financial sector (6)	10.7%	11.9%	-0.4% (May 2012)
UK long term real interest rate (7)	2.1%	1.4%	0.1% (June 2012)

(1) Unless otherwise stated.

(2) Total peer group assets over total peer group equity. There is a discontinuity due to the introduction from 2005 of IFRS accounting standards, which tends to increase reported leverage ratios thereafter.

(3) Figure as at 2007 year-end.

(4) This is our preferred measure of leverage, but is not available for 1997-2007. It includes only high-quality capital, and adjusts total assets to reflect only those assets which put capital at risk. In addition it allows easier comparison with banks reporting under US accounting standards. It is measured as total peef group assets (adjusted for cash items, tax assets, goodwill and intangibles and with derivatives netted according to US GAAP rules) divided by total peer group capital (including total shareholders' equity adjusted for minority interest, preference shares, goodwill and intangibles).

(5) Households' gross debt as a percentage of a four-quarter moving sum of their disposable income.

(6) UK resident monetary financial institutions' sterling lending to UK households and private non-financial corporates (excluding the effect of securitisations and loan transfers). Average is for September 1998 to 2007.

(7) 5 yr real interest rates 5 yrs forward, derived from the Bank's index-linked government liabilities curve.