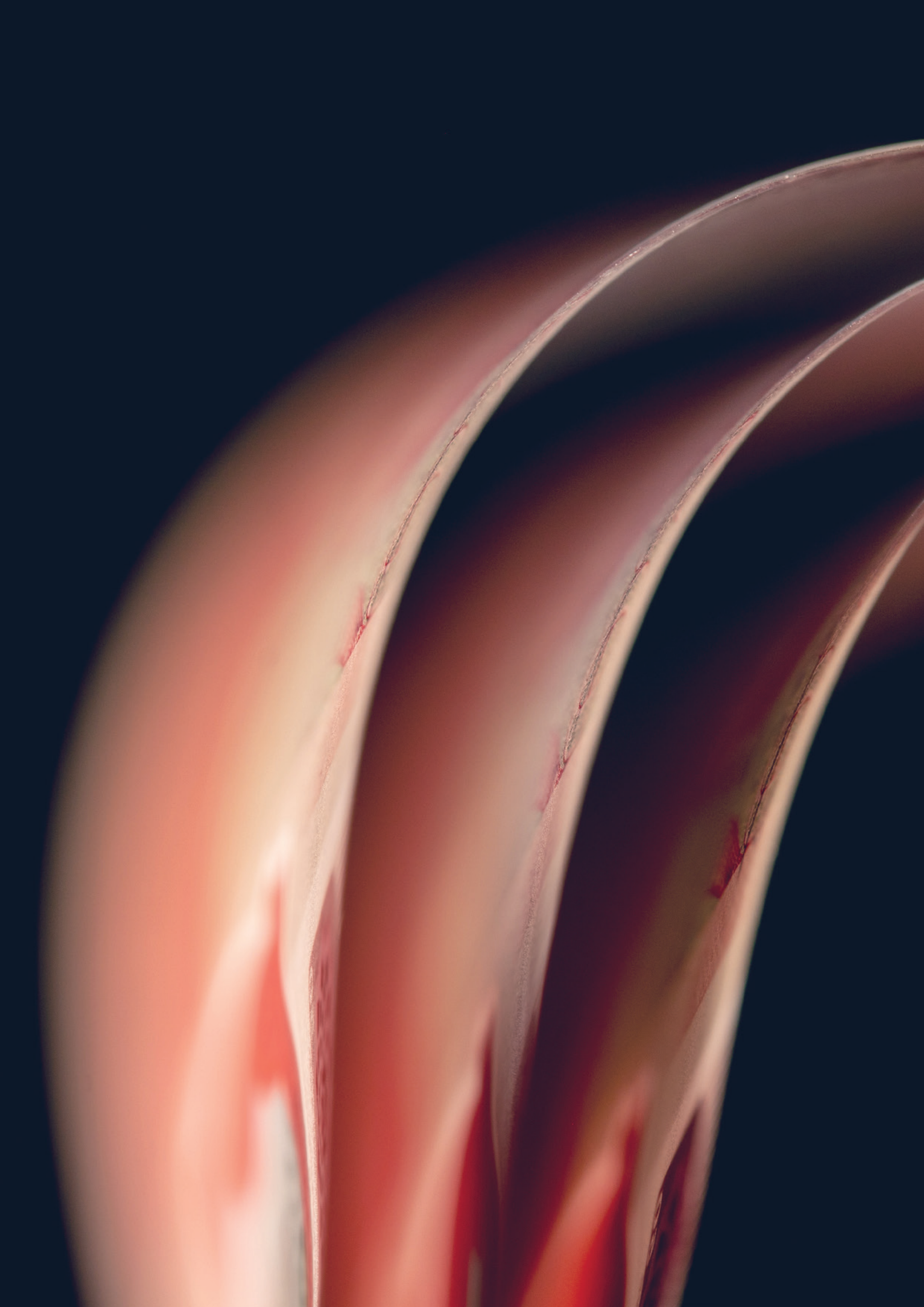
Bank of England

Annual Report and Accounts

1 March 2021–28 February 2022



Bank of England

Annual Report and Accounts

1 March 2021 to 28 February 2022

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

The contents of this Report encompass the requirements of Section 4 of the Bank of England Act 1998, and include: (1) a report by the Court of Directors (Court) on the matters which it reviews, monitors or otherwise considers in the performance of its oversight functions (S4(2)(a)); (2) a report by Court on the activities of the Financial Policy Committee of the Bank (S4(2)(aa)); (3) a copy of the statements for the year prepared under section 7(2) and 7(2A) and the report of the Bank's auditors on them (S4(2)(b)); (4) a statement of the rates at which non-executive directors of the Bank have been remunerated (S4(4)(a)); and (5) a statement of the Bank's objectives and strategy for the next year, as determined by Court (S4(4)(b)). The Bank, in its capacity as the Prudential Regulation Authority, has published a separate report as required by paragraph 19 of Schedule 1ZB of the Financial Services and Markets Act 2000. The Bank has also published a separate report, as required by section 203B of the Banking Act 2009, paragraph 33 of Schedule 17A of the Financial Services and Markets Act 2000 and Regulation 25 of the Central Counterparties (Amendment, etc, and Transitional Provision) (EU Exit) Regulations 2018/1184, on its supervision of Financial Market Infrastructures.

Contents

Financial statements:

Overview:
Statement by the Chair of Court

Sir Bradley Fried
Chair of Court

As I come to the end of my term as Chair of Court, I reflect on the achievements of Bank colleagues over recent years but also on the institutional challenges to come.

The Bank is underpinned by its mission – to serve the people of the United Kingdom – and over my time as Chair I have seen the Bank delivering that mission effectively in difficult times.

This year is proving no less difficult. The impact on the Bank's operations from Covid and associated restrictions on activity have begun to lessen. But Russia's unjustified and illegal invasion of Ukraine has posed new challenges. The Bank has considered the economic and financial implications for its remits. In particular, the rises in a range of energy and commodity prices have added further inflationary pressure and also increased the squeeze on people's real incomes, sharpening the trade-off that the MPC faces. The Bank has also supported HM Government in achieving its aims.

Yet again, I have watched the Bank rise to a new challenge. That is reflected in both the analytical strength that the Bank brings to problems across all its responsibilities and the immense commitment of its people in delivering solutions. I would like to thank all the Bank's staff for their continuing efforts in achieving its mission.

The Bank's people will always be core to its success. It is important that they represent and reflect the country that they serve, and that we provide an inclusive working environment for everyone. That is why I have placed such a focus on Diversity and Inclusion (D&I) during my time as Chair.

This year we published our Court Review of Ethnic Diversity and Inclusion. In previous forewords, I had noted that the Bank had fallen short of its aims to increase ethnic diversity at more senior levels. The Court review that we published in July 2021 provided an in-depth, rigorous analysis of why that was. It made recommendations for improvements on employee career paths and the frameworks supporting inclusion. Court has been monitoring the Bank's progress in delivering these recommendations. Some changes have already happened, supported by the excellent work of our staff networks – for example, the Bank is building a diverse and inclusive Bank as one of its seven strategic priorities and has increased the resources devoted to delivering D&I centrally and locally. I have no doubt that my colleagues on Court will continue to hold the Bank to account on this crucial issue.

Like many organisations the Bank has been working in very different ways over the past two years than it did before Covid. Although we expect there to be an increase in office working relative to current levels as the constraint of Covid eases further, our ways of working are unlikely to return to their pre-Covid norms. In particular, as the Bank develops its plans for its new hub in Leeds, and potentially more working from offices around the UK, it will need to adapt its ways of working to engage effectively across different locations and maintain its One Bank ethos. I have no doubt that the Bank will make the most of its opportunity to increase its footprint outside London and recruit from and engage with a much greater pool of people across the UK than it does now.

The Bank has already made great strides in its external engagement. The Citizens' and Youth Forums that have been running for some time now have increased its direct contact with the people it serves, helping to understand the challenges they face. Although those can now happen again in person, the Bank will continue to expand its reach by maintaining an online presence. As the impact of higher energy and commodity prices starts to feed through to peoples' real incomes, it has never been more important for the Bank to be able to listen to and communicate with as broad a population as possible.

The world is changing rapidly and we need to keep in step with that changing world. I have already seen how the Bank is adapting and innovating to achieve this.

There are global changes that the Bank faces, including the implications of technological change. Work has continued on readying our payments systems for the future, and the renewal of our Real-Time Gross Settlement system. It is also considering the case for a UK digital currency, with a consultation planned for later this year. And there are changes that are specific to the UK. For example, the Bank needs to adapt to its likely new powers to set the future regulatory framework following the UK's departure from the EU.

I believe that the institution and its people are well placed to deliver its mission and meet the future challenges – both those that we can foresee and those that we cannot.

It has been a pleasure and a privilege to serve the Bank and the people of the UK over the past 10 years, first as a Non-Executive Director and then as Chair of Court. I would like to thank all my colleagues on Court over the years for their insights, dedication and collegial approach. I would especially like to thank the three Governors during my tenure as a

Member of Court – Mervyn King, Mark Carney and Andrew Bailey – who have steered the Bank and the UK economy through these difficult times. I also thank our Shareholder – HM Treasury – for its continuing support and input into the Bank. Finally, I thank John Footman for his superb services to Court in his role as Secretary, on his retirement after 52 years of distinguished service.

Bradley Fried
8 June 2022

Statement by the Governor

Andrew Bailey
Governor

Our vision for the Bank is to create an organisation that can be agile in responding to the challenges of the day, reflects the United Kingdom that we serve, is outward looking, and invests in the future to ensure that we are a modern Central Bank that can continue to adapt. I would like to thank all Bank of England staff for their hard work as we move towards realising this vision.

The Covid crisis has continued to shape our work, as it has done for many other organisations and businesses. Much of this work is now coming to a close; for example, we have formally closed the Covid Corporate Financing Facility which supported the economy during Covid. But the lessons we have learned from these events and our actions can be drawn on again if required to support our objectives in times of crystallised risk and instability. Indeed, an area of focus for all of the policy committees and Court has been on the lessons learned and the actions we need to take to ready our policy toolkit and balance sheet for the future.

The Bank's response to the Covid crisis demonstrated how agile and adaptable we can be as an organisation. These are qualities we are drawing on now in the domestic and international response to Russia's unjustified and illegal invasion of Ukraine. This includes ensuring that we are prepared to take the action needed to respond to any economic and financial instability triggered by the war.

The UK economy has continued to be buffeted by a sequence of large domestic and international shocks, reflecting the impacts of the Covid crisis and the Russian invasion of Ukraine. This has generated a difficult economic environment, with significant challenges for monetary policy in navigating the narrow path between the risks from elevated inflation and a tight labour market on one hand, and the likely impact on activity from a substantial reduction in real incomes on the other. In line with its remit, the Monetary Policy Committee (MPC) sets policy in a manner consistent with achieving the 2% inflation target sustainably in the medium term, while minimising undesirable volatility in output. The MPC has voted to increase interest rates four times since December, taking the Bank Rate from 0.1% to 1.0%. The Committee has also voted to begin to reduce the stock of UK government bonds and sterling corporate bonds held in the Asset Purchase Facility.

Financial services have supported the economy throughout the Covid crisis and remained resilient in the face of challenges. Much of the resilience comes from the international and domestic reforms we have enacted since the global financial crisis. Our focus over the past year has been on continuing to build resilience through expanding the sectors and issues covered by stress testing, strengthening resilience in the non-banking sector and developing a robust UK regulatory regime following Brexit.

As an open economy with a global financial centre, it is important that we look outward and promote international collaboration and co-ordination. This is especially important in addressing many of the challenges we face today which are not constrained by geographical boundaries. The Bank was proud to support the UK's Presidency of the G7 last year which made inroads to tackle some of these important issues, including innovation in payment systems and cyber resilience.

To ensure that we can continue to be at the forefront of modern central banking and in step with the changing world around us, we have continued to invest in a number of important areas. A notable example is our range of work to support secure and reliable payments, banking services and banknotes, including the ongoing investment in our Real-Time Gross Settlement service and work to assess the case for a central bank digital currency.

To fulfil our mission to promote the good of the people of the United Kingdom we must reflect the people we serve. That is why building a more diverse and inclusive Bank is one of our strategic priorities and the senior management team and I are working hard to lead the changes recommended in the Court Review of Ethnic Diversity and Inclusion at the Bank and meet the ambitious targets we have set (see page 64).

Understanding the issues that businesses and households across the UK are facing is crucial to our mission. We therefore place a high premium on the work of our 12 agencies around the UK whose network of businesses and industries and the real-life insights they provide are a vital input to our work. Over the course of the year, I have visited most of these countries and regions of the UK in-person or virtually and met with a range of businesses, community leaders and organisations. This year I am returning to visiting all regions in person. Work is underway to expand our geographical footprint through a hub in Leeds.

Everything we have achieved this year would not have been possible without the hard work and dedication of Bank staff, and I extend my deepest thanks to all of them.

I would like to pay particular thanks to Bradley Fried for his dedication and unwavering support to the Bank throughout his tenure. He has supported me and my predecessors in leading the Bank through these challenging times and has been an advocate for change, notably in the diversity and inclusion of the organisation. He has been a true friend of the Bank.

Finally, I want to thank John Footman who retired this year after 52 years' service to the Bank including 15 years as Secretary. John has been a true friend and colleague to many people in the Bank.

Andrew Bailey
8 June 2022

Court and the Bank's policy committees

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

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

Members of Court are appointed by the Crown, for periods of eight years in the case of the Governor, five years for the Deputy Governors, and up to four years per term for the non-executive directors (NEDs). The Chancellor of the Exchequer appoints a Chair to lead Court as a NED.

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

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

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

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

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

The Court of Directors as at 8 June 2022

Sir Bradley Fried
Chair of Court

Appointed NED 1 June 2012
Term expires on 30 June 2022

- Director, Grovepoint
- Fellow, Magdalene College, Cambridge
- Governor, London Business School
- Chair, Preqin

Andrew Bailey
Governor

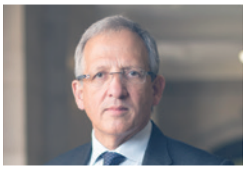
Appointed 16 March 2020
Term expires on 15 March 2028

- Member, Financial Stability Board
- Member, Group of Governors and Heads of Supervision, Basel Committee on Banking Supervision
- Member, Board of Directors, Bank for International Settlements
- Vice President, City of London Endowment Trust for St Paul's Cathedral
- Co-President, the Heart of the City of London

Ben Broadbent
Deputy Governor, Monetary Policy

Appointed 1 July 2014
Term expires on 30 June 2024

- Member, OECD Working Party No. 3



Sir Jon Cunliffe
Deputy Governor, Financial Stability

Appointed 1 November 2013
Term expires on 31 October 2023

- Member, Financial Stability Board
- Chair, Committee on Payments and Market Infrastructure
- Member, Committee on the Global Financial System
- Member, UK Holocaust Memorial Foundation

Anne Glover

Appointed NED 1 June 2018
Term expires on 31 May 2022

- Co-founder and CEO, Amadeus Capital Partners
- Founder and Director, Calderstone Capital
- Trustee and Chair, Investment Committee of UnLtd – The Foundation for Social Entrepreneurs
- Honorary Fellow, Royal Academy of Engineering
- Member, Venture Capital Investment Committee of CDC Group
- Member, Investment Committee of Yale Corporation
- Non-Executive Director, Nu Quantum Ltd

Baroness (Dido) Harding of Winscombe
Deputy Chair of Court

Appointed NED 1 August 2014
Term expires on 31 July 2022

- Life Peer taking the Conservative Whip, Member of Communications and Digital Committee
- Non-Executive Director, MyAgro
- Steward (Director) of the Jockey Club
- Member, UK Holocaust Memorial Foundation

Ron Kalifa

Appointed NED 1 June 2019
Term expires on 31 May 2023

- Chairman, Network International
- Chairman, FutureLearn
- Trustee of the Royal Foundation of the Duke and Duchess of Cambridge
- Non-Executive Director, England & Wales Cricket Board
- Council of Imperial College, London

Diana Noble

Appointed NED 1 June 2018
Term expires on 31 May 2022

- Non-Executive Director and Chair, Investment Committee, MedAccess Guarantee
- Founder, Kirkos Partners

Frances O'Grady

Appointed NED 1 June 2019
Term expires on 31 May 2023

- General Secretary, TUC
- Member, ETUC and ITUC executives
- Patron, Centre for Economic Justice
- Commissioner, Living Wage Commission
- Council member, Institute for Fiscal Studies
- Steering group member, Deaton Review – Inequality in the twenty-first century
- Visiting Fellow, Nuffield College
- Non-Executive Director, Unity Trust Bank

Sir Dave Ramsden
Deputy Governor, Markets and Banking

Appointed 4 September 2017
Term expires on 3 September 2022

- President, Society of Professional Economists
- President, Money Macro and Finance Society
- Trustee, Pro Bono Economics
- Visiting Professor, King's College London
- Financial Stability Board – Standing Committee on Supervisory and Regulatory Co-operation

Dorothy Thompson
Senior Independent Director

Appointed NED 1 August 2014
Term expires on 31 July 2022

- Non-Executive Director, Eaton Corporation

Sam Woods
Deputy Governor, Prudential Regulation

Appointed 1 July 2016
Term expires on 30 June 2026

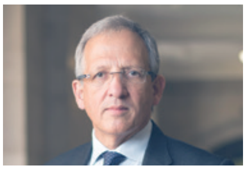
- Chief Executive, Prudential Regulation Authority
- Board Member, Financial Conduct Authority (FCA)
- Financial Stability Board – Standing Committee on Supervisory and Regulatory Co-operation
- Member, Group of Governors and Heads of Supervision, Basel Committee on Banking Supervision

Policy committees:
Monetary Policy Committee (MPC)

Members as at 8 June 2022[3], [4]

Andrew Bailey
Governor,
Chair of the MPC

Ben Broadbent
Deputy Governor,
Monetary Policy



Sir Jon Cunliffe
Deputy Governor,
Financial Stability

Jonathan Haskel
External member
Term: 1 September 2018 – 31 August 2024

Catherine L Mann
External member
Term: 1 September 2021 – 31 August 2024

Huw Pill
Chief Economist and Executive Director
Term: 6 September 2021 – 5 September 2024

Sir Dave Ramsden
Deputy Governor,
Markets and Banking

Michael Saunders
External member
Term: 9 August 2016 – 8 August 2022

Silvana Tenreyro
External member
Term: 5 July 2017 – 4 July 2023

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

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

At least once a year, HM Government updates its definition of price stability and the description of its economic policy in the MPC's remit. In October 2021, the Chancellor of the

3. Andy Haldane was a member of the MPC until 30 June 2021. Gertjan Vlieghe was a member of the MPC until the end of his term on 31 August 2021.
4. Swati Dhingra has been appointed by the Chancellor as an external member of the MPC. Swati Dhingra's term will commence on 9 August, replacing current external member Michael Saunders.

Exchequer reconfirmed the target as an inflation rate of ‘2 per cent as measured by the 12-month increase in the Consumer Prices Index’. The economic policy objective of the Government is ‘to achieve strong, sustainable and balanced growth’.[5]

The MPC has nine members. Five members are Bank of England staff: the Governor; three Deputy Governors; and the Chief Economist and Executive Director for Monetary Analysis. The Committee also includes four external members appointed by the Chancellor of the Exchequer. A non-voting representative from HM Treasury also sits with the Committee at its meetings.

The MPC meets at least eight times a year to set policy and the MPC’s Minutes are published alongside the Committee’s decisions after each meeting. The Bank’s quarterly Monetary Policy Report includes the MPC’s projections for inflation and output.

Since February 2016 members of the MPC have been indemnified by the Bank against personal civil liability on the same terms as members of Court (see page 12).

5. **www.bankofengland.co.uk/-/media/boe/files/letter/2021/october/mpc-remit-october-2021.pdf**.

Financial Policy Committee (FPC)

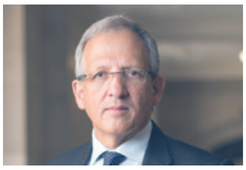
Members as at 8 June 2022[6]

Andrew Bailey
Governor,
Chair of the FPC

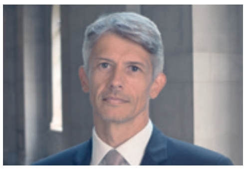
Dame Colette Bowe
External member
Term: 1 September 2019 – 31 August 2025

Sarah Breeden
Executive Director,
Financial Stability Strategy and Risk

Ben Broadbent
Deputy Governor,
Monetary Policy



Sir Jon Cunliffe
Deputy Governor,
Financial Stability



Jonathan Hall
External member
Term: 1 September 2020 – 31 August 2023

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

Sir Dave Ramsden
Deputy Governor,
Markets and Banking

Nikhil Rathi
Chief Executive of the FCA
Term: 1 October 2020 – 30 September 2025

Elisabeth Stheeman
External member
Term: 12 February 2018 – 11 February 2024

Carolyn A. Wilkins
External member
Term: 21 June 2021 – 20 June 2024

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

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

- **identifying, monitoring and taking action to reduce systemic risks with a view to protecting and enhancing the resilience of the UK financial system; and, subject to that**
- **supporting the Government's economic policies, including its objectives for growth and employment.**

6. Alex Brazier was a member of the FPC until 31 March 2021. Sarah Breeden began her three-year term on the FPC on 2 August 2021.

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

At least once a year, the Government must make recommendations about the FPC's responsibilities for financial stability and also about its growth and employment objectives. The FPC must respond formally to these, and provide reasons if it proposes not to follow the recommendations.[7]

The FPC has 13 members. Six members are Bank of England staff: the Governor; four Deputy Governors; and the Executive Director for Financial Stability Strategy and Risk. The Committee also includes the Chief Executive of the Financial Conduct Authority (FCA), five external members appointed by the Chancellor of the Exchequer, and a non-voting representative from HM Treasury.

The FPC meets at least quarterly. It may give directions to the Prudential Regulation Authority (PRA) and the FCA in relation to macroprudential measures prescribed by secondary legislation under the Bank of England Act 1998. The FPC also has powers to make recommendations to any other body. It publishes a record of its formal policy meetings and is responsible for producing the (at least) twice-yearly Financial Stability Report.

Since February 2016 members of the FPC have been indemnified by the Bank against personal civil liability on the same terms as members of Court (see page 12).

7. The most recent remit and recommendations is at **www.bankofengland.co.uk/letter/2021/march/remit-for-the-fpc-2021**. The set of recommendations was updated in April 2022, see **assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1067016/Recommendations_for_the_Financial_Policy_Committee_April_2022_final.pdf**.

Prudential Regulation Committee (PRC)

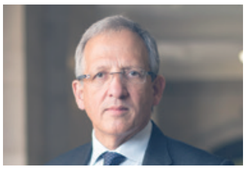
Members as at 8 June 2022[8]

Andrew Bailey
Governor,
Chair of the PRC

Julia Black
External member
Term: 30 November 2018
– 29 November 2024

Ben Broadbent
Deputy Governor,
Monetary Policy
Term: 1 March 2017
– 28 February 2023

Tanya Castell
External member
Term: 1 September 2021
– 31 August 2024



Sir Jon Cunliffe
Deputy Governor,
Financial Stability

Antony Jenkins
External member
Term: 5 April 2021
– 4 April 2024

Jill May
External member
Term: 23 July 2018
– 22 July 2024

Sir Dave Ramsden
Deputy Governor,
Markets and Banking

Nikhil Rathi
Chief Executive of the FCA
Term: 1 October 2020
– 30 September 2025

John Taylor
External member
Term: 14 January 2021
– 13 January 2024

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

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

8. The Bank of England Act 1998 provides for one member to be appointed by the Governor with the approval of the Chancellor. The Governor appointed Ben Broadbent. Ben Broadbent's PRC term differs to his Deputy Governor term. Norval Bryson was an external member of the PRC until 31 August 2021. Marjorie Ngwenya will join the PRC on 5 September 2022, commencing a three-year term, replacing Norval Bryson as an external member.

The PRC's terms of reference provide for 12 members. Five members are Bank of England staff: the Governor; and four Deputy Governors. The Committee also includes the Chief Executive of the Financial Conduct Authority (FCA), and at least six members appointed by the Chancellor of the Exchequer.

- The PRC is independent in all its decision-making functions, including making rules and the PRA's most important supervisory and policy decisions.
- The PRA functions are exercised by the Bank and are funded by PRA fees, with the PRC responsible for consulting on and setting the level of those fees.
- The PRC is required to report annually to the Chancellor of the Exchequer on the adequacy of resources allocated to the PRA functions and the extent to which the exercise of those functions is independent of the exercise of the Bank's other functions.[9]
- Since February 2016 members of the PRC have been indemnified by the Bank against personal civil liability on the same terms as members of Court (see page 12).

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

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

In March 2021, HM Treasury issued 'Recommendations for the Prudential Regulation Committee'.[10] This was updated in April 2022.[11] This sets out aspects of HM Government's economic policy to which the PRC should have regard when considering how to advance its objectives, and when considering the application of the regulatory principles in FSMA.

FSMA also requires the PRA to review, if necessary revise, and publish annually its strategy in relation to how it will deliver its statutory objectives. The strategy is set by the PRC, in consultation with the Bank's Court of Directors. The PRA's strategy was published with the PRA Business Plan 2022/23 in April 2022.[12]

---

9. Available on pages 14–17 in the PRA Annual Report 2021/22, **www.bankofengland.co.uk/prudential-regulation/publication/2022/annual-report-2022**.
10. **www.bankofengland.co.uk/-/media/boe/files/letter/2021/april/chancellor-letter-march-2021-prc.pdf**.
11. **www.gov.uk/government/publications/recommendations-for-the-prudential-regulation-committee-april-2022**.
12. **www.bankofengland.co.uk/prudential-regulation/publication/2022/april/pra-business-plan-2022-23**.

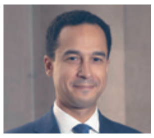
Our organisation as at 8 June 2022[13], [14], [15]

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

Andrew Bailey
Governor
(FPC, MPC, PRC)

David Bailey
Executive Director,
UK Deposit Takers
Supervision

James Bell
Executive Director,
Communications



Nathanaël Benjamin
Executive Director,
Authorisations,
RegTech and
International
Supervision

Sonya Branch
Executive Director,
General Counsel

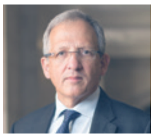
Sarah Breeden
Executive Director,
Financial Stability
Strategy and Risk
(FPC)

Ben Broadbent
Deputy Governor,
Monetary Policy
(FPC, MPC, PRC)

Stephen Brown
Executive Director,
Risk

Jane Cathrall
Executive Director,
People and Culture

Victoria Cleland
Executive Director,
Payments



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

Jonathan Curtiss
Executive Director,
Shared Services

13. The Chief Operating Officer commenced their appointment in 2021/22: Ben Stimson (January 2022). Joanna Place held their post as Chief Operating Officer until January 2022.
14. The following Executive Directors commenced their appointments in 2021/22: Nathanaël Benjamin (October 2021), Sarah Breeden (August 2021), Jane Cathrall (permanent) (June 2021), Sarah John (May 2022), Duncan Mackinnon (September 2021), Oliver Tweedie (interim) (September 2021), Huw Pill (September 2021).
15. The following held Executive Director posts during 2021/22: Rob Elsey (Technology, until September 2021), John Footman (Secretary of the Bank, until December 2021), Andy Haldane (Monetary Analysis and Chief Economist (MPC), until June 2021), Lyndon Nelson (Supervisory Risk Specialists and Regulatory Operations, Deputy Chief Executive, PRA, until June 2021).

Charlotte Gerken
Executive Director, Insurance Supervision

Andrew Hauser
Executive Director, Markets

Sarah John
Executive Director, Banking and Chief Cashier

Afua Kyei
Chief Financial Officer

Duncan Mackinnon
Executive Director, Supervisory Risk Specialists

Sasha Mills
Executive Director, Resolution

Huw Pill
Executive Director, Monetary Analysis and Chief Economist (MPC)

Gareth Ramsay
Executive Director, Data and Analytics and Chief Data Officer

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

Victoria Saporta
Executive Director, Prudential Policy

Christina Segal-Knowles
Executive Director, Financial Markets Infrastructure

Ben Stimson
Chief Operating Officer

Anna Sweeney
Executive Director, Insurance Supervision

Oliver Tweedie[16]
Interim Executive Director, Technology

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

16. Sushil Saluja will replace Oliver Tweedie as Interim Chief Information Officer in June 2022.

Review of 2021–22

Our timeless mission, as set out in our original Charter in 1694, is to 'promote the good of the people of the United Kingdom'. The way in which we have discharged this mission has evolved over time, and in step with the changing world around us.

Recent years have brought many changes, not least a different outlook as a result of Covid, but also a greater recognition that how we do things matters as much as what we do. This has underscored the importance of: effective communications and external engagement domestically and globally; making decisions based on the best data and analytics; diversity and inclusion; and ensuring an operational running of the Bank that is safe, efficient, and robust as key enablers of our work.

In this context, our strategic priorities summarised in Figure A reflect our role as a central bank in a way that is purposeful, sustainable and forward-looking. They are designed to support the achievement of our timeless outcomes: stable prices; a resilient financial system; secure and reliable payments, banking services, and banknotes; and safe, sound and resolvable firms. They build on our previous strategic goals, but are intended to be broader, to span a multi-year timeframe, to reflect a wider range of our activities, and to support cross-Bank prioritisation.

In this Review we summarise how we have worked together to make full use of the knowledge, resources and skills from across the organisation in support of our mission and our timeless outcomes and strategic priorities for 2021–24.

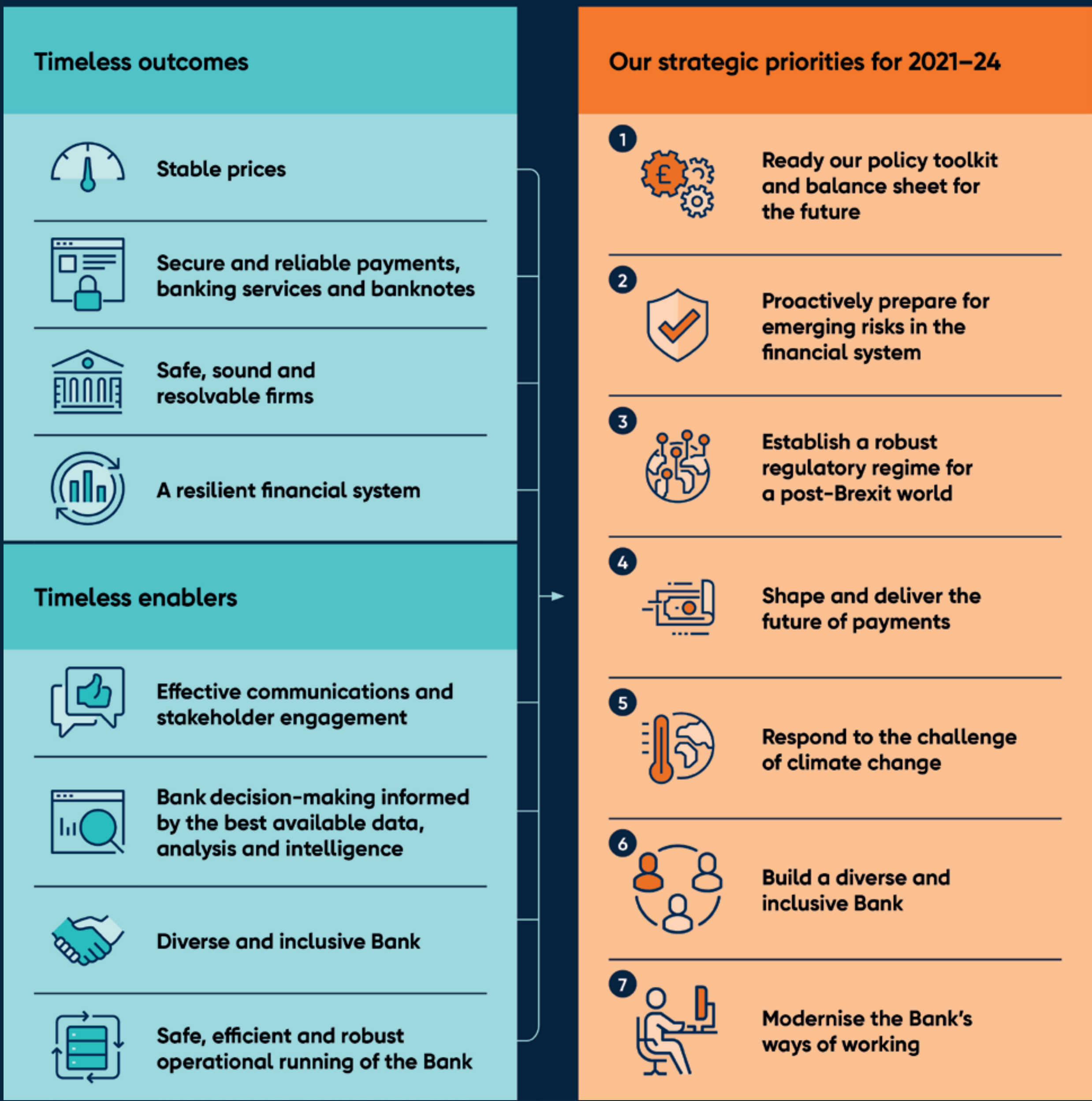
Timeless outcomes

Stable prices

We carry out our mission to maintain monetary stability by working to keep prices stable in the UK. The Government has set us a target of keeping the annual rate of inflation at 2%. They also ask us to consider how we can support UK economic growth and jobs when we decide how to meet this target.

The Monetary Policy Committee (MPC) is responsible for our work in this area. It meets around every six weeks to decide the monetary policy we will use. The two main policy tools we have are Bank Rate and quantitative easing (QE).

Figure A: Bank of England strategic priorities: 2021–24



Bank Rate is the UK's single most important interest rate and our primary policy tool. QE is when we buy (mainly) gilts from the financial markets. Both tools influence interest rates in the economy which in turn influences the rate of inflation. Any action we decide takes time to reach its full effect.

The UK economy has continued to be hit by a sequence of large domestic and international shocks, reflecting the impacts of the Covid crisis and the Russian invasion of Ukraine. This has generated a difficult economic environment with significant challenges for monetary policy in navigating the narrow path between the risks from elevated inflation and a tight labour market on the one hand, and the likely impact on activity from a substantial reduction in real incomes on the other. In line with its target, the MPC voted to increase the Bank Rate four times since December, taking the Bank Rate from 0.1% to 1.0%. In our latest Monetary Policy Report published in May 2022, we said that we expected inflation to rise to around 10% this year, fall back next year, and be close to our target in around two years.

Colleagues from across the organisation have worked together on a number of analytical issues to support the MPC's decision-making this year. Key areas include: wage growth, potential supply, inflation and spare capacity. The analysis and rationale supporting the MPC's decisions are set out more fully in the published minutes of the Committee's policy meetings and its Monetary Policy Reports.

We recognise that we need to earn and maintain the legitimacy to perform the functions given to us by Parliament by being open, accountable and transparent. During the year, the MPC has presented evidence at six Parliamentary hearings, including those of the Treasury Committee and Economic Affairs Committee, and MPC members have given around 70 interviews and speeches.

A resilient financial system

A financial system connects people who want to save, invest or borrow money. It's a vital part of our economy. Our objective is to maintain financial stability in the UK and the Financial Policy Committee (FPC) leads our work in this area. Its role is to identify, monitor and take action to remove or reduce systemic risks with a view to protecting and enhancing the resilience of the UK financial system. The FPC also has a secondary objective to support the economic policy of the Government.

Banking system

Each year we test the UK's largest banks, building societies and insurers to see if they are prepared for an economic crisis. We call it stress testing. The tests we carried out in 2021, showed us the UK's banking sector is resilient. We believe it could cope with another severe economic shock, on top of the Covid economic shock.

We can also require banks to build up their capital in good times so they have a 'buffer' to fall back on in difficult times. We call it a countercyclical capital buffer (CCyB). We cut the rate of this buffer to 0% during the Covid pandemic but, by 13 December 2022, it will increase to 1%. As long as the economy continues to recover, we expect the rate to rise to 2% in 2022 Q2 (to take effect in 2023 Q2). Major UK banks already have sufficient capital to meet this increase.

Corporate and household debt

We keep a close watch on debt that could amplify risks to the UK's financial stability. In December 2021, we reviewed our 'affordability test' for mortgages. This requires lenders to assess if their customers could still afford their mortgage if the interest rate they pay went up by 3 percentage points over their standard variable rate. Since the Financial Conduct Authority (FCA) also has rules on affordability testing, we began to consult the industry in February 2022 about removing this test. The FCA's rules on affordability combined with the FPC's loan to income limits should be enough to protect UK financial stability.

Every six months, the FPC publishes a Financial Stability Report to highlight possible risks and explain what we are doing about them. In October 2021, we started a new series of publications that examine in depth issues related to financial stability and set out our views. Our first 'Financial Stability in Focus' examined the level of debt taken on by UK businesses through the pandemic. It was followed in March 2022 with an in-depth report on cryptoassets.

Cryptoassets

The FPC is monitoring a number of channels through which cryptoasset markets and activities could pose risks to UK financial stability. For example, some cryptoassets are unbacked and are vulnerable to major price swings. Investors may lose all their investment.

Direct risks to the UK financial system from cryptoassets are currently limited. However, they will present a number of financial stability risks if they continue their rapid growth, and as they become more connected to the financial system. As these markets and activities grow, better regulatory and law enforcement frameworks are needed in the UK and elsewhere. This will help manage risks, encourage sustainable innovation, and maintain broader trust and integrity in the financial system

During the year, the FPC has presented evidence at five Parliamentary hearings, including those of the Treasury Committee, and FPC members have given around 30 interviews and speeches.

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

Secure and reliable payments, banking services and banknotes

Payments

Payment systems are essential to our economy. They are used to buy goods and services, receive salaries and benefits, and withdraw money from cash machines.

We play a major role in supporting payments in the UK through our Real-Time Gross Settlement (RTGS) service. RTGS lies at the heart of every retail and wholesale payment in the UK, including those made using Visa, MasterCard and the Faster Payments system. RTGS also supports our high-value CHAPS system that people typically use when buying and selling property.

RTGS settles, on average, over £720 billion of payments every working day. Any problem with this service could have a large impact on the UK economy. So we have a target that it should be available at least 99.95% of the time.

The work we have done this year to shape and deliver the future of payments is covered later in this Review on page 34.

Banking services

To support our mission we provide safe, confidential and reliable banking and custodial services to HM Government, certain financial firms and over 100 central banks around the world.

For HM Government we provide foreign currency accounts and payment services, and securities custody and settlement services. We also act as HM Treasury's agent in the day-to-day management of the Exchange Equalisation Account, which holds the UK's reserves of gold, foreign currency, and other assets.

We also provide banking services for certain financial sector firms, where there are clear financial stability reasons to do so. One type of firm we provide banking services to is central counterparties (CCPs). CCPs are an important link in the financial system. They act as an intermediary between buyers and sellers in a trade. CCPs effectively guarantee the terms of the trade, so if one of the parties defaults on the agreement, the CCP steps in.

To enhance the resilience of CCPs we published a discussion paper in June 2021 setting out our intention to develop a public regime for CCP supervisory stress testing. This discussion paper sets out a range of proposals and options for the design of our CCP supervisory stress-testing regime, and we are keen to gather feedback from a broad range of stakeholders.

To support that aim we also launched our first exploratory public CCP stress test in October 2021, the results of which are due later this year. This test will be used to explore the credit and liquidity resilience of UK CCPs.

Banknotes

Maintaining public confidence in the currency is core to our mission. We need to make sure the banknotes we produce are high quality, long lasting and difficult to counterfeit. Polymer notes are cleaner, safer and stronger than paper notes. They remain in good condition for longer and are delivering lasting environmental benefits.

In June 2021, we launched our £50 polymer note featuring the computer pioneer Alan Turing. This note completes our set of £5, £10, £20 and £50 polymer notes, which are our most secure yet. For instance, the £50 note incorporates two windows and a two-colour foil, making it very difficult to counterfeit. There is also a hologram image which changes between the words ‘Fifty’ and ‘Pounds’ when tilting the note from side to side. Like the polymer £10 and £20 notes, the £50 note contains a tactile feature to help visually impaired people identify the denomination. All of the notes we now issue are made of polymer. We will withdraw the legal tender status of our paper £20 and £50 notes after 30 September 2022.

Over recent years, we have seen an increase in the demand for banknotes that can be explained by people placing more weight on cash as a store of value. However, at the same time we have seen a large decrease in the use of cash as a means of payment.

Nevertheless, cash remains vital for many in society, including people who have limited access to banking services or are in financial difficulty. That is why we are taking action to ensure access to cash and deposit services continue to meet households’ and businesses’ needs now and in the future.

We have asked UK banks and cash operators that fund or participate in the wholesale cash infrastructure to agree individual plans with us that set out how they will contribute towards the delivery of industry-wide commitments on resilience, cost efficiency and sustainability. To help support this, HM Treasury will provide us with the powers that we need to keep the wholesale cash infrastructure sustainable and resilient.

We are also undertaking a thorough review of the Note Circulation Scheme rulebook, which sets the rules and standards that govern the storage, sorting and distribution of banknotes in the UK. The review will consider changes to promote efficiency, reduce costs and encourage innovation while continuing to maintain the public’s confidence in the currency. We will consult with market participants on proposals later this year.

Taken together, these commitments and actions will ensure that the UK continues to benefit from an effective, resilient and sustainable wholesale cash infrastructure well into the future.

Safe, sound and resolvable firms

Our Prudential Regulation Authority (PRA) is responsible for the prudential regulation and supervision of around 1,400 banks, building societies, credit unions, insurers and major investment firms.

The PRA has two primary objectives: a general objective to promote the safety and soundness of the firms we regulate; and an objective specific to insurance firms, to contribute to ensuring that policyholders are appropriately protected. We also have a secondary objective to facilitate effective competition in the markets for services provided by firms.

We advance these objectives through regulation and supervision. Through regulation, we develop standards and policies that set out what we require and expect of firms. Through supervision, we monitor and assess whether firms are meeting our requirements and expectations. Where they do not, we can take action – supervisory or enforcement – to reduce the risks that might arise. Our approach to regulation and supervision is forward-looking, judgement-based, and focused on the issues and firms that pose the greatest risk to the stability of the UK financial system and to policyholders.

This year we undertook a strategic review of our approach to regulation and supervision. The outcome of the review recommended that in the near term, the PRA takes action to strengthen its existing approach in three key areas. First, by undertaking work to be more risk-based and flexible in its deployment of resources, including ensuring that potential impact and risk assessment frameworks enable accurate and consistent identification of key risks to the PRA's objectives. Second, the PRA is reviewing its use of supervisory tools such as remuneration, skilled persons' and thematic reviews. Third, the PRA has delivered changes to its internal governance and organisational structure, to make this more effective, including streamlining reporting lines and committee structures.

In the medium term, the PRA will focus on transforming three aspects of its approach. First, making its approach to policymaking more accountable, responsive and accessible, and later this year, publishing an outline of its vision and approach for taking on its new rule-making responsibilities. Second, the PRA will do more to increase confidence that firms can exit the market in an orderly way, further developing the approach to wind-down and run-off planning. And third, the PRA will undertake a multi-year programme of work to improve its efficiency, effectiveness and data culture, through phased investment in tools, technology, processes and digital skills.

Strategic priorities

Ready our policy toolkit and balance sheet for the future

Over recent years we have needed to design and implement new policy tools in order to achieve our mission. In part, the need to innovate has been driven by the global financial crisis and the recession that followed. More recently, we have needed to respond to the economic impact from Covid.

As a result, our monetary policy toolkit has now moved well beyond simply moving an interest rate up and down. We now have at our disposal a range of tools such as purchases of financial assets through quantitative easing, and wider policy tools such as lending to companies through funding schemes. These new tools have been vital in helping the UK economy recover from the shocks it has faced.

Our use of such tools means that our balance sheet is much larger, and more complex, than before. We now have assets of over £1 trillion, equivalent to almost half the annual output of the UK economy. While our balance sheet will reduce in size as we unwind quantitative easing, there are good reasons to think that it will remain larger and more complex than in the past.

Our focus this year has been to examine some important questions about how these new tools work, how they interact with each other and our policy rate, and which ones should be deployed and when. Staff have worked on a number of research projects to help guide our thinking on how and when monetary policy tools should be used.

While we explore these questions and others on the future for our policy toolkit, we announced in February 2022 that we would start the process of unwinding the stock of asset purchases by ceasing to reinvest maturing assets. We also announced a programme of corporate bond sales to be completed no earlier than towards the end of 2023 that should unwind fully the £20 billion stock of corporate bond purchases.

Proactively prepare for risks in the financial system

Operational resilience

We work to make sure the UK financial system is resilient to any disruptions to its operations. That means making sure that the firms we regulate can absorb and adapt to shocks, rather than contribute to them.

In March 2021, we published our policy on operational resilience that set out what we expect of regulated firms in terms of their ability to identify and mitigate potential operational risks. These risks include those from cyber and from outsourcing to third parties. Indeed, in our most recent Systemic Risk Survey of market participants published in March 2022, cyber attacks were the most cited risk to the UK financial system and the most challenging for firms to manage. To help firms assess their resilience to cyber attacks we announced in December 2021 that we would invite a number of firms to participate in a voluntary cyber stress test in 2022. The exploratory test will be used to explore firms' capabilities and the potential financial stability impact of a hypothetical scenario where payments data had been corrupted. We expect participating firms to share their findings and plans with us so we can continue to help firms manage cyber risks.

Resolution

Our work on prudential regulation and financial policy means that regulated firms are less likely to fail. But some firms will always fail, and when they do it's important they do so in a way that causes as little harm as possible.

As the UK's resolution authority, we can use resolution to minimise any impact on depositors, the financial system and public finances of a failure of a bank, building society, central counterparty or certain types of investment firm. Firms have a responsibility to ensure that they are resolvable, that is, that they have taken the steps necessary to ensure that we could execute an orderly resolution in a way which minimises disruption to depositors, businesses and the economy.

In July 2019 we published our Resolvability Assessment Framework (RAF) that outlines the outcomes we expect firms to be able to achieve to be considered resolvable and how we will increase transparency and accountability over resolvability. Under the RAF, the largest UK firms must publish a summary of their preparations for resolution, and we will make a public statement concerning each bank's resolvability. We expect that the first public statement and disclosures will be published in June 2022.

A key part of ensuring resolvability is making sure that firms have sufficient loss-absorbing capacity. To do this we set a Minimum Requirement for own funds and Eligible Liabilities (MREL), the minimum amount of financial resources a firm must maintain to support an effective resolution. We concluded our review of our MREL policy in December 2021, and published revisions to our policy.

Non-bank finance

Non-bank finance – the ecosystem of investment funds, pension funds, insurance companies, sovereign and private wealth funds – now makes up about half of the global financial system. Non-banks are highly interconnected with the rest of the financial system, which means that shocks arising in the non-bank sector can transmit quickly, including to systemic institutions such as banks.

Such vulnerabilities were exposed during the Covid pandemic. In March 2020, as investors looked to shift into safer and more liquid assets there was an accelerating 'dash for cash'. Core government bond markets began to seize up and market interest rates rose. This was halted only by sizeable central bank intervention to support the functioning of the market and restore order.

In July 2021, we published a report on the resilience of non-bank finance and its potential to amplify and transmit stress. We identified three areas of focus to reduce the likelihood and impact of disruptions to liquidity: reducing the demand from the non-bank financial system for liquidity in stress; ensuring the resilience of the supply of liquidity in stress; and potential additional central bank liquidity backstops for market functioning.

The international nature of non-bank finance means that vulnerabilities can only be addressed effectively through globally co-ordinated policy action. To that end, we strongly support international work, led and co-ordinated by the Financial Stability Board, to assess and develop policy responses to address these underlying vulnerabilities. Looking forward, we, together with the Financial Conduct Authority and HM Treasury, will be actively engaged in this work.

Establish a robust, safe and open future regulatory regime

Following the UK's withdrawal from the EU, HM Government established a Future Regulatory Framework Review to ensure that the UK maintains a coherent, agile, and internationally respected approach to financial services regulation that delivers appropriate protections and promotes financial stability. Given our proposed powers to set rules that had previously been set in the EU, including implementing international standards, we have been working to support the enhanced role the UK will now be playing in financial services regulation.

One such area this year has been to develop a 'strong and simple' prudential framework for banks and building societies that we consider to be neither systemically important nor internationally active. The objective of this framework would be to maintain the resilience of those firms and of the financial sector while using simplified prudential regulation, thereby enabling a dynamic and diverse banking sector in the UK.

We have also implemented some of the set of international standards on banks' capital and liquidity requirements under the so-called Basel III international regulatory accord. We are now in the process of developing proposals to implement the remaining elements of Basel III and intend to publish a consultation paper on this by the end of 2022.

Another main reform effort this year has been to help HM Treasury in its review of the Solvency II framework for regulating insurance companies. In July 2021 we launched a

Quantitative Impact Study to gather data from insurers to help support the review. Subsequently we ran a number of workshops with firms to better understand the potential impact of reforms on different insurance sectors, as well as the industry as a whole. A summary of the technical discussions held, along with the main messages we received from workshop participants was published in April 2022.

Shape and deliver the future of payments

Payments systems

We know that the way people pay for things is changing. So we are working on making our payments systems ready for the future by renewing our RTGS service. A key part of this work is to move to the global standard for payments messaging called ISO 20022 that creates a common language for payments across the globe. We are planning to introduce ISO 20022 messaging for CHAPS in April 2023, after running an ISO-enabled Pilot Platform starting in Summer 2022. Then, in Spring 2024, the new RTGS core settlement engine will be introduced.

Digital money

In response to changes in the way people pay for things, we are also considering whether to introduce a central bank digital currency (CBDC). CBDC is money that a central bank, like the Bank of England, can produce. It's called digital because it's in the form of an amount on a computer or similar device. It's not physical money like notes and coins. A CBDC would allow households and businesses to make electronic payments using money issued by the Bank of England.

We are looking carefully at the case for a digital currency for the UK. In June 2021, we published a Discussion Paper that aimed to broaden the debate around new forms of digital money and to seek views on our emerging thoughts. But we haven't decided yet whether to introduce a CBDC or not. Together with HM Treasury we have now set up a Central Bank Digital Currency Taskforce to oversee work in this area. We are also working closely with other public authorities, and we are speaking to businesses and communities to find out what impact a CBDC would have on them.

In November 2021, together with HM Treasury, we set out the next steps for a potential UK CBDC. These steps include a consultation in 2022 to help us assess the case for a UK CBDC. Any UK CBDC that we might introduce would work alongside – not replace – cash and bank deposits. We will continue to provide cash for as long as the public want it.

Respond to the challenge of climate change

Climate change is relevant to our mission as the physical effects of climate change and the transition to a net-zero economy can create financial risks and economic consequences.

These risks and consequences can affect the safety and soundness of the firms we regulate; the stability of the financial system; and the economic outlook. We are also taking action to deliver reductions in our own emissions, such as from powering our buildings and the production of banknotes.

A focus for us this year has been further work to ensure the firms we regulate are effectively managing the climate-related financial risks they face. In October 2021 we published our Climate Change Adaptation Report. This report set out, among other things, the risks posed by climate change to firms, the progress they have made in their management of these risks, and what our response has been.

Looking ahead, we plan to incorporate climate change into our core supervisory processes. That means we will be proactively engaging firms on their management of climate-related risks, and taking action should they not meet our expectations. We will also be looking at whether we need to change the capital framework to capture climate-related financial risks. That work will include participating in international discussions on these issues ahead of providing an update on our views.

To examine the resilience of the largest UK banks and insurers to the physical and transition risks associated with climate change we ran a climate scenario exercise. The exercise showed that UK banks and insurers are making good progress in some aspects of their climate risk management, and this exercise has spurred on their efforts further. But our assessment is that UK banks and insurers still need to do much more to understand and manage their exposure to climate risks. We will continue to work on this important topic, in support of our objective to protect and enhance the stability of the UK financial system.

For the past two years, we have issued broad climate disclosures that set out our climate change strategy and demonstrate how companies can and should share information about the measurement and management of climate-related risks. To support that work, we set out in November 2021 how we would use our Corporate Bond Purchase Scheme to help incentivise firms to design and implement credible plans for reducing their emissions.

We hold ourselves to the same standards that we expect of the firms we regulate. We need to ensure that, wherever possible, emissions relating to our own financial operations, such as the financial asset portfolios we hold, and emissions from our own physical operations, such as from powering our buildings and printing banknotes, conform to best practice in the measurement, management and mitigation of climate-related financial risks. That is why we have published our third climate-related financial disclosure alongside this Report.

The Bank continues to make good progress in reducing emissions from its physical operations in line with its targets. As part of this, we aim to publish our strategy for reducing the emissions from our physical operations to net zero by 2050 at the latest in next year's disclosure report. The strategy will cover the full scope of the Bank's physical operations and is consistent with the target in the Climate Change Act 2008.

Build a diverse and inclusive Bank

To support our mission we need a diverse workforce where colleagues can achieve their full potential in an inclusive environment that enables us to attract and retain talented people and allow them to thrive. The current external context presents both challenges and opportunities, and we need to be human, humble and in step with the changing world to respond effectively. We need leaders who embody this ambition, and a truly inclusive culture to enable all colleagues to realise their potential.

Our vision is to build a diverse workforce that reflects the society we serve. We aim to make the lived experience of all colleagues positive and to give equal opportunity for all to contribute, develop and reach their full potential. We are committed to achieving this vision by 2024/25.

The impact will be that:

- we attract and retain top talent as an employer of choice;
- colleagues can work in a way that is flexible, supports wellbeing and work-life balance and maximises the overall effectiveness of their teams and the organisation;
- our leaders motivate, inspire, respect, challenge, and empower colleagues to give their best;
- our current and future leaders know what is expected of them, have support to meet those expectations, and are held accountable;
- colleagues trust and have confidence in our senior leadership;
- colleagues feel safe to express views and confident their input is valued; and
- colleagues are empowered to contribute, develop and reach their full potential, professionally and personally.

Looking forward, we will focus on embedding the vision across the organisation, providing support for colleagues, and evaluating our impact. That will include delivering on the recommendations of our Court Review of Ethnic Diversity and Inclusion.

Modernise the Bank's way of working

To meet our mission in a changing world we need to upgrade our ability to make the best use of data, analytics and technology. That includes building modern technology foundations and digital working capabilities, and improving our ability to adapt, innovate and change with greater agility.

In support of this aim we are upgrading the organisation-wide support that helps our people use data and analytics (D&A). This year we: launched our new D&A Platform, where our people can share, combine, and collaborate on analysing data sets of any size; reduced the time to implement new data collections; improved management of our critical reference data; and grew the virtual 'Data Community' within the organisation to 1 in 5 colleagues.

One important activity this year has been to begin implementation of our plan to transform our data collection from the UK financial sector. Our joint programme with the FCA and industry involves around a dozen full-time nominees from industry, with a further 100 industry experts and leaders involved in the advisory teams and committees. The team has designed improvements to our data collection, with planning and recruitment underway to implement these recommendations. Meanwhile we have begun work on the next set of business use cases.

We are also adopting an industry-standard approach to software delivery, which is more efficient and better aligned to the outcomes we want to see. We have already seen improvements this year from the introduction of new software and processes that enable better management of work. Throughout 2022/23, this will be expanded further across our Technology area.

Looking ahead, we will continue to invest in our data management capabilities. Our key data platforms are now centrally managed, with data management built into the platform and processes, reducing the likelihood of complexity and risk. During 2022/23 we will continue to build and exploit these platforms leveraging agile ways of working. We will also shape and develop our future Data and Analytics Platform to provide the scale and flexibility the organisation requires.

Our work under this strategic priority to modernise our technology, reorganise our workforce and optimise standard processes will take a number of years to complete. Ultimately, it will reduce delays, remove waste, improve productivity and predictability, and speed up the delivery of value across all aspects of our work.

Financial review of 2021–22

Financial statements highlights

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

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

Under the Bank of England and Financial Services Act 2016 separate PRA disclosures are presented in the Annual Report on pages 205–14, these reflect the operations of the Bank acting as the PRA, and are a subset of the Banking Department.

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

Court considers the operation of the Bank's financial framework in fulfilling its responsibilities under the Bank of England Act 1998. The key elements of the financial framework of the Bank are detailed below.

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

First, that policy functions of the Bank (monetary policy and financial stability) are financed by the cash ratio deposits (CRD) scheme. Under the CRD regime, banks and building societies are required to place an interest-free deposit at the Bank which is a ratio of their eligible liabilities. The Bank then invests those deposits in interest-yielding assets, generating income to fund its policy functions. The CRD requirements are set by HM Treasury through a Statutory Instrument at least every five years. This was last set in May 2018 and saw a change from a single fixed ratio to a variable one from 1 June 2018.[17] The current review has commenced and is exploring alternative options to fund the Bank's policy expenditure.

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

Second, that the remunerated activities of the Bank – banking services, services to HM Treasury and lending operations for the Bank's own account – will be expected to break even over the medium term, although the Bank remains committed to providing value for money, and so manages its cost base in this context. Any gains or losses from these activities will not flow back to CRD payers, but instead be recognised in the Bank's capital. The Funding for Lending Scheme (FLS) is considered a remunerated activity.

Third, the Bank of England acting as the PRA, operating under the Financial Services and Markets Act 2000, may levy regulated firms to recover all costs incurred in the performance of the PRA's functions under the Act. From August 2018, the Bank introduced a levy to cover its Financial Market Infrastructure (FMI) supervisory costs in response to an Independent Evaluation Office recommendation. This applies to all FMIs which are supervised by the Bank under the Banking Act 2009 or the Financial Services and Markets Act 2000.

Fourth, that if spending on policy functions is in line with CRD income and other functions break even, the profit of the Bank should be broadly equivalent to the return on the assets in which its capital and reserves are invested – largely gilts.

Cash Ratio Deposit scheme

The CRD scheme is reviewed at least every five years and was most recently updated in 2018. It is intended to result in policy income and expenditure breaking even over the five-year cycle. Despite recent increases in gilt yields, income on CRD investments continues to fall short of policy expenditure.

The CRD ratio is 0.406% as at 28 February 2022 (2021: 0.368%). The CRD ratio is reindexed to prevailing gilt yields every six months; this change to a variable ratio makes it more responsive to changes in gilt yields and better able to deliver the income required to fund the Bank's monetary policy and financial stability costs.

However, in an environment of low yields, even with indexation, CRD income is unable to recover fully the Bank's policy expenditure, leading to a further shortfall in 2022 of £65mn (2021: £45mn). This is contributing to the reduction in profit after tax to £7mn (2021: £57mn) (see page 109) and loss-absorbing capital (LAC) to £3,280mn (2021: £3,475mn) (see page 40).

As part of the last review of the CRD Scheme in 2018, UK Government committed to monitor the effectiveness of the Scheme and conduct a further formal review within five years. To facilitate this review, the Bank established, together with HM Treasury, a Joint Steering Group to review the funding arrangements and consider alternative options to fund the Bank's policy expenditure with the intention of mitigating future shortfalls.

A Consultation Paper was published in September 2021,[18] which consulted on potential alternative funding options. The outcome of this consultation was to move forward with the introduction of a levy to fully cover the costs of the Bank's monetary policy and financial stability functions. This new levy, the Bank of England levy, was included as part of the Financial Services Bill 2022. Further details of this levy scheme can be found in the Policy Statement published on 7 June 2022.[19]

Capital

	2021/22 (£mn)	2020/21 (£mn)
Total capital	5,777	5,828
Deductions:		
Intangible assets	(202)	(130)
Pension and property reserves	(1,230)	(1,154)
Illiquid investments	(1,065)	(1,069)
Loss-absorbing capital	3,280	3,475

The capital framework, introduced in June 2018 following agreement between HM Treasury and the Bank, states that the proportion of Banking Department profits payable to HM Treasury will be determined by the level of LAC held by the Bank and where this sits within a set of parameters.[20]

LAC is the Bank's total capital less any capital components that cannot absorb losses, which include: intangible assets; net pension scheme assets (net of deferred tax); illiquid investments; and property revaluation reserves.

The Bank's LAC decreased by £195mn to £3,280mn. The decrease in LAC is primarily attributable to the shortfall on the CRD scheme and increases in the deductions for intangible assets and pension and property reserves. The increase in intangible assets reflects investment by the Bank in software development.

18. **www.gov.uk/government/consultations/review-of-the-cash-ratio-deposit-scheme-consultation**.
19. **www.gov.uk/government/consultations/review-of-the-cash-ratio-deposit-scheme-consultation**.
20. See Section 2.B of the agreed financial relationship between HM Treasury and the Bank of England: memorandum of understanding for detail of the parameters; **www.bankofengland.co.uk/letter/2018/banks-financial-framework-june-2018**.

As such, and in line with the capital framework codified in the Memorandum of Understanding on the Financial Relationship between HM Treasury and the Bank, no payment in lieu of dividend to HM Treasury will be made.

Financial statement highlights

The table below presents highlights of the combined 2022 financial statements. Further explanation and commentary is provided below.

Financial statement highlights

	2021/22 (£mn)	2020/21 (£mn)	Movement (£mn)
Balance sheet			
Combined balance sheet[1]	1,134,409	945,718	188,691
Cash Ratio Deposits (CRD)	13,043	11,153	1,890
Notes in circulation	86,440	84,692	1,748
Loss-absorbing capital[2]	3,280	3,475	(195)
Funded pension scheme net assets	1,279	1,154	125
Off balance sheet: Funding for Lending Scheme	–	142	(142)
On balance sheet: Term Funding Scheme	–	39,451	(39,451)
On balance sheet: Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises	192,360	75,412	116,948
Income statement			
Combined income	740	775	(35)
of which:			
Income from PRA regulatory activity	293	278	15
CRD income	136	130	6
Trading income	200	244	(44)
Management fees	111	125	(14)
Combined expenditure[3]	711	703	8
Combined profit before tax	29	72	(43)
Combined profit after tax	7	57	(50)
Payment to HM Treasury in lieu of dividend	–	–	–

	2021/22 (£mn)	2020/21 (£mn)	Movement (£mn)
Other items of note			
Net seigniorage income paid to the National Loans Fund	93	62	31
TFS income(4)	17	103	(86)
TFSME income(4)	223	34	189
Income statement net surplus/shortfall from policy functions(5)	(65)	(45)	(20)
Average number of employees (headcount)	4,675	4,437	238

(1) Banking Department total assets (£1,130,356mn) + Issuing Department total assets (£86,440mn) – Issue Department deposit with Banking Department (£82,387mn).

(2) See page 40.

(3) See page 44.

(4) TFS income reflects Bank Rate received on the TFS loans, and excludes any TFS fees, which are transferred to the Bank of England Asset Purchase Facility Fund (BEAPFF), following an agreement that BEAPFF continue to receive TFS fees after the transfer of the scheme from BEAPFF to the Bank. The Bank treats scheme fees as an agent, collecting the fees from counterparties and passing them over to BEAPFF when they are received, and does not recognise them as income. TFSME income reflects Bank Rate on TFSME loans, and TFSME fees receivable in the year. TFS income is net interest income and capital neutral as Bank Rate income is offset by the Bank's liabilities on the corresponding reserves created. As of February 2022 all positions on the TFS have matured.

(5) See page 39.

Balance sheet movements

The combined balance sheet grew by £188.7bn in 2022. The largest movement in assets was an increase in 'Loans and advances' of £185.5bn, primarily attributable to an increase in the loan to the Bank of England Asset Purchase Facility Fund (BEAPFF), which has been made to facilitate the purchase of assets for quantitative easing (QE).

Despite the CRDs required from banks increasing from £11bn to £13bn, over the course of the year the income raised under the scheme was insufficient to prevent the shortfall on the scheme increasing £65mn (2021: £45mn), due to the low-yield environment.

Securities lent under the FLS reduced to nil as the final positions in the scheme fully matured in September 2021. Term Funding Scheme (TFS) balances also reduced to nil as a result of the scheme winding down in February 2022. The balance of the Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises (TFSME), which was launched in March 2020 increased to £192.4bn from £75.4bn. The TFSME closed for new borrowings in October 2021.

'Notes in circulation' increased marginally year on year from £84.7bn to £86.4bn.

Income statement movements

Profit before tax decreased year on year to £29mn, a fall of £43mn. Combined income fell by £35mn in 2022 primarily as a result of a decrease in trading income, specifically driven by a fall in income from financial instruments designated at fair value due to FX movements. Income from management fees also fell as a result of a reduction in charges to HM Government bodies.

The slight increase in CRD income was a result of higher gilt yields in the year.

The combined cost base for the Bank increased by around 1% in 2022 to £711mn (2021: £703mn). As mentioned earlier in this Report, the Bank remains committed to providing value for money and has continued to maintain a cost-conscious culture as we come out of the pandemic.

The year-on-year increase in the Bank's costs of £8mn was driven primarily by a £24mn increase in staff costs as a result of an uplift in resources supporting the RTGS Renewal Programme as it moved into the next phase of the project lifecycle and growth across the PRA and FMI in response to their expanding remit post Brexit. There was a decrease of £15mn in other administration and general expenses. In addition, spending on property and equipment increased and consultancy, legal and professional fees decreased as a result of the developing maturity of key investment programmes across the Bank, including the RTGS Renewal Programme and the ISO 20022 Programme.

Overall, the different year-on-year movements in the income statement led to a decrease in profit before tax by £43mn.

Other items of note

Funding arrangements for Issue Department

The Issue Department is funded by buying interest-yielding assets to back the notes in circulation. The interest earned on these assets is used to fund the costs of note production and supply. The net profits/losses of the Issue Department are referred to as seigniorage, and paid/claimed directly to/from HM Treasury via the National Loans Fund (NLF). The £93mn net seigniorage income is comprised of income and profits of £197mn, less £85mn expenses and a buffer withheld by the bank of £19mn. Amounts held back in the buffer are paid over to the NLF in the subsequent year but are not included in that year's net income paid to NLF reported here. In the year ended 28 February 2022, £93mn (2021: £62mn) was paid to the NLF.

Combined income statement

Combined expenditure by function[1]

	2021/22 (£mn)	2020/21 (£mn)
Policy functions		
Total policy expenditure	206	179
Expenditure on policy functions	**206**	**179**
Remunerated functions		
Notes issue costs recharged to the Issue Department	93	114
Government agency services	13	12
Payment and settlement	64	78
Banking services	34	32
Other functions	11	11
Expenditure on remunerated functions	**215**	**247**
Operations funded by levies		
PRA operational expenditure	280	253
PRA special projects	10	23
PRA enforcement fines	3	2
Financial Market Infrastructure	10	10
Expenditure on operations funded by levies	**303**	**288**
Net legacy items in relation to pensions and property[2]	(13)	(11)
Expenditure on other functions	**(13)**	**(11)**
Total Banking Department	**711**	**703**
Issue Department	**85**	**118**
Internal charges and settlements under seigniorage arrangements	(85)	(118)
Total combined expenditure	**711**	**703**

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

(2) Net legacy items relate to expenditure items funded from the Bank's retained earnings primarily driven by interest income on the net pension assets and the cost of running Roehampton.

Total expenditure for 2022 was £711mn. This was lower than the Bank's cost budget of £725mn.

This year, an important priority for the Bank has been to tackle the impact of the Covid pandemic on the UK economy and financial system, consistent with its statutory objectives. The Bank has maintained a cost-conscious culture by continuing to reprioritise and absorb increased responsibilities as we ensure a robust, safe and open financial system following withdrawal from the EU.

Policy functions

	2022 (£mn)	2021 (£mn)
Income		
CRD income	136	130
SONIA licence income	2	1
Access to the Sterling Monetary Framework (SMF) income	3	3
Total policy income(1)	**141**	**134**
Expenditure (by policy area)		
Monetary Analysis and Monetary Policy Committee	39	40
Markets, Banking and Fintech	61	49
Research, Data and Analytics	26	20
Financial Stability Strategy and Risk	25	24
Resolution	16	13
FMI(2)	14	8
International	13	12
PRA(3)	12	13
Expenditure on policy functions(4)	**206**	**179**
Net surplus/(deficit)(5)	**(65)**	**(45)**

(1) SONIA Licence and SMF access fee income are specific income streams for activities included within policy function expenditure.

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

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

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

(5) See page 39.

CRD income of £136mn was £6mn higher than 2021. Expenditure on policy functions funded by CRD income was £206mn, £27mn higher than 2021 driven by readying the Bank for the implementation of a new payments standard, policy analysis and research into the case for a UK central bank digital currency, increased supervisory responsibilities and supporting the Bank's data and research agenda's. This continues to result in a growing CRD shortfall.

Remunerated functions

Expenditure decreased by £32mn to £215mn (2021: £247mn). This was driven by lower note production volumes as we completed the roll-out of polymer notes across all denominations.

Prudential Regulation Authority

Combined operating costs and special project costs for 2022 increased by £14mn to £290mn (2021: £276mn) reflecting the Bank's investment to ensure a robust, safe and open financial system following the withdrawal from the EU and a significant additional number of firms to authorise and supervise due to the end of passporting arrangements.

Issue Department

Expenditure of £85mn on the Issue Department decreased by £33mn (2021: £118mn) due to lower note production volumes.

Combined balance sheet

	2022 (£mn)	2021 (£mn)
Assets		
Loans and advances	1,102,416	916,868
Securities held at fair value through profit or loss	9,969	9,869
Securities held at amortised cost	18,707	16,165
Other assets	3,317	2,816
Total assets	**1,134,409**	**945,718**
Liabilities		
Deposits	1,035,083	849,535
Notes in circulation	86,440	84,692
Foreign currency commercial paper in issue	2,713	–
Foreign currency bonds in issue	2,936	4,353
Other liabilities	1,460	1,310
Capital and reserves	5,777	5,828
Total equity and liabilities(1)	**1,134,409**	**945,718**
Off balance sheet – Funding for Lending Scheme		
Funding for Lending drawdowns	–	142

(1) Banking Department total assets (£1,130,356mn) + Issuing Department total assets (£86,440mn) – Issue Department deposit with Banking Department (£82,387mn).

As mentioned in the financial highlights, the combined balance sheet grew by £188.7bn in 2021/22, primarily driven by an increase in the loan to BEAPFF to fund the purchase of assets for QE.

During the year the BEAPFF continued to purchase assets as directed by the Monetary Policy Committee (MPC). This included completing the gilt purchases announced by the MPC on 5 November 2020, and the reinvestment of the cash flows associated with reductions in its stock of sterling non-financial investment-grade corporate bonds announced by the MPC on 23 September 2021.

The CCFF was operated by the Bank on behalf of HM Treasury. The facility was designed by HM Treasury and the Bank to support liquidity among larger firms, helping them to bridge Covid-related disruption to their cash flows through the purchase of short-term debt in the form of commercial paper. Over the life of the scheme, the CCFF lent over £37bn to 107 different companies between March 2020 and March 2021, with a peak issuance in the scheme of over £20bn in May 2020. The scheme matured in March 2022, with all commercial paper paid back in full.

As at 28 February 2022 the loan to the CCFF was £1.1bn (2021: £11.8bn). The loan was fully repaid by the CCFF after the reporting date.

Financial review of the Banking and Issue Departments

Banking Department

The Banking Department's financial statements for the year ended 28 February 2022 are shown on pages 109–99 and reflect a profit before tax of £29mn (2021: £72mn) and tax charge of £22mn (2021: £15mn). The profit retained by the Bank was £7mn (2021: £57mn), and the amount payable to HM Treasury in lieu of dividend amounts to £nil (2021: nil) due to the loss-absorbing capital position being below the £3.5bn threshold, in line with the capital framework.

The statement of comprehensive income reflects a net decrease for the year of £30mn (2021: decrease of £21mn), comprising a post-tax operating profit of £7mn (2021: £57mn) and 'Other comprehensive loss' totalling £58mn, net of deferred tax (2021: loss of £78mn).

'Other comprehensive income' includes a net decrease in the fair value of assets held at 'fair value through other comprehensive income' of £53mn (2021: decrease of £15mn), retirement benefit remeasurement increase of £20mn, net of deferred tax (2021: decrease of £57mn) and property revaluation losses of £25mn, net of deferred tax (2021: loss of £2mn).

The total balance sheet of the Banking Department increased during the year, from £939.6bn as at 28 February 2021 to £1,130.4bn as at 28 February 2022.

The main change in Banking Department assets was an increase in the loan to the BEAPFF, for making additional asset purchases during the financial year.

'Capital and reserves' remained at £5.8bn (2021: £5.8bn). The Bank's retained earnings, together with CRDs, are predominantly invested in gilts. The Banking Department's holdings of gilt securities and other supranational bonds totalled £16.0bn at 28 February 2022 (2021: £13.1bn).

At 28 February 2022, the Banking Department balance sheet contained £5.6bn of liabilities associated with the management of the Bank's foreign exchange reserves (2021: £4.4bn).

Issue Department

The statements of account for the Issue Department (which are provided on pages 200–04 reflect net profits from note issue of £93mn (2021: £62mn), payable in full to HM Treasury. The increase of £31mn was due to lower costs from lower note production volumes. In 2022, gilt revaluations contributed £nil to income (2021: £8mn).

NIC increased year on year, and totalled £86.4bn as at 28 February 2022 (2021: £84.7bn). Gilt purchases to back banknote issuance, introduced in January 2008, remained on hold during the year because BEAPFF undertook gilt purchase operations. The market valuation of gilts held by the Issue Department was £1.3bn as at 28 February 2022 (2021: £1.7bn). The 'Ways and Means advance' to HM Treasury remained at £370mn as at 28 February 2022.

Risk management

In the year to 28 February 2022, the pandemic again dominated, with the Bank operating largely remotely in the first and fourth quarters. The associated risks were carefully managed.

On 24 February 2022, Russia invaded Ukraine and the Bank has played its part in the UK's response. From a risk management perspective, this has ranged from supporting the implementation of sanctions through to bolstering cyber defences.

Higher inflation has been a focus for the Monetary Policy Committee (MPC). The management of monetary policy risks is reserved, in statute, to the MPC and is therefore outside the Bank's risk management framework. However, the MPC's decisions have significant implications for the size of the Bank's balance sheet. The associated financial risks are indemnified by HM Treasury.

The Bank is upgrading its technology estate and the related projects carry material execution risk. Likewise, the management of people risk – especially in areas like technology requiring niche skills in short supply – is receiving close attention.

Risk governance

The Court of Directors

Court has responsibility for the overall governance of the Bank, including the Bank's risk management and internal control systems. Court determines the strategy for managing risk and approves the Bank's risk tolerance. It takes the lead in setting a strong risk management culture across the Bank and oversees the governance structures through which the Bank's risk management strategy is implemented.

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

Court's review and confirmation was facilitated by an attestation exercise through which Executive Directors and Directors with a direct reporting line to a Governor confirm compliance with the Bank's risk management and internal control requirements in the areas for which they are responsible.

The Audit and Risk Committee (ARCo)

ARCo, a committee of Court, assists Court in meeting its responsibilities for maintaining effective systems of financial reporting, internal control and risk management. ARCo receives reports on the Bank's risk profile, the operation of the risk framework and the risk management processes and systems in place. ARCo also has responsibility for reviewing the findings of internal and external auditors and monitoring outstanding actions for timely completion. The Bank voluntarily complies with the core principles of the PRA's Senior Managers Regime. Consistent with that framework, the Chair of ARCo has responsibility for ensuring and overseeing the integrity and the independence of the Bank's Risk and Compliance functions. The Bank's Internal Auditor has a direct reporting line to the Chair of ARCo.

Executive responsibility for risk

Within the Senior Managers Regime framework, the Governor has overall executive responsibility for risk. Responsibility for the Bank's first line risk management functions is delegated to business owners, under the relevant Deputy Governor or Executive Director.

Responsibility for the Bank's second line financial and non-financial risk management functions is consolidated under the Executive Director, Risk. The Bank's central Compliance function also sits within this Directorate. The Executive Director, Risk reports directly to the Governor and has an indirect reporting line to the Chair of ARCo.

The Bank's Executive Risk Committee (ERC), the principal forum for discussion, oversight, and challenge of material risks to delivering the Bank's mission and mitigating actions, oversees the operation of the Bank's Risk Management Framework. ERC monitors the Bank's risk profile against tolerance, considers the adequacy of actions planned to mitigate risks, and conducts horizon scanning to identify emerging risks. ERC is chaired by the Deputy Governor for Prudential Regulation and has 10 further members including the Deputy Governor for Markets and Banking and the Bank's Chief Operating Officer (COO); seven of the Bank's Executive Directors; and one of the Bank's Directors. All Deputy Governors can attend ERC as decision-making members. ERC meets at least six times each year. Following discussion at ERC, quarterly risk reporting is shared and agreed with the Executive Operational Co-ordination Committee, which includes the Governors and COO, prior to submission to ARCo and Court.

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

Three Lines of Defence

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

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

2. Provide independent forward-looking assessment, oversight and challenge of risks in real time across all operations and business lines, and define risk management frameworks and tools. This second line of defence is delivered by the Bank's Risk Directorate.

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

The Bank's Risk Management Framework

The Bank's mission is to promote the good of the people of the United Kingdom by maintaining monetary and financial stability. The Monetary Policy Committee, Financial Policy Committee and Prudential Regulation Committee are responsible for making statutory policy decisions, which the Bank implements. While the management of policy risks are reserved to these committees, the implementation of policy decisions exposes the Bank to a wide variety of risks which it seeks to manage through its risk framework. It is the responsibility of the Governor and other Executive members of the policy committees to brief policy committees on any material risks relevant to their remit.

The Bank's Risk Management Framework supports a consistent approach to identifying, assessing and monitoring the risks to which the Bank is exposed, and the actions required to mitigate them. Risk management processes and systems of internal control are embedded within the Bank's operations according to the materiality of the risks involved and the relative costs and benefits of specific controls. Controls are designed to manage rather than eliminate risk and, as such, provide reasonable, but not absolute, assurance against material misstatement or loss.

The Risk Management Framework specifies the Bank's risk tolerance and provides an approach for managing both financial and non-financial risks within tolerance. Generally, the

Bank seeks to keep its exposure to risk low and to have a control environment and risk culture which supports this. During the year, the Bank completed the augmentation of its risk management processes with metrics to monitor non-financial risks.

For financial risk, the Bank translates its tolerance into a set of limits and monitoring thresholds in order to facilitate day-to-day control of financial exposures and appropriate senior management involvement. If it is determined that the expected benefits to monetary or financial stability outweigh the risk, the Governors may, with approval from Court, exceed the Bank's usual limits.

Risk assessment is forward looking and seeks to identify material risks to which the Bank may become exposed in conducting its day-to-day operations. For each of the Bank's key business functions a Risk and Control Self-Assessment is undertaken. A likelihood and impact matrix is used to determine risk ratings, taking into account the potential impact to the Bank's critical operations, financial position and reputation in the event of a risk crystallising. Where risks are assessed as out of tolerance, action plans are developed to bring those risks within the Bank's tolerance threshold.

A sound risk culture is a key pillar of effective risk management. During the year, the Risk Directorate sponsored a programme within the Bank to strengthen and further embed risk awareness. Broader sharing of risk management experience has been encouraged and supported among senior staff with the goal of ensuring that Bank staff are risk aware and inquisitive.

Principal risks

The key risks managed by the Bank during the year are summarised here. These risks arise through policy implementation and the day-to-day operations which support the Bank's mission. The Bank assesses these risks and seeks to develop appropriate mitigation plans.

We categorise risks under five main principle risk types: operational risks; financial risks; legal risks; conduct risks; and climate change risks. Risks associated with statutory policy decision-making are reserved to the Bank's policy committees. The policy committees account for their activities directly to Parliament as appropriate and policy decision-making is therefore outside the Bank's risk management framework.

Operational risks

Over the year the Bank continued to manage the significant operational risks associated with Covid to ensure the welfare of its staff and the resilience of its operations. This included: maintaining new controls in support of Bank operations being conducted from outside its premises; keeping Bank sites Covid-secure; and supporting new members of staff in commencing their Bank employment remotely. As Covid restrictions have eased and staff have been able to return to the office, working practices have become more ‘hybrid’. The Bank has further adapted its controls, for example by:

- introducing technology infrastructure and software to effectively support meetings being undertaken by groups that include staff based both on Bank sites and remotely;
- developing new controls, adaptable and robust, to both in-office situations and for staff based remotely; and
- increasing the resilience of critical operations by ensuring the number of staff undertaking them remains balanced across different locations.

The Bank will continue to adapt its risk management processes and controls as necessary while post-Covid ways of working continue to evolve.

The Russian invasion of Ukraine on 24 February 2022 generated significant instability in financial markets. In response, a wide range of analytical policy and supervisory work was set in motion. Care was taken to maintain existing risk management and control systems during this period. The Bank stepped up its cyber monitoring and gave advice on, and supported the implementation of, sanctions at pace.

More generally, the Bank is exposed to a broad range of operational risks through policy implementation and day-to-day operations. These include: the provision of liquidity to sterling markets; the operation of the Real-Time Gross Settlement service; the production and distribution of banknotes; and the collection and analysis of a wide range of economic and supervisory data.

During the year, the Bank continued to invest in mitigating a number of prominent operational risk themes including:

Cyber: the cyber-risk environment remained elevated during the year, with high-profile, well-publicised ransomware cyber attacks both in the UK and abroad. The Bank remains closely engaged with the National Cyber Security Centre in order to remain alert to potential risks; continues to invest significantly in its cyber defences through a dedicated cyber programme; and rehearses its ability to respond to and recover from a cyber attack, including via ransomware.

Projects and change management: the Bank is progressing a broad range of change projects to keep pace with its evolving responsibilities. These encompass new processes, technology and ways of working. The Bank has a demanding project portfolio, spanning many key functions and with a number of complex dependencies and specialist technical requirements. Project delivery risk is closely managed by the Bank's specialist project portfolio team, and closely monitored and managed by individual project boards, executive governance and Court.

Technology obsolescence: the Bank is strengthening the resilience of its technology architecture and network and updating its technology estate. Several of the Bank's main change projects are designed to address the risks of ageing technology by implementing more widely adopted solutions to replace older bespoke applications.

People: the Bank's people are its most valuable resource. Post-Covid, the external jobs market has opened up presenting an increased risk of staff attrition and loss of key skills and knowledge. The Bank continues to develop its approach to retain and motivate staff in a highly competitive job market and invest in recruitment to maximise opportunities to attract specialist skills as necessary. As described elsewhere in this Report, the Bank is also prioritising efforts to build a diverse and inclusive Bank.

The Bank aims to maintain robust and flexible business continuity arrangements such that mission-critical processes are resilient to disruptive events. These arrangements are overseen and co-ordinated by the Risk Directorate. The Risk Directorate also maintains an incident reporting system to support the analysis of existing and emerging risks that have crystallised. This analysis helps to identify control weaknesses, and allows lessons to be learnt to minimise the likelihood of reoccurrence.

Financial risks

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

Financial risk management at the Bank is underpinned by a financial framework agreed with HM Treasury in June 2018 and codified in a Memorandum of Understanding.[21] The framework ensures that the Bank has the financial resources to undertake the financial operations necessary to deliver its objectives, including under severe but plausible stress scenarios.

As at 28 February 2022, and at the time of writing, the Bank did not have any direct exposure to Ukraine or Russia. Indirect channels of financial risk (via the impact on counterparties, markets and asset prices) are being closely monitored.

The UK government and corporate bonds purchased by the Bank under its quantitative easing programme are held within a wholly owned subsidiary, the Bank of England Asset Purchase Facility Fund Limited (APF). The APF is funded by a loan from the Bank with interest charged at Bank Rate. The APF is fully indemnified by HM Treasury meaning that any gains or losses within the APF accrue to the Treasury and not the Bank. Under the indemnity arrangement, net cash flows generated by the APF are transferred quarterly between the APF and HM Treasury. Since the inception of the APF, positive cash flows totalling £119.7 billion as of 28 February 2022 (£112.5 billion as of 28 February 2021) have been transferred to HM Treasury. These cash flow arrangements will reverse in future, with payments being made from HM Treasury to the APF, depending on the path of Bank Rate and the pace of any APF unwind.[22] Both the Bank and the Treasury conduct detailed modelling of the future cash flows between HM Treasury and the APF under a wide range of scenarios.

Conduct risks

The Bank is exposed to conduct risk through the actions of its staff, should they act or be perceived to act, in a way that undermines the public trust on which the Bank's mission depends, including failure to comply with the Bank's policies. The Compliance function works with policy owners and other areas of the Bank to ensure compliance with all internal policies, making sure they are accessible, and supported by appropriate controls. Compliance also has a clearly defined role in dealing with any breaches of the Bank's policies and for fostering a culture of compliance across the organisation. During the year, Compliance concluded a significant review and distillation of all Bank policies.

21. www.bankofengland.co.uk/-/media/boe/files/memoranda-of-understanding/financial-relationship-between-hmt-and-the-boe-memorandum-of-understanding.pdf.
22. For further details of the Indemnity and cash flows between the Company and HM Treasury please see Box D of 'QE at the Bank of England: a perspective on its functioning and effectiveness', available at www.bankofengland.co.uk/quarterly-bulletin/2022/2022-q1/qe-at-the-bank-of-england-a-perspective-on-its-functioning-and-effectiveness.

Compliance also houses the Bank's Data Protection Officer and the Privacy team, which creates, implements and advises on policies and procedures that are designed to ensure compliance with applicable data protection legislation.

Climate change

The Bank's exposure includes the risk of failing to meet expectations in helping to ensure that the UK financial system is resilient to climate change risks and in supporting a smooth transition to net zero.

The Bank must also manage the climate-related risks arising from its own operations, including those from the financial assets it holds for policy and other purposes, as it seeks to meet its emissions targets.

Legal risk

Legal risk is the risk that the Bank, or its staff, act unlawfully or fail to take the necessary action to protect the Bank's position. Court has determined that the Bank has no tolerance for a deliberate breach of any statutory, regulatory or other legal requirement.

Emerging risks

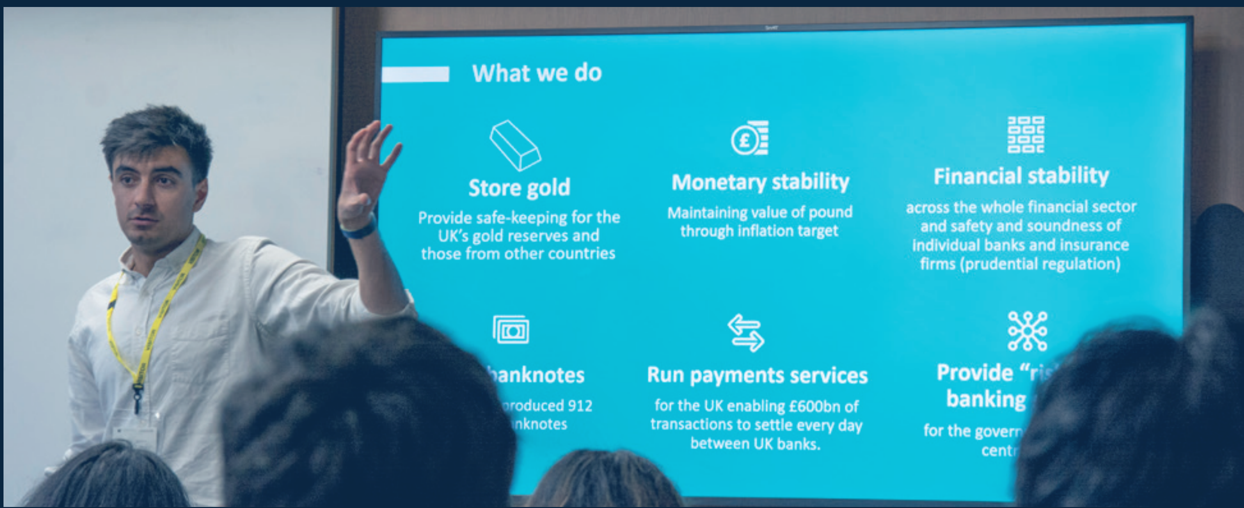
The Bank conducts horizon scanning for emerging risks to which it may be exposed. Such risks may arise, for example, from a changing external environment and events beyond the Bank's immediate control. The Bank's emerging risks include:

- actual and potential spillovers from both domestic and global geopolitical developments. Following developments in Russia/Ukraine, these risks have become increasingly apparent and include, for example, the potential for international conflict to impact third parties on which the Bank relies, to require additional financial market operations and to intensify risks relating to anti-money laundering;

- the potential for increased cyber threats – including as a result of the situation in Ukraine – and with ransomware remaining a particular source of concern;

- the wide-ranging impacts of transitioning to a low-carbon economy; and

- new financial innovation, including rapidly changing technology potentially facilitating the development of new payments services providers and potential reputational risks associated with so called 'cryptoassets'.



Top: Citizens' Panel Event in Southampton.

Middle: School Ambassador presentation at Woodhouse College.

Bottom: Celebrating the achievements of our Court Award winners from 2020, 2021 and 2022 to recognise colleagues' exceptional commitment to the community through their fundraising and volunteering for charities and schools.

Our people

Our skilled and dedicated colleagues have continued to work collaboratively, during another challenging year, to deliver the Bank's mission. We employ 4,793[23] people from across 75 different nationalities and remain committed to building a diverse and inclusive Bank that reflects the diversity of the society we serve, as well as building a pipeline of talent with the skills we need for the future. Our employment offering remains a key driver for attracting and retaining a talented and diverse workforce (see figure below).

This year we are continuing to bring our vision of creating a human and humble Bank in step with the changing world to life.

The employment offering

Importance of our mission

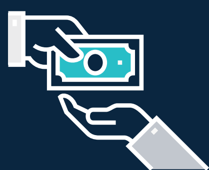
Working at the Bank gives colleagues the opportunity to do unique work that makes a difference for the public good.

Inclusive and flexible environment

We have supported colleagues as they return to the office and adjust to new ways of working. We continue to provide a strong wellbeing and family-friendly support framework, and focus on creating an environment where everyone can contribute and thrive.

Great opportunities for learning and career development

We offer a wide variety of stretching roles, providing unique opportunities for colleagues to learn and develop their careers.



Committed to fair pay

We are committed to rewarding our colleagues fairly and to publishing our gender and minority ethnic pay gaps (see page 69).

23. Includes permanent and fixed-term employees across all office locations. Excludes contingent workers, inward secondees and NEDs.

A human and humble Bank, in step with the changing world

Our definition of a human Bank is one where colleagues feel able to be themselves and speak openly and honestly about their views. A humble Bank is one where we listen as much as we speak, and recognise that we are made stronger by learning from others. And a Bank in step with the changing world is one that looks outwards and forwards and applies those insights to our enduring mission.

We intend to create a new hub in Leeds and further expand the Bank's UK presence, based around the office network already used by the Bank's Agencies. A project team has been established to consider the number of staff involved, recruitment models and the timescales for delivery. An expanded geographical footprint can allow us to increase our presence across the UK and, in turn, help us to better serve and represent the people of the UK, gain better insights into the economy and support our mission to maintain monetary and financial stability for the whole country. It would also provide an opportunity to achieve efficiencies in the running of the Bank.

Case study: Career Returner Programme

Sarah Jenvey,
Project Manager, Recruitment Optimisation Project, Projects and Programmes (2021 Career Returner Programme)

I was in equal parts excited and anxious to restart my career after a seven-year gap due to family commitments. Starting my role during the pandemic in 2021 helped ease the transition as most of us continued to work from home. After a successful nine months leading an update project in Technology, I had the opportunity to move to a new role to set up a new project for Central Services. I can honestly say that my first 10 months at the Bank since joining on this programme has been a very positive experience; the work has been varied and interesting and the people are refreshingly supportive. I am extremely grateful to the Bank for this opportunity to reclaim my career.

Recruitment and development

The Bank continues to attract diverse and talented people from a range of backgrounds. We recruited 512 experienced hires and we continue to hire via various early career programmes (such as graduates, PhDs and apprentices) where our employment brand is particularly strong. We successfully marketed and assessed candidates in a virtual environment and in 2021 virtually inducted 59 graduates from over 30 different degree disciplines – which included economics, engineering, electronics and natural sciences.

We also supported three individuals as part of the Kickstart scheme – the Government's initiative to provide meaningful work experience placements to young people aged 16–24 who claim Universal Credit.

Case study: 2021 Graduate Programme

Enoch Ayo-Ajala

Graduating in a pandemic is definitely something to tell the future children about! However, joining the Bank was a seamless transition; the flexible working culture and the support of colleagues has been invaluable.

Working at the Bank at such a challenging time has meant working at a fast pace. This has been crucial in reaching my goal of understanding of financial markets. The training and opportunities on offer at the Bank eg in coding, financial instruments or different asset classes, are the perfect satiation for my curious appetite.

During a very challenging time at the Bank, it is clear that the Bank is in no short supply of talented and dedicated people.

Apprenticeship return[24]

The Bank now offers 40 different apprenticeships. We currently have over 230 colleagues, both existing colleagues and new recruits, studying on an apprenticeship ranging from Level 3 to Level 7.

Seventy-two colleagues started an apprenticeship in the year up to 31 March 2022: of which 56 apprenticeships were enrolled on by existing colleagues in order to further develop their skills.

The Bank is also pleased to have our first cohort of Degree and MBA apprentices complete their apprenticeships with almost half achieving either a first or a distinction.

Looking ahead, we are looking at ways to integrate apprenticeships more closely with individual development goals and future skills needs.

Period runs from 1 April 2021 to 31 March 2022

4,665(1) staff working at the Bank of England on 31 March 2021

4,775 staff working at the Bank of England on 31 March 2022

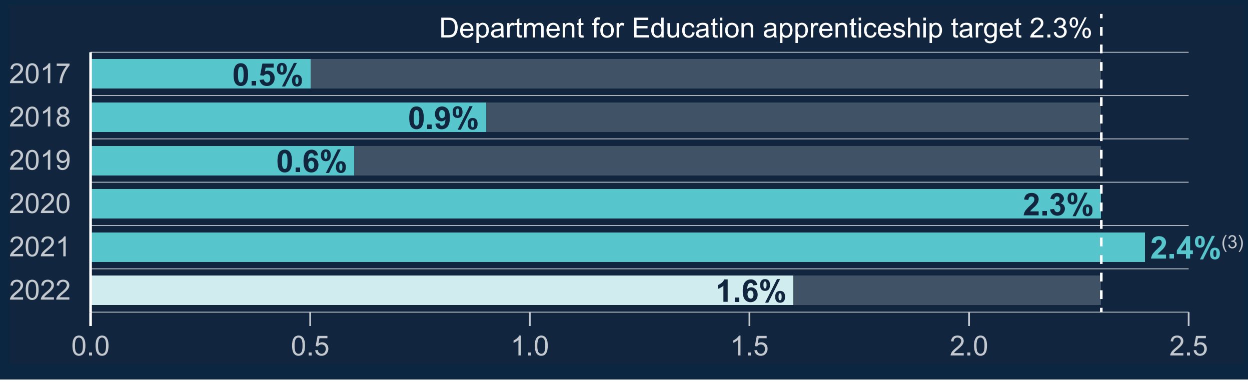
654 new recruits in England

73 new apprentices (1.6% of workforce in England)

11.2%(2) of new recruits joined as apprentices between 1 April 2021 and 31 March 2022

59% of new apprentices at the Bank identify as female

36% of new apprentices at the Bank identify as minority ethnic



(1) As a result of retrospective changes in the Bank's Management Information system, we have adjusted the staff figure working at the Bank on 31 March 2021 to 4,665 compared to 4,657 presented in the 2020/21 Annual Report.

(2) As per the Government guidelines on reporting, this figure includes employees who were already working for the Bank before beginning their apprenticeship, as well as new apprentice hires.

(3) Percentage of the workforce.

24. The statutory reporting period for apprenticeships is from 1 April 2021 until 31 March 2022. All figures contained within the apprenticeship return are reflective of this period.

Case study: Apprenticeship programme

Toni Agbede

I recently completed the Senior Leader Level 7 apprenticeship course. Being on an apprenticeship programme meant that I could study and enhance my development while continuing to work. The MBA qualification I gained at the end of the programme was definitely an added bonus.

Studying and working (mostly remotely) while also managing home life with three children was no doubt a challenge. Despite these challenges, I thoroughly enjoyed the experience and gained a lot from the course. Graduating with a Distinction and being awarded the Dean's Commendation for Exceptional Performance made the hard work and experience worthwhile.

The support I received from my line manager and team members and the wider Bank was outstanding. I am grateful to the Bank for the opportunity and would say to anyone considering the apprenticeship programme, go for it!

Learning and development

In January 2022, the Prudential Regulation Authority (PRA) launched a PRA Digital Skills specialisation to over 1,000 colleagues, helping them to learn new digital behaviours and business skills to help communicate, analyse and take decisions more effectively.

Our LinkedIn Learning Ambassadors have curated learning paths and collections to help colleagues access targeted technical training on areas including cyber security and data science, and we have assembled business-skill themed resources for those joining us on an industrial placement.

Learning statistics

11,594
hours of e-learning completed by our colleagues

10,577
e-learning courses completed since November 2021 totaling 5,418 hours

404
colleagues have been trained in hybrid learning surgeries to help embed our new ways of working

135
colleagues completed our technical PRA regulatory training programme

6,176
hours of LinkedIn Learning used by our colleagues

63
LinkedIn Learning Ambassadors

25
of our 2020 graduate cohort began our Central Banking Qualification (CBQ) run in partnership with Warwick Business School

20
of our 2020 graduates completed apprenticeships

Diversity and inclusion

We published the findings of the Court Review into Ethnic Diversity and Inclusion[25] at the Bank in July 2021 and concluded that while the Bank had made progress on diversity and inclusion (D&I), this was not sufficient, especially on ethnic diversity.

We have now developed and started to implement an action plan to put those Court Review recommendations into effect. Those actions form a large part of our commitment to the Bank's Strategic Priority 6 (see page 36). We have already made progress on some of those actions (see figure).

25. The findings of the review can be found at **www.bankofengland.co.uk/report/2021/court-review-of-ethnic-diversity-and-inclusion**.

Court recommendations: actions already implemented

Our response to Court recommendations so far

- Improving sponsorship schemes
- Providing resources on diversity and inclusion for all colleagues
- Training on diversity and inclusion made available to all staff
- Strengthening how our managers measure progress against our stretching diversity targets
- Giving our leaders more data on diversity and inclusion so they can measure progress
- Building our expertise on diversity and inclusion

Diversity targets and progress so far

Our new targets are set for end-February 2028 (reviewed in 2025) and are:	Progress so far: (as 28 February 2022)
18%–20% of our senior managers to be Black, Asian and Minority Ethnic	12%
40%–44% of our senior managers to be female	35%
23% Black, Asian and Minority Ethnic representation in roles just below senior management	15%
43% female representation in roles just below senior management	36%
20% of new appointments at Executive Director (ED) and Director-level to be Black, Asian and Minority Ethnic	11%[1]
Gender parity on new appointments at ED and Director-level	33%[1]
10% of graduate intake to be Black (including mixed)	8%[2]
5% of our managers and above to be Black (including mixed)	2.5%

(1) Based on Executive Director and Director appointments made between 1 March 2020 and 28 February 2022.

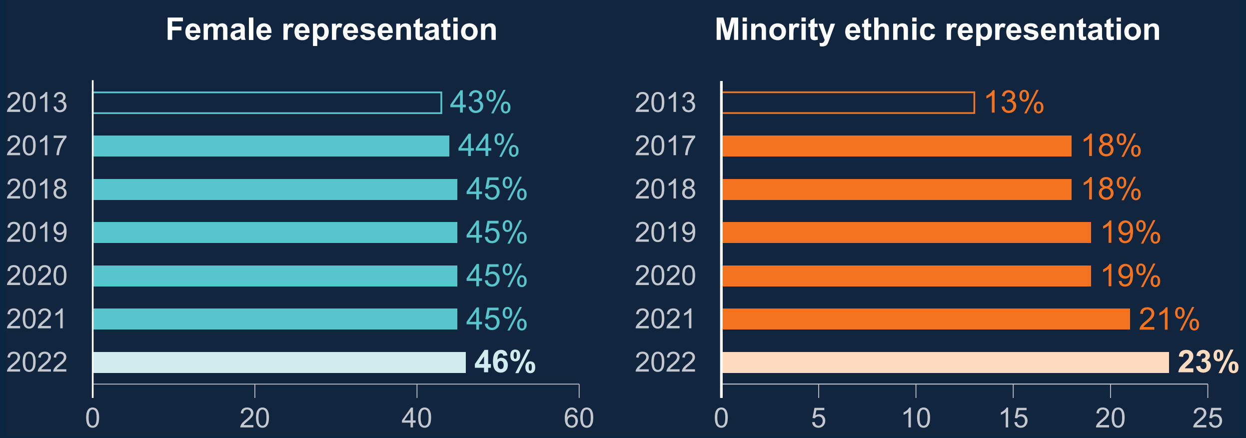
(2) Based on acceptances for the September 2022 graduate programme intake as at 31 March 2022.

Since publishing our approach for both disability[26] and sexual orientation,[27] we have focused on increasing declarations to give us better data. 5.5% of colleagues have declared a disability, compared with 4.5% last year. The proportion of colleagues who identify themselves as lesbian, gay, bisexual and other (LGB+) is 4.2%, up from 3.8% last year, which rises to 8.4% for people in senior management positions.

We continue to increase the diversity of those joining the Bank as we recognise the importance of building a strong and diverse talent pipeline. Of our experienced hires that joined over the past year, 46% were female and 38% minority ethnic. We also continue with our Career Returners Programme with 42 hires in the 2021 cohort, of which 86% were female and 48% minority ethnic. Given the success of this programme, we will be moving from one intake of career returners per year, to two.

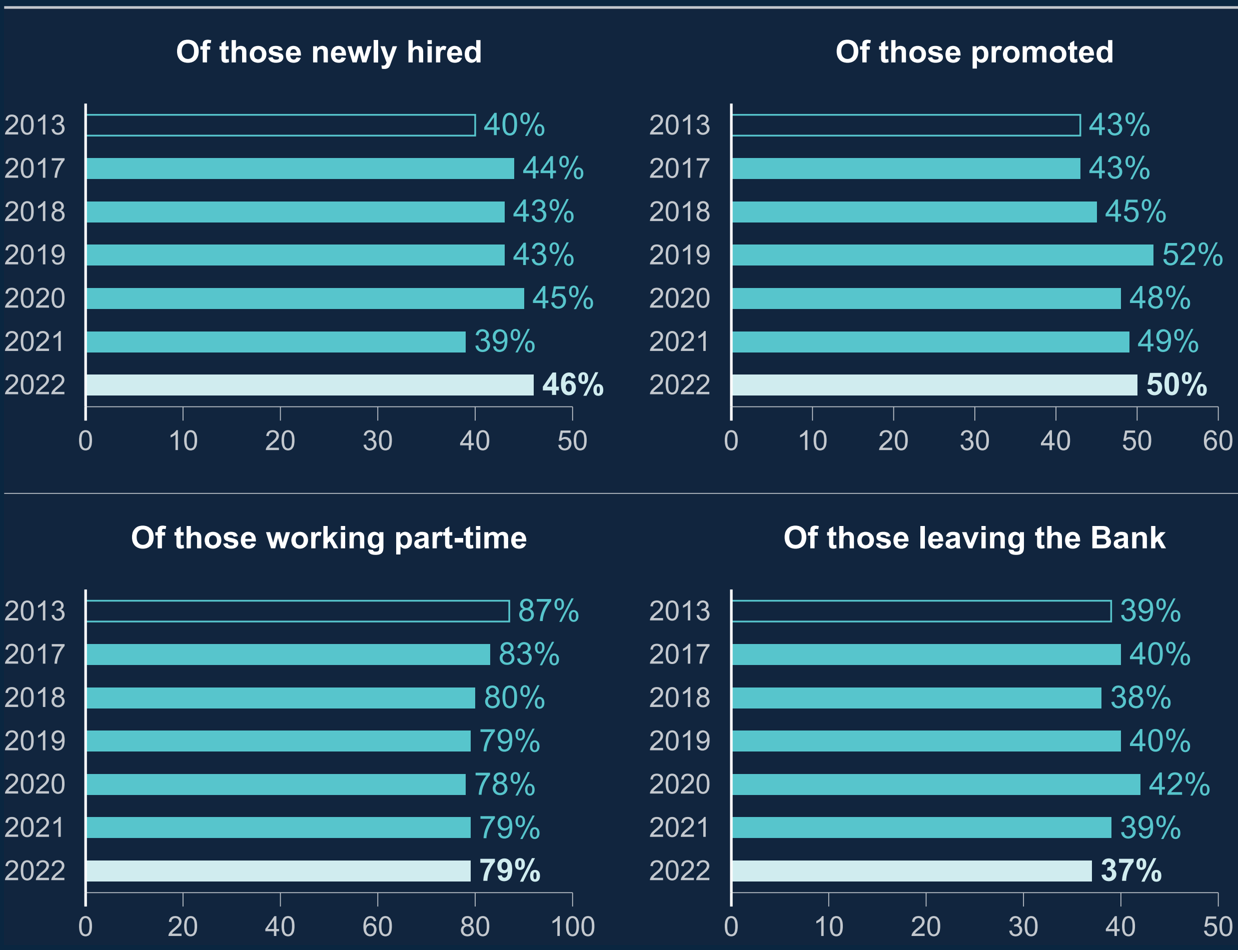
Of our 2021 graduate intake, 47% were female and 37% minority ethnic.[28] We expect the diversity of our 2022 graduate intake to increase further with 132 offers accepted, of which 42% are female, 48% are minority ethnic and 8% are Black or Black Heritage students. In addition, the external apprentice intake in 2021 was 64% female and 36% minority ethnic.

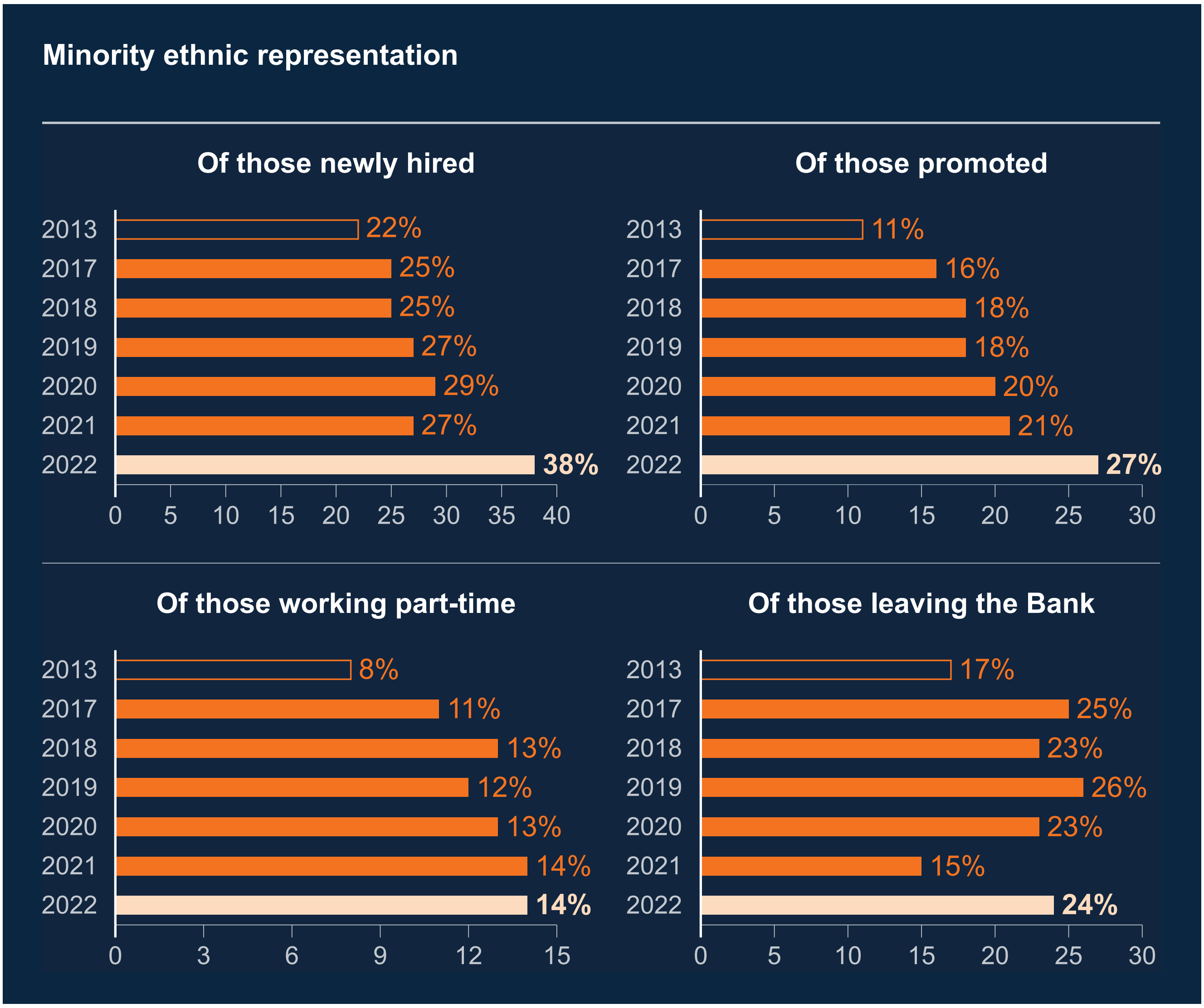
Overall split



26. See www.bankofengland.co.uk/-/media/boe/files/about/go4gold-disability-action-plan.pdf?la=en&hash=06E5B876422B27F1781D6DA761B0E8A2881FC2C3%20%20.
27. See www.bankofengland.co.uk/-/media/boe/files/about/out--proud-lgbt-action-plan.pdf?la=en&hash=730CABB3AA87BF3B6BACA294327F3A96F600FCC0.
28. The figures reported in the 2021 Annual Report for graduate hires changed following publication due to late offers.

Female representation





Employee networks

We now have 13 employee networks, up from 12 last year following the creation of the Age network which explores and develops the Bank's understanding of how age related factors can affect colleagues. All of our networks play a vital part in developing and embedding the Bank's inclusion agenda. They support colleagues in an ever changing environment to ensure policies and processes are as inclusive as possible.

Wellbeing

Last year, a series of written blogs from colleagues shared a range of wellbeing stories from mental health to losing a pregnancy which has complemented our wellbeing support framework. In addition to our accessible in-house counselling service and expanding our number of trained Mental Health First Aiders, we also have a number of peer supporters who can provide guidance to colleagues based on their own life experiences.

In line with national awareness days, we invited health and wellbeing specialists to provide webinars to colleagues on a range of topics to better equip colleagues to challenge the stigma associated with these themes in the workplace, and embed an open and inclusive wellbeing culture.

Rewarding colleagues fairly – our gender and ethnicity pay gap

We are committed to paying colleagues fairly for the work they do, as well as reducing our gender and ethnicity pay gaps. This includes delivering on our ambitious and important diversity targets, paying a minimum of the London living wage, and ensuring that our roles are regularly benchmarked against relevant external comparators.

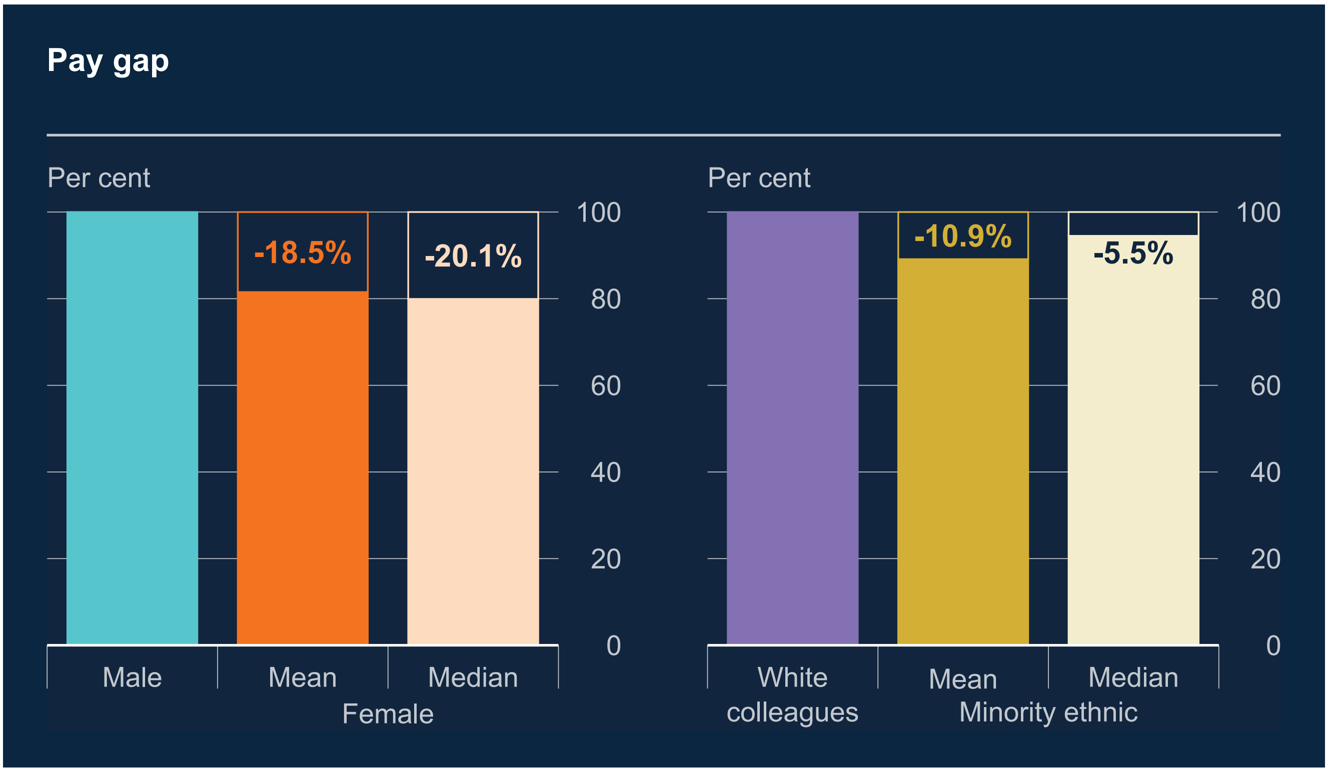
The gender and ethnicity pay gaps look at average hourly earnings across the whole organisation, regardless of role or level.

The mean gender pay gap at the Bank continues to decrease and as of March 2022 is 18.5%, down from 19.2% in 2021. The median gender pay gap also decreased, from 20.6% last year, to 20.1% this year. The reduction in the gender pay gap can be attributed to increases in female representation across most levels, particularly at Executive Director to Senior Manager levels.

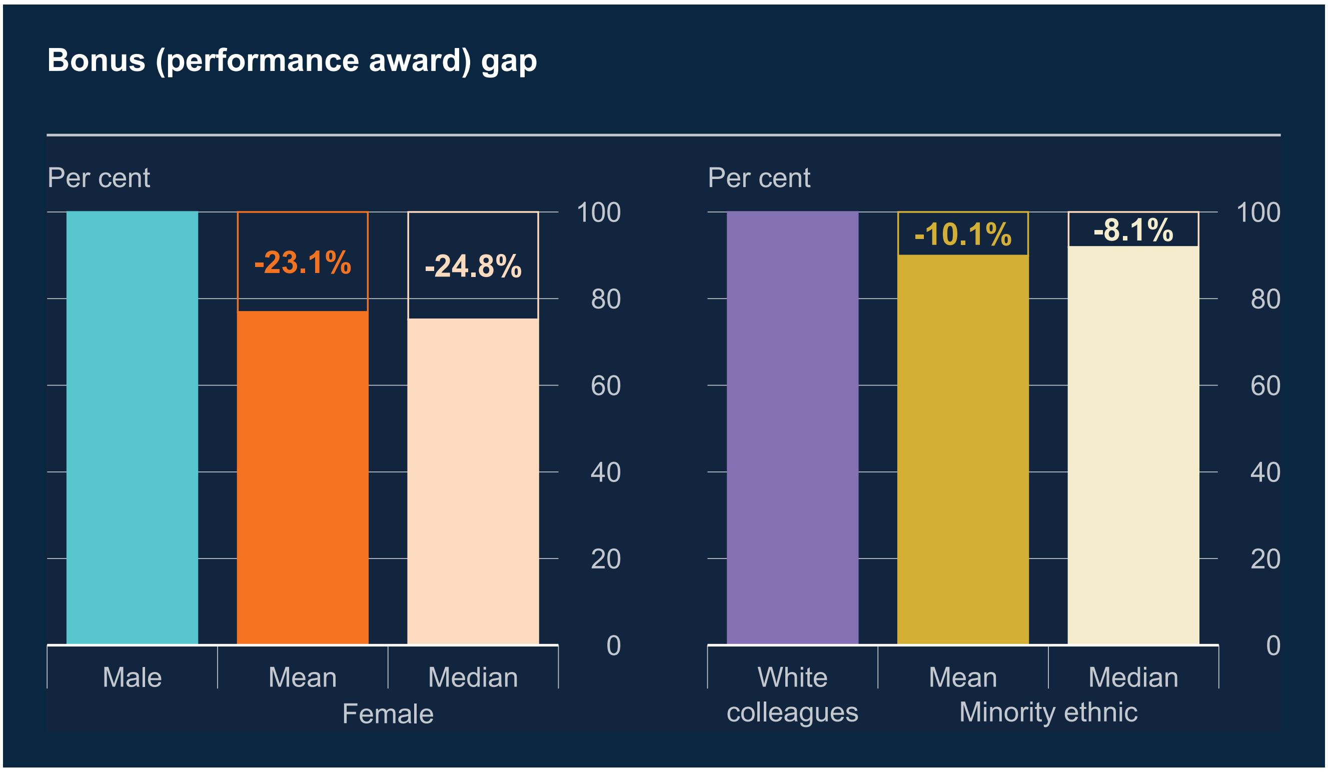
The mean ethnicity pay gap has increased slightly from 10.8% in 2021, to 10.9% this year and the median pay gap has increased to 5.5%, from 4.0% last year. Although we have increased minority ethnic representation over the past year, this has been concentrated predominantly at mid to lower levels of the organisation, therefore driving the median hourly pay down relative to that of white colleagues, and as a result widening the pay gap. The mean ethnicity pay gap has seen a smaller increase than the median compared to last year, as there has been a small increase in minority ethnic representation at some of the most senior levels of the organisation following internal promotions, hence increasing average pay for minority ethnic colleagues.

The pay gaps include most cash elements of pay – including base pay and allowances. Looking at base pay alone, we have a mean gender pay gap of 16.5% and a mean ethnicity pay gap of 9.5%.

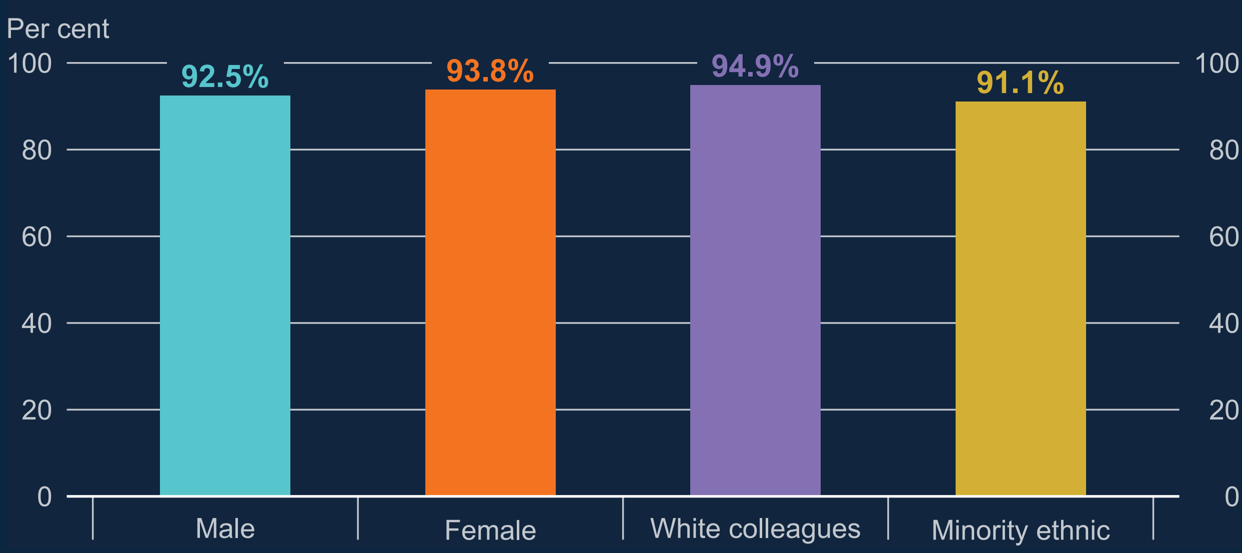
The gender and ethnicity pay gaps are driven by an imbalance of male to female and white to minority ethnic staff across scales. As part of our strategic priority on D&I, we are continuing to increase the number of women and minority ethnic colleagues in senior roles which will help to improve the pay gaps.



The pay gap figures are based on hourly rate of pay as at 31 March 2022 and bonuses paid in the year to March 2022.

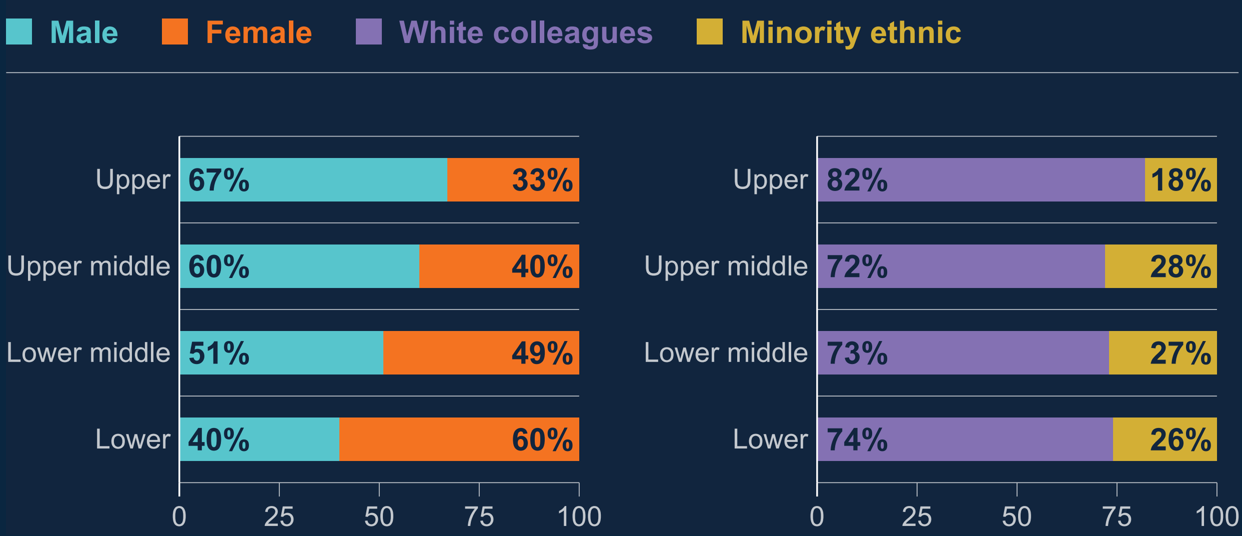


Proportion of colleagues receiving a bonus (performance award) payment



All colleagues at the Bank (excluding Governors) are eligible for a discretionary annual performance award, dependent on performance.

Proportion of colleagues in each pay quartile



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

Public Sector Equality Duty (PSED)

The PSED applies to public authorities and others who may be exercising public functions. Under this duty, public authorities are required to: have due regard to the need to eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act 2010; advance equality of opportunity between people who share a protected characteristic and those who do not; and foster good relations between people who share a protected characteristic and those who do not.

The Bank recognises that in the exercise of its public functions it must have due regard to the PSED, including via its committees. This year, by way of example, we have: updated our website and publications to make them more accessible and inclusive; focused our Bank Ambassador visits to state schools in areas of relative socioeconomic deprivation; and engaged with a range of charities to ensure our outreach programmes are accessible to a range of under-represented groups, including those aged 16–25 where we have worked in partnership with the British Youth Council. Our efforts in this area also include the transformation of our work experience programme discussed in the next section, and our support of the Government's Kickstart scheme that provides meaningful work experience placements to young people aged 16–24 who claim Universal Credit.

Top: Flying the Progress flag to celebrate Alan Turing's life on the launch of the polymer £50 note.

Middle: Launch of Black History Month celebration.

Bottom: Women in the Bank Network on International Women's Day #BreaktheBias.

Social responsibility

Community

Our 2020/2021 ‘charities of the year’ were Childline (a service provided by the NSPCC) and Shelter as voted for by our employees. Between November 2020 and November 2021 we partnered with them virtually with fundraising events bringing colleagues together while large numbers of our people were working from home. We were thrilled to be able to have been able to donate over £320,000 to those charities.

In November 2021, we changed our ‘charities of the year’ model to be more in line with our aims to represent the people of UK. We introduced three new categories for our charities: a charity closely aligned to our diversity and inclusion agenda; a smaller charity with a regional focus; and a nationally recognised charity. As a result we were pleased to announce our support for Carers UK, Demelza Hospice Care for Children and WWF-UK, chosen by our colleagues, and will work with these charities for two years. To create this model we listened to feedback from former charities that a longer partnership would create a more sustainable relationship and bring more opportunities for colleagues to be more involved in the fundraising.

We lit up the Bank blue to show our support on Childline’s 35th Birthday and red to show our support for Shelter on World Homelessness Day.

Work experience

In 2021 we increased our virtual work experience programme and also offered virtual insight days to young people for the first time. We targeted young people from outside London in order to increase our regional reach and will increase this further in 2022 as we focus on reaching out to young people across the UK, particularly in Birmingham, Bradford, Glasgow and Liverpool. This transformation of the work experience programme is part of our commitment to social mobility at the Bank. We are currently creating a pipeline of opportunity with our outreach programmes, such as Bank Ambassadors, targeting young people across the UK with work experience and insight days, acting as a bridge to our early careers programmes.

Outreach

Our outreach programmes continue to ensure that the Bank understands the lived experiences of people across the UK, and that we are hearing from a diverse range of people. These programmes also help raise awareness and understanding of the Bank's work.

In the past year we have had around 1,200 new members join our Citizens' Forum[29] (formerly called Citizens' Panels) community, with current membership standing at just over 3,800. We held 15 Citizens' Forum events involving around 800 participants. As a way to engage with members beyond formal events, we also launched a new online platform called the Economy Hub where members can learn more about how the economy works and the Bank's role within it; join discussions about the economy with fellow members across the UK; and participate in regular surveys.

We continued to engage with those representing lesser-heard groups. Policymakers and Executive Directors hosted 11 Community Forums,[30] with attendees representing different third-sector organisations across the UK. Our Youth Forum[31] programme is in its third year, and its members continue to help bring a young person's perspective in our work.

Education

We are working to strengthen and deepen relationships with schools and communities across the UK especially those in areas of high deprivation and/or low levels of social mobility. This year we have focused our efforts on the cities of Birmingham, Bradford, Glasgow and Liverpool. We have reached out to schools in these areas and delivered a number of school

29. See **www.bankofengland.co.uk/get-involved/citizens-panels**.
30. See **www.bankofengland.co.uk/get-involved/community-forums**.
31. See **www.bankofengland.co.uk/get-involved/youth-forum**.

Rupal Patel and Jack Meaning, authors of 'Can't We Just Print More Money?'.

talks to explain more about the economy, the work of the Bank and careers in banking and financial services.

The Bank teamed up with publisher Penguin Random House to produce the first book of its kind in its history. 'Can't We Just Print More Money?' is a fun and accessible introductory guide to economics. It was written by Bank economists Rupal Patel and Jack Meaning (pictured) over the course of a year and went on sale in May 2022. The Bank is using proceeds from the book to pay for copies to be sent to every state secondary school across the UK.[32]

Museum

While our museum remained closed in 2021, we also launched our first 'hybrid' exhibition entitled 'Picture the City' in early 2022. This digital exhibition brings together eight landscape paintings from the museum collection to explore the people and places of London's past and present. The exhibition can be viewed in Google Arts & Culture and via innovative physical installations at the locations featured in the exhibition.[33]

32. See **www.penguin.co.uk/books/112/1120291/can_t-we-just-print-more-money-/9781847943385.html** for more details.
33. View the hybrid exhibition at **www.bankofengland.co.uk/museum/whats-on/2022/picture-the-city**.

The Bank of England Museum reopened in April 2022 with a new exhibition exploring the Bank's historic links with transatlantic slavery. The exhibition has been informed by the work of a dedicated researcher who has examined a range of materials, including from the Bank's Archive.

Environment

We are committed to reducing the environmental impact of our operations. In recognition of our efforts this year, we were awarded Gold Status in the Clean City Award Scheme in three categories: communication and engagement, plastic free City, and resource and circular economy.

Carbon emissions

Our carbon reduction target is to cut the absolute greenhouse gas emissions by 63% by 2030 compared to our 2016 baseline, for scope 1 (use of gas, fuel and refrigerants), scope 2 (electricity) and business travel. This target is in line with the aims of the Paris Agreement and consistent with limiting global warming to 1.5°C above pre-industrial levels. We have also committed to reduce emissions from our physical operations so they will be consistent with net zero by 2050 at the latest.

This year the Bank's carbon footprint has fallen by 9% compared to the previous year. The key factors influencing this included a reduction in note printing and the move to renewable electricity. While gas consumption has risen slightly, air travel has remained low, largely due to Covid restrictions.

Our carbon footprint is shown in the annex on pages 80–81, and further details are available in the Bank's climate-related financial disclosure which is published alongside this Report.

Energy management

We have implemented a number of projects to help further reduce our energy consumption. These include optimising controls for our heating and cooling systems, and continuing to install LED lighting and improved lighting controls. We will continue to seek opportunities to implement new solutions to improve energy efficiency and reduce environmental impact.

Waste and resources management

We were pleased to be able to reintroduce reusable items in our catering outlets this year, after a period of using only disposables as a Covid safety precaution. Our colleagues have supported this, and rates of use of reusable items are now close to pre-Covid levels.

We continue to work to ensure a consistent, best-practice approach to waste management across our sites. We work closely with our contractors to ensure that any waste they remove on our behalf is reused or recycled wherever possible.

Banknotes

We continue to secure carbon neutrality for contracted supply of polymer substrate through the polymer procurement process. This is achieved through a combination of carbon reduction initiatives and offsets purchased by the suppliers. In 2021/22, our carbon emissions from polymer substrate production were 14% lower than in 2020/21, reflecting the impact of lower banknote production volumes and carbon reduction initiatives. Further details on the carbon emissions from substrate production can be found in the Bank's climate-related financial disclosure.

This year just under 740 million unfit banknotes were returned to the Bank and required disposal; just under 90% of these were paper banknotes with the vast majority being paper £20 and £50s following the launch of the polymer £20 and £50. The Bank works with partner organisations to reduce the environmental impact of the destruction of notes. For paper notes, this includes composting and an 'energy from waste' solution.

The majority of polymer banknote waste is recycled and used by third parties to make plastic items such as storage boxes and building materials.

Employee engagement

We hold regular Bank-wide engagement campaigns throughout the year. As we establish our new, post-Covid, ways of working, we want to ensure that we build working habits that align with our environmental efforts, and we are supported in this by our network of Green Champions. We also continue to promote national and international campaigns such as food waste action week and plastic-free July.

This year we have established a group of volunteer gardeners, who have planted bee-friendly species in support of our hives. This included the planting of six new fruit trees in Debden, which was also our contribution to the Queen's Green Canopy initiative for the Platinum Jubilee.

Procurement

We work to ensure that those who work with us share our environmental values. This year we have engaged with colleagues across the Bank to increase the weight of environmental and sustainability scores in tenders, and to ensure that the views of subject matter experts are incorporated in requirements to drive improvement in the sustainability of our supply chain.

Health and safety

We monitor our health and safety performance and report to the Audit and Risk Committee annually.

A key priority this year was our continuing response to the Covid pandemic. Our approach throughout the year has remained in line with HM Government guidance. We have supported our colleagues by enabling them to work from home where appropriate and also ensured that our buildings were Covid-secure for those working within our premises.

During the year to 31 December 2021[34] there were a total of six recorded accidents involving employees. None of those recorded accidents were a reportable injury as defined by the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations. Accidents are recorded and investigated, where remedial actions were identified these were implemented to help prevent any reoccurrence.

Case Study: Waste management

Mark Adeoye
Contracts and Services Manager

My role involves overseeing our waste management contract among other operations and maintenance contracts. A key priority is to ensure that our waste is treated in an environmentally conscious manner. In the past year, we have implemented a range of improvements to ensure that we recycle as much of our waste as possible. I recently visited a materials recovery facility to see how mixed recycling is sorted; it was very interesting to see the effort that goes into this, and learn how our colleagues can help ensure that the materials we send for recycling are of good quality.

34. Reporting date aligned to accident statistics published by the Health and Safety Executive.

Annex: Carbon footprint

Type of emissions	Activity	2021/22 tCO$_2$e	2021/22 Percentage of total	2021/22 Percentage change from baseline
Direct (Scope 1)	Natural gas	2,949	30%	
	Oil – generators	2	0%	
	Vehicles fleet	55	1%	
	Refrigerants	72	1%	
	Subtotal	**3,078**		**101%**
Direct (Scope 2)	Electricity	0	0%	
	Subtotal	**0**		**-100%**
Indirect (Scope 3)	Electricity – T&D[(1)]	0	0%	
	Air travel	137	1%	
	Rail travel	5	0%	
	Water	23	0%	
	Office paper	1	0%	
	Waste	12	0%	
	Subtotal	**178**		**-97%**
	Paper (Notes)	–	0%	
	Polymer (Notes)	6,560	67%	
	Subtotal	**6,560**		**115%**
Total gross emissions (tCO$_2$e)		**9,816**		**-51%**

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

Intensity metric	
Average number of employees	4,683
Tonnes of CO$_2$e per employee	2.1

Assessment parameters	
Baseline year	2015/16.
Reporting organisation	Bank of England.
Person responsible	Energy and Carbon Manager.
Reporting period covered	1 March 2021 to 28 February 2022.
Organisational boundaries	Facilities over which the Bank of England has operational control.
Methodology used	ISO 14064-1 and DEFRA Reporting guidelines (2013).
Emissions factors used	UK Government conversion factors for Company Reporting set. Market-based emissions factor used for electricity.
External verification 2016 baseline	Limited assurance to ISO 14064-3 provided by the Carbon Trust.
Exclusions	Emissions associated with the use of refrigerants were not accounted in 2016.

Report of the Remuneration Committee

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

RemCo takes account of external comparisons from the public and private sector when reviewing policy and making remuneration decisions, as well as reviewing internal comparators to help ensure that staff are appropriately and fairly rewarded. We continue to report on our gender and ethnicity pay gaps which are linked to the Bank's inclusion agenda and can be found in the 'Our people' section of this report on pages 59–73.

The Governors

The remuneration structure for Governors remains straightforward. Governors receive a salary and specified benefits, but they do not receive any additional benefits allowance or any performance award or other performance-related pay. Governors are eligible to participate in the Career Average section of the Bank Pension Fund on the same basis as employees. When relevant tax limits are reached they may choose to reduce their accrual rates or to opt-out of the pension altogether, receiving a salary supplement in lieu of pension. They may also choose to increase pension accrual subject to a reduction in salary calculated at rates consistent with the Bank's funding valuation. In March 2021, pay for Governors was increased by 1.0%. As his predecessor has done in previous years, Mr Bailey declined to accept this increase.

Governors' remuneration policy

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

On Ms Place's departure, as the Chief Operating Officer does not attend any of the FPC, MPC or PRC, RemCo agreed that there were no requirements for any restricted duties or a further period of paid leave.

Mr Stimson joined the Bank as Chief Operating Officer on 10 January 2022 and RemCo set his salary at £285,841 in line with the Deputy Governors. Mr Stimson was also eligible to join the Bank's Career Average pension scheme at the same accrual rate as other new joiners (1/95ths), with an opt-out rate of 20%. As well as pension, Mr Stimson is also eligible for other non-salary benefits including insurances and health checks. The overall reward package, including the standard non-salary benefits offered to Mr Stimson were on the same terms as his predecessor.

Under the Bank of England Act 1998, Governors and Deputy Governors are required to provide remunerated services only to the Bank. With Court's approval, other directorships relevant to the Bank's work may be accepted, but any fees must be waived or surrendered to the Bank. Directorships held during the past year have been the (statutory) appointment to the Financial Conduct Authority Board held by Mr Woods as Deputy Governor for Prudential Regulation; Mr Bailey sat on the Board of the Bank for International Settlements; Ms Place is an Independent Non-Executive Director of Persimmon plc and Mr Stimson is a Non-Executive Director of Premier Marinas and the Youth Sport Trust.

Governors' remuneration

£	Andrew Bailey		Ben Broadbent		Sir Jon Cunliffe	
	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21
Base salary	495,000	476,596[(1)]	285,841	283,011	285,841	283,011
Taxable benefits[(2)]	2,170	1,989	3,501	15,451	1,736	1,733
Pension benefits	–	–	–	–	–	–
Payment in lieu of pension	99,000	95,319	85,682	84,816	85,682	84,816
Total pension benefits	**99,000**	**95,319**	**85,682**	**84,816**	**85,682**	**84,816**
Other remuneration	1,782	1,634	1,029	1,019	1,029	1,019
Total remuneration	**597,592**	**575,538**	**376,053**	**384,297**	**374,288**	**370,579**

£	Joanna Place		Ben Stimson		Sir Dave Ramsden	
	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21
Base salary	252,493	283,011	41,410	–	285,841	283,011
Taxable benefits(2)	2,967	6,854	312	–	1,302	1,300
Pension benefits	–	–		–	–	–
Payment in lieu of pension	50,451	56,544	8,282	–	57,121	56,544
Total pension benefits	**50,451**	**56,544**	**8,282**	**–**	**57,121**	**56,544**
Other remuneration	909	1,019	199	–	1,029	1,019
Total remuneration	**306,820**	**347,428**	**50,203**	**–**	**345,293**	**341,874**

£	Sam Woods	
	2021/22	2020/21
Base salary	285,841	283,011
Taxable benefits(2)	2,098	1,300
Pension benefits(3)	77,033	91,107
Payment in lieu of pension	14,292	–
Total pension benefits	**91,325**	**91,107**
Other remuneration	1,029	1,019
Total remuneration	**380,293**	**376,437**

(1) The Governor's term started on 16 March 2020 which is after the start of 2020/21 (1 March 2020). The salary for 2020/21 is calculated based on the total days worked in that financial year.

(2) The taxable benefits received includes a payment of £2,199 for two days leave buy-back for Mr Broadbent and a payment of £2,199 for two days leave buy-back for Ms Place.

(3) Mr Woods opted-out of pension accrual from 1 January 2022 and hence the table reflects his accrued pension from 1 March to 31 December 2021 and the cash in lieu of pension from 1 January to 28 February 2022.

Remuneration of non-executive directors

The Bank of England Act 1998 provides for the remuneration of the non-executive directors to be determined by the Bank with the approval of the Chancellor of the Exchequer. With effect from 1 June 2009, these rates were set at £15,000p.a. for Directors, £20,000p.a. for Committee Chairs, and £25,000p.a. for the Senior Independent Director and Deputy Chair.

The Chair of Court is paid £48,000p.a. Non-executive directors do not receive any post-retirement or medical benefits from the Bank, nor any additional fees for serving on Committees. The Bank meets appropriate travel and subsistence expenses.

External members of the FPC, the MPC and the PRC

The external members of the FPC, the MPC and the PRC are appointed on a part-time basis, and their remuneration reflects the different time commitments involved for each committee. In 2021/22, the external members of the FPC were each paid at a rate of £98,200p.a., independent PRC members were paid at a rate of £110,800p.a. and the external MPC members were paid £158,100p.a. For 2021/22, all fees were increased by 1.0%, rounded to the nearest hundred. MPC members, who work on average three days a week in the Bank, are also entitled to join the Bank's private medical insurance scheme.

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

Executive Directors' salaries and benefits

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

The table opposite shows, for Executive Directors serving at the end of 2021/22, the first two elements of their remuneration as well as their individual pension accrual rates. In recommending salaries for Executive Directors, RemCo takes into account the differences in their performance as well as their pension accrual and external benchmarks for their roles so as to achieve fair and justifiable total remuneration. In recommending individual performance awards RemCo takes account of both performance against objectives and values, including a specific inclusion objective.

A feature of the Bank's pension scheme is that it allows individuals to vary their rate of pension accrual annually, either by surrendering pension accrual for a cash supplement, including opting out entirely, or by sacrificing salary to secure more pension. Each year RemCo reviews and approves the rates at which pension is exchanged for cash and vice versa to ensure they are consistent with the scheme funding valuation, and updated to reflect market movements and changes in actuarial assumptions. In 2019/20 the decision was taken to reduce rates for those who opt-out of pension entirely, to bring the rates in line with those for Governors over a three-year period and for the rates to be more consistent with external practice and the equivalent long-term cost of funding the pension scheme. For 2022/23 the rates have been reduced for the third consecutive year to now align with Governors and have reduced from 45% to 40% (1/50ths), from 34% to 30% (1/65ths) and from 23% to 20% (1/95ths).

£ Year to 28 February 2022	Salary	Benefits	Contractual pension accrual
David Bailey	185,250	14,727	1/65th
James Bell	160,000	12,838	1/50th
Nathanaël Benjamin(1), (2)	183,471	14,173	1/95th
Sonya Branch	223,042	17,555	1/95th
Sarah Breeden	190,355	15,109	1/50th
Stephen Brown	175,079	13,967	1/50th
Jane Cathrall(1), (2)	149,097	11,866	1/95th
Victoria Cleland	170,201	13,602	1/50th
Jonathan Curtiss	169,371	13,539	1/50th
John Footman	196,850	15,595	1/65th
Charlotte Gerken	195,918	15,526	1/95th
Andrew Hauser	191,339	15,183	1/50th
Afua Kyei(3)	179,407	15,128	1/95th
Duncan Mackinnon(1)	172,989	13,808	1/95th
Sasha Mills	188,894	15,000	1/95th
Huw Pill(4), (5)	88,154	7,029	1/95th
Gareth Ramsay	169,400	13,542	1/50th
Victoria Saporta	188,502	14,971	1/50th
Christina Segal-Knowles	185,895	14,776	1/95th
Anna Sweeney(3)	150,012	12,091	1/95th

(1) Denotes those who were promoted during the year and salary reflects time spent in their previous and current roles.
(2) Salary includes acting-up allowance payments received prior to being formally appointed.
(3) Denotes those who work part-time or were absent for a period during the year.
(4) Denotes those who joined the Bank during the year and their salary is pro-rated to reflect time in their role.
(5) In addition to the salary and benefits reported, on joining the Bank, Huw Pill also received a relocation allowance of £7,662.

The Bank's overall pension contribution is driven by both the current Career Average (CARE) pension scheme, as well as the now closed Final Salary scheme. Long-serving employees from the Bank will have built a pension entitlement which is partly linked to their final salary, so even though the Final Salary scheme is closed to new accrual, any increase in their salary will have an impact on their pension entitlement.

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

Year to 28 February 2022	Accrued pension £p.a. Feb 22	Accrued pension £p.a. Feb 21	Increase in pension £p.a.
David Bailey	£19,628	£17,071	£2,557
James Bell	£53,126	£47,126	£6,000
Nathanaël Benjamin	£12,799	£10,836	£1,963
Sonya Branch	£15,537	£13,048	£2,489
Sarah Breeden(1)	–	–	–
Stephen Brown	£40,923	£39,029	£1,894
Jane Cathrall(1)	–	–	–
Victoria Cleland(1)	–	–	–
Jonathan Curtiss(1)	–	–	–
John Footman(1)	–	–	–
Charlotte Gerken(1)	–	–	–
Andrew Hauser	£87,862	£85,353	£2,509
Afua Kyei	£5,399	£3,292	£2,107
Duncan Mackinnon	£15,900	£13,156	£2,744
Sasha Mills(1)	–	–	–
Huw Pill	£1,335	£0	£1,335
Gareth Ramsay	£58,011	£55,758	£2,253
Victoria Saporta(1)	–	–	–
Christina Segal-Knowles	£6,205	£4,591	£1,614
Anna Sweeney	£11,342	£9,953	£1,389

(1) Denotes those who have opted out of further pension accrual and receive cash in lieu. Ms Breeden was granted a deferred pension of £60,686p.a. in 2016; Ms Cleland was granted a deferred pension of £60,533p.a. in 2016; Mr Curtiss was granted a deferred pension of £60,075p.a. in 2014; Ms Gerken was granted a deferred pension of £1,844p.a. in 2016; Ms Mills was granted a deferred pension of £1,801p.a. in 2016 and Ms Saporta was granted a deferred pension of £67,956p.a. in 2020.

Fair pay

To show the relationship between levels of remuneration for the Governor and all colleagues, we are reporting our Bank-wide pay ratio again this year. The total remuneration of the highest paid director (Mr Bailey on an annualised basis) was £498,952 in 2021/22. This was 8.0 times the median remuneration of the workforce, which was £62,132.

At the 25th percentile the remuneration of the workforce was £43,289 (a ratio of 11.5) and at the 75th percentile, the remuneration of the workforce was £86,521 (a ratio of 5.8).

Total remuneration includes salary, benefits whether monetary or in-kind and performance awards for the year ending 28 February 2022 on a full-time equivalent (FTE) basis. It does not include severance payments or employer pension contributions.

In setting the remuneration for all staff, the Bank has created a remuneration structure that includes the same core components for everyone up to Executive Director level (base pay, pension, benefits and performance awards). While all employees receive a salary commensurate to their position, there is a difference in terms of quantum depending on the seniority of staff which accounts for the pay ratios.

Other Executives' salaries and benefits

The following table shows remuneration ranges for the year to February 2022 for all staff below Executive Director level with remuneration in excess of £80,000p.a. on a FTE basis, excluding employer pension contributions and performance awards.

Remuneration range £	Number of colleagues
200,000–249,999	1
190,000–199,999	3
180,000–189,999	5
170,000–179,999	8
160,000–169,999	24
150,000–159,999	21
140,000–149,999	39
130,000–139,999	53
120,000–129,000	71
110,000–119,999	91
100,000–109,999	156
90,000–99,999	236
80,000–89,999	368
Total	**1,076**

Report on Oversight Functions

Court – the Oversight of the Bank

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

Court also has 'Oversight' responsibilities for monitoring the Bank's performance against its statutory and other objectives, the Bank's financial management and controls, and the procedures of the policy committees, whose objectives are objectives of the Bank and whose meetings non-executive members of Court are entitled to attend as observers. Court is required to make an annual report on these 'Oversight Functions'. In addition, this year Court undertook an external evaluation. This found that Court functioned well as a public sector corporate board, with a high level of engagement from executive and non-executive members and effective chairmanship.

In delivering these functions, Court is supported by an Independent Evaluation Office (IEO), led by a senior executive with a direct reporting line to the Chair of Court. The IEO's work programme is determined by Court, and typically consists of one or two major published reviews in each year, supplemented by a number of formal and informal reviews and briefings of Court members. The IEO's usual focus is on policy rather than administrative issues, and it operates at arm's length from other areas so as not to compromise the independence of the Bank's policymaking.

The separate reports of the Remuneration Committee (pages 82–90) and the Audit and Risk Committee (page 95–98), insofar as they relate to the Court's Oversight responsibilities, should be seen as part of this Report.

Financial management and controls

During the year, Court maintained its focus on the implications for the Bank's risk, controls and operational performance, of the wide-ranging policy and operational measures taken in response to Covid. Court also monitored that the Bank was able to maintain its controls successfully as the Government's measures to respond to Covid evolved during the year.

More recently, Court has been reviewing the Bank's response in relation to developments in Russia and Ukraine.

The Audit and Risk Committee has monitored the Bank's risk profile throughout this time.

Budgets

The Bank underspent its headline budget during 2021/22, reflecting staff vacancies and lower spending on notes production.

RTGS Renewal

The renewal of the Real-Time Gross Settlement system is by some measure the Bank's biggest project. Oversight of this project has therefore remained a significant priority for Court this year.

Succession planning and appointments

Court has continued to monitor and approve senior appointments, and individual non-executive members have participated in panels for key appointments. Conflicts monitoring across all of the Bank's policy committees is routinely reported to Court. The Secretariat looks after the conflicts of interest policies, monitors them, and reports to Court.

Diversity and inclusion

A major focus for Court has been improving the diversity of the Bank's workforce, especially at senior levels. The Court-led Review into ethnic diversity and inclusion in the Bank concluded in Summer 2021. Court approved the final Review and its recommendations ahead of publication.[35] Building a diverse and inclusive Bank is a key strategic priority, and work is being taken forward to embed the changes needed. Court has regular engagement with staff networks. This year, Court reviewed the work of the Women in the Bank network, and the priorities of the social mobility team to broaden the ways in which the Bank attracts talent. Additionally, Unite, the Union at the Bank, presented its first annual report to Court.

35. **www.bankofengland.co.uk/report/2021/court-review-of-ethnic-diversity-and-inclusion**.

Regional hub

During the year Court reviewed the proposals for a new hub, to expand the Bank's footprint across the UK. Court agreed the objectives and milestones for the hub, and its location in Leeds.

Central bank digital currency

Court received updates on work being undertaken in relation to the proposed central bank digital currency, and discussed the possible implications for the Bank. A joint HM Treasury/Bank taskforce has been established, to examine the issues raised.

The policy committees

The three policy committees – the FPC, the MPC and the PRC – operate under their own statutory remits. Court has a responsibility – statutory in the cases of the FPC and the MPC – to keep the processes of the Committees under review, and in the case of the MPC, to ensure that it takes account of regional and sectoral information. Court members observe the meetings of all three committees, and ensure that their conflicts codes are monitored and observed.

Annual surveys of members are undertaken and discussed in Court. The Chair of Court supplements the surveys with individual discussions with all Committee members.

Members of Court attendance

Attendance	Court (7)	Audit and Risk (6)	RemCo (12)	NomCo (2)	RTGS Renewal (6)[1]
Mr Fried	7	6	12	2	–
Baroness Harding	7	–	12	2	–
Ms Thompson	7	6	–	1 of 2	6
Ms Glover	7	–	10	1 of 1	–
Ms Noble	7	6	–	0 of 1	–
Mr Kalifa	7	6	–	1 of 1	6
Ms O'Grady	6 of 7	–	8	1 of 1	–
Mr Bailey	7	–	–	–	–
Sir Jon Cunliffe	7	–	–	–	–
Mr Broadbent	7	–	–	–	–
Sir David Ramsden	7	6	–	–	6
Mr Woods	7	6	–	–	–

(1) This includes two joint meetings of the RTGS Renewal Committee and the RTGS CHAPS Board on 10 December 2021 and 11 January 2022.

Report of the Audit and Risk Committee

Audit and Risk Committee (ARCo)

The Audit and Risk Committee (ARCo) assists Court in meeting its responsibilities for maintaining effective financial reporting, risk management, and internal controls. As a sub-committee of Court, its remit is approved by Court and set out in its Terms of Reference.[36] ARCo meetings are separated into two parts, covering audit matters and risk matters.

A continuing focus for ARCo during the year, was to monitor the Bank's changing risk profile and the effectiveness of the internal controls implemented in response to Covid, as the pandemic and responses to it evolved. The Bank successfully maintained its operations and risk controls during this period.

Audit

During 2021/22, in the audit matters part of its meetings, ARCo received, discussed and, where required, approved:

- Regular reports from the Finance Directorate, including on accounting standards and taxation; and updates on Finance systems and controls and on the investment portfolio.

- The approach taken to the preparation of the Bank's annual financial statements, including a review of the Bank's draft financial statements (incorporating the PRA's financial reporting requirements); the Bank of England Asset Purchase Facility Fund Limited (BEAPFF) draft annual report and accounts; and the Covid Corporate Financing Facility Limited (CCFF) draft annual report and accounts.

- Regular reports from KPMG, the Bank's external auditor, and the National Audit Office (NAO), the external auditor for BEAPFF and the CCFF. These included the external audits' strategy and scope, updates and reviews of the external auditors' findings, and the external auditors' reflections on their audits.

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

- The external auditors' Management Letters for the Bank, BEAPFF and the CCFF, and the Letters of Representation to the external auditors ahead of their approval by Court.

- The updated policy for non-audit services undertaken by the external auditors, and reports on non-audit work commissioned by the Bank.

- Internal Audit's Charter, Annual Audit Plan and resources; implementation of the Plan during the year, including any changes; and Internal Audit's Annual Report.

- Regular reports from Internal Audit. As part of this, ARCo reviewed material Audit findings and monitored management progress in addressing agreed actions.

- An annual report on Court members' expenses.

Risk

During 2021/22, in the risk matters part of its meetings, ARCo received, discussed and, where required, approved:

- Regular reports from the Chief Operating Officer covering major operational, control and risk matters including those relating to strategic Bank initiatives and projects, such as Central Services benchmarking.

- Regular reports from the Chief Risk Officer and quarterly risk reports and updates from the Enterprise Risk and Resilience Division and Financial Risk and Resilience Division covering the main operational and financial risks to the Bank (including the PRA). These included updates on recruitment challenges in Technology.

- Reports on the investment portfolio and oversight of it. As part of ARCo's monitoring of improvements to project execution, updates on the management of significant projects and related controls; and on the progress of significant projects, including for Data Centre Migration.

- Regular updates on cyber risks and security from the Chief Information Security Officer (CISO); and updates from the Executive Director for Technology and the CISO on the implementation of cyber initiatives, including a CBEST cyber security test, and enhancements to systems resilience.

- An update on progress with the Diversity and Inclusion Court Review action plan; and updates from Procurement on progress with changes to its operating model. Deep dive reports, including into banknote counterfeiting, staff resourcing, and technology obsolescence.

- Reports on a range of operational matters, including the process for climate disclosures, on Freedom of Information requests; Bank Compliance with the Bribery Act; health and safety, and the Bank's insurance arrangements. Annual reports from the Money Laundering Reporting Officer; from the Data Privacy Officer; and from the Secretary on the Bank's internal whistleblowing arrangements.

Audit and Risk Committee: regular attendees 2021/22[37]

Members	ARCo meetings (6)
ARCo	
Dorothy Thompson	6
Diana Noble	6
Ron Kalifa	6
Sir Bradley Fried(1)	6
Executive	
Sir David Ramsden	6
Sam Woods	6
Joanna Place	5 of 5
Ben Stimson	2 of 2
Andrew Hauser	6
Afua Kyei	6
Nathanaël Benjamin	4 of 4
Executive Director, Risk	
Stephen Brown	6
Internal Auditor	
Ed Moore	6
External Auditor (KPMG)(2)	
Michelle Hinchliffe	3 of 3
Richard Faulkner	6
Sam Subesinghe	4 of 4
Ryno Swart	1 of 1
NAO	
Simon Helps	6
Marcus Ward	5 of 6

(1) Sir Bradley Fried is not a member of ARCo but attends the meetings by invitation.
(2) KPMG and NAO attend the Audit part of the meeting and to present their reports.

37. Covering ARCo meetings held on 31 March 2021, 12 May 2021, 6 July 2021, 28 September 2021, 24 November 2021 and 12 January 2022.

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

The Court of Directors is responsible for ensuring that the financial statements of the Banking Department are properly prepared on the basis set out therein, as at 28 February 2022 and for the year to that date.

The statements of account of the Issue Department are prepared in accordance with provisions agreed between the Bank and HM Treasury to implement the requirements of the Currency and Bank Notes Acts 1928 and 1954, the National Loans Act 1968 and the Currency Act 1983. The Court of Directors is responsible for ensuring that the statements of account are prepared in accordance with these requirements as at 28 February 2022 and for the year to that date.

The Prudential Regulation Authority financial statement of accounts has been prepared in accordance with the Bank of England Act 1998 (as amended) and the accounts direction given by HM Treasury. The Court of Directors is responsible for ensuring that the statement of accounts of the Prudential Regulation Authority is properly prepared on the basis set out therein, as at 28 February 2022 and for the year to that date. The Court of Directors is also responsible for ensuring that the money levied by the Prudential Regulation Authority under Parliamentary Authority recorded in the statement of accounts of the Prudential Regulation Authority is only applied to the purposes intended by Parliament.

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

The Court of Directors confirms that suitable accounting policies, consistently applied and supported by reasonable and prudent judgement and estimates, have been used in the preparation of the financial statements of the Banking Department, which have been prepared on the going-concern basis. The accounting framework adopted is set out on pages 121–22.

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

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

Financial statements: Report of the Independent Auditor

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

Report on the audit of the financial statements

Opinion

We have audited:

- the financial statements of the Banking Department for the year ended 28 February 2022, set out on pages 109–99, which comprise the Banking Department statement of income, statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows, and the related notes, including the accounting policies in note 2;

- the statements of account of the Issue Department for the year ended 28 February 2022, set out on pages 200–04 which comprise the Issue Department account, statement of balances, and the related notes, including the accounting policies in note 1; and

- the statement of accounts of the Prudential Regulation Authority (PRA) for the year ended 28 February 2022, set out on pages 205–14, which comprise the PRA income statement, statement of balances, and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements of the Banking Department for the year ended 28 February 2022 have been properly prepared, in all material respects, in accordance with the special purpose basis of preparation set out in note 2 on pages 117–19.

- the statements of account of the Issue Department for the year ended 28 February 2022 have been properly prepared, in all material respects, in accordance with the special purpose basis of preparation set out in note 1 on page 202.

- the statement of accounts of the PRA for the year ended 28 February 2022 have been properly prepared, in all material respects, in accordance with the special purpose basis of preparation set out in note 1 on pages 207–09.

Basis for opinion

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

Emphasis of matter – special purpose basis of preparation

We draw attention to note 2 of the financial statements of the Banking Department, note 1 of the statements of account of the Issue Department, and note 1 of the statement of accounts of the PRA, which describe their respective bases of preparation. As explained in those notes, the financial statements are prepared to assist the Bank in complying with the financial reporting provisions of legislation applicable to the Bank, including the Bank of England Act 1998 which provides, among other things, that the Bank can disregard a disclosure requirement if it considers it necessary to do so having regard to its financial stability objective. As a result, the financial statements of the Banking Department, the statements of account of the Issue Department and statement of accounts of the PRA may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Going concern

The Members of Court have concluded that it is appropriate to prepare the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA on a going concern basis. They have also concluded that there are no material uncertainties that could cast significant doubt over the Bank's ability to continue as a going concern for at least a year from the date of approval of the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA ('the going concern period').

In our evaluation of the Members of Court's conclusions, we used our knowledge of the Bank and the general economic environment to identify the inherent risks to the Bank and analysed how those risks might affect the Bank's financial resources or ability to continue operations over the going concern period. We specifically considered the potential impact of severe, but plausible economic scenarios on the liquidity and loss absorbing capital of the Bank. Our procedures included critically assessing assumptions used in the Members of Court's downside scenarios and in their impact assessment.

We also assessed the appropriateness of the going concern disclosure. Our conclusions based on this work:

- we consider that the Members of Court's use of the going concern basis of accounting in the preparation of the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA is appropriate;

- we have not identified, and concur with the Members of Court's assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Bank's ability to continue as a going concern for the going concern period; and

- we consider that the disclosures relating to going concern made by the Bank in note 2 (c) to the financial statements are appropriate.

However, we cannot predict all future events or conditions and subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ('fraud risks') we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- inquiry of the Members of Court, the Audit and Risk Committee and internal audit as to the policies and procedures in place to prevent and detect fraud, including the internal audit function, and the Bank's 'whistleblowing' function, as well as whether they have knowledge of any actual, suspected or alleged fraud;

- inspecting minutes of meetings of the Members of Court and the Audit and Risk Committees; and

- using analytical procedures to identify any unusual or unexpected journal entries.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards and taking into account our overall knowledge of the control environment we performed procedures to address the risk of management override of controls, in particular the risk that Bank management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a significant fraud risk related to revenue recognition given the fact that revenue is not complex and is not a performance driver for the Bank. We did not identify any additional fraud risks.

In determining the audit procedures, we took into account the results of our evaluation and testing of the operating effectiveness of the Bank-wide fraud risk management controls.

We performed procedures including:

- identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted and approved by the same user and those posted to unusual accounts; and

- performing testing over the payments process and specifically controls around the authorisation of payments.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA, from our experience of the Bank and through inquiry with the Members of Court and management (as required by auditing standards), and discussed with the Members of Court and other management the policies and procedures in place regarding compliance with laws and regulations.

Our assessment of risks related to compliance with laws and regulations involved gaining an understanding of the control environment including the Bank's procedures for compliance.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit and regulations.

The potential effect of these laws and regulations on the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA varies considerably. First, the Bank is subject to laws and regulations that directly affect the financial statements (including the financial reporting provisions of legislation applicable to the Bank, including the Bank of England Act 1998, and taxation legislation (direct and indirect)) and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items. Second, the Bank is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA, for instance through the imposition of fines or litigation.

We identified the following areas as those most likely to have such an effect: anti-money laundering; sanctions and financial crime, data protection, employment and social security. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Members of Court and other management and inspection of legal correspondence, if any. Therefore, if a breach of applicable law or regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Other information

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

Our responsibility is to read the other information and, in doing so, consider whether, based on our audit work over the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA, the information therein is materially misstated or inconsistent with the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA or our audit knowledge.

Based solely on that work:

- we have not identified material misstatements in the other information; and

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

Members of Court's responsibilities

As explained more fully in their statement set out on pages 99–100, the Members of Court are responsible for: the preparation of the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA in accordance with applicable law and the special purpose bases of preparation set out in note 2 on pages 117–19, note 1 on page 202 and note 1 on pages 207–09, respectively; determining that the bases of preparation are acceptable in the circumstances; and such internal control as they determine is necessary to enable the preparation of financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA that are free from material misstatement, whether due to fraud or error. They are also responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

Report on other legal and regulatory matters

Opinion on regularity

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

Basis for opinion on regularity

We are required by Section 7(5A) of the Bank of England Act 1998 to report whether we are satisfied that the Bank has complied with the requirements of Part 3 of Schedule 1ZB to the Financial Services and Markets Act 2000 (Prudential Regulation Authority fees and penalties) (FSMA) in relation to the preparation of a statement of accounts by the Bank by virtue of its functions as the PRA. In giving this opinion, we have had regard to the requirements in Part 2 of Practice Note 10 'Audit of financial statements of public sector bodies in the United Kingdom' issued by the Financial Reporting Council.

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

The Court of Director's responsibilities in relation to regularity are set out in the Statement of the responsibilities of the Court of Directors in relation to the financial statements on pages 99–100.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Governor and Company of the Bank of England and its Shareholder, as a body, in accordance with Section 7 of the Bank of England Act 1998. Our audit work has been undertaken so that we might state to the Governor and Company of the Bank of England and its Shareholder those matters we are required to state to them in an auditor's report, and the further matters we are required to state to them in accordance with the terms agreed with the Bank, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Governor and

Company of the Bank of England and its Shareholder, as a body, for our audit work, for this report, or for the opinions we have formed.

Richard Faulkner
for and on behalf of KPMG LLP

Chartered Accountants
15 Canada Square
Canary Wharf
London E14 5GL

8 June 2022

Banking Department statement of income for the year to 28 February 2022

	Note	2022 (£mn)	2021 (£mn)
Net interest income		13	16
Fee income	5a	34	34
Other income from financial instruments	5a	200	244
Management fees	5a	111	125
Income from regulatory activity	5a	303	288
Other income	5a	79	68
Net operating income		**740**	**775**
Staff costs	5b	(448)	(424)
Infrastructure costs[1]	5b	(140)	(131)
Administration and general costs[1]	5b	(123)	(148)
Operating expenses		**(711)**	**(703)**
Profit before tax		**29**	**72**
Taxation	6	(22)	(15)
Profit after tax		**7**	**57**

(1) The prior period has been adjusted as a result of the reclassification of certain costs from property and equipment to consultancy, legal and professional fees in order to better reflect the nature of the costs.

The notes on pages 116–99 are an integral part of these financial statements.

Banking Department statement of comprehensive income for the year to 28 February 2022

	Note	2022 (£mn)	2021 (£mn)
Profit for the year attributable to shareholder		**7**	**57**
Other comprehensive income/(loss) not recycled to profit or loss:			
Property revaluation reserve			
Net losses from changes in fair value		(13)	–
Deferred tax		(12)	(2)
Financial assets at fair value through other comprehensive income reserve			
Net gains from changes in fair value	18	39	16
Current and deferred tax		(92)	(31)
Deferred tax movement in transitional adjustment on debt securities		–	(4)
Other			
Retirement benefit remeasurements	27	55	(62)
Deferred tax		(35)	5
Total other comprehensive loss not recycled to profit or loss		**(58)**	**(78)**
Total comprehensive loss for the year		**(51)**	**(21)**

The notes on pages 116–99 are an integral part of these financial statements.

Banking Department statement of financial position as at 28 February 2022

	Note	2022 (£mn)	2021 (£mn)
Assets			
Cash and balances with other central banks	7	708	1,769
Loans and advances to banks and other financial institutions	8	203,219	125,773
Other loans and advances	9	896,134	785,252
Securities held at fair value through profit or loss	13	9,969	9,869
Derivative financial instruments	21	354	134
Securities held at amortised cost	17	15,959	13,060
Securities held at fair value through other comprehensive income	18	1,420	1,381
Investments in subsidiaries	25	–	–
Inventories		2	5
Property, plant and equipment	30	456	484
Intangible assets	31	202	130
Retirement benefit assets	27	1,279	1,154
Other assets	32	654	539
Total assets		**1,130,356**	**939,550**
Liabilities			
Deposits from central banks	10	30,739	26,274
Deposits from banks and other financial institutions	11	971,357	803,763
Deposits from banks — Cash Ratio Deposits	19	13,043	11,153
Other deposits	12	102,331	86,869
Foreign currency commercial paper in issue	14	2,713	–
Foreign currency bonds in issue	15	2,936	4,353
Derivative financial instruments	21	97	319
Deferred tax liabilities	35	559	399
Retirement benefit liabilities	27	216	208
Other liabilities	33	588	384
Total liabilities		**1,124,579**	**933,722**

	Note	2022 (£mn)	2021 (£mn)
Equity			
Capital	20	15	15
Capital reserves and other reserves	20	1,200	1,192
Retained earnings	20	3,304	3,285
Revaluation reserves		1,258	1,336
Total equity attributable to shareholder		**5,777**	**5,828**
Total liabilities and equity attributable to shareholder		**1,130,356**	**939,550**

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

Mr A Bailey, Governor

Mr S Woods, Deputy Governor

Mr B Fried, Chair of Court

Ms A Kyei, Chief Financial Officer

The notes on pages 116–99 are an integral part of these financial statements.

Banking Department statement of changes in equity for the year to 28 February 2022

		Attributable to equity shareholder						
	Note	Capital (£mn)	Capital reserves(1) (£mn)	Other reserves(2) (£mn)	Equity investments reserves (£mn)	Property revaluation reserve (£mn)	Retained earnings (£mn)	Total (£mn)
Balance at 29 February 2020		**15**	**1,180**	**4**	**1,132**	**220**	**3,298**	**5,849**
Post-tax comprehensive income/(loss) for the period		–	–	–	(14)	(2)	(5)	(21)
Payable to HM Treasury in lieu of dividend	29	–	–	–	–	–	–	–
Transfer to other reserves		–	–	8	–	–	(8)	–
Balance at 28 February 2021		**15**	**1,180**	**12**	**1,118**	**218**	**3,285**	**5,828**
Post-tax comprehensive income/(loss) for the period		–	–	–	(53)	(25)	27	(51)
Payable to HM Treasury in lieu of dividend	29	–	–	–	–	–	–	–
Transfer to other reserves		–	–	8	–	–	(8)	–
Balance at 28 February 2022		**15**	**1,180**	**20**	**1,065**	**193**	**3,304**	**5,777**

(1) Capital reserves comprise the capital injection from HM Treasury received on 22 March 2019.
(2) Other reserves comprise post-tax income arising from the investment of the capital injection. This is ring-fenced in accordance with the agreement with HM Treasury.

The notes on pages 116–99 are an integral part of these financial statements.

Banking Department statement of cash flows for the year to 28 February 2022

	Note	2022 (£mn)	2021 (£mn)
Cash flows from operating activities			
Profit before taxation		**29**	**72**
Adjustments for:			
Amortisation of intangibles	31	19	14
Depreciation of property, plant and equipment	30	36	38
Loss on write down of tangible fixed assets	30	2	–
Loss on write down of intangible fixed assets	31	1	–
Dividends received	5a	(26)	–
Net movement in accrued interest and provisions, including pensions		(209)	(79)
Changes in operating assets and liabilities:			
Increase in loan advanced to the Bank of England Asset Purchase Facility Fund Ltd	9	(121,523)	(328,427)
Decrease/(increase) in loan advanced to the Covid Corporate Financing Facility Ltd	9	10,744	(11,823)
Increase in deposit with Bank of England Alternative Liquidity Facility Ltd	9	(105)	–
Net increase in other advances		(81,555)	(1,455)
Net increase in securities held at fair value through profit or loss		(305)	(3,326)
Net increase in deposits		187,522	347,637
Net increase in foreign currency commercial paper		2,714	–
Net decrease in foreign currency bonds in issue		(1,318)	(414)
Net decrease in financial derivatives		317	277
Net increase in other accounts		(5)	–
Net decrease in inventories		3	
Net cash (outflow)/inflow from operating activities		**(3,659)**	**2,514**
Cash flows from investing activities			
Purchase of securities at amortised cost	17	(3,895)	(1,669)
Proceeds from redemption of securities at amortised cost	17	806	570
Dividends received	5a	26	–

	Note	2022 (£mn)	2021 (£mn)
Purchase of intangible assets	31	(92)	(63)
Purchase of property, plant and equipment	30	(25)	(35)
Net cash outflow from investing activities		**(3,180)**	**(1,197)**
Cash flows from financing activities			
Net increase in Cash Ratio Deposits	19	1,890	2,363
Payment to HM Treasury under Section 1 (4) of the Bank of England Act 1946	29	–	(45)
Net cash inflow from financing activities		**1,890**	**2,318**
Net (decrease)/increase in cash and cash equivalents		**(4,949)**	**3,635**
Cash and cash equivalents at 1 March	23	12,404	8,769
Cash and cash equivalents at 28 February	**23**	**7,455**	**12,404**

Notes to the Banking Department financial statements
Section 1: Overview

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

1: General information

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

Legislation covering its operations includes the Charter of the Bank of England 1694, the Bank Charter Act of 1844, the Bank of England Act 1946 and 1998, the Banking Act 2009, the Financial Services Act 2012 and the Bank of England Act 1998 (as amended).

The Bank Charter Act 1844 requires that the Bank's note issue function is separated from its other activities. For accounting purposes, the Bank is therefore divided into Issue Department and Banking Department. Neither is an organisational unit of the Bank under the definition of IFRS 8.

The Banking Department comprises all activities of the Bank, with the exception of the Issue Department. Following agreement of the capital framework between the Bank and HM Treasury, the percentage of Banking Department profits payable to HM Treasury will be determined by the level of loss-absorbing capital held by the Bank and where this sits within a set of parameters (see note 28).

The statements of account of the Issue Department are given on pages 200–04, and show the bank note issue, the assets backing the issue, the income generated by those assets and the costs incurred in the production, issue, custody and payment of bank notes. The net income of the Issue Department is paid over to the National Loans Fund (NLF).

Under the Bank of England Act 1998 (as amended) a separate statement of accounts in relation to the Prudential Regulation Authority is required. This is a subset of the Banking Department and is managed internally as a business area. The Prudential Regulation Authority statement of accounts have been set out on pages 205–14.

2: Bases of preparation

The principal accounting policies applied in the preparation of the financial statements of the Banking Department are set out in the relevant areas of the notes to the accounts. These policies have been applied consistently to all of the years presented, unless otherwise stated.

a: Form of presentation of the financial statements

The financial statements of the Banking Department comprise the statement of income, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and related notes.

Under the Bank of England Act 1998, the Bank, in preparing the financial statements of the Banking Department, is subject to requirements corresponding to the Companies Act 2006 requirements relating to a banking company. The Bank may, however, disregard a requirement to the extent that it considers it necessary to do so having regard to its financial stability objective.

The financial statements of the Banking Department have been prepared in accordance with the measurement and recognition requirements of UK-adopted international accounting standards (UK-adopted International Financial Reporting Standards (IFRS)) in accordance with the requirements of the Companies Act 2006.

Disclosure limitations

IFRS and the Companies Act 2006 have been used as a model for the presentation and disclosure framework to provide additional information related to key items in the financial statements, unless disclosure is deemed unnecessary to the Bank's financial stability objective.

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

As a result, the financial statements of the Banking Department disclose less detail of certain elements than would be required under either adopted IFRS or the Companies Act 2006. Disclosure limitations include:

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

b: Accounts of the Prudential Regulation Authority

The activities of the Bank acting as the Prudential Regulation Authority are reported within the Banking Department's financial statements, on the bases described here. The separate financial statements of the Prudential Regulation Authority, as required by Sections 7(2A) of the Bank of England Act 1998, have been prepared in line with the requirements of the Act and with the accounts direction received from HM Treasury (further details are included in PRA financial statements on pages 205–14).

c: Going concern

The financial statements for the Banking Department, Issue Department and PRA have been prepared on the going-concern basis. Court has assessed the key financial risks impacting the Bank as disclosed in this report, and the budget for the period of 12 months from the signing of the accounts, and has determined that there are no material uncertainties that may cast significant doubt about the Bank's ability to continue as a going concern and that therefore the going-concern basis is an appropriate assumption to use in preparing the accounts. The Bank has put in place measures to enable it to continue functioning operationally, further details of these have been included in the front section of the Annual Report, pages 50–57. This included the consideration of operational risk and other matters.

The Bank specifically considered the potential impact of severe, but plausible economic scenarios on the liquidity and loss-absorbing capital of the Bank as well as the impact on expected credit losses (ECL) and pensions. The Bank has considered the output of stress testing in its going-concern assessment, see note 22 'Financial risk management'.

The Bank also assessed the appropriateness of the going-concern disclosure.

d: Consolidation

Under the Bank of England Act 1998, the financial statements are prepared on a non-consolidated basis. As such the financial statements of the Bank's subsidiaries, including the Bank of England Asset Purchase Facility Fund Ltd (BEAPFF), the Bank of England Alternative Liquidity Facility Ltd (BEALF) and the Covid Corporate Financing Facility Ltd

(CCFF), have not been consolidated. Investments in subsidiaries are stated in the balance sheet at cost, less any provision for impairment in value. Dividends from subsidiaries are recognised in the income statement when declared.

e: Foreign currency translation

i: Functional and presentation currency

The financial statements of the Banking Department are presented in sterling, which is the Bank's functional currency.

ii: Transactions and balances

Foreign currency transactions are translated into sterling using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement. Where a gain or loss on a non-monetary item is recognised directly in other comprehensive income, such as equity investments, the related exchange gain or loss is also recognised in other comprehensive income.

f: Commitments on behalf of HM Treasury

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

3: Significant accounting estimates and judgements in applying accounting policies

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

Estimates

a: Post-retirement benefits

Post-retirement benefits are long-term liabilities whose value can only be estimated using assumptions about developments over a long period. The Bank has employed actuarial advice in arriving at the figures in the financial statements (see note 27, which includes relevant sensitivity analysis). Members of Court consider the assumptions used by the actuary in their calculations to be appropriate for this purpose.

b: Fair value of equity investments

The Bank's accounting policy for the valuation of financial instruments is described in Section 3. The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. Details of valuation techniques for the different classifications are given in Section 3.

Fair values of the Bank's equity investments rely to a greater extent on unobservable inputs and therefore require some degree of estimation to calculate a fair value. These equity investments, disclosed in note 17, are held by the Bank for the long term as part of its central banking activities and may not be readily saleable. The values have generally been established using an adjusted net asset value basis (see Section 4, which includes relevant sensitivity analysis).

Judgements

Expected credit loss

Impairment under IFRS 9 adopts a staging approach, with Stage 1 representing the lowest credit risk and Stage 3 the highest. When a new asset is originated it is classified as Stage 1 (normal origination). Moving from Stage 1 to Stage 2 is a key judgment, and is based on management defined criteria of whether there is a significant increase in credit risk. Given the immaterial impact of expected credit loss this is not considered to be a significant judgement under IAS1.122.

4: Post balance sheet events

The CCFF closed for new purchases on 23 March 2021 and all liabilities owed to the Company were fully repaid as of 18 March 2022. The CCFF will be formally dissolved and enter liquidation in 2022.

Section 2: Results for the year

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

Accounting policies

Interest income

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

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability on initial recognition. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument, and any revisions to these estimates are recognised in the income statement. The calculation includes amounts paid or received that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

Valuation gains and losses

Gains and losses arising from changes in the fair value of assets classified as fair value through profit or loss are included in the income statement in the period in which they arise.

Fee income and management fees

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

Income from regulatory activity

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

Cost recoveries

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

Dividends

Dividends on equity investments that are fair value through other comprehensive income (FVOCI) are recognised in the income statement when declared.

Sundry income

The Bank accrues for income relating to the RTGS Renewal project in line with costs incurred. This income will be recovered from RTGS members once the system goes live.

5a: Net operating income

	Note	2022 (£mn)	2021 (£mn)
Fee income			
Funding for Lending Scheme fees	16	–	1
Payment services fee income		21	19
Banking operations		13	14
		34	**34**
Other income from financial instruments			
Net income from financial instruments designated at fair value		9	52
Income from securities held at amortised cost	17	191	192
		200	**244**
Management fees			
Fee for services to BEAPFF	28	2	2
Fee for services to the CCFF	28	3	3
Charges to HM Government bodies	28	106	120
		111	**125**
Income from regulatory activity			
Income from PRA regulatory activity		293	278
Income from Financial Market Infrastructure levy		10	10
		303	**288**
Other income			
Dividend income[(1)]		26	–
Onerous lease provision release		1	–
Premises income		7	8
Sundry income		45	60
		79	**68**
Net operating income (excluding net interest income)		**727**	**759**

(1) In 2021, no dividend income was received from BIS in line with the PRA's guidance to the banking sector. In 2022, £26 million dividend income was received from the Bank's unlisted equity investment in BIS. See Accounting Policies on page 146–47.

5b: Operating expenses

	Note	2022 (£mn)	2021 (£mn)
Staff costs[1]	26	448	424
Total staff costs		**448**	**424**
Infrastructure costs			
Property and equipment[2]		82	73
Depreciation of property, plant and equipment	30	28	28
Operating lease rentals		2	2
Amortisation of intangible assets	31	19	14
Depreciation on Right of Use assets	30	8	10
Impairment of property, equipment and intangible assets		1	4
Total infrastructure costs		**140**	**131**
Administration and general costs			
Consultancy, legal and professional fees[2]		55	64
Subscriptions, publications, stationery and communications		3	4
Travel and accommodation		1	1
Other administration and general expenses		64	79
Total administration and general costs		**123**	**148**
Operating expenses		**711**	**703**

(1) The increase in staff costs were due to an uplift in resources supporting the RTGS Renewal Programme as it moved into the next phase of the project lifecycle and growth across the PRA and Financial Market Infrastructure in response to their expanding remit post Brexit.

(2) The prior period has been adjusted as a result of the reclassification of certain costs from property and equipment to consultancy, legal and professional fees in order to better reflect the nature of the costs.

6: Taxation

Accounting policies

Corporation tax payable on profits, based on UK tax laws, is recognised as an expense in the period in which profits arise. The Bank is entitled to tax relief on the amount due to HM Treasury as a payment in lieu of a dividend in accordance with Section 1 (4) Bank of England Act 1946.

Tax relief on amounts due to HM Treasury is credited directly to the income statement in accordance with paragraph 52B of IAS 12.

Under the agreement with HM Revenue and Customs (HMRC), the fees paid by regulated institutions for regulatory purposes, and corresponding expenditure, are not subject to corporation tax. The net fee income/expenses in the statement of income is £nil; any excess or shortfall of fees over regulatory expenses are held on account.

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

	Note	2022 (£mn)	2021 (£mn)
Corporation tax – current year		–	–
Corporation tax – prior year		–	–
Deferred tax – current year	35	21	15
Deferred tax – prior year	35	1	–
Tax charge on profit		**22**	**15**

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

	Note	2022 (£mn)	2021 (£mn)
Profit before tax		**29**	**72**
Tax calculated at rate of 19.00% (2021: 19.00%)		6	14
Dividend not subject to corporation tax		(5)	–
Non-deductible expenses		1	1
IFRS9 transitional adjustment		–	(11)
Difference between current and deferred tax rate		19	12
Prior year adjustments		1	(1)
Total tax charge for the period		**22**	**15**

Tax charged to equity through other comprehensive income:

	Note	2022 (£mn)	2021 (£mn)
Tax charged to equity through other comprehensive income			
Corporation tax		–	–
Deferred tax	35	139	32
Tax charged to equity through other comprehensive income		**139**	**32**

	Note	2022 (£mn)	2021 (£mn)
Tax charged/(credited) to equity through other comprehensive income			
Revaluation of FVOCI securities		92	14
Tax losses carried forward		(1)	–
Revaluation of property		12	–
Remeasurements of retirement benefits		36	(12)
Difference between current and deferred tax rate		–	30
Tax charged to equity through other comprehensive income		**139**	**32**

The main UK corporation tax rate was 19% for the year beginning 1 April 2021 (1 April 2020: 19%). The rate applicable for the year ended 28 February 2022 is 19% (2021: 19%).

Section 3: Financial assets and liabilities

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

Financial instruments

Accounting policies

Financial instruments: assets
i: Classification of financial assets

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

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

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

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVPL). The Bank determines the classification at initial recognition.

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

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

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

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are classified as measured at FVPL.

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

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

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice;

- how the performance of the portfolio is evaluated and reported to management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank’s stated objective for managing the financial assets is achieved and how cash flows are realised.

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

Solely payments of principal and interest (SPPI) criteria

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

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

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

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

Financial assets at amortised cost

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

This category includes sterling debt securities, TFS and TFSME, secured lending agreements held at amortised cost and the loans to BEAPFF, BEALF and the CCFF. Assets in this category exclude those reverse repurchase agreements which are designated at fair value through profit or loss.

Financial assets at fair value through profit or loss

A financial asset is mandatorily classified in this category if it is acquired principally for the purpose of selling in the short term, or if it fails the SPPI test.

A financial asset can be classified in this category by choice if so designated by management at inception. This designation is because the relevant assets and liabilities (including derivatives) are managed together and internal reporting is evaluated on a fair value basis.

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

The Bank does not currently hold any financial assets for trading but has elected to designate the following at fair value through profit or loss at inception:

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

Financial assets at fair value through other comprehensive income

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

The unlisted equity investments held by the Bank are held as part of its functions as a central bank and are thus of a long-standing nature. It includes the Bank's investment in the Bank for International Settlements which consists of shares of 5,000 Special Drawing Rights.

ii: Initial recognition of financial assets

All financial assets are initially recognised at fair value plus or minus directly attributable transaction costs. Loans and advances and reverse repurchase agreements designated at fair value through profit or loss are recognised on a settlement date basis. Purchases of all other categories of financial assets are recognised on a trade date basis.

iii: Subsequent valuation of financial assets

Gains and losses arising from changes in the fair value of assets classified as fair value through profit or loss are included in the income statement in the period in which they arise.

Gains and losses arising from changes in the fair value of debt instruments classified as fair value through comprehensive income are recognised as other comprehensive income until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised as other comprehensive income is recognised in the income statement. Any premium or discount paid on the purchase of securities held at amortised cost is amortised through the income statement using the effective interest rate method.

The fair values of quoted investments in active markets are based on current bid prices. In other cases, the Bank establishes fair value by using appropriate valuation techniques. The policy for establishing fair values of securities in non-active markets is described in note 3 ‘Significant accounting estimates and judgements in applying accounting policies’ on pages 119–20.

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

The Bank has no modified financial instruments.

iv: Impairment of financial assets

IFRS 9 requires impairment assessment on all of the following financial instruments that are not measured at FVPL, under the expected credit loss model:

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

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

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

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and are measured as follows:

- on financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – ie the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive; and

- on financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows.

Definition of default

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

Significant increase in credit risk

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

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

Impairment under IFRS 9 adopts a staging approach. When a new asset is originated it is classified as Stage 1 (normal origination). Moving from Stage 1 to Stage 2 is a judgement based on management defined criteria of whether there is a significant increase in or absolute amount of credit risk (note 3). Staging determines whether 12-month ECL (Stage 1) or lifetime ECL (Stage 2 and 3) is applicable. If the indicators of significant increase in credit risk are no longer present then the asset returns from Stage 2 to Stage 1. The move from Stage 2 to Stage 3 is based upon 'default'. If an asset ceases to be 'defaulted' then it will return to Stage 2. Staging and cure (being no longer in default) is assessed using the Bank's internal credit rating framework.

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

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;

- the average time between the identification of a significant increase in credit risk and default appears reasonable;

- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and

- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL and lifetime ECL measurements.

Inputs into measurement of ECLs

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

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

PD estimates are based on a mix of internally compiled data, rating agency outputs and expert judgement, comprising both quantitative and qualitative factors. The calculation is provided by Financial Risk and Resilience Division (FRRD) and relates to the credit risk rating scale provided by the Financial Risk Management Division (FRMD).

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

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

Forward-looking information

IFRS 9 Financial Instruments requires that in determining the Expected Credit Loss, estimates of forward-looking macroeconomic factors are incorporated in multiple scenarios about the future economy. The Bank formulates a base case view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios and consideration of a variety of external actual and forecast information, taking into account management's current assessment of the possible impacts of Covid. This process involves developing four different economic scenarios, which represent a range of scenarios linked to economic variables such as house prices and interest rates. The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments, choosing scenarios that specifically test the resilience of the Bank to financial stress.

ECL calculation

Expected credit losses are calculated by identifying scenarios in which a loan or receivable defaults, estimating the cash shortfall that would be incurred and then multiplying that loss by the probability of the default happening.

When an ECL is identified, the carrying amount of the asset would be reduced and the amount of ECL is recognised in the income statement. At 28 February 2022 the Bank recognised an ECL provision less than £1mn (2021: less than £1mn).

Financial instruments: liabilities

i: Classification of financial liabilities

The Bank classifies its financial liabilities in the following categories: liabilities measured at amortised cost and financial liabilities at fair value through profit and loss.

Liabilities measured at amortised cost

Short-term customer deposits held are carried at cost with interest expense accruing on an effective interest rate basis. Cash Ratio Deposits are taken to fund certain activities of the Bank in accordance with the Bank of England Act 1998. These deposits are held at cost and are interest free. Money market instruments are carried at cost and are issued at a discount which is amortised through the income statement on an effective interest rate basis.

Financial liabilities at fair value through profit or loss

The Bank designates the following financial liabilities at fair value through profit or loss:

- commercial paper with tenor not less than one day or more than 364 days denominated in non-sterling currencies;
- two three-year bonds denominated in US dollars, which were issued as part of the Bank's annual medium-term issuance programme; and
- fixed-term deposits placed by other central banks.

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

ii: Initial recognition of financial liabilities

Fixed-term deposits taken from central banks are recognised on a settlement date basis. Money market instruments issued, short-term deposits, commercial paper issued and bonds issued by the Bank are recognised on a trade date basis.

iii: Subsequent valuation of financial liabilities

Gains and losses arising from changes in the fair value of liabilities classified at fair value through profit or loss are included in the income statement in the period in which they arise.

The fair values of quoted financial liabilities are based on current offer prices, as this is considered to be the price that would be paid to transfer a liability in an orderly transaction between market participants.

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

Collateral pledged under sale and repurchase agreements

Securities sold subject to repurchase agreements are assets provided as collateral where the transferee has the right by contract or custom to sell the collateral. These securities remain on the balance sheet and the liability is included in deposits from banks and other financial institutions. Securities purchased under agreements to resell ('reverse repurchase agreements') are not recognised on the balance sheet; the payment to buy the securities is included in loans and advances to banks and other financial institutions. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements.

Securities loaned to counterparties also remain on the balance sheet. Securities borrowed are not recognised on the balance sheet, unless they are sold to third parties, in which case the obligation to return the securities is recorded at fair value as a liability.

The Bank may accept its own securities as collateral for reverse repurchase agreements. Such reverse repurchase transactions are treated as collateralised and are treated in the same way as other reverse repurchase transactions.

7: Cash and balances with other central banks

	Note	2022 (£mn)	2021 (£mn)
Cash and balances with other central banks	23	708	1,769
		708	**1,769**

Cash and balances with other central banks are held in correspondent accounts used for Bank and customer business.

8: Loans and advances to banks and other financial institutions

	2022 (£mn)	2021 (£mn)
Secured lending agreements held at amortised cost	536	538
Reverse repurchase agreements held at fair value through profit and loss	10,322	10,369
Other loans and advances	1	3
Term Funding Scheme loans	–	39,451
Term Funding Scheme with additional incentives for small and medium-sized enterprises (SMEs) loans	192,360	75,412
	203,219	**125,773**

These balances include advances, secured lending and reverse repurchase agreements arising as part of the Bank's open market operations, as well as advances matching the deposits taken (notes 10 to 12).

The level and composition of the Bank's open market operations depends on movements in the Bank's balance sheet as detailed on the web pages of the Bank of England Market Operations Guide.[38]

Accrued interest on secured lending agreements held at amortised cost is recognised in note 32 'Other assets'.

At 28 February 2022 loans and advances to banks and other financial institutions included cash and cash equivalents of £4,764mn (2021: £8,874mn) which are disclosed in note 23.

Term Funding Scheme Loans

The Term Funding Scheme (TFS) fully matured in February 2022. TFS loans were cash loans made to eligible participants financed by the issuance of central bank reserves, secured against eligible collateral. The term of each loan was four years; participants can terminate, in part or in full, before the maturity date. Participants were charged interest on the loans equal to Bank Rate (the Bank of England base rate) plus a Scheme fee. The fee was determined based on the net lending of each participant over the reference period of the scheme. This fee ranges from 0 basis points to 25 basis points.

Originally these loans were made by BEAPFF Ltd (a subsidiary of the Bank, note 9) to counterparties but were subsequently transferred to the Bank. The Bank made an agreement with BEAPFF Ltd that they should continue to receive TFS scheme fees after the transfer.

38. www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide.

The Bank treated scheme fees as an agent, collecting the fees from counterparties and passing them over to BEAPFF Ltd when they are received, and did not recognise them as income. TFS income was capital neutral as scheme fees were paid over to BEAPFF and Bank Rate income was offset by the Bank's liabilities on the corresponding reserves created. The TFS scheme fully matured in February 2022.

Accrued interest on TFS are disclosed in note 32 'Other assets'.

Term Funding Scheme with additional incentives for SMEs

In March 2020, the Bank's policy committees announced a comprehensive package of measures to help UK businesses and households manage the economic disruption caused by the Covid virus. Part of this package involved the launch of the Term Funding Scheme with additional incentives for SMEs (TFSME).

The TFSME is designed to:

- help reinforce the transmission of the reduction in Bank Rate to the real economy to ensure that businesses and households benefit from the MPC's actions;
- provide participants with a cost-effective source of funding to support additional lending to the real economy, providing insurance against adverse conditions in bank funding markets;
- incentivise banks to provide credit to businesses and households to bridge through a period of economic disruption; and
- provide additional incentives for banks to support lending to SMEs that typically bear the brunt of contractions in the supply of credit during periods of heightened risk aversion and economic downturns.

The drawdown period ran until 31 October 2021, or 30 April 2021 for participants which opted out of the TFSME extension. The term of each transaction is for four years from the date of drawdown. Participants in a TFSME Group that contains one or more accredited lenders under the British Business Bank's Bounce Back Loan Scheme (BBLS) will be able to extend the term of some transactions to align with the term of loans made through the BBLS. Participants may terminate any transaction, in part or in full, before its maturity date. The Bank charges interest on TFSME transactions equal to Bank Rate plus a Scheme fee (TFSME Fee). The fee is determined based on the net lending of each participant over the reference period of the scheme. This fee ranges from 0 basis points to 25 basis points. The reference period ran from 31 December 2019 to 30 June 2021, or 31 December 2020 for participants which opted out of the TFSME extension. TFSME scheme fees arising on lending are recognised as income on an accruals basis.

TFSME income reflects Bank Rate on TFSME loans and £5.5mn (2021: £ nil) scheme fees receivable in the year. TFSME scheme fees are retained by the Bank as income.

Accrued interest for TFSME is disclosed note 32 ‘Other assets’.

9: Other loans and advances

	Note	2022 (£mn)	2021 (£mn)
Loan to the Bank of England Asset Purchase Facility Fund Ltd	28b	894,947	773,424
Loan to the Covid Corporate Financing Facility Ltd	28b	1,079	11,823
Term loans		3	5
Deposit with Bank of England Alternative Liquidity Facility Ltd	28b	105	–
		896,134	**785,252**

Loan to the Bank of England Asset Purchase Facility Fund Ltd

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

The APF transactions are undertaken by a subsidiary company of the Bank of England – the Bank of England Asset Purchase Facility Fund Limited (BEAPFF). The transactions are funded by a loan from the Bank, the loan amount excluding accrued interest due from BEAPFF as at 28 February 2022 is £894.9bn (2021: £773.4bn).

Accrued interest of £319mn on the loan is recognised in note 32 ‘Other assets’.

Loan to the Covid Corporate Financing Facility Ltd (CCFF)

On 17 March 2020, HM Treasury announced a number of measures designed to support public services, people and businesses through the period of disruption caused by Covid. Within that overall package, the CCFF facility was designed to support liquidity among larger firms, helping them to bridge Covid-related disruption to their cash flows through the purchase of short-term debt in the form of commercial paper.

The CCFF is operated by the Bank of England on behalf of HM Treasury. The Bank acts as the agent of the CCFF for all commercial paper purchases, following eligibility guidelines as agreed with HM Treasury. HM Treasury, as the ultimate risk-owner of the CCFF, holds the final decision on whether an issuer is eligible to use the facility. It is a wholly owned subsidiary of the Bank of England. The CCFF closed for new purchases of commercial paper from 23 March 2021. The transactions are funded by a loan from the Bank, the loan amount excluding accrued interest due from the CCFF as at 28 February 2022 is £1.1bn (2021: £11.8bn). Subsequent to year-end, in March 2022, all assets of the CCFF were fully repaid to the CCFF and the CCFF fully repaid its loan to the Bank.

Accrued interest of £19mn on the loan is recognised in note 32 ‘Other assets’.

10: Deposits from central banks

	2022 (£mn)	2021 (£mn)
Deposits repayable on demand	5,855	3,991
Term deposits held at fair value through profit and loss	24,884	22,283
	30,739	**26,274**

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

Accrued interest on deposits repayable on demand is recognised within ‘Short term creditors and other liabilities’ in note 33 ‘Other liabilities’.

11: Deposits from banks and other financial institutions

	2022 (£mn)	2021 (£mn)
Deposits repayable on demand	971,141	803,763
Repurchase agreements	216	–
	971,357	**803,763**

Accrued interest on deposits repayable is recognised within ‘Short-term creditors and other liabilities’ in note 33 ‘Other liabilities’.

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

The rate paid by the Bank on reserves account balances is also the means by which the Bank keeps market interest rates in line with Bank Rate. All reserves balances are remunerated at Bank Rate.

12: Other deposits

	2022 (£mn)	2021 (£mn)
Deposit by Issue Department	82,387	78,524
Public deposits repayable on demand	12,919	3,935
Other deposits repayable on demand	7,025	4,410
	102,331	**86,869**

Public deposits are the balances on HM Government accounts, including Exchequer, NLF, Debt Management Office (DMO), National Debt Commissioners and dividend accounts. Accrued interest on other deposits is recognised within ‘Short-term creditors and other liabilities’ in note 33 ‘Other liabilities’.

Foreign exchange reserves

13: Securities held at fair value through profit or loss

	2022 (£mn)	2021 (£mn)
Money market instruments	6,476	6,610
Listed foreign government securities	3,493	3,259
	9,969	**9,869**

The holdings of foreign government securities are funded by the Bank's issuance of foreign currency commercial paper (note 14) and fixed-term deposits held at fair value through profit and loss (FVPL) placed by other central banks (note 10). Designation at FVPL is to eliminate, or significantly reduce, inconsistencies that would otherwise arise from measuring assets and liabilities on different bases. The relevant assets and liabilities (including derivatives) are managed together and internal reporting is evaluated on a fair value basis.

At 28 February 2022 money market instruments included cash and cash equivalents of £2.0bn (2021: £1.8bn) which are disclosed in note 23.

14: Foreign currency commercial paper in issue

	2022		2021	
	Fair value (£mn)	Nominal (US$mn)	Fair value (£mn)	Nominal (US$mn)
Total amounts issued to third parties	2,713	3,646	–	–

In September 2021 the Bank announced the issuance of short-term securities to support balance sheet management practices of foreign exchange reserves.[39] The tenor of the Notes shall be not less than one day or more than 364 days from and including the date of issue, to (but excluding) the maturity date.

39. www.bankofengland.co.uk/markets/market-notices/2021/september/foreign-currency-reserves-september-2021-market-notice.

15: Foreign currency bonds in issue

	2022		2021	
	Fair value (£mn)	Nominal (US$mn)	Fair value (£mn)	Nominal (US$mn)
Total amounts issued to third parties	2,936	4,000	4,353	6,000

The Bank's foreign exchange reserves can be used by the Bank to intervene in the foreign exchange market in pursuit of its monetary policy objectives. This was set out in the Monetary Policy Framework[40] introduced by the Government in 1997. Discussion of the Bank of England's foreign exchange reserves is included in the 2011 Q3 Quarterly Bulletin,[41] page 194.

At 28 February 2022, as part of the Bank's annual-medium term security issuance programme, the Bank had two US$2,000mn three-year dollar bonds in issue (2021: three US$2,000mn three-year dollar bonds); the first maturing on 28 April 2023 and the second on 8 March 2024.

The most recent bond (the 16th in the overall programme) was issued on 15 March 2022 with settlement on 22 March 2022. This bond matures on 21 March 2025. Refer to the Foreign Currency Reserves 2022 Market Notice[42] for further details of the issuance.

Of the above liabilities to third parties, £nil (2021: £2,912mn) fall due within one year.

40. **www.bankofengland.co.uk/-/media/boe/files/letter/1997/chancellor-letter-060597**.
41. **www.bankofengland.co.uk/-/media/boe/files/quarterly-bulletin/2011/markets-and-operations-2011-q3.pdf**.
42. **www.bankofengland.co.uk/markets/market-notices/2022/march/foreign-currency-reserves-15-march-2022-market-notice**.

Off balance sheet arrangements

16: Funding for Lending Scheme

The Funding for Lending Scheme (FLS) was launched by the Bank of England and the Government in July 2012. FLS was designed to incentivise banks and building societies to boost their lending to the UK real economy. It provided funding for an extended period, with both the price and quantity of funding provided linked to their lending performance. The FLS scheme was recorded as an off balance sheet arrangement because it was a collateral swap transaction and it did not meet the recognition criteria of IFRS 9. The FLS scheme matured in September 2021.

				2022		2021	
	Up to 1 year (£mn)	1 to 3 years (£mn)	3 to 5 years (£mn)	Nominal (£mn)	Fair value (£mn)	Nominal (£mn)	Fair value (£mn)
Securities lent to banking groups and other financial institutions	–	–	–	–	–	142	142
Securities borrowed from the DMO	–	–	–	–	–	(142)	(142)
Total obligations	**–**	**–**	**–**	**–**	**–**	**–**	**–**

Section 4: Investments, capital management, funding and risk management

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

The Bank is funded in a variety of ways which are described in more detail in the Financial Review section of the report (pages 38–49).

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

The Bank invests these deposits (mainly in gilts), as reported in note 17, and the income earned is used to fund the costs of its monetary policy and financial stability operations, which benefit sterling deposit-takers.

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

The PRA is funded through a levy, further details can be found in the PRA statements (pages 205–14).

Accounting policies

Debt securities

British Government securities and other sterling securities are held as investments and are one of the principal sources of income for the Bank. The Bank holds these securities for the long term, generally to maturity. All debt securities have fixed coupons.

See Section 3 for accounting policies on financial assets.

Unlisted equity investments

The unlisted equity investments held by the Bank are held as part of its functions as a central bank and are thus of a long-standing nature. The Bank's holdings in any particular institution may change from time to time as part of realignments of holdings among the shareholders and participants.

Fair values of unlisted equity investments reflect the price that a knowledgeable willing party would pay in an arm's length transaction.

The Bank's investment in the Bank for International Settlements (BIS) (incorporated in Switzerland) consists of shares of 5,000 Special Drawing Rights, which are 25% paid. At 28 February 2022 the holding represents 8.4% (2021: 8.4%) of the issued share capital.

The investment has been valued based on the adjusted net asset value basis providing a value of £1,420mn (2021: £1,381mn).

The fair value of the BIS shares is estimated to be 70% of the Bank's interest in the net asset value of the BIS at the reporting date. The 30% discount to net asset value is based on the discount rate used by the BIS for all share repurchases since the 1970s and was further endorsed by a decision by the International Court at the Hague relating to the last share repurchase conducted by the BIS (in 2001). The Bank's financial statements incorporates the most recently available data from the BIS. The Bank expects the value of the BIS shares to fluctuate over time in conjunction with the strength of the BIS balance sheet and exchange rates. If the value of the net assets of the BIS changed by 1%, the value of the investments would change by £14mn (2021: £14mn).

Since 1930 there has also been an amount in respect of uncalled capital on the Bank's investment in the BIS, now denominated in Special Drawing Rights (SDR). The sterling equivalent of this amount based on the SDR price at the balance sheet date was £186mn (2021: £185mn). The balance of £186mn is callable at three months' notice by a decision of the BIS Board of Directors. As this amount has not been called since being established in 1930, it is considered a remote possibility, and so is not considered or disclosed as a contingent liability, in line with IAS 37.

Any foreign currency gains or losses are taken to the statement of other comprehensive income in the year when they have arisen.

Indemnified operations

The Bank may enter into arrangements where it is fully protected, without charge, from loss by HM Treasury. Surpluses from such indemnified operations, after the deduction of fees, operating costs and tax, are treated as a capital contribution and taken directly to equity as distributable reserves.

BEAPFF's operations are fully indemnified for loss by HM Treasury and any surplus for these operations is due to HM Treasury.

The CCFF is operated by the Bank of England on behalf of HM Treasury. The CCFF's operations are fully indemnified for loss by HM Treasury and any surplus for these operations is due to HM Treasury.

17: Securities held at amortised cost

	2022 (£mn)	2021 (£mn)
British Government securities listed on UK exchange	15,959	13,060
	15,959	**13,060**

	2022 (£mn)	2021 (£mn)
At 1 March	13,060	12,067
Purchases	3,835	1,696
Redemptions	(806)	(570)
Amortisation of premium/discount and movement in accrued interest	(130)	(133)
At 28 February	**15,959**	**13,060**

Securities held at amortised cost relate to the Cash Ratio Deposit (CRD) scheme and the Bank's free capital and reserves. Under the CRD scheme, institutions place non-interest bearing deposits at the Bank of England, as reported in note 19. The Bank invests these deposits (mainly in gilts) and the income earned is used to fund the costs of its monetary policy and financial stability operations, which benefit sterling deposit-takers.

Items in the course of settlement for securities held at amortised cost at the year ended 28 February 2022 were £nil (2021: £60mn). The cash purchases for the year are £3,895mn (2021: £1,669mn) which include the prior year £60mn of items in the course of settlement.

Income recognised in the year ended 28 February 2022 for the Bank's securities held at amortised cost was £191mn (2021: £192mn). In the current and prior year this comprises interest income and purchase premium amortisation.

18: Unlisted equity investments at fair value

	2022 (£mn)	2021 (£mn)
Unlisted equity investments at fair value	1,420	1,381
	1,420	**1,381**

	2022 (£mn)	2021 (£mn)
At 1 March	1,381	1,365
Revaluation of securities	29	58
Foreign currency gains/(losses)	10	(42)
At 28 February	**1,420**	**1,381**

19: Cash Ratio Deposits

	2022 (£mn)	2021 (£mn)
Cash Ratio Deposits	13,043	11,153
	13,043	**11,153**

Under the Cash Ratio Deposit (CRD) scheme, institutions place non-interest bearing deposits at the Bank. The Bank invests these deposits (mainly in gilts) and the income earned is used to fund the costs of its monetary policy and financial stability operations, which benefit sterling deposit-takers. The CRD scheme is currently under review, in line with the requirement to review at least every five years. Following the 2018 review an indexation method was put in place to link deposit levels to changes in the gilt yield. The scheme is intended to result in policy income and expenditure breaking even over the five-year cycle. Despite recent increases in gilt yields, income on CRD investments continues to fall short of policy expenditure, and so the current review is exploring alternative options to fund the Bank's policy expenditure.

20: Capital and retained earnings

	2022 (£mn)	2021 (£mn)
Capital	15	15
Capital reserve and other reserves	1,200	1,192
Retained earnings	3,304	3,285
	4,519	**4,492**

The entire capital comprising £14,553,000 of Bank Stock is held by the Treasury Solicitor on behalf of HM Treasury. The Bank uses these funds to support its normal operations. The agreed capital framework between the Bank and HM Treasury states that Banking Department profits payable to HM Treasury will be determined by the level of loss-absorbing capital held by the Bank and where this sits within a set of parameters.[43]

21: Derivative financial instruments

Accounting policies

Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, or valuation techniques such as discounted cash-flow models. Generally the best evidence of the fair value of a derivative at initial recognition is the transaction price (ie the fair value of the consideration given or received). All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivatives are used for matching exposures on assets and liabilities, both individually and of portfolios. The Bank does not apply the hedge accounting rules of IFRS 9.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a current and legally enforceable right to offset the amounts recognised and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

43. For more details on these, see **www.bankofengland.co.uk/-/media/boe/files/memoranda-of-understanding/financial-relationship-between-hmt-and-the-boe-memorandum-of-understanding.pdf**.

The Bank mainly uses derivatives to manage the currency and interest rate exposures on its portfolio of financial assets and financial liabilities. They may also be used as an instrument in monetary policy transactions.

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

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

a: As at 28 February 2022

	Contract notional amount (£mn)	Fair values	
		Assets (£mn)	Liabilities (£mn)
Cross-currency interest rate swaps	2,865	73	(83)
Interest rate swap(1)	279	–	–
Forward exchange contracts	16,905	281	(14)
Total recognised derivative assets/(liabilities)		**354**	**(97)**

(1) As at 28 February 2022, the fair values of interest rate swaps assets and liabilities were £244,436 and £67,797 respectively.

b: As at 28 February 2021

	Contract notional amount (£mn)	Fair values	
		Assets (£mn)	Liabilities (£mn)
Cross-currency interest rate swaps	3,043	9	(127)
Interest rate swaps	4,463	26	(1)
Forward exchange contracts	20,398	99	(191)
Total recognised derivative assets/(liabilities)		**134**	**(319)**

The net movement on derivatives in the year is £442mn from a net liability of £185mn as at 28 February 2021 to a net asset position of £257mn as at 28 February 2022 (2021: movement of £277mn from a net asset position of £92mn as at 29 February 2020 to a net liability position of £185mn as at 28 February 2021).

22: Financial risk management

The Bank is required to manage the financial risks that arise on its balance sheet and as a consequence of its operations to deliver its policy objectives. These include credit risk, market risk and liquidity risk.

The Bank's management seeks to ensure that effective risk management processes exist for assessing, managing and monitoring risk, within clear risk policies. There are governance arrangements set out in a Balance Sheet Remit and financial risk standards (approved by the Executive Risk Committee) and documented delegated authorities for implementation of financial risk management and oversight of the Bank's operations. The financial risk standards also set out how the Bank's financial risk tolerance is translated into practice through a cross-balance sheet set of limits and monitoring thresholds, which delineate the Bank's usual risk levels. These are review points beyond which an active decision is required that the extra risk is justified by the expected policy benefits.

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

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

- The Financial Risk Management Division (FRMD) within the Bank's Markets Directorate is responsible for analysing the financial risks faced by the Bank in its operations in financial markets, and exercising control on financial risks as they are taken through those operations.

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

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

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

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

- Potential expansion of the Bank's balance sheet in a stress eg through additional liquidity provision.

- Rating migration and potential default of counterparties.

- Shocks on asset prices, both where the Bank has positions on its balance sheet, and where these assets are held as collateral.

The stress tests applied to the Bank's own balance sheet are calibrated such that they are suitably severe – at least as severe as the FPC's and PRC's annual concurrent banking stress test, given the Bank's role as lender of last resort. For credit risk, the Bank uses a stressed Exposure at Default (EAD) metric to measure the potential financial loss that could be incurred in the event of counterparty default, net of collateral held, where that collateral is also stressed. The same exposure measurement methodology is used for IFRS 9 expected credit loss assessment, but calibrated for a range of different economic scenarios. For market risk, the Bank uses a stressed loss metric to measure the potential mark-to-market losses from shocks to asset prices.

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

This forward-looking view is embedded in the financial framework agreed between HM Treasury and the Bank in June 2018 and codified into a Memorandum of Understanding (MoU).[44] Its objective is to ensure that the Bank has the financial resources needed to undertake the financial operations necessary to deliver its objectives even under severe but plausible scenarios. The MoU sets out the principles underpinning which types of operations would be backed by the Bank's own capital, and the types of operations for which the Bank may request an indemnity from HM Treasury:

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

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

- secured lending in line with the Bank's published frameworks, including against eligible collateral; and

- asset purchase operations to support conventional monetary policy implementation, the Bank's official customer business or the funding of the Bank.

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

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

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

a: Credit risk

Credit risk is the risk of loss arising from the failure of a borrower, issuer, counterparty or customer to meet its financial obligations to the Bank. The Bank is exposed to credit risk both through direct exposures and contingent exposures. Credit exposure can arise from (i) operations implementing monetary or financial stability policy, (ii) the management of the Bank's balance sheet, or (iii) contingently as part of an insurance contract. Insurance contracts can be used to mitigate exposures arising in several areas, including but not necessarily restricted to buildings, motor vehicles and other property of the Bank, as well as contingent exposures related to banknote issuance and circulation activities.

The primary source of credit risk arises as a result of the Bank providing liquidity to financial institutions via the Term Funding Scheme, Term Funding Scheme with additional incentives for SMEs, and Sterling Monetary Framework; intraday in the Bank's provision of liquidity to facilitate the operation of the sterling high-value payment system (CHAPS) and the securities settlement system, CREST; and elsewhere in the Bank's management of its balance sheet, for example in the investment of the Bank's own funds and in the course of the banking services it provides to its customers. In addition, the Bank incurs credit risk in connection with any support operations it may undertake.

Credit exposures (measured using a stressed EAD metric) are controlled by a system of limits and monitoring thresholds based on internal credit ratings, which apply to all credit exposures across the balance sheet. Limits and monitoring thresholds exist to control the maximum credit exposures to a single counterparty group, as well as aggregate exposure to individual countries.

Credit assessments are performed on all market counterparties, issuers and customers to which the Bank may be exposed. These are performed both regularly, following a timetable that reflects the risk of the actual or potential exposure, and dynamically, in response to market or specific entity conditions.

Internal committees, chaired by the Head of FRMD, review the creditworthiness of issuers, counterparties and customers to whom the Bank may have credit exposures. These committees are supported by a credit risk analysis team. Counterparty ratings are recommended by Head of FRMD with the Head of FRRD given an opportunity to challenge the rating recommendations. The final ratings are then sent to Middle Office for implementation.

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

Collateral management

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

In the Bank's Indexed Long-Term Repo Operations, Discount Window Facility, Contingent Term Repo Facility, Funding for Lending Scheme, Term Funding Scheme and Term Funding Scheme with additional incentives for SMEs, the Bank accepts a wide range of private sector collateral.

The collateral can include mortgage-backed securities, covered bonds backed by mortgages or public sector securities, other asset-backed securities (such as those backed by credit card receivables, student loans or auto loans), or portfolios of loans in unsecuritised form. The collateral must meet published eligibility criteria.

The Bank manages the risk in this wider collateral portfolio by applying haircuts to take account of market risk, liquidity risk, credit risk, and all other material risks to the realisable value of the collateral. The usual level of protection targeted through haircuts is at least a 99% level of confidence that, in the event of a counterparty default, the value of the collateral will be sufficient to cover the outstanding amount owed to the Bank, even in stressed scenarios. The Bank may vary haircuts at its discretion, including on individual securities.

The Bank values securities daily and calls for additional collateral where the haircut-adjusted value is less than the value of its exposure. Where possible the Bank uses a market price to value securities; where a market price is not available the Bank uses a model to approximate a market value. The pricing methodologies and the use of spreads in models are under regular review, including via a Valuation Review Committee, chaired by the Head of Middle Office.

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

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

Geographical concentration of assets and liabilities

The Bank undertakes its operations in the United Kingdom. It does, however, accept deposits from overseas central banks. An analysis of the Bank's assets and liabilities by geographical area, based upon the location of the counterparty, is given below:

	2022 (£mn)	2021 (£mn)
Assets		
United Kingdom	1,109,795	918,456
Rest of Europe	12,898	14,383
Rest of the world	7,663	6,711
Total assets	**1,130,356**	**939,550**

	2022 (£mn)	2021 (£mn)
Liabilities and equity		
United Kingdom	1,086,176	905,510
Rest of Europe	24,774	12,345
Rest of the world	19,406	21,695
Total liabilities and equity	**1,130,356**	**939,550**

b: Market risk

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

Market risk on the Bank's balance sheet is controlled by a system of limits and monitoring thresholds based on stress testing. Limits and monitoring thresholds control the maximum mark to market loss that the Bank would sustain under severe scenarios. The scenarios capture the key market risks that the Bank is exposed to: interest rate risks (including basis risks) and foreign exchange risk.

Interest rate risk

The Bank is exposed to sterling interest rate risk through the investment of the Bank's capital and Cash Ratio Deposits in high-quality securities in the sterling bond portfolio. These are bought and, in normal circumstances, held to maturity with the intention of maintaining the value of the Bank's capital and generating income to pay for the Bank's policy functions. The Bank monitors the market risk on the Sterling Bond Portfolio, via stress testing.

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

Foreign exchange risk

The majority of the foreign currency exposures are hedged for interest rate risk and FX risk to match the Bank's FX liabilities, mainly through the use of foreign exchange contracts, interest rate and cross-currency swaps. The Bank has no significant net foreign currency exposures.

c: Liquidity risk

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

For sterling, liquidity risk does not arise as the Bank is able to create sterling liquidity through its market operations.

For foreign currency, in addition to holding appropriate cash balances, the Bank manages liquidity through cash-flow matching and the use of forward exchange contracts and currency swaps; the Bank also holds a portfolio of liquid foreign exchange reserves.

The Bank's Balance Sheet Remit, Financial Risk Standards and supporting policies specify parameters to control exposure to foreign currency liquidity risk. These include limits on cash flow and maturity mismatches, and for bond holdings, minimum issue size and concentration limits.

The following tables analyse the Bank's foreign currency financial assets and liabilities at the balance sheet dates into relevant maturity groupings based on the remaining period to the contractual maturity date. These cash flows have not been discounted.

Foreign currency liquidity risk

	Up to 1 month (£mn)	1–3 months (£mn)	3–12 months (£mn)	1–5 years (£mn)	Over 5 years (£mn)	Total (£mn)
As at 28 February 2022						
Assets						
Cash and balances with other central banks	708	–	–	–	–	708
Loans and advances to banks and other financial institutions	1,971	5,715	2,633	–	–	10,319
Securities held at fair value through profit and loss	1,011	3,981	2,112	2,882	–	9,986
Derivative financial instruments:						
Cash inflow	1,369	4,366	1,916	709	–	8,360
Cash outflow	(1,251)	(4,293)	(1,855)	(733)	–	(8,132)
Other assets	–	–	–	–	–	–
Total assets	**3,808**	**9,769**	**4,806**	**2,858**	**–**	**21,241**
Liabilities						
Deposits from central banks	2,397	8,037	3,003	–	–	13,437
Deposits from banks and other financial institutions	216	–	–	–	–	216
Other deposits	362	–	–	–	–	362
Foreign currency commercial paper in issue	437	1,129	1,151	–	–	2,717
Foreign currency bonds in issue	–	–	–	2,981	–	2,981
Derivative financial instruments:						
Cash inflow	(1,809)	(3,871)	(1,820)	(2,149)	–	(9,649)
Cash outflow	1,870	4,630	2,557	2,106	–	11,163
Other liabilities	–	–	–	–	–	–
Total liabilities	**3,473**	**9,925**	**4,891**	**2,938**	**–**	**21,227**
Net liquidity gap	**335**	**(156)**	**(85)**	**(80)**	**–**	**14**
Cumulative gap	**335**	**179**	**94**	**14**	**14**	**–**

Foreign currency liquidity risk

	Up to 1 month (£mn)	1–3 months (£mn)	3–12 months (£mn)	1–5 years (£mn)	Over 5 years (£mn)	Total (£mn)
As at 28 February 2021						
Assets						
Cash and balances with other central banks	1,769	–	–	–	–	1,769
Loans and advances to banks and other financial institutions	3,288	6,177	903	–	–	10,368
Securities held at fair value through profit and loss	2,089	2,995	3,121	1,866	–	10,071
Derivative financial instruments:						
Cash inflow	5,110	6,152	1,628	676	–	13,566
Cash outflow	(5,018)	(6,175)	(1,624)	(748)	–	(13,565)
Other assets	–	–	–	–	–	–
Total assets	**7,238**	**9,149**	**4,028**	**1,794**	**–**	**22,209**
Liabilities						
Deposits from central banks	4,679	9,452	2,794	–	–	16,925
Deposits from banks and other financial institutions	15	–	–	–	–	15
Other deposits	592	–	–	–	–	592
Foreign currency bonds in issue	1,430	–	1,431	1,431	–	4,292
Derivative financial instruments:						
Cash inflow	(4,460)	(2,519)	(1,378)	(972)	–	(9,329)
Cash outflow	4,624	2,532	1,544	1,002	–	9,702
Other liabilities	–	–	–	–	–	–
Total liabilities	**6,880**	**9,465**	**4,391**	**1,461**	**–**	**22,197**
Net liquidity gap	**358**	**(316)**	**(363)**	**333**	**–**	**12**
Cumulative gap	**358**	**42**	**(321)**	**12**	**12**	**–**

d: Fair value of financial assets and liabilities

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

	Note	Level 1 (£mn)	Level 2 (£mn)	Level 3 (£mn)	Total (£mn)
As at 28 February 2022					
Assets					
Loans and advances to banks and other financial institutions	8	–	10,322	–	10,322
Securities held at fair value through profit or loss	13	7,886	2,083	–	9,969
Derivative financial instruments	21	–	354	–	354
Unlisted equity investments at fair value	18	–	–	1,420	1,420
Total assets		**7,886**	**12,759**	**1,420**	**22,065**
Liabilities					
Deposits from central banks	10	–	24,884	–	24,884
Foreign currency commercial paper in issue	14	–	2,713	–	2,713
Foreign currency bonds in issue	15	2,936	–	–	2,936
Derivative financial instruments	21	–	97	–	97
Total liabilities		**2,936**	**27,694**	**–**	**30,630**

	Note	Level 1 (£mn)	Level 2 (£mn)	Level 3 (£mn)	Total (£mn)
As at 28 February 2021					
Assets					
Loans and advances to banks and other financial institutions	8	–	10,369	–	10,369
Securities held at fair value through profit or loss	13	7,670	2,199	–	9,869
Derivative financial instruments	21	–	134	–	134
Unlisted equity investments at fair value	18	–	–	1,381	1,381
Total assets		**7,670**	**12,702**	**1,381**	**21,753**
Liabilities					
Deposits from central banks	10	–	22,283	–	22,283
Foreign currency bonds in issue	15	4,353	–	–	4,353
Derivative financial instruments	21	–	319	–	319
Total liabilities		**4,353**	**22,602**	**–**	**26,955**

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. This category of instruments comprised derivatives, repurchase transactions, commercial paper and deposits.

Level 3: Valued using techniques where at least one input that could have a significant impact on the valuation is not based on observable market data. During the year this category consisted entirely of unlisted equity investments, primarily the Bank’s investment in the Bank for International Settlements (note 18).

The fair values of financial liabilities classified as deposits at amortised cost approximate to their carrying values due to their short-term nature. All these financial liabilities would be classified as Level 2.

23: Cash and cash equivalents

Analysis of cash balances

	Note	At 1 March 2021 (£mn)	Cash flows (£mn)	At 28 February 2022 (£mn)
Cash and balances with other central banks	7	1,769	(1,061)	708
Loans and advances to banks and other financial institutions	8	8,874	(4,110)	4,764
Securities held at fair value through profit and loss	13	1,761	222	1,983
		12,404	**(4,949)**	**7,455**

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with a maturity less than or equal to 92 days from the date of acquisition, consisting of cash and balances with other central banks, loans and advances to banks and other financial institutions, amounts due from banks and short-term government securities.

24: Contingent liabilities and commitments

Accounting policies

Contingent liabilities

Contingent liabilities and commitments, some of which are offset by corresponding obligations of third parties, may arise in the normal course of business, including contingent liabilities in respect of guarantees and indemnities in connection with liquidity support operations. As part of its normal business, the Bank acts as custodian of its customers' assets and fulfils an agency role. The Bank has no liability to recognise or contingent liability to disclose in accordance with the requirements of IAS 37 in respect of these transactions.

Capital commitments

Capital commitments outstanding at 28 February 2022 amounted to £36mn (2021: £129mn), relating primarily to the provision of service agreements and plant and machinery purchases.

Contingent capital commitments outstanding at 28 February 2022 amounted to £0.3mn (2021: nil), relating to a central bank sterling account.

Guarantees

The Bank has provided a guarantee for the principal value of deposits placed by participating banks with BEALF. As at 28 February 2022 deposits with a value of £95mn were guaranteed.

25: Investments in subsidiaries

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

- The Securities Management Trust Ltd 1,000 ordinary shares of £1, principal activity is that of a nominee company.

- Bank of England Asset Purchase Facility Fund Ltd 100 ordinary shares of £1, principal activity is to fulfil the remit given to the Bank by the Chancellor of the Exchequer and for monetary policy.

- Bank of England Alternative Liquidity Facility Ltd 100 ordinary shares of £1, principal activity is to offer a non-interest based deposit facility backed by the central bank to commercial banks that cannot pay or receive interest.

- BE Pension Fund Trustees Ltd two ordinary shares of £1, principal activity is that of provision of trustee services to the Bank of England Pension Fund.

- Covid Corporate Financing Facility Ltd 1 ordinary share of £1, principal activity is to operate the CCFF on behalf of HM Treasury.

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

Section 5: People and related parties

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

26: Staff costs

Accounting policies

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

	2022 (£mn)	2021 (£mn)
Wages and salaries	318	301
Social security costs	48	38
Pension and other post-retirement costs	80	84
Costs of restructuring	2	1
	448	**424**

Staff costs per average number of employees have increased by 0.3% (2021: 5.87%). The increase in the prior year largely related to a rise in pension costs due to lower gilt yields.

Average number of employees

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

	2022	2021
Governors and other members of Executive Team	27	27
Managers and analysts	3,534	3,283
Other staff	1,114	1,127
	4,675	**4,437**

The number of persons employed by the Bank at the end of February 2022 was 4,740 of which 4,099 were full-time and 641 part-time (2021: 4,581; with 3,945 full-time and 636 part-time). These staff numbers relate to the costs disclosed in this note.

27: Retirement benefits

i: Funded pension scheme

The Bank operates a non-contributory defined-benefit pension scheme providing benefits based on career average pensionable pay. The Bank has a final salary section within the pension scheme that provides pensions based on members' pensionable service and final salary at retirement. The pension is payable for life and increases in payment in line with inflation. This section of the scheme ceased to accrue benefits on a final salary basis from 1 April 2015. Former members of this section can continue to accrue benefits in the career average revalued earnings (CARE) section.

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

Defined-benefit and career average

The assets of the scheme are held by the Bank in an independent trustee-administered fund. The Bank also provides other post-retirement benefits, principally healthcare, for certain pensioners.

The pension scheme is an HMRC registered pension scheme and is subject to standard UK pensions and tax law. This means that the payment of contributions and benefits are subject to the appropriate tax treatments and restrictions and the scheme is subject to the scheme funding requirements outlined in section 224 of the Pensions Act 2004.

In accordance with UK trust and pensions law, the pension scheme has appointed trustees who are independent of the Bank. Although the Bank bears the financial cost of the scheme, the responsibility for the management and governance of the scheme lies with the trustees, who have a duty to act in the best interest of members at all times.

Valuation for funding purposes

The main pension scheme, the Bank of England Pension Fund, is valued for funding purposes at intervals of not more than three years by an independent qualified actuary, with interim reviews in the intervening years. The latest valuation for funding purposes was as at 28 February 2020; it used the Defined Accrued Benefit Method. Under this method, active members are assumed to leave the Fund on the date of the valuation and hence the past service liability does not include an allowance for any salary increases or in-service CARE revaluation after that date. Instead members' benefits are assumed to increase in line with the deferred pension revaluation assumptions.

	£mn
The valuation as at 29 February 2020	
Value of Fund assets	4,933
Actuarial value of scheme liabilities in respect of:	
– In-service members	(1,296)
– Deferred pensioners	(1,021)
– Current pensioners and dependants	(2,297)
– GMP equalisation reserve	(14)
– RPI consultation reserve	(125)
– Members' additional voluntary contributions	(1)
Total	**(4,754)**
Scheme surplus	**179**
Funding level	**104%**
Service contribution rate for March	**52.2%**

For the 2020 valuation, the liabilities were valued by the actuary on an index-linked gilt yield discount rate, and no credit was taken in advance for the possibility that returns on investments held by the Fund would exceed the long-term interest rate. Allowance was made for past and prospective mortality improvements. The rate of RPI inflation used in the valuation and the pension increase assumption was based upon the RPI inflation curve.

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

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

Summary of amounts recognised in the financial statements under IAS 19

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

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

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

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

ii: Redundancy provisions

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

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

iii: Other pension schemes

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

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

iv: Medical scheme

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

Accounting policies

In the preparation of their valuations under IAS 19 referred to in this note, the actuary has used the assumptions indicated below, which members of Court have accepted for the purposes of accounting and disclosure under the standard.

Recognition of scheme assets

The assets of the scheme are held by the Bank in an independent trustee-administered fund. The asset recognised in the balance sheet in respect of the defined-benefit pension scheme is the fair value of the scheme's assets less the present value of the defined-benefit obligation at the balance sheet date.

Recognition of scheme liabilities

The defined-benefit obligation is calculated annually by an independent actuary using the projected unit method. The present value of the defined-benefit obligation is determined by discounting the estimated cash outflows using interest rates of high-quality sterling corporate bonds that have terms to maturity approximating to the terms of the related pension liability.

Recognition of remeasurements

Remeasurements on retirement benefits comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what actually occurred), as well as the effects of changes in actuarial assumptions. Remeasurements on retirement benefits are recognised immediately in equity and reflected in other comprehensive income. Current and past service costs are recognised immediately in the income statement. Any net defined-benefit surplus is limited to the benefit that is available to the Bank.

The Bank also provides other post-retirement benefits, principally related to redundancy provisions and healthcare for certain pensioners, which are accounted for on a similar basis to the accounting for pension obligations.

Recognition of the net pension surplus

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

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

	Note	2022 (£mn)	2021 (£mn)
Funded pension schemes	(i)	1,279	1,154
Unfunded post-retirement benefits:			
Redundancy provisions	(ii)	(63)	(64)
Other pension schemes	(iii)	(7)	(8)
Medical scheme	(iv)	(146)	(136)
Subtotal unfunded post-retirement benefits		(216)	(208)
		1,063	**946**

Pension expense recognised in the income statement

	Note	2022 (£mn)	2021 (£mn)
Funded pension schemes	(i)	72	76
Unfunded post-retirement benefits:			
Redundancy provisions	(ii)	1	1
Other pension schemes	(iii)	–	–
Medical scheme	(iv)	4	3
		77	**80**

Remeasurements recognised in the statement of comprehensive income

	Note	2022 (£mn)	2021 (£mn)
Funded pension schemes	(i)	67	(67)
Unfunded post-retirement benefits:			
Redundancy provisions	(ii)	(1)	1
Other pension schemes	(iii)	–	–
Medical scheme	(iv)	(11)	4
		55	**(62)**

Risks

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

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

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

- Inflation risk – the majority of the scheme's liabilities increase in line with inflation; and so if inflation is greater than expected, the liabilities will increase. The scheme's investment strategy contains RPI and CPI linked liabilities and the Fund is hedged with RPI linked assets, so this risk is mostly mitigated.

The redundancy provision and other pension schemes are primarily exposed to the mortality and inflation risks above. As they are not backed by any assets, these risks cannot be so easily managed. However, these arrangements (and therefore the risks associated with them) are small in comparison to the funded pension scheme.

The two main risks to which the Bank is exposed in relation to the medical scheme are mortality risk, as described above, and increases in the costs incurred being greater than assumed, either due to inflation of future medical costs or the frequency of members' claims.

Components of pension expense in the income statement

	2022			2021		
	Main pension scheme (£mn)	Other pensions (£mn)	Medical scheme (£mn)	Main pension scheme (£mn)	Other pensions (£mn)	Medical
Current service cost	96	–	1	98	–	1
Past service cost	–	–	–	–	–	–
Net interest on the net defined liability/asset	(24)	1	3	(22)	1	3
Total pension expense	72	1	4	76	1	4

Remeasurements recognised in other comprehensive income

	2022			2021		
	Main pension scheme (£mn)	Other pensions (£mn)	Medical scheme (£mn)	Main pension scheme (£mn)	Other pensions (£mn)	Medical
Remeasurements recognised at the beginning of the period	406	(31)	(21)	473	(32)	(25)
Actuarial gains arising from changes in demographic assumptions	4	–	–	(22)	–	(1)
Actuarial losses arising from changes in financial assumptions	(84)	1	(10)	164	1	5
Actuarial gains/(losses) arising from experience on the scheme's liabilities	(116)	(2)	(1)	56	–	–
Return on scheme's assets excluding interest income	263	–	–	(265)	–	–
Remeasurements recognised at the end of the period	**473**	**(32)**	**(32)**	**406**	**(31)**	**(21)**

Reconciliation of present value of defined-benefit obligation

	2022			2021		
	Main pension scheme (£mn)	Other pensions (£mn)	Medical scheme (£mn)	Main pension scheme (£mn)	Other pensions (£mn)	Medical
Present value of defined-benefit obligation at the beginning of the period	3,577	72	136	3,757	77	142
Current service cost	96	–	1	98	–	1
Past service cost	–	–	–	–	–	–
Interest expense	72	1	3	68	1	3
Actuarial gains arising from changes in demographic assumptions	(4)	–	–	22	–	1
Actuarial gains/(losses) arising from changes in financial assumptions	84	(1)	10	(164)	(1)	(5)
Actuarial (gains)/losses arising from experience on the scheme's liabilities	116	2	1	(56)	–	–
Benefits paid out	(127)	(4)	(5)	(148)	(5)	(6)
Present value of defined obligation at the end of the period	**3,814**	**70**	**146**	**3,577**	**72**	**136**

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

Reconciliation of the fair value of assets

	2022			2021		
	Main pension scheme (£mn)	Other pensions (£mn)	Medical scheme (£mn)	Main pension scheme (£mn)	Other pensions (£mn)	Medical
Fair value of scheme's assets at the beginning of the period	4,731	–	–	4,931	–	–
Interest income	96	–	–	90	–	–
Return on scheme's assets excluding interest income	263	–	–	(265)	–	–
Bank contributions	130	4	5	123	5	6
Benefits paid out	(127)	(4)	(5)	(148)	(5)	(6)
Fair value of scheme's assets at the end of the period	**5,093**	**–**	**–**	**4,731**	**–**	**–**

Summary of significant assumptions

Under IAS 19 measurement of scheme liabilities must be calculated under the projected unit method, which requires certain demographic and financial assumptions, including an assumption about future salary growth. The assumptions used are applied for the purposes of IAS 19 only.

The significant financial and other assumptions used by the independent actuary to calculate scheme liabilities over the life of the scheme on an IAS 19 basis were:

	2022 (%)	2021 (%)
Discount rate	1.5	2.0
CPI inflation	2.0	2.0
Rate of increase in salaries	3.0	3.0
Rate of increase of pensions in payment[(1)]	2.2	2.8
Rate of increase for deferred pensioners[(1)]	2.3	2.8

(1) This represents a weighted average of RPI and CPI, which are the indices used in the scheme.

The discount rate assumption reflects the investment return on a high-quality corporate bond at the balance sheet date, as required by the standard.

Future CPI assumption is assumed to be 2.0% per annum.

RPI inflation assumption is assumed to be 1.0% per annum higher than CPI inflation before 2030 and in line with RPI inflation from 2030 onwards. For the 2021 disclosures, RPI inflation was assumed to be 1.0% higher than CPI inflation at all future terms.

The assumption on salary growth is for the long term over the life of the scheme.

An age-related promotion scale has been added to the increase in salaries assumption.

The assumption for life expectancy for the scheme assumes that a male member reaching 60 in 2022 will live for 27.2 years (2021: 27.2 years) and a female member 29.6 years (2021: 29.5 years), and a male member reaching 60 in 2041 will live for 28.7 years (2021: 28.7 years) and a female member 31 years (2021: 31 years).

The Bank has adopted the latest available mortality projections model, which reduces the Fund's liabilities as a result of recent improvements in mortality being slightly lower than previously assumed.

As per the 2021 disclosures, allowance has been made for the impact of Covid on life expectancies taking account of the immediate impact of the pandemic and the characteristics of the scheme's membership. This has been allowed for via an adjustment to the weighting applied to the base table assumptions.

The overall effect of the changes to the mortality assumptions has been to slightly increase the value of the liabilities. The assets in the scheme were:

	2022				2021			
	Level 1 (£mn)	Level 2 (£mn)	Level 3 (£mn)	Total (£mn)	Level 1 (£mn)	Level 2 (£mn)	Level 3 (£mn)	Total (£mn)
Bonds[1]	3,031	1,559	–	4,590	3,194	1,464	–	4,658
Pooled investment vehicles	–	441	1	442	–	–	1	1
Derivatives	–	49	–	49	–	–	–	–
Additional Voluntary Contributions (AVC) investments	–	–	1	1	–	–	1	1
Cash	20	–	–	20	23	–	–	23
Other investment balances[2]	27	(36)	–	(9)	45	3	–	48
Total investments at fair value	**3,078**	**2,013**	**2**	**5,093**	**3,262**	**1,467**	**2**	**4,731**

(1) 'Bonds' balances have been adjusted to exclude accrued interest. The accrued interest on bonds is included in 'Other investment balances'.
(2) Other investments comprise derivative margin balances and accrued interest in respect of the bond investments.

For the purposes of IAS 19, the asset values stated are at the balance sheet date. Market values of the scheme's assets, which are not intended to be realised in the short term, may be subject to significant change before they are realised.

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

- Level 1 – were valued using an unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

- Level 2 – were valued using inputs other than quoted prices included within Level 1 that are observable (ie developed using market data) either directly or indirectly.

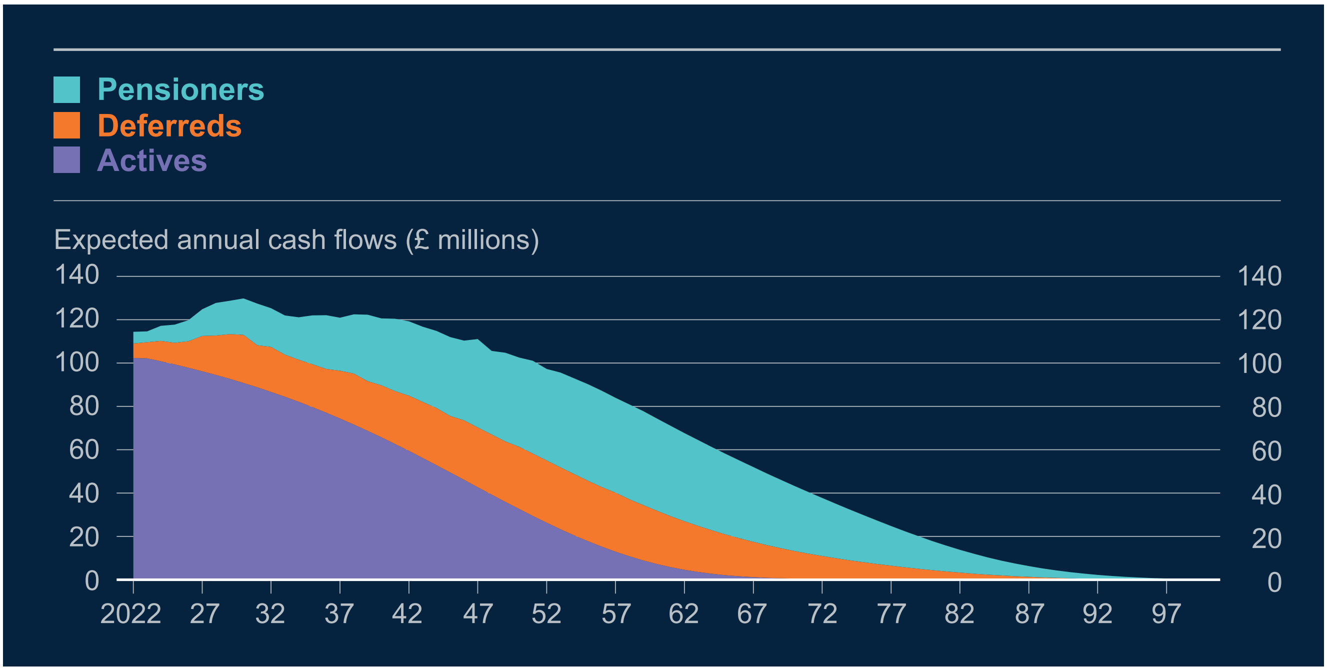
- Level 3 – where inputs were unobservable (ie for which market data is unavailable).

Main scheme

	2022 (£mn)	2021 (£mn)
Present value of defined-benefit obligations:		
– Active members	(1,114)	(959)
– Deferred members	(777)	(748)
– Pensioners	(1,915)	(1,862)
– GMP equalisation reserve	(8)	(8)
Total present value of defined-benefit obligations	(3,814)	(3,577)
Assets at fair value	5,093	4,731
Defined-benefit asset	**1,279**	**1,154**

The Bank has recognised the net surplus in full on the balance sheet as it can realise any surplus on the winding up of the scheme after all other benefits have been paid in full in accordance with the scheme's rules, which can only be amended with agreement between the Bank and the Trustees.

The duration of the pension scheme liabilities is in the region of 20 years. The expected future monthly cash flows from the scheme (based only on the past service liabilities built up by 28 February 2022) are shown in the chart below.



A +/- 0.1% change to the discount rate would change the surplus on the pension scheme by +/- £77mn (2021: +/- £71mn).

A +/- 0.1% change to the assumed difference between CPI and RPI inflation (ie a +/- 0.1% change to RPI inflation) would change the present value of defined-benefit obligations for the pension scheme by +/- £47mn (2021: +/- £48mn).

A +/- 0.5% change to the assumed rate of increases in salaries would change the surplus on the pension scheme by +/- £20mn (2021: +/- £21mn).

If mortality rates were adjusted such that individuals were assumed to live for an additional year, the scheme's liabilities at the year-end would increase by approximately £143mn (2021: £134mn).

The Bank paid contributions of £136mn in March 2022 (2021: £130mn).

Redundancy provisions

	2022 (£mn)	2021 (£mn)
Unfunded defined-benefit liability	**(63)**	**(64)**

More details regarding the composition and valuation of redundancy provisions are provided on pages 175–76.

The Bank expects to make payments of £4mn in the forthcoming year (2021: £3mn).

Other pension schemes

	2022 (£mn)	2021 (£mn)
Unfunded defined-benefit liability	**(7)**	**(8)**

More details regarding the composition and valuation of other pension schemes are provided on page 176.

The Bank expects to make payments of less than £1mn in the forthcoming year (2021: less than £1mn).

During the year to 28 February 2022 the Bank incurred services costs of less than £1mn (2021: less than £1mn).

Medical scheme

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

Summary of significant assumptions

The discount rates used for the purposes of measuring post-retirement medical benefit liabilities are the same as used in the IAS 19 valuation of pension scheme liabilities (see Summary of significant assumptions on pages 176–77). The level at which claims are assumed to arise on average has been taken in line with that used for the 2021 disclosures. For accounting purposes the following assumptions have been made in respect of medical expense inflation:

	2022 (%)	2021 (%)
Initial medical trend	5.0	5.0
Ultimate medical trend	5.0	5.0
Years to ultimate	**–**	**–**

Post-retirement benefits – medical

	2022 (£mn)	2021 (£mn)
Unfunded defined-benefit liability	**(146)**	**(136)**

Sensitivity analysis provided by the actuary indicates that 0.1% decrease in the discount rate would change the deficit on the other post-retirement benefits by £2mn (2021: £2mn) and a 1% increase in the rate of medical claims by £24mn (2021: £22mn). If the mortality rates were adjusted such that individuals were assumed to live for an additional year, the other post-retirement liabilities at the year-end would increase by approximately £7mn (2021: £6mn).

The Bank expects to pay premiums of £6mn in the forthcoming year (2021: £5mn).

28: Related parties

Transactions with those commercial banks which are related parties but not wholly-owned by HM Treasury have not been disclosed as the Bank does not believe such disclosures to be necessary having regard to its financial stability objective.

a: HM Government

The Bank provides a range of activities to its shareholder, HM Treasury, and to other Government departments and bodies:

- provision of banking services, including holding the principal accounts of Government;
- management of the Exchange Equalisation Account (EEA); and
- management of the note issue.

The Bank also engaged in transactions with the Financial Services Compensation Scheme and other related parties.

The aggregate balances on HM Treasury and other public sector accounts are disclosed in note 12 as public deposits. The total charges made to the Government totalled £106mn (2021: £120mn) as disclosed in note 5a. The breakdown is as follows:

- services provided to the EEA of £13mn (2021: £6mn), under the current temporary arrangement to share the costs of the EEA;

- issue department £91mn (2021: £112mn);

- banking services to HM Government £2mn (2021: £2mn).

Debt Management Office and Debt Management Account

The Bank has entered into agreements with the Debt Management Account (DMA) through the UK Debt Management Office (DMO) whereby the DMA lends UK government securities to the Bank with the simultaneous agreement that the Bank would deliver equivalent securities to the DMA on termination of those agreements.

The final loan balances on the Bank's Funding for Lending Scheme matured in September 2021. At 28 February 2022 the Bank had no Treasury bills borrowed under the Bank's Funding for Lending Scheme (2021: £0.1bn). The Bank has paid the DMA a loan fee of £1,000 (2021: £13,000) for the Treasury bills borrowed.

In addition, the DMA placed interest-bearing deposits with the Bank during the year, which is included within note 12 as public deposits. The interest paid in respect of DMO deposits was £7mn in 2022 (2021: £5mn).

HM Treasury

HM Treasury continued to indemnify the activities of the Bank of England Asset Purchase Facility Fund Ltd and provided an indemnity for the operations of the Covid Corporate Financing Facility (CCFF) during the year.

Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS) is the United Kingdom's statutory fund of last resort for customers of authorised financial services firms set up under the Financial Services and Markets Act 2000 (FSMA). The FSCS is independent from the Prudential Regulation Authority and Financial Conduct Authority, although accountable to them and ultimately to HM Treasury.

The FSCS placed interest-bearing deposits with the Bank during the year, which are included within note 12 as public deposits.

Financial Conduct Authority

The Financial Conduct Authority (FCA) charges the Bank an administration fee relating to the invoicing and collection of fee and other income from levy payers. Charges for this service totalled £153,000 in the year (2021: £247,000). The Bank is also charged for the shared use of some FCA software applications to support regulation. The total charge for this service was £5.9mn (2021: £5.9mn).

b: Subsidiaries

Full details of the subsidiaries of the Bank are disclosed in note 25.

Bank of England Asset Purchase Facility Fund Ltd (BEAPFF)

BEAPFF is a wholly-owned subsidiary of the Bank. It was established on 30 January 2009 in order to fulfil the remit of the Chancellor of the Exchequer given to the Bank on 19 January 2009. This remit was subsequently expanded to enable the Company's operations to be used as a monetary policy tool at the request of the Monetary Policy Committee of the Bank.

BEAPFF operations are fully indemnified for loss by HM Treasury and any surplus for these operations is due to HM Treasury.

As part of the transfer of TFS loans from BEAPFF to the Bank in 2019, the Bank made an agreement with the BEAPFF that they should continue to receive TFS scheme fees after the transfer. Fees transferred in the year totalled £0.5mn (2021: £10mn).

At 28 February 2022 the loan from the Bank to BEAPFF was £894.9bn (2021: £773.4bn). Interest on this loan is receivable at Bank Rate and amounted to £1.3bn for the year ending 28 February 2022 (2021: £0.7bn).

At the year-end BEAPFF held a deposit at the Bank of £6.3bn (2021: £3.3bn), which is included in other deposits (note 12). Interest on this deposit is payable at Bank Rate and totalled £11mn for the year ending 28 February 2022 (2021: £9mn).

A management fee was payable by BEAPFF to the Bank in respect of the year ended 28 February 2022 is £2.1mn (2021: £1.6mn). This is in line with the arrangements agreed between the Bank and HM Treasury.

Bank of England Alternative Liquidity Facility Ltd (BEALF)

BEALF is a wholly-owned subsidiary of the Bank. BEALF was incorporated on 14 December 2018. The principal activity of BEALF is to offer a non-interest based deposit facility backed by the central bank to commercial banks that cannot pay or receive interest. It houses a deposit facility to allow UK banks to hold sterling deposits at the Bank in a similar way to conventional banks under the Bank's Sterling Money Framework. Relatedly, the deposit capacity of the Alternative Liquidity Facility (ALF) is limited to the size of the backing fund, which may be reviewed from time to time.

At 28 February 2022 the loan from the Bank to BEALF was £105mn (2021: nil).

The Bank has provided a guarantee for the principal value of deposits placed by participating banks with BEALF (see page 165).

Management fee payable by BEALF to the Bank in respect to the year ended 28 February 2022 is £49,000 (2021: nil).

Covid Corporate Financing Facility (CCFF)

On 17 March 2020, HM Treasury announced a number of measures designed to support businesses. The Chancellor set out a package of temporary, timely and targeted measures to support public services, people and businesses through the period of disruption caused by Covid. The facility is designed to support liquidity among larger firms, helping them to bridge coronavirus disruption to their cash flows through the purchase of short-term debt in the form of commercial paper. The CCFF is operated by the Bank of England on behalf of HM Treasury. It is a wholly-owned subsidiary of the Bank of England.

CCFF operations are fully indemnified for loss by HM Treasury and any surplus for these operations is due to HM Treasury.

The CCFF closed to new purchases on 23 March 2021. At 28 February 2022 the loan from the Bank to the CCFF was £1.1bn (2021: £11.8bn). Interest on this loan is receivable at Bank Rate and amounted to £5.1mn for the year ending 28 February 2022 (2021: £13.9mn).

At the year-end the CCFF held a deposit at the Bank of £88mn (2021: £39mn). Interest on this deposit is payable at Bank Rate and totalled £0.1mn for the year ending 28 February 2022 (2021: £0.1mn).

Management fee payable by the CCFF to the Bank in respect of the year ended 28 February 2022 is £2.6mn (2021: £3.1mn). This is in line with the arrangement agreed between the Bank and HM Treasury.

Subsequent to year-end, in March 2022, all assets of the CCFF were fully repaid to the CCFF and the CCFF fully repaid its loan to the Bank.

c: Key management personnel

Members of Court are covered by an indemnity from the Bank, granted in 2000 (see page 12). Members of the FPC, MPC and PRC are also covered by an indemnity granted by the Bank (see pages 16–21).

The following information is presented only in respect of those employees of the Bank who would be considered as key management personnel, as defined under IAS 24 (Related Party Disclosures). This comprised the Governors, members of the Executive Team and non-executive directors.

At 28 February 2022, the number of key management personnel was 38 (2021: 41).

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

	2022 (000)	2021 (000)
Loans		
Balance brought forward	60	92
Loans made during year	-	18
Loans repaid during year	(28)	(50)
	32	**60**
Interest income earned	1	2
Number of key management personnel with loans at 28 February	2	5

No expected credit losses have been recognised in respect of loans given to related parties (2021: nil) as the ECL amount is immaterial.

There were no other transactions that would be required to be shown under the provisions of the Companies Act 2006. None of the key management personnel had a material interest, directly or indirectly, at any time during the year in any other significant transaction or arrangement with the Bank or any of its subsidiaries.

Key management remuneration

	2022 (000)	2021 (000)
Salaries and short-term benefits	7,904	7,841
Post-employment benefits	845	839
	8,749	**8,680**

Post-employment benefits have been estimated using an expected cost of pension on a funding valuation basis.

Full information on the remuneration (including pension arrangements) of the Members of Court is given in the Report of the Remuneration Committee on pages 82–90.

d: The Bank's pension scheme

The Bank provides the secretariat, accounting services and some banking and custodial services to the Bank's funded pension scheme. In the year to 28 February 2022 no charge was made for these services (2021: nil). These activities are undertaken on behalf of, and under the supervision of, the Trustee of the Pension Fund. The contribution paid to the scheme during the year was £130mn (2021: £123mn). There were no other material transactions between the Bank and the pension scheme during the year to 28 February

2022. At 28 February 2022 the balances on accounts held with the Bank were £42mn (2021: £54mn).

e: Other entities with links to the Bank

In the normal course of its activities as a central bank, the Bank has relationships, involving some representation at management level and participation in funding, with international and domestic institutions. The Bank does not consider these institutions to be related parties.

Section 6: Operating assets and liabilities

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

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

The Bank of England Act 1946, as amended by the Bank of England Act 1998, requires the Bank to pay HM Treasury, in lieu of dividend on the Bank's capital, on 5 April and 5 October, a sum equal to a percentage of the Banking Department's post-tax profit for the previous financial year as agreed by the Bank and HM Treasury. The cash amount paid in 2022 was £nil (2021: £45mn). When the due date falls on a non-business day, the payment is made on the last business day before the due date. These payments have been accrued and charged to equity at 28 February 2022. The payments are deductible for corporation tax in the year to which the payments relate.

	2022 (£mn)	2021 (£mn)
Payable 5 April 2022 (2021: 5 April)	–	–
Payable 5 October 2022 (2021: 5 October)	–	–
	–	**–**

Following agreement of the capital framework[45] between the Bank and HM Treasury, the proportion of Banking Department profits payable to HM Treasury will be determined by the level of loss-absorbing capital held by the Bank and where this sits within a set of parameters as outlined in section 2b of the newly agreed Financial relationship between HM Treasury and the Bank of England: memorandum of understanding. No dividend will be paid to HM Treasury for the financial year to 28 February 2022 as the Bank's loss-absorbing capital is below the £3.5bn threshold, in line with the capital framework.

45. **www.bankofengland.co.uk/letter/2018/banks-financial-framework-june-2018**.

30: Property, plant and equipment

Accounting policies

i: Initial recognition

The amount capitalised at initial recognition is the purchase price of the asset along with any further costs incurred in bringing the asset to its present condition and location.

ii: Subsequent valuation

Subsequent costs are added to an asset's carrying amount, or are recognised as a separate asset as appropriate, only when it is probable that they will generate future economic benefits to the Bank and the cost of the item can be reliably measured. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Professional valuations of the Bank's properties are carried out each year with subsequent additions included at cost and provisions made for depreciation as explained below. Any surplus arising on revaluation is recognised directly in a revaluation reserve within equity, except to the extent that the surplus reverses a previous revaluation deficit on the same asset recognised in the income statement, in which case the credit is to the income statement.

The figures for freehold land and buildings reflect independent professional valuations performed in accordance with the Royal Institution of Chartered Surveyors (RICS) on a market value basis as at 28 February 2021 by Gerald Eve, members of RICS.

iii: Depreciation

Land is not depreciated. Depreciation on other property, plant and equipment is charged on a straight-line basis:

- Freehold buildings: over the estimated future lives which range from 10 to 75 years.
- Leasehold improvements: over the estimated remaining life of the lease.
- Plant within buildings: over periods ranging from 5 to 20 years.
- Lease right of use (ROU) assets: over the estimated remaining life of the lease.
- IT equipment: over periods ranging from 3 to 7 years.
- Other equipment: over periods ranging from three to 20 years.

The depreciable amount of a revalued asset is based on its revalued amount less any residual value. The revaluation surplus is not transferred to retained earnings until the asset's ultimate disposal.

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date.

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

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

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

	Freehold land and buildings (£mn)	Leasehold improvements (£mn)	Equipment[1] (£mn)	Lease ROU assets (£mn)	Total (£mn)
For the period to 28 February 2022					
Cost or valuation					
At 1 March 2021	313	14	202	78	607
Additions	9	1	13	–	23
Disposals/write-offs	(1)	–	(23)	–	(24)
Revaluation of properties	(17)	–	–	–	(17)
At 28 February 2022	**304**	**15**	**192**	**78**	**589**
Accumulated depreciation					
At 1 March 2021	1	8	95	19	123
Charge for the period	5	1	22	8	36
Disposals/write-offs	–	–	(22)	–	(22)
Revaluation of properties	(4)	–	–	–	(4)
At 28 February 2022	**2**	**9**	**95**	**27**	**133**
Net book value at 1 March 2021	312	6	107	59	484
Net book value at 28 February 2022	**302**	**6**	**97**	**51**	**456**

(1) Net book value of equipment at 28 February 2022 included £nil held under finance leases.

Additions for the year includes accrued amounts of £3mn (2021: £5mn). The cash purchases for the year are £25mn (2021: £35mn).

	Freehold land and buildings (£mn)	Leasehold improvements (£mn)	Equipment[1] (£mn)	Lease ROU assets (£mn)	Total (£mn)
For the period to 28 February 2021					
Cost or valuation					
At 1 March 2020	312	14	172	78	576
Additions	5	–	31	–	36
Disposals/write-offs	–	–	(1)	–	(1)
Revaluation of properties	(4)	–	–	–	(4)
At 28 February 2021	**313**	**14**	**202**	**78**	**607**
Accumulated depreciation					
At 1 March 2020	–	7	74	9	90
Charge for the period	5	1	22	10	38
Disposals/write-offs	–	–	(1)	–	(1)
Revaluation of properties	(4)	–	–	–	(4)
At 28 February 2021	**1**	**8**	**95**	**19**	**123**
Net book value at 1 March 2020	312	7	98	69	486
Net book value at 28 February 2021	**312**	**6**	**107**	**59**	**484**

(1) Net book value of equipment at 28 February 2021 included £nil held under finance leases.

31: Intangible assets

Accounting policies

i: Initial recognition

Intangible assets mainly consist of computer software and the costs associated with the development of software for internal use.

Costs associated with externally purchased software and costs directly associated with the internal production of software products, which are controlled by the Bank and which will generate economic benefits exceeding those costs, are recognised as intangible assets. Economic benefits include those that help the Bank to achieve its mission.

ii: Amortisation

These costs are amortised over the expected useful lives of the software, which range from three to five years. Costs associated with software maintenance are recognised as an expense when incurred. Intangible assets are tested for impairment annually. Intangible assets are also subject to an impairment review if there are events or changes in circumstances that indicate that the current valuation may be too high.

	2022 (£mn)	2021 (£mn)
Cost		
At 1 March	201	143
Additions	92	62
Disposals/write-offs	(33)	(4)
At 28 February	**260**	**201**
Accumulated amortisation		
At 1 March	71	58
Charge for the year	19	14
Disposals/write-offs	(32)	(1)
At 28 February	**58**	**71**
Net book value at 1 March	130	85
Net book value at 28 February	**202**	**130**

Additions for the year includes accrued amounts of £nil (2021: £nil). The cash purchases for the year are £92mn (2021: £63mn).

32: Other assets

Accounting policies

Long leases granted on property owned by the Bank are treated as finance leases. Finance lease receivables are stated in the balance sheet at the amount of the net investment in the lease, being the minimum lease payments and any unguaranteed residual value discounted at the interest rate implicit in the lease.

	2022 (£mn)	2021 (£mn)
Finance lease receivables	5	6
Short-term debtors and other assets	649	233
Items in course of settlement	–	300
	654	**539**

Finance lease receivables includes £5mn due in more than one year (2021: £6mn). Within short-term debtors and other assets there is accrued interest of £337mn (2021: £67mn).

33: Other liabilities

Accounting policies

Other liabilities are recognised to the extent that the goods or services have been received, irrespective of having been invoiced, or where an obligation on the Bank has arisen.

Provisions

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

Lease liabilities

Lease liabilities are recognised in respect of premises occupied by the Bank. Lease liabilities are recognised on the balance sheet and are measured at the present value of the remaining lease payments discounted at the weighted average lessee's incremental borrowing rate.

i: Analysis of other liabilities

	2022 (£mn)	2021 (£mn)
Items in course of collection	1	80
Payable to HM Treasury	49	52
Short-term creditors and other liabilities	478	190
Lease liabilities	47	59
Provisions	13	3
Balance at 28 February 2022	**588**	**384**

Payable to HM Treasury includes payment in lieu of dividend (note 29), enforcement fines (net of costs) payable to HM Treasury, and any over/under recoveries of management fees for the management of the notes issue and the Exchange Equalisation Account.

ii: Analysis of provisions

	Restructuring provision (£mn)	Onerous lease provision (£mn)	Other provisions (£mn)	Total (£mn)
Balance at 1 March 2021	1	1	1	3
Provisions utilised during the year	(1)	(1)	–	(2)
Provisions made during the year	2	–	10	12
Provisions reversed during the year	–	–	–	–
Balance at 28 February 2022	**2**	**–**	**11**	**13**

iii: Analysis of lease liabilities

	2022 (£mn)	2021 (£mn)
Expiring within one year	11	11
Expiring between one and five years	34	38
Expiring between five and ten years	2	10
Balance at 28 February 2022	**47**	**59**

iv: Lease liability movements

	2022 (£mn)	2021 (£mn)
Balance at 1 March 2021	59	69
New leases entered into in year	–	1
Payments in the year	(13)	(12)
Interest expense on lease liabilities	1	1
Balance at 28 February 2022	**47**	**59**

Section 7: Other miscellaneous notes

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

34: Auditor's remuneration

	2022 (£000)	2021 (£000)
For the period to 28 February		
Fees relating to audit services performed for the current year	466	445
Fees relating to prior year	28	119
Fees payable to the Auditor for services provided to the Bank		
Non-audit assurance services for the current year	50	48
Total	**544**	**612**

Non-audit assurance services for the current year comprise £29,000 for providing assurance to HM Treasury on the allocation of costs (2021: £28,000), and £21,000 for the submission for Whole of Government Accounts (2021: £20,000).

35: Deferred tax

Accounting policies

Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted and which are expected to apply when the related deferred tax asset or liability is realised. Deferred tax liabilities are presented net of deferred tax assets in the statement of financial position as the Bank has the legal right to settle current tax amounts on a net basis and all tax amounts relate to amounts owing to HMRC in the same jurisdiction. It is the Bank's intention to settle amounts on a net basis.

Rate

Deferred tax is calculated on all temporary differences under the liability method using the effective tax rate of 25.00% (2021: 19.00%). The UK Government announced on the 3 March 2021 that the rate of corporation tax would increase from 19.00% to 25.00% effective from 1 April 2023. This new law was substantively enacted on 24 May 2021. Deferred tax balances recognised in the financial statements at the balance sheet date have been re-measured using this tax rate.

The overall impact of the rate change was to increase the Bank's net deferred tax liabilities by £126mn. The Bank allocated the impact of the rate change between the income statement and reserves based on where the temporary differences arose. This resulted in a net £19mn charge to the income statement, and net £107mn charge to reserves.

Principal differences

The principal temporary differences arise from:

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

Recognition

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences and losses can be utilised.

Deferred tax related to securities held at amortised cost under IFRS 9 and actuarial gains and losses on retirement benefit obligations is credited or charged directly to other comprehensive income and is subsequently recognised in the income statement together with the current or deferred gain or loss if and when realised.

	Note	2022 (£mn)	2021 (£mn)
Deferred tax			
Net liability at 1 March		399	352
Income statement charge	6	22	15
Tax charge through other comprehensive income or directly to equity	6	139	32
Other movements		(1)	–
Net liability at 28 February		**559**	**399**

	2022 (£mn)	2021 (£mn)
Deferred tax liability relates to:		
FVOCI equity investments through comprehensive income	355	262
Pensions and other post-retirement benefits	266	179
Losses carried forward	(67)	(56)
Other	5	14
Total	**559**	**399**

Issue Department account for the period ended 28 February 2022

	2022 (£mn)	2021 (£mn)
Income and profits		
Securities of, or guaranteed by, the British Government	71	104
Other securities and assets	126	105
	197	**209**
Expenses		
Cost of production of banknotes	(51)	(78)
Cost of issue, custody and payment of banknotes	(24)	(30)
Other expenses	(10)	(10)
	(85)	**(118)**
Buffer withheld by Bank[1]	(19)	(29)
Net seigniorage income paid to the National Loans Fund	**93**	**62**

(1) Net income paid to the NLF excludes a buffer held back to meet future expenditure. Amounts held back in the buffer are paid over to the NLF in the subsequent year but are not included in that year's net income paid to NLF reported here.

Issue Department statement of balances for the period ended 28 February 2022

	Note	2022 (£mn)	2021 (£mn)
Assets			
Securities of, or guaranteed by, the British Government	3	1,698	2,093
Other securities and assets including those acquired under reverse repurchase agreements	4	84,742	82,599
Total assets		**86,440**	**84,692**
Liabilities			
Notes issued:			
In circulation	5	86,440	84,692
Total liabilities		**86,440**	**84,692**

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

Mr A Bailey, Governor

Mr S Woods, Deputy Governor

Mr B Fried, Chair of Court

Ms A Kyei, Chief Financial Officer

Notes to the Issue Department statements of account

1: Basis of preparation

The statements of account are prepared in accordance with the requirements of the Currency and Bank Notes Act 1928 and 1954, the National Loans Act 1968 and the Currency Act 1983. All profits of the Issue Department are payable to the NLF.

- The statements of account are prepared on the basis of amounts received and paid as modified by the effects of a revaluation of securities.
- All securities are revalued quarterly at their clean mid-market price and are stated, with purchased accrued interest, in the balance sheet at this valuation. The last valuation was made as at 28 February 2022.
- If a revaluation of securities shows a net gain, this is included in income. A deficit is not taken against income but is settled by a transfer from the NLF. Total gains taken to income in the year to 28 February 2022 amounted to £0mn (2021: £8mn) and total deficits paid by the NLF amounted to £105mn (2021: £96mn).
- Notes in circulation exclude those old series notes which have been written off. The value of the note is still given by the Bank on presentation. The Bank is reimbursed by HM Treasury in these instances.

2: Expenses

The expenses of £85mn (2021: £118mn) represent charges from the Banking Department for costs incurred of £93mn (2021: £114mn) in relation to note issuance production costs plus or minus amounts over/under-collected in prior years.

3: Securities of, or guaranteed by, the British Government

	2022 (£mn)	2021 (£mn)
British Government Stocks	1,328	1,723
Ways and Means advance to the National Loans Fund	370	370
	1,698	**2,093**

The Ways and Means advance earns interest at Bank Rate.

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

	2022 (£mn)	2021 (£mn)
Deposit with Banking Department	82,387	78,524
Reverse repurchase agreements	2,355	4,075
	84,742	**82,599**

The deposit with Banking Department earns interest at Bank Rate.

5: Notes in circulation

	2022 (£mn)	2021 (£mn)
£5	1,995	2,034
£10	14,365	15,405
£20	50,484	44,742
£50	14,790	17,850
Other notes(1)	4,806	4,661
	86,440	**84,692**

(1) Includes higher-value notes used as backing for the note issues of banks in Scotland and Northern Ireland.

6: Assets and liabilities

a: Interest rate exposure

As the liabilities of the Issue Department are interest free, the income of the Issue Department is directly exposed to movements in interest rates. As at 28 February 2022, the assets of the Issue Department had the following repricing period profile.

	2022 (£mn)	2021 (£mn)
Repricing up to one month	85,112	82,969
Repricing in greater than three months but less than six months	–	297
Repricing in greater than 12 months	1,328	1,426
	86,440	**84,692**

b: Currency exposure

All the assets and liabilities of the Issue Department are denominated in sterling. The collateral provided under reverse repurchase agreements may be in currencies other than sterling but this does not give rise to any direct currency exposure.

c: Credit risk

Credit risk is the risk of loss arising from the failure of a borrower, issuer, counterparty or customer to meet its financial obligations to the Bank. The Bank is exposed to credit risk both through direct exposures and through contingent exposures, such as custody arrangements and holdings of collateral. Credit risk arises in the course of the operations of the Notes Circulation Scheme, Agency Notes Store and Notes Printing Contract; and as a result of the Bank providing liquidity to financial institutions via open market operations.

In providing liquidity via routine open market operations, credit risk is managed by ensuring that exposures are fully collateralised (with appropriate margin) by securities that are internally rated as equivalent to investment-grade.

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

7: Accrued interest

At 28 February 2022 the unrecognised accrued interest on the assets held on the Issue Department statement of balances was £22mn (2021: £26mn).

8: Date of approval

The Members of Court approved the statements of account on pages 200–04 on 8 June 2022.

PRA income statement for the period ended 28 February 2022

	Note	2022 (£mn)	2021 (£mn)
Income			
Fee income	2	281	252
Enforcement fine income	5	3	2
Other income	3	9	24
Total income		**293**	**278**
Expenses			
Administrative expenses	4	(293)	(278)
Total expenses		**(293)**	**(278)**
Surplus/(deficit)		–	–

The amounts for the PRA are reported within the Banking Department, and are presented here in accordance with the requirements of Section 7(2A) of the Bank of England Act 1998.

The notes on pages 207–14 are an integral part of these financial statements.

PRA statement of balances for the period ended 28 February 2022

	Note	2022 (£mn)	2021 (£mn)
Assets			
Current assets			
Cash balance held internally by the Bank of England		35	40
Fee and other receivables	8	3	2
Intangible assets	9	19	15
Total assets		**57**	**57**
Liabilities			
Current liabilities			
Trade and other liabilities	10	57	57
Total liabilities		**57**	**57**

The balances for the PRA are reported within the Banking Department, and are presented here in accordance with the requirements of Section 7(2A) of the Bank of England Act 1998.

On behalf of the Governor and Company of the Bank of England:
Mr A Bailey, Governor
Mr S Woods, Deputy Governor
Mr B Fried, Chair of Court
Ms A Kyei, Chief Financial Officer

The notes on pages 207–14 are an integral part of these financial statements.

Notes to the PRA statement of accounts

1: Basis of preparation

Form of presentation of the statement of accounts

The statement of accounts comprise the income statement, the statement of balances, and related notes, and are presented as a subset of the financial statements provided for the Bank.

Under the Bank of England Act 1998 (as amended) (the Act), the Bank is required to present financial and other disclosures in respect of its activities as the Prudential Regulation Authority.

Section 7(2A) of the Act requires that the Bank prepare for each of its financial years a statement of accounts in relation to the:

(a) income received and assets accrued by the Bank by virtue of its functions as the Prudential Regulation Authority; and

(b) expenses and liabilities incurred by the Bank by virtue of its functions as the Prudential Regulation Authority.

Section 7(4A) of the Act requires the Bank to comply with any directions given by HM Treasury as to:

(a) the information to be contained in the statement and the manner in which it is to be presented; and

(b) the methods and principles according to which the statement is to be prepared.

The direction from HM Treasury requires the accounting policies and disclosures applied to be aligned with those standards applicable to the Bank and also to include specific disclosures in relation to:

(a) fair pay;
(b) sickness absence;
(c) exit packages; and
(d) losses and special payments.

The statement of accounts has been prepared and shows the amounts related to the Bank's activities as the PRA that are reported within the Banking Department financial statements. The statement of accounts comprise the income statement, the statement of balances and related notes.

The additional disclosures have been included within the notes to the statement of accounts.

The Court of Directors confirms that the money levied by the Prudential Regulation Authority under Parliamentary Authority recorded in these statement of accounts of the PRA has been applied to the purposes intended by Parliament.

Accounting policies

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

Income from regulatory activity

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

Special project fees

Special project fee income is recognised to match expenditure incurred on activity that has been designated as a special project, for which fees are raised separately in arrears.

There are special project fee activities for which fees are collected in advance, in anticipation of the total spending requirements in the year. Income is recognised through the income statement against cost incurred. Any surplus or deficit is returned or recovered in subsequent financial years.

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

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

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

Enforcement income

Financial penalty monies are recognised as revenue, capped at the level of enforcement expenditure in the year, where they have been levied and received in the financial year, in accordance with the PRA Financial Penalty Scheme. Where financial penalties specific to a single case exceed its costs, the excess penalty monies received can be used to cover expenditure on other cases in the current period. This is returned to fee payers (excluding those fined) in the following financial year. Any financial penalty monies received in excess of total enforcement expenditure in the current period is paid over to HM Treasury, and is not recognised as revenue in the Bank's accounts.

Cost recoveries

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

Cash balance held internally by the Bank of England

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

Treatment of a surplus or deficit

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

2: Fee income

	2022 (£mn)	2021 (£mn)
Fee income	281	252
Total	**281**	**252**

3: Other income

	2022 (£mn)	2021 (£mn)
Solvency II income	–	1
EU withdrawal project income	–	12
Model Maintenance Fee income	7	7
Other sundry income	2	4
Total	**9**	**24**

4: Administrative costs

	Note	2022 (£mn)	2021 (£mn)
Staff costs	6	149	151
Costs incurred centrally and allocated to the PRA		133	118
Professional and membership fees		6	5
Amortisation of intangible assets		3	4
Travel and accommodation		–	–
Other administration and general expenses		2	2
Cost recoveries		–	(2)
Total		**293**	**278**

Included within administrative expenses are costs incurred centrally and allocated to the PRA for provision of IT, Finance, Property and Procurement, and Human Resource services.

5: Enforcement fine income

Enforcement fines of £51.9mn (2021: £48.3mn) were raised and collected during the year. Enforcement income of £2.7mn (2021: £2.3mn) was recognised in the year, with the balance of fines collected of £49.2m payable to HM Treasury (2021: £46.0mn). This payment was made post year-end. Enforcement fines received and then paid over to HM Treasury are not recognised as income.

6: Staff costs

	2022 (£mn)	2021 (£mn)
Wages and salaries	106	107
Social security costs	12	12
Pension and other post-retirement costs	31	32
Total	**149**	**151**

HM Treasury has made a direction under Section 7(4A) of the Bank of England Act 1998 requiring the Bank to disclose the following in respect of staff deemed to work exclusively for the PRA.

Fair pay

The banded remuneration of the highest paid director (full-time equivalent base salary plus benefits and excluding pension) in the financial year 2021/22 was £287,738 (2021: £284,898). This comprises a salary of £285,841 as at 28 February 2022 (2021: £283,011), plus non-pension related benefits of £1,897 (2021: £1,887). This was 4.07 (2021: 3.97) times the median remuneration of the workforce, which was £70,626 (2021: £71,736). The increase in the ratio from the prior year reflects the Bank's annual pay rise and an increase in the total number of employees, which has shifted the median pay.

During 2021/22 no employee received remuneration in excess of the highest paid director. Remuneration ranged from £23,439 to £275,182 (2021: £22,257 to £275,182).

Exit package

There were no compulsory redundancies during the year.

There was one exit package agreed during the year in the range of £10,000–£19,000.

Sickness absence

The level of sickness absence in the organisation, calculated as working days lost per financial year based on the number of full-time equivalent employees was six days (five in 2021).

Average staff numbers

The average number of persons employed by the Bank deemed to work exclusively for the PRA during the year was made up as follows:

	2022 (£mn)	2021 (£mn)
Governors and other members of Executive Team	7	7
Managers and analysts	1,198	1,148
Other staff	162	167
Total	**1,367**	**1,322**

The number of persons employed by the Bank and working for the PRA was 1,356 at 28 February 2022, of which 1,153 were full-time staff and 203 were part-time (2021: 1,337; with 1,126 full-time and 211 part-time).

7: Taxation

Under the agreement with HM Revenue and Customs, the fees paid by regulated institutions for regulatory purposes are not subject to corporation tax, but net interest income on deposits and any other investment income are subject to corporation tax as non-trade credits. Such net interest or other investment income was £nil during the year (2021: £nil).

8: Fee and other receivables

	2022 (£mn)	2021 (£mn)
Fees receivable	3	2
Total	**3**	**2**

Fees receivable at the reporting date includes £nil (2021: £nil) on account invoicing relating to the annual funding requirement from counterparties for the 2022/23 fee year.

9: Intangible assets

	2022 (£mn)	2021 (£mn)
Cost		
At 1 March	41	35
Additions	7	6
At 28 February	**48**	**41**
Accumulated amortisation		
At 1 March	26	22
Charge for the year	3	4
At 28 February	**29**	**26**
Net book value at 1 March	15	13
Net book value at 28 February	**19**	**15**

Intangible assets comprise software development to enable the PRA to fulfil its regulatory duties.

There were no additions of intangible assets purchased but not paid for at the balance sheet date (2021: £nil).

10: Trade and other liabilities

	Note	2022 (£mn)	2021 (£mn)
Fees received in advance		5	9
Financial penalties received – due to HM Treasury	5	49	46
Financial penalties received – payable to fee payers	5	3	2
Total		**57**	**57**

Fees received in advance comprise fees collected in relation to the annual funding requirement, structural reform and EU Withdrawal in excess of related expenditure.

In accordance with the PRA Financial Penalty Scheme, financial penalty monies received are payable to HM Treasury where they are in excess of enforcement costs incurred during the year, with the remainder due to fee payers.

11: Financial risk

The PRA's principal financial assets are cash, together with fees and other receivables.

Credit risk

Credit risk is the risk of loss arising from the failure of a counterparty to meet its financial obligations to the Bank in its capacity as the PRA. The credit risk that the PRA faces arises when the PRA invoices counterparties from the financial services industry for the collection of regulatory fees and special project fees.

The Bank monitors the credit risk exposure, and the collection of fees from counterparties, on behalf of the PRA. The PRA has a strong record of collecting fees with outstanding amounts at the year-end relating to regulatory services already consumed by those counterparties almost negligible.

Liquidity risk

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

In sterling, liquidity risk does not arise as the Bank is able to create sterling liquidity through its market operations.

12: Losses and special payments

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

13: Date of approval

The Members of Court approved the statements of account on pages 205–14 on 8 June 2022.

Contacting the Bank of England

Bank of England

Threadneedle Street, London, EC2R 8AH
020 3461 4444
www.bankofengland.co.uk

General Enquiries

020 3461 4878
enquiries@bankofengland.co.uk

Prudential Regulation Authority

20 Moorgate, London, EC2R 6DA
020 3461 4444
www.bankofengland.co.uk/pra

Firm Enquiries

020 3461 7000
PRA.FirmEnquiries@bankofengland.co.uk

Find us on social media

Facebook: **www.facebook.com/bankofengland.co.uk**
LinkedIn: **www.linkedin.com/company/bank-of-england/**
Twitter: **www.twitter.com/bankofengland**
YouTube: **www.youtube.com/bankofenglanduk**

Agencies

Central Southern England

Spaces, 4500 Parkway, Solent Business Park, Whiteley, Fareham, PO15 7AZ
01329 277732
CentralSouthernAgency@bankofengland.co.uk
@BoECentralSouth

East Midlands

Sir Colin Campbell Building, University of Nottingham Innovation Park, Triumph Road, Nottingham, NG7 2TU
0115 671 1900
eastmidlands@bankofengland.co.uk
@BoEEastMids

Greater London

Threadneedle Street, London, EC2R 8AH
020 3461 5504
greaterlondon@bankofengland.co.uk
@BoELondon

North East

The Catalyst, 3 Science Square, Newcastle Helix, Newcastle, NE4 5TG
0191 823 6510
northeastagency@bankofengland.co.uk
@BoENorthEast

North West

13th Floor, City Tower, Piccadilly Plaza, Manchester, M1 4BT
0161 359 7438
northwest@bankofengland.co.uk
@BoENorthWest

Northern Ireland

Arthur House, Suite 414, 41 Arthur Street, Belfast, BT1 4GB
028 9044 7180
northernirelandagency@bankofengland.co.uk
@BoENIreland

Scotland

Onyx, 215 Bothwell Street, Glasgow, G2 7EZ
0141 433 7165
scotland@bankofengland.co.uk
@BoEScotland

South East and East Anglia

Threadneedle Street, London, EC2R 8AH
020 3461 3954
seea@bankofengland.co.uk
@BoESouthEast

South West

St Brandon's House, 29 Great George Street, Bristol, BS1 5QT
0117 920 0094
southwest@bankofengland.co.uk
@BoESouthWest

Wales

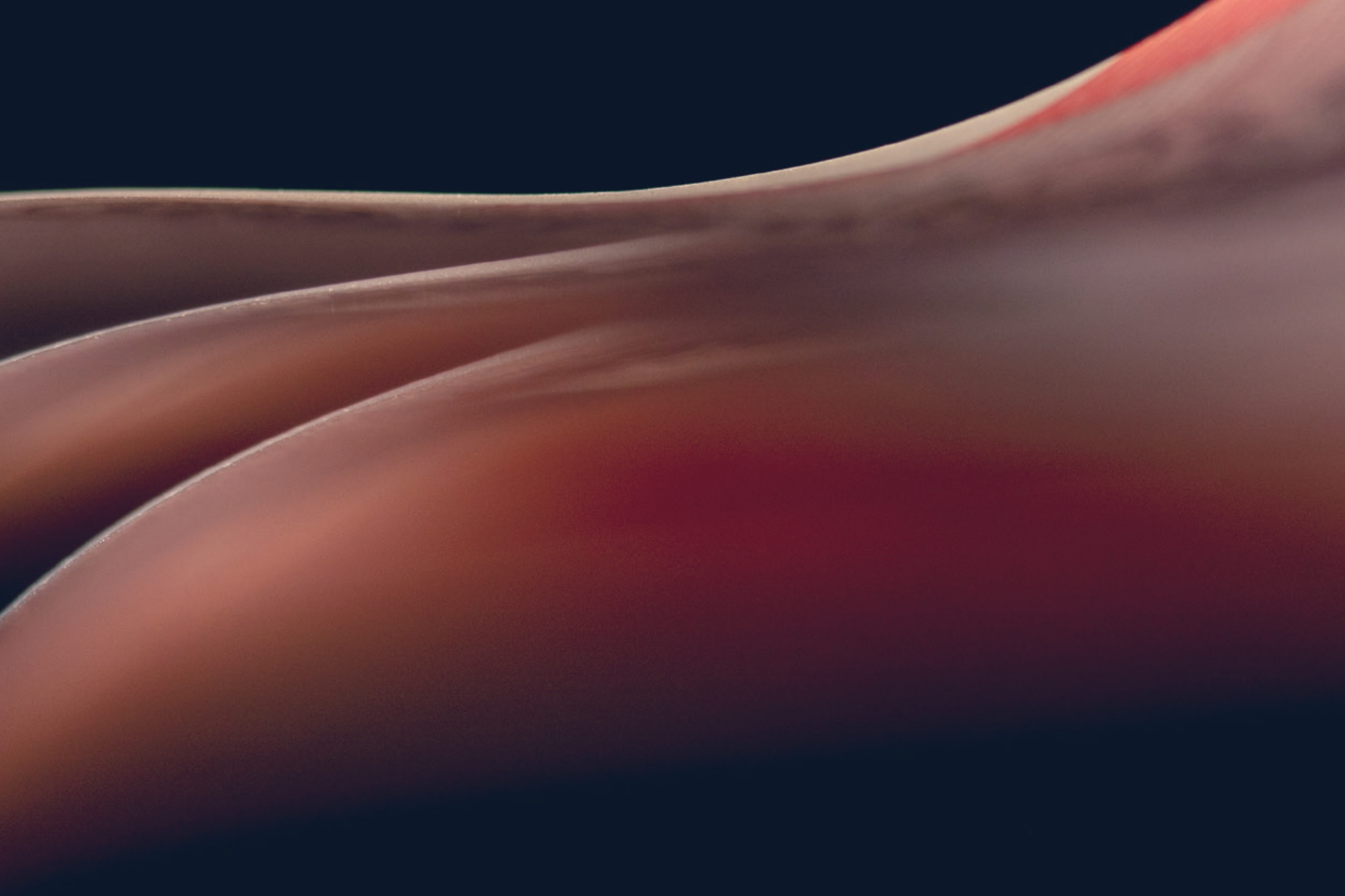
Tŷ Brunel/Brunel House, 2 Fitzalan Road, Caerdydd/Cardiff, CF24 0EB
0292 026 3385
wales@bankofengland.co.uk
@BoEWales

West Midlands and Oxfordshire

Cornwall Buildings, 45–51 Newhall Street, Birmingham, B3 3QR
0121 213 4870
westmidlands@bankofengland.co.uk
@BoEWestMids

Yorkshire and the Humber

West One, 114 Wellington Street, Leeds, LS1 1BA
0113 242 0355
yorkshireandhumber@bankofengland.co.uk
@BoEYorkshire



ISSN 1467-016x

Photography

Front cover – © Lee Funnell
Other images – © Bank of England

Portraits

Bank of England

Print

Park Communications

Our mission is to promote the good of the people of the United Kingdom by maintaining monetary and financial stability

Bank of England
Threadneedle Street
London EC2R 8AH
www.bankofengland.co.uk