BANK OF ENGLAND

Annual Report

Annual Report and Accounts

1 March 2019–29 February 2020

Bank of England
Annual Report and Accounts
1 March 2019 to 29 February 2020

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

The contents of this Report encompass the requirements of Section 4 of the Bank of England Act 1998, and include: (1) a report by the Court of Directors (Court) on the matters which it reviews, monitors or otherwise considers in the performance of its oversight functions (S4(2)(a)); (2) a report by Court on the activities of the Financial Policy Committee of the Bank (S4(2)(aa)); (3) a copy of the statements for the year prepared under section 7(2) and 7(2A) and the report of the Bank's auditors on them; (4) a statement of the rates at which non-executive directors of the Bank have been remunerated (S4(4)(a)); and (5) a statement of the Bank's objectives and strategy for the next year, as determined by Court (S4(4)(b)).

The Bank, in its capacity as the Prudential Regulation Authority, has published a separate report as required by paragraph 19 of Schedule 1ZB of the Financial Services and Markets Act 2000.

The Bank has also published a separate report, as required by section 203B of the Banking Act 2009, paragraph 33 of Schedule 17A of the Financial Services and Markets Act 2000 and Regulation 25 of the Central Counterparties (Amendment, etc, and Transitional Provision) (EU Exit) Regulations 2018, on its supervision of Financial Market Infrastructures.

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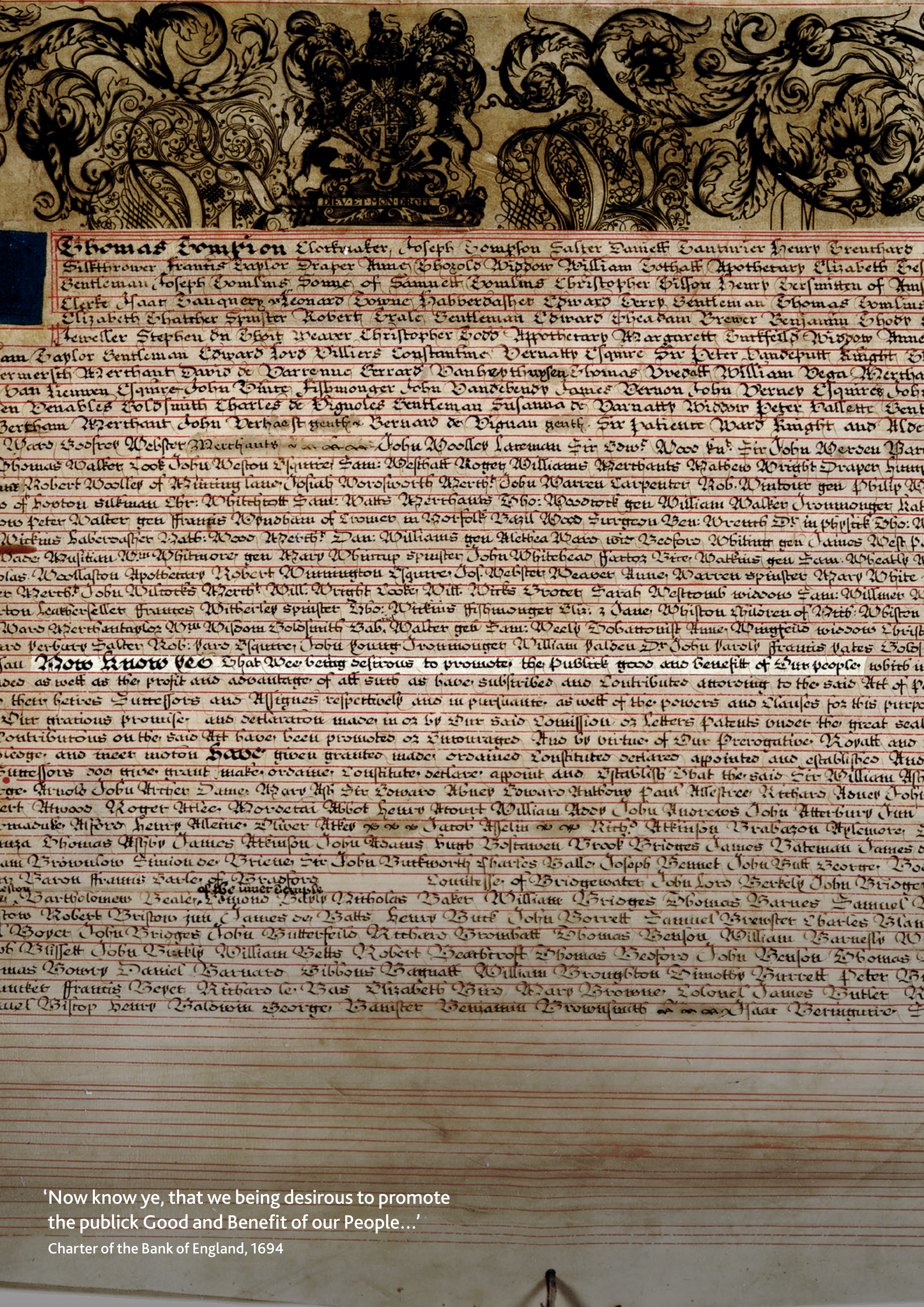


'Now know ye, that we being desirous to promote the publick Good and Benefit of our People…'

Charter of the Bank of England, 1694

Statement by the Chair of Court

Bradley Fried
Chair of Court

I write this foreword at an unprecedented time for the world, United Kingdom and the Bank itself. Covid-19 has disrupted our day-to-day lives and our economy. The Bank, however, continues to meet its mission to serve the people of the United Kingdom and support the economy through these challenging times.

It is meeting that mission from its staff's homes rather than from its London offices and other sites across the United Kingdom. I am very proud of what the Bank and its staff are contributing to the UK both in their day jobs but also outside those roles in their local communities.

Those day jobs have gone well beyond business as usual. The Bank's policy committees have launched a rapid, comprehensive and innovative response to the shock that has hit the economy and financial sector. That has been supported by a raft of analysis — with staff seeking out new data sources and our Agents around the country reaching out to their contacts so that the policy committees can monitor events in real time. Staff have continued to develop and expand our policy tools, finding ways to support lending to small and large businesses, while our markets teams have ensured that those new tools are effective. That has not been in isolation, and the Bank has been working effectively with the UK authorities and has been driving thinking across the global community.

Beyond the policy measures, staff around the Bank are continuing in their efforts to maintain monetary and financial stability. It is important to ensure that money — both electronic and physical — continues to flow through the system. It is also vital to ensure that our banks and financial services firms are able to continue to support households and businesses through these difficult times.

None of this could have been achieved without a massive effort from our technology teams, who have enabled the Bank to continue working remotely. I have seen how smooth that transition has been for myself: our April Court meeting was the first ever to be carried out over conferencing facilities, and discussion was as robust and probing as when we meet in person.

That Court meeting was the first attended by our new Governor Andrew Bailey. This crisis hit as he took over from Mark Carney. We were fortunate to have two exceptional Governors available in March to develop our initial response to the crisis.

I am grateful that Mark agreed to extend his term to enable a smooth handover. As I said in last year's *Report*, under Mark's leadership, the Bank has been modernised and the organisation has been successfully brought together to exploit the synergies of having monetary policy, macroeconomic policy and microprudential regulation together in one institution. This crisis has again shown the benefits of that work.

While I would have preferred to welcome Andrew to the Bank in less trying circumstances, his experience in managing crises, and his knowledge of the Bank and the financial system makes him ideally placed to help steer the economy through the challenging times ahead. I look forward to working with Andrew, and helping him deliver his vision for the Bank, including taking the best of our current ways of working into an organisation that focuses continually on making the most of its talented staff.

Of course, this *Report* covers more than the past few months. And is it important not to forget what the Bank has achieved over the year as a whole. We published a review on the Future of Finance — and the Bank has committed to work on five key areas including ways to boost access to finance for small businesses and supporting the transition to a carbon-neutral economy. We have also continued our work on the Future of Money, with a discussion paper in March 2020 starting a dialogue on Central Bank Digital Currency.

Linking the technology that drives the future of finance to the cash in our pockets, we announced this year that Alan Turing would appear on the new £50 polymer note and also launched our Turner £20 note. Those were supported by excellent public communications and outreach. And the Bank's broader outreach continues to expand, with over 300 schools getting visits from Bank speakers during the year and 17 citizens' panels held across the country, where members of the public can share their views on the economic issues that are affecting them and their communities.

The Bank also needs to maintain its focus on those issues that were already facing the UK and global economy. The Bank continues to work hard to ensure that the financial system is prepared for Brexit once the transition period comes to an end in December this year. Climate change creates far-reaching financial risks. This year, for the first time, the Bank is disclosing its own approach to climate risk management across its entire operations as part of its annual reporting. That is in line with its expectations of financial firms and follows the framework set out by the Taskforce for Climate-related Financial Disclosure.

And as an institution the Bank has to meet its own longer-term challenges. Court continues to focus on the diversity of the organisation. As in previous years progress continues, with a nearly even split of women and men at our Executive Director level. But there remains further to go, particularly with respect to BAME representation at senior levels.

The BAME Taskforce, led by Deputy Governor Sir Dave Ramsden, has made a real difference in supporting our BAME colleagues and raising awareness of the barriers they face. But we need to see that feed through into real changes in the makeup of the Bank's senior leadership team and Court will continue to monitor this closely. And Court members continue to be closely engaged with ensuring the Bank delivers its project portfolio, including the overhaul of the real-time gross settlement system that ensures the smooth functioning of electronic payments, and the major changes needed to support a more streamlined and efficient delivery of the Bank's own central services.

Through all this, Court has provided support and challenge as the Bank navigates the immediate, longer-term and organisational challenges. I would like to thank all my colleagues who have worked with me on Court over the past year, and in particular welcome Ron Kalifa, Frances O'Grady and Hanneke Smits.

The Bank is often said to be at its best in a crisis. I am now seeing that first hand. It has talented and committed staff, who have come together yet again to promote the good of the British people and I know that they will continue to do that through the challenges to come.

Bradley Fried
26 May 2020

Report by the Governor

Andrew Bailey
Governor

The Bank is playing its part in responding to the economic challenges of Covid-19. At the same time, we continue work on initiatives that will protect the monetary and financial stability of the United Kingdom into the 2020s, including by making the Bank more inclusive and diverse.

This is a momentous time both for the country and for the Bank. This *Report* covers the year to February, just over two weeks before I took over as Governor. That now seems an age ago. Few of us imagined then that we would find ourselves in such circumstances.

Of over 4,000 employees overall, I join only around 40 colleagues during my days in the Bank. Spread across our Leeds, Debden, and Threadneedle Street offices, most of these staff are in our hard-working notes, security, and cleaning teams. The Bank — as a building — feels empty. But the Bank as an institution has almost never been busier.

Covid-19 poses a challenge to the country that goes far beyond monetary and financial stability. The Bank was nonetheless ready to do its part, in particular due to the work Mark Carney has done. I'm incredibly grateful for his insight and leadership over almost seven years.

Mark's influence has transformed both the Bank and the UK financial sector. And, through his leadership of the Financial Stability Board, he has contributed to the resilience of the global financial system. Following comprehensive reforms after the global financial crisis, Covid-19 arrived with the financial sector able to be part of the solution, not the problem. UK insurers and banks had both the capital and liquidity they needed to do their job.

As well as promoting resilience in the financial sector itself, Mark was instrumental in developing the Bank's policy frameworks, including improving our understanding of macroprudential policy — perhaps best seen in the FPC's swift action on the countercyclical buffer. A 'macroprudential mindset' has helped the FPC, PRC, and MPC better understand the linkages across their responsibilities. More broadly, the three statutory committees regularly sponsor joint work on issues that cut across their mandates.

During Mark's tenure the Bank also made many operational improvements, which make colleagues both more effective and more efficient.

Mark's forward-looking vision is seen most clearly in the initiatives we take forward into the 2020s, as this *Report* describes:

- We are upgrading the Bank's Real-Time Gross Settlement (RTGS) system, which executes the critical payments, mainly between banks, that keep the rest of the UK's payment system working. The RTGS Renewal Project will make sure this critical piece of national infrastructure can meet the country's needs over the coming decades. The new system will be both more resilient and, by allowing greater access, support financial innovation.

- We continue to make our largest banks more easily resolvable. The Bank, as the UK's resolution authority, already has the powers it needs to enact the resolution of a failing firm, and major UK banks have the bail-in debt needed to avoid bail-outs. But to complete the job, all firms' resolution plans need to be understood by the market — risks can only be priced appropriately when investors know what they're on the hook for. That is what the Bank's Resolvability Assessment Framework aims to do.

- We are carrying through our commitment to reform benchmark rates. Recent market events have shown the problems with benchmarks that are not referenced to real trades. So we remain committed to helping firms phase out Libor and move to other benchmarks, including SONIA.

- As the present circumstances show, firms need to be able keep up their critical services when they are dealing with unexpected events. Worldwide, the management of operational risk in the financial sector remains less developed than the management of financial risk. We are changing this, and will continue to develop a framework to monitor operational risks both for individual firms and the system, and keep them within the appropriate risk tolerances.

- Much of the Bank's work relies on timely data. As well as the costs we bear in collecting and managing it, we acknowledge that collecting these data is a major cost for the firms we regulate. Our data strategy is focused on making the best use of the data we have — including making sure we have the right skills to do this. We are also reviewing how we can best work with banks, insurers, and financial market infrastructures to collect and host these data efficiently in the long run.

- Alongside the above, the Bank and the Prudential Regulation Authority (PRA) are preparing for their central role in the UK's future regulatory framework once EU regulation ceases to apply.

Like all of the Bank's work, each one of these initiatives has been affected by Covid-19. For some of them, these changes are mostly logistical — meetings will take place by conference call and video rather than in person. For others, especially those that need material effort from the firms and financial market infrastructures we supervise, we have to reprioritise. But the direction is clear: we might not get there so quickly, but Covid-19 won't change where we're going.

The Bank's responsibilities have grown since I first joined in 1985. Fortunately, the institution can call on many talented people to deliver these responsibilities. Looking to the future, I want to help all colleagues use their talent as best they can, empowering them to engage across the organisation.

I am also keen to help staff make the Bank as open as possible so that it can communicate in a transparent way.

Finally, we still have much work to do on diversity and inclusion. I have always thought that our staff want — and deserve — a workplace where they can see role models and everyone has an opportunity. We need to work to make this happen.

Since arriving back at the Bank, I have been hugely grateful for, and impressed by, the dedication of our staff in the face of Covid-19. It is through their commitment that the Bank continues to protect the monetary and financial stability of the UK through this crisis.

Andrew Bailey
26 May 2020

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 (NED). One of the non-executive directors is designated by the Chancellor of the Exchequer to chair Court.

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

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

The permanent sub-committees of Court are the Audit and Risk Committee, the Remuneration Committee and the Nominations Committee. An RTGS Renewal Committee has been formed to oversee the implementation of the Bank's Real-Time Gross Settlement system Renewal Programme. Terms of reference of these and other Committees are published on the Bank's website.[2]

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

1 www.bankofengland.co.uk/about/people/court-of-directors.

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

The Court of Directors
as at 26 May 2020

Bradley Fried
Chair of Court

Appointed NED
1 June 2012
Term expires on
30 June 2022

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

Andrew Bailey
Governor

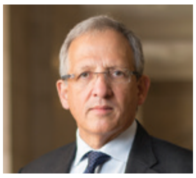
Appointed
16 March 2020
Term expires on
15 March 2028

- Member, Board of Directors, Bank for International Settlements
- Honorary Fellow, Queens College, Cambridge
- Honorary Doctor of Law, Leicester University
- Member, Financial Stability Board
- Member, Group of Governors and Heads of Supervision, Basel Committee on Banking Supervision

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

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
- Member of the Investment Committee of Yale Corporation
- Honorary Fellow, Royal Academy of Engineering

Baroness (Dido) Harding of Winscombe
Deputy Chair of Court

Appointed NED
1 August 2014
Term expires on
31 July 2022

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

Ron Kalifa

Appointed NED
1 June 2019
Term expires on
31 May 2023

- Executive Director, Worldpay (until Feb 2020)
- Chairman, Network International
- Chairman, FutureLearn
- Non-Executive Director, Transport for London
- Member of the Council of Imperial College, London
- Non-Executive Director, England and Wales Cricket The Hundred Board
- Operating Partner, Advent International

Diana Noble

Appointed NED
1 June 2018
Term expires on
31 May 2022

- Non-Executive Director, MedAccess Guarantee Limited
- 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

Sir Dave Ramsden
Deputy Governor, Markets and Banking

Appointed
4 September 2017
Term expires on
3 September 2022

- President of the Society of Professional Economists
- President of the Money Macro and Finance Society
- Trustee of Pro Bono Economics
- Visiting Professor, Kings College London
- Alternate, Committee for Global Financial System, Bank for International Settlements

Hanneke Smits

Appointed NED
1 June 2019
Term expires on
31 May 2023

- CEO, Newton Investment Management
- Member, Newton Investment Management Limited (NIM)
- Newton Investment Management (North America) Limited (NIMNA) Boards
- Member, The Investment Association's Board
- Chair, Impetus — The Private Equity Foundation
- Director and Trustee of The Education Endowment Foundation

Dorothy Thompson
Senior Independent Director

Appointed NED
1 August 2014
Term expires on
31 July 2022

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

Sam Woods
Deputy Governor, Prudential Regulation

Appointed
1 July 2016
Term expires on
30 June 2021

- Chief Executive, Prudential Regulation Authority
- Board Member, Financial Conduct Authority
- Member, Group of Governors and Heads of Supervision, Basel Committee on Banking Supervision

Policy committees

Monetary Policy Committee (MPC)

Members as at 26 May 2020

Top row, left to right

Andrew Bailey
Governor, Chair of the MPC

Ben Broadbent
Deputy Governor, Monetary Policy

Sir Jon Cunliffe
Deputy Governor, Financial Stability

Andy Haldane
Executive Director and Chief Economist
Term: 1 June 2014 – 11 June 2020

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

Bottom row, left to right

Sir Dave Ramsden
Deputy Governor, Markets and Banking

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

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

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

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

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

At least once a year, the Government updates its price stability target and its economic policy objectives. In March 2020, the Chancellor of the Exchequer reconfirmed the target for monetary policy is an inflation rate of ‘2 per cent as measured by the 12-month increase in the Consumer Prices Index’. The economic policy objective of the Government is ‘to achieve strong, sustainable and balanced growth’.[1]

The MPC has nine members. Five are Bank Governors and officials, and four are external members appointed by the Chancellor of the Exchequer. A HM Treasury representative also sits with the Committee at its meetings. The Committee meets at least eight times a year to set policy. The MPC’s Minutes are published alongside the Committee’s decisions after each meeting. The Bank’s quarterly *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 5).

1 www.bankofengland.co.uk/letter/2020/mpc-remit-march-2020.

Financial Policy Committee (FPC)

Members as at 26 May 2020*

Top row, left to right

Andrew Bailey
Governor, Chair of the FPC

Dame Colette Bowe
External member
Term: 1 September 2019 – 31 August 2022

Alex Brazier
Executive Director, Financial Stability Strategy and Risk
Term: 1 April 2015 – 31 March 2021

Ben Broadbent
Deputy Governor, Monetary Policy

Middle row, left to right

Sir Jon Cunliffe
Deputy Governor, Financial Stability

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

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

Sir Dave Ramsden
Deputy Governor, Markets and Banking

Bottom row, left to right

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

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

Christopher Woolard
Interim Chief Executive of the Financial Conduct Authority
Term: 16 March 2020 –

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

- identifying, monitoring and taking action to reduce risks to the financial system; and, subject to that,
- supporting the Government's economic policies, including its objectives for growth and employment.

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

At least once a year, the Government must make recommendations about the FPC's responsibilities for financial stability and also about its growth and employment objectives. The FPC must respond formally to these, and provide reasons if it proposes not to follow the recommendations.[1]

The FPC normally 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. There are also normally five external members appointed by the Chancellor of the Exchequer who are selected for their experience and expertise in financial services, the Chief Executive of the Financial Conduct Authority and one non-voting member from HM Treasury. The Committee meets at least quarterly. It may give Directions to the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (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 5).

1 The most recent remit and recommendations is at www.bankofengland.co.uk/letter/2020/remit-for-the-fpc-2020.
* Martin Taylor was a member of the FPC until the end of his term on 31 March 2020.

Prudential Regulation Committee (PRC)

Members as at 26 May 2020*

Top row, left to right

Andrew Bailey
Governor, Chair of the PRC

David Belsham
External member
Term: 1 May 2015 – 30 April 2021

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

Ben Broadbent
Deputy Governor, Monetary Policy

Middle row, left to right

Norval Bryson
External member
Term: 1 September 2015 – 31 August 2021

Sir Jon Cunliffe
Deputy Governor, Financial Stability

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

Sir Dave Ramsden
Deputy Governor, Markets and Banking

Bottom row, left to right

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

Christopher Woolard
Interim Chief Executive of the Financial Conduct Authority
Term: 16 March 2020 –

Mark Yallop
External member
Term: 1 December 2014 – 30 November 2020

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

The PRC's terms of reference provide for 12 members. 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.[1]
- Since February 2016 members of the PRC have been indemnified by the Bank against personal civil liability on the same terms as members of Court (see page 5).

1 Available on pages 8–9 in the *PRA Annual Report 2019/20*, www.bankofengland.co.uk/prudential-regulation/publication/2020/annual-report-2020.

* The Bank of England Act 1998 provides for one member to be appointed by the Governor with the approval of the Chancellor of the Exchequer. The Governor appointed Ben Broadbent.

* Sandy Boss was a member of the PRC until 17 January 2020.

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 November 2019, the Government issued its latest 'Recommendations for the Prudential Regulation Committee'.[1] This sets out aspects of the Government's economic policy to which the PRC should have regard when considering how to advance its objectives, and when considering the application of the regulatory principles in FSMA.

FSMA also requires the PRA to review, and if necessary revise, and publish annually its strategy in relation to how it will deliver its statutory objectives. The strategy is set by the PRC, in consultation with the Bank's Court of Directors. The PRA's strategy was published with the PRA Business Plan 2020/21 on 9 April 2020.[2]

1 The most recent remit and recommendations is at www.bankofengland.co.uk/letter/2019/remit-for-the-prc-2019. And the PRC's response is at www.bankofengland.co.uk/letter/2019/response-to-the-remit-letter-for-the-prc-2019.

2 www.bankofengland.co.uk/prudential-regulation/publication/2020/pra-business-plan-2020-21.

Our organisation

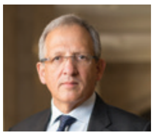
The executive and their membership, where relevant, of the MPC, FPC and PRC are indicated below.

Governor

Andrew Bailey
(MPC, FPC, PRC)

Deputy Governors

Ben Broadbent
Monetary Policy
(MPC, FPC, PRC)



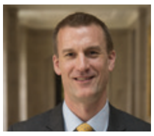
Sir Jon Cunliffe
Financial Stability
(MPC, FPC, PRC)

Joanna Place
Chief Operating Officer

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

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

Executive Directors[1,2]



David Bailey
International Banks Supervision

Sonya Branch
General Counsel

Alex Brazier
Financial Stability Strategy and Risk (FPC)

Sarah Breeden
UK Deposit-Takers Supervision

Stephen Brown
Risk

Victoria Cleland
Banking, Payments and Innovation

Jonathan Curtiss
People and Culture (jobshare)

Rob Elsey
Technology

John Footman
Secretary of the Bank

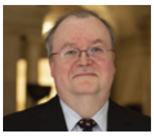
Charlotte Gerken
Insurance Supervision

Andy Haldane
Monetary Analysis and Chief Economist (MPC)

Andrew Hauser
Markets

Afua Kyei
Finance

Sasha Mills
Resolution



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

Lea Paterson
People and Culture (jobshare)

Mike Peacock
Communications (Acting)

Gareth Ramsay
Data

Victoria Saporta
Prudential Policy

Christina Segal-Knowles
Financial Market Infrastructure

Anna Sweeney
Insurance Supervision

1 The following Executive Directors commenced their appointments in 2019/20: David Bailey (1 July 2019), Sarah Breeden (1 July 2019), Charlotte Gerken (27 January 2020), Afua Kyei (22 July 2019), Gareth Ramsay (7 June 2019), Christina Segal-Knowles (16 September 2019), Anna Sweeney (27 January, 2020).

2 The following held Executive Director posts during 2019/20: David Bailey (Financial Market Infrastructure, until 30 June 2019), Duncan Mackinnon (International Banks Supervision, Acting, until 15 September 2019), James Proudman (UK Deposit-Takers Supervision, until 30 June 2019), David Rule (Insurance Supervision, until 12 July 2019), Rob Thompson (Finance, Acting, until 21 July 2019).

Review of 2019/20

This Review begins by summarising the co-ordinated work across our three core functions: monetary policy, macroprudential policy, and microprudential supervision and regulation, to combat the extraordinary challenges of Covid-19. It goes on to detail a number of areas where colleagues have worked together to make full use of the knowledge, resources and skills from across the organisation in support of our strategic goals. The Review then ends by detailing the progress made in delivering our Vision 2020 agenda to improve how we communicate and how we work.

Highlights include the work done across the Bank in: helping UK businesses and households manage through the economic shock from Covid-19; putting into place the final major piece in the UK's resolution regime for banks; and providing leadership on meeting the challenges from climate change and the provision of detailed climate-related disclosures.

Coronavirus (Covid-19)[1]

The front line of combating the challenges of Covid-19 comprises the extraordinary efforts of NHS health professionals, carers, key workers and volunteers across the country. HM Government has also launched a range of initiatives that are improving businesses' access to finance, supporting their cash flows and people's incomes.

Our role is to help the economy recover and keep the financial system safe and stable. We have acted swiftly to support UK households and businesses by keeping interest rates low and helping banks to expand lending. These actions will help keep firms in business and people in jobs, which will help minimise the longer-term damage to the economy when the pandemic abates.

We are working closely with HM Government to make sure our policy response is co-ordinated and has maximum impact. For instance, we are supporting large businesses by offering them loans for up to 12 months. This will help them to keep paying wages and their suppliers, even if they have serious cash-flow problems.

We are also co-ordinating our response with central banks across the world. To support the provision of liquidity in global funding markets, we and other major central banks have increased the scale, frequency and maturity of US dollar swap line operations. We also have operations in place to make loans in US dollars and euros on a weekly basis. Banks have pre-positioned collateral with the Bank of England that will allow them to borrow around £300 billion through these facilities.

Due to the reforms we have put in place since the financial crisis, UK banks are strong enough to continue lending during this period of severe economic disruption. They have capital levels that are three times higher than at the onset of the financial crisis, and they continue to hold sizable liquid asset buffers. By expanding lending, banks can direct money to where it is needed most and limit losses to themselves.

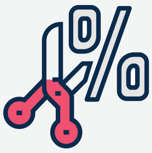
Whatever the future brings, we will do all we can to support UK businesses and households at this difficult time. We will also continue to provide the critical functions people across the UK rely on, including settling payments and circulating banknotes.

1 This Review uses information up to 26 May 2020.

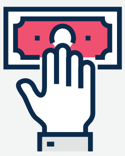
Our response to Covid-19

We have put in place a package of measures that will help keep firms in business and people in jobs and help minimise the longer-term damage to the economy when Covid-19 subsides.

We are also working closely with HM Government so we can co-ordinate what we do and make sure it has maximum impact.



We have cut our interest rate to 0.1%
Lower interest rates will mean cheaper loans for businesses and households. That will reduce the costs faced by businesses and households in the UK.



We are helping banks to cut interest rates on their lending
We're offering banks and building societies long-term funding at interest rates at, or close to, 0.1%. This will reduce the interest rates they charge.

More funding will be given to banks that increase their lending. And we are providing additional support to banks that offer more lending to small and medium-sized companies. These firms often need more support in times like these.

We are helping businesses pay their staff and suppliers
We're working closely with HM Government to support large businesses by offering them cash for their corporate debt. This will help them to keep paying wages and their suppliers, even if they have serious cash-flow problems.

And it means banks and building societies can use the funding help we've given them to focus on supporting small and medium-sized companies.

We are helping banks to expand lending
We have reduced the amount of financial resources (called capital) that banks and building societies need to set against their lending to UK businesses and households.

This will support up to £190 billion of bank lending to businesses which is more than 13 times the net amount they lent in 2019.

We are letting firms focus on you by temporarily reducing the regulatory burden we place on them.

Monetary policy

The Bank of England's Monetary Policy Committee (MPC) contributes to the Bank's mission to achieve monetary stability by setting monetary policy to meet the 2% inflation target. Subject to that, it supports the economic policy of the Government, including its objectives for growth and employment.

The nature of the economic shock from Covid-19 is very different from those to which the MPC has previously had to respond. The social distancing measures implemented to slow the spread of the disease require a sharp but temporary fall in economic activity. While monetary policy cannot prevent the losses of revenue and income that companies and households suffer as a result of the pandemic, we do have a role in supporting households and businesses through the economic disruption.

Since the onset of the Covid-19 shock, the MPC has responded at speed and in scale, complementing the responses of our other policy committees and HM Government. The MPC has reduced interest rates to 0.1%; introduced a Term Funding scheme with additional incentives for Small and Medium-sized Enterprises; and is undertaking £200 billion of asset purchases, taking the stock to a total of £645 billion.

The MPC will continue to monitor the situation closely and, consistent with its remit, stands ready to take further action as necessary to support the economy and ensure a sustained return of inflation to the 2% target.

To inform our policy decisions whatever the economic backdrop we regularly survey the public on their attitudes to inflation. In a survey conducted by the research agency Kantar TNS on our behalf, respondents are asked, among other questions, to assess the way the Bank is 'doing its job to set interest rates to control inflation'. The latest net satisfaction balance — the proportion satisfied minus the proportion dissatisfied — was +29% in February 2020. This was up from +26% a year earlier.

Colleagues from across the Bank have worked together on a number of analytical issues in support of our monetary stability remit. Key areas this year include: the sensitivity of the economy to uncertainties around the nature of the UK's withdrawal from the EU, and the MPC's assumptions about the nature of the future trading relationship between the UK and the EU; trade protectionism and the global outlook; the sensitivity of the pricing of bank loans to changes in funding costs, and other developments in new mortgage rates; the labour market; and the MPC's annual assessment of the supply side of the economy.

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

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

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

Our strategic goals for 2019/20

BREXIT
Maintaining monetary and financial stability during Brexit and beyond

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

FAIR AND EFFECTIVE MARKETS
Catalysing reforms in financial markets

FINTECH
Embracing fintech to deliver our mission

OPERATIONAL RESILIENCE
Building greater operational resilience in the financial system

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

RTGS
Delivering the next generation of our core payments system

Financial policy

The Bank of England's Financial Policy Committee (FPC) contributes to the Bank's mission to achieve financial stability by identifying, monitoring and taking action to remove or reduce systemic risks with a view to protecting and enhancing the stability of the United Kingdom's financial system. Subject to that, it supports the economic policy of the Government, including its objectives for growth and employment.

The backdrop to the FPC's meetings in March 2020 was dominated by the outbreak and spread of Covid-19. The package of measures that was outlined earlier in this Review was aimed to help banks to expand their lending and to support the orderly functioning of financial markets.

The UK countercyclical capital buffer (CCyB), which was introduced in 2014, creates a cushion for banks to absorb potential losses and continue lending in a stress. This means that banks can absorb rather than amplify shocks, and so be part of the solution to help the UK economy recover.

At its policy meeting in March 2020, the FPC reduced the UK CCyB rate to 0% of banks' exposures to UK borrowers with immediate effect. The rate had been 1% and had been due to reach 2% by December 2020. This action supports further the ability of banks to supply the credit needed to bridge this period of economic disruption, and reinforces the FPC's expectation that all elements of the substantial capital and liquidity buffers that have been built up by banks can be drawn down as necessary.

The FPC has made clear that it expects to maintain the 0% rate for at least 12 months. Due to the usual 12-month implementation lag, any subsequent increase would not be expected to take effect until March 2022 at the earliest. In addition, the pace of return to a standard-times rate in the region of 2% will take into account how far banks' capital has been depleted through this period and thus the task to rebuild capital.

The FPC will continue to monitor closely financial markets and the credit conditions faced by UK households and businesses and the operation of the UK financial system, and stands ready to take any further actions appropriate to support UK financial stability.

Stress testing

Each year we stress test the largest UK banks to see if they are resilient to extreme economic events. In December 2019 our tests showed that the UK banking system would be resilient to deep simultaneous recessions in the UK and global economies that are more severe overall than the global financial crisis, combined with large falls in asset prices and a separate stress of misconduct costs. It would therefore be able to continue to meet credit demand from UK households and businesses even in the unlikely event of these highly adverse conditions.

In May 2020 the FPC carried out a desktop stress test on major UK banks that showed they are strong enough to continue lending during the period of severe economic disruption associated with the Covid-19 shock. This stress test, which used prudent assumptions consistent with the scenario set out in the May 2020 *Monetary Policy Report,* resulted in materially smaller losses than in the December 2019 annual stress test. By expanding lending, banks will support the economy and limit losses to themselves.

We use exploratory scenarios to complement our annual stress tests by exploring a range of risks that may not be neatly linked to prevailing economic or financial conditions. We aim to run these exercises every other year. These exercises inform assessments of how the financial system might respond if risks were to crystallise. In doing so, they can help the Bank and financial institutions to prepare for possible future challenges.

To help lenders focus on meeting the needs of UK households and businesses through the Covid-19 shock we have decided to cancel the 2020 stress test of major UK banks and building societies. We have also, until further notice, paused the biennial exploratory scenario on liquidity that was due for publication in mid-2020.

The UK-EU relationship

The UK left the EU with a Withdrawal Agreement on 31 January 2020, entering an 11-month transition period. The UK and EU will negotiate their future relationship during the transition period, including the future terms on which trade will take place.

At its March 2020 meeting the FPC approved a checklist of actions that would mitigate risks to financial stability that could arise from disruption to households and companies if no further arrangements were put in place for cross-border trade in financial services for the end of the transition period on 31 December 2020. The FPC judged that, reflecting extensive preparations by authorities and the private sector, should the transition period end without the UK and EU agreeing specific arrangements for financial services, most risks to UK financial stability that could arise from disruption to cross-border financial services had been mitigated.

Irrespective of the particular form of the UK's future relationship with the EU, and consistent with its statutory responsibilities, the FPC would remain committed to the implementation of robust prudential standards in the UK. This would require maintaining a level of resilience that is at least as great as that currently planned, which itself exceeds that required by international baseline standards, as well as maintaining UK authorities' ability to manage UK financial stability risks.

Strategic priority:

UK-EU relationship
Maintaining monetary and financial stability in the UK's new relationship with the EU

The FPC noted that HM Treasury had launched its Financial Services Future Regulatory Framework Review in July 2019. The first phase of this Review looked at the co-ordination between UK regulatory bodies with responsibility for financial services regulation, with the aim of improving the effectiveness of co-ordination in the future. The second phase of the Review will look at how financial services policy and regulation are made in the UK, including how stakeholders are involved in the process. The FPC will evaluate developments in this Review against the benchmark of its commitment to the implementation of robust prudential standards in the UK.

Staff have worked with colleagues from across the Bank on a number of analytical issues in support of our financial stability remit. Key areas this year include: an in-depth review of the structural level and balance of capital requirements for the UK banking system; the development of an approach to ensure that the regulatory framework for payments can accommodate innovation in the sector; the commencement of a joint Bank/FCA review in to the potential systemic risks posed by the mismatch between redemption terms and the liquidity of some funds' assets; the development of two exploratory stress-test scenarios to assess the financial stability risks associated with liquidity and with climate change; and a review of the FPC's 2014 mortgage market recommendations.

During the year, the FPC has presented evidence at seven Parliamentary hearings, including those of the Treasury Select Committee, and FPC members have given over 40 interviews and speeches. The work of the FPC is set out more fully in the (at least) twice-yearly *Financial Stability Report* and in the records of the FPC's quarterly policy meetings.[1]

Financial Market Infrastructures (FMIs)

The Bank's supervision of FMIs — payment systems, central security depositories and central counterparties — is central to delivering our overall financial stability objective.

Over the past year we have continued to work to ensure that FMIs are suitably prepared for the UK's withdrawal from the EU and the end of the transition period. That has included close monitoring of UK FMIs' contingency plans and, where appropriate, joint work with the relevant UK and EU authorities to reduce the risk of disruption.

We have also made progress on a number of other areas including: work with the Prudential Regulation Authority and Financial Conduct Authority to enhance the operational resilience of FMIs; work with HM Treasury, Financial Conduct Authority and Payment Systems Regulator, and international committees to ensure the appropriate domestic and international regulation of innovation in the payments sector; and the development of our internal CCP supervisory stress-testing approach.

More detail on these and other activities will be provided in the Bank's *Supervision of FMIs Annual Report*, which will be published later this year.

Resolution

Resolving banks effectively is a key element in delivering our mission to maintain financial stability. To ensure an efficient, competitive banking system which supports growth, banks should be allowed to fail. And if they do, the authorities need to be able to let them fail in an orderly way, reducing risks to depositors, the financial system and public finances.

Strategic priority:

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

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

The UK is a global financial centre, home to both UK and international banks. We work closely with international regulators to ensure we could manage the failure of a UK firm with operations overseas. We also support regulators in other countries should they face the failure of a foreign firm that operates in the UK.

In July 2019 the Bank set out its approach to assessing resolvability.[1] The Resolvability Assessment Framework (RAF) builds on the work done since the financial crisis and sets out the next steps in implementing the resolution regime: ensuring that banks are resolvable, and that banks can demonstrate they are resolvable. It is designed to make resolution more transparent, better understood, and therefore, more successful.

The RAF has three main components: how the Bank, as resolution authority, will assess resolvability, building on work that both firms and the Bank have already done; a new Resolution Assessment Part of the PRA Rulebook which requires major UK banks to perform an assessment of their preparations for resolution and publish a summary; and the Bank's intention to make a public statement concerning the resolvability of each of the major UK firms. In so doing, the Bank would identify any shortcomings where it believes there is more work to do.

The RAF is the final major piece in the UK's resolution regime for banks and therefore is an important step in the Bank's commitment to Parliament that major UK banks will be fully resolvable by 2022.

To support the aims of the RAF the Bank also published a number of supporting policies on: funding in resolution; continuity of access to financial market infrastructure firms; restructuring planning; and on management, governance and communication.

Benchmark interest rates

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

The London interbank offered rate (Libor) is one of the predominant interest rate benchmarks used in global financial markets. However, Libor has a fundamental weakness: it references markets that are not active. For instance, in March 2020 Libor rates — and hence costs for borrowers — rose as central bank policy rates fell, and underlying market activity was low. This reinforces our view that continued reliance on Libor poses a risk to financial stability that can only be reduced through a transition to alternative benchmark interest rates.

We have made it clear that firms need to end the use of Libor in new contracts as soon as possible, with the expectation that Libor will cease to exist after the end of 2021. The Bank is working with private sector market participants to catalyse a broad-based transition away from Libor and towards the preferred risk-free rate: in sterling markets that is the Sterling Overnight Index Average (SONIA).

There have been encouraging signs in the development of new SONIA products and the transition of some legacy products. The UK's Working Group on Sterling Risk-Free Reference Rates has set a target for market participants to cease issuance of cash products linked to sterling Libor by end-September 2020. And the PRA and FCA have taken steps to ensure that each of the largest regulated firms has nominated a senior manager to be responsible for that firm's transition away from Libor.

Strategic priority:

Fair and effective markets
Catalysing reforms in financial markets

1 www.bankofengland.co.uk/paper/2019/the-boes-approach-to-assessing-resolvability.

We have considered what further potential supervisory tools could be deployed by authorities to encourage the transition from Libor. In February 2020 we announced that we will begin increasing haircuts on Libor-linked collateral we lend against. From 2020 Q3, we will progressively increase the haircuts on Libor-linked pre-positioned collateral until they reach 100% by end-2021. This will have the effect of making Libor-linked collateral ineligible for use in our lending operations.

We are responsible for the end-to-end production of the SONIA interest rate benchmark. In February 2020, to support and accelerate the adoption of SONIA as a reference rate in sterling markets, we announced our intention to publish a daily SONIA Compounded Index. This is intended to support the use of SONIA in a wide range of financial products by simplifying the calculation of compounded interest rates.

The SONIA Oversight Committee provides challenge to the Bank on all aspects of the SONIA benchmark production. The Committee is made up of both internal and external members and meets on a regular basis. During the year it discussed topics including: the potential impact of the UK's withdrawal from the EU on SONIA; the resilience of all aspects of the production of SONIA; an annual review of the calculation methodology; and the changing uses of SONIA as sterling markets transition to it, and the implications of this for the administration of SONIA.

Prudential regulation

The Prudential Regulation Committee (PRC) contributes to the Bank's mission to achieve financial stability through its responsibility for the prudential regulation and supervision of around 1,500 banks, building societies, credit unions, insurers and major investment firms.

The Prudential Regulation Authority (PRA) has three statutory objectives: a general objective to promote the safety and soundness of regulated firms; a specific objective for insurance firms to contribute to the securing of an appropriate degree of protection for those who are or may become insurance policyholders; and a secondary objective to, as far as reasonably possible, facilitate effective competition.

A focus for the PRA this year has been to deliver a smooth transition to a sustainable and resilient UK financial regulatory framework following the UK's exit from the EU.

In support of that aim the PRA has carried out work to reduce risks and minimise disruption that could have occurred in the event that the UK left the EU without a Withdrawal Agreement. It has also prioritised activity to reduce risks and minimise disruption to firms' safety and soundness covering work across policy development, authorisation and supervision.

The PRA has continued to develop the supervision of operational resilience in order to mitigate the risk of disruption to the provision of critical economic functions. In December 2019 the PRA published a joint Consultation Paper with the Bank and FCA on how the operational resilience of the financial services sector could be enhanced. It is also consulting on proposals for modernising the regulatory framework on outsourcing and third-party risk management. And it has initiated nine threat-intelligence led CBEST penetration tests and completed a further three that were initiated in 2018.

Another focus this year has been to continue to adapt to changes in the external market and to hold regulated firms, and those who run them, accountable for meeting our standards. The PRA has carried out ongoing work to embed climate change into financial decisions and macroeconomic decisions, and continued to look ahead and perform horizon scanning to pre-empt and mitigate risks to our objectives. The PRA has also used its statutory powers to conduct investigations and initiate enforcement action where needed to tackle threats to safety and soundness in PRA-authorised firms.

The PRA has also continued to ensure that firms are adequately capitalised and have sufficient liquidity for the risks they are running or planning to take. That includes: contributing to the work of the Basel Committee on Banking Supervision as it finalised revisions to the market risk framework; ensuring that insurers maintain capital for balance sheet risks arising from complex products and asset exposures; and a focus on business plan optimism, reserving and underwriting oversight for specialist general insurer business models.

More detail on these and other activities will be provided in the PRA's *Annual Report*, published in June 2020.[1]

Fintech and the Future of Finance

Developments in financial technologies (fintech), such as artificial intelligence and distributed ledger technology, have the potential to fundamentally change the way businesses provide, and consumers use, financial services.

Fintech is advancing rapidly and the Bank is itself changing to ensure it can accommodate rapid change in the UK financial system. In particular, we seek to understand what fintech means for the stability of the financial system, the safety and soundness of financial firms, and our ability to perform our operational and regulatory roles.

In June 2019 Huw Van Steenis published his review of the future of the UK's financial system, and what it might mean for the Bank's agenda, toolkit and capabilities over the coming decade. In our response we committed to work on five key areas: [2]

Enhancing the payments system for the digital age

We will ensure the resilience of the UK payments system to support a dynamic, data-rich economy. We will also provide the public infrastructure that allows competition to thrive and the private sector to create products that support greater choice for consumers. More detail on our work in this area is provided in the section entitled 'Payments' in this Review.

Championing a platform to boost access to finance for small businesses

We will support the development of an open platform for Small and Medium-sized Enterprises (SME) finance. By bringing together a global identity standard and a safe, secure and permissioned method of sharing information, this open platform could harness novel data sources and advanced analytics to provide SMEs with more choice and better access to productive finance.

In March 2020 we published a paper on open data for SME finance.[3] The paper provided an update on what we have learnt from our research and industry engagement to date. It will guide our ongoing engagement with public authorities, including as an input to the Government's Smart Data Review and Digital Markets Taskforce, as well as the FCA's Open Finance initiative. In particular, this paper will form part of our input to the Government summit announced in the March 2020 *Budget*, which will look at what further data need to be made accessible to make it faster and easier for SMEs to access credit.

Strategic priority:

Fintech
Embracing fintech to deliver our mission

1 www.bankofengland.co.uk/prudential-regulation/publication/2020/annual-report-2020.

2 www.bankofengland.co.uk/research/future-finance.

3 www.bankofengland.co.uk/-/media/boe/files/research/access-to-bank-of-england-payments-infrastructure-and-balance-sheet-for-payments-firms.pdf.

As part of our efforts to champion the Legal Entity Identifier (LEI) as a globally recognised and unique identifier for all business in the UK and mandating its use in payment messages, our Executive Director for Banking, Payments and Innovation co-authored an article on 'The value of the LEI for the payments industry'.[1]

This article describes the international progress made so far in the uptake of the LEI and sets out the potential benefits that LEIs offer as a global means of verifying identity in payments. It describes existing plans to incorporate LEIs into payments, and the barriers to this adoption. It concludes by laying out a 'call to action' to all market participants explaining the steps required to realise the full potential LEIs can bring to the payments industry and the wider economy.

Supporting a transition to a carbon-neutral economy

We will act to encourage an earlier, and therefore more orderly, transition to a carbon-neutral economy. We will lead by example to help embed a culture of climate risk management throughout the economy. More detail on our work in this area is provided in the section entitled 'Climate change' in this Review.

Developing a world-class regtech and data strategy

We will embrace new technologies to improve our efficiency and effectiveness as a regulator, and deliver benefits to financial services firms and the real economy. We will also deliver a world-class regtech and data strategy that will identify and implement improvements in our use of data, and seek ways to decrease the burden on industry and to increase the timeliness and effectiveness of data in supporting supervisory judgements.

In January 2020 we launched a review in consultation with banks, insurers and financial market infrastructures to explore a transformation of the hosting and use of regulatory data over the next decade.[2] The supporting discussion paper was intended to be the start of a dialogue with regulated firms and solution vendors to shape the evolution of reporting over the medium term. The paper does not put forward a preferred solution, but rather sets out a framework for assessing the issues and an initial range of potential options. The options it discusses draw on ideas explored in the Future of Finance report and the pilot on digital regulatory reporting.

Facilitating firms' use of technology to increase their operational resilience

We will consider the benefits and risks of cloud use to enable firms to deploy the cloud in a safe and resilient manner. Cloud service providers offer ready-made solutions that can accelerate time to market. With the benefit of their scale, they also offer leading-edge analytics, enabling businesses to learn and adjust their business models almost in real time. And they can offer greater resilience.

To facilitate greater resilience and adoption of the cloud and other new technologies, we published a draft Supervisory Statement in December 2019, describing the PRA's modernised policy framework on outsourcing arrangements, including a focus on cloud technology and setting out conditions that can help give firms assurance on its use.[3] We have also convened a Post-Trade Technology Market Practitioner Panel to bring together knowledgeable and experienced financial markets participants, active in carrying out post-trade processing. Its aim is to address the co-ordination challenges of better leveraging existing and emerging technology solutions to improve the efficiency and resilience of post-trade processes and operations.

1 Cleland, V and Hartsink, G (2019), 'The value of the LEI for the payments industry', *Journal of Payment Strategy and Systems*, Vol. 13, No. 4, pages 322–36, available at www.bankofengland.co.uk/-/media/boe/files/payments/rtgs-renewal-programme/legal-entity-identifier-article.pdf.

2 www.bankofengland.co.uk/paper/2020/transforming-data-collection-from-the-uk-financial-sector.

3 www.bankofengland.co.uk/prudential-regulation/publication/2019/outsourcing-and-third-party-risk-management.

Payments

Payment systems are essential to our economy. They are used to buy goods and services, to receive salary and benefits payments, and to withdraw cash from cash machines. In response to technological change, user demand and the need for ever greater resilience, we are renewing our core settlement system, Real-Time Gross Settlement (RTGS), which sits at the heart of the UK's payments infrastructure.

The RTGS Renewal Programme is a large and complex project that is on schedule to be completed in 2025. Our vision is to develop an RTGS service that is fit for the future, increasing resilience and access, widening interoperability, improving user functionality and strengthening end-to-end risk management. Our changes will help to increase competition and innovation in the wider banking and payments markets.

Having defined the programme scope, with input from the payments industry, we are now running a competitive procurement process under the Official Journal of the European Union to appoint a Technology Delivery Partner. They will work with the Bank on the design and build of the core settlement engine. We plan to enter the contract with the Technology Delivery Partner in summer 2020.

The renewed RTGS service will use ISO 20022 messaging for CHAPS payments. ISO 20022 messaging will enable widespread benefits, including: increased resilience and reduced risk; improved efficiency and outcomes for users of payments; and more informed and effective decision-making for organisations, households and policymakers.

In December 2019 we set out additional information on our migration plans to ISO 20022 for CHAPS payments, including updates on the use of enhanced data messages, testing and work to ensure participant readiness.[1] We also published a separate update to explain the impact of these changes on other RTGS account holders.

In line with Service Level Targets, the existing RTGS system maintained an overall availability of 99.95% for CHAPS settlements in 2019, and settled £680 billion of payments (including a record 192,292 CHAPS payments with a value of £330 billion) on average each working day.

We are currently living in a period of significant change in money and payments. The use of physical banknotes is declining, and use of privately issued money continues to increase, with technological changes driving innovation. In March 2020 we published a discussion paper on Central Bank Digital Currency (CBDC).[2] CBDC would be an electronic form of central bank money that could be used by households and businesses to make payments alongside physical banknotes.

We have not yet made a decision on whether to introduce CBDC. Given the wide-ranging implications of CBDC for our objectives and the wider economy, any eventual decision to introduce a CBDC would involve HM Government, Parliament and regulatory authorities, and engagement with society more generally.

Strategic priority:

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

1 www.bankofengland.co.uk/news/2019/december/iso-20022-chaps-migration-like-for-like-message-set-and-update.

2 www.bankofengland.co.uk/paper/2020/central-bank-digital-currency-opportunities-challenges-and-design-discussion-paper.

Operational resilience

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

In December 2019 the Bank, PRA and FCA published a proposed policy summary and co-ordinated consultation papers on new requirements to strengthen operational resilience in the financial services sector. Building the operational resilience of firms and FMIs is a shared priority for the three supervisory authorities. The co-ordinated consultation papers build on the concepts set out in the Operational Resilience Discussion Paper published by the authorities last year, and addresses many of the proposed policy changes based on the responses we received.[1] The policy proposals make it clear that firms and FMIs are expected to take ownership of their operational resilience and that they will need to prioritise plans and investment choices based on their impacts on the public interest. If disruption occurs firms are expected to communicate clearly, for example providing customers with advice about alternative means to access the service.

Earlier this year, the Bank, FCA and the Monetary Authority of Singapore (MAS) announced they will be working together to strengthen cyber security in their financial sectors. The collaboration will involve MAS and the UK financial authorities identifying effective ways to share information and exploring potential for staff exchanges. As hosts to global financial centres and fintech firms, Singapore and the UK have much to benefit from enhanced collaboration on cyber security.

Climate change

Climate change creates financial risks that will affect all agents in the economy, including central banks. These risks arise through two primary channels: the physical effects of climate change; and the impact of changes associated with the transition to a carbon-neutral economy. We have raised awareness of the urgent need to assess, manage and deepen understanding of the financial risks from climate change. To ensure the market has the right information to price climate-related risk, it needs clear, consistent and comparable climate disclosures.

We recognise the importance of developing a thorough understanding of climate risks across our own operations, including our asset holdings. In line with our expectations of financial firms, and following the framework set out by the Task Force on Climate-related Financial Disclosure (TCFD), we are for the first time disclosing our own approach to climate risk management across our entire operations as part of our annual reporting. The TCFD framework[2] has four core elements: governance; strategy; risk management; and metrics and targets. Our first TCFD Report, covering all four elements in detail, is published alongside this *Annual Report* and is available on our website.

Strategic priority:

Operational resilience
Building greater operational resilience in the financial system

Strategic priority:

Climate change
Facilitating a smooth climate transition through: more prolific climate reporting; more robust risk assessments; and the optimisation of investors' returns

1 www.bankofengland.co.uk/prudential-regulation/publication/2018/building-the-uk-financial-sectors-operational-resilience-discussion-paper.

2 Recommendations of the Task Force on Climate-related Financial Disclosures', June 2017, www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-2017-TCFD-Report-11052018.pdf.

Managing risks across our operations

We monitor exposure to climate change and how it could impact the resilience of both our physical and financial operations. A process for managing these risks is now established, but will continue to develop as technology and understanding of underlying risks evolve.

Key areas pertaining to our physical operations include:

- **Property and travel —** We exceeded our target of reducing our carbon footprint by 20% between 2016 and 2020, achieving a 33% reduction in emissions across electricity, gas and business travel. We have now set a new target for 2030 to reduce our carbon footprint consistent with a temperature warming of 1.5°C above pre-industrial levels.[1] This change, alongside existing measures such as the use of 100% renewable energy across all sites, will reduce our exposure to rising energy costs from any increase in carbon prices.

- **Capital investment —** Our long-term capital investments could be impacted by an increase in costs if a carbon price were introduced. To support long-term decision-making and capital investment that is better aligned with a carbon-neutral economy, we have implemented an internal carbon price of £45/tonne CO_2. That carbon price will be reviewed at regular intervals.

- **Banknotes —** A reduction in the carbon footprint of banknote production continues to be incorporated into associated procurement processes.

Key areas pertaining to our financial operations include:

- **Counterparty exposures —** We have started to incorporate climate-related risks into our counterparty exposure assessments and management processes. We consider, for example, measures of the impact of geographical and sector concentrations on counterparties and potential exposures. This approach is in its early stages, so has focused on information gathering to date. We will adapt our risk management methodologies by embedding robust climate-related risk information and techniques as they are developed.

- **Collateral holdings —** We accept a wide range of collateral in our market operations. Climate-related risk considerations have been included in the underlying due diligence processes, as part of building an understanding of how climate-related risks could affect these collateral values. For example, firms are asked to set out how they expect collateral posted to be impacted by climate change, and whether that has been taken into account in their asset valuations. These processes are kept under regular review to ensure they represent the latest approaches to risk assessment.

- **Pension fund —** The climate-related risks associated with our pension fund reflect those of the UK economy, as 98% of the portfolio consists of UK government or government-backed bonds. The trustees have committed to have regard to climate-related risks when making future investments.

1 Target to cut our Scope 1 emissions (use of gas, fuel and refrigerants), Scope 2 emissions (electricity) and business travel by 63% by 2030 relative to our 2016 baseline.

In addition to these points, this year, for the first time, an in-depth exercise has been undertaken with external data providers to assess financial risks from climate change in our financial asset holdings. A range of external metrics are available to assess the carbon footprint and exposures to physical and transition risks within this portfolio. Given the relatively early stage of development of metrics in this field, these measures are subject to various caveats related to partial data availability, the use of unaudited data, modelling assumptions and methodological differences. Nevertheless, our TCFD publication sets out a range of metrics that seek to estimate climate risks in financial portfolios, as part of supporting further development of these methods.

By far the largest proportion (96%) of assets held in our financial asset portfolios is held in a separate legal vehicle known as the Bank of England Asset Purchase Facility Fund (BEAPFF), indemnified by HM Treasury, to implement the Monetary Policy Committee's asset purchase programme. Of this, 98% is invested in UK sovereign government bonds, while 2% is invested in UK corporate bonds.[1] The UK has a low-carbon footprint relative to other large (G7) nations measured on a production basis. And this is reflected in the estimates of the carbon footprint of our financial asset holdings overall (the Bank's largest portfolio — the sovereign BEAPFF portfolio — has a weighted average carbon intensity of 202 tonnes of CO_2 equivalents per £million of GDP, compared to a G7 reference index of 336[2]). However, as is widely accepted, the pace of change in the United Kingdom will need to increase to meet national and international climate targets.

Our much smaller corporate asset holdings, made up of bonds purchased in proportion to total outstanding issuance across eligible sectors, reflect the overall position in that market: ie that a whole-economy transition will be needed if internationally agreed climate goals are to be met.[3] As part of this, companies will be required to reduce their annual carbon emissions materially.

Managing risks in line with our remit

Climate-related financial risks are wide-ranging and impact the financial system through a number of channels. They therefore have a direct impact on the delivery of the Bank's core externally facing policy objectives. Although the risks are difficult to quantify, there is clear evidence that banks, insurers, and the wider financial system will be impacted by climate change and the transition to a carbon-neutral economy.[4] As such, we have undertaken a range of actions to build resilience to these risks across the financial system. In April 2019, the PRA published its supervisory expectations for banks' and insurers' approaches to managing the financial risks from climate change.[5] This Supervisory Statement, a world first, set out how firms should consider climate change in their governance, risk management, scenario analysis, and disclosures.

To support firms in addressing these expectations, in March 2019 the PRA and FCA set up the Climate Financial Risk Forum (CFRF), within which a group of industry representatives build capacity and share best practice on managing these risks. In 2021, building on the 2019 Insurance Stress Test,[6] we will also be stress testing the largest banks and insurers to the financial risks from climate change against a number of different scenarios.[7]

1 Based on end-February 2020 data.

2 © S&P Trucost Limited 2020 all rights reserved; for a fuller description, see 'The Bank of England's climate-related financial disclosure 2020' which is published alongside this *Report*.

3 Speech by Mark Carney, February 2020, 'The Road to Glasgow', www.bankofengland.co.uk/-/media/boe/files/speech/2020/the-road-to-glasgow-speech-by-mark-carney.pdf.

4 'The impact of climate change on the UK insurance sector', September 2015, www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/publication/impact-of-climate-change-on-the-uk-insurance-sector.pdf; and 'Transition in thinking: The impact of climate change on the UK banking sector', September 2018, www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/report/transition-in-thinking-the-impact-of-climate-change-on-the-uk-banking-sector.pdf.

5 www.bankofengland.co.uk/prudential-regulation/publication/2019/enhancing-banks-and-insurers-approaches-to-managing-the-financial-risks-from-climate-change-ss.

6 www.bankofengland.co.uk/prudential-regulation/letter/2019/insurance-stress-test-2019.

7 Discussion Paper 'The 2021 biennial exploratory scenario on the financial risks from climate change', December 2019, www.bankofengland.co.uk/-/media/boe/files/paper/2019/the-2021-biennial-exploratory-scenario-on-the-financial-risks-from-climate-change.pdf.

At an international level, we actively promote collaboration on climate-related risks. This includes our work as a founding member of the Central Banks and Supervisors Network for Greening the Financial System[1] and the Sustainable Insurance Forum.[2]

Governance and Strategy

We embed considerations of climate issues within our governance structures, alongside climate-specific governance and risk processes where deemed necessary. We have a robust and well-established risk management framework that spans all functions and integrates climate-related risks. Climate-related risks are discussed frequently at our senior committees, and we have assigned an Executive Sponsor to hold responsibility for climate risk issues — this position is held by Sarah Breeden, Executive Director for UK Deposit-Takers Supervision. In addition, we voluntarily comply with the core principles of the Senior Managers Regime (SMR) framework and responsibility for climate risk will be captured as appropriate in our next annual review of the SMR. This is in line with the PRA's expectation that banks and insurers assign a Senior Manager responsible for the financial risks from climate change.[3]

The importance we attach to climate change is reflected in it being one of our strategic priorities. This strategic priority covers: ensuring every financial decision takes climate change into account by focusing on reporting, risk management and return; the work we do at an international level as well as analytical work to further our understanding of the issue; our approach to identifying and managing risks across our functions; and financial planning to embed a forward-looking, long-term perspective on climate-related financial risks.

Our position at the centre of the financial system necessitates that climate change considerations are embedded across our objectives and operations. A substantial amount of work has been done to further this aim, but it will need to evolve further over time to reflect the dynamic nature of the risks.

Polymer notes

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

In February 2020, our polymer £20 note featuring the artist JMW Turner entered circulation. The new note contains sophisticated security features making it the most secure Bank of England banknote yet. For the first time, the note incorporates two transparent windows and a three-colour foil, making it very difficult to counterfeit. Like the polymer £10, the note contains a tactile feature to help blind and partially sighted people identify the denomination.

In July 2019 we announced that Alan Turing will appear on the new £50 polymer note to recognise his far-ranging and path-breaking contributions to science, including as the father of computer science and artificial intelligence. The new polymer £50 note is due to enter circulation in 2021. The polymer substrate for the £50 will be supplied by CCL Secure and De La Rue.

1 www.ngfs.net/en.

2 www.sustainableinsuranceforum.org/.

3 www.bankofengland.co.uk/prudential-regulation/publication/2019/enhancing-banks-and-insurers-approaches-to-managing-the-financial-risks-from-climate-change-ss.

Although the use of cash is declining, it is still the second most frequently used payment method. We are committed to safeguarding access to cash for those who need it and have convened stakeholders in the cash industry to develop a new system for wholesale cash distribution that is efficient, resilient and sustainable, even with lower cash volumes. We are also working with other authorities as part of the Joint Authorities Cash Strategy group to ensure there is a co-ordinated approach to cash.

Value for money

The Bank strives constantly to provide value for money. Two years ago, we set ourselves a self-imposed cost-constrained budget. We have been able to successfully hold ongoing run and investment costs (excluding pensions, note production and the RTGS Renewal programme) flat in nominal terms for two consecutive years despite broadening the scope of our mission, including meeting major new demands arising from the UK's decision to leave the European Union. We have achieved this through regular prioritisation at a Bank-wide level and through longer-term projects to deliver sustainable savings. This constraint has been instrumental in further developing a cost-conscious culture.

The Bank is subject to regular reviews by the National Audit Office (NAO). In late 2018, we welcomed the NAO's report on the Bank's Central Services functions which stated that the Bank was 'moving in the right direction'. We have a clear vision of how our Central Services function will be enhanced in the future and 'enhancing the strength, security and efficiency of the Bank's internal operations' is one of our strategic goals. The transformation programme is supported by key performance metrics and we are in the process of identifying suitable benchmarks.

There has been investment to make the Bank safer, including through enhancements in its cyber security and through the installation of new physical security barriers. In addition, we have implemented a number of actions in response to the NAO's recommendations, while other items noted in the report are mostly on track. For example, our target desk ratio of 0.85 per person in Threadneedle Street has already been achieved on time and on budget.

The sale of the Roehampton sports club has been paused due to the developing circumstances around Covid-19 and it remains closed in accordance with Government requirements. We will continue to monitor the external environment and will continue with the sale process when appropriate.

The NAO is currently undertaking a study of the production and distribution of cash, looking at both banknotes and coins. Court has approved the terms of reference of the review in relation to the Bank, which is responsible for the production and issuance of Bank of England banknotes. The study will also cover the roles of other authorities with responsibilities in relation to cash, including HM Treasury, the Royal Mint, the Payment Systems Regulator and the Financial Conduct Authority.

Strategic priority:

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

Our Travel and Expense policy is reviewed regularly and was updated in March 2019, at which point it was benchmarked against a number of external organisations.

Our reward package is an important aspect of our ability to attract and retain staff with the relevant skills and capabilities and we benchmark salaries against both the public and private sectors accordingly, although our recruitment process also focuses on our purpose, mission and contribution to British society to attract candidates. Reward decisions are overseen and approved by the Remuneration Committee as a sub-committee of Court and reflect our annual pay negotiation with Unite the Union. A review of our pension offering has recently been initiated.

Research

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

During the year, we have published 34 papers in academic journals and over 180 projects are currently in progress across the Bank. Several research projects have had a concrete impact on internal policy and external debate. For example, our research on climate change has been used by the Network for Greening the Financial System to assess the macroeconomic and financial stability implications of climate change.[1] Several Bank research papers have also been cited in *Monetary Policy Reports*, *Financial Stability Reports* and speeches by Governors and other policy committee members.

In February 2018, the Court of Directors commissioned its Independent Evaluation Office (IEO) to assess whether the aim to improve research in our One Bank Strategic Plan had been met. The IEO was asked to consider whether the investment in research had enabled the Bank to make progress on its research objectives: to increase the Bank's external profile and influence; to inform policy development; and to enhance internal skills and knowledge building.

In December 2019 the IEO published its findings and recommendations.[2] The first theme of recommendations considers the importance of clarifying the role of research in delivering the Bank's mission. The second theme looks to provide more clarity and structure around career paths for researchers. The final theme reflects on the challenges of ensuring there are structures and resources in place that support the Bank's research objectives, in particular ensuring that researchers can make the best use of the Bank's unique data.

The Bank welcomed the IEO's suggestions for how it can further enhance the quality and impact of research, and in a published response set out how it will act on the recommendations.[3]

The Bank's Strategic Plan

In 2017, the Bank of England launched its three-year Strategic Plan, Vision 2020, which was designed to reinforce and build on the success of the previous One Bank Strategy. Over the past three years, Vision 2020 has significantly improved the way we communicate and the way we work. This has provided the foundations for far-reaching changes in our ways of working and culture.

1 www.ngfs.net/sites/default/files/medias/documents/ngfs-report-technical-supplement_final_v2.pdf.

2 www.bankofengland.co.uk/-/media/boe/files/independent-evaluation-office/2019/evaluation-of-the-bank-of-englands-research.pdf.

3 www.bankofengland.co.uk/-/media/boe/files/independent-evaluation-office/2019/the-bank-of-englands-response-to-the-independent-evaluation-offices-evaluation-of-research.pdf.

We have continued to invest in our communications, learning about how we can better communicate and engage with different audiences and communities. The highlight this year was the filming and transmission of a BBC documentary 'Inside the Bank of England' which has been seen by over a million people. The documentary provided a unique insight into how our staff work collaboratively across boundaries to support our policy committees.

By tailoring and targeting our approach and content, and by reaching out more broadly, we have taken big steps in improving the impact of our communications, both internally and externally. As a result we are a more engaged and outward-looking institution. In November 2019 we launched a new structure for the *Inflation Report* and renamed it the *Monetary Policy Report*. The new structure gives greater prominence to our analysis of the economic outlook. We also introduced new 'In focus' sections, which describe the issues that have received particular consideration in each round with a view to making the *Report* more thematic. Overall, the new format gives the MPC greater flexibility to adapt one of its key communication tools to changing circumstances and to present data and analysis in a more thematic way. Alongside transforming the way we communicate, we have also delivered on an ambitious programme of outreach and education which is described in detail in the Inclusion and Sustainability section (see pages 57–70). There is still more to do, but the changes we have made have laid the foundations for transforming how we communicate to build trust and understanding of what we do and why.

This year we also made progress on transforming how we work as an organisation in order to maximise our potential. Greater collaboration and working across organisational boundaries have been encouraged and many people now work in a much more agile way. We have continued to invest in new technology, such as our internal communications platform Bank Exchange, and other tools to allow more virtual and remote work and cross-site collaboration. These changes to our ways of working meant we were well prepared for many of the challenges we faced in our workplace response to Covid-19.

Over the course of Vision 2020 we have sought to understand what it takes to be an excellent manager at the Bank, and worked to support people to reach their fullest potential as managers and leaders. This has been underpinned by changes to our performance management structures, including better links between our management competencies and the pay awards given to our managers. We have also improved the way we measure our management capacity across the organisation as a whole.

A set of strategic goals have been introduced to ensure the top priorities of the institution are visible to all. These have acted to support local prioritisation decisions in real time, to help break down boundaries across different parts of the Bank, and to demonstrate the possibilities of our new ways of working. We now have the foundations in place to continue to consider how our capabilities, ways of working, structure and governance can support us in delivering our mission as efficiently and effectively as possible.

Our strategic priorities

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

Our strategic goals for 2020 are shown in the infographic on the following page. There is one important change from last year. We have added a new goal on climate change to better reflect the significant impact the climate has on the Bank's monetary and financial stability objectives. However, as our strategic goals were set prior to the outbreak of Covid-19 we will review them to make sure we continue to focus on the right priorities.

Our strategic goals for 2020/21[1]

UK-EU RELATIONSHIP
Maintaining monetary and financial stability in the UK's new relationship with the EU

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

CLIMATE CHANGE
Facilitating a smooth climate transition through: more prolific climate reporting; more robust risk assessments; and the optimisation of investors' returns

FAIR AND EFFECTIVE MARKETS
Catalysing reforms in financial markets

FINTECH
Embracing fintech to deliver our mission

OPERATIONAL RESILIENCE
Building greater operational resilience in the financial system

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

RTGS
Delivering the next generation of our core payments system

1 Agreed pre Covid-19 outbreak.

Overleaf top: Colleagues at The Lord Mayor's Show, 2019.

Overleaf middle-left: Lavinya Stennett (founder of The Black Curriculum) speaking at the Bank during Black History Month.

Overleaf middle-right: Governor Mark Carney meets our work experience students from the local community.

Overleaf bottom: 325 members of staff celebrate the Bank of England's 325th Anniversary.


Re-Imagining the Future
of Education

Financial review 2019/20

Financial statements highlights

The table below presents highlights of the combined 2020 financial statements.
Further explanation and commentary is provided below.

Financial statement highlights

	2019/20 £m	2018/19 £m
Banking Department total balance sheet size	590,041	601,583
Banking Department profit before tax	128	118
Cash Ratio Deposits	8,790	7,884
Income from Cash Ratio Deposits	131	123
Funding for Lending Scheme	1,455	15,959
Funding for Lending Scheme income	12	52
Notes in circulation	74,422	74,171
Net seigniorage income	555	442
Combined cost base	639	646
PRA cost base	271	278
Payment to HM Treasury in lieu of dividend	45	54

Financial framework

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

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

Under the Bank of England and Financial Services Act 2016 separate Prudential Regulation Authority (PRA) disclosures are presented in the *Annual Report* on pages 159–167, these reflect the operations of the Bank acting as the PRA, and are a subset of the Banking Department.

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

The key elements of the financial framework of the Bank are detailed below.

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

- First, that policy functions of the Bank (monetary policy and financial stability) are financed by the Cash Ratio Deposit (CRD) scheme. Under the CRD regime, banks and building societies are required to place an interest-free deposit at the Bank which is a ratio of their eligible liabilities. The Bank then invests those deposits in interest-yielding assets, generating income to fund its policy functions. The CRD requirements are set by HM Treasury through a Statutory Instrument at least every five years. This was last set in May 2018 and saw a change from a single fixed ratio to a variable one from 1 June 2018.[1] The ratio is 0.324% as at 29 February 2020. The ratio is re-indexed to prevailing gilt yields every six months; this change to a variable ratio makes it more responsive to changes in gilt yields and better able to deliver the income required to fund the Bank's monetary policy and financial stability costs.

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

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

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 loss-absorbing capital held by the Bank and where this sits within a set of parameters.[2]

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

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

For the year ended 29 February 2020 the Bank will make a payment in lieu of dividend of £45m (2019: £54m) to HM Treasury.

The Bank's loss-absorbing capital was £3,504m as at 29 February 2020. Loss-absorbing capital 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.

	2019/20 £m
Total capital	5,849
Deductions:	
Intangible assets	(85)
Pension and property reserves	(1,172)
Illiquid investments	(1,088)
Loss-absorbing capital	3,504

Following the new financial framework agreed between HM Treasury and the Bank in June 2018 and codified into a Memorandum of Understanding (MoU), the Bank received a capital injection from HM Treasury for an amount of £1.2bn on 22 March 2019 to increase the Bank's loss-absorbing capital to £3.5bn.

The Issue Department is funded by buying interest-yielding assets to back the notes in circulation. The interest earned on these assets is used to fund the costs of note production and supply. The net profits/losses of the Issue Department are referred to as seigniorage, and paid/claimed directly to/from HM Treasury via the National Loans Fund (NLF). In the year ended 29 February 2020 £555m (2019: £442m) was paid to the NLF.

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

Events after the reporting date

The Bank has taken policy action through its policy committees and introduced new facilities in response to the Covid-19 pandemic.

The combined effect of these has been to increase the balance sheet total by £140.3bn as at 19 May 2020.

The additional asset purchases announced by the MPC on 19 March 2020 commenced in March, totalling £107.5bn as at 19 May 2020 increasing the loan from the Bank to the Bank of England Asset Purchase Facility Fund Ltd.

The Bank launched the Term Funding scheme with additional incentives for Small and Medium-sized Enterprises (TFSME) on 15 April 2020, as at 19 May 2020 £11.9bn of loans have been drawn.

The Covid Corporate Financing Fund Ltd was launched on 17 March 2020. The company purchases commercial paper from eligible corporate entities, financed by a loan from the Bank. As at 19 May 2020 £20.9bn has been loaned to the company.

Combined income statement

The combined income statement reflects a profit before tax of £128m (2019: £118m). This is effectively equal to the Banking Department profit before tax as the PRA operates a cost recovery model, and Issue Department profits are payable in full to HM Treasury.

Year-on-year increase in profit before tax of £10m was driven by the refund of the Bank's contribution to the European Central Bank of £49m offset by decreases in Funding for Lending Scheme (FLS) fee income of £40m. Expenditure reduced £7m year on year.

Summary combined income statement[1]

	2019/20 £m	2018/19 £m
Income	**767**	**764**
Banking Department	767	764
Issue Department	703	593
less seigniorage income		
Issue Department income transferred under seigniorage arrangements[1]	(703)	(593)
Expenses	**(639)**	**(646)**
Banking Department	(639)	(646)
Issue Department	(117)	(116)
less seigniorage expenses		
Issue Department costs under seigniorage arrangements[1]	117	116
Combined profit before tax	**128**	**118**
Taxation	(11)	(9)
Payment in lieu of dividend	(45)	(54)
Profit after tax and dividend for the year ended 29 February	**72**	**55**

1 The separation of the Banking and Issue Department for accounting purposes is required by statute. A summary 'combined' income statement and balance sheet as at 29 February 2020, aggregating the Banking Department and Issue Department is provided in this financial review. It is provided for information purposes only.

Expenditure by function

Total expenditure for 2020 of £639m was £1m below budget.[1] The Bank strives to provide value for money, which has been demonstrated by its cost-conscious approach to budgeting in recent years. We are continuing to hold our cost base (excluding note production, pensions, redundancy and RTGS Renewal) flat in real terms, with an additional £5m for investment projects where they can be justified as sensible medium-term improvements to the Bank's cost effectiveness, while RTGS Renewal, note production and pensions have dedicated cost-control mechanisms. The total cost budget for 2021 (including note production, pensions, redundancy and RTGS Renewal) has been set at £667m, which includes £286m for the PRA.

Combined expenditure by function[2]

	2019/20 £m	2018/19 £m
Policy functions		
Total policy expenditure	166	166
Expenditure on policy functions	**166**	**166**
Remunerated functions		
Notes issue costs recharged to the Issue Department	119	118
Government agency services	12	11
Payment and settlement	33	26
Banking services	31	34
Other functions	9	9
Expenditure on remunerated functions	**204**	**198**
Operations funded by levies		
PRA operational expenditure	237	237
PRA special projects and Solvency II costs	31	41
PRA enforcement fines	3	–
Financial Market Infrastructure	8	6
Expenditure on operations funded by levies	**279**	**284**
Net legacy items in relation to pensions and property	(10)	(2)
Expenditure on other functions	**(10)**	**(2)**
Total Banking Department	**639**	**646**
Issue Department	**117**	**116**
Issue Department costs settled under seigniorage arrangements	(117)	(116)
Internal charges and settlements under seigniorage arrangements	**(117)**	**(116)**
Total combined expenditure	**639**	**646**

1 The final budget of £640m presented to Court in May 2019.

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

Policy functions

	2019/20 £m	2018/19 £m
Income		
CRD income	131	123
SONIA licence income	1	1
Access to the Sterling Monetary Framework (SMF) income	3	3
Total policy income[1]	**135**	**127**
Expenditure (by policy area)		
Monetary Analysis and MPC	37	34
Markets and Banking	40	41
Research and statistics	20	21
Financial Stability Strategy and Risk	25	24
Resolution	12	10
FMI[2]	7	10
International	12	13
PRA[3]	13	13
Expenditure on policy functions[4]	**166**	**166**
Net surplus/(deficit)[5]	**(31)**	**(39)**

CRD income increased £8m on the prior year due to higher CRD deposits arising from indexation to gilt yields. Expenditure on policy functions funded by CRD income was £166m, flat to 2019.

Remunerated functions

Expenditure increased by £6m to £204m (2019: £198m). This was driven by the increased cost of payment and settlement functions.

Prudential Regulation Authority

Operating costs for 2020 of £271m (2019: £278m) were lower than the budget of £272m. Costs continued to include exceptional and non-recurring items such as the Structural Reform Programme, and the UK's withdrawal from the EU.

Issue Department

Expenditure of £117m on the Issue Department increased by £1m.

1 SONIA Licence and SMF access fee income are specific income streams for activities included within policy function expenditure. Prior year comparative figures are also included.

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

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

Combined balance sheet

The combined balance sheet fell by £9.1bn in 2020. The largest movement in assets was a decrease in 'Loans and advances' of £10.7bn, primarily attributable to a decrease in Term Funding Scheme loans. On the liabilities side this was reflected within a reduction in the 'Deposits' balance.

'Notes in circulation' (NIC) increased year on year by £0.2bn, bringing the total liability to £74.4bn (2019: £74.2bn).

Drawings on the Funding for Lending Scheme (FLS) as at 29 February of £1.5bn have decreased on the prior year balance (£16.0bn), as participants continue to terminate drawings. FLS is a fully collateralised scheme, classified as off balance sheet under a collateral swap arrangement, which allows participants to borrow UK Treasury bills in exchange for eligible collateral.

The most significant item on the balance sheet is the loan to the Bank of England Asset Purchase Facility Fund (BEAPFF), which has been made to facilitate the purchase of assets.

Combined balance sheet

	2020 £m	2019 £m
Assets		
Loans and advances	573,999	584,662
Securities held at fair value through profit or loss	5,066	6,064
Financial instruments held	15,788	13,913
Other assets	3,057	2,416
Total assets	**597,910**	**607,055**
Liabilities		
Deposits	511,506	521,312
Notes in circulation	74,422	74,171
Foreign currency bonds in issue	4,799	6,042
Other liabilities	1,334	1,180
Capital and reserves	5,849	4,350
Total equity and liabilities	**597,910**	**607,055**
Off balance sheet — Funding for Lending Scheme		
Funding for Lending drawdowns	**1,455**	**15,959**

Financial review of Banking and Issue Departments

Banking Department

The Banking Department's financial statements for the year ended 29 February 2020 are shown on pages 90–153 and reflect a profit before tax of £128m (2019: £118m) and tax charge of £11m (2019: £9m). The Bank and HM Treasury share Banking Department's post-tax profits, with profit retained by the Bank of £72m (2019: £55m), and the amount payable to HM Treasury in lieu of dividend amounts to £45m (2019: £54m).

The statement of comprehensive income reflects a net increase for the year of £364m (2019: £183m), comprising post-tax operating profits of £117m (2019: £109m) and 'other comprehensive income' totalling a gain of £247m, net of deferred tax (2019: gain of £74m). 'Other comprehensive income' includes a net increase in the fair value of assets held at 'fair value through other comprehensive income' of £96m (2019: £44m), retirement benefit re-measurement increases of £155m, net of deferred tax (2019: increase of £31m) and property revaluation losses of £3m, net of deferred tax (2019: loss of £1m).

The total balance sheet of the Banking Department decreased during the year, from £601.6bn as at 28 February 2019 to £590.0bn at 29 February 2020.

The main change in Banking Department assets was a decrease in Term Funding Scheme loans as a result of maturities and early terminations.

'Capital and reserves' increased to £5.8bn (2019: £4.4bn), mainly due to the £1.2bn capital injection from HM Treasury on 22 March 2019. The Bank's retained earnings, together with Cash Ratio Deposits, are predominantly invested in gilts. The Banking Department's holdings of gilt securities and other supranational bonds totalled £12.1bn at 29 February 2020 (2019: £10.3bn).

At 29 February 2020, the Banking Department balance sheet contained £4.8bn of liabilities associated with the management of the Bank's foreign exchange reserves (2019: £6bn).

Issue Department

The statements of account for the Issue Department (which are provided on pages 154–158) reflect net profits from note issue of £555m (2019: £442m), payable in full to HM Treasury. The increase in profits was due to an increase in interest earned, following the increase in Bank Rate, and lower note production costs. In 2020, gilt revaluations contributed £49m to income (2019: £18m).

'Notes in circulation' increased marginally year on year, and totalled £74.4bn at 29 February 2020 (2019: £74.2bn). Gilt purchases to back banknote issuance, introduced in January 2008, remained on hold during the year because the Bank of England Asset Purchase Facility Fund Ltd undertook gilt purchase operations. The market valuation of gilts held by the Issue Department was £2.4bn at 29 February 2020 (2019: £2.4bn). The 'Ways and Means advance' to HM Treasury remained at £370m as at 29 February 2020.

Risk management

Court approves the Bank's framework for monitoring and managing risk including its risk tolerance. The responsibility for managing the Bank's day-to-day operations within this tolerance is delegated to the Governor.

The risk management and internal control systems which underpin this are based upon the materiality of the financial and other risks inherent in the Bank's activities, and the relative costs and benefits of implementing specific controls. The systems are designed to manage rather than eliminate the risk of failure to achieve the Bank's mission and, as such, provide reasonable, but not absolute, assurance against material misstatement or loss.

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

Court's review and confirmation was facilitated by a report from the Bank's Governors on the annual attestation exercise through which Executive Directors 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.

Risk governance

The Court of Directors

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

The Audit and Risk Committee (ARCo)

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

Executive responsibility for risk[1]

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

Responsibility for the Bank's first line financial and non-financial risk management functions is consolidated within 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 a dotted reporting line to the Chair of ARCo.

The Bank's Executive Risk Committee (ERC) oversees the operation of the Bank's Risk Management Framework, including proactive monitoring of the Bank's risk profile against tolerance and identification of emerging risks. ERC is chaired by the Deputy Governor for Prudential Regulation, and has 16 further members, including the Deputy Governor for Markets, Banking and Resolution and the Bank's COO, 11 of the Bank's Executive Directors, one of the Bank's Directors and the Head of Divisions for Risk and Compliance. It normally meets six times each year to review and challenge the Bank's risk profile. It has a direct input to the Governors with subsequent reporting to ARCo.

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.

During the year, the Bank restructured its cyber security functions, embedding first line accountability for cyber risk management within the Technology Directorate. Under the new arrangements, the independence of second line cyber risk oversight was strengthened through the establishment of a new Security Risk Team, within the Risk Directorate. The Security Risk Team is responsible for oversight of a broad range of security risks.

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 risk management is delivered by the Risk Directorate, which includes independent central Bank-wide (non-financial) Risk, Financial Risk and Resilience, and the Compliance function; and

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

1 The Bank has enhanced its risk management function over the past few years. In 2015, second line financial risk management functions were brought together in a Financial Risk and Resilience Division, and non-financial risk management functions were strengthened. In 2017, a new risk tolerance framework, owned by Court, was introduced. The current executive responsibilities for risk were introduced during 2018, following a review by the Bank's Governors.

The Bank's Risk Management Framework

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

The Bank has developed a Risk Management Framework which supports a consistent approach to identifying, assessing and monitoring the risks to which it is exposed, and the actions required to mitigate them. Risk management processes and systems of internal control are embedded within the Bank's operations.

Within the framework, a Risk Tolerance Statement, owned by Court, provides an approach for managing both financial and non-financial risks within tolerance. Generally, the Bank seeks to keep its exposure to risk low and to have a control environment and risk culture which supports this.

Risk assessment is forward looking and seeks to identify material risks to which the Bank may become exposed in conducting its day-to-day operations. For each of the Bank's 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 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.

The Bank conducts horizon scanning for emerging risks to which it may be exposed. On an ongoing basis, the Bank proactively scans for risks that may arise from a changing external environment and events beyond the Bank's immediate control. This includes taking a forward-looking approach to identifying and assessing financial risks to the Bank's balance sheet.

Alongside a granular assessment of the Bank's risk profile, emerging risks form part of the regular reporting to the Bank's Executive Risk Committee, Governors, ARCo and Court. In the past year, this has included deep dives into specific risk topics, such as climate change, outsourcing, resourcing, technology obsolescence, and project execution. The Bank develops mitigation plans in response to its assessment of emerging risks. Examples of risks that were a particular focus for the Bank during the year are provided in Box A. Of these, the Covid-19 virus presented an unprecedented risk event which required a rapid and extensive response by the Bank, including to protect its staff and its critical operations; and the misuse of an audio feed of certain of the Bank press conferences by a third-party supplier triggered a review of the Bank's controls.

For financial risk, the Bank translates its tolerance into a set of limits and monitoring thresholds in order to facilitate day-to-day control of financial exposures and appropriate senior management involvement. In certain circumstances, informed by robust analysis, a decision may be taken by the Governors, with approval from Court, to exceed the Bank's usual limits and expose the balance sheet to significant risk of material financial loss, if it is determined that the expected benefits to monetary and financial stability outweigh the risk.

Principal Risks

The principal risks to which the Bank is exposed, through policy implementation and its day-to-day operations, include operational risks; financial risks; conduct risks and strategic risks. Further detail is provided below. Box A provides detail on some of the key risks that were actively managed during the year.

Operational risks

The Bank is exposed to a broad range of operational risks through its policy implementation and day-to-day operations. These operations include: provision of liquidity to sterling markets; operation of the United Kingdom's Real-Time Gross Settlement and the High Value Payments (CHAPS) system; the production and distribution of banknotes; and the administration of the Sterling Overnight Index Average (SONIA) interest rate benchmark.

The Bank has a very low tolerance for operational risks which impact business-critical functions. It mitigates operational risks by designing robust processes which are continuously reviewed and improved, and by maintaining sound internal controls. A proportion of the Bank's annual investment budget supports this ongoing programme of improvements. For example, during the past year, the Bank has continued to mitigate risk through a number of ongoing programmes, including:

Cyber Programme: further enhancing the Bank's cyber security to protect critical national infrastructure maintained and operated by the Bank;

RTGS Renewal Programme: to deliver the next generation of the Bank's Real-Time Gross Settlement (RTGS) service;

Data Centre Migration Programme: strengthening the resilience of the Bank's technology architecture and network; and

One Bank Services Transformation Programme: reforming the design of the Bank's Central Services, and reducing the number and complexity of services provided to the business and the process risks underlying them.

The Bank aims to maintain a robust and flexible capability such that processes critical to its mission are resilient to disruptive events, and the Bank is able to respond quickly and recover safely in such instances. More generally, the Bank maintains an incident reporting system, to support the analysis of existing and emerging risks that have crystallised. That analysis helps identify control weaknesses, and allows lessons to be learnt to minimise the likelihood of reoccurrence.

Box A
Examples of risks actively managed by the Bank during the year

During the year, a number of risks received particular focus. More detail is provided on these risks below.

- The Covid-19 virus presented an unprecedented risk event which required a rapid and extensive response by the Bank, including to protect its staff and its critical operations. In January, the Bank enacted its business continuity plans as it managed risks from the spread of the virus. The Bank's response was managed using its Critical Incident Management Framework, which is based on a hierarchy of strategic, tactical and operational responses. This work was supported by a dedicated unit of staff. In particular, the Bank prioritised actions to ensure the continued delivery of its critical functions and the health and wellbeing of its staff. These actions included: restrictions on business travel; support for staff seconded from the Bank to other institutions; segregation of Bank staff; split-site working across multiple locations; enabling staff to work safely remotely with appropriate technology and integrated teleconferencing facilities; enhanced cleaning and targeted deep cleaning; and postponement or re-formatting of events hosted by the Bank.

- The Bank made preparations for the UK's withdrawal from the EU on 31 January 2020. This involved operational contingency planning to enable the Bank to meet its mission to maintain monetary and financial stability. Financial risks were managed to minimise any potential impact to public funds, while maintaining the ability to fulfil the Bank's core mission of supporting financial and monetary stability.

- The Bank developed its understanding of risks to the Bank from climate change. The direct impact of climate risk on the Bank's operational resilience was assessed to be low, following work undertaken to enhance business continuity, remote working, and supplier risk management. The direct risks to the Bank's balance sheet were also assessed to be low. For more information on the Bank's climate risk exposure see pages 25–28. The Bank will continue to improve its understanding of the climate risk exposure it faces.

- On 18 December 2019, the Bank released a statement regarding concerns that had recently been raised with the Bank. An audio feed of certain of the Bank's press conferences had been misused by a third-party supplier in order to supply services to clients of a related company. Subsequently Court commissioned a review, by the Bank's Head of Internal Audit and the Director of the Independent Evaluation Office, into the incident. The objective of the review was to establish the full facts of these concerns and to assess the causes. The review would also consider any lessons for the Bank's internal control arrangements, in particular around the external dissemination of potentially market-sensitive information.

Financial risk

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. In the past year, the Bank has implemented an organisation-wide standard for the measurement and management of model risk, to ensure that the financial and reputation risks arising from models are understood and mitigated where possible; it has also considered risks from climate change.

Financial risks are managed so that the occurrence of any material loss in the Bank's operations resulting from policy decisions is a very unlikely event. The Bank seeks to maintain a level of its own financial resources that provides it with sufficient resilience to be able to withstand a set of severe but plausible scenarios without its capital falling to zero.

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

Strategic risk

The Bank faces significant strategic risks, for example when deciding the best way of executing a policy, or not pursuing a certain opportunity. An actual or perceived risk that the Bank's strategies are ineffective or insufficiently resilient to changes in the external environment could impact the achievement of the Bank's mission and consequently damage its reputation.

Conduct risk

The Bank is exposed to conduct risk through the actions of its staff, or persons associated with the Bank 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 internal policies. This can lead to reputational or other harm to the Bank. Within the risk management framework, Court has determined that the Bank has no tolerance for a deliberate breach of any statutory, regulatory and/or other legal requirement.

Compliance

The Compliance function, through oversight of necessary control processes, and culture, seeks to ensure compliance with all the Bank's internal policies (working with policy owners). The Compliance function houses the Data Protection Officer and oversees the Privacy team. Previously, the remit of the central Compliance function was focused around the Bank's conduct and ethics policies in 'Our Code' (the code of conduct — see Box B). Following the 2018 internal Risk Governance Review, the Bank expanded the remit of the function.

Key elements of the Compliance function's responsibilities include:

- emphasis on our oversight role, as part of the second line within the Risk Directorate;
- focus on encouraging a culture of compliance across the Bank — in which training and awareness will have a significant role;
- a role in ensuring all Bank policies are up to date and appropriate. The Compliance function has commenced a significant review of all Bank policies to ensure they are sufficiently clear, adequately communicated and have clear governance, ownership and review periods;

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

- reiterating that accountability for compliance with Bank policies rests with first line policy owners, Compliance will therefore work with policy owners on ensuring compliance;
- a clearly defined role for Compliance in monitoring adherence to policies and dealing with non-compliance;
- maintaining effective business relationships with other areas in the Bank carrying out compliance activity eg Money Laundering Reporting Officer (MLRO) and Anti Money Laundering (AML) team; and
- overseeing Bank-wide compliance with data protection legislation.

Box B
The Bank's Code of Conduct: Our Code

The Bank's Code of Conduct — Our Code — reflects the Nolan Principles of Public Life and expresses our commitment to how we work and conduct ourselves. It applies to all staff including the Governors and all other policy committee members. Our Code, and the detailed policies that underpin it, seeks to ensure that individual judgements are not coloured by personal concerns or connections: by relationships, investments, the receipt of gifts or entertainment, or by political affiliations. The policies are reviewed regularly by Court. Specific and detailed conflicts codes have been put in place for the policy committees.

Understanding of Our Code provisions starts with staff induction, and is checked each year through an attestation process, with adherence checked by the Compliance Division. As recommended by a review in 2017 of the Bank of England's approach to conflicts of interest by the non-executive directors of Court, a new centralised, electronic system for capturing, reviewing and analysing relevant data on conflicts of interest was introduced in August 2019.

As part of Our Code, staff are encouraged to raise concerns about any aspect of work in the Bank — conduct, treatment of colleagues, disregard of procedures and rules, possible fraud or other risks to the Bank — and if necessary escalate them to designated individuals outside their immediate management chain. The whistleblowing arrangements are the responsibility of the Bank Secretary and safeguard the anonymity of those who speak up: generic information is reported regularly to the Audit and Risk Committee.

Our people

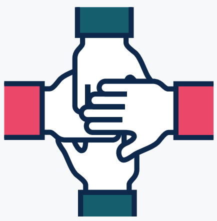
Our people are central to the successful delivery of our mission. Our employment offer at the Bank — with a strong sense of mission and purpose, an inclusive and flexible working environment, excellent opportunities for learning and development and a fair approach to financial reward — helps us attract and retain a diverse and talented workforce.

We currently employ 4,447 people from 85 different nationalities and have people aged between 18 and 70 working alongside one another. Our people work not only in our London offices, but also in our operations in Essex, Leeds and our UK-wide Agency network.

In this section, we set out the steps we have taken to build the best environment for our people. We also publish our gender and Black, Asian and Minority Ethnic (BAME) pay gap reports for 2020 (pages 55–56).

Our people and our mission

Core to our employment offer are the opportunities our people have to contribute to the full breadth of our mission, and thereby to help promote the public good. Our people are drawn from a wide variety of backgrounds and professions — including, but not limited to, cyber-risk specialists, banking and finance experts, software developers, economists, lawyers and actuaries.



Importance of our mission

4,447 people from 85 nationalities working together for the public good

Inclusive and flexible environment

15% of our staff have formal flexible working patterns; many more flex their hours informally

Great opportunities for learning and development

309 training courses held in 2019 and 141 of our colleagues are studying towards apprenticeships

Committed to fair pay

We are committed to paying our colleagues fairly and publishing our gender and BAME pay gaps

With our 'One Bank' approach and Vision 2020 strategy, we have encouraged our people to work across boundaries, with colleagues from a wide range of professional backgrounds working alongside one another in support of our mission. More than 70% of our people say they are able to work outside their immediate team.

Inclusive and flexible working environment

Promoting inclusion remains a key priority. Our Inclusion and Sustainability report (pages 57–70) sets out the steps we have taken to make progress this year. In our recent employee survey, 80% of colleagues said that the Bank is committed to creating a diverse and inclusive work environment.

Our inclusion agenda is underpinned by our continuous commitment to flexible working. We support all colleagues in working at the time and location that works best for them, balancing their personal needs with the requirements of their role. Fifteen per cent of all our people have formal flexible working patterns; this rises to 21% for senior management positions. Many more have informal flexible arrangements — for example, shaping their working hours around childcare and caring commitments. Last year we were again recognised in the 'Power Part Time' list published by Timewise.

To support flexible working, we provide technology to enable effective remote working. In a recent survey, 85% of responding colleagues felt they were able to work flexibly if they wished to in their current positions, and over half of respondents gave suggestions for future improvements.

We are proud to be named as a top 30 family friendly employer again, after an assessment by the work-life balance charity Working Families.

Covid-19

As the Bank has responded to the Covid-19 crisis, the wellbeing of our people has been the key priority, while ensuring we are also able to deliver against our mission. Core to this has been ensuring the safety and security of our colleagues, enabling working from home for all but absolutely essential staff. Clear and consistent internal communications have been critical.

Our colleagues working from home have benefited from our remote-working technology, following substantial work in previous years to upgrade the device estate and telephony. This has seen around 4,000 colleagues logging on remotely every day. And we have taken action to ensure the health and safety of colleagues when working at home, including an Operational Health helpline, and the provision of specialised equipment where required.

We recognise and understand the challenges that colleagues are facing in juggling personal demands with their working day. This includes colleagues with caring responsibilities, including parents following school closures. Colleagues have been supported in adapting their working hours — including reducing working hours — as needed, and will not be financially disadvantaged for doing so.

Colleagues who are required to be present on Bank premises to carry out critical functions are supported with funded transport, free catering and enhanced property cleaning. Where colleagues are unable to work due to social distancing restrictions, the Bank is redeploying them to other areas, supporting them with 'e-learning' and enabling them to volunteer in the local community, for example, as an NHS Volunteer Responder. No employees have been furloughed.

For all colleagues, we have been using our various sources of support for psychological, physical, social and financial wellbeing to keep them mentally and physically well.

Overleaf: We turned our Threadneedle Street office blue to celebrate the NHS and Key Workers during Covid-19.

Development and progression

We recognise the need to build strong talent pipelines at the Bank, hiring people to join us at all stages in their career. Last year, 231 experienced hires were recruited externally. The Bank also recruits through a number of Early Career programmes, to build the skills and leadership capability we know we will need in the future. Our 2019 graduate intake studied 32 different degree disciplines, which is an increase from just 17 ten years ago.

The Bank has had a significant uptake in apprenticeships this year with over 30 different courses offered to both new entrants and existing colleagues. These include apprenticeships in Senior Leadership, Economics and Data Science. A detailed update on our progress towards the public sector target for apprenticeships can be seen in Box C.

Our graduates have the opportunity to study towards a bespoke qualification, the MSc Central Banking and Financial Regulation (CBQ) — a programme designed in collaboration with Warwick Business School (WBS) in 2015. The MSc is also available to colleagues across the Bank providing the opportunity to deepen their technical skills.

In October 2019 we launched the MSc Global Central Banking and Financial Regulation through distance learning in partnership with the University of Warwick. Around 40 students from more than 20 countries are enrolled on the MSc. Eight full bursaries were awarded to central bankers from low-income countries, as part of our partnership with the Department for International Development.

We recognise the importance of effective people management and are continuing to strengthen and support the Bank's management capability — 46 management workshops were run last year, attended by 471 of our people managers.

We offer a mentorship programme open to all employees. In 2019, an average of 137 Bank colleagues volunteered to be a mentor each quarter, and were able to be matched with everyone who had requested a mentor.

We also champion professional development, and have a wide-ranging learning offer. In 2019, we ran 309 courses for 2,610 participants. These ranged from half day workshops to week long programmes, covering topics such as developments in financial regulation, self-leadership, impactful communication and technical skills.

Our people in the public eye

Joanna Place included in the Kindness & Leadership 50 Leading Lights list 2019

Alieda Moore placed in the We Are The City Rising Star in Public Sector 2019

Ratidzo Starkey and Alieda Moore placed in Empower Top 50 Ethnic Minority Leaders 2019

Vishal Desai placed in the OUTstanding 50 LGBT+ Future Leaders 2019

Nick Strange included in the Timewise Power Part Time List 2020

Victoria Cleland shortlisted for 2019 Business Disability Forum Disability-Smart Awards: Senior Sponsor

Martin Etheridge shortlisted for Ethnicity Awards 2019: Ally (Champion)

Anastasia Vinnikova shortlisted for This Can Happen Future Leader Award

Felisha Mouchous shortlisted for the Newcomer category in the Women in Cyber Security Awards

Box C
Apprenticeship report

- Since the launch of the apprenticeship levy, we have worked to embed apprenticeships into our overall training offering. We now offer over 30 different apprenticeships for existing and new colleagues.
- In 2019, we introduced a Degree Apprenticeship programme providing the opportunity for new joiners to develop their on-the-job experience while studying towards graduate level qualifications. This is in addition to our Future Capability programme, an 18-month programme offering diploma level apprenticeships to school leavers across a range of subjects, and a GCSE level programme.
- Also in 2019, we launched a Business Administrator Level 3 apprenticeship for secretarial colleagues, helping them to gain essential career skills and a Pitman Professional Development Diploma. And for our colleagues who specialise in financial services and regulation, we now offer the Senior Investment/Commercial Banking Professional and Financial Services Professional apprenticeships.
- In the last year we have been building a solid foundation for our apprenticeship offering, as the apprenticeship standards have matured. And so we are pleased that in 2019/20 we recruited 102 colleagues (2.3% of all colleagues) on to new apprenticeships in subjects ranging from accountancy to project management. This is a significant increase from 27 colleagues (0.6%) in 2018/19.
- For 2020, we will continue to expand our apprenticeship offering. This includes Degree Apprenticeships in Economics, Data Science and Digital and Technological Solutions, as well as a new Masters-level apprenticeship in Economics, and an Artificial Intelligence (AI) Data Specialist apprenticeship.

4,482 staff working at the Bank of England on 31 March 2019

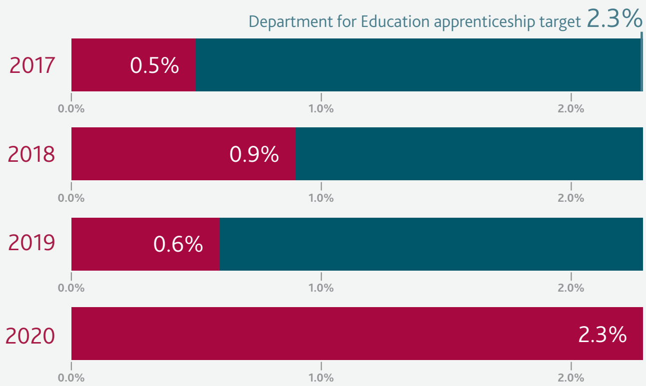
506[1] new recruits in England

34%[1] of new apprentices at the Bank are female

4,406 staff working at the Bank of England on 31 March 2020

102[1] new apprentices (2.3% of total workforce)

21%[1] of new apprentices at the Bank identify as BAME



20%[2] of new recruits joined as apprentices between 1 April 2019 and 31 March 2020

1 The statutory reporting period for apprenticeships is from 1 April 2019 until 31 March 2020. All figures contained within the apprenticeship return are reflective of this period.

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.

Qasim Khan, Service Desk Analyst

'I joined the Technology Service Desk in September 2018, as an apprentice doing the Level 3 Infrastructure Technician Apprenticeship. I studied Information Technology at college but found the difference between studying and doing the apprenticeship quite different. The opportunity to apply the knowledge I have learned from my apprenticeship, along with the support and experience shared by my team and manager, has enabled me to develop in my role as Service Desk Analyst.'

Nimra Mahmood, Research Assistant

'The Professional Economist Degree Apprenticeship has been both interesting and challenging so far. The analytical skills and knowledge I have gained have been useful, and will become more beneficial as I develop and pursue a career in Economics. The support I have had from my own team, and from other apprentices has also helped me with some of the more challenging work. Overall, I think that the Bank has been an excellent place to work whilst studying towards an Economics degree.'

Rewarding colleagues fairly — our gender and BAME pay gap

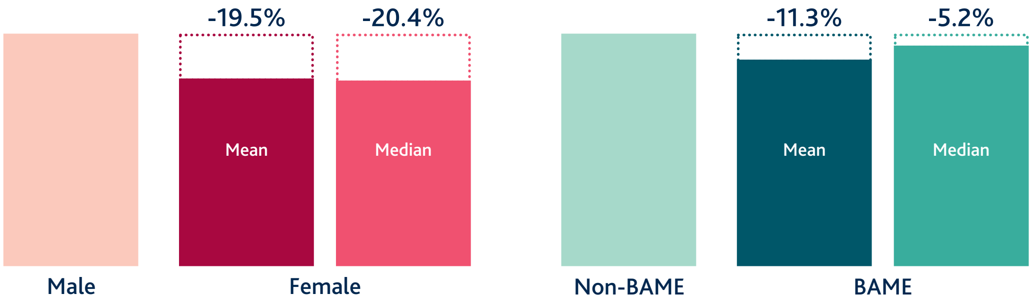
The gender and BAME pay gaps look at average hourly earnings across the whole organisation, regardless of role or level. The mean gender pay gap at the Bank as of March 2020 is 19.5%, down from 20.2% in 2019. The median gender pay gap is 20.4%, down from 23.0% in 2019.[1] The reduction in the pay gap can be attributed to a rebalancing of gender representation across the Bank. There has been an increase in the proportion of female colleagues at senior levels, including a 16% increase in female representation at Executive Director level, and a decrease at more junior levels.

The mean BAME pay gap this year is 11.3%, down from 12.2% in 2019. The median BAME pay gap has also reduced, from 6.7% in 2019, to 5.2% now. The decrease in the mean pay gap is accounted for by the increase in BAME representation at senior levels and in specialist roles that command a premium in the external market.[2]

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 16.8% and a mean BAME pay gap of 9.5%. These have reduced from 18.1%, and 10.5% respectively in 2019.

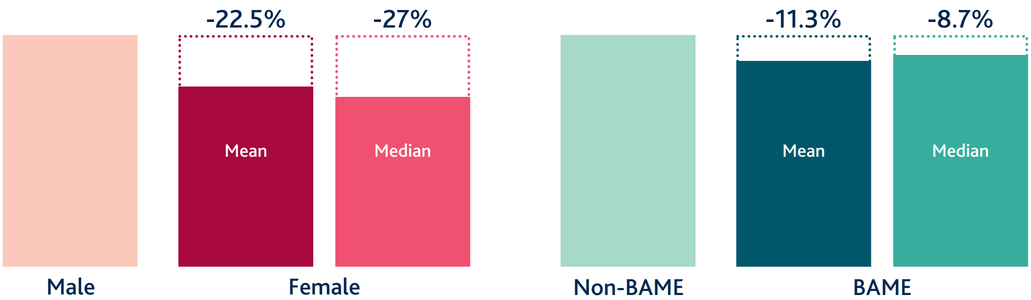
Based on our analysis, we consider that colleagues are paid equally for doing the same job at the Bank. The main reason for our organisation-wide pay gaps continues to be an imbalance of male and female and non-BAME and BAME colleagues across the Bank. While progress has been made, there are still fewer women and BAME colleagues in senior roles than men and non-BAME, and a higher proportion of women relative to men at lower scales.

Pay gap



The pay gap figures are based on hourly rate of pay as at 31 March 2020 and bonuses paid in the year to March 2020.

Bonus (performance award) gap



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

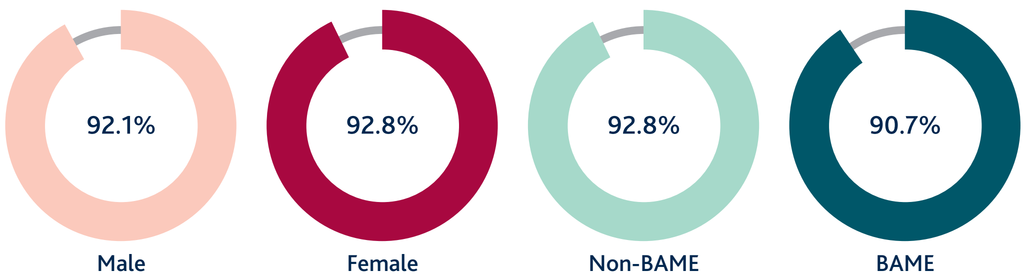
1 The Gender Pay Gap calculation was reviewed by Internal Audit.

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

Addressing the disparity in representation across the Bank will take time and we are working towards achieving our gender and BAME targets. This will have an impact on our pay gaps in future years. In the past year we have continued to embed inclusive recruitment throughout the organisation (such as through name-blind recruitment and our Career Returners Scheme (page 57)), and continued our efforts to ensure that we are nurturing diverse talent (for example, through our sponsorship scheme (page 61)). In addition, we have introduced a BAME Taskforce to oversee the delivery of a series of actions aimed at improving retention and progression rates for BAME colleagues, and to improve the overall experience of BAME colleagues within the Bank (see Box D on page 61).

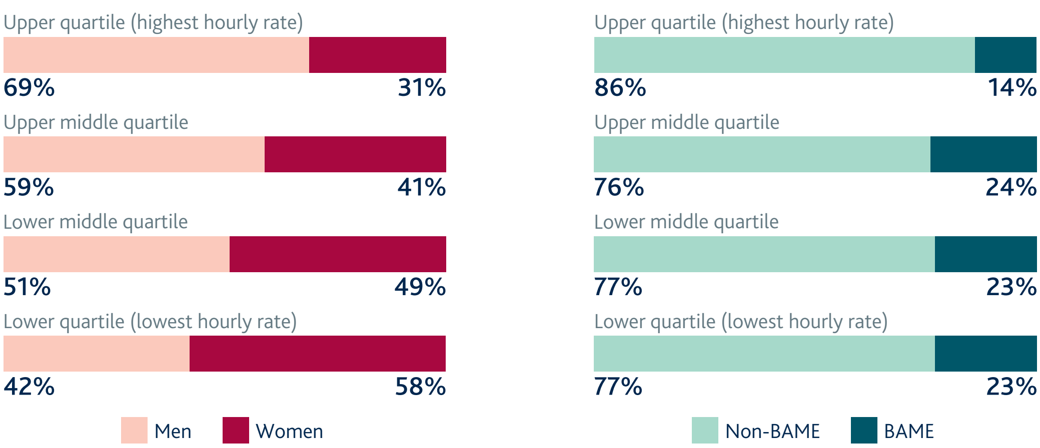
The Bank has an obligation to publish annual information relating to pay under Schedule 1 of the Equality Act 2010 (Specific Duties and Public Authorities) Regulations 2017 (the 'Regulations'). Schedule 2 to the Regulations lists the public authorities required to publish this information, and lists 'The Bank of England, in respect of its public functions'. For the avoidance of doubt, the Bank does not consider itself a public authority and is also a private sector employer, however given the administrative burden of separating employees into those performing a public function and those who are not, the Bank has chosen to publish exclusively under the Regulations (and therefore abide by the earlier date of publication of 31 March) rather than publishing separately under the Gender Pay Gap regulations which govern private and voluntary sector employers.

Proportion of colleagues receiving a bonus (performance award) payment



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

Inclusion and Sustainability

Over the last six years the Bank has focused on increasing diversity and fostering inclusion. Our initiatives have had a material impact on all aspects of diversity and inclusion at the Bank. But we know there is still more to do.

That is why in 2019 we brought together our inclusion, sustainability and environmental programmes to broaden the reach and impact of our work.

To raise awareness of our Inclusion agenda we held many internal and external events in 2019, including during National Inclusion Week, and also held a Green Week to highlight the environmental agenda.

During 2020 we will increase our emphasis on social mobility to help us gain a greater understanding of the social makeup of the Bank, and of the steps we need to take to improve the diversity of social background in the organisation. Reflecting our commitment, we have signed up to the cross-party Social Mobility Pledge.

This section explains how we have made progress this year, under our four strands of Diversity, Community, Wellbeing and Environment.

Diversity

During the year we continued to make progress towards our stretching 2020 diversity targets that we set ourselves six years ago. We have started a review of our targets and measurements post-2020, and expect our post-2020 approach to also include measurements for other protected characteristics such as disability and sexual orientation.

Our current targets are to increase the representation of female colleagues in senior roles to 35% by 31 December 2020, and of BAME colleagues in these roles to 13% by 31 December 2022. Below senior management, we have set a target of 50% female representation and 20% BAME by 31 December 2020.

This year, we reached our target of 20% for BAME colleagues below senior management, and have seen an increase in BAME senior management representation from 5% to 7%. Female representation at senior levels increased from 31% to 32%, and is materially higher than the 17% of 2013. Below senior management, female representation has been maintained at 46%. A number of initiatives are helping us work towards our targets — and to strengthen the Bank's diverse and inclusive culture more generally — including the launch of the BAME Taskforce (see Box D on page 61).

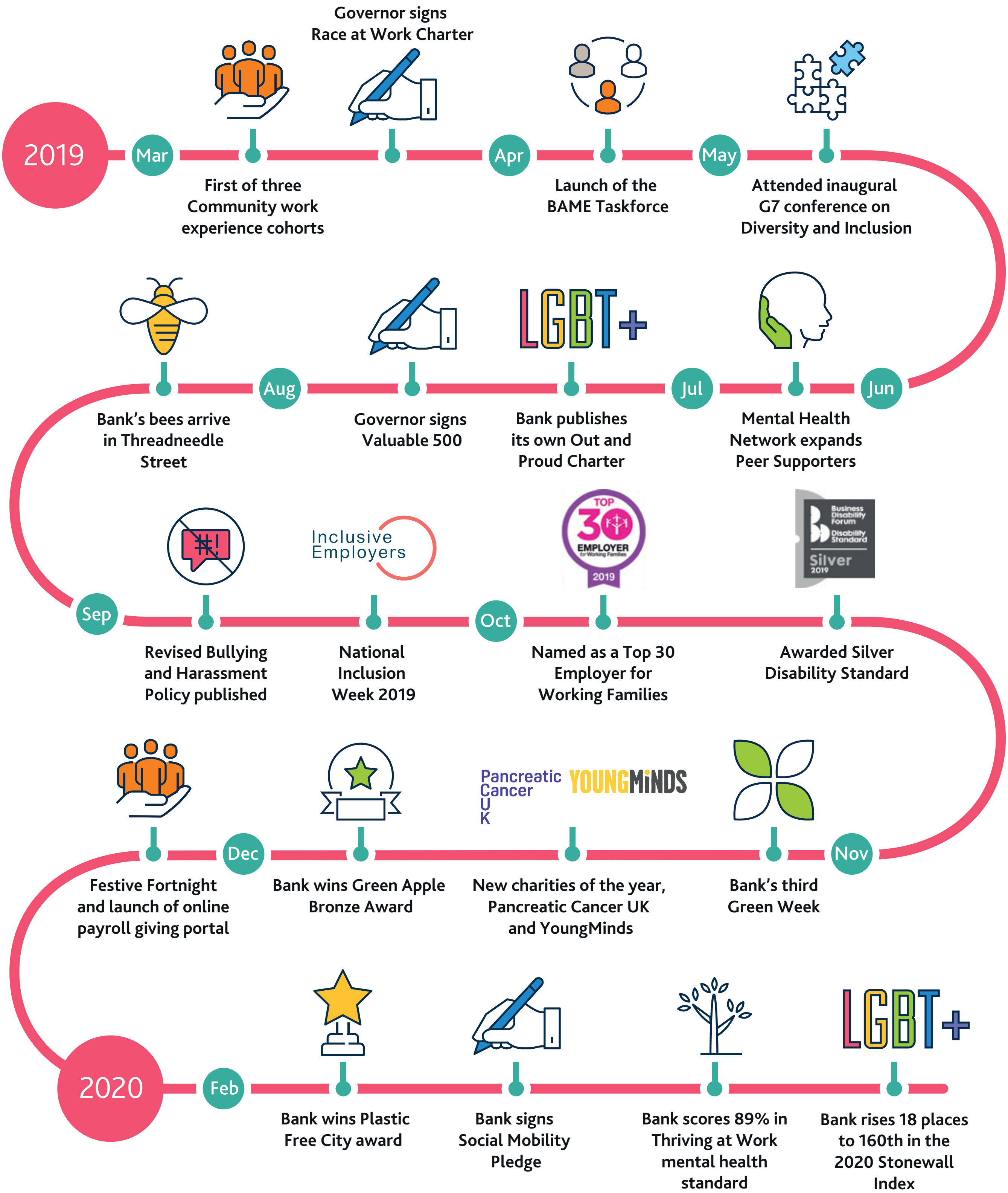
More generally, of our experienced hires, 49% were female and 33% were declared BAME. Of our 2020 graduate intake due to join us in September, 46% are female and 36% are declared BAME (in 2019, these figures were 41% female and 31% declared BAME). Of our apprentices, 34% are female and 21% declared BAME.

The Bank has now run two Career Returners programmes, in partnership with Women Returners, a specialist return to work organisation. We have had 35 returners in total (of which, 91% were female and 52% were declared BAME). And from our 2019 cohort 14 have now secured permanent roles at the Bank, 86% of which were female and 64% were declared BAME.

Melissa Janvier, Legal Counsel

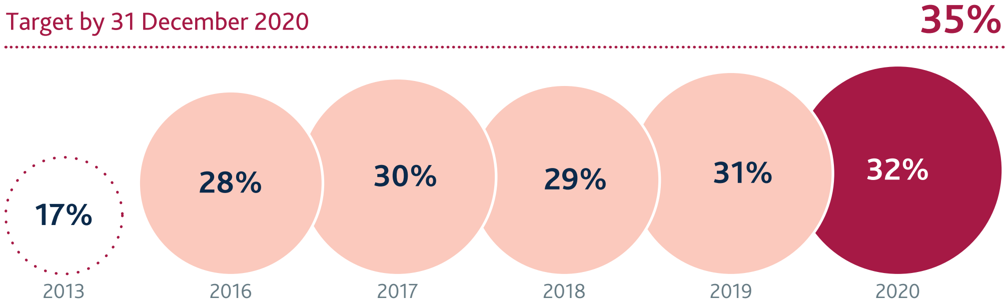
'Returning to work after a career break can be challenging and overwhelming. However, the Bank's Career Returner programme offered genuine support that far exceeded my expectations. The programme provided me with a network of other returners and professional coaches, in addition to enthusiastic colleagues that served as induction champions and a 'buddy' within my division. I felt extremely welcomed. Together with the Bank's flexible working initiative, the Career Returner programme made my return to work seamless. This programme has enabled me to continue my legal career and I am beyond excited to see what the future holds.'

Highlights of our Inclusion and Sustainability Programme in 2019/20

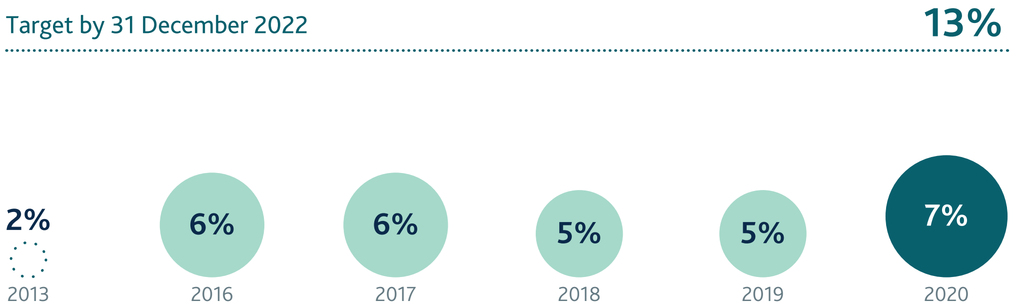


Diversity and inclusion metrics

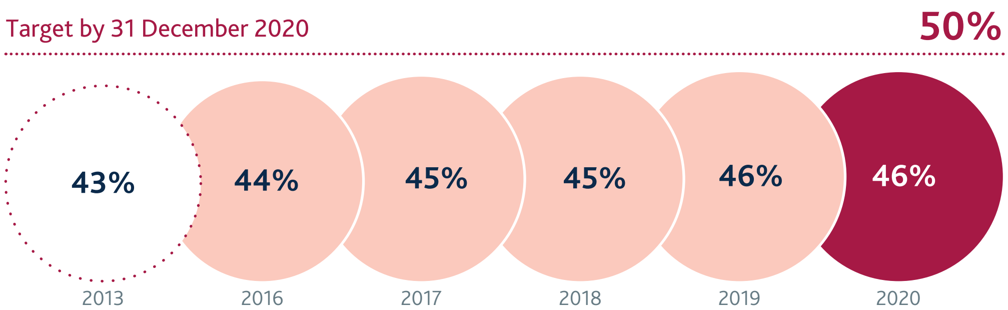
Female representation: Senior management



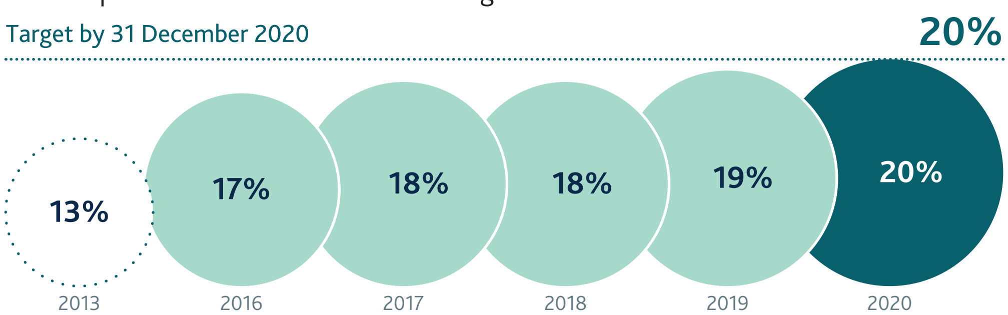
BAME representation: Senior management



Female representation: Below senior management

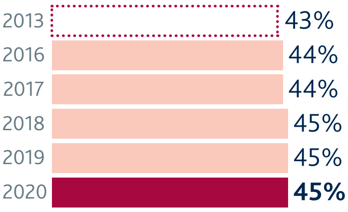


BAME representation: Below senior management

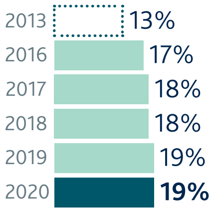


Overall split

Female representation

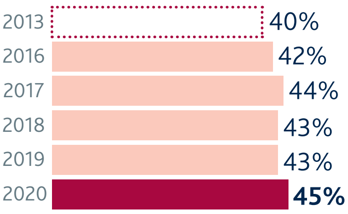


BAME representation

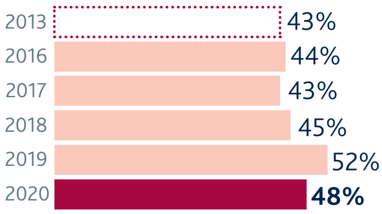


Female representation

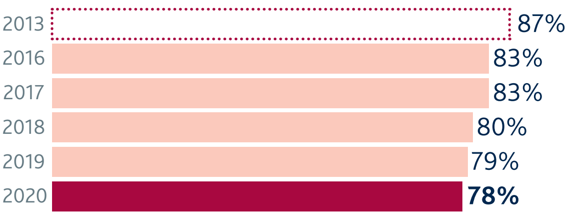
Of those newly hired



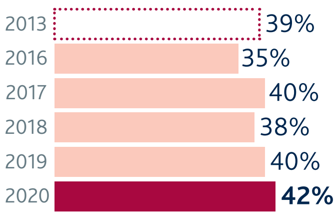
Of those promoted



Of those working part-time

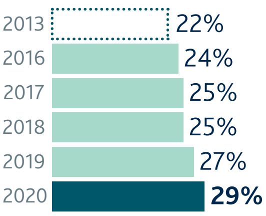


Of those leaving the Bank[1]

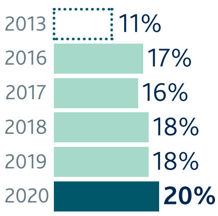


BAME representation

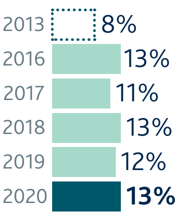
Of those newly hired



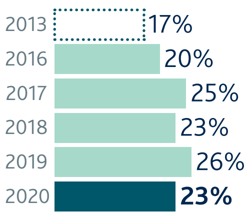
Of those promoted



Of those working part-time



Of those leaving the Bank[1]



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

Box D
BAME Taskforce

We recognise we need to do more to improve the representation of BAME colleagues at senior levels, and to improve both retention and the working environment for all BAME colleagues. And that is why we launched the BAME Taskforce in April 2019.

Reporting regularly to the Bank's Court, Governors and Executive Directors, the taskforce, chaired by one of our Deputy Governors, Dave Ramsden, has been taking action in three areas identified by our ethnic minority network (BEEM). These are: Building the pipeline of BAME talent; Being BAME positive; and Taking Ownership of the issues affecting BAME staff.

To achieve these aims, the taskforce has overseen a number of actions. These include the rollout of Let's Talk About Race workshops, and the introduction of an enhanced diversity and inclusion objective for people managers. The latter, an example of Taking Ownership, is an important step in ensuring increased accountability amongst managers.

Engagement in the taskforce's work has been high, demonstrated by a Town Hall in February 2020 which was attended by a diverse audience of over 150 colleagues, representing all levels of the Bank. The Town Hall gave colleagues the opportunity to raise questions and share their views on BAME issues. This feedback is essential in helping the taskforce decide what further actions are needed to fulfil its aims.

And we have started developing an Inclusive Leadership Programme, an ongoing learning programme that supports a continuing shift in our inclusive culture. It will be owned by an in-house cohort of senior management, for rollout to their peers. Working with a third-party specialist organisation, we will produce content and a method of delivery that suits the Bank and our ways of working. This is one example of how something initiated by the taskforce, with the needs of BAME colleagues at its core, will have a positive effect for all colleagues therefore making the Bank feel more inclusive for everyone.

Looking broader than ethnicity and gender, the proportion of colleagues who identify themselves as lesbian, gay, bisexual and other is 3.6%, this rises to 6.3% for people in senior management positions. This is a 0.2 percentage points and 1 percentage point increase on last year. 3.8% of colleagues have declared a disability, compared with 3.1% last year.

Charters are an important way for us to hold ourselves to account on our inclusion commitments. In addition to being fully compliant signatories of the Women in Finance Charter we signed up to three further Charters in 2019/20. These were: Business in the Community's Race at Work Charter, The Valuable 500, and our own Out and Proud Charter.

Our sponsorship programme for diverse talent was launched in 2018 and 50 colleagues have participated so far. It aims to support progression into senior management by breaking down barriers, with a particular focus on BAME and female colleagues just below senior management levels. In 2019, the programme was expanded to include colleagues with disabilities and BAME colleagues who are at an earlier stage of their career. And our approach to 'pooling' appointments at senior level — with appointments made as a cohort rather than individually — has also supported our diversity and inclusion agenda.

Overleaf: Colleagues participating in 'Sing-clusion!' during National Inclusion Week, 2019.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Employee networks

We now have twelve employee networks, with the launch of the Bank Employees That Served Network in 2019, supporting those who have served or have close links to the emergency services or armed/reserve forces. Each network plays a key role in our inclusion agenda. They focus on raising awareness through events and campaigns, as well as enhancing existing policies to ensure we are as inclusive as possible.

Some of the key achievements of the networks over the past year include the introduction of the Bank's own Out and Proud Charter by our LGBT+ and Allies Network. And our disAbility Network was integral in the completion of our Business Disability Forum Benchmarking Standard submission, in which the Bank was awarded silver status.

Court has focused on increasing engagement with our networks and supporting their initiatives, with a number of the networks providing updates on their work over the last year and discussing future awareness-raising campaigns.

We continued to show support for initiatives such as Mental Health Awareness Week, lighting the Bank green in May 2019, and then red to mark World Aids Day later in the year. We also lit up purple to mark World Pancreatic Cancer Day in November 2019, to support one of our charities of the year, and blue to celebrate NHS and key workers during Covid-19.

Community

The Bank has had a long tradition of community engagement. We focus on charitable giving, volunteering, providing opportunities for work experience to young people, and outreach and education.

Charitable giving

Our charities of the year for November 2018 to November 2019 were The Brain Tumour Charity and London's Air Ambulance Charity. In total, a record sum of more than £180,000 was raised for these charities.

This exceptional sum was achieved through fundraising campaigns, completing sporting challenges and colleagues' longer-term commitment to the Pennies from Heaven scheme. This year the Bank has again received a platinum award from this scheme in recognition of more than half of all colleagues donating, and a bronze award for our pensioners.

Our charities of the year changed in November 2019 to Pancreatic Cancer UK and YoungMinds following the annual Bank-wide vote in September. In December we raised funds for our new charities, including raffling the first harvest of honey from our bees kept at Debden. We also launched a new online portal to enable colleagues to more easily donate to a wide range of charities through payroll.

In January we invited all 18 charities we have partnered with during Governor Carney's tenure into the Bank for a roundtable discussion and celebration. We are proud that since 2013 a total of over £1.1 million has been donated to our charities of the year either through colleague fundraising, matching from the Bank, or through our charity banknote auctions.

Dave Barley, Senior Foreign Exchange and Money Markets Dealer

'I'm one of the Bank's Community Champions and enjoy giving back to the community. Last summer I took part in RideLondon 100 raising £2,100 for London's Air Ambulance Charity, one of the Bank's charities of the year. In September for City Giving Day we 'putt charity' first and created a putting platform which was 325 yards long, as part of our celebrations for our 325th anniversary. People donated to our charities and tried to 'putt' golf balls through the doors of a model of the Bank to score 325. Also in September we hosted a charity quiz night in Mansion House attended by City banks and brokers which raised over £17,000 for the Bank's and the Lord Mayor's Appeal charities.'

We recognise colleagues' exceptional commitment to the community through our annual Court Awards, where we make donations to the charities where colleagues raise significant funds or volunteer a considerable amount of their own time. We also offer matched funding to support colleagues in their various fundraising and volunteering efforts, and support charities in the local community across the UK via our Agency network.

During 2019/20, the Bank contributed a total of £1,293,000 in support of its community programme (2018/19: £1,200,000). Cash donations totalled £542,000 (2018/19: £485,000). More detail is provided in the annex on page 69. No donation was made for any political purpose in 2019/20 (2018/19: nil). And no paid leave was granted to staff for any political purposes. (2018/19: nil).

Volunteering and work experience

Colleagues have continued to demonstrate their commitment to the community, including through individual volunteering, for example at local schools, or supporting the homeless or elderly. Many colleagues also have long-term commitments to their communities, such as school governors, special constables or members of local community groups, as well as to charities (for example as trustees).

To support these efforts, the Bank offers paid volunteering leave. As a result of internal campaigns to promote volunteering in the community, and ongoing work to digitise our processes, we have seen an increase in volunteering days to 1,320 in 2019/20 (2018/19: 1,282).

Colleagues also volunteer their time to host our Community work experience students. In 2019 the Bank hosted a total of 150 work experience students, of which 71 were recruited by our partner organisations. These students were all from different communities across or around London and had no personal connection to the Bank.

In October 2019, Governor Carney met our final cohort of students giving them an insight into his career and talking to them about his experiences.

Outreach and education

One of the aims of our Strategic Plan, Vision 2020, is to equip the next generation with the tools and skills they need to understand the economy, as well as the Bank's role in it. Key to achieving that is the Bank's education and outreach programme.

During the year, colleagues conducted over 300 school visits; more than 90% of teachers who responded to our survey said that the visits increased their understanding of what we do. Our free schools resource for 11–16 year olds ('EconoMe') also continues to be a success. 1,800 schools have now registered for EconoMe.

To help us achieve our mission it is vital that we listen to people across the United Kingdom about the issues that matter to them like jobs, pay and the cost of living. This year our focus has been on reaching a more diverse range of people, including those who have traditionally been under-represented. To achieve that we have held 17 citizens' panels across the UK led by senior leaders across the organisation.

We also ran nine community forums to engage directly with disadvantaged and underrepresented communities. These were delivered in partnership with regional and national third sector organisations. Key themes included financial inclusion; the economic contribution of the voluntary sector; debt and fuel poverty; and youth homelessness.

This year also saw the launch of a new Bank of England Youth Forum for 16–24 year olds, created in partnership with the British Youth Council. The youth forum discussed issues such as the labour market, financial education, and how we as an organisation can best communicate with this important age group.

Wellbeing

Promoting the wellbeing of our colleagues is a priority to us at the Bank — which is why in November 2019 we launched a new Wellbeing Strategy.

We define our four strands of wellbeing as 'physical, psychological, social and financial'. For example:

- To support physical wellbeing, we provide discounted gym memberships, or on-site gyms, and health assessments.
- Colleagues are able to support their psychological wellbeing through, among other things, our free in-house counselling service and a quick-access mental health pathway through our Private Medical Insurance.
- Social wellbeing is encouraged through participation in our Be Sports and Social Club, and a range of employee networks.
- On financial wellbeing, colleagues have access to a financial helpline through our Employee Assistance Programme, as well as discounts for a variety of retailers.
- To support all aspects of wellbeing, we run a variety of wellbeing seminars for all colleagues on topics such as the menopause, winter wellness and grief.

Our Wellbeing Strategy aims to create a culture where colleagues can not only bring their whole selves to work, but also to improve productivity, quality of work and decision making.

In 2019 we completed the Thriving at Work Assessment with the City Mental Health Alliance and were awarded its highest accreditation mark — 'Excelling'. The assessment also helped us to identify key areas of focus for continued improvement.

In the coming year, we are planning to roll out Mental Health First Aid training for colleagues, and increased manager resources to assist them in supporting the wellbeing of their teams. There will also be more awareness raising activities and education for all colleagues around how they can improve their wellbeing — both in their professional and personal lives.

Environment

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

We have seen a change in the way colleagues across the Bank think about the environment. For example, this year we had a target to reduce printing by 25%, and achieved a 34% reduction (in total, printing volumes have fallen by two thirds since 2015/16).

Kieran Barnes, Senior Technical Specialist, Insurance Supervision

'The Bank's approach to inclusion means that we are all encouraged to 'bring our whole selves to work.' For me, that means being comfortable about being bipolar and openly discussing my experiences. Both of these are very important for my own ongoing mental health, but also enable me to help others. I'm a 'Peer Support' volunteer, a listening and signposting service for Bank employees who want to talk about mental health issues. Peer Support is there to help colleagues, but also allows us to connect with, get to know and support one another. Alongside me, there are 60 other Peer Support volunteers who have been amazingly open about their own experiences and demonstrate that the Bank is challenging the stigma around mental health.'

Overleaf top: Sam Woods, Deputy Governor Prudential Regulation Authority, joins colleagues in the parade as the Bank celebrated Pride 2019 © Mark Turner.

Overleaf middle-left: Improving the ecological value of the grassland at our site in Debden with two beehives.

Overleaf middle-right: Special edition reusable cups and bottles for our 325th anniversary.

Overleaf bottom: Our most senior colleagues, including Governor Mark Carney, wearing green ribbons in support of mental health awareness.


PRIDE Jubilee
Bank of England
£10
Bank of England
Ten Pounds
Marsha P. Johnson
StandOUT
YOURSELF


BANK OF ENGLAND
325th ANNIVERSARY
CHILLY'S
keep cup
ORIGINAL

Employee engagement

We have a community of over 150 Green Champions from across the Bank each helping their business areas to get certified under our internal environmental certification scheme, 'Greener Office'. Currently 90% of our colleagues are working in an area that has been certified under the scheme, up from 60% at the end of 2018/19.

Our Greener Office scheme won a bronze award in the Green Apple Awards in the finance sector, innovation category, and we have recently re-launched the scheme with updated criteria to ensure that it remains challenging and current.

Carbon emissions

In 2016 we set ourselves the target of reducing our overall carbon emissions from direct operations by 20% by 2020. This has been met. During 2019/20 the Bank's total emissions of CO_2e was 17,056 tonnes (see page 70), a 33% reduction since 2015/16.

This year, we set ourselves a new target in line with the aims of the Paris Agreement and consistent with limiting global warming to 1.5°C above pre-industrial levels. This target is to cut the absolute greenhouse gas emissions from our Scope 1 emissions (use of gas, fuel and refrigerants), Scope 2 emissions (electricity) and business travel by 63% by 2030 compared to our 2016 baseline.

We based our 2030 target on the latest climate science and informed by Science Based Targets — a methodology for setting evidence-based emissions reductions targets. In order to enable this new target, we recalculated our baseline footprint. This calculation is explained in the 'The Bank of England's climate-related financial disclosure 2020' which is published alongside this *Report*. We will achieve this target in part by a switch to renewable electricity and gas during 2020/21.

Another key area of action to tackle our emissions will be our use of international air travel. This year we have launched a travel working group to look at our travel footprint and we will implement the recommendations of this group in the coming year.

Energy management

Since 2016, and despite a 10% rise in staff numbers, total energy use across our buildings has been stable. This reflects our efforts to improve the energy efficiency of our operations. This includes by continuing to upgrade lighting to LED technology across the Bank's sites as part of a multi-year programme (expected to reduce lighting energy consumption by 50%) and installing a new set of boilers at our Debden site that should lead to a significant reduction in gas consumption.

We have improved control of our heat recovery system, and optimised energy control systems this year. Projects planned for the coming year will help further reduce our energy and water consumption. These include taking steps to improve metering of energy use and increasing our use of renewable heating.

Waste and resources management

We strive to reduce the volume of waste we produce and to increase the amount of recycling we do. In recognition of our ongoing efforts to reduce single-use plastics on our sites, we won the City of London's Plastic Free City award.

For our sustained efforts on waste and resources management we received platinum recognition for the fourth year running in the Clean City Awards 2019.

Denise Ince, Project Manager, Shared Services

'As a Chartered Engineer and project manager, it's important to me to make a contribution to the Bank's environmental agenda. I am one of the Bank's 'Green Engineers', a group that works to identify opportunities to save energy and water, and reduce carbon emissions from Bank buildings. We meet regularly to talk about potential projects, and have implemented some improvements already. For example, I have been involved with the work to change light fittings to LEDs in as many areas as we can. In most cases, this will halve the energy used in each fitting. We made further savings by upgrading the controls and installing motion and daylight sensors that mean lights are only on when needed.'

Banknotes

During the year we have completed tenders for the substrate required to produce our polymer £20 and £50 banknotes. This included an assessment of the measures that our polymer substrate suppliers take to minimise the environmental impact — both carbon and non-carbon — of their products.

This year over 500 million unfit banknotes were returned to the Bank and required disposal; just over 90% of these were paper banknotes. The Bank works with various partner organisations to reduce the environmental impact associated with the destruction of notes. For paper notes, this includes composting and an 'energy from waste' solution.

The majority of polymer banknotes requiring disposal are treated using a UK-based innovative recycling solution. The reformed polymer pellets are used by third parties to make new plastic items such as storage boxes and building materials.

Biodiversity

We continue to work to improve biodiversity at our Debden site in Essex, in order that the area of grassland at the site is managed to best preserve — and improve — its ecological value. We now have two beehives at our Debden site, and have planted more flowers in order to support the bees. We have also introduced a beehive at our Threadneedle Street building, and welcomed 20,000 bees in August 2019. Due to access restrictions on our Threadneedle Street building due to Covid-19, this hive has been temporarily relocated to our Debden site.

Health and safety

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

We offer safety-related training to all colleagues and provide specialist training to those undertaking higher-risk roles such as property maintenance. During 2020, asbestos awareness training will be conducted across the maintenance teams, as this has been identified as a risk in the work that these teams will be undertaking.

During the year to 31 December 2019 there were a total of 23 recorded accidents involving employees, compared to 31 in 2018. Two of the recorded accidents were reportable injuries 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 re-occurrence.

Annex

Cash donations

During 2019/20 cash donations totalled £542,000:

- £75,000 to community organisations via the matched funding scheme;
- £60,000 to charities supported by the Bank's regional agencies;
- £50,000 to match staff fundraising for the staff charities of the year;
- £25,000 via the Bank of England Court Awards through which donations are made to community organisations in recognition of outstanding volunteering contributions by members of staff including those who volunteer as school governors; and
- £332,000 made to partner charitable organisations and membership subscriptions.

Carbon footprint (Greenhouse gas emissions)[1]

		2019/20			2015/16 Baseline year
Type of emissions	Activity	tCO_{2e}	% of total	% change from baseline	tCO_{2e}
Direct (Scope 1)	Natural gas	2,784	16.3		3,320
	Oil — generators	19	0.1		5
	Vehicles fleet	95	0.6		97
	Refrigerants	163	1.0		n.a.[1]
	Subtotal	**3,061**		**-11**	**3,422**
Direct (Scope 2)	Electricity	8,565	50.2		16,195
	Subtotal	**8,565**		**-47**	**16,195**
Indirect (Scope 3)	Electricity — T&D[2]	821	4.8		1,337
	Air travel	4,428	26.0		4,334
	Rail travel	34	0.2		34
	Water	97	0.6		83
	Office paper	28	0.2		96
	Waste	22	0.1		20
	Subtotal	**5,430**		**-8**	**5,904**
Total gross emissions (tCO_{2e})		**17,056**		**-33**	**25,521**
Intensity metric					
Average number of employees		4,395			3,983
Tonnes of CO_{2e} per employee		3.9		-39	6.4

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

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

Assessment parameters

Baseline year	2015/16
Reporting organisation	Bank of England
Person responsible	Energy and Carbon manager
Reporting period covered	1 March 2019–29 February 2020
Organisational boundaries	Facilities over which the Bank of England has operational control
Methodology used	ISO 14064-1 and DEFRA Reporting guidelines (2013)
Emissions factors used	UK Government conversion factors for Company Reporting set
External verification 2016 baseline	Limited assurance to ISO 14064-3 provided by the Carbon Trust
Exclusions	Emissions associated with the use of refrigerants were not accounted in 2016

Report of the Remuneration Committee

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

The Committee takes account of external comparisons from the public and private sector when reviewing policy and making remuneration decisions, as well as reviewing internal comparators to help ensure that staff are appropriately and fairly rewarded. We continue to report on our gender and BAME 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 50–56.

A focus for the Committee this year has been initiating a review of the Bank's pension scheme to ensure that it remains competitive, while being sustainable and fair to all colleagues.

The Governors

The remuneration structure for Governors remains straightforward. Governors receive a salary and specified benefits, but they do not receive an additional benefits allowance or any performance awards 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 altogether, receiving a salary supplement in lieu of pension. They may also choose to increase pension accrual subject to a reduction in salary calculated at rates consistent with the Bank's funding valuation. In recent years, the Committee has approved pay increases for Governors in line with public sector norms. A similar approach was taken for 2019/20 with pay for Deputy Governors increasing by 1.25%. As in previous years, Mr Carney declined to accept the increase.

Governors' remuneration policy

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

Under the Bank of England Act 1998, Governors and Deputy Governors are required to provide remunerated services only to the Bank. With Court's approval, other directorships relevant to the Bank's work may be accepted, but any fees must be waived or surrendered to the Bank. Directorships held during the past year have been the (statutory) appointment to the Financial Conduct Authority Board held by Mr Woods as Deputy Governor for Prudential Regulation; and Mr Carney sat on the Board of the Bank for International Settlements.

The Committee keeps under review other benefits available to the Governors. It is the Bank's policy to provide for relocation support as necessary to those appointed to senior positions. Mr Carney received, as was announced on his appointment, an annual accommodation allowance of £250,000 per annum to reflect the additional cost of living in London rather than in Ottawa. Insurances and health checks were the principal other non-salary benefits received by Governors during the year.

On Mr Bailey's appointment as Governor with effect from 16 March 2020, the Committee noted that the Governor's salary had remained unchanged at £480,000 per annum since 2013. Had Mr Carney not declined all of the increases proposed since his appointment his salary would have risen to £518,000. The Committee decided to take some account of this in setting the starting salary for his successor, and set Mr Bailey's salary at £495,000. Like other new Governors, Mr Bailey would be 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%.

Governors' remuneration

£	Mark Carney 2019/20	Mark Carney 2018/19	Ben Broadbent 2019/20	Ben Broadbent 2018/19	Sir Jon Cunliffe 2019/20	Sir Jon Cunliffe 2018/19
Base salary	480,000	480,000	279,517	276,066	279,517	276,066
Taxable benefits[1]	252,434	252,286	4,494	1,181	1,691	1,575
Pension benefits[2]	148,723	149,545	–	–	–	–
Payment in lieu of pension	–	–	83,855	82,820	83,855	82,820
Total pension benefits	**148,723**	**149,545**	**83,855**	**82,820**	**83,855**	**82,820**
Other remuneration	1,728	2,080	1,006	994	1,006	1,346
Total remuneration	**882,885**	**883,911**	**368,872**	**361,061**	**366,069**	**361,807**

£	Joanna Place 2019/20	Joanna Place 2018/19	Sir Dave Ramsden 2019/20	Sir Dave Ramsden 2018/19	Sam Woods 2019/20	Sam Woods 2018/19
Base salary	279,517	276,066	279,517	276,066	279,517	276,066
Taxable benefits[1]	6,221	8,285	3,419	1,181	1,269	1,181
Pension benefits[2]	–	–	–	–	86,644	87,046
Payment in lieu of pension	55,903	55,214	55,903	55,214	–	–
Total pension benefits	**55,903**	**55,214**	**55,903**	**55,214**	**86,644**	**87,046**
Other remuneration	1,346	994	1,006	994	1,006	994
Total remuneration	**342,987**	**340,559**	**339,845**	**333,455**	**368,436**	**365,287**

1 The taxable benefits received includes a payment of £3,225 for three-days leave buy-back for Ben Broadbent; a payment of £5,375 for five-days leave buy-back for Joanna Place and a payment of £2,150 for two-days leave buy-back for Sir Dave Ramsden.

2 As at 29 February 2020, only Mark Carney and Sam Woods were accruing pension. Mark Carney's total accrued pension is £43,975p.a. and Sam Woods' accrued pension is £18,658p.a.

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 2019/20, the external members of the FPC were each paid at a rate of £96,000p.a., independent PRC members were paid at a rate of £108,300p.a. and the external MPC members were paid £154,600p.a. For 2020/21, all fees were increased by 1.25%, rounded to the nearest hundred. MPC members, who work on average three days a week in the Bank, are also entitled to join the Bank's private medical insurance scheme.

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

Executive Directors' salaries and benefits

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

The table opposite shows, for Executive Directors serving at the end of 2019/20, the first two elements of their remuneration as well as their individual pension accrual rates. In recommending salaries for Executive Directors the Committee takes into account the differences in their performance as well as their pension accrual and external benchmarks for their roles so as to achieve fair and justifiable total remuneration. In recommending individual performance awards the Committee takes account of both performance against objectives and values, 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 the Committee reviews and approves the rates at which pension is exchanged for cash and *vice versa* to ensure they are consistent with the scheme funding valuation, and updated to reflect market movements and changes in actuarial assumptions. In 2019/20 the decision was taken to reduce rates for those who opt out of pension entirely from 55% to 50% (1/50ths), from 42% to 38% (1/65ths) and from 29% to 26% (1/95ths). The intention is 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.

£ Year to 29 February 2020	Salary	Benefits	Contractual pension accrual
David Bailey	178,500	14,200	1/65th
Sonya Branch	216,503	16,198	1/95th
Alex Brazier	185,726	14,741	1/50th
Sarah Breeden	184,775	14,670	1/50th
Stephen Brown	170,784	13,623	1/50th
Victoria Cleland	164,000	13,115	1/50th
Jonathan Curtiss	164,000	13,115	1/50th
Rob Elsey	206,045	16,261	1/95th
John Footman	192,971	15,283	1/65th
Charlotte Gerken*	190,048	15,064	1/95th
Andy Haldane	190,419	15,092	1/50th
Andrew Hauser	185,730	14,741	1/50th
Afua Kyei**	110,833	9,198	1/95th
Sasha Mills	182,903	14,530	1/95th
Lyndon Nelson	227,103	17,837	1/95th
Lea Paterson***	130,560	10,614	1/50th
Gareth Ramsay	164,836	13,178	1/50th
Victoria Saporta	182,083	14,468	1/50th
Christina Segal-Knowles*	154,715	12,421	1/95th
Anna Sweeney* and ***	146,555	11,608	1/95th

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

** Denotes those who joined the Bank during the year and their salary is pro-rated to reflect time in their role.

*** Denotes those who work part-time.

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, the Committee 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 29 February 2020	Accrued pension £p.a. Feb. 20	Accrued pension £p.a. Feb. 19	Increase in pension £p.a.
David Bailey	£15,045	£12,454	£2,591
Sonya Branch	£10,915	£8,868	£2,047
Alex Brazier*	–	–	–
Sarah Breeden*	–	–	–
Stephen Brown	£36,919	£34,889	£2,030
Victoria Cleland*	–	–	–
Jonathan Curtiss*	–	–	–
Rob Elsey**	£6,601	£5,660	£941
John Footman*	–	–	–
Charlotte Gerken*	–	–	–
Andy Haldane	£94,379	£91,345	£3,034
Andrew Hauser	£83,932	£80,726	£3,206
Afua Kyei	£1,224	£0	£1,224
Sasha Mills*	–	–	–
Lyndon Nelson*	–	–	–
Lea Paterson	£33,114	£32,466	£648
Gareth Ramsay	£53,333	£50,993	£2,340
Victoria Saporta	£66,798	£63,960	£2,837
Christina Segal-Knowles	£3,015	£1,848	£1,170
Anna Sweeney	£8,492	£7,122	£1,370

* Denotes those who have opted out of further pension accrual and receive cash in lieu.
** Denotes those who opted out of further pension accrual during the year and chosen to receive cash in lieu.

Mr Brazier was granted a deferred pension of £47,288p.a. in 2016; Ms Breeden was granted a deferred pension of £60,686p.a. in 2016; 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 and Ms Mills was granted a deferred pension of £1,801p.a. in 2016. Mr Elsey was granted a deferred pension of £6,601 in 2019.

Fair pay

To show the relationship between levels of remuneration for the Governor and all colleagues, we are reporting our Bank-wide pay ratio this year. The total remuneration of the highest paid director (Mr Carney) was £734,162 in 2019/20. This was 12.2 times the median remuneration of the workforce, which was £60,365. Excluding the housing allowance that Mr Carney received, his total remuneration was 8.0 times the median remuneration of the workforce.

At the 25th percentile the remuneration of the workforce was £42,035 (a ratio of 17.5) and at the 75th percentile, the remuneration of the workforce was £85,396 (a ratio of 8.6).

Total remuneration includes salary, benefits whether monetary or in-kind and performance awards for the year ending 29 February 2020 on an 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 which 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 2020 for all staff below Executive Director level with remuneration in excess of £80,000p.a. on a full-time equivalent basis, excluding employer pension contributions and performance awards.

Remuneration range £	Number of colleagues
200,000–249,999	2
190,000–199,999	4
180,000–189,999	7
170,000–179,999	11
160,000–169,999	18
150,000–159,999	22
140,000–149,999	39
130,000–139,999	51
120,000–129,000	57
110,000–119,999	95
100,000–109,999	132
90,000–99,999	207
80,000–89,999	317
Total	**962**

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 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.

Other parts of this *Report*, notably the reports of the Remuneration Committee and the Audit and Risk Committee, should be seen insofar as they relate to the Court's Oversight responsibilities as part of this *Report*.

Financial management and controls

As in the previous year, Court approved for 2019/20 a budget that implied no increase in nominal spending. Outside the 'flat nominal' constraint were three key exceptions: the cost of new pension accrual, which is from year to year determined by fluctuations in bond yields, the cost of building up banknote stocks ahead of the launch of new notes, and the cost of the RTGS renewal programme which will eventually be recovered from users of the service. Within the budget the Bank had to absorb the additional costs of EU exit preparations, technology investment, and work on fintech and on the impact of climate change through making savings in other areas, reinforced by a recruitment freeze. That budget constraint has been met, though partly as a result of temporary staff shortfalls in some areas.

The financial plans for the coming year are slightly more accommodating — the limit is flat real rather than flat nominal, the recruitment freeze has been lifted and there is a multi-year investment budget. But over the next two years further savings will still be achieved, notably by transforming the way central services are managed and delivered across the Bank, with investment in a single new system that will integrate core HR, finance and procurement systems, simplify processes and improve management information. Court is keeping under close review the plans for this significant and transformational programme.

During the year Court approved plans to make more intensive use of the Threadneedle Street site, and monitored their implementation. This is requiring a considerable programme of infrastructure work, but will over the next few years significantly reduce the Bank's property costs and improve the work environment.

A separate report from the Bank's Audit and Risk Committee (see pages 82–84) details Court's work on risk and controls.

RTGS renewal

The most substantial investment in the Bank's current programme is the renewal of the Real-Time Gross Settlement system. In September 2018 a new Court sub-committee — the RTGS Renewal Committee — was formed to take key decisions on the overall scope of the programme and to approve spending and procurement decisions within the overall budget envelope set by Court. That Committee is continuing to meet, now under Ron Kalifa, who joined the Court last year. The programme is currently on track, is well within the budget envelope set by Court, and is closely focused on achieving value for money at every stage of the process.

IT investments

Other major IT investments concluded successfully this year included the move of Bank systems onto new data centres and a more resilient architecture, the roll out of new laptops, and a new 'soft' telephone system. The last has proved of great value during the Covid-19 lockdown, facilitating large-scale conferencing while working remotely, and in particular supporting the meetings of the Court and the policy committees.

The Bank Sports Club

During the year Court reviewed the value to the Bank of its historic sports club. Given that only 13% of staff were members and only 4% played in Bank teams, it was decided to develop an alternative that would suit a wider cross section of staff, not tied to a single site in the outer suburbs. Negotiations are under way to sell the entire Roehampton estate, which includes leased office space as well as the sports facility.

Succession planning and appointments

Court has kept internal succession plans under regular review, and individual non-executive members have participated in succession panels for key appointments, including in the year under review the Bank's CFO and the Governor. Conflict monitoring across all of the Bank's policy committees is routinely reported to Court.

Pension Fund

Court recognises that the Bank's defined benefit pension scheme is an important part of its employment offering, even though the accrual rate for new joiners is less than for other public sector pension schemes. The scheme is prudently valued and managed, and has a small surplus. Nevertheless the annual charge for new accrual, driven by the current very low real interest rates, is a concern, and with Court's encouragement the Bank is currently reviewing its pension offering. The pension fund Trustee, meanwhile, is considering ways to secure a higher return on its assets that could in time be reflected in a lower annual charge for new accrual. Anne Glover, a non-executive member of Court, has become chair of the Trustee Board.

The National Audit Office (NAO)

Court reviewed and approved the Bank's response to the NAO report on the Bank's central services, and to the subsequent report from the Public Accounts Committee. The Bank's response was published in June, and Court has tracked the subsequent delivery of changes to procurement and property policy. The next NAO review, on which Court was consulted in December 2019, will focus on the management and distribution of notes and coin across the economy.

Diversity and inclusion

As in previous years a major focus for the Court has been improving the diversity of the Bank's workforce, especially at senior levels. This issue has figured in every one of Court's meetings over the year, with presentations from the Bank's networks for ethnic minorities, women, LGBT+, and disability. This priority is fully shared by the Executive: recruitment and promotion data are closely monitored, and promotions into senior management grades, rather than being taken individually, are now being settled on a pooled basis in the Governor's Committee. A BAME Taskforce under Dave Ramsden was formed in April and reported back to Court in November. The overall diversity targets set and the outcomes achieved, both in terms of management representation and pay differentials, are being monitored closely and are summarised on pages 55–61 of this *Report*.

Contingency planning

In all of its meetings this year Court has been updated on the Bank's planning for operating after Brexit, including in the event that the transition period ends without an agreement with the EU on trade and services. Particularly towards the end of the year, and subsequently, Court has been involved in the Bank's contingency planning for the Covid-19 outbreak, and in reviewing and approving many of the practical and policy measures that the Bank has taken.

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. These continue to show a high level of satisfaction with the staff support provided and with the conduct of the meetings.

Policy reviews by the IEO

The IEO is an independent unit that sits within the Bank. It operates at arm's length from other areas so as not to compromise the independence of the Bank's policymaking. The Director of the IEO reports directly to the Chair of Court, who sets the IEO's remit and work programme, typically in consultation with other Court Directors. In the year under review the IEO undertook a review of the Bank's approach to commissioning and using research, which was published in December 2019.[1] A further review, of the Asset Purchase programme, has been paused as some of the staff supporting it have been drafted in to help with the Bank's response to the Covid-19 crisis.

1 www.bankofengland.co.uk/independent-evaluation-office/ieo-report-december-2019.

Members of Court attendance

Attendance	Court (7)	Audit and Risk (6)	RemCo (7)	NomCo (6)	RTGS (5)
Mr Fried	7	5 of 6	7	6	–
Mr Prentis[1]	1 of 2	–	2 of 2	–	–
Baroness Harding	7	–	7	6	–
Mr Robert[2]	2 of 2	1 of 1	–	0 of 1	–
Ms Thompson	7	6	–	5 of 6	4 of 5
Ms Glover	7	–	7	–	–
Ms Noble	7	6	–	–	–
Mr Kalifa[3]	4 of 5	3 of 4	–	–	4 of 4
Ms O'Grady[3]	3 of 5	–	3 of 5	–	–
Ms Smits[3]	5 of 5	3 of 4	–	–	–
Mr Carney	6 of 7	–	–	–	–
Sir Jon Cunliffe	6 of 7	–	–	–	–
Mr Broadbent	5 of 7	–	–	–	–
Mr Woods	7	6	–	–	–
Sir David Ramsden	7	6	–	–	5

1 Retired from Court 31 May 2019.

2 Stepped down from Court 30 April 2019.

3 Appointed to Court 1 June 2019.

Report of the Audit and Risk Committee

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

Membership and Meetings

ARCo comprises four[2] non-executive directors of Court, and the Chair of Court attends ARCo meetings by standing invitation. The Deputy Governors for Markets & Banking and Resolution and for Prudential Regulation, and the Chief Operating Officer attend meetings at the invitation of the Chair of the Committee. The Chief Financial Officer, the Executive Director for Risk, and the Head of Internal Audit also attend ARCo meetings as required by the ARCo Chair. The Bank's external auditors and the National Audit Office (NAO) attend the audit part of ARCo meetings. The Committee invites other individuals to be present for specific agenda items as required.

ARCo met six times during the 2019/20 financial year. In addition to its regular meetings, the Committee members meet the Governor for a private bilateral discussion once a year. Similar meetings are held with each of the Deputy Governors, the Chief Operating Officer, the internal and external auditors, the Executive Director for Risk, and the Chief Financial Officer.

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

Section 1 — Audit related items

Integrity of financial reporting

During the year, ARCo reviewed and discussed regular reports from the Finance Directorate, including on accounting and taxation matters. ARCo considered the accounting policies and practices adopted in the preparation of the Bank's annual financial statements, including in relation to disclosures. At its May 2020 meeting, ARCo reviewed the draft annual reports and financial statements for the Bank (incorporating the PRA's financial reporting requirements), and the Bank of England Asset Purchase Facility Fund Limited (BEAPFF) draft annual report and accounts.

External auditors

ARCo approves the letter of appointment for the external auditors. During the year the Committee received and discussed regular updates from KPMG, the Bank's external auditors, and from the NAO, the external auditors of BEAPFF. These included the nature and scope of the external audit plans for the Bank and BEAPFF and a review of the findings of the audits. ARCo also reviewed the external auditors' Management Letters for the Bank and BEAPFF. ARCo reviewed the Letters of Representation to the external auditors before they were approved by Court.

ARCo reviewed the policy for non-audit work undertaken by the external auditors and the associated fees, and six-monthly reports on the non-audit work that had been commissioned.

1 In 'Matters Reserved for Court', www.bankofengland.co.uk/-/media/boe/files/about/legislation/matters-reserved-to-court.pdf.

2 It was three until the review of 'Matters Reserved to Court' in December 2019.

Internal Audit

The Internal Audit Department helps Court and executive management to protect the Bank's assets and reputation. It does this by evaluating the effectiveness of internal controls, risk management and governance processes in all areas of the Bank. The Head of Internal Audit reports directly to the Chair of ARCo and on a dotted line basis to the Executive Director for Risk. The Head of Internal Audit has full access both to ARCo and to senior executive management.

During the year, ARCo considered and approved Internal Audit's Charter and its Annual Audit Plan, and confirmed it was satisfied that the Internal Audit Division was resourced appropriately. ARCo monitored the execution of the plan at each meeting. Internal Audit presented regular reports to the Committee, who discussed material findings and monitored progress made by management in implementing agreed actions. ARCo also received an external evaluation of the Internal Audit function that concluded it was operating effectively.

Section 2 — Risk related items

Risk and control processes

ARCo is responsible for reviewing and reporting on the effectiveness of the Bank's risk management framework, including its risk tolerance. It reviews regular reports on the Bank's risk profile and evaluates the actions being taken by management to mitigate risks.

During the financial year 2019/20 ARCo discussed the Bank's approach to assessing risks against tolerance; risk reporting; and organisational risk structure, and changes made to strengthen the governance of security risks. ARCo also reviewed quarterly risk reports from the Risk Directorate covering the main operational and financial risks to the Bank (including the PRA). ARCo received regular reports and updates from the Executive Director for Risk. ARCo also considered reports from the Executive Directors of Markets, and Banking, Payments and Innovation on customer banking activities, and from the Chief Financial Officer on developments relating to the Bank's balance sheet. ARCo also considered and discussed regular cyber updates from the Chief Information Security Officer (CISO), and individual 'deep dive' risk reports from the Bank's Executive Directors and Directors.

Separately, ARCo considered reports and updates on Brexit-related planning work and operational readiness, and on the Bank's approach to climate-change related financial reporting.

ARCo received and discussed regular updates and reports from the Bank's Chief Operating Officer summarising major operational, control and risk matters including those relating to strategic Bank initiatives and projects. For 2019/20 these included the renewal of the Real-Time Gross Settlement System (RTGS), cost constraints and reprioritisation; the Public Accounts Committee (PAC) Report and performance measurement and benchmarking; aspects of the Bank's property strategy; and in the latter part of the year, on the Bank's monitoring of and response to the spread of Covid-19.

ARCo received reports from the Project and Programme Office on the management of current significant projects and related controls, and monitored the progress of large infrastructure projects. ARCo also considered a review of the governance arrangements for investment decisions, and quarterly updates on the Bank's investment portfolio. The Committee discussed updates from the Executive Director for Technology and from the CISO on initiatives and projects relating to the implementation of cyber initiatives and enhancements to systems resilience.

ARCo received annual reports on the adequacy of the Bank's insurance arrangements; Freedom of Information requests; Health and Safety; MLRO (Money Laundering Reporting Officer) annual report; annual update on Security; annual report on the counterfeit threat; and cyber threats. It also discussed the Compliance Division's report on the annual staff attestation against the Bank's Code of Conduct. ARCo also considered the annual report from the Bank Secretary on the Bank's 'Speak Up' arrangements for its employees to raise concerns in confidence about possible fraud, malpractice or misconduct (whistleblowing).

Review of the Audit and Risk Committee's effectiveness

The effectiveness of the Audit and Risk Committee is reviewed as part of the Chair of Court's annual evaluation of Court and its Sub-Committees. The evaluation for 2019/20 was held back until the arrival of the new Governor in 2020.

Other responsibilities

ARCo reviewed the annual expenses of the members of Court.

Audit and Risk Committee: regular attendees 2019–20[1]

ARCo members	ARCo meetings (6)
Dorothy Thompson	6
Don Robert (until 30 April 2019)	1 of 1
Diana Noble	6
Ron Kalifa (wef 1 June 2019)	3 of 4
Hanneke Smits (wef 1 June 2019)	3 of 4
Bradley Fried[2]	5 of 6
Executive	
Sir David Ramsden	6
Sam Woods	6
Joanna Place	6
Andrew Hauser	3 of 3
Victoria Cleland	3 of 3
Afua Kyei (wef 22 July 2019)	3 of 3
Rob Thompson (interim Finance Director January to July 2019)	3 of 3
Executive Director, Risk	
Stephen Brown	6
Head of Internal Audit	
Ed Moore (wef 7 May 2019)	4 of 4
Sarah Sodeau (interim Internal Auditor until May)	2 of 2
External Auditor (KPMG)[3]	
Michelle Hinchliffe	6
Sam Subesinghe	5 of 6
Anthony Withers	1 of 1
NAO	
Elaine Lewis	4 of 4
Naseem Ramjan	4 of 6
Simon Helps	2 of 2

1 Covering ARCo meetings held on 27 March 2019, 2 May 2019, 3 July 2019, 10 October 2019, 20 November 2019 and 28 January 2020.

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

3 KPMG and NAO attend the Audit part of the meeting and to present their reports.

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

The Court of Directors is responsible for ensuring that the financial statements of the Banking Department are properly prepared on the basis set out therein, as at 29 February 2020 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 29 February 2020 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 29 February 2020 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 95 to 97.

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

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

Report of the Independent Auditor

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

Report on the audit of the financial statements

Opinion

We have audited:

- the financial statements of the Banking Department for the year ended 29 February 2020, set out on pages 90 to 153, 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 29 February 2020, set out on pages 154 to 158, 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 29 February 2020, set out on pages 159 to 167, which comprise the PRA income statement, statement of balances, and the related notes, including the accounting policies in note 1.

In our opinion:

- The financial statements of the Banking Department have been properly prepared, in all material respects, in accordance with the special purpose basis of preparation set out in note 2 on pages 95 to 97.
- The statements of account of the Issue Department have been properly prepared, in all material respects, in accordance with the special purpose basis of preparation set out in note 1 on page 156.
- The statement of accounts of the PRA have been properly prepared, in all material respects, in accordance with the special purpose basis of preparation set out in note 1 on pages 161 to 162.

Basis for opinion

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

Emphasis of matter — special purpose basis of preparation

We draw attention to note 2 of the financial statements of the Banking Department, which describes their bases of preparation. As explained in that note, the financial statements are prepared to assist the Bank in complying with the financial reporting provisions of the Bank of England Act 1998 ('the 1998 Act'). The financial statements of the Banking Department do not include all of the disclosures that would be required under International Financial Reporting Standards as adopted by the European Union since under the 1998 Act, the Bank may disregard a disclosure requirement if it considers it appropriate to do so having regard to its financial stability objective. As a result, the financial statements of the Banking Department may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least 12 months from the date of approval of the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA. We have nothing to report in these respects.

Other information

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

Our responsibility is to read the other information and, in doing so, consider whether, based on our audit work over the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA, the information therein is materially misstated or inconsistent with the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Opinion on other matters as prescribed by the terms of our engagement letter

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

Respective responsibilities

Members of Court's responsibilities

As explained more fully in their statement set out on page 85, 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 95 to 97, note 1 on page 156 and note 1 on pages 161 to 162, respectively; determining that the bases of preparation are acceptable in the circumstances; and such internal control as they determine is necessary to enable the preparation of financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA that are free from material misstatement, whether due to fraud or error. They are also responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA.

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

Report on other legal and regulatory matters

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

Basis for opinion on regularity
We are required by Paragraph 5A of Schedule 1 to the Bank of England and Financial Services Act 2016, to report whether we are satisfied that the Bank has complied with the requirements of Part 3 of Schedule 1ZB to the Financial Services and Markets Act 2000 (Prudential Regulation Authority fees and penalties) ('FSMA') to the extent that the money levied by the PRA under Parliamentary Authority recorded in the statement of accounts of the PRA has been applied to the purposes intended by Parliament set out in the levying legislation, being Part 3 of Schedule 1ZB to FSMA. In giving this opinion, we have had regard to the requirements in Part 2 of Practice Note 10 'Audit of financial statements of public sector bodies in the United Kingdom' issued by the Financial Reporting Council.

Our opinion on regularity relates solely to the Bank's compliance with the requirements of Part 3 of Schedule 1ZB to FSMA. We are not required to and do not provide a regularity opinion on any other operations of the PRA or the Bank. The Court of Director's responsibilities in relation to regularity are set out in the Statement of the responsibilities of the Court of Directors in relation to the financial statements on page 85.

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 for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Governor and Company of the Bank of England and its Shareholder, as a body, for our audit work, for this report, or for the opinions we have formed.

Michelle Hinchliffe
for and on behalf of KPMG LLP

Chartered Accountants
15 Canada Square
Canary Wharf
London E14 5GL

26 May 2020

Banking Department statement of income
for the year to 29 February 2020

	Note	2020 £m	2019 £m
Net interest income		29	25
Fee income	5a	43	81
Other income from financial instruments	5a	200	217
Management fees	5a	126	126
Income from regulatory activity	5a	279	284
Other income	5a	90	31
Net operating income		**767**	**764**
Staff costs	5b	(397)	(420)
Infrastructure costs	5b	(79)	(81)
Administration and general costs	5b	(163)	(145)
Operating expenses		**(639)**	**(646)**
Profit before tax		**128**	**118**
Taxation	6	(11)	(9)
Profit after tax		**117**	**109**

The notes on pages 95 to 153 are an integral part of these financial statements.

Banking Department statement of comprehensive income
for the year to 29 February 2020

	Note	2020 £m	2019 £m
Profit for the year attributable to shareholder		**117**	**109**
Other comprehensive income/(loss) not recycled to profit or loss:			
Property revaluation reserve			
Net losses from changes in fair value		(4)	(1)
Deferred tax		1	–
Financial assets at fair value through other comprehensive income reserve			
Net gains from changes in fair value	17	116	53
Current and deferred tax		(20)	(9)
Deferred tax movement in transitional adjustment on debt securities		(1)	–
Other			
Retirement benefit remeasurements	26	187	38
Deferred tax		(32)	(7)
Total other comprehensive income not recycled to profit or loss		**247**	**74**
Total comprehensive income for the year		**364**	**183**

The notes on pages 95 to 153 are an integral part of these financial statements.

Banking Department statement of financial position
as at 29 February 2020

	Note	2020 £m	2019 £m
Assets			
Cash and balances with other central banks	7	1,004	698
Loans and advances to banks and other financial institutions	8	122,849	136,222
Other loans and advances	9	445,003	445,002
Securities held at fair value through profit or loss	13	5,066	6,064
Derivative financial instruments	20	237	156
Securities held at amortised cost	16	12,067	10,302
Securities held at fair value through other comprehensive income	17	1,365	1,249
Investments in subsidiaries	24	–	–
Inventories		5	5
Property, plant and equipment	29	486	412
Intangible assets	30	85	47
Retirement benefit assets	26	1,174	927
Other assets	31	700	499
Total assets		**590,041**	**601,583**
Liabilities			
Deposits from central banks	10	15,012	9,922
Deposits from banks and other financial institutions	11	479,419	495,406
Deposits from banks — Cash Ratio Deposits	18	8,790	7,884
Other deposits	12	74,837	76,799
Foreign currency bonds in issue	14	4,799	6,042
Derivative financial instruments	20	145	111
Deferred tax liabilities	34	352	289
Retirement benefit liabilities	26	219	207
Other liabilities	32	619	573
Total liabilities		**584,192**	**597,233**
Equity			
Capital	19	15	15
Capital reserves and other reserves	19	1,184	–
Retained earnings	19	3,298	3,076
Revaluation reserves		1,352	1,259
Total equity attributable to shareholder		**5,849**	**4,350**
Total liabilities and equity attributable to shareholder		**590,041**	**601,583**

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

Mr A Bailey Governor
Sir Jon Cunliffe Deputy Governor
Mr B Fried Chair of Court
Ms A Kyei Chief Financial Officer

Banking Department statement of changes in equity
for the year to 29 February 2020

	Note	Capital £m	Capital reserves[1] £m	Other reserves[2] £m	Available for sale reserve £m	Equity investments reserves £m	Property revaluation reserve £m	Retained earnings £m	Total £m
		Attributable to equity shareholder							
Balance at 28 February 2018		**15**	**–**	**–**	**1,209**	**–**	**224**	**3,033**	**4,481**
Impact on transition to IFRS 9		–	–	–	(1,209)	992	–	(43)	(260)
Balance at 1 March 2018		**15**	**–**	**–**	**–**	**992**	**224**	**2,990**	**4,221**
Post-tax comprehensive income/(loss) for the period		–	–	–	–	44	(1)	140	183
Payable to HM Treasury in lieu of dividend	28	–	–	–	–	–	–	(54)	(54)
Balance at 28 February 2019		**15**	**–**	**–**	**–**	**1,036**	**223**	**3,076**	**4,350**
Post-tax comprehensive income/(loss) for the period		–	–	–	–	96	(3)	271	364
Payable to HM Treasury in lieu of dividend	28	–	–	–	–	–	–	(45)	(45)
Capital injection from HM Treasury		–	1,180	–	–	–	–	–	1,180
Transfer to other reserves		–	–	4	–	–	–	(4)	–
Balance at 29 February 2020		**15**	**1,180**	**4**	**–**	**1,132**	**220**	**3,298**	**5,849**

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 95 to 153 are an integral part of these financial statements.

Banking Department statement of cash flows
for the year to 29 February 2020

	Note	2020 £m	2019 £m
Cash flows from operating activities			
Profit before taxation		**128**	**118**
Adjustments for:			
Amortisation of intangibles	30	12	11
Depreciation of property, plant and equipment	29	33	23
Dividends received	5a	(13)	(12)
Net movement in accrued interest and provisions, including pensions		(84)	1,027
Changes in operating assets and liabilities:			
Decrease in loan advanced to the Bank of England Asset Purchase Facility Fund Ltd	9	–	127,015
Net decrease/(increase) in other advances		15,051	(125,089)
Net decrease in securities held at fair value through profit and loss		1,237	376
Net decrease in deposits		(12,859)	(7,304)
Net (decrease)/increase in foreign currency bonds in issue		(1,322)	1,176
Net increase in financial derivatives	20	(47)	(346)
Net increase in other accounts		(2)	–
Net increase in inventories		–	(1)
Net cash inflow/(outflow) from operating activities		**2,134**	**(3,006)**
Cash flows from investing activities			
Purchase of securities at amortised cost	16	(2,377)	(3,474)
Proceeds from redemption of securities at amortised cost	16	505	201
Dividends received	5a	13	12
Purchase of intangible assets	30	(50)	(27)
Purchase of property, plant and equipment	29	(41)	(26)
Net cash outflow from investing activities		**(1,950)**	**(3,314)**
Cash flows from financing activities			
Net increase in Cash Ratio Deposits		906	3,176
Capital injection from HM Treasury		1,180	–
Payment to HM Treasury under Section 1 (4) of the Bank of England Act 1946	28	(54)	(65)
Net cash inflow from financing activities		**2,032**	**3,111**
Net increase/(decrease) in cash and cash equivalents		**2,216**	**(3,209)**
Cash and cash equivalents at 1 March	22	6,553	9,762
Cash and cash equivalents at 29 February	**22**	**8,769**	**6,553**

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 Acts 1946 and 1998, the Banking Act 2009, the Financial Services Act 2012 and the Bank of England Act 1998 (as amended).

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

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

The statements of account of the Issue Department are given on pages 154 to 158, and show the bank note issue, the assets backing the issue, the income generated by those assets and the costs incurred in the production, issue, custody and payment of bank notes. The net income of the Issue Department is paid over to the National Loans Fund.

Under the Bank of England Act 1998 (as amended) a separate statement of accounts in relation to the Prudential Regulation Authority is required. This is a subset of the Banking Department and is managed internally as a business area. The Prudential Regulation Authority statement of accounts have been set out on pages 159 to 167.

2 Bases of preparation

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

a Form of presentation of the financial statements

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

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

The financial statements of the Banking Department have been prepared in accordance with the measurement and recognition requirements of the International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRICs) as adopted by the EU (together, 'adopted IFRS').

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

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.

Section 1: Overview continued

2 Bases of preparation continued

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

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

The activities of the Bank acting as the Prudential Regulation Authority are reported within the Banking Department's financial statements, on the bases described here. The separate financial statements of the Prudential Regulation Authority, as required by Sections 7(2A) of the Bank of England Act 1998, have been prepared in line with the requirements of the Act and with the accounts direction received from HM Treasury (further details are included in PRA financial statements on pages 159 to 167).

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 year ahead, 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.

b New and amended accounting standards

IFRS 16 'Leases'

IFRS 16 does not result in a significant change to lessor accounting; however, for lessee accounting there is no longer a distinction between operating and finance leases. Lessees are required to recognise both:

i a lease liability, measured at the present value of remaining cash flows on the lease; and
ii a right of use (ROU) asset, measured at the amount of the initial measurement of the lease liability, plus any lease payments made prior to commencement date, initial direct costs, and estimated costs of restoring the underlying asset to the condition required by the lease, less any lease incentives received.

On 1 March 2019, the Bank adopted the requirements of IFRS 16 under the modified retrospective approach applied to leases that had previously been classified as operating leases under IAS 17 'Leases'. The cumulative effect of initially applying the standard was recognised as an adjustment to the opening balance of retained earnings at that date. Comparatives were not restated. The adoption of the standard increased assets by £78m (note 29 Property, plant and equipment) and increased financial liabilities by the same amount with no effect on net assets or retained earnings.

The following practical expedients allowed by the standard were applied:

- A single discount rate was applied to the portfolio of leases.
- Reliance was placed on previous assessments of whether leases were onerous.
- Operating leases with a remaining lease term less than 12 months at 1 March 2019 were treated as short-term leases.
- Initial direct costs were not included in the measurement of ROU assets for leases previously accounted for as operating leases.

On adoption of IFRS 16, the Bank recognised lease liabilities in relation to leases that had previously been classified as 'operating leases' in accordance with IAS 17 'Leases'. These liabilities were recognised in note 32 'Other liabilities' and measured at the present value of the remaining lease payments, discounted at the weighted average lessee's incremental borrowing rate at 1 March 2019. The associated ROU assets were recognised in property, plant and equipment and measured at the amount equal to the lease liability.

The table below shows a reconciliation from operating leases under IAS17 at 28 February 2019 to lease liabilities recognised at 1 March 2019:

	£m
Operating lease commitments reported at 28 February 2019[1]	48
Leases recognised on 1 March 2019	9
Discounting of future cash flows[2]	(6)
Difference between annual cost recognised and actual cashflows[3]	27
Opening ROU asset/lease liability on 1 March 2019	**78**

1 Operating lease commitments reported as part of notes to the accounts. The value of these was on a net P&L cost basis excluding any irrecoverable VAT.

2 The effect of discounting future cash flows.

3 Adjustment required to reconcile net P&L cost to net present value of future cash flows. This represents the difference between the future P&L cost to be recognised under IAS 17 (lease payments less release of lease free liability) and the irrecoverable VAT suffered.

c Consolidation

Under the Bank of England Act 1998, the financial statements are prepared on a non-consolidated basis: the financial statements of the Bank's subsidiaries, including the Bank of England Asset Purchase Facility Fund Ltd (BEAPFF), 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.

d Foreign currency translation

i Functional and presentation currency

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

ii Transactions and balances

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

e Commitments on behalf of HM Treasury

In its operation of the Exchange Equalisation Account, the Bank acts as a custodian 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 26, which includes relevant sensitivity analysis). Members of Court consider the assumptions used by the actuary in their calculations to be appropriate for this purpose.

Section 1: Overview continued

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 ECL this is not considered to be a significant judgement under IAS 1.122.

4 Post balance sheet events

As a result of market volatility and uncertainty due to Covid-19, management has considered the key areas of the Bank's operations and financial statements, as well as policy actions taken which, subsequent to year end, are impacted by the pandemic.

Operational impacts

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 47 and 51.

Financial impacts

Financial assets and liabilities

IFRS 9 Financial Instruments: Recognition and Measurement outlines the requirements for the recognition and measurement of financial assets and liabilities. For financial instruments measured at fair value, management has assessed the year end valuations to be appropriate as they reflect the market prices at that date as determined in an active market.

Expected credit loss

IFRS 9 Financial Instruments requires that in determining the Expected Credit Loss (ECL), estimates of forward-looking macroeconomic factors are incorporated in multiple scenarios about the future economy.

A sensitivity analysis of the ECL provision calculation has been performed taking into account management's current assessment of the possible impacts of Covid-19. This indicated that even at severely stressed economic scenarios the ECL provision would still be immaterial.

Pension valuation

The pension asset and liability valuations have been made using market values and assumptions based on market conditions at the year-end date. An update on the pension asset and liability valuation as at 31 March 2020 has been performed.

Assets are primarily gilts or gilt-like bonds and are measured at fair value as at 29 February 2020, since this date they have decreased in value by approximately £0.2bn as at 31 March 2020.

Liabilities are valued using a discount rate based on corporate bonds as at 29 February 2020, since this date they have decreased by £0.4bn as at 31 March 2020.

The net impact of this is an increase in the net pension asset reported on the balance sheet of £0.2bn.

Deferred tax

Deferred tax has been recognised at 17% at the balance sheet date. The Chancellor of the Exchequer announced on 11 March 2020 that the previous tax rate cut to 17%, which had previously been substantively enacted, would no longer take place. This means that, while it is appropriate to maintain the deferred tax balance at the enacted rate of 17% in the balance sheet, it would now be expected to reverse at 19%. If enacted at the balance sheet date, this would have the effect of increasing the deferred tax liability by £41m.

Maintaining financial and monetary stability

In response to the Covid-19 pandemic the Bank has launched several new schemes in line with its mission to maintain financial and monetary stability. These have increased the size and composition of the Bank's balance sheet, subsequent to the year end.

Covid Corporate Financing Facility Ltd (CCFFL)

The CCFFL was launched through a subsidiary company established by the Bank. The company purchases commercial paper issued by corporate entities that have a significant impact on the UK economy. The company is financed by a loan from the Bank, with drawdowns totalling £20.9bn as at 19 May 2020. Interest on the loan is charged at Bank Rate.

Term Funding scheme with additional incentives for Small and Medium-sized Enterprises (TFSME)

A new term funding scheme was launched that targets increasing lending to small and medium-sized enterprises. Loans advanced under this scheme total £11.9bn as at 19 May 2020. Interest on the loans is charged at Bank Rate.

Bank of England Asset Purchase Facility Fund Ltd (BEAPFF)

At its 19 March 2020 emergency meeting the MPC announced a further £200bn of gilt purchases (£190bn) and eligible corporate bonds (£10bn) to be conducted through BEAPFF, a subsidiary company of the Bank. Asset purchases commenced on 25 March 2020, total £107.5bn as at 19 May 2020 and are expected to be completed by May 2020.

Section 2: Results for the year

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

Accounting Policies

Interest income

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

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

Valuation gains and losses

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

Fee income and management fees

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

Income from regulatory activity

Fee income comprises levy fees collected from regulated firms through the Annual Funding Requirement (AFR) consultation process, along with fees for specific regulatory activity. This fee income, 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 valued through other comprehensive income (FVOCI) are recognised in the income statement when declared.

Sundry income

The Bank received a refund of its contribution to the ECB's paid-up share capital of £49m (€58m). Contributions to the ECB are non-refundable and, as a non euro-area member, the Bank was not entitled to any dividends, the contribution was derecognised in prior years as the fair value of the holding had been assessed as £nil. The contribution refund has been recognised as income within sundry income.

5a Net operating income

	Note	2020 £m	2019 £m
Fee income			
Funding for Lending Scheme fees	15	12	52
Payment services fee income		21	19
Banking operations		10	10
		43	**81**
Other income from financial instruments			
Net income from financial instruments designated at fair value		(7)	33
Income from securities held at amortised cost	16	207	184
		200	**217**
Management fees			
Fee for services to BEAPFF	27	–	2
Charges to HM Government bodies	27	126	124
		126	**126**
Income from regulatory activity			
Income from regulatory activity[1]		271	278
Income from Financial Market Infrastructure levy		8	6
		279	**284**
Other income			
Dividend income		13	12
Premises income		10	10
Sundry income		67	9
		90	**31**
Net operating income (excluding net interest income)		**738**	**739**

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

Section 2: Results for the year continued

5b Operating expenses

	Note	2020 £m	2019 £m
Staff costs	25	397	420
Total staff costs		**397**	**420**
Infrastructure costs			
Property and equipment		32	41
Depreciation of property, plant and equipment	29	24	23
Operating lease rentals		2	6
Amortisation of intangible assets	30	12	11
Depreciation on Right of Use assets	29	9	–
Total infrastructure costs		**79**	**81**
Administration and general costs			
Consultancy, legal and professional fees		64	46
Subscriptions, publications, stationery and communications		5	5
Travel and accommodation		6	6
Other administration and general expenses		88	88
Total administration and general costs		**163**	**145**
Operating expenses		**639**	**646**

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	2020 £m	2019 £m
Current year corporation tax		–	3
Prior year corporation tax		–	–
Deferred tax — current year	34	11	7
Deferred tax — prior year		–	(1)
Tax charge on profit		**11**	**9**

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

	2020 £m	2019 £m
Profit before tax	**128**	**118**
Tax calculated at rate of 19.00% (2019: 19.00%)	24	23
Tax relief on payment to HM Treasury	(7)	(10)
Unrelieved payment to HM Treasury carried forward	(2)	–
Matured securities recycled to income statement	(1)	–
Dividend not subject to corporation tax	(2)	(2)
Difference between current and deferred tax rate	(1)	(1)
Prior year items	–	(1)
Total tax charge for the period	**11**	**9**

Section 2: Results for the year continued

Tax charged/(credited) to other comprehensive income comprises:

	Note	2020 £m	2019 £m
Tax charged/(credited) to equity through the statement of comprehensive income			
Current year corporation tax		–	(3)
Deferred tax	34	52	(37)
Tax charged/(credited) to other comprehensive income		**52**	**(40)**

	2020 £m	2019 £m
Tax charged/(credited) to equity through the statement of comprehensive income		
Revaluation of FVOCI securities	34	(36)
Tax losses carried forward	(11)	(13)
Revaluation of property	(1)	–
Remeasurements of retirement benefits	36	7
Difference between current and deferred tax rate	(6)	2
Tax charged/(credited) to other comprehensive income	**52**	**(40)**

The main UK corporation tax rate was 19% for the year beginning 1 April 2019 (1 April 2018: 19%). The effective rate for the year ended 29 February 2020 is 8.90% (2019: 7.46%).

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 which meet the solely payments of principal and interest ('SPPI') test.

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

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

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

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

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

All other financial assets are classified as measured at FVPL.

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

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

Section 3: Financial assets and liabilities continued

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice;
- how the performance of the portfolio is evaluated and reported to management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

Solely payments of 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, the Term Funding Scheme, secured lending agreements held at amortised cost and the loan to BEAPFF. Assets in this category exclude those reverse repurchase agreements which are designated at fair value through profit or loss.

Financial assets at fair value through profit or loss

A financial asset is mandatorily classified in this category if it is acquired principally for the purpose of selling in the short term, or if it fails the SPPI test. Derivatives are classified as FVPL as they do not meet the SPPI criteria.

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

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

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

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

Financial assets at fair value through other comprehensive income

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

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

ii Initial recognition of financial assets

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

iii Subsequent valuation of financial assets

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

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

The fair values of quoted investments in active markets are based on current bid prices. In other cases, the Bank establishes fair value by using appropriate valuation techniques. The policy for establishing fair values of securities in non-active markets is described in note 3 'Significant accounting estimates and judgements in applying accounting policies' on page 97.

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.

Section 3: Financial assets and liabilities continued

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

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

Measurement of ECLs

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

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls — ie the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows.

Definition of default

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

Significant increase in credit risk

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

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

Impairment under IFRS 9 adopts a staging approach. When a new asset is originated it is classified as Stage 1 (normal origination). Moving from Stage 1 to Stage 2 is a judgment 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'. Once an asset ceases to be 'defaulted' then it will return to Stage 2. Staging and cure (being no longer in default) is assessed using the Bank's internal credit rating framework.

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

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL and lifetime ECL measurements.

Inputs into measurement of ECLs

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

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

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

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

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

Forward-looking information

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-19. This process involves developing four different economic scenarios, which represent a range of scenarios linked to housing and interest rate variables. The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments, choosing scenarios that specifically test the resilience of the Bank to financial stress.

ECL calculation

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

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

At 29 February 2020 the Bank recognised an ECL provision less than £1m (2019: less than £1m).

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.

Section 3: Financial assets and liabilities continued

Financial liabilities at fair value through profit or loss

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

- three three-year bonds denominated in US dollars, which were issued as part of the Bank's annual medium-term issuance programme; and
- fixed-term deposits placed by other central banks.

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

ii Initial recognition of financial liabilities

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

iii Subsequent valuation of financial liabilities

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

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

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

Collateral pledged under sale and repurchase agreements

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

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

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

7 Cash and balances with other central banks

	Note	2020 £m	2019 £m
Balances with other central banks	22	1,004	698
		1,004	**698**

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

	2020 £m	2019 £m
Secured lending agreements held at amortised cost	3,048	6,891
Reverse repurchase agreements held at fair value through profit and loss	12,592	7,916
Other loans and advances	–	15
Term Funding Scheme loans	107,209	121,400
	122,849	**136,222**

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.[1]

Accrued interest on secured lending agreements held at amortised cost is recognised in note 31 Other assets.

At 29 February 2020 loans and advances to banks and other financial institutions included cash and cash equivalents of £7,407m (2019: £5,729m) which are disclosed in note 22.

Term Funding Scheme Loans

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

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. The Bank treats scheme fees as an agent, collecting the fees from counterparties and passing them over to BEAPFF Ltd when they are received, and does not recognise them as income.

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

Section 3: Financial assets and liabilities continued

9 Other loans and advances

	2020 £m	2019 £m
Loan to the Bank of England Asset Purchase Facility Fund Ltd	444,997	444,997
Term loans	6	5
	445,003	**445,002**

Loan to Bank of England Asset Purchase Facility Fund Ltd

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

The APF transactions are undertaken by a subsidiary company of the Bank of England — the Bank of England Asset Purchase Facility Fund Limited (BEAPFF). The transactions are funded by a loan from the Bank, the total of loan and accrued interest due from BEAPFF as at 29 February 2020 is £445.3bn (2019: £445.2bn), as per BEAPFF accounts.

Accrued interest of £283m on the loan is recognised in note 31 Other assets.

10 Deposits from central banks

	2020 £m	2019 £m
Deposits repayable on demand	1,437	1,553
Term deposits held at fair value through profit and loss	13,575	8,369
	15,012	**9,922**

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

Accrued interest on deposits repayable on demand is recognised in note 32 Other liabilities.

11 Deposits from banks and other financial institutions

	2020 £m	2019 £m
Deposits repayable on demand	479,365	494,657
Repurchase agreements	54	749
	479,419	**495,406**

Accrued interest on deposits repayable is recognised in note 32 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

	2020 £m	2019 £m
Deposit by Issue Department	66,552	68,700
Public deposits repayable on demand	2,849	1,880
Other deposits repayable on demand	5,436	6,219
	74,837	**76,799**

Public deposits are the balances on HM Government accounts, including Exchequer, National Loans Fund, Debt Management Office, National Debt Commissioners and dividend accounts. Accrued interest on other deposits is recognised within 'Short-term creditors and other liabilities' in note 32 Other liabilities.

Section 3: Financial assets and liabilities continued

Foreign exchange reserves

13 Securities held at fair value through profit or loss

	2020 £m	2019 £m
Money market instruments	1,449	441
Listed foreign government securities	3,617	5,623
	5,066	**6,064**

The holdings of foreign government securities are funded by the Bank's issuance of medium-term securities (note 14) and fixed-term deposits held at fair value through profit and loss (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 29 February 2020 money market instruments included cash and cash equivalents of £358m (2019: £126m) which are disclosed in note 22.

14 Foreign currency bonds in issue

	2020		2019	
	Fair value £m	Nominal US$m	Fair value £m	Nominal US$m
Total amounts issued to third parties	4,799	6,000	6,042	8,000

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

All changes in fair values since 1 March 2019 are considered attributable to changes in prevailing interest rates and movements in relative foreign currency exchange rates, as well as issuance and maturity of bonds.

At 29 February 2020, as part of the Bank's annual-medium term security issuance programme, the Bank had three US$2,000m three-year dollar bonds in issue (2019: four US$2,000m three-year dollar bonds); the first maturing on 6 March 2020, the second on 5 March 2021 and the third on 22 February 2022.

The most recent bond (the fourteenth in the overall programme) was issued on 23 April 2020 with settlement on 30 April 2020. This bond matures on 28 April 2023. Refer to the Foreign Currency Reserves 2020 Market Notice[3] for further details of the issuance. Recent market volatility means the Bank has chosen to issue later than previous years (since 2007 the Bank had issued in either February or March).

Of the above liabilities to third parties, £1,579m (2019: £1,512m) fall due within one year.

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

2 www.bankofengland.co.uk/-/media/boe/files/quarterly-bulletin/2011/quarterly-bulletin-2011-q3.

3 www.bankofengland.co.uk/markets/market-notices/2020/foreign-currency-reserves-2020-market-notice-apr-23.

Off balance sheet arrangements

15 Funding for Lending Scheme

The Funding for Lending Scheme (FLS) is designed to incentivise banks and building societies to boost their lending to the UK real economy. It does this by providing funding for an extended period, with both the price and quantity of funding provided linked to their lending performance. The FLS scheme is recorded as an off balance sheet arrangement because it is a collateral swap transaction and does not meet the recognition criteria of IFRS 9.

	Up to 1 year £m	1 to 3 years £m	3 to 5 years £m	2020 Nominal £m	2020 Fair value £m	2019 Nominal £m	2019 Fair value £m
Securities lent to banking groups and other financial institutions	1,154	301	–	1,455	1,452	15,959	15,921
Securities borrowed from the DMO	(1,154)	(301)	–	(1,455)	(1,452)	(15,959)	(15,921)
Total obligations	–	–	–	–	–	–	–

As of the end of February 2020 there were 43 banking groups signed up to the latest part of the FLS extension,[1] and a further 15 groups had signed up to earlier parts of the scheme but were not participating in the extension. Seven groups had outstanding drawings as at the end of February 2020 (2019: 15 groups). Treasury bills with a market value of £1.5bn had been lent to the participants at year-end (2019: £15.9bn). The Bank has borrowed these Treasury bills from the DMO to whom they are owed back. In the year to 29 February 2020, the Bank recognised income of £11.6m from FLS (2019: £51.5m).

1 The Bank and HM Treasury announced an amendment to the Funding for Lending Scheme (FLS) Extension on 30 November 2015, which extended the drawdown window by two years to the end of January 2018.

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 (page 35).

Under the Cash Ratio Deposit (CRD) scheme, institutions place non-interest bearing deposits at the Bank of England, as reported in note 18. The Bank invests these deposits (mainly in gilts), as reported in note 16, and the income earned is used to fund the costs of its monetary policy and financial stability operations, which benefit sterling deposit-takers.

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

The PRA is funded through a levy, further details can be found in the PRA statements (pages 159 to 167).

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 29 February 2020 the holding represents 8.5% (2019: 8.5%) of the issued share capital.

The investment has been valued based on the adjusted net asset value basis providing a value of £1,365m (2019: £1,249m).

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 £14m (2019: £13m).

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 £191m (2019: £179m). The balance of £191m is callable at three months' notice by a decision of the BIS Board of Directors. As this amount has not been called since being established in 1930, it is considered a remote possibility, and so is not considered or disclosed as a contingent liability, in line with IAS 37. Any FX gains or losses are taken to the statement of other comprehensive income in the year when 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.

16 Securities held at amortised cost

	2020 £m	2019 £m
British Government securities listed on UK exchange	12,067	10,302
	12,067	**10,302**

	2020 £m	2019 £m
At 1 March	10,302	7,061
Purchases	2,381	3,502
Redemptions	(505)	(201)
Amortisation of premium/discount and movement in accrued interest	(111)	(60)
At 29 February	**12,067**	**10,302**

Securities held at amortised cost relates 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 18. 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 29 February 2020 were £33m (2019: £29m). The cash purchases for the year are £2,377m (2019: £3,474m).

Net income recognised in the year ended 29 February 2020 for the Bank's securities held at amortised cost was £207m (2019: £184m). In the current and prior year this comprises interest income and purchase premium amortisation.

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

17 Unlisted equity investments at fair value

	2020 £m	2019 £m
Unlisted equity investments at fair value	1,365	1,249
	1,365	**1,249**

	2020 £m	2019 £m
At 1 March	1,249	–
IFRS 9 adjustment: reclassified from available for sale	–	1,196
Revaluation of securities	98	46
Foreign currency gains	18	7
At 29 February	**1,365**	**1,249**

18 Cash Ratio Deposits

	2020 £m	2019 £m
Cash Ratio Deposits	8,790	7,884
	8,790	**7,884**

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 scheme is reviewed every five years, the latest review was in 2018. Following this review, the effective CRD ratio increased to address the shortfall in the Bank's funding and changed from a single fixed ratio to an index-linked ratio from 1 June 2018.

19 Capital and retained earnings

	2020 £m	2019 £m
Capital	15	15
Capital reserve and other reserves	1,184	–
Retained earnings	3,298	3,076
	4,497	**3,091**

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. For more details on these, visit: www.bankofengland.co.uk/letter/2018/banks-financial-framework-june-2018.

Following the new financial framework agreed between HM Treasury and the Bank in June 2018 and codified into a Memorandum of Understanding (MoU), the Bank received a capital injection from HM Treasury for an amount of £1.2bn on 22 March 2019 to increase the Bank's loss-absorbing capital to £3.5bn (for further information see Financial Review, page 37).

20 Derivative financial instruments

Accounting Policies

Derivative financial instruments

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

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

Offsetting financial instruments

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

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

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

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

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

a As at 29 February 2020

	Contract notional amount £m	Fair Values Assets £m	Fair Values Liabilities £m
Cross-currency interest rate swaps	2,782	89	(48)
Interest rate swaps	6,371	48	(6)
Forward exchange contracts	13,446	100	(91)
Total recognised derivative assets/(liabilities)		**237**	**(145)**

b As at 28 February 2019

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

The net movement on derivatives in the year is £47m from a net asset position of £45m as at 28 February 2019 to £92m as at 29 February 2020 (2019: movement of £346m from net liability position of £301m as at 28 February 2018).

21 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 difference economic scenarios. For market risk, the Bank uses a stressed loss metric to measure the potential mark-to-market losses from shocks to asset prices.

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

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). 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.

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.

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

21 Financial risk management continued

a Credit risk

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

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

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 and Term Funding Scheme, the Bank accepts a wide range of private sector collateral. The collateral can include mortgage-backed securities, covered bonds backed by mortgages or public sector securities, other asset-backed securities (such as those backed by credit card receivables, student loans or auto loans), or portfolios of loans in unsecuritised form. The collateral must meet published eligibility criteria.

The Bank manages the risk in this wider collateral portfolio by applying haircuts to take account of market risk, liquidity risk, credit risk, and all other material risks to the realisable value of the collateral. 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 is given below:

	2020 £m	2019 £m
Assets		
United Kingdom	571,282	586,486
Rest of Europe	15,671	8,947
Rest of the world	3,088	6,150
Total assets	**590,041**	**601,583**

	2020 £m	2019 £m
Liabilities and equity		
United Kingdom	570,342	584,634
Rest of Europe	4,797	6,392
Rest of the world	14,902	10,557
Total liabilities and equity	**590,041**	**601,583**

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

21 Financial risk management continued

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 and Financial Risk Standards and supporting policies set out risk tolerances and detailed parameters and controls to minimise the foreign currency liquidity risk that arises. These include limits over cash flow and maturity mismatches, and for bond holdings, minimum issue size and concentrations limits are set as well as reporting requirements for key risk indicators.

The following tables analyse the Bank's foreign currency financial assets and liabilities at the balance sheet dates into relevant maturity groupings based on the remaining period to the contractual maturity date. These cash flows have not been discounted.

Foreign currency liquidity risk

As at 29 February 2020	Up to 1 month £m	1–3 months £m	3–12 months £m	1–5 years £m	Over 5 years £m	Total £m
Assets						
Cash and balances with other central banks	1,004	–	–	–	–	1,004
Loans and advances to banks and other financial institutions	4,898	5,330	2,358	–	–	12,586
Securities held at fair value through profit and loss	580	703	1,923	1,929	–	5,135
Derivative financial instruments:						
Cash inflow	4,810	4,925	1,971	537	–	12,243
Cash outflow	(4,788)	(4,878)	(1,913)	(454)	–	(12,033)
Other assets	–	–	–	–	–	–
Total assets	**6,504**	**6,080**	**4,339**	**2,012**	–	**18,935**
Liabilities						
Deposits from central banks	4,326	5,564	2,642	–	–	12,532
Deposits from banks and other financial institutions	101	–	–	–	–	101
Other deposits	743	–	–	–	–	743
Foreign currency bonds in issue	1,566	–	–	3,131	–	4,697
Derivative financial instruments:						
Cash inflow	(885)	(644)	(676)	(958)	–	(3,163)
Cash outflow	924	893	1,236	961	–	4,014
Other liabilities	–	–	–	–	–	–
Total liabilities	**6,775**	**5,813**	**3,202**	**3,134**	–	**18,924**
Net liquidity gap	**(271)**	**267**	**1,137**	**(1,122)**	–	**11**
Cumulative gap	**(271)**	**(4)**	**1,133**	**11**	**11**	–

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

As at 28 February 2019	Up to 1 month £m	1–3 months £m	3–12 months £m	1–5 years £m	Over 5 years £m	Total £m
Assets						
Cash and balances with other central banks	698	–	–	–	–	698
Loans and advances to banks and other financial institutions	3,128	3,838	955	–	–	7,921
Securities held at fair value through profit and loss	933	547	809	3,606	–	5,895
Derivative financial instruments:						
Cash inflow	2,756	2,210	612	1,438	–	7,016
Cash outflow	(2,649)	(2,205)	(589)	(1,398)	–	(6,841)
Other assets	–	–	–	–	–	–
Total assets	**4,866**	**4,390**	**1,787**	**3,646**	**–**	**14,689**
Liabilities						
Deposits from central banks	1,853	3,763	826	–	–	6,442
Deposits from banks and other financial institutions	749	–	–	–	–	749
Other deposits	542	–	–	–	–	542
Foreign currency bonds in issue	1,504	–	–	4,514	–	6,018
Derivative financial instruments:						
Cash inflow	(2,249)	(1,451)	(487)	(1,365)	–	(5,552)
Cash outflow	2,686	1,851	657	1,298	–	6,492
Other liabilities	–	–	–	–	–	–
Total liabilities	**5,085**	**4,163**	**996**	**4,447**	**–**	**14,691**
Net liquidity gap	**(219)**	**227**	**791**	**(801)**	**–**	**(2)**
Cumulative gap	**(219)**	**8**	**799**	**(2)**	**(2)**	**–**

d Fair value of financial assets and liabilities

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

As at 29 February 2020	Note	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets					
Loans and advances to banks and other financial institutions	8	–	12,592	–	12,592
Securities held at fair value through profit or loss	13	5,066	–	–	5,066
Derivative financial instruments	20	–	237	–	237
Unlisted equity investments at fair value	17	–	–	1,365	1,365
Total assets		**5,066**	**12,829**	**1,365**	**19,260**
Liabilities					
Deposits from central banks	10	–	13,575	–	13,575
Foreign currency bonds in issue	14	4,799	–	–	4,799
Derivative financial instruments	20	–	145	–	145
Total liabilities		**4,799**	**13,720**	**–**	**18,519**

As at 28 February 2019	Note	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets					
Loans and advances to banks and other financial institutions	8	–	7,916	–	7,916
Securities held at fair value through profit or loss	13	6,064	–	–	6,064
Derivative financial instruments	20	–	156	–	156
Unlisted equity investments at fair value	17	–	–	1,249	1,249
Total assets		**6,064**	**8,072**	**1,249**	**15,385**
Liabilities					
Deposits from central banks	10	–	8,369	–	8,369
Foreign currency bonds in issue	14	6,042	–	–	6,042
Derivative financial instruments	20	–	111	–	111
Total liabilities		**6,042**	**8,480**	**–**	**14,522**

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

There have been no transfers between levels in the year.

Level 1 Valued using unadjusted quoted prices in active markets for identical financial instruments.
Level 2 Valued using techniques that rely upon relevant observable market data curves. This category of instruments comprised derivatives, repurchase transactions, commercial paper and deposits.
Level 3 Valued using techniques where at least one input that could have a significant impact on the valuation is not based on observable market data. During the year this category consisted entirely of unlisted equity investments, primarily the Bank's investment in the Bank for International Settlements (note 17).

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.

22 Cash and cash equivalents

Analysis of cash balances

	Note	At 1 March 2019 £m	Cash flows £m	At 29 February 2020 £m
Cash and balances with other central banks	7	698	306	1,004
Loans and advances to banks and other financial institutions	8	5,729	1,678	7,407
Securities held at fair value through profit and loss	13	126	232	358
		6,553	**2,216**	**8,769**

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, consisting of cash and balances with other central banks, loans and advances to banks and other financial institutions, amounts due from banks and short-term government securities.

23 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 29 February 2020 amounted to £29m (2019: £7m), relating primarily to plant and machinery purchases.

In addition the Bank did not have any contingent capital commitments outstanding at 29 February 2020 (2019: £nil).

24 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 provide structural support to the UK's Islamic finance sector.
- BE Pension Fund Trustees Ltd two ordinary shares of £1, principal activity is that of provision of trustee services to the Bank of England Pension Fund.

During the year, two subsidiaries, Prudential Regulation Authority Ltd and CHAPS Co Ltd, were liquidated.

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.

25 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.

	2020 £m	2019 £m
Wages and salaries	292	306
Social security costs	37	37
Pension and other post-retirement costs	64	74
Costs of restructuring	4	3
	397	**420**

Average number of employees

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

	2020	2019
Governors and other members of Executive Team	25	25
Managers and analysts	3,174	3,070
Other staff	1,196	1,261
	4,395	**4,356**

The number of persons employed by the Bank at the end of February 2020 was 4,339 of which 3,721 were full-time and 618 part-time (2019: 4,450; with 3,864 full-time and 586 part-time). These staff numbers relate to the costs disclosed in this note.

26 Retirement benefits

(i) Funded pension scheme

The Bank operates a non-contributory defined benefit pension scheme providing benefits based on career average pensionable pay. The Bank has a final salary section within the pension scheme that provides pensions based on members' pensionable service and final salary at retirement. The pension is payable for life and increases in payment in line with inflation. This section of the scheme ceased to accrue benefits on a final salary basis from 1 April 2015. Former members of this section can continue to accrue benefits in the career average revalued earnings (CARE) section.

For new employees, the Bank offers a CARE section of the pension scheme that provides pensions based on members' earnings each year revalued in line with inflation up to retirement. The pension is payable for life and increases in payment in line with inflation.

Defined benefit and career average

The assets of the scheme are held by the Bank in an independent trustee-administered fund. The Bank also provides other post-retirement benefits, principally healthcare, for certain pensioners.

The pension scheme is an HMRC registered pension scheme and is subject to standard UK pensions and tax law. This means that the payment of contributions and benefits are subject to the appropriate tax treatments and restrictions and the scheme is subject to the scheme funding requirements outlined in section 224 of the Pensions Act 2004.

In accordance with UK trust and pensions law, the pension scheme has appointed trustees who are independent of the Bank. Although the Bank bears the financial cost of the scheme, the responsibility for the management and governance of the scheme lies with the trustees, who have a duty to act in the best interest of members at all times.

The pension scheme's assets are mostly invested in fixed interest and index-linked gilts, which are intended to match the nature of the future benefit payments due from the scheme. This means that as the value of liabilities fluctuates due to changes in bond yields, the value of the scheme's assets moves in a similar manner. This helps to reduce volatility in the funding level on the scheme funding basis and, to a lesser extent, in the statement of financial position in the Bank's accounts. The effect of the liability-matching investment policy is not fully reflected in the accounting figures as the assumptions dictated for the purposes of the valuation under IAS 19 are different from those used for the funding valuation.

Valuation for funding purposes

The main pension scheme, the Bank of England Pension Fund, is valued for funding purposes at intervals of not more than three years by an independent qualified actuary, with interim reviews in the intervening years. The latest valuation for funding purposes was as at 28 February 2017; it used the Defined Accrued Benefit Method. Under this method, active members are assumed to leave the Fund on the date of the valuation and hence the past service liability does not include an allowance for any salary increases or in-service CARE revaluation after that date. Instead members' benefits are assumed to increase in line with the deferred pension revaluation assumptions.

Section 5: People and related parties continued

The valuation as at 28 February 2017	£m
Value of Fund assets	4,438
Actuarial value of scheme liabilities in respect of:	
– In-service members	(1,103)
– Deferred pensioners	(1,089)
– Current pensioners and dependants	(2,187)
– Members' additional voluntary contributions	(2)
Total	**(4,381)**
Scheme surplus	**57**
Funding level	**101%**
Service contribution rate for March	**42.9%**

For the 2017 valuation, the liabilities were valued by the actuary on an index-linked gilt yield discount rate, and no credit was taken in advance for the possibility that returns on investments held by the Fund would exceed the long-term interest rate. Allowance was made for past and prospective mortality improvements. The rate of RPI inflation used in the valuation and the pension increase assumption was 3.3% per annum.

As the scheme was in surplus as at the valuation date, no deficit reduction contributions are currently required to be paid into the scheme. Expected future contributions are only in respect of meeting the cost of future benefit accrual.

Excluded from the contribution rate is the cost of administration and other services which is met by the Bank.

Summary of amounts recognised in the financial statements under IAS 19

In the statutory financial statements the Bank accounts for pension costs, other post-retirement benefits and related redundancy provisions in accordance with IAS 19 (Employee Benefits). Under the standard, the difference between the market values of scheme assets and the present value of scheme liabilities is reported as a surplus or deficit in the balance sheet. The accounting value is different from the result obtained using the funding basis.

The accounts show a significantly greater surplus than the surplus in the scheme funding valuation. The main reason for this is the different assumptions used to value the liabilities in the accounting and funding valuations for the main scheme.

The scheme funding valuation assumptions are used to determine the contributions that the Bank is required to pay into the scheme to ensure that the scheme has sufficient assets to pay all the benefits due in future. Regulations require that the scheme funding assumptions are set conservatively and take account of the scheme's investment strategy. As the scheme's assets are invested primarily in index-linked gilts, the discount rate used to value the liabilities is set based on an index-linked gilt yield. In addition, the mortality assumption is set based on prudent principles (ie assuming members have long life expectancies). These assumptions place a relatively high value on the scheme's liabilities.

By contrast, accounting regulations require all companies to value their pension scheme liabilities on 'best estimate' assumptions, and to use a discount rate that is based on high-quality corporate bond yields. As corporate bond yields are generally higher than gilt yields, this approach places a lower value on pension scheme liabilities. The use of a best estimate mortality assumption for accounting purposes also reduces the value placed on the liabilities compared to the prudent scheme funding valuation.

The aim of the liability matching policy is that by investing in a range of assets (mostly government bonds) that broadly match the expected future benefit payments from the scheme, no surplus or deficit will arise. The scheme aims to match expected future cash flows from assets to the expected benefit payments due from the scheme. The extent to which these projected cash flows match each other is a measure of risk in the scheme ie the closer the match, the lower the risk.

(ii) Redundancy provisions

As part of redundancy arrangements with staff in place until 5 April 2010, the Bank could give enhanced pension entitlement in the form of added years service or early pension rights. The costs of such benefits cannot be charged to the Pension Fund. The costs are therefore borne in the Bank's accounts, and represent the future cost of decisions that have already been taken. Provision was made for the costs of these benefits at the time the redundancy offer was announced based on actuarial advice. No further similar entitlements will be given by the Bank.

The valuation of these provisions has been performed using the relevant assumptions applied for the IAS 19 valuation of pension schemes and updated annually.

(iii) Other pension schemes

Previously, for Governors subject to the pensions earnings cap introduced in the Finance Act 1989, the Bank offered additional unfunded pensions so that their total pensions broadly match what would have been provided by the former Court Pension Scheme in the absence of a cap. Provision is made for these in the Bank's accounts. In addition certain former Governors and Directors and the widows of some former Governors and Directors were granted ex-gratia pensions. Provision for these was made in the Bank's accounts when the grants were made.

The valuation of 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.

Section 5: People and related parties continued

Accounting Policies

In the preparation of their valuations under IAS 19 referred to in this note, the actuary has used the assumptions indicated below, which members of Court have accepted for the purposes of accounting and disclosure under the standard.

Recognition of scheme assets

The assets of the scheme are held by the Bank in an independent trustee-administered fund. The asset recognised in the balance sheet in respect of the defined benefit pension scheme is the fair value of the scheme's assets less the present value of the defined benefit obligation at the balance sheet date.

Recognition of scheme liabilities

The defined benefit obligation is calculated annually by an independent actuary using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated cash outflows using interest rates of high-quality sterling corporate bonds that have terms to maturity approximating to the terms of the related pension liability.

Recognition of remeasurements

Remeasurements on retirement benefits comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what actually occurred), as well as the effects of changes in actuarial assumptions. Remeasurements on retirement benefits are recognised immediately in equity and reflected in other comprehensive income. Current and past service costs are recognised immediately in the income statement. Any net defined benefit surplus is limited to the benefit that is available to the Bank.

The Bank also provides other post-retirement benefits, principally related to redundancy provisions and healthcare for certain pensioners, which are accounted for on a similar basis to the accounting for pension obligations.

Recognition of the net pension surplus

The Bank has recognised the net surplus in full on the balance sheet as it can realise any surplus on the winding up of the scheme after all other benefits have been paid in full in accordance with the Fund's rules. The Trustee does not have any unilateral powers which would prevent this and the rules can only be amended by agreement between the Bank and the Trustee.

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

	Note	2020 £m	2019 £m
Funded pension schemes	(i)	1,174	927
Unfunded post-retirement benefits:			
Redundancy provisions	(ii)	(68)	(70)
Other pension schemes	(iii)	(9)	(8)
Medical scheme	(iv)	(142)	(129)
Subtotal unfunded post-retirement benefits		(219)	(207)
		955	**720**

Pension expense recognised in the income statement

	Note	2020 £m	2019 £m
Funded pension schemes	(i)	56	65
Unfunded post-retirement benefits:			
Redundancy provisions	(ii)	2	2
Other pension schemes	(iii)	–	–
Medical scheme	(iv)	4	4
		62	**71**

Remeasurements recognised in the statement of comprehensive income

	Note	2020 £m	2019 £m
Funded pension schemes	(i)	204	29
Unfunded post-retirement benefits:			
Redundancy provisions	(ii)	(2)	2
Other pension schemes	(iii)	–	–
Medical scheme	(iv)	(15)	7
		187	**38**

Section 5: People and related parties continued

Risks

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

- Mortality risk — the assumptions adopted by the Bank make allowance for future improvements in life expectancy. However, if life expectancy improves at a faster rate than assumed, this would result in greater payments from the Fund and consequently increases in the scheme's liabilities. The Bank and the 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.

- Inflation risk — the majority of the scheme's liabilities increase in line with inflation and so if inflation is greater than expected, the liabilities will increase. The scheme's investment strategy is to hold government bonds that are also linked to inflation so this risk is mostly mitigated.

The redundancy provision and other pension schemes are primarily exposed to the mortality and inflation risks above. As they are not backed by any assets, these risks cannot be so easily managed. However, these arrangements (and therefore the risks associated with them) are small in comparison to the funded pension scheme.

The two main risks to which the Bank is exposed in relation to the medical scheme are mortality risk, as described above, and increases in the costs incurred being greater than assumed, either due to inflation of future medical costs or the frequency of members' claims.

Components of pension expense in the Income Statement

	2020			2019		
	Main pension scheme £m	Other pensions £m	Medical scheme £m	Main pension scheme £m	Other pensions £m	Medical scheme £m
Current service cost	80	–	1	80	–	1
Past service cost	–	–	–	7	–	–
Net interest on the net defined liability/asset	(24)	2	3	(22)	2	3
Total pension expense	**56**	**2**	**4**	**65**	**2**	**4**

Remeasurements recognised in other comprehensive income

	2020			2019		
	Main pension scheme £m	Other pensions £m	Medical scheme £m	Main pension scheme £m	Other pensions £m	Medical scheme £m
Remeasurements recognised at the beginning of the period	269	(30)	(10)	240	(32)	(17)
Actuarial gains arising from changes in demographic assumptions	37	–	1	72	1	4
Actuarial losses arising from changes in financial assumptions	(322)	(4)	(14)	(2)	–	–
Actuarial gains/(losses) arising from experience on the scheme's liabilities	(11)	2	(2)	(12)	1	3
Return on scheme's assets excluding interest income	500	–	–	(29)	–	–
Remeasurements recognised at the end of the period	**473**	**(32)**	**(25)**	**269**	**(30)**	**(10)**

Reconciliation of present value of defined-benefit obligation

	2020			2019		
	Main pension scheme £m	Other pensions £m	Medical scheme £m	Main pension scheme £m	Other pensions £m	Medical scheme £m
Present value of defined-benefit obligation at the beginning of the period	3,442	78	129	3,474	82	137
Current service cost	80	–	1	80	–	1
Past service cost	–	–	–	7	–	–
Interest expense	86	2	3	87	2	3
Actuarial gains arising from changes in demographic assumptions	(37)	–	(1)	(72)	(1)	(4)
Actuarial losses arising from changes in financial assumptions	322	4	14	2	–	–
Actuarial (gains)/losses arising from experience on the scheme's liabilities	11	(2)	2	12	(1)	(3)
Benefits paid out	(147)	(5)	(6)	(148)	(4)	(5)
Present value of defined obligation at the end of the period	**3,757**	**77**	**142**	**3,442**	**78**	**129**

Section 5: People and related parties continued

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

Reconciliation of the fair value of assets

	2020			2019		
	Main pension scheme £m	Other pensions £m	Medical scheme £m	Main pension scheme £m	Other pensions £m	Medical scheme £m
Fair value of scheme's assets at the beginning of the period	4,369	–	–	4,340	–	–
Interest income	110	–	–	109	–	–
Return on scheme's assets excluding interest income	500	–	–	(29)	–	–
Bank contributions	99	5	6	97	4	5
Benefits paid out	(147)	(5)	(6)	(148)	(4)	(5)
Fair value of scheme's assets at the end of the period	**4,931**	**–**	**–**	**4,369**	**–**	**–**

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:

	2020 %	2019 %
Discount rate[1]	1.8	2.5
Rate of increase in salaries	3.2	3.5
Rate of increase of pensions in payment[2]	2.8	3.0
Rate of increase for deferred pensioners[2]	2.8	3.1

1 The Bank has changed its methodology in setting the discount rate, based on last year's discount rate methodology, the discount rate assumption at 29 February 2020 would have been 1.70%. The impact of the change in methodology is an increase in the discount rate at 29 February 2020 of 0.10%. Based on the sensitivity information provided by the actuary, the impact of this change in methodology is estimated to reduce the balance sheet liabilities by £76m at 29 February 2020.

2 This represents a weighted average of RPI and CPI, which are the indices used in the scheme. Based on last year's methodology the rate of increases in pensions would have been 3.0%, the impact on the change in methodology is a reduction in the balance sheet liabilities of £159m.

The discount rate assumption reflects the investment return on a high-quality corporate bond at the balance sheet date, as required by the standard.

The assumption on salary growth is for the long term over the life of the scheme.

An age-related promotion scale has been added to the increase in salaries assumption.

The assumption for life expectancy for the scheme assumes that a male member reaching 60 in 2020 will live for 26.9 years (2019: 27.0 years) and a female member 29.0 years (2019: 29.0 years), and a male member reaching 60 in 2040 will live for 28.4 years (2019: 28.9 years) and a female member 30.5 years (2019: 30.9 years).

The Bank has adopted the latest available mortality projections model, which reduces the Fund's liabilities as a result of recent improvements in mortality being slightly lower than previously assumed.

The assets in the scheme were:

	Maturity profile £m			2020 Total value	2020 Percentage of total value	2019 Total value	2019 Percentage of total value
	0–5 years	5–15 years	over 15 years	£m	%	£m	%
UK Government fixed-interest bonds	79	144	133	356	7	472	11
UK Government index-linked bonds	361	687	1,938	2,986	61	2,529	58
Corporate index-linked bonds	–	290	1,200	1,490	30	1,315	30
Cash and other assets	99	–	–	99	2	53	1
Total market value of investments	**539**	**1,121**	**3,271**	**4,931**	**100**	**4,369**	**100**

For the purposes of IAS 19, the asset values stated are at the balance sheet date. Market values of the scheme's assets, which are not intended to be realised in the short term, may be subject to significant change before they are realised.

Of the corporate index-linked bonds £969m were quoted and £521m were unquoted (2019: £841m quoted and £474m unquoted). Of the corporate index-linked bonds £1,465m (2019: £1,288m) were guaranteed by the UK Government.

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

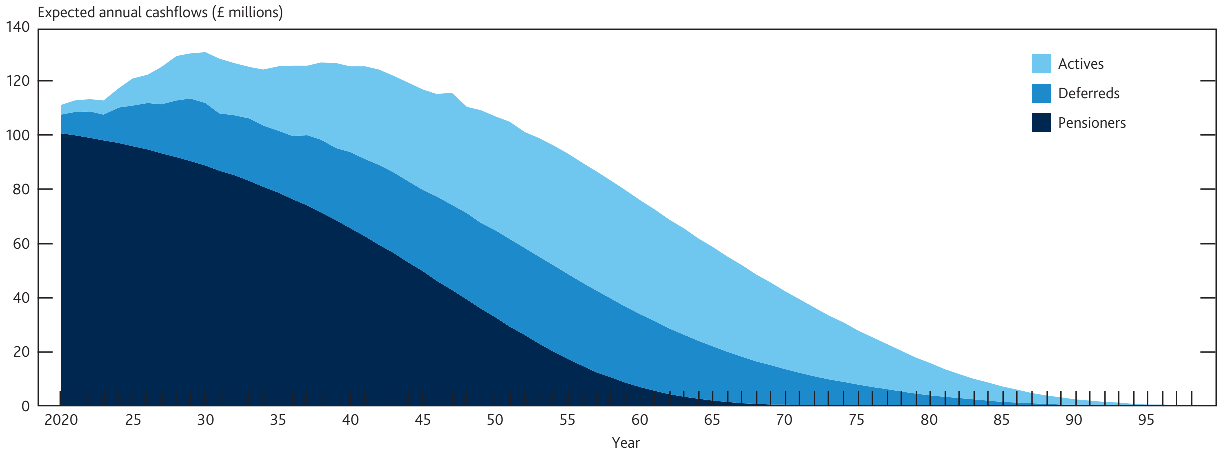
- Level 1 £3,342m — were valued using an unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 £1,490m — were valued using inputs other than quoted prices included within Level 1 that are observable (ie developed using market data) either directly or indirectly.
- Level 3 £1m — where inputs were unobservable (ie for which market data is unavailable).

Section 5: People and related parties continued

Main scheme

	2020 £m	2019 £m
Present value of defined benefit obligations:		
– Active members	(999)	(835)
– Deferred members	(803)	(738)
– Pensioners	(1,947)	(1,862)
– GMP equalisation reserve	(8)	(7)
Total present value of defined benefit obligations	(3,757)	(3,442)
Assets at fair value	4,931	4,369
Defined benefit asset	**1,174**	**927**

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 29 February 2020) are shown in the chart below.



A +/- 0.1% change to the discount rate would change the surplus on the pension scheme by +/- £76m (2019: +/- £67m).

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 +/- £53m (2019: +/- £50m).

A +/- 0.5% change to the assumed rate of increases in salaries would change the surplus on the pension scheme by +/- £26m (2019: +/- £25m).

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 £136m (2019: £119m).

The Bank paid contributions of £122m in March 2020 (2019: £99m).

Redundancy provisions

	2020 £m	2019 £m
Unfunded defined-benefit liability	(68)	(70)

Other pension schemes

	2020 £m	2019 £m
Unfunded defined-benefit liability	(9)	(8)

The Bank expects to make payments of less than £1m in the forthcoming year (2019: less than £1m).

During the year to 29 February 2020 the Bank incurred services costs of less than £1m (2019: less than £1m).

Medical scheme

Some staff are entitled to receive healthcare benefits in retirement. Separate provision is made for these in the Bank's accounts as these cannot be paid out of the Pension Fund.

Summary of significant assumptions

The discount rates used for the purposes of measuring post-retirement medical benefit liabilities are the same as used in the IAS 19 valuation of pension scheme liabilities (see Summary of assumptions on page 138). The level at which claims are assumed to arise on average has been taken in line with that used for the 2019 disclosures. For accounting purposes the following assumptions have been made in respect of medical expense inflation:

	2020 %	2019 %
Initial medical trend	5.0	5.0
Ultimate medical trend	5.0	5.0
Years to ultimate	–	–

Post-retirement benefits — medical

	2020 £m	2019 £m
Unfunded defined-benefit liability	(142)	(129)

Sensitivity analysis provided by the actuary indicates that 0.1% decrease in the discount rate would change the deficit on the other post-retirement benefits by £2m (2019: £2m) and a 1% increase in the rate of medical claims by £24m (2019: £21m). If the mortality rates were adjusted such that individuals were assumed to live for an additional year, the other post-retirement liabilities at the year end would increase by approximately £6m (2019: £6m).

The Bank expects to pay premiums of £6m in the forthcoming year (2019: £6m).

Section 5: People and related parties continued

27 Related parties

Transactions with those commercial banks which are related parties but not wholly-owned by HM Treasury have not been disclosed as the Bank does not believe such disclosures to be appropriate having regard to its financial stability objective.

a HM Government

The Bank provides a range of activities to its shareholder, HM Treasury, and to other Government departments and bodies:

- Provision of banking services, including holding the principal accounts of Government.
- Management of the Exchange Equalisation Account (EEA).
- Management of the note issue.

The Bank also engaged in transactions with the Financial Services Compensation Scheme and other related parties.

The aggregate balances on HM Treasury and other public sector accounts are disclosed in note 12 as public deposits. The total charges made to the Government totalled £126m (2019: £124m) as disclosed in note 5a. The breakdown is as follows:

- services provided to the EEA of £6m (2019: £5m) of a total cost to the Bank of £11m, under the current temporary arrangement to share the costs of the EEA;
- issue department £118m (2019: £117m);
- banking services to HM Government £2m (2019: £2m).

Debt Management Office and Debt Management Account

The Bank has entered into agreements with the UK Debt Management Office (DMO) through the Debt Management Account (DMA) whereby the DMA lends UK government securities to the Bank with the simultaneous agreement that the Bank would deliver equivalent securities to the DMA on termination of those agreements.

At 29 February 2020 the Bank had borrowed Treasury bills with a nominal value of £1.5bn (2019: £16.0bn) under the Bank's Funding for Lending Scheme. The Bank has paid the DMA a loan fee of £0.1m (2019: £1.0m) 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 £16m in 2020 (2019: £9m).

HM Treasury

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

Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS) is the United Kingdom's statutory fund of last resort for customers of authorised financial services firms set up under the Financial Services and Markets Act 2000 (FSMA). The FSCS is independent from the Prudential Regulation Authority and Financial Conduct Authority, although accountable to them and ultimately to HM Treasury.

The FSCS placed interest-bearing deposits with the Bank during the year, which are included within note 12 as public deposits.

Financial Conduct Authority

The Financial Conduct Authority (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 £110,000 (2019: £90,000) in the year. The Bank is also charged for the shared use of some FCA software applications to support regulation. The total charge for this service was £5.9m (2019: £7.5m).

b Subsidiaries

Full details of the subsidiaries of the Bank are disclosed in note 24.

Bank of England Asset Purchase Facility Fund Ltd (BEAPFF)

BEAPFF is a wholly-owned subsidiary of the Bank. It was established on 30 January 2009 in order to fulfil the remit of the Chancellor of the Exchequer given to the Bank on 19 January 2009. This remit was subsequently expanded to enable the asset purchase facility operated by the company to be used as a monetary policy tool at the request of the Monetary Policy Committee.

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

As part of the transfer of TFS loans from BEAPFF to the Bank in 2019, the Bank made an agreement with BEAPFF Ltd that they should continue to receive TFS scheme fees after the transfer. Fees transferred in the year totalled £19m (2019: £nil).

At 29 February 2020 the loan from the Bank to BEAPFF was £445.0bn (2019: £445.0bn). Interest on this loan is receivable at Bank Rate and amounted to £3.3bn for the year ending 29 February 2020 (2019: £3.6bn).

At the year end BEAPFF held a deposit at the Bank of £4.6bn (2019: £4.9bn), which is included in other deposits (note 12). Interest on this deposit is payable at Bank Rate and totalled £45m for the year ending 29 February 2020 (2019: £30m).

No management fee was paid by BEAPFF to the Bank in respect of the year ended 29 February 2020 (2019: £2m). This is in line with the arrangements agreed between the Bank and HM Treasury.

c Key management personnel

Members of Court are covered by an indemnity from the Bank, granted in 2000 (see page 5). Members of the FPC, MPC and PRC are also covered by an indemnity granted by the Bank (see pages 8 to 10).

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 29 February 2020, the number of key management personnel was 45 (2019: 39).

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

Section 5: People and related parties continued

	2020 £000	2019 £000
Loans		
Balance brought forward	37	41
Loans made during year	102	34
Loans repaid during year	(47)	(38)
	92	**37**
Interest income earned	2	1
Number of key management personnel with loans at 29 February	10	9

No expected credit losses have been recognised in respect of loans given to related parties (2019: £nil).

There were no other transactions that would be required to be shown under the provisions of the Companies Act 2006. None of the key management personnel had a material interest, directly or indirectly, at any time during the year in any other significant transaction or arrangement with the Bank or any of its subsidiaries.

All employees, excluding external MPC members, are entitled to season ticket loans (repayable monthly over five to 12 months) and may choose to take personal loans (for periods of up to five years and at a variable interest rate equal to HMRC's Official Rate of Interest, currently 2.5%) as part of their remuneration package.

Key management remuneration

	2020 £000	2019 £000
Salaries and short-term benefits	7,752	7,459
Post-employment benefits	1,562	1,580
	9,314	**9,039**

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 71 to 77.

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 29 February 2020 no charge was made for these services (2019: £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 £99m (2019: £97m). There were no other material transactions between the Bank and the pension scheme during the year to 29 February 2020. At 29 February 2020 the balances on accounts held with the Bank were £90m (2019: £40m).

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.

28 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 2020 was £54m (2019: £65m). 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 29 February 2020. The payments are deductible for corporation tax in the year to which the payments relate.

	2020 £m	2019 £m
Payable 27 April 2020[1] (2019: 5 April)	10	27
Payable 5 October 2020 (2019: 5 October)	35	27
	45	**54**

Following agreement of the new capital framework[2] 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.

1 Due to extraordinary circumstances in 2020 the Bank and HM Treasury agreed to make the interim payment in lieu of dividend on 27 April.

2 www.bankofengland.co.uk/letter/2018/banks-financial-framework-june-2018.

29 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 29 February 2020 by Gerald Eve, members of RICS.

Section 6: Operating assets and liabilities continued

iii Depreciation

Land is not depreciated. Depreciation on other property, plant and equipment is charged on a straight-line basis:

Freehold buildings	over the estimated future lives which range from ten to seventy-five years.
Leasehold improvements	over the estimated remaining life of the lease.
Plant within buildings	over periods ranging from five to twenty years.
Lease ROU assets	over the estimated remaining life of the lease.
IT equipment	over periods ranging from three to seven years.
Other equipment	over periods ranging from three to twenty years.

The depreciable amount of a revalued asset is based on its revalued amount less any residual value. The revaluation surplus is not transferred to retained earnings until the asset's ultimate disposal.

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date.

Assets that are subject to depreciation are reviewed at each reporting date to assess whether there is any indication that an asset may be impaired. An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value (less costs to sell) and value in use.

iv Gain or losses on the disposal of property, plant and equipment

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

For the period to 29 February 2020	Freehold land and buildings £m	Leasehold improvements £m	Equipment[1] £m	Lease ROU assets £m	Total £m
Cost or valuation					
At 1 March 2019	315	14	152	–	481
Recognition of ROU asset on adoption of IFRS 16	–	–	–	78	78
Additions	6	–	28	–	34
Disposals/write-offs	–	–	(8)	–	(8)
Revaluation of properties	(9)	–	–	–	(9)
At 29 February 2020	**312**	**14**	**172**	**78**	**576**
Accumulated depreciation					
At 1 March 2019	–	6	63	–	69
Charge for the period	4	1	19	9	33
Disposals/write-offs	–	–	(8)	–	(8)
Revaluation of properties	(4)	–	–	–	(4)
At 29 February 2020	**–**	**7**	**74**	**9**	**90**
Net book value at 1 March 2019	315	8	89	–	412
Net book value at 29 February 2020	**312**	**7**	**98**	**69**	**486**

1 Net book value of equipment at 29 February 2020 included less than £1m held under finance leases.

Additions for the year includes accrued amounts of £4m (2019: £11m). The cash purchases for the year are £41m (2019: £26m).

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

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

Section 6: Operating assets and liabilities continued

30 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.

	2020 £m	2019 £m
Cost		
At 1 March	93	67
Additions	50	27
Disposals/write-offs	–	(1)
At 29 February	**143**	**93**
Accumulated amortisation		
At 1 March	46	36
Charge for the year	12	11
Disposals/write-offs	–	(1)
At 29 February	**58**	**46**
Net book value at 1 March	47	31
Net book value at 29 February	**85**	**47**

31 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.

	2020 £m	2019 £m
Finance lease receivables	6	6
Short-term debtors and other assets	491	493
Items in course of settlement	203	–
	700	**499**

Finance lease receivables also include £6m due in more than one year (2019: £6m). Within short-term debtors and other assets there is accrued interest of £291m (2019: £214m).

32 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.

Section 6: Operating assets and liabilities continued

i Analysis of other liabilities

	2020 £m	2019 £m
Items in course of collection	34	30
Payable to HM Treasury	46	54
Short-term creditors and other liabilities	466	484
Lease liabilities	69	–
Provisions	4	5
Balance at 29 February 2020	**619**	**573**

Payable to HM Treasury includes payment in lieu of dividend (note 28) and any over/under recoveries of management fees for the management of the notes issue and the Exchange Equalisation Account.

ii Analysis of provisions

	Restructuring provision £m	Onerous lease provision £m	Other provisions £m	Total £m
Balance at 1 March 2019	3	1	1	5
Provisions utilised during the year	(2)	–	(1)	(3)
Provisions made during the year	3	–	–	3
Provisions reversed during the year	(1)	–	–	(1)
Balance at 29 February 2020	**3**	**1**	**–**	**4**

iii Analysis of lease liabilities

	2020 £m
Expiring within one year	11
Expiring between one and five years	48
Expiring between five and ten years	10
Balance at 29 February 2020	**69**

iv Lease liability movements

	2020 £m
Value of discounted future cash flows on ROU assets at implementation	78
New leases entered into in year	–
Payments in the year	(11)
Interest expense on lease liabilities	2
Balance at 29 February 2020	**69**

Section 7: Other miscellaneous notes

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

33 Auditor's remuneration

	2020 £000	2019 £000
For the period to 29 February		
Fees relating to audit services performed for the current year	402	427
Fees relating to prior year	48	47
Fees payable to the Auditor for services provided to the Bank		
Non-audit assurance services for the current year	47	46
All other services	30	321
	527	**841**

Non-audit assurance services comprise £28,000 for providing assurance to HM Treasury on the allocation of costs (2019: £27,000), and £19,000 for the submission for Whole *of* Government Accounts (2019: £19,000).

All other services includes computer software licenses used during the year.

34 Deferred tax liabilities

Accounting Policies

Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted and which are expected to apply when the related deferred tax asset or liability is realised. Deferred tax liabilities are presented net of deferred tax assets in the statement of financial position as the Bank has the legal right to settle current tax amounts on a net basis and all tax amounts relate to amounts owing to HM Treasury in the same jurisdiction. It is the Bank's intention to settle amounts on a net basis.

Rate

Deferred tax is calculated on all temporary differences under the liability method using the effective tax rate of 17% (2019: 17%). Reductions in the UK corporation tax rate to 17% was substantively enacted in September 2016, effective 1 April 2020. This will reduce the Bank's current tax charge in future years accordingly. The Chancellor of the Exchequer announced on 11 March 2020 that the previous tax rate cut to 17%, which had previously been substantively enacted, would no longer take place. This means that, while it is appropriate to maintain the deferred tax balance at the enacted rate of 17% in the balance sheet, it would now be expected to reverse at 19%. If enacted at the balance sheet date, this would have the effect of increasing the deferred tax liability by £41m.

Principal differences

The principal temporary differences arise from:

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

Recognition

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences and losses can be utilised.

Deferred tax related to fair value remeasurement of available for sale securities (now classified as securities held at amortised cost under IFRS 9) and actuarial gains and losses on retirement benefit obligations is credited or charged directly to other comprehensive income and is subsequently recognised in the income statement together with the current or deferred gain or loss if and when realised.

	Note	2020 £m	2019 £m
Deferred tax			
Net liability at 1 March		289	319
Income statement charge	6	11	7
Tax credited/(charged) directly to other comprehensive income	6	52	(37)
Net liability at 29 February		**352**	**289**

	2020 £m	2019 £m
Deferred tax liability relates to:		
FVOCI equity investments through comprehensive income	231	207
Unrelieved payment in lieu of dividends carried forward	(2)	–
Transitional adjustment on debt securities	(10)	(19)
Debt securities transitional losses carried forward	(43)	(34)
Pensions and other post-retirement benefits	163	123
Other provisions	13	12
	352	**289**

Issue Department account
for the period ended 29 February 2020

	2020 £m	2019 £m
Income and profits		
Securities of, or guaranteed by, the British Government	160	130
Other securities and assets	543	463
	703	**593**
Expenses		
Cost of production of banknotes	(78)	(79)
Cost of issue, custody and payment of banknotes	(31)	(25)
Other expenses	(8)	(12)
	(117)	**(116)**
Net income paid to National Loans Fund[1]	**555**	**442**

1 Net income paid to the National Loans Fund excludes a buffer held back to meet future expenditure. At the 2020 year end this was £31m (2019: £35m). Amounts held back in the buffer are paid over to the National Loans Fund in the subsequent year but are not included that year's net income paid to National Loans Fund reported here.

Issue Department statement of balances
for the period ended 29 February 2020

	Note	2020 £m	2019 £m
Assets			
Securities of, or guaranteed by, the British Government	3	2,726	2,732
Other securities and assets including those acquired under reverse repurchase agreements	4	71,696	71,439
Total assets		**74,422**	**74,171**
Liabilities			
Notes issued:			
In circulation	5	74,422	74,171
Total liabilities		**74,422**	**74,171**

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

Mr A Bailey	Governor
Sir Jon Cunliffe	Deputy Governor
Mr B Fried	Chair of Court
Ms A Kyei	Chief Financial Officer

The notes on pages 156 to 158 are an integral part of these financial statements.

Notes to the Issue Department statements of account

1 Bases of preparation

The statements of account are prepared in accordance with the requirements of the Currency and Bank Notes Act 1928 and 1954, the National Loans Act 1968 and the Currency Act 1983. All profits of the Issue Department are payable to the National Loans Fund.

- The statements of account are prepared on the basis of amounts received and paid as modified by the effects of a revaluation of securities.
- All securities are revalued quarterly at their clean mid-market price and are stated, with purchased accrued interest, in the balance sheet at this valuation. The last valuation was made as at 27 February 2020.
- If a revaluation of securities shows a net gain, this is included in income. A deficit is not taken against income but is settled by a transfer from the National Loans Fund. Total gains taken to income in the year to 29 February 2020 amounted to £49m (2019: £18m) and total deficits paid by the National Loans Fund amounted to £56m (2019: £62m).
- 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 £117m (2019: £116m) represent charges from the Banking Department for costs incurred of £119m (2019: £118m) in relation to note issuance production costs plus amounts over/under-collected in prior years.

3 Securities of, or guaranteed by, the British Government

	2020 £m	2019 £m
British Government Stocks	2,356	2,362
Ways and Means advance to the National Loans Fund	370	370
	2,726	**2,732**

The Ways and Means advance earns interest at Bank Rate.

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

	2020 £m	2019 £m
Deposit with Banking Department	66,552	68,700
Reverse repurchase agreements	5,144	2,739
	71,696	**71,439**

The deposit with Banking Department earns interest at Bank Rate.

5 Notes in circulation

	2020 £m	2019 £m
£5	2,068	1,979
£10	13,377	10,524
£20	37,143	40,128
£50	17,574	17,210
Other notes[1]	4,260	4,330
	74,422	**74,171**

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 29 February 2020, the assets of the Issue Department had the following repricing period profile.

	2020 £m	2019 £m
Repricing up to one month	72,066	71,809
Repricing in greater than 12 months	2,356	2,362
	74,422	**74,171**

b Currency exposure
All the assets and liabilities of Issue Department are denominated in sterling. The collateral provided under reverse repurchase agreements may be in currencies other than sterling but this does not give rise to any direct currency exposure.

c Credit risk
Credit risk is the risk of loss arising from the failure of a borrower, issuer, counterparty or customer to meet its financial obligations to the Bank. The Bank is exposed to credit risk both through direct exposures and through contingent exposures, such as custody arrangements and holdings of collateral. Credit risk arises in the course of the operations of the Notes Circulation Scheme, Agency Notes Store and Notes Printing Contract; and as a result of the Bank providing liquidity to financial institutions via open market operations.

In providing liquidity via routine open market operations, credit risk is managed by ensuring that exposures are fully collateralised (with appropriate margin) by securities that are internally rated as equivalent to investment grade.

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

Notes to the Issue Department statements of account continued

7 Accrued interest

At 29 February 2020 the unrecognised accrued interest on the assets held on the Issue Department statement of balances was £49m (2019: £42m).

8 Date of approval

The Members of Court approved the statements of account on pages 154 to 158 on 26 May 2020.

PRA income statement
for the period ended 29 February 2020

	Note	2020 £m	2019 £m
Income			
Fee income	2	237	237
Enforcement fine income	5	3	–
Other income	3	31	41
Total income		**271**	**278**
Expenses			
Administrative expenses	4	(271)	(278)
Total expenses		**(271)**	**(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 161 to 167 are an integral part of these financial statements.

PRA statement of balances
for the period ended 29 February 2020

	Note	2020 £m	2019 £m
Assets			
Current assets			
Cash balance held internally by the Bank of England		33	–
Fee and other receivables	8	3	124
Intangibles	9	13	6
Total assets		**49**	**130**
Liabilities			
Current liabilities			
Overdraft balance held internally by the Bank of England		–	6
Trade and other liabilities	10	49	124
Total liabilities		**49**	**130**

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/Chair of PRC
Sir Jon Cunliffe	Deputy Governor
Mr B Fried	Chair of Court
Ms A Kyei	Chief Financial Officer

The notes on pages 161 to 167 are an integral part of these financial statements.

Notes to the PRA statement of accounts

1 Basis of preparation

Form of presentation of the statement of accounts

The statement of accounts comprise the income statement, the statement of balances, and related notes, and are presented as a subset of the financial statements provided for the Bank.

Under the Bank of England Act 1998 (as amended) (the Act), the Bank is required to present financial and other disclosures in respect of its activities as the Prudential Regulation Authority.

Section 7(2A) of the Act requires that the Bank prepare for each of its financial years a statements of accounts in relation to the:
(a) income received and assets accrued by the Bank by virtue of its functions as the Prudential Regulation Authority; and
(b) expenses and liabilities incurred by the Bank by virtue of its functions as the Prudential Regulation Authority.

Section 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.

Notes to the PRA statement of accounts
continued

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

	2020 £m	2019 £m
Fee income	237	237
Total	**237**	**237**

3 Other income

	2020 £m	2019 £m
Solvency II income	2	2
Structural reform income	6	15
EU withdrawal project income	14	16
Model Maintenance Fee income	6	6
Other sundry income	3	2
Total	**31**	**41**

4 Administrative costs

	Note	2020 £m	2019 £m
Staff costs	6	145	154
Costs incurred centrally and allocated to the PRA		113	114
Professional and membership fees		9	7
Amortisation of intangible assets		2	2
Travel and accommodation		2	2
Other administration and general expenses		2	–
Cost recoveries		(2)	(1)
Total		**271**	**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 £45.0m (2019: £nil) were raised and collected during the year. Enforcement income of £3.1m (2019: £0.4m) was recognised in the year, with the balance of fines collected of £41.9m payable to HM Treasury (2019: £nil). This payment was made post year end. Enforcement fines received and then paid over to HM Treasury is not recognised as income.

6 Staff costs

	2020 £m	2019 £m
Wages and salaries	106	111
Social security costs	12	14
Pension and other post-retirement costs	27	29
Total	**145**	**154**

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.

Notes to the PRA statement of accounts
continued

Fair pay

The banded remuneration of the highest paid director (full-time equivalent base salary plus benefits and excluding pension) in the financial year 2019/20 was £281,377 (2019: £277,938). This comprises a salary of £279,517 (2019: £276,066) as at 29 February 2020, plus non-pension related benefits of £1,860 (2019: £1,872). This was 3.92 (2019: 4.38) times the median remuneration of the workforce, which was £71,811 (2019: £63,481).

During 2019/20 no employee received remuneration in excess of the highest paid director. Remuneration ranged from £24,470 to £274,834 (2019: £20,758 to £390,000).

Exit package

There were no compulsory redundancies during the year.

There were five exit packages agreed during the year, in the ranges set out below:

£90,000–£99,000	1
£120,000–£129,000	1
£150,000–£159,000	3

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 2019).

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:

	2020	2019
Governors and other members of Executive Team	6	6
Managers and Analysts	1,175	1,215
Other staff	178	223
Total	**1,359**	**1,444**

The number of staff employed by the Bank and working for the PRA was 1,325 at 29 February 2020, of which 1,117 were full-time staff and 208 were part-time.

7 Taxation

Under the agreement with HM Revenue and Customs, the fees paid by regulated institutions for regulatory purposes are not subject to corporation tax, but net interest income on deposits and any other investment income are subject to corporation tax as non-trade credits. Such net interest or other investment income was nil during the year (2019: £nil).

8 Fee and other receivables

	2020 £m	2019 £m
Fees receivable	3	120
Fees receivable — EU withdrawal	–	4
Total	**3**	**124**

Fees receivable at the reporting date includes £nil (2019: £117 million) on account invoicing relating to the annual funding requirement from counterparties for the 2020/21 fee year.

9 Intangible assets

	2020 £m	2019 £m
Cost		
At 1 March	26	24
Additions	9	2
At 29 February	**35**	**26**
Accumulated amortisation		
At 1 March	20	18
Charge for the year	2	2
At 29 February	**22**	**20**
Net book value at 1 March	6	6
Net book value at 29 February	**13**	**6**

Intangible assets comprise software development to enable the PRA to fulfil its regulatory duties.

There were no additions of intangible assets purchased but not paid for at the balance sheet date (2019: £nil).

Notes to the PRA statement of accounts
continued

10 Trade and other liabilities

	Note	2020 £m	2019 £m
Fees received in advance		2	119
Fees received in advance — Structural reform		–	1
Fees received in advance — EU withdrawal		1	–
Deferred income — Solvency II		1	3
Financial penalties received — due to HM Treasury	5	42	–
Financial penalties received — payable to fee payers	5	3	–
Provisions		–	1
Total		**49**	**124**

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.

Analysis of provisions

	Other provisions £m
Balance at 1 March 2019	1
Provisions utilised during the year	(1)
Provisions made during the year	–
Provisions reversed during the year	–
Balance at 29 February 2020	–

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

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 159 to 167 on 26 May 2020.

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

South East and East Anglia
Threadneedle Street
London EC2R 8AH
020 3461 3954
seea@bankofengland.co.uk
@BoESouthEast

Greater London
Threadneedle Street
London EC2R 8AH
020 3461 5504
greaterlondon@bankofengland.co.uk
@BoELondon

Central Southern England
Spaces
4500 Parkway
Solent Business Park
Whiteley
Fareham PO15 7AZ
01329 277732
CentralSouthernAgency@bankofengland.co.uk
@BoECentralSouth

South West
St Brandon's House
29 Great George Street
Bristol
BS1 5QT
0117 920 0094
southwest@bankofengland.co.uk
@BoESouthWest

Wales
Regus House/Tŷ Regus
Malthouse Avenue
Pontprennau
Caerdydd/Cardiff CF23 8RU
029 2026 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

East Midlands
Sir Colin Campbell Building
University of Nottingham
Innovation Park
Triumph Road
Nottingham NG7 2TU
0115 7484200
eastmidlands@bankofengland.co.uk
@BoEEastMids

Yorkshire and the Humber
West One
114 Wellington Street
Leeds LS1 1BA
0113 242 0355
yorkshireandhumber@bankofengland.co.uk
@BoEYorkshire

North East
City Quadrant
11 Waterloo Square
Newcastle upon Tyne
NE1 4DP
0191 2505168
northeastagency@bankofengland.co.uk
@BoENorthEast

North West
13th Floor, City Tower
Piccadilly Plaza
Manchester M1 4BT
0161 6949664
northwestagency@bankofengland.co.uk
@BoENorthWest

Scotland
2 West Regent Street
Glasgow G2 1RW
0141 4337165
scotland@bankofengland.co.uk
@BoEScotland

Northern Ireland
Arthur House Suite 414
41 Arthur Street
Belfast BT1 4GB
028 9044 7180
northernirelandagency@bankofengland.co.uk
@BoENIreland

ISSN 1467-016x

Photography
Front cover – © Matt Clayton
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Bank of England
Threadneedle Street
London EC2R 8AH
www.bankofengland.co.uk