BANK OF ENGLAND

Annual Report

Annual Report and Accounts

1 March 2020–28 February 2021

Bank of England

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1 March 2020 to 28 February 2021

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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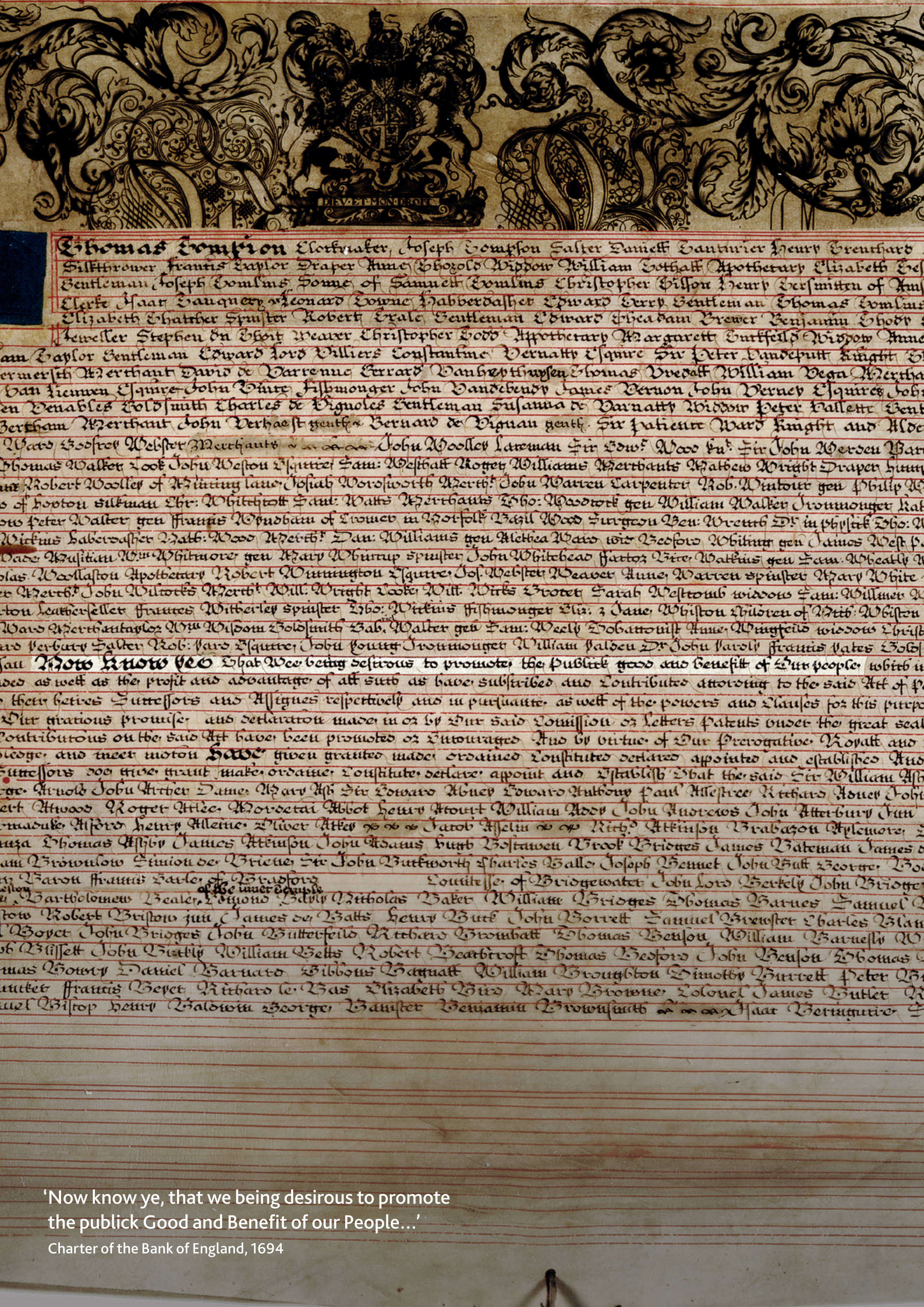


'Now know ye, that we being desirous to promote the publick Good and Benefit of our People…'

Charter of the Bank of England, 1694

Statement by the Chair of Court

Bradley Fried
Chair of Court

This past year has been challenging for all of us, in the United Kingdom and around the world. The Bank cannot itself fight a pandemic, but it can help to provide stability in the monetary and financial system as the impact is felt. I am grateful for how the Bank's policymakers and staff have worked together to support the UK economy in such unprecedented times.

I wrote last year's Foreword during the UK's first lockdown, and since then most Bank staff have continued to deliver the mission of the Bank from their homes around the country. I would like to thank them – and importantly those in critical functions requiring attendance at Bank premises – for their commitment, often in the face of personal challenges. What I have seen since Covid-19 (Covid) emerged has brought home to me how the values and culture of the Bank are reflected in all parts of the organisation. And I have also seen the benefit of the Bank's tradition of always preparing for the worst, rather than hoping for the best.

The performance of the Bank over the past year is testament to Andrew Bailey's leadership. He, together with his Executive Team and the Bank's policy committees, has successfully responded to the policy challenges that Covid has brought. That response includes the further expansion of the quantitative easing (QE) programme and cross-Bank work to ensure that the Monetary Policy Committee could set a negative Bank Rate should it believe that to be desirable. It also provided funding to companies through the Covid Corporate Financing Facility, set up jointly with HM Treasury last year. The Bank has continued its work to ensure that the banks can continue to support households and businesses in bad times as well as good, with the reverse stress-test exercise providing an important and reassuring insight into the financial resilience of the banking sector. And in response to Covid, the Prudential Regulation Authority (PRA) has, among other actions, explored the resilience of firms' remote working technologies.

Andrew has also begun to share his vision for the Bank as an organisation, reflecting his 'human and humble' approach to leadership and emphasising the importance of working effectively with our stakeholders. The Bank cannot meet all its objectives alone, and I have seen extraordinary collaboration with stakeholders over this past year.

That vision also reflects the need for the Bank to adapt to a changing world. The biggest change since last year has been the UK's withdrawal from the EU. Much work was delivered by colleagues across the Bank to ensure a smooth transition for the financial system. And more will be required to adapt to our new responsibilities outside the EU. The changing world also requires a focus on the longer term. The Bank is working with HM Treasury and the Financial Conduct Authority (FCA) to move the dial on UK investment in productive finance through a cross-industry working group. It is continuing to lead work globally on FinTech – with a new working group on a Central Bank Digital Currency launched in April – and climate change – with a scenario exercise this year to explore the financial risks it poses. And as we look forward, we continue to learn lessons from the past. This year, the Independent Evaluation Office published a review of the QE programme, containing important recommendations including a number focused on communicating effectively with our audiences.

Communication – talking and listening – remains key to the Bank's legitimacy and credibility. Although Covid has restricted our ability to travel, it is more important than ever that the Bank gets its messages out and hears peoples' real-life experiences. The work of our Agents has continued virtually, with their intelligence a crucial input into policy when we need to know what is happening now. I myself experienced a virtual visit to Scotland last autumn, and heard first-hand stories from charity leaders and female entrepreneurs. The virtual world can also expand our outreach – with 'local' Citizens' Panels continuing to run virtually, supplemented by larger open Governor Q&A sessions with Citizens' Panel members across the country. Bank staff have also continued to visit schools online, and a new learning hub has been set up to support parents with home schooling. The Bank was also able to unveil the last in the new polymer note series – the Turing £50 – virtually, perhaps fittingly given the role that Alan Turing played in developing the technology on which we have all been so reliant over the past year. I am pleased that we are able to celebrate Turing's achievements on our new note, but I also reflect, with sadness, on the mistreatment he received in his lifetime as a gay man.

We need to communicate effectively with our own people as well – and the virtual world brings both opportunities and challenges to that. We, like many organisations, have found that virtual working has meant that people bring more of themselves to work – helping embed a human approach to our working relationships. I believe it is crucial that we as employers support our staff – especially in such difficult times – by monitoring and supporting their wellbeing and indeed Court, as the Bank's Board, should lead that. That was a point that I made in July, when the Bank, along with the Banking Standards Board, City Mental Health Alliance and the FCA, hosted executives from across banking and finance to talk about mental health in the workplace. Supporting our staff during the pandemic has required a tremendous effort from our People and Culture teams. That has been supplemented by the role of our employee networks in providing support and forums to bring together the views of all our colleagues.

A focus of the staff discussion last summer was the killing of George Floyd and the subsequent Black Lives Matter protests, when we heard from our BAME colleagues on their lived experiences inside and outside the Bank. As we have set out in previous *Annual Reports*, the Bank has been making progress on its diversity and inclusion aims. But it has continued to fall short in some areas, including BAME progression and representation in senior management. Reflecting that, in Autumn 2020, the Governors and Court commissioned a Court Review into ethnic diversity and inclusion. That is chaired by Diana Noble, a Non-Executive Court member, and has an overarching aim to ensure the Bank is on the right path, with momentum, towards attracting and retaining an ethnically diverse workforce at all levels and being a BAME employer of choice. This is a subject that I feel passionately about – and ensuring that this report contains concrete recommendations that are delivered effectively will be a key focus for Court over the next year.

As we move into a world where Covid is no longer a constraint on our operations, we need an organisation that is fit for the future. Like other institutions, we have learnt over the past year that the Bank can continue to deliver its mission effectively with different ways of working. We want to make the most of what we have learnt, and have been developing new 'norms' for where we spend our working hours. That will allow us more flexibility in where our staff are based, and we have announced our intention to create a northern hub for the Bank, as well as to explore more use of our existing Agency offices. This will ensure that we are able to expand our staff numbers outside London despite the prospective closure of the Leeds cash centre. New ways of working will require new approaches to the way that we meet with each other and manage our teams. Done well, this can provide our staff with more control over their work-life balance and help them bring their best to work. But that will require effort and a commitment to change.

It has been a privilege to chair Court over such an important year for the Bank. I have very much appreciated the contributions from my colleagues and the work they have done to support and challenge the Bank through these difficult times. I would like to say a particular thank you to Hanneke Smits, who left Court in September 2020. I look forward to working with colleagues over the next year – my final one as Chair of Court – to help the Bank and its staff to continue to deliver their mission of promoting the good of the people of the UK, whatever challenges come its way.

Bradley Fried
26 May 2021

Report by the Governor

Andrew Bailey
Governor

This report covers the year to February and my first year as Governor. No one could have anticipated the unprecedented circumstances we have faced over this period. We were entering our first national lockdown when I became Governor and now we are re-emerging from the third. I want to thank all of the Bank of England staff for their commitment and resilience during this difficult time.

Throughout the Covid crisis, the Bank has played its role in serving the UK. Across the three policy committees our common goal has been to support the economy, businesses and households and ensure the resilience of the financial sector. Court has focused on ensuring the Bank is operationally equipped to exercise its duties in these challenging circumstances.

The Monetary Policy Committee has tracked the evolution of Covid and its impact on the economy and financial markets in detail. This level of understanding and analysis has been necessary to ensure the Bank can help meet the needs of UK businesses and households in dealing with the associated economic disruption, and understand the risks around the economic outlook. With spending in the economy well below normal levels, inflation has been below our 2% target, and I have sent four open letters to the Chancellor of the Exchequer to explain the situation and our response.

The Financial Policy Committee and Prudential Regulation Committee have focused on ensuring that the financial system can support households and businesses to weather the disruption from Covid. The Covid crisis has been the first major test of the reforms that were implemented following the financial crisis, and these have helped to ensure that this did not become a financial crisis alongside a health and economic crisis. Moreover, the financial sector has been able to support the extraordinary policy response, and major UK banks are strong enough to keep supporting UK households and businesses through a prolonged period of stress.

Another key area of focus for all three policy committees and the Bank has been our work to prepare for the UK's exit from the EU. In co-operation with HM Treasury and the FCA, over the past four years we have put in place measures which supported the transition when the UK left the EU at the end of 2020. Looking ahead, we remain committed to maintaining an open and resilient financial sector.

The Covid crisis has underscored the importance of international co-operation. Not only is this important for the UK as the home of a large financial sector, but it is central to our ability to tackle the many challenges we will face in the years to come. It is therefore not surprising that there are significant overlaps between the issues that form the Bank's strategic priorities and the issues that we will seek to progress through the UK's Presidency of the G7.

Our strategic priorities – listed below – are centred on the areas on which the Bank needs to focus to ensure that in discharging our mission we do so in the context of the changing world around us. As we seek to re-build and strengthen the economy and financial sector in the aftermath of the Covid crisis, we should do so in a way that is sustainable, forward-looking and bold. And in an organisation where our greatest asset is our staff, it is vital that we have a diverse workforce which reflects the whole society we serve.

Bank of England Strategic Priorities 2021–24

The foundation of everything we do in the Bank is our mission to promote the good of the people of the UK by maintaining monetary and financial stability. In this context our priorities for the next three years are:

- Ready our policy toolkit and balance sheet for the future to ensure we can continue to meet our monetary and financial stability objectives.
- Proactively prepare for emerging risks in the financial system.
- Establish a robust regulatory regime for a post-Brexit world.
- Shape and deliver the future of payments.
- Respond to the challenge of climate change.
- Build a diverse and inclusive Bank.
- Modernise the Bank's ways of working.

As we emerge from this most recent lockdown and look forward to returning to more 'normal' working practices, we do so having learned lessons about what we do and how we work. Like many organisations we anticipate more regular working from home and hybrid working to be common practice for many staff. We are also looking at ways to expand our regional presence and have announced our intention to locate a new hub in Leeds and further expand the Bank's presence through the office network used by the Bank Agencies around the UK. We will develop more detailed plans in the year ahead.

I would like to conclude by thanking my colleagues for their hard work and commitment. It is due to their dedication to our mission to serve the good of the people of the UK that the Bank continues to protect the monetary and financial stability of the UK.

Andrew Bailey
26 May 2021

Court and the Bank's policy committees

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

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

Members of Court are appointed by the Crown, for periods of eight years in the case of the Governor, five years for the Deputy Governors, and up to four years per term for the non-executive directors (NEDs). 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 Prudential Regulation Authority (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.

Opposite: Our Threadneedle Street office turned blue in honour of NHS staff and key workers.

The Court of Directors
as at 26 May 2021

Bradley Fried
Chair of Court

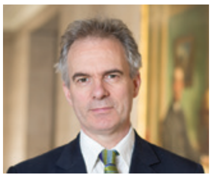
Appointed NED
1 June 2012
Term expires on
30 June 2022

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

Andrew Bailey
Governor

Appointed
16 March 2020
Term expires on
15 March 2028

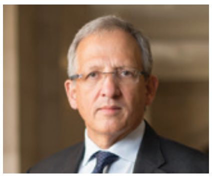
- Honorary Fellow, Queens' College, Cambridge
- Honorary Doctor of Law, Leicester University
- Member, Financial Stability Board
- Co-President, the Heart of the City of London
- Member, Group of Governors and Heads of Supervision, Basel Committee on Banking Supervision
- Member, Board of Directors,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



Ben Broadbent
Deputy Governor, Monetary Policy

Appointed
1 July 2014
Term expires on
30 June 2024

- Member, OECD Working Party No. 3



Sir Jon Cunliffe
Deputy Governor, Financial Stability

Appointed
1 November 2013
Term expires on
31 October 2023

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

Anne Glover

Appointed NED
1 June 2018
Term expires on
31 May 2022

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

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
- Steward of the Jockey Club
- Interim Chair, Genomics England
- Member, UK Holocaust Memorial Foundation

Ron Kalifa

Appointed NED
1 June 2019
Term expires on
31 May 2023

- Chairman, FutureLearn
- Council of Imperial College, London
- Non-Executive Director, England and Wales Cricket Board and The Hundred Board
- Non-Executive Director, Transport for London
- Operating Partner, Advent International
- Chairman, Network International

Diana Noble

Appointed NED
1 June 2018
Term expires on
31 May 2022

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

Frances O'Grady

Appointed NED
1 June 2019
Term expires on
31 May 2023

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

Sir Dave Ramsden
Deputy Governor, Markets and Banking

Appointed
4 September 2017
Term expires on
3 September 2022

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

Dorothy Thompson
Senior Independent Director

Appointed NED
1 August 2014
Term expires on
31 July 2022

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

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
- Financial Stability Board – Standing Committee on Supervisory and Regulatory Co-operation
- Member, Group of Governors and Heads of Supervision, Basel Committee on Banking Supervision

Policy committees

Monetary Policy Committee (MPC)

Members as at 26 May 2021*

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
Chief Economist and Executive Director
Term: 1 June 2014 – 11 June 2023

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 HM Government's economic policies, including its objectives for growth and employment.

At least once a year, HM Government updates its definition of price stability and the description of its economic policy in the MPC's remit. In March 2021, the Chancellor of the Exchequer reconfirmed the target as an inflation rate of '2 per cent as measured by the 12-month increase in the Consumer Prices Index'. The economic policy objective of the Government is 'to achieve strong, sustainable and balanced growth'. In March, the description of HM Government's economic strategy was updated to reflect the importance of environmental sustainability and the transition to net-zero economy.[1]

The MPC has nine members. Five are Bank Governors and officials, and four are external members appointed by the Chancellor of the Exchequer. An HM Treasury representative also sits with the Committee at its meetings. The Committee meets at least eight times a year to set policy and the MPC's Minutes are published alongside the Committee's decisions after each meeting. The Bank's quarterly *Monetary Policy Report* includes the MPC's projections for inflation and output.

Since February 2016 members of the MPC have been indemnified by the Bank against personal civil liability on the same terms as members of Court (see page 7).

1 www.bankofengland.co.uk/letter/2021/march/mpc-remit-2021.

* Andy Haldane will step down from the MPC after its June 2021 meeting.

Financial Policy Committee (FPC)

Members as at 26 May 2021*

Top row, left to right

Andrew Bailey
Governor, Chair of the FPC

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

Ben Broadbent
Deputy Governor, Monetary Policy

Sir Jon Cunliffe
Deputy Governor, Financial Stability

Middle row, left to right

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

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

Sir Dave Ramsden
Deputy Governor, Markets and Banking

Bottom row, left to right

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

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

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

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

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

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 7).

1 The most recent remit and recommendations is at www.bankofengland.co.uk/letter/2021/march/remit-for-the-fpc-2021.

* Alex Brazier and Donald Kohn were members of the FPC until the end of their terms on 31 March 2021. Christopher Woolard was an interim member of the FPC until 30 September 2020. Carolyn Wilkins will begin her three-year term on the FPC on 21 June 2021.

Prudential Regulation Committee (PRC)

Members as at 26 May 2021*

Top row, left to right

Andrew Bailey
Governor, Chair of the PRC

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

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

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

Middle row, left to right

Sir Jon Cunliffe
Deputy Governor, Financial Stability

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

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

Sir Dave Ramsden
Deputy Governor, Markets and Banking

Bottom row, left to right

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

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

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

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

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]

1 Available on pages 8–9 in the *PRA Annual Report 2020/21*, www.bankofengland.co.uk/prudential-regulation/publication/2021/annual-report-2021.

* The Bank of England Act 1998 provides for one member to be appointed by the Governor with the approval of the Chancellor. The Governor appointed Ben Broadbent. Ben Broadbent's PRC term differs to his Deputy Governor term. David Belsham was an external member of the PRC until 30 April 2021. Mark Yallop was an external member until 30 November 2020. Christopher Woolard was an interim member until 30 September 2020. Tanya Castel has been appointed as an external member from 1 September 2021.

- 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 7).

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

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

In March 2021, HM Treasury issued 'Recommendations for the Prudential Regulation Committee'.[1] This sets out aspects of HM Government's economic policy to which the PRC should have regard when considering how to advance its objectives, and when considering the application of the regulatory principles in FSMA.

FSMA also requires the PRA to review, if necessary revise, and publish annually its strategy in relation to how it will deliver its statutory objectives. The strategy is set by the PRC, in consultation with the Bank's Court of Directors. The PRA's strategy was published with the PRA Business Plan 2021/22 in May 2021.[2]

1 www.bankofengland.co.uk/about/people/prudential-regulation-committee.
2 www.bankofengland.co.uk/prudential-regulation/publication/2021/may/pra-business-plan-2021-22.

Our organisation

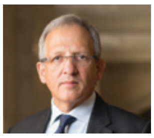
The executive and their membership, where relevant, of the MPC, FPC and PRC are indicated below.

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 3]

David Bailey
International Banks Supervision

James Bell
Communications

Sonya Branch
General Counsel

Sarah Breeden
UK Deposit-Takers Supervision

Stephen Brown
Risk

Jane Cathrall
People and Culture (Acting)

Victoria Cleland
Banking, Payments and Innovation

Jonathan Curtiss
Shared Services

Rob Elsey
Technology

John Footman
Secretary of the Bank

Lee Foulger
Financial Stability Strategy and Risk (Acting)

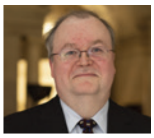
Charlotte Gerken
Insurance Supervision

Andy Haldane
Monetary Analysis and Chief Economist (MPC)

Andrew Hauser
Markets

Afua Kyei
Finance and Performance

Sasha Mills
Resolution



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

Gareth Ramsay
Data and Analysis

Victoria Saporta
Prudential Policy

Christina Segal-Knowles
Financial Market Infrastructure

Anna Sweeney
Insurance Supervision

1 The following Executive Directors commenced their appointments in 2020/21: James Bell (1 March 2021), Jane Cathrall (1 March 2021) and Lee Foulger (1 April 2021).

2 The following held Executive Director posts during 2020/21: Alex Brazier (Financial Stability Strategy and Risk, until 31 March 2021), Jonathan Curtiss (People and Culture (jobshare), until 31 March 2021), Lea Paterson (People and Culture (jobshare), until 25 January 2021) and Mike Peacock (Communications (Acting), until 30 April 2021).

3 The role of Supervisory Risk Specialists and Regulatory Operations Executive Director will not exist in its current form from 30 June 2021. Lyndon Nelson will be leaving this position 30 June 2021. A new Supervisory Risk Specialists Executive Director will be appointed.

Review of 2020/21

This Review summarises how we have worked together to make full use of the knowledge, resources and skills from across the organisation in support of our mission to maintain monetary and financial stability, and to meet our strategic goals for 2020/21 (see overleaf).

Highlights include the work done across the Bank in: responding swiftly to the impact of the Covid-19 (Covid) pandemic; preparing banks and other financial firms for the end of the transition period to a new UK-EU trading relationship; and completing our set of polymer banknotes with a new £50 note featuring the scientist Alan Turing.

Monetary policy

The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to achieve the Government's target of keeping inflation at 2%. Subject to that, it supports the economic policy of the Government, including its objectives to achieve strong, sustainable and balanced growth. To achieve this objective, part of the Government's economic strategy consists of maintaining a financial system that supports the transition to a net-zero economy.

The Covid pandemic has resulted in a large hit to spending, incomes and jobs. It has put a big strain on businesses' cash flow, and is threatening the livelihoods of many people. Spending in the economy remains below normal levels and inflation is lower than our 2% target. Consistent with our remit, the Governor has sent four open letters to the Chancellor of the Exchequer explaining why inflation has moved more than one percentage point away from target and what action the Bank is taking to bring inflation back to target.

In response to the pandemic, we have taken prompt and substantial action to help households and businesses. We have cut interest rates to 0.1%. Lower interest rates mean cheaper loans for businesses and households. That reduces the costs they face, and encourages companies to employ people and invest. To encourage banks and building societies to lower their interest rates we are offering them long-term funding at very low interest rates. Through the Covid Corporate Financing Facility we are also providing funding to businesses making a material contribution to the UK economy by offering them cash for their corporate debt. This has helped businesses across a range of sectors to pay wages and suppliers, even while experiencing severe disruption to cashflows.[1]

We are also supporting the UK economy through quantitative easing (QE). This mainly involves us lowering longer-term interest rates by buying UK government bonds (as well as a much smaller amount of corporate bonds). This helps to keep the interest rates on mortgages and business loans low. The actions we have taken should increase spending, and help push inflation back to our 2% target.

1 www.bankofengland.co.uk/markets/covid-corporate-financing-facility/annual-report-2020-21.

Our strategic goals for 2020/21

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

CLIMATE CHANGE
Facilitating a smooth climate transition through: more prolific climate reporting; more robust risk assessments; and the optimisation of investors' returns[1]

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 RENEWAL
Delivering the next generation of our core payments service

1 The Bank's climate strategy and the description of its objective was updated in April 2021; further details and the updated description are provided on page 28.

Whatever the future brings, the MPC stands ready to take whatever additional action is necessary to achieve its remit. In February 2021, the MPC requested that the Prudential Regulation Authority (PRA) engage with regulated firms to ensure they are ready to implement a negative policy rate at any point after August 2021, were the MPC to judge it appropriate in order to meet the inflation target. The MPC also asked Bank staff to commence work to reconsider the previous guidance on the appropriate strategy for tightening monetary policy should that be required in the future.

To inform our policy actions 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 things, 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 +25% in February 2021. This was down 4 percentage points from a year earlier.[1]

Colleagues from across the Bank have worked together on a number of analytical issues in support of our monetary policy remit this year. Key areas include: the potential short and long-term economic effects of Covid; the transition to a new UK-EU trading relationship; the outlook for the labour market; and spare capacity and domestic price pressures.

We recognise that we need to earn and maintain the legitimacy to perform the functions given to us by Parliament by being open, accountable and transparent. During the year, the MPC has presented evidence at 12 Parliamentary hearings, including those of the Treasury Committee and Economic Affairs Committee, and MPC members have given around 200 interviews and speeches.

In January 2021, the Independent Evaluation Office (IEO) published a review of the Bank's approach to QE.[2] The IEO set out a number of recommendations across three themes: advancing and applying technical understanding of QE; ensuring the governance and implementation of QE remain fit for the future; and building public understanding and trust in QE. The Bank welcomed the IEO review and is committed to ensuring it uses QE and its other policy tools as effectively as possible, in order to meet the inflation target.

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*.[3]

1 www.bankofengland.co.uk/inflation-attitudes-survey/2021/february-2021.
2 www.bankofengland.co.uk/independent-evaluation-office/ieo-report-january-2021/ieo-evaluation-of-the-bank-of-englands-approach-to-quantitative-easing.
3 www.bankofengland.co.uk/monetary-policy.

Financial policy

The Bank of England's Financial Policy Committee (FPC) contributes to the Bank's mission to achieve financial stability by ensuring the UK financial system is prepared for, and resilient to, the wide range of risks it could face. That way it can serve UK households and businesses in bad times as well as good.

The UK is currently experiencing unprecedented economic disruption related to Covid. UK households and businesses have needed support from the financial system to weather the economic disruption associated with the Covid pandemic. The UK financial system has so far provided that support, reflecting the resilience that has been built up since the global financial crisis, and the extraordinary policy responses of the UK authorities.

In response to the pandemic, the FPC has acted to help households and businesses. This includes: reducing the UK countercyclical capital buffer rate to 0% of banks' exposures to UK borrowers in order to support the ability of banks to supply credit; assessing the potential financing needs of the UK corporate sector in light of the economic disruption from Covid; and undertaking work to assess and address the underlying vulnerabilities in the global system of market-based finance that were exposed in March 2020.

In addition, the FPC has used stress tests to assess whether the buffers of capital that banks have built up are large enough to deal with how the stress could unfold. The August 2020 'reverse stress test' considered how severe a macroeconomic stress banks could withstand without compromising their ability to lend. Based on this, in December 2020, the FPC judged that the UK banking system had the capacity to continue to support businesses and households even if economic outcomes were considerably worse than expected.

Throughout the pandemic, the FPC has also continued work on topics in support of its financial stability remit, and will continue to do so. These include: the financial stability risks posed by disruption to the provision of financial services after the end of the UK-EU transition period; the transition away from Libor; the Bank-Financial Conduct Authority (FCA) review of open-ended investment funds; developments in the UK mortgage market; the resilience of the UK financial system to cyber-risk and the impact of systemic stablecoins on financial stability. Consistent with its remit, the FPC has committed to several key areas of work in the forthcoming year.

The FPC and Prudential Regulation Committee (PRC) will conduct a stress test of the major UK banks and building societies later in 2021.[1] The stress test will provide a cross-check on the FPC's judgement of how resilient banks are to a reasonable worst-case stress in the current environment and will support the PRA's objective of promoting the safety and soundness of regulated firms. In addition, the Bank will use its 2021 biennial exploratory scenario to explore the financial risks posed by climate change. The exercise will test the resilience of the current business models of the largest banks, insurers and the financial system to climate-related risks and therefore the scale of adjustment that will need to be undertaken in coming decades for the system to remain resilient.

Strategic goal:

Brexit
Maintaining monetary and financial stability during Brexit and beyond

1 This will involve the usual 'annual cyclical scenario' banks: Barclays, HSBC, Lloyds Banking Group, Nationwide, NatWest Group, Santander UK and Standard Chartered, and, for the first time, Virgin Money UK.

To help limit the degree of economic scarring caused by Covid, work to increase the supply of longer-term, equity-like financing is increasingly important. The Bank, with HM Treasury and the FCA, has launched an industry working group to facilitate investment in productive finance. The working group's overall objective is to propose concrete solutions to barriers to long-term investment. This includes proposing a roadmap, timetable and set of actions for firms and others to implement those solutions.[1]

Building on the August 2020 *Financial Stability Report*, the FPC will publish a more detailed assessment of the risk oversight and mitigation systems for the non-bank financial sector as requested in HM Treasury's 2020 remit letter to the Committee. Where appropriate, the assessment will identify gaps in resilience in the non-bank financial sector and the potential measures that may be taken to increase resilience.

During the year, the FPC has presented evidence at seven Parliamentary hearings, including those of the Treasury Committee, and FPC members have given around 70 interviews and speeches. The work of the FPC is set out more fully in the twice-yearly *Financial Stability Report* and in the records of the FPC's quarterly policy meetings.[2]

Prudential regulation

The PRC contributes to the Bank's mission to achieve financial stability through its responsibility for the prudential regulation and supervision of around 1,400 banks, building societies, credit unions, insurers and major investment firms.

The 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.

Over the past year, a significant priority for the PRA has been adapting to the impact of Covid both internally and on the financial sector by pivoting to reprioritise the PRA's work, update prudential policies and bring temporary measures into place to help firms and the UK economy. In support of this, the PRA has explored the resilience of firms' IT arrangements necessitated by Covid, including the resilience of remote-working technologies, the impact on IT change programs, the strength of IT control environments and business continuity plans for critical operations. Dates were also extended for the major UK banks and building societies to submit their first reports on preparations for resolution to reduce operational burdens on PRA-regulated firms at a time of potentially severe disruption.

Another important focus has been the implementation of post-EU withdrawal measures. The PRA has made preparations to retain and convert EU legislation into operable UK legislation as part of its 'Nationalising the Acquis' work, and continued to support firms in transitioning to the new landscape, as well as provided technical support to HM Government including in relation to the technical agreement by HM Treasury and the European Commission on a Memorandum of Understanding on Financial Services Regulatory Co-operation. Additionally, the Temporary Permissions Regime, which commenced at the end of the transition period, provided continuity for UK users serviced by European Economic Area firms while those firms seek permanent status in the UK.

1 www.bankofengland.co.uk/financial-stability/working-group-on-productive-finance.
2 www.bankofengland.co.uk/financial-stability.

Alongside this, the PRA has continued to carry out its core functions of assessing the financial resilience of firms through supervision at firm and sector level, and ensuring that insurers maintain capital for balance sheet risks arising from complex products and asset exposures, such as illiquid unrated assets.

The PRA has also published its revised policy on Pillar 2A (Reconciling Capital Requirements and Macroprudential Buffers), and joint Policy Statements with the Bank and the FCA on operational resilience following an extended consultation period, alongside updated policy on outsourcing and third-party risk management. And in the field of regulatory technology, the PRA created a number of 'proof of concepts' to meet the commitments made on delivering a world-class RegTech and data strategy.

More detail on these and other activities will be provided in the PRA's *Annual Report*, published in June 2021.

Financial market infrastructures firms (FMIs)

The FMIs we supervise – payments systems, central securities depositories and central counterparties – are critical to the smooth operation of the UK financial system. We use them when we make payments to and from our bank accounts or buy goods and services, and they also help financial market participants to manage risk. Over the past year, our supervision of FMIs has focused on three significant challenges: the impact of Covid; continuing innovation in payments; and preparations for the end of the transition period following the UK's withdrawal from the EU. The Bank's response helped ensure that UK FMIs continued to perform effectively in the face of market turbulence, changing consumer behaviour and operational challenges.

We have also continued to deepen our supervisory co-operation with international counterparts. In October 2020, we agreed a Memorandum of Understanding with the US Commodity Futures Trading Commission in relation to central counterparties supervision.[1] In September 2020, we also concluded a Memorandum of Understanding with the European Securities and Markets Authority. These agreements are designed to facilitate deep supervisory co-operation, ensuring clear and stable reciprocal arrangements for supervising cross-border FMIs.

More detail on these and other activities is provided in the Bank's *Supervision of FMIs Annual Report*, which was published in December 2020.[2]

1 www.bankofengland.co.uk/news/2020/october/cftc-boe-sign-new-mou-for-supervision-of-cross-border-clearing-organizations.
2 www.bankofengland.co.uk/news/2020/december/supervision-of-financial-market-infrastructures-annual-report-2020.

Resolution

Strategic goal:

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

Ensuring banks do not fail in a disorderly manner is a key element in delivering our mission to maintain financial stability. We have powers to manage bank failure in an orderly way, designed to protect financial stability and keep key banking services operating, while protecting public funds. In response to the Covid outbreak, the Bank and PRA announced measures aimed at alleviating operational burdens on firms.

In July 2019, we published the last major piece of the UK's bank resolution regime. The Resolvability Assessment Framework (RAF) is an important step in enhancing the credibility and transparency of the regime and in delivering the Bank's commitment to Parliament that major UK banks should be resolvable by 2022.[1]

Every two years major banks must submit a report on their preparations for resolution to the PRA. These banks must also publish a summary of their resolution report, and the Bank will make a public statement concerning each bank's resolvability.[2] The first reports are due in October 2021 following a one-year delay to the start of the reporting cycle as part of the measures aimed at alleviating operational burdens on firms in response to the Covid pandemic.

In February 2021, our Deputy Governor for Markets and Banking, Dave Ramsden, sent a public letter to major bank CEOs to emphasise the importance we place on this exercise, and in particular that it is critical that firms take responsibility for ensuring their own resolvability. In October 2020 the Bank and the PRA consulted on a package of changes to update our Operational Continuity in Resolution policy, which forms part of the RAF. We anticipate that these changes will be finalised shortly. In addition to the RAF, the Bank has published the interim minimum requirement for own funds and eligible liabilities (MREL) that we currently require each UK-headquartered firm with an MREL above minimum capital requirements to maintain, as well as an indication of the end-state MRELs that firms will have to meet.[3]

In December 2020, we published a Discussion Paper as the first part of a review in the approach to setting MREL aimed at opening a broad dialogue with stakeholders around the lessons which have been learnt for MREL policy since the publication of the Statement of Policy in 2016.[4] We also announced changes to the MREL and resolvability deadlines for mid-tier banks to accommodate engagement with interested parties.

1 www.bankofengland.co.uk/paper/2019/the-boes-approach-to-assessing-resolvability.
2 www.bankofengland.co.uk/quarterly-bulletin/2020/2020-q4/the-resolvability-assessment-framework.
3 www.bankofengland.co.uk/financial-stability/resolution/mrels.
4 www.bankofengland.co.uk/paper/2020/boes-review-of-its-approach-to-setting-mrel.

Financial markets

The Bank's role in financial markets is centred on implementing monetary policy and maintaining financial stability. Our Markets area manages the Bank's balance sheet, implements the policy decisions of the MPC, provides liquidity insurance to the financial system, and manages HM Government's foreign currency and gold reserves.

Strategic goal:

Fair and Effective Markets
Catalysing reforms in financial markets

Financial markets have a crucial part to play in the economy as they underpin borrowing costs, exchange rates, and the cost of food and raw materials. They also help households and businesses manage financial risks and investments. So it is important that these markets function in a fair and effective way, and that market practitioners are held to the highest standards.

Our work in this area stems from the Fair and Effective Markets Review (FEMR), which was published jointly by the Bank, the FCA and HM Treasury in June 2015.[1] Since then, we, in collaboration with other public bodies and market participants, have strengthened individual accountability, improved market standards and embedded a forward-looking approach to fixed income, currency and commodities markets.[2]

One of the catalysts for FEMR was the attempted manipulation of Libor and other benchmark interest rates in the financial crisis of 2008–09. We have made it clear that a reliance on Libor poses a risk to financial stability and that firms need to end the use of Libor in new contracts before the end of 2021. To meet that aim, we are working with private sector market participants to catalyse a broad-based transition away from Libor and towards the preferred risk-free rate: in sterling that is the Sterling Overnight Index Average (SONIA).

We are now coming near to the end of that process. In March 2021, the FCA confirmed that all Libor settings, bar some US dollar rates, will either cease to be provided by any administrator or no longer be representative after end-2021. Since September 2020, all customers discussing new or refinanced lending with their banks should have been offered a non-Libor alternative. For customers unable to avoid using Libor in the near-term, these loans should include a clear mechanism to ensure they are converted to an alternative benchmark ahead of end-2021.

While redirecting new business away from Libor is a critical step in transitioning towards alternative benchmarks, we must also ensure that Libor-linked business from the past is made safe too. Much of this business lies in the hundreds of trillions of dollars of Libor derivatives contracts stretching beyond end-2021. In October 2020, the International Swaps and Derivatives Association issued a fallback protocol which provides a fair and robust mechanism for these derivative contracts to convert to alternative benchmarks.

One role we play in transitioning away from Libor is our responsibility for producing the SONIA interest rate benchmark. In August 2020, to support and accelerate the adoption of SONIA as a reference rate in sterling markets, we began publishing a daily SONIA Compounded Index. The publication of a SONIA Compounded Index was welcomed by market participants and has been seen as a positive step in the transition from Libor. 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.

1 www.bankofengland.co.uk/report/2015/fair-and-effective-markets-review---final-report.
2 www.bankofengland.co.uk/report/2018/fair-and-effective-markets-review-progress-report.

Financial technology (FinTech)

Developments in 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 in response we are also changing to ensure we 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.

Following the publication of the Van Steenis review of the future of the UK's financial system in June 2019, we committed to work on five key areas.[1]

Enhancing the payments system for the digital age

To 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 (page 25).

Championing a platform to boost access to finance for small businesses

To support the development of an open platform for small and medium-sized enterprise (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. 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.[2]

Supporting a transition to a carbon-neutral economy

To 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 (page 27).

Developing a world-class regtech and data strategy

To embrace new technologies to improve our efficiency and effectiveness as a regulator, and deliver benefits to financial services firms and the real economy. We are working to deliver a world-class regtech and data strategy that will identify and implement improvements in our collection and 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.

Strategic goal:

FinTech
Embracing FinTech to deliver our mission

1 www.bankofengland.co.uk/research/future-finance.
2 www.bankofengland.co.uk/paper/2020/open-data-for-sme-finance.

In February 2021 we published our Data Collection Transformation Plan, setting out our vision and approach to delivering improvements in data collection over the next decade.[1] The Plan responds to the rapid technological advances and increased automation that mean that more data than ever before is being created and captured, putting strains on existing reporting and collection processes. The Plan aims to ensure that the Bank gets the data it needs to fulfil its mission, at the lowest possible cost to industry. The Transformation Plan sets out the issues facing parties involved in the current data collection process, and lays out a vision, reforms and set of next steps that aim to address those issues. Central to the next steps of the transformation plan is the creation of a joint work programme with the FCA and industry.

Facilitating firms' use of technology to increase their operational resilience

To examine 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.

One key area of work this year has been in collaboration with the Post-Trade Technology Market Practitioner Panel. The Panel brings together industry experts in active post-trade processing to explore how market participants can leverage technological improvements to deliver a more efficient and resilient post-trade ecosystem. In June 2020, the Panel published a report that identified a number of particularly time-consuming, costly, or unreliable aspects of post-trade processes and prepared case studies for actions that could alleviate some of these pinch points.[2] Enacting meaningful change to address these issues will take sustained and co-ordinated effort. To make further progress on improving the efficiency and resilience of post-trade and related processes, the Panel established a Post-Trade Task Force to take forward its work, including a review of the co-ordination mechanisms available to implement next steps for the industry.

Another area of work this year has centred on Artificial Intelligence (AI) innovation and exploring whether principles and guidance could support safe adoption of these technologies. In October 2020, the Bank and the FCA launched the Artificial Intelligence Public Private Forum. The purpose of the Forum is to facilitate dialogue between the public and private sectors to better understand the use and impact of AI in financial services, which will help further the Bank's objective of promoting the safe adoption of this technology. The Forum, which is expected to run for one year, will consist of a series of quarterly meetings and workshops structured around three topics: data, model risk management and governance.

1 www.bankofengland.co.uk/news/2021/february/data-collection-transformation-plan.
2 www.bankofengland.co.uk/report/2020/the-future-of-post-trade.

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 and settles over £700 billion of electronic payments on average each working day.

Strategic goal:

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

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. We have already made progress in widening access to our RTGS service to include non-bank payment services providers (NBPSPs) and there are now half a dozen NBPSPs that hold settlement accounts in RTGS, with more set to join. Moreover, to support ongoing industry innovation, we have introduced an omnibus account model which allows the Bank to support a wide range of payment systems. This will allow those payment systems to offer innovative services, while having the security of central bank money settlement.

The renewed RTGS will allow greater flexibility around future operating hours, with the capability to support near 24/7 operation if industry demand is sufficient. This will help align operating schedules between RTGS systems internationally as proposed in the Financial Stability Board's (FSB's) Roadmap to enhance cross-border payments.[1] We will consult on the long-term roadmap for the renewed RTGS, including extended operating hours, by 2022 Q1.

We have also committed to adopting the harmonised ISO 20022 messaging format in recognition of the benefits of greater interoperability. Adopting common message formats can play an important role in the interlinking of payment systems and addressing data quality and quantity restrictions in cross-border payments. It can also enhance automated straight-through processing functionalities, supporting quicker and more efficient payments. As part of this work, we are also looking to introduce Legal Entity Identifiers for payments between financial institutions.[2]

We are currently living in a period of significant change in money and payments. The transactional 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).[3] A 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 received valuable feedback from across the payments industry, technology providers, academics and public authorities and are now considering our response. To co-ordinate the exploration of a potential CBDC, the Bank and HM Treasury have announced the joint creation of a CBDC Taskforce. The Taskforce will promote close co-ordination and ensure a strategic approach is adopted between the UK authorities as they explore a CBDC in line with their statutory objectives. The Taskforce will be supported by two Forums that seek to engage stakeholders and gather input on all aspects of designing, implementing and operating a CBDC.

1 www.fsb.org/2020/10/enhancing-cross-border-payments-stage-3-roadmap/.
2 www.bankofengland.co.uk/bank-overground/2020/legal-entity-identifiers-the-code-to-a-digital-economy.
3 www.bankofengland.co.uk/paper/2020/central-bank-digital-currency-opportunities-challenges-and-design-discussion-paper.

We have also contributed to a joint report with the Bank of International Settlements (BIS) and six other central banks that set out three key principles for a CBDC. These principles are that a CBDC should: coexist with cash and other types of money in a flexible and innovative payment system; support wider policy objectives and do no harm to monetary and financial stability; and promote innovation and efficiency. We will continue to work with the BIS and other central banks without prejudging any decision on whether or not to introduce a CBDC.

Stablecoins are digital tokens that claim to maintain a stable value relative to existing forms of money. To be successful as a way of making payments, they must meet standards that ensure they are as safe as existing forms of money. The FPC, along with many authorities internationally, is considering how the regulatory system should adapt to the emergence of stablecoins, while supporting innovation, in an efficient way. It is also considering the potential effects on financial stability more broadly if stablecoins were to be adopted widely.

Strategic goal:

Operational resilience
Building greater operational resilience in the financial system

Operational resilience

Operational resilience refers to the ability of firms and the financial system as a whole to absorb and adapt to shocks, rather than contribute to them. Our role as a regulator of financial organisations and financial market infrastructure means that we have an important part to play in improving operational resilience of firms as a key step in maintaining financial stability and confidence in the UK banking system. Firms must have plans in place to deliver essential services, no matter what the cause of the disruption. This includes man-made threats such as physical and cyber-attacks, IT system outages and third-party supplier failure as well as natural hazards such as fire, flood, severe weather and pandemics.

The importance of operational resilience has been underlined by the challenges posed to FMIs by Covid. We continue to assess FMIs' risk profiles, risk appetites and controls to ensure new risks are effectively identified and mitigated. In December 2019 the Bank, PRA and FCA published a set of proposals to further improve the operational resilience of FMIs. The consultation period closed in October 2020, following an extension to take account of Covid. The proposals set our expectations that firms identify the most important services they provide to their customers; set impact tolerances for these services; and test their ability to stay within these impact tolerances, prioritising investment to build resilience where necessary.

An important element of the supervision of central counterparties' (CCPs) financial resilience is to ensure that they can withstand extreme market events. We have conducted a pilot exercise with UK CCPs to understand the relevant data requirements and analytical processes, and a project is now under way informed by the pilot to prepare for the first supervisory stress test. We have also supported the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) in their work on CCPs' default management auctions. This is a tool that allows CCPs to transfer a defaulting participant's positions to non-defaulting participants. The CPMI-IOSCO report was published in June 2020 and outlines issues that CCPs should consider regarding default management auction processes together with practices to address those issues.[1]

1 www.bis.org/cpmi/publ/d192.htm.

Climate change

Climate change is relevant to the Bank's mission to promote the good of the people of the United Kingdom by maintaining monetary and financial stability, as the physical effects of climate change (eg sea-level rises and more frequent severe weather events) and the transition to a net-zero economy (eg changes in government policy and consumer preferences) create financial risks and economic consequences. These risks and consequences can affect the safety and soundness of the firms we regulate, the stability of the wider financial system, and can be relevant for the conduct of monetary policy. For these reasons the risks from climate change and the transition to a net-zero economy continue to be a strategic priority for the Bank.

During 2020/21 we have continued to address these challenges actively through an ambitious climate work programme covering both our external policy functions and our own internal operations. In particular, over the past year we have made significant progress through the development of climate scenarios for use by central banks and supervisors, as well as working with industry to publish practical guides on climate-related risk management, and with the Joint HM Government-Regulator Taskforce on Climate-related Financial Disclosure (TCFD) to publish a roadmap for mandatory climate disclosure requirements in the UK. In addition, we have made further progress in the analysis and management of emissions from our own physical operations and financial asset portfolios, and we are, for the first time, making a commitment to target net-zero greenhouse gas emissions from our physical operations no later than 2050, consistent with the Climate Change Act (2008).

In line with our supervisory expectations of banks and insurers, and following the framework and recommendations set out by the FSB's TCFD, we are voluntarily disclosing our own approach to climate risk management across our operations as part of our annual reporting.[1] Our 2021 climate disclosure report is published alongside this *Annual Report*.[2] This builds on our first climate disclosure report, published in June 2020, for which the Bank received the Green Initiative award from Central Banking Awards 2021 in recognition of the report's ambitious scope and impact.[3]

Governance and Strategy

We embed considerations of climate issues within our existing governance structures, complemented by climate-specific governance and risk processes. Progress this past year includes: allocation of the Senior Management Function for climate-related risks to the Executive Sponsor for climate change, Sarah Breeden;[4] launch of a forum for Executive Directors within the Bank to discuss climate-related issues; and the addition of climate-related risk as a 'key risk' within the Bank's risk management framework (see page 51).

Strategic goal:

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

1 This includes reporting on the Bank's own operations and its financial asset portfolio, including the Bank of England Asset Purchase Facility Fund (BEAPFF). It excludes purchases of commercial paper (CP) on behalf of HM Treasury between March 2020 and March 2021 as part of the Covid Corporate Financing Facility (CCFF), given all CP held by the CCFF was and remains of less than 12 months' maturity. The facility is scheduled to close in March 2022 at the latest.
2 www.bankofengland.co.uk/prudential-regulation/publication/2021/june/climate-related-financial-disclosure-2020-21.
3 On 15 March 2021, the Bank of England received the 'Green Initiative' award from Central Banking; www.centralbanking.com/awards/7806901/green-initiative-bank-of-england.
4 Although not within scope of the Senior Manager Regime framework, we voluntarily comply with its core principles; www.bankofengland.co.uk/about/people/senior-managers-regime.

Recognising the risks posed by climate change to its mission, the Bank has designated its work on climate change to be one of its key strategic priorities over the next three years. The objective of our work on climate change is to 'play a leading role, through our policies and operations, in ensuring the financial system, the macroeconomy, and the Bank are resilient to the risks from climate change and supportive of the transition to a net-zero economy'. The key goals of our strategy, set out in further detail in our climate disclosure report, are to play our part in:

1. ensuring the financial system is resilient to climate-related financial risks;

2. supporting an orderly economy-wide transition to net-zero emissions;

3. promoting adoption of effective TCFD-aligned climate disclosure;

4. contributing to a co-ordinated international approach to climate change; and

5. demonstrating best practice through our own operations.

The following sections set out how this strategy is executed to manage climate-related risks within our policy remits and across our operations.

Managing risks in line with our remit

Climate-related financial risks have a direct impact on the delivery of the Bank's core policy objectives. The importance of this work has been recognised by HM Government in updates to the remits and recommendations (where applicable) of all three of the Bank's policy committees, setting out HM Government's economic strategy to now include a 'transition to an environmentally sustainable and resilient net-zero economy'. Each Committee has contributed to the Bank's climate agenda:

Prudential Regulation Committee (PRC) – in April 2019, the PRA published supervisory expectations to enhance banks' and insurers' management and governance of the financial risks from climate change.[1] This was followed in July 2020 by a 'Dear CEO' letter, which supplemented the original supervisory expectations, adding that firms should have fully embedded their approaches to managing climate-related financial risks by the end of 2021. The letter also sets out the PRA's observations from its thematic reviews of firms' plans to date and provided examples of good practice.[2] Also in June 2020, the Climate Financial Risk Forum, an industry forum co-chaired by the PRA and FCA, published a practical guide for the financial sector on climate risk management, scenario analysis, disclosure and innovation.[3]

1 www.bankofengland.co.uk/prudential-regulation/publication/2019/enhancing-banks-and-insurers-approaches-to-managing-the-financial-risks-from-climate-change-ss.
2 www.bankofengland.co.uk/prudential-regulation/letter/2020/managing-the-financial-risks-from-climate-change.
3 www.bankofengland.co.uk/climate-change/climate-financial-risk-forum.

The PRA has also worked closely with HM Government and other regulators to examine the most effective way to approach climate-related financial disclosure. In November 2020, this culminated in the Joint HM Government-Regulator TCFD Task Force's announcement that it intends to make TCFD-aligned climate disclosures mandatory across the UK economy by 2025, with a significant portion of mandatory requirements in place by 2023.[1]

Financial Policy Committee (FPC) – jointly with the PRC, the FPC decided to undertake a pioneering climate scenario exercise – the Climate Biennial Exploratory Scenario (CBES) – to explore the resilience of individual banks, insurers, and the wider UK financial system under three different climate scenarios. The goals of the exercise are to size the financial exposures to climate change, to examine where business models are vulnerable, and to drive improvements in risk management. The CBES draws on the climate scenarios produced by the international central banks and supervisors Network for Greening the Financial System (NGFS).[2] Results from the CBES exercise are expected to be published in 2022 Q1.

Also in support of the FPC's objectives, together with HM Treasury and the FCA, the Bank announced it would convene an industry technical working group to facilitate investment in productive finance. This work could help unlock capital that benefits productive and sustainable investment in areas such as renewable energy infrastructure and green technologies.[3]

Monetary Policy Committee (MPC) – following the March 2021 update to the MPC's remit, the Bank will adjust its approach to purchasing corporate bonds through the Corporate Bond Purchase Scheme (CBPS), a portfolio held for monetary policy purposes, to take into account the climate impact of issuers. Further information on the Bank's proposed approach can be found in the Discussion Paper '*Options for greening the Corporate Bond Purchase Scheme*' published on 21 May 2021.[4]

International collaboration – we actively promote collaboration on climate-related risks across international fora. This includes our work as a founding member of the NGFS and the Sustainable Insurance Forum, and close collaboration with the FSB, the Basel Committee on Banking Supervision, the International Monetary Fund, and other international bodies. We are also supporting climate-related work across the G7, G20 and the UN COP26 conference.

Managing risks across our operations

We monitor exposure to climate change and how it could impact the resilience of both our financial and physical operations. The process for managing these risks will continue to develop as our collective understanding of underlying risks, and the associated disclosures and metrics, evolve. Key risk areas identified include:

1 www.gov.uk/government/publications/uk-joint-regulator-and-government-tcfd-taskforce-interim-report-and-roadmap.
2 The Bank's Executive Sponsor for climate change, Sarah Breeden, is chair of the NGFS Macrofinancial workstream. The climate scenarios produced by the workstream are being used in climate scenario exercises by several central banks.
3 www.bankofengland.co.uk/financial-stability/working-group-on-productive-finance.
4 www.bankofengland.co.uk/paper/2021/options-for-greening-the-bank-of-englands-corporate-bond-purchase-scheme.

Financial asset holdings – the largest proportion (97%) of assets in our non-current financial asset portfolios are held in a separate legal vehicle known as the Bank of England Asset Purchase Facility Fund (BEAPFF), indemnified by HM Treasury, to implement the MPC's asset purchase programme. Of this, 98% is invested in UK sovereign government bonds ('gilts') and so the carbon footprint of the Bank's financial holdings is broadly aligned with that of the UK itself. The weighted average carbon intensity (WACI) of the gilt holdings is 222 tonnes of CO_2 equivalents per £ million GDP (tCO_2e/£m GDP). This figure is 3% lower year on year and materially below the WACI of a comparable reference portfolio of G7 nations (384 tCO_2e/£m GDP)[1] – though like others it is as yet not aligned with Paris goals.

The remaining 2% of assets held comprise the Asset Purchase Facility's corporate holdings, which is made up of corporate bonds purchased in proportion to total outstanding issuance across eligible sectors. Consequently, the emissions associated with these holdings are broadly reflective of the emissions profile of the UK sterling corporate bond market. The WACI of these holdings is 251 tonnes of CO_2 equivalents per £ million of revenue (tCO_2e/£m revenue), a year-on-year fall of 9%, primarily reflecting broad decarbonisation across the economy. Within this, there is variation in performance of companies and sectors. An assessment of the holdings across a range of forward-looking metrics suggests that the portfolio as a whole is still not on track to meet climate goals – again reflecting the broader trajectory of the UK sterling corporate market. As noted above, the Bank will adjust its approach to purchasing corporate bonds through the CBPS to take into account the climate impact of issuers and so to incentivise companies to change their behaviours in meaningful and lasting ways that support an orderly transition of the UK economy to net-zero emissions by 2050.

As well as these metrics on emissions, the report again covers estimates of transition and physical risk facing our financial asset holdings, along with, for the first time, illustrative metrics that aim to translate climate risk into measures of financial risk. We plan to update these as data and methodologies develop further in this area.

Counterparty exposures – we continue to incorporate climate-related risks into our counterparty exposure assessments and management processes.

Collateral holdings – we accept a wide range of collateral in our market operations, and include climate-related risk considerations in our underlying due diligence processes.

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, who are independent of the Bank's executive, support the TCFD and aim to incorporate its recommendations into the fund's reporting as far as practicable. They will publish their own TCFD-aligned disclosure from 2022.

1 This year the sovereign WACI are calculated using new data from the United Nations Framework Convention on Climate Change and the World Bank and so the figures stated here are not directly comparable to those presented in last year's *Report*. We have presented the WACI metrics from last year's *Report* using this data set for comparison later in the document.

Carbon footprint of our physical operations – we are on track to meet our ambitious target to reduce the Bank's own carbon emissions by 63% from 2016 to 2030, covering Scope 1 emissions, Scope 2 emissions and travel emissions. This year we have seen a 74% reduction in our targeted emissions, exceeding our target for 2030. This reduction was primarily driven by the purchase of renewable electricity and a temporary fall in air travel due to Covid. Although we expect our emissions to continue to decline over time in line with our target and recent trends, we expect emissions will rebound to some degree in 2021 as Covid restrictions are relaxed and some air travel resumes.

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 March 2021, we unveiled the design of the new £50 note featuring Alan Turing. It will enter circulation on 23 June 2021 and will complete our polymer set of banknotes. The note incorporates two windows and a two-colour foil, making it very difficult to counterfeit. There is also a hologram image which changes between the words 'Fifty' and 'Pounds' when tilting the note from side to side. Like the polymer £10 and £20 notes, the £50 note contains a tactile feature to help visually impaired people identify the denomination. In October 2020, we announced that we have extended our contract with De La Rue to print all our banknotes until 2028. The contract extension will enable us to continue to develop our facility at Debden as a global centre of excellence for banknote printing.

In September 2020, the National Audit Office (NAO) published a report into the production and distribution of cash, looking at both banknotes and coins.[1] The report examined the role played by HM Treasury, the Bank, the Royal Mint, the Payment Systems Regulator and the FCA in operating and overseeing the cash system at a time when use of cash in transactions is declining. We welcome the NAO report and are committed to supporting cash as a viable means of payment for as long as the public wants to use it. One way we are delivering on that commitment is via our role as chair of the Wholesale Distribution Steering Group, comprising relevant stakeholders in the cash industry, who are working to design a new end-state model for wholesale cash distribution. We are confident that an effective and sustainable model can be designed which continues to support cash, encourages innovation and guarantees resilience even in a lower cash-usage environment.

Value for money

We constantly strive to provide value for money. Three years ago, we set ourselves a self-imposed cost-constrained budget for our ongoing run and investment costs (excluding pensions, note production, subscription fees to the European Supervisory Authorities, redundancy provisions and the RTGS Renewal programme). We have been able to successfully hold these costs flat in real terms for three consecutive years, despite broadening the scope of our mission, including meeting major new demands arising from EU withdrawal.

1 www.nao.org.uk/report/the-production-and-distribution-of-cash/.

Our response to the Covid pandemic's impact on the UK economy has required us to continually assess and prioritise our policy and operational activities throughout the year in order to deliver our mission, while supporting the welfare of our colleagues and effectively managing our costs. We succeeded in doing so in 2020/21 while staying within the budget agreed before the outbreak of the pandemic.

Looking ahead, the scope of the Bank's responsibilities is increasing materially and durably, for example in relation to the post-Brexit context, and expanded statutory remits on the regulation of financial firms. As such, the Bank's budgetary outlook for 2021/22 is set to depart from the historical flat real constraints, to reflect this new reality. This will be controlled by appropriate performance and value-for-money benchmarks, as well as the development of a multi-year strategic prioritisation framework.

Strategic goal:

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

Performance and cost benchmarking

The pandemic has presented both challenges and opportunities for our Central Services transformation programme. Remote working and productivity challenges presented by lockdown and the closure of schools has required some reprioritisation and has impacted the delivery schedules of a number of our initiatives, including our Data Centre Migration and One Bank Service Transformation programmes (see below). However, we have worked closely with staff and our delivery partners to re-baseline these delivery schedules and mitigate unnecessary costs.

Following the NAO's report in 2018, we have continued to focus on benchmarking Central Services functions on performance and costs and now systematically measure and report our progress across nine benchmarked metrics to our Court of directors on a quarterly basis. This progress has been monitored and reviewed by the Audit and Risk Committee.

Strategic initiatives

Our Data Centre Migration programme, which will move all systems from our existing data centres into new fit-for-the-future environments, achieved a significant milestone in February 2021, with the successful migration of some of the Bank's critical systems to the new data centre infrastructure, which will provide a modern, secure, cost effective and resilient environment for the Bank's technology estate for many years. The migration of the remainder of the Bank's applications will continue throughout 2021 and early 2022.

The implementation of the first phase of the Bank's One Bank Service transformation programme, which seeks to simplify all our HR and Finance processes, has also reached its final stages of testing and we expect the new HR and payroll capabilities to be implemented later this year. We have continued to invest in our cyber security capabilities during the past year, given the ever-changing threat landscape, and have strengthened our collaboration with the National Cyber Security Centre.

While the proposed sale of our Roehampton sports centre was delayed in 2020 due to the pandemic's impact on the sports and leisure industry, we have been pleased to be able to offer use of our premises to support volunteering organisations such as The Scrubbery (formerly called 'For the Love of Scrubs'), who have been making scrubs for NHS workers throughout the pandemic and have been based at our sports centre in Roehampton since July 2020. Meanwhile, we have been continuously monitoring the external environment and will adapt our strategy as required.

Despite the challenges presented by the pandemic, we have seized opportunities presented by remote working to expedite the modernisation of our Threadneedle Street building and to support our strategy to optimise our central London property footprint. We have also accelerated our implementation of enhanced collaboration and video conferencing capabilities to support a more distributed and agile workforce.

We are also proud to have been recognised for the progress made on our sustainability agenda in the past year, which, as mentioned earlier, included winning the Central Banking 'Green Initiative' award for our climate-related financial disclosure report published in June 2020, which encompassed both our operations and key policy portfolios and also winning the Institute of Environmental Management and Assessment's 'Sustainability Impact Award' for Sustainable Procurement in November 2020. We will continue putting sustainability at the heart of our policy and operational decision making in the coming year and, as such, have recognised its importance as one of Central Services' strategic priorities.

Our strategic priorities for 2021–24

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

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

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

Our strategic priorities for 2021–24

Ready our policy toolkit and balance sheet for the future to ensure we can continue to meet our monetary and financial stability objectives

Proactively prepare for emerging risks in the financial system

Establish a robust regulatory regime for a post-Brexit world

Shape and deliver the future of payments

Respond to the challenge of climate change

Build a diverse and inclusive Bank

Modernise the Bank's ways of working

Financial review 2020/21

Financial statements highlights

The table below presents highlights of the combined 2021 financial statements. Further explanation and commentary is provided below.

Financial statement highlights

	2021 £m	2020 £m	Movement £m
Balance Sheet			
Combined balance sheet[1]	945,718	597,910	347,808
Cash Ratio Deposits	11,153	8,790	2,363
Notes in circulation	84,692	74,422	10,270
Loss-absorbing capital[2]	3,475	3,504	(29)
Funded pension scheme net assets	1,154	1,174	(20)
Off balance sheet: FLS	142	1,455	(1,313)
On balance sheet: TFS	39,451	107,209	(67,758)
On balance sheet: TFSME	75,412	–	75,412
Income Statement			
Combined income	775	767	8
of which:			
Income from PRA regulatory activity	*278*	*271*	*7*
CRD income	*130*	*131*	*(1)*
FLS income	*1*	*12*	*(11)*
Combined expenditure[3]	703	639	64
Combined profit before tax	72	128	(56)
Payment in lieu of dividend to HM Treasury	–	45	(45)
Other items of note			
Net seigniorage income paid to the National Loans Fund	62	555	(493)
TFS income[4]	103	866	(763)
TFSME income[4]	34	–	34
Income statement net surplus/shortfall from policy functions[5]	(45)	(36)	(9)
Average number of employees (headcount)	4,437	4,395	42

1 Banking Department total assets (£939,550) + Issuing Department total assets (£84,692) – Issue Department deposit with Banking Department (£78,524).

2 See page 38.

3 See page 40.

4 Term Funding Scheme (TFS) income reflects Bank Rate received on the TFS loans, and excludes any penalty fees, which are transferred to the Bank of England Asset Purchase Facility Fund (BEAPFF), following an agreement that BEAPFF Ltd continue to receive TFS scheme fees after the transfer of the scheme from BEAPFF to the Bank. The Bank treats scheme fees as an agent, collecting the fees from counterparties and passing them over to BEAPFF Ltd when they are received, and does not recognise them as income. Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises (TFSME) income reflects Bank Rate on TFSME loans, with no penalty fees receivable in the year. TFS and TFSME income are net interest income and capital neutral as Bank Rate income is offset by the Bank's liabilities on the corresponding reserves created. Unlike for the TFS, any future TFSME penalty fees would be retained by the Bank as income.

5 The Cash Ratio Deposit (CRD) scheme is reviewed at least every five years and was most recently updated in 2018. It is intended to result in policy income and expenditure breaking even over the five-year cycle. In an environment of sustained low gilt yields, income on CRD investments can fall short of policy expenditure and thus lead to a shortfall. The Bank is considering options to close this shortfall. As part of the last review of the Cash Ratio Deposit Scheme in 2018, the Government committed to monitor the effectiveness of the Scheme and conduct a further formal review within five years.

Balance sheet movements

The combined balance sheet grew by £347.8bn in 2021. The largest movement in assets was an increase in 'Loans and advances' of £342.9bn, primarily attributable to an increase in the loan to the Bank of England Asset Purchase Facility Fund (BEAPFF), which has been made to facilitate the purchase of assets for quantitative easing (QE). 'Cash ratio deposits' (CRD) required by banks increased due to their indexing to gilt yields, however the increase was still insufficient to prevent a growing shortfall (from £36m to £45m) in the CRD scheme's recovery of policy expenditure. In addition, the reduction in the Bank's 'loss-absorbing capital' (LAC) was due to an increase in intangibles, which reduced LAC below the £3.5bn threshold for payment in lieu of dividend to HM Treasury. As such, and in line with the capital framework codified in the Memorandum of Understanding on the Financial Relationship between HM Treasury and the Bank, no dividend payment was made. The Bank is considering options to close this shortfall. As part of the last review of the CRD Scheme in 2018, HM Government committed to monitor the effectiveness of the Scheme and conduct a further formal review within five years. Securities lent under the Funding for Lending Scheme (FLS) scheme reduced to £142m as the scheme reaches maturity. Term Funding Scheme (TFS) balances also reduced year on year as a result of the scheme winding down. However in March 2020 the Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises (TFSME) was launched, with a balance at year end of £75.4bn. The increase by £10.3bn in 'Notes in circulation' was primarily attributable to the February 2020 launch of the new £20 polymer note, as well as greater general demand for banknotes during the pandemic.

Income statement movements

Combined income grew by £8m in 2021 due to a marginal increase in levy income related to Prudential Regulation Authority (PRA) activity and Financial Market Infrastructure (FMI) supervision. As mentioned above, as a result of the pandemic and sustained low gilt yields, CRD income and cost recoveries dropped from the prior year. FLS fee income decreased year on year by £11m due to firms terminating drawdowns earlier than anticipated, with some firms moving to TFSME in March 2020. Consistent with the lower Bank Rate environment during the financial year, net seigniorage income, which is transferred entirely to HM Treasury, reduced significantly.

The combined cost base for the Bank for 2021 was £703m. As mentioned earlier in this *Report*, the Bank remains committed to providing value for money and has continued to maintain a cost-conscious culture during the pandemic. The year-on-year increase in the Bank's costs of £64m was driven primarily by the increase, as originally planned, in the spend on the RTGS Renewal programme due to the start of its delivery phase, as well as a rise in the Bank's pension costs. Overall, the different year-on-year movements in the income statement led to a decrease in profit before tax by £56m. Average headcount increased by 42 reflecting increased staffing for the RTGS programme.

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 PRA disclosures are presented in the *Annual Report* on pages 164–72, 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 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 0.368% as at 28 February 2021. 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. However, in an environment of sustained low yields, even with indexation CRD income is unable to recover fully the Bank's policy expenditure, leading to a growing shortfall. As part of the last review of the CRD Scheme in 2018, UK Government committed to monitor the effectiveness of the Scheme and conduct a further formal review within five years.

- 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 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 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.

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.

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.[1]

The Bank's loss-absorbing capital was £3,475m as at 28 February 2021. 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. Intangible assets grew by £45m mainly due to RTGS asset creation. For the year ended 28 February 2021 the Bank will make a payment in lieu of dividend of £nil (2020: £45m) to HM Treasury, as the Bank's loss-absorbing capital is below the £3.5bn threshold set out in the capital framework.

	2020/21 £m	2019/20 £m
Total capital	5,828	5,849
Deductions:		
Intangible assets	(130)	(85)
Pension and property reserves	(1,154)	(1,172)
Illiquid investments	(1,069)	(1,088)
Loss-absorbing capital	3,475	3,504

The Issue Department is funded by buying interest-yielding assets to back the notes in circulation (NIC). 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 28 February 2021 £62m (2020: £555m) 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

In April, the Bank announced its intention to create a northern hub to increase its staff presence across the UK. Leeds is the intended location as the Bank has a long-established link with the area. Separately, the Bank has also entered into discussion with Unite the Union, representing affected Bank staff, about a proposal to close its cash distribution centre in Leeds in February 2023.

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

Combined income statement

The combined income statement reflects a profit before tax of £72m (2020: £128m). 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.

The year-on-year decrease in profit before tax of £56m was primarily driven by the increase mentioned earlier in RTGS Renewal programme spend and in pension costs.

Summary combined income statement[1]

	2020/21 £m	2019/20 £m
Income	**775**	**767**
Banking Department	775	767
Issue Department	209	703
less seigniorage income		
Issue Department income transferred under seigniorage arrangements[1]	(209)	(703)
Expenses	**(703)**	**(639)**
Banking Department	(703)	(639)
Issue Department	(118)	(117)
less seigniorage expenses		
Issue Department costs under seigniorage arrangements[1]	118	117
Combined profit before tax	**72**	**128**
Taxation	(15)	(11)
Payment in lieu of dividend	–	(45)
Profit after tax and dividend for the year ended 28 February	**57**	**72**

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 28 February 2021, 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 2020/21 was £703m. Of this, headline costs excluding pensions, banknote production and RTGS Renewal were lower than the Bank's self-imposed cost budget driven by lower direct costs across business areas and delayed spend on the investment portfolio.[1] The Bank has maintained a cost-conscious culture by continuing to reprioritise and absorb increased responsibilities as we prepare for a post-Brexit era, whilst ensuring the Bank could operate effectively and respond to the Covid-19 (Covid) pandemic. The total expenditure was £703m versus the budget of £667m; the variance was primarily driven by the timing of the RTGS programme budget cycle. The RTGS budget was set by Court later than the overall Bank's budget cycle, which reflected an early view of indicative costs ahead of the full business requirements being scoped.

Combined expenditure by function[2]

	2020/21 £m	2019/20 £m
Policy functions		
Total policy expenditure	179	171
Expenditure on policy functions	**179**	**171**
Remunerated functions		
Notes issue costs recharged to the Issue Department	114	119
Government agency services	12	12
Payment and settlement	78	33
Banking services	32	31
Other functions	11	4
Expenditure on remunerated functions	**247**	**199**
Operations funded by levies		
PRA operational expenditure	253	237
PRA special projects and Solvency II costs	23	31
PRA enforcement fines	2	3
Financial Market Infrastructure	10	8
Expenditure on operations funded by levies	**288**	**279**
Net legacy items in relation to pensions and property[3]	(11)	(10)
Expenditure on other functions	**(11)**	**(10)**
Total Banking Department	**703**	**639**
Issue Department	**118**	**117**
Issue Department costs settled under seigniorage arrangements	(118)	(117)
Internal charges and settlements under seigniorage arrangements	**(118)**	**(117)**
Total combined expenditure	**703**	**639**

1 Headline costs also exclude European Banking Authority/European Insurance and Occupational Pensions Authority subscriptions, redundancy costs and COP 26 secondees.
2 Combined expenditure by function represents the aggregation of the Banking Department and Issue Department, adjusted for internal charges and eliminations under seigniorage arrangements.
3 Net legacy items relate to expenditure items funded from the Bank's retained earnings primarily driven by interest income on the net pension assets and the cost of running Roehampton.

Policy functions

	2020/21 £m	2019/20 £m
Income		
CRD income	130	131
SONIA licence income	1	1
Access to the SMF income	3	3
Total policy income[1]	**134**	**135**
Expenditure (by policy area)		
Monetary Analysis and Monetary Policy Committee	40	37
Markets and Banking	49	45
Research and statistics	20	20
Financial Stability Strategy and Risk	24	25
Resolution	13	12
FMI[2]	8	7
International	12	12
PRA[3]	13	13
Expenditure on policy functions[4]	**179**	**171**
Net surplus/(deficit)[5]	**(45)**	**(36)**

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

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

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

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

5 The CRD scheme is reviewed at least every five years and was most recently updated in 2018. It is intended to result in policy income and expenditure breaking even over the five-year cycle. In an environment of sustained low gilt yields, income on CRD investments may fall short of policy expenditure. As part of the last review of the CRD Scheme in 2018, the Government committed to monitor the effectiveness of the Scheme and conduct a further formal review within five years.

CRD income of £130m was £1m lower than 2020. Expenditure on policy functions funded by CRD income was £179m, £8m higher than 2020. This results in the growing CRD shortfall mentioned earlier.

Remunerated functions

Expenditure increased by £48m to £247m (2020: £199m). This was driven by the increased cost of payment and settlement functions from the RTGS Renewal programme.

Prudential Regulation Authority

Operating costs for 2021 of £278m (2020: £271m) were lower than the budget of £286m predominantly due to lower project costs and reduced travel during the Covid-19 (Covid) pandemic. Costs continued to include exceptional and non-recurring items such as the UK's withdrawal from the EU and special projects for firm restructuring.

Issue Department

Expenditure of £118m on the Issue Department increased by £1m.

Combined balance sheet

As mentioned in the financial highlights, the combined balance sheet grew by £347.8bn in 2020/21, primarily driven by an increase in the loan to BEAPFF to fund the purchase of assets for QE. During the year several packages of measures to support the UK economy in response to the Covid pandemic were announced, as voted by the Monetary Policy Committee (MPC). On 19 March 2020 the MPC increased the target stock of asset purchases by £200bn to £645bn. Subsequently the MPC increased it by £100bn to £745bn on 16 June 2020 and by £150bn to £895bn on 4 November 2020. On the liabilities side this was reflected with an increase in the 'Deposits' balance.

Part of this package also involved the launch of the Term Funding Scheme with additional incentives for SMEs (TFSME). The TFSME is designed to:

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

As at 28 February 2021, loans to participants of the TFSME scheme were £75.4bn (2020:nil).

The Covid Corporate Financing Facility (CCFF) is operated by the Bank on behalf of HM Treasury. The facility was designed by HM Treasury and the Bank to support liquidity among larger firms, helping them to bridge Covid-related disruption to their cash flows through the purchase of short-term debt in the form of commercial paper. Over the life of the scheme, the CCFF lent over £37bn to 107 different companies between March 2020 and March 2021, with a peak issuance in the scheme of over £20bn in May 2020. Although closed for new purchases, the CCFF will continue to hold companies' commercial paper until the final maturities in March 2022.

As at 28 February 2021 the loan to the CCFF was £11.8bn (2020: nil).

NIC increased year on year by £10.3bn, bringing the total liability to £84.7bn (2020: £74.4bn).

Combined balance sheet

	2021 £m	2020 £m
Assets		
Loans and advances	916,868	573,999
Securities held at fair value through profit or loss	9,869	5,066
Financial instruments held	16,165	15,788
Other assets	2,816	3,057
Total assets[1]	**945,718**	**597,910**
Liabilities		
Deposits	849,535	511,506
Notes in circulation	84,692	74,422
Foreign currency bonds in issue	4,353	4,799
Other liabilities	1,310	1,334
Capital and reserves	5,828	5,849
Total equity and liabilities[1]	**945,718**	**597,910**
Off balance sheet – Funding for Lending Scheme		
Funding for Lending drawdowns	**142**	**1,455**

1 Banking Department total assets (£939,550) + Issuing Department total assets (£84,692) – Issue Department deposit with Banking Department (£78,524).

Financial review of Banking and Issue Departments

Banking Department

The Banking Department's financial statements for the year ended 28 February 2021 are shown on pages 97–158 and reflect a profit before tax of £72m (2020: £128m) and tax charge of £15m (2020: £11m). The profit retained by the Bank was £57m (2020: £72m), and the amount payable to HM Treasury in lieu of dividend amounts to £nil (2020: £45m) due to the loss-absorbing capital position being below the £3.5bn threshold, in line with the capital framework.

The statement of comprehensive income reflects a net decrease for the year of £21m (2020: increase of £364m), comprising post-tax operating profits of £57m (2020: £117m) and 'Other comprehensive income' totalling a loss of £78m, net of deferred tax (2020: gain of £247m). 'Other comprehensive income' includes a net decrease in the fair value of assets held at 'fair value through other comprehensive income' of £15m (2020: increase of £96m), retirement benefit remeasurement decreases of £57m, net of deferred tax (2020: increase of £155m) and property revaluation losses of £2m, net of deferred tax (2020: loss of £3m).

The total balance sheet of the Banking Department increased during the year, from £590.0bn as at 29 February 2020 to £939.6bn as at 28 February 2021.

The main change in Banking Department assets was an increase in the loan to the BEAPFF, to fund additional asset purchases.

'Capital and reserves' remained at £5.8bn (2020: £5.8bn). The Bank's retained earnings, together with CRDs, are predominantly invested in gilts. The Banking Department's holdings of gilt securities and other supranational bonds totalled £13.1bn at 28 February 2021 (2020: £12.1bn).

At 28 February 2021, the Banking Department balance sheet contained £4.4bn of liabilities associated with the management of the Bank's foreign exchange reserves (2020: £4.8bn).

Issue Department

The statements of account for the Issue Department (which are provided on pages 159–63) reflect net profits from note issue of £62m (2020: £555m), payable in full to HM Treasury. The decrease in profits was due to a decrease in interest earned, following the decrease in Bank Rate, as well as a decrease in coupon income following maturities in the Issue Department gilt portfolio. In 2021, gilt revaluations contributed £8m to income (2020: £49m).

NIC increased year on year, and totalled £84.7bn at 28 February 2021 (2020: £74.4bn). Gilt purchases to back banknote issuance, introduced in January 2008, remained on hold during the year because BEAPFF Ltd undertook gilt purchase operations. The market valuation of gilts held by the Issue Department was £1.7bn at 28 February 2021 (2020: £2.4bn). The 'Ways and Means advance' to HM Treasury remained at £370m as at 28 February 2021.

Risk management

It has been an unprecedented year for risk management, with the Covid pandemic generating significant challenges around the world. Amid the crisis, the Bank managed its financial and operational risks carefully, and remained resilient. Box A describes in more detail the steps taken by the Bank in response to Covid, as well as outlining our response to the UK's withdrawal from the EU during the year. The rest of the chapter sets out the Bank's approach to risk management and the areas in which its approach continues to evolve.

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 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, Directors, and Heads of Divisions 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 Internal Auditor has a direct reporting line to the Chair of ARCo.

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

Covid-19 (Covid)

The Covid virus resulted in an unprecedented risk environment, requiring careful management to ensure the welfare of the Bank's staff and the resilience of its operations including those designed to support households and businesses through the pandemic. In terms of financial risk, a number of the Bank's liquidity facilities were made available – the Term Funding Scheme with additional incentives for SMEs, the Contingent Term Repo Facility and enhanced provision of US dollar repo operations (backed by the swap line with the Federal Reserve). The frequency of regular liquidity operations was also increased to meet demands from market participants.

The Bank also took measures to support the flow of credit to households and businesses and improve funding conditions, such as additional quantitative easing. In addition, it supported HM Treasury in establishing the Covid Corporate Financing Facility (CCFF). The Covid virus has posed challenges to the Bank's counterparties and increased the likelihood of financial risks crystallising. To manage these risks, the Bank supplemented its existing risk management tools and controls with:

- more intensive counterparty monitoring to identify vulnerable counterparties and mitigate potential financial risks;
- contingency planning for industry-wide shocks;
- enhanced monitoring of capital adequacy and risk threshold utilisation to identify and evaluate instances of increased financial risks and put in place remediation strategies where needed;
- review of collateral protection, including the treatment of loans with payment holidays, and of the calculations of IFRS 9 impairments, to ensure they remained appropriate; and
- technical support to HM Treasury as it set up the risk framework for the CCFF and ongoing risk monitoring of the scheme.

In terms of operational risk, the Bank prioritised its ability to operate its critical functions, and the health and safety of its staff. Led by the Bank's Governors, the response was initially managed using the Bank's Critical Incident Management Framework, and based on the Bank's existing business continuity plans. These steps were informed by working with counterparts both in the UK and internationally. This work was supported by a dedicated support unit comprising staff drawn from across the organisation. The remit of the group managing the Bank's response was broad, touching on all aspects of internal operations and included:

- Enabling the Bank's staff to work from home by significantly and rapidly increasing the technology bandwidth and infrastructure supporting remote access, with secure and effective technology and communications;

- Developing new controls in support of Bank operations being conducted from outside its premises – and monitoring closely the effectiveness of those controls;

- Making Bank sites Covid-secure, through reorganisation of the buildings and enhanced cleaning, initially enabling a small number of critical staff to attend and, when permitted, those staff who wished to attend Bank sites for reasons such as mental health concerns. The Bank helped staff to travel to Bank sites safely, including by providing Personal Protective Equipment; and

- Supporting new members of staff in commencing their Bank employment remotely, and providing staff with access to remote learning and development opportunities.

UK withdrawal from the EU

The UK's withdrawal from the EU had significant implications for the way that the Bank discharges its responsibilities and continued to be a focus of the Bank's work over the past year. Reflecting the extensive preparations made by authorities and the private sector over a number of years, the transition period between the UK and the European Union ended on 31 December 2020 without any material disruption to the provision of financial services.

The Bank took a number of steps to ensure that it was well-positioned for this period. That work was co-ordinated and led by a dedicated unit of staff. The Bank's Financial Policy Committee (FPC) regularly published a checklist of actions to monitor important risks stemming from potential disruption to the provision of cross-border financial services, as well as the mitigants in place to address them. This included ensuring an effective legal and regulatory framework was in place to allow the Bank to continue to provide certain types of lending and liquidity facilities. The FPC continues to monitor the financial stability risks that could arise in the future.

In addition, the Bank estimated and published analysis of how leaving the EU would affect its ability to deliver its objectives, that included estimates of the economic effects of the Withdrawal Agreement. In terms of financial risks, the Bank ensured it stood ready to provide liquidity in major currencies, as a prudent and precautionary step. 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.

Executive responsibility for risk

Within the Senior Managers Regime framework, the Governor has overall executive responsibility for risk. Responsibility for the Bank's first line 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 an indirect reporting line to the Chair of ARCo.

The Bank's Executive Risk Committee (ERC), a sub-committee of the Bank's Executive Committee (ExCo), oversees the operation of the Bank's Risk Management Framework. ERC monitors the Bank's risk profile against tolerance, considers the adequacy of actions planned to mitigate risks, and conducts horizon scanning to identify emerging risks. ERC is chaired by the Deputy Governor for Prudential Regulation, and has 10 further members, comprising: the Deputy Governor for Markets and Banking; the Bank's Chief Operating Officer; seven of the Bank's Executive Directors; and one of the Bank's Directors. All Deputy Governors can attend ERC as decision-making members. ERC meets at least six times each year. Following discussion at ERC, Risk reports are shared and discussed with ExCo prior to submission to ARCo and Court.

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

Three Lines of Defence

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

1. Own risk and implement controls. This is delivered by first line management. The Governors, Executive Directors and 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 Bank's Risk Directorate.

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.

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 policy committees on any other material risks relevant to their remit.

The Bank's Risk Management Framework supports a consistent approach to identifying, assessing and monitoring the risks to which 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. During the year the Bank refreshed its Risk Taxonomy, to better reflect the Bank's risk profile. Cyber-risk and risks related to climate change were elevated within the taxonomy.

Within the framework, a Risk Tolerance Statement provides an approach for managing both financial and non-financial risks within tolerance. Generally, the Bank seeks to keep its exposure to risk low and to have a control environment and risk culture which supports this. During the year the Bank began the process of supplementing its risk tolerance statement with a set of 'critical metrics' for key risk types defined in the Bank's Risk Taxonomy. This work is well-advanced and will complete during the 2021/22 financial year. Tolerance thresholds are defined for each of these metrics to determine whether the risk is out of tolerance and requires mitigation.

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's critical operations, financial position and reputation in the event of a risk crystallising. Where risks are assessed as out of tolerance, action plans are developed to bring those risks within the Bank's tolerance threshold.

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

- actual and potential spillovers from global geopolitical developments;
- increased cyber threats, particularly via greater use of ransomware and through the impact of a number of high-profile events on a large number of multinational suppliers;
- the wide-ranging impacts of transitioning to a low-carbon economy; and
- new financial innovation, for example, around so called 'crypto-assets' and rapidly changing technology potentially facilitating the development of new payments services providers.

The Bank assesses these risks and seeks to develop appropriate mitigation plans.

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; legal risks; climate change risks; and conduct risks. Further detail is provided below.

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 (RTGS) 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:

- **RTGS Renewal programme:** to safeguard the stability of RTGS, increase resilience, and enable innovation by delivering the next generation of the Bank's real-time gross settlement service;

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

- **Property Programme:** ensuring that our premises meet the needs of our mission and the evolving working preferences of colleagues. Increasing the efficiency of the Bank's buildings, by enabling more flexible ways of working and updating services and infrastructure. This work has included changes to make Bank sites Covid-secure.

The Bank aims to maintain a robust and flexible capability such that processes critical to its mission are resilient to disruptive events, and that the Bank is able to respond quickly and recover safely in such instances. 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.

Cyber
The cyber-risk environment remained elevated during the year, with several high-profile, well-publicised attacks both in the UK and abroad. The Bank's internal response to these incidents was swift with rapid patching of any identified vulnerabilities and careful assessment of potential supplier exposures. The Bank remains closely engaged with the National Cyber Security Centre in order to remain alert to potential risks and ensure the resilience of its critical operations.

The Bank continues to invest significantly in its cyber defences through a dedicated cyber programme.

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. Financial risks are managed so that the occurrence of any material loss to the Bank 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 below a defined capital floor.

The Bank's financial risk management is underpinned 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 required to deliver its objectives, including under severe but plausible stress scenarios.

Climate change
Climate change was elevated within the Bank's Risk Taxonomy this financial year. The Bank is exposed to the risk from climate change through its own operations, including those from the financial assets it holds for policy and other purposes. Channels of climate change risk include the physical effects of climate change and the impact of changes associated with the transition required to meet the UK's commitment to a net-zero greenhouse gas emissions economy. Climate change also presents significant reputational risks if the Bank is perceived to be falling short of what is set out in the policy committees' remits or if other policies (including market operations) are perceived to be inconsistent with the Bank's commitment to climate transition.

As mentioned earlier in the Review of 2020/21, the Bank's approach to the governance of climate-related risks is reported in the Bank's climate-related financial disclosure – an annual report published alongside the Bank's *Annual Report* and aligned with recommendations of the Task Force on Climate-related Financial Disclosure. That report also describes the work that the Bank is doing to further understand climate-related risks, in line with expectations for PRA-regulated firms. It includes details of the Bank's new internal risk management tools designed to mitigate climate-related risks on its financial and non-financial operations. These include the use of internal carbon pricing to inform capital investment decisions on equipment and infrastructure projects, and the development of internal climate metrics for quarterly review by the ERC and the ARCo.

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

Legal risk

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

Conduct risk

The Bank is exposed to conduct risk through the actions of its staff, should they act or be perceived to act, in a way that undermines the public trust on which the Bank's mission depends, including failure to comply with the Bank's policies. The Compliance function (which also houses the Bank's Data Protection Officer and the Privacy team) works with policy owners to ensure compliance with the Bank's policies. Compliance works with other areas of the Bank to ensure that the institution has clear policies and appropriate controls, and to encourage a culture of compliance across the organisation. Compliance also has a clearly defined role in dealing with any breaches of the Bank's policies and takes an oversight role in monitoring adherence; as well as working with policy owners to ensure Bank-wide compliance with data protection legislation. During the year, the Compliance function continued a significant review of all Bank policies to ensure they are sufficiently clear, adequately communicated and have clearly identified controls designed to ensure compliance with the Bank's policy requirements.

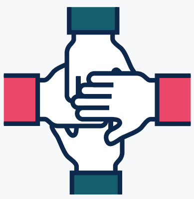
Our people

Our people are our priority at the Bank, and colleague wellbeing is at the forefront of our approach. This year saw significant changes as we supported our colleagues to work remotely wherever possible, introduced a variety of wellbeing initiatives and adapted many of our core functions, through careful risk assessments, to allow them to be carried out securely and effectively from home.

Of our 4,663 colleagues, only around 5% have attended Bank premises in person on a regular basis over the past year – mainly to carry out critical functions such as security and operational maintenance. Whether at home or on Bank premises, we have worked to ensure the safety and wellbeing of all (Box B, page 54).

Over the past 12 months, we have restated our commitment to leadership, with an emphasis on a culture that is 'human, humble and in step with the changing world' (Box C, page 55). We have continued to invest in modern apprenticeships (Box D, page 57). And we have initiated work on Future Ways of Working, including our intention to create a new northern hub as well as to introduce new ways of working as Covid restrictions ease (Box E, page 62).

Core to our people offer is the importance of our mission, our inclusive and flexible working environment, opportunities for learning and development and our commitment to fair pay.



Importance of our mission

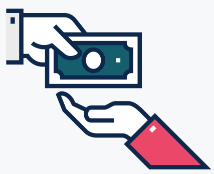
4,663 people of 75 different nationalities working together for the public good.

Inclusive and flexible environment

During the pandemic, colleagues have been supported to reduce their working hours when needed without financial penalty.

Great opportunities for learning and development

Staff logged 13,849 hours of online learning; 318 instructor-led, centrally hosted, training courses (onsite and virtual) were held.



Committed to fair pay

We are committed to rewarding colleagues fairly and to publishing our gender and BAME gaps.

Our people in the public eye:

Ratidzo Starkey, recognised on the EMPower Ethnic Minority Future Leader Role Model list

Eugenia Planas, recognised on the HERoes 100 Women Future Leaders List 2020

Serena Kern-Libera, recognised in the business category of the Asian Women of Achievement Awards

Sandie Small, recognised in the TechWomen100 Awards 2020

Anastasia Vinnikova wins 'Breaking the Silence' award in the Not A Red Card Awards

Sarah Breeden, recognised on the OUTstanding LGBT+ Ally Executives Role Model List 2020

Sholthana Begum, recognised in the top 100 power list of the most influential data and analytics practitioner

Rachel James, recognised in the Women in FinTech 2020 Power List

Julia Giese, recognised on the Timewise UK Power List, a celebration of innovative approaches to flexible working

Victoria Cleland, winner of the Women in Payments award for 'Distinguished Payments Professional'

Box B
Supporting colleagues during Covid

- Colleague wellbeing has been our priority. We have conducted regular check-in surveys, and ensured that all colleagues have had access to support for their physical, mental, social and financial wellbeing whether working remotely or on-site.
- Support has included continued access to our staff counselling service, an Employee Assistance Programme and an ongoing programme of qualifying colleagues as Mental Health First Aiders. For more on our wellbeing offer, see the Inclusion and Sustainability Report (page 65).
- Managers have been supported in managing teams remotely, and leading hybrid teams. That has included ensuring managers are regularly checking in on team wellbeing. We have also ensured that colleagues recovering from Covid have been supported back into the workplace, including through adjustments to working patterns as needed.
- We have conducted regular and rigorous prioritisation to ensure that colleagues are able to balance their workloads with their commitments at home.
- For those working in the office, we have ensured our premises are Covid-secure. This includes strict adherence to social distancing, clinical-grade cleaning, provision of face masks and hand sanitising stations, and temperature screening at entrances.
- For those working at home, we have provided virtual workstation assessments, financial assistance to purchase home working equipment and Occupational Health reviews where required.
- Regular communication and education programmes have made sure that colleagues have a thorough understanding of our controls and risk assessment.

Case study: Parent homeschooling

Chas Biling, Parents+ network co-Chair, Financial Stability Strategy and Risk

'As I share childcare equally with my partner, I was grateful to be able to block out my diary for two and a half days a week while I home-schooled my two young children. My manager and colleagues were supportive. Despite the reduction in my capacity, I led an important project on how the largest banks' liquidity positions could remain strong during the dash for cash. It helped that I was paired with another parent working reduced hours to accommodate childcare and other people were redeployed to work on the project.'

Inclusive and flexible working environment

We employ colleagues aged from 18 to over 70, and our people join us from all over the UK and beyond: in total, we have 75 different nationalities working together.

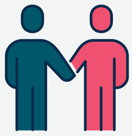
We recruit from a very broad range of disciplines: over the past year, 445 experienced external candidates joined us, including specialist risk, data, economics and technology professionals. The 68 graduates in our 2020 cohort came from 33 different degree disciplines – up from just 13 different disciplines 10 years ago.

One of the cornerstones of inclusion at the Bank is the flexibility we offer: 14.2% of colleagues have formal part-time working arrangements, rising to 20% among senior management. Many more flex their hours informally to help them balance the demands for work and home.

Flexibility has been more important than ever during the past year, and all colleagues have been supported to adapt their working patterns to their individual circumstances. That has included temporarily reducing working hours where needed without financial penalty – for example, for parents supporting home schooling and for colleagues with wider caring responsibilities.

Box C
'Our Bank' vision

In 2020 the Bank set out a vision to become 'more human, more humble and in step with the changing world'.



A human Bank
is one where colleagues feel able to be themselves and speak openly and honestly about their views.

A humble Bank
is one where we listen as much as we speak, and recognise that we are made stronger by learning from others.

A Bank in step with the changing world
is one that looks outwards and applies those insights to our enduring mission.

Internal volunteer-led taskforces were set up to consider how we could realise our aims, focusing on four priority areas:

Leadership: We launched a new Leadership Commitment in October 2020, focused on the personal behaviours and qualities expected of our leaders. This will be complemented by a new leadership curriculum and competency framework.

Inclusion: A new Inclusion and Belonging Hub was launched in March 2021, bringing together central policies and local area initiatives.

Ways of working with our policy committees: To maintain open debate and constructive challenge, we need diverse views and an inclusive environment in which to present them. To support this, new ways of presenting information and setting up (non-statutory) committee meeting discussions have been trialled since 2020 Q3.

External engagement: The way we engage with other organisations is crucial to our success. As one of our most important stakeholders, the initial focus of this work has been on engagement between the Bank and HM Treasury at all levels in both organisations, outside of the work of the Bank's independent policy committees.

Case study: Graduate Development Programme

Adam Day, Analyst, Internal Audit Directorate (2020 Graduate Development Programme)

'The Bank's wellbeing offering has helped create a comfortable, inclusive workplace culture. As a graduate entrant, and despite working virtually, I've felt welcomed and supported, helping me feel comfortable with sharing my experiences of mental health with colleagues, such as through the 'This is Me' campaign. The campaign included a video featuring the inspiring stories of some of our newest joiners at the Bank, in parallel to the stories of some of our most senior colleagues, showing the universality of mental health. I've struggled in the past with 'putting on a face' at work, but hearing colleagues sharing their stories has helped inspire me to be more open about my mental health in the workplace.'

Our regular check-in surveys showed that colleagues felt well supported by their managers: 87% agreed that they feel supported by their immediate manager in adapting to the current working environment; 81% felt able to access support where needed.

Our regular surveys have also helped us monitor wellbeing during Covid, and to take action as needed. For example, while colleagues have reported that their wellbeing generally has held up well, we did observe a dip during the third national lockdown. In response, we took steps to reprioritise workload and to ensure colleagues felt supported in flexing their working patterns.

For more on wellbeing, as well as our work to strengthen our diverse and inclusive culture, see the Inclusion and Sustainability Report (page 65).

Development and progression

We provide a wide range of professional development options for colleagues, and have ensured that these have continued through the pandemic. We ran 318 courses over the past year, of which 113 were unique courses. The overwhelming majority were fully online.

Our bespoke Masters-level degree in central banking (our Central Banking Qualification or CBQ, run in partnership with Warwick Business School) is one of our many courses that has been run virtually this year. In the academic year to date, 127 Bank staff have participated in various CBQ programmes; a further three have enrolled in the distance-learning MSc that we have developed in conjunction with Warwick Business School.

We are strongly committed to our apprenticeship offering, and offer over 35 different apprenticeships. Over the past year, we have exceeded the public sector apprenticeship target despite the challenges of remote working with 114 new apprentice starts (Box D, page 57).

An important addition to our learning offer this year has been the launch of LinkedIn Learning, which has provided all colleagues with hundreds of different on-line learning options. More than 2,000 colleagues have engaged in LinkedIn Learning courses since its launch in June 2020, with nearly 5,000 hours of online learning completed. That has included learning materials tailored to the challenges of Covid, such as conducting hybrid meetings, working remotely and balancing work and life as a work-from-home parent.

Box D
Apprenticeships

We are strongly committed to apprenticeships and have been expanding the options on offer to meet the needs of the modern Bank. Currently, we have 233 colleagues studying on an apprenticeship and we offer over 35 apprenticeships ranging from Level 3 to Level 7 for both existing member of staff and new recruits.

Despite the challenges of remote working, the Bank has still been able to exceed the public sector target by recruiting 114 colleagues onto an apprenticeship in the year to end March. This includes our largest external apprenticeship cohort of 19 apprentices, split across six different apprenticeships.

Over the past year, we launched two new Level 7 (Masters-level) apprenticeships, the Data Science MSc and Economics MSc. For 2021, we will continue to expand our apprenticeship offering. This will include a Coaching Professional Level 5 apprenticeship as well as the opportunity to achieve an MSc in Digital and Technology Solutions as part of our Graduate Development Programme.

Apprenticeship return[1]

4,402[2]
staff working at the Bank of England on 31 March 2020

4,657
staff working at the Bank of England on 31 March 2021

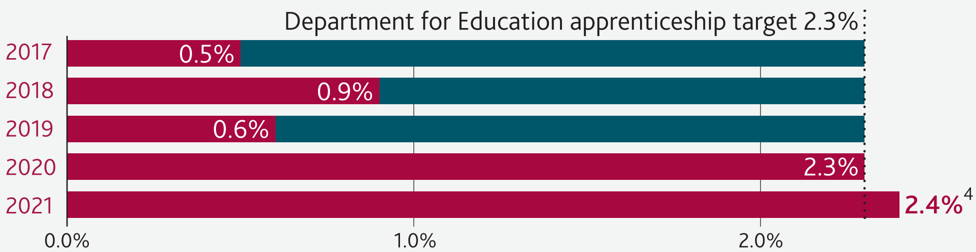
586
new recruits in England

114
new apprentices (2.4% of workforce in England)

19%[3]
of new recruits joined as apprentices between 1 April 2020 and 31 March 2021

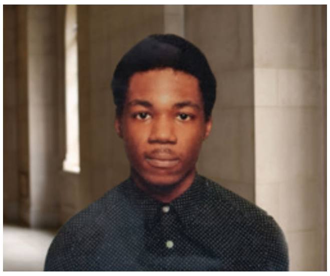
36%
of new apprentices at the Bank are female

32%
of new apprentices at the Bank identify as BAME



1 The statutory reporting period for apprenticeships is from 1 April 2020 until 31 March 2021. All figures contained within the apprenticeship return are reflective of this period.
2 As a result of retrospective changes in the Bank's Management Information system, we have adjusted the staff figure working in England at the Bank on 31 March 2020 to 4,402 compared to the 4,406 presented in the 2019/2020 *Annual Report*.
3 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.
4 Percentage of the workforce in England.

Case study: Apprenticeship Programme



Emmanuel Sobakin, Generation 2020 Apprentice

'It's been strange starting an apprenticeship from home; despite all of this, my team and many others from my division and the Bank in general, have understood this and have been extremely welcoming and supportive in helping me settle in. Especially in such a difficult year for many, I'm extremely appreciative of the apprenticeship offered by the Bank, which has provided me with a valuable opportunity to actively learn and develop a range of sought-after skills. Having just joined two months ago, I'm really enjoying the tasks and projects that I've been working on so far and look forward to playing my part, however small that may be, in helping the Bank to achieve its goals for the upcoming year!'

Rewarding colleagues fairly – our gender and BAME pay gap

We are committed to paying colleagues fairly for the work they do. That includes paying a minimum of the London living wage, and ensuring that our roles are regularly benchmarked against relevant external comparators.

Each year we publish our gender pay gap, and since 2018, have additionally published our ethnicity 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 this year is 19.2%, down from 19.5% in 2020. The median gender pay gap is 20.6%, a slight increase from 20.4% in 2020. The overall reduction in the mean pay gap can be attributed to a small increase in female representation at senior levels.

The mean BAME pay gap this year is 10.8%, down from 11.3% in 2020. The median BAME pay gap has also reduced, from 5.2% in 2020, to 4.0% now. The decrease in the mean pay gap is primarily accounted for by the increase in BAME representation within the more specialist role types, commanding a premium in the market.

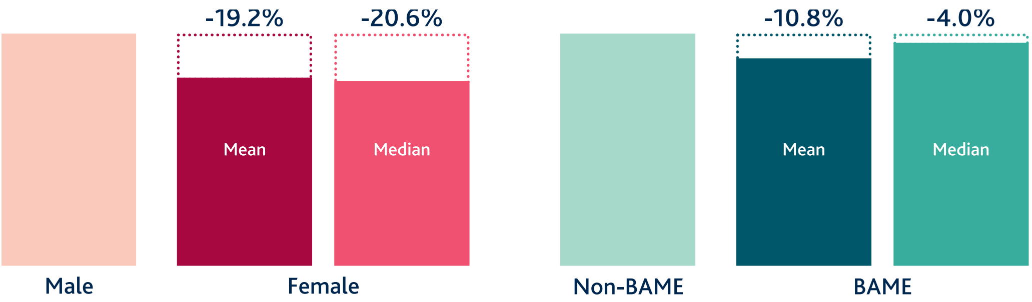
The pay gaps include most cash elements of pay – including base pay and allowances. Regarding base pay alone, we have a mean gender pay gap of 16.8% and a mean BAME pay gap of 9.0%.

The imbalance of male and female and non-BAME and BAME across the Bank continues to be the principal reason for the organisation-wide pay gaps. Continuing to increase the number of women and BAME colleagues in senior roles, and balancing the proportion of women and men at lower scales, is key to reducing the pay gap.

The Bank continues to take strides to achieve its diversity representation objectives, which we cover in more detail in the Diversity section on pages 66–68. Continuing to focus on our target representation at senior levels across both gender and ethnic minority diversity will have an impact on our pay gaps over future years. The Court Review of ethnic diversity and our plans to build a diverse and inclusive Bank will drive focus and action.

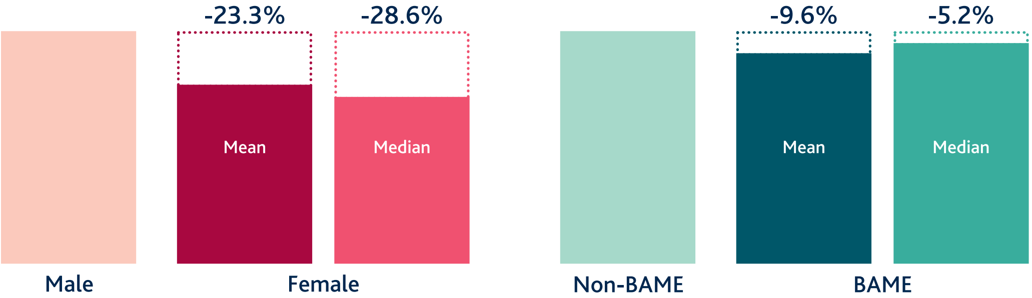
Although gender pay gap regulations require reporting on colleagues identifying as men and women, we actively support our non-binary and gender-fluid colleagues including via our Inclusion strategy and colleague networks.

Pay gap



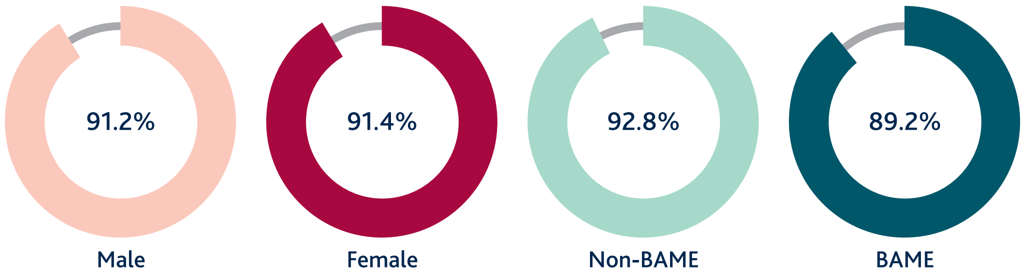
The pay gap figures are based on hourly rate of pay as at 31 March 2021 and bonuses paid in the year to March 2021.

Bonus (performance award) gap



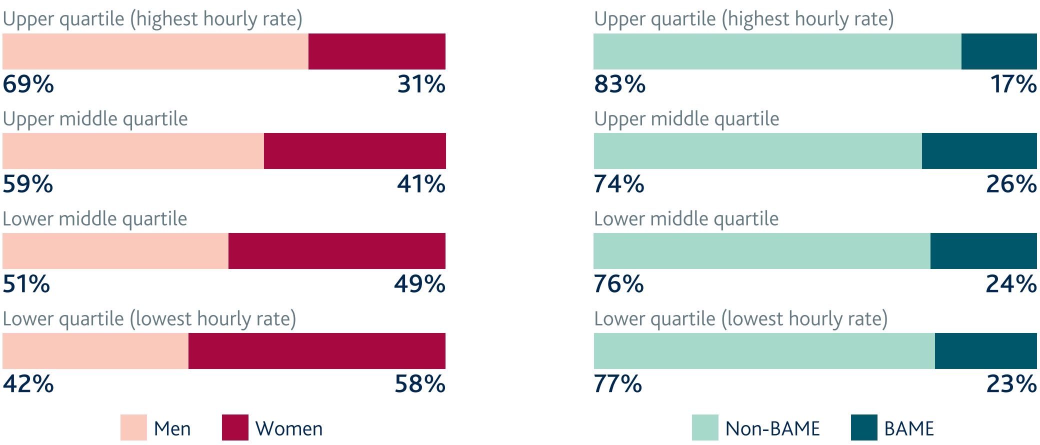
All colleagues at the Bank (excluding Governors) are entitled to an annual performance award, dependant on performance.

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.

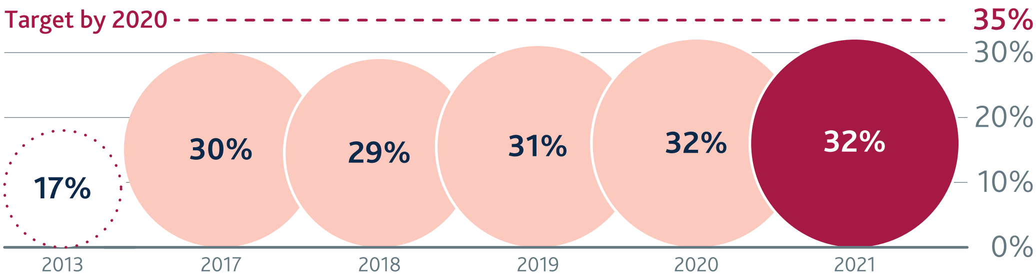
Proportion of colleagues in each pay quartile



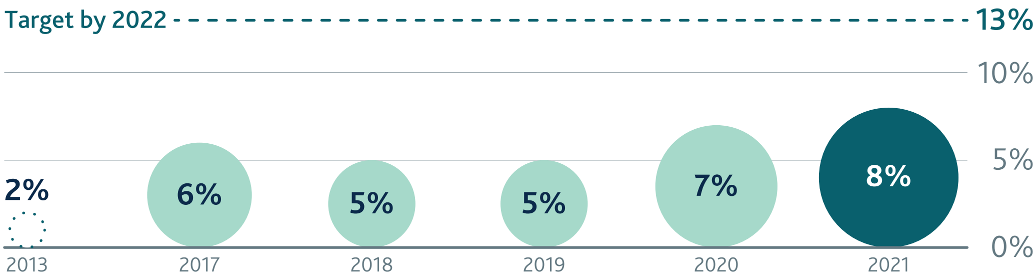
This chart shows the gender and ethnicity split when we order hourly rate of pay from highest to lowest and group into four equal quartiles.

Diversity and inclusion metrics

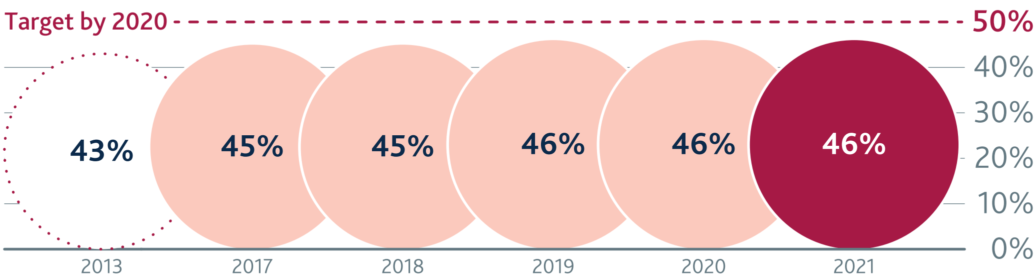
Female representation: Senior management



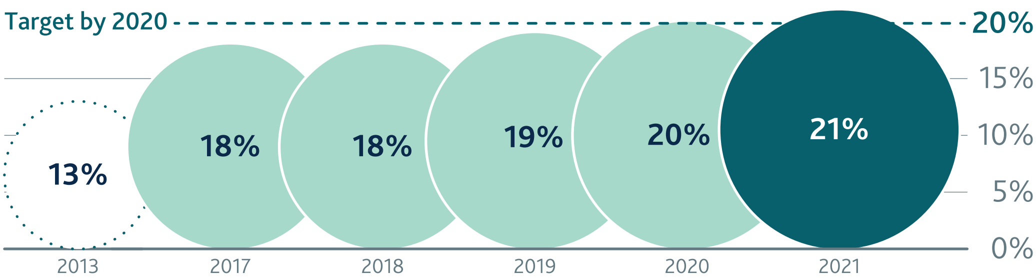
BAME representation: Senior management



Female representation: Below senior management

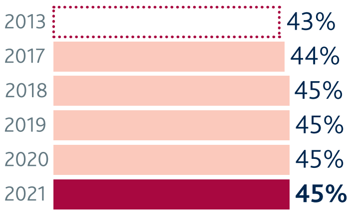


BAME representation: Below senior management

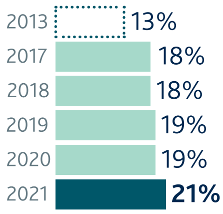


Overall split

Declared female representation

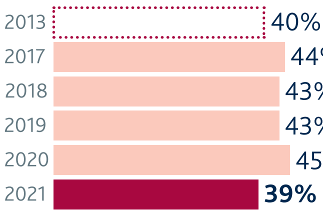


Declared BAME representation

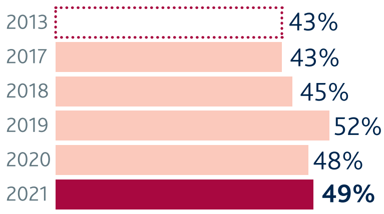


Declared female representation

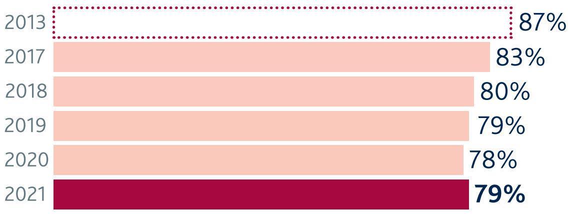
Of those newly hired



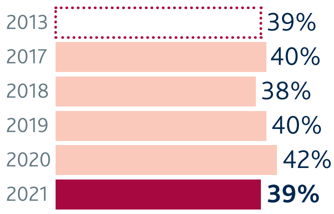
Of those promoted



Of those working part-time

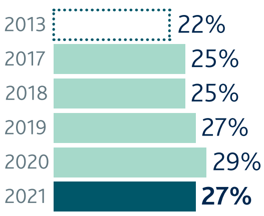


Of those leaving the Bank

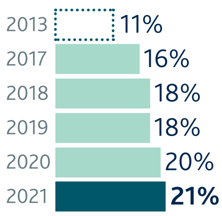


Declared BAME representation

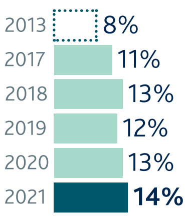
Of those newly hired



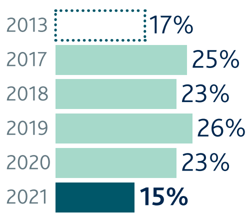
Of those promoted



Of those working part-time



Of those leaving the Bank



Future ways of working

In November 2020, we launched a Ways of Working project to explore how we want to work at the Bank in the future (Box E). This has drawn on insights from the Our Bank taskforces (Box C, page 55), the way we have adapted to remote working over the past year, feedback from colleagues and engagement with a wide range of other organisations.

During 2021, we will be using this feedback to help us shape the way we work together as the constraints from Covid ease. Our property strategy seeks to achieve a successful hybrid working model, which will adapt as our people are able to return onsite in the future. Our property decisions are informed by what is needed to deliver our mission effectively, as well as our commitments to achieving value for money, energy efficiency and inclusion.

In April, we announced our intention to create a new northern hub as part of an ambitious plan to increase our staff presence across the United Kingdom. Leeds is our intended location, as the Bank has a long-established link with the area. The first step will focus on a design phase for our regional presence.

Separately, the Bank has also entered into discussion with Unite the Union, representing affected Bank staff, about a proposal to close its cash distribution centre in Leeds in February 2023. The lease on the Bank's cash centre premises expires in July 2023.

Box E
Future ways of working at the Bank

Our Ways of Working project looks at how we can get the best out of, and for, our colleagues by considering the balance of time spent working in the office and working remotely.

The project has gathered evidence in three main ways: i) internal engagement, with around 400 attendees at 50 focus groups and 3,400 staff responses to a survey; ii) external engagement with 48 other institutions, both public and private and domestic and international; and iii) a review of the available literature.

Three key points that emerged from our work are that:

- there is credible evidence that wellbeing and productivity can benefit when those who would like to spend more time working remotely are enabled to do so;
- there is also a plausible and widespread belief, supported by some research, that continuous remote working can reduce organisational effectiveness for certain sorts of activity, lead to cultural detachment and can also be bad for wellbeing; and
- the optimal mix of remote versus office working is likely to vary from one team to another depending on the nature of that team's work and the personal preferences of the people within it. This suggests an important role for managers in finding the right arrangements for their teams.

We believe that both the organisation and individual colleagues will benefit if those who are happy working remotely are able to do so materially more in the future than they did in the past.

The insights and evidence we have gathered have helped to shape four norms, intended to guide us on how we work, as the current set of Covid restrictions ease (see graphic below). The norms provide a minimum central expectation for colleagues' presence in the office, balanced with flexibility for teams to decide how best to work based on the nature of the work they do, and with the core underlying objective of maximising the Bank's ability to deliver its mission through new ways of working. Based on the norms and the preferences staff have expressed, we anticipate that the average time spent in the office will be somewhere between two and four days per week.

This will be a period of learning for us, as it is for many other organisations, and so we plan for a six-month trial period to try out the norms and learn about what works well and what does not. Following this period of learning we will reflect on the feedback and refine the norms if need be.

The norms

Case study: Operating remotely

Charlotte Barton, Senior Manager, Sterling Markets Division

'I lead the Sterling Operations Desk in the Bank's Markets Division, and in March we took the unprecedented step to move to remote working with the rest of the Bank (and country). It has been a unique experience to lead central bank operations from home, and required meticulous planning, collaboration across multiple teams and oversight of a previously unknown operational risk profile. The agility in shifting how we work during a volatile environment, opens exciting prospects for more flexible working opportunities in the future. But we also look forward to seeing our colleagues again soon.'

Overleaf: A sample of our social media messaging in 2020/21.


Bank of England
Learn More
Liked
Message
All photos
BANK OF ENGLAND
Lyndsey
Data Visualisation Editor
#IWD2020
BANK OF ENGLAND
Bank Camera Action 2020
The Changing Workplace
BANK OF ENGLAND
Knowledge Bank
What is Islamic Finance?
BANK OF ENGLAND
Citizens' Panel
NORTH EAST
We're listening
BANK OF ENGLAND
Corporate responsibility
Our new charities of the year
childline
Shelter
BANK OF ENGLAND
Citizens' Panels
Join our live Q&A with Andrew Bailey
BANK OF ENGLAND
CCBS
Organisational challenges of running a central bank during Covid
BANK OF ENGLAND
BHM should be a starting point for a larger conversation about how to incorporate Black history into British history.
Tina
Manager, Cross Sectorial Policy
Prudential Regulation Authority

Inclusion and sustainability

With most colleagues working from home, we had to take a different approach to our inclusion and sustainability agenda this year, to ensure we continued to build an environment where all colleagues can fulfil their potential; develop skills for the future; look after their wellbeing; receive fair pay; and be part of a diverse and inclusive workforce. We have used virtual platforms to engage and connect with colleagues, and have adapted our four strands of work – Diversity, Community, Wellbeing and Environment – to the challenges of 2020.

Our events reached colleagues through virtual platforms, including an open conversation for colleagues following the tragic killing of George Floyd last May, a full agenda of online events during National Inclusion Week, and virtual Green Week to highlight our environmental agenda. We also ensured that colleagues had access to our wellbeing service, such as our in-house counsellor service, employee network events and online gym classes.

Court's interest in our inclusion and sustainability agenda continued in 2020, agreeing initiatives that demonstrated our public commitment to building an inclusive working environment for all colleagues, and promoting diversity and inclusion both internally and externally. Court also focused on wellbeing, with recommendations agreed based on multiple Bank-wide check-in surveys.

Public Sector Equality Duty

The Public Sector Equality Duty (PSED) applies to public authorities and others who may be exercising public functions. Under this duty, public authorities are required to: have due regard to the need to eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act 2010; advance equality of opportunity between people who share a protected characteristic and those who do not; and foster good relations between people who share a protected characteristic and those who do not. The Bank recognises that in the exercise of its public functions it must have due regard to the PSED. Examples of how the Bank takes into consideration its PSED obligations are set out below.

Monetary Policy Committee

The Bank of England's Monetary Policy Committee (MPC) is tasked with setting monetary policy and meeting the Government's target of keeping inflation at 2%. The distributional impact of monetary policy is difficult to measure with precision but analysis by Bank staff suggests that the overall effect of monetary policy, including quantitative easing, on standard measures of income and wealth inequality has been small. Indeed, high levels of inflation are most acutely felt by individuals and groups in lower income and vulnerable households. Accordingly, the MPC's actions can advance equality.

Prudential Regulation Committee

In 2016 Parliament introduced the Senior Managers and Certification Regime (SM&CR) for banks and insurers. To make sure the SM&CR is delivering against its original objectives, the Prudential Regulation Authority (PRA) published a report in December 2020 outlining its evaluation of the progress of the SM&CR to date. This prompted the PRA to outline a recommendation in its report to affirm the PRA's appetite for diverse skills and experience among senior management teams through PRA policy and/or expectations, and considering options for the PRA to improve its data collection and analysis to understand better how firms are approaching questions around the promotion of diversity among their senior management populations.

Financial Policy Committee

By striving to make financial crises both rarer and less severe, the Financial Policy Committee's (FPC's) actions are intended to reduce the probability and impact of financial crises in which the costs can fall disproportionately on lower income and vulnerable households (households in which individuals with protected characteristics, including those of race and sex, can be disproportionately represented). Further, while focused on improving the resilience of the UK financial system, the FPC's policies are explicitly designed to limit any significant adverse effects on growth of the UK economy. In so doing the FPC supports the provision of sustainable access to finance for households (including lower income and vulnerable households).

Notes

We want the characters who make it onto our banknotes to come from different backgrounds and fields so that our choices can reflect the diversity of UK society. In 2014, we introduced a new method of selecting banknote characters which involves a public nominations process and public focus groups. Our Banknote Character Advisory Committee (the Committee)[1] selects the field we want to represent and invites specialists in that field to join the Committee. It subsequently draws up long and short lists of possible characters to appear on the note following the public nominations process. The Committee and the Governor (who makes the final selection) are made fully aware of the importance of consciously considering the PSED, all the protected characteristics and diversity more generally throughout the character selection process. In 2018, we received 227,299 nominations from the public for a scientist to appear on the new polymer £50 note[2] and in July 2019, we announced that Alan Turing will feature on the new note which will enter circulation on 23 June.

Diversity

In 2014, we set ourselves targets to increase the representation of female colleagues in senior roles to 35% by 31 December 2020, and of Black, Asian and Minority Ethnic (BAME) colleagues in these roles to 13% by 31 December 2022. Below senior management, our target was 50% female representation and 20% BAME by 31 December 2020.

We reached our target of 20% for BAME colleagues below senior management early in 2020. By end-2020 this had increased to 21%, and we also saw an increase in BAME senior management representation from 7% to 8%. These figures were the same at 28 February 2021. Female representation at both senior levels and below senior management were at 32% and 46% respectively at end-2020, and at 28 February 2021. These figures are unchanged from the same period last year.

We have not achieved our goal of 35% female senior management representation by the end of 2020, although our representation is materially higher than the 17% of 2013. As other organisations are finding, meeting ambitious targets is taking longer than we initially aimed for. Looking to the future we will continue to set challenging targets to drive and encourage continued progress on our evolving diverse and inclusive culture. We expect to publish our new diversity targets in early Summer 2021, following completion of the Court Review into ethnic diversity and inclusion (Box F, page 69). Our Women in the Bank and Bank of England Ethnic Minorities (BEEM) networks have played an active role in developing these new targets.

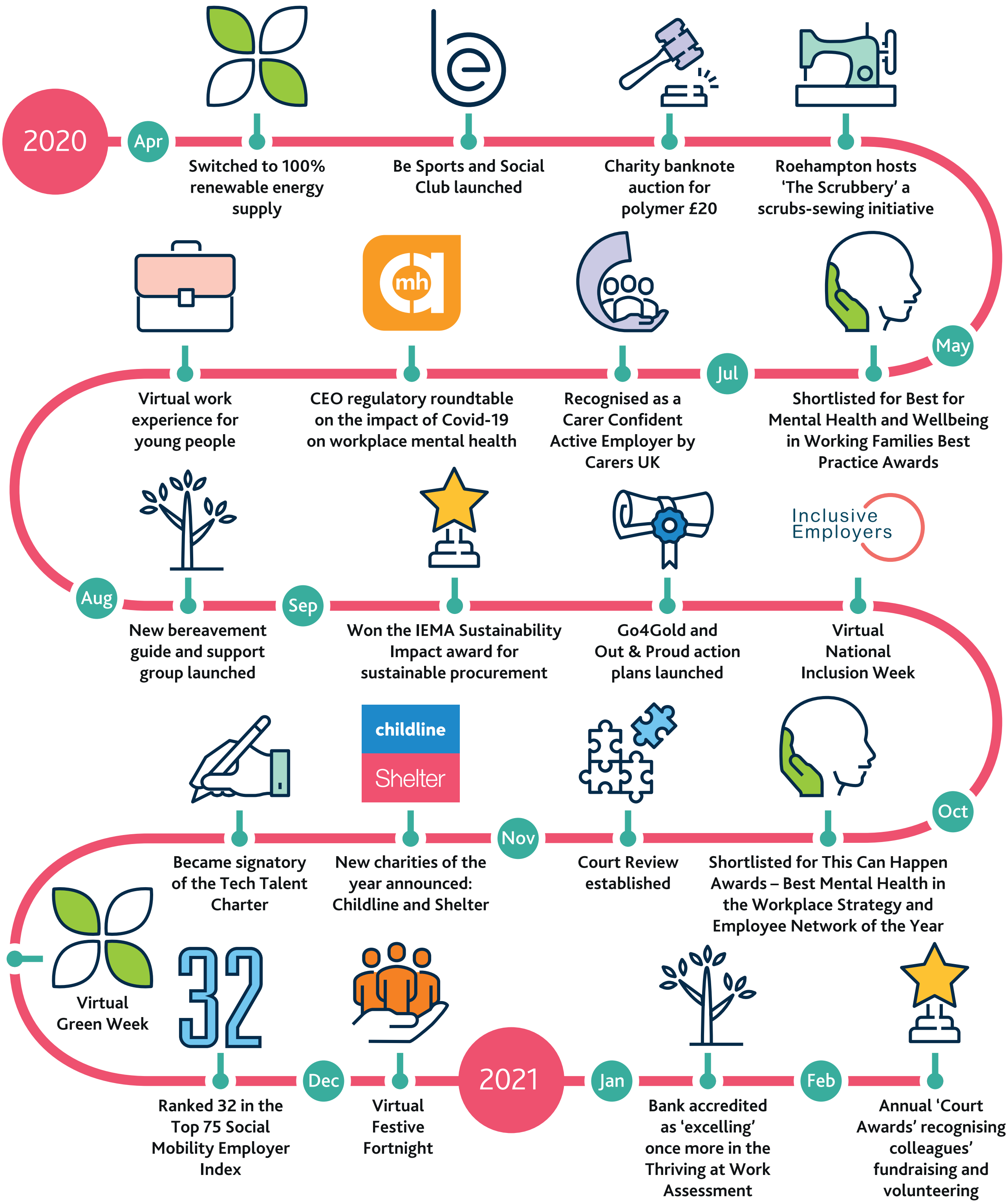
1 www.bankofengland.co.uk/about/people/banknote-character-advisory-committee.
2 www.bankofengland.co.uk/banknotes/50-pound-note-nominations.

Case study: Sponsorship Programme

Sandie Small, Head of Data Centre Operations

'I joined the Bank in 2018, and six months into my tenure I was appointed a sponsor by the Sponsorship Programme, which was set up in 2018 to support diverse talent. It has been a powerful and inspiring two-way relationship. My sponsor has helped to demystify some of my own inherent reservations about bringing my whole self to work. I have been challenged to experiment and to move out of my comfort zone to be at my absolute best. With support I have built my Bank network which, in turn, has helped others also extend their own connections. Sponsorship has exposed my talent for public speaking which has meant that I have gone onto to represent the Bank at many internal and external forums where I can share my view that Diversity of thought is the Bank's greatest asset.'

Highlights of our inclusion and sustainability programme in 2020/21



Over the course of the past year, we also reviewed our approach to diversity targets and measures to consider other demographics. In September 2020, we launched two new action plans to support us – Go4Gold, which aims to build inclusion for staff with disabilities and long-term health conditions; and Out & Proud, which supports the Out and Proud charter launched in 2019.

Within the Bank, 4.5% of colleagues have declared a disability, compared with 3.8% last year. The proportion of colleagues who identify themselves as lesbian, gay, bisexual and other is 3.8%, which rises to 5.4% for people in senior management positions. This is a 0.1 percentage point increase and 0.9 percentage point decrease on last year.

We continue to increase the diversity of those joining the Bank. Of our experienced hires joining over the past year, 41% were female and 31% were declared BAME. Of our 2021 graduate intake due to join us in September, 48% are female and 40% are declared BAME (in 2020, these figures were 44% female and 35% declared BAME).[1] Of our apprentices, 71% are female and 47% declared BAME.

The Bank has now run three Career Returners programmes, in partnership with Women Returners, a specialist return to work organisation. We have hired 77 returners in total (of which 88% were female and 49% were declared BAME). Of these, 42 are from the current 2021 cohort, of which 86% are female and 48% are declared BAME. We continue to 'pool' appointments at senior level, with appointments made as a cohort rather than individually. Given the improvements that we are seeing as a result of this 'pooled' approach, we are looking at ways to roll this out more widely.

Employee networks

We now have 12 employee networks, all of which play a key role in our inclusion agenda. The networks raise awareness through events and campaigns, support colleagues and work with the Bank to ensure policies, processes and procedures are as inclusive as possible. Over the course of the past year, we have worked with the LGBT+ and Allies network to review the Bank's policies to support Trans colleagues. We have also worked with our Carers network to introduce a new Carers' Leave Policy which provides colleagues with additional flexibility to deal with short-term requirements around their caring responsibilities. In addition we have champions supporting the other three strands of our Inclusion and Sustainability agenda. Our disAbility Network were integral in launching our 'Go4Gold' Disability action plan, setting out how we are working to achieve the Business Disability Forum's gold status Disability Standard.[2]

Our networks and champions adapted quickly to supporting colleagues in a virtual environment over the past year. Some of their key achievements include the introduction of support groups for parents by our Parents+ network and listening sessions run by our BEEM network. The Bank used its buildings in a visual show of support for numerous initiatives, including lighting the Bank blue on Thursday evenings to celebrate NHS and key workers.

1 The figures reported in the 2020 *Annual Report* for graduate hires changed following publication due to reneges and late offers.

2 www.bankofengland.co.uk/-/media/boe/files/about/go4gold-disability-action-plan.pdf.

Box F
Court Review of ethnic diversity and inclusion

In the Autumn of 2020, the Governors and Court commissioned a Court Review into ethnic diversity and inclusion. Although progress has been made in recent years, with the launch of the BAME taskforce, setting targets and introducing various initiatives, we recognise there is more to do to ensure the Bank is truly a diverse and inclusive workplace for all colleagues.

Chaired by one of the Court's independent non-executive directors, staffed by the Bank but supported by an external advisor, the Review was launched with the overarching aim to ensure the Bank is on the right path, with momentum, towards achieving a dual objective of i) attracting and retaining an ethnically diverse workforce at all levels and ii) being a BAME employer of choice.

To achieve these objectives, the Review will take a wide-ranging look at how the Bank is doing on ethnic diversity and inclusion, right across the whole employee lifecycle. This will include analysing data on progress to date, listening to and understanding the lived experience of colleagues and learning from external leaders in this space.

A diverse team of colleagues from across the Bank are undertaking the Review, with oversight from a Steering Group, and our Bank of England Ethnic Minorities (BEEM) network is represented on that group. The Review reports directly to the Bank's Court.

We expect to publish the key findings and recommendations of the Review over the summer.

The Terms of Reference of the Review can be found on the Bank's website.[1]

1 www.bankofengland.co.uk/-/media/boe/files/minutes/2020/tor-reivew-ethnic-diversity-and-inclusion.pdf.

Wellbeing

Although wellbeing has always been a priority for us at the Bank, in 2020 we renewed focus in order to support colleagues through challenging, and unprecedented times.

We ensured our existing support was accessible remotely, such as our in-house counsellor appointments, GP and physio services, employee network events and gym classes. However, we also introduced new frameworks such as Covid-specific wellbeing campaigns and events, support groups and domestic violence guidance.

We ensured we were responding to genuine areas of need for colleagues, by running frequent check-in surveys. As a result of survey responses we reflected our actions on areas such as manager support, return to the office (where legally permitted) and 'Stay Connected' internal campaigns.

In 2020 we also launched our Be Sports and Social Club. Be aims to provide activities, events and sports for current Bank colleagues and pensioners irrespective of their location. Launched in April 2020, Be had to adapt quickly to create a virtual offering. It contributes to the social, physical and psychological wellbeing of our colleagues with opportunities to be involved with a variety of activities.

Working with the Mental Health Network and Wellbeing Champions, in 2020 we further built on previous work:

- we continued the roll-out of Mental Health First Aiders;
- we launched our third 'This is Me' film, focusing on the universality of mental health challenges;
- we launched a bereavement guide and Support Group; and
- we ran cross-network initiatives touching on important areas of intersectionality in wellbeing.

At the start of 2021 we were honoured to be accredited as an 'Excelling' organisation by the City Mental Health Alliance following the Thriving at Work Assessment, for the second time. There was significant progress made towards the top rating of 'Health Creating' and in the year ahead we will further expand, develop and nuance our wellbeing offering to ensure it is inclusive of, and accessible to, all colleagues at the Bank.

Box G
Diversity of social background

A paper outlining our five-year social mobility strategy was taken to Court in February 2020. As a result, a Social Mobility Steering Group was set up covering four workstreams: benchmarking culture; future talent; work experience; and communications.

Volunteers were sought and nearly 40 colleagues expressed an interest in contributing to this work.

Colleagues also took part in the Bridge Group research – 'Who gets ahead and how?'[1] – on socio-economic diversity and inclusion in financial services. The sector findings and recommendations gave us a great insight into common trends. In addition, our survey results gave us a deeper understanding of the socio-mobility mix within the Bank.

We submitted our response to the Social Mobility Employer Index during the summer. The Bank ranked 32nd in the top 75 employers, a significant improvement of our ranking of 41st in the top 50 in 2017. This ranking, alongside the feedback, has validated a lot of our proposed actions and means we can strengthen others.

1 www.thebridgegroup.org.uk/news/seb-in-finance.

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.

Volunteering and work experience

Our Community programme became fully virtual in 2020 and ways were developed to offer colleagues opportunities to fundraise for our charities of the year, or support other charities. This included promoting payroll giving; donating to local charities and supporting our partners; as well as devising virtual fundraising campaigns for staff.

During Volunteers' Week in June we ran a virtual campaign to highlight colleagues' volunteering activities that had taken place in previous years, to encourage people to get involved in their community where possible. We also introduced new virtual volunteering and virtual mentoring opportunities to support young people.

Our in-person work experience programme was not able to operate because of Covid restrictions. Instead we supported the various schemes run by our partner organisations. In addition we held a virtual work experience week in July, which gave us an opportunity to think about our future model.

In 2021 we are focused on providing virtual opportunities for young people to get an insight to working at the Bank of England and plan to run virtual work experience again with our current partners. As part of our five-year social mobility strategy we are reviewing our work experience model and expect to introduce a new framework for 2022.

Charitable giving

We continued to support our charities of the year, Pancreatic Cancer UK and Young Minds, and our partnership with them began early November 2019 running until early November 2020. Our charity banknote auction of the polymer £20 note went ahead, following its release in February 2020. Three charities chosen by staff benefited from the total of £142,420 raised which were our charities of the year and Alzheimer's Research, chosen by staff in Notes Directorate.

At the end of our partnership a total of over £240,000 was donated to our charities of the year, including the money raised from the charity banknote auction.

Our fundraising has supported our charities of the year at a vital time. For Pancreatic Cancer UK it secured Specialist Pancreatic Cancer Nurses to work on the charity's Nurse Support line. For YoungMinds our fundraising meant that we could support the services provided via their Parents' Helpline. Colleagues continue to support our charities of the year through the charitable giving scheme Pennies from Heaven and we received a Platinum Award recognising the ongoing support from our staff, the sixth year to have achieved this. In addition our pensioners were recognised for their support with a Bronze Award.

Case study: Community Champion

Allison Curtiss, Manager, Notes Directorate

'I have been a Community Champion since nominating Haven House Children's Hospice as a charity of the year in 2016. Haven House is very close to our Essex site, and a popular local charity, so we were able to get a lot of support for fundraising and volunteering from Bank staff living in the area. I have supported aspects of the Community programme in different ways since becoming a Community Champion. Most recently I was asked to chair the Panel which shortlists the staff nominations for charities of the year. This required me to oversee discussions, maintain fair judgement and agree the final short list before staff were asked to vote. This was a great experience but not an easy thing to do given the vast array of worthy charities that Bank staff support.'

We began our partnership with our current charities of the year in November 2020 and our fundraising campaigns remain virtual. This year we are fundraising for Childline, a service provided by NSPCC, and Shelter. Our charities of the year are nominated, shortlisted and voted for by staff, and this remained the case for 2020. During the year we also saw an increase in payroll giving as colleagues chose to support the charities close to their hearts, and as the impact of Covid was felt in the charitable sector.

Outreach and education

Our outreach programme has helped the Bank better understand how people across the UK have been impacted by the crisis. During the year around 1,300 people took part in a range of virtual Citizens' Panel events attended by policymakers and the Bank's regional Agents (Box H). We also hosted 13 virtual Community Forums in partnership with various charities across the UK to ensure we heard from lesser-heard groups.

After a successful pilot year, we have extended our partnership with the British Youth Council to deliver our dedicated Youth Forum for 16–25 year olds. Members of the forum are helping the Bank to understand how young people have been affected financially by the pandemic.

Box H
Citizens' Panels

The Bank established Citizens' Panels in 2018 to create a new forum for members of the public to engage with policymakers and other officials.

There are 12 panels covering each of the Bank's Agency areas across the UK. Anyone can apply to be a member of their local panel.

Each panel meets either virtually or in-person with events chaired by independent figures from the local community, and attended by the local Agent and a Bank policymaker or Executive Director. There is also a dedicated online hub for members.

To date, more than 2,900 people have signed up to the Citizens' Panels. They have fed in views on a wide range of issues including jobs and pay, the cost of living, and the future of cash.

In 2020/21 the main topic of discussion has been Covid and the impact it has had on people and communities across the UK.

Panel events have been held virtually and a series of new forums have been created including focus groups on topics including the housing market and climate change, and Q&A sessions with the Governor which are open to all Citizens' Panel members.

Information gathered from the Citizens' Panels feeds into policymakers and teams across the Bank and a report[1] of the key findings is published annually.

1 www.bankofengland.co.uk/get-involved/citizens-panels/the-uk-economy-insights-from-the-bank-of-englands-citizens-panels.

Environment

We are committed to reducing the environmental impact of our operations, through our 'Greener Bank' programme. In recognition of our efforts this year, we won the Chairman's Cup and the Air Quality & Climate Action award in the Clean City Awards and received a special commendation in the Communications and Engagement category.

Carbon emissions

Our carbon reduction 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. This target is in line with the aims of the Paris Agreement and consistent with limiting global warming to 1.5°C above pre-industrial levels.

In April, we switched to renewable electricity and gas and due to Covid restrictions we have also seen a huge reduction in business travel. As a result, our annual carbon footprint is significantly reduced. This has proven that our carbon targets are achievable with a dramatic change in business travel. In order to sustain this carbon reduction, we aim to embed some of the change we have seen into our ways of working in the longer term.

Our carbon footprint is explained in more detail in the Annex on page 76.

Many of our colleagues worked from home for most of the year. While we have not previously included home working in our carbon footprint calculation, we developed a model that would estimate the impact. We have used this analysis to engage with colleagues across the Bank, including highlighting the importance of energy-saving behaviours at home.

Energy management

We have implemented a number of projects to help further reduce our energy consumption. These include taking steps to improve metering of energy use, improving boiler operation at our Debden site and optimising building controls in all of our buildings.

In our Threadneedle Street building, we took the opportunity of a kitchen refurbishment to convert from gas to all electric cooking, which will help reduce our carbon footprint.

Waste and resources management

This year we commissioned a full review of our waste processes in order to propose improvements that will increase our recycling rates. We have begun to implement the recommendations and will look to re-engage our colleagues on waste segregation and recycling when they begin to return to the office in greater numbers. We work closely with our contractors to ensure that any waste they remove on our behalf is reused and recycled wherever possible.

Banknotes

We continue to reduce the carbon footprint of our banknotes through the polymer procurement process, this year securing carbon neutrality for future contracted supply of polymer substrate for all denominations. This will be achieved through a combination of carbon reduction initiatives and offsets purchased by the suppliers. In 2020/21, our carbon emissions from polymer substrate production were almost 20% lower than 2019/20, reflecting the impact of lower note production volumes and existing carbon reduction initiatives. The carbon emissions from substrate production are covered in more detail in 'The Bank of England's climate-related financial disclosure 2021' which is published alongside this *Report*.

This year just under 1.3 billion unfit banknotes were returned to the Bank and required disposal; just under 97% of these were paper banknotes with the vast majority being paper £20s following the launch of the polymer £20. The Bank works with partner organisations to reduce the environmental impact of the destruction of notes. For paper notes, this includes composting and an 'energy from waste' solution.

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

Employee engagement

Our environmental team engage colleagues across the Bank on a regular basis. We are supported by our Green Champions, who work to get their business areas certified against our bespoke internal environmental certification scheme.

We held our annual Green Week this year, virtually for the first time. We ran events, and asked colleagues to take a pledge to make a personal change to be more eco-friendly.

We hold regular Bank-wide engagement campaigns throughout the year, and encourage information sharing through our online Greener Bank discussion group. Given the large increase in home working, we have focused on tips for the home during this time, including food waste prevention, and how to switch to renewable energy tariffs.

Procurement

This year we have made great progress in ensuring the sustainability of our procurement and supply chain by engaging with colleagues across the Bank to ensure environmental considerations are included in tenders where appropriate.

We won the Institute of Environmental Management and Assessment award for sustainable procurement this year, which reflects our work to ensure that sustainability is considered throughout the procurement process.

Health and safety

The health and safety of staff, contractors and visitors is of the utmost importance and we strive to create a safe working environment for all. We constantly monitor the Bank's health and safety performance, and report to the Audit and Risk Committee annually.

A key priority this year was to respond to the Covid pandemic. We began proactive planning for our operational response to the pandemic in January 2020, and have regularly revised our approach since. Our primary control was to ensure where possible colleagues should work from home. The safety team were actively involved in ensuring colleagues' home working environment was adequate. Through an assessment process colleagues were advised on specific items of equipment that would improve the ergonomics of their setup, and allow them to work effectively.

Access to our buildings has changed at various times this year, in line with HM Government guidance. We also ensured that our buildings were Covid-secure for those colleagues who are working within our premises. This included signage, one-way systems and increasing the distance between usable desks. We have also continued our enhanced cleaning regime, increased ventilation, installed temperature sensors and hand sanitising stations at entrances, and provided face masks to colleagues with a need.

During the year to 31 December 2020 there were a total of 12 recorded accidents involving employees, compared to 23 in 2019. None of the recorded accidents was a reportable injury as defined by the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations. Accidents are recorded and investigated, where remedial actions were identified these were implemented to help prevent any reoccurrence.

Case study: Energy management

Paddy Pope, Energy and Carbon Manager

'A key aspect of my role is to ensure that we meet our 2030 carbon reduction target. Even though we have switched to 100% renewable energy supply, energy efficiency is a critical part of what we do. I take a very data-led approach, analysing energy consumption from all our buildings to identify and implement energy, cost and carbon saving projects. I'm fascinated by new technology and how that can help us become more sustainable; I recently used my 3D printer at home to create spare parts for some Bank light fittings, which minimised carbon and waste.'

Annex

Carbon footprint (Greenhouse gas emissions)

		2020/21			2015/16 Baseline year
Type of emissions	**Activity**	**tCO_2e**	**% of total**	**% change from baseline**	**tCO_2e**
Direct (Scope 1)	Natural gas	2,635	25		2,890
	Oil – generators	3	0		5
	Vehicles fleet	51	0		97
	Refrigerants[1]	141	1		53
	Subtotal	**2,830**		-7	**3,045**
Direct (Scope 2)	Electricity	498	5		5,563
	Subtotal	**498**		-91	**5,563**
Indirect (Scope 3)	Electricity – T&D[2]	54	1		1,271
	Air travel	18	0		4,334
	Rail travel	0	0		33
	Water	49	0		60
	Office paper	2	0		96
	Waste	31	0		32
	Subtotal	**154**		-97	**5,826**
	Paper (Notes)	0	0		3,360
	Polymer (Notes)	7,361	68		2,333
	Subtotal[3]	**7,361**		29	**5,693**
Total gross emissions (tCO_2e)		**10,843**		-46	**20,127**
Intensity metric					
Average number of employees		4,437			3,983
Tonnes of CO_2e per employee		2.4			5.1

1 Emissions associated with the use of refrigerants were not accounted in 2016. This figure is an estimate based on an average of the following years.
2 Emissions associated with the Transmission and Distribution of electricity from its production point to the end user.
3 Banknote production was abnormally low in 2015/16 (the baseline year), ahead of the transition to polymer banknotes.

Assessment parameters

Baseline year	2015/16
Reporting organisation	Bank of England
Person responsible	Energy and Carbon Manager
Reporting period covered	1 March 2020 to 28 February 2021
Organisational boundaries	Facilities over which the Bank of England has operational control
Methodology used	ISO 14064-1 and DEFRA Reporting guidelines (2013)
Emissions factors used	UK Government conversion factors for Company Reporting set, market-based emissions factor for electricity
External verification 2016 baseline	Limited assurance to ISO 14064-3 provided by the Carbon Trust

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. RemCo also advises on major changes to remuneration structures within the Bank, including pension schemes. RemCo's aim is to ensure the remuneration policy and all remuneration decisions support the Bank in recruiting and retaining the people it needs, taking account of the market in which we operate and our duty to work in the public interest.

RemCo takes account of external comparisons from the public and private sector when reviewing policy and making remuneration decisions, as well as reviewing internal comparators to help ensure that staff are appropriately and fairly rewarded. We continue to report on our gender and BAME pay gaps which are linked to the Bank's inclusion agenda and can be found under in the 'Our people' section of this *Report* on pages 53–63.

The Governors

The remuneration structure for Governors remains straightforward. Governors receive a salary and specified benefits, but they do not receive any additional benefits allowance or any performance award or other performance-related pay. Governors are eligible to participate in the Career Average section of the Bank Pension Fund on the same basis as employees. When relevant tax limits are reached they may choose to reduce their accrual rates or to opt-out of the pension altogether, receiving a salary supplement in lieu of pension. They may also choose to increase pension accrual subject to a reduction in salary calculated at rates consistent with the Bank's funding valuation. In recent years RemCo has approved pay increases for Governors in line with public sector norms. A similar approach was taken for 2020/21 with pay for Deputy Governors increasing by 1.0%. Mr Bailey's pay remains unchanged.

Governors' remuneration policy

The Governor is appointed by the Crown for a non-renewable term of eight years, and Deputy Governors, with the exception of the Chief Operating Officer, 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 this discretion, a six-month period of restricted duties was imposed on Mr Carney from 15 March 2020. In line with the approach taken after the appointment of Mr Carney as Governor, requiring his relocation from Ottawa to London, the Bank met the costs of his and his family's return to Ottawa. Procurement decisions in that process were taken by the Bank. The net cost to the Bank was £55,010. Under HMRC rules, these costs are also subject to tax, and thus gave rise to a tax liability borne by the Bank of £58,811.

Under the Bank of England Act 1998, Governors and Deputy Governors are required to provide remunerated services only to the Bank. With Court's approval, other directorships relevant to the Bank's work may be accepted, but any fees must be waived or surrendered to the Bank. Directorships held during the past year have been the (statutory) appointment to the Financial Conduct Authority Board held by Mr Woods as Deputy Governor for Prudential Regulation; Mr Bailey sat on the Board of the Bank for International Settlements; and Ms Place was appointed an Independent Non-Executive Director of Persimmon Plc with effect from 1 April 2020.

On Mr Bailey's appointment as Governor with effect from 16 March 2020, RemCo set his salary at £495,000. Like other new Governors, Mr Bailey was eligible to join the Bank's Career Average pension scheme at the same accrual rate as other new joiners (1/95ths), with an opt-out rate of 20%. As well as pension, insurances and health checks were the principal other non-salary benefits received by Governors during the year.

Governors' remuneration

£	Andrew Bailey 2020/21[1]	Andrew Bailey 2019/20	Mark Carney 2020/21[1]	Mark Carney 2019/20	Ben Broadbent 2020/21	Ben Broadbent 2019/20
Base salary	476,596	–	260,308	480,000	283,011	279,517
Taxable benefits[2]	1,989	–	121,830	252,434	15,451	4,494
Pension benefits[3, 4, 5]	–	–	60,890	148,723	–	–
Payment in lieu of pension	95,319	–	–	–	84,816	83,855
Total pension benefits	**95,319**	–	**60,890**	**148,723**	**84,816**	**83,855**
Other remuneration	1,634	–	937	1,728	1,019	1,006
Total remuneration	**575,538**	–	**443,965**	**882,885**	**384,297**	**368,872**

£	Sir Jon Cunliffe 2020/21	Sir Jon Cunliffe 2019/20	Joanna Place 2020/21	Joanna Place 2019/20	Sir Dave Ramsden 2020/21	Sir Dave Ramsden 2019/20
Base salary	283,011	279,517	283,011	279,517	283,011	279,517
Taxable benefits[2]	1,733	1,691	6,854	6,221	1,300	3,419
Pension benefits[3, 4, 5]	–	–	–	–	–	–
Payment in lieu of pension	84,816	83,855	56,544	55,903	56,544	55,903
Total pension benefits	84,816	83,855	56,544	55,903	56,544	55,903
Other remuneration	1,019	1,006	1,019	1,346	1,019	1,006
Total remuneration	370,579	366,069	347,428	342,987	341,874	339,845

£	Sam Woods 2020/21	Sam Woods 2019/20
Base salary	283,011	279,517
Taxable benefits[2]	1,300	1,269
Pension benefits[3, 4, 5]	91,107	86,644
Payment in lieu of pension	–	–
Total pension benefits	91,107	86,644
Other remuneration	1,019	1,006
Total remuneration	376,437	368,436

1 The term served did not cover 12 months in 2020/21 hence remuneration has been pro-rated.

2 The taxable benefits received includes a payment of £25,846 for 14 days leave buy-back for Mr Carney; a payment of £14,151 for 13 days leave buy-back for Mr Broadbent and a payment of £5,987 for 5.5 days leave buy-back for Ms Place.

3 As at 28 February 2021, only Mr Woods was accruing pension and his total accrued pension is £22,611p.a.

4 The increase in pension for Mr Carney is pro-rated. The increase in pension for 2020/21 would have been £82,396, but was reduced by £21,506 to take into account Scheme Pays tax payments, and associated pension debits made to the accrued pension.

5 The increase in pension for Mr Woods for 2020/21 would have been £90,976, but this has been adjusted by £131 as a result of two separate pension debits being applied in the previous tax year.

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 2020/21, the external members of the FPC were each paid at a rate of £97,200p.a., independent PRC members were paid at a rate of £109,700p.a. and the external MPC members were paid £156,500p.a. For 2020/21, all fees were increased by 1.0%, rounded to the nearest hundred. MPC members, who work on average three days a week in the Bank, are also entitled to join the Bank's private medical insurance scheme.

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

Executive Directors' salaries and benefits

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

The table opposite shows, for Executive Directors serving at the end of 2020/21, the first two elements of their remuneration as well as their individual pension accrual rates. In recommending salaries for Executive Directors, RemCo takes into account the differences in their performance as well as their pension accrual and external benchmarks for their roles so as to achieve fair and justifiable total remuneration. In recommending individual performance awards RemCo takes account of both performance against objectives and values, including a specific inclusion objective.

A feature of the Bank's pension scheme is that it allows individuals to vary their rate of pension accrual annually, either by surrendering pension accrual for a cash supplement, including opting out entirely, or by sacrificing salary to secure more pension. Each year RemCo reviews and approves the rates at which pension is exchanged for cash and vice versa to ensure they are consistent with the scheme funding valuation, and updated to reflect market movements and changes in actuarial assumptions. In 2019/20 the decision was taken to reduce rates for those who opt-out of pension entirely. 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. For 2021/22 the rates have been reduced from 50% to 45% (1/50ths), from 38% to 34% (1/65ths) and from 26% to 23% (1/95ths).

£ Year to 28 February 2021	Salary	Benefits	Contractual pension accrual
David Bailey	182,963	14,555	1/65th
Sonya Branch	220,834	17,317	1/95th
Alex Brazier	190,369	15,109	1/50th
Sarah Breeden	188,471	14,967	1/50th
Stephen Brown	173,346	13,835	1/50th
Victoria Cleland	168,100	13,443	1/50th
Jonathan Curtiss	167,280	13,382	1/50th
Rob Elsey	209,136	16,531	1/95th
John Footman	194,901	15,488	1/65th
Charlotte Gerken	193,500	15,343	1/95th
Andy Haldane	194,228	15,398	1/50th
Andrew Hauser	189,445	15,040	1/50th
Afua Kyei	192,558	15,126	1/95th
Sasha Mills	186,562	14,824	1/95th
Lyndon Nelson	227,103	17,857	1/95th
Lea Paterson*	132,519	10,781	1/50th
Gareth Ramsay	167,309	13,384	1/50th
Victoria Saporta	186,636	14,830	1/50th
Christina Segal-Knowles	183,600	14,603	1/95th
Anna Sweeney*	148,160	11,951	1/95th

* 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, RemCo agreed that all active members of the Bank's pension scheme would have a Normal Pension Age (NPA) of 65 for any benefits they accrue from 2020 onwards.

Year to 28 February 2021	Accrued pension £p.a. Feb. 21	Accrued pension £p.a. Feb. 20	Increase in pension £p.a.
David Bailey	£17,071	£15,045	£2,026
Sonya Branch	£13,048	£10,915	£2,133
Alex Brazier*	–	–	–
Sarah Breeden*	–	–	–
Stephen Brown	£39,029	£36,919	£2,110
Victoria Cleland*	–	–	–
Jonathan Curtiss*	–	–	–
Rob Elsey*	–	–	
John Footman*	–	–	–
Charlotte Gerken*	–	–	–
Andy Haldane	£97,946	£94,379	£3,567
Andrew Hauser	£85,353	£83,932	£1,421
Afua Kyei	£3,292	£1,224	£2,068
Sasha Mills*	–	–	–
Lyndon Nelson*	–	–	–
Lea Paterson	£35,843	£33,114	£2,729
Gareth Ramsay	£55,758	£53,333	£2,425
Victoria Saporta*	–	–	–
Christina Segal-Knowles	£4,591	£3,015	£1,576
Anna Sweeney	£9,953	£8,492	£1,461

* Denotes those who have opted out of further pension accrual and 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 and Ms Saporta was granted a deferred pension of £67,956p.a. in 2020.

Fair pay

To show the relationship between levels of remuneration for the Governor and all colleagues, we are reporting our Bank-wide pay ratio again this year. The total remuneration of the highest paid director (Mr Bailey on an annualised basis) was £498,951 in 2020/21. This was 8.2 times the median remuneration of the workforce, which was £61,155.

At the 25th percentile the remuneration of the workforce was £42,089 (a ratio of 11.7) and at the 75th percentile, the remuneration of the workforce was £85,925 (a ratio of 5.8).

For 2019/20, the remuneration of the highest paid director (Mr Carney) was £734,162, 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.

Total remuneration includes salary, benefits whether monetary or in-kind and performance awards for the year ending 28 February 2021 on an full-time equivalent (FTE) basis. It does not include severance payments or employer pension contributions.

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

Other Executives' salaries and benefits

The following table shows remuneration ranges for the year to February 2021 for all staff below Executive Director level with remuneration in excess of £80,000p.a. on a FTE basis, excluding employer pension contributions and performance awards.

Remuneration range £	Number of colleagues
200,000–249,999	2
190,000–199,999	5
180,000–189,999	6
170,000–179,999	11
160,000–169,999	21
150,000–159,999	24
140,000–149,999	43
130,000–139,999	47
120,000–129,000	70
110,000–119,999	85
100,000–109,999	158
90,000–99,999	218
80,000–89,999	360
Total	**1,050**

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.

The separate reports of the Remuneration Committee (page 77) and the Audit and Risk Committee (page 87), insofar as they relate to the Court's Oversight responsibilities, should be seen as part of this *Report*.

Financial management and controls

The Bank's wide-ranging policy initiatives in response to the lockdown are recorded elsewhere in this *Annual Report*. Court's principal concern has been with the implications of these measures for the Bank's risk, controls and operational performance, which have been reviewed both in Court meetings and in the Audit and Risk Committee.

The Bank continued to work effectively through the three lockdown periods, making full use of technology to support working from home, maintaining an operational on-site presence as necessary, and monitoring closely the health and wellbeing of staff.

The Audit and Risk Committee has monitored the changing risk profile of the Bank throughout this period.

Budgets

The Bank underspent its headline budget during 2020/21, reflecting reduced direct costs as a consequence of lockdowns. But outside the headline budget, as originally planned the spend on the RTGS Renewal programme increased due to the start of the delivery phase. These costs will be recovered in due course, and are not charged to profits, but in the meantime intangible assets created by RTGS will reduce the Bank's loss-absorbing capital and its capacity to pay a dividend to the Treasury.

RTGS Renewal

The renewal of the Real-Time Gross Settlement system is by some measure the Bank's biggest project. 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.

Succession planning and appointments

Court has continued to monitor and approve senior appointments, and individual non-executive members have participated in panels for key appointments. Conflict monitoring across all of the Bank's policy committees is routinely reported to Court.

Pensions

The Bank's defined-benefit pension scheme is an important part of its employment offering, though successive reforms have left the Bank with three different accrual rates depending effectively on length of service. The Remuneration Committee has been concerned by the cost and the distribution of benefits and the Bank is currently reviewing the way in which the scheme operates as part of the Bank's employment offering.

The National Audit Office (NAO)

During the year Court reviewed the NAO report on cash in the economy and discussed the Bank's response. The report had noted the declining use of cash in transactions – particularly during the Covid period – but at the same time the amount of cash outstanding had increased, with £50 billion estimated to be held for purposes other than transactions. The NAO had also questioned the amount of notes held as contingency by the Bank, though at the time the amounts were inflated by the change to the new £20 note.

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. During the year, following a presentation from the Bank Ethnic Minorities Network, a major Court-led Review was launched into ethnic diversity and inclusion in the Bank. The Review is currently working through its recommendations; and the Bank is considering the changes that will be needed to create a more inclusive workplace.

The policy committees

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

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

The Enforcement Decision-Making Committee (EDMC)

During the year Sir William Blair presented the EDMC's first Annual Report to Court. The EDMC had been formed to ensure an appropriate degree of separation between those investigating an enforcement case and the decision-makers, and Court welcomed its contribution to the Bank.

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 completed and published a review of the Asset Purchase programme. Although this focused on the purchases between 2009 and 2016, its findings were particularly timely given the major role QE played in the Bank's response to the Covid emergency. The Director of the IEO, Melissa Davey, subsequently gave evidence on the findings to the House of Lords Economic Affairs Committee. The IEO Director also led a preliminary review of the Bank's operational response to the Covid lockdown.

Members of Court attendance

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

1 This includes a Joint meeting of the RTGS Renewal Committee and the RTGS CHAPS Board.

2 Stepped down from Court with effect from 30 September 2020.

Report of the Audit and Risk Committee

Audit and Risk Committee (ARCo)

The Audit and Risk Committee (ARCo) is a sub-Committee of Court. Its remit is approved by Court and set out in its Terms of Reference.[1] ARCo supports Court in meeting its responsibilities for maintaining effective financial reporting systems, internal controls, and risk management.

Membership and Meetings

ARCo consists of three non-executive directors of Court, and the Chair of Court attends meetings by standing invitation. The Deputy Governors for Markets and Banking, for Prudential Regulation, and the Chief Operating Officer attend meetings at the invitation of the ARCo Chair. The Chief Financial Officer, Executive Director for Risk, and Head of Internal Audit 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. Other staff members are invited to attend for specific agenda items.

ARCo meetings are separated into two parts, covering audit and risk matters. The Committee met six times during 2020/21. In addition to regular meetings, ARCo members hold an annual private bilateral discussion with the Governor, as well as with each Deputy Governor, the Chief Operating Officer, the internal and external auditors, the Executive Director for Risk, and the Chief Financial Officer.

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

Audit related items

During the audit matters part of its regular meetings, ARCo received, discussed and, where required approved:

- Regular reports from the Finance Directorate, including on accounting standards and taxation matters; and approved the Bank's taxation strategy ahead of external publication.

- The approach taken for the preparation of the Bank's annual financial statements, including a review of the Bank's draft annual reports and financial statements (which incorporate the PRA's financial reporting requirements), and the Bank of England Asset Purchase Facility Fund Limited (BEAPFF) draft annual report and accounts.

- Regular reports from KPMG, the Bank's external auditors, and the NAO. These included the strategy and scope of the external audits, and updates and reviews of the auditors' findings.

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

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

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

- Internal Audit's Charter, the Annual Audit Plan and resources; implementation of the Plan during the year, any changes to the Plan, including the changes to assure control effectiveness as the Bank changed its operating practices in response to Covid; and scrutinized Internal Audit's Annual Report.

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

Risk-related items

During the risk matters part of its regular meetings, ARCo receive, discussed and, where required approved:

- Regular reports from the Chief Operating Officer summarising major operational, control and risk matters including those relating to strategic Bank initiatives and projects. During 2020/21, the Bank's response to Covid was a major focus of risk reporting to ARCo. This included governance arrangements and the approach for managing and prioritising work; the Bank's policy response to support the UK economy and financial markets; how critical operations and controls were being managed effectively during an extended period of working from home; and people risks and the Bank's response.

- Regular reports from the Executive Director, Risk and quarterly risk reports and updates from the Enterprise Risk and Resilience Division (ERRD) and Financial Risk and Resilience Division (FRRD) covering the main operational and financial risks to the Bank (including the PRA). This included monitoring reports from the Chief Financial Officer and the Financial Risk and Resilience Division on developments relating to the Bank's balance sheet.

- A metrics-based approach developed by ERRD to monitoring key operational risks in the context of the Bank's risk appetite; and updates to the Bank's risk taxonomy.

- Regular updates on the management of current significant projects and related controls from the Projects and Programmes Office, and monitored the progress of large projects, including a consideration of the impact of Covid.

- Regular updates on cyber security from the Chief Information Security Officer (CISO); and 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.

- Deep dive reports into supervision and resolution work.

- Papers on a range of operational matters, including annual reports on Freedom of Information requests; the counterfeit threat; a report from the Money Laundering Reporting Officer; a report from the Data Protection Officer; the Bank's Compliance with the Bribery Act; Compliance Division's report on the staff attestation against the Bank's Code of Conduct; health and safety, and the Bank's insurance arrangements.

- The Secretary's report on the Bank's 'Speak Up' (internal whistleblowing) arrangements.
- A review of the effectiveness of ARCo in early 2021; and approved some minor amendments to the Committee's terms of reference.
- A report on Court members' annual expenses.

Audit and Risk Committee: regular attendees 2020/21[1]

ARCo members	ARCo meetings (6)
Dorothy Thompson	6
Diana Noble	6
Ron Kalifa	6
Hanneke Smits[2] (until 30 September 2020)	3 of 3
Bradley Fried[3]	6
Executive	
Sir David Ramsden	3 of 6
Sam Woods	6
Joanna Place	6
Andrew Hauser	6
Victoria Cleland	3 of 3
Afua Kyei	5 of 5
Nat Benjamin	2 of 2
Executive Director, Risk	
Stephen Brown	6
Internal Auditor	
Ed Moore	6
External Auditor (KPMG)[4]	
Michelle Hinchliffe	6
Sam Subesinghe	5 of 6
Anthony Withers	2 of 2
Richard Faulkner	2 of 2
NAO	
Naseem Ramjan	3 of 4
Simon Helps	6
Marcus Ward	2 of 2

1 Covering ARCo meetings held on 27 March 2020, 1 May 2020, 23 June 2020, 6 October 2020, 27 November 2020 and 26 January 2021.

2 Stepped down from Court 30 September 2020.

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

4 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 28 February 2021 and for the year to that date.

The statements of account of the Issue Department are prepared in accordance with provisions agreed between the Bank and HM Treasury to implement the requirements of the Currency and Bank Notes Acts 1928 and 1954, the National Loans Act 1968 and the Currency Act 1983. The Court of Directors is responsible for ensuring that the statements of account are prepared in accordance with these requirements as at 28 February 2021 and for the year to that date.

The Prudential Regulation Authority financial statement of accounts has been prepared in accordance with the Bank of England Act 1998 (as amended) and the accounts direction given by HM Treasury. The Court of Directors is responsible for ensuring that the statement of accounts of the Prudential Regulation Authority is properly prepared on the basis set out therein, as at 28 February 2021 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 102–04.

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 ('the Bank') and its Shareholder

Report on the audit of the financial statements

Opinion

We have audited:

- the financial statements of the Banking Department for the year-ended 28 February 2021, set out on pages 97–158, which comprise the Banking Department statement of income, statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows, and the related notes, including the accounting policies in note 2;

- the statements of account of the Issue Department for the year-ended 28 February 2021, set out on pages 159–63 which comprise the Issue Department account, statement of balances, and the related notes, including the accounting policies in note 1; and

- the statement of accounts of the Prudential Regulation Authority ('PRA') for the year-ended 28 February 2021, set out on pages 164–72, which comprise the PRA income statement, statement of balances, and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements of the Banking Department for the year-ended 28 February 2021 have been properly prepared, in all material respects, in accordance with the special purpose basis of preparation set out in note 2 on pages 102–03.

- the statements of account of the Issue Department for the year-ended 28 February 2021 have been properly prepared, in all material respects, in accordance with the special purpose basis of preparation set out in note 1 on page 161.

- the statement of accounts of the PRA for the year-ended 28 February 2021 have been properly prepared, in all material respects, in accordance with the special purpose basis of preparation set out in note 1 on pages 166–67.

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, note 1 of the statements of account of the Issue Department, and note 1 of the statement of accounts of the PRA, which describe their respective bases of preparation. As explained in those notes, the financial statements are prepared to assist the Bank in complying with the financial reporting provisions of legislation applicable to the Bank, including the Bank of England Act 1998 ('the 1998 Act') which provides, among other things, that the Bank can 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, the statements of account of the Issue Department and statement of accounts of the PRA may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Going concern

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

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

We also assessed the appropriateness of the going concern disclosure.

Our conclusions based on this work:

- we consider that the Members of Court's use of the going concern basis of accounting in the preparation of the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA is appropriate;
- we have not identified, and concur with the Members of Court's assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Bank's ability to continue as a going concern for the going concern period; and
- we consider that the disclosures relating to going concern made by the Bank in note 2 (c) to the financial statements are appropriate.

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

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

- Inquiry of the Members of Court, the Audit and Risk Committee and internal audit as to the policies and procedures in place to prevent and detect fraud, including the internal audit function, and the Bank's 'whistleblowing' function, as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Inspecting minutes of meetings of the Members of Court and the Audit and Risk Committees;
- Using analytical procedures to identify any unusual or unexpected journal entries; and
- Discussion with KPMG forensic specialists to assist us in identifying industry wide fraud risks.

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

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

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

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted and approved by the same user and those posted to unusual accounts; and
- Performing testing over the payments process and specifically controls around the authorisation of payments.

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

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

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

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

The potential effect of these laws and regulations on the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA varies considerably. First, the Bank is subject to laws and regulations that directly affect the financial statements (including the financial reporting provisions of legislation applicable to the Bank, including the Bank of England Act 1998, and taxation legislation (direct and indirect)) and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items. Second, the Bank is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: anti-money laundering; sanctions and financial crime, data protection , employment and social security. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Members of Court and other management and inspection of legal correspondence, if any. Therefore, if a breach of applicable law or regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

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

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

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

Other information

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

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

Based solely on that work:

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

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

Members of Court's responsibilities

As explained more fully in their statement set out on page 90, 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 102–03, note 1 on page 161 and note 1 on pages 166–67, respectively; determining that the bases of preparation are acceptable in the circumstances; and such internal control as they determine is necessary to enable the preparation of financial statements of the Banking Department, statements of account of the Issue Department and statement of accounts of the PRA that are free from material misstatement, whether due to fraud or error. They are also responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

Report on other legal and regulatory matters

Opinion on regularity

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

Basis for opinion on regularity

We are required by Section 7(5A) of the Bank of England Act 1998, to report whether we are satisfied that the Bank has complied with the requirements of Part 3 of Schedule 1ZB to the Financial Services and Markets Act 2000 (Prudential Regulation Authority fees and penalties) ('FSMA') 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 90.

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

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

Michelle Hinchliffe
for and on behalf of KPMG LLP

Chartered Accountants
15 Canada Square
Canary Wharf
London E14 5GL

26 May 2021

Banking Department statement of income
for the year to 28 February 2021

	Note	2021 £m	2020 £m
Net interest income		16	29
Fee income	5a	34	43
Other income from financial instruments	5a	244	200
Management fees	5a	125	126
Income from regulatory activity	5a	288	279
Other income	5a	68	90
Net operating income		**775**	**767**
Staff costs	5b	(424)	(397)
Infrastructure costs	5b	(92)	(79)
Administration and general costs	5b	(187)	(163)
Operating expenses		**(703)**	**(639)**
Profit before tax		**72**	**128**
Taxation	6	(15)	(11)
Profit after tax		**57**	**117**

The notes on pages 102–58 are an integral part of these financial statements.

Banking Department statement of comprehensive income
for the year to 28 February 2021

	Note	2021 £m	2020 £m
Profit for the year attributable to shareholder		**57**	**117**
Other comprehensive income/(loss) not recycled to profit or loss:			
Property revaluation reserve			
Net losses from changes in fair value		–	(4)
Deferred tax		(2)	1
Financial assets at fair value through other comprehensive income reserve			
Net gains from changes in fair value	17	16	116
Current and deferred tax		(31)	(20)
Deferred tax movement in transitional adjustment on debt securities		(4)	(1)
Other			
Retirement benefit remeasurements	26	(62)	187
Deferred tax		5	(32)
Total other comprehensive (loss)/income not recycled to profit or loss		**(78)**	**247**
Total comprehensive (loss)/income for the year		**(21)**	**364**

The notes on pages 102–58 are an integral part of these financial statements.

Banking Department statement of financial position
as at 28 February 2021

	Note	2021 £m	2020 £m
Assets			
Cash and balances with other central banks	7	1,769	1,004
Loans and advances to banks and other financial institutions	8	125,773	122,849
Other loans and advances	9	785,252	445,003
Securities held at fair value through profit or loss	13	9,869	5,066
Derivative financial instruments	20	134	237
Securities held at amortised cost	16	13,060	12,067
Securities held at fair value through other comprehensive income	17	1,381	1,365
Investments in subsidiaries	24	–	–
Inventories		5	5
Property, plant and equipment	29	484	486
Intangible assets	30	130	85
Retirement benefit assets	26	1,154	1,174
Other assets	31	539	700
Total assets		**939,550**	**590,041**
Liabilities			
Deposits from central banks	10	26,274	15,012
Deposits from banks and other financial institutions	11	803,763	479,419
Deposits from banks — Cash Ratio Deposits	18	11,153	8,790
Other deposits	12	86,869	74,837
Foreign currency bonds in issue	14	4,353	4,799
Derivative financial instruments	20	319	145
Deferred tax liabilities	34	399	352
Retirement benefit liabilities	26	208	219
Other liabilities	32	384	619
Total liabilities		**933,722**	**584,192**
Equity			
Capital	19	15	15
Capital reserves and other reserves	19	1,192	1,184
Retained earnings	19	3,285	3,298
Revaluation reserves		1,336	1,352
Total equity attributable to shareholder		**5,828**	**5,849**
Total liabilities and equity attributable to shareholder		**939,550**	**590,041**

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

Mr A Bailey Governor
Mr S Woods Deputy Governor
Mr B Fried Chair of Court
Ms A Kyei Chief Financial Officer

The notes on pages 102–58 are an integral part of these financial statements.

Banking Department statement of changes in equity
for the year to 28 February 2021

	Note	Capital £m	Capital reserves[1] £m	Other reserves[2] £m	Equity investments reserves £m	Property revaluation reserve £m	Retained earnings £m	Total £m
		Attributable to equity shareholder						
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**
Post-tax comprehensive income/(loss) for the period		–	–	–	(14)	(2)	(5)	(21)
Payable to HM Treasury in lieu of dividend	28	–	–	–	–	–	–	–
Transfer to other reserves		–	–	8	–	–	(8)	–
Balance at 28 February 2021		**15**	**1,180**	**12**	**1,118**	**218**	**3,285**	**5,828**

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 102–58 are an integral part of these financial statements.

Banking Department statement of cash flows
for the year to 28 February 2021

	Note	2021 £m	2020 £m
Cash flows from operating activities			
Profit before taxation		**72**	**128**
Adjustments for:			
Amortisation of intangibles	30	14	12
Depreciation of property, plant and equipment	29	38	33
Dividends received	5a	–	(13)
Net movement in accrued interest and provisions, including pensions		(79)	(84)
Changes in operating assets and liabilities:			
Increase in loan advanced to the Bank of England Asset Purchase Facility Fund Ltd	9	(328,427)	–
Increase in loan advanced to the Covid Corporate Financing Facility Ltd	9	(11,823)	–
Net (increase)/decrease in other advances		(1,455)	15,051
Net (increase)/decrease in securities held at fair value through profit or loss		(3,326)	1,237
Net increase/(decrease) in deposits		347,637	(12,859)
Net decrease in foreign currency bonds in issue		(414)	(1,322)
Net decrease/(increase) in financial derivatives	20	277	(47)
Net increase in other accounts		–	(2)
Net cash inflow from operating activities		**2,514**	**2,134**
Cash flows from investing activities			
Purchase of securities at amortised cost	16	(1,669)	(2,377)
Proceeds from redemption of securities at amortised cost	16	570	505
Dividends received	5a	–	13
Purchase of intangible assets	30	(63)	(50)
Purchase of property, plant and equipment	29	(35)	(41)
Net cash outflow from investing activities		**(1,197)**	**(1,950)**
Cash flows from financing activities			
Net increase in Cash Ratio Deposits		2,363	906
Capital injection from HM Treasury		–	1,180
Payment to HM Treasury under Section 1 (4) of the Bank of England Act 1946	28	(45)	(54)
Net cash inflow from financing activities		**2,318**	**2,032**
Net increase in cash and cash equivalents		**3,635**	**2,216**
Cash and cash equivalents at 1 March	22	8,769	6,553
Cash and cash equivalents at 28 February	22	**12,404**	**8,769**

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 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 159 to 63, 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 164 to 72.

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 UK in accordance with the requirements of the Companies Act 2006.

Disclosure limitations

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.

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.

b Accounts of the Prudential Regulation Authority

The activities of the Bank acting as the Prudential Regulation Authority are reported within the Banking Department's financial statements, on the bases described here. The separate financial statements of the Prudential Regulation Authority, as required by Sections 7(2A) of the Bank of England Act 1998, have been prepared in line with the requirements of the Act and with the accounts direction received from HM Treasury (further details are included in PRA financial statements on pages 164 to 172).

c Going concern

The financial statements for the Banking Department, Issue Department and PRA have been prepared on the going-concern basis. Court has assessed the key financial risks impacting the Bank as disclosed in this report, and the budget for the period of 12 months from the signing of the accounts, and has determined that there are no material uncertainties that may cast significant doubt about the Bank's ability to continue as a going concern and that therefore the going-concern basis is an appropriate assumption to use in preparing the accounts. The Bank has put in place measures to enable it to continue functioning operationally, further details of these have been included in the front section of the *Annual Report*, pages 45–52. This included the consideration of operational risk and other matters.

The Bank specifically considered the potential impact of severe, but plausible economic scenarios on the liquidity and loss-absorbing capital of the Bank as well as the impact on ECL and pensions. The Bank has considered the output of stress testing in its going-concern assessment, see note 21 'Financial risk management'.

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

d Consolidation

Under the Bank of England Act 1998, the financial statements are prepared on a non-consolidated basis as such the financial statements of the Bank's subsidiaries, including the Bank of England Asset Purchase Facility Fund Ltd (BEAPFF) and the Covid Corporate Financing Facility Ltd (CCFF),have not been consolidated. Investments in subsidiaries are stated in the balance sheet at cost, less any provision for impairment in value. Dividends from subsidiaries are recognised in the income statement when declared.

e Foreign currency translation

i Functional and presentation currency

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

ii Transactions and balances

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

f Commitments on behalf of HM Treasury

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

Section 1: Overview continued

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.

b Fair value of equity investments

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

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

Judgements

Expected credit loss

Impairment under IFRS 9 adopts a staging approach, with Stage 1 representing the lowest credit risk and Stage 3 the highest. When a new asset is originated it is classified as Stage 1 (normal origination). Moving from Stage 1 to Stage 2 is a key judgment, and is based on management defined criteria of whether there is a significant increase in credit risk. Given the immaterial impact of expected credit loss this is not considered to be a significant judgement under IAS 1.122.

4 Post balance sheet events

In April, the Bank announced its intention to create a northern hub to increase its staff presence across the United Kingdom. Leeds is the intended location as the Bank has a long-established link with the area. Separately, the Bank has also entered into discussion with Unite the Union, representing affected Bank staff, about a proposal to close its cash distribution centre in Leeds in February 2023.

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 value through other comprehensive income (FVOCI) are recognised in the income statement when declared.

Sundry income

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

Section 2: Results for the year continued

5a Net operating income

	Note	2021 £m	2020 £m
Fee income			
Funding for Lending Scheme fees	15	1	12
Payment services fee income		19	21
Banking operations		14	10
		34	**43**
Other income from financial instruments			
Net income from financial instruments designated at fair value		52	(7)
Income from securities held at amortised cost	16	192	207
		244	**200**
Management fees			
Fee for services to BEAPFF	27	2	–
Fee for services to CCFF	27	3	–
Charges to HM Government bodies	27	120	126
		125	**126**
Income from regulatory activity			
Income from PRA regulatory activity		278	271
Income from Financial Market Infrastructure levy		10	8
		288	**279**
Other income			
Dividend income[1]		–	13
Premises income		8	10
Sundry income		60	67
		68	**90**
Net operating income (excluding net interest income)		**759**	**738**

1 In 2020, £13m dividend income was received from the Bank's unlisted equity investment in BIS. See Accounting Policies on page 121. In 2021, no dividend income was received from BIS in order for BIS to conserve capital in line with the PRA's guidance to the banking sector.

5b Operating expenses

	Note	2021 £m	2020 £m
Staff costs	25	424	397
Total staff costs		**424**	**397**
Infrastructure costs			
Property and equipment		34	32
Depreciation of property, plant and equipment	29	28	24
Operating lease rentals		2	2
Amortisation of intangible assets	30	14	12
Depreciation on Right of Use assets	29	10	9
Impairment of property, equipment and intangible assets		4	–
Total infrastructure costs		**92**	**79**
Administration and general costs			
Consultancy, legal and professional fees		103	64
Subscriptions, publications, stationery and communications		4	5
Travel and accommodation		1	6
Other administration and general expenses		79	88
Total administration and general costs		**187**	**163**
Operating expenses		**703**	**639**

Section 2: Results for the year continued

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	2021 £m	2020 £m
Current year corporation tax		–	–
Prior year corporation tax		–	–
Deferred tax — current year	34	15	11
Deferred tax — prior year		–	–
Tax charge on profit		**15**	**11**

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:

	2021 £m	2020 £m
Profit before tax	**72**	**128**
Tax calculated at rate of 19.00% (2020: 19.00%)	14	24
Tax relief on payment in lieu of dividend to HM Treasury	–	(7)
Unrelieved payment to HM Treasury carried forward	–	(2)
Non-deductible expenses	1	–
AFS transitional adjustments	(11)	–
Matured securities recycled to income statement	–	(1)
Dividend not subject to corporation tax	–	(2)
Difference between current and deferred tax rate	12	(1)
Prior year items	(1)	–
Total tax charge for the period	**15**	**11**

Tax charged/(credited) to equity through other comprehensive income:

	Note	2021 £m	2020 £m
Tax charged/(credited) to equity through other comprehensive income			
Current year corporation tax		–	–
Deferred tax	34	32	52
Tax charged/(credited) to equity through other comprehensive income		**32**	**52**

	2021 £m	2020 £m
Tax charged/(credited) to equity through other comprehensive income		
Revaluation of FVOCI securities	14	34
Tax losses carried forward	–	(11)
Revaluation of property	–	(1)
Remeasurements of retirement benefits	(12)	36
Difference between current and deferred tax rate	30	(6)
Tax charged/(credited) to equity through other comprehensive income	**32**	**52**

The main UK corporation tax rate was 19% for the year beginning 1 April 2020 (1 April 2019: 19%). The effective rate for the year-ended 28 February 2021 is 20.16% (2020: 8.90%).

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.

Business model assessment

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

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

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

Solely payments of principal and interest (SPPI) criteria

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

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

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

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

Financial assets at amortised cost

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

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

Financial assets at fair value through profit or loss

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

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

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

Section 3: Financial assets and liabilities continued

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 104.

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

The Bank has no modified financial instruments.

iv Impairment of financial assets

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

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

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

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

Measurement of ECLs

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

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

Definition of default

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

Significant increase in credit risk

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

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

Impairment under IFRS 9 adopts a staging approach. When a new asset is originated it is classified as Stage 1 (normal origination). Moving from Stage 1 to Stage 2 is a judgement based on management defined criteria of whether there is a significant increase in or absolute amount of credit risk (note 3). Staging determines whether 12-month ECL (Stage 1) or lifetime ECL (Stage 2 and 3) is applicable. If the indicators of significant increase in credit risk are no longer present then the asset returns from Stage 2 to Stage 1. The move from Stage 2 to Stage 3 is based upon 'default'. 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 the Financial Risk Management Division (FRMD).

Section 3: Financial assets and liabilities continued

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

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

Forward-looking information

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

ECL calculation

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

When an ECL is identified, the carrying amount of the asset would be reduced and the amount of ECL is recognised in the income statement. At 28 February 2021 the Bank recognised an ECL provision less than £1m (2020: 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.

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	2021 £m	2020 £m
Cash and balances with other central banks	22	1,769	1,004
		1,769	**1,004**

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

8 Loans and advances to banks and other financial institutions

	2021 £m	2020 £m
Secured lending agreements held at amortised cost	538	3,048
Reverse repurchase agreements held at fair value through profit and loss	10,369	12,592
Other loans and advances	3	–
Term Funding Scheme loans	39,451	107,209
Term Funding Scheme with additional incentives for small and medium-sized enterprises (SMEs) loans	75,412	–
	125,773	**122,849**

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).

Section 3: Financial assets and liabilities continued

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 28 February 2021 loans and advances to banks and other financial institutions included cash and cash equivalents of £8,874m (2020: £7,407m) which are disclosed in note 22.

Term Funding Scheme Loans

Term Funding Scheme (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. TFS income is capital neutral as scheme fees are paid over to BEAPFF and Bank Rate income is offset by the Bank's liabilities on the corresponding reserves created.

Accrued interest on TFS are disclosed in note 31 'Other assets'.

Term Funding Scheme with additional incentives for SMEs

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

The TFSME is designed to:

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

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

TFSME income reflects Bank Rate on TFSME loans, with no penalty fees receivable in the year. TFSME income is capital neutral as Bank Rate income is offset by the Bank's liabilities on the corresponding reserves created. Any future TFSME penalty fees would be retained by the Bank as income.

Accrued interest for TFSME is disclosed note 31 'Other assets'.

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

9 Other loans and advances

	2021 £m	2020 £m
Loan to the Bank of England Asset Purchase Facility Fund Ltd	773,424	444,997
Loan to the Covid Corporate Financing Facility Ltd	11,823	–
Term loans	5	6
	785,252	**445,003**

Loan to the Bank of England Asset Purchase Facility Fund Ltd

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

The APF transactions are undertaken by a subsidiary company of the Bank of England – the Bank of England Asset Purchase Facility Fund Limited (BEAPFF). The transactions are funded by a loan from the Bank, the loan amount excluding accrued interest due from BEAPFF as at 28 February 2021 is £773,424m (2020: £444,997m).

Accrued interest of £53m on the loan is recognised in note 31 'Other assets'.

Loan to the Covid Corporate Financing Facility Ltd (CCFF)

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

The CCFF is operated by the Bank of England on behalf of HM Treasury. The Bank acts as the agent of the Company for all commercial paper purchases, following eligibility guidelines as agreed with HM Treasury. HM Treasury, as the ultimate risk-owner of the CCFF, holds the final decision on whether an issuer is eligible to use the facility. It is a wholly-owned subsidiary of the Bank of England. CCFF closed for new purchases of commercial paper from 23 March 2021. The transactions are funded by a loan from the Bank, the loan amount excluding accrued interest due from CCFF as at 28 February 2021 is £11,823m (2020: £nil), as per CCFF accounts.

Accrued interest of £14m on the loan is recognised in note 31 'Other assets'.

10 Deposits from central banks

	2021 £m	2020 £m
Deposits repayable on demand	3,991	1,437
Term deposits held at fair value through profit and loss	22,283	13,575
	26,274	**15,012**

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

Accrued interest on deposits repayable on demand is recognised within 'Short term creditors and other liabilities' in note 32 'Other liabilities'.

Section 3: Financial assets and liabilities continued

11 Deposits from banks and other financial institutions

	2021 £m	2020 £m
Deposits repayable on demand	803,763	479,365
Repurchase agreements	–	54
	803,763	**479,419**

Accrued interest on deposits repayable is recognised within 'Short-term creditors and other liabilities' 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

	2021 £m	2020 £m
Deposit by Issue Department	78,524	66,552
Public deposits repayable on demand	3,935	2,849
Other deposits repayable on demand	4,410	5,436
	86,869	**74,837**

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

Foreign exchange reserves

13 Securities held at fair value through profit or loss

	2021 £m	2020 £m
Money market instruments	6,610	1,449
Listed foreign government securities	3,259	3,617
	9,869	**5,066**

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 28 February 2021 money market instruments included cash and cash equivalents of £1,761m (2020: £358m) which are disclosed in note 22.

14 Foreign currency bonds in issue

	2021		2020	
	Fair value £m	Nominal US$m	Fair value £m	Nominal US$m
Total amounts issued to third parties	4,353	6,000	4,799	6,000

The Bank's foreign exchange reserves can be used by the Bank to intervene in the foreign exchange market in pursuit of its monetary policy objectives. This was set out in the Monetary Policy Framework[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.

At 28 February 2021, 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 (2020: three US$2,000m three-year dollar bonds); the first maturing on 5 March 2021, the second on 22 February 2022 and the third on 28 April 2023.

The most recent bond (the 15th in the overall programme) was issued on 2 March 2021 with settlement on 9 March 2021. This bond matures on 8 March 2024. Refer to the Foreign Currency Reserves 2021 Market Notice[3] for further details of the issuance.

All changes in fair values since 1 March 2020 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.

Of the above liabilities to third parties, £2,912m (2020: £1,579m) fall due within one year.

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

2 www.bankofengland.co.uk/quarterly-bulletin/2011/q3/markets-and-operations-2011-q3.

3 www.bankofengland.co.uk/markets/market-notices/2021/march/foreign-currency-reserves-2021-market-notice-2-march-2021.

Section 3: Financial assets and liabilities continued

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.

				2021		2020	
	Up to 1 year £m	1 to 3 years £m	3 to 5 years £m	Nominal £m	Fair value £m	Nominal £m	Fair value £m
Securities lent to banking groups and other financial institutions	142	–	–	142	142	1,455	1,452
Securities borrowed from the DMO	(142)	–	–	(142)	(142)	(1,455)	(1,452)
Total obligations	**–**	**–**	**–**	**–**	**–**	**–**	**–**

As of the end of February 2021 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. Three groups had outstanding drawings as at the end of February 2021 (2020: 7 groups). Treasury bills with a market value of £0.1bn had been lent to the participants at year-end (2020: £1.5bn). The Bank has borrowed these Treasury bills from the DMO to whom they are owed back. In the year to 28 February 2021, the Bank recognised income of £1m from FLS (2020: £12m).

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, after considering the financial needs of the Bank and subject to approval of both Houses of Parliament. This is reviewed, at the latest, every five years and was last reviewed in May 2018.

The PRA is funded through a levy, further details can be found in the PRA statements (pages 164 to 172).

Accounting Policies

Debt securities

British Government securities and other sterling securities are held as investments and are one of the principal sources of income for the Bank.

The Bank holds these securities for the long term, generally to maturity. All debt securities have fixed coupons.

See Section 3 for accounting policies on financial assets.

Unlisted equity investments

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

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

The Bank's investment in the Bank for International Settlements (BIS) (incorporated in Switzerland) consists of shares of 5,000 Special Drawing Rights, which are 25% paid. At 28 February 2021 the holding represents 6.6% (2020: 8.5%) of the issued share capital.

The investment has been valued based on the adjusted net asset value basis providing a value of £1,381m (2020: £1,365m).

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 (2020: £14m).

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 £185m (2020: £191m). The balance of £185m 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.

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

Indemnified operations

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

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

The CCFF is operated by the Bank of England on behalf of HM Treasury. CCFF'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

	2021 £m	2020 £m
British Government securities listed on UK exchange	13,060	12,067
	13,060	**12,067**

	2021 £m	2020 £m
At 1 March	12,067	10,302
Purchases	1,696	2,381
Redemptions	(570)	(505)
Amortisation of premium/discount and movement in accrued interest	(133)	(111)
At 28 February	**13,060**	**12,067**

Securities held at amortised cost relate to the Cash Ratio Deposit (CRD) scheme and the Bank's free capital and reserves. Under the CRD scheme, institutions place non-interest bearing deposits at the Bank of England, as reported in note 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 28 February 2021 were £60m (2020: £33m). The cash purchases for the year are £1,669m (2020: £2,377m). The variance between £1,696m and £1,669m is due to differences in the timing of settlement.

Income recognised in the year ended 28 February 2021 for the Bank's securities held at amortised cost was £192m (2020: £207m). In the current and prior year this comprises interest income and purchase premium amortisation.

17 Unlisted equity investments at fair value

	2021 £m	2020 £m
Unlisted equity investments at fair value	1,381	1,365
	1,381	**1,365**

	2021 £m	2020 £m
At 1 March	1,365	1,249
Revaluation of securities	58	98
Foreign currency (losses)/gains	(42)	18
At 28 February	**1,381**	**1,365**

18 Cash Ratio Deposits

	2021 £m	2020 £m
Cash Ratio Deposits	11,153	8,790
	11,153	**8,790**

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

	2021 £m	2020 £m
Capital	15	15
Capital reserve and other reserves	1,192	1,184
Retained earnings	3,285	3,298
	4,492	**4,497**

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.

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

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.

a As at 28 February 2021

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

b 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)**

The net movement on derivatives in the year is £277m from a net asset position of £92m as at 29 February 2020 to a net liability position of £185m as at 28 February 2021 (2020: movement of £47m from a net asset position of £45m as at 28 February 2019).

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.

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

- 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).[1] 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.

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

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

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

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

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

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

Collateral management

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

In the Bank's Indexed Long-Term Repo Operations, Discount Window Facility, Contingent Term Repo Facility, Funding for Lending Scheme, Term Funding Scheme and Term Funding Scheme with additional incentives for SMEs, the Bank accepts a wide range of private sector collateral. The collateral can include mortgage-backed securities, covered bonds backed by mortgages or public sector securities, other asset-backed securities (such as those backed by credit card receivables, student loans or auto loans), or portfolios of loans in unsecuritised form. The collateral must meet published eligibility criteria.

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

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

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

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

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

Geographical concentration of assets and liabilities

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

	2021 £m	2020 £m
Assets		
United Kingdom	918,456	571,282
Rest of Europe	14,383	15,671
Rest of the world	6,711	3,088
Total assets	**939,550**	**590,041**

	2021 £m	2020 £m
Liabilities and equity		
United Kingdom	905,510	570,342
Rest of Europe	12,345	4,797
Rest of the world	21,695	14,902
Total liabilities and equity	**939,550**	**590,041**

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.

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

Foreign currency liquidity risk

As at 28 February 2021	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	1,769	–	–	–	–	1,769
Loans and advances to banks and other financial institutions	3,288	6,177	903	–	–	10,368
Securities held at fair value through profit and loss	2,089	2,995	3,121	1,866	–	10,071
Derivative financial instruments:						
Cash inflow	5,110	6,152	1,628	676	–	13,566
Cash outflow	(5,018)	(6,175)	(1,624)	(748)	–	(13,565)
Other assets	–	–	–	–	–	–
Total assets	**7,238**	**9,149**	**4,028**	**1,794**	**–**	**22,209**
Liabilities						
Deposits from central banks	4,679	9,452	2,794	–	–	16,925
Deposits from banks and other financial institutions	15	–	–	–	–	15
Other deposits	592	–	–	–	–	592
Foreign currency bonds in issue	1,430	–	1,431	1,431	–	4,292
Derivative financial instruments:						
Cash inflow	(4,460)	(2,519)	(1,378)	(972)	–	(9,329)
Cash outflow	4,624	2,532	1,544	1,002	–	9,702
Other liabilities	–	–	–	–	–	–
Total liabilities	**6,880**	**9,465**	**4,391**	**1,461**	**–**	**22,197**
Net liquidity gap	**358**	**(316)**	**(363)**	**333**	**–**	**12**
Cumulative gap	**358**	**42**	**(321)**	**12**	**12**	**–**

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

d Fair value of financial assets and liabilities

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

As at 28 February 2021	Note	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets					
Loans and advances to banks and other financial institutions	8	–	10,369	–	10,369
Securities held at fair value through profit or loss	13	7,670	2,199	–	9,869
Derivative financial instruments	20	–	134	–	134
Unlisted equity investments at fair value	17	–	–	1,381	1,381
Total assets		**7,670**	**12,702**	**1,381**	**21,753**
Liabilities					
Deposits from central banks	10	–	22,283	–	22,283
Foreign currency bonds in issue	14	4,353	–	–	4,353
Derivative financial instruments	20	–	319	–	319
Total liabilities		**4,353**	**22,602**	**–**	**26,955**

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**

There have been no transfers between levels in the year.

Level 1 Valued using unadjusted quoted prices in active markets for identical financial instruments.
Level 2 Valued using techniques that rely upon relevant observable market data. This category of instruments comprised derivatives, repurchase transactions, commercial paper and deposits.
Level 3 Valued using techniques where at least one input that could have a significant impact on the valuation is not based on observable market data. During the year this category consisted entirely of unlisted equity investments, primarily the Bank's investment in the Bank for International Settlements (note 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 2020 £m	Cash flows £m	At 28 February 2021 £m
Cash and balances with other central banks	7	1,004	765	1,769
Loans and advances to banks and other financial institutions	8	7,407	1,467	8,874
Securities held at fair value through profit and loss	13	358	1,403	1,761
		8,769	**3,635**	**12,404**

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.

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

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 28 February 2021 amounted to £129m (2020: £29m), relating primarily to plant and machinery purchases.

In addition the Bank did not have any contingent capital commitments outstanding at 28 February 2021 (2020: 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.

– Covid Corporate Financing Facility Ltd 1 ordinary share of £1, principal activity is to operate the CCFF on behalf of HM Treasury.

The registered office for all subsidiaries is 8 Lothbury, London, EC2R 7HH.

Section 5: People and related parties

This section describes a range of employment and post-employment benefits provided to our people and our relationships with other key people.

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.

	2021 £m	2020 £m
Wages and salaries	301	292
Social security costs	38	37
Pension and other post-retirement costs	84	64
Costs of restructuring	1	4
	424	**397**

Average number of employees

The average number of persons employed by the Bank during the year was made up as follows:

	2021	2020
Governors and other members of Executive Team	27	25
Managers and analysts	3,283	3,174
Other staff	1,127	1,196
	4,437	**4,395**

The number of persons employed by the Bank at the end of February 2021 was 4,581 of which 3,945 were full-time and 636 part-time (2020: 4,339; with 3,721 full-time and 618 part-time). These staff numbers relate to the costs disclosed in this note.

Section 5: People and related parties continued

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 2020; it used the Defined Accrued Benefit Method. Under this method, active members are assumed to leave the Fund on the date of the valuation and hence the past service liability does not include an allowance for any salary increases or in-service CARE revaluation after that date. Instead members' benefits are assumed to increase in line with the deferred pension revaluation assumptions.

The valuation as at 29 February 2020	£m
Value of Fund assets	4,933
Actuarial value of scheme liabilities in respect of:	
– In-service members	(1,296)
– Deferred pensioners	(1,021)
– Current pensioners and dependants	(2,297)
– GMP equalisation reserve	(14)
- RPI consultation reserve	(125)
– Members' additional voluntary contributions	(1)
Total	**(4,754)**
Scheme surplus	**179**
Funding level	**104%**
Service contribution rate for March	**52.2%**

For the 2020 valuation, the liabilities were valued by the actuary on an index-linked gilt yield discount rate, and no credit was taken in advance for the possibility that returns on investments held by the Fund would exceed the long-term interest rate. Allowance was made for past and prospective mortality improvements. The rate of RPI inflation used in the valuation and the pension increase assumption was based upon the RPI inflation curve.

As the scheme was in surplus as at the valuation date, no deficit reduction contributions are currently required to be paid into the scheme. Expected future contributions are only in respect of meeting the cost of future benefit accrual.

Excluded from the contribution rate is the cost of administration and other services which is met by the Bank.

Summary of amounts recognised in the financial statements under IAS 19

In the statutory financial statements the Bank accounts for pension costs, other post-retirement benefits and related redundancy provisions in accordance with IAS 19 (Employee Benefits). Under the standard, the difference between the market values of scheme assets and the present value of scheme liabilities is reported as a surplus or deficit in the balance sheet. The accounting value is different from the result obtained using the funding basis.

The accounts show a significantly greater surplus than the surplus in the scheme funding valuation. The main reason for this is the different assumptions used to value the liabilities in the accounting and funding valuations for the main scheme.

The scheme funding valuation assumptions are used to determine the contributions that the Bank is required to pay into the scheme to ensure that the scheme has sufficient assets to pay all the benefits due in future. Regulations require that the scheme funding assumptions are set conservatively and take account of the scheme's investment strategy. As the scheme's assets are invested primarily in index-linked gilts, the discount rate used to value the liabilities is set based on an index-linked gilt yield. In addition, the mortality assumption is set based on prudent principles (ie assuming members have long life expectancies). These assumptions place a relatively high value on the scheme's liabilities.

By contrast, accounting regulations require all companies to value their pension scheme liabilities on 'best estimate' assumptions, and to use a discount rate that is based on high-quality corporate bond yields. As corporate bond yields are generally higher than gilt yields, this approach places a lower value on pension scheme liabilities. The use of a best estimate mortality assumption for accounting purposes also reduces the value placed on the liabilities compared to the prudent scheme funding valuation.

Section 5: People and related parties continued

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.

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.

Section 5: People and related parties continued

Amounts recognised as assets/(liabilities) in the balance sheet

	Note	2021 £m	2020 £m
Funded pension schemes	(i)	1,154	1,174
Unfunded post-retirement benefits:			
Redundancy provisions	(ii)	(64)	(68)
Other pension schemes	(iii)	(8)	(9)
Medical scheme	(iv)	(136)	(142)
Subtotal unfunded post-retirement benefits		(208)	(219)
		946	**955**

Pension expense recognised in the income statement

	Note	2021 £m	2020 £m
Funded pension schemes	(i)	76	56
Unfunded post-retirement benefits:			
Redundancy provisions	(ii)	1	2
Other pension schemes	(iii)	–	–
Medical scheme	(iv)	3	4
		80	**62**

Remeasurements recognised in the statement of comprehensive income

	Note	2021 £m	2020 £m
Funded pension schemes	(i)	(67)	204
Unfunded post-retirement benefits:			
Redundancy provisions	(ii)	1	(2)
Other pension schemes	(iii)	–	–
Medical scheme	(iv)	4	(15)
		(62)	**187**

Risks

The main risks to which the Bank is exposed in relation to the funded pension scheme are:

- Mortality risk – the assumptions adopted by the Bank make allowance for future improvements in life expectancy. However, if life expectancy improves at a faster rate than assumed, this would result in greater payments from the Fund and consequently increases in the scheme's liabilities. The Bank and the Trustee review the mortality assumption on a regular basis to minimise the risk of using an inappropriate assumption.

- Investment risk – the Fund invests the vast majority of its assets in a portfolio of UK Government bonds as the changes in the value of the bonds more closely match the movements in the Fund's liabilities. There are risks with the selected portfolios such that it does not match the liabilities closely enough, or that as it matures there is a risk of not being able to reinvest the assets at the assumed rates. The scheme's trustees review the structure of the portfolio on a regular basis to minimise these risks;and

- Inflation risk – the majority of the scheme's liabilities increase in line with inflation; and so if inflation is greater than expected, the liabilities will increase. The scheme's investment strategy 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

	2021			2020		
	Main pension scheme £m	Other pensions £m	Medical scheme £m	Main pension scheme £m	Other pensions £m	Medical scheme £m
Current service cost	98	–	1	80	–	1
Past service cost	–	–	–	–	–	–
Net interest on the net defined liability/asset	(22)	1	3	(24)	2	3
Total pension expense	**76**	**1**	**4**	**56**	**2**	**4**

Section 5: People and related parties continued

Remeasurements recognised in other comprehensive income

	2021			2020		
	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	473	(32)	(25)	269	(30)	(10)
Actuarial gains arising from changes in demographic assumptions	(22)		(1)	37	–	1
Actuarial losses arising from changes in financial assumptions	164	1	5	(322)	(4)	(14)
Actuarial gains/(losses) arising from experience on the scheme's liabilities	56			(11)	2	(2)
Return on scheme's assets excluding interest income	(265)			500	–	–
Remeasurements recognised at the end of the period	**406**	**(31)**	**(21)**	**473**	**(32)**	**(25)**

Reconciliation of present value of defined-benefit obligation

	2021			2020		
	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	3,757	77	142	3,442	78	129
Current service cost	98	–	1	80	–	1
Past service cost	–	–	–	–	–	–
Interest expense	68	1	3	86	2	3
Actuarial gains arising from changes in demographic assumptions	22		1	(37)	–	(1)
Actuarial losses arising from changes in financial assumptions	(164)	(1)	(5)	322	4	14
Actuarial (gains)/losses arising from experience on the scheme's liabilities	(56)	–	–	11	(2)	2
Benefits paid out	(148)	(5)	(6)	(147)	(5)	(6)
Present value of defined obligation at the end of the period	**3,577**	**72**	**136**	**3,757**	**77**	**142**

During the reporting period there have been no plan amendments, curtailments or settlements.

Reconciliation of the fair value of assets

	2021			2020		
	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	4,931	–	–	4,369	–	–
Interest income	90	–	–	110	–	–
Return on scheme's assets excluding interest income	(265)	–	–	500	–	–
Bank contributions	123	5	6	99	5	6
Benefits paid out	(148)	(5)	(6)	(147)	(5)	(6)
Fair value of scheme's assets at the end of the period	**4,731**	**–**	**–**	**4,931**	**–**	**–**

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:

	2021 %	2020 %
Discount rate	2.0	1.8
Rate of increase in salaries	3.0	3.2
Rate of increase of pensions in payment[1]	2.8	2.8
Rate of increase for deferred pensioners[1]	2.8	2.8

1 This represents a weighted average of RPI and CPI, which are the indices used in the scheme.

The discount rate assumption reflects the investment return on a high-quality corporate bond at the balance sheet date, as required by the standard.

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.

Section 5: People and related parties continued

The assumption for life expectancy for the scheme assumes that a male member reaching 60 in 2021 will live for 27.2 years (2020: 26.9 years) and a female member 29.5 years (2020: 29.0 years), and a male member reaching 60 in 2041 will live for 28.7 years (2020: 28.4 years) and a female member 31 years (2020: 30.5 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.

In addition, the Bank has updated the base table assumptions to use the latest available and to reflect the analysis of the scheme's membership carried out as part of the most recent scheme funding valuation. This has increased the value placed on the liabilities.

Allowance has been made for the impact of Covid on life expectancies taking account of the immediate impact of the pandemic and the characteristics of the scheme's membership. This has been allowed for via an adjustment to the weighting applied to the base table assumptions and has reduced the value of the liabilities by around 0.7% or £25m.

The overall effect of the changes to the mortality assumptions has been to slightly increase the value of the liabilities.

The assets in the scheme were:

	Maturity profile £m			2021 Total value	2021 Percentage of total value	2020 Total value	2020 Percentage of total value
	0–5 years	5–15 years	over 15 years	£m	%	£m	%
UK Government fixed-interest bonds	30	126	252	408	9	356	7
UK Government index-linked bonds	286	672	1,832	2,790	59	2,986	61
Corporate index-linked bonds	270	17	1,181	1,468	31	1,490	30
Cash and other assets	65	–	–	65	1	99	2
Total market value of investments	**651**	**815**	**3,265**	**4,731**	**100**	**4,931**	**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 £957m were quoted and £511m were unquoted (2020: £969m quoted and £521m unquoted). Of the corporate index-linked bonds £1,442m (2020: £1,465m) were guaranteed by the UK Government.

The fair value of financial instruments has been determined using the following fair value hierarchy:

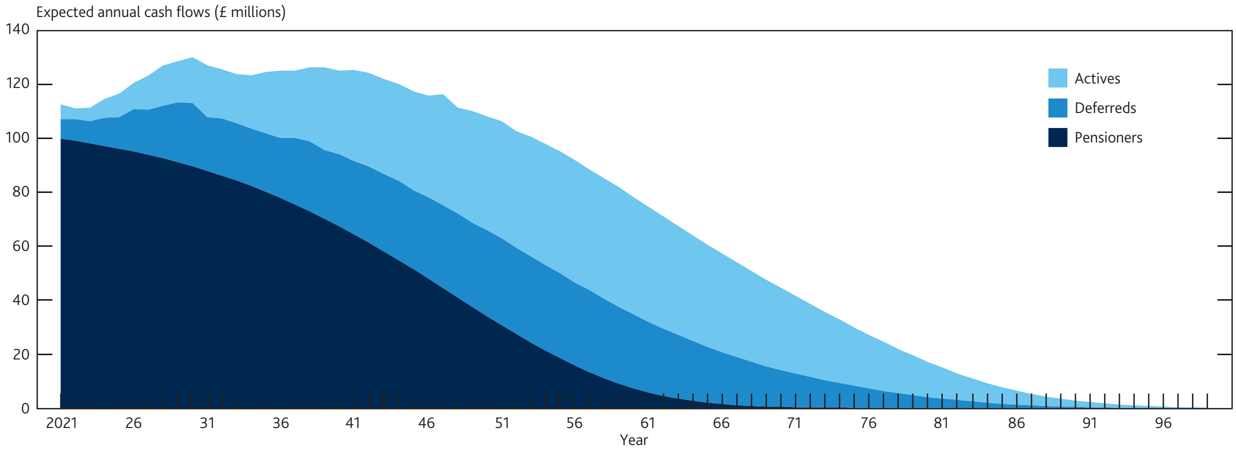
- Level 1 £3,200m – were valued using an unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 £1,468m – were valued using inputs other than quoted prices included within Level 1 that are observable (ie developed using market data) either directly or indirectly; and
- Level 3 £1m – where inputs were unobservable (ie for which market data is unavailable).

Main scheme

	2021 £m	2020 £m
Present value of defined-benefit obligations:		
– Active members	(959)	(999)
– Deferred members	(748)	(803)
– Pensioners	(1,862)	(1,947)
– GMP equalisation reserve	(8)	(8)
Total present value of defined-benefit obligations	(3,577)	(3,757)
Assets at fair value	4,731	4,931
Defined-benefit asset	**1,154**	**1,174**

The Bank has recognised the net surplus in full on the balance sheet as it can realise any surplus on the winding up of the scheme after all other benefits have been paid in full in accordance with the scheme's rules, which can only be amended with agreement between the Bank and the Trustees.

The duration of the pension scheme liabilities is in the region of 20 years. The expected future monthly cash flows from the scheme (based only on the past service liabilities built up by 28 February 2021) are shown in the chart below.



A +/- 0.1% change to the discount rate would change the surplus on the pension scheme by +/- £71m (2020: +/- £76m).

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 +/- £48m (2020: +/- £53m).

A +/- 0.5% change to the assumed rate of increases in salaries would change the surplus on the pension scheme by +/- £21m (2020: +/- £26m).

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 £134m (2020: £136m).

The Bank paid contributions of £129m in March 2021 (2020: £122m).

Section 5: People and related parties continued

Redundancy provisions

	2021 £m	2020 £m
Unfunded defined-benefit liability	**(64)**	**(68)**

The Bank expects to make payments of £3m in the forthcoming year (2020: £3m).

Other pension schemes

	2021 £m	2020 £m
Unfunded defined-benefit liability	**(8)**	**(9)**

The Bank expects to make payments of less than £1m in the forthcoming year (2020: less than £1m).

During the year to 28 February 2021 the Bank incurred services costs of less than £1m (2020: 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 pages 143–44). The level at which claims are assumed to arise on average has been taken in line with that used for the 2020 disclosures. For accounting purposes the following assumptions have been made in respect of medical expense inflation:

	2021 %	2020 %
Initial medical trend	5.0	5.0
Ultimate medical trend	5.0	5.0
Years to ultimate	–	–

Post-retirement benefits – medical

	2021 £m	2020 £m
Unfunded defined-benefit liability	**(136)**	**(142)**

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 (2020: £2m) and a 1% increase in the rate of medical claims by £22m (2020: £24m). 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 (2020: £6m).

The Bank expects to pay premiums of £5m in the forthcoming year (2020: £6m).

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); and
- management of the note issue.

The Bank also engaged in transactions with the Financial Services Compensation Scheme and other related parties.

The aggregate balances on HM Treasury and other public sector accounts are disclosed in note 12 as public deposits. The total charges made to the Government totalled £120m (2020: £126m) as disclosed in note 5a. The breakdown is as follows:

- services provided to the EEA of £6m (2020: £6m), under the current temporary arrangement to share the costs of the EEA;
- issue department £112m (2020: £118m);
- banking services to HM Government £2m (2020: £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 28 February 2021 the Bank had borrowed Treasury bills with a nominal value of £0.1bn (2020: £1.5bn) under the Bank's Funding for Lending Scheme. The Bank has paid the DMA a loan fee of £13,000 (2020: £0.1m) 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 £5m in 2021 (2020: £16m).

HM Treasury

HM Treasury continued to indemnify the activities of the Bank of England Asset Purchase Facility Fund Ltd and provided an indemnity for the operations of the Covid Corporate Financing Facility (CCFF) during the year.

Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS) is the United Kingdom's statutory fund of last resort for customers of authorised financial services firms set up under the Financial Services and Markets Act 2000 (FSMA). The FSCS is independent from the Prudential Regulation Authority and Financial Conduct Authority, although accountable to them and ultimately to HM Treasury.

The FSCS placed interest-bearing deposits with the Bank during the year, which are included within note 12 as public deposits.

Financial Conduct Authority

The Financial Conduct Authority (FCA) charges the Bank an administration fee relating to the invoicing and collection of fee and other income from levy payers. Charges for this service totalled £247,000 in the year (2020: £110,000). The Bank is also charged for the shared use of some FCA software applications to support regulation. The total charge for this service was £5.9m (2020: £5.9m).

Section 5: People and related parties continued

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 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 £10m (2020: £19m).

At 28 February 2021 the loan from the Bank to BEAPFF was £773.4bn (2020: £445.0bn). Interest on this loan is receivable at Bank Rate and amounted to £745m for the year ending 28 February 2021 (2020: £3.3bn).

At the year-end BEAPFF held a deposit at the Bank of £3.3bn (2020: £4.6bn), which is included in other deposits (note 12). Interest on this deposit is payable at Bank Rate and totalled £9m for the year-ending 28 February 2021 (2020: £45m).

A management fee was payable by BEAPFF to the Bank in respect of the year-ended 28 February 2021 is £2m (2020: nil). This is in line with the arrangements agreed between the Bank and HM Treasury.

Covid Corporate Financing Facility (CCFF)

CCFF is a wholly-owned subsidiary of the Bank. On 17 March 2020, HM Treasury announced a number of measures designed to support businesses. The Chancellor set out a package of temporary, timely and targeted measures to support public services, people and businesses through the period of disruption caused by Covid. The facility is designed to support liquidity among larger firms, helping them to bridge coronavirus disruption to their cash flows through the purchase of short-term debt in the form of commercial paper. The CCFF is operated by the Bank of England on behalf of HM Treasury. It is a wholly-owned subsidiary of the Bank of England.

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

At 28 February 2021 the loan from the Bank to CCFF was £11.8bn (2020: nil). Interest on this loan is receivable at Bank Rate and amounted to £13.9m for the year-ending 28 February 2021 (2020: nil).

At the year-end CCFF held a deposit at the Bank of £39m (2020: nil). Interest on this deposit is payable at Bank Rate and totalled £0.1m for the year-ending 28 February 2021 (2020: nil).

Management fee was payable by CCFF to the Bank in respect of the year-ended 28 February 2021 is £3m (2020: nil). This is in line with the arrangement 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 7). Members of the FPC, MPC and PRC are also covered by an indemnity granted by the Bank (see pages 10 to 12).

The following information is presented only in respect of those employees of the Bank who would be considered as key management personnel, as defined under IAS 24 (Related Party Disclosures). This comprised the Governors, members of the Executive Team and non-executive directors. At 28 February 2021, the number of key management personnel was 41 (2020: 45).

The following particulars relate to loans between the Bank and key management personnel and persons connected with them:

	2021 £000	2020 £000
Loans		
Balance brought forward	92	37
Loans made during year	18	102
Loans repaid during year	(50)	(47)
	60	**92**
Interest income earned	2	2
Number of key management personnel with loans at 28 February	5	10

No expected credit losses have been recognised in respect of loans given to related parties (2020: nil) as the ECL amount is immaterial.

There were no other transactions that would be required to be shown under the provisions of the Companies Act 2006. None of the key management personnel had a material interest, directly or indirectly, at any time during the year in any other significant transaction or arrangement with the Bank or any of its subsidiaries.

Key management remuneration

	2021 £000	2020 £000
Salaries and short-term benefits	7,841	7,752
Post-employment benefits	839	1,562
	8,680	**9,314**

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 77 to 83.

d The Bank's pension scheme

The Bank provides the secretariat, accounting services and some banking and custodial services to the Bank's funded pension scheme. In the year to 28 February 2021 no charge was made for these services (2020: 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 £123m (2020: £99m). There were no other material transactions between the Bank and the pension scheme during the year to 28 February 2021. At 28 February 2021 the balances on accounts held with the Bank were £54m (2020: £90m).

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 2021 was £45m (2020: £54m). When the due date falls on a non-business day, the payment is made on the last business day before the due date. These payments have been accrued and charged to equity at 28 February 2021. The payments are deductible for corporation tax in the year to which the payments relate.

	2021 £m	2020 £m
Payable 5 April 2021 (2020: 27 April)[1]	–	10
Payable 5 October 2021 (2020: 5 October)	–	35
	–	**45**

Following agreement of the 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. No dividend will be paid to HM Treasury for the financial year to 28 February 2021 as the Bank's loss-absorbing capital is below the £3.5bn threshold, in line with the capital framework.

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 28 February 2021 by Gerald Eve, members of RICS.

iii Depreciation

Land is not depreciated. Depreciation on other property, plant and equipment is charged on a straight-line basis:

Freehold buildings	over the estimated future lives which range from 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 right of use (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 28 February 2021	Freehold land and buildings £m	Leasehold improvements £m	Equipment[1] £m	Lease ROU assets £m	Total £m
Cost or valuation					
At 1 March 2020	312	14	172	78	576
Additions	5	–	31	–	36
Disposals/write-offs	–	–	(1)	–	(1)
Revaluation of properties	(4)	–	–	–	(4)
At 28 February 2021	**313**	**14**	**202**	**78**	**607**
Accumulated depreciation					
At 1 March 2020	–	7	74	9	90
Charge for the period	5	1	22	10	38
Disposals/write-offs	–	–	(1)	–	(1)
Revaluation of properties	(4)	–	–	–	(4)
At 28 February 2021	**1**	**8**	**95**	**19**	**123**
Net book value at 1 March 2020	312	7	98	69	486
Net book value at 28 February 2021	**312**	**6**	**107**	**59**	**484**

1 Net book value of equipment at 28 February 2021 included £0m held under finance leases.

Additions for the year includes accrued amounts of £5m (2020: £4m). The cash purchases for the year are £35m (2020: £41m).

Section 6: Operating assets and liabilities continued

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.

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.

	2021 £m	2020 £m
Cost		
At 1 March 2020	143	93
Additions	62	50
Disposals/write-offs	(4)	–
At 28 February 2021	**201**	**143**
Accumulated amortisation		
At 1 March 2020	58	46
Charge for the year	14	12
Disposals/write-offs	(1)	–
At 28 February 2021	**71**	**58**
Net book value at 1 March 2020	85	47
Net book value at 28 February 2021	**130**	**85**

Additions for the year includes accrued amounts of £nil (2020: £1m). The cash purchases for the year are £63m (2020: £50m).

Section 6: Operating assets and liabilities continued

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.

	2021 £m	2020 £m
Finance lease receivables	6	6
Short-term debtors and other assets	233	491
Items in course of settlement	300	203
	539	**700**

Finance lease receivables includes £6m due in more than one year (2020: £6m). Within short-term debtors and other assets there is accrued interest of £67m (2020: £291m).

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.

i Analysis of other liabilities

	2021 £m	2020 £m
Items in course of collection	80	34
Payable to HM Treasury	52	88
Short-term creditors and other liabilities	190	424
Lease liabilities	59	69
Provisions	3	4
Balance at 28 February 2021	**384**	**619**

Payable to HM Treasury includes payment in lieu of dividend (note 28), enforcement fines (net of costs) payable to HM Treasury, and any over/under recoveries of management fees for the management of the notes issue and the Exchange Equalisation Account.

ii Analysis of provisions

	Restructuring provision £m	Onerous lease provision £m	Other provisions £m	Total £m
Balance at 1 March 2020	3	1	–	4
Provisions utilised during the year	(2)	–	–	(2)
Provisions made during the year	1	–	1	2
Provisions reversed during the year	(1)	–	–	(1)
Balance at 28 February 2021	**1**	**1**	**1**	**3**

iii Analysis of lease liabilities

	2021 £m	2020 £m
Expiring within one year	11	11
Expiring between one and five years	38	40
Expiring between five and ten years	10	18
Balance at 28 February 2021	**59**	**69**

Section 6: Operating assets and liabilities continued

iv Lease liability movements

	2021 £m	2020 £m
Balance at 1 March 2020	69	78
New leases entered into in year	1	–
Payments in the year	(12)	(11)
Interest expense on lease liabilities	1	2
Balance at 28 February 2021	**59**	**69**

Section 7: Other miscellaneous notes

This section includes miscellaneous notes to the accounts not included in other sections.

33 Auditor's remuneration

	2021 £000	2020 £000
For the period to 28 February		
Fees relating to audit services performed for the current year	445	402
Fees relating to prior year	119	48
Fees payable to the Auditor for services provided to the Bank		
Non-audit assurance services for the current year	48	47
Non-audit assurance services for the prior year	–	–
All other services	–	30
	612	**527**

Non-audit assurance services comprise £28,000 for providing assurance to HM Treasury on the allocation of costs (2020: £28,000), and £20,000 for the submission for Whole of Government Accounts (2020: £19,000).

All other services includes computer software licenses used in the prior 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 19% (2020: 17%). In the Finance (No 2) Act in 2016 there was a reduction to the main rate of corporation tax effective from 1 April 2020 from 19% to 17%. On 11 March 2020, the UK government announced in the Budget that the main rate of corporation tax would remain at 19% from 1 April 2020. This law was substantively enacted on 17 March 2020. The deferred tax liability at 28 February 2021 has been calculated at the rate of 19%.

In the Spring *Budget 2021*, the government announced that from 1 April 2023 the headline corporation tax rate will increase to 25%. As the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be to increase the tax expense for the period by £126m and to increase the deferred tax liability by £126m.

Section 7: Other miscellaneous notes continued

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 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	2021 £m	2020 £m
Deferred tax			
Net liability at 1 March		352	289
Income statement charge	6	15	11
Tax credited to equity through other comprehensive income	6	32	52
Net liability at 28 February		**399**	**352**

	2021 £m	2020 £m
Deferred tax liability relates to:		
FVOCI equity investments through comprehensive income	262	231
Unrelieved payment in lieu of dividends carried forward	–	(2)
Transitional adjustment on debt securities	–	(10)
Losses carried forward	(56)	(43)
Pensions and other post-retirement benefits	179	163
Other provisions	14	13
	399	**352**

Issue Department account
for the period ended 28 February 2021

	2021 £m	2020 £m
Income and profits		
Securities of, or guaranteed by, the British Government	104	160
Other securities and assets	105	543
	209	**703**
Expenses		
Cost of production of banknotes	(78)	(78)
Cost of issue, custody and payment of banknotes	(30)	(31)
Other expenses	(10)	(8)
	(118)	**(117)**
Buffer withheld by Bank[1]	(29)	(31)
Net seigniorage income paid to the National Loans Fund	**62**	**555**

1 Net income paid to the National Loans Fund excludes a buffer held back to meet future expenditure. 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 28 February 2021

	Note	2021 £m	2020 £m
Assets			
Securities of, or guaranteed by, the British Government	3	2,093	2,726
Other securities and assets including those acquired under reverse repurchase agreements	4	82,599	71,696
Total assets		**84,692**	**74,422**
Liabilities			
Notes issued:			
In circulation	5	84,692	74,422
Total liabilities		**84,692**	**74,422**

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

Mr A Bailey	Governor
Mr S Woods	Deputy Governor
Mr B Fried	Chair of Court
Ms A Kyei	Chief Financial Officer

The notes on pages 161–63 are an integral part of these financial statements.

Notes to the Issue Department statements of account

1 Basis of preparation

The statements of account are prepared in accordance with the requirements of the Currency and Bank Notes Act 1928 and 1954, the National Loans Act 1968 and the Currency Act 1983. All profits of the Issue Department are payable to the 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 26 February 2021.
- 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 28 February 2021 amounted to £8m (2020: £49m) and total deficits paid by the National Loans Fund amounted to £96m (2020: £56m).
- 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 £118m (2020: £117m) represent charges from the Banking Department for costs incurred of £114m (2020: £119m) in relation to note issuance production costs plus amounts over/under-collected in prior years.

3 Securities of, or guaranteed by, the British Government

	2021 £m	2020 £m
British Government Stocks	1,723	2,356
Ways and Means advance to the National Loans Fund	370	370
	2,093	**2,726**

The Ways and Means advance earns interest at Bank Rate.

4 Other securities and assets including those acquired under reverse repurchase agreements

	2021 £m	2020 £m
Deposit with Banking Department	78,524	66,552
Reverse repurchase agreements	4,075	5,144
	82,599	**71,696**

The deposit with Banking Department earns interest at Bank Rate.

Notes to the Issue Department statements of account continued

5 Notes in circulation

	2021 £m	2020 £m
£5	2,034	2,068
£10	15,405	13,377
£20	44,742	37,143
£50	17,850	17,574
Other notes[1]	4,661	4,260
	84,692	**74,422**

1 Includes higher-value notes used as backing for the note issues of banks in Scotland and Northern Ireland.

6 Assets and liabilities

a Interest rate exposure

As the liabilities of the Issue Department are interest free, the income of the Issue Department is directly exposed to movements in interest rates. As at 28 February 2021, the assets of the Issue Department had the following repricing period profile.

	2021 £m	2020 £m
Repricing up to one month	82,969	72,610
Repricing in greater than three months but less than six months	297	–
Repricing in greater than 12 months	1,426	1,812
	84,692	**74,422**

b Currency exposure

All the assets and liabilities of the Issue Department are denominated in sterling. The collateral provided under reverse repurchase agreements may be in currencies other than sterling but this does not give rise to any direct currency exposure.

c Credit risk

Credit risk is the risk of loss arising from the failure of a borrower, issuer, counterparty or customer to meet its financial obligations to the Bank. The Bank is exposed to credit risk both through direct exposures and through contingent exposures, such as custody arrangements and holdings of collateral. Credit risk arises in the course of the operations of the Notes Circulation Scheme, Agency Notes Store and Notes Printing Contract; and as a result of the Bank providing liquidity to financial institutions via open market operations.

In providing liquidity via routine open market operations, credit risk is managed by ensuring that exposures are fully collateralised (with appropriate margin) by securities that are internally rated as equivalent to investment-grade.

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

7 Accrued interest

At 28 February 2021 the unrecognised accrued interest on the assets held on the Issue Department statement of balances was £26m (2020: £49m).

8 Date of approval

The Members of Court approved the statements of account on pages 159–63 on 26 May 2021.

PRA income statement
for the period ended 28 February 2021

	Note	2021 £m	2020 £m
Income			
Fee income	2	252	237
Enforcement fine income	5	2	3
Other income	3	24	31
Total income		**278**	**271**
Expenses			
Administrative expenses	4	(278)	(271)
Total expenses		**(278)**	**(271)**
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 166–72 are an integral part of these financial statements.

PRA statement of balances
for the period ended 28 February 2021

	Note	2021 £m	2020 £m
Assets			
Current assets			
Cash balance held internally by the Bank of England		40	33
Fee and other receivables	8	2	3
Intangible assets	9	15	13
Total assets		**57**	**49**
Liabilities			
Current liabilities			
Trade and other liabilities	10	57	49
Total liabilities		**57**	**49**

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
Mr S Woods Deputy Governor
Mr B Fried Chair of Court
Ms A Kyei Chief Financial Officer

The notes on pages 166–72 are an integral part of these financial statements.

Notes to the PRA statement of accounts

1 Basis of preparation

Form of presentation of the statement of accounts

The statement of accounts comprise the income statement, the statement of balances, and related notes, and are presented as a subset of the financial statements provided for the Bank.

Under the Bank of England Act 1998 (as amended) (the Act), the Bank is required to present financial and other disclosures in respect of its activities as the Prudential Regulation Authority.

Section 7(2A) of the Act requires that the Bank prepare for each of its financial years a statement of accounts in relation to the:
(a) income received and assets accrued by the Bank by virtue of its functions as the Prudential Regulation Authority; and
(b) expenses and liabilities incurred by the Bank by virtue of its functions as the Prudential Regulation Authority.

Section 7(4A) of the Act requires the Bank to comply with any directions given by HM Treasury as to:
(a) the information to be contained in the statement and the manner in which it is to be presented; and
(b) the methods and principles according to which the statement is to be prepared.

The direction from HM Treasury requires the accounting policies and disclosures applied to be aligned with those standards applicable to the Bank and also to include specific disclosures in relation to:
(a) fair pay;
(b) sickness absence;
(c) exit packages; and
(d) losses and special payments.

The statement of accounts has been prepared and shows the amounts related to the Bank's activities as the PRA that are reported within the Banking Department financial statements. The statement of accounts comprise the income statement, the statement of balances and related notes.

The additional disclosures have been included within the notes to the statement of accounts.

The Court of Directors confirms that the money levied by the Prudential Regulation Authority under Parliamentary Authority recorded in these statement of accounts of the PRA has been applied to the purposes intended by Parliament.

Accounting policies

The principal accounting policies applied in the preparation of the statement of accounts are the same as those applied by the Bank.

Income from regulatory activity

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

Special project fees

Special project fee income is recognised to match expenditure incurred on activity that has been designated as a special project, for which fees are raised separately in arrears.

There are special project fee activities for which fees are collected in advance, in anticipation of the total spending requirements in the year. Income is recognised through the income statement against cost incurred. Any surplus or deficit is returned or recovered in subsequent financial years.

Solvency II special project fees were collected in prior years. These were deferred to the balance sheet and recognised as income in subsequent periods as assets related to Solvency II are amortised.

Model Maintenance Fees are collected from eligible fee payers in anticipation of the total cost of providing internal model reviews throughout the year, and recognised through the income statement in its entirety throughout the year.

Other sundry income includes authorisation fees paid by firms and individuals, which is recognised in the income statement as incurred.

Enforcement income

Financial penalty monies are recognised as revenue, capped at the level of enforcement expenditure in the year, where they have been levied and received in the financial year, in accordance with the PRA Financial Penalty Scheme. Where financial penalties specific to a single case exceed its costs, the excess penalty monies received can be used to cover expenditure on other cases in the current period. This is returned to fee payers (excluding those fined) in the following financial year. Any financial penalty monies received in excess of total enforcement expenditure in the current period is paid over to HM Treasury, and is not recognised as revenue in the Bank's accounts.

Cost recoveries

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

Cash balance held internally by the Bank of England

Cash held internally by the Bank of England is a notional cash balance at the reporting date and represents the difference between cash inflows and outflows during the year in respect of prudential regulatory activity.

Treatment of a surplus or deficit

Any surplus or deficit between fees collected and income recognised in the year will be held as a payable or receivable on the balance sheet as the intention is to return any surplus or claim any deficit in the following financial year.

2 Fee income

	2021 £m	2020 £m
Fee income	252	237
Total	**252**	**237**

3 Other income

	2021 £m	2020 £m
Solvency II income	1	2
Structural reform income	–	6
EU withdrawal project income	12	14
Model Maintenance Fee income	7	6
Other sundry income	4	3
Total	**24**	**31**

Notes to the PRA statement of accounts
continued

4 Administrative costs

	Note	2021 £m	2020 £m
Staff costs	6	151	145
Costs incurred centrally and allocated to the PRA		118	113
Professional and membership fees		5	9
Amortisation of intangible assets		4	2
Travel and accommodation		–	2
Other administration and general expenses		2	2
Cost recoveries		(2)	(2)
Total		**278**	**271**

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 £48.3m (2020: £45.0m) were raised and collected during the year. Enforcement income of £2.3m (2020: £3.1m) was recognised in the year, with the balance of fines collected of £46.0m payable to HM Treasury (2020: £41.9m). This payment was made post year end. Enforcement fines received and then paid over to HM Treasury are not recognised as income.

6 Staff costs

	2021 £m	2020 £m
Wages and salaries	107	106
Social security costs	12	12
Pension and other post-retirement costs	32	27
Total	**151**	**145**

HM Treasury has made a direction under Section 7(4A) of the Bank of England Act 1998 requiring the Bank to disclose the following in respect of staff deemed to work exclusively for the PRA.

Fair pay

The banded remuneration of the highest paid director (full-time equivalent base salary plus benefits and excluding pension) in the financial year 2020/21 was £284,898 (2020: £281,377). This comprises a salary of £283,011 as at 28 February 2021 (2020: £279,517), plus non-pension related benefits of £1,887 (2020: £1,860). This was 3.97 (2020: 3.92) times the median remuneration of the workforce, which was £71,736 (2020: £71,811).

During 2020/21 no employee received remuneration in excess of the highest paid director. Remuneration ranged from £22,257 to £275,182 (2020: £24,470 to £274,834).

Exit package

There were no compulsory redundancies during the year.

There were six exit packages agreed during the year, in the ranges set out below:

£0–£9,000	1
£20,000–£29,000	3
£120,000–£129,000	1
£150,000–£159,000	1

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 five days (six in 2020).

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:

	2021	2020
Governors and other members of Executive Team	7	6
Managers and Analysts	1,148	1,175
Other staff	167	178
Total	**1,322**	**1,359**

The number of persons employed by the Bank and working for the PRA was 1,337 at 28 February 2021, of which 1,126 were full-time staff and 211 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 (2020: nil).

Notes to the PRA statement of accounts
continued

8 Fee and other receivables

	2021 £m	2020 £m
Fees receivable	2	3
Total	**2**	**3**

Fees receivable at the reporting date includes £nil (2020: nil) on account invoicing relating to the annual funding requirement from counterparties for the 2021/22 fee year.

9 Intangible assets

	2021 £m	2020 £m
Cost		
At 1 March	35	26
Additions	6	9
At 28 February	**41**	**35**
Accumulated amortisation		
At 1 March	22	20
Charge for the year	4	2
At 28 February	**26**	**22**
Net book value at 1 March	13	6
Net book value at 28 February	**15**	**13**

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 (2020: £nil).

10 Trade and other liabilities

	Note	2021 £m	2020 £m
Fees received in advance		9	2
Fees received in advance – EU withdrawal		–	1
Deferred income – Solvency II		–	1
Financial penalties received – due to HM Treasury	5	46	42
Financial penalties received – payable to fee payers	5	2	3
Total		**57**	**49**

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.

Notes to the PRA statement of accounts
continued

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 164–72 on 26 May 2021.

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BANK OF ENGLAND

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