Bank of England

Bank of England Alternative Liquidity Facility Limited Annual Report and Accounts

1 March 2023–29 February 2024

Bank of England Alternative Liquidity Facility Limited
8 Lothbury
London EC2R 7HH

Incorporated in England and Wales with limited liability under the UK Companies Act
Company Number: 11728437

Bank of England
Alternative Liquidity Facility Limited
Annual Report and Accounts

1 March 2023 to 29 February 2024

Contents

Directors' Report for the year ended 29 February 2024

The Directors present their report and the audited financial statements of Bank of England Alternative Liquidity Facility Limited ('the Company') for the year ended 29 February 2024.

Business review and principal activity

The Company was incorporated as a wholly owned subsidiary of the Bank of England (the Bank) on 14 December 2018 and commenced activities on 2 December 2021. The principal activity of the Company is to offer a non-interest-based deposit facility backed by the Bank to commercial banks that cannot pay or receive interest. The deposits held with the Company will help enable participant banks to meet regulatory requirements to hold a buffer of high-quality liquid assets (HQLA) to meet obligations as they fall due. At 29 February 2024, the total deposits made by participant banks were £200mn (2023: £140mn).

The Bank acts as agent for the Company and is responsible for day-to-day operations. The Bank also acts as guarantor for the principal value of deposits in the Company and stands ready to step in as co-depositor for any residual or outstanding capacity of the facility. At 29 February 2024 the Bank's co-deposit was £nil (2023: £60mn).

Under the Company's model, participant deposits are backed by a fund of high-quality securities known as sukuk, complemented as needed by cash deposits at the Bank. The Company purchased its first sukuk in November 2021 and its second sukuk in October 2022. At 29 February 2024 the Company held securities at amortised cost of £183.0mn (2023: £191.1mn). The cash balance held increased from £14.4mn at 28 February 2023 to £24.8mn at 29 February 2024, primarily due to margin receipts as a result of unrealised mark-to-market gains on the two swaps held by the Company.

The return on the sukuk is at a fixed rate in US dollars. The Company uses a cross-currency swap to turn the fixed US dollar payments into sterling payments that are linked to a floating SONIA market rate. The return from these instruments, net of hedging and operating costs, may be paid to depositors in lieu of interest; this is known as the 'expected profit rate'. The Company began making distributions to depositors in May 2022 and paid a total cash return of £8.7mn to depositors during the year (2023: £1.2mn). The increase in distributions to depositors in the year to 2024 was driven by an increase in interest rates, which led to a larger income on the cross-currency swaps. The income on the cross-currency swaps was largely offset by unrealised exchange rate movements. The year to 29 February 2024 was also the first full year across which the Company had held its second sukuk bond. This is a larger holding and a higher-yielding bond than the first one purchased, so the net gains on financial instruments (from the sukuk) were higher than the previous year (2024: £5.8mn, 2023: £1.2mn).

This leaves the facility with a loss before tax of £2.1mn in 2024 (2023: £3.3mn gain). There is a deferred tax charge for the period of £0.3mn (2023: £1.1mn) resulting in a loss after tax of £2.4mn (2023: £2.2mn gain).

The maturity dates of the sukuk and cross-currency swaps are aligned, and the Company's intention is to hold both to maturity. The valuation of the cross-currency swaps in the accounts represents a theoretical value if the swaps were sold at current prices, and therefore fluctuates with market prices and does not represent an actual cash income for the facility.

Directors

The Executive Director for Markets, the Chief Cashier and Executive Director of Banking and the Chief Financial Officer were Directors of the Company during the year.

Viktoria Saporta (Appointed 13 February 2024)
Andrew Hauser (Resigned 9 February 2024)
Sarah John
Afua Kyei

The Directors 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.

None of the Directors had a beneficial interest at any time during the financial year in the shares of the Company.

Political contributions

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

Disclosure of information to the auditor

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

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK-adopted international accounting standards and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with UK-adopted international accounting standards;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

The Company's financial statements for the period to 29 February 2024 are presented on pages 14–29.

Assessment of going concern

In making their going concern assessment, the Directors have considered information relating to present and potential conditions, including cash flows and the ability of the Company to meet its liabilities as they fall due.

Small companies exemption

In preparing this Directors' report, advantage is being taken of the small companies exemption under the Companies Act 2006.

By order of the Board:

V Saporta	**S John**	**A Kyei**
Director	Director	Director
26 June 2024	26 June 2024	26 June 2024

Independent auditor's report to the members of Bank of England Alternative Liquidity Facility Limited

Opinion

We have audited the financial statements of Bank of England Alternative Liquidity Facility Limited ('the Company') for the year ended 29 February 2024 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 29 February 2024 and of its loss for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ('the going concern period').

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and

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

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

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:

- Enquiring of Directors and operational managers and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.

- Reading Board minutes.

- Using analytical procedures to identify any unusual or unexpected relationships.

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, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the calculation of revenue is straightforward with no judgement involved in the calculation, and no pressures or incentives for management to manipulate revenue have been identified.

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 Company-wide fraud risk management controls.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted and approved by the same user.

- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

Identifying and responding to risks of material misstatement related to 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 from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

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

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation, for example data protection laws. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational 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, 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, 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 fraud 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.

Directors' report

The Directors are responsible for the Directors' report. Our opinion on the financial statements does not cover that report and we do not express an audit opinion thereon.

Our responsibility is to read the Directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Directors' report;

- in our opinion the information given in that report for the financial year is consistent with the financial statements; and

- in our opinion that report has been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the Directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 6, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company'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 Company 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 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.

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

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

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Richard Faulkner (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
Canary Wharf
London E14 5GL

26 June 2024

Statement of comprehensive income for the year ended 29 February 2024

	Note	2024 (£mn)	2023 (£mn)
Net gains on financial instruments		1.6	8.5
Income received on financial instruments		5.8	1.2
Net losses from foreign exchange revaluation		(0.2)	(2.3)
Total income		**7.2**	**7.4**
Administrative expenses	4	(0.2)	(0.9)
Return on derivative allocated to depositors	5	(9.1)	(3.2)
Total expenses		**(9.3)**	**(4.1)**
(Loss)/profit before taxation		**(2.1)**	**3.3**
Taxation	6	(0.3)	(1.1)
(Loss)/profit after taxation		**(2.4)**	**2.2**

All income is derived from continuing activities. There was no other comprehensive income during the year ended 29 February 2024 (2023: £nil).

The notes on pages 18–29 are an integral part of these financial statements.

Statement of financial position as at 29 February 2024

	Note	2024 (£mn)	2023 (£mn)
Assets			
Cash	13	24.8	14.4
Securities held at amortised cost	7	183.0	191.1
Derivatives	8	12.9	6.8
Other assets	9	2.1	2.2
Total assets		**222.8**	**214.5**
Liabilities			
Loans and other borrowings	10	200.0	200.0
Deferred tax liability	6	2.1	1.8
Other liabilities	11	19.4	9.0
Total liabilities		**221.5**	**210.8**
Equity			
Capital	12	–	–
Retained earnings		1.3	3.7
Total equity attributable to shareholders		**1.3**	**3.7**
Total liabilities and equity attributable to shareholders		**222.8**	**214.5**

The financial statements were approved by the Board on 26 June 2024 and signed on its behalf by:

V Saporta
Director

S John
Director

A Kyei
Director

Statement of changes in equity for the year to 29 February 2024

	Attributable to equity shareholder			
	Capital (£mn)	Reserves (£mn)	Retained earnings (£mn)	Total (£mn)
Balance at 1 March 2022	**–**	**–**	**1.5**	**1.5**
Post-tax comprehensive income for the period	–	–	2.2	2.2
Balance at 28 February 2023	**–**	**–**	**3.7**	**3.7**
Balance at 1 March 2023	**–**	**–**	**3.7**	**3.7**
Post-tax comprehensive expense for the period	–	–	(2.4)	(2.4)
Balance at 29 February 2024	**–**	**–**	**1.3**	**1.3**

The entire capital comprising 100 authorised and issued ordinary shares of £1 is held by the Governor and Company of the Bank of England.

The notes on pages 18–29 are an integral part of these financial statements.

Statement of cash flows for the year ended 29 February 2024

	Note	2024 (£mn)	2023 (£mn)
Cash flows from operating activities			
(Loss)/profit after tax		(2.4)	2.2
Adjustments for:			
Decrease/(increase) in accrued sukuk earnings	9	0.1	(1.8)
		(2.3)	**0.4**
Changes in operating assets and liabilities:			
Decrease/(increase) in sukuk	7	8.1	(116.6)
Increase in derivatives	8	(6.1)	(4.3)
Increase in deferred tax liabilities	6	0.3	1.1
Increase in other liabilities	11	10.4	8.9
Cash utilised in operations		**12.7**	**(110.9)**
Net cash from operating activities		**10.4**	**(110.5)**
Cash flows from financing activities			
Decrease/(increase) in loans and other borrowings	10	–	–
Net cash from financing activities		**–**	**–**
Net increase/(decrease) in cash and cash equivalents	**13**	**10.4**	**(110.5)**
Cash and cash equivalents at 1 March	13	14.4	124.9
Cash and cash equivalents at 29 February	**13**	**24.8**	**14.4**

The notes on pages 18–29 are an integral part of these financial statements.

Notes to the financial statements

1: Basis of preparation

Form of presentation of the financial statements

The financial statements comprise the Statement of Comprehensive Income, Statement of Financial Position, the Statement of Cash Flows, Statement of Changes in Equity and related notes.

The Company financial statements have been prepared and approved by the Directors in accordance with UK-adopted international accounting standards (‘UK-adopted IFRS’).

The financial statements have been prepared on a going concern basis under the historical cost convention, except for to include the revaluation of financial assets and liabilities that are held at fair value through profit or loss (‘FVPL’), and in accordance with the Companies Act 2006 and applicable accounting standards.

In making their going concern assessment, the Directors have considered information relating to present and potential conditions, including cash flows and the ability of the Company to meet its liabilities as they fall due.

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied.

2: Accounting policies

The following principal accounting policies have been applied consistently in the preparation of the financial statements.

a: Foreign currency translation

i: Functional and presentation currency

The financial statements are presented in sterling, which is the Company’s functional and presentational 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.

b: Classification and measurement

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

Initial measurement

Financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus, for an item not at FVPL, transaction costs that are directly attributable to its acquisition or issue.

Classification and subsequent measurement

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.

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

The Company invests in sukuk which are accounted for at amortised cost using the effective profit rate (EPR) method. The EPR method is the rate that exactly discounts the estimated stream of cash payments or receipts, without consideration of future credit losses, over the expected life (behavioural life) of the financial instrument. Accrued profits attributable to sukuk are reported in ‘Other assets’. Profits receivable and payable on sukuk are recognised in profit or loss as they accrue, using the EPR method.

The derivative instruments held by the Company do not meet the above criteria, and are held at FVPL. Net gains and losses are recognised in profit or loss.

The Company classifies its financial liabilities at amortised cost. These deposits are held at cost and are interest free.

Impairment

The Company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost.

The Company measures loss allowances at an amount equal to lifetime ECL, except balances for which credit risk (ie the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort.

c: Cash and cash equivalents

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

3: 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: Administrative expenses

	2024 (£000)	2023 (£000)
Management fee payable to Bank of England	152	127
Project costs payable to Bank of England	–	726
Total administrative expenses	**152**	**853**

The Bank met all of the costs of the Company, including staff costs, and recharged them in full to the Company. The project costs payable to the Bank represent a one-off cost paid by the Bank to set up the facility prior to its launch and are payable over a four-year period. The costs were fully recognised in 2023.

The Directors have not received any emoluments in respect of their services to the Company during the year ended 29 February 2024 (2023: £nil).

	2024 (£000)	2023 (£000)
Audit fees:		
Fees relating to current year	**33**	**31**

Fees in relation to audit services fees are paid for by the Bank and recharged to the Company through the management fee.

5: Return on derivative allocated to depositors

	2024 (£mn)	2023 (£mn)
Return on derivative allocated to depositors	9.1	3.2
Total return allocated to depositors	**9.1**	**3.2**

Return on derivative allocated to depositors represents £2.4mn (2023: £2mn) of accrued return yet to be distributed, representing income earned by the facility but not yet paid to depositors at 29 February 2024 (see note 11). £8.7mn of cash was paid to depositors in lieu of interest during the year. Returns are generated from the backing portfolio, and may be passed back to depositors in lieu of interest, net of hedging and operational costs.

6: Taxation

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

	2024 (£mn)	2023 (£mn)
Current tax – current year	–	–
Current tax – prior year	–	–
Deferred tax – current year	0.3	1.4
Deferred tax – prior year	–	(0.3)
Total income tax charge	**0.3**	**1.1**

The tax charge within the income statement differs from the amount calculated at the basic rate of tax on the profit/(loss) for the year as follows:

	2024 (£mn)	2023 (£mn)
(Loss)/profit before tax	**(2.1)**	**3.3**
Tax calculated at rate of 24.5% (2023: 19%)	(0.5)	0.6
Non-recognition of losses	0.8	0.6
Loss carry back	–	(0.1)
Prior year adjustments	–	(0.4)
Difference between current and deferred tax rate	–	0.4
Total tax charge	**0.3**	**1.1**

The tax charge for the year was £0.3mn which solely relates to deferred tax. The Company has elected under Statutory Instrument 2004/3256 to disregard unrealised fair value movements on the cross-currency interest rate swap to achieve parity of tax treatment between the sukuk asset and the swap.

The company has gross tax losses of £3.8mn (2023: £3.2mn) worth £0.95mn in deferred tax at 25% (2023: £0.8mn) on which no deferred tax asset has been recognised at the balance sheet date.

The movement on the deferred tax account is as follows:

	2024 (£mn)	2023 (£mn)
Deferred tax		
Net liability at 1 March	(1.8)	(0.7)
Charged to the income statement	(0.3)	(1.1)
Charged directly to equity	–	–
Net liability at 29 February	**(2.1)**	**(1.8)**

	2024 (£mn)	2023 (£mn)
Deferred tax liability relates to:		
Financial instruments	(2.1)	(1.8)
Total	**(2.1)**	**(1.8)**

7: Securities held at amortised cost

	2024 (£mn)	2023 (£mn)
Sukuk holdings	183.0	191.1
Total securities held at amortised cost	**183.0**	**191.1**

These securities are held at amortised cost with the movement during the year reflecting changes in FX rates. Fair value of sukuk holdings as at 29 February 2024 was £176.5mn (2023: £182.2mn).

8: Financial instruments

	2024 (£mn)	2023 (£mn)
Foreign exchange derivatives	12.9	6.8
Total derivatives	**12.9**	**6.8**

Foreign currency swaps showed a mark-to-market asset value of £12.9mn (2023: £6.8mn). The increase is attributable to favorable market rate movements during the year.

9: Other assets

	2024 (£mn)	2023 (£mn)
Accrued profits	2.1	2.2
Total other assets	**2.1**	**2.2**

As at the year end, the Company had accrued £2,109,345 in profits attributable to sukuk (2023: £2,203,677).

10: Loans and other borrowings

	2024 (£mn)	2023 (£mn)
Total loan from Bank of England	–	60.0
Third-party loans	200.0	140.0
Total loans and other borrowings	**200.0**	**200.0**

The increase in third-party loans has been driven by participant banks placing a higher level of deposits into the facility. All loans are non-interest bearing with an expected profit rate accruing and are repayable on demand.

11: Other liabilities

	2024 (£mn)	2023 (£mn)
Margin account on derivatives	13.8	4.2
Accrued return on derivative yet to be distributed	2.4	2.0
Accrued liability to swap counterparty	2.1	1.7
Return to depositors unpaid at year end	–	0.1
Accrued expense	1.1	1.0
Total other liabilities	**19.4**	**9.0**

Accrued expense comprises the management fee payable to the Bank of £151,557 in respect of the year ended 29 February 2024 with a total payable of £328,375. Audit fees for the current and previous years totaling £94,000 and project costs of £725,897 which represent a one-off cost paid by the Bank to set up the facility prior to its launch; the full costs were recognised in the accounts last year but are payable over a four-year period.

12: Capital

The Company is a private company limited by shares.

The entire capital comprising of 100 authorised and issued ordinary shares of £1 is held by the Governor and Company of the Bank of England.

13: Cash and cash equivalents

	At 29 February 2024 (£mn)	Cash flow (£mn)	At 28 February 2023 (£mn)
Cash	**24.8**	**10.4**	**14.4**

The movement in the cash balance is largely driven by margin receipts as a result of unrealised mark-to-market gains on the two swaps.

14: Contingent liabilities

There were no contingent liabilities as at 29 February 2024 (2023: £nil).

15: Financial risk management

Financial risk management is carried out by the Bank on behalf of the Company, as part of the Bank's role in managing the facility as agent for the Bank of England Alternative Liquidity Facility.

The governance arrangements to manage and monitor these risks are described in a control framework document (which sets out the controls and procedures for undertaking transactions, monitoring risk, accounting and making payments), reviewed and approved periodically by the Directors.

The Directors seek to ensure that effective risk management processes exist for monitoring and managing liquidity, credit, market, and operational risks, within clear risk policies. Specialist teams support senior management in ensuring that agreed standards and policies are followed.

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

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

a: Credit risk

Credit risk is the risk of loss arising from the failure of a counterparty or issuer to meet its financial obligations to the Company. Credit risk in the Company's asset portfolio arises from the backing fund purchasing sukuk debt security instruments issued by sovereigns or multilateral development banks and also from entering into swap contracts for hedging purposes with well-rated counterparties. Assets purchased by the Company are required to be HQLA eligible, strongly investment grade and listed on a recognised investment exchange.

Credit exposures are controlled by the Bank's system of limits and monitoring thresholds based on internal credit ratings. An internal committee, chaired by the Bank's Head of Financial Risk Management Division, reviews the creditworthiness of issuers and counterparties to whom the Company may have credit exposures. This committee is supported by a credit risk analysis team. These credit assessments are performed both regularly, following a timetable that reflects the risk attached to the Company's investments and swap contracts, and dynamically, in response to market or specific entity conditions.

The table below represents an analysis of sukuk by credit risk groupings, based on external rating agency designations at 29 February 2024:

Credit risk groupings

	2024 (£mn)	2023 (£mn)
AAA	183.0	191.1
Total	**183.0**	**191.1**

Analysis of average external credit ratings as at 29 February 2024. As the sukuk have a AAA credit rating, the expected credit loss (ECL) for 2024 is nil (2023: nil) and so the sukuk are classified as Stage 1. There is no change in staging from the prior year.

Location – geographical concentration of assets

The assets held by the Company are issued by IsDB Trust Services No.2 SARL, a Luxembourg-based company and are guaranteed by the Islamic Development Bank, a multilateral development institution.

b: Market risk

Market risk is defined as the risk of losses arising from movements in market prices, which include, but are not limited to, interest rate risk and foreign exchange risk.

The Company is deemed not to be materially exposed to market risk, as profit rate and foreign exchange exposure from its existing sukuk holding are hedged via a swap. Sukuk denominated in a non-sterling currency (eg US$) is hedged using a foreign exchange swap agreed with one of the Bank's approved counterparties.

Swaps are agreed using legal documentation based on ISDA/IIFM Tahawwut Master Agreement, with approved counterparties and margined using cash.

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. To mitigate operational liquidity risk, the facility maintains a loan arrangement with the Bank to cover payments to facility participants in the event of a delayed receipt on the hedging swap, or to cover a payment on the hedging swap in the event of a missed coupon payment on the sukuk.

d: Maturity analysis

Maturities of sukuk as at 29 February 2024.

	Note	Up to 1 year (£mn)	1–5 years (£mn)	5–10 years (£mn)	Over 10 years (£mn)	Total (£mn)
Assets						
Sukuk	7	–	183.0	–	–	183.0
Total assets		**–**	**183.0**	**–**	**–**	**183.0**

Maturities of sukuk as at 28 February 2023.

	Note	Up to 1 year (£mn)	1–5 years (£mn)	5–10 years (£mn)	Over 10 years (£mn)	Total (£mn)
Assets						
Sukuk	7	–	191.1	–	–	191.1
Total assets		**–**	**191.1**	**–**	**–**	**191.1**

Maturities of loans and other borrowings as at 29 February 2024

Loans and other borrowings represent participant deposits repayable on demand.

16: Guarantee

For deposits placed by participants in the facility to qualify as HQLA under Basel III and corresponding local regulations, they must constitute a direct claim upon, or be guaranteed by, a central bank. For this reason, the Bank has provided a guarantee for the principal value of deposits placed with the Company but no guarantee will be given in respect of the returns (ie profit rate).

17: Related party transactions

The Company has related party transactions with its shareholder, the Bank of England.

As at 29 February 2024, the Bank had deposited £nil (2023: £60mn) into the Company. The deposit is non-interest bearing with a profit rate paid on maturity of the deposit.

At the year end, the company held a non-interest bearing deposit at the Bank of £24.8mn (2023: £14.4mn).

The Company was charged an administrative fee of £151,557.26 (2023: £127,362) by the Bank. The Company was also re-charged £33,000 in respect of the audit fee (2023: £31,000). In addition, the Company has a payable of £725,897 (2023: £725,897) in respect of project costs incurred in the set up of the Alternative Liquidity Facility, with payment deferred over a four-year period.

Key management

The Directors of the Company are considered to be the only key personnel as defined by IAS 24. The Directors have not received any emoluments in respect of their services to the Company during the year ended 29 February 2024 (2023: £nil) or entered into any other transactions with the Company.

18: Ultimate controlling party

The ultimate controlling party of the Company is The Governor and Company of The Bank of England.

19: Preparation of accounts

The accounts were approved by the Board for distribution on 26 June 2024.

Bank of England Alternative Liquidity Facility Limited
8 Lothbury
London EC2R 7HH

Incorporated in England and Wales with limited liability under the UK Companies Act
Company Number: 11728437

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