HM Treasury

Exchange Equalisation Account 2023-24

Annual Report and Accounts

HC 146

29 July 2024

HM Treasury

Exchange Equalisation Account 2023-24

Annual Report and Accounts

Presented to Parliament pursuant to section 4(4) of the Exchange Equalisation Account Act 1979 (as amended by the Finance Act 2000)

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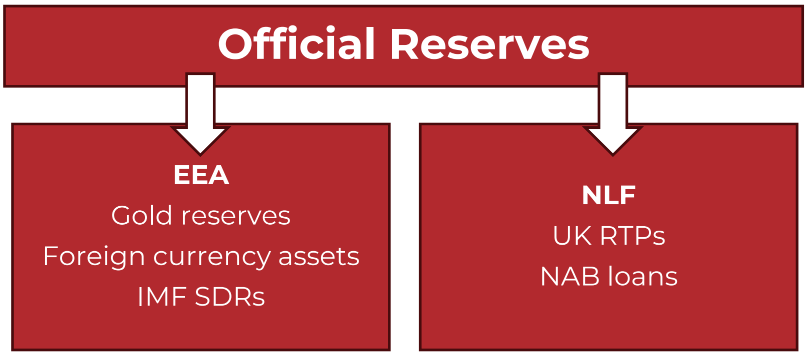
Performance Overview

Purpose and activities of the Exchange Equalisation Account

The EEA was established in 1932 to provide a fund that could be used, when necessary, to regulate the exchange value of sterling, and therefore is the mechanism through which any UK government exchange rate intervention would be conducted. The EEA Act 1979, as amended by the Finance Act 2000, provides the purposes for which the EEA shall be used.

The Exchange Equalisation Account (EEA) holds the United Kingdom's reserves of gold, foreign currency assets and IMF Special Drawing Rights[1] (SDRs). Combined with the UK's Reserve Tranche Position (RTP)[1] at the IMF and lending to the IMF under the New Arrangements to Borrow (NAB)[1] these assets comprise the UK's official holdings of international reserves ('the Official Reserves') (See Annex B). The RTP and NAB loans are held in the National Loans Fund (NLF)[2] for which separate accounts are published by HM Treasury.



Under the Exchange Equalisation Account Act 1979, the EEA is permitted to invest its funds in any assets denominated in the currency of any country, to purchase gold, and to acquire SDRs.

Under section 2 of the Exchange Equalisation Account Act 1979, the EEA is funded by central government through the NLF, and the net assets of the EEA represent a liability to the NLF (see Note 14 to the accounts for further detail).

The purposes of the EEA are summarised in the table below, along with examples of the types of activity which might be relevant to that purpose.

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1 This and other terms are defined in the Glossary at the back of this document.

2 https://www.gov.uk/government/collections/hmt-central-funds#national-loans-fund

Policy Objectives of the EEA	
Policy Objective (as set out in the EEA Act 1979)	**Examples (non-exhaustive)**
Checking undue fluctuations in the exchange value of sterling	• short-term action to mitigate or reduce market disruption or improve functioning of the sterling foreign exchange market. • participation in coordinated foreign exchange market intervention to assist other central banks' interventions. • providing medium-term support for sterling if required to assist broader macroeconomic policy
Securing the conservation or disposition in the national interest of the means of making payments abroad	• providing foreign exchange payment services to the government, on request • making investments to further broader economic policy aims
For the purpose specified in Section 1(3) of the International Monetary Fund Act 1979 and carrying out any of the functions of the government of the United Kingdom under those of the said Articles of Agreement which relate to Special Drawing Rights	• maintaining the UK's RTP with the IMF, thereby supporting IMF lending programmes • participating in the purchase and sale of IMF SDRs, as necessary

Administration and Control

The EEA is under the control of HM Treasury whose prime objective in managing the EEA on behalf of the government is to ensure the reserves are fit for purpose in order to meet current policy objectives and any potential future changes in policy.

HM Treasury has appointed the Bank of England (the Bank) to act as its agent in the day-to-day management of the EEA. The Bank executes foreign exchange transactions and invests the reserves in accordance with an agreed framework (see Performance Analysis).

The EEA's investment policy and approach to asset allocation are set out in an Investment Policy Statement (IPS). This, together with a Service Level Agreement (SLA) between HM Treasury and the Bank, specifies the parameters under which the reserves are managed (both are confidential documents which remain in force indefinitely and are reviewed annually).

SLA

- obligation as of HM Treasury and the Bank in the management of the EEA
- KPIs

IPS

- guide to investment policies
- foreign currency reserves implementation strategy
- details investment principles, policy constraints, risk tolerance and the approach to the Strategic Asset Allocation (benchmark for the EEA's holdings of foreign currency reserves).

They are set within the context of all relevant legislation, particularly the EEA Act 1979, as amended by the Finance Act 2003. In accordance with the SLA, the Bank manages the reserves so as to ensure adherence to Treasury policy objectives and reports against this to HM Treasury as described in the Governance Statement.

The Bank also acts as HM Treasury's agent for foreign currency liability management, including the issuance of foreign currency debt to finance some of the reserves. This debt is issued by, and is an obligation of, the NLF under the National Loans Act 1968 since it is that Act (rather than the Exchange Equalisation Account Act 1979) which provides the powers for the government to issue foreign currency securities. The foreign currency raised by issuing foreign currency debt is transferred to the EEA. At 31 March 2024 there was no foreign currency debt outstanding (31 March 2023: nil).

The Bank manages the foreign currency assets and liabilities associated with the reserves of the NLF in conjunction with those of the EEA as HM Treasury's agent. This allows the foreign currency assets and liabilities associated with the reserves, and the associated risk exposures, to be managed collectively in an efficient way. These are the financial accounts of the EEA only, but where relevant the Performance Report commentary covers issues relating to the NLF assets and liabilities that are managed as part of the Official Reserves[3].

Investment Policy

In light of the policy objectives, the Investment Principles of the EEA are:

Investment Principal 1 - Readiness

The EEA must be ready to meet its policy objectives at all times, at an acceptable cost and high degree of certainty

Investment Principal 2 - Risk Tolerance

The EEA must not take on risk that compromises the ability to meet Principle 1 or that could unduly influence fiscal metrics

Investment Principal 3 - Return

Subject to meeting Principles 1 and 2, the EEA should seek to optimise return for a given level of risk.

[3] A summary is included in a report produced by HM Treasury entitled 'Management of the Official Reserves' available at https://www.gov.uk/government/publications/management-of-the-official-reserves

The Investment Principles are set out in an order that ensures the EEA's investment strategy is clearly and primarily linked to the policy objectives of the EEA. An assessment of the scale and likelihood of the EEA's policy objectives over the investment horizon is used to set initial parameters and constraints on the EEA's investments. Subject to those parameters and constraints, the EEA's strategic asset allocation is chosen to ensure that the best possible return is made for the level of risk taken.

Eligible currencies and assets

The EEA may invest in cash or securities denominated in the foreign currencies represented in the IMF SDR basket (US dollar, euro, Japanese yen and Chinese renminbi), as well as other advanced economy currencies (Canadian dollar, Swiss francs, Danish krone, Swedish krona, Norwegian krone, Australian dollar and New Zealand dollar).

In line with Investment Principle 1 (readiness), the liquidity resilience of assets held is of primary importance. Therefore, the universe of eligible securities is those eligible under the Basel III Liquidity Coverage Ratio (LCR).

Currently, debt issued by the following types of entity will be considered for eligibility, subject to credit, liquidity and non-financial risk assessment:

- central governments or central banks;
- regional governments;
- supranational agencies (multilateral development banks and international organisations); and
- national public agencies (either guaranteed or otherwise).

The EEA is also permitted to use other financial instruments, including:

- conventional and inflation linked bonds, bills, commercial paper, discount notes and floating rate notes of any maturity;
- foreign currency spot, forward and swap transactions;
- interest rate, cross-currency and overnight indexed swaps;
- bond and interest rate futures;
- sale and repurchase agreements (collectively referred to hereafter as 'Repo' and 'Reverse repo').
- short-term bank deposits and sterling amounts placed with the Bank of England (i.e., in the EEA Sterling Account).
- Special Drawing Rights (SDRs); and
- Gold.

Derivative transactions entered into by the EEA are documented and collateralised under International Swaps & Derivatives Association (ISDA) Master

Agreements with counterparties. Swaps and foreign exchange transactions are governed by these agreements. Repos and reverse repos are governed by bespoke foreign currency repo documentation.

Strategic Asset Allocation

Each year, the Bank will propose a strategic asset allocation for the EEA's currency reserves, for HM Treasury to review and agree. The proposed allocation must comply with the portfolio constraints and risk tolerance (Investment Principles 1, readiness and 2, risk tolerance). Beyond that, the objective of the allocation is to optimise return for a given level of risk (Investment Principle 3, return).

The proposed strategic asset allocation is informed by an asset allocation model. The model chooses an allocation with the optimal return relative to the overall market risk tolerance. A fully unhedged portfolio is likely to breach this tolerance, so foreign exchange and interest rate hedging is required to ensure overall market risk remains within tolerance (Investment Principle 2, risk tolerance).

The model sets out portfolio weights by currency, issuer and maturity. A number of factors are considered in determining the proposed strategic asset allocation, including:

- statistical analyses of risk and return input estimates.
- the operational feasibility of the allocation
- a broader set of financial and macroeconomic indicators.

Important judgements are made in running the model and any judgements to override the results of the model are explicit and agreed annually.

The Bank seeks to improve returns for the EEA through active management trading strategies beyond the strategic asset allocation. An annual active management return target is set each year in consultation between the Bank and HM Treasury. This target is set against the benchmark set by the strategic asset allocation and takes account of the limits on active management set as part of the SLA and detailed risk management framework. Active management must not compromise the portfolio constraints. There is no benchmark for the IMF RTP and bilateral lending in the NLF given that there is no discretion to alter this holding under IMF membership rules,

Links between the International Monetary Fund and the Official Reserves

The primary means of financing the IMF is through members' quotas. Each member of the IMF is assigned a quota, based broadly on its relative size in the world economy, 25% of which is payable in a combination of SDRs or foreign currency and the rest in the member's own currency. The difference between a member's quota and the IMF's holdings of its currency is a member's RTP. The

UK's RTP is an asset of the NLF and a portion of the RTP is unremunerated with interest earned on the remaining balance at the adjusted[4] SDR interest rate.

While quota subscriptions of member countries are the IMF's main source of financing, the IMF can supplement its resources through borrowing if it believes that resources might fall short of members' needs. Through a standing multilateral borrowing arrangement – the New Arrangements to Borrow (NAB) – a number of member countries and institutions, including the UK, stand ready to lend additional funds to the IMF. Any lending against this facility is an asset of the NLF.

The IMF has periodically issued SDRs and allocated them to members in proportion to their quotas. The UK's SDR allocation is a liability of the EEA and the resultant holding of SDRs by the UK is an asset of the EEA. Holdings of SDRs are also used to lend to the IMF's Poverty Reduction and Growth Trust (PRGT) and the Resilience and Sustainability Trust (RST). IMF members are credited with interest on their holdings of SDRs and pay interest on their allocation of SDRs at the same rate.

The SDR market functions through voluntary trading arrangements. Under these arrangements a number of members, including the UK, have volunteered to buy or sell SDRs within limits defined by their respective arrangements. Following the 2009 and 2021 SDR allocations, the number and size of the voluntary arrangements has been expanded to ensure continued liquidity of the voluntary market. If there is insufficient capacity under the voluntary trading arrangements to ensure the liquidity of the market, the IMF can activate the designated mechanism. Under this mechanism, members with sufficiently strong external positions are designated by the IMF to buy SDRs with freely useable currencies up to certain amounts for members with weak external positions. This arrangement guarantees the liquidity and the reserve asset character of the SDR.

Key issues and risks

The key issues and risks facing the EEA are considered in the Governance Statement. Financial risks related to the EEA are separately disclosed in Note 18, 'Risk management and control'.

The Bank also conducts monthly stress tests for a range of scenarios. A range of historical and theoretical scenarios involving large shifts in interest rates, inflation, spreads between securities and changes in yield curve shapes are applied to both the overall EEA holdings and the active management positions/component. These results are reviewed by the Bank's senior management and shared with HM Treasury as part of the regular monthly reporting on the reserves.

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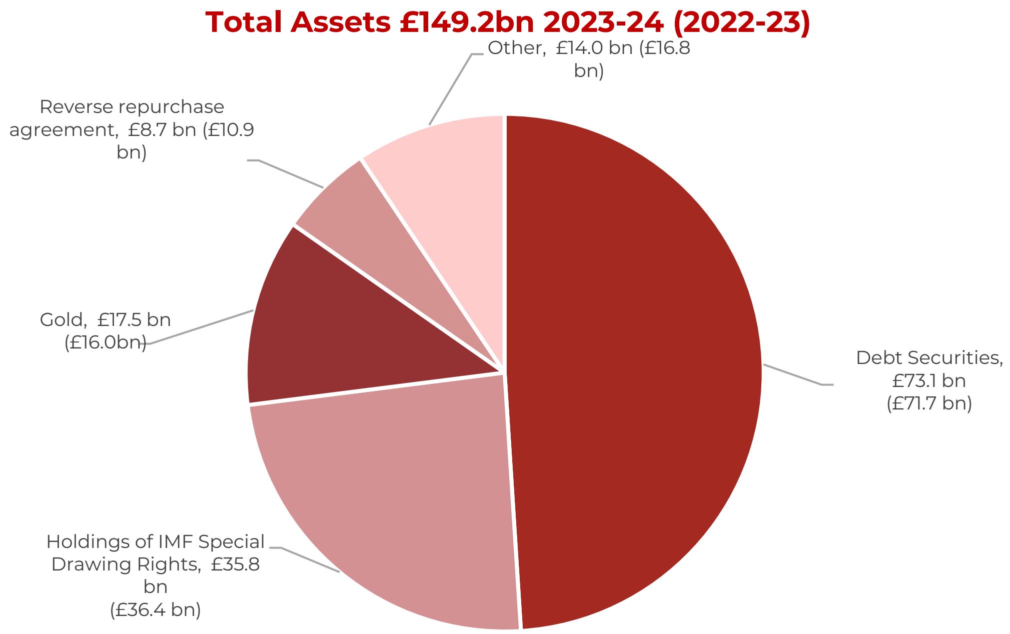
[4] Additional burden sharing adjustments, for the financial consequences of protracted arrears, are also applied to both the basic rate of remuneration and the basic rate of charge. The adjusted rate of remuneration is used to pay interest (remuneration) to members on their remunerated reserve tranche position with the Fund.

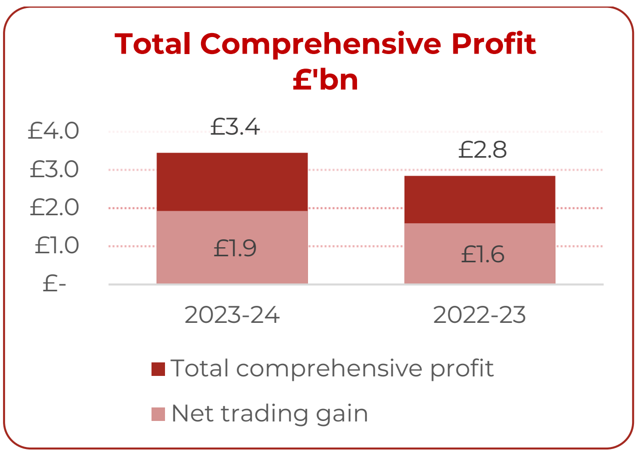
Investment Policy Statement and Service Level Agreement

In addition to the SLA and IPS, a set of supporting documents exist containing detailed implementation and constraints, including: an Operational Risk Management Framework, a Financial Risk Management Framework and an Investment Processes document.

Performance summary

The charts below show the total assets as at 31 March 2024 and 31 March 2023 (with liabilities matching the corresponding totals).





Performance analysis

In the EEA Statement of Financial Position, assets decreased over the course of the year by £2.7 billion to £149.2 billion (2022:23: £151.9 billion). Movements are driven by a number of factors including changes in yields, exchange rates and trading activities.

The decrease consisted primarily of falls in:

- money market instruments (£3.2 billion)
- reverse repurchase agreements (£2.2 billion)
- cash balances (£0.7 billion)
- IMF Special Drawings Rights (£0.6 billion)

partly offset by:

- a rise in the price of gold (£1.5 billion),
- debt securities (£1.4 billion)
- derivative financial assets (£1.0 billion).

A matching decrease in EEA liabilities consisted primarily of a fall in:

- repurchase agreements (£2.0 billion)
- SDR Allocation (£1.2 billion)
- items in the course of transmission to banks (£0.4 billion) derivative financial liabilities (£0.4 billion)
- debt securities short positions (£0.3 billion),

partly offset by:

- a rise in the liability to the NLF (£1.6 billion)

A proportion of reserves is hedged for interest rate and currency risk in line with the strategic asset allocation.

Analysis of returns for the period

The EEA's total comprehensive profit for the year of £3.4 billion (2022-23: £2.8 billion profit) is primarily made up of:

- Revaluation profit of £1.5 billion due to price of gold increased from £1,600 to £1,754 per ounce.

- The net trading gain of £1.9 billion primarily due to net interest income and exchange rate related gains on swaps, partially offset by losses on debt securities as a result of net interest income being exceeded by exchange rate related losses due to reserve currencies depreciating against sterling. See Note 2 Net trading income/(loss).

HM Treasury sets a target for active management return as part of the SLA, above the cost of managing the reserves. This target is set against the benchmarks for the portfolio (as detailed in the Purpose and activities of the EEA) and takes account of the limits on active management set as part of the

SLA. This target is confidential for policy reasons. The return from the Bank's active management of the reserves during the year was £63 million (2022-23: £91 million).

The EEA continued to invest in high credit quality assets throughout the year and has not crystallised any credit losses.

Performance against Key Performance Indicators

HM Treasury has agreed a set of Key Performance Indicators (KPIs) with the Bank with the purpose of providing a basket of indicators that can be used to assess effectiveness of the management of the EEA. The KPIs reflect the overall objectives for holding the reserves and are separated into Financial and Operational KPIs.

Financial KPIs 2023-24		**Status**
a	The foreign currency reserves, while not used in operations to deliver policy objectives, will be invested in assets that meet the minimum liquidity requirements and the currency composition, as set out in the IPS – subject to operational tolerances agreed.	●
b	Except for Chinese Renminbi assets, only purchases of eligible securities in eligible currencies – and with an acceptable creditworthiness – are made.	●
C	That overall portfolio volatility, and volatility arising specifically from active management, should be below the level set out in the IPS.	●
d	In order to aim to at least cover the costs of managing the EEA, the Bank will actively manage the EEA portfolio against the foreign currency reserves to meet the active management return target set by HM Treasury, whilst ensuring compliance with the financial risk limits as detailed in the Financial Risk Management Framework.	●

Operational KPIs 2023-24		**Status**
a	The Bank will observe the limits as set out in the SLA. In line with that all unauthorised breaches of the limits and/or any related operational errors will be reported to HM Treasury as reportable incidents as soon as possible, along with advice, if necessary, as to how best to deal with them. Any significant breach will be reported publicly (e.g., in the annual accounts).	●
b	The Bank will ensure that all transactions related to government departments and the IMF shall be handled efficiently, accurately and in a timely fashion.	●
C	In carrying out its services, the Bank will, as far as possible, ensure that: · its management and staff are of high repute and integrity.	●

- staff training and experience are appropriate for the tasks they are expected to undertake and consistent with the amount of risk they are authorised to take.

- its internal systems and controls are adequate for the size, nature and complexity of EEA operations and comply with best market practice so far as possible.
- appropriate preparations are made for possible policy deployment of the reserves (e.g., FX intervention).

Intervention

No foreign exchange intervention was undertaken by the government in the foreign exchange market during the year. See Performance Overview, Policy Objectives.

Provision of foreign currency services to Government departments

The EEA continued to provide foreign currency services to various government departments and agencies. Sales of foreign currency, to departments with foreign currency obligations, and purchases of foreign currency, from departments with foreign currency receipts, in aggregate totalled £20.9 billion (2022-23: £22.7 billion). These purchases and sales, both spot and forward, were hedged through offsetting trades with the market.

Long-term expenditure trends

Since the function of the EEA is primarily to hold foreign currency reserves on a precautionary basis to meet any change in exchange rate policy in the future, if required, or in the event of any unexpected shocks, it has no long-term expenditure trends.

Sam Beckett

Accounting Officer 24 July 2024

Accountability report

Introduction

The accountability report contains the following sections:

- Corporate governance report which explains the composition and organisation of the EEA's governance structures and how they support the achievement of the EEA's objectives. It includes the Statement of Accounting Officer's responsibilities and the Governance Statement.

  Parliamentary accountability and audit report which includes key Parliamentary accountability information on regularity of expenditure and remote contingent liabilities as well as the Report of the Comptroller and Auditor General to the Houses of Parliament.

Corporate governance report

Directors' Report

The operations and management of the EEA are undertaken by HM Treasury and Bank employees. The EEA does not have any employees of its own.

Directors' conflicts of interest

In 2023-24, no material conflicts of interest have been noted by the senior management overseeing the EEA.

Personal data related incidents

The EEA does not hold any protected personal data.

Accounting Officer's report

In 2023-24 HM Treasury, together with its agent the Bank of England (the Bank), continued to manage the EEA as a fund ready to meet its policy objectives, which include: regulating the exchange value of sterling, when necessary, to provide foreign currency services for government departments and agencies, and to fulfil its obligations as required by the UK's membership of the IMF.

Every year HM Treasury agrees a set of Key Performance Indicators (KPIs) with the Bank with the purpose of providing a basket of indicators that can be used to assess the effectiveness of the management of the EEA. An annual Service Level Agreement (SLA) between HM Treasury and the Bank which specifies the parameters within which the reserves are managed is also agreed. All KPIs were met in 2023-24 and there were no significant breaches of the limits in the SLA.

During the year the Bank continued to actively manage the reserves to minimise the net cost of holding the reserves to the taxpayer subject to the EEA's risk framework.

The EEA continued to provide cost-effective foreign currency services to various government departments and agencies. Sales of foreign currency, to departments with foreign currency obligations, and purchases of foreign currency, from departments with foreign currency receipts, in aggregate totalled £20.9 billion (2022-23: £22.7 billion).

I would like to express my sincere appreciation to all HM Treasury staff and to colleagues at the Bank for their professionalism, commitment and support throughout the year. The successes of the EEA would not have been possible without their valued contribution.

Statement of the Accounting Officer's Responsibilities

Under the Exchange Equalisation Account Act 1979 (as amended by the Finance Act 2000), HM Treasury is required to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the EEA and its income and expenditure and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to observe the applicable accounting standards and be consistent with the relevant requirements of the Government Financial Reporting Manual, and in particular to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis.
- make judgements and estimates on a reasonable basis.
- state whether applicable accounting standards have been followed and disclose and explain any material departures in the accounts.
- prepare the accounts on a going concern basis; and
- confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

HM Treasury has appointed its Chief Economic Adviser as the Accounting Officer of the EEA. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting

Officer is answerable, for keeping proper records and for safeguarding the EEA's assets, are set out in Managing Public Money[5] published by HM Treasury.

Statement regarding the disclosure of information to auditors

As Accounting Officer, I have taken all the steps that I ought to have taken as Accounting Officer to make myself aware of any relevant audit information and to establish that the EEAs auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.

I also confirm that the annual report and accounts are fair, balanced, and understandable and I take personal responsibility for judgements required for determining that they are fair, balanced and understandable.

Audit arrangements

The EEA accounts are audited by the Comptroller and Auditor General (C&AG) under the requirements of the Exchange Equalisation Account Act 1979. The National Audit Office (NAO) performs the external audit on behalf of the C&AG and bears the cost of all external audit work performed on the EEA. No non-audit work was undertaken by the NAO in relation to the EEA in 2023-24.

[5] https://www.gov.uk/government/publications/managing-public-money

Governance Statement

Scope of responsibility

The Exchange Equalisation Account (EEA) is managed within HM Treasury's overall risk and governance framework as set out in HM Treasury's Annual Report and Accounts 2023-24. This includes HM Treasury Board's assessment of its compliance with the Corporate governance in central government departments: Code of Good Practice. The Chancellor of the Exchequer, as Minister in charge of HM Treasury, is responsible and answerable to Parliament on all the policies, decisions and actions of HM Treasury and ultimately of the EEA.

Ruth Curtice, Director Fiscal Group, was acting Accounting Officer for the EEA for the period up to 7 June. I became Accounting Officer for the EEA on 8 June 2023. Although I was not Accounting Officer for the EEA for the whole period that this report covers, Ruth Curtice (Director Fiscal Group), who was acting Accounting Officer from 27 March to 7 June, provided me with written assurance that adequate governance arrangements were in place up to 7 June 2023 and that the system of internal control was effective throughout. As Accounting Officer for the EEA, I have responsibility for maintaining a sound system of internal control that supports the achievement of the policies, aims and objectives of the Exchange Equalisation Account Act 1979 (as amended by the Finance Act 2000) as well as the targets set by Treasury Ministers, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

Overall management of the EEA is the responsibility of HM Treasury which delegates day-to-day management to the Bank, acting as its Agent and Advisor. The Debt and Reserves Management (DRM) team at HM Treasury has oversight of the Bank's EEA operations and agrees an annual Service Level Agreement (SLA) with the Bank that specifies the parameters under which the reserves are managed. The SLA sets out the guidelines for investing the reserves, including risk limits and the associated management information required and is described in more detail in the Performance Report. The Exchequer Funds and Accounts (EFA) team at HM Treasury reports directly to me on operational risk issues and works closely with the Bank to produce the annual accounts.

The purpose of the system of internal control

Although the reserves are not held to make a profit, consistent with the KPIs described in the Performance Report, HM Treasury seeks to minimise the cost of holding the foreign currency reserves while avoiding exposing the public purse to unnecessary risk.

The system of internal control is designed to manage risk to an acceptable level, balancing the impact of potential risks with the resources to manage them, rather than to eliminate all risk. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the EEA's policies, aims, and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. The system of internal control has been in place throughout the year ended 31 March 2024 and up to the date of approval of the annual report and accounts and accords with Treasury guidance.

Capacity to handle risk

The risk management strategy is set annually via the SLA – with further detail in supporting Financial and Operational Risk Management documents – which is signed by me as Accounting Officer. There is clear segregation of duties within the Bank and HM Treasury for the management of the EEA and the supporting processes.

Both at HM Treasury and the Bank, senior management are responsible for ensuring staff have skills and receive training appropriate to their responsibilities. Those involved in managing financial and other risks have their objectives set accordingly, including responsibility for relevant aspects of the control framework and are trained and equipped to manage risk in a way appropriate to their authority and duties.

Control improvements and responses to control failures are summarised in the quarterly operational risk reports from the Bank to EFA described below. The Bank will also notify HM Treasury of any material incidents as soon as possible and any potential losses that may have arisen.

The risk management framework

Within the Bank, the Financial Risk Management Division is responsible for financial risk analysis, risk methodologies, risk management information and for producing and reconciling the EEA financial and management accounts. Middle Office is responsible for the pricing, valuation and financial control of exposures and collateral positions arising from the EEA's market operations, including counterparty and instrument data management. The Bank's Chief Operating Officer Division for Markets, Banking, Payments & Resolution (MBPR) oversaw the management of operational risks and undertook all Markets-wide crisis and contingency planning. Those teams are all separate from the Foreign Exchange Division where transactions are executed. The Financial Risk Management Division, Middle Office, MBPR Chief Operating Officer Division, and Foreign Exchange Divisions are also separate from the Market Services in Payments Directorate and Central Banking Operations and Customer Banking Divisions in the Banking Directorate where the transactions are settled, and custodian arrangements are managed.

The Risk Directorate houses the second-line risk and compliance functions charged with providing effective oversight of financial and non-financial risks, ensuring compliance with the overarching Risk Management Framework, to provide consistency and transparency in risk management processes across the organisation. The frameworks identify the roles and responsibilities of the key parties involved in the risk management processes; risk tolerances; policies for how risks are managed; and managing the reporting outputs that are generated to the Executive Risk Committee (ERC). ERC is responsible for the operation of the risk governance framework, including monitoring the Bank's risk profile against tolerance and prioritising mitigating actions. The framework is overseen by the Bank's Audit and Risk Committee (ARCo).

At HM Treasury, EFA is responsible for monitoring the risk environment and providing the Accounting Officer with the assurance to sign off the Governance Statement. DRM is responsible for monitoring the performance of the Bank in managing the reserves. To support these processes, the Bank provides the following:

- monthly reports to HM Treasury on the size, composition and liquidity of the reserves, consistency with policy objectives, investment performance, returns made and risk exposures. The management accounts are reconciled to the financial accounts.

- quarterly assurance is provided to me, as the Accounting Officer, that the processes and framework in place are sufficient to identify current and future sources of material risk, as well as appropriate mitigants, and adequately meet the quarterly assurance requirements relating to the Bank's management of the EEA business. The assurance also states that it is evidence which can be relied upon in making this Governance Statement. In addition, EFA is provided with quarterly management reports on operational risk. These reports contain information on significant risk events, control improvements and other factors relevant to the control environment. Any material incidents including SLA breaches are reported as they occur.

- the Bank's Internal Audit Division conducts an agreed internal audit programme. The Bank's Executive Director for Markets shares the Internal Audit quarterly reports on this activity with me as the Accounting Officer and the results of all relevant internal audits are provided to EFA.

- Bank and Treasury officials meet quarterly to review performance against the parameters set out in the SLA and to consider wider operational and policy issues. The MBPR Chief Operating Officer Division meet with EFA when needed to discuss operational risk issues. Additionally, as Accounting Officer, I hold half-yearly meetings with the Bank's Executive Director for Markets to discuss overall performance and strategy.

EFA considers and discusses the information provided with the Bank and Exchequer Funds Internal Audit and provides me, as the Accounting Officer, with quarterly reports that highlight key risks.

Internal Audit

The Government Internal Audit Agency (GIAA) provides an independent and objective opinion to me, as the Accounting Officer, on risk management, control and governance of the EEA. Assurance is provided following reviews of relevant Bank Internal Audit reports and EFA's oversight of the Bank's work, as agreed by me as the Accounting Officer and HM Treasury Audit and Risk Committee (ARC). GIAA's reviews aim to measure and evaluate the effectiveness of HM Treasury in achieving its agreed objectives in respect of the EEA. GIAA also reviews EFA's quarterly report to me as the Accounting Officer (mentioned above).

Chris Westwood, Director of Internal Audit provided his Annual Report and Opinion on the adequacy and effectiveness of the framework of governance, risk management and control operating over the EEA to the Accounting Officer and ARC. A moderate opinion was provided for the period 2023-24. This assessment is based on GIAAs review of work undertaken by the Bank's Internal Audit Division and the views of the Bank of England Audit Manager responsible for the provision of Internal Audit services to EEA. There were no matters arising from the work carried out in 2023-24 that would give rise to a separate comment in the Governance Statement.

Audit and Risk Committee

The Audit and risk Committee supports the Permanent Secretary (Principal Accounting Officer) and HM Treasury's additional accounting officers in their oversight responsibilities on financial reporting, systems of internal control as well as managing risk and governance in relation to HM Treasury Group's Annual Report and Accounts, Central Funds (Consolidated Fund, National Loans Funds, Contingencies Fund and Exchange Equalisation Account) and Whole of Government Accounts. In accordance with the ARC Handbook[6], the Committee provides independent challenge on the robustness of the mechanisms in place, and the evidence provided, to deliver the assurance needed by the Board and Departmental Accounting Officers. Details on the overall risk and governance structure of HM Treasury can be found in the Governance Statement in HM Treasury's Annual Report and Accounts[7].

ARC provides oversight of activity performed by GIAA and approves the Internal Audit Plan for the year which is developed to assure key risks and controls. The Group Chief Internal Auditor attends every ARC meeting, updating on the plan and reporting on key controls. The ARC also receives reports on the work of the Fund's external auditors, the National Audit Office (NAO). Members of the Committee are appointed by the Chair along with the Principal Accounting Officer. The Chair of the Committee reports directly to the Permanent Secretary and is also a non-executive member of HM Treasury Board.

The membership of the ARC at the close of 2023-24 was:

Committee member	**Role**	**Expertise**
Zarin Patel	Chair of the Audit and Risk Committee	Qualified Chartered Accountant, Managing Transformation, Finance, Investment, Procurement, audit and corporate finance

[6] https://www.gov.uk/government/publications/audit-committee-handbook

[7] https://www.gov.uk/government/collections/hmt-annual-report

Edward Braham	Member of the Audit and Risk Committee	Law, Mergers, Acquisition, Savings and Investments.
Jane Hanson CBE	Member of the Audit and Risk Committee	Fellow of the Institute for Chartered Accountants, Commercial, Not-for-profit, Risk, Governance.

HM Treasury Audit and Risk Committee met six times during 2023-24. Pre-meeting discussions with the NAO and GIAA were held where required. Attendance is outlined in the table below:

Committee member	**Attended**
Zarin Patel	6/6
Edward Braham	4/6
Jane Hanson	6/6

ARC has a robust Conflicts of Interest Policy, which requires members to excuse themselves from discussions where potential conflicts may occur. Members are required to inform the Permanent Secretary about any potential conflicts and highlight these at the start of each meeting as appropriate.

Risk profile and tolerance

Through implementing its policy objectives and daily operation, the EEA is exposed to a wide variety of financial and non-financial risks. These risks are regularly assessed with appropriate and proportionate mitigating action plans put into place. The EEA tolerance for risk and its approach for managing risks are set out in the IPS and the EEA Operational Risk Management Framework documents.

The EEA tolerates a level of risk appropriate to the achievement of its policy objectives. In general, day-to-day exposure to risk is low supported by the control environment and risk culture. However, in some instances, a higher level of risk is tolerated where the expected policy benefits outweigh that risk.

Risks are categorised under five main principal types:

- operational
- financial
- legal
- conduct
- climate risks

Appropriate tolerance levels are set for each. Regular management assessments of risk against tolerances are undertaken to determine required escalations and mitigating actions. A detailed Risk and Control Self-Assessment is maintained by the Bank.

The key inherent risks managed during the year are summarised below:

Risk Category	Risk Detail
Technology Risk that inadequate IT infrastructure and/or provision of IT services adversely impacts operations	The EEA needs to keep pace with wide-ranging technological transformation in financial markets including changes to payment messaging and trading and settlement operations. The Bank has a work programme to modernise the technology estate to upgrade its systems to ensure it remains fit for purpose. This will improve resilience, seek to automate some manual processes and strengthen end to end risk management processes.
Project Risk that a project objective is adversely impacted by a congested portfolio, budget, or external events	The EEA change portfolio has a broad range of improvement projects, reflecting a need to upgrade the technology estate as well as other strategic projects. Delivery of the programme is demanding and spans many key functions with complex dependencies and specialist technical requirements. There are also cost and capacity constraints affecting delivery. To manage the risks the Bank has created a new portfolio of work specifically focused on the improvement of financial operations including the EEA.
People Risk of insufficient or inadequate resources to deliver the EEA policy objectives.	Staff retention and recruitment of skilled staff due to a competitive and candidate led market presents challenges. The Bank has policies to ensure attraction, retention, and development of staff of the highest calibre from diverse backgrounds to reflect the society we serve. Staff turnover, key person dependency, capability assessment is regularly monitored for the identification of potential gaps and targeted training plans.
Cyber Risk that systems used for EEA operations are compromised electronically	The cyber risk environment continues to be elevated with continuing high-profile, well-published and successful cyber-attacks both in the UK and abroad. Given the current geopolitical situation the Bank Cyber Defence Centre (CDC) continues to operate with enhanced and proactive monitoring of all critical IT systems. CDC works closely with the National Cyber Security Centre to remain informed of current threats and best practice to mitigate them. The Bank continues to invest in its cyber defences through a dedicated cyber programme to ensure it maintains a robust and flexible capability enabling the Bank to respond quickly and effectively.
Process Risk of a failure to instruct, execute or settle transactions	Some degree of process risk is inherent to financial operations, particularly where manual intervention is needed. All processes to deliver the EEA policy objectives are documented and managed through control frameworks and regular independent assessments and reviews that are prioritised by criticality. Controls

correctly resulting in financial impact and/or trading with/across the wrong entity, identified/unidentified breach of policy.	include validating trade confirmations with counterparties, reconciliations, dealer training, clear dealer mandates, segregation of duties, and assessment of incidents. There is system enforced checking of deals against limits and frequent risk reporting to identify, escalate and report breaches. The Bank has a robust and clear operational governance framework and documentation. Breaches and incidents are investigated with proportionate and appropriate actions taken where necessary. The Bank reports on these in a timely manner to HM Treasury.

The risk management strategy is set annually via the SLA, which is signed by me as Accounting Officer. The exposures to credit and market risk are detailed in Note 18, Risk Management and Control.

Review of effectiveness

In line with the Corporate governance code for central government departments[8], I have reviewed the effectiveness of the system of internal control. My review is informed by:

- GIAA and Bank Internal Audit, who both provided primarily positive assurance as to the management and control of the EEA in 2023-24.
- Executive managers within DRM, EFA and in the Bank, who have responsibility for the development and maintenance of the internal control framework,
- External audit management letters and other reports.

I have been supported by HM Treasury Audit and Risk Committee and risk owners in addressing weaknesses and ensuring continuous improvement of the system is in place. Information about the effectiveness of HM Treasury's overall system of governance including board effectiveness, attendance, compliance with the Corporate Governance Code[9] and quality of management information reviewed, is reported in HM Treasury's Annual Report and Accounts.

No significant control issues, including personal data related incidents, have been identified in 2023-24, and no significant new risks have been identified in the year. No ministerial directions have been given in 2023-24.

In my opinion, the system of internal control was effective in all material aspects throughout the financial year and remains so on the date I sign this report.

[8] https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments

[9] https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments

Parliamentary accountability and audit report

Regularity of expenditure (audited)

The expenditure and income of the EEA have been applied to the purposes intended by Parliament.

The investments of the EEA have been applied to the purposes intended by Parliament.

Losses and special payments (audited)

The Official Reserves comprise two components:

- reserves that are hedged for currency and interest rate risk (the ‘hedged reserves’) and the remaining reserves which are unhedged for currency; and
- interest rate risk (the ‘unhedged reserves’).

Any currency losses due to fluctuations in exchange rates are included within the figures disclosed in Note 2, Net trading income/(loss) of the financial statements and the Annual Report.

There have been no other losses or special payments that require disclosure.

Fees and charges (audited)

The EEA does not have any fees and charges.

Remote contingent liabilities (audited)

The EEA had no remote contingent liabilities as at 31 March 2024.

Sam Beckett

Accounting Officer 24 July 2024

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

Opinion on financial statements

I certify that I have audited the financial statements of the Exchange Equalisation Account for the year ended 31 March 2024 under the Exchange Equalisation Act 1979.

The financial statements comprise the Exchange Equalisation Account's:

- Statement of Financial Position as at 31 March 2024;
- Statement of Comprehensive Income and Statement of Cashflows for the year then ended; and
- the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and UK adopted International Accounting Standards.

In my opinion, the financial statements:

- give a true and fair view of the state of the Exchange Equalisation Account's affairs as at 31 March 2024 and its total comprehensive income for the year then ended; and
- have been properly prepared in accordance with the Exchange Equalisation Act 1979 and HM Treasury directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects, the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs UK), applicable law and Practice Note 10 *Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom (2022)*. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of my certificate.

Those standards require me and my staff to comply with the Financial Reporting Council's *Revised Ethical Standard 2019*. I am independent of the Exchange Equalisation Account in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the Exchange Equalisation Account's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Exchange Equalisation Account's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for the Exchange Equalisation Account is adopted in consideration of the requirements set out in HM Treasury's Government Financial Reporting Manual, which require entities to adopt the going concern basis of accounting in the preparation of the financial statements where it is anticipated that the services which they provide will continue into the future.

Other Information

The other information comprises the information included in the Performance Report and Accountability Report but does not include the financial statements nor my auditor's certificate and report. The Accounting Officer is responsible for the other information.

My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my certificate, I do not express any form of assurance conclusion thereon.

My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters

In my opinion, based on the work undertaken in the course of the audit:

- the parts of the Accountability Report subject to audit have been properly prepared in accordance with HM Treasury directions made under the Exchange Equalisation Act 1979; and
- the information given in the Performance and Accountability Reports for the financial year for which the financial statements are prepared is consistent with the financial statements and is in accordance with the applicable legal requirements.

Matters on which I report by exception

In the light of the knowledge and understanding of the Exchange Equalisation Account and its environment obtained in the course of the audit, I have not identified material misstatements in the Performance of Accountability Reports. I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- Adequate accounting records have not been kept by the Exchange Equalisation Account or returns adequate for my audit have not been received from branches not visited by my staff; or
- I have not received all of the information and explanations I require for my audit; or
- the financial statements and the parts of the Accountability Report subject to audit are not in agreement with the accounting records and returns; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for:

- maintaining proper accounting records;
- providing the C&AG with access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- providing the C&AG with additional information and explanations needed for his audit;

- providing the C&AG with unrestricted access to persons within HM Treasury and the Bank of England from whom the auditor determines it necessary to obtain audit evidence;
- ensuring such internal controls are in place as deemed necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error;
- ensuring that the financial statements give a true and fair view and are prepared in accordance with HM Treasury directions made under the Exchange Equalisation Act 1979;
- ensuring that the Performance Report and Accountability Report are prepared in accordance with HM Treasury directions made under the Exchange Equalisation Act 1979; and
- assessing the Exchange Equalisation Account'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 the Accounting Officer anticipates that the services provided by the Exchange Equalisation Account will not continue to be provided in the future.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Exchange Equalisation Act 1979.

My 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 a certificate that includes my opinion. Reasonable assurance is a high level of assurance but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, I:

- considered the nature of the sector, control environment and operational performance including the design of the Exchange Equalisation Account's accounting policies and key performance indicators.
- inquired of management, the Exchange Equalisation Account's internal audit function and those charged with governance, including obtaining and reviewing supporting documentation relating to the Exchange Equalisation Account's policies and procedures on:
    - identifying, evaluating and complying with laws and regulations;
    - detecting and responding to the risks of fraud; and
    - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Exchange Equalisation Account's controls relating to the Exchange Equalisation Account's compliance with the Exchange Equalisation Act 1979 and Managing Public Money;
- inquired of management, the Exchange Equalisation Account's internal audit function and those charged with governance whether:
    - they were aware of any instances of non-compliance with laws and regulations;
    - they had knowledge of any actual, suspected, or alleged fraud;
- discussed with the engagement team how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, I considered the opportunities and incentives that may exist within the Exchange Equalisation Account for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, posting of unusual journals, and bias in management estimates. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override.

I obtained an understanding of the Exchange Equalisation Account's framework of authority and other legal and regulatory frameworks in which the Exchange Equalisation Account operates. I focused on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the Exchange Equalisation Account. The key laws and regulations I considered in this context included Exchange Equalisation Act 1979 and Managing Public Money.

Audit response to identified risk

To respond to the identified risks resulting from the above procedures:

- I reviewed the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- I enquired of management, the Audit and Risk Committee concerning actual and potential litigation and claims;

- I reviewed minutes of meetings of those charged with governance and the Board and internal audit reports; and
- in addressing the risk of fraud through management override of controls, I tested the appropriateness of journal entries and other adjustments; assessed whether the judgements on estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

I communicated relevant identified laws and regulations and potential risks of fraud to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

Other auditor's responsibilities

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control I identify during my audit.

Report

I have no observations to make on these financial statements.

Gareth Davies **25 July 2024**

Comptroller and Auditor General

National Audit Office

157-197 Buckingham Palace Road, Victoria, London, SW1W 9SP

Financial Statements

Statement of Comprehensive Income (SoCI) for the period ended 31 March 2024

£'m		**2023-24**	**2022-23**
Net trading income/ (loss)	2	1,921	1,601
Fair value changes in gold		1,540	1,258
Fees and commissions		(3)	(2)
Management charge	3	(13)	(15)
Total comprehensive income/(loss) for the year		**3,445**	**2,842**

The notes on pages 37 to 63 form an integral part of these accounts.

Statement of Financial Position (SoFP) as at 31 March 2024

£'m	Note	31 March 2024	31 March 2023
Assets			
Cash	16	5,273	5,954
Items during the collection from banks	16	456	454
Money market instruments	4	3,184	6,352
Debt securities	5	73,084	71,729
Gold	6	17,494	15,954
Reverse repo agreements	7	8,738	10,915
Derivative financial assets	8	4,463	3,467
Other financial assets	9	666	616
Holdings of IMF Special Drawing Rights	13	35,799	36,425
Total assets		**149,157**	**151,866**
Liabilities			
Items in the course of transmission to banks	16	379	797
Debt securities - short positions	10	532	834
Repo agreements	11	9,232	11,281
Derivative financial liabilities	12	783	1,194
Other financial liabilities		209	178
SDR allocation	13	30,856	32,061
Liability to the National Loans Fund	14	107,166	105,521
Total liabilities		**149,157**	**151,866**

The notes on pages 37 to 63 form an integral part of these accounts

Sam Beckett

Accounting Officer 24 July 2024

Statement of Cashflows (SoCF) for the period ended 31 March 2024

£'m	Note	2023-24	2022-23
Net cash inflow/(outflow) from operating activities	15	**(234)**	**(4,581)**
Cash flows from financing activities:			
Cash inflow from National Loans Fund	14	1,300	4,000
Cash outflow to National Loans Fund	14	(3,100)	(4,800)
Net cash inflow/ (outflow) from financing activities		**(1,800)**	**(800)**
Net increase/(decrease) in cash and cash equivalents during the year	16	**(2,034)**	**(5,381)**
Cash and cash equivalents at the beginning of the year	16	9,180	14,561
Cash and cash equivalents at the end of the year	16	**7,146**	**9,180**

The notes on pages 37 to 63 form an integral part of these accounts.

Notes to the accounts

1.1 Statement of Accounting policies

The EEA produces accounts under the Exchange Equalisation Account Act 1979, as amended by the Finance Act 2000 and the Accounts Direction.

The financial statements have been prepared in accordance with the current Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the circumstances of the EEA for the purpose of giving a true and fair view has been selected.

The policies adopted are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

1.2 Accounting convention

These accounts are prepared on a trade date basis and all assets and liabilities are initially recognised at cost on the trade dates and then subsequently in line with the relevant accounting policy.

Under the Exchange Equalisation Account Act 1979 (as amended by the Finance Act 2000), HM Treasury is required to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the EEA and its income and expenditure and cash flows for the financial year.

The core functions of the EEA can be expected to continue for the foreseeable future, and there are no legislative changes in process, there is no reason to believe that funding will not continue to be forthcoming. Therefore, in accordance with the FReM, it has been concluded as appropriate to adopt the going concern basis of preparation for the EEA Accounts.

1.3 Standards in issue but not yet effective

The EEA has not early adopted any new or amended standards in preparing these financial statements.

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts was issued in May 2017 and applies to the public sector for annual reporting periods beginning on or after 1 January 2025. IFRS 17 was effective from 1 January 2023 for entities applying IFRS, however mandatory adoption is delayed by two years for the public sector. This reflects the additional time needed to assess its application in the public sector and provide a similar implementation period to the private sector, following the finalised adapted standard.

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard.

The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

This standard is not expected to have a material impact on the EEA financial statements because the EEA does not have, nor plan to sign any insurance contracts in the foreseeable future.

IFRS 18 Presentation and Disclosure in Financial Statements

IFRS 18 *Presentation and Disclosure of Financial Statements* was issued in April 2024 and applies to annual reporting periods beginning on or after 1 January 2027 (Subject to UK and Financial Reporting Advisory Board (FRAB) endorsement). FRS 18 sets out general and specific requirements for the presentation and disclosure of information in general purpose financial statements.

The objective of IFRS 18 *Presentation and Disclosure of Financial Statements* is to improve comparability of financial performance between organisations applying IFRS. Once effective, it will replace IAS 1 *Presentation of Financial Statements*. The impact of adopting this standard is still being assessed. The EEA does not intend to early adopt IFRS 18 *Presentation and Disclosure of Financial Statements*.

1.4 Significant judgements and estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the entity's accounting policies.

Gold

IFRS does not provide a specific treatment for the accounting of monetary gold. Therefore, for monetary gold, the central bank can use the requirement in IAS 8 to adopt the nearest equivalent accounting treatment [IAS 8.10-12].

Observable market prices or rates are available, and gold and gold assets are treated like a financial asset and reported at fair value. (See 'Gold' accounting policy in section 1.5 below (also see Note 6, Gold).

Financial Instruments

Where observable market prices are available those are used to value financial instruments. In instances where there is no readily obtainable market price, management would make an estimate of the fair value using modelling techniques. Further information about how financial instruments are valued in such circumstances is provided in the 'Debt securities' and 'Derivative transactions' accounting policies in section 1.5, Recognition of financial assets and liabilities.

Financial assets and liabilities

The financial assets and financial liabilities are classified as held for trading, as they all form part of a portfolio that is managed as a whole and for which there is evidence of a recent pattern of short-term profit taking.

1.5 Recognition of financial assets and financial liabilities

The EEA is managed as a single portfolio, and its performance evaluated on a fair value basis. Its principal purpose is to always remain liquid and secure to ensure the capability to intervene at short notice. Therefore, in accordance with IFRS 9 *Financial Instruments*, the financial assets and liabilities of the EEA are effectively 'held for trading' and measured at fair value (as defined by IFRS 13 *Fair Value Measurement*), with gains and losses taken through the Statement of Comprehensive Income.

The EEA's liabilities are irrevocably designated at fair value through the Statement of Comprehensive Income, in accordance with IFRS 9 *Financial Instruments*, also eliminating accounting mismatches between the assets and liabilities of the portfolio.

There have been no reclassifications of financial instruments during the year. Financial assets are derecognised when the rights to receive cash flows have expired or where the EEA has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished, that is, when the obligation is discharged, cancelled or expires.

Details of the methodologies used to revalue different instrument classes are given below.

i. Net trading income

Net trading income comprises all gains and losses from changes in the fair value of the EEA financial assets and liabilities, together with related interest income and expense. Realised gains and losses on disposal or maturity are also included.

ii. Special Drawing Rights (SDR) interest

The EEA earns interest (in SDRs) on its holdings of SDRs and pays interest on its SDR allocation. This is included within net trading income. Interest (in SDRs) on loans to the IMF, both the UK's Reserve Tranche Position (RTP) and any lending under the NAB (NLF assets), is also received by the EEA and is recognised in these accounts as net trading income. All SDR interest is accounted for on an accruals basis.

iii. Fees and commissions

Fees and commissions are not material and are recognised in the Statement of Comprehensive Income as incurred.

iv. Foreign currency translation

Transactions denominated in foreign currencies are recorded in sterling using the rate prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities at the Statement of Financial Position date are recognised in the Statement of Comprehensive Income within net trading income.

v. Cash and cash equivalents

Cash comprises balances at central banks and loans and advances to banks (see vi. below) in the Statement of Cash Flows. Cash equivalents comprise highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments normally have maturities of less than three months from the date of acquisition and include settlement balances and money market instruments. Longer term deposits have maturities of more than three months from the date of acquisition and are classified as other financial assets.

vi. Loans and advances to banks

Loans and advances to banks are initially recorded at the cost of funds advanced and are then revalued using a discounted cash flow valuation technique. All inputs into the pricing model are externally sourced and assumptions used are supported by observable market prices. Changes in the fair value of loans and advances are recognised in the Statement of Comprehensive Income, within net trading income, when they arise.

vii. Items in course of collection from or transmission to other banks

Money market instruments, debt securities, loans and advances to banks, reverse repos, deposits by banks, debt security short positions and repos are recorded on a trade date basis. For these financial assets and liabilities, between trade date and settlement date, any amounts payable to or receivable from bank counterparties are recorded separately on the Statement of Financial Position, within items during collection from banks or items in the course of transmission to banks, until settlement occurs.

viii. Money market instruments

Money market instruments are reported at fair value. Money market instruments are initially recognised at cost, as the best estimate of fair value and are subsequently revalued to their market price daily. Changes in the fair value of money market instruments are recognised in the Statement of Comprehensive Income, within net trading income, when they arise.

Fair values are either determined by reference to quoted market prices, or by using internal models where no market price is readily obtainable. All inputs into the pricing models are externally sourced and assumptions used are supported by observable market prices. Money market instruments are priced at bid prices.

ix. Debt securities (including short positions)

All debt securities are reported at fair value. Debt securities are initially recognised at cost, as the best estimate of fair value and are subsequently revalued to their market price daily. Changes in the fair value of debt securities are recognised in the Statement of Comprehensive Income, within net trading income, when they arise.

All bonds are valued directly by reference to published price quotations at 31 March 2024. Bonds are valued at bid prices. Short bond positions are valued at offer prices.

x. Gold

Gold is treated like a financial asset and, as such, is reported at fair value. Gold holdings on deposit are valued at the sterling equivalent of the dollar denominated spot bid price as at 31 March 2024. Revaluation gains and losses on gold assets are recognised within fair value changes in gold in the Statement of Comprehensive Income.

xi. Repurchase (repo) and reverse repurchase (reverse repo) agreements

Securities which have been sold with an agreement to repurchase remain on the Statement of Financial Position and the sale proceeds are recorded as a repo. Securities acquired in reverse sale and repurchase agreements are not recognised on the Statement of Financial Position and the purchase amount is recorded as a reverse repo.

Repo and reverse repo agreements are initially recognised at cost as the best estimate of fair value and subsequently revalued daily. These are valued using a discounted cash flow valuation technique. All inputs into the pricing model are externally sourced and assumptions used are supported by observable market prices. Changes in the fair value of repos and reverse repos are recognised in the Statement of Comprehensive Income, within net trading income, when they arise. Repos and reverse repos are marked to bid or offer prices, as appropriate.

xii. Derivative transactions

Derivative transactions are used to manage risk in the reserves. Such instruments include exchange rate forwards, currency swaps, interest rate swaps and interest rate and bond futures. Derivatives are carried at fair value and changes in the fair values are reported within net trading income in the Statement of Comprehensive Income. Fair values are either determined by reference to quoted market prices, or by using internal models where no market price is readily obtainable. All inputs into the pricing models are externally sourced and assumptions used are supported by observable market prices. Derivatives are marked to bid or offer prices, as appropriate.

Derivatives with positive fair values are recognised on the Statement of Financial Position within derivative financial assets. Derivatives with negative fair values are included within derivative financial liabilities.

Any cash flow receipts and payments relating to derivative transactions are recognised in net trading income as they occur.

xiii. International Monetary Fund Special Drawing Rights (SDRs)

SDRs are an international reserve asset created by the IMF. It is currently valued in terms of a weighted basket of five currencies (US dollar, sterling, yen, euro and renminbi). SDR exchange rates are published by the IMF and SDRs are recognised on the Statement of Financial Position at their closing sterling value.

xiv. Collateral and netting

The EEA enters ISDA Master Agreements with counterparties requiring collateral to be pledged by both parties as appropriate. An ISDA Master Agreement contains close-out netting provisions which provide that, if an event of default occurs and a party chooses to close out its transaction(s) with its counterparty, all transactions documented under the ISDA Master Agreement with such counterparty will be closed-out at the same time and netted off against each other. A single resulting cash-flow will be owed from or to the EEA. The EEA also enters into bespoke foreign currency repo agreements with all repo counterparties, featuring close-out netting provisions. These transactions are conducted under terms that are usual and customary for repo agreements.

Collateral is received in the form of cash or securities. Collateral received in the form of securities is not recorded on the Statement of Financial Position, and any coupons received are paid back to the counterparty. Collateral pledged remains on the Statement of Financial Position within Debt Securities.

Collateral received in the form of cash is recorded on the Statement of Financial Position with a corresponding liability, assigned to deposits by banks. Any interest arising on cash collateral received or pledged is recorded within net trading income.

Although master netting agreements are in place, the lack of intention to settle on a net basis result in the related assets and liabilities being reported gross in the Statement of Financial Position.

2. Net trading income/ (loss)

£'m	2023-24	2022-23
Money market instruments	(69)	744
Debt securities (incl. short positions)	(805)	817
Reverse repo agreements	(107)	212
Repo agreements	(62)	(954)
Futures	9	(46)
Foreign exchange transactions	164	464
Currency swaps	2,479	(364)
Interest rate swaps	102	402
Loans and deposits	(21)	5
Reserve Tranche Position	203	103
Special Drawing Rights	(92)	121
Nostros	120	97
Total	**1,921**	**1,601**

3. Management charge

In 2023-24 the Bank of England charged £13 million for management of the EEA on behalf of HM Treasury[10] (2022-23: £15 million).

4. Money market instruments

£'m	2023-24	2022-23
Treasury bills	2,292	5,018
Commercial paper	892	1,334
Total	**3,184**	**6,352**
Amounts maturing:		
In not more than 3 months	1,796	3,569
In 1 year or less but over 3 months	1,388	2,783
Total	**3,184**	**6,352**

[10] Further information on the financial relationship between HM treasury and the Bank of England can be found at https://www.gov.uk/government/publications/financial-relationship-between-the-treasury-and-the-bank-of-england

5. Debt securities

£'m	2023-24	2022-23
Issued by:		
Government	61,076	59,550
Other Public Sector	12,008	12,179
Total	**73,084**	**71,729**
Amounts maturing:		
Current	7,951	3,755
Non-current	65,133	67,974
Total	**73,084**	**71,729**

6. Gold

	2023-24	2022-23
£'m		
Gold Stock	17,494	15,954
Total	**17,494**	**15,954**

There were no gold loan/deposit or swap trades undertaken during the year (2022-23: nil).

7. Reverse repo agreements

£'m	2023-24	2022-23
Amounts maturing:		
Current	8,738	10,915
Total	**8,738**	**10,915**

An analysis of reverse repos together with their backing collateral is provided in Note 18, Risk Management and Control.

The EEA is permitted under the terms of its reverse repo transactions to sell debt securities held as collateral. The EEA is obliged to return equivalent securities. These transactions are conducted under terms that are usual and customary for standard securities lending and repos. The carrying amount of short positions in debt securities arising as a result of selling collateral held is given in Note 10, Debt securities – short positions.

8. Derivative financial assets

£'m	2023-24	2022-23
Foreign exchange transactions	357	392
Currency swaps	3,768	2,352
Interest rate swaps	338	723
Futures	-	-
Total	**4,463**	**3,467**

An analysis of derivative financial assets together with their backing collateral is provided in Note 18, Risk Management and Control.

9. Other financial assets

£'m	2023-24	2022-23
Margin accounts	5	3
Prepayments and accrued income	256	215
Longer term deposits	405	398
Total	**666**	**616**

10. Debt securities - short positions

£'m	2023-24	2022-23
Debt securities – short positions	532	834
Total	**532**	**834**

Short positions in securities relate to the sale of bonds acquired as collateral through reverse repurchase transactions (see Note 7, Reverse repo agreements).

11. Repo agreements

£'m	2023-24	2022-23
Amounts maturing:		
Current	9,232	11,281
Total	**9,232**	**11,281**

An analysis of repos together with the collateral pledged is provided in Note 18, Risk Management and Control.

12. Derivative financial liabilities

£'m	2023-24	2022-23
Foreign exchange transactions	276	368
Currency swaps	341	581
Interest rate swaps	166	244
Futures	-	1
Total	**783**	**1,194**

An analysis of derivative financial liabilities together with the collateral pledged is provided in Note 18, Risk Management and Control.

13. SDR Allocation and SDR Holdings

The EEA has a liability to the IMF for those SDRs that have been allocated since the UK became a participant in the SDRs Agreement. If the UK withdraws from participation or the Agreement is wound up, payment to the IMF would be required at current exchange rates. The SDR liability as at 31 March 2024 fell to £30.9 billion (2022-23: £32.1 billion).

The SDR holdings of the EEA as at 31 March 2024 was £35.8 billion (2022-23: £36.4 billion). These holdings result from SDR allocations made by the IMF, any subsequent purchases and sales of SDRs from or to other IMF members and fair value changes. SDR holdings may include SDR denominated promissory notes issued by the IMF in return for the advance of SDRs via the Poverty Reduction and Growth Trust facility. At 31 March 2024 £2.7 billion worth of such notes were held by the EEA (2022-23: £3.1 billion). During 2023-24, the EEA purchased £0.5 billion (net) worth of SDRs (2022-23: purchased £1.3 billion).

Further detail on the SDRs is provided in the Overview section of the Performance Report.

14. Liability to the National Loans Fund

The EEA is funded by central government through the NLF. Over time, the NLF has advanced sterling to the EEA to finance the reserves. Similarly, when the NLF issues foreign currency securities to raise foreign currency finance, that would subsequently be transferred to the EEA. As a result, the EEA's net assets, having been derived from initial NLF financing, are ultimately due to the NLF, and are recognised as such on the Statement of Financial Position. If a policy decision is taken to reduce the assets of the EEA, the sterling excess raised via sale of foreign currency assets would be paid to the NLF, at the direction of HM Treasury.

The net assets of the EEA represent a liability to the NLF. There are three elements of the Liability to the NLF:

a specific liability, recognised in accordance with the National Loans Act 1968 of £63.3 billion at 31 March 2024 (2022-23: £65.1 billion).

a capital contribution reserve, based on the net asset position (less the balance on the specific liability to the NLF) at 31 March 2001. This represents funding provided by the NLF and cumulative gains and losses at the point UK GAAP compliant accounts were prepared for the first time.

Accumulated comprehensive income reserve, representing all gains and losses since 1 April 2001.

Further detail on each element is provide below.

i. Specific liability to the NLF

The specific element of the liability to the NLF, described in the National Loans Act 1968, is the mechanism through which the EEA's day to day sterling cash flows are managed.

The sterling balance held by the EEA at the Bank of England is maintained within a range, agreed by management. When the balance falls below the minimum level, it can be increased by a fresh issue of capital from the NLF under the terms of section 7 of the National Loans Act 1968. This creates a liability of the EEA to the NLF. Conversely, when foreign currency is sold for sterling with the result that the sterling balance is more than the EEA's requirements, HM Treasury can decide that some reduction should be made by a transfer from the EEA to the NLF.

If there is no outstanding specific liability to the NLF at the time of a sterling transfer from the EEA to the NLF, then the transfer is treated as a 'capital repayment' and is used to reduce the capital contribution reserve. The effect on the combined liability to the NLF, recognised in the Statement of Financial Position, is identical.

ii. Capital contribution reserve

When UK GAAP compliant accounts were prepared for the first time for the EEA, being for the year ended 31 March 2001, an amount equivalent to the total recognised assets, less liabilities, less the balance on the specific liability to the NLF in the opening Statement of Financial Position of that year, was taken to be the opening balance for the capital contribution reserve. The amount of the capital contribution reserve is periodically reduced, as explained above, because when there is no outstanding specific liability to the NLF, sterling repayments by the EEA to the NLF are taken to the capital contribution reserve. There were no reductions during the year (2022-23: nil).

iii. Accumulated comprehensive income reserve

All gains and losses of the EEA are taken to the accumulated comprehensive income reserve.

The following table shows the movements in each of the elements described above, and the overall liability to the NLF, during the year.

£'m	Accumulated comprehensive income reserve	Capital contribution reserve	Specific liability to the NLF	Overall liability to the NLF
Balance at 1 April 2023	31,137	9,237	65,147	105,521
Transfers from the NLF	-	-	1,300	1,300
Repayments to the NLF	-	-	(3,100)	(3,100)
Total comprehensive income	3,445	-	-	3,445
Balance at 31 March 2024	**34,582**	**9,237**	**63,347**	**107,166**

£'m	Accumulated comprehensive income reserve	Capital contribution reserve	Specific liability to the NLF	Overall liability to the NLF
Balance at 1 April 2022	28,295	9,237	65,947	103,479
Transfers from the NLF	-	-	4,000	4,000
Repayments to the NLF	-	-	(4,800)	(4,800)
Total comprehensive income	2,842	-	-	2,842
Balance at 31 March 2023	**31,137**	**9,237**	**65,147**	**105,521**

15. Reconciliation of Statement of Comprehensive Income to net cash outflow from operating activities

£'m	2023-24	2022-23
Total comprehensive income/(loss) for the year	**3,445**	**2,842**
Net decrease/(increase) in money market instruments	1,395	46
Net decrease/(increase) in debt securities	(1,355)	2,100
Net decrease/(increase) in gold	(1,540)	(1,258)
Net decrease/(increase) in reverse repurchase agreements	2,177	39
Net decrease/(increase) in derivative financial assets	(996)	(675)
Net decrease/(increase) in other assets	(50)	(170)
Net decrease/(increase) in holding of SDRs	626	(2,647)
Net (decrease)/increase in debt securities - short positions	(302)	(711)
Net (decrease)/increase in repurchase agreements	(2,049)	(5,776)
Net (decrease)/increase in derivative financial liabilities	(411)	333
Net (decrease)/increase in other financial liabilities	31	167
Net (decrease)/increase in SDR allocation	(1,205)	1,129
Net cash (outflow)/inflow from operating activities	**(234)**	**(4,581)**

16. Cash and cash equivalents

£'m	1 April 2023	Cash flow	31 March 2024
Cash at Central Banks	5,926	(653)	5,273
Loans and advances to banks	28	(28)	-
	5,954	**(681)**	**5,273**
Amounts with original maturity less than 3 months:			
Items in the course of collection from banks	454	2	456
Money market instruments	3,569	(1,773)	1,796
Items in the course of transmission to banks	(797)	418	(379)
	3,226	(1,353)	1,873
Total	**9,180**	**(2,034)**	**7,146**

£'m	1 April 2022	Cash flow	31 March 2023
Cash at Central Banks	7,188	(1,262)	5,926
Loans and advances to banks	-	28	28
	7,188	**(1,234)**	**5,954**
Amounts with original maturity less than 3 months:			
Items in the course of collection from banks	1,361	(907)	454
Money market instruments	7,288	(3,719)	3,569
Items in the course of transmission to banks	(1,276)	479	(797)
	7,373	(4,147)	3,226
Total	**14,561**	**(5,381)**	**9,180**

17. Related Party Transactions

At 31 March 2024, the UK Government owned 29.25%[11] of the shares in NatWest Group plc[12]. NatWest Group plc is therefore regarded as a related party of the EEA. During the year the EEA entered into various transactions with NatWest Group plc, which were all conducted on an arm's length basis and were part of

[11] A further sale of £1.25bn was made on 30 May 2024, further reducing the holding to 22.5%

[12] Details of HM Treasury's holdings can be found on UK Government Investments Ltd's website at http://www.ukgi.org.uk.

the EEA's normal activity. There was £0.25 million outstanding exposure at 31 March 2024 (31 March 2023: £0.08 million).

During the year, the EEA has not entered into transactions with any other financial institutions in which the UK government has an investment.

The EEA has provided foreign currency services for a number of government departments and other central government bodies during the year.

18. Risk management and control

A summary of the key features of the control framework for the EEA during the year and management's objectives and policies for managing risks is provided in the Governance Statement.

A detailed review of the financial risks to which the EEA is exposed and how they are managed is given below, along with quantitative data in respect of those risks. In each case, the data provided reflects the year-end position unless stated otherwise.

a. Market risk

Market risk is the risk arising from exposure to movements in market variables. Through its investments in fixed income assets, the main market variables to which the EEA is exposed are interest rates and exchange rates. To limit any undue influence of the EEA on fiscal metrics, market risk as a whole is tolerated up to the level set out in the EEA Investment Policy Statement (IPS).

Each year, the Bank proposes a strategic asset allocation for the EEA's currency reserves, for HM Treasury to review and agree. The strategic asset allocation represents a benchmark for the portfolio and sets an allocation which seeks to achieve optimal return relative to the amount of market risk taken. Performance of the portfolio, in terms of mark-to-market values, return and market risk, is regularly compared to that of the strategic asset allocation.

Active Management (where positions are taken relative to the benchmarks set for the reserves) may involve exposure to market risk over and above that of the benchmark positions.

A proportion of assets held are hedged, which reduces foreign currency and interest rate risk; and a proportion are unhedged. Using currency swaps and interest rate swaps, the future cash flows from the assets held are swapped back into the currency and interest rate profile of the originating liability (either pound sterling swapped into foreign currency or through foreign currency issuances on the NLF).

In broad terms, the Bank monitors market risk by tracking changes in the value of the EEA; specifically, the standard deviation of rolling 12-month fluctuations in the sterling mark-to-market value of the EEA's Foreign Currency Reserves and gold investments.

Value at Risk

Additionally, the Bank monitors and controls market risk primarily by using a Value at Risk (VaR) model, which estimates a loss level that will not be exceeded at a specified confidence level, over a defined period of time.

For the calculation of the VaR, the Bank applies a 99% confidence interval and a 10-day holding period (i.e., it is expected that losses will not exceed the VaR figure in ninety nine out of a hundred days). The VaR estimates are based on the historic volatility of returns on different asset classes – in some cases a simplified set – and the historical correlation between returns on those asset classes.

VaR is supplemented by a suite of stress tests comprised of both static stress scenarios (e.g., generic curve shifts or specific historic stress scenarios) and a range of dynamic stress scenarios calibrated to specifically target certain aspects of the EEA's current risk profile or exposure to prevailing market conditions.

VaR is calculated separately for hedged and unhedged assets in the Foreign Currency Reserves, and separately for active management activities. VaR data is reported in USD primarily because the risk limits are based in US dollars, and it is the main reporting currency used for performance and risk management purposes.

Foreign Currency Reserves

The Bank calculates the VaR on the Foreign Currency Reserves annually. The values for the Foreign Currency Reserves are based on marked-to-market prices at the end of the period.

$'m	**31 March 2024**	**31 March 2023**
Foreign Currency Reserves Total	3,627	3,307
of which[13]:		
Unhedged Assets	3,623	3,309
Hedged Assets	75	89

Active Management

The Bank uses two VaR measures as part of its active management: an unweighted VaR where an equal weight is assigned to all historic market data, and an exponentially weighted VaR which gives greater weight to more recent historical market data. The higher of these two numbers is then reported as the overall VaR.

The Bank measures the VaR on active management positions daily and undertakes regular back-testing of the VaR models. Assuming that both models

[13] The two VaR figures may not sum to the Total VaR; VaR is not sub-additive due to the role of correlations within the portfolio.

are appropriate, and that the volatility and correlation inputs are an accurate reflection of current market conditions, losses greater than the VaR figure are expected to occur with a probability of 1%. The Bank reports the VaR back-testing results to HM Treasury monthly.

Under the SLA, HM Treasury sets the Bank a VaR limit for active management relative to benchmarks, with the VaR being calculated at close of business each day. In 2023-24 the VaR limit for active management was $20 million. During the year the VaR usage did not exceed this limit. Average VaR during the year was $9.15 million and the lowest VaR on any one day was $7.33 million.

Active management VaR during the year, (calculated at the close of business each day in US dollars), was as follows:

$’m	**2023-24**	**2022-23**
VaR as at 31 March	7.33	11.78
Average during the year	9.15	13.43
Maximum VaR during the year	11.54	22.92
Minimum VaR during the year	7.33	6.64
VaR limit during the year	20.00	20.00

The minimum VaR is the higher of unweighted and exponentially weighted on a given day.

The Bank also measures the delta exposures on active management positions which measures the change in value of the portfolio from a one basis point shift in the relevant yield curve.

b. Credit risk

The reserves are exposed to credit risk through exposures to trading counterparties and to the issuers of securities. The creditworthiness of these counterparties and issuers is subject to regular scrutiny by the Bank, through analysis in the Financial Risk Management Division (FRMD) and review by the Bank’s Credit Ratings Advisory Committee (CRAC) chaired by the Head of FRMD. Assessments are performed both routinely, and dynamically, in response to market or specific entity conditions.

Credit risk is controlled by counterparty and issuer limits and collateralisation. Exposure to issuers and counterparties is monitored against limits in real time wherever possible. In the case of derivatives contracts, exposure is measured as the marked-to-market value plus an estimate of the potential future exposure calculated using a parametric approach, volatility and correlation data. Limits are set for both individual entities and groups of related entities. Limits are also set on the maturity of repo, swaps and foreign exchange transactions with counterparties. Any limit excesses are reported to HM Treasury each month.

The arrangements for custody of EEA assets in 2023-24 were as follows: US Treasury bonds and other US dollar denominated securities were held in custody at the Federal Reserve Bank of New York and Canadian dollar denominated securities were held in custody at Bank of Canada. Euro, Australian and renminbi denominated securities were held in custody at Clearstream. Japanese bonds were held in custody at the Bank of Japan. The gold bars and gold coin in the reserves were stored physically at the Bank's premises.

The EEA continued to invest in high credit quality assets throughout the year. Foreign currency assets held in the EEA inevitably carry some element of credit risk. In order to keep this risk at a low level, the majority of the EEA funds are invested in high quality sovereign, both government and non-government guaranteed issuers or supranational bonds and are predominantly invested in securities issued by the national Governments of the United States, Canada, Australia, Eurozone countries and Japan. The amount that best represents the EEA's maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements is the carrying value of the EEA's assets.

Concentration of exposure

Concentration of credit risk arises when a number of issuers or counterparties have comparable economic characteristics or are engaged in similar activities or operate in the same geographical areas, so that their collective ability to meet contractual obligations is similarly affected by changes in economic, political or other conditions.

The tables below illustrate the concentration of the assets held by the EEA first by geographical region and, second, by credit rating.

Concentration of EEA assets by geographical region

2023-24

£'m	United Kingdom	Europe	North America	Asia-Pacific	Other	Total
Cash	1,281	73	2,318	1,601	-	5,273
Items in course of collection from banks	201	255	-	-	-	456
Money market instruments	76	1,639	532	937	-	3,184
Debt Securities	(16)	24,524	41,747	6,829	-	73,084
Gold	-	-	-	-	17,494	17,494
Reverse repo agreements	4,641	2,555	1,071	471	-	8,738
Derivative financial assets	442	2,650	1,338	33	-	4,463
Other financial assets	5	120	-	286	255	666
IMF SDRs	-	-	-	-	35,799	35,799
Total Assets	**6,630**	**31,816**	**47,006**	**10,157**	**53,548**	**149,157**

2022-23

£'m	United Kingdom	Europe	North America	Asia-Pacific	Other	Total
Cash	1,631	1,084	2,129	1,110	-	5,954
Items in course of collection from banks	306	64	84	-	-	454
Money market instruments	53	5,000	383	916	-	6,352
Debt Securities	-	24,128	39,469	8,132	-	71,729
Gold	-	-	-	-	15,954	15,954
Reverse repo agreements	5,993	3,373	616	933	-	10,915
Derivative financial assets	422	1,791	1,221	33	-	3,467
Other financial assets	3	204	-	196	213	616
IMF SDRs	-	-	-	-	36,425	36,425
Total Assets	**8,408**	**35,644**	**43,902**	**11,320**	**52,592**	**151,866**

Concentration of EEA assets by credit rating

2023-24		Category			
£'m	**1**	**2**	**3**	**Other**	**Total**
Cash	2,413	1,574	5	1,281	5,273
Items in course of collection from banks	-	379	77	-	456
Money market instruments	2,226	958	-	-	3,184
Debt Securities	66,435	6,709	(60)	-	73,084
Gold	-	-	-	17,494	17,494
Reverse repo agreements	-	7,701	1,037	-	8,738
Derivative financial assets	932	3,250	49	232	4,463
Other financial assets	-	410	-	256	666
IMF SDRs	-	-	-	35,799	35,799
Total Assets	**72,006**	**20,981**	**1,108**	**55,062**	**149,157**

2022-23		Category			
£'m	**1**	**2**	**3**	**Other**	**Total**
Cash	3,184	1,137	2	1,631	5,954
Items in course of collection from banks	-	398	56	-	454
Money market instruments	5,073	1,279	-	-	6,352
Debt Securities	63,913	7,815	1	-	71,729
Gold	-	-	-	15,954	15,954
Reverse repo agreements	56	8,521	2,338	-	10,915
Derivative financial assets	779	2,445	144	99	3,467
Other financial assets	-	403	-	213	616
IMF SDRs	-	-	-	36,425	36,425
Total Assets	**73,005**	**21,998**	**2,541**	**54,322**	**151,866**

The Bank carries out an internal, independent credit assessment of EEA counterparties and issuers. For the purposes of aggregated tables each internal rating has been assigned to category 1, 2 or 3.

Category '1' comprises banks, banking groups, central banks, sovereigns and supranational organisations with a very low risk of default, approximately equivalent to an external rating agency rating of AA and above.

Category '2' comprises banks, banking groups, central banks, sovereigns and supranational organisations with a low risk of default, approximately equivalent to an external rating agency rating of A.

Category '3' comprises exposures to counterparties and issuers which, although less able to withstand severe unexpected shocks without risk of insolvency, there are no immediate concerns about their credit worthiness, approximately equivalent to an external rating agency rating of below A.

Category 'Other' comprises unrated positions including Gold and SDR holdings and balances with UK Government agencies and the Bank of England.

None of the EEA's financial assets are past due or impaired.

At 31 March 2024, credit exposures to issuers of money market instruments, debt securities (less debt securities – short positions) and bond futures stood at £77.6 billion (2022-23: £77.4 billion).

In addition to the use of credit limits, exposure to credit risk is managed through other mitigation measures, as outlined below.

Netting agreements and collateral

The EEA's credit exposure in respect of its derivative transactions is mitigated by provisions in the Bank's ISDA documentation, specifically those relating to collateral and netting arrangements. Additional collateral can be requested from a counterparty in response to changes in the market values of underlying transactions or a deterioration in such counterparty's credit standing. In the case of a counterparty defaulting on its obligations and the EEA closing-out such transactions, any resulting exposure will be netted across all outstanding transactions under the ISDA documentation with such counterparty, so as to produce a single cash flow.

Similar netting provisions are in place for transactions governed by bespoke foreign currency repo documentation.

For funds advanced under reverse repo, the EEA takes collateral in the form of high-quality securities, which must be of a type that the EEA is authorised to hold as an investment and as agreed in the EEA's repo documentation.

For interest rate and cross currency swaps and foreign exchange transactions transacted under ISDA Master Agreements, collateral can take the form of high-quality securities, or, in exceptional circumstances, cash denominated in US dollar and euro.

Maximum exposure and effects of collateral

£'m	2023-24	2022-23
Reverse repos		
Reverse repos	8,738	10,915
less: securities received as collateral	(8,980)	(11,250)
less: margin called under terms of loan agreement	26	27
Reverse repos - collateral (surplus)	**(216)**	**(308)**
Derivatives		
Derivative assets gross exposure	4,463	3,467
less: securities received as collateral	(3,808)	(2,592)
Derivative asset - collateral deficit	**655**	**875**
Derivative liabilities gross exposure	(783)	(1,194)
less: securities pledged as collateral	94	43
Derivative liability – collateral (surplus)	**(689)**	**(1,151)**
Derivatives - net collateral deficit/(surplus)	**(34)**	**(276)**

Collateral pledged

The EEA has pledged the following amounts as collateral for liabilities:

£'m	2023-24	2022-23
Repos	9,039	11,101
Derivative liabilities	94	43
	9,133	**11,144**

Settlement processes

Wherever possible, trades are settled as Delivery versus Payment, with simultaneous exchange of cash and stock. Settlement limits are used to control FX settlement risk.

c. Liquidity risk

The NLF provides sterling funding to the EEA when required, and therefore the EEA, as an individual entity, is not exposed to sterling liquidity risk.

The EEA maintains a sterling account with the NLF that is used as the mechanism via which funding is transferred to the EEA, and excess cash is repaid to the NLF. This account is monitored daily and is maintained within a range. Forward looking cash flow forecasts are used to predict likely demand for cash in the EEA. Requests for funding from the NLF, and for repayments to be made, are processed when the account is forecasted to fall below, or to exceed, the range.

Undiscounted contractual cash flows of financial assets and liabilities

The tables below present the cash flows to/from the EEA arising from financial assets and liabilities until their contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash outflows, whereas amounts are presented in the Statement of Financial Position at their carrying values, as detailed in Note 1 – Accounting policies.

The maturity analysis for derivative financial assets and liabilities includes both known cash inflows and outflows projected by current forward rates for the floating leg of currency and interest rate swaps.

Undiscounted contractual cash flows of financial assets

As at 31 March 2024:

£'m	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Undated	Total
Cash balances	5,273	-	-	-	-	-	5,273
Items in course of collection from banks	456	-	-	-	-	-	456
Money market instruments	507	1,296	1,410	-	-	-	3,213
Debt securities	745	808	6,873	50,003	23,840	-	82,269
Gold	-	-	-	-	-	17,494	17,494
Reverse repo agreements	4,995	3,493	283	-	-	-	8,771
Derivative financial assets – inflow	1,814	3,498	8,958	30,369	8,844	-	53,483
Derivative financial assets – outflow	(1,737)	(3,141)	(7,306)	(26,784)	(8,777)	-	(47,745)
Other financial assets	375	110	184	-	-	-	669
SDR Holdings	-	-	-	-	-	35,799	35,799
Total	**12,428**	**6,064**	**10,402**	**53,588**	**23,907**	**53,293**	**159,682**

Undiscounted contractual cash flows of financial liabilities

As at 31 March 2024:

£'m	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Undated	Total
Items in the course of transmission to banks	(379)	-	-	-	-	-	(379)
Debt securities – short positions	(532)	-	-	-	-	-	(532)
Repo agreements	(5,777)	(3,291)	(196)	-	-	-	(9,264)
Derivative financial liabilities – inflows	1,437	952	7,749	7,897	1,932	-	19,967
Derivative financial liabilities – outflows	(1,498)	(998)	(8,105)	(8,189)	(2,007)	-	(20,797)
Other financial liabilities	(209)	-	-	-	-	-	(209)
SDR Allocation	-	-	-	-	-	(30,856)	(30,856)
Liability to the NLF	-	-	-	-	-	(107,166)	(107,166)
Total	**(6,958)**	**(3,337)**	**(552)**	**(292)**	**(75)**	**(138,022)**	**(149,236)**

Undiscounted contractual cash flows of financial assets

As at 31 March 2023:

£'m	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Undated	Total
Cash balances	5,954						5,954
Items in course of collection from banks	454	-	-	-	-	-	454
Money market instruments	53	3,529	2,840	-	-	-	6,422
Debt securities	175	566	4,019	43,131	33,586	-	81,477
Gold	-	-	-	-	-	15,954	15,954
Reverse repo agreements	5,079	5,859	-	-	-	-	10,938
Derivative financial assets – inflow	846	2,954	6,850	21,003	15,501	-	47,154
Derivative financial assets – outflow	(805)	(2,675)	(5,679)	(17,911)	(15,220)	-	(42,290)
Other financial assets	311	117	188	-	-	-	616
SDR Holdings	-	-	-	-	-	36,425	36,425
Total	**12,067**	**10,350**	**8,218**	**46,223**	**33,867**	**52,379**	**163,104**

Undiscounted contractual cash flows of financial liabilities

As at 31 March 2023:

£'m	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Undated	Total
Items in the course of transmission to banks	(797)	-	-	-	-	-	(797)
Debt securities – short positions	(834)	-	-	-	-	-	(834)
Repo agreements	(5,159)	(6,162)	-	-	-	-	(11,321)
Derivative financial liabilities – inflows	503	3,242	7,281	14,245	1,104	-	26,375
Derivative financial liabilities – outflows	(530)	(3,322)	(7,554)	(14,793)	(1,223)	-	(27,422)
Other financial liabilities	(178)	-	-	-	-	-	(178)
SDR Allocation	-	-	-	-	-	(32,061)	(32,061)
Liability to the NLF	-	-	-	-	-	(105,521)	(105,521)
Total	**(6,995)**	**(6,242)**	**(273)**	**(548)**	**(119)**	**(137,582)**	**(151,759)**

d. Derivatives

The EEA uses derivatives to manage its exposure to interest rate and exchange rate risks. All derivative instruments are held at their fair values. Fair values are determined by reference to market rates prevailing on the date of valuation or by discounting future cash flows. The notional principal amounts[14] of these instruments indicate the volume of transactions outstanding as at 31 March 2024 and are not a representation of the amount of risk.

Notional principal amounts and fair values of trading instruments entered into with third parties were as follows:

	2024			2023		
	Notional	**Fair values**		**Notional**	**Fair values**	
	Principal	**Assets**	**Liabilities**	**Principal**	**Assets**	**Liabilities**
£'m	**Amounts**			**Amounts**		
Exchange rate contracts:						
Forwards	24,511	357	(276)	22,669	392	(368)
Currency swaps	40,751	3,768	(341)	41,621	2,352	(581)
	65,262	4,125	(617)	64,290	2,744	(949)
Interest rate swaps	28,107	338	(166)	41,217	723	(244)
Futures	908	-	-	264	-	(1)
	29,015	338	(166)	41,481	723	(245)
Total	**94,277**	**4,463**	**(783)**	**105,771**	**3,467**	**(1,194)**

19. Fair Value Valuation Basis

The table below provides an analysis of the various bases described in the notes which have been deployed for valuing the financial instruments measured at fair value in the financial statements. The valuations of financial instruments have been classified into three levels according to the quality and reliability of information used to determine the fair values:

Level 1 – using unadjusted quoted prices in active markets for identical financial instruments.

Level 2 – using techniques that rely upon relevant observable market data curves. This category of instruments comprised derivatives, repo transactions, commercial paper and deposits.

[14] The notional principal amount is the amount on which calculations of interest payments are determined.

Level 3 – 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 financial year no financial instruments were measured at fair value with significant unobservable inputs (2022-23: nil). There were no significant transfers between Level 1 and Level 2 of the fair value hierarchy.

As at 31 March 2024

£'m

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Money market instruments	2,292	892	-	3,184
Debt securities	73,084	-	-	73,084
Reverse repo agreements	-	8,738	-	8,738
Derivative financial assets	-	4,463	-	4,463
Other financial assets	666	-	-	666
Holding of IMF Special Drawing Rights	35,799	-	-	35,799
Total assets	**111,841**	**14,093**	**-**	**125,934**
Liabilities				
Debt securities – short positions	532	-	-	532
Repo agreements	-	9,232	-	9,232
Derivative financial liabilities	-	783	-	783
Other financial liabilities	209	-	-	209
SDR allocation	30,856	-	-	30,856
Total liabilities	**31,597**	**10,015**	**-**	**41,612**

As at 31 March 2023

£'m

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Money market instruments	5,018	1,334	-	6,352
Debt securities	71,729	-	-	71,729
Reverse repo agreements	-	10,915	-	10,915
Derivative financial assets	-	3,467	-	3,467
Other financial assets	616	-	-	616
Holding of IMF Special Drawing Rights	36,425	-	-	36,425
Total assets	**113,788**	**15,716**	**-**	**129,504**
Liabilities				
Debt securities – short positions	834	-	-	834
Repo agreements	-	11,281	-	11,281
Derivative financial liabilities	-	1,194	-	1,194
Other financial liabilities	178	-	-	178
SDR allocation	32,061	-	-	32,061
Total liabilities	**33,073**	**12,475**	**-**	**45,548**

20. Events after the Reporting Period

There are no events after the reporting period to report.

21. Date of Authorisation for Issue of Account

These financial statements have been authorised for issue by the Accounting Officer on the same date as the Comptroller and Auditor General's Audit Certificate.

Annex A

Accounts Direction

Annex A

ACCOUNTS DIRECTION GIVEN BY HM TREASURY UNDER THE EXCHANGE EQUALISATION ACCOUNT ACT 1979[1]

1. This direction applies to the Exchange Equalisation Account.
2. The Treasury shall prepare accounts for the Exchange Equalisation Account ("the Account") for the year ending 31 March 2012 and each subsequent financial year, which give a true and fair view of the state of affairs of the Account at the reporting date, and of its income and expenditure and cash flows for the year then ended.
3. The accounts shall be prepared in accordance with the requirements of the relevant version of the Government Financial Reporting Manual (FReM).
4. The accounts shall present a Statement of Comprehensive Income, a Statement of Financial Position and a Statement of Cash Flows. The Statement of Financial Position shall present assets and liabilities in order of liquidity.
5. The notes to the accounts shall include disclosure of assets and liabilities, and of income and expenditure, relating to other central government funds, including the National Loans Fund, and shall also include disclosure of management costs.
6. The report shall include:
   - (i) a brief history of the Account, and its statutory background;
   - (ii) an outline of the scope of the Account, its relationship to HM Treasury and other central funds, and its management operations;
   - (iii) a management commentary including appropriate information on financial performance and position reflecting the relationship between the Account and other central funds;
   - (iv) a governance statement.
7. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with the Treasury.
8. This Accounts Direction shall be reproduced as an appendix to the accounts.
9. This Accounts Direction supersedes that issued on 17 March 2010.

Chris Wobschall
Deputy Director, Assurance and Financial Reporting Policy, HM Treasury
6 January 2012

1 As amended by the Finance Act 2000

Annex B

Reconciliation of EEA Statement of Financial Position to IMF Reserves Template (unaudited)

As described in the Overview, the UK's Official Reserves comprise £141.9 billion (2022-23: £144.6 billion) which is held in the EEA and £5.6 billion (2022-23: £5.9 billion) which is held in the NLF.

The relevant foreign currency assets and liabilities of the NLF are managed together with the EEA to enable a more integrated management of the overall UK official foreign currency reserves.

The foreign currency elements of the UK's total Official Reserves are published in the monthly IMF Reserves Template[15]. The Template shows the net foreign currency position in the Official Reserves, which at 31 March 2024 was the equivalent of £689 billion.

The assets and liabilities in the Template differ from those of the EEA Statement of Financial Position on page 35 of these accounts. This is for a number of reasons but principally it is because the Template is designed to reflect the UK's foreign currency position. It therefore includes foreign currency assets and liabilities of the NLF (notably the RTP) and excludes all items denominated in domestic currency (i.e., sterling). The most significant of these are the liability of the EEA to the NLF and the valuation of the sterling leg of foreign currency forwards and currency swaps.

These factors, coupled with the effects of differing treatment of unsettled items and short positions in debt securities, mean that gross reserve assets shown in the Template (the equivalent of £147.6 billion at 31 March 2024) differ by £1.6 billion from the assets held in the EEA. A reconciliation between the EEA's Statement of Financial Position and the Template is provided below.

15 This can be viewed at: https://www.gov.uk/government/collections/statistical-release-uk-official-holdings-of-international-reserves

As at 31 March 2024:

	£ millions	$ millions
Total assets per EEA statement of financial position	**149,157**	
Adjustments to reflect IMF Reserves Template presentation:		
Sterling cash balance	(1,284)	
Reclassification between assets and liabilities	(5,944)	
Other adjustments[16]	28	
Reserve assets held in the EEA	141,957	
Reserve assets held in NLF	5,609	
Sterling total assets using Template presentation	**147,566**	
Dollar equivalent per Template		**186,403**
Total liabilities per EEA statement of financial position	149,157	
EEA's Reserves and liability to the NLF (see note 14)	(107,166)	
Adjustments to reflect IMF Reserves Template presentation:		
Sterling leg of derivative trades	42,662	
Reclassification between assets and liabilities	(5,944)	
Other adjustments[5]	4	
Reserve liabilities held in NLF	-	
Sterling total liabilities using Template presentation	**78,713**	
Dollar equivalent per Template*		**99,481**
Net assets per Template	**68,853**	**86,922**

*Conversion rate into US dollars is 1.2632 as at close 31 March 2024.

16 Other adjustments include a bid-offer spread provision. Financial accounting assets and liabilities are reported using bid or offer prices as appropriate, whereas the reserves are reported using mid-point prices.

Glossary

Active management is the difference between actual returns and returns which would have been achieved from a passive investment strategy (see “Benchmark” below).

Basis point (bp) is equal to 100^{th} of a percentage point, e.g., 0.5% is equal to 50bp.

Benchmark is the neutral or passive investment strategy for the reserve portfolio. Active management performance is measured against a target return over the benchmark.

Certificate of deposit is a savings certificate entitling the holder to receive interest and principal.

Clearstream is an international central securities depositary (ICSD) based in Luxembourg, providing post-trade infrastructure and securities settlement and custodial services.

Corporate commercial paper is a short–term debt issued by companies.

Counterparty is the other party that participates in a financial transaction.

Credit risk is the risk of financial loss arising from a counterparty to a transaction defaulting on its financial obligations under that transaction.

Currency risk is the risk of financial loss arising from fluctuations in exchange rates.

Custodian is a bank or other financial institution that keeps custody of assets of the EEA.

Delta measures the change in the value of a portfolio for each one basis point shift in the relevant yield curve.

Derivatives are a collective name for contracts whose value is derived from the prices of another (underlying) investment. For the EEA, the main derivatives are futures, forwards and swaps.

Discount note is a short–term debt instrument issued at a discount to its face value.

Euro area is the area of 19 nations which have adopted the euro as a single currency.

Floating rate note is a debt instrument that pays a variable interest rate.

Foreign currency reserves consist of bonds and notes, money market instruments, foreign currency deposits and reverse repos, less unsettled trades.

Forward rate agreement is a contract obligating two parties to exchange the difference between two interest rates at some future date; one rate being fixed now and the other being a rate to be fixed in the future.

Forward transaction is an agreement to pay a specific amount at a specific time in the future for a currency or financial instrument.

Future is a contract to buy or sell a specified asset at a fixed price at some future point in time.

Government Financial Reporting Manual (FReM) – is the technical accounting guide that complements guidance on the handling of public funds published separately by the relevant authorities.

Hedge – is an asset or derivative whose market risk offsets the risk in another asset held or liability. Hedge refers to the economic purpose of an instrument and is not used in the accounting sense to imply the use of hedge accounting.

Hedged reserves refer to that part of the reserves, financed by repo or sterling swapped into foreign currencies or foreign currency securities, on which currency and interest rate exposure is hedged.

Interest rate risk is the risk of financial loss arising from fluctuations in interest rates.

Intervention is the purchase or sale of a currency by central banks or governments with the intention of influencing its market exchange rate.

Issuer is a legal entity, i.e., a government, supranational or corporation, that develops, registers and sells securities to investors in order to finance its own operations.

Liquidity is the ease with which one financial claim can be exchanged for cash as a result of the willingness of third parties to transact in these assets. Liquidity risk is the risk that financial claims can only be turned into cash with a delay or at some cost, or both.

Mark to market – refers to recording the price or fair value of a security, portfolio or account to reflect its current market value rather than its book value.

Market risk is the risk of financial loss arising from movements in market variables such as in interest rates or exchange rates.

National Loans Fund (NLF) is the account used for most of the Government's borrowing transactions, payments of debt interest and some domestic lending transactions.

New Arrangements to Borrow (NAB) is a set of credit arrangements between the IMF and 38 member countries and institutions, including the UK. The NAB is used in circumstances in which the IMF needs to supplement its quota resources for lending purposes.

Nostros – refers to accounts that the EEA holds foreign currency with at other banks.

Operational risk is the risk of loss arising from failures in the transaction, settlement and resource management processes associated with reserves and liability management. This broad definition includes risks such as fraud risk, settlement risk, IT risks, legal risk, accounting risk, personnel risk and reputational risk.

Reserve Tranche Position (RTP) is the difference between the IMF's holdings of sterling and the UK's subscription (or quota) to the IMF. It is in effect, the amount of the UK's subscription the IMF has called. The RTP is a reserve asset as in the event of need, the UK could exchange sterling for useable foreign currencies up to the value of its RTP.

Reserves – refers to the UK holdings of international reserves, reported on a gross basis. Gross reserves consist of foreign currency reserves, IMF position (the RTP, NAB and the net SDR position) and gold holdings.

Sale and repurchase agreements (repo) refer to the sale of an asset with an obligation to repurchase it at a fixed price at some future date: essentially, a form of secured borrowing.

Special Drawing Rights (SDRs) are an international reserve asset created by the IMF in 1969 as a supplement to the then existing reserve assets. It is currently valued in terms of a weighted basket of five currencies (US dollar, sterling, yen, euro and renminbi).

Spot transaction is an agreement to pay the prevailing market price for a currency or financial instrument for delivery usually in two days' time.

Supranational refers to an international government or quasi-government organisation.

Swap is a financial transaction in which two counterparties agree to exchange streams of payments occurring over time according to predetermined rules. Swaps can be used to change the currency or interest rate exposure associated with investments or liabilities.

Unhedged reserves refer to the part of the reserves where the currency and interest rate exposure is not hedged.

Value at Risk (VaR) measures the aggregate market risk on a portfolio. VaR is an estimate of a loss level that will not be exceeded with a certain confidence level during a certain period of time. For example, losses will not exceed $10 million 99% of the time over a two-week period.

Yield curve plots the relationship between bonds' maturity and their yield.

HM Treasury contacts

This document can be downloaded from www.gov.uk

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