HM Treasury

# Exchange Equalisation Account 2025-26

## Annual Report and Accounts

HC 694

November 2026

HM Treasury

# Exchange Equalisation Account 2025-26

## Annual Report and Accounts

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

Annual Report presented to Parliament by Command of His Majesty

Ordered by the House of Commons
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HC 694 November 2026



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# Performance Report

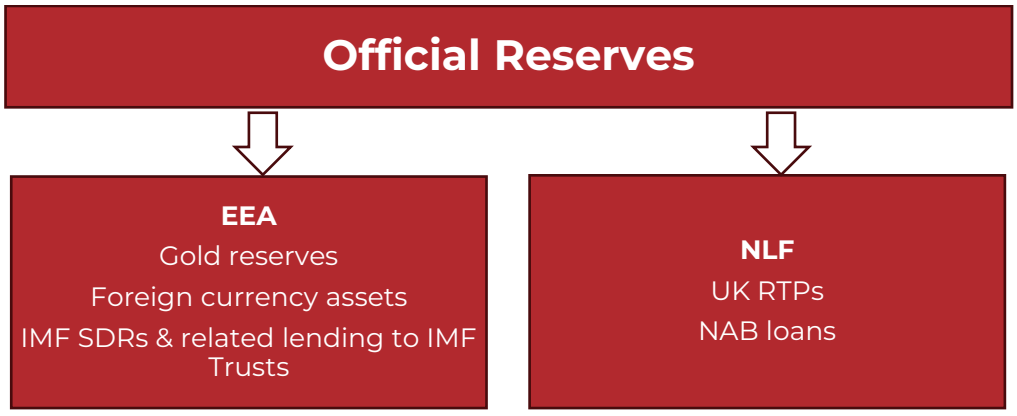
## Performance Overview

### Purpose and activities of the Exchange Equalisation Account

The Exchange Equalisation Account (EEA) was established in 1932 to support the government's ability to influence the exchange value of sterling. In 1946 the purpose of the EEA was expanded to allow it to be used to facilitate government payments abroad, and in 1977 further extended to support certain UK functions with the International Monetary Fund (IMF). It currently operates under the Exchange Equalisation Account Act 1979 (EEA Act 1979), as amended by the Finance Act 2000, which sets out the purposes for which it may be used.

To support these purposes, the EEA holds and manages most of the UK's Official Reserves. These include foreign currency assets, gold and certain International Monetary Fund (IMF) assets, including Special Drawing Rights (SDRs). The assets are managed so they remain readily available to support EEA policy objectives, provide foreign currency services to government departments and meet the UK's obligations as a member of the IMF.

The remaining components of the Official Reserves are held outside the EEA in the National Loans Fund (NLF). These include the UK's Reserve Tranche Position (RTP) at the IMF, which represents resources that the UK has made available to the IMF and can draw upon if required, and lending under the New Arrangements to Borrow (NAB), an international agreement through which countries provide additional resources to the IMF during periods of global financial stress. Together, the assets held in the EEA, the RTP and the NAB form the UK's Official Reserves.




The EEA Act 1979 permits the EEA to hold and invest in assets denominated in any country's currency, as well as gold and SDRs. Under section 2 of the Act, the EEA is funded by central government through the National Loans Fund (NLF),

and the EEA's net assets represent a liability to the NLF. Further information is provided in Note 14, Liability to the National Loans Fund.

The table below summarises the purposes of the EEA, as set out in legislation, and provides examples of the types of activity that may be undertaken to support each purpose.

**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.<br><br>participation in coordinated foreign exchange market intervention to assist other central banks' interventions.<br><br>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<br><br>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<br><br>participating in the purchase and sale of IMF SDRs, as necessary<br><br>lending SDRs to IMF Trusts. |

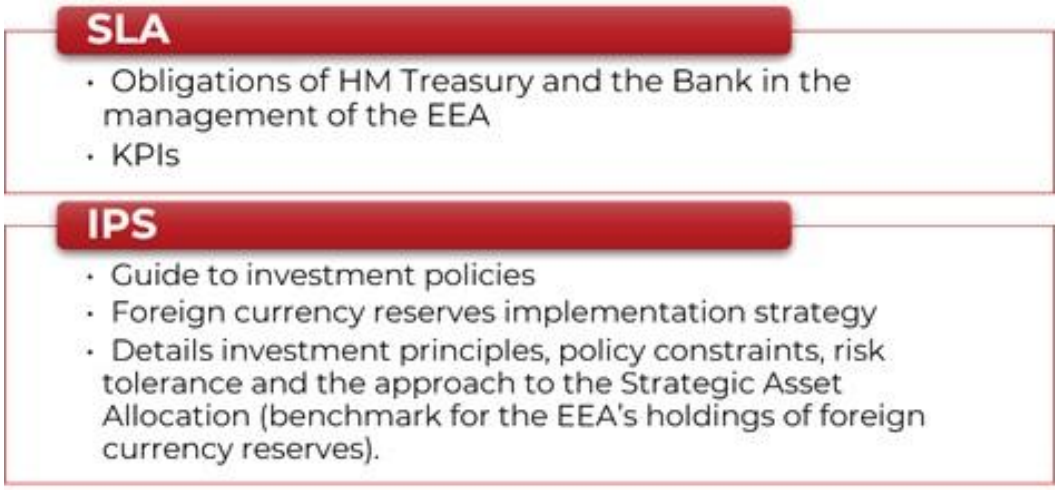
## Administration and Control

The EEA is controlled by HM Treasury. HM Treasury's main role in managing the EEA is to ensure that the UK's reserves are managed so they remain available and suitable to support current EEA policy objectives and respond to future policy needs if required.

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).

This arrangement is governed by the confidential Service Level Agreement (SLA) and Investment Policy Statement (IPS), which set out the framework, parameters and objectives for managing the reserves. Both documents are reviewed annually and remain in force indefinitely, in line with relevant legislation (notably the EEA Act 1979, as amended by the Finance Act 2000).




The Bank also acts as HM Treasury's agent for managing any foreign currency borrowing used to finance the reserves. If requested by HM Treasury, the Bank would be able to arrange for foreign currency debt to be issued on behalf of the NLF. This debt would be an obligation of the NLF under the National Loans Act 1968, and the proceeds would be transferred to the EEA. At 31 March 2026, no foreign currency debt was outstanding (31 March 2025: nil).

The Bank manages the foreign currency assets and liabilities linked to the UK's Official Reserves across both the EEA and the NLF. Managing them together allows the overall reserve position, and the related financial risks, to be managed more efficiently. These accounts cover the EEA only, but where relevant the Performance Report also comments on NLF assets and liabilities that are managed as part of the Official Reserves. The accounts of the NLF are published separately.

### Investment Policy

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. Clearly defined risk parameters support the ability of the EEA to meet its policy objectives and avoid significant volatility that could unduly influence fiscal metrics. 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. Active management is permitted within agreed limits, with annual return targets set against benchmark portfolios.

The Investment Principles of the EEA are:

| Investment Principle 1 - Readiness | Investment Principle 2 - Risk Tolerance | Investment Principle 3 - Return |
|---|---|---|
| The EEA must be ready to meet its policy objectives at all times, at an acceptable cost and high degree of certainty | The EEA must not take on risk that compromises the ability to meet Principle 1 or that could unduly influence fiscal metrics | Subject to meeting Principles 1 and 2, the EEA should seek to optimise return for a given level of risk. |

## 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 EEA prioritises assets that can be sold or converted into cash quickly if needed. For this reason, qualifying assets are limited to those eligible under the Basel III Liquidity Coverage Ratio (LCR) as high-quality liquid assets (HQLA). This means they are expected to remain easy to trade, even during periods of market stress.

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 proposes how the EEA's currency reserves should be invested across different currencies, issuers and maturities. HM Treasury reviews and agrees this proposed strategic asset allocation. The allocation must follow the EEA's Investment Principles: keeping the reserves ready for use, staying within agreed risk limits (Investment Principles 1, readiness and 2, risk tolerance) and seeking the best possible return for the level of risk accepted (Investment Principle 3, return).

The Bank uses an asset allocation model to help identify an appropriate mix of investments. The model considers expected risk and return, as well as practical factors such as whether the proposed allocation can be implemented effectively and how it fits with wider financial and macroeconomic conditions. An unhedged portfolio could expose the EEA to too much foreign exchange and interest rate risk, so hedging is used where needed to keep market risk within agreed limits (Investment Principle 2, risk tolerance).

The model sets out proposed portfolio weights by currency, issuer and maturity. Important judgements are made in running the model, and any decision to move away from its results must be clearly explained and agreed each year.

The Bank also seeks to improve returns for the EEA through active management trading strategies, within limits agreed with HM Treasury. Each year, an annual active management return target is set against the benchmark provided by the strategic asset allocation, taking account of the limits set as part of the SLA and detailed risk management framework. Active management must remain within the EEA's agreed portfolio constraints. There is no benchmark for the IMF RTP or NLF bilateral lending because those holdings are determined by the UK's IMF membership obligations rather than by investment discretion.

### Links between the International Monetary Fund and the Official Reserves

The IMF is mainly funded by contributions from its member countries, known as quotas. A country's quota broadly reflects its relative size in the world economy. Twenty-five per cent of each member's quota is payable in SDRs or foreign currency, with the remaining 75% held in the member's own currency. The difference between a member's quota and the IMF's holdings of that member's currency is known as the member's Reserve Tranche Position (RTP). The UK's RTP is an asset of the NLF. Part of the RTP does not earn interest, while interest on the remaining balance is earned at the adjusted SDR interest rate and paid in SDRs into the EEA.

The IMF can also access extra resources through the New Arrangements to Borrow (NAB). This is a standing multilateral borrowing agreement under which member countries and institutions, including the UK, can lend to the IMF if additional funding is needed. Any UK lending to the IMF through the NAB is an asset of the NLF. The IMF produces a factsheet with more information about how it is financed.

Special Drawing Rights (SDRs) are international reserve assets periodically created by the IMF and allocated to member countries in proportion to their quotas. The UK's SDR allocation is recorded as a liability of the EEA, while the SDRs held by the UK are recorded as an asset of the EEA. IMF members earn interest on their SDR holdings and pay interest on their SDR allocations at the same rate.

SDRs can be bought and sold between IMF members through voluntary trading arrangements. The UK participates in these arrangements, which help ensure that members can exchange SDRs for usable currencies when needed. If voluntary trading is not sufficient, the IMF can use a designated mechanism requiring members with strong external positions to buy SDRs from members with weaker external positions.

The UK also uses SDRs to support IMF trust funds, including the Poverty Reduction and Growth Trust (PRGT) and the Resilience and Sustainability Trust (RST). Lending to these trusts is recognised as an asset of the EEA and earns interest. The interest rate on PRGT lending is below the SDR interest rate, which means the UK provides an implicit subsidy. At 31 March 2026, the UK had commitments to lend SDR 5,500 million to the PRGT and SDR 2,459 million to the RST (31 Mar 2025: SDR 5,500m and SDR 2,459m). Further information on drawings against these commitments and the resulting loan assets is provided in Note 13, IMF related Assets and Liabilities.

### Key issues and risks

The main risks facing the EEA are explained in the Governance Statement, including operational, financial, legal, conduct and climate-related risks. More detailed information on financial risks, including how they are managed and controlled, is provided in Note 18, Risk management and control.

The Bank carries out monthly stress testing to assess how the reserves could be affected by severe but plausible market movements. These tests consider scenarios such as large changes in interest rates, inflation, credit spreads and yield curves. The results cover both the EEA's overall holdings and active management positions. They are reviewed by the Bank's senior management and shared with HM Treasury as part of the regular monthly reporting on the reserves.

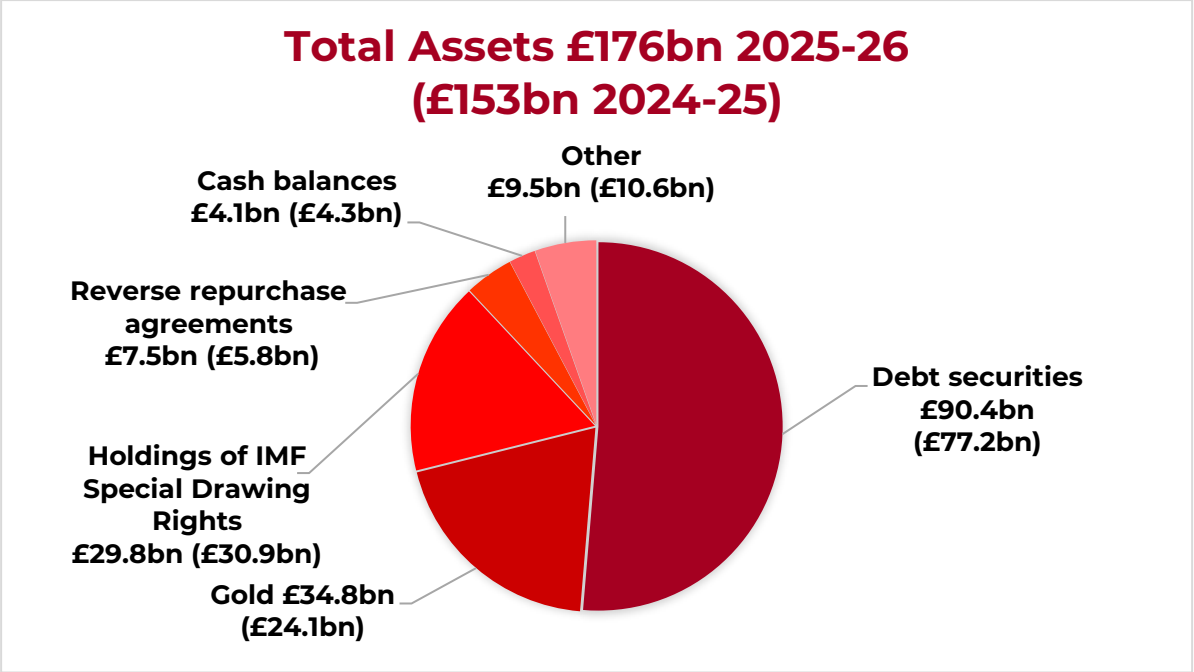
### Investment Policy Statement and Service Level Agreement

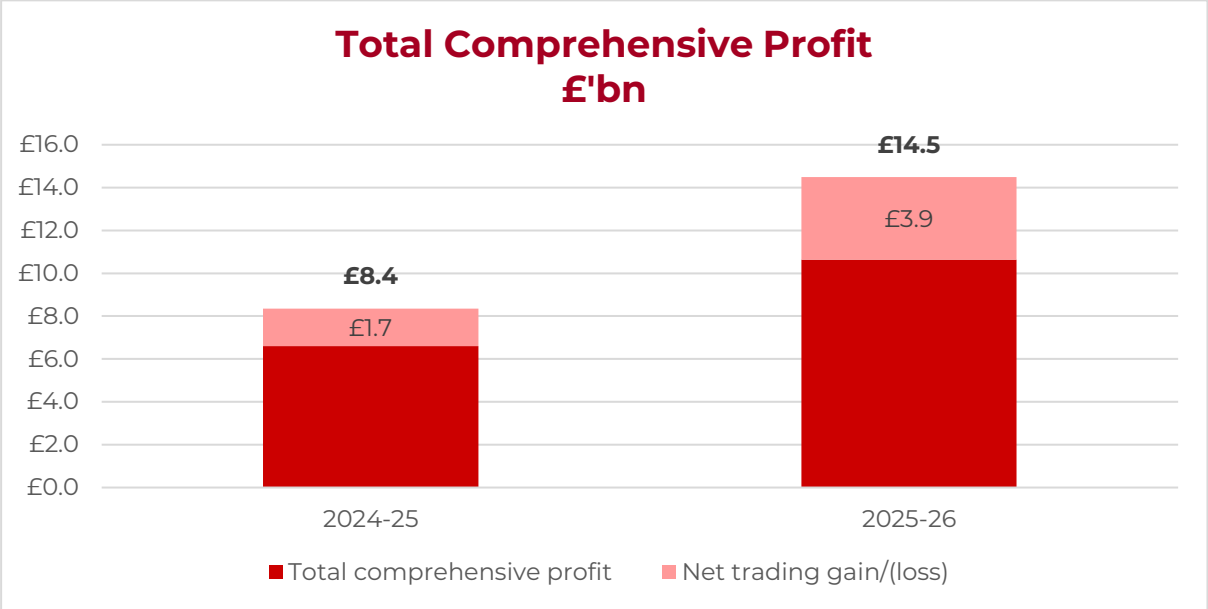
The SLA and IPS are the main documents that set out how HM Treasury and the Bank manage the EEA. They explain the objectives for managing the reserves, the limits within which the Bank must operate, and the reporting HM Treasury receives to oversee performance and risk.

These documents are supported by more detailed frameworks and processes, including the Operational Risk Management Framework, the Financial Risk Management Framework and the Investment Processes document. Together, these documents explain how the agreed investment strategy is put into practice, how risks are controlled, and how operational responsibilities are managed.

## Performance summary

The charts below show the total assets as at 31 March 2026 and 31 March 2025 (with liabilities matching the corresponding totals).



# Performance analysis

During the year, the EEA's assets increased by £22.9 billion, from £153.1 billion at 31 March 2025 to £176.0 billion at 31 March 2026. This increase was mainly driven by higher holdings of debt securities and a rise in the value of gold. Changes in yields, exchange rates and trading activity also affected the overall position.

The increase in assets consisted primarily of:

- debt securities (£13.1 billion)
- a rise in the price of gold (£10.7 billion)
- reverse repurchase agreements (£1.7 billion)

partly offset by:

- IMF Special Drawings Rights (£1.2 billion)
- items in the course of collection from banks (£0.5 billion)
- money market instruments (£0.3 billion)

The increase in assets was matched by an increase in liabilities, reflecting the way the EEA is funded and the transactions used to manage the reserves. The increase in liabilities consisted primarily of:

- a rise in the liability to the NLF (£12.0 billion)
- repurchase agreements (£11.3 billion)

partly offset by:

- items in the course of transmission to banks (£1.1 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 reported a total comprehensive profit of £14.5 billion for the year, compared with a profit of £8.4 billion in 2024-25. The largest element driving this profit was a £10.7 billion revaluation gain from the increase in the gold price from £2,419 to £3,488 per troy ounce. This reflects an increase in the value of the gold held by the EEA rather than cash income received.

The EEA's profit was also driven by a net trading gain of £3.9 billion. This mainly reflected net interest income, fair value and exchange rate gains on debt securities and swaps, driven in part by reserve currencies appreciating against sterling.

HM Treasury sets a target, which is kept confidential for policy reasons, for active management returns as part of the SLA. The target is measured against the portfolio benchmarks and takes account of the limits on active management. The Bank's active management of the reserves generated a return of £61 million during the year (2024-25: £49 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 agrees Key Performance Indicators (KPIs) with the Bank to check whether the EEA has been managed in line with agreed financial and operational requirements. The KPIs reflect the objectives for holding the reserves and are separated into Financial and Operational KPIs.

| | **Financial KPIs 2025-26** | **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 | 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 2025-26** | **Status** |
|---|---|---|
| a | The Bank will observe the limits as set out in the SLA.<br>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.<br>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:<br>· its management and staff are of high repute and integrity.<br>· 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.<br>· its internal systems and controls are adequate for the size, nature and complexity of EEA operations and comply with best market practice as far as possible.<br>· appropriate preparations are made for possible policy deployment of the reserves (e.g., FX intervention). | |

= Met =Partially met =Not met

### 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 government departments and agencies. This included selling foreign currency to departments that needed it to make payments overseas and buying foreign currency from departments that received it. In total, these transactions amounted to £13.6 billion during the year (2024-25: £20.4 billion). The related currency risk from these transactions was managed by entering into matching market transactions.

### Long-term expenditure trends

The EEA mainly exists to hold foreign currency reserves so they are available if needed in response to future changes in exchange rate policy or unexpected shocks. It does not have planned long-term spending commitments, so there are no long-term expenditure trends to report.

**Brian Bell**

Accounting Officer 28 October 2026

# Accountability Report

## Introduction

- The Accountability Report has been prepared in accordance with the Government Financial Reporting Manual (FReM), to the extent that its requirements are relevant to the Exchange Equalisation Account (EEA). The EEA is administered by the Bank of England on behalf of HM Treasury and does not have a separate board, workforce, estate or voted Estimate. Where disclosures are not applicable to the EEA, this is explained in the relevant section.

- Corporate governance report which explains the governance framework for the EEA, including the Statement of Accounting Officer's responsibilities, the Governance Statement, and the arrangements for risk management, internal control and assurance.

- Remuneration and staff report which explains why separate remuneration and staff disclosures are not applicable to the EEA and signposts to HM Treasury's Annual Report and Accounts for departmental staffing information.

- Parliamentary accountability and audit report which includes key Parliamentary accountability information on regularity of expenditure, losses and special payments, fees and charges, gifts, remote contingent liabilities and the Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament.

# Corporate governance report

The EEA is administered by the Bank of England on behalf of HM Treasury and does not have its own workforce. All staff involved in administering or managing the EEA are employees of HM Treasury and the Bank. Further information on HM Treasury and the Bank's staffing and related costs is available in HM Treasury and the Bank's Annual Report and Accounts.

## Conflicts of interest

HM Treasury and the Bank require employees to disclose any actual or perceived conflicts of interest. Clear guidance and robust processes are in place to identify, assess, manage and record conflicts, helping to protect the integrity and reputation of both organisations. Appropriate mitigations are applied where necessary, and failure to comply with conflict of interest requirements may result in disciplinary action.

In 2025-26, no material conflicts of interest have been noted by the senior management overseeing the EEA (2024-25: none).

## Personal data related incidents

The EEA does not hold any protected personal data.

## Accounting Officer's report

In 2025-26 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 2025-26 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 £13.6 billion (2024-25: £20.4 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, Statement of Financial Position and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to :

- observe the relevant Accounts Direction, including the relevant accounting and disclosure requirements of the FReM in so far as they are relevant to the Account, 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 as defined in the FReM; 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 me, in my role as 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 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 EEA's 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 EEA 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 2025-26.

# Governance Statement

## Governance overview

The EEA is managed within HM Treasury's wider governance, risk management and internal control framework. This framework is set out in HM Treasury's Annual Report and Accounts 2025-26 and 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.

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 EEA 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.

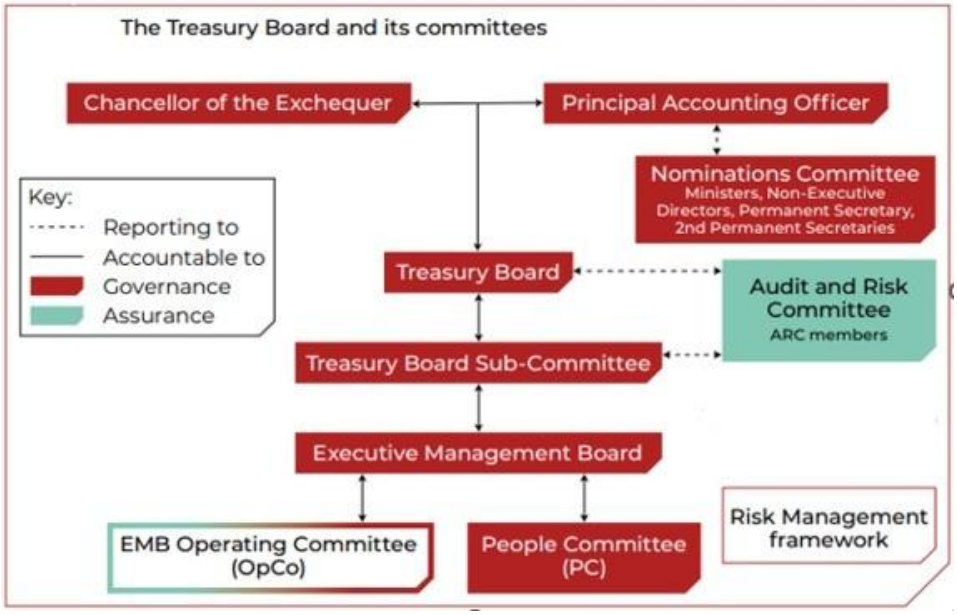
Sam Beckett, previous Chief Economic Advisor to the Treasury, was Accounting Officer for the EEA from 1 April to 18 December 2025, when she left the Treasury. Stephen Farrington, Director Fiscal Group, was Acting Accounting Officer from 19 December 2025 to 8 March 2026. I have been Accounting Officer for the EEA since 9 March 2026.

Although I was not Accounting Officer for the whole of the period covered by this report, I have received assurance from my predecessors. Stephen Farrington provided written assurance that appropriate governance arrangements were in place and that the system of internal control operated effectively during his period as Acting Accounting Officer. He also provided the assurance letter received from Sam Beckett covering the period from 1 April to 18 December 2025. In making the assessment set out at the end of this Governance Statement, I have taken account of these assurances alongside the evidence available to me for the period during which I have served as Accounting Officer.

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.

This statement explains how that departmental framework applies to the EEA, how EEA-specific risks and controls are managed by the EFA team, and how assurance is provided to me as Accounting Officer.




## Audit and Risk Committee

HM Treasury's Audit and Risk Committee provides independent advice and challenge to the Treasury Board, the Permanent Secretary as Principal Accounting Officer, and HM Treasury's additional Accounting Officers, including myself, on risk, internal control and governance and financial reporting. The Committee considers the integrity of the Annual Report and Accounts for the HM Treasury Group, the Exchange Equalisation Account, the National Loans Fund, the Consolidated Fund, the Contingencies Fund and the Whole of Government Accounts.

The Committee considered the Comptroller and Auditor General's report on the propriety of transactions in IMF Special Drawing Rights in the 2024-25 EEA Accounts. HM Treasury is consulting with Parliament on its oversight arrangements for future developments in SDR-related transactions in the EEA.[1]

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.

The Committee oversees the work of the Government Internal Audit Agency (GIAA) and the National Audit Office (NAO), considers the adequacy of the assurance available to the Board and Accounting Officers and holds pre-meeting discussions with the NAO and GIAA where needed. Representatives from both organisations attend meetings as appropriate.

Internal audit forms a key part of HM Treasury's governance, risk management and internal control framework. It provides objective assurance to the principal accounting officer on whether controls are properly designed and operating

[1] https://committees.parliament.uk/committee/127/public-accounts-committee/publications/3/correspondence/?SearchTerm=Exchange+Equalisation+Account

effectively. The Committee approves the annual Internal Audit Plan, which is risk based, forward looking and aligned to the department's strategic objectives.

HM Treasury recognises the importance of maintaining an appropriate balance of skills, experience and capacity across its governance structures. In line with the ARC Handbook, the ARC will consider the adequacy of skills, experience and capacity across the Committee and will undertake a formal skills audit in 2026-27 to assess whether any capability gaps exist and to inform future Committee composition.

Members of the Committee are appointed by the Chair along with the Principal Accounting Officer. The Committee met six times during 2025-26. Membership of ARC is outlined in the table below:

| **Committee member[2]** | **Role** | **Attended** |
|---|---|---|
| Edward Twiddy | Chair of the Audit and Risk Committee | 4/4 |
| Sir Edward Braham | Member of the Audit and Risk Committee | 5/6 |
| Catherine Vaughan | Member of the Audit and Risk Committee | 4/4 |
| **Former committee members leaving in year** | | |
| Jane Hanson CBE (to 31/12/2025) | Member of the Audit and Risk Committee | 4/4 |
| Zarin Patel (to 31/07/2025) | Chair of the Audit and Risk Committee | 2/2 |

The Committee 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.

## Internal Audit

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

[2] Zarin Patel retired from her post as Non-Executive Board member and Chair of the Audit and Risk Committee on the 31 July 2025. Jane Hanson CBE's term ended on 31 December 2025, after it was extended for four months for continuity of experience during a period of change. Catherine Vaughan has also joined the Audit and Risk Committee. Edward Twiddy took on the role of Chair from 1 January 2026.

respect of the EEA. GIAA also reviews EFA's quarterly report to me as the Accounting Officer (mentioned above).

Liam Orme, Director of Internal Audit provided his Annual Report and Opinion to the Accounting Officer and Audit and Risk Committee. The opinion was informed by the programme of work delivered by the Bank of England Internal Audit Division and (BIAD), GIAA's review of that work, and discussions with the Bank of England Audit Manager responsible for internal audit services to the EEA. The Director of Internal Audit concluded that reliance could be placed upon BIAD's work and confirmed positive its assurance that the Bank operates and effective governance, risk management and control framework on behalf of the EEA in those areas for which it is responsible. No issues emerged from the work undertaken during 2025-26 that warranted separate comment in the Governance Statement.

HM Treasury is taking forward actions to support continuous improvement. This is consistent with the department's wider approach to governance, risk management and internal control, as set out in HM Treasury's Annual Report and Accounts.

## The purpose of the system of internal control

Although the reserves are held to support the EEA's policy objectives, rather than for a profitmaking purpose. Notwithstanding that, 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 2026 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 Framework 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

The EEA is managed within the Bank's risk management framework, which is aligned with the principles of the Orange Book. This framework supports the consistent identification, assessment, monitoring and mitigation of risks to which the EEA is exposed. Responsibilities for financial risk management, pricing and valuations, operational risk, trading activity, settlement and custody arrangements are appropriately separated within the Bank.

HM Treasury oversees the Bank's management of the EEA through clearly defined reporting and assurance arrangements. Within HM Treasury, EFA monitors the EEA's risk environment and provides assurance to me as Accounting Officer, while DRM monitors the Bank's performance in managing the reserves. The Bank provides monthly reports to HM Treasury on the size, composition and liquidity of the reserves, consistency with policy objectives, investment performance, returns and risk exposures. These management accounts are reconciled to the financial accounts.

Quarterly assurance is provided to me as Accounting Officer on whether the processes and frameworks in place continue to identify current and future material risks, apply appropriate mitigations and meet the Bank's assurance requirements for managing the EEA. EFA also receives quarterly operational risk reports covering significant risk events, control improvements and other relevant matters. Any material incidents, including breaches of the SLA, are reported as they occur.

The Bank's Internal Audit Division carries out an agreed internal audit programme. The Bank's Executive Director for Markets shares quarterly internal audit updates with me as Accounting Officer, and the results of relevant internal audits are provided to EFA. EFA reviews and discusses this information with the Bank and the Government Internal Audit Agency (GIAA), and provides me with quarterly reports highlighting key risks and assurance matters.

Bank and HM Treasury officials meet quarterly to review performance against the SLA and consider wider operational and policy issues. EFA also engages with the Bank's Markets, Banking, Payments and Resolution Chief Operating Officer Division on operational risk matters where needed. I meet the Bank's Executive Director for Markets twice a year to discuss overall performance and strategy.

Risk management also supports business continuity and operational resilience for the public funds for which EFA is responsible. Business continuity arrangements are regularly tested within EFA and with key delivery partners, and lessons learned are used to strengthen these arrangements. Cyber security and information resilience form part of the same control environment,

supported by security controls, monitoring, assurance activity and incident response processes aligned with cross-government standards.

The Treasury Accountant chairs the Public Finance Business Continuity group, which brings together relevant teams across HM Treasury, the Bank, the Debt Management Office, the National Audit Office, HMRC and Government Banking. The group supports a coordinated approach to identifying, managing and addressing business continuity risks across the organisations involved in the stewardship of Exchequer funds. Annual certificates of assurance are obtained from member organisations.

The risk management strategy also includes horizon scanning to identify changes in risk exposure, assess their potential impact and agree appropriate mitigating actions. Significant risks are recorded in a risk register, assessed by likelihood and impact, and assigned to risk owners who are responsible for managing them.

## Risk profile and tolerance

Through its daily operations, 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 consistent with last year and are summarised below. The EEA is operated by the Bank of England as HM Treasury's agent and is managed within the Bank's wider risk management and control framework, with risks relevant to the EEA reported to and considered by HM Treasury. Consequently, many of the risks described below relate to Bank systems, processes, projects and personnel that support the delivery of the EEA's policy objectives.

| Risk Category | Risk Detail | Status |
|---|---|---|
| **Technology**<br><br>Risk that inadequate IT infrastructure and/or provision of IT services adversely impacts operations | The EEA operates within the Bank's technology infrastructure and must adapt to evolving financial market systems, including payment messaging and settlement updates. Over the year, the EEA maintained stable operation of technology services while continuing to make progress implementing a multi-year, large-scale programme to address significant levels of obsolescence and modernise its technology. The extent and complexity of change have required careful prioritisation to balance delivery capacity and budget, with the operational risks associated with obsolete technology.<br><br>AI adoption across the Bank continues to accelerate, delivering new tools, insights and process efficiencies. The safe and ethical use of AI at the Bank is governed by an AI Policy and overseen by an Innovation Steering Committee.<br><br>The growing use of externally hosted services and consequent reliance on third-party providers, especially in IT, raises operational, cyber and information security risks along the length of the supply chain. Like many organisations the Bank continues to enhance its third-party risk management capabilities and associated tooling, and strengthen supply chain resilience, particularly with regard to firms that are critical to the EEA. | Stable |
| **Project**<br><br>Risk that a project objective is adversely impacted by a congested portfolio, budget, or external events | The portfolio of change initiatives supporting EEA operations includes a broad range of improvement projects, reflecting a need to upgrade the technology estate as well as other strategic projects and forthcoming market developments. 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. The portfolio is managed through the Bank's established change governance arrangements, which oversee project planning, prioritisation, resourcing and delivery, with the impact of change projects on EEA operations being reported to and considered by HM Treasury. | Stable |
| **People**<br><br>Risk of insufficient or inadequate resources to deliver the EEA policy objectives. | During the year, the Bank progressed a range of people-related projects aimed at operating more efficiently and rebalancing its cost base. Controls were established to ensure that risks associated with the loss of key skills and experience – for the delivery of both internal business functions and those directly supporting the EEA – were properly managed.<br><br>The Bank remains committed to managing the risks and taking the opportunities associated with its people transformation initiatives, including a greater focus on regional presence. The Bank's policies and workforce planning arrangements help ensure that appropriately skilled staff are available to support EEA operations and delivery of the EEA's policy objectives. Staff turnover, key person dependency, capability assessment is regularly monitored for | Developing |

| Risk Category | Risk Detail | Status |
|---|---|---|
| | the identification of potential gaps and targeted training plans. | |
| **Cyber**<br><br>Risk that systems used for EEA operations are compromised electronically | Elevated geopolitical tensions increase the likelihood of financial, operational and cyber-related disruptions. The evolving external threat environment remains elevated globally, heightening both physical and cyber security risks and underscoring the importance of work to ensure the EEA's operational resilience. Threat actors' expanding use of artificial intelligence in particular, is amplifying cyber risk. During the year, several targeted improvements were implemented to strengthen the Bank's security posture, and response and recovery capabilities will remain in focus in the coming year.<br><br>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. | Developing |
| **Process**<br><br>Risk of a failure to instruct, execute or settle transactions correctly resulting in financial impact and/or trading with/across the wrong entity, identified/unidentified breach of policy. | 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 include validating trade confirmations with counterparties, reconciliations, dealer training, clear dealer mandates, segregation of duties, and assessment of incidents.<br><br>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.<br><br>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. | Stable |

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 HM Government guidance, set out in the Corporate Governance Code[3], I have reviewed the effectiveness of the system of internal control.

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

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 2025-26.
- 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 taken account of the oversight provided by HM Treasury Group ARC, and the actions of risk owners, in addressing weaknesses and ensuring continuous improvement in the system of internal control. Further information about the effectiveness of HM Treasury's overall system of governance including board effectiveness, attendance, compliance with the Corporate Governance Code for central government departments and quality of management information reviewed, is reported in HM Treasury's Annual Report and Accounts, Accountability Report. The ARC considered the 2025-26 accounts in draft and provided me with its views before I formally signed the accounts.

No significant internal control issues, including personal data related incidents, have been identified in 2025-26, and no significant new risks specific to the operational management and administration of the Exchange Equalisation account have been identified in the year. Wider risks affecting HM Treasury as a department or the Bank's operational environment continue to be identified and managed through the department and the Bank's established governance and risk management framework. No ministerial directions have been given in 2025-26.

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.

## Remuneration and staff report

The EEA does not have employees, directors, board members or remuneration arrangements of its own. It is administered by the Bank of England on behalf of HM Treasury, and all staff involved in administering or overseeing the Fund are employees of the Bank or HM Treasury. Staff costs, remuneration disclosures and related workforce information are therefore reported through the Bank and HM Treasury's respective Annual Report and Accounts rather than separately in this Account.

The EEA does not incur staff costs directly and no remuneration was paid by the Fund during 2025-26, though the Bank charges a fee for the administration of the EEA, as detailed in Note 3, Management Charge. There were no exit packages, compensation payments or other staff-related disclosures to report for the EEA.

# Parliamentary accountability and audit report

The Parliamentary accountability disclosures in this section are subject to audit where indicated. The Certificate and Report of the Comptroller and Auditor General sets out the auditor's responsibilities in relation to the financial statements, regularity and the parts of the Accountability Report subject to audit.

## 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.

## Gifts (audited)

The EEA did not make any gifts during the financial year.

## Remote contingent liabilities (audited)

The EEA had no remote contingent liabilities as at 31 March 2026.

**Brian Bell**

Accounting Officer 28 October 2026

# 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 2026 under the Exchange Equalisation Act 1979.

The financial statements comprise the Exchange Equalisation Account's:

- Statement of Financial Position as at 31 March 2026;
- Statement of Comprehensive Income and Statement of Cash Flows 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 2026 and its total comprehensive income for the year then ended; and
- have been properly prepared in accordance with the Exchange Equalisation Account 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 (2024)*. 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 2024*. 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. In applying the Ethical Standards, I have considered the potential implications for my audit arising from the extention of a loan staff arrangement with the Office of Value for Money within HM Treasury, to November 2025. The loan staff arrangement concerned one of my directors (unconnected with our audit of the Exchange Equalisation Account prepared by HM Treasury) and was for an initial period of 12 months from September 2024. The arrangement was extended by a further two months so that the secondee was able to support the completion of the Office for Value for Money's work. I am satisfied that appropriate safeguards have been implemented to protect my and the NAO team's independence and objectivity throughout the audit. 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 requires 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 information included in the Annual Report, but does not include the financial statements and my auditor's certificate and report thereon. 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 Account 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 and 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 the Exchange Equalisation Account 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 statements to be free from material misstatement, whether due to fraud or error;
- preparing financial statements which give a true and fair view in accordance with HM Treasury directions issued under the Exchange Equalisation Account Act 1979; and
- preparing the annual report in accordance with HM Treasury direction issued 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 Account 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, key performance indicators and performance incentives.
- inquired of management, the Exchange Equalisation Account's head of internal audit 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 head of internal audit 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 regarding 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, complex transactions and bias in management estimates. In common with all audits under ISAs (UK), I am 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 the Exchange Equalisation Account 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 and 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;

I addressed the risk of fraud through management override of controls by testing the appropriateness of journal entries and other adjustments; assessing whether the judgements on estimates are indicative of a potential bias; and evaluating 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 sufficient appropriate audit evidence 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

In my report on the 2024-25 financial statements of the Exchange Equalisation Account, I recommended that HM Treasury consult with Parliament in relation to controlling and reporting of more complex transactions in Special Drawing Rights (SDRs). As at the date of my certificate and report, this consultation is ongoing, as described on page 20 of the Accountability Report.

**Gareth Davies** **29 October 2026**

**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 2026

| £'m | Note | 2025-26 | 2024-25 |
|---|---|---|---|
| Net trading income/ (loss) | 2 | 3,852 | 1,744 |
| Fair value changes in gold | | 10,662 | 6,627 |
| Fees and commissions | | (6) | (3) |
| Management charge | 3 | (16) | (15) |
| **Total comprehensive income/(loss) for the year** | | **14,492** | **8,353** |

The notes on pages 39 to 68 form an integral part of these accounts.

# Statement of Financial Position (SoFP) as at 31 March 2026

| £'m | Note | 31 March 2026 | 31 March 2025 |
|---|---|---|---|
| **Assets** | | | |
| Cash | 16 | 4,106 | 4,337 |
| Items during the collection from banks | 16 | 440 | 952 |
| Money market instruments | 4 | 1,363 | 1,642 |
| Debt securities | 5 | 90,350 | 77,229 |
| *of which: pledged as collateral* | *18.b* | *16,014* | *5,189* |
| Gold | 6 | 34,784 | 24,122 |
| Reverse repo agreements | 7 | 7,483 | 5,817 |
| Derivative financial assets | 8 | 3,676 | 3,915 |
| Other financial assets | 9 | 274 | 474 |
| Holdings of IMF Special Drawing Rights | 13 | 29,750 | 30,905 |
| Lending to IMF Trusts | 13 | 3,788 | 3,660 |
| **Total assets** | | **176,014** | **153,053** |
| **Liabilities** | | | |
| Items in the course of transmission to banks | 16 | 386 | 1,482 |
| Debt securities - short positions | 10 | 1,670 | 827 |
| Repo agreements | 11 | 16,422 | 5,143 |
| Derivative financial liabilities | 12 | 683 | 660 |
| Other financial liabilities | | 133 | 155 |
| Commitments to lend to IMF Trusts | 13 | 493 | 520 |
| SDR allocation | 13 | 30,291 | 30,313 |
| Liability to the National Loans Fund | 14 | 125,936 | 113,953 |
| **Total liabilities** | | **176,014** | **153,053** |

The notes on pages 39 to 68 form an integral part of these accounts

**Brian Bell**

Accounting Officer

28 October 2026

# Statement of Cashflows (SoCF) for the period ended 31 March 2026

| £'m | Note | 2025-26 | 2024-25 |
|---|---|---|---|
| **Net cash inflow/(outflow) from operating activities** | 15 | **2,471** | **(1,208)** |
| **Cash flows from financing activities:** | | | |
| Cash inflow from National Loans Fund | 14 | 800 | 5,461 |
| Cash outflow to National Loans Fund | 14 | (3,309) | (7,027) |
| **Net cash inflow/ (outflow) from financing activities** | | **(2,509)** | **(1,566)** |
| **Net increase/(decrease) in cash and cash equivalents during the year** | 16 | **(38)** | **(2,774)** |
| Cash and cash equivalents at the beginning of the year | 16 | 4,372 | 7,146 |
| **Cash and cash equivalents at the end of the year** | 16 | **4,334** | **4,372** |

The cash flows from operating activities include £4,912m of interest received (2024-25: £4,904m) and £2,125m of interest paid (2024-25: £2,013m)

A Statement of Changes in Taxpayers' Equity (SoCTE) is not presented, as the Accounts Direction (see Annex A) does not require one. This reflects that all net assets are ultimately due to the NLF and are shown in the Statement of Financial Position. See Note 14 for further detail.

The notes on pages 39 to 68 form an integral part of these accounts.

# Notes to the accounts

The following notes form an integral part of these financial statements, providing additional detail and explanation of the reported figures. They set out the accounting policies applied, key judgements and estimates where applicable, and further analysis of material balances.

## 1. Statement of accounting Policies

### 1.1 Basis of presentation

The EEA produces accounts under the EEA Act 1979, as amended by the Finance Act 2000 and the Accounts Direction (Annex A). These financial statements have been prepared in accordance with the Government Financial Reporting Manual (FReM) 2025-26 to the extent that its requirements are relevant to the EEA. 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 (or fair value where this differs) on the trade dates and then subsequently in line with the relevant accounting policy.

They 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.

### 1.3 Going concern

The core functions of the EEA are expected to continue for the foreseeable future, with no legislative changes currently underway and no indications that funding will be withdrawn. Therefore, in line with the FReM, it is appropriate to prepare the EEA Accounts on a going concern basis.

## 1.4 Standards in issue but not yet effective

Several new accounting standards have been issued but are not yet effective. The EEA will apply new and revised standards once they have been adopted by the public sector as set out in the FReM. Dates for adoption by the public sector of IFRS 18 *Presentation and disclosure of financial statements* and IFRS 19 *Subsidiaries without public accountability: Disclosures* have not yet been published.

### 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 Financial Reporting Advisory Board (FRAB) endorsement). IFRS 18 *Presentation and Disclosure of Financial Statements* 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*.

### IFRS 19 Subsidiaries without Public Accountability: Disclosures

IFRS 19 Subsidiaries without Public Accountability: Disclosures was issued in May 2024 and applies to annual reporting periods beginning on or after 1 January 2027 (subject to Financial Reporting Advisory Board (FRAB) endorsement). The Standard permits certain eligible subsidiaries to apply reduced disclosure requirements when preparing their financial statements.

The EEA is not a subsidiary and therefore this standard is not expected to impact the financial statements.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the EEA.

## 1.5 Significant judgements and estimates

Preparation of the EEA's financial statements requires management to make judgements, estimates, and assumptions that affect the reported amounts of assets, liabilities, income, and expenditure. Actual results may differ from these estimates.

The most significant areas of judgement and estimation are as follows:

- Fair value measurement of reserve assets and liabilities: The EEA holds reserve assets and liabilities such as foreign currency deposits, money

market instruments, debt securities, and derivatives. Where quoted market prices are not available (Level 2 or 3 under IFRS 13), management uses valuation techniques based on observable market data and, where necessary, unobservable inputs. Judgement is required in selecting appropriate models, determining key assumptions (including discount rates, future cash flows, and market volatility), and interpreting contractual terms, particularly for more complex instruments such as derivatives and repo agreements. Further information about valuation methodologies for key classes of instrument is provided in note 1.7 below.

- Gold: IFRS do not provide a specific treatment for the accounting of monetary gold. Therefore, for monetary gold, management can apply the requirement in IAS 8 to adopt the nearest equivalent accounting treatment. 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 Note 1.7 below (also see Note 6, Gold).

- Commitments to lend to IMF Trusts: For commitments to lend at below-market rates, management estimates future drawdowns and applies discount rates in accordance with FReM guidance. Judgement is required to assess the likelihood and timing of drawdowns.

Further details of the assumptions and sensitivities relating to these judgements and estimates are provided in the relevant notes to the accounts.

## 1.6 Classification and measurement of assets and liabilities

### Portfolios

The EEA's assets and liabilities are organised into two principal portfolios, reflecting differences in their nature, management, and operational arrangements:

SDR-Related Reserves:

Assets and liabilities arising from the UK's participation in the IMF's Special Drawing Rights (SDR) Department, specifically SDR holdings and the SDR allocation liability. The portfolio also covers SDR lending to IMF Trusts (such as the PRGT), which is managed outside the SDR Department.

Foreign Currency & Gold Reserves:

All other official reserve assets and associated liabilities, including foreign currency deposits and securities, gold holdings, foreign exchange contracts, and the sterling liability to the National Loans Fund (NLF).

Both portfolios consist of assets and liabilities that qualify as official reserve assets under international standards. For financial reporting purposes, the business model assessments required under IFRS 9 for financial assets is made at a lower sub-portfolio level (as described in the following section).

## Foreign Currency & Gold Reserves

### Financial assets and financial liabilities

Assets and liabilities in this portfolio are managed by the Bank of England to ensure the EEA is ready to fulfil key reserve management objectives as set out in the policy objectives outlined in the EEA Act 1979.

The business model focuses on liquidity, security, and fair value performance, with assets and liabilities able to be rebalanced or traded prior to maturity as required.

Therefore, financial assets in this portfolio do not have a 'hold to collect' business model, and are classified and measured at Fair Value Through Profit or Loss (FVTPL) under IFRS 9. As the financial liabilities are managed in line with the assets they are irrevocably designated at FVTPL in accordance with IFRS 9.4.2.2, ensuring no accounting mismatch.

### Gold Holdings

Gold is held as an official reserve asset for policy purposes, not for sale or production.

Gold does not meet the definition of cash, financial instrument, investment property, or inventory under IFRS; therefore, no specific standard applies. Accordingly, management applies the guidance in IAS 8 to develop an appropriate accounting policy. Gold is measured at fair value, with changes recognised in profit or loss, reflecting its role as a reserve asset.

### Liability to the National Loans Fund

The NLF liability is measured at the amount required to be repaid under section 2 of the Exchange Equalisation Account Act 1979. No interest is payable on this financing. Further details are provided in Note 14.

## SDR-Related Reserves

### SDR Holdings (Asset) and Allocation (Liability)

SDR holdings are claims on the IMF, managed to maintain international liquidity and subject to active trading through the IMF's Voluntary Trading Arrangement (VTA).

The business model is focused on liquidity and trading, not solely on collecting contractual cash flows, So SDR holdings are measured at FVTPL under IFRS 9, using observable market prices published daily by the IMF.

SDR allocations represent the UK's obligation to the IMF for SDRs received. An IMF allocation gives rise to equal and opposite entries: an increase in SDR holdings and a corresponding increase in SDR allocation liability. Both are denominated in SDRs and accrue interest at the SDR interest rate (SDRi), so exchange rate and interest rate movements affect the asset and liability symmetrically.

To reflect this symmetry and avoid an accounting mismatch, SDR allocations are irrevocably designated at FVTPL in accordance with IFRS 9.4.2.2.

### SDR lending and commitments

SDRs can be channelled to IMF Trusts for concessional and sustainable lending. Under with IFRS 9 and FReM guidance, SDR lending is generally measured at amortised cost, as the business model is to hold these assets to collect contractual cash flows which are solely payments of principal and interest (SPPI). Lending that does not meet the SPPI test would be measured at FVTPL.

Commitments to lend to IMF Trusts at below-market rates (e.g., PRGT) are initially recognised as liabilities at the fair value of the expected settlement cashflows and subsequently measured in accordance with the principles of IFRS 15. Market-rate commitments (e.g., RST) are not recognised.

## 1.7 Valuation methodologies

Fair value is determined using observable market prices (Level 1 inputs per IFRS 13) where available. Where observable prices are not available, fair value is determined using appropriate valuation techniques.

Valuation approaches for key instrument classes are as follows:

i. 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 (SoCF). Cash equivalents comprise highly liquid investments, readily convertible to known amounts of cash, 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 (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.

ii. 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 SoCI, within net trading income, when they arise.

iii. 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 SoFP,

within items during collection from banks or items in the course of transmission to banks, until settlement occurs.

### iv. Money market instruments

Money market instruments are reported at fair value. They are initially recognised at cost, as the best estimate of fair value and subsequently revalued to their market price daily. Changes in the fair value of money market instruments are recognised in the SoCI, 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.

### v. Debt securities (including short positions)

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

All bonds and bills are valued directly by reference to published price quotations at 31 March 2026. Bonds and bills are valued at bid prices. Short bond and bill positions are valued at offer prices.

### vi. 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 2026. Revaluation gains and losses on gold assets are recognised within fair value changes in gold in the SoCI.

### vii. Repurchase (repo) and reverse repurchase (reverse repo) agreements

Securities which have been sold with an agreement to repurchase remain on the SoFP and sale proceeds are recorded as a repo. Securities acquired in reverse sale and repurchase agreements are not recognised on the SoFP 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 SoCI, within net trading income, when they arise. Repos and reverse repos are marked to bid or offer prices, as appropriate.

### viii. 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 SoCI. 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.

### ix. 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 SoFP at their closing sterling value.

### x. Lending and commitments to lend to IMF Trusts

All lending and commitments to lend are denominated in SDRs and funded from SDR holdings.

Loans are initially recorded at the cost of funds advanced, or where this differs from fair value, at the fair value of future cashflows. Subsequent measurement is at amortised cost using the effective interest rate method, in accordance with IFRS 9. This reflects the intention to hold the loans to collect contractual cash flows, which are solely payments of principal and interest. Impairment is assessed in line with IFRS 9 requirements.

Commitments to lend are recognised as a liability where the commitment is to lend at below market rate, being the standard SDR interest rate published by the IMF. Such liabilities are initially recognised at fair value. A fair value is determined by applying assumptions that would be adopted by market participants to determine a set of future income receipts, which are then discounted using discount rates set out in the FReM. Assumptions regarding whether future loans will be drawn is also required. The assumptions are based on historic drawdown trends and typical IMF loan terms. Subsequently, commitments are measured at the higher of the expected credit loss determined in accordance with IFRS 9 and the amount initially recognised less cumulative income recognised in accordance with IFRS 15.

## 1.8 Income and Expenditure Recognition

Income and expenditure are recognised as follows:

### 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. Interest income on SDR lending

The EEA earns interest (in SDRs) on SDRs it lends to IMF Trusts. This income is recognised using the effective interest rate method, consistent with the measurement of these assets at amortised cost.

### iv. Fees and commissions

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

## 1.9 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 (SoFP) date are recognised in the SoCI within net trading income.

## 1.10 Collateral and netting

The EEA enters International Swaps and Derivatives Association (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 SoFP, and any coupons received are

paid back to the counterparty. Collateral pledged remains on the SoFP within Debt Securities.

Collateral received in the form of cash is recorded on the SoFP 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 SoFP.

### 1.11 Derecognition

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.

## 2. Net trading income/ (loss)

| £'m | 2025-26 | 2024-25 |
|---|---|---|
| Money market instruments | 96 | (20) |
| Debt securities (incl. short positions) | 2,400 | 1,111 |
| Reverse repo agreements | 308 | 33 |
| Repo agreements | (675) | (86) |
| Futures | 35 | 5 |
| Foreign exchange transactions | 284 | (1) |
| Currency swaps | 1,099 | 1,347 |
| Interest rate swaps | 46 | (11) |
| Loans and deposits | (1) | 5 |
| Reserve Tranche Position | 134 | 170 |
| Special Drawing Rights | 82 | (870) |
| Nostros | 44 | 61 |
| **Total** | **3,852** | **1,744** |

'Special Drawing Rights' includes interest earned on SDR holdings and loans to IMF Trusts, interest paid on SDR allocations, and the cost of the implicit subsidy present in some lending to IMF Trusts.

## 3. Management charge

In 2025-26 the Bank of England charged £16 million for management of the EEA on behalf of HM Treasury[4] (2024-25: £15 million).

[4] Further information on the financial relationship between HM Treasury and the Bank of England can be found at https://www.gov.uk/government/publications/memorandum-of-understanding-between-hm-treasury-and-the-bank-of-england-2025

## 4. Money market instruments

| £'m | 2025-26 | 2024-25 |
|---|---|---|
| Treasury bills | 1,363 | 823 |
| Commercial paper | 0 | 819 |
| **Total** | **1,363** | **1,642** |
| **Amounts maturing:** | | |
| In not more than 3 months | 174 | 565 |
| In 1 year or less but over 3 months | 1,189 | 1,077 |
| **Total** | **1,363** | **1,642** |

## 5. Debt securities

| £'m | 2025-26 | 2024-25 |
|---|---|---|
| **Issued by:** | | |
| Government | 73,035 | 61,235 |
| Other Public Sector | 17,315 | 15,994 |
| **Total** | **90,350** | **77,229** |
| **Amounts maturing:** | | |
| Within one year | 7,540 | 7,258 |
| Later than one year | 82,810 | 69,971 |
| **Total** | **90,350** | **77,229** |

## 6. Gold

| £'m | 2025-26 | 2024-25 |
|---|---|---|
| Gold Stock | 34,784 | 24,122 |
| **Total** | **34,784** | **24,122** |

No gold loan/deposit or swap trades were undertaken during the year (2024-25: nil).

## 7. Reverse repo agreements

| £'m | 2025-26 | 2024-25 |
|---|---|---|
| **Amounts maturing:** | | |
| Within one year | 7,483 | 5,817 |
| **Total** | **7,483** | **5,817** |

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 | 2025-26 | 2024-25 |
|---|---|---|
| Foreign exchange transactions | 330 | 411 |
| Currency swaps | 3,151 | 3,363 |
| Interest rate swaps | 195 | 141 |
| Futures | - | - |
| **Total** | **3,676** | **3,915** |

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 | 2025-26 | 2024-25 |
|---|---|---|
| Margin accounts | 31 | 38 |
| Prepayments and accrued income | 157 | 183 |
| Longer term deposits | 86 | 253 |
| **Total** | **274** | **474** |

## 10. Debt securities - short positions

| £'m | 2025-26 | 2024-25 |
|---|---|---|
| Debt securities – short positions | 1,670 | 827 |
| **Total** | **1,670** | **827** |

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

## 11. Repo agreements

| £'m | 2025-26 | 2024-25 |
|---|---|---|
| **Amounts maturing:** | | |
| Within one year | 16,422 | 5,143 |
| **Total** | **16,422** | **5,143** |

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

## 12. Derivative financial liabilities

| £'m | 2025-26 | 2024-25 |
|---|---|---|
| Foreign exchange transactions | 273 | 418 |
| Currency swaps | 190 | 120 |
| Interest rate swaps | 219 | 119 |
| Futures | 1 | 3 |
| **Total** | **683** | **660** |

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

## 13. IMF related Assets and Liabilities

### 13a. 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 UK's allocation was increased to SDR 29,452m in August 2021 and has remained static since that date however, the value in the SoFP fluctuates as a result of exchange rate movements. At 31 March 2026, the allocation was **£30,291m** (31 March 2025: £30,313m).

The SDR holdings of the EEA result from SDR allocations made by the IMF and include subsequent purchases and sales of SDRs from or to other IMF members, along with fair value changes. It also includes SDRs received as payment of interest on SDR related balances. At 31 March 2026, SDR holdings were **£29,750m** (31 March 2025: £30,905m).

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

### 13b. Lending to IMF Trusts

The UK has agreed to provide resources to the Poverty Reduction and Growth Trust (PRGT) and to the Resilience and Sustainability Trust (RST) via channelling of its SDR holdings. For PRGT lending, the UK receives Promissory Notes from the IMF in exchange for the SDR's channelled, which are recognised as assets of the EEA. For RST lending, although no Promissory Notes are received, interest is earned on the channelled SDRs and therefore this lending is also recognised as

an asset of the EEA. The key terms of PRGT and RST lending are detailed in the table below.

| | PRGT | RST |
|---|---|---|
| **Total active commitments at 31 March 2026** | SDR 5,500m | SDR 2,459m |
| **(31 March 2025)** | (SDR 5,500m) | (SDR 2,459m) |
| **Undrawn commitment at 31 March 2026** | SDR 2,696m | SDR 1,573m |
| **(31 March 2025)** | (SDR 2,838m) | (SDR 1,826m) |
| **Commitment end date**[5] | 31 December 2029 | 30 November 2030 |
| **Rate of interest earned** | Lower of SDRi and 0.05% | SDRi[6] |

## Loan assets

Loans to the PRGT and RST are initially recorded at the cost of funds advanced. Where this differs from fair value (where lending is at a concessional, below-market rate), loans are initially recognised at the present value of expected future cash flows, discounted at the higher of the intrinsic rate and the real financial instrument discount rate set by HM Treasury as required by the FReM. Subsequently, loans are measured at amortised cost using the effective interest rate method, with impairment assessed under the expected credit loss (ECL) model in IFRS 9. The basis of measurement was revised in the 2024-25 EEA Annual Report and Accounts.

| £'m | PRGT | RST | Total loans |
|---|---|---|---|
| **Balance at 1 April 2024** | 2,673 | 604 | 3,277 |
| Adjustment for new basis of measurement | (261) | - | (261) |
| New loans distributed | 857 | 57 | 914 |
| Repayments received | (276) | - | (276) |
| Revaluation (discount rate and FX) | 16 | (10) | 6 |
| **Balance at 31 March 2025** | **3,009** | **651** | **3,660** |
| New loans distributed | 123 | 260 | 383 |
| Repayments received | (329) | - | (329) |
| Revaluation (discount rate and FX) | 73 | 1 | 74 |
| **Balance at 31 March 2026** | **2,876** | **912** | **3,788** |

For PRGT loans, which are provided at a concessional, below-market rate, the carrying value on the Statement of Financial Position is lower than the nominal

[5] Where there are multiple commitments with varying maturity dates the date stated is the latest maturity

[6] SDRi is the Special Drawing Rights interest rate set by the International Monetary Fund. The rate at 31 March 2026 was 2.772% (31 March 2025: 3.088%)

amount of funds advanced, reflecting the reduced value of future cash flows. In contrast, loans to the RST are provided at the prevailing market rate, so the carrying value more closely approximates the funds advanced.

No expected credit loss has been recognised on lending to the PRGT and RST, as both trusts are supported by highly rated sovereign contributors and maintain strong financial positions, with no reasonable expectation of future credit losses based on current and foreseeable economic conditions.

*Commitments to lend*
As the commitment to lend to the PRGT is at a concessional, below-market rate, a liability is recognised on the Statement of Financial Position to reflect the present value of the expected future outflows under these terms. **The carrying value of this liability at 31 March 2026 is £493 million (2024-25 £520 million).**

## 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 has issued foreign currency securities to raise foreign currency finance, these have been subsequently 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 SoFP. 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 Exchange Equalisation Act 1979 of £59.3 billion at 31 March 2026 (2024-25: £61.8 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 provided below.

### i. Specific liability to the NLF

The specific element of the liability to the NLF, described in section 2 of the Exchange Equalisation Account Act 1979, is the mechanism through which the EEA's day to day sterling cash balances 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 SoFP, 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 SoFP 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 (2024-25: 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 2025** | 42,935 | 9,237 | 61,781 | 113,953 |
| Transfers from the NLF | - | - | 800 | 800 |
| Repayments to the NLF | - | - | (3,309) | (3,309) |
| Total comprehensive income | 14,492 | - | - | 14,492 |
| **Balance at 31 March 2026** | **57,427** | **9,237** | **59,272** | **125,936** |

| £'m | Accumulated comprehensive income reserve | Capital contribution reserve | Specific liability to the NLF | Overall liability to the NLF |
|---|---|---|---|---|
| **Balance at 1 April 2024** | 34,582 | 9,237 | 63,347 | 107,166 |
| Transfers from the NLF | - | - | 5,461 | 5,461 |
| Repayments to the NLF | - | - | (7,027) | (7,027) |
| Total comprehensive income | 8,353 | - | - | 8,353 |
| **Balance at 31 March 2025** | **42,935** | **9,237** | **61,781** | **113,953** |

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

| £'m | 2025-26 | 2024-25 |
|---|---|---|
| **Total comprehensive income/(loss) for the year** | **14,492** | **8,353** |
| Net decrease/(increase) in money market instruments | (112) | 311 |
| Net decrease/(increase) in debt securities | (13,121) | (4,145) |
| Net decrease/(increase) in gold | (10,662) | (6,628) |
| Net decrease/(increase) in reverse repurchase agreements | (1,665) | 2,921 |
| Net decrease/(increase) in derivative financial assets | 239 | 548 |
| Net decrease/(increase) in other assets | 200 | 192 |
| Net decrease/(increase) in holding of SDRs | 1,155 | 1,617 |
| Net decrease/(increase) in lending to IMF Trusts | (128) | (383) |
| Net (decrease)/increase in debt securities - short positions | 843 | 295 |
| Net (decrease)/increase in repurchase agreements | 11,278 | (4,089) |
| Net (decrease)/increase in derivative financial liabilities | 23 | (123) |
| Net (decrease)/increase in other financial liabilities | (22) | (54) |
| Net (decrease)/increase in SDR allocation | (22) | (543) |
| Net (decrease)/increase in commitments to lend to IMF Trusts | (27) | 520 |
| **Net cash (outflow)/inflow from operating activities** | **2,471** | **(1,208)** |

## 16. Cash and cash equivalents

| £'m | 1 April 2025 | Cash flow | 31 March 2026 |
|---|---|---|---|
| Cash and cash equivalents at Central Banks | 4,337 | (231) | 4,106 |
| Loans and advances to banks | - | - | - |
| | **4,337** | **(231)** | **4,106** |
| **Amounts with original maturity less than 3 months:** | | | |
| Items in the course of collection from banks | 952 | (512) | 440 |
| Money market instruments | 565 | (391) | 174 |
| Items in the course of transmission to banks | (1,482) | 1,096 | (386) |
| | 35 | 193 | 228 |
| **Total** | **4,372** | **(38)** | **4,334** |

| £'m | 1 April 2024 | Cash flow | 31 March 2025 |
|---|---|---|---|
| Cash and cash equivalents at Central Banks | 5,273 | (936) | 4,337 |
| Loans and advances to banks | - | - | - |
| | **5,273** | **(936)** | **4,337** |
| **Amounts with original maturity less than 3 months:** | | | |
| Items in the course of collection from banks | 456 | 496 | 952 |
| Money market instruments | 1,796 | (1,231) | 565 |
| Items in the course of transmission to banks | (379) | (1,103) | (1,482) |
| | 1,873 | (1,838) | 35 |
| **Total** | **7,146** | **(2,774)** | **4,372** |

## 17. Related Party Transactions

The EEA has provided foreign currency services for a number of government departments and other central government bodies. The most significant of these have been for the Ministry of Defence and the Department for Science, Innovation and Technology. In addition, the NLF is considered a related party and has provided finance to the EEA during the year as set out in Note 14.

## 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.

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).

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.

#### Value at Risk (VaR)

The Bank monitors and controls market risk primarily by using Value at Risk (VaR) models, which estimate a loss level that will not be exceeded at a specified confidence level, over a defined period of time. Different models are used for different reporting and monitoring purposes.

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 - Foreign Currency Reserves

Under the SLA, the Bank reports monthly to HMT on performance against the market risk tolerance set out in the IPS, which is 5% of the fair value of the Foreign Currency Reserves portfolio over one year. Performance against this tolerance is measured using a historical VaR metric calibrated to a 66% confidence interval over a six year lookback period and is reported in sterling. At the end of the reporting period, the annualised 66% historical VaR of the portfolio was £1.91bn (2024-25: £1.35bn).

Outside of this monthly reporting to HMT, the Bank also measures VaR for the Foreign Currency Reserves by applying a 99% confidence interval and a 10-day holding period. This VaR is calculated separately for hedged and unhedged

assets and is reported in USD primarily as it is the main reporting currency used for performance and risk management purposes. These VaR values shown below are based on marked-to-market prices at the end of the period.

| $'m | 31 March 2026 | 31 March 2025 |
|---|---|---|
| Foreign Currency Reserves Total | 5,814 | 3,284 |
| of which[7]: | | |
| Unhedged Assets | 5,805 | 3,283 |
| Hedged Assets | 101 | 60 |

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 - 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.

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). This 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.

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

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 2025-26 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 $9.71 million and the lowest VaR on any one day was $7.40 million.

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

[7] 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.

| $'m | 2025-26 | 2024-25 |
|---|---|---|
| VaR as at 31 March | 10.54 | 7.60 |
| Average during the year | 9.71 | 7.32 |
| Maximum VaR during the year | 15.05 | 10.16 |
| Minimum VaR during the year | 7.40 | 5.45 |
| 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 2025-26 were as follows: All securities are held at Clearstream except US Treasuries at the Federal Reserve Bank of New York (FRBNY), Japanese bonds at the Bank of Japan, and Canadian dollar denominated securities (excluding CAD SAA by non-domestic issuers) at the Bank of Canada. Gold bars and gold coins are stored in the Bank's vault.

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 and the full amount of the undrawn commitments to lend to IMF Trusts.

## 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

**2025-26**

| £'m | United Kingdom | Europe | North America | Asia-Pacific | Other | Total |
|---|---|---|---|---|---|---|
| Cash | 1,212 | 39 | 752 | 2,103 | - | 4,106 |
| Items in course of collection from banks | 361 | 61 | - | 18 | - | 440 |
| Money market instruments | (144) | 962 | 117 | 428 | - | 1,363 |
| Debt Securities | (27) | 28,206 | 51,222 | 10,920 | 29 | 90,350 |
| Gold | - | - | - | - | 34,784 | 34,784 |
| Reverse repo agreements | 3,945 | 2,061 | 698 | 779 | - | 7,483 |
| Derivative financial assets | 344 | 1,980 | 1,238 | 114 | - | 3,676 |
| Other financial assets | 31 | 43 | - | 43 | 157 | 274 |
| IMF SDRs & related lending | - | - | - | - | 33,538 | 33,538 |
| **Total Assets** | **5,722** | **33,352** | **54,027** | **14,405** | **68,508** | **176,014** |

**2024-25**

| £'m | United Kingdom | Europe | North America | Asia-Pacific | Other | Total |
|---|---|---|---|---|---|---|
| Cash | 1,578 | 38 | 750 | 1,971 | - | 4,337 |
| Items in course of collection from banks | 261 | 517 | 174 | - | - | 952 |
| Money market instruments | 123 | 1,211 | 241 | 67 | - | 1,642 |
| Debt Securities | 82 | 25,273 | 41,901 | 9,973 | - | 77,229 |
| Gold | - | - | - | - | 24,122 | 24,122 |
| Reverse repo agreements | 3,295 | 1,182 | 1,222 | 118 | - | 5,817 |
| Derivative financial assets | 512 | 2,176 | 1,192 | 35 | - | 3,915 |
| Other financial assets | 38 | 120 | - | 134 | 182 | 474 |
| IMF SDRs & related lending | - | - | - | - | 34,565 | 34,565 |
| **Total Assets** | **5,889** | **30,517** | **45,480** | **12,298** | **58,869** | **153,053** |

## Concentration of EEA assets by credit rating

| **2025-26** | **Category** | | | | |
|---|---|---|---|---|---|
| **£'m** | **1** | **2** | **3** | **Other** | **Total** |
| Cash | 808 | 2,086 | 1 | 1,211 | 4,106 |
| Items in course of collection from banks | - | 270 | 170 | - | 440 |
| Money market instruments | 997 | 412 | (46) | - | 1,363 |
| Debt Securities | 74,147 | 16,275 | (72) | - | 90,350 |
| Gold | - | - | - | 34,784 | 34,784 |
| Reverse repo agreements | 10 | 7,356 | 117 | - | 7,483 |
| Derivative financial assets | 781 | 2,725 | 34 | 136 | 3,676 |
| Other financial assets | - | 117 | - | 157 | 274 |
| IMF SDRs & related lending | - | - | - | 33,538 | 33,538 |
| **Total Assets** | **76,743** | **29,241** | **204** | **69,826** | **176,014** |

| **2024-25** | **Category** | | | | |
|---|---|---|---|---|---|
| **£'m** | **1** | **2** | **3** | **Other** | **Total** |
| Cash | 834 | 1,924 | 1 | 1,578 | 4,337 |
| Items in course of collection from banks | - | 820 | 132 | - | 952 |
| Money market instruments | 1,360 | 288 | (6) | - | 1,642 |
| Debt Securities | 68,080 | 9,115 | 34 | - | 77,229 |
| Gold | - | - | - | 24,122 | 24,122 |
| Reverse repo agreements | 190 | 4,838 | 789 | - | 5,817 |
| Derivative financial assets | 815 | 2,706 | 23 | 371 | 3,915 |
| Other financial assets | - | 291 | - | 183 | 474 |
| IMF SDRs & related lending | - | - | - | 34,565 | 34,565 |
| **Total Assets** | **71,279** | **19,982** | **973** | **60,819** | **153,053** |

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, SDR holdings and lending to IMF Trusts as well as balances with UK Government agencies and the Bank of England.

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

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 | 2025-26 | 2024-25 |
|---|---|---|
| **Reverse repos** | | |
| Reverse repos | 7,483 | 5,817 |
| less: securities received as collateral | (7,598) | (5,943) |
| less: margin called under terms of loan agreement | 60 | - |
| **Reverse repos - collateral (surplus)** | **(55)** | **(126)** |
| | | |
| **Derivatives** | | |
| Derivative assets gross exposure | 3,676 | 3,915 |
| less: securities received as collateral | (3,186) | (3,363) |
| **Derivative asset - collateral deficit** | **490** | **552** |
| | | |
| Derivative liabilities gross exposure | (683) | (660) |
| less: securities pledged as collateral | 19 | 152 |
| **Derivative liability – collateral (surplus)** | **(664)** | **(508)** |
| | | |
| **Derivatives - net collateral deficit/(surplus)** | **(174)** | **44** |

### Collateral pledged

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

| £'m | 2025-26 | 2024-25 |
|---|---|---|
| Repos | 15,995 | 5,036 |
| Derivative liabilities | 19 | 153 |
| | **16,014** | **5,189** |

### 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

Foreign currency liquidity risk is monitored and managed in order to ensure the policy readiness of the EEA (see Investment Principles on page 9). The EEA maintains a target level of highly liquid assets, taking into account their liquidity in both cash and repo markets, as set out in the EEA Investment Policy Statement (IPS). Limits are applied on the residual maturity of assets, varying with credit rating and liquidity. Liquidity risk is also managed through requirements to maintain sufficient unencumbered liquid assets.

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 SoFP 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. Similarly, future cash flows for inflation-linked bonds are derived using projected CPI rates in order to reflect the inflation-linked characteristics of those instruments.

The analysis for Commitments to lend to IMF Trusts only includes the potential cash outflows associated with the commitment, not the subsequent inflows once a loan is made. Although the timing of these outflows is highly uncertain and has therefore been disclosed as undated, existing commitments to the PRGT, recognised as a financial liability, end on 31 December 2029 as detailed in Note 13.

## Undiscounted contractual cash flows of financial assets

**As at 31 March 2026:**

| £'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 | 4,106 | - | - | - | - | - | 4,106 |
| Items in course of collection from banks | 440 | - | - | - | - | - | 440 |
| Money market instruments | - | 175 | 1,202 | - | - | - | 1,377 |
| Debt securities | 407 | 1,559 | 7,599 | 60,685 | 34,043 | - | 104,293 |
| Gold | - | - | - | - | - | 34,784 | 34,784 |
| Reverse repo agreements | 6,317 | 1,177 | - | - | - | - | 7,494 |
| Derivative financial assets – inflow | 5,502 | 3,270 | 8,764 | 35,174 | 10,630 | - | 63,340 |
| Derivative financial assets – outflow | (5,426) | (3,061) | (7,525) | (31,802) | (10,427) | - | (58,241) |
| Other financial assets | 202 | 29 | 43 | - | - | - | 274 |
| SDR Holdings | - | - | - | - | - | 29,750 | 29,750 |
| Lending to IMF Trusts | 32 | 132 | 317 | 1,834 | 2,217 | - | 4,532 |
| **Total** | **11,580** | **3,281** | **10,400** | **65,891** | **36,463** | **64,534** | **192,149** |

## Undiscounted contractual cash flows of financial liabilities

**As at 31 March 2026:**

| £'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 | (386) | - | - | - | - | - | (386) |
| Debt securities – short positions | (1,670) | - | - | - | - | - | (1,670) |
| Repo agreements | (13,518) | (2,934) | - | - | - | - | (16,452) |
| Derivative financial liabilities – inflows | 2,695 | 2,345 | 5,799 | 12,766 | 2,445 | - | 26,050 |
| Derivative financial liabilities – outflows | (2,728) | (2,390) | (5,835) | (12,899) | (2,542) | - | (26,394) |
| Other financial liabilities | (133) | - | - | - | - | - | (133) |
| Commitments to lend to IMF Trusts | | | | | | (2,772) | (2,772) |
| SDR Allocation | - | - | - | - | - | (30,291) | (30,291) |
| Liability to the NLF | - | - | - | - | - | (125,936) | (125,936) |
| **Total** | **(15,740)** | **(2,979)** | **(36)** | **(133)** | (97) | **(158,999)** | **(177,984)** |

## Undiscounted contractual cash flows of financial assets

**As at 31 March 2025:**

| £'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 | 4,337 | - | - | - | - | - | 4,337 |
| Items in course of collection from banks | 952 | - | - | - | - | - | 952 |
| Money market instruments | 184 | 383 | 1,094 | - | - | - | 1,661 |
| Debt securities | 258 | 1,297 | 7,275 | 56,237 | 22,307 | - | 87,374 |
| Gold | - | - | - | - | - | 24,122 | 24,122 |
| Reverse repo agreements | 4,547 | 930 | 352 | - | - | - | 5,829 |
| Derivative financial assets – inflow | 2,407 | 3,129 | 8,810 | 36,856 | 8,578 | - | 59,780 |
| Derivative financial assets – outflow | (2,349) | (2,821) | (7,515) | (32,801) | (8,558) | - | (54,044) |
| Other financial assets | 273 | 161 | 41 | - | - | - | 475 |
| SDR Holdings | - | - | - | - | - | 30,905 | 30,905 |
| Lending to IMF Trusts | - | 86 | 254 | 1,721 | 2,233 | - | 4,294 |
| **Total** | **10,609** | **3,165** | **10,311** | **62,013** | **24,560** | **55,027** | **165,685** |

## Undiscounted contractual cash flows of financial liabilities

**As at 31 March 2025:**

| £'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 | (1,482) | - | - | - | - | - | (1,482) |
| Debt securities – short positions | (827) | - | - | - | - | - | (827) |
| Repo agreements | (3,731) | (1,424) | - | - | - | - | (5,155) |
| Derivative financial liabilities – inflows | 2,314 | 2,327 | 7,669 | 11,083 | 2,249 | - | 25,642 |
| Derivative financial liabilities – outflows | (2,359) | (2,394) | (7,859) | (11,451) | (2,227) | - | (26,290) |
| Other financial liabilities | (157) | - | - | - | - | - | (157) |
| Commitments to lend to IMF Trusts | - | - | - | - | - | (2,920) | (2,920) |
| SDR Allocation | - | - | - | - | - | (30,313) | (30,313) |
| Liability to the NLF | - | - | - | - | - | (113,953) | (113,953) |
| **Total** | **(6,242)** | **(1,491)** | **(190)** | **(368)** | **22** | **(147,186)** | **(155,455)** |

## 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, determined by reference to market rates prevailing on the date of valuation or by discounting future cash flows. The notional principal amounts[8] of these instruments indicate the volume of transactions outstanding as at 31 March 2026 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:

| | 2026 | | | 2025 | | |
|---|---|---|---|---|---|---|
| | Notional | Fair values | | Notional | Fair values | |
| | Principal | Assets | Liabilities | Principal | Assets | Liabilities |
| **£'m** | **Amounts** | | | **Amounts** | | |
| **Exchange rate contracts:** | | | | | | |
| Forwards | 34,552 | 330 | (273) | 35,243 | 411 | (418) |
| Currency swaps | 40,358 | 3,151 | (190) | 39,197 | 3,363 | (120) |
| | 74,910 | 3,481 | (463) | 74,440 | 3,774 | (538) |
| Interest rate swaps | 59,630 | 195 | (219) | 34,578 | 141 | (119) |
| Futures | 5,126 | - | (1) | 6,192 | - | (3) |
| | 64,756 | 195 | (220) | 40,770 | 141 | (122) |
| **Total** | **139,666** | **3,676** | **(683)** | **115,210** | **3915** | **(660)** |

## 19. Financial assets and liabilities - fair value

Comparison of fair value to carrying value for financial assets and liabilities not held at fair value:

| | At 31 March 2026 | | At 31 March 2025 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| | £m | £m | £m | £m |
| SDR lending (asset) | 3,788 | 3,783 | 3,660 | 3,700 |
| Commitments to lend to IMF Trusts (liability) | (493) | (441) | (560) | (410) |

For amortised cost assets and liabilities, valuation techniques used to derive fair value would be classed as Level 2 (Lending to IMF Trusts) and 3 (Commitments to lend) in the Fair Value hierarchy. Where pricing information is not available, fair value for amortised cost assets and liabilities are estimated by discounting expected future cash flows using the higher of the rate intrinsic to the financial instrument the real financial instrument discount rate set by HM Treasury.

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

## Fair value hierarchy for financial assets and liabilities held at fair value:

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.

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.

**As at 31 March 2026**

**£'m**

| **Assets** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Money market instruments | 1,363 | - | - | 1,363 |
| Debt securities | 90,350 | - | - | 90,350 |
| Reverse repo agreements | - | 7,483 | - | 7,483 |
| Derivative financial assets | - | 3,676 | - | 3,676 |
| Other financial assets | 274 | - | - | 274 |
| Holding of IMF Special Drawing Rights | | 29,750 | - | 29,750 |
| **Total assets** | **91,987** | **40,909** | **-** | **132,896** |
| | | | | |
| **Liabilities** | | | | |
| Debt securities – short positions | 1,670 | - | - | 1,670 |
| Repo agreements | - | 16,422 | - | 16,422 |
| Derivative financial liabilities | - | 683 | - | 683 |
| Other financial liabilities | 133 | - | - | 133 |
| SDR allocation | - | 30,291 | - | 30,291 |
| **Total liabilities** | **1,803** | **47,396** | **-** | **49,199** |

**As at 31 March 2025**

**£'m**

| **Assets** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Money market instruments | 823 | 819 | - | 1,642 |
| Debt securities | 77,229 | - | - | 77,229 |
| Reverse repo agreements | - | 5,817 | - | 5,817 |
| Derivative financial assets | - | 3,915 | - | 3,915 |
| Other financial assets | 474 | - | - | 474 |
| Holding of IMF Special Drawing Rights | | 30,905 | - | 30,905 |
| **Total assets** | **78,526** | **41,456** | **-** | **119,982** |
| | | | | |
| **Liabilities** | | | | |
| Debt securities – short positions | 827 | - | - | 827 |
| Repo agreements | - | 5,143 | - | 5,143 |
| Derivative financial liabilities | - | 660 | - | 660 |
| Other financial liabilities | 154 | - | - | 154 |
| SDR allocation | - | 30,313 | - | 30,313 |
| **Total liabilities** | **981** | **36,116** | **-** | **37,097** |

## 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

Exchange Equalisation Account- Accounts Direction given by the Treasury

1. The Treasury shall prepare accounts for the Exchange Equalisation Account for the year ending 31 March 2026, that give a true and fair view of the state of affairs of the Account at the reporting date and of its cash flows for the year then ended.
2. The accounts shall be prepared in accordance with the requirements of the relevant version of the Government Financial Reporting Manual (FReM).
3. 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.
4. 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 should also include disclosure of management costs.
5. The report shall include:
    a. A brief history of the Account, and its statutory background;
    b. An outline of the scope of the Account, its relationship to HM Treasury and other central funds, and its management operations;
    c. A management commentary including appropriate information on financial performance and position reflecting the relationship between the account and other central funds;
    d. A governance statement.
6. 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.
7. The Statement shall be transmitted to the Comptroller and Auditor General for the purpose of his examination and report by a date agreed with the Comptroller and Auditor General and the Treasury to enable compliance with the administrative deadline for laying the audited accounts before Parliament.
8. This accounts direction shall be reproduced as an appendix to the accounts.



**Charlotte Goodrich**
Deputy Director, Government Financial Reporting, Public Spending Group
HM Treasury
04 February 2026

# 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 21 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, bills 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 40 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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