Bank of England

Bank of England Alternative Liquidity Facility Limited Annual Report and Accounts

1 March 2024–28 February 2025

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

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

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Alternative Liquidity Facility Limited
Annual Report and Accounts

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Contents

Directors' Report for the year ended 28 February 2025

The Directors present their report and the audited financial statements of Bank of England Alternative Liquidity Facility Limited (the Company) for the year ended 28 February 2025.

Business review and principal activity

The Company was incorporated as a wholly owned subsidiary of the Bank of England (the Bank) on 14 December 2018 and commenced activities on 2 December 2021. The principal activity of the Company is to offer a non-interest-based deposit facility backed by the Bank to commercial banks that cannot pay or receive interest. The deposits placed with the Company will help enable participant banks to meet regulatory requirements to hold a buffer of high-quality liquid assets (HQLA) to meet obligations as they fall due. At 28 February 2025, the total deposits made by participant banks were £200 million (2024: £200 million).

The Bank acts as agent for the Company and is responsible for day-to-day operations. The Bank also acts as guarantor for the principal value of deposits in the Company and stands ready to step in as co-depositor for any residual or outstanding capacity of the facility. At 28 February 2025 the Bank's co-deposit was £nil (2024: £nil).

Under the Company's model, participant deposits are backed by a fund of high-quality securities known as sukuk, complemented as needed by cash deposits by the Bank. The Company purchased its first sukuk in November 2021 and its second sukuk in October 2022.

At 28 February 2025 the Company held sukuk securities at amortised cost of £183.8 million (2024: £183.0 million). The cash balance held decreased from £24.8 million at 29 February 2024 to £20.3 million at 28 February 2025, primarily due to net margin payments as a result of unrealised mark-to-market losses on the two swaps held by the Company.

The return on the sukuk are at a fixed rate in US dollars. The Company uses a cross-currency swap to turn the fixed US dollar payments into sterling payments that are linked to a floating SONIA market rate. The return from these instruments, net of hedging and operating costs, may be paid to depositors in lieu of interest; this is known as the 'expected profit rate'. The Company began making distributions to depositors in May 2022 and paid a total cash return of £9.8 million to depositors during the year (2024: £8.7 million). The increase in distributions to depositors in the year was driven by higher interest rates which led to increased sterling swap receipts. There were unrealised losses on the cross-currency interest rate swaps due to interest and exchange rate volatility.

As at 28 February 2025, the Company has a loss before tax of £3.9 million (2024: £2.1 million loss) which was mainly driven by unrealised losses on the cross-currency interest rate swaps. There is a deferred tax credit for the period of £1.1 million (2024: charge of £0.3 million) resulting in a loss after tax of £2.8 million (2024: £2.4 million loss).

The valuation of the cross-currency swaps in the accounts represents a theoretical value if the swaps were sold at current prices, and therefore fluctuates with market prices and does not represent an actual cash income for the facility. The maturity dates of the sukuk and cross-currency swaps are aligned, and the Company's intention is to hold both to maturity. The Company may pay a return generated from the backing fund to depositors based upon cash receipts from the swaps, net of costs. While valuation gains/(losses) are subject to currency and market rate movements, cash flows are matched to prevent a cash loss.

Directors

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

Viktoria Saporta
Sarah John
Afua Kyei

On 1 April 2025, Sarah John was appointed as the Chief Operating Officer of the Bank. Effective from 10 April 2025, Sarah John was replaced as a Director of the Company by Clair Stevens (also known as Clair Mills), the Director of Banking, Change and Operations.

The Directors have been indemnified by the Bank against personal civil liability arising from the carrying out or purported carrying out of their functions, provided they have acted honestly and in good faith and have not acted recklessly.

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

Political contributions

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

Disclosure of information to the auditor

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

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

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

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

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

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

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

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

The Company's financial statements for the period to 28 February 2025 are presented on pages 13–28.

Assessment of going concern

In making their going concern assessment, the Directors have considered information relating to present and potential conditions, cash flows and the ability of the Company to meet its liabilities as they fall due, including the guarantee in place for principal value of deposits by participant banks (note 16).

Small companies exemption

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

By order of the Board:

V Saporta	**C Stevens**	**A Kyei**
Director	Director	Director
12 June 2025	12 June 2025	12 June 2025

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

Opinion

We have audited the financial statements of Bank of England Alternative Liquidity Facility Limited (the Company) for the year ended 28 February 2025 which comprise the Statement of comprehensive income, Statement of financial position, Statement of changes in equity, Statement of cash flows, and the related notes 1 to 19, including material accounting policy information. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 28 February 2025 and of its loss for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (FRC's) Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going-concern basis of accounting in the preparation of the financial statements is appropriate. Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the Annual Report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this Report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

- the financial statements are not in agreement with the accounting records and returns; or

- certain disclosures of Directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

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

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going-concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are the financial reporting legislation (UK adopted international accounting standards), UK Companies Act 2006, UK Tax legislation (HM Revenue and Customs) and General Data Protection Regulation (GDPR).

- We understood how the Company is complying with those frameworks by making inquiries of management, those charged with governance and those responsible for legal and compliance matters for their awareness of any non-compliance with laws and regulations and to understand how the Company maintains and communicates its policies as well as through the evaluation of corroborating documentation. We also reviewed meeting minutes of the board of Directors and gained an understanding of the Company's governance framework by reviewing documented policies and procedures.

- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur, by considering the risk of management override to be subject to fraud risk. We considered the controls the Company has established to address the risks identified by the Directors or that otherwise seek to prevent, deter, or detect fraud, including in a remote-working environment; and how management monitors these controls. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk. We also performed journal entry testing by specific risk criteria, with a focus on manual journals and journals indicating large or unusual transactions based on our understanding of the Company's business.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of management (including legal counsel of the parent of the Company) and those charged with governance and review of meeting minutes of the board of Directors.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

Use of our report

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

Javier Faiz (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor

Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

12 May 2025

Statement of comprehensive income for the year ended 28 February 2025

	Note	2025 (£mn)	2024 (£mn)
Net (loss)/gain on financial instruments		(0.6)	1.6
Income received on financial instruments		6.0	5.8
Net gain/(loss) from foreign exchange revaluation		0.8	(0.2)
Total income		**6.2**	**7.2**
Administrative expenses	4	(0.1)	(0.2)
Return on derivative allocated to depositors	5	(10.0)	(9.1)
Total expenses		**(10.1)**	**(9.3)**
Loss before taxation		**(3.9)**	**(2.1)**
Taxation	6	1.1	(0.3)
Loss after taxation		**(2.8)**	**(2.4)**

All income is derived from continuing activities. There was no other comprehensive income during the year ended 28 February 2025 (2024: £nil).

The notes on pages 17–28 are an integral part of these financial statements.

Statement of financial position as at 28 February 2025

	Note	2025 (£mn)	2024 (£mn)
Assets			
Cash	13	20.3	24.8
Securities held at amortised cost	7	183.8	183.0
Derivatives	8	8.1	12.9
Other assets	9	2.1	2.1
Total assets		**214.3**	**222.8**
Liabilities			
Loans and other borrowings	10	200.0	200.0
Deferred tax liability	6	1.0	2.1
Other liabilities	11	14.8	19.4
Total liabilities		**215.8**	**221.5**
Equity			
Capital	12	–	–
Retained earnings		(1.5)	1.3
Total equity attributable to shareholders		**(1.5)**	**1.3**
Total liabilities and equity attributable to shareholders		**214.3**	**222.8**

The financial statements were approved by the Board on 12 June 2025 and signed on its behalf by:

V Saporta
Director

C Stevens
Director

A Kyei
Director

Statement of changes in equity for the year to 28 February 2025

	Attributable to equity shareholder			
	Capital (£mn)	Reserves (£mn)	Retained earnings (£mn)	Total (£mn)
Balance at 1 March 2023	**–**	**–**	**3.7**	**3.7**
Post-tax comprehensive income for the period	–	–	(2.4)	(2.4)
Balance at 29 February 2024	**–**	**–**	**1.3**	**1.3**
Balance at 1 March 2024	**–**	**–**	**1.3**	**1.3**
Post-tax comprehensive expense for the period	–	–	(2.8)	(2.8)
Balance at 28 February 2025	**–**	**–**	**(1.5)**	**(1.5)**

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

The notes on pages 17–28 are an integral part of these financial statements.

Statement of cash flows for the year ended 28 February 2025

	Note	2025 (£mn)	2024 (£mn)
Cash flows from operating activities			
Loss after tax		(2.8)	(2.4)
Adjustments for:			
Decrease in accrued sukuk earnings	9	–	0.1
		(2.8)	**(2.3)**
Changes in operating assets and liabilities:			
(Increase)/decrease in sukuk	7	(0.8)	8.1
Decrease/(increase) in derivatives	8	4.8	(6.1)
(Decrease)/increase in deferred tax liabilities	6	(1.1)	0.3
(Decrease)/increase in other liabilities	11	(4.6)	10.4
Cash utilised in operations		**(1.7)**	**12.7**
Net cash from operating activities		**(4.5)**	**10.4**
Cash flows from financing activities			
Decrease/(increase) in loans and other borrowings	10	–	–
Net cash from financing activities		**–**	**–**
Net increase/(decrease) in cash and cash equivalents	**13**	**(4.5)**	**10.4**
Cash and cash equivalents at 1 March	13	24.8	14.4
Cash and cash equivalents at 28 February	**13**	**20.3**	**24.8**

The notes on pages 17–28 are an integral part of these financial statements.

Notes to the financial statements

1: Basis of preparation

Form of presentation of the financial statements

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

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

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

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

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

2: Accounting policies

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

a: Foreign currency translation

i: Functional and presentation currency

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

ii: Transactions and balances

Foreign currency transactions are translated into sterling using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

b: Classification and measurement

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

Initial measurement

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

A financial asset or financial liability is initially measured at fair value plus, for an item not at FVPL, transaction costs that are directly attributable to its acquisition or issue. Trade date or settlement date accounting is applied depending on the classification of the financial assets and liabilities.

Classification and subsequent measurement

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

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows.

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

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

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

The Company classifies its financial liabilities at amortised cost. These deposits are held at cost and are interest free. The Company reports financial assets and financial liabilities on a net basis on the balance sheet only if there is a legally enforceable right to set-off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. In practice, the Company do not engage in net settlement of financial assets and liabilities.

Impairment

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

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

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

c: Cash and cash equivalents

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

Amendments to existing standards

The following amendments became effective as at 1 January 2024:

- Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants – Amendments to IAS 1
- Lease Liability in a Sale and Leaseback – Amendments to IFRS 16
- Disclosures: Supplier Finance Arrangements – Amendments to IAS 7 and IFRS 7

These amendments did not create any impact on the Company's financial statements.

New standards issued but not yet effective

On 9 April 2024, the International Accounting Standards Board (IASB) issued IFRS 18 'Presentation and Disclosure in Financial Statements' and IFRS 19 'Subsidiaries without Public Accountability'. IFRS 18 replaces IAS 1 'Presentation of Financial Statements' and introduces new disclosure requirements such as new categories and subtotals in the statement of profit or loss, disclosure of management performance metrics and enhanced requirements for grouping information.

IFRS 19 gives eligible companies the opportunity to simplify their reporting processes and reduce the cost of preparing financial statements. A subsidiary electing to apply IFRS 19 can align its accounting policies with the parent company for group reporting purposes and reduce its disclosure burden.

The standards are effective from 1 January 2027 and accordingly do not impact the financial statements for this year. The Company is currently assessing the impact of IFRS 18 on the financial reporting disclosures. IFRS 19 is not in scope of the Bank or its subsidiaries, including the Company.

3: Judgements

Expected credit loss

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

4: Administrative expenses

	2025 (£000)	2024 (£000)
Management fee payable to Bank of England	99	152
Total administrative expenses	**99**	**152**

The Bank met all the costs of the Company, including staff costs, overheads and audit fees which are all recharged in full to the Company. Management fees payable to the Bank were revised during the year reflecting updated information in respect of staff costs and now incorporate audit fees. Consequently, there is a one-off decrease in costs for the year. This information is further disclosed in note 11.

	2025 (£000)	2024 (£000)
Audit fees:		
Fees relating to current year	**73**	**33**

Audit fees payable to the Bank are included in the total management fee payable of £99,000 above.

The Directors have not received any emoluments in respect of their services to the Company during the year ended 28 February 2025 (2024: £nil).

5: Return on derivative allocated to depositors

	2025 (£mn)	2024 (£mn)
Return on derivative allocated to depositors	10.0	9.1
Total return allocated to depositors	**10.0**	**9.1**

Return on derivative allocated to depositors represents £2.5 million (2024: £2.4 million) of accrued return yet to be distributed, representing income earned by the facility but not yet paid to depositors at 28 February 2025 (see note 11). £9.8 million of cash was paid to depositors in lieu of interest during the year. Returns are generated from the backing portfolio, and may be passed back to depositors in lieu of interest, net of hedging and operational costs.

6: Taxation

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

	2025 (£mn)	2024 (£mn)
Deferred tax – current year	(1.1)	0.3
Total income tax (credit)/charge	**(1.1)**	**0.3**

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

	2025 (£mn)	2024 (£mn)
Loss before tax	**(3.9)**	**(2.1)**
Tax calculated at rate of 25% (2024: 24.5%)	(1.0)	(0.5)
Recognition of previously unrecognised losses	(1.0)	–
Non-recognition of current year losses	0.2	–
Disregard election adjustment	0.7	0.8
Total tax (credit)/charge	**(1.1)**	**0.3**

The tax credit for the year was £1.1 million which solely relates to deferred tax. The Company has elected under Statutory Instrument 2004/3256 to disregard unrealised fair value movements on the cross-currency interest rate swaps to achieve parity of tax treatment between the sukuk asset and the swap.

The Company has gross tax losses of £4.7 million (2024: £3.8 million) worth £1.2 million in deferred tax at 25% (2024: £0.95 million). The Company has unrecognised deferred tax assets of £0.2 million (2024: £1 million) (£0.8 million gross loss valued at the mainstream rate of 25%) representing tax losses which are not expected to unwind in the foreseeable future.

The movement on the deferred tax account is as follows:

	2025 (£mn)	2024 (£mn)
Deferred tax		
Net liability at 1 March	(2.1)	(1.8)
Credit/(charge) to the income statement	1.1	(0.3)
Net liability at 28 February	**(1.0)**	**(2.1)**

	2025 (£mn)	2024 (£mn)
Deferred tax asset/(liability) relates to:		
Financial instruments	(2.0)	(2.1)
Losses	1.0	–
Total	**(1.0)**	**(2.1)**

7: Securities held at amortised cost

	2025 (£mn)	2024 (£mn)
Sukuk holdings	183.8	183.0
Total securities held at amortised cost	**183.8**	**183.0**

These securities are held at amortised cost with the movement during the year reflecting changes in FX rates. Fair value of sukuk holdings as at 28 February 2025 was £181.5 million (2024: £176.5 million). This fair value forms part of Level 1 (2024: Level 1) of fair value hierarchy due to availability of unadjusted quoted prices on a regular basis.

8: Financial instruments

	2025 (£mn)	2024 (£mn)
Foreign exchange derivatives	8.1	12.9
Total derivatives	**8.1**	**12.9**

Foreign currency swaps showed a mark-to-market asset value of £8.1 million (2024: £12.9 million).

The decrease is attributable to unfavourable market rate movements during the year. These are classified under Level 2 (2024: Level 2) of the fair value hierarchy and priced using comparable market rates prevailing at year end.

9: Other assets

	2025 (£mn)	2024 (£mn)
Accrued profits	2.1	2.1
Total other assets	**2.1**	**2.1**

As at the year end, the Company had accrued £2,118,977 in profits attributable to sukuk (2024: £2,109,345).

10: Loans and other borrowings

	2025 (£mn)	2024 (£mn)
Total loan from Bank of England	–	–
Third-party loans	200.0	200.0
Total loans and other borrowings	**200.0**	**200.0**

All loans are non-interest-bearing with an expected profit rate accruing and are repayable on demand.

11: Other liabilities

	2025 (£mn)	2024 (£mn)
Margin account on derivatives	9.5	13.8
Accrued return on derivative yet to be distributed	2.5	2.4
Accrued liability to swap counterparty	2.1	2.1
Return to depositors unpaid at year end	0.1	–
Accrued expense	0.6	1.1
Total other liabilities	**14.8**	**19.4**

Accrued expenses in respect of the year ended 28 February 2025 comprise the management fee of £192,117 (including audit fees of £72,851) and project costs of £362,949, all payable to the Bank.

During the year, the Company made a payment of £328,992 to the Bank for accrued management and audit fees representing the first three years of trading ended 29 February 2024. These payments were made based on the revised life to date costs figures referred to in note 4.

Also, a payment of £362,949 was made to the Bank during the year to cover half of the total project costs. Project costs payable of £362,949 represents remaining unpaid amount of the total project costs of £725,897 the Bank incurred in the setup of Alternative Liquidity Facility. This balance will be recovered over the next two-year period.

12: Capital

The Company is a private company limited by shares.

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

13: Cash and cash equivalents

	At 28 February 2025 (£mn)	Cash flow	At 29 February 2024 (£mn)
Cash	**20.3**	**(4.5)**	**24.8**

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

14: Contingent liabilities

There were no contingent liabilities as at 28 February 2025 (2024: £nil).

15: Financial risk management

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

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

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

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

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

a: Credit risk

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

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

The table below represents an analysis of sukuk by credit risk groupings, based on external rating agency designations at 28 February 2025:

Credit risk groupings

	2025 (£mn)	2024 (£mn)
AAA	183.8	183.0
Total	**183.8**	**183.0**

Analysis of average external credit ratings as at 28 February 2025. As the sukuk have a AAA credit rating, the ECL for 2025 is nil (2024: nil) and so the sukuk are classified as Stage 1. There is no change in staging from the prior year.

Location – geographical concentration of assets

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

b: Market risk

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

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

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

Foreign currency sensitivity

The following table demonstrates the sensitivity of US dollars (USD) denominated securities to a reasonably possible change in USD, with all other variables held constant.

The impact to profit/(loss) and equity due to revaluation gains/(losses) from USD exchange rate movement against pound sterling (GBP) on the sukuk value

	Change in USD rate	Effect on profit before tax and pre-tax equity (£mn)
At 28 February 2025	+1%	(1.82)
	-1%	1.86
At 29 February 2024	+1%	(1.81)
	-1%	1.85

c: Liquidity risk

Liquidity risk is the risk of encountering difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. To mitigate operational liquidity risk, the Company maintains a loan arrangement with the Bank to cover payments to facility participants in the event of a delayed receipt on the hedging swap, or to cover a payment on the hedging swap in the event of a missed coupon payment on the sukuk.

d: Maturity analysis

Maturities of sukuk and derivatives as at 28 February 2025

	Note	Up to 1 year (£mn)	1–5 years (£mn)	5–10 years (£mn)	Over 10 years (£mn)	Total (£mn)
Assets						
Sukuk	7	–	183.8	–	–	183.8
Foreign exchange derivatives	8	–	8.1	–	–	8.1

Maturities of sukuk and derivatives at 29 February 2024

	Note	Up to 1 year (£mn)	1–5 years (£mn)	5–10 years (£mn)	Over 10 years (£mn)	Total (£mn)
Assets						
Sukuk	7	–	183.0	–	–	183.0
Foreign exchange derivatives	8	–	12.9	–	–	12.9

Maturities of loans and other borrowings as at 28 February 2025

Loans and other borrowings represent participant deposits repayable on demand.

16: Guarantee

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

17: Related party transactions

The Company has related party transactions with its shareholder, the Bank of England. As at 28 February 2025, the Bank had deposited £nil (2024: £nil) into the Company. The deposit is non-interest bearing with a profit rate paid on maturity of the deposit. During the year the Company was charged £110,887 (2024: £446,743) by the Bank for acting as a co-depositor.

At the year end, the Company held a non-interest bearing deposit at the Bank of £20.3 million (2024: £24.8 million).

The Company was charged a management fee of £119,266 (2024: £151,557) by the Bank. The Company was also charged £72,851 in respect of the audit fee (2024: £33,000). In addition, the Company has a payable of £362,949 (2024: £725,897) in respect of project costs incurred in the set up of the Company. These payable balances are also disclosed under note 11.

Key management

The Directors of the Company are considered to be the only key personnel as defined by IAS 24. The Directors have not received any emoluments in respect of their services to the Company during the year ended 28 February 2025 (2024: £nil) or entered into any other transactions with the Company.

18: Ultimate controlling party

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

19: Preparation of accounts

The accounts were approved by the Board for distribution on 12 June 2025.

Bank of England Alternative Liquidity Facility Limited
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Incorporated in England and Wales with limited liability under the UK Companies Act
Company Number: 11728437

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