

Report of the Independent Auditor

Independent Auditor's Report to the Governor and Company of the Bank of England

We have audited the financial statements of the Banking Department ('financial statements') which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Recognised Income and Expenses and the related notes, and the statements of account of the Issues Department ('statements of account') for the year ended 28 February 2007. These financial statements and statements of account have been prepared under the accounting policies set out therein.

This report is made solely to the Governor and the Company of the Bank of England and its Shareholder in accordance with Section 7 of the Bank of England Act 1998. Our audit work has been undertaken so that we might state to the Governor and the Company of the Bank of England and its Shareholder 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 Governor and the Company of the Bank of England and its Shareholder, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Members of Court and auditors

The responsibilities of the Members of Court for preparing the *Annual Report*, including the financial statements and statement of account, in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU are set out in the Responsibilities of the Court of Directors in relation to the Financial Statements on pages 33 to 37. Our responsibility is to audit the financial statements and statement of account in accordance with relevant legal and regulatory requirements and International Standards on Auditing (United Kingdom and Ireland).

We report to you our opinion as to whether the financial statements of the Banking Department and statements of account of the Issue Department have been properly prepared in accordance with the basis of preparation set out in note 2 on pages 51 to 57 and page 92, respectively. We also report to you if the Bank has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if other transactions are not disclosed.

We read other information contained in the *Annual Report* and consider whether it is consistent with the audited financial statements and statements of account. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements or statements of account. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit having regard to International Standards on Auditing (United Kingdom and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and statements of account. It also includes an assessment of the significant estimates and judgements made by the Members of Court in the preparation of the financial statements and statements of account, and of whether the accounting policies are appropriate to the Bank's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and statements of account are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements, the basis of which is described in note 1 on page 51, and in the statements of account, the basis of which is described on page 92.

Report of the Independent Auditor continued

Opinion

In our opinion:

- The financial statements of the Banking Department on pages 47 to 90 for the year ended 28 February 2007 have been properly prepared in accordance with the basis of preparation set out in note 2 on pages 51 to 57.
- The statements of account of the Issue Department on pages 91 to 93 for the year ended 28 February 2007 have been properly prepared in accordance with the basis of preparation set out on page 92.
- The information given in the *Annual Report*, is consistent with the financial statements and statements of account.

KPMG Audit Plc
London
Chartered Accountants
Registered Auditor
17 May 2007

Note

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