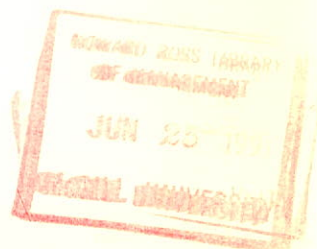


Bank of England Report and accounts 1991



Bank of England

Report and accounts for the year ended 28 February 1991

Issued by Order of the Court of Directors 9 May 1991

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Court of Directors

1 March 1991

	Date of first appointment	Expiry date of current appointment
The Rt Hon Robert Leigh-Pemberton, <i>Governor</i>	1 July 1983	30 June 1993
Edward Alan John George, <i>Deputy Governor</i> (First appointed to the Court 1 March 1982)	1 March 1990	28 February 1995
Dr David Valentine Atterton CBE (Non-executive Director, Marks and Spencer plc)	1 March 1984	29 February 1992
Sir George Adrian Hayhurst Cadbury (Chairman, PRONED)	1 March 1970	28 February 1994
Anthony Laurie Coleby (Executive Director)	1 March 1990	28 February 1994
Sir Frederick Brian Corby (Chairman, Prudential Corporation plc)	1 March 1985	28 February 1993
Sir Colin Ross Corness (Chairman, Redland PLC)	1 March 1987	28 February 1995
Andrew Duncan Crockett (Executive Director)	1 March 1989	28 February 1993
The Rt Hon the Lord Haslam of Bolton (Chairman, Bechtel Ltd)	1 March 1985	28 February 1993
Sir Martin Wakefield Jacomb (Chairman, Barclays de Zoete Wedd (Holdings) Ltd)	19 May 1986	28 February 1995
Mervyn Allister King (Executive Director)	1 March 1990	29 February 1992
Gavin Harry Laird CBE (General Secretary, Amalgamated Engineering Union)	1 March 1986	28 February 1994
David Bryan Lees (Chairman and Chief Executive, GKN plc)	1 March 1991	28 February 1995
Brian Quinn (Executive Director)	1 April 1988	29 February 1992
Sir David Gerald Scholey CBE (Chairman, S G Warburg Group plc)	1 March 1981	28 February 1994
Professor Roland Smith (Chairman, British Aerospace plc)	1 March 1991	29 February 1992
Colin Grieve Southgate (Chairman and Chief Executive, Thorn EMI plc)	1 March 1991	28 February 1995
Sir David Alan Walker (Chairman, Securities and Investments Board)	1 March 1982	28 February 1993

Lord Laing and Sir John Baring retired on 28 February 1991 on completing their terms of office: Mr Lees and Mr Southgate were appointed in their place. Mr Flemming resigned on 28 February before completing his term of office: Professor Smith was appointed in his place for a period of one year.

The terms of office of Sir Martin Jacomb and Sir Colin Corness expired on 28 February: they were re-appointed for a further period of four years.

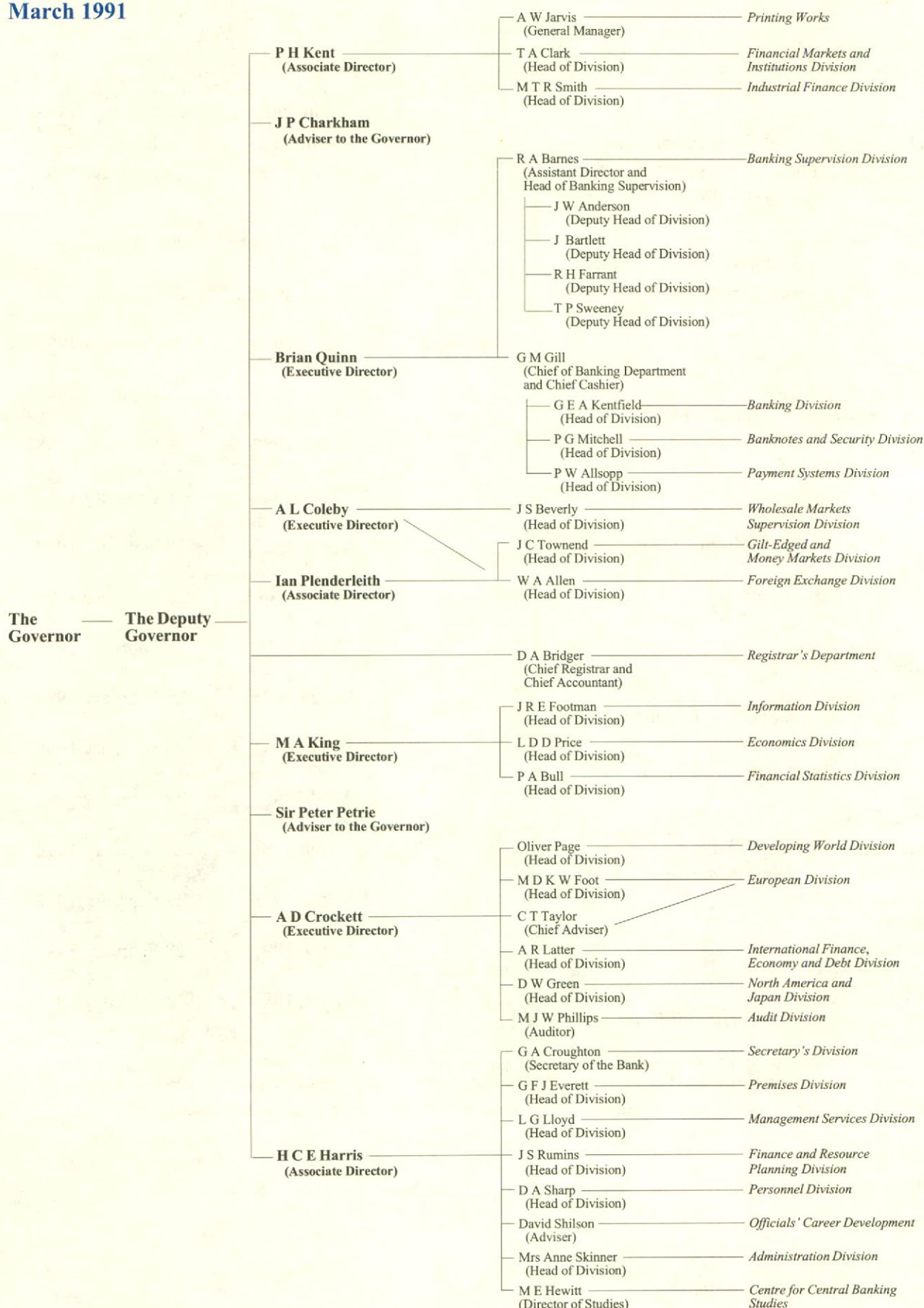
Associate Directors

Hugh Christopher Emlyn Harris	(appointed 1 April 1988)
Pendarell Hugh Kent	(appointed 1 May 1988)
Ian Plenderleith	(appointed 1 March 1990)

G A Croughton: Secretary of the Bank

Organisation of the Bank:

March 1991



Foreword

The outstanding event of 1990 in the field of monetary policy in the United Kingdom was sterling's entry into the Exchange Rate Mechanism on 8 October. This marks an important change in the context for monetary policy decisions, and has in my view greatly increased the credibility of our counterinflationary stance. But it is important to be clear about what has not changed. The underlying objective of policy, the maintenance of the value of the currency, is unaltered. And the policy instruments that we bring to bear—principally changes in short-term interest rates, based on our assessment of demand and inflationary pressures in the economy—remain the same as before. What *has* changed is that an important and visible extra discipline has been introduced, and that will greatly assist the pursuit of this central objective.

The past year has certainly seen some progress in this respect. The rate of retail price inflation peaked at 10.9% in September but has subsequently declined significantly, and further improvement is in prospect. We have been able to reduce interest rates from 15%, where they stood for most of last year, to 12%, recognising both the progress made against inflation and the progressive easing of pressures within the economy, which moved into recession in the latter half of 1990. Some loss of output and employment is the inevitable price to pay for reducing inflation, and I certainly do not underestimate the personal costs involved for many. But a failure to curb inflation would be still more damaging, and in this respect we must be careful not to declare a premature victory; there are still pressures on industry's costs, notably through the labour market, and as interest rates fall we will have to guard against the risk of a further round of asset price inflation, notably in the housing market.

The weakening of the economy, against a background of high company and personal borrowing, has particular implications for both industry and the banking system. Inevitably there has been some financial distress, and a number of companies have faced financial problems culminating in receivership or administration. During the year we discussed with banks in London the general principles that govern their approach to corporate customers facing liquidity problems, particularly where—as is often the case—large numbers of lenders are involved. The aim is not to interfere with the banks' own commercial judgements, but rather to ensure that a mechanism exists within which the banks can consider what the most appropriate course of action may be. The Bank is concerned that decisions should be reached in a measured and constructive way and not dictated simply by the conflicting priorities of the various lenders to a company. The Bank believes that this approach can often be more conducive to the preservation of value for creditors than hasty resort to receivership or liquidation. Our discussions about this 'London approach' have been generally welcomed by the banks and had been reflected in a

positive approach in many cases where companies have faced short-term liquidity problems.

Pressures on the banking system more widely are described in the separate Annual Report under the Banking Act, published alongside this report. I would only say here that the banking system in this country has been stood in good stead by the prudent approach to capital and liquidity ratios embodied in our supervision for many years. This has meant that our banks have had little difficulty in meeting the new international standards laid down by the Basle Committee, and have been well prepared for the losses that inevitably flow in a downturn such as we are now experiencing.

Entry into the Exchange Rate Mechanism has altered the context for our market operations but has not led to any change in our techniques of market management. But two recent events are worth noting. First, after a gap of 27 months, the Bank has re-entered the market on behalf of HM Government as an issuer of new gilt-edged stock. In contrast to the net buying-in of stock of recent years, new issues are now likely to be a feature of the gilt-edged market and we have already indicated that we will be holding a series of auctions to supplement more traditional issuing techniques.

A more radical departure was the successful launch in February of a UK Government bond denominated in Ecus. This 'Ecu Gilt' followed our successful experience with the Ecu Treasury bill programme, launched in 1988. The bond issue proved a considerable success and, despite its being tightly priced, strong investor demand made it possible to increase the amount of the issue from Ecu 2.2 billion to Ecu 2.75 billion. The issue will further increase opportunities for Ecu trading in London, which is now firmly established as the centre of the Ecu money and capital markets.

The Ecu is of course a basket of currencies, defined for purposes of the European Monetary System of which it is in theory the central currency. Much attention has been focused over the past year on the issue of monetary union in Europe, which could eventually involve a *single* currency for all of the European Community. An Inter-Governmental Conference to consider possible treaty changes started in December 1990. Together with my colleagues in the European Central Bank Governors Committee, I participated in the preparation of Draft Statutes for a European Central Bank which would manage any new single currency. This was submitted to the Inter-Governmental Conference, but elements are still being refined by the Committee. The Bank was also very closely involved in the preparation of HM Government's proposals for a market-based approach that could lead to monetary union, based on the 'hard Ecu'. Those ideas were launched in June, and culminated in a formal treaty proposal to the IGC that included draft statutes of a European Monetary Fund to manage the hard Ecu as a common (rather than single) currency for the European Community. The United Kingdom's contribution to the debate has, I believe, been much welcomed

by our European partners and has been helpful in focusing consideration on the more practical questions that need to be addressed, particularly on the nature of the next steps to be taken, at a time when the economies of the member states still show marked divergences of structure and performance.

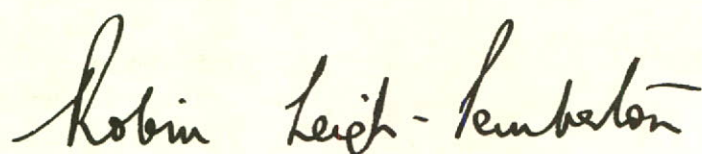
I referred last year to the plans for a Central Moneymarkets Office within the Bank to provide custody and settlement facilities in money-market instruments. The project was completed on time and is operating successfully, increasing the efficiency and security of settlement arrangements in the London money markets. This reflects much credit on all those involved, in the Bank and in the markets. I have stressed on many occasions the need for our infrastructure, including payment and settlement systems, to keep pace with London's development as a financial centre, and I have been encouraged by the progress made during the year by the Stock Exchange in developing their new TAURUS settlement system for equities. In the area of wholesale payments, we have continued to discuss with the banks ideas for reducing the risks and increasing the efficiency of our systems, following on from ideas that I first put forward in a speech in 1989. Satisfactory progress is being made in designing arrangements which will address both these objectives.

Devising appropriate central banking arrangements is not an issue only for the members of the European Community. Many of the former Comecon countries are in the process of adapting their central banks to manage their currencies and to exercise influence and control over the developing private banking systems in their countries. Like other western central banks, the Bank of England is being asked to provide technical assistance and training, and it is in part with this in mind that we have established our Centre for Central Banking Studies and provided it with resources which will enable it to offer training programmes to central bankers from all over the world.

With the end of the Bank's year we have seen some changes on the Court. Lord Laing has retired from the Court after serving for 18 years. His contribution over a wide range of our activities has been immense, and his energy, enthusiasm and insight will be greatly missed. I am very pleased that he is remaining as Chairman of the Debden Committee, advising on the direction of the Printing Works, a position that he has held for some 15 years. Sir John Baring has left the Court after 8 years in which his deep knowledge of the City has been of great value to the Bank. And John Flemming, the Bank's Chief Economist since 1984 and a Director since 1988, has left to join the new European Bank for Reconstruction and Development which was established in London during the course of the year. He has made a very considerable contribution both in the development of policy and in increasing the Bank's standing in the economics profession. He is succeeded as Chief Economist by Mervyn King, previously a non-executive director of the Bank. The non-executive vacancies on the Court are filled by Professor Roland Smith, David Lees and Colin Southgate; Sir Martin Jacomb and Sir Colin Corness have both accepted re-appointment to further terms. I am

conscious that we place greater burdens on our non-executive directors than do most public companies, and we are indeed fortunate in having so many distinguished people who give so unstintingly of their time.

Once again I must record my gratitude to the staff of the Bank. At all levels they have shown themselves committed, determined and technically proficient. The exceptional performance of our Iraq/Kuwait Emergency Unit is just one example of how the staff have adapted quickly to new developments and situations while maintaining the high standards of public service with which the Bank has always rightly been associated.

A handwritten signature in dark ink, reading "Robin Leigh-Pemberton". The signature is written in a cursive, flowing style with a large initial 'R' and a long, sweeping underline.

Governor of the Bank of England

Report of the Court of Directors

The Court of Directors are pleased to present their report together with the audited accounts for the Banking and Issue Departments for the year ended 28 February 1991.

Results for the year

The Banking Department accounts for the year ended 28 February 1991 are given on pages 19–31 and show an operating profit of £161.8 million, compared with £122.9 million in 1989/90. The Bank has changed its accounting policy on British government securities this year in accordance with best accounting practice. This change has meant that the reserves at 1 March 1990 have been increased by £19 million.

After a payment in lieu of dividend to Her Majesty's Treasury of £81.5 million (compared with £72.8 million in the previous year) and a tax charge of £18.1 million (1990 £17.0 million), the profit transferred to reserves amounts to £62.2 million which compares with £74.9 million last year. The high level of earnings, combined with tight control over costs, has enabled the Bank to reduce the level of cash ratio deposits. These interest-free deposits from the banking sector, which provide the Bank with resources so that it may carry on its functions, were reduced from 0.45% of eligible liabilities to 0.4% with effect from 16 January 1991.

The accounts for the Issue Department (which are shown on page 32) show that the profits of the Note Issue were £2,545.8 million compared with £1,905.2 million in 1989/90. These profits are all payable to the Treasury. In accordance with the Currency and Bank Notes Act 1928, the assets of the Issue Department comprise securities of an amount in value sufficient to cover the fiduciary note issue.

Activities

The Bank is the central bank of the United Kingdom. Its core purposes are to maintain the value of the currency and the integrity of the financial system, and to promote the efficiency of financial markets. The Bank's monetary policy operations are described fully in successive issues of the *Quarterly Bulletin*; and a full account of banking supervision is given in the Annual Report under the Banking Act, published alongside this Report. This report covers those activities of the Bank that are not otherwise reported on a regular basis.

The note issue

The value of the note issue was £15,375 million at the end of February 1991, £354 million (2.4%) larger than a year earlier.

Towards the end of 1990 it appeared likely that the annual peak in note circulation, which occurs just before Christmas, would exceed the existing statutory ceiling of £18,750 million on the fiduciary issue. Accordingly, at the Bank's request, HM Treasury directed under the Currency Act 1983 that the limit be increased to £20,600 million with effect from 29 November 1990. In the event, the seasonal peak was £18,412 million.

Value of notes in circulation

£ millions	End-February	1988	1989	1990	1991
£1(a)		108	102	62	61
£5		1,896	1,646	1,539	1,373
£10(a)		5,810	5,806	5,866	5,810
£20		2,932	3,654	4,380	4,847
£50		1,755	2,054	2,292	2,375
Other notes(b)		800	850	882	909
Total		13,301	14,112	15,021	15,375

(a) Figures for the years 1988 and 1989 include £38 million of £1 and £13 million of £10 Series C notes still unrepresented. These were written out of the circulation figures on 1 June 1989, in accordance with the terms of the Currency Act 1983. Those notes can, however, be cashed by the public upon presentation to the Bank without limit as to time.

(b) Includes higher value notes used internally in the Bank, eg as cover for the note issues of banks of issue in Scotland and Northern Ireland in excess of their permitted issues.

The £10 note remains the most commonly issued denomination. Of the other denominations, usage of £20 notes (particularly by banks and building societies for issue through cash dispensers and automated teller machines) continues to grow rapidly, while demand for £5 notes continues to decline; indeed, £5 notes now account for only about 9% of the total value of notes in circulation.

Number of new notes issued each year, by denomination

Millions	Year to end-February	1988	1989	1990	1991
£5		449	475	424	507
£10		515	621	627	619
£20		113	165	194	252
£50		21	23	22	24
Total		1,098	1,284	1,267	1,402

On 7 June 1990 a new series of Bank notes—'Series E'—was launched with a new £5 note. The new £20 note is scheduled for launch on 5 June 1991, and the £10E and £50E will follow in due course.

The changeover from £5D led to an increase in new £5 notes issued in the last year, notwithstanding the overall decline in circulation of this denomination.

Management of the stock registers

1,000,095 transfers of stock were registered in 1990/91, a fall of 4% on 1989/90. 473,049 transfers were effected through the Central Gilt Office, representing 47% of the total.

Transfers registered

Thousands

Year to end-February	1988	1989	1990	1991
Stock transfer forms	793	693	557	527
Electronic transfers through CGO	728	631	487	473
Total	1,521	1,324	1,044	1,000

The nominal value of British government securities managed by the Bank fell by 4% to £115,076 million, but the total of other securities under management rose by 7% to £3,959 million. The number of accounts fell by 7% to 1,530,000 of which 1,499,000 related to British government securities. The fall in the total of British government securities under management largely reflected the run-off of maturing stock during the year. In January a tranche of £700 million of 10% Conversion Stock 1996 was offered by tender, the first new issue since October 1988. In February further tranches of four existing conventional stocks were issued, totalling £1.1 billion nominal.

Securities in issue under management at the Bank of England

£ millions nominal

End-February	1989	1990	1991
British government securities:			
Stocks	135,588	120,268	115,034
of which, index-linked	13,016	12,548	12,548
Bearer bonds	60	51	42
	135,648	120,319	115,076
Other securities:			
Government-guaranteed	10	240	476 (a)
Commonwealth & Overseas	2,625	3,144	3,188
Local authorities	112	106	81
Agricultural Mortgage Corporation PLC	282	179	169
Other	45	45	45
	3,074	3,714	3,959
Total	138,722	124,033	119,035

(a) Includes £250 million stock issued by the Guaranteed Export and Finance Corporation plc (GEFCO) on 16 May 1990.

In order to improve liquidity in the market, six conversion offers were made to holders of certain British government securities; on average 95% of the stock concerned was converted into a larger issue of a similar maturity.

Registrar's Department relocation

The relocation of the Registrar's Department has continued on schedule, and the majority of the department's work is now undertaken in Gloucester. The Bank took possession of the department's new premises, Southgate House, at the end of February. The department will be fully relocated by the end of the summer 1991.

Central Moneymarkets Office

The Central Moneymarkets Office (CMO), which provides computerised book-entry transfer facilities for sterling money-market instruments, was successfully launched on 1 October 1990. To minimise teething problems, the service was phased in gradually over the ensuing four months. By the end of February 1991, there were some 60,000 instruments worth about £59 billion held in the CMO, much in line with expectations.

United Kingdom freeze on Iraqi and Kuwaiti assets

With the advent of the Gulf crisis, the Bank implemented a freeze on Iraqi and Kuwaiti assets in the United Kingdom on behalf of HM Treasury, under the Emergency Laws (Re-enactments and Repeals) Act 1964. The freeze on Kuwait was unique in that it was designed to protect the assets of Kuwaiti residents for their legitimate owners and was imposed at the request of the Government of Kuwait itself. The Bank worked throughout in close co-operation with UK government departments and with the authorities in other countries. The Bank also collaborated with the Central Bank of Kuwait and other Kuwaiti government agencies to establish a regime permitting Kuwaitis resident in the United Kingdom to operate as near normally as possible. All restrictions on Kuwaiti assets were removed in March 1991. Restrictions on Iraqi assets remain in force, reflecting the continuation of UN sanctions.

It was necessary, at very short notice, to assemble a team of people to undertake this task; those most suited were former exchange control experts, of whom relatively few remain in the Bank. It was however possible for the Iraq/Kuwait Emergency Unit to borrow many of them for limited periods; one returned from retirement. In all 23 such staff were deployed at various times, and 14 ancillary staff.

Money laundering

The Bank has played an active role during the past year in efforts to combat money laundering, including participation as part of the UK delegation in the International Financial Action Task Force and in the Working Group on the EC Money Laundering Directive.

In the United Kingdom, the Bank established and provided a chairman for a Working Group, comprising representatives of the British Bankers' Association, the National Drugs Intelligence Unit, the Police and HM Customs and Excise. The purpose of the Group was to review the procedures adopted by banks and building societies to combat money laundering in the light of the recommendations of the International Financial Action Task Force and of the Home Affairs Committee of the House of Commons. This review led to the publication in December 1990 of a set of detailed Guidance Notes aimed at assisting banks and building societies to increase the effectiveness of the measures they take to guard against being used by money launderers. Similar guidance notes, tailored to the circumstances of the life assurance and securities industries, are currently in preparation.

Support operations

Minorities Finance Limited (MFL), formerly Johnson Matthey Bankers Limited, has continued to realise its remaining assets and has declared dividends of £12 million, equivalent to its surplus for the year to 31 December 1990. These dividends bring to £64.5 million the total received by the Bank, of which, as reported in previous years, £20.7 million was paid to the other banks and members of the London Bullion Market Association who contributed under the indemnity given to MFL. The amount of £43.8 million retained by the Bank covers its own indemnity contribution of £20.8 million; the balance is set against the Bank's costs. Since its year-end of 31 December 1990 the company has continued to increase its net assets and reserves through further debt recoveries and by earnings on monetary assets.

Technical assistance and central bank training

The Bank receives many requests from overseas central banks for technical assistance and training. In addition to catering for visitors to the United Kingdom, the Bank has made a number of its staff available for short-term assignments abroad during the past year, notably to Eastern European countries to advise on the establishment of central banking operations.

In the light of the rapid growth of demand for training and technical assistance, a Centre for Central Banking Studies has now been established within the Bank in order to co-ordinate and develop the Bank's work in this area. The Centre has a small specialised staff under the direction of a

Senior Official; by the end of February it had already received 46 course members from 17 countries.

Directors

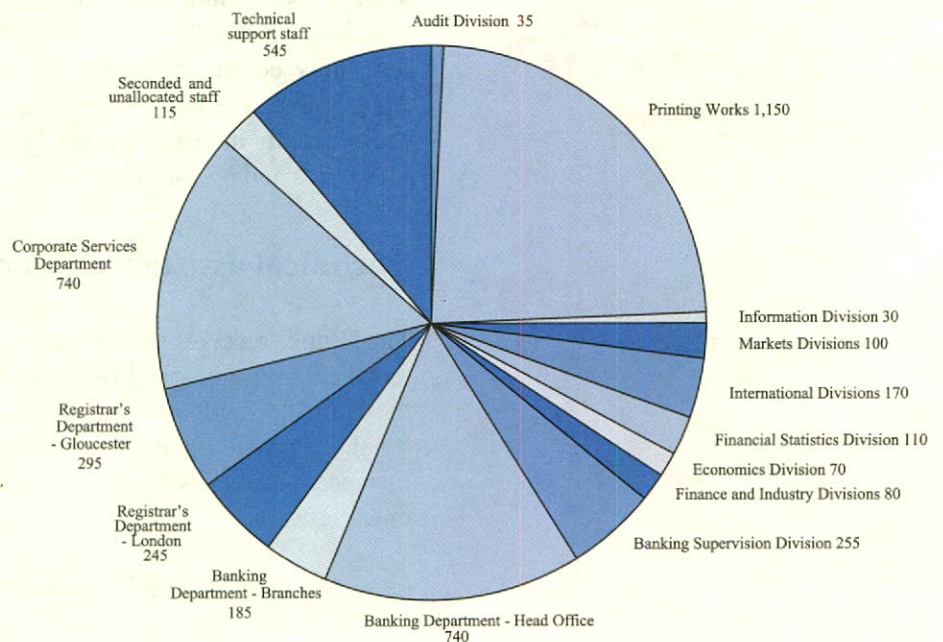
The names of the members of Court are given on page 3 together with the dates of their first appointment and expiry of their current terms. The principal outside appointments of the non-executive directors are also given. The areas of responsibility of the executive directors and associate directors at 1 March are set out on page 4.

The current members of the Audit Committee are Sir David Scholey (Chairman), Sir Brian Corby, Sir Martin Jacomb, Sir Colin Corness, Mr Crockett, Mr Lees and Mr Southgate.

Employees

The average number of persons employed by the Bank and its subsidiaries during the year was 5,240 of whom 5,050 were employed by the Bank. The aggregate remuneration was £103 million. In 1989/90 the average was 5,380 (of whom 5,170 were Bank staff) and aggregate remuneration was £96 million.

Staff numbers at end-February 1991



Support staff have been included in the areas in which they are working.

At 28 February 1991 the Bank employed 4,745 full-time and 240 part-time staff; of these, 275 full-time and 60 part-time staff were engaged on fixed-term contracts. The distribution at the year-end is shown in the following chart. Part-time staff are included as appropriate fractions.

585 staff left the Bank during the year. Of these, 168 were Banking Staff resignations, a lower figure than in the previous year; a further 205 staff left under severance schemes.

Changes in staff numbers

Year to end-February	1988	1989	1990	1991
Staff numbers at start of year	5,370	5,245	5,155	5,140
Departures in year	730	595	575	585
Recruitment in year	595	500	550	420
Inward secondees in year	10	5	10	10
Staff numbers at end of year	5,245	5,155	5,140	4,985

Currently there are 21 members of the Bank's staff on secondment overseas with other central banks, governments, international institutions and UK missions.

A further 23 staff are with UK organisations such as the Panel on Takeovers and Mergers, the Securities and Investments Board and government departments. In addition, 9 staff have been seconded to the newly established European Bank for Reconstruction and Development (EBRD). The number of inward secondees to the Bank from other UK and overseas organisations remains at 14. Two members of staff completed their study leave this year at INSEAD and the FCO Japanese Language Centre.

Employment policies

The Bank is an equal opportunities employer and ensures that all job applicants and members of staff receive equal treatment; there is no discrimination on grounds of sex, marital status, colour, racial or social origin, religion, or physical disability. Employees with disabilities are offered special assistance, wherever necessary. Various additional initiatives, such as Career Breaks and a Job Sharing Scheme, have now been introduced.

The Bank is fully committed to providing a safe and healthy work environment and accepts its responsibilities for looking after the health, safety and welfare of its staff, members of the public, visitors, and contractors working within its buildings. Procedures and policies are regularly reviewed to ensure working practices are kept in line with current legislation. During the last year every effort has been made to ensure that ergonomic factors are addressed to avoid the effects of Work

Related Upper Limb Disorders resulting from the greater use of computer terminals.

Training and development of staff remain a major priority. Developments during 1990 included tailored courses for groups of supervisory staff in Gloucester, counter staff in the Banking Department and those involved in budgeting; workshops have been run on equal opportunities issues. The presumption that staff will receive a progression of training during their careers has also received a new emphasis.

It has been decided that, in order to broaden their experience, Senior Officials will be permitted to accept non-executive directorships with large UK industrial and commercial companies. Two such appointments have already been made.

Community involvement and charitable donations

The Bank continues to support the following ventures:

Business in the Community
Spitalfields Community Job Link
Windsor Fellowship
The Industrial Society
Enterprise Agencies
Youth Training*
A Business/Education Compact
Opportunities for People with Disabilities
Employers Forum on Disability
National Star Centre for Disabled Youth
Fullemploy Group
Workwise
Project Trident
The City and Inner London North Training and
Enterprise Council ('CILNTEC')

* The Bank won a 1990 National Training Award for its Youth Training programme.

At present, there are 11 members of staff on community secondments. Both community and technical secondments are likely to increase during the coming year.

During the year the Bank contributed a total of £1,000,000 in support of its community programme, encompassing donations, sponsorships, secondments and other community-related activities. Of this figure £294,000 was given to charitable organisations and a further £481,000 was contributed to a variety of other causes in the United Kingdom such as research and academic organisations and enterprise agencies. The Bank has continued to match, on a £1 for £1 basis, donations made by

staff and pensioners to registered charities under the Payroll Giving Scheme (Give As You Earn).

Premises

It is estimated that the market value of the Bank's premises exceeded their book value by £93 million at 28 February 1991.

Auditors

Coopers & Lybrand Deloitte will continue as auditors of the Bank.

Report of the Auditors

To the Governor and Company of the Bank of England

We have audited the accounts of the Banking Department on pages 19 to 31, and the statements of account of the Issue Department on page 32, in accordance with Auditing Standards.

2 The statements of account on page 32 present fairly the outcome of the transactions of the Issue Department for the year ended 28 February 1991 and its balances at that date.

In our opinion

1 The accounts on pages 19 to 31 give a true and fair view of the state of affairs of the Banking Department at 28 February 1991 and of the profit and source and application of funds for the year then ended.

COOPERS & LYBRAND DELOITTE

Chartered Accountants

*London
9 May 1991*

Banking Department

Profit and loss account for the year ended 28 February 1991

1990 £000			1991 £000
122,909	Operating profit before exceptional item	(Note 2)	161,798
	Exceptional item:	(Note 3)	
41,765	Profit on sale of investment		—
164,674			161,798
72,800	Payment to the Treasury under Section 1 (4) of the Bank of England Act 1946	(Note 5)	81,535
91,874	Profit before taxation		80,263
16,969	Taxation	(Note 6)	18,082
74,905	Profit transferred to reserves	(Note 8)	62,181

Movements in reserves are set out in Note 8.

Banking Department

Balance sheet: 28 February 1991

1990 £000			1991 £000	1991 £000
14,553	Capital	(Note 7)	14,553	
769,954	Reserves	(Note 8)	832,135	
<u>784,507</u>				846,688
	Current liabilities			
454,178	Public deposits	(Note 9)	367,372	
1,665,265	Bankers' deposits	(Note 10)	1,796,586	
1,288,434	Other deposits		2,082,839	
100,097	Taxation and other creditors		113,230	
72,800	Payable to the Treasury	(Note 5)	81,535	
<u>3,580,774</u>				4,441,562
<u>4,365,281</u>				<u>5,288,250</u>

Banking Department

1990 £000			1991 £000
	Liquid assets		
9,289	Notes and coin		5,665
429,691	Cheques in course of collection		352,999
1,540,034	Treasury and other bills	(Note 11)	621,405
<u>1,979,014</u>			<u>980,069</u>
905,765	Investments	(Note 12)	980,507
650,793	Advances to customers, less provisions		1,841,463
383,322	Other accounts receivable		1,021,482
71,243	Subsidiary companies	(Note 13)	79,864
375,144	Premises and equipment	(Note 14)	384,865
<u>4,365,281</u>			<u>5,288,250</u>

R LEIGH-PEMBERTON *Governor*

E A J GEORGE *Deputy Governor*

ADRIAN CADBURY *Director*

H C E HARRIS *Associate Director*

Notes on the Banking Department accounts

1 Accounting policies

a Form of presentation of accounts

Although the Bank's constitution is not governed by the Companies Acts, the accounts have been prepared so as to comply with the requirements of the Companies Act 1985 and the Statements of Standard Accounting Practice issued by the Accounting Standards Board in so far as they are appropriate.

The accounts have been prepared on the historical cost basis of accounting, modified to include the revaluation of certain fixed assets and in accordance with Section 255 of, and Schedule 9 to, the Companies Act 1985.

b Treasury and other bills

Treasury and other bills are stated at cost plus accrued interest.

c Investments

Securities of the British government are stated at cost adjusted for the amortisation of premiums or discounts on a straight line basis over the period to maturity; income includes the amortisation of premiums or discounts. This represents a change from the previous accounting policy under which such investments were stated at cost less provisions. This change results from the recent Statement of Recommended Accounting Practice issued by the British Bankers' Association. The effects of this change are described in Note 8. All comparative figures have been restated to reflect the new policy.

Other securities are stated in the balance sheet at cost less provisions.

Profits and losses on realisation are taken to the profit and loss account in the year in which they arise.

d Premises and equipment

Freehold and leasehold premises are stated at a professional valuation on an open-market value for existing use basis as at 28 February 1987 plus the cost of subsequent additions and less depreciation. No account is taken of any liability to taxation which could arise if the premises were disposed of at their revalued amounts.

Equipment is stated at cost less accumulated depreciation. Depreciation, on a straight line basis, is charged as follows:

Freehold buildings	over the estimated future life
Leasehold premises	over the period of lease or estimated future life
Computers	over periods ranging from three to five years
Other equipment	over periods ranging from three to twenty years

e Bad and doubtful debts

Appropriate provision is made for bad and doubtful debts.

f Foreign currency translation

Assets and corresponding liabilities in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date. Income and

expenditure are translated into sterling at the exchange rates ruling at the time of the transaction.

g Commitments on behalf of the Treasury

Commitments in foreign currencies and gold, or on a gold basis, undertaken in the name of the Bank for account of the Treasury, principally in the course of operating the Exchange Equalisation Account, are not included in these accounts as the Bank is concerned in such transactions only as agent.

h Deferred tax

Deferred tax is provided, at the estimated rates at which future taxation will become payable, on all material timing differences where it is probable that a liability to taxation will crystallise in the foreseeable future.

j Dividends from subsidiaries

Dividends from subsidiaries are included as income when declared.

k Leasing

Operating lease rentals are charged to the profit and loss account as incurred.

l Retirement benefits

The cost of pensions is assessed in accordance with the advice of an independent actuary and accounted for on the basis of charging the cost to the profit and loss account over the employees' service lives using the projected unit method. Variations from the regular cost are spread over the average remaining service lives of the members of the scheme.

2 Operating profit

The operating profit is arrived at after taking account of the following:

1990 £ thousands		1991 £ thousands
	Income	
	Interest:	
244,963	Treasury and other bills	246,243
85,689	*Securities of, or guaranteed by, the British government, including amortisation	114,895
34,615	Advances and other accounts	97,337
	Interest and Dividends:	
1,497	Listed securities	—
6,508	Unlisted securities	7,886
15,000	Subsidiary companies	12,000
52,295	Charges for services to the government	54,606
2,997	Rents	4,226
	Charges	
110,363	Interest paid to depositors	154,534
47,572	*Loss on sale of British government securities	44,024
3,057	Cost of severance schemes	17,633
855	Directors' emoluments (<i>Note 4</i>)	1,024
103	Auditors' remuneration	112
932	Hire of computers and other equipment	1,025
632	Other operating lease rentals	1,247
23,976	Depreciation of premises and equipment	16,461
80	Loss on disposal of fixed assets	128

* The comparative figures have been restated following the change in accounting policy set out in Note 8.

3 Exceptional item

1990 £ thousands		1991 £ thousands
41,765	Profit on sale of investment in Portals Holdings PLC	—

4 Directors' emoluments

The aggregate emoluments of the Governors and Directors for the year ended 28 February were:

1990 £ thousands		1991 £ thousands
£11,500	Fees	£11,500
£803,174	Other emoluments, including remuneration of Governors and Executive Directors and contributions to Court Pension Scheme	£950,855
£40,230	Pensions to former Directors and widows of former Directors	£61,267

The Governor's emoluments, excluding pension contributions, totalled £155,019 (1990 £132,558).

In the year ended 28 February 1990 the emoluments of the highest paid Director, for whom the Bank made no pension contribution, totalled £133,986. In the year ended 28 February 1991 no Director's emoluments exceeded those of the Governor.

The following table shows for the year ended 28 February the number of other Directors receiving remuneration within the bands stated.

1990		1991
10	£0—£5,000	12
2	£5,001—£10,000	—
2	£85,001—£90,000	—
1	£95,001—£100,000	—
—	£100,001—£105,000	1
—	£105,001—£110,000	1
1	£110,001—£115,000	2
—	£140,001—£145,000	1

The Bank made no pension contribution in respect of non-executive Directors.

5 Payment to the Treasury

1990 £ thousands		1991 £ thousands
35,500	Payable 5 April	40,150
37,300	Payable 5 October	41,385
72,800		81,535

6 Taxation

The charge for taxation comprises:

1990 £ thousands		1991 £ thousands
	UK corporation tax at an average rate of 34.0833% (1990 35%) based on the	
16,835	profits of the year	15,194
402	Tax on franked investment income	159
(261)	Prior year corporation tax	(1,182)
—	Prior year deferred tax	469
(7)	Deferred tax	3,442
<u>16,969</u>		<u>18,082</u>

The deferred tax liability of £22,371,000 is comprised as follows:

1990 £ thousands		1991 £ thousands
3,346	Short-term timing differences	9,131
7,635	Accelerated capital allowances	2,247
7,479	Other timing differences	10,993
<u>18,460</u>		<u>22,371</u>

Tax of £8,000,000 (1990 £3,000,000) has not been provided in respect of further accelerated capital allowances as the provision at 28 February 1991 is considered adequate.

7 Capital

The entire capital comprising £14,553,000 of Bank Stock is held by the Treasury Solicitor on behalf of Her Majesty's Treasury.

8 Reserves

	General reserve	Revaluation surplus	£ thousands Total
Balance at 1 March 1990	489,163	261,437	750,600
Prior year adjustment	19,354	—	19,354
As restated	<u>508,517</u>	<u>261,437</u>	<u>769,954</u>
Retained profit for the year	62,181	—	62,181
Balance at 28 February 1991	<u>570,698</u>	<u>261,437</u>	<u>832,135</u>

The prior year adjustment represents the effect of the change in accounting policy on British government securities. Previously these were carried at cost and no adjustment was made for any premiums or discounts over nominal value. Profits and losses over cost were recognised when realised. In accordance with the recently issued Statement of Recommended Accounting Practice premiums and discounts over nominal value, arising on acquisition, are now amortised over the period to maturity on a straight line basis. The carrying value of these stocks is adjusted to reflect the accumulated amortisation. Profits and losses on disposal are calculated with reference to the adjusted carrying value. This adjustment has

resulted in an increase in opening reserves as at 1 March 1990 of £29,775,000 less deferred tax of £10,421,000. The effect on the reported profit of the current year and previous year was not material.

9 Public deposits

Public deposits are the balances on government accounts, including Exchequer, National Loans Fund, National Debt Commissioners and dividend accounts.

10 Bankers' deposits

1990		1991
£ thousands		£ thousands
1,490,570	Cash ratio deposits	1,516,563
174,695	Other deposits	280,023
<u>1,665,265</u>		<u>1,796,586</u>

11 Treasury and other bills

1990		1991
£ thousands		£ thousands
384,480	British government treasury bills	621,405
1,155,554	Other bills	—
<u>1,540,034</u>		<u>621,405</u>

12 Investments

1990			1991	
£ thousands			£ thousands	
Book Value	Valuation		Book Value	Valuation
872,337	852,810	Securities of, or guaranteed by, the British government	947,079	1,044,040
33,428	96,197	Unlisted securities	33,428	97,069
<u>905,765</u>	<u>949,007</u>		<u>980,507</u>	<u>1,141,109</u>

Valuation represents middle-market values except for unlisted securities which are at Directors' valuation.

The principal holdings of equity share capital included in unlisted securities are as follows:

1990		1991
Percentage held		Percentage held
	Over 20%	
27	The Agricultural Mortgage Corporation PLC shares of £1	27
	Share capital and reserves of the company as at 31 March 1990 £50,776,000	
	Profit of the company for the year ended 31 March 1990 £4,948,000	

As a matter of policy, the Bank does not seek to influence the commercial or financial decisions of the above company, which is registered in England, and accordingly it is not treated as an associated company.

	<i>Under 20%</i>	
15	3i Group plc shares of £1 (Registered in England)	15
10	Bank for International Settlements shares of 2,500 Swiss gold francs (25% paid) (Incorporated in Switzerland)	10

13 Subsidiary companies

This comprises:

1990		1991
£ thousands		£ thousands
59,592	Investments in subsidiary companies (at cost)	59,592
11,651	Amounts owing by subsidiary companies	20,272
<u>71,243</u>		<u>79,864</u>

Included within Current liabilities is a total of £22,602,000 (1990 £23,077,000) due, in the normal course of business, to subsidiary companies.

(a) Minorities Finance Ltd

Throughout the year ended 28 February 1991, the Bank held the entire issued share capital of 37.5 million £1 ordinary shares of Minorities Finance Ltd (MFL), which is registered in England. As a condition of a capital reduction which took place in June 1987 the Bank gave an indemnity whereby any future deficit in MFL's shareholders' funds would be made good by the Bank up to a maximum of £37.5 million.

MFL's accounts as at 31 December 1990 bear an unqualified audit report. The company has continued its principal activity of realisation of loans and other non-liquid assets which, with income generating monetary assets, comprise its remaining assets. MFL will continue to pursue repayment of its remaining outstanding loans and advances.

The continuing recoveries of outstanding loans and advances produced a surplus for the year of £12.3 million, bringing MFL's distributable reserves to £20.4 million. MFL has declared dividends from these reserves of £12 million of which £6 million was paid to the Bank on 28 September 1990 and £6 million on 30 April 1991.

The accounts of MFL have not been consolidated with those of the Banking Department because, in the opinion of the Directors, the effect of including its assets, liabilities and profit, together with those of the Bank's other subsidiaries, with those of the Banking Department would not be material.

Profit for the year to 31 December 1990	£12,305,000
Accumulated Reserves as at 31 December 1990	
after provision for dividends	£8,356,000
Net Assets at 31 December 1990	
after provision for dividends	£45,856,000

(b) Subsidiaries in liquidation

Two subsidiaries, Slater, Walker Ltd and EBS Investments Ltd, which the Bank acquired through support operations have been in members voluntary liquidation throughout the year to 28 February 1991. Both companies are registered in England.

The investments in these companies are included in the Bank's balance sheet at £17 million.

(c) Other subsidiaries

Investments in other subsidiary companies, all of which are wholly owned and registered in England, are stated in the Bank's balance sheet at cost (which is not in excess of the net tangible assets of the subsidiaries) and include:

B.E. Property Holdings Ltd	5,000,000 shares of £1
BE Services Ltd	5,000 shares of £1
B.E. Museum Ltd	10,000 shares of £1
The Securities Management Trust Ltd	1,000 shares of £1
Debden Security Printing Ltd	100,000 shares of £1

The accounts of these companies have not been consolidated with those of the Bank because, in the opinion of the Directors, the amounts are not material. The aggregate amount of the Bank's investment in the shares of the above subsidiaries is £5.1 million.

The net aggregate profits of these subsidiary companies attributable to the Bank, which have not been dealt with in the accounts of the Banking Department, and which are stated by reference to audited accounts are as follows:

	£ thousands
For the year ended 28 February 1991	158
Since acquisition	302

14 Premises and equipment

		£ thousands			
	Freehold premises	Leasehold premises (50 years and over unexpired)	(under 50 years unexpired)	Equipment	Total
Cost or valuation					
At 1 March 1990	202,470	151,097	55	78,126	431,748
Additions	3,935	14,001	—	8,678	26,614
Disposals	—	(198)	—	(1,536)	(1,734)
At 28 February 1991	206,405	164,900	55	85,268	456,628
Accumulated depreciation					
At 1 March 1990	6,977	9,635	55	39,937	56,604
Charge for the year	2,841	3,883	—	9,737	16,461
On disposals	—	(78)	—	(1,224)	(1,302)
At 28 February 1991	9,818	13,440	55	48,450	71,763
Net book value at 28 February 1991	196,587	151,460	—	36,818	384,865
Net book value at 28 February 1990	195,493	141,462	—	38,189	375,144
Cost or valuation at 28 February 1991 comprised:					
At 1987 valuation	187,505	124,902	55	—	312,462
At cost	18,900	39,998	—	85,268	144,166
	206,405	164,900	55	85,268	456,628

Contracts for capital expenditure authorised by the Directors and outstanding at 28 February 1991 totalled £8.1 million (1990 £9.2 million). Further capital expenditure authorised at that date, but not contracted for, is estimated at £7 million (1990 £6 million).

15 Transactions with Directors and Officers

The following particulars are given relating to loans by the Bank of England to Directors and Officers of the Bank and persons connected with them:

	Number	Total amount £ thousands
Directors	5	174
Officers	20	1,004

There were no other transactions that would be required to be shown under the provisions of the Companies Act 1985. None of the Directors or Officers had a material interest, directly or indirectly, at any time during the year in any other significant transaction or arrangement with the Bank or any of its subsidiaries.

The above information concerning Officers is presented only in respect of those employees of the Bank who would be considered as managers within the meaning of the Banking Act 1987.

16 Retirement benefits

The Bank operates defined benefit pension schemes providing benefits based on final pensionable pay for employees of the Bank and its subsidiary BE Services Ltd. The assets of the schemes are held separately from those of the Bank in independent trustee-administered funds.

The main scheme, the Bank of England Pension Fund, is valued every three years by an independent qualified actuary. The latest actuarial valuation was as at 28 February 1990, used the projected unit method and showed that the actuarial value of the Fund's assets represented 127% of the benefits that had accrued to members at that date, after allowing for future increases in earnings and pensions in payment. The market value of the Fund's assets at that time was £896 million and the required contribution rate was 22.4%. The surplus will be used to reduce the Bank's contribution rate.

The principal assumptions were that, over the long term, the return on new investments would exceed the rate of increase in salaries by 2% and the rate of increase in pensions by 4%. It was also assumed that the equity dividend growth would be lower by 0.5% than the rate of future pension increases.

This valuation does not take into account the May 1990 ruling in the European Court of Justice relating to the equality of treatment as between men and women in pension funds. It is not possible to estimate the effect of this ruling as the precise implications of this decision on pension funds is not yet known.

The pension cost for the year was £3.0 million (1990 £12.4 million). A prepayment of £17.3 million (1990 £7.0 million), representing the excess of the amounts funded over the cost, is included in other accounts receivable.

17 Leasing commitments

At the year end, annual commitments under operating leases were:

1990 £ thousands		1991 £ thousands
	Land and Buildings on leases expiring:	
215	Within one year	122
494	Between two and five years	177
190	Beyond five years	686
	Equipment on leases expiring:	
60	Within one year	363
967	Between two and five years	332

18 Contingent liabilities

Contingent liabilities, offset by corresponding obligations of third parties, arise in the normal course of business. In addition there are forward contracts for the purchase and sale of foreign currencies. It is not envisaged that any irrecoverable liability will arise from these transactions.

Since 1930 there has also been a contingent liability, denominated in Swiss gold francs, in respect of uncalled capital on the Bank's investment in the Bank for International Settlements. The sterling equivalent of this liability based on the gold market price at the balance sheet date was £159 million (1990 £202 million).

19 Date of approval

The Court of Directors approved the accounts on pages 19 to 31 on 9 May 1991.

Banking Department

Statement of source and application of funds for the year ended 28 February 1991

1990 £000		1991 £000
	Source of funds	
122,909	Operating profit before exceptional items	161,798
	Adjustment for items not involving the movement of funds:	
24,056	Depreciation, including losses on disposal of fixed assets	16,589
724	Other	(1,613)
147,689	Funds generated by operations	176,774
	Funds from other sources:	
2,484	Disposal of premises and equipment	304
4,293	Sale of premises to subsidiary	—
49,252	Sale of investment	—
30,000	Dividends from Slater, Walker Ltd	—
233,718		177,078
	Application of funds	
17,648	Payment of taxation	16,972
56,600	Payment to the Treasury	72,800
202,205	Purchase of British government securities	73,130
5,010	Purchase of shares in subsidiaries	—
32,035	Purchase of premises and equipment	26,614
(79,780)	Decrease in working capital (see below)	(12,438)
233,718		177,078
	Analysis of decrease in working capital	
(267,992)	Liquid assets	(998,944)
272,809	Advances and other accounts	1,826,544
(7,086)	Advances to subsidiary companies	8,621
(2,269)		836,221
	Less:	
(77,511)	Current liabilities, excluding taxation and payment to the Treasury	(848,659)
(79,780)		(12,438)

Issue Department

Account for the year ended 28 February 1991

1990 £000		£000	1991 £000
1,597,903	Income and Profits:		
	Securities of, or guaranteed by, the British government	2,022,556	
309,851	Other securities	580,250	
51,186	Other receipts	110	
1,958,940			2,602,916
	Expenses:		
37,228	Cost of production of Bank notes	37,960	
13,864	Cost of issue, custody and payment of Bank notes	16,135	
2,678	Other expenses	3,049	
53,770			57,144
1,905,170	Payable to the Treasury		2,545,772

Statement of balances: 28 February 1991

1990 £000		1991 £000		1990 £000		1991 £000
15,020,924	Notes issued:		11,015	Government debt		11,015
	In circulation	15,374,578		Other securities of, or		
9,076	In Banking Department	5,422	10,009,525	guaranteed by, the		8,443,617
			5,009,460	British government		
				Other securities		6,925,368
15,030,000		15,380,000	15,030,000			15,380,000

Notes:

- 1 In accordance with the requirements of the Currency and Bank Notes Act 1928 and the National Loans Act 1968, income and profits include interest received on securities, discount received on short-dated bills and the effects of the quarterly revaluation of securities. The value of securities includes the effects of the quarterly revaluation. The last such valuation was made at 27 February 1991.
- 2 The Court of Directors approved the above statements of account on 9 May 1991.

R LEIGH-PEMBERTON
E A J GEORGE
ADRIAN CADBURY
H C E HARRIS

Governor
Deputy Governor
Director
Associate Director

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