EXPLANATORY NOTES

General notes

Definition of 'changes'

Period changes are not measured simply as the difference between successive amounts outstanding. The starting point is the difference between these levels but these are then 'break-adjusted' to form the flows. The resulting flow is the difference between two levels which has been break-adjusted in order to eliminate factors that would otherwise distort the flow. These adjustments bring the statistics into line with 'transactions' as defined by international standards for economic statistics (particularly the European System of Accounts, ESA 95).

These adjustments are made for various reasons:

- *Changes in the reporting population* – for these 'joiner' or 'leaver' adjustments may be made. Joiners and leavers is a term used to represent institutions which, in the case of a 'joiner', becomes part of the MFIs sector, or in the case of a 'leaver' ceases to be part of the MFIs sector. A joiner or leaver could cause a large distortion to the month's flow in which the movement occurred. Each case is considered individually as to whether it should be adjusted for or not. For instance a branch or subsidiary of a foreign bank obtaining authorisation in the UK would not normally be adjusted for as it will be attracting new business. An institution formerly an 'other financial corporation' (OFC), now joining the MFIs sector, would, on the other hand, usually be adjusted for as it will bring existing business with it which should not be shown as an increase in the flow for that period.

- *Foreign currency revaluation adjustments* - For the banks' and central bank data, foreign currency revaluation adjustments are applied. Foreign currency revaluation adjustments aim to remove, as far as possible, the effects in the change in levels (reported in £) which are purely due to movements in exchange rates. It is not possible to foreign currency adjust the building societies data as there is no breakdown by currency available. Their foreign currency business is very small in any case.

- *Miscellaneous adjustments* - Miscellaneous adjustments are applied as and when required on the basis of regular reporting and information obtained from individual institutions. Examples include: write-offs, other revaluations of MFIs' assets, long-term misclassifications, definitional changes, privatisations and initial accounting effects of an institution's restructuring.

For more details of break adjustment see article '*Monetary statistics and the monetary financial institutions consolidated balance sheet'* in the July 1999 edition of this publication and the Bank of England's *Technical Series* paper No 23 entitled '*Breaks in Monetary Series*', published in February 1989.

Seasonal adjustment

There is no universally agreed definition of 'seasonality', and thus no unique set of seasonal adjustments for any set of statistics. X-12-ARIMA has been used for the seasonal adjustment of these statistics. The seasonally adjusted data in these tables are current updated.

X-12-ARIMA is the latest in the family of seasonal adjustment methods that have been developed over several decades by the US Census Bureau and Statistics Canada, with contributions from others. X-12-ARIMA, or a closely related predecessor, is used by many statistical agencies and central banks, including the UK Office for National Statistics and the European Central Bank. The method is based on a moving-average technique similar to 'GLAS' (General Linear Abstraction of Seasonality), the method that the Bank used since 1991 until the change to X-12-ARIMA in January 2004, but is more sophisticated and readily able to provide adjustments tailored to each series. An article, '*Change in seasonal; adjustment method to X-12-ARIMA'*, outlining the reasons for the change to X-12-ARIMA from GLAS was published in the December 2003 issue of this publication;

Key characteristics of X-12-ARIMA are:

- X-12-ARIMA contains a time-series-modelling component, which aids the identification of outliers, shifts in the level of a series and calendar effects (all of which could distort the seasonal adjustments), and the estimation of seasonality at the start and end of the series.

- Filters of several different lengths, ranging from 3 to 17 years (or the full length of the series, if desired), are readily available to identify the seasonality appropriate to each series.

- X-12-ARIMA can provide multiplicative – proportionate – seasonal adjustments, if this is appropriate for an individual series.

- As mentioned above, X-12-ARIMA includes systematic estimation and removal of calendar effects, for the differing lengths of months, public holidays etc.

- X-12-ARIMA has wide-ranging statistical diagnostics, available graphically where appropriate, enabling the nature, robustness and stability of the seasonal adjustments to be easily monitored. Besides aiding the method's use, these diagnostics facilitate greater understanding and analysis of series.

- The method has been continually developed, is well supported and maintained by the US Census Bureau, and future development seems assured; for example, the Census Bureau is currently working on making Monetary & Financial Statistics: December 2003 available within this family more of the capabilities of TRAMO-SEATS, the model-based method developed by V Gómez and Professor A Maravall.

For more background on the previous method of seasonal adjustment (GLAS), see the May 1996 issue of the Bank of England *Quarterly Bulletin* page 209 and Bank of England working paper No. 44 "*A comparison of methods for seasonal adjustment of the monetary aggregates".*

Revisions

Revisions are made continually, whenever a new observation is published in a Statistical Release or in this publication, or when a quarterly series is republished without addition of a further observation. For the main monthly series that are published in a Statistical Release, revisions above a certain size (or the absence of such revisions) are mentioned in the release. For the main quarterly series that are published in quarterly releases, revisions are similarly mentioned in each release.

For some series, revisions can be caused by new information that becomes available annually. In particular, annual surveys can cause revisions (usually in set of statistics published around mid-year) in sectoral holdings and transactions in British government stocks. Annual-only data from smaller banks can alter the grossing up of the quarterly series for banks' income and expenditure that are used by the Office for National Statistics in the National Accounts and Balance of Payments.

Revisions tend to be made sooner in series published by the Bank than in comparable series published by the Office for National Statistics (ONS), because of the ONS' policy of making revisions only at certain set points in the cycle of data releases.

Table A1.1: M0

The monetary aggregates play a role in the formulation of monetary policy in the United Kingdom. M0 is the narrowest measure of the money stock.

M0 comprises:

- sterling notes and coin in circulation outside the Bank of England (including those held in banks' and building societies' tills); and
- banks' operational deposits with the Bank of England.

M0 differs from the M4 group of statistics as it is compiled as a monthly average (of all the Wednesdays of the month) and includes virtually all holdings of notes and coin (not only those by the non-bank, non-building society UK private sector).

Data for most (but not all) of the components of M0 can be derived from the weekly Bank Return, published each Thursday afternoon. The full outturn for the month is first published in the *Provisional estimates of narrow money* statistical release issued on the third working day after the last Wednesday of the month. The outturn for the month, incorporating the final week's contribution by the Scottish and Northern Irish banks, which is estimated in the *Provisional Release*, is published in *Narrow Money* on the third working day after the first Wednesday of the following month. This latter statistical release is only available on the internet.

A short run of weekly levels for M0 and notes and coin is available from 9.30am three working days after the Wednesday to which they relate. These data are available via the Internet (via 'latest statistical press releases page'). For Internet references, see the Introduction at the front of each edition of this publication.

Seasonal adjustment

Though the non seasonally adjusted data are compiled on a weekly basis, the seasonally adjusted data are compiled using these monthly non seasonally adjusted data.

Table A2.1: Growth rates of M4 and M4 lending

M4 is the broad monetary aggregate and comprises sterling notes and coin and all sterling deposits at UK MFIs held by the M4 private sector. M4 lending is sterling lending by UK MFIs to the M4 private sector.

For details of M4 and its retail component see notes to table A2.2 – for M4 lending see notes to table A3.

A 'change' or 'flow' for each period (i.e. month or quarter) is produced, usually by calculating the difference between the opening and closing levels and then excluding the effects of any breaks in series, changes in value etc. The growth rate for the reporting period is then calculated as the flow divided by the opening level.

$$\text{One-period growth rate} = \left(\frac{Flow_{period}}{Level_{period-1}}\right) * 100$$

$$Y = \left(\frac{F_t}{L_{t-1}}\right) * 100 \qquad\qquad Y_t = \left(\frac{Y}{100}\right) + 1$$

For example December 2000 M4 (sa) (data shown in tables A2.1 and A2.2) of the January 2001 edition of *Bank of England*: *Monetary & Financial Statistics*:

$$\text{One-month growth rate} = \left(\frac{4{,}777}{874{,}081}\right) * 100 = 0.5\%$$

The three, six and twelve-month rates are calculated by concatenating the one-month rates, (rather than dividing the flow for these longer periods by the opening level) to avoid distortions where there are breaks in the series.

Three-month (annualised) growth rate

$$= \left(\left(Y_t * Y_{t-1} * Y_{t-2}\right)^4 - 1\right) * 100$$

e.g.

$$\left(\left(1.005 * 1.003 * 1.004\right)^4 - 1\right) * 100 = 5.0\%$$

Six-month (annualised) growth rate

$$= \left(\left(Y_t * Y_{t-1} * Y_{t-2} * Y_{t-3} * Y_{t-4} * Y_{t-5}\right)^2 - 1\right) * 100$$

e.g.

$$\left(\left(1.005 * 1.003 * 1.004 * 1.003 * 1.020 * 1.001\right)^2 - 1\right) * 100 = 7.5\%$$

Twelve-month growth rate

$$= \left(\left(\begin{matrix} Y_t * Y_{t-1} * Y_{t-2} * Y_{t-3} * Y_{t-4} * Y_{t-5} \\ * Y_{t-6} * Y_{t-7} * Y_{t-8} * Y_{t-9} * Y_{t-10} * Y_{t-11} \end{matrix}\right) - 1\right) * 100$$

e.g.

$$\left(\left(\begin{matrix} 1.005 * 1.003 * 1.004 * 1.003 * 1.020 * 1.001 \\ * 1.009 * 1.006 * 1.005 * 1.017 * 1.004 * 0.999 \end{matrix}\right) - 1\right) * 100 = 8.0\%$$

Each of the examples are for December 2000 M4 as shown in tables A2.1 and A2.2 of the January 2001 edition of this publication. Figures shown here are rounded but calculations are performed on un-rounded data.

Further background

A list of articles in the *Quarterly Bulletin* and elsewhere relevant to the monetary statistics is given in Part 2 section C of the annual *Statistical Abstract*. Further background is given in the Office for National Statistics' *Financial Statistics Explanatory Handbook.*

Table A2.2: Components of M4

M4 comprises:

The M4 private sector (i.e. UK private sector other than monetary financial institutions' (MFIs))

- holdings of sterling notes and coin;
- sterling deposits, including certificates of deposit, commercial paper, bonds, FRNs and other instruments of up to and including five years' original maturity issued by UK MFIs;
- claims on UK MFIs arising from repos (from December 1995)
- estimated holdings of sterling bank bills;

and

- 95% of the domestic sterling inter-MFI difference (allocated to other financial corporations, the remaining 5% being allocated to transits).

The sectoral distribution of holdings of CDs cannot be fully identified; errors may affect M4 itself, as well as its sectoral analysis.

Bank acceptances

Treatment of bank acceptances changed in September 1997, and was backdated. Acceptances are still being reported off balance sheet by individual banks, but in the aggregated accounts and monetary statistics they count as on balance sheet of the accepting bank (i.e. banks accepting a bill are regarded as having a liability to the bill's owner and a claim on the party whose bill has been accepted).

Monetary financial institutions

With effect from April 1998, a new monetary financial institutions (MFI) sector was introduced, comprising the central bank (the Banking Department and the Issue Department of the Bank of England), other banks and building societies (as set out in the notes to Table B2). UK monetary statistics (other than M0) were already compiled on the basis of the MFI sector and there was no change in the definition of the monetary data. This was because the Bank of England Banking Department had always been part of the UK banks' sector and the Issue Department's transactions with the M4 private sector (including transactions associated with its money market operations as well as the note issue) were already included in broad money and its counterparts. Unless otherwise stated, banks will include the central bank sub-sector.

Banking Statistics Review

New banking statistics returns were introduced at end-September 1997 to bring the UK into line with European System of Accounts standards 1995 (ESA 95). Flows have been adjusted to remove the effects of any changes resulting from the new forms. Levels are, however, on the new basis from end-September.

Specific changes affecting the monetary aggregates were the removal of any Channel Islands and Isle of Man (CI/IoM) 'opted in' banks from the monetary sector and the re-classification of any business with the CI/IoM as non-resident.

For further details of the changes see articles in the September 1997, and February 1998 editions of this publication.

Building Societies Statistical Review

In October 1998 a new monthly building society form was introduced bringing the building societies into line with ESA 95 standards, and breaks in series occurred as definitions changed.

Retail deposits and cash in M4

Retail M4 (or M2) comprises:

The M4 private sector's

- holdings of sterling notes and coin; and
- sterling denominated 'retail' deposits with UK MFIs.

Building societies' 'retail' deposits include all shares held and deposits made by individuals. Net transit items (i.e. assets less liability transit items) are subtracted from these deposits to offset any over/under-statement in the flow of the UK private sector's holdings of M4 i.e. MFIs sterling deposits combined. Prior to October 1998 'retail' was defined as in section 7 of the 1986 Building Societies Act.

Banks' 'retail' deposits are defined as deposits which arise from a customer's acceptance of an advertised rate (including nil) for a particular product; typically 'retail' deposits are taken in the banks' branch networks. For the treatment of bank transit and suspense items in these definitions, see notes to Table B2.

Non-interest bearing bank deposits are adjusted for an element of banks' transit and suspense items (see notes to Table B2).

Other MFI deposits include all Tax Exempt Special Savings Accounts (TESSAs) and (cash) Individual Savings Accounts (ISAs) which are distinguished separately in Tables B1.2 and B1.3. From April 1999 it has not been possible to open new TESSA accounts, though deposits could continue to be made until these accounts matured five years after opening. From April 2004, therefore, there are no deposits recorded in TESSA accounts.

Notes and coin
Estimated non-residents' holdings of notes and coin are excluded from notes and coin in circulation with the private sector; and included in the external and foreign currency finance of the public sector (Table A3).

Repos include sale and repurchase agreements against marketable securities of all kinds. An institution selling a security under a repo retains the security on its balance sheet and records a liability to the counterparty representing the cash received. Thus, a repo is a type of secured deposit. The matching asset will depend on how the cash proceeds were employed. An institution acquiring a security under a reverse repo does not include the security on its balance sheet but records a claim on the counterparty representing the funds lent. The matching liability will depend on how the loan is funded.

Seasonal adjustment

Due to the method of seasonal adjustment, seasonally adjusted M4 does not equal the sum of its seasonally adjusted components.

For further information on seasonal adjustment, see the article published in the December 2003 issue of this publication entitled '*Change of Seasonal adjustment method to X-12-ARIMA*'.

M3 (estimate of EMU aggregate for the UK)

The European Monetary Union broad monetary aggregate is M3. This encompasses also two narrower aggregates, M1 and M2, the components of which are shown below. The article '*Euro area monetary aggregates and their role in the Eurosystem's monetary policy strategy*' in the February 1999 edition of the ECB's *Monthly Bulletin* explains the compilation of these aggregates.

M3 comprises:

Monetary liabilities of MFIs and central government (Post Office and Treasury) vis-à-vis non-MFI euro area residents excluding central government for ***all currencies****:*

- currency in circulation (M1)
- overnight deposits (M1)
- deposits with agreed maturity up to 2 years (M2)
- deposits redeemable at notice up to 3 months (M2)
- repurchase agreements
- money market fund shares/units and money market paper
- debt securities up to 2 years.

The estimate compiled by the Bank of England for the UK comprises *monetary liabilities of MFIs in the UK vis-à-vis non-MFI UK residents excluding central government.* The UK reporting system does not currently identify the maturity breakdowns, which are used within the European definition; these are therefore **estimated**.

The European aggregate does not include the adjustments for transit items and the inter-MFI reporting difference, which are made for M4 (see definition of M4). A reconciliation table which illustrates the differences between M4 and the previous European harmonised aggregate (M3H) is available on request and will be published annually in the Annual *Statistical Abstract*.

The data shown in Table A2.2 therefore provide an **estimate** of M3 for the UK. These data replace the M3H European harmonised aggregate, which was previously published for comparison purposes. A slightly expanded table, showing the components of M3, is available on the internet (Table A2.3).

Table A3: Counterparts to M4

M4 comprises certain MFIs' liabilities held by the non-MFI private sector. Table A3 shows how M4 can also be derived from the 'counterparts' to changes in these liabilities.

The MFIs' consolidated balance sheet counterparts to M4 are a re-arrangement of the MFIs' consolidated balance sheet (see Table B2). The article '*Monetary Statistics and the monetary financial institutions consolidated balance sheet'* in the July 1999 edition of this publication introduced this presentation of the counterparts. In this version (Table A3.1), unlike the 'traditional' version of the counterparts (Table A3.2), the PSNCR and its non-MFI sources of financing ('public sector contribution') are replaced by MFIs' net sterling lending to the public sector. M4 lending is shown in both versions of the counterparts. The external and foreign currency counterparts are more disaggregated in the MFIs' balance sheet version and show the lending and deposits breakdown within non-residents' sterling and foreign currency business and the private and public sectors' foreign currency business. Net non-deposit sterling liabilities are replaced by sterling net other assets. Foreign currency net other assets previously part of external and foreign currency finance are also shown separately.

The balance sheet counterparts to M4 also provide a levels version which had not been possible in the previous presentation (Table A3.2), due to the unavailability of a compatible levels series for the PSNCR.

The 'traditional' presentation of the counterparts to M4 (Table A3.2) was detailed in the May 1987 *Quarterly Bulletin* (page 212). In October 1998, further ESA95 changes were adopted and backdated. These resulted in revisions to the CGNCR and its financing. The revisions affected the CGNCR (O), PCNCR (and the PSNCR); the M4 private sector's net purchases of 'other' central government debt; 'other' external and foreign currency finance of the public sector; and (to a lesser extent) banks' net non-deposit sterling liabilities. The revisions netted out within the counterparts, so M4 itself was not affected.

The counterparts (Table A3.2) include:

- **M4 lending** (also shown in Table A3.1)

This is sterling lending by MFIs to the M4 private sector. The M4 private sector consists of all UK residents other than the public sector and MFIs.

Acceptances, though still reported off balance sheet by individual banks, are treated on balance sheet for the purposes of the aggregate financial accounts and monetary statistics. This treatment was introduced in September 1997 and backdated. For further details see the article in the September 1997 edition of this publication, and the notes to Table B2.

Building societies' loans and investments include both secured and unsecured lending (see Tables A5 and B1.3).

Reverse repos (shown only in not seasonally adjusted terms) include sale and repurchase agreements against marketable securities of all kinds and include any claims of the Bank of England on the M4 private sector resulting from official money market operations. A reverse repo is a type of secured loan.

- **Public Sector Net Cash Requirement**

The public sector net cash requirement (PSNCR) was previously known as the public sector borrowing requirement (PSBR). However, the definition is unchanged and is the net balance between cash expenditure and cash receipts of the total public sector. Similarly the central government net cash requirement (CGNCR) was previously known as the central government borrowing requirement (CGBR). The local government net cash requirement (LGNCR) was previously known as the local authorities borrowing requirement (LABR) and the public corporations net cash requirement (PCNCR) was previously known as the public corporations borrowing requirement (PCBR). The *Central Government Net Cash Requirement on own account* excludes on-lending to Local Government and Public Corporations; the *LGNCR* and *PCNCR* include this borrowing.

- **External and foreign currency flows**

These are grouped together in Table A3.2. The impact of external and foreign currency factors on broad money is described in the ONS' *Financial Statistics Explanatory Handbook* and, in more detail, in *Quarterly Bulletin* articles in December 1978 (page 523) and December 1983 (page 525). The total of external and foreign currency flows in the counterparts to M4 is due to the current account of the balance of payments, and to the M4 private sector's capital account and foreign currency transactions.

- **Net non-deposit sterling liabilities**

Net non-deposit sterling liabilities comprise:

- changes in the sterling component of capital and internal funds and reserves of all MFIs (i.e. essentially their retained profits and issues of securities of over 5 years original maturity); *less*
- their sterling investments in UK MFIs and other non-financial sterling assets.

Supplementary details

For more detail on *sterling Treasury bills*, *National savings*, and *tax instruments* see notes to Table A7.1. 'Other' includes other non-marketable debt and Northern Ireland government debt.

Table A4: Sectoral analysis of M4 and M4 lending

Other financial corporations

Other financial corporations (OFCs) are private financial corporations other than monetary and financial institutions engaged primarily in production of financial services such as financial intermediation, insurance companies and pension funds and activities auxiliary to financial intermediation (such as fund management).

OFCs' holdings include 95% of the sterling domestic inter-MFI difference following a review of its causes (see page 101 of the June 1992 *Economic Trends*).

Private non-financial corporations

Private non-financial corporations (PNFCs) are those which exist to produce goods and provide non-financial services. They are mainly public limited companies, private companies and partnerships where these are distinct from their owners and not owned by government.

The household sector

The household sector comprises:
- **Individuals** i.e. all the residents of the United Kingdom as receivers of income and consumers of products.
- **Unincorporated businesses** other than unlimited liability partnerships (sole traders).
- **Non-profit institutions serving households** such as charities and universities.

In order to bring reporting in line with the National Accounts, housing associations were reclassified from non-profit institutions serving households under the household sector to non-financial corporations other than public corporations during August 2005. Flows have been adjusted for the change to both sectors; levels data however have not been break-adjusted.

Transits and suspense items

Holdings of M4 by and M4 lending to other financial corporations, private non-financial corporations and individuals are affected by the allocation of bank transit and suspense items (see notes to Table B2).

Credit card data

Credit card data include building societies data from 1992 Q4.

Banking Statistics Review

New banking statistics returns were introduced at the end of September 1997 to bring the UK into line with the European System of Accounts standards 1995 (ESA95). This led to changes in the definitions of economic sectors. In particular, unlimited liability partnerships have been re-classified into PNFCs and OFCs from the household sector. Adjustments have been made to minimise the breaks in the time series of financial flows.

As a result of these changes, the individuals component of the household sector M4 is only available quarterly, one month in arrears. For further details see the article in the September 1997 edition of this publication.

Monthly sectoral data

As a result of the introduction of the new banking statistics returns at end-September 1997, comprehensive monthly sectoral data became available. Data from July 1996 to August 1997 are based on reporting by only about 100 banks, grossed up to represent the total banking sector. Data from September 1997 onwards have the same comprehensive coverage as the quarterly sectoral series.

Building Societies Statistical Review

In October 1998 a new monthly building society form was introduced bringing the building societies into line with ESA95 standards, and breaks in series occurred as definitions changed.

Data excluding the effects of securitisations and loan transfers

Tables A4.3 & A4.6 exclude the effects of securitisations and loan transfers. Securitisations reduce the size of lenders' balance sheets, and therefore reduce recorded lending. However, the indebtedness of borrowers is not affected by securitisations, therefore when analysing sectoral borrowing activity data excluding the effects of securitisations are more appropriate. Securitisations and loan transfers are most common in respect of lending to individuals e.g. books of mortgages, credit cards and personal loans. This is recognised by having the wider lending to individuals measure (Table A5) which incorporates lending by other specialist lenders (OSLs) in addition to lending by banks and building societies. Within lending to individuals, there is no impact from securitisations and loan transfers, because the effects of these transactions net out within the total. Table A5 also includes lending to housing associations, which have been included in Table A4, within non-profit making institutions serving households between March 1999 and July 2005. The change was made to be consistent with ESA95 and was backdated. In order to bring reporting in line with the National Accounts, housing associations were reclassified from non-profit institutions serving households under the household sector to non-financial corporations other than public corporations during August 2005 but secured lending to housing associations remains included within lending to individuals (Table A5)

Table A5: Total lending to individuals

Lending to individuals comprises:

- all sterling lending to the UK household sector excluding unincorporated businesses and other non-profit-making institutions serving households; and all sterling secured lending to housing associations.

In order to bring reporting in line with the National Accounts, housing associations were reclassified from non-profit institutions serving households under the household sector to non-financial corporations other than public corporations during August 2005 but secured lending to housing associations remains included within lending to individuals (Table A5).

Sterling lending to individuals is provided by five main groups:

- UK banks;
- UK building societies;

- other specialist lenders (non-bank UK credit grantors and specialist mortgage lenders);
- retailers (consumer credit only); and
- other (central and local government, public corporations, insurance companies and pension funds).

Gross lending

Figures refer to the total value of loans advanced by institutions in the period. Repayments and other adjustments are excluded.

Net lending

Figures refer to gross lending less repayments and other adjustments (e.g. for bad debt write-offs). Net lending figures reflect the impact of acquisitions/disposals of mortgages or consumer credit portfolios (see Table A5.7).

Levels series are not adjusted for breaks; however, certain break adjusted levels series are available on request.

Lending secured on dwellings

Banks' 'gross lending' excludes bridging loans. Net advances to housing associations are included, as 'gross' figures are not available.

Building societies' 'gross sterling lending' comprises loans fully secured on residential property and other loans fully secured on land to individuals and housing associations but excludes mortgage portfolios acquired by UK building societies.

Other specialist lenders' lending includes loans fully secured on residential property to housing associations from March 1999.

'Net lending' figures include sterling bridging loans made by banks and other specialist lenders. Bank 'lending for house purchase' covers lending which is fully secured on residential property by a first mortgage.

Banks' monthly lending to housing associations prior to July 1996, is interpolated and projected from the quarterly data and within the quarterly pattern of building societies' lending. Quarterly data after July 1996 are the sum of monthly observations.

Approvals

These are the firm offers to customers of credit linked to specific dwellings. This is therefore the total agreed advance irrespective of whether the mortgage offer has been accepted.

Prior to October 1997, banks' value and number of approvals are gross of cancellations and exclude approvals for other purchases. From October 1997, the value of bank approvals are net of cancellations and include approvals for other purchases and the number of bank approvals are net of cancellations and exclude approvals for both remortgaging and for other purchases. For further details on these changes see the article 'Mortgage market statistics' in the September 1998 edition of this publication.

Building societies' approvals are net of cancellations. The values and numbers of building society approvals consist of sterling loans to individuals fully secured on residential property.

Other specialist mortgage lenders' value and number of loans approved are net of cancellations.

Breakdown of approvals

A breakdown of the value and number of approvals is available for banks from October 1997, for other specialist lenders from January 1999 and for building societies from January 2001. For further details of these changes see the Supplementary Notes in the May 2001 edition of this publication.

'Remortgaging' is defined as when a borrower who is an existing owner-occupier redeems his/her current mortgage in favour of an alternative form of borrowing secured on the same property with a different mortgage lender.

'Other lending' includes any loan secured on residential property which is for home improvement, cars etc and includes any additional borrowing when a borrower increases their overall mortgage debt with the same lender.

Repayments

The breakdown of repayments of mortgage principal for banks are available from October 1997, and that for building societies from September 1992.

Data sources

Data for the banking sector are collected directly by the Bank of England from a sample of banks. Banks' gross advances and approvals data are reported by a sample of banks accounting for about 95% of total lending for house purchase and net lending by a sample of banks accounting for about 98% of total lending for house purchase.

Data for building societies are collected by the Financial Services Authority. Figures are based on a sample of societies accounting for about 95% of total building society lending for house purchase.

Data for other specialist mortgage lenders are collected by the Bank of England.

Data for other lenders are collected by the Office for National Statistics.

Consumer credit

Consumer credit is defined as borrowing by the UK household sector to finance current expenditure on goods and services. For consumer credit, the UK household sector comprises individuals only; i.e. housing associations, unincorporated businesses and other non-profit-making institutions serving persons are excluded.

Consumer credit lending by banks comprises:

- sterling credit card lending;
- sterling overdrafts and other non-'secured' sterling loans and advances to individuals.

Building societies' lending is unsecured lending to individuals including sterling bridging loans (previously class 3 lending to individuals).

'Other specialist lenders' comprise non-bank credit grantors and specialist mortgage lenders extending consumer credit. Retailers' consumer lending occurs where funding is provided direct to the individual (not via an intermediary). Figures relate to hire purchase agreements and other forms of credit (such as sales on budget accounts, credit sale agreements and personal loans repayable by instalments) but exclude monthly accounts and sales on bank or building society credit cards. Insurance companies' figures include outstanding premiums.

Monthly data are available for lending by retailers from January 1997 but are not yet available for lending by insurance companies. The missing monthly data have been interpolated from quarterly data.

Some bank data on gross lending does not cover precisely the same loans as the net lending data. To make the data comparable, the gross lending data have been scaled accordingly.

Banks' net lending includes an estimation of sterling items in transit and suspense that relate to this lending.

Of which credit card

- the (gross or net) sterling credit card lending by UK banks, building societies and other specialist lenders to the UK household sector. Prior to January 1999, credit card lending by other specialist lenders had not been separately identifiable and was included within the 'other' consumer credit component.

Charge card lending can sometimes be indistinguishable from credit card lending; and in these cases, is included in data for credit cards.

Of which 'other'

- the (gross or net) sterling lending component that is not credit card credit (e.g. sterling overdrafts and other loans/advances) and comprises lending by UK banks, building societies, other specialist lenders, retailers and insurance companies. Prior to January 1999, 'other' consumer credit included credit card lending by other specialist lenders.

Data sources

Data for the banking sector are collected directly by the Bank of England from a sample of banks. Banks credit card data are reported by a sample representing about 98% of total bank credit card lending and the 'other' lending data are reported by a sample representing about 97% of total bank 'other' lending.

The Financial Services Authority collects data for building societies. Figures are based on a sample of societies accounting for about 95% of total building society lending for house purchase.

Data for other specialist lenders, retailers and insurance companies are collected by the Office for National Statistics.

Acquisitions of mortgage and consumer credit portfolios

This table shows the net acquisitions (+ve) and disposals (-ve) of mortgage and consumer credit portfolios by sector. This table should be used in conjunction with those for all net lending, and for banks' gross advances, when analysing the data by type of institution.

Breaks in the series

From April 1993, the definition of bank 'lending for house purchase' changed to cover all lending which is fully secured by a first mortgage on a residential property. (For more detail see pages 316-317 of the August 1992 *Quarterly Bulletin*.)

Within total consumer credit outstanding, credit card lending had been underestimated and 'other' consumer credit overestimated prior to January 1999 as a result of a longstanding inconsistency. The credit card element had previously covered sterling credit card lending to the UK household sector by only UK banks and building societies. Credit card lending by other specialist lenders and retailers (where they finance lending themselves) could not be separately identified and so was included within the 'other' consumer credit component. From January 1999 onwards the inconsistency described above has been corrected as credit card lending by other specialist lenders can be separately identified. As a result, data from January 1999 onwards for the breakdown between credit card lending and 'other' consumer credit are not directly comparable with earlier periods. The change affects all three measures of credit card lending (gross, net and amounts outstanding), with an equal offsetting change to 'other' consumer credit. In not seasonally adjusted terms, gross credit card lending is on average around £800 million per month higher since January 1999, whilst the amounts outstanding of credit card debt was boosted by £4.8 billion in January 1999. The changes to net credit card lending are much smaller in absolute terms, with no discernible change to trend.

Following an ONS review, data for 'other specialist lenders' were improved and revised back to January 1995. The total outstanding consumer credit was revised (in August 1997) upwards by £2.6bn. Flows have been break adjusted.

The transfer of business of a number of building societies to the bank sector has distorted both bank and building society flows and levels data. From the month of transfer the business of these societies are included in the bank rather than building society sector. Flows for the month of transfer have been adjusted for the change in both populations; levels data however are not break-adjusted.

- **Cheltenham & Gloucester Building Society** joined the Lloyds Bank Group in August 1995.
- **National & Provincial Building Society** transferred its business to Abbey National plc in August 1996.
- **Alliance & Leicester Building Society** converted to public limited company status in April 1997.
- **Halifax Building Society** converted to public limited company status in June 1997.
- **Woolwich Building Society** converted to public limited company status in July 1997.
- **Bristol & West Building Society** joined the Bank of Ireland Group in July 1997.
- **Northern Rock Building Society** converted to public limited company status in October 1997.
- **Birmingham Midshires Building Society** joined the Halifax Group in April 1999.
- **Bradford & Bingley Building Society** converted to public limited company status in December 2000.

Due to revisions to the definitions of bank approvals in October 1997, there is a break in the published (bank and aggregate) approvals series from this date. Aggregate data from October 1997, are not therefore directly comparable with earlier periods.

The series of other specialist lenders number of loans approved for house purchase has been amended with effect from January 1999 to exclude loans for remortgaging or other purposes. Consequently both the other specialist lenders' series and the total series from January 1999 are not directly comparable with earlier periods. For further details of these changes see the Supplementary Notes in the May 2001 edition of this publication.

In January 1998, Other Specialist Lenders were re-defined to exclude lending by institutions in the Channel Islands and Isle of Man, as these are now classified as non-residents. Flows have been adjusted for the change in sector; levels data however are not break-adjusted.

Table A6.1: Divisia money

From February 2005, the data series for Divisia money have been calculated using a method described in the article '*A new measure of Divisia money*' in this publication. Data for 1977 to 2004 calculated under the method previously used are available on request.

For more details on the theory behind the Bank's Divisia money series, see the article '*Divisia measures of money*' in the May 1993 *Quarterly Bulletin* (pages 240-55), and 'A new measure of Divisia money' in the Spring 2005 *Quarterly Bulletin*.

Main principle

The Divisia index for money weights the growth rate of each of the M4 component assets according to the extent to which they provide transaction services. These weights are a function of the interest rate on the asset, such that assets with a higher interest rate are assumed to provide fewer transaction services.

Adjustments

In constructing Divisia, the rates of return, except those on TESSAs and ISAs, are adjusted for tax using:

- the composite / prescribed tax rate for interest-bearing household sector deposits
- the corporate tax rate for corporate interest-bearing deposits.

The index is also adjusted for the changes in the population of the bank and building society sectors (see notes to Table A5 for more detail) by incorporating the relevant break-adjusted flows for bank sight and time deposits and building society deposits.

Adjustments are also made to take account of the re-classification of the Channel Islands and the Isle of Man as non-resident following the Banking Statistics Review of September 1997. For further details see the article 'Outcome of the review of banking statistics, including effects on monetary and other banking statistics' in the September 1997 edition of this publication (pages 1-7).

Components

All components are seasonally adjusted. Levels are non break-adjusted whereas flows are break-adjusted.

Definitions for the sectors can be found under definitions for Table A4 'Sectoral analysis of M4 and M4 lending' of this publication.

Notes and coin

Consists of sterling notes and coin in circulation outside the Bank of England. PNFCs' holdings are subtracted from the known total, with the residual divided between the household sector and OFCs on an estimated basis.

Non interest-bearing bank deposits and interest-bearing bank sight deposits

Consists of credit balances on customers' accounts where the entire balance is accessible without penalty, either on demand or by close of business on the day following that on which the deposit was made.

Interest-bearing bank time deposits

Broadly defined as those deposits where part of the balance is not accessible without penalty, either on demand or by close of business on the day following that on which the deposit was made.

Building society deposits

From 1999 building society household sector deposits are broken down into 'instant access' and 'notice and term' deposits. Prior to 1999 there was only one household sector deposits component.

Instant access deposits

Building society instant access deposits are defined as deposits that are available within 0-7 days, accounts from which withdrawals incur no penalty as long as 7 days' notice has been given, and deposits from which immediate withdrawals can be made at 7 days' interest penalty or less.

Notice and term deposits

Building society notice accounts require a notice period of between 8 and 90 days to withdraw funds without penalty or are accounts from which immediate withdrawals can be made at a penalty of at least one month's interest. Term accounts are those accounts that require investment for a fixed term during which no withdrawals can be made or from which withdrawals are permitted by giving at least three months' notice.

Tax-exempt special savings accounts (TESSAs)

TESSAs are treated as a separate component of Divisia with its own rate of return. Bank time deposits and building society notice and term deposits held by the household sector are adjusted for the introduction of TESSAs by subtracting the respective published levels of TESSAs from these components. Proceeds from maturing TESSAs deposited in TESSA-only ISAs (TOISAs) are captured within the ISAs component.

From April 1999 it has not been possible to open new TESSA accounts, though deposits continue to be made until these accounts matured five years after opening. From April 2004, therefore, there are no deposits recorded in TESSA accounts.

Individual savings accounts (ISAs)

With the introduction of ISAs in 1999 Q2, Divisia has been adapted to treat cash ISA deposits as a separate component with its own rate of return. Bank time deposits and building societies instant access deposits held by the household sector are adjusted for the introduction of ISAs by subtracting the respective published levels of ISAs from these components.

Rates of return

Bank deposits: household sector and corporate sector

From January 1999, rates of return on deposits held with banks by the household sector and the corporate sector are effective interest rates (see notes to Table G1.4 for further details). Prior to January 1999 rates of return were averages of quoted rates. Monthly rates are gross of tax, averaged over the month. Quarterly rates are calculated as averages of monthly rates. Interest rates for household sector time deposits exclude rates on TESSAs and cash ISAs.

Cash ISA and TESSA rates

Rates of return for cash ISAs and TESSAs have been calculated as a weighted average of ISA/TESSA interest rates offered by the largest deposit takers. Rates of return for cash ISAs for banks and building societies are compiled separately (as shown in Table G1.3) but are presented as a weighted average of the two in this presentation.

Building society deposits: household sector

Rates of return for deposits by the household sector with building societies are provided by the Financial Services Authority (FSA). They are weighted averages of gross interest rates received by savers, derived from a monthly return of all building societies. Quarterly rates are calculated as averages of monthly rates. Rates exclude those on TESSAs and cash ISAs.

Building society deposits: corporate sector

Rates of return for deposits by the corporate sector with building societies are assumed to be similar to the rates for time deposits by the corporate sector with banks.

Benchmark asset

The index uses an envelope approach, which assumes that within the household sector and the corporate sector the benchmark asset is the component of M4 that pays the highest interest rate.

Table A7.1: Liquid assets outside M4

This table illustrates the development of certain liquid assets outside M4. These series can be used as building blocks from which users of the monetary statistics can create their own aggregates. Among assets not covered by these statistics are certificates of deposit issued by banks abroad (see *Banks in the BIS reporting area,* below) and foreign currency commercial paper, foreign currency medium-term notes and other foreign currency short-term paper issued in the United Kingdom or overseas.

In assessing the liquidity of those assets that are outside M4, it should be remembered that M4 itself contains some comparatively illiquid elements. For instance M4 contains deposits of any maturity with MFIs, and certain paper and other capital market instruments of not more than five years' original maturity - though in practice the great majority of M4 is of under three months' residual maturity.

Channel Islands and Isle of Man

Until the end of September 1997 about one eighth of the banking institutions in the Channel Islands and Isle of Man were treated as UK banks for statistical purposes. The remainder were treated as 'other financial corporations' (OFCs' coverage of institutions in the Isle of Man and in Jersey was only partial.) The distinction between the two groups was made according to whether the institutions had opted to comply with the Bank of England's monetary control arrangements. If 'opted in', they were treated as UK banks for statistical purposes and deposits by the M4 private sector with these institutions were included within M4.

Deposits *with* OFCs in the Channel Islands and Isle of Man, on the other hand, were not included in M4; but the deposits of these institutions with UK banks and building societies were included in M4. So, to the extent that these offshore OFCs take funds and re-deposit them in the UK, there was no 'leakage' from M4, although the sectoral breakdown recorded these deposits as being from the OFC sector rather than from the original source of funds. Adding deposits placed with these institutions by the M4 private sector to M4 thus introduced an element of double counting.

The nature of financial activity in the Channel Islands and Isle of Man means the series for the M4 private sector's deposits probably included (before September 1997) substantial amounts placed by local companies and trusts essentially on behalf of non-residents rather than on behalf of UK or local residents.

From end-September 1997 all institutions in the Channel Islands and Isle of Man are classified as non-residents. There are no longer any 'opted in' banks within the monetary sector. All business with the Channel Islands and Isle of Man has therefore been re-classified as non-resident. The data shown in the new series are collected from all banks and building societies in the Channel Islands and Isle of Man and are not comparable with the earlier data.

Banks in the BIS reporting area

The Bank for International Settlements (BIS) provides comprehensive data on international banking business conducted in the financial centres of the BIS reporting area. The number of countries within this area has increased over time (and currently stands at 39). Identification of the UK M4 private sector may not be precise (e.g. deposits from the Channel Islands and Isle of Man which, as mentioned above, were in the M4 private sector may have been included in the BIS statistics as deposits from banks rather than the M4 private sector). Holdings of certificates of deposit are generally not covered by these statistics.

M4 private sector's holdings of foreign currency deposits

Foreign currency deposits held by the M4 private sector at MFIs in the UK or at institutions in the Channel Islands and Isle of Man (and those at banks in the BIS area) may be destined to be spent in the UK or may represent a store of wealth relevant to UK economic activity. But any significant conversion of these deposits into sterling for spending in the UK would tend to raise the sterling exchange rate; that in turn might have an offsetting effect on spending in the UK. (See pages 525-529 of the December 1983 *Quarterly Bulletin*).

Non-residents' sterling deposits

Deposits by non-resident banks with MFIs in the United Kingdom include deposits from central monetary institutions (i.e. part of other countries' official reserves) as well as deposits from commercial banks abroad. When combining series, users should be aware of potential double-counting: for example *sterling deposits at banks in the BIS area* may in turn be placed by those banks as sterling deposits in UK banks or institutions in the Channel Islands and the Isle of Man (or indeed at other banks in the BIS area).

Non-residents' sterling deposits, particularly those held by non-banks at MFIs in the United Kingdom, may be destined to be spent in the United Kingdom; equally they may simply be part of non-residents' global liquid assets, held temporarily or for a longer term in the United Kingdom as a store of value (but their conversion into foreign currency might nonetheless affect UK economic activity via an effect on the exchange rate; see pages 525-529 of the December 1983 *Quarterly Bulletin*).

Sterling treasury bills

Issued with an original maturity of six months or less are marketable and are likely to be considered liquid by their holders.

Local government temporary debt

Covers a variety of instruments, all with an original maturity of up to one year; in general, it would probably be viewed as fairly liquid.

Certificates of tax deposit

These are not marketable; the return is greater when used to pay tax, so that their holders may not consider them liquid for other purposes.

Gilts

The data in this table relate to marketable gilts, which may be considered liquid by their holders. The degree of liquidity may be affected by the degree of capital certainty - which will tend to lessen the longer the remaining maturity. The maturity split of total gilts is shown lower in the table. There are also a small number of non-marketable (NILO) stocks in issue, which are issued directly to the National Debt Commissioners.

Sterling commercial paper

Sterling commercial paper is marketable paper issued with maturities of up to and including one year. This series excludes paper issued by MFIs (because these issues are included in M4 if owned by the M4 private sector and in the non-residents' sterling deposits if owned by non-residents). It also excludes paper owned by MFIs. The series may include a small element owned by non-residents but is likely to be owned predominantly by the M4 private sector.

Sterling Other Debt Securities

Sterling Other Debt Securities are marketable securities issued with original maturities of over one year. They include both fixed and floating-rate notes; floating-rate assets are more capital-certain and therefore may be considered more liquid than fixed-rate assets. The series published here is the total of all issues except those by MFIs (which are included in M4 if owned by the M4 private sector and in the non-residents' sterling deposits if identified as being owned by non-residents). There are no data distinguishing MFIs, public or non-residents holdings of this instrument; hence this series comprises all sectors' holdings.

Other sterling paper maturing within one year

This series comprises all holdings of sterling (including eurosterling) bonds issued by the UK private sector and the non-resident sector of original maturity of more than five years, which are due to mature within one year. The majority are floating-rate issues; floating-rate assets are more capital-certain and therefore may be considered more liquid than fixed-rate assets. There are no data distinguishing MFI, public or non-residents holdings of this instrument; hence this series comprises all sectors' holdings.

Residual maturity breakdown of gilts

The maturity breakdown cannot be allocated into sectors and hence both series cover all holders of gilts.

Sterling unused credit facilities

Coverage is incomplete - notably, the unused portion of credit card holders' limits is not included. Some banks report no unutilised facilities (although requests by borrowers to increase the credit limits are often met, and borrowers would probably expect them to be met). On the other hand, borrowers may have facilities with several institutions without intending to draw on them all simultaneously. Where a facility may be drawn in either sterling or foreign currency at the borrower's option, it is reported in foreign currency facilities - so that potential sterling facilities may be larger than the sterling facilities figures suggest.

Table B1.1: Central bank's balance sheet (Bank of England 'Bank return')

This table provides in summary form selected balance sheet items of the Bank of England. This is divided, for accounting purposes, into two departments - the Issue Department and the Banking Department - in accordance with the Bank Charter Act 1844. The figures are taken from the Bank Return published each Thursday. From April 1998, the Issue Department and the Banking Department together form the central bank sector. Prior to April 1998, the Issue Department was included in the central government sector, and Banking Department in the banks' sector. The Exchange Equalisation Account, the government account which holds the official reserves of gold, convertible currencies and special drawing rights, is not included in the table.

Issue Department

Liabilities

The accounts of the Issue Department are concerned solely with the note issue. The department's only liabilities are Bank of England notes, including those held by the Banking Department (through which issues and withdrawals of notes are made).

Assets

Government securities include British government and government-guaranteed securities, Treasury bills, and ways and means advances to the National Loans Fund. Before the Maastricht treaty became effective in 1994, it also included any special Treasury liability and the historic liability of the Treasury of £11 million (see page 56 of the Bank's 1971 Report and accounts), repayment of which on 27 July 1994 was financed by increased holdings of government securities. A special liability arose when, at the quarterly revaluation of the department's assets, the total market value was less than the note issue; in such circumstances the Treasury assumed a non-interest-bearing liability to the department to be written-off in the course of the department's operations. If the market value of assets is greater than the note issue, the excess is paid over to the Treasury.

Other securities include gilt and Treasury bill repurchase agreements (prior to 27 July 1994 these were covered under *Government securities*), promissory notes relating to ECGD and shipbuilding acquired as part of money market smoothing operations, commercial bills and local government bills (both inclusive of repos), miscellaneous securities and, on occasion, local government deposits and bonds acquired in the course of market operations.

Banking Department

Through this department the Bank acts as banker to the government, to other UK banks, to non-resident central banks and international organisations, to a small number of other domestic institutions and private individuals, and to staff.

Liabilities

The total includes the Bank's capital of £14.6 million, held by the Treasury, which is not included in any of the sub-totals. Credit items in course of transmission are included in deposits, and debit items in course of collection are deducted.

Public deposits are balances held by the central government at the Bank, including the accounts of the Consolidated Fund, the National Loans Fund, the National Debt Commissioners and the Paymaster General, together with dividend accounts, accounts connected with tax collection and various other government funds. Deposits held by local government and public corporations are included under reserves and other accounts.

Bankers' deposits. These consist of operational deposits held mainly by banks for clearing purposes, and non-operational cash ratio deposits for which institutions authorised under the Banking Act 1987 and deposit-taking UK branches of "European Authorised Institutions" were liable until 1 June 1998 under the arrangements for monetary control introduced in August 1981, and for which these institutions and those authorised under the Building Societies Act 1986 are statutorily liable from 1 June 1998. The definition of institutions covered by the CRD scheme was updated in December 2001 to reflect the coming into force of the main provisions of the Financial Services and Markets Act 2000.

Reserves and other accounts include deposit liabilities to non-resident central banks, Bank of England Euro bills, Bank of England Euro notes, the dividend accounts of stocks managed by the Bank other than the direct obligations of the British government, local government and public corporation accounts, and some private sector accounts.

Assets

Government securities include government and government-guaranteed securities, valued at cost adjusted for the amortisation of premiums or discounts on a straight line basis over the period to maturity, and Treasury bills.

Advances and other accounts include advances to the Bank's money market counterparties including the discount market, loans to customers and support loans to deposit-taking institutions. Provisions for losses are deducted.

Premises, equipment and other securities include equipment (at cost less accumulated depreciation) and premises (which have been valued professionally on the basis of an open-market value for existing use). Other securities include ordinary shares, local government bills and bonds, and commercial bills. Both listed and unlisted securities are included at cost less provisions.

Table B1.2: Other banks' balance sheet

Up until December 2001, this table aggregates the balance sheets of the banks within the United Kingdom. Banks within the UK comprise offices in Great Britain and Northern Ireland of institutions authorised under the Banking Act 1987, the Banking Department of the Bank of England (until March 1998), and deposit-taking UK branches of "European Authorised Institutions". After the introduction of the Financial Services and Markets Act 2000 (FSMA), this table aggregates the balance sheets of all financial institutions recognised by the Bank of England as UK banks for statistical purposes. This includes (1) institutions which have a permission under Part 4 of FSMA to accept deposits other than (i) credit unions, (ii) firms which have a permission to accept deposits only in the course of effecting or carrying out contracts of insurance in accordance with that permission, (iii) friendly societies and (iv) building societies; and (2) European Economic Area credit institutions with a permission under Schedule 3 of FSMA to accept deposits through a UK branch. This table excludes the Banking and Issue Departments of the Bank of England. The coverage of this table is comparable with Table B2.3 but the adjustments made in Table B2.3 to eliminate interbank transactions and transit items (see the notes to Tables B2) are not made in this table. Liabilities and assets are reported at market value, where available. Liabilities and assets in currencies other than sterling are translated into sterling at the middle market spot rate pertaining in the London market at 4pm London time on the last working day of the London market in the period covered by the report. Some amounts outstanding are therefore affected by movements in exchange rates; flows have been adjusted to remove these effects. From end-January 1999, the stock of assets and liabilities denominated in euros (including the legacy currencies of the 11 members of the euro area from that date, and Greece from end-January 2001) are shown separately as well as being aggregated with those denominated in other foreign currencies.

Liabilities

Notes outstanding and cash loaded cards comprise the sterling notes issued by Scottish banks and the Northern Ireland banks and cash loaded cards issued by banks.

Deposits

These include all credit balances on customers' accounts, including deposits by other UK banks (except deposits in connection with syndicated lending); deposits by non-resident offices of the reporting institution (except those invested in fixed assets which are included in capital and other funds), overdrawn accounts with UK and non-resident correspondents and shareholders' deposits. They also include acceptances granted, liabilities under sale and repurchase agreements, certificates of deposit and other short-term paper issued (all shown separately except bills accepted by another UK bank) and all liabilities in gold bullion or gold coin (which are included in 'Foreign currency liabilities') except that deposited for safe custody.

Sight deposits comprise those deposits where the entire balance, whether interest bearing or not, is accessible without penalty, either on demand or by close of business on the day following that on which the deposit was made. They include money at call (except where there is an agreement not to withdraw before a certain date or to call at a specific number of days' notice) and money placed overnight.

Time deposits comprise all other deposits (except acceptances granted, liabilities under sale and repurchase agreements, certificates of deposit and other short-term paper apart from bills accepted by another UK bank, which are shown separately). They include from April 1999 the cash elements of all ISA deposits including those which can be withdrawn on demand, and from March 2000 bills accepted by another UK bank.

Acceptances granted represent the banks' liabilities to the owners of the bills.

Liabilities under sale and repurchase agreements comprise cash receipts arising from the sale of securities or other assets for a finite period with a commitment to repurchase. Liabilities which arise when securities or other assets are sold in exchange for other securities or other non-cash assets are excluded. The amount of the liability (or its currency denomination) is determined by the cash consideration not the market value (or currency denomination) of the securities. There is a break in the series of liabilities to *UK banks* and *UK public sector* respectively after March 1998 as a result of the reclassification of the Issue Department of the Bank of England from the latter to the former (see notes to Tables B2). Whilst this reclassification has been effected throughout Table B1.2, it is particularly noticeable here.

CDs etc. and other short-term paper issued include promissory notes issued by the reporting institutions, unsubordinated capital market instruments (except debentures and secured loan stocks) of any maturity and subordinated loan stocks with a maturity of five years or less. Other subordinated loan stocks and debentures are included in capital and other funds. Issues of bills accepted by another UK bank are included in time deposits placed by UK banks.

Items in suspense and transmission comprise credit balances not in customers' names but relating to customers' funds rather than to the reporting institution's internal funds or to shareholders' funds; balances awaiting settlement of securities transactions, and standing orders and credit transfers debited to customers' accounts, and other items for which the corresponding payment has not yet been made by the reporting institution. Also included are credits in course of transmission to UK branches of the reporting institution, to other UK banks, and to non-resident banks.

Net derivatives comprise the overall net derivatives position of contracts which are included within the trading and banking books of the reporting institutions.

Accrued amounts payable are gross amounts payable which have not yet been paid or credited to accounts.

Capital and other funds include shareholders' funds, working capital provided by non-resident offices, and all internal accounts (both liability and asset). Included here is loan capital such as debentures and subordinated loan stocks with an original maturity of more than five years.

Assets

With UK Central bank

Cash ratio deposits: Prior to the implementation of the Bank of England Act on 1 June 1998, reporting banks with average eligible liabilities of £10 million or more were liable to lodge with the Bank of England non-operational, non-interest-bearing deposits of 0.35% of their eligible liabilities until 1 April 1998 and 0.25% thereafter. Adjustments to the amount of cash ratio deposits took place in October and April each year. On 1 June 1998 a statutory scheme came into effect whereby both banks and building societies with average eligible liabilities of £400mn or more are required to hold non-interest-bearing deposits with the Bank of 0.15% of their eligible liabilities in excess of £400mn; this threshold was raised to £500mn on 1 June 2004. Adjustments to the amount of cash ratio deposits take place in June and December each year based on average eligible liabilities in the six months to April and October respectively.

Other*:* These comprise balances with the Bank of England other than cash ratio deposits.

Market loans

UK banks includes all money (including correspondent balances, finance leasing and initial margin payments relating to futures and options contracts) lent to, or placed with, other UK banks (excluding the Bank of England); and bills drawn by other UK banks under acceptance credit facilities opened by the reporting institution which the reporting institution has itself discounted. Overdrawn accounts are included under deposits.

UK building societies CDs etc. and deposits includes banks' holdings of commercial paper issued by building societies and all deposits with building societies including finance leasing.

Non-residents includes all balances (including correspondent balances) with, and funds lent to, non-resident banks (except trade and portfolio investments); bills drawn by non-resident banks under acceptance credit facilities opened by the reporting institution which the reporting institution has itself discounted; and certificates of deposit and commercial paper issued by non-resident banks and owned by the reporting institution.

Acceptances granted comprise a claim on the party whose bill the banks have accepted except for bills both accepted and discounted by the same bank which are included as lending (unless subsequently rediscounted). Acceptances are classified according to the customer who has asked for the acceptance facility to be opened.

Bills

UK bank bills comprise all sterling bills which have been accepted by another UK bank.

Other UK includes local government bills, public corporation bills not accepted by UK banks, sterling commercial paper issued by other UK residents, and UK paper not included elsewhere. It excludes bills connected with lending under the special schemes for exports and domestic shipbuilding, and bills which the reporting institution has disposed of by rediscounting. Bills and notes are classified according to the currency in which they are drawn.

Bank euro bills are included from April 1999

Claims under sale and repurchase agreements comprise cash claims arising from the purchase of securities for a finite period with a commitment to re-sell. Claims which arise when securities or other assets are purchased in exchange for other securities etc. are excluded. The amount of the claim (or its currency denomination) is determined by the cash consideration not the market value (or currency denomination) of the securities.

Advances

These include all balances with, and lending (whether against collateral or not) to, customers, not included elsewhere. They include amounts receivable under finance leases and the reporting institution's own acceptances which it has also discounted (except those drawn by other UK and non-resident banks, which are included in market loans). Own acceptances discounted are shown as advances to the party who has asked for the acceptance credit to be opened. Advances purchased by or assigned to the reporting institution under a transferable loan facility or similar arrangement are included, but loans where the borrower is a UK bank, a UK building society, a non-resident office of the reporting institution or another non-resident bank are reported under Market loans. Provisions for bad and doubtful debts are not deducted. Where the reporting institution participates in (or acts as manager or co-manager of) a loan financed by more than one institution, only the reporting institution's participation for its own account is included, the loan being classified according to the ultimate borrower. See the note below on residential status for the definition of UK and non-residents.

Advances to other UK residents include all medium and long-term lending (i.e. with an original maturity of two years or over), at fixed rates under Department of Trade and Industry guarantee for shipbuilding in the United Kingdom for UK buyers, excluding any amounts refinanced.

Advances to non-residents includes all lending for exports under ECGD bank guarantee (excluding any amounts refinanced).

Banking Department lending to central government (net) comprises holdings by the Banking Department of the Bank of England of all forms of central government debt (including bank notes) less its deposit liabilities to the National Loans Fund and the Paymaster General. This item is discontinued after March 1998 as a result of the removal of the Banking Department's balance sheet from this table.

Investments

These include all securities beneficially owned by the reporting institution. They include securities which the reporting institution has sold for a finite period, but with a commitment to repurchase (i.e. repos), but exclude securities which have been bought for a finite period, but with a commitment to resell (i.e. reverse repos). Securities are defined as marketable or potentially marketable income-yielding instruments including bonds, FRNs, preference shares and other debt instruments but excluding certificates of deposit and commercial paper which are shown as market loans.

British government stocks include all stocks issued by the government.

Other public sector investments include certificates of tax deposit, local government stocks and bonds which are listed on The London Stock Exchange and UK public corporation stocks and bonds.

Investments in UK banks include Bank of England Euro Notes from January 2001.

Investments in non-residents includes deposits (including retained profits) with non-resident offices which have been invested in fixed assets such as premises and equipment.

Items in suspense and collection include all debit balances not in customers' names but relating to customers' funds rather than to the reporting institution's own internal funds (e.g. debit balances awaiting transfer to customers' accounts) and balances awaiting settlement of securities transactions. Collections comprise cheques etc. drawn, and in course of collection, on other UK banks and building societies. They include cheques that have been credited to customers' accounts but are held overnight before being presented or paid into the reporting institution's account with another UK bank or non-resident bank; they exclude cheques already passed to other UK banks for collection (these are included under 'Market loans' to UK banks). They include all collections on non-resident banks and items in transit to non-resident offices of the reporting institution, where the reporting institution is acting as principal and not as an agent for collection and where it has already given credit or value for the items.

Accrued amounts receivable are gross amounts receivable but which have not yet been received and include interest and other revenues.

Other assets include holdings of gold bullion and gold coin (in 'Other foreign currency assets'), other commodities, together with land, premises, plant and equipment and other physical assets owned, or recorded as such, including assets leased out under operating leases and leased in under finance leases. Assets leased out under finance leases are included as loans.

Holdings of own acceptances comprise all bills accepted by the reporting institution which the reporting institution has itself discounted, but excluding any such discounts which have subsequently been rediscounted.

Eligible banks' total sterling acceptances comprises all bills accepted by a reporting institution whose bills are eligible for rediscount at the Bank of England including those which the reporting institution has itself discounted.

Eligible liabilities comprise, in broad terms, sterling deposit liabilities, excluding deposits with an original maturity of over two years, plus any sterling resources obtained by switching foreign currencies into sterling. Interbank transactions (excluding cash ratio deposits with the Bank of England) are taken into the calculation of an individual institution's eligible liabilities on a net basis, irrespective of term, except for unsubordinated capital market instruments with a maturity of more than 5 years which are not taken into account. Adjustments are also made in respect of transit items.

Residential status

For statistical purposes, the United Kingdom comprises Great Britain and Northern Ireland, but from end-September 1997, excludes the Channel Islands and the Isle of Man. *UK residents* include: HM Government and other UK public authorities; enterprises which produce goods and services in the United Kingdom, including non-resident enterprises' branches and subsidiaries located and operating in the United Kingdom; individuals permanently resident in the United Kingdom (including temporary residents who have stayed, or who intend to stay, for a year or more) together with individuals normally resident in the United Kingdom who are overseas for less than a year; and members of UK armed forces and officials of HM Government serving overseas, as well as their dependants.

Non-residents include: non-resident governments, together with their diplomatic and military offices and representatives in the United Kingdom; international organisations, including their branches or representatives in the United Kingdom; UK representative offices of non-resident banks; non-resident offices of the reporting institution; enterprises located and operating overseas, including branches and subsidiaries of businesses which are themselves UK residents; and persons (including those of UK origin) who are residing outside the United Kingdom for a year or more.

Table B1.2.1: Other banks: group detail

This table analyses the aggregate banking sector balance sheet shown in Table B1.2 by nationality of ultimate ownership of the individual banks.

UK comprises those institutions which are either controlled by UK companies or by individuals resident in the UK.

The other groupings cover the bank branches and subsidiaries in the UK of companies (whether or not banks themselves) resident in each respective territory. UK-registered institutions in which no one institution has a shareholding of more than 50%, and in which at least one shareholder is based outside the UK, are allocated to *Other*.

Other developed **comprises OECD members and South Africa.**

Table B1.3: Building societies' balance sheet

Data source

The table is based on returns from societies representing around 95% of the stock of total building society business outstanding; the returns, collected by the Financial Services Authority, are aggregated and grossed up.

Liabilities

Shares and deposits

Shares and deposits include all shares held by, or sums deposited by, individuals as well as those placed with societies under contractual savings schemes operated by banks and friendly societies acting for individuals. Prior to October 1998, this also included some deposits of under £50,000 from corporate bodies.

Other liabilities and reserves

Included are reserves, taxation, deferred taxation and other liabilities not shown elsewhere.

Assets

Sterling bank deposits

See '*Transit items etc.*'.

Loans and investments

Prior to October 1998, building society loans and investments (or 'commercial assets) were divided into three classes, as defined by the 1986 Building Societies Act:

- **Class 1** assets were advances to individuals, secured on land for the residential use of the borrower. In addition, a class 1 asset had to be the first charge on the property.
- **Class 2** assets were advances secured on land which do not fulfil all the conditions of a class 1 asset (e.g. a secured loan which is not a first charge on the property). Class 2 assets therefore included lending to individuals secured other than by first charge or for non-residential purposes and secured lending to companies, unincorporated businesses and housing associations.
- **Class 3** assets included loans not secured on a first or second charge on land, subsidiary investments and investments in land.

From October 1998, the definitions of building society loans and investments have been changed to bring them into line with the 1997 Building Societies Act:

- **Loans fully secured on residential property,** to individuals only.
- **Other loans fully secured on land,** including loans secured on residential property to non-individuals**.**
- **Other loans to individuals,** including all unsecured lending to individuals.
- **Other loans and investments**

Other assets

Included are other assets not shown elsewhere, such as fixed assets.

Transit items etc.

Building societies' gross figures for holdings of sterling deposits with UK banks are adjusted to allow for net sterling transit items. Such items appear as credit and debit memo items on an individual society's balance sheet.

- **Asset transits** include cheques drawn in favour of the society not yet presented for payment, or which have been presented to the bank but not yet credited to the society's account.
- **Liability transits** include cheques drawn on the society's account but not yet debited by the bank (i.e. not on the society's bank statement).

As transit items represent 'uncleared cheque' business with banks, net transits are added into the column showing societies' sterling deposits with banks, i.e. this column comprises sterling deposits with banks *plus* asset transits *less* liability transits. A different treatment is adopted within the calculation of M4 (see notes to Table B2).

Breaks in the series

Since 1995 a number of building societies joined the banking sector, thus causing breaks in series.

- **Cheltenham & Gloucester Building Society** joined the Lloyds Bank Group in August 1995.
- **National & Provincial Building Society** transferred its business to Abbey National plc in August 1996.
- **Alliance & Leicester Building Society** converted to public limited company status in April 1997.
- **Halifax Building Society** converted to public limited company status in June 1997.
- **Woolwich Building Society** converted to public limited company status in July 1997.
- **Bristol & West Building Society** joined the Bank of Ireland Group in July 1997.
- **Northern Rock Building Society** converted to public limited company status in October 1997.
- **Birmingham Midshires Building Society** joined the Halifax Group in April 1999.
- **Bradford & Bingley Building Society** converted to public limited company status in December 2000.

In October 1998 a new monthly building society form was introduced bringing the building societies into line with ESA 95 standards, and breaks in series occurred as definitions changed.

Table B2: Monetary financial institutions' consolidated balance sheet

With effect from April 1998, UK statistics were brought into line with the standards of the European System of Accounts 1995 ('ESA95'). A new monetary financial institutions (MFI) sector was introduced comprising:

- the central bank;
- other banks; and
- building societies.

The central bank sector is made up of the Banking Department of the Bank of England (whose assets and liabilities were previously included in the banks sector) and the Issue Department (previously classified as part of central government).

This table, which supersedes the consolidated balance sheet of banks only, shows the position of the MFI sector as a whole in relation to third parties. Transactions within the MFI sector are netted out. Tables B2.2, B2.3 and B2.4 show, respectively, the contributions of the central bank, other banks and building societies to the MFI consolidated balance sheet. Because these tables are also consolidated at the MFI level, they do not, for instance, show banks' positions with building societies. As a result, the sub-sector tables are not balance sheets in their own right, but show the contributions to the wider MFI balance sheet. Data (levels and flows) for the sub-sectors are published only from April 1998. Sectoral detail for the central bank's, other banks' and building societies' contributions to the consolidated balance sheet will be made available on the Internet in due course.

A slightly expanded version of table B2.2 is available on the internet as table B2.2.1; this alternative presentation is provided to meet the requirements of the IMF's Special Data Dissemination Standard.

Includes both monthly and quarterly reporting institutions.

Although not immediately obvious, the UK monetary statistics (other than M0) were already compiled on the basis of the MFI sector. The Bank of England Banking Department has always been part of the UK banks sector, and the Issue Department's transactions with the M4 private sector (including transactions associated with its money market operations as well as the note issue) are included in broad money and its counterparts. Bringing the balance sheet onto the same institutional basis as the monetary statistics helps to illustrate the derivation of broad money and its counterparts.

Instrument detail

The instrument detail is also consistent with that specified in ESA95. The full instrument breakdown is as follows:-

Liabilities	**Assets**
currency, deposits and money market instruments	loans
financial derivatives	securities other than financial derivatives
other securities issued	financial derivatives
other financial liabilities	other financial assets
Other	Other

Currency, deposits and money market instrument. Currency includes notes issued by Scottish and Northern Irish banks (net of Bank of England notes held as backing) as well as notes issued by the Issue Department of the Bank of England. Holdings of currency by the private sector are the residual of the total issued less *estimated* holdings by all other sectors. (Coin is a liability of HMG and not included within currency in this table.) Deposits and money market instruments include estimated holdings of MFIs' certificates of deposit, commercial paper, bonds, FRNs and other instruments of up to and including five years' original maturity, and, from December 1995, liabilities arising from repos.
With the addition of its holding of UK coin, the private sector's holding of sterling currency, deposits and money market instruments equals M4.

Other liabilities comprise: MFIs' net liabilities under financial derivatives; unsubordinated instruments of more than five years' original maturity; and other capital items, including retained profits. On the contributions these instruments are shown as one category 'other liabilities', whilst they are shown separately at the MFI balance sheet level.

Loans include all forms of lending by MFIs, other than holdings of securities. It includes holdings of non-bank bills, amounts receivable under finance leases, and, from December 1995, lending under reverse repos. A revised treatment of acceptances was introduced in September 1997 and backdated. Although acceptances are still reported off balance sheet by individual banks, in aggregate in the consolidated balance sheet, and in the monetary statistics, they now count as on the balance sheet of the accepting bank i.e. a bank accepting a bill is regarded as having a claim on the party on whose behalf the acceptance credit facility was opened, and a liability to the holder of the bill. Almost all sterling bank bills are held by other MFIs, so the resulting liabilities and claims net out on consolidation. For further details see articles in the September 1997 and February 1998 editions of this publication.

MFI's sterling loans to, and investments in, the private sector are equal to the sterling lending counterpart to M4.

Other assets include fixed assets, gold bullion beneficially owned, and other commodities.

Valuation of transactions

The figures for banks' transactions in liabilities and assets in foreign currencies (including gold) have been adjusted to exclude the estimated effect of movements in exchange rates. Building societies' non-sterling assets and liabilities are relatively small, and at present no exchange rate adjustment is possible. From 1994, flows for banks' holdings of securities issued by non-residents are based on transactions data.

Adjustments on consolidation

As noted above, in producing the MFI consolidated balance sheet transactions between MFIs are netted. Any difference between reported liabilities to, and claims on, other MFIs is handled as follows.

The inter-MFI difference is allocated to sectors according to the results of a detailed investigation of the causes of interbank difference (see page 101 of June 1992 *Economic Trends*). In particular, from end-1986, 95% of the sterling interbank (now inter-MFI) difference has been allocated directly to the private sector's deposits. From the same date, 60% of the foreign currency interbank (now inter-MFI) difference has been allocated to non-residents' non-sterling deposits, and 40% to the private sector's deposits.

Transit and suspense items

- Transit items appear in banks' balance sheets both as credits and debits (e.g. standing orders or cheques in course of collection).
- Suspense items relate to customers' funds but are not held in customers' names.

When banks' figures are aggregated, these items may give rise to double-counting of deposits received from customers outside the banking system or, where overdrawn or loan accounts are concerned, to the under-recording of total lending made to such customers. The data for deposits and loans are therefore adjusted.

From October 1986 it is assumed that:

- 70.4% and 3.6% of **sterling credit transit items** are added to non-interest-bearing deposits from the UK private and public sectors respectively. The remaining 23.6% and 2.4%, for UK private and public sectors respectively, is subtracted from advances.
- 72% of **sterling debit transit items** are subtracted from non-interest-bearing deposits from the UK private sector and 28% are added to advances to the UK private sector.
- The 5% of the **sterling interbank (inter-MFI) difference** associated with transits is allocated 74% to deposits and 26% to advances from the UK private sector.
- 67% of both credit/debit **sterling suspense items** are added to/ subtracted from the UK private sector's non-interest-bearing deposits. The remaining 33% is subtracted from/added to advances to the UK private sector.
- For **foreign currency transit items**, the difference between credit and debit items is added to deposits from non-residents.
- 39% of **foreign currency credit items in suspense** are added to non-residents deposits and 22% to UK private sector deposits. The remainder is subtracted from advances, 26% non-resident and 13% UK private sector.
- 39% of **foreign currency debit items in suspense** are subtracted from non-residents deposits and 21% from UK private sector deposits. The remainder is added to advances, 26% non-resident and 14% UK private sector.

For sectoral purposes (Table A4), each adjustment to deposits from, or advances to, the UK private sector is further allocated to other financial corporations, private non-financial corporations or the household sector

No similar adjustments are required for building societies' transit items because they represent 'uncleared cheque' business with banks and do not therefore give rise to double-counting (as detailed above for banks' transits).

Table B3.1: Banks in the UK: income and expenditure

This table records banks' income and expenditure from the first quarter of 1998 - when a new version of the Form A3 was introduced. Data from the first quarter of 2004 are from the Form PL (which replaced Forms A3 and BP). While moves from net to gross reporting for some items by some banks has affected certain gross figures, this did not lead to material breaks in any of the net series. Data are collected on an accruals accounting basis - except for dividends (which are collected on a cash basis). Figures include income, expenditure and dividends for both domestic and non-resident markets.

Dividend payments/receipts: cash dividends paid or received during the period. This includes any bonus/scrip issues (i.e. issues of new fully-paid shares to existing shareholders on a basis pro rata to existing holdings).

Net charges, commissions and fees: net receipts relating for example to the issue of new securities, investment management services, retail foreign exchange business, guarantees and payment transactions.

Other income less expenditure: includes rent received and paid on land and buildings, net payments on finance leases and other income less all current expenditure (such as wages, occupancy costs and restructuring costs). Expenditure excludes depreciation charges and provisions.

Net income: includes net dividends received, net interest income, net charges, fees and commissions and other income less expenditure. It excludes dealing profits and other revaluation profits/losses.

Interest on money market instruments: includes all income from certificates of deposit, promissory notes, commercial paper and other short-term negotiable paper.

Interest on loans & advances and deposits: interest on gold deposits, deposit liabilities, accounts in credit and interest debited from loan or overdrawn accounts.

Interest on repos/reverse repos: the difference between the sale and repurchase price of (reverse) repos and (for buy-sell back repos) the value of the interest/dividend that is receivable/payable from securities reverse repoed in/out.

Interest on bonds and floating rate notes (FRNs): including interest on all bonds and floating rate notes.

Table B4.1: Banks in the UK: Income and expenditure vis-à-vis non-residents

UK banks' income and expenditure receivable from and payable to non-residents is shown in this table. The majority of these data were collected on the BP survey Form until Q1 2004 when Form PL replaced Forms A3 and BP. Whilst moves from net to gross reporting for some items by some banks affected certain gross figures this did not lead to material breaks in any of the net series. Data are available from the first quarter of 1998, when a new version of the BP Form was introduced to bring the data collection into line with the relevant international standard, the *European System of National and Regional Accounts, 1995* (ESA95). Non-residents are defined in ESA95 as economic units that have a centre of economic interest **outside** UK economic territory. ESA95 states that UK economic territory **excludes** the Channel Islands and the Isle of Man. Figures for interest, fees and commissions are collected on an accruals basis. Dividends and profits are collected on a cash basis.

The figures shown in the table are presented according to the guidelines in the International Monetary Fund's *Balance of Payments Manual* (fifth edition). The tables are therefore compatible with the Balance of Payments data published by the ONS. However, the ONS banking sector figures include a number of estimates for data that are not collected on the BP form and other adjustments.

The sign convention used in the table is also consistent with that used by the ONS in their Balance of Payments accounts. This shows both amounts receivable (called credits by the ONS) and payable (debits) with a positive sign.

Trade in Services: These data include both commissions and fees receivable from, or payable to, non-residents. Some examples of data included are the fees and commissions associated with foreign exchange transactions, new issues of securities, portfolio management, derivative transactions, etc. Trade in Services credits also includes an estimate for spread earnings from foreign exchange business with non-residents. From Q1 2004, this estimate is based on experimental data on total spread earnings collected on Form PL, using a set proportion to derive those earnings due from non-residents.

A more detailed product and geographical breakdown of service earnings is published, on an annual basis, in the latest *Statistical Abstract* (Tables 12.1 and 12.2).

The net series is equivalent to the net exports of banking services published by the ONS in the balance of payments current account (component of trade in services).

Direct investment income: Amounts receivable cover transactions where there is an outward direct investment relationship and amounts payable relate to inward direct investment.

Direct investment income receivable is calculated using the profits of non-resident branches and subsidiaries of UK-owned banks, dividends received from subsidiaries and net interest receivable from companies where there is a direct investment relationship (direct investment is defined where one company owns more than 10% or more of equity capital in another company).

Direct investment income payable is similarly calculated using the profits of banks operating in the UK that are themselves branches or subsidiaries of non-resident companies, dividends paid to these non-resident parent companies and net interest payable to companies where there is a direct investment relationship.

The table shows the profits and losses of branches separately from the remaining items in direct investment income.

Portfolio investment income (receivable): This comprises; (a) the dividends received on holdings of equity issued by non-residents, not included in direct investment income; (b) the income receivable on bonds and notes, FRNs, certificates of deposit, commercial paper and other short-term paper issued by non-residents.

Figures for the settlement payments on interest rate swaps (IRS) and forward rate agreements (FRAs) with non-residents were originally included in portfolio investment income receivable. These data are now excluded from the table, in line with international standards. The ONS now include these settlement flows in the balance of payments financial account. The IRS and FRA figures are collected on the DQ Form, which specialises in the collection of derivatives data (see Table F1.1).

The Bank of England does not collect the income payable on portfolio securities held by non-residents.

Other investment income: This category comprises all interest receivable from, or payable to, non-residents on loans and advances, repo/reverse repo transactions and interest receivable on special scheme lending for exports. Interest flows that have already been recorded in direct investment income are excluded.

Table C1.1: Industrial analysis of bank deposits from UK residents

Data on the industrial analysis of deposits was first collected for end-December 1997. The analysis is based on the ONS Standard Industrial Classification (SIC) of 1992 and deposits from residents in the Channel Islands and the Isle of Man were excluded. Flows data are available from Q1 1998. Banks with footings £1000mn+ or eligible liabilities £100mn+ report these data which are then adjusted to represent deposits with all UK banks.

The analysis, not seasonally adjusted, covers deposits in UK banks from their UK resident non-bank/building society customers (including the UK public sector) in sterling and other currencies.

Currency deposits outstanding are translated into sterling at the middle market spot rate in the London market at 4pm on the last working day in the reporting period.

The main differences between the total analysed in Table C1.1 and banks' sterling deposits from the M4 private sector are:

- M4 includes the M4 private sector's holdings of certificates of deposit, commercial paper, bonds, FRNs and other instruments of up to and including five years' original maturity;
- M4 includes 95% of the domestic sterling interbank difference, and adjustments for transit items;
- this analysis is not seasonally adjusted and includes deposits from the UK public sector;
- here deposits from unincorporated businesses and non-profit making bodies are included in an industrial category, the sectoral analysis of M4 includes them in the household sector;
- this analysis covers both sterling and other currencies.

Deposits placed by fund managers consists of money placed on behalf of UK investment and unit trusts, UK money market mutual funds, UK insurance companies and pension funds, UK individuals, other UK residents, non-resident clients and unidentifiable clients.

Table C1.2: Industrial analysis of bank lending to UK residents

The ONS Standard Industrial Classification (SIC) of 1992 forms the base and lending to residents in the Channel Islands and the Isle of Man are excluded from end-September 1997. Previous analysis was based on SIC 1980. These data are submitted quarterly on Form AL which contains 44 categories classified by industry (the main activity of the borrower), irrespective of ownership. Lending to unincorporated businesses etc. is allocated according to trade or profession. Banks with footings of £1,000mn+ or eligible liabilities of £100mn+ report these data and they are then adjusted to reflect lending by all UK banks.

The analysis (not seasonally adjusted), covers loans, advances, finance leasing, acceptances and facilities in both sterling and other currencies, and holdings of sterling and euro commercial paper issued by UK residents, provided by reporting banks to their UK resident non-bank/building society customers.

Loans and advances include amounts lent under the DTI special scheme for domestic shipbuilding for UK buyers, but not funds placed through the local government money market or funds lent to UK banks, UK building societies or non-residents.

Acceptances are for bills accepted by reporting institutions under facilities granted to UK residents (other than UK banks or building societies) which are still outstanding; those discounted by the reporting institution itself are advances rather than acceptances.

Facilities data consist of the total amount of overdraft, loan and acceptance facilities outstanding, both drawn and undrawn.

Other currency advances and acceptances outstanding are translated into sterling at the middle market spot rate in the London market at 4pm on the last working day in the reporting period.

The main differences between the total analysed in Table C1.2 and banks' sterling lending to the M4 private sector are:

- M4 lending counterpart includes banks' investments in securities issued by the M4 private sector and transit item adjustments;
- this analysis includes lending to the UK public sector;
- here lending to unincorporated businesses and non-profit making bodies are included in an industrial category, the sectoral analysis of M4 lending includes them in the household sector;
- this analysis is not seasonally adjusted, as the back series on the current basis is too short;
- this analysis covers both sterling and other currencies.

Table C1.3: Industrial analysis of sterling bank lending to UK residents: long runs

The categories in the long run industrial analysis of lending to UK residents have been condensed in the manner published by the British Bankers' Association (BBA) in order to bridge across the break between the previous analysis in Table 12.2 (old) last published in April 1998 and based on SIC 1980, and the current analysis in Table C1.2 based on SIC 1992.

As part of the agreed implementation schedule for the Banking Statistics Review (BSR), levels data for Q2 1997 were not submitted by reporting institutions, and as a consequence flows data for Q2 and Q3 1997 were not calculable (for details of the changes to reporting at BSR see *Monetary and Financial Statistics* September 1997 and February 1998 editions). The BBA continued to collect monthly figures for the industrial analysis of lending and asked their reporters (the Major British Banking Groups) to quantify breaks caused by revised industrial coding, BSR changes and other reclassifications.

In this table, levels for Q2 1997 and flows for Q2 and Q3 1997 have been estimated. They are therefore not as robust as other levels and flows, and should be used with caution. A strong "health warning" must be attached to the long run of data, not only for the reasons outlined above but because the merged table cannot take account of every detail of the BSR changes or of the redistribution across the industrial categories resulting from the changes to the industrial coding.

Levels were fixed for Q2 1997 where information was available from other reporting. MBBG data for Q2 1997 were provided by the BBA, and the residual lending to UK residents was calculated from known total lending figures and spread across the remaining industrial categories using four-quarter weighted average proportions. Flows were calculated based on the estimated Q2 1997 levels, and adjusted using existing adjustments that had been applied to lending data from other reporting. The residual adjustments were based on breaks provided by the BBA (grossed up for the reporting population).

The analysis, a non-seasonally adjusted version of which is available on the *Monetary & Financial Statistics* internet site, covers loans, advances (including lending under reverse repos), acceptances and holdings of commercial paper in sterling, provided by reporting banks to their UK resident non-bank and non-building society customers. The figures for loans and advances also include, indistinguishably, amounts lent under the Department of Trade and Industry special scheme for domestic shipbuilding for UK buyers. It does not, however, include funds placed through the local government money market or funds lent to UK banks, UK building societies or non-residents.

The main differences between the total analysed in Table C1.3 and banks' sterling lending to the M4 private sector (as defined in the counterparts to M4) are:

- the M4 lending counterpart includes banks' investments in securities issued by the M4 private sector and adjustments for transit items;
- this analysis includes lending to the UK public sector;
- in this analysis lending to unincorporated businesses and non-profit making bodies is included in the appropriate industrial category; whereas in the sectoral analysis of the M4 lending counterpart it is included in lending to the household sector.

3 and 12 month growth rates of bank lending to UK residents analysed by industry are calculated in the same way as the growth rates of M4 and M4 lending shown in Table A2.1 – please see the notes to that table for further details.

Table C2.1: Write-offs and other revaluations of loans by banks

Revaluations comprise changes in the value of assets arising from certain non-cash transactions. Examples of such transactions are write-offs and disposals of assets at a discount or premium to book value. However, changes in the sterling value of foreign currency liabilities and assets arising solely from exchange rate changes are excluded.

Shown here are write-offs and other revaluations of loans by banks as reported on the Form QX. These data are reported quarterly by all reporters who have footings of more than £1000mn or eligible liabilities of more than £100mn. All contributing banks report total write-offs in the quarter. However, the sectoral split, published in the table, is derived from the split provided annually by all banks, together with a quarterly split provided by those banks who write off more than £50mn in that calendar quarter.

While write-offs and revaluations are of interest in their own right, these data are also used to calculate adjustments to remove their effects from bank lending flows. (Flows are calculated as the difference between amounts outstanding at end-months; write-offs reduce the stock of lending indistinguishably from repayments).

Although the write-offs reported in this table will generally have been included in banks' provisions against bad debts previously, the provisions data themselves are not included in this table.

Because of the irregular nature of write-offs these data are **not** grossed up for those banks that are not in the reporting population.

Revaluations of investments are **not** covered by this table as data are reported from other sources, so that adjustments can be applied to **investment** flows to remove valuation effects.

Table C2.1 replaced the table and article "*Adjustments for banks bad-debt write-offs*" which was previously published in the annual *Statistical Abstract*. Further information is available in the article "*UK banks' write-offs of bad debt*" by Al Cattermole, published in the September 2004 edition of this publication.

Table C3.1: External business of banks operating in the UK

Shown here are changes in reporting institutions' gross liabilities to, and claims on non-resident banks and other customers. Derivation is from amounts outstanding on the last working day of calendar quarters. Adjustments to remove the effects of exchange rate movements have been made. Figures are shown in US dollars in line with international standards.

Institutions with little external business do not provide geographical details. The business of these institutions is included in 'other'.

Forward commitments and unsettled spot deals are not included in the series. Floating Rate Notes and other investments with an original maturity of one year or more are included.

Acceptances are considered as on-balance sheet items.

UK liabilities

These comprise deposits and advances received from, and liabilities from acceptances given on behalf of non-residents as well as certificates of deposit issued in London and held by non-residents.

Official liabilities in foreign currencies arising from direct borrowing by the UK government and from drawings on central bank facilities are not included.

Gross liabilities include London certificates of deposit with unknown holders and a further adjustment is made in respect of some minor items not allocated sectorally by reporting institutions and assumed to relate to non-residents.

International issues of securities (e.g. eurosterling, and foreign currency bonds and FRNs) are included in external liabilities. All such paper issued by UK banks is assumed to be held by non-residents. The data are included within 'other'.

UK claims

These comprise the reporting institutions' loans and advances to non-residents; commercial bills and other negotiable paper drawn on non-residents; lending under ECGD special schemes for exports; acceptances on behalf of non-residents; assets leased out under finance leases and holdings of certain investments outside the UK (including securities with contractually defined repayment dates issued by non-resident governments, institutions such as the World Bank and corporate bodies registered abroad) with original maturity of one year plus.

Investments in the share and loan capital of reporting institutions' non-resident subsidiaries, and in securities without contractually defined repayment dates (e.g. equities), are excluded.

Table C3.2: External business of banks operating in the UK: by country

See notes to Table C3.1. This table shows the amounts outstanding in reporting institutions' books on the last working day of each calendar quarter, reported in sterling but translated into US dollars.

'..' indicates countries omitted for confidentiality reasons. The amounts are usually small and included in area totals where possible. Country groups are the same as those used by the BIS - see below:

- **France** also includes: French Guiana, French Southern Territories, Guadeloupe, Martinique, Monaco, Reunion and St. Pierre and Miquelon.
- **United States** also includes: US Virgin Islands.
- **West Indies UK** includes: Anguilla, Antigua and Barbuda, British Virgin Islands, Montserrat and St. Christopher/St. Kitts-Nevis.
- **British Overseas Territories** includes: British Antarctic Territory, British Indian Ocean Territory and Pitcairn Islands.
- **United Arab Emirates** includes: Abu Dhabi, Dubai and Other United Arab Emirates.
- **"Other" Developed Europe** includes: Faeroe Islands and Greenland.
- **"Other" Offshore Centres** includes: Aruba and Vanuatu
- **"Other" Developing Africa & Middle East** includes: Benin, Burkina Faso, Burundi, Cape Verde, Central African Republic, Chad, Comoros Islands, Congo, Djibouti, Democratic Republic of Congo, Equatorial Guinea, Eritrea, Gabon, Gambia, Guinea, Guinea-Bissau, Lesotho, Madagascar, Mauritania, Namibia, Niger, Rwanda, Sao Tome & Principe, Senegal, Sierra Leone, Somalia, St Helena, Swaziland, Togo, Western Sahara.
- **"Other" Developing Asia & Pacific** includes: Bhutan, Canton & Enderbury, Democratic People's Republic of Korea, Fiji, French Polynesia, Georgia, Kirgizstan, Kiribati, Maldives, Mongolia, Nauru, New Caledonia, Papua New Guinea, People's Democratic Republic of Lao, Samoa, Solomon Islands, Tajikistan, Tonga, Tuvalu, Union of Myanmar, US Trust Territories in the Pacific, Wallis and Fortuna Islands.
- **"Other" Developing Europe** includes: Belarus, Former Czechoslovakia, Macedonia and Moldova.
- **"Other" Developing Latin America & Caribbean** includes: Dominica, Falkland Islands, Grenada, Guyana, Haiti, Nicaragua, Saint Lucia, Saint Vincent & the Grenadines and Suriname.

Table C3.3: External business of banks operating in the UK: by currency and sector

See notes to Tables C3.1 and C3.2.

Table C4.2: Consolidated external claims and unused commitments of UK-owned banks and their branches and subsidiaries worldwide

These data differ from the other banking data as the UK-owned banks are the only contributors; the data include the operations of non-resident branches and subsidiaries of the contributing banks, with intra-group business netted out. The amounts shown in these tables are reported to the Bank of England in sterling terms and translated into US dollars, in line with international standards.

Total foreign claims comprise cross-border claims plus local claims in foreign and local currency. This is shown on an ultimate risk and immediate borrower basis. Claims on an immediate borrower basis represent where the initial claims lies, e.g. the company to which the initial loan is made. Details of the calculation required to obtain claims on an ultimate risk basis, which includes inward and outward risk transfers, are provided below.

Cross-border claims comprise external lending by UK offices of UK-owned banks in sterling and foreign currencies and cross-border lending by UK-owned non-resident branches and subsidiaries in local and non-local currency, other than to the United Kingdom.

Local claims in foreign and local currency comprise lending by non-resident branches and subsidiaries of UK-owned banks to local residents in both non-local and local currency.

Lending to non-residents includes loans and advances, amounts receivable under finance leases, claims under sale and repurchase agreements, commercial bills, certificates of deposit and lending under ECGD bank guarantee. It includes securities issued by foreign government, foreign institutions (e.g. IBRD) and corporate institutions registered outside the UK (not including the reporting institution's own subsidiaries and associates outside the UK). In addition, it includes sterling and other currency acceptances given under facilities opened on behalf of non-residents.

Banking International Organisations are reported within the public sector rather than banking sector institutions.

Individual countries on which claims are very small are included in "other" countries in the geographical analysis. Totals may not be the sum of component parts due to rounding.

Maturities are classified by reference to the period remaining to maturity, not the original period of the loan. Any overdue repayments are included within the data for 'six months and under'.

Derivatives comprise all cross-border and local residents' financial claims resulting from derivative contracts, independent of whether the contract is booked as off- or on-balance sheet. These are **not** included within total foreign claims.

Unused commitments are the unutilised portion of both binding contractual obligations and those commitments which reporting banks would regard themselves as obliged to honour under any circumstances. They comprise **guarantees** and **other credit commitments**. Only commitments which would qualify as a foreign claim on a non-resident, if utilised, are included.

A **risk transfer** between countries occurs where the repayment of a claim is effectively guaranteed by residents of other countries or institutions in other sectors. Risk can also be transferred between sectors.

Outward risk transfers show claims which arise when the borrower is a branch of a bank whose head office is located in a different country or operates in a different sector, or when a third party located in a different country or sector from the original borrower guarantees, under the terms of a formal, legal and irrevocable agreement, to repay the claim should the original borrower fail to do so. Outward risk transfers may also be reported when collateral from an entity in a different country and/or sector is provided to offset the risk that the original borrower or lessee fails to repay, and where credit derivatives are used to cover the financial risk of financial claims in the banking book, where the counterparty to the credit derivative is in a different country and/or sector. An **inward risk transfer** is reported to the country of residence of the guarantor and represents a contingent liability of those countries. This risk may be reallocated to a different sector to that in which the original borrower operates.

The total of inward risk transfers included in the table differs from the total of outward risk transfers. Part of the difference represents net cross-border transfers of risks to or from the United Kingdom, including transfers of risk associated with Export Credit Guarantee Department (ECGD) backed lending to other countries. The remaining element represents where cash collateral is present, requiring an outward risk transfer to be reported without an associated inward risk transfer. Details of these transfers and a reconciliation with the risk transfers are provided in the footnotes to the table.

Claims on an **Ultimate risk basis** are calculated by:

	Total foreign claims on an immediate borrower basis
minus	Outward Risk transfers
plus	Inward Risk transfers

See notes to Table C3.2 for country groups.

Table C5.1: Monetary financial institutions' in Jersey, Guernsey and Isle of Man balance sheet

The implementation of the European System of National and Regional Accounts 1995 (ESA 95) in September 1997 resulted in the Channel Islands and the Isle of Man being treated as outside the UK for statistical purposes. Prior to 1997, banking institutions in the Channel Islands and Isle of Man had the option of being included within the UK banking sector. Their business, along with the business of offshore island branches of UK building societies, is excluded from Tables B1.2 and B1.3.

Their balance sheet instruments are a summary of the items contained in Table B1.2, and are therefore comparable.

Deposits include sight and time deposits and any liabilities under sale and repurchase agreements from UK mainland, Jersey, Guernsey and Isle of Man.

Securities and other investments include British Government securities, overseas government securities, UK company securities/shares and overseas company securities/shares.

Valuation

Foreign currency assets and liabilities are converted to sterling at end-period market exchange rates.

Tables D2.1 & D2.2: Bank of England operations in the money markets

The primary aim of the Bank's operations in the sterling money markets is to steer short-term market interest rates to levels required to implement monetary policy. Subject to meeting that aim, it operates so as to help the banking system to manage its liquidity effectively. These tables show the instruments through which the liquidity is supplied by the Bank in its market operations and the change in settlement banks' operational balances at the Bank, which are the fulcrum of the system.

The market's need for refinancing from the Bank depends on transactions between the Bank and all other players, including the commercial banks and their customers. Following the transfer of responsibility for Exchequer cash management from the Bank to the Debt Management Office in April 2000, the market's need for refinancing from the Bank is principally determined by the following three factors:

(i) the maturing stock of refinancing;

(ii) changes in the note circulation;

(iii) other movements across the Bank of England's balance sheet.

For further details, see the paper 'The Bank of England's Operations in the Sterling Money Market', May 2002, 'Reform of the Bank of England's operations in the sterling money markets', February 1997, the Press Notice 'Timetable for Bank of England Money Market Operations', 27 May 1998. Details can also be found on pages 153-161 of the Summer 2002 *Quarterly Bulletin* and the 'Markets and Operations' sections of subsequent *Quarterly Bulletins.* The most recent amendments to the Bank of England's operations were announced on 27 August 2003 and are detailed on page 270 of the Autumn 2003 *Quarterly Bulletin*.

On 15 October 1998, the Bank announced an extension to the range of securities it would accept in its daily repo operations to include securities denominated in sterling and euro issued by the central governments and central banks of the European Economic Area (EEA) countries and certain major international financial institutions. Further details of eligible securities can be found on the Bank's website at www.bankofengland.co.uk/markets/money/eligiblesecurities.htm.

On 27 June 2001, the Bank introduced a daily collateralised liquidity withdrawal facility (in effect, an overnight deposit facility) to its open market operations. . It is designed to moderate any undue softness in overnight market interest rates. On 15 September 2003 the Bank changed the deposit facility to a daily un-collateralised liquidity withdrawal facility It complements the facility the Bank extends at the end of each day to lend overnight in order to moderate any undue tightness in overnight rates. The deposit facility thus puts the Bank's overnight operations at the end of each day on a symmetrical basis and helps to moderate volatility in either direction in overnight rates. Like the existing overnight lending facility, the deposit facility is available at 3.30 pm to the Bank's money market counterparties.

On 15 September 2003 the Bank of England issued a revised operational notice for operations in the sterling money markets primarily to reflect the dematerialisation of money market instruments within CREST.

On 11 February 2005 the Bank of England announced the following interim changes to its official operations in the sterling money markets, effective from 14 March 2005: the rate on the Bank's overnight (3.30 pm) and late repo (4.20 pm) facilities will be the MPC repo rate plus 25 basis points and the rate on the Bank's overnight (3.30 pm) deposit facility will be the MPC repo rate minus 25 basis points; the rate charged on the Bank's two-week reverse repo operations will be indexed to the MPC repo rate; the Bank will no longer include outright purchases of Treasury bills and eligible bankers' acceptances in its open market operations; and, in addition, given their recent declining role, bankers' acceptances will cease to be eligible as collateral in the Bank's open market operations and for intra-day liquidity in the Bank's RTGS payments system.

Eligible Bankers' Acceptances (from 15/09/03): The EDS ('eligible debt security') equivalents of bills of exchange issued into CREST by a bank on the Bank's current list of eligible banks and which meet the other requirements for eligible bankers' acceptances as set out in the Bank's current notice on the requirements for eligible banks and eligible banker's acceptances. An eligible debt security is defined in the Uncertificated Securities Regulations 2001, as amended. On 27 August 2003 the Bank announced that subject to transition arrangements; it would no longer accept in its operations so called bank-on-bank bills (bills where both the issuer and the acceptor are banks).

Bank bills: Comprise commercial bills which are payable in sterling and have been accepted by a bank whose bills are eligible for discount at the Bank of England (for further information see www.bankofengland.co.uk/markets/money/eligiblebanks.htm)

Local authority bills: The Bank also buys outright and on repo eligible local government bills; such purchases are in practice rare and are shown as a footnote to the table.

Other sterling debt: Comprises Treasury bills and bonds denominated in sterling issued by other central governments in the European Economic Area and the major international institutions.

Euro debt: Comprises Bank of England euro bills and notes and bonds denominated in euro issued by central governments and central banks in the European Economic Area and the major international institutions, where they are eligible for use in ESCB monetary policy operations.

3.30pm overnight repos: Incur an interest rate 100 basis points above the Bank's repo rate.

3.30pm deposit facility: Remunerated at 100 basis points below the Bank's repo rate.

Table D4.1: UK international reserves

These comprise foreign currency reserves, gold, special drawing rights (SDRs) and other reserve assets held in the Exchange Equalisation Account together with the UK's reserve position in the International Monetary Fund (IMF).

A reserve position represents an automatic drawing right on the Fund and equals the amount that the UK quota exceeds holdings of sterling by the IMF. Apart from UK drawings/repurchases, it will rise or fall as other countries draw sterling from, or repay sterling to, the IMF. Other claims on the IMF such as the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB) would also be included here (see Table 1.2J in the ONS publication *Financial Statistics* for more details).

Foreign currency reserves comprise currency and deposits (held with monetary authorities and banks), securities (equities, bonds and notes, and money market instruments) and other claims.
Other reserve assets comprises foreign currency forwards and swap positions and claims on counterparties on account of reverse repos.

Valuation

UK International Reserves are valued at end-period market prices and exchange rates.

Table D4.2: UK central government and other public sector foreign currency debt

UK central government and other public sector foreign currency debt comprises:

ECS and assigned debt

Net borrowing, primarily by UK local government, under the 1969 and subsequent exchange cover schemes (ECS). This includes foreign currency borrowed through UK banks and from abroad, the issue of foreign currency securities, and any debt owed under the scheme by privatised public corporations at the time of privatisation.

The proportion of other public sector debt assigned to HM Government drawn from UK banks and non-resident lenders (these assignments involve equal and offsetting reductions in other public sector borrowing under the Exchange Cover Scheme).

Outstanding ECS and assigned debt is included in the short-term loan and medium and long term loan columns.

Money market instruments

Since the Euro Treasury bill programme wound down (the last bill was redeemed in September 1999), UK Government has no outstanding liabilities relating to money market instruments.

Bonds and notes

This item comprises:

- An issue of $2,000 million floating-rate notes in October 1996 ;
- An issue in February 1991 of ECU 2,500 million issue of HM Government ten year bonds;
- From January 1992, quarterly issues of 3 year HM Government ECU/Euro Treasury Notes;
- An issue in December 1992 of $3,000 million of HM Government 10 year bonds;
- An issue in October 1996 of US$ 2,000 million of HM Government 5 year bonds.
- An issue in June 2003 of US$ 3 billion of HM Government 5 year bonds.

Medium and long term loans

Consists of debt with a maturity of greater than one year: primarily North American debt dating from the 1940s and ECS and assigned debt.

Liability due to SDR allocation

This liability is related to the allocation of SDRs by the IMF. In the event of the winding up of the IMF SDR Department, or in other circumstances the UK could be obliged to repurchase SDRs to the extent of its allocation. It should be noted that the treatment of the allocation in the ONS publication the *Pink Book* is different. In the *Pink Book* the SDR allocation is shown as a memorandum item.

Other Liabilities

Comprises liabilities arising out of repurchase agreements, forward and swap positions and unsettled trades.

Valuation

UK central government and other public sector foreign currency debt is valued on the same basis as the UK International Reserves. The debt is marked to market using end-period market exchange rates.

Table D5.1: Bank of England foreign currency assets

Bank of England holdings of foreign currency and gold arise from foreign currency and gold deposits placed with the Bank by non-resident central banks and other customers as part of their banking relationship with the Bank. These comprise foreign currency assets, gold and other assets. Foreign currency assets comprise currency and deposits (held with monetary authorities and banks) and securities (equities, bonds and notes, and money market instruments).

Other assets include capital items, (investments and participation in international financial institutions), together with the net claim on other central banks arising from participation in the TARGET system, foreign currency forwards and swap positions (net MTM value of foreign currency forwards, interest rate and cross currency swaps (incl. sterling leg)) and reverse repos (claims on counterparties for foreign currency lent in reverse repos).

Valuation

Bank of England holdings of foreign currency and gold are marked to market using end-period market prices and exchange rates.

Table D5.2: Bank of England foreign currency liabilities

These comprise short-term deposit liabilities arising from deposits placed with the Bank of England by non-resident central banks and other customers as part of their banking relationship with the Bank. Money market instruments reflect liabilities on account of the issue of euro denominated Bank of England Bills. These are issued with a maturity of one, three and six months. The Bank of England began issuing euro bills in April 1999.

Table D6.1: Currency breakdown of UK central government foreign currency assets and liabilities

Coverage

The currency analysis of the UK central government's foreign currency assets and liabilities is published on a quarterly basis.

The assets and liabilities are broken down into US dollars, euro, yen, other currencies, SDRs, IMF reserve tranche and Gold.

The euro category includes any assets still denominated in the legacy currencies of the euro area countries (Deutschemarks, French Francs etc). The currencies of EU countries that are not currently participating in European Monetary Union are included in the Other currencies column.

Valuation

The assets and liabilities are converted into US dollars at end-period market exchange rates and end-period market prices.

Table D6.2: Currency breakdown of Bank of England foreign currency assets and liabilities

Coverage

The currency analysis of Bank of England foreign currency assets and liabilities is published on a quarterly basis.

The assets and liabilities are broken down into US dollars, euro, yen, other currencies, and Gold.

The euro category includes any assets denominated in the legacy currencies of the euro area countries (Deutschemarks, French Francs etc). The currencies of EU countries that are not currently participating in European Monetary Union are included in the Other currencies column.

Valuation

The assets and liabilities are converted into US dollars at end-period market exchange rates and end-period market prices.

Table E3: Capital issuance

From October 2004 the previously published Tables on Sterling commercial paper and sterling programme bonds (E1) and Capital issues (E2) have been withdrawn. They are replaced by new Capital issuance tables (E3). 'The changes were described in an article published in the October 2004 edition of *Monetary and Financial Statistics (Bankstats)*.

The statistics in Table E3 are derived from information provided by UK-based Issuing and Paying Agents (IPAs), who act on behalf of companies issuing debt on the UK capital markets, and the London Stock Exchange (LSE). Each IPA submits a monthly return to the Bank of England listing security-by-security information on each bond issue and repayment transacted during the reported month, and issuer-by-issuer information on Commercial Paper (CP) transactions. The LSE submit a similar return each month listing new shares issued and existing shares removed under rolling share buyback programmes. These statistics do not include debt issued by central or local government institutions.

Programme bonds use a common set of legal documentation for an ongoing series of issues. Stand alone bonds are not issued as part of a programme. Commercial Paper is marketable paper issued with maturities of up to and including one year. Shares comprise ordinary and preference shares constituting the share capital of a company.

The statistics in these Tables represent the sterling equivalent of total new capital issued and existing capital repaid during each period. Net figures are derived by subtracting repayments from issues.

Table F1.1: Financial derivative positions of banks at market values

Introduction

Financial derivatives are defined as *financial instruments that are linked to the price performance of an underlying and which involve the trading of financial risk*. Examples of underlying assets include financial instruments, commodities, bilateral foreign exchange rates, stock exchange indices, or interest rates. Financial derivatives include options, futures/forwards, swaps, FRAs, caps, floors, collars, warrants and certain credit derivatives; they do **not** include spot foreign exchange trades.

These statistics are derived from data reported by banks in the UK to the Bank of England on a specialised derivatives survey - Form DQ. Data cover positions in both exchange-traded and 'over-the-counter' markets. They are recorded at **market value** or where this is not available **fair value**. Fair value is defined as *the value at which the contract could be exchanged in an arms length transaction between informed and willing parties*. Market value may differ from fair value as it will encompass bid/offer spreads, commissions and the effects of supply and demand upon the price of the derivative.

For further information on the Bank of England's collection of derivatives data, refer to the article *'New data on financial derivatives for the UK National Accounts and Balance of Payments"* in the July 1999 edition of this publication. This is available on our Internet site at www.bankofengland.co.uk/statistics/ms/articles/art3jl99.doc. More general information on financial derivatives is contained within the Centre for Central Banking Studies handbook 17, called "Financial Derivatives." The article is also available on the Bank's website (www.bankofengland.co.uk/education/ccbs/handbooks/ccbshb17.htm).

The data cover the business of all banks operating within the United Kingdom - for example a US owned bank in London would be included within these statistics but the business of a US based branch of a UK bank would be excluded. Thus these data are not consistent with the semi-annual statistics published by the Bank for International Settlements (BIS) as their data are on a world-wide consolidated basis. The BIS have separate data (such as the gross notional amounts traded) on the UK derivatives market within their triennial survey of foreign exchange and derivatives market (available on their Internet site at www.bis.org).

Changes in the gross marked to market value of derivatives contracts will be influenced by three main factors:

- Revaluations due to changes in the underlying instrument: When derivatives contracts are traded, their marked to market value will typically be zero, except for options. Changes in the expectations of underlying variables of contracts at the time of valuation, away from expectations of those variables at the time of trading will generally cause the marked to market value of a derivative to tend away from zero.

- Transactions in financial derivatives: Because the marked to market value of a derivative is equal to the net present value of future payment streams, whenever a payment is made with respect to a contract the marked to market valuation will be affected.

- Changes in the number of contracts held: The more contracts that are traded, the higher we would expect gross marked to market positions to be.

The relative importance of these factors varies depending upon market conditions

Reporting guidance

- Foreign currency positions are converted to sterling using end-period exchange rates.
- These data include any positions the reporting bank has with the Bank of England.
- **Positions are reported gross**, separating assets from liabilities, *except for complex or structured trades*, where, if the Bank of England agrees, *they can be reported net* if this improves the overall accuracy of the data.
- If derivative contracts comprise more than one risk category they are allocated according to the risk category which primarily determines the price of the contract.
- Embedded derivatives within an underlying instrument (e.g. convertible bonds) are excluded from these data if the two are inseparable.
- Certain types of Credit Derivative are excluded from these data. For National Accounts statistics banks are asked to exclude credit default products, which are defined here as products which only transfer the credit default risk, rather than the whole market risk. We believe these products are analogous to traditional banking instruments such as letters of credit or guarantees.

Adjustment of the raw data

Trading book vs. banking book split

Some banks separate derivatives positions used for internal hedging purposes from those used for proprietary trading or traded on behalf of clients. Derivatives used for hedging can be (but are not necessarily) recorded within the 'banking book'; derivatives used for proprietary and client trading are recorded within the 'trading book.' Banking book data accounts for only a small part (about 5%) of all reported positions.

Banking book data do not provide a full risk or counterparty breakdown. Thus series for gross positions by risk category (TACS, TACT, TACU, TACV, TACW and TACX) and counterparty (TAEB, TAEC, TAED, TAEE, TAEF, TEAG, TAEI, TAEJ, TAEK, TAEL, TAEM and TAEN) have banking book data pro-rated using trading book data.

Grossing and review of survey population

Following a review in late 2001, the DQ survey population was revised with the specific aim of increasing the data coverage from about 85% to 90% of gross derivative positions to approximately 97% to 98%. The review benchmark was gross positions data reported on the supplementary balance sheet return (Form QX); formal reporting criteria have now been established – any bank not already a member of the reporting panel which reports over £1bn of gross liability positions in derivatives for two successive calendar quarters will be requested to join the panel. The revised panel comprised 39 banks as at end-June 2002, both as a result of the panel review, business restructuring and other changes.

Aggregate data on derivatives are no longer grossed up, commencing with those published for end-June 2002. The rationale for this decision was primarily the increase in actual coverage of reported data (to 98%) but a key supporting factor was the elimination of any possible distortions in instrument and counterparty sector breakdowns which may have been generated in the grossing method for past data. It is recognised that the banks in the reporting panel with major derivatives volumes would have a broader exposure in terms of product and counterparty risk than those members of the UK banking sector which did not contribute directly to the specialised derivatives survey.

Frequency

Positions are reported as at end-calendar quarters (March, June, September and December). Data are required by the Bank of England within twenty days of this date. Data validation can take up twenty working days. Publication of data will occur as soon as possible after data validation and **no more than three months after the end-quarter.**

Table G1.1: Wholesale interest rates and discount rates

Interest rates

Interbank market

The wholesale market in which banks and others lend and borrow money for predetermined periods ranging from overnight to one year, to accommodate short-term liquidity needs, or for the lending on of surplus funds. These are quoted (nominal) rates and are the mean of the bid and offer rates from three or more brokers at 8.30am. SONIA is the weighted average rate to four decimal places of all unsecured sterling overnight cash transactions brokered in London between 0001 hrs and 4.15pm London time. From 2 June 2003, all sterling overnight deals irrespective of counterparty status, with a minimum size of £25 million transacted by WBMA members will be included in the SONIA calculation. Previous to this, counterparties to SONIA transactions were on Section 43 of the Financial Services Authorities list of Listed Money Market Institutions, and their overseas branches, as of 2 November 2001.

Euro-currency

A deposit in an institution of the same home as the currency but held outside the country of origin. The 3 month Euro-dollar and Ecu/Euro are market rates for deposits in the London euro-currency market.

Bank of England repo rate

Since March 1997 the Bank has implemented monetary policy primarily by undertaking repos with its money market counterparties at its repo rate. The repos have a maturity of about two weeks. Counterparties may repo to the Bank gilts, Treasury bills, eligible bank and local government bills, HM Government foreign currency debt and, since October 1998, certain sterling bonds issued by Governments in the European Economic Area and by supranational institutions. For further details see the Bank of England *Quarterly Bulletin*, May 1997 page 204 and August 1998 page 202.

UK banks' base rate

Changes in 'BoE repo rate' normally signify a marked change in short-term market rates levels, and so they are used as an indicator of the broad level of market rates.

The **base rates** of Barclays, Lloyds TSB, National Westminster and HSBC banks only are used to compile this series. Each of these has a single base rate which may differ from those of other banks in the sample - a spread is shown when this occurs.

Gilt repo market

Gilt repo transactions are sale and repurchase agreements in British government stock, conducted in accordance with legal documentation. A repo transaction may be stock or money-driven; a stock may be reverse-repoed (bought with an agreement to re-sell it) to cover a short position, e.g. cash may be borrowed against a repo of a mixture of gilts as 'collateral' for the loan. The latter, a **general collateral** (GC) transaction, is a money-driven trade, and so GC repo is a market in secured money. The rates quoted in the table are indicative secondary market mid-rates of bid and offer GC rates collected at 8.30am.

Discount rates

Sterling eligible bills

Bills accepted by those banks whose acceptances are eligible for rediscount at the BoE. Rates are the mean of the bid and offer rates in the secondary market at 8.30am from a minimum of three sources.

On 11 February the Bank issued a press release stating that it was to cease accepting eligible bankers' acceptances as collateral in its sterling money market operations (see press notice at www.bankofengland.co.uk/publications/news/2005/014.htm). From 14 March 2005 bills will no longer be eligible for rediscount, however those that were issued before this date will remain eligible as collateral until 17 August 2005.

Sterling Treasury bills

Treasury Bills are bearer Government Securities representing a charge on the Consolidated Fund of the UK issued in minimum denominations of £5,000 at a discount to their face value for any period not exceeding one year. Although they are usually issued for 3 month (91 days), on occasion they have been raised for 28 days, 63 days and 182 days. They are issued:

- by allotment to the highest bidder at a weekly tender (Friday);
- in response to an invitation from the Debt Management Office to a range of counterparties;
- at any time to Government departments (non-marketable bills only).

The secondary market in Treasury Bills has in recent years become liquid and representative rates are no longer obtainable other than those for the most recently issued 91 days. The rates shown are the average rates of discount at the weekly tender for 91 day bills.

The ***US Treasury bill*** rate shows the secondary market selling rate in New York for 91 day Treasury bills, expressed as a yield (per cent per annum of 360 days).

Euro/Ecu Bills

Since July 1999 euro bills have been issued by the Bank of England. Prior to this euro Treasury bills, were Government securities representing a charge on the Consolidated Fund of the UK, denominated in euro (before 1999 in Ecu). The procedures for issuance and interest rate calculations for Bank of England euro bills and euro Treasury bills are the same (as follows):

Bills are issued at a discount to their face value for periods of 1, 3 or 6 months. Issues are sold by allotment to the highest bidder at monthly auctions on the second Tuesday of each month. Bids are made on a yield basis.

The rate shown is the average secondary market mid rate for 3-month bills, expressed using the standard euro money market yield convention (per cent per annum, using actual days to maturity and a year of 360 days).

Euro bills only have a single maturity date in any given month, namely the Thursday after the second Tuesday of the month. The end-quarter rate reflects the rate on the bill with just under 3 months remaining to maturity. The monthly average is for the bill maturing in the month three months later.

Table G1.2: Yields and exchange rates

Yields

Nominal zero coupon yields

Estimated using the Variable Roughness Penalty (VRP) model, described by Anderson & Sleath, November 1999, *Bank of England Quarterly Bulletin*, pp 384-392. The spot interest rate or zero coupon yield is the rate at which an individual cash flow on some future date is discounted to determine its present value. By definition it is the yield to maturity of a zero coupon bond and can be considered as an average of single period rates to that maturity. Conventional dated stocks with a significant amount in issue and having more than three months to maturity, and GC repo rates (at the short end) are used to estimate these yields; index-linked stocks, irredeemable stocks, double dated stocks, stocks with embedded options, variable and floating stocks are all excluded.

Yields can only be calculated for maturities where gilts exists. Hence for dates in the past where there was no bond longer than 20 years we do not quote a 20-year yield.

Daily estimates for these and other UK yield curves are available separately within the statistics section of the Bank of England website.

4½ % Bank of England Euro Treasury Note 2004 / 2¾ % Bank of England Euro Treasury Note 2006

Yield based on market observations at the close of business each day.

2½ % index-linked Treasury 2016

Yield based on the representative middle market prices at the close of official business.

Foreign exchange rates

New Sterling effective exchange rate indices (ERI)

Sterling effective exchange rate is a measure of the overall change in the trade-weighted exchange value of sterling, calculated by weighting together bilateral exchange rates. It is designed to measure changes in the price competitiveness of traded goods and services and so the weights reflect trade flows in manufactured good and services. Using the USA as an example, the weights for the US dollar in the sterling ERI are based on:

1. Competition in the UK domestic market from imports from the USA

2. Competition between UK exports and US products in the USA

3. Competition between the UK and the US exports in the third country markets.

The calculation is explained more fully in the article “The new sterling ERI” in the Winter 2004 Quarterly Bulletin, page 429.

To reflect changing trade patterns, the weights and country set have been allowed to change over time giving annually chain-linked index. Countries are included in the calculations if their share of either UK imports or exports on average over the latest three year period, exceeds 1%. ERI weights for each selected country are based on the latest available trade data, currently 2003. The intention is for these weights to be updated every year, probably in the Spring. The January 2005 average index value is set equal to 100.

The broad version of the sterling effective exchange rate index uses exactly the same methodology but has an expanded country set. Countries are included in the broad index if their share of UK imports or exports exceeds 0.5%.

This method replaces the previous IMF-based index that used weights reflecting trade flows in manufactured goods for the period 1989 to 1991, with 1990 set to equal 100.

The indices up to end March 2005 include Bank Holidays using foreign exchange rates from markets that did not have holidays on these days; from April 2005 there are no observations for UK Bank Holidays as only rates observed by the Bank's Foreign Exchange Desk are used.

Effective exchange rate indices *(ERI) (1990 average = 100))*

The method used to calculate these ERIs (excluding that for the euro – see below) was introduced from 1 February 1995 and the previous index was discontinued from 28 February 1995. The base year for these ERIs is 1990 = 100. They are calculated by geometrically weighting together bilateral exchange rates against sterling for all the currencies previously included, with the addition of Australia, Greece, New Zealand and Portugal, bringing the total to 21 currencies, 13 of which are EU currencies. Each currency is given a weight which reflects that country’s relative importance to UK trade in manufactures based on 1989-1991 average aggregate trade flows. Using the USA as an example relative to the UK , the weights are based on:

1. The importance of UK domestic market imports from industrial countries of imports from the USA.

2. The degree of competition between the UK and the USA in the USA market.

3. The degree of competition in third country markets.

The calculation of these ERIs (excluding the Euro) is explained more fully in the February 1995 Quarterly Bulletin, page 24; these indices for all currencies use the IMF method.

Since 11 May 1999, the Bank of England has published a daily effective trade-weighted exchange rate index for the euro area. It is also compiled on the basis developed and used by the IMF. The weights reflect the pattern of trade between the euro-area as a whole and countries outside the euro area. (Trade between countries within the euro-area is excluded, so the weights are based solely on extra euro-area trade). Sterling has the biggest weight, with the US dollar the next largest.

The index is calculated by weighting together the individual exchange rates for the 12 euro-area currencies against non-euro area currencies. So it represents an effective index for the 12 euro area currencies as a group. This permits the index to be calculated prior to 31 December 1998, using “synthetic” euro exchange rates. These are calculated by geometrically averaging the bilateral exchange rates of the original 11 euro-area currencies using “internal weights” based on the country shares of extra euro-area trade.

The calculation of the euro effective rate index is explained more fully in the May 1999 *Quarterly Bulletin*, pages 190-194.

Although the indices published by the Bank and the IMF use the same methodology (and weights produced by the IMF), the ERI data may differ because of the actual exchange rates used. The IMF publishes monthly data relating to exchange rates supplied by the relevant central banks. The Bank publishes daily rates using middle market rates for each component currency as observed by the Bank's Foreign Exchange Desk in the London interbank market around 4pm.

National Competitiveness Indicators

Until mid-2002, effective exchange rates continued to be calculated for the legacy currencies of the individual EMU countries. These indices are best thought of as indicators of national competitiveness and were calculated using the same method as for other currencies. As such, there are no discontinuities in the series.

The exchange rates for the legacy currencies that were used in the calculation of the national competitive indicators were calculated using the conversion rates irrevocably fixed on 1 January 1999 (2001 for Greek Drachma). For example, the Deutschemark's value against the US Dollar is calculated by multiplying the euro rate against the US Dollar by the Deutschemark: euro fixed conversion rate.

Exchange rates against sterling – Spot and Forward

Rates are based on the mid-points between spot buying and selling rates ('*middle-market rate*') as recorded at around 4pm by the BoE. They are not 'official rates,' but representative rates observed in the London interbank market by the Bank's Foreign Exchange dealers.
Spot rates are applicable to deals for settlement no more than two working days later. The forward rates we are publishing are for deals with a settlement date in 1, 3, 6 or 12 months time.

Table G1.3: Quoted (nominal) sterling interest rates – household sector

Methodology

Each series is derived from interest rates for relevant products available from a sample of the largest banks and building societies. The sample covers about 90% of all bank and building society gross mortgage advances to households, as measured by monthly balance sheet returns to the Bank (banks) and the Financial Services Authority (building societies). Coverage of total unsecured personal loan and credit card advances, and overdraft amounts outstanding, is also about 90%. The sample accounts for about 80% of household sight and time deposit balances.

Individual interest rates used in the compilation of these series are selected from those publicised by each sampled bank and building society. Rates are included only for those institutions which advertise a product fitting the definition used for each series.

In the calculation of averages, the interest rates for individual banks and building societies are weighted using the monthly gross advances – or balances, where applicable – reported by those institutions.

Definitions

All rates

Where more than one product fits the definition for any series, the rate selected is the most competitive and/or has the fewest conditions attached.

Products must be widely accessible. Those available through intermediaries only are excluded.

Rates selected relate to borrowing from, and deposits with, a sample of banks and building societies. Household business with other lenders and deposit takers is not covered.

No allowance is made for associated fees/charges or cashbacks.

Differences in frequency of interest calculation and application are ignored.

Rates are those available at the end of each month. All rates are expressed gross of tax.

Secured loan (mortgage) rates

Mortgage rates selected are those available to most borrowers. Products restricted to first-time buyers, for example, are excluded. Rates are those applicable for a minimum £60,000 loan. The headline advertised rate is selected, not the APR (Annual Percentage Rate).

Loan-to-value ratio (LTV) measures the loan size as a percentage of the property value; rates selected are the lowest available for loans of 75% and 95% LTV respectively.

Reasonable time margins are allowed for fixed maturity products. For example, mortgages with maturity between 21 and 27 months qualify as a two year loan. Products with redemption penalties at the end of the fixed maturity period are excluded.

Discounted variable rate mortgages are those attracting a short term (two or five year) discount relative to either the SVR or the Bank of England repo rate. Base rate tracker products are linked to the Bank of England repo rate. Minimum ten year maturity is stipulated on trackers to maintain the distinction with discounted variable rate products.

With one exception, all mortgage interest rate series are weighted by gross monthly mortgage advances. The exception is SVR, which is weighted by end-month outstanding mortgage balances. SVRs account for a significant proportion of outstanding mortgage loans, but few new mortgages.

Unsecured loan rates

Overdraft rates selected are those applicable for authorised overdrafts and are expressed in terms of EAR (Effective Annual Rate). The overdraft rate series is weighted by end-month outstanding overdraft balances.

Personal loan rates are expressed in terms of APR. No allowance is made for loan maturity or redemption penalties. The personal loan rate series are weighted by monthly gross personal loan advances.

Credit card rates are expressed in terms of APR and apply to standard credit card purchases. If an institution offers more than one card, preference is given to the most popular (if known) or the card with a standard interest-free period. No allowance is made for short term incentives (such as 0% offers). The credit card rate series is weighted by monthly gross credit card advances.

Deposit rates

Current accounts are those with overdraft and cheque facilities. Rates are selected for £1,000 balances.

Instant access accounts are branch-based. Rates are selected for £1,000 balances.

Time deposit accounts are also branch-based. Rates are selected for £10,000 balances in accounts requiring between 30 and 90 days' notice to withdraw without penalty.

Deposit accounts operated by post or telephone, or via the internet, are not branch-based. Rates are selected for £10,000 balances.

Cash ISA deposit rates are selected for £3,000 balances.

Rates selected for fixed-rate bonds have fixed initial maturity between one and two years. Rates are selected for £5,000 balances.

For all deposit rate series any non-guaranteed bonuses are excluded.

Rates for current accounts, instant access accounts and post/telephone and internet operated accounts are each weighted by end-month sight deposit balances. Rates for time deposit accounts and fixed-rate bonds are each weighted by end-month time deposit balances. Rates for cash ISAs are weighted by end-month cash ISA deposit balances.

Table G1.4: Effective interest rates

The Bank of England began collecting effective interest rates from a panel of UK resident banks in 1992. The main purpose then was to meet the needs of the Office for National Statistics in the compilation of the national accounts. During the 1990s demand from monetary policy users grew, for example in monitoring the impact of changes in the official interest (repo) rate.

The survey became monthly in 1998 and was made statutory under the Bank of England Act in 2000. The results have been published in Table G1.4 since February 2001.

In January 2004 the Bank expanded the sample of reporting banks and introduced an expanded survey form to meet users' needs for more detailed information.

Survey coverage

Compared with other Bank of England statistical returns, the effective interest rates form is completed by relatively few banks. Until 2004 there were 25; now there are 35. The sample is reviewed regularly to ensure that it remains representative of banks' lending to and deposits accepted from UK-resident individuals and organisations. The latest review of the sample set a minimum coverage target of 75% for banks' business with each of the main sectors of the economy.

The reporting banks were selected from a population of around 400 UK-resident banks using stratified sampling techniques, where each stratum represented an economic sector or product type. To achieve the 75% target with the fewest banks – and thus limit the cost burden on the banking industry – the largest banks by market share were selected within each stratum. This process resulted in some banks dropping out of the sample and others being added

The sample expansion in January 2004, and improved calculation methodology adopted by reporting banks at the same time, means that a direct comparison between December 2003 and January 2004 cannot always be made. For series starting in 1999 the Bank estimates that these improvements had the following effects on the January 2004 rates:

Series	Effect of improvements in January 2004 (pp)	Series	Effect of improvements in January 2004 (pp)
HSCP	0.20	HSCZ	0.50
HSDM	0.20	HSDO	0.00
HSCR	-0.10	HSDA	0.00
HSCT	0.10	HSDC	-0.10
HSCV	0.20	HSDI	-0.10
HSCX	0.20	HSDK	0.00
HSCQ	0.20	HSDB	0.00
HSDN	0.20	HSDH	0.00
HSCS	0.10	HSDJ	-0.20
HSCU	0.10	HSDD	-1.00
HSCW	-0.10	HSDE	-0.10
HSCY	0.10	HSDG	0.30

Effective rate calculation

Effective rates are calculated as a function of average loan/deposit balances and interest payable/receivable on those balances. It is expressed in the following terms:

$$\frac{\text{Interest flow}}{\text{Average(daily) balance}} \times \frac{\text{No of days in year}}{\text{No of days in month}} \times 100$$

For example, if, during January 2005, a bank on average held £50 billion of household savings deposits, on which interest totalling £150 million was payable, the effective interest rate would be:

$$\frac{\text{£150mn}}{\text{£50bn}} \times \frac{365}{31} \times 100 = 3.53\%$$

The deposits might be held in millions of separate accounts with numerous different terms and interest rates, none of which might actually be 3.53%. The effective interest rate is the weighted average of all the interest rates across all the deposit accounts held by all the clients within this economic sector.

The Bank calculates average effective rates as weighted averages of the effective interest rates supplied by each of the reporting banks.

Sectorisation

Households and Individual Trusts

This sector is sub-divided into two groups: Individuals & Individual Trusts and Unincorporated UK Businesses other than Unlimited Liability Partnerships.

The inclusion of unincorporated businesses resident on the UK mainland other than unlimited liability partnerships (i.e. sole traders) was a direct result of the implementation of the European System of Accounts 1995 (ESA95) at the end of 1996. This sector therefore has a wider coverage than the former sector 'individuals and individual trusts'.

Products

Sight deposits

Sight deposits (instant access deposits) are interest bearing accounts (be it branch based, business, Internet, telephone or postal accounts) where the depositor has access to the entire balance of the deposit, without incurring any penalty, either on demand or by close of business the day following that on which the deposit was made.

Time deposits

Time deposits are interest bearing deposits that are not classified as sight deposits. These are deposits where only part of the balance is accessible without penalty, either on demand or by close of business on the day following that on which the deposit was made. Postal deposit accounts (excluding those with alternative instant access arrangements such as via ATMs or immediate transfer to a sight account e.g. by telephone or Internet) are also classified as time deposits. This is due to the postal element resulting in a delay in the customer using the money even if the bank responds to their request by return post.

Loans secured on dwellings (excluding bridging loans)

These include all mortgage loans to individuals (apart from bridging loans) secured on properties. Loans for home improvements, house repairs and maintenance also secured by a first charge over the property, and mortgage sub-participations fully and specifically secured against residential mortgage loans are also included. This average rate also includes some preferential rate loans such as staff mortgages from the reporting institution. However, these only account for a very small proportion of the total.

Further details

For further details please see the article '*New range of effective interest rates'* in the May 2005 edition of this publication.