

The Bank's accounts

Report of the Auditors

To the Governor and Company of the Bank of England

We have examined the accounts of the Banking Department on pages 33 to 39, which in our opinion give a true and fair view of the state of affairs of the Banking Department at 28th February 1973, and of the profit for the year ended on that date.

We have also examined the statements of account of the Issue Department on page 40, which in our opinion present fairly the outcome of the transactions of the Department for the year ended 28th February 1973, and its balances at that date.

DELOITTE & CO.

Chartered Accountants

London
20th June 1973

Banking Department

Profit and loss account

For the year ended 28th February 1973

		£000	1972 £000
Operating profit	<i>Note 1</i>	19,847	17,739
Payment to H.M. Treasury under Section 1 (4) of the Bank of England Act 1946	<i>Note 2</i>	<u>7,000</u>	<u>5,500</u>
		12,847	12,239
Taxation	<i>Note 3</i>	<u>4,967</u>	<u>5,022</u>
Profit after taxation		7,880	7,217
Less additional provision for retirement benefits	<i>Note 4</i>	<u>4,810</u>	<u>4,900</u>
Profit transferred to reserves	<i>Note 5</i>	<u>3,070</u>	<u>2,317</u>

The notes on pages 36 to 39 form part of these accounts.

Banking Department

Balance sheet: 28th February 1973

			1972
		£000	£000
Capital		14,553	14,553
Reserves	Note 5	<u>107,552</u>	<u>122,105</u>
Provision for retirement benefits	Note 4	23,567	20,135
Current liabilities	Note 7		
Public deposits	Note 6	59,669	55,996
Special deposits		714,200	—
Bankers' deposits		176,580	198,991
Other accounts		131,473	168,042
Payable to H.M. Treasury	Note 2	<u>7,000</u>	<u>4,500</u>
		<u>1,234,594</u>	<u>566,600</u>

The notes on pages 36 to 39 form part of these accounts.

		1972		1972
		£000		£000
Liquid assets				
Notes and coin		13,687		27,105
Cheques in course of collection	<i>Note 7</i>	43,094		49,107
Treasury and other bills	<i>Note 8</i>	<u>946,728</u>	1,003,509	<u>268,734</u>
Investments				
Securities of, or guaranteed by, the British Government	<i>Note 9</i>	149,446		150,359
Other securities		<u>11,796</u>	161,242	<u>11,486</u>
Advances and other accounts, less provisions			36,739	27,189
Premises and equipment	<i>Note 10</i>		<u>33,104</u>	<u>32,620</u>
			<u>1,234,594</u>	<u>566,600</u>

O'BRIEN OF LOTHBURY *Governor*J. Q. HOLLOM *Deputy Governor*NELSON OF STAFFORD *Director*P. A. S. TAYLOR *Secretary*

Notes on the Banking Department accounts

Accounting policies

- (a) **Form of presentation of accounts.** Although the Bank's constitution is not governed by the Companies Acts 1948 and 1967, the accounts have been prepared so as to comply with the requirements of those Acts in so far as they are material and appropriate.
- (b) **Investments.** Securities of, or guaranteed by, the British Government and other securities are stated in the balance sheet at cost less provision for losses; quoted securities are valued at mid-market prices, unquoted at Directors' valuation.
- Profits and losses on realisation are taken to profit and loss account in the year in which they arise.

- (c) **Premises and equipment.** These are stated at cost less accumulated depreciation. Equipment fully depreciated at 28th February 1973 has been eliminated.

Depreciation, on a straight line basis, is charged as follows:

Freehold land	nil
Freehold buildings	1%
Leasehold premises	1% or over the period of the lease whichever is the greater; Printing Works 2%
Equipment (other than computers)	over estimated useful life
Computers	20%

The Directors do not consider that a valuation of the interests in land would be appropriate in the circumstances of the Bank.

- (d) **Doubtful debts.** Appropriate provision is made for doubtful debts when they arise.
- (e) **Commitments on behalf of H.M. Treasury.** Commitments in foreign currencies and gold, or on a gold basis, undertaken in the name of the Bank for account of H.M. Treasury in the course of operating the Exchange Equalisation Account are not included in these accounts as the Bank are concerned in such transactions only as an agent.

1 Operating profit

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

	£ thousands	1972 £ thousands
Income		
Interest:		
Treasury and other bills	16,552	12,178
Securities of, or guaranteed by, the British Government	12,732	11,698
Other securities:		
Quoted	483	486
Unquoted	768	612
Charges for services to H.M. Government	13,651	12,366
Rents	615	350
Charges		
Interest paid to depositors	6,977	5,137
Directors' emoluments (see Note 11)	227	229
Auditors' remuneration	10	10
Depreciation of premises and equipment	1,084	1,138

2 Payment to H.M. Treasury

	£ thousands		1972 £ thousands
Payable 5th April 1973	3,000	Paid 5th October 1971	1,000
Payable 5th October 1973	4,000	Paid 5th April 1972	1,500
		Paid 5th October 1972	3,000
	<u>7,000</u>		<u>5,500</u>

3 Taxation

Corporation tax has been charged on the profits of the year at 40%.

4 Retirement benefits

The profits of the year have borne the cost of providing pensions to staff in respect of current services. During the year an amount of £1,378,000 for past services has been charged to the provision for retirement benefits and £4,810,000 has been transferred to the provision from taxed profits to provide a balance of £23,567,000, the full amount estimated to be required, after taking account of anticipated tax relief, to cover unfunded retirement benefits relating to past services.

5 Reserves

	£ thousands
Balance at 29th February 1972	104,383
Profit of the year retained	3,070
Investment grants received	65
Net profit on disposal of fixed assets	24
Provision for losses no longer required	10
	<u>107,552</u>

6 Public deposits

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

7 Cheques in course of collection

Whereas in previous years the totals of public deposits, bankers' deposits and other accounts in the balance sheet have been shown net of cheques in course of collection, these uncleared effects, most of which are in respect of public deposits, are now shown as an asset. The comparative figures for 1972 have been appropriately adjusted.

8 Treasury and other bills

	£ thousands	1972 £ thousands
British government Treasury bills	857,225	229,747
Other bills	89,503	38,987
	<u>946,728</u>	<u>268,734</u>

9 Investments (at cost less provisions)

£ thousands				1972
	Book value	Market value	Book value	Market value
Securities of, or guaranteed by, the British Government	149,446	157,350	150,359	179,437
Other securities:				
Quoted	6,721	9,749	6,236	11,484
		Directors' valuation		Directors' valuation
Unquoted	5,075	5,075	5,250	5,250
	<u>161,242</u>	<u>172,174</u>	<u>161,845</u>	<u>196,171</u>

The principal holdings of equity share capital of other companies included in "Other securities" are as follows:

	Percentage held	Percentage held
Agricultural Mortgage Corporation Ltd. shares of £1	24	24
Commonwealth Development Finance Company Ltd. "B" ordinary shares of £1 (50p paid)	93	93
Commonwealth Development Finance Company Ltd. "A" ordinary shares of £1 (10p paid) (Percentage of total C.D.F.C. Ltd. equity held 41)	nil	nil
Finance Corporation for Industry Ltd. shares of £10 (£1-50 paid)(£1 paid)	30	30
Portals Holdings Ltd. ordinary stock	32	32

All the above companies are incorporated in Great Britain. The Bank as a matter of policy do not seek to influence their commercial or financial decisions.

Also included in "Other securities" is a subsidiary company wholly owned by the Bank —

Securities Management Trust Ltd. 1,000 ordinary shares of £1 at cost	£1,000
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Consolidated accounts have not been prepared, as in the opinion of the Directors the amounts involved are not material.

10 Premises and equipment

£ thousands	Freehold Premises	Leasehold premises (all over 50 years)	Equipment	Total
Cost at 29th February 1972	14,736	17,387	7,998	40,121
Acquisitions	245	523	887	1,655
Disposals	60	—	748	808
Cost at 28th February 1973	14,921	17,910	8,137	40,968
Accumulated depreciation	2,269	2,204	3,391	7,864
Net book value	12,652	15,706	4,746	33,104
Net book value	12,590	15,409	4,621	32,620

Contracts for capital expenditure authorised by the Directors and outstanding at 28th February 1973 totalled £7,258,000. Further capital expenditure authorised at that date, but not contracted for, is estimated at £542,000.

11 Directors' remuneration

The aggregate emoluments of the Governors and Directors were:

	1972
Fees	£11,500
Other emoluments including remuneration of Governors and Executive Directors and payments to Directors' Pension Funds	£215,440
The emoluments of the Governor were	£32,486
	£31,890*

*of which £1,167 was waived.

The number of Directors other than the Governor receiving emoluments in each of the following ranges was:

	1972
Up to £2,500	12 (all at £500)
£10,001 to £12,500	1
£15,001 to £17,500	3
£17,501 to £20,000	1
£20,001 to £22,500	1

12 Employees' remuneration

The number of employees receiving emoluments in each of the following ranges was:

		1972
£10,001 to £12,500	20	13
£12,501 to £15,000	6	6
£15,001 to £17,500	3	3
£17,501 to £20,000	1	1
£20,001 to £22,500	1	—

13 Charitable donations

Charitable donations during the year amounted to £63,276; no political contributions were made.

14 Contingent liabilities

Outstanding exchange contracts for customers, together with irrevocable credits, amounted to £8,821,000 (£61,244,000): these were covered by compensating contracts for corresponding amounts.

There were further contingent liabilities, mainly on account of uncalled capital on investments, of £21,468,000 (£19,941,000).

15 Accounting for inflation

Last year's *Report* mentioned that the Bank were examining the effect of inflation on the Bank's accounts. In January 1973 the Accounting Standards Steering Committee published an exposure draft entitled "Accounting for changes in the purchasing power of money" and for internal purposes the Bank's accounts have been restated on the basis suggested by the exposure draft. The accounts so prepared show an operating profit of £13.5 million compared with £19.8 million in the accounts prepared on the usual historical cost basis. This decrease arises principally from the reduction in purchasing power of the Bank's net holding of monetary assets.

Issue Department

Account for the year ended 28th February 1973

		1972	
	£000		£000
Income and profits:			
Securities of, or guaranteed by, the British Government	179,662		160,413
Other securities	<u>34,113</u>	213,775	<u>17,601</u>
Expenses:			
Cost of production of Bank notes	6,059		4,759
Cost of issue, custody and payment of Bank notes	3,336		3,372
Other expenses	<u>131</u>	<u>9,526</u>	<u>167</u>
Payable to H.M. Treasury		<u>204,249</u>	<u>169,716</u>

Statement of balances: 28th February 1973

		1972		1972
	£000	£000	£000	£000
Notes issued:				
In circulation	4,186,586	3,698,477	Government debt	11,015
In Banking Department	13,414	26,523	Other securities of, or guaranteed by, the British Government	3,485,841
	<u>4,200,000</u>	<u>3,725,000</u>	Other securities	<u>703,144</u>
				<u>4,200,000</u>
				<u>3,725,000</u>

Note The income and profits and value of securities shown above include the effects of the quarterly revaluation of marketable securities in accordance with the requirements of the National Loans Act 1968. The last such valuation was made at 27th February 1973.

O'BRIEN OF LOTHBURY *Governor*

J. Q. HOLLOM *Deputy Governor*

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