

The Bank's accounts

The accounts of the Banking Department for the year ended 28th February 1978 show an operating profit of £20.6 million, compared with £13.0 million in the previous year. This figure is arrived at having charged £10.2 million (compared with £16.2 million) in respect of provision for losses arising from the Bank's involvement in support operations offset in part by a reduction in the provision for British government securities. After payment to the Treasury in lieu of dividend of £5.5 million and a tax charge of £5.4 million, the profit transferred to reserves amounts to £9.8 million (compared with £6.3 million last year).

Reflected in the accounts are three new wholly-owned subsidiary companies, of which Slater, Walker Ltd and EBS Investments Ltd have been acquired directly as a consequence of the Bank's support operations. The third subsidiary, B.E. Services Ltd, is a service company currently responsible for providing catering for Bank staff in the City.

The supplementary statement on inflation accounting follows the interim recommendation by the Accounting Standards Committee; after adjustment for depreciation and net monetary assets this statement shows an operating profit before tax of £16.5 million, some £4.1 million less than the operating profit in the conventional accounts.

The Issue Department accounts are shown on page 38. The profits of the note issue payable to the Treasury are £463.7 million compared with £914.1 million in the previous year: this is due to the lower levels of interest rates obtaining during the past year and to the effect in the previous year of a sharp appreciation in the Issue Department holding of British Petroleum stock.

Report of the Auditors

To the Governor and Company of the Bank of England

We have examined the accounts of the Banking Department set out on pages 29 to 36, which have been prepared on the basis of the accounting policies set out on page 32, and the statements of account of the Issue Department set out on page 38.

In our opinion

- 1 The accounts of the Banking Department, read in conjunction with the notes and in particular with note 3, give a true and fair view of the state of affairs of the Banking Department at 28th February 1978 and of the profit and source and application of funds for the year ended on that date.
- 2 The statements of account of the Issue Department present fairly the outcome of the transactions of the Department for the year ended 28th February 1978 and its balances at that date.

We have also examined the supplementary statement to the Banking Department's accounts prepared on the current cost basis of accounting, set out on page 37. In our opinion, the statement has been properly prepared in accordance with this basis.

DELOITTE HASKINS & SELLS

Chartered Accountants

London
13th July 1978.

Banking Department

Profit and loss account

For the year ended 28th February 1978

1977			1978	
£000	£000		£000	£000
	13,023	Operating profit	Note 2	20,630
		after charging:		
[16,159]		Provision for losses	Note 3	[10,228]
		Payment to the Treasury under Section 1(4) of the Bank of England Act 1946	Note 4	5,500
	<u>3,000</u>			
	10,023			15,130
		Taxation	Note 5	5,374
	<u>3,714</u>			
	6,309	Profit transferred to reserves	Note 6	9,756
	<u>6,309</u>			

The notes on pages 32 to 35 form part of these accounts.

Banking Department

Balance sheet: 28th February 1978

1977			1978	
£000			£000	£000
14,553	Capital		14,553	
172,837	Reserves	Note 6	182,593	197,146
	Current liabilities			
111,820	Public deposits	Note 7	123,221	
711,575	Special deposits		1,229,300	
372,293	Bankers' deposits		408,352	
361,647	Other accounts		519,798	
3,000	Payable to the Treasury	Note 4	5,500	2,286,171
<u>1,747,725</u>				<u>2,483,317</u>

The notes on pages 32 to 35 form part of these accounts.

1977			1978	
£000			£000	£000
	Liquid assets			
16,970	Notes and coin		24,535	
106,796	Cheques in course of collection	Note 8	119,993	
695,963	Treasury and other bills	Note 9	<u>1,753,298</u>	1,897,826
	Investments	Note 10		
137,127	Securities of, or guaranteed by, the British Government		149,341	
169	Local authority bonds		—	
52,194	Other securities		<u>51,166</u>	200,507
640,792	Advances and other accounts, less provisions	Note 11		227,215
	Subsidiary companies	Note 12		
—	Investments		16,983	
—	Amounts owing		<u>42,328</u>	59,311
<u>97,714</u>	Premises and equipment	Note 13		<u>98,458</u>
<u>1,747,725</u>				<u>2,483,317</u>

GORDON RICHARDSON *Governor*

J. Q. HOLLOM *Deputy Governor*

NELSON OF STAFFORD *Director*

P. A. S. TAYLOR *Chief of Administration*

Notes on the Banking Department accounts

1 Accounting policies

a Form of presentation of accounts

Although the Bank's constitution is not governed by the Companies Acts 1948 and 1967, the accounts have been prepared so as to comply with the requirements of those Acts and the Statements of Standard Accounting Practice in so far as they are appropriate.

The accounts have been prepared on the historical cost basis of accounting, modified to include the revaluation of certain fixed assets.

b Treasury and other bills

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

c Investments

Securities of, or guaranteed by, the British Government, and Other securities are stated in the balance sheet at cost less provision for losses; listed securities are valued at mid-market prices, unlisted at Directors' valuation.

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

d Premises and equipment

Freehold and leasehold land and buildings are stated at a professional valuation on an open market value for existing use basis as at 28th February 1977 plus the cost of additions during the year and less depreciation based on the revalued amount. No account is taken of the liability to taxation which could arise if the properties were disposed of at their revalued amounts.

Equipment is stated at cost less accumulated depreciation. Fully depreciated items at 28th February 1978 have been written out of the accounts.

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

Freehold land	nil
Freehold buildings	over estimated future life
Leasehold premises	over the period of the lease or estimated future life
Equipment (other than computers)	over estimated useful life
Computers	over five years

e Bad and doubtful debts

Appropriate provision is made for bad and doubtful debts.

f Commitments on behalf of the Treasury

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

g Deferred tax

Deferred tax has been accounted for in respect of certain material timing differences and has been calculated using the deferral method.

h Retirement benefits

The profits of the year bear the cost of providing pensions to staff in respect of current services. There is no unfunded liability in respect of past services.

2 Operating profit

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

1977 £ thousands		1978 £ thousands
	Income	
	Interest:	
23,921	Treasury and other bills	20,316
17,108	Securities of, or guaranteed by, the British Government	18,417
45	Local authority bonds	—
	Other securities:	
2,174	Listed	2,151
1,397	Unlisted	1,400
28,668	Advances	19,016
32,846	Charges for services to the Government	32,964
806	Rents	782
	Charges	
25,741	Interest paid to depositors	17,736
280	Directors' emoluments (Note 14)	272
30	Auditors' remuneration	36
486	Hire of computers and other equipment	565
2,154	Depreciation of premises and equipment (Note 1d)	3,149

3 Provision for losses

After making allowance for a reduction in the provision required for British government securities, £10,228,000 has been transferred to provision for losses in respect of provisions against advances made, and guarantees entered into, in connection with the Bank's involvement in support operations, either solely or in association with the clearing banks. In some cases, the security supporting the advances or guarantees will only be realisable over a period of years. The evaluation of the appropriate provisions has been made on the basis of the best information presently available.

4 Payment to the Treasury

1977		1978
£ thousands		£ thousands
—	Payable 5th April 1978	2,000
3,000	Payable 5th October 1978	3,500
<u>3,000</u>		<u>5,500</u>

5 Taxation

The charge for taxation, which is based on the profits of the year, comprises:

1977		1978
£ thousands		£ thousands
(1,319)	UK corporation tax at 52%	—
5,033	Deferred tax	6,274
—	Amount receivable in respect of group relief	(900)
<u>3,714</u>		<u>5,374</u>

The difference in timing in the recognition for tax and book purposes of certain income and expenditure of the Bank has resulted in the Bank having an assessable loss for tax purposes this year as compared with a book profit. This loss, together with tax losses for previous years, has been carried forward against future profits.

The charge for taxation, after taking account of deferred taxation, is low in relation to the operating profit after dividend because provisions no longer required have been credited to profit and loss account without attracting a tax charge. These provisions were not allowed for tax purposes when originally set up, which was prior to the recognition of deferred tax in the Bank's accounts.

6 Reserves

	£ thousands
Balance at 1st March 1977	172,837
Profit of the year retained	9,756
	<u>182,593</u>

7 Public deposits

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

8 Cheques in course of collection

These uncleared effects are mostly in respect of Public deposits.

9 Treasury and other bills

1977		1978
£ thousands		£ thousands
693,724	British government Treasury bills	1,747,229
2,239	Other bills	6,069
<u>695,963</u>		<u>1,753,298</u>

10 Investments (at cost less provisions)

1977			1978	
Book value	Market value		Book value	Market value
137,127	144,348	Securities of, or guaranteed by, the British Government	149,341	161,729
169	200	Local authority bonds	-	-
18,564	22,203	Other securities:	17,536	25,055
	Directors' valuation	Listed		Directors' valuation
33,630	34,664	Unlisted	33,630	37,382
189,490	201,415		200,507	224,166

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

1977		1978
Percentage held		Percentage held
27	Agricultural Mortgage Corporation Ltd shares of £1	27
nil	Commonwealth Development Finance Company Ltd:	nil
93	'A' ordinary shares of £1 (10p paid)	93
41	'B' ordinary shares of £1 (50p paid)	41
15	Percentage of total nominal equity held	15
32	Finance for Industry Ltd shares of £1	31
	Portals Holdings Ltd ordinary stock	

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

The Bank also held, at the balance sheet date, 50% of the equity share capital of:

London and County Securities Ltd (in liquidation)
Overseas Financial Trust (Holdings) Ltd

These shares were acquired for a nominal consideration, and the Directors consider that it is not appropriate to incorporate the results of these associated companies in the Bank's accounts. These shares were sold in March 1978 at cost.

11 Advances and other accounts

Included under this heading is a deferred tax balance of £11,290,000 (1977 £17,564,000).

12 Investments in subsidiaries

Subsidiary companies wholly owned by the Bank are stated in the Bank's balance sheet at cost (which is not in excess of the net tangible assets of the subsidiaries) and include:

B.E. Services Ltd
5,000 shares of £1
EBS Investments Ltd
100 shares of £1
Slater, Walker Ltd
100,000 ordinary shares of £1
10,000,000 deferred shares of £1

which became subsidiary companies of the Bank during the year, and

Securities Management Trust Ltd
1,000 ordinary shares of £1

The accounts of EBS Investments Ltd and Slater, Walker Ltd have not been consolidated with those of the Bank because, in the opinion of the Directors, it would be misleading to consolidate their net assets with those of the Banking Department in view of the circumstances of the acquisition of these companies by the Bank through involvement in the support operations. The accounts of B.E. Services Ltd and Securities Management Trust Ltd have not been consolidated with those of the Bank as the amounts are considered to be not material.

The net aggregate profits of the subsidiary companies attributable to the Bank in respect of the year ended 28th February 1978 amount to £1,281,000; these profits are not dealt with in the accounts of the Banking Department.

Included within Current liabilities is a total of £3,214,000 due, in the normal course of business, to subsidiary companies.

13 Premises and equipment

	£ thousands			
	Freehold premises	Leasehold premises (all over 50 years)	Equipment	Total
Cost or valuation at 1st March 1977	54,114	33,775	15,148	103,037
Acquisitions	1,785	290	1,898	3,973
Disposals	—	—	(1,233)	(1,233)
Cost or valuation at 28th February 1978	55,899	34,065	15,813	105,777
Accumulated depreciation	(941)	(484)	(5,894)	(7,319)
Net book value	54,958	33,581	9,919	98,458
Net book value 1977	54,114	33,775	9,825	97,714

Contracts for capital expenditure authorised by the Directors and outstanding at 28th February 1978 totalled £4,733,000 (1977 £5,148,000). Further capital expenditure authorised at that date, but not contracted for, is estimated at £1,412,000 (1977 £2,258,000).

14 Directors' emoluments

The aggregate emoluments of the Governors and Directors were:

1977		1978
£11,410	Fees	£11,000
£268,944	Other emoluments, including remuneration of Governors and Executive Directors and payments to Directors' Pension Funds	£260,708
£32,000	The emoluments of the Governor were	£32,139

Remuneration amounting to £6,000 (1977 £6,000) was waived by the Governor; one other member of the Court of Directors waived remuneration amounting to £5,360 (1977 £5,360).

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

1977		1978
12	Up to £2,500	11
1	£20,001 to £22,500	1
4	£22,501 to £25,000	4

15 Employees' emoluments

The following table shows the number of employees receiving emoluments in excess of £10,000 for the year within the bands stated. The table also shows the total amount of income tax applicable for 1977/78 at the higher end of each band and the corresponding take-home pay; it has been assumed for this purpose that the recipient was a married man without dependent children and with no other source of income.

1977		Tax	Take-home pay	1978
		£	£	
118	£10,001 to £12,500	4,575	7,925	147
54	£12,501 to £15,000	6,150	8,850	62
36	£15,001 to £17,500	7,875	9,625	36
15	£17,501 to £20,000	9,750	10,250	18
3	£20,001 to £22,500	11,625	10,875	6
1	£22,501 to £25,000	15,775	11,725	—
—	£25,001 to £27,500	17,850	12,150	1

16 Charitable donations

Charitable donations during the year amounted to £61,000 (1977 £65,800); no political contributions were made.

17 Contingent liabilities

Outstanding exchange contracts for customers, together with irrevocable credits, amount to £48,987,000 (1977 £52,214,000); these are covered by compensating contracts for corresponding amounts.

There are further contingent liabilities, including uncalled capital on investments, of £42,806,000 (1977 £55,098,000).

There is also a contingent liability for guarantees in respect of loans to The Burmah Oil Company Ltd of £51,646,000 (1977 £58,394,000), against which the Bank hold security.

Banking Department

Statement of source and application of funds for the year ended 28th February 1978

1977		1978
£000		£000
Source of funds		
13,023	Operating profit	20,630
	Adjustment for items not involving the movement of funds:	
2,154	Depreciation	3,149
15,177	Funds generated by operations	23,779
	Funds from other sources:	
5,704	Repayment of tax	1,144
—	Disposal of other securities	1,028
16	Disposal of premises and equipment	80
20,897		26,031
Application of funds		
6,000	Payment to the Treasury	3,000
2,900	Purchase of premises and equipment	3,973
8,215	Investment in other securities	—
—	Purchase of subsidiary companies	16,983
3,782	Increase in working capital (see below)	2,075
20,897		26,031
Analysis of working capital		
	Increase/(decrease) in:	
(369,897)	Current assets	1,090,142
376,191	Advances and other accounts, excluding taxation	(407,059)
—	Advances to subsidiary companies	42,328
6,294		725,411
(2,512)	Current liabilities, excluding payment to the Treasury	(723,336)
3,782		2,075

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1 Depreciation

The adjustment is the difference between depreciation based on current replacement cost of premises and equipment and the depreciation charge in the historical cost accounts.

Some 60% of the value of equipment (mainly computer assets and printing machines) was calculated from suppliers' current price lists. The figures for the remainder of the equipment were calculated by using the price index numbers for current cost accounting, produced by the Central Statistical Office. The undermentioned indices were used:

Price indices for specific types of office equipment.

The figures relating to property interests reflect a professional valuation of Bank freehold and leasehold premises by St Quintin Son & Stanley, Chartered Surveyors, as at 28th February 1977, on an open market for existing use basis, in accordance with the R.I.C.S. draft guidance notes on valuations for current cost accounting purposes under E.D.18, updated as at 28th February 1978 by means of the Central Statistical Office's indices for construction.

The adjustment has been calculated by applying the change in the UK retail price index during the year to the average of the opening and closing totals of net monetary assets. At 1st March 1977 the index stood at 174.1 and on 28th February 1978 at 190.6. British government stocks have been treated as monetary items and included at book value in this calculation. No adjustment has been made to the historical cost profit in respect of the increased market value of British government stocks.

Issue Department

Account for the year ended 28th February 1978

1977		1978	
£000		£000	£000
	Income and profits:		
613,976	Securities of, or guaranteed by, the British Government	419,861	
320,535	Other securities	66,806	
83	Other receipts	130	486,797
	Expenses:		
13,062	Cost of production of Bank notes	15,192	
7,432	Cost of issue, custody and payment of Bank notes	7,935	23,127
914,100	Payable to the Treasury		463,670

Statement of balances: 28th February 1978

1977	1978	1977	1978
£000	£000	£000	£000
	Notes issued:	11,015	Government debt
6,758,257	In circulation	7,775,646	Other securities of, or guaranteed by, the British Government
16,743	In Banking Department	24,354	Other securities
		5,540,349	
		1,223,636	
6,775,000	7,800,000	6,775,000	7,800,000

- Notes
- 1 The income and profits and value of securities 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 1978.
 - 2 In October 1976, The Burmah Oil Company Ltd served a writ on the Bank claiming, *inter alia*, the restitution of the 77,817,507 British Petroleum ordinary stock units which had been purchased from Burmah in 1975 for a consideration of some £179 million. A defence has been entered to this claim.

GORDON RICHARDSON *Governor*

J. Q. HOLLOM *Deputy Governor*

NELSON OF STAFFORD *Director*

P. A. S. TAYLOR *Chief of Administration*

