

Banking Department *THE BANK'S ACCOUNTS*

The Banking Department accounts for the year ended 28th February 1979 show an operating profit of £28.1 million, compared with £20.6 million last year. This is after charging a total of £8.0 million (compared with £10.2 million) for amounts transferred to provisions for losses in respect of Other securities and the Bank's involvement in support operations. After a payment in lieu of dividend of £7.5 million and a tax charge of £5.5 million, retained profit transferred to reserves amounts to £15.1 million (compared with £9.8 million last year).

The supplementary statement on inflation accounting again follows the interim recommendation published in November 1977 by the Accounting Standards Committee and is shown on page 40. After adjustment for depreciation and net monetary assets this statement shows an operating profit before tax of £23.2 million, some £4.9 million less than the operating profit in the conventional accounts.

The Issue Department accounts are shown on page 41. The profits of the note issue payable to the Treasury are £727.5 million compared with £463.7 million in the preceding year.

## 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 31 to 39, which have been prepared on the basis of the accounting policies set out on page 34, and the statements of account of the Issue Department set out on page 41.

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 1979 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 1979 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 40. In our opinion, the statement has been properly prepared in accordance with this basis.

DELOITTE HASKINS & SELLS  
*Chartered Accountants*

*London*  
*12th July 1979*

## Banking Department

### Profit and loss account For the year ended 28th February 1979

1978			1979	
£000	£000		£000	£000
	20,630	Operating profit ( <i>Note 2</i> )		28,063
		after charging:		
[10,228]		Provision for losses ( <i>Note 3</i> )	[8,058]	
		Payment to the Treasury under Section 1(4) of the Bank of England Act 1946 ( <i>Note 4</i> )		7,500
	<u>5,500</u>			<u>7,500</u>
	15,130			20,563
	5,374	Taxation ( <i>Note 5</i> )		5,493
	<u>9,756</u>			<u>5,493</u>
		Profit transferred to reserves ( <i>Note 6</i> )		<u>15,070</u>

The notes on pages 34 to 38 form part of these accounts.

## Banking Department

### Balance sheet: 28th February 1979

1978		1979	
£000		£000	£000
14,553	<b>Capital</b>	14,553	
182,593	<b>Reserves (Note 6)</b>	197,663	212,216
	<b>Current liabilities</b>		
123,221	Public deposits (Note 7)	101,192	
1,229,300	Special deposits	254,930	
408,352	Bankers' deposits	432,230	
519,798	Other accounts	410,927	
5,500	Payable to the Treasury (Note 4)	7,500	1,206,779
<hr/> 2,483,317 <hr/>		<hr/> 1,418,995 <hr/>	

The notes on pages 34 to 38 form part of these accounts.

## Banking Department

### Balance sheet: 28th February 1979

1978		1979	
£000		£000	£000
	<b>Liquid assets</b>		
24,535	Notes and coin	24,945	
119,993	Cheques in course of collection ( <i>Note 8</i> )	88,662	
1,753,298	Treasury and other bills ( <i>Note 9</i> )	566,714	680,321
	<b>Investments (<i>Note 10</i>)</b>		
149,341	Securities of, or guaranteed by, the British Government	127,437	
51,166	Other securities	47,218	174,655
227,215	<b>Advances and other accounts, less provisions</b> ( <i>Note 11</i> )		436,700
	<b>Subsidiary companies (<i>Note 12</i>)</b>		
16,983	Investments	16,983	
42,328	Amounts owing	11,139	28,122
98,458	<b>Premises and equipment (<i>Note 13</i>)</b>		99,197
2,483,317			1,418,995

GORDON RICHARDSON *Governor*

J. Q. HOLLOW *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 subsequent additions and less accumulated depreciation. 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 1979 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 lease or estimated future life
Computers	over five years
Other equipment	over periods ranging from four to twenty 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 is concerned in such transactions only as agent.

#### 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:

1978		1979
£ thousands		£ thousands
	<b>Income</b>	
	Interest:	
20,316	Treasury and other bills	48,110
18,417	Securities of, or guaranteed by, the British Government	18,618
	Other securities:	
2,151	Listed	2,150
1,400	Unlisted	1,789
19,016	Advances	15,263
32,964	Charges for services to the Government	34,556
782	Rents	940
	<b>Charges</b>	
17,736	Interest paid to depositors	31,567
272	Directors' emoluments ( <i>Note 14</i> )	272
36	Auditors' remuneration	36
565	Hire of computers and other equipment	421
3,149	Depreciation of premises and equipment ( <i>Note 1d</i> )	3,124

## 3 Provision for losses

A total of £8,058,000 has been transferred to provisions for losses. This is made up of two items:

- provision for losses in respect of Other securities; and
- provision 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

1978		1979
£ thousands		£ thousands
2,000	Payable 5th April 1979	2,500
3,500	Payable 5th October 1979	5,000
5,500		7,500

## 5 Taxation

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

1978		1979
£ thousands		£ thousands
6,274	Deferred tax	5,493
(900)	Amount receivable in respect of group relief	—
5,374		5,493

The charge, after taking account of deferred taxation, is low in relation to the operating profit after dividend because tax losses brought forward from previous years have been used to eliminate the taxable profit in the current year. The balance of tax losses has been carried forward against future profits.

## 6 Reserves

	£ thousands
Balance at 1st March 1978	182,593
Profit of the year retained	15,070
Balance at 28th February 1979	197,663

## 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

1978			1979	
£ thousands			£ thousands	
1,747,229		British government Treasury bills	562,299	
6,069		Other bills	4,415	
<u>1,753,298</u>			<u>566,714</u>	

## 10 Investments

1978			1979	
£ thousands			£ thousands	
Book value	Market value		Book value	Market value
149,341	161,729	Securities of, or guaranteed by, the British Government	127,437	136,023
17,536	25,055	Other securities:	17,039	24,704
	Directors' valuation	Listed		Directors' valuation
33,630	37,382	Unlisted	30,179	38,960
<u>200,507</u>	<u>224,166</u>		<u>174,655</u>	<u>199,687</u>

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

1978		1979
Percentage held		Percentage held
27	Agricultural Mortgage Corporation Ltd shares of £1	27
	Commonwealth Development Finance Company Ltd:	
Nil	'A' ordinary shares of £1 (10p paid)	1
93	'B' ordinary shares of £1 (50p paid)	93
41	Percentage of total nominal equity held	42
15	Finance for Industry Ltd shares of £1	15
31	Portals Holdings Ltd ordinary stock	29

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

## 11 Advances and other accounts

Included under this heading is a deferred tax balance of £6,461,000 (1978 £11,290,000).

## 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
- Securities Management Trust Ltd 1,000 ordinary shares of £1
- Slater, Walker Ltd 100,000 ordinary shares of £1  
10,000,000 deferred 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 1979 amount to £707,000 (1978 £1,281,000); these profits are not dealt with in the accounts of the Banking Department.

Included within Current liabilities is a total of £1,588,000 (1978 £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 1978	55,899	34,065	15,813	105,777
Acquisitions	2,179	105	2,542	4,826
Disposals	(803)	—	(3,153)	(3,956)
Cost or valuation at 28th February 1979	57,275	34,170	15,202	106,647
Accumulated depreciation	(1,868)	(974)	(4,608)	(7,450)
Net book value	55,407	33,196	10,594	99,197
<i>Net book value 1978</i>	<i>54,958</i>	<i>33,581</i>	<i>9,919</i>	<i>98,458</i>

Contracts for capital expenditure authorised by the Directors and outstanding at 28th February 1979 totalled £2,384,000 (1978 £4,733,000). Further capital expenditure authorised at that date, but not contracted for, is estimated at £1,552,000 (1978 £1,412,000).

### 14 Directors' emoluments

The aggregate emoluments of the Governors and Directors were:

1978		1979
£11,000	Fees	£11,500
	Other emoluments, including remuneration of Governors and Executive Directors and payments to Directors' Pension Funds	
£260,708		£260,697
£32,139	The emoluments of the Governor were	£33,362

Remuneration amounting to £6,000 (1978 £6,000) was waived by the Governor; one other member of the Court of Directors waived remuneration amounting to £5,360 (1978 £5,360).

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

1978		1979
11	Up to £2,500	12
1	£20,001 to £22,500	—
4	£22,501 to £25,000	1
—	£25,001 to £27,500	2
—	£27,501 to £30,000	2

### 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 1978/79 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.

1978		Tax	Take-home pay	1979
		£	£	
147	£10,001 to £12,500	3,900	8,600	210
62	£12,501 to £15,000	5,325	9,675	80
36	£15,001 to £17,500	6,925	10,575	47
18	£17,501 to £20,000	8,675	11,325	29
6	£20,001 to £22,500	10,550	11,950	12
—	£22,501 to £25,000	12,425	12,575	6
1	£27,501 to £30,000	16,525	13,475	—
—	£30,001 to £32,500	18,600	13,900	1

## 16 Charitable donations

Charitable donations during the year amounted to £61,400 (1978 £61,000); no political contributions were made.

## 17 Contingent liabilities

Outstanding exchange contracts for customers, together with irrevocable credits, amount to £27,740,000 (1978 £48,987,000): these are covered by compensating contracts for corresponding amounts.

There are further contingent liabilities, including uncalled capital on investments, of £53,644,000 (1978 £42,806,000).

There is also a contingent liability for guarantees in respect of loans to The Burmah Oil Company Ltd of £49,444,000 (1978 £51,646,000), against which the Bank holds security.

## Banking Department

### Statement of source and application of funds For the year ended 28th February 1979

1978		1979
£000		£000
<b>Source of funds</b>		
20,630	Operating profit	28,063
Adjustment for items not involving the movement of funds:		
330	Provision for losses in respect of other securities	3,445
3,149	Depreciation	3,124
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24,109	Funds generated by operations	34,632
Funds from other sources:		
1,144	Repayment of tax	—
698	Disposal of other securities	503
80	Disposal of premises and equipment	964
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26,031		36,099
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<b>Application of funds</b>		
3,000	Payment to the Treasury	5,500
3,973	Purchase of premises and equipment	4,826
16,983	Purchase of subsidiary companies	—
2,075	Increase in working capital (see below)	25,773
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26,031		36,099
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<b>Analysis of working capital</b>		
Increase/(decrease) in:		
1,090,142	Current assets	(1,239,409)
(407,059)	Advances and other accounts, excluding taxation	214,979
42,328	Advances to subsidiary companies	(31,189)
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725,411		(1,055,619)
(Increase)/decrease in:		
(723,336)	Current liabilities, excluding payment to the Treasury	1,081,392
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2,075		25,773
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## Banking Department

### Supplementary statement on inflation accounting For the year ended 28th February 1979

1978			1979	
£000	£000		£000	£000
	20,630	Profit before tax as in historical cost accounts		28,063
		less		
887		Additional depreciation charge ( <i>Note 1</i> )	1,012	
3,223	4,110	Net monetary assets adjustment ( <i>Note 2</i> )	3,882	4,894
	<u>16,520</u>	Adjusted profit before tax		<u>23,169</u>

### Notes on the supplementary statement on inflation accounting

#### Basis

This supplementary statement is based on the interim recommendation by the Accounting Standards Committee. The adjustments are calculated as follows:

#### 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.

##### a Equipment

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:

Capital expenditure on plant and machinery in paper, printing and publishing, and

Price indices for specific types of office equipment.

##### b Premises

The figures relating to property interests reflect a professional valuation of Bank freehold and leasehold premises by St Quintin Son and Stanley, Chartered Surveyors, as at 28th February 1977, on an open market value for existing use basis, in accordance with the R.I.C.S. draft guidance notes on valuations for current cost accounting purposes, updated as at 28th February 1979 by means of the Central Statistical Office's indices for the cost of construction.

#### 2 Net monetary assets

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 1978 the Index stood at 190.6 and on 28th February 1979 at 208.9. 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 1979

1978		1979	
£000		£000	£000
	Income and profits:		
	Securities of, or guaranteed by, the British		
419,861	Government	575,485	
66,806	Other securities	175,789	
130	Other receipts	251	751,525
	Expenses:		
15,192	Cost of production of Bank notes	16,470	
7,935	Cost of issue, custody and payment of Bank notes	7,547	24,017
463,670	Payable to the Treasury		727,508

### Statement of balances: 28th February 1979

1978	1979	1978	1979	
£000	£000	£000	£000	
	Notes issued:	11,015	Government debt	11,015
7,775,646	In circulation	8,900,262		
	In Banking		Other securities of, or guaranteed by, the	
24,354	Department	24,738	British Government	7,542,219
		6,814,210	Other securities	1,371,766
		974,775		
7,800,000		7,800,000		8,925,000

#### 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 1979.
- 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 Company Ltd 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. HOLLOW *Deputy Governor*

NELSON OF STAFFORD *Director*

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

