The Bank's accounts

The *Banking Department* accounts for the year ended 28 February 1985 show an operating profit of £37.7 million, compared with £65.3 million in 1983/84. After a payment in lieu of dividend of £25.3 million (compared with £21.7 million) and a tax charge of £4.9 million, the profit transferred to reserves amounts to £7.5 million, compared with £11.8 million last year.

The current cost accounts, shown on page 28 show a profit before tax and dividend of £28.8 million, some £8.9 million less than in the historical cost accounts.

The *Issue Department* accounts are shown on page 30. In accordance with the Currency and Bank Notes Act 1928, the assets of the Issue Department comprise securities of an amount in value sufficient to cover the fiduciary note issue. The profits of the note issue are payable to the Treasury and amounted to £1,089.8 million compared with £1,198.0 million in 1983/84.

Report of the Auditors

To the Governor and Company of the Bank of England

We have audited the accounts of the Banking Department on pages 17 to 29, and the statements of account of the Issue Department on page 30, in accordance with approved Auditing Standards.

We draw attention to Note 11 which explains the basis on which provision has been made in respect of payments to be made by the Bank under an indemnity given to Johnson Matthey Bankers Limited together with other appropriate financial information regarding that company.

In our opinion

1 The accounts on pages 17 to 27 give a true and fair view of the state of affairs of the Banking Department at 28 February 1985 and of the profit and source and application of funds for the year then ended.

2 The statements of account on page 30 present fairly the outcome of the transactions of the Issue Department for the year ended 28 February 1985 and its balances at that date.

3 The abridged supplementary current cost accounts of the Banking Department on pages 28 and 29 have been properly prepared in accordance with the policies and methods described in notes 1 to 3, to give the information required by Statement of Standard Accounting Practice No. 16.

DELOITTE HASKINS & SELLS

Chartered Accountants

London

6 June 1985

Banking Department

Profit and loss account
for the year ended 28 February 1985

1984 *£000*			1985 £000	£000
65,326	Operating profit after charging:	(*Note 2*)		37,660
—	Provision for payment under indemnity	(*Note 11*)	34,000	
21,750	Payment to the Treasury under Section 1(4) of the Bank of England Act 1946	(*Note 4*)		25,300
43,576	Profit before taxation			12,360
31,802	Taxation	(*Note 5*)		4,862
11,774	Profit transferred to reserves	(*Note 6*)		7,498

The notes on pages 20 to 26 form part of these accounts.

Banking Department

Balance sheet: 28 February 1985

1984 £000			1985 £000	£000
14,553	**Capital**		14,553	
395,744	**Reserves**	(*Note 6*)	403,242	
410,297				417,795
	Current liabilities			
233,487	Public deposits	(*Note 7*)	4,157,286	
766,960	Bankers' deposits	(*Note 8*)	688,055	
1,046,537	Other accounts		1,330,203	
21,750	Payable to the Treasury	(*Note 4*)	25,300	
2,068,734				6,200,844
2,479,031				6,618,639

The notes on pages 20 to 26 form part of these accounts.

Banking Department

Balance sheet: 28 February 1985

1984 £000			1985 £000	£000
	Liquid assets			
12,828	Notes and coin		10,565	
222,898	Cheques in course of collection		202,357	
1,113,860	Treasury and other bills	(*Note 9*)	4,687,848	
1,349,586				4,900,770
341,629	**Investments**	(*Note 10*)		397,568
540,349	**Advances and other accounts, less provisions**			964,953
25,342	**Subsidiary companies**	(*Note 11*)		127,710
222,125	**Premises and equipment**	(*Note 12*)		227,638
2,479,031				6,618,639

R Leigh-Pemberton *Governor*

C W McMahon *Deputy Governor*

Nelson of Stafford *Director*

H C E Harris *Chief of Corporate Services*

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 to 1981, the accounts have been prepared so as to comply with the requirements of those Acts and the Statements of Standard Accounting Practice issued by the accountancy bodies in so far as they are appropriate.

The accounts have been prepared on the historical cost basis of accounting, modified to include the revaluation of certain fixed assets and in accordance with Section 149A of, and Schedule 8A to, the Companies Act 1948.

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 middle-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 premises are stated at a professional valuation on an open-market value for existing use basis as at 28 February 1982 plus the cost of subsequent additions and less accumulated depreciation. No account is taken of the liability to taxation which could arise if the premises were disposed of at their revalued amounts.

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

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

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

e Bad and doubtful debts
Appropriate provision is made for bad and doubtful debts.

f Foreign currency translation
Assets and corresponding liabilities in foreign currencies are translated into sterling at the exchange rates ruling at 28 February.

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

h Deferred tax
Deferred tax is provided in respect of all material timing differences except where it is expected that the relevant timing difference will not reverse in the foreseeable future; tax is provided at corporation tax rates applicable to the year in which the relevant timing differences are expected to reverse.

j Retirement benefits

The profit of the year bears the cost of providing pensions in respect of current service. Any unfunded liability in respect of past service disclosed by an actuarial valuation is met either by a special contribution to, or by an increase in the current contribution rate of, the relevant pension fund.

The Bank of England Pension Fund is reviewed annually and full actuarial valuations are obtained every three years. The next full valuation will take place as at 28 February 1987. A full actuarial valuation is obtained yearly in respect of the Court Pension Scheme.

There is no unfunded liability in respect of past service.

2 Operating profit

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

1984 *£ thousands*		1985 £ thousands
	Income	
	Interest:	
95,918	Treasury and other bills	178,673
44,503	Securities of, or guaranteed by, the British Government	45,714
8,789	Advances	14,985
	Interest and dividends:	
1,435	Listed securities	1,546
3,405	Unlisted securities	4,029
40,131	Charges for services to the Government	42,508
2,383	Rents	2,188
5	Surplus on disposal of fixed assets	—
	Charges	
48,286	Interest paid to depositors	131,003
512	Directors' emoluments (*Note 3*)	541
55	Auditors' remuneration	70
78	Hire of computers and other equipment	65
7,125	Depreciation of premises and equipment (*Note 1d*)	7,549
—	Loss on disposal of fixed assets	589

3 Directors' and employees' emoluments

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

1984		1985
£11,500	Fees	£11,500
£500,945	Other emoluments, including remuneration of Governors and Executive Directors and contributions to Directors' Pension Scheme	£529,850

The Governor's emoluments, excluding pension contributions, totalled £85,095 (1984 £72,545, excluding emoluments waived of £8,988).

The following table shows for the year ended 28 February the number of other Directors and of employees of the Bank receiving remuneration in excess of £30,000 (excluding pension contributions), within the bands stated.

1984 *Directors*	*1984* *Employees*		1985 Directors	1985 Employees
12		£0– £5,000	12	
—	*46*	£30,001–£35,000	—	66
—	*32*	£35,001–£40,000	—	24
—	*26*	£40,001–£45,000	—	25
—	*11*	£45,001–£50,000	—	18
4	*4*	£50,001–£55,000	—	7
—	*—*	£55,001–£60,000	4	3
1	*—*	£60,001–£65,000	—	—
—	*—*	£70,001–£75,000	1	—

The aggregate remuneration of the employees of the Bank was £63.3 million (1984 £60.5 million).

4 Payment to the Treasury

1984 £ thousands		1985 £ thousands
7,250	Payable 5 April	8,000
14,500	Payable 5 October	17,300
21,750		25,300

5 Taxation

The charge for taxation comprises:

1984 £ thousands		1985 £ thousands
*10,257**	UK corporation tax at an average rate of 45.416% (1984 50.166%) based on the profits of the year	15,079
381	Income tax on franked investment income	414
20	Prior year adjustment	(1,307)
*21,144**	Deferred tax (see below)	(9,324)
31,802		4,862

* A compensating adjustment of £4,593,000 has been made between the amounts provided for current tax and deferred tax in 1984, following a change in the basis of assessing corporation tax on interest from British Government Securities.

The charge for deferred taxation in 1984 included an amount of £11,138,000, being the effect on the balance on the deferred taxation account at 28 February 1983 of the changes in the rates of corporation tax and the withdrawal of first year allowances set out in the Finance Act 1984.

The deferred tax asset of £1,600,000 is included under Advances and other accounts (1984 Other accounts) and is comprised as follows:

1984 £ thousands		1985 £ thousands
(1,900)	Short-term timing differences	(11,400)
9,600	Accelerated capital allowances	9,800
7,700†		(1,600)

† as restated.

The potential liability for deferred taxation in respect of capital gains on unrealised revaluation surpluses less deficits, which is not provided in the accounts, is £9,900,000.

6 Reserves

£ thousands

	General reserve	Revaluation surplus	Total
Balance at 1 March 1984	234,561	161,183	395,744
Profit of the year retained	7,498	—	7,498
Balance at 28 February 1985	242,059	161,183	403,242

7 Public deposits

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

The large rise in these deposits during the year is mainly attributable to the increase in the balance on the National Loans Fund account, as provided for in Section 12 of the National Loans Act 1968, as amended by S152 of the Finance Act 1982. This increase is matched by a comparable rise in holdings of bills.

8 Bankers' deposits

1984 £ thousands		1985 £ thousands
500,120	Cash ratio deposits	582,167
266,840	Other deposits	105,888
766,960		688,055

9 Treasury and other bills

1984 £ thousands		1985 £ thousands
91,593	British Government Treasury bills	197,874
1,022,267	Other bills	4,489,974
1,113,860		4,687,848

10 Investments

1984 £ thousands Book value	1984 Valuation		1985 £ thousands Book value	1985 Valuation
319,093	*398,526*	Securities of, or guaranteed by, the British Government	375,041	432,247
		Other securities:		
7,487	*32,877*	Listed	7,487	34,904
15,049	*48,473*	Unlisted	15,040	50,320
341,629	*479,876*		397,568	517,471

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

1984 Percentage held		1985 Percentage held
	Over 20%	
27	Agricultural Mortgage Corporation p.l.c. shares of £1	27
	Share capital and reserves as at 31 March 1984 £29,663,000	
	Profit for the year ended 31 March 1984 £6,182,000	
29	Portals Holdings p.l.c. ordinary stock	29
	Share capital and reserves as at 31 December 1984 £86,245,000	
	Profit for the year ended 31 December 1984 £17,549,000	

As a matter of policy, the Bank does not seek to influence the above companies' commercial or financial decisions.

1984 Percentage held		1985 Percentage held
	Commonwealth Development Finance Company Limited:	
1	'A' ordinary shares of £1 (10p paid)	1
93	'B' ordinary shares of £1 (50p paid)	93
42	Percentage of total nominal equity held	42
	Share capital and reserves as at 31 March 1984 £8,325,000	
	Profit for the year ended 31 March 1984 £2,456,000	

The above company is not treated in these accounts as an associate under SSAP1 as the Bank considers this treatment would not be appropriate having regard to the nature of the investment.

All the above companies are incorporated in Great Britain.

1984 Percentage held		1985 Percentage held
	Under 20%	
15	Investors in Industry p.l.c. shares of £1 (Incorporated in Great Britain)	15
10	Bank for International Settlements shares of 2,500 Swiss gold francs (25% paid) (Incorporated in Switzerland)	10

11 Subsidiary companies

This comprises:

1984 *£ thousands*		1985 £ thousands
16,982	Investments in subsidiary companies	16,982
8,360	Amounts owing by subsidiary companies	110,728
25,342		127,710

(a) Johnson Matthey Bankers Limited

In October 1984 the Bank purchased from Johnson Matthey p.l.c., for a nominal consideration, the entire issued share capital (60,000,000 shares of £1) of Johnson Matthey Bankers Limited (JMB).

Provision has been made in the Bank's accounts for amounts to be paid to JMB under an indemnity in respect of losses expected to arise on the realisation of its loan book at 30 September 1984 given to that company by the Bank and offset by amounts receivable from a number of banks and members of the London gold market under a related counter indemnity given by them to the Bank. The overall limit on the Bank's liability, net of the benefit of the counter indemnity, is £75 million.

The amount provided at 28 February 1985 in respect of payments to be made under the indemnity has been based upon the best information presently available. Although the review of the loan book of JMB at 30 September 1984 has been largely completed, having regard to the nature of the lending entered into and to the fact that in many instances realisation will only be in the long term, the amount provided by the Bank in respect of payments to be made under the indemnity may be subject to adjustment.

JMB has a contingent liability in respect of corporation tax of an estimated maximum amount of £29 million relating to stock appreciation relief claimed by the company but contested by the Inland Revenue. The company was successful at a hearing before the Special Commissioners but understands the matter may be taken to appeal by the Inland Revenue. The directors of JMB are legally advised that the company has a sound case and no provision has been made.

In a press release dated 13 May 1985, the Bank announced that it intends to reorganise the capital of JMB. The proposed reorganisation will result in the Bank subscribing for £50 million of ordinary £1 shares, £25 million of redeemable £1 shares and £25 million of subordinated unsecured loan stock. At the same time there will be a cancellation of 59,999,900 existing issued shares and 15 million unissued shares of £1 each. The injection of new capital will be followed by repayment by JMB of the deposit of £100 million made by the Bank in November 1984.

The last audited accounts of JMB were in respect of the year ended 31 March 1984, and the next audited accounts will be in respect of the fifteen months ending 30 June 1985.

The accounts of JMB have not been consolidated with those of the Bank because, in the opinion of the Directors, it would be misleading to consolidate its assets and liabilities with those of the Banking Department as it is the Bank's stated intention to dispose of its investment in JMB at the earliest practicable opportunity.

(b) Other subsidiaries

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

BE Services Ltd	5,000 shares of £1
EBS Investments Ltd	100 shares of £1
The 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 assets and liabilities 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 BE Services Ltd and The 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 these subsidiary companies attributable to the Bank, which have not been dealt with in the accounts of the Banking Department, and which are stated by reference to audited accounts are as follows:

1984 *£ thousands*		1985 £ thousands
1,457	For the year ended 28 February 1985	7,614
10,593	Since acquisition	18,207

Included within Current liabilities is a total of £2,004,000 (1984 £1,448,000) due, in the normal course of business, to subsidiary companies.

12 Premises and equipment

£ thousands

	Freehold premises	Leasehold premises (50 years and over unexpired)	Leasehold premises (under 50 years unexpired)	Equipment	Total
Cost or valuation					
At 1 March 1984	123,276	85,428	2,187	28,828	239,719
Acquisitions	6,530	817	—	6,611	13,958
Disposals	—	—	(98)	(2,049)	(2,147)
Adjustment in respect of fully depreciated assets	—	—	—	(660)	(660)
At 28 February 1985	129,806	86,245	2,089	32,730	250,870
Accumulated depreciation					
At 1 March 1984	4,399	2,420	114	10,661	17,594
Charge for the year	2,311	1,240	100	3,898	7,549
On disposals	—	—	—	(1,251)	(1,251)
Adjustment in respect of fully depreciated assets	—	—	—	(660)	(660)
At 28 February 1985	6,710	3,660	214	12,648	23,232
Net book value at 28 February 1985	123,096	82,585	1,875	20,082	227,638
Net book value at 29 February 1984	*118,877*	*83,008*	*2,073*	*18,167*	*222,125*
Cost or valuation at 28 February 1985 comprised:					
At 1982 valuation	117,815	82,415	30	—	200,260
At cost	11,991	3,830	2,059	32,730	50,610
	129,806	86,245	2,089	32,730	250,870

Contracts for capital expenditure authorised by the Directors and outstanding at 28 February 1985 totalled £8,685,000 (1984 £14,828,000). Further capital expenditure authorised at that date, but not contracted for, is estimated at £2,675,000 (1984 £2,511,000).

13 Transactions with Directors

The following particulars are given relating to transactions, arrangements and agreements entered into by the Bank of England with Directors, and persons connected with the Directors, of the Bank:

	Number of Directors	Total amount £ thousands
Loans	5	179

There were no quasi loans or other credit transactions required to be shown under the Companies Act 1980. None of the Directors had a material interest, directly or indirectly, at any time during the year in any other significant transaction or arrangement with the Bank or any of its subsidiaries.

14 Charitable donations

Charitable donations during the year amounted to £138,000; no political contributions were made.

15 Contingent liabilities

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

There are further contingent liabilities, including uncalled capital on UK investments, but excluding the indemnity referred to in Note 11, of £76 million (1984 £63 million).

Since 1930 there has also been a contingent liability, denominated in Swiss gold francs, in respect of uncalled capital on the Bank's investment in the Bank for International Settlements. The sterling equivalent of this liability based on the gold market price on 28 February 1985 was £225 million (1984 £222 million).

16 Date of approval

The Court of Directors approved the accounts on pages 17 to 29 on 6 June 1985.

Banking Department

Statement of source and application of funds
for the year ended 28 February 1985

1984		1985
£000		£000
	Source of funds	
65,326	Operating profit	37,660
	Adjustment for items not involving the movement of funds:	
—	Provision for payment under indemnity	32,300
7,121	Depreciation, net of profits/(losses) on disposal of fixed assets	8,138
30	Other	(391)
72,477	Funds generated by operations	77,707
	Funds from other sources:	
2	Disposal of Other securities	8
48	Disposal of premises and equipment	307
72,527		78,022
	Application of funds	
18,989	Payment of taxation	11,094
23,000	Payment to the Treasury	21,750
30	Purchase of Other securities	20
9,966	Purchase of premises and equipment	13,958
20,542	Increase in working capital (see below)	31,200
72,527		78,022
	Analysis of increase in working capital	
(233,855)	Current assets	3,607,131
(818,873)	Advances and other accounts	422,605
33	Advances to subsidiary companies	102,367
(1,052,695)		4,132,103
	Less:	
(1,073,237)	Current liabilities, excluding taxation and payment to the Treasury	4,100,903
20,542		31,200

Banking Department

Current cost profit and loss account for the year ended 28 February 1985

1984 £ millions				1985 £ millions
65.3	Operating profit as in historical cost accounts			37.7
	Current cost adjustments:			
1.2	Additional depreciation charge	(Note 2)	1.1	
6.8	Monetary working capital	(Note 3)	7.8	8.9
57.3	Current cost operating profit			28.8
	Payment to the Treasury under Section 1(4) of the Bank of			
21.7	England Act 1946			25.3
35.6	Current cost profit before taxation			3.5
31.8	Taxation			4.9
3.8	Current cost profit/(loss) for the year			(1.4)

Current cost balance sheet: 28 February 1985

1984 £ millions			1985 £ millions
14.5	Capital		14.5
466.9	Reserves	(Note 4)	489.2
481.4			503.7
2,068.7	Current liabilities		6,200.8
2,550.1			6,704.5
1,349.6	Liquid assets		4,900.8
400.5	Investments		460.2
540.3	Advances		964.9
25.3	Subsidiary companies		127.7
234.4	Premises and equipment	(Note 5)	250.9
2,550.1			6,704.5

The notes on page 29 form part of these accounts.

Notes on the current cost accounts

1 Basis

The current cost profit and loss account and balance sheet have been prepared on the basis of Statement of Standard Accounting Practice No. 16 issued by the accountancy bodies.

2 Accounting policies

(a) Except as indicated below, the accounting policies adopted have been the same as those described in note 1 on pages 20 and 21.

(b) Assets and liabilities are included in the current cost balance sheet on the following bases:

Premises—The figures relating to property interests reflect a professional valuation of Bank freehold and leasehold premises by St Quintin, Chartered Surveyors, as at 28 February 1982, on an open-market value for existing use basis, with revisions of value as at 28 February 1985, and having regard to appropriate professional advice.

Equipment—The majority of the figures for equipment were calculated by using *Price Index Numbers for Current Cost Accounting* produced by the Central Statistical Office.

The indices used were:

(i) Capital expenditure on plant and machinery in paper, printing and publishing;

(ii) Price indices for specific types of office equipment.

Figures for the remainder (mainly computer assets) were calculated with reference to suppliers' current price lists.

Investments—British Government stocks are stated at cost less provision; other securities are at market or Directors' valuation.

Other assets and liabilities—These are stated at the amounts shown in the historical cost accounts.

(c) Additional depreciation has been charged on premises and equipment in respect of the difference between the depreciation based on the current replacement cost and the depreciation charge in the historical cost accounts.

3 Monetary working capital adjustment

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. British Government stocks have been treated as monetary items and included at book value in this calculation.

4 Reserves

	1985 £ millions
Balance at 1 March 1984	466.9
Surplus on revaluation of premises, equipment and investments	15.9
Monetary working capital adjustment	7.8
Current cost loss for the year	(1.4)
Balance at 28 February 1985	489.2
Reserves comprise:	
Current cost reserve	156.7
Revenue reserve	171.3
Revaluation reserve	161.2
	489.2

5 Premises and equipment

1984 *£ millions* *Net*		1985 £ millions Gross	 Depreciation	 Net
211.9	Premises	226.1	—	226.1
22.5	Equipment	55.7	30.9	24.8
234.4		281.8	30.9	250.9

Issue Department

Account for the year ended 28 February 1985

1984		1985	
£000		£000	£000
	Income and profits:		
475,437	Securities of, or guaranteed by, the British Government	191,944	
748,145	Other securities	938,462	
19,515	Other receipts	6,851	1,137,257
	Expenses:		
30,068	Cost of production of Bank notes	31,479	
12,185	Cost of issue, custody and payment of Bank notes	12,997	
2,851	Other expenses	2,952	47,428
1,197,993	Payable to the Treasury		1,089,829

Statement of balances: 28 February 1985

1984		1985	*1984*		1985
£000		£000	*£000*		£000
	Notes issued:		*11,015*	Government debt	11,015
11,457,345	In circulation	12,029,677		Other securities of, or guaranteed by, the British Government	
12,655	In Banking Department	10,323	*2,001,111*		1,971,644
			9,457,874	Other securities	10,057,341
11,470,000		12,040,000	*11,470,000*		12,040,000

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 27 February 1985.

2 The Court of Directors approved the above statements of account on 6 June 1985.

R Leigh-Pemberton *Governor*

C W McMahon *Deputy Governor*

Nelson of Stafford *Director*

H C E Harris *Chief of Corporate Services*

The Bank of England and Johnson Matthey Bankers Limited

The Bank of England and Johnson Matthey Bankers Limited

This note is divided into five sections. First, the developments in Johnson Matthey Bankers Limited (JMB) up to September 1984 and the reasons for its failure; second, the Bank's supervision of JMB; third, the rescue operation which was mounted at the end of September 1984; fourth, the reasons for rescuing JMB; while the final section outlines the developments which have taken place since the Bank acquired JMB.

I The development of the business of JMB

JMB was established in 1965 to conduct the banking and bullion business of Johnson Matthey & Co.Ltd (now Johnson Matthey p.l.c.). It became an authorised bank under the Exchange Control Act in 1967 and obtained exemption under the Protection of Depositors Act in 1970. JMB was already being supervised by the Bank before the Banking Act came into effect. After the Banking Act came into effect, JMB was granted authorisation as a recognised bank in April 1980. As one of the five members of the London gold fixing, its business at that time was mainly concentrated on bullion and foreign exchange dealing, with the commercial banking side of the business specialising in trade finance. This spread of business was sufficient to enable JMB to obtain recognition under the normal criteria for a bank providing a wide range of banking services. (The provision of foreign exchange services and trade finance are two of the services required to be provided under the Act for authorisation as a recognised bank.)

Growth of the balance sheet

Total assets of the bank and its subsidiaries in 1980 were £874 million, of which bullion stocks and customers' dealing and metal accounts amounted to £678 million and commercial loans and overdrafts only £34 million. In 1981, the bank began to expand and diversify its loan portfolio. JMB's traditional trade finance business had tended to be based on connections with Pakistan, the Middle East and Nigeria and these areas provided a number of the customers for its expanding lending operations.

The balance sheet of the bank and its subsidiaries, set out in its annual accounts, more than doubled between March 1980 and March 1984 (broadly in line with those of other banks, in aggregate) by which time total assets stood at £2.1 billion (Table 1).

Table 1
£ millions

At end-March	1980	1981	1982	1983	1984
Loans and overdrafts	34	78	135	184	309
Holdings of bullion and customers' bullion-related accounts	678	786	804	1,226	1,359
Total assets	874	1,040	1,183	1,735	2,089

Commercial lending, in the form of loans and overdrafts, grew during the four years much faster than the overall balance sheet. Letters of credit, guarantees and acceptances outstanding also increased rapidly from £18 million in 1980 to £65 million in 1984. Nevertheless, JMB remained very much a specialised bullion trading bank: holdings of bullion and customers' bullion-related accounts, which had amounted to around three quarters of the bank's assets in 1980, still amounted to around two thirds of them at end-March 1984. Although the lending book had been increased markedly, no serious attempt was made to broaden the base of the banking services into, for example, corporate finance or investment management. The JMB group did however diversify to some extent into other financial services by purchasing subsidiaries engaged in soft commodities broking (in the United Kingdom, the United States and Singapore), insurance broking (United Kingdom and United States) and asset management (United States). The bank did not become involved in large scale financing of sovereign borrowers from developing countries.

Profits and provisions

According to its audited annual accounts, the JMB group's return on shareholders' funds was well over 20% between 1980 and 1983, and the return on total assets varied between 1.1% and 1.6%. This performance compared favourably with that of other banks. During the period between 1980 and 1984 well over three quarters of its profits came from bullion dealing and from sterling and foreign exchange operations partly connected with such dealing (Table 2). In the year to 31 March 1984 total profits fell, with the return on shareholders' funds declining to 9% and on total assets to 0.4%. The fall was attributed in the bank's annual report to 'flat conditions in world bullion markets, intense commission-reducing competition for base metal and commodity futures business, and growing trading problems for our banking customers at home and abroad'.

Table 2

£ millions

Year to end-March	1980	1981	1982	1983	1984
Pre-tax profits	14.4	11.6	16.6	24.3	9.4
of which:					
Dealing (including bullion operations)	13.4	10.0	14.7	20.8	8.9
Banking	1.0	1.6	1.9	3.5	0.5

It was the policy of the JMB board not to make specific bad debt provisions, but rather to write off directly any bad debts. A general provision of £8.0 million was maintained from May 1981 until March 1984. In JMB's quarterly return for June 1984, the Bank was informed that the general provision had been increased to £12.0 million, as from March 1984. After the Bank acquired JMB, it discovered that the general provision had in fact been increased to some £16 million[1] and that part of the general provision was in fact earmarked against a long-standing claim related to an earlier bullion trading transaction. As such this part was more in the nature of a specific than a general provision.

The causes of the failure

JMB entered into several large exposures, each of them equivalent to over 10% of the bank's capital base, as part of its banking operations. The two largest commercial debtors which eventually precipitated the crisis had been customers of JMB for several years; both were loosely associated groups of companies run by businessmen from Pakistan. By June 1983 the sizes of the exposures to these debtors were equivalent to 26% and 17% of JMB's capital base respectively. They had grown to 51% and 25% of capital base by December 1983. They continued to grow rapidly during the first half of 1984, reaching some 76% and 39% of JMB's capital base, respectively, in June 1984. The differences between the actual exposures and the levels reported to the Bank are set out on page 35. The total loan book also grew very rapidly in 1984 increasing by over a third, in sterling terms, in the six months between end-March 1984 and the time of the rescue. (The larger part of this rise reflected an increase in JMB's lending but since much of this was in US dollars, the total was also affected by the downward movement in the sterling/US dollar exchange rate in this period.) Many of JMB's other debts have since proved to be bad or doubtful, including some other large exposures.

In 1984 problems began to arise with the two large exposures. JMB was faced with a familiar banker's dilemma of deciding whether to lend more to help the customer trade out of its problems or to refuse further credit and bring about the customer's failure. JMB chose the former course.

The roots of JMB's problems were, however, more deep-seated. The loan book had grown very rapidly since 1981 and it has become clear since JMB's acquisition by the Bank that the controls and systems were inadequate; that the organisation and management of the commercial banking and credit monitoring activities had serious shortcomings; and that insufficient attention had been given to the concentration of risks involved. Security was not required from borrowers when this might have been expected under normal banking practice; and even when security was required the steps necessary to

(1) The figure of £20 million for general provisions as at March 1984 given in a press release issued by the Bank of England on 13 May 1985 includes certain debts which had previously been written off in accordance with JMB's normal policy but which have been written back into the accounts and provided against for the purposes of the indemnity arrangements referred to on page 40.

give the bank title to the security were not always taken properly. The need for provisions against bad and doubtful debts was not assessed with the proper degree of caution. The judgement of management in approving so many loans which have required substantial provisions was clearly defective. However, no evidence of fraud by the directors or staff of JMB has been discovered, except in one case dealt with before, and immaterial to, the collapse. Lending against bullion was not a factor in the loan losses. (Further references to the problems and shortcomings which the new, post-September 1984, management discovered in JMB will be found in the last section of this note.)

II The Bank's supervision of JMB

In 1981 and the first half of 1982 JMB's capital ratios were more than adequate and, even allowing for the nature of its business, left room on the Bank's normal criteria for an appreciable expansion of the balance sheet. The ratios weakened during late 1982 and the first half of 1983 before stabilising at the level which prevailed until the late summer of 1984. At that level they were still in line with those of many other banks.

Until the year ending on 31 March 1984, JMB's profit performance had been good and the Bank's knowledge of their bad debt experience, up to and including that year, gave no indication of any sizable problems. The annual accounts carried unqualified audit reports and included a note that 'Provision is made for all known doubtful debts'. The Bank was told by JMB's management of downward revisions to their profit forecasts for the year to 31 March 1984, which were confirmed by lower profits reported on the quarterly returns. These were blamed on quiet trading in the bullion markets. Profit forecasts were not being reduced as they should have been, because the extent of the provisions required was not recognised by the management.

Particular attention was devoted at regular prudential interviews to discussing bullion trading, which was the dominant part of JMB's business. The Bank drew JMB's attention, in the course of 1983, to some concerns it had about the adequacy of its liquidity position. Management responded positively and the position was improved over the following months. Inadequate liquidity was not a serious problem at the time of the crisis. Also during 1983, there was a rapid increase in lending to JMB's commodity subsidiaries. The Bank took up with JMB's management the scale of the exposures, which suggested weak controls in the bank, and the exposures were substantially reduced after the Bank had made clear its concern about them. In the five months, October 1983 to February 1984, the Bank held three meetings with JMB's management at which the two concerns described in this paragraph were particularly discussed.

The Bank's identification of the problems building up in the commercial loan book was seriously hindered by misreporting of the large exposures (which were significantly understated in the returns), and by late reporting, particularly for the March 1984 quarter. Table 3 shows the exposures to the two largest borrowers as they have subsequently been discovered to be and as they were reported to the Bank from June 1983 to June 1984.

Table 3
Percentage of capital base

	Reported		Actual	
Customer:	A	B	A	B
1983				
June	15	12	26	17
September	18	—	45	21
December	27	18	51	25
1984				
March	42	30	65	34
June	38	34	76	39

In December 1983 these exposures, reported at 27% and 18% of capital, were not significantly out of line with the size of exposures carried by many other banks (though JMB's exposures were not to first-class names). One other large commercial exposure, which is now considered doubtful, was reported in the March 1984 return as equivalent to 14% of capital; this was about half the true exposure. A further doubtful exposure equivalent to 27% of capital was omitted altogether. The levels of the largest exposures at the end of March, even as reported, would have caused the Bank to request an early meeting with JMB's management. But the report for March, which was due in the middle of April, was not received until June in spite of JMB being pressed to provide it on several occasions.

After the March return was received, the Bank asked for a meeting with JMB in July; but this was delayed at the request of JMB's management and a meeting was arranged early in August. This meeting was held on JMB's premises and lasted for most of the day. By the time of this meeting the end-June returns had also been received. Although the two exposures then stood at some 76% and 39% of capital respectively, the returns showed that the larger of the two exposures had been reduced from 42% to 38% of capital, while the smaller had increased from 30% to 34%. A new exposure equivalent to 17% of capital was reported for the first time. It was not until just before the August meeting that the Bank discovered that the new exposure was to a company related to the larger of the two other borrowers, bringing that exposure apparently to 55% of JMB's capital, still an understatement. It was following the August meeting, at which the Bank expressed serious concern about these loans that JMB requested its auditors to examine the loans in greater depth. As a result of this examination, the extent of the provisions required began to become clear to the management of JMB. The management then advised the Bank on 25 September that provisions were required against these loans which would substantially reduce the bank's net worth. The development of the rescue operation is covered in Section III.

Lessons for the future

The problems which arose at JMB give rise to a number of questions about ways in which the present system of supervision should be improved. Two features of the existing system of supervision, which were highlighted by the problems which arose at JMB, are the Bank's lack of any detailed analysis of the quality of the loans in a large part of a bank's loan book and the difficulties for the supervisors of assessing the quality and effectiveness of control procedures. The Bank relies heavily on a bank's external auditors to cover these subjects during the course of their work. The auditors need to satisfy themselves as to the basis on which the directors arrive at their valuation of a bank's assets if they are to give a clean audit report. They can also be expected to review the adequacy of a bank's controls and systems during the course of an audit and to make comments to management on any aspects they consider to be less than satisfactory.

Other features of the Bank's supervision are the practice of relying on the accuracy of banks' returns and the encouragement given to banks' managements to bring their concerns to the Bank at an early stage. The Bank's reliance on these features has, on the whole, been justified; but it proved not to have been justified in the case of JMB. One of the problems may have been that management and the parent company did not themselves realise the extent to which JMB was building up problems and subsequently did not appreciate their seriousness. In addition, reporting was inaccurate and misleading and at a critical point was late—and significantly later than the Bank stipulates. It appears that most of the misreporting was due to the deficient systems in JMB, a lack of understanding of the Bank's reporting requirements and lack of co-ordination between different departments, rather than to a deliberate attempt to mislead the Bank.

Some of the problems which arose in JMB in 1983 such as weak liquidity and excessive lending to the commodity subsidiaries, were addressed by the management but only after these shortcomings had been raised with JMB's management by the Bank. In late 1983, the attention accorded to the adequacy of the liquidity of the bullion business and the control systems associated with intra-group lending reflected the importance given to these factors by the Bank at that time. Both were features which, had they not been rectified, could have led to serious difficulties for the bank. In this connection, it should be emphasised that the critical problem which surfaced in September 1984 was in no way connected with the bullion business, which was generally well managed and profitable. The problems related exclusively to JMB's commercial lending business.

In the commercial lending part of the business, the problems of deficient systems, poor lending judgements and inadequate monitoring and control were not identified or pursued by the board or the parent company of JMB. The information in the regular returns made to the Bank gave some clues to possible problems in these areas—for example, the rapid growth of the commercial loan book, the large exposures to less than first-class names and the declining risk asset ratio. But, as has been seen, much of the information was seriously deficient and for the period between December 1983 and June 1984 not available. Had accurate end-March figures been received on time and the August meeting, at which the Bank's concerns about the loans were made clear to management, been held earlier, it should have been possible to prevent some of the late rapid growth of the loan book as a whole, and in particular of the major problem loans. This might have made it possible to contain the bank's difficulties. Even then, however, JMB's ultimate losses would have been very substantial.

The issues raised in this section about the system of supervision are covered in the Report of the Committee set up by the Chancellor of the Exchequer, to consider changes to the system. The Committee comprised the Governor (Chairman), the Deputy Governor, Mr W P Cooke (Associate Director with responsibility for banking supervision), Sir Peter Middleton (the Permanent Secretary to H M Treasury), Mr Frank Cassell (Deputy Secretary, H M Treasury) and Mr Deryk Vander Weyer (Deputy Chairman of British Telecommunications p.l.c., and a director of Barclays Bank p.l.c.).

The Committee was asked by the Chancellor to consider in particular: the relationship between auditors and supervisors; the handling of concentrations of risk and the assessment of the quality of assets; the notification and collection of statistics; the adequacy and deployment of staff resources and the experience and training of staff in the Banking Supervision Division of the Bank; and whether any changes were needed to the Banking Act.

III The rescue operation

The Bank was advised by JMB on Tuesday, 25 September 1984, after its auditors, Arthur Young, had examined the two largest loans, that the directors considered that substantial provisions were required against these loans to an extent which drastically reduced JMB's net worth but did not make it insolvent. At the Bank's urging, the auditors during the next two days carried out a review of a wider cross-section of the loan book. Meanwhile the Bank discussed with the clearing banks the provision of liquidity support for JMB to deal with any withdrawal of deposits when the need for large scale provisions was announced. The further work by the auditors identified the need for other provisions which effectively exhausted the capital of the JMB group. It was then evident that liquidity support for the bank would not be sufficient on its own and that if JMB could not be recapitalised, or its losses underwritten by a third party, it would have to cease trading. An investigation of the loan book was undertaken by a team from the clearing banks, which worked through the Thursday night, 27/28 September and identified the probable need for substantially greater provisions, although the amount could not be accurately assessed in the time available. Their findings were confirmed by a separate examination of the loan book by Price Waterhouse, commissioned by the Bank.

As soon as the need for large scale provisions against the two large loans was known, the Bank discussed with JMB and other parties the ways in which support could be provided. The parent company of JMB, Johnson Matthey p.l.c., was approached first. While acknowledging its responsibility to stand behind the bank, Johnson Matthey p.l.c. indicated that it would be unable to provide from its own resources all the support which would be required.

Certain possible purchasers of the bank, including a clearing bank, a major overseas bank and the members of the London gold market collectively, were approached. However, none of them felt able to commit themselves in the time available, given the considerable uncertainties over the level of the provisions required. Other solutions, such as the sale of the loan book and the introduction of new minority shareholders, were being explored simultaneously but had to be abandoned for the same reason.

The final potential purchaser withdrew during the late evening of Sunday, 30 September. The early stages of the negotiations for a rescue had been conducted with complete secrecy but questions had started to be raised in the domestic and international markets on Friday 28 September. By the Sunday night, news agency tapes were reporting that a London bullion house was in difficulties. It was clear to all those present in the Bank that night, including representatives of Johnson Matthey p.l.c., the clearing banks and the other members of the gold market, that without a solution being agreed JMB would be unable to open for business on the Monday morning. If this was to be avoided, the only possible solution in the time available was for the Bank itself to take responsibility for providing the support required.

Once the decision to rescue JMB had been taken in principle, for the reasons described in the next section, the Bank sought the co-operation of Johnson Matthey p.l.c., of other members of the gold market and of major commercial banks in meeting the cost of the operation. The parent company agreed to sell JMB to the Bank for a nominal £1 and to inject £50 million into the bank before it was sold. This sum was judged by all concerned in the rescue operation to be the maximum that Johnson Matthey p.l.c. could contribute without seriously impairing its own creditworthiness. Undertakings to contribute support were secured from the banks and other members of the gold market. This support was later embodied in an agreement under which the Bank provided JMB with an indemnity of up to £150 million to meet losses in the commercial loan book, while the banks and the other members of the gold market agreed to counter-indemnify the Bank for half of any such losses. The counter-indemnitors have agreed to share any calls on them in the following proportions. The clearing banks have agreed to divide £35 million between them, the members of the gold market £30 million and the other Accepting Houses £10 million.

IV The reasons for the rescue operation

The Bank's fundamental reason for rescuing JMB was a deep concern for the systemic consequences if it was allowed to fail. The Bank, the commercial banks and the other members of the gold market involved on the night of 30 September 1984 were convinced that, had JMB not been rescued, there would have been unacceptable consequences for the banking system as a whole. This belief the Bank still holds.

At first sight, it might seem implausible that the failure of a relatively small bank like JMB, not widely known outside the bullion markets, could have such consequences. Certainly there should be no presumption that the failure of any bank would be thought to carry such risk for the system that it would be rescued. But, in the particular circumstances of JMB last September, several special factors were present which were judged to be conclusive. They are as follows.

JMB is a member of the London gold market. This is not simply a market in a sense analagous to, say, the copper market. It comprises a group of banks and members of banking groups, a substantial proportion of whose liabilities are in the form of deposits of gold, traditionally withdrawable at short notice. London is probably the most important international gold market and is involved in placing and taking gold deposits with a large number of institutions all over the world. The members of the market also do a substantial amount of business with each other. The failure of one of the five main participants would therefore have created a situation of extreme uncertainty.

The other members of the gold market would, because of their presumed exposure to JMB, have come under immediate suspicion and there would probably have been a very rapid withdrawal of liquid funds from all of them. The pressure that this would have been likely to put on the other four members could quite quickly have been translated, in the classical manner of confidence crises, to other banks, in Britain and, perhaps, because of the international nature of the market, to banks abroad. The Bank believed, and still believes, that it would not have been possible to have convinced the markets in the first few days after the crisis that the problems did not derive from JMB's bullion business. Equally, no statements or promises of liquidity support could have been relied on to contain an ensuing loss of confidence in other members of the gold market and other banks. The possibility of allowing JMB to fail and seeking to contain the consequences of its failure was considered during the week of the rescue operation, but was rejected. This was partly for the reason just given and partly because providing the necessary liquidity in gold would have been beyond the Bank's own resources. It would have necessitated recourse either to the gold owned by the Government in the Exchange Equalisation Account or to a Government guarantee for the borrowing of gold from other sources. It was quite impractical, certainly in the time available, to have set up what would have been an open-ended and possibly very large commitment of this kind.

At the time the rescue occurred, confidence in financial markets generally was fragile in the wake of the continuing international debt problems and particularly of the crisis at Continental Illinois National Bank where, despite the action taken by the US authorities to rescue that bank, US banks suffered some loss of confidence for some time afterwards. The speed and magnitude of the problems that could have developed in the wake of the failure of JMB were demonstrated to the Bank in the early hours of Monday, 1 October. While the form of the rescue operation was still being discussed, and there had been no announcement made about the difficulties in JMB, it was learned that in the Far East some major foreign banks were refusing to deal with first-class British banks (including some not belonging to the gold market) with whom they had very long-standing connections. This strongly underlined the need for speedy and decisive action.

During the Continental Illinois crisis large amounts of money had moved from US banks into UK, other European and Japanese banks. The failure of JMB, because of its prominence as a member of the gold market, risked provoking a similar movement away from British banks. Much of the funds which moved out of the US banks remained in dollars, but sterling lacks the dollar's pre-eminent position and it was clearly a possibility that the move would have been out of sterling as well as out of British banks.

In addition to the foregoing general concerns, there were two other important, if subsidiary, factors which related to JMB itself. Although JMB is only one of the five members of the daily gold fixing, it is the only one which is part of a group which has refining capacity. This refinery constitutes for two reasons an important encouragement to overseas traders to use the London market. It possesses the facility to break down standard bars into smaller bars for which there is an increasing demand; and it has a capacity to refine gold in other forms into standard bars. This refining capacity was a major part of the Johnson Matthey group outside JMB. The failure of JMB would have virtually certainly brought down the whole of the group and could thereby have damaged the position of the gold market.

The second factor was a consideration of a rather different kind. As part of its bullion operations JMB received substantial deposits of gold from a number of foreign governments and central banks. Losses on these official deposits could have had particularly serious implications for the standing of and confidence in British banks generally.

V Developments since the Bank acquired JMB

Immediately following the acquisition of JMB by the Bank steps were taken to reorganise the board: Mr R D Galpin, an Executive Director of the Bank, was appointed Chairman and the resignations were accepted of six members of the previous board. Two of the former directors, Mr J J Shaw and Mr P J K Smith, were confirmed in their appointments and five new directors appointed. These were: Mr P Brenan as Finance Director, Mr G R A Copus and Mr M J Harper as Banking Directors, Mr P W Moss to oversee JMB's commodity subsidiaries and Mr L T G Preston who, with Mr

Smith, has responsibility for the bullion and markets area. Mr Shaw is also Chairman of JMB's insurance broking subsidiary.

Mr Brenan, a member of the Council of the Institute of Chartered Accountants, was at one time the Finance Director of Hambros Bank Ltd; Mr Copus was previously Senior Director of Standard Chartered Merchant Bank Ltd and Mr Harper a Managing Director of Charterhouse Japhet p.l.c. Mr Moss had been Finance Director of Czarnikow Ltd and Mr Preston a Director of Standard Chartered Bank and previously in charge of the foreign exchange operations of the Bank.

Price Waterhouse were appointed as investigating accountants to review and report on the financial condition of the JMB Group as at 30 September 1984. They were asked to cover all aspects of JMB's business. Their report has confirmed the belief held by the Bank when JMB was acquired that its problems were confined to its commercial lending activities.

An important task for the new board of JMB, in consultation with Price Waterhouse, has been to establish the level of provisions required by a review in detail of each of its loan facilities. The detailed review of the loan portfolio is largely complete. In the light of then current circumstances the level of provisions deemed appropriate by the new board of JMB as at 31 March 1985 was £245 million, of which only £20 million had been provided by the previous management.

Price Waterhouse have reported that the capital, reserves and bad debt provisions of the JMB Group stood at some £130 million as at 30 September 1984 before the additional provisions required for loan losses had been made. This amount, together with the £50 million injected by Johnson Matthey p.l.c., has been absorbed in meeting these provisions; consequently approximately £180 million of the identified £245 million of provisions has been met from JMB's own resources. To meet the balance of the provisions against JMB's commercial loan book, together with a contribution towards funding costs, the Bank has provided JMB with an indemnity of up to a maximum of £150 million. The Bank's liability is offset by counter-indemnities of up to £75 million from a number of banks and members of the London gold market. The indemnity agreement, signed on 29 March, after lengthy and complex negotiations, provides for calls to be made as at 31 March, with subsequent adjustments, upwards or downwards, on a quarterly basis until 31 March 1986. The total amount for which the Bank and the counter-indemnitors are liable as at 31 March this year is likely to be of the order of £65 million. By 30 April the directors of JMB had identified the need to increase provisions by £3 million. This, and any subsequent adjustment, upwards or downwards, found necessary before the end of June, will be reflected in the indemnitors' liability to be calculated at that date. The Bank has thought it right, however, to provide in its own accounts for half of the adjustment identified at the end of April.

In its efforts to recover as much as possible of the expected losses, the board of JMB is intent to pursue all the legal and other remedies open to it.

An immediate step taken on acquisition was to halt the outward flow of lending where lending limits had been breached or were not properly established. Most of the authorities granted to individuals to commit JMB were temporarily withdrawn and an Executive Committee established, meeting on a daily basis, to control JMB's activities. Control of JMB's operations by the new management was thus quickly established, and as the new directors joined the board the process of appraising its activities was put in train. Immediate action was required in handling, with the help of merchant bank advisers appointed for this purpose, the two largest exposures which had precipitated the crisis. Shortly afterwards, in one case, suits were instituted in the US Courts by the debtor against JMB and the Bank, each for an amount of $300 million. Both actions lapsed on 24 May.

Much of JMB's lending had been in US dollars and where provisions against such loans have had to be made, it has been necessary to purchase currency to cover these potential losses. Such cover has been effected using a deposit of £100 million placed with JMB by the Bank in November. This deposit has also enabled JMB to make two-way business in the money markets.

A comprehensive review of JMB's lending operations was started in early October. This revealed deficiencies in JMB's records, and it soon became clear that the work involved in reordering the loan portfolio and records was too large and too complicated to be undertaken under the direction of the new board by the existing staff. Accordingly, approaches were made to a number of clearing and other banks for secondees to assist in this process. There was an immediate and helpful response and within a matter of days seconded staff with the necessary skills and experience had arrived. There are currently some 35 such staff working in the banking area of JMB.

With their assistance, significant repayments and reductions in JMB's commitments totalling some £65 million have been achieved. Facilities and credit files are now in better order. A complete reorganisation of the trade finance and bill department has taken place with fundamental improvements being made in its systems, records and controls. In this area there has been a need to reconstruct over a period of some years the facts surrounding over 1,500 separate accounts.

The structure of JMB's banking department has been reorganised and a number of banking review teams established with particular responsibilities. Such teams are led by secondees who have brought to the task skills, such as experience in realisations and credit assessment, which have been essential in dealing with the complicated lending situations which have been discovered.

The operations of the banking division have been the subject of a review by outside consultants and a team of secondees selected for that purpose. The manner in which funds were allocated in support of the banking operations of JMB has also been subject to close examination, following which a number of necessary changes were made. Management below director level has been strengthened through the use of senior secondees from other banks or by direct recruitment of individuals with the requisite experience.

All these developments have increased the demand for space and, in the interests of efficiency, considerable relocation of functions and staff has been necessary.

In addition to the Executive Committee already mentioned, which now meets weekly, a new Credit Committee has been formed; its responsibilities have been closely defined and the procedures which existed before have been reorganised and tightened. An Audit Committee of the board and an internal audit function have been established; neither existed before. Arthur Young agreed to resign as JMB's auditors and Price Waterhouse have been appointed in their place. Freshfields have been appointed JMB's legal advisers, Deloitte, Haskins and Sells its tax consultants and R Watson & Sons have been appointed actuaries to the new Pension Fund which has been established by transfer of the actuarially calculated proportion of Johnson Matthey p.l.c.'s Pension Fund. A Staff Committee of the board has also been set up. The former parent company provided a variety of management services, including payroll, security and insurance, to JMB. These have all been subject to review and have been taken over by JMB; and a security manager has been appointed.

Arrangements have been entered into with each member of staff for JMB to take over his or her contract of employment which had been with Johnson Matthey p.l.c.; and steps taken to inculcate within the banking area a more thorough understanding of banking procedures.

Under the direction of the Finance Director, new budgeting and financial reporting methods have been introduced; and management information improved. The implementation of a new computer system has been put in hand with significant enhancements to remedy serious deficiencies and replace inadequate manual records. The Chief Accountant of JMB has been given a more active role in the executive of the Bank; his function had previously been more one of book-keeping than of monitoring and reporting on financial performance and risk. The working capital requirements of the JMB Group's overseas subsidiaries have been examined; some repatriation of funds has already taken place and more is in prospect. The boards of the subsidiary companies have been reconstructed and in the currently quiet conditions of the commodity futures markets, a reduction of some 40 staff in total has been made in JMB's broking subsidiaries in London and New York. The activities of two further subsidiaries, Johnson Matthey and Wallace Singapore Pte Ltd and Johnson Matthey Asset Management Inc., neither of which had been making profits, have been brought to a close.

Overall control of JMB's lending operations was found to be generally deficient both in its nature and extent. This was not true of the dealing areas where a review of the operating systems and procedures revealed no serious weaknesses—and none which could not be quickly addressed. Steps have been taken to ensure the continued smooth operation of the bullion business in international markets. Various visits to dealing counterparties abroad have been undertaken and JMB, which continues to participate in the London gold fixing, continues to trade profitably overall in the bullion markets and elsewhere outside the banking area.

The new board recognised that some of its decisions would involve additional overhead costs. However these have been kept to the minimum necessary and are in line with the new board's intention to correct the deficiencies in JMB's organisation and systems which existed at the time of acquisition; and to strengthen the control and supervision of its banking operations. The board is also working to retain and develop sound profitable business within the banking area. All steps being taken should facilitate JMB's return to the private sector.

It is the Bank's intention to dispose of JMB at the earliest practicable opportunity. A number of institutions have already expressed interest in acquiring JMB and Baring Brothers & Co. Ltd have been appointed by the Bank to advise on the strategy for disposal. With disposal in mind, and to provide JMB with a capital base appropriate to its level of business, the intention to reorganise the capital of JMB has recently been announced in a press release on 13 May. This will involve the cancellation of 59,999,900 issued and 15,000,000 unissued Ordinary Shares of £1 each and the subscription by the Bank of £75 million of fresh equity, of which £25 million will be in redeemable form, together with £25 million of subordinated loan stock with a final maturity date of 1995. The end of JMB's current accounting period has been postponed from 31 March to 30 June to enable the reconstruction to take effect prior to its accounting date. Following the reconstruction, the deposit made by the Bank last autumn, referred to on page 41, will be repaid.

The past six months have created considerable pressure on the staff of JMB who, to their credit, have responded well in difficult circumstances. The Bank is grateful to them and also to those financial institutions who joined in the indemnity arrangements; to the clearing and other banks who so readily seconded experienced staff to JMB to assist in the recovery process; to the secondees themselves; and to the new board.

Banking Act 1979

Annual report by the Bank of England 1984/85

Presented to the Chancellor of the Exchequer, and by him to Parliament, pursuant to Section 4 of the Banking Act 1979

Annual report under the Banking Act 1979

Banking Act 1979

Annual report by the Bank of England

This report on the exercise by the Bank of the functions conferred on it by the Banking Act 1979 is made in pursuance of Section 4(1) of that Act and covers the financial year of the Bank ended on 28 February 1985.

I New authorisations and authorisations surrendered or revoked

Proposals for the establishment of deposit-taking businesses in the United Kingdom were submitted to the Bank by a wide range of institutions from the United Kingdom and abroad. Twenty-three applications for deposit-taking authority were received but decisions were not given in all cases during the year. A number of other institutions held exploratory discussions with the Bank about possible plans for seeking authorisation. During the year twenty-eight institutions, including three former recognised banks, were granted deposit-taking licences (compared with twenty-six in 1983/84). Of these, fourteen were overseas institutions opening branches (thirteen in 1983/84), five were subsidiaries of overseas institutions (three in 1983/84) and two were joint ventures owned by overseas institutions (one in 1983/84). Six overseas institutions were granted recognition as banks (three in 1983/84), including one which took over the business of a recognised bank in the course of a group reorganisation and five which were formerly licensed deposit-takers.

There were twenty-one deletions from the list of licensed institutions, including five which obtained recognition. Two institutions had their deposit-taking authority revoked by the Bank; the remaining fourteen surrendered their authority. Six institutions ceased to be recognised banks—three being granted licences following group reorganisations and three surrendering all deposit-taking authority. Included among the recognised banks and licensed deposit-takers surrendering all deposit-taking authority were five overseas institutions which closed their branches and three subsidiaries of overseas institutions.

The Bank's interpretation and application of the statutory criteria for authorisation to carry on a deposit-taking business and of the grounds for revocation of recognition or a licence are covered in section IV of this report.

II Published list of authorised institutions

A list of recognised banks and licensed institutions at the end of the Bank's financial year is appended to this report. The changes which occurred during the year are also shown. The following table shows the number of recognised banks and licensed institutions at the end of each financial year since 1981:

Reporting year ending:	1981	1982	1983	1984	1985
Recognised banks	281	293	295	290	290
Licensed institutions	286	300	295	308	315

Of the institutions authorised at end-February 1985, 250 were overseas institutions with UK branches, 65 were subsidiaries of overseas institutions and 24 were joint ventures between overseas and, in some cases, UK institutions. The list is regularly brought up to date and is available from the Bank on request.

III Supervisory developments

The Bank's general approach to supervision, based on the analysis of statistical information and regular discussions with the management of deposit-taking institutions, remains as described in the report for 1981/82. The report for 1983/84 outlined the arrangements made for the supervision of the specialist money-market institutions, the discount houses.

In the late summer of 1984 serious problems emerged in Johnson Matthey Bankers Ltd (JMB), a recognised bank. These led to a rescue operation mounted by the Bank at the beginning of October.

The nature of the problems in JMB and the Bank's supervision of JMB are discussed in an annex to the Bank's Annual Report for 1985. This annex also covers the rescue operation and subsequent developments.

In December the Chancellor of the Exchequer announced the establishment of a Committee under the Chairmanship of the Governor to consider the present supervisory system and whether any changes were called for in the light of the problems which arose in JMB. The Committee was asked by the Chancellor to consider in particular: the relationship between auditors and supervisors; the handling of concentrations of risk and the assessment of the quality of assets; the notification and collection of statistics; the adequacy and deployment of staff resources and the experience and training of staff in the Banking Supervision Division of the Bank; and whether any changes are needed to the Banking Act. A joint HM Treasury/ Bank working group, chaired by a Treasury official, has also been considering the desirability of changes to the Act.

The formation of financial services groups

In the UK financial markets, as in a number of major markets overseas, traditional barriers between the suppliers of different types of financial services are being eroded. New integrated financial services groups embracing, for example, deposit-taking, stockbroking and insurance, are in the process of being formed, and new markets and services are being developed.

One element in this process has been the move by a number of banks to take stakes in related financial service businesses, including in particular Stock Exchange firms, in most cases as a first step to full ownership when Stock Exchange rules permit. More than twenty banks have announced links with Stock Exchange jobbing and broking firms. The Banking Supervision Division has held discussions with those banks which have formed such associations. The purpose of these discussions has been to identify the particular activities to be undertaken by the firms, the risks involved and proposals to manage them, as well as how the expected capital requirements are to be met. Consideration is also being given to how the operations of individual firms will fit into the purchaser's corporate structure and the likely extent of any trading relationship with the banking parent or associate.

The Bank has also commenced discussion of these developments with The Stock Exchange and with the Department of Trade and Industry, which have related supervisory responsibilities. This co-operation will be extended to the new supervisory bodies, the Securities and Investments Board, and the Marketing of Investments Board, when they are established.

Consolidated supervision

The Bank has been carrying out a review of its approach to the consolidated supervision of groups containing a bank in the light of the obligations imposed on the United Kingdom by the European Communities Consolidated Supervision Directive which was agreed in 1983, taking account of the developments in financial markets described above. Where a bank is part of a group, supervision of the bank must encompass the activities of the other group companies since their strengths and weaknesses will have implications for the soundness of the bank. Companies within a banking group are frequently identified in the market with the parent bank. Difficulties in a group company—particularly in one undertaking a banking or financial business—will reflect upon the parent, which will in consequence be likely to see a need to support it to the fullest extent which its own resources allow, in order to protect its own standing in the market. Even where a group company is not a direct subsidiary of the bank, but an associate or sister company, the consequences of association may nevertheless be significant.

In order to take into account the risks existing elsewhere in a group, supervision needs to be carried out on a consolidated basis. The supervisor has to look beyond the activities and performance of the bank alone, by making a qualitative assessment of the rest of the group which may require a quantitative assessment involving the consolidation of the accounts of some or all of the companies in the group.

For many years the Bank has taken account of the activities of the companies in groups headed by a bank when assessing the health of that bank. In doing so the Bank has, in many cases, required banks to provide statistics on a consolidated basis. The Bank's detailed proposals for complying with the Directive are in the process of discussion with HM Treasury and the banking community.

Supervision of overseas banks' UK branches

As foreshadowed in section IV of the report for 1983/84, the Bank has extended the range of statistics collected from the branches of overseas banks in the United Kingdom, bringing them more into line with the data collected from UK-incorporated institutions. Although prime supervisory responsibility continues to rest with the parent authority overseas, the new statistics provide a more comprehensive analysis of large exposures, profitability and the structure of liabilities. This information is providing a better and more consistent basis for the Bank's regular discussions with the management of UK branches, which focus particularly on liquidity, foreign exchange exposures, asset quality and the institutions' management information and control systems. The frequency of these discussions has been increased, although the extent of supervision continues to be related to the Bank's assessment of the individual branch.

The Bank has also continued to take up opportunities to discuss the affairs of overseas banks with UK operations with their senior management when they have visited the United Kingdom. In addition, senior officials of the Banking Supervision Division have, during the year, visited a number of countries in order to discuss with overseas banks the business of their UK operations, and the effectiveness of parental controls over these operations. The opportunity has also been taken during these visits to exchange views with the overseas supervisory authorities about those of their banks with operations in the United Kingdom, and about those UK banks operating within their jurisdiction.

Capital trends

Following the improvement in 1983 in banks' capital ratios, the year under review was for many institutions a difficult period in which to sustain the improvement. The changes in investment allowances announced in the March 1984 Budget led those banks which undertake leasing business to increase substantially their provisions for deferred taxation. Most banks increased provisions through a transfer from existing reserves, resulting in a deterioration in their capital ratios. The effect varied between banks, depending mainly on the extent to which they had already provided against their deferred tax liabilities. The banks affected have taken steps to restore their capital ratios, although for some this has taken more than a year to achieve. The need to restore capital ratios came at a time when banks generally found it unattractive to raise capital through new issues of equity. Nevertheless, some issues were made. Capital was mainly increased through issues of subordinated loan stock and, in some cases, from retentions.

During the year banks continued to add substantially to their provisions for bad and doubtful debts. The need to make provisions was a particular concern for those banks with a concentration of lending to the major problem debtor countries. Although the immediate debt problems of many of these countries tended to ease somewhat in the course of 1984 as their external positions improved, the resolution of these problems remains largely dependent on a continued adjustment of the debtor countries' domestic economies, and sustained world economic growth. Such exposures will continue to require the close attention of the banks and supervisory authorities in the period ahead.

The Bank welcomes the steps taken by banks to improve their capital resources which have been assisted in some cases by the restraint exercised on the growth of their balance sheets. In assessing a bank's capital strength the Bank must also make judgements about other factors, such as the adequacy of its provisions for bad and doubtful debts and for taxation. Despite the progress which has been made, the Bank, in common with the supervisory authorities in other major countries, continues to see a need for further strengthening in banks' capital ratios.

Subordinated loan capital

Like many overseas supervisory authorities, the Bank permits banks, within clearly defined limits, to count as part of their capital base debt which is subordinated to the claims of depositors and other creditors in the event of a liquidation.

In last year's report the Bank indicated that it had become concerned at the build-up of banks' holdings of other banks' subordinated debt on the grounds that the same capital should not be used by more than one bank to support its liabilities. Subsequently, the Bank wrote to banks reminding them of its policy of deducting such holdings from their capital resources when calculating capital ratios.

In recognition of the fact that a number of banks play an important role in making a market for bank subordinated debt, in May 1984 the Bank wrote to the British Bankers' Association, proposing a framework for some concessions which would allow banks which are primary or secondary market makers in such debt to hold a limited amount of debt without deduction from capital. Following consultations with banks, the Bank published a paper in November 1984, *Subordinated loan capital issued by recognised banks and licensed deposit-takers*, which contained detailed proposals on how these new arrangements might in practice be applied. The paper also explained that the Bank was paying increased attention to the quality of banks' capital and, in particular, to the terms of loan capital which forms part of their capital base.

In recent years increased emphasis has been given by supervisors in a number of countries to the distinction in quality between different elements of capital. The United States categorises capital as primary or secondary, and the European Community is exploring a definition of capital which differentiates between so-called 'internal' and 'external' elements. The Bank is considering the degree to which it may be useful to identify elements of the capital base which may be considered as primary capital.

The Bank noted in the November 1984 paper that perpetual subordinated debt could have characteristics which brought it much closer to equity capital than to subordinated debt with a fixed maturity. It therefore proposed that perpetual debt meeting certain conditions should, within limits, be treated as primary capital in the calculation of the capital base. This treatment was designed to help, in particular, those banks whose assets and liabilities were to a substantial extent denominated in foreign currencies and which would be able, by issuing additional qualifying perpetual loan stocks, more effectively to match the currency composition of their capital bases to the composition of their assets and other liabilities. Under the proposals banks would still be able to issue forms of perpetual debt which did not satisfy all the criteria necessary for them to be designated as primary capital. Such issues would, however, qualify as conventional subordinated debt of high quality.

The Bank recognises that issues of term subordinated debt will continue to provide banks with an important means of supplementing their capital resources, but believes that the quality of such capital should be assured. The November 1984 paper accordingly reflected the Bank's concern that some loan agreements had come to include clauses which provided that the debt would become due and payable in certain defined circumstances. Such clauses might trigger the immediate repayment of the loan stock when it could least be tolerated from a prudential standpoint. The 1984 paper, therefore, stated that, where loan capital was to be included in the capital base, there were to be no clauses in the loan agreement which could trigger early repayment of the debt; neither should there be any cross-default clauses or negative pledges. Loan capital already in issue would not be affected by these requirements.

Issues of term subordinated debt meeting the conditions set out in the Bank's paper were made in the early months of 1985. In May some banks made issues of perpetual debt which the Bank accepted as satisfying in substance the necessary conditions for their qualification as primary capital.

The Bank's paper was issued as a consultative document and discussions with the banks are continuing. The Bank expects shortly to be in a position to confirm its proposals.

Capital ratios for individual institutions

In its September 1980 paper, *The measurement of capital*, the Bank described the basis on which it calculates the gearing and risk asset ratios as the means of measuring the capital adequacy of banks. As indicated in the paper, the calculation of these ratios is only the first step towards an assessment of capital adequacy which involves, in addition, a number of qualitative judgements, including the spread of the business, the quality of capital, the strength of management, profitability and the institution's prospects.

In its regular prudential discussions the Bank reviews with each bank its individual circumstances and agrees a level below which that bank's risk asset ratio should not fall. This level is usually set within the range established for a group of similar institutions. The Bank expects each institution normally to conduct its business so as to maintain its risk asset ratio at a margin above this level. Any fall below the agreed level will trigger a request from the Bank for an immediate response from the institution about its plans for increasing its capital resources or otherwise restoring the position.

Off-balance sheet risks

During the year many banks felt the constraint of capital requirements on the growth of their business and began to look more critically at the composition of their balance sheets, particularly in terms of the implied cost of capital cover for carrying different categories of assets. Banks worked to control their costs more strictly, and to improve margins on their lending. Many banks also paid more attention to the scope for increasing profits by developing new forms of business and, in particular, by increasing the amount of their off-balance sheet fee-earning business.

For example, banks have devised arrangements whereby they sell packages of assets, usually of high quality, to specially incorporated finance vehicles funded sometimes by other banks, and sometimes by outside investors. Frequently the seller continues to manage the portfolio in return for a fee.

There are three aspects of this practice which have caused the Bank some concern. First, the sale of such assets may lead to a significant diminution in the average quality of the assets which remain on the selling bank's balance sheet. Second, the bank may continue to share in the risks associated with the transferred assets either directly or by implication (for example, if it continues to have a role in the management of the assets). Third, there could be increased risk for the selling or acquiring bank if either were to make a less careful assessment of the risks involved. The Bank will keep developments in this area under close examination and will seek to ensure that the risks are identified and included in its capital adequacy assessment.

In another area of off-balance sheet activity, banks have been active participants in the market for note issuance facilities,(1) as arrangers or underwriters of such agreements and as note holders. Although

(1) References to note issuance facilities should be taken to include revolving underwriting, and similar, facilities.

accounting for only a small proportion of the amount raised on the international capital markets in 1984, the volume of note issuance facilities arranged by UK banks and others rose by more than five times to some $16 billion. These facilities enable borrowers to draw down funds up to a prescribed limit by issuing short-term paper over the life of the facility—typically 7–10 years. Many facilities have been underwritten, with the underwriters committed throughout the life of the facility to buy notes (or otherwise provide funds) should the borrower be unable to place the paper with investors.

These commitments thus give rise to a long-term credit exposure with the possibility that the underwriter could be called upon to provide funds when the financial position of the borrower has begun to deteriorate, thereby acquiring an asset which has immediately to be regarded as sub-standard. The Bank considers that this risk is different from conventional underwriting engagements, where the exposure is normally short term, and has not been appropriately reflected in the low levels of remuneration paid to the underwriters. It is thus important that an underwriter makes a full credit assessment of the borrower, and includes its exposure within its normal limits for the customer. Underwriting banks also need to take account of these facilities in the management of their liquidity.

As a result of these concerns, the Bank issued a notice, *Off-balance sheet risks*, in April 1985. This stated that a bank's underwriting obligations under a note issuance facility were to be included in the measurement and assessment of its capital adequacy. As a provisional measure, all such obligations were to be treated as contingent liabilities for capital adequacy purposes and weighted at 0.5 in the calculation of the risk asset ratio.

The Bank's notice also announced that it proposed to undertake, in consultation with banks and other institutions, a review of the range of off-balance sheet risks, including more traditional contingent liabilities as well as the new instruments, in order to assess them more accurately.

Promoters of off-balance sheet innovations and new financial instruments need to consider whether a borrower might contravene the Banking Act; this could arise if the arrangements entailed the regular raising of debt in the United Kingdom by a non-bank borrower. If such debt were to be regularly issued to non-bank investors the borrower might be accepting deposits in the course of carrying on a business which is a deposit-taking business for the purposes of the Banking Act, and thereby contravene Section 1 of the Act.

Foreign currency options

During the year a number of banks in London started marketing foreign currency options. These options give the customer the right to buy (or sell) a given amount of currency at a fixed price during a specified period in the future.

In April 1984 the Bank issued a memorandum outlining its treatment of banks' foreign currency option business for the purpose of measuring their foreign exchange exposure. Exposures arising out of option business must be contained within existing foreign exchange guidelines. In measuring these exposures the Bank has regard to the hedging techniques developed by banks. Where the Bank is satisfied that the techniques used have been properly developed and assessed by the bank concerned, a bank is permitted to use its own formulae in measuring its exposure on currency options. In all other cases the Bank measures a bank's exposure on an 'at worst' basis. This approach takes account of the potential effect of the exercise of option rights held by customers of the bank on its open position in individual currencies, and makes no allowance either for the likelihood of the option not being exercised or for any options taken by the bank to hedge its position.

Comfort letters

It has been the Bank's established policy to require letters of comfort from overseas banks which acquire a significant shareholding in a UK bank. In some cases, overseas and UK non-bank institutions have also been asked for such letters. These letters ensure that the principal owners of a deposit-taking business recognise its special nature and confirm their acceptance of a responsibility to support it beyond the limited liability attaching to their shareholding should this become necessary. Although a comfort letter is not legally binding, being rather a statement of intent, the fact that it has been given can have an important effect on maintaining market confidence in a bank during periods of uncertainty. The Bank does not prescribe a standard wording for comfort letters: acceptable wordings will vary according to who is giving the undertaking and his relationship to the bank.

The Bank has recently reviewed its policy on comfort letters. These will now be sought from any shareholder in a UK-incorporated institution who, for the purposes of the Banking Act, is defined as a shareholder controller, that is any institution or other person controlling 15% or more of the voting power of a bank. In certain cases a comfort letter may be sought from a shareholder with a holding of as little as 10%. However, a controller which is itself a UK-incorporated bank will not be expected to provide a letter, since it is established that such a commitment is already accepted by institutions supervised by the Bank.[1] In certain instances where the immediate shareholder is a company substantially owned or controlled by a third party, the Bank will consider whether an assurance should also be sought from the third party concerned.

Liquidity

The Bank has continued to monitor the liquidity of all banks in the manner set out in *The measurement of liquidity* (July 1982). The Bank accepts that banks' liquidity needs will be determined by their individual circumstances and has thus concluded that it would be wrong to set uniform liquidity mismatch guidelines. Instead, the Bank has concentrated with individual banks on their policies with regard to the control of mismatches between assets and liabilities in a series of time bands extending up to one year, paying particular attention to the period up to one month.

The assessment of liquidity needs to take account of, for example: an institution's cash-flow provided by maturing assets; its holdings of marketable assets; the structure of its deposit base; and the standby facilities available to it which can be counted on as a reliable source of funds in times of difficulty. The assessment also depends on the role of the institution within the banking system. For those at the centre, especially those playing an important role as principal members of the clearing system, a stock of assets which can be readily liquefied at times of need is likely to be particularly important.

Computer and telecommunication-related risk

As a follow up to a conference held in 1983,[2] at which the risks to banks from the increasing use of technology in their lending and communication systems were identified, the Bank commissioned its auditors, Deloitte Haskins & Sells, to prepare a guide to security and control in computer and telecommunication systems for banks. The guide, which was sent to all banks in February 1985, but is not available to the general public, is intended to assist senior management in deciding whether their systems are sufficiently well designed and controlled to cope with the major risks which threaten any such system.

The issue of this guide did not indicate any change in the Bank's approach to supervision; nor had there been any incidents affecting individual banks which prompted its preparation. It rather aimed to highlight an area which, with further technological developments, is likely to be of increasing importance to banks in the years ahead. In the

(1) An exception to this policy applies in the case of UK-incorporated banks which are controllers of UK consortium banks or of discount houses. Comfort letters will continue to be required in these cases. Under the arrangements set out in *The future structure of the gilt-edged market*, issued by the Bank's Gilt-edged Division in April 1985, the Bank will also require comfort letters in respect of shareholdings in gilt-edged market makers, Stock Exchange money brokers and inter-dealer brokers.

(2) The theme of the conference was the nature and implications of financial innovation. A report of the conference and a copy of the Bank's paper presented to it was published in the September 1983 *Quarterly Bulletin*.

course of prudential discussions the Bank will be reviewing the lessons learned from the assessment which each bank is now expected to make.

Discount houses

Last year's report set out in some detail the arrangements for the supervision of the specialist money-market institutions, the discount houses. Although the principles governing their supervision remain the same, on 21 November two sets of changes were made to the details of these arrangements.(1) The first of these extended the system to cover positions in futures markets and other forms of forward commitment. The second change introduced a more favourable treatment of certain very short-term and highly liquid assets with a month or less to maturity. This alteration, which gives a more accurate reflection of the gradation of risk in short-term paper, is consistent with the supervisory arrangements intended for the new gilt-edged market.

IV Interpretation and application of the Banking Act 1979

Statutory criteria for authorisation to carry on a deposit-taking business

The interpretation and application of the criteria are as described in previous reports. In particular, attention is drawn to the Bank's interpretation of the 'fit and proper person', 'four eyes' and 'prudent manner' criteria which were set out in section V of the report for 1983/84.

Revocations

There has been no change in the Bank's interpretation and application of the grounds for revoking recognition or a licence. Considerations taken into account by the Bank when deciding whether its powers to revoke have become exercisable, and whether they should be exercised, were referred to in section V of the report for 1982/83. The circumstances in which the Bank would consider using its powers to revoke the existing authorisation of an institution and grant in its place a conditional licence were described in section V of the report for 1983/84.

In all such cases, although the Bank's primary duty under the Act is to take such steps as appear to it appropriate in the interests of depositors, in so doing it must also have regard to the interests of the institution itself. In order to form a proper view on whether its powers to revoke are exercisable and whether they should be exercised, the Bank must first examine all the relevant evidence carefully. It may be necessary to seek additional information to assist making a decision. In this regard, the Bank has increasingly had recourse to inspection of the institution's books and papers and also to commissioning investigations and reports by accountants, either by use of the Bank's powers under the Act or with the agreement of the institution. These reports deal with such matters as an institution's management information and control systems, the adequacy of its credit control procedures and the quality of its assets. Reports may include recommendations for remedial action and before the Bank gives notice of its intention to revoke recognition or a licence it will, depending upon the circumstances, usually have explored whether appropriate remedial measures are open to the institution.

The Bank has no powers instantly to withdraw all deposit-taking authority from an institution. The procedures which the Bank must follow when it intends to revoke a deposit-taking authority are laid down in the Act. These require the Bank to give written notice of its reasons for intending to revoke. The Bank must take account of any representations made by the institution and give its decision within twenty-eight days of its notice of intention. If the Bank does decide to revoke, this decision does not come into effect for a further twenty-one days during which an appeal against the decision may be brought. In the latter event, the deposit-taking authority remains in being until the Chancellor determines the appeal. The Bank does, however, at or after the time it gives notice of intention to

(1) These changes are described more fully in the December 1984 *Quarterly Bulletin* (pages 461–2).

revoke, have the power to give directions in the interests of depositors which may limit the scope of the business.

During the year the Bank withdrew deposit-taking authority from two institutions by revoking one full licence and one conditional licence. In addition, one institution's full licence was revoked and replaced by a conditional licence, replaced in turn by a further conditional licence.

The reasons for the Bank taking steps to revoke included, in varying combinations: failure to maintain adequate capital and liquidity and to make adequate provisions; failure to keep the size of exposures to individual customers within prudent limits; lack of effective direction of the business by more than one individual; serious deficiencies in administration, lending procedures and control systems; failure to comply with conditions attaching to the licence; and the Bank's finding that the directors or controllers were not fit and proper persons to hold their respective positions.

In the two instances where the Bank revoked deposit-taking authority outright it gave directions under Section 8 of the Act designed to safeguard the interests of depositors.

Appeals

On 27 June 1984 Castle Court Trust Ltd appealed under the provisions of Section 11 of the Act to the Chancellor of the Exchequer against the Bank's decision on 8 June 1984 to revoke the company's licence. The Bank had given notice of its intention to revoke on 15 May 1984. The appeal was withdrawn on 24 September 1984.

Windings up

As mentioned in last year's report, shortly after the beginning of the year St. Martin-le-Grand Securities Ltd, which earlier had had its licence revoked by the Bank, was subject to a compulsory winding-up order by the court on a creditor's petition.

Eastcheap Investments Ltd, which had previously surrendered its deposit-taking licence, was the subject of a winding-up order on 18 December by the court on a petition of the Bank under Section 18 of the Act.

Three companies which held deposit-taking licences were the subject of creditors' voluntary winding up. They were Castle Court Trust Ltd, Bremar Holdings Ltd, and Cross & Bevingtons (Finance) Ltd. Resolutions for winding up were passed on 6 July 1984, 17 July 1984 and 1 November 1984 respectively. As noted above, the Bank had revoked the licence of Castle Court Trust Ltd. Bremar Holdings Ltd and Cross & Bevingtons (Finance) Ltd surrendered their licences.

The Deposit Protection Scheme, established by Part II of the Act, gives a measure of protection to sterling deposits made with the UK offices of contributory institutions in the event of their insolvency. The Deposit Protection Board[1] has made, or is in the process of making, payments to depositors with the institutions referred to in the previous paragraphs.

Prosecutions

During the year criminal proceedings in respect of offences of illegal deposit-taking under Section 1 of the Act were concluded in two cases. In one case, brought by the Bank, a principal of a former licensed institution which is now in liquidation was convicted on indictment on six charges; he was sentenced to one year's imprisonment on each charge, to run concurrently, the sentence being suspended for two years. In the other prosecution, brought by the Director of Public Prosecutions, an individual was convicted on two charges and fined.

The Bank maintains close contact with other enforcement bodies, especially as offences under the

(1) The Deposit Protection Board, a body corporate set up by the Act, manages the Scheme; copies of its report and accounts for the year ended 28 February 1985 can be obtained from the Secretary, Deposit Protection Board, c/o Bank of England, London EC2R 8AH.

Act can sometimes occur in association with fraud and other offences of a financial nature under other legislation, and has drawn the attention of those bodies to certain cases which have caused the Bank concern. In addition, the Bank has given evidence to the Roskill Committee enquiring into the procedures for trying cases of fraud.

V Other matters relating to supervision

Short-term corporate bonds

The issue of corporate bonds may in certain circumstances result in the issuer carrying on a deposit-taking business in contravention of the Banking Act. The Bank and HM Government considered that the interest expressed by a number of companies in issuing bonds of a maturity of less than five years should be encouraged. Accordingly, HM Treasury introduced (after the end of the reporting year) regulations under the Banking Act to exempt from the prohibition on deposit-taking in Section 1 deposits accepted against the issue of sterling bonds by companies which meet certain specified requirements set out in the regulations. These requirements, which include the condition that the bond must have a maturity of at least one year, are intended to ensure that bond issues exempt from the prohibition on deposit-taking are confined to deposits made by professional investors with safeguards for investor protection.

Guide for intending applicants for authority to take deposits

The Guide, an updated version of the Handbook of Banking Supervision produced in 1979 in connection with the introduction of the Banking Act, has been prepared by the Bank to assist applicants and their advisers. It contains notes on the sections of the Banking Act relevant to applicants and on supervisory and other requirements to which they will become subject if they are granted recognition or a licence.

Questionnaires for directors, controllers and managers

In the light of experience, the Bank has again revised the questionnaires which are completed by individuals who are, or intend to become, directors, controllers and managers. A new questionnaire for 'corporate' controllers as distinct from 'personal' controllers has also been introduced. These questionnaires have to be completed by directors, controllers and managers of institutions already authorised upon taking office or control as well as by directors, controllers and managers of applicant institutions.

VI Advertising for deposits

The Banking Act 1979 (*Advertisements*) *Regulations 1985* (*SI 1985 No 220*) were laid before Parliament on 21 February 1985, and come into effect on 1 July 1985.

The regulations follow closely the proposals in the Bank's consultative paper of January 1984 and apply, broadly, to any advertisement issued in the United Kingdom which invites the making of deposits with the deposit-taker's offices outside the United Kingdom or any other member state of the European Communities.

The regulations require the inclusion in advertisements of specified particulars about the deposit-taker, and control references to the deposit-taker's assets and liabilities, deposit protection arrangements and interest paid on deposits. Advertisements must contain a conspicuous statement indicating the country or territory in which the deposits are invited to be made and that such deposits are not covered by the UK deposit protection arrangements.

In 1983 a number of institutions offering high interest rate current accounts and off-balance sheet money funds established guidelines governing their advertisements. The Bank welcomed this and together with the Registry of Friendly Societies subsequently encouraged the British Bankers' Association, the Finance Houses Association and the Building Societies Association to develop these guidelines into a code of conduct applying more generally to advertising for deposits. Agreement on a voluntary code was announced on 14 March

1985. The Bank attaches importance to this code which it has circulated to all authorised institutions, and expects all institutions to adhere to its provisions.

The Bank issued a notice, *Advertising for deposits*, to recognised banks and licensed deposit-takers in February 1985. The notice referred both to the regulations, and to the advertising code of conduct described above.

VII International supervisory committees

During the year the Bank continued to play a full part in international co-operation between supervisory authorities. The Bank participated in:

- the Committee on Banking Regulations and Supervisory Practices which meets at the Bank for International Settlements in Basle and brings together supervisors from the Group of Ten major industrial countries and Luxembourg. The Committee (The 'Basle Supervisors' Committee') is chaired by Mr W P Cooke, Associate Director of the Bank of England.
- the Banking Advisory Committee to the European Commission.
- the Contact Group of supervisors from the member states of the European Communities.

Among the range of issues considered by the Basle Supervisors' Committee, particular attention has been devoted to examining the liquidity of international banks, and to methods of comparing the measures of capital adequacy employed in member countries. As noted in last year's report, the Committee published in June 1983 a revised version of a paper first published in 1975, known as the Basle Concordat, which sets out the principles governing supervisory responsibilities for banks' foreign establishments. These principles were endorsed by delegates from about ninety nations at an international conference of banking supervisors held in Rome in September 1984, as providing a sound basis for the approach to the supervision of international banks' activities and to relations between different national supervisory authorities.

The Rome conference also provided a valuable opportunity for the Committee to pursue its contacts with other supervisory authorities in non-member countries. In this respect the Committee has continued to maintain close relations with other supervisory groupings, in particular the Commission of Banking Supervisory and Inspection Bodies of Latin America and the Caribbean, and the Offshore Group of Supervisors. In November, the Chairman of the Committee also attended the inaugural meeting of the SEANZA forum of banking supervisors which includes supervisors from South East Asia, the Indian sub-continent, New Zealand and Australia. The Committee has also been examining ways of improving bilateral contacts between supervisors from different countries.

As in past years, the Bank participated in discussions on a number of proposals by the European Commission for measures applying to credit and financial institutions, including the definition of own funds (capital), the control of concentrations of risk, and the draft Directives on the winding up of credit institutions and on the accounts of credit institutions. Work has continued on trial calculations of a number of observation ratios relating to the solvency, liquidity and profitability of credit institutions, as provided for under Article 6 of the First Banking Co-ordination Directive of December 1977. Following the decision of the Banking Advisory Committee to suspend trial calculations of the present liquidity observation ratio, the Contact Group has been involved in preparing proposals for a new approach to liquidity observation.

In December 1984 the Commission submitted proposals for a Directive on mortgage credit to the Council. It is designed as a supplement to, and a clarification of, the First Banking Co-ordination Directive, with the object of removing the obstacles faced by specialised mortgage credit institutions which wish to operate in a member state other than the one of establishment. The Bank, in common with many other bodies, gave evidence to a sub-committee of a House of Lords Select Committee examining the Commission's proposals.

During the year the Bank continued to maintain informal contacts with a large number of individual overseas supervisory authorities in order to discuss particular cases where there was a shared supervisory responsibility.

VIII Administration

At the end of February the number of staff working on banking supervision stood at 130 (94 of whom were engaged directly in supervisory and analytical work and 36 in a supporting role), an overall increase of 10 on the previous year.

The responsibility for day-to-day supervision of the discount houses, referred to in section III of this report, rests with the Money Markets Division of the Bank (which also has responsibility for the Bank's money-market operations). The Division comprises 7 people, who are not included in the numbers of staff above.

IX Orders and regulations

The following orders and regulations were introduced under the Act—

1984 No 396. The Banking Act 1979 (Exempt Transactions) (Amendment) Regulations 1984
These regulations added The London Meat Futures Exchange Ltd to the list of market organisations whose members are exempt in certain circumstances from the prohibition in Section 1(1) on the acceptance of deposits. These regulations came into operation on 11 April 1984.

1984 No 897 The Deposit Protection Fund (Excluded Institutions) Order 1984
This added the State Bank of South Australia to the list of institutions which are exempt from the requirement to contribute to the Deposit Protection Fund and whose liabilities are not covered by the protection afforded by Section 28 in the event of insolvency. It also deleted the Savings Bank of South Australia, which had merged into the State Bank of South Australia, from the list. This order came into operation on 23 July 1984.

1984 No 1990 The Deposit Protection Fund (Excluded Institutions) (No 2) Order 1984
This added Kansallis-Osake-Pankki, Barbados National Bank and Union Bank of Finland Ltd to the list described above. This order came into operation on 9 January 1985.

1985 No 220 The Banking Act 1979 (Advertisements) Regulations 1985
These regulations have been made by HM Treasury after consultation with the Bank in the exercise of its powers to regulate the issue, form and content of advertisements under Section 34 of the Banking Act. The scope of the regulations is covered in section VI of this report. These regulations will come into operation on 1 July 1985.

When the regulations come into force, a commencement order under the Banking Act will be made activating the repeal of the Protection of Depositors Act 1963 and the equivalent Northern Ireland legislation; the effect of this will be that regulations made under that legislation will lapse. In addition, the order will bring into force Section 39 of the Banking Act (fraudulent inducement to make a deposit) and (with some minor exceptions) the remaining provisions concerned with the amendment and repeal of certain enactments.

1985 No 564 The Banking Act 1979 (Exempt Transactions) (Amendment) Regulations 1985
These regulations (effected after the end of the reporting year and referred to in Section V of this report) have been made by HM Treasury to exempt from the prohibition on deposit-taking in Section 1 of the Act deposits taken in connection with sterling bond issues by companies which meet certain specified requirements set out in the regulations.

1985 No 572 The Banking Act 1979 (Exempt Transactions) (Amendment) (No 2) Regulations 1985
These regulations (effected after the end of the reporting year) added Baltic International Freight Futures Exchange Ltd to the list of market organisations whose members are exempt in certain circumstances from the prohibition in Section 1(1) on the acceptance of deposits.

Appendix

List of institutions recognised or licensed at 28 February 1985

1 Recognised banks

A P Bank Ltd.
Alexanders Discount p.l.c.
Algemene Bank Nederland N.V.
Allied Arab Bank Ltd.
Allied Bank International
Allied Bank of Pakistan Ltd.
Allied Irish Banks p.l.c.
Allied Irish Investment Bank Ltd.
American Express International Banking Corporation
American National Bank and Trust Company of Chicago
Amsterdam-Rotterdam Bank N.V.
Anglo-Romanian Bank Ltd.
Henry Ansbacher & Co.Ltd.
Arab Bank Ltd.
Arbuthnot Latham Bank Ltd.
Associated Japanese Bank (International) Ltd.
Atlantic International Bank Ltd.
Australia & New Zealand Banking Group Ltd.

Banca Commerciale Italiana
Banca Nazionale del Lavoro
Banco Central, S.A.
Banco de Bilbao S.A.
Banco de la Nación Argentina
Banco de Santander, S.A.
Banco de Vizcaya S.A.
Banco di Roma S.p.A.
Banco di Sicilia
Banco do Brasil S.A.
Banco do Estado de São Paulo S.A.
Banco Espirito Santo e Comercial de Lisboa
Banco Exterior—U.K. S.A.
Banco Mercantil de São Paulo S.A.
Banco Nacional de Mexico S.N.C.
Banco Português do Atlântico
Banco Real S.A.
Banco Totta & Açores E.P.
Banco Urquijo Hispano Americano Ltd.
Bancomer, S.N.C.
Bangkok Bank Ltd.
Bank Julius Baer & Co. Ltd.
Bank Bumiputra Malaysia Berhad
Bank für Gemeinwirtschaft A.G.
Bank Hapoalim B.M.
Bank Leumi (U.K.) p.l.c.
Bank Mellat
Bank Melli Iran
Bank of America International Ltd.
Bank of America N.T. & S.A.
Bank of Baroda
The Bank of California N.A.
Bank of Ceylon
Bank of China
Bank of Cyprus (London) Ltd.
Bank of India
The Bank of Ireland
Bank of London & South America Ltd.
Bank of Montreal
The Bank of New York
Bank of New Zealand
The Bank of Nova Scotia
Bank of Scotland
The Bank of Tokyo, Ltd.
Bank of Tokyo International Ltd.
The Bank of Tokyo Trust Company
The Bank of Yokohama Ltd.
Bank Saderat Iran
Bank Sepah
Bankers Trust Company
Banque Belge Ltd.
Banque Belgo-Zairoise S.A.
Banque Bruxelles Lambert S.A.
Banque Francaise du Commerce Extérieur
Banque Indosuez
Banque Nationale de Paris p.l.c.
Banque Paribas
Barclays Bank p.l.c.
Barclays Merchant Bank Ltd.
Baring Brothers & Co.Ltd.
Bayerische Hypotheken—und Wechsel—Bank A.G.
Bayerische Landesbank Girozentrale
Bayerische Vereinsbank
Berliner Bank A.G.

The British Bank of the Middle East
The British Linen Bank Ltd.
Brown, Shipley & Co.Ltd.

CIC—Union Européenne, International et Cie
Canadian Imperial Bank of Commerce
Carolina Bank Ltd.
Cassa di Risparmio delle Provincie Lombarde
Cater Allen Ltd.
Central Bank of India
Central Trustee Savings Bank Ltd.
Chaterhouse Japhet p.l.c.
Chase Bank (Ireland) Ltd.
The Chase Manhattan Bank, N.A.
Chase Manhattan Ltd.
Chemical Bank
Chemical Bank International Ltd.
The Cho-Heung Bank, Ltd.
The Chuo Trust & Banking Company Ltd.
Citibank N.A.
Citicorp International Bank Ltd.
Clive Discount Company Ltd.
Clydesdale Bank p.l.c.
Comerica Bank—Detroit
Commercial Bank of Korea Ltd.
The Commercial Bank of the Near East p.l.c.
Commercial Bank of Wales p.l.c.
Commerzbank A.G.
Commonwealth Bank of Australia
Continental Illinois National Bank and Trust Company of Chicago
Co-operative Bank p.l.c.
County Bank Ltd.
Coutts & Co.
Crédit Lyonnais
Credit Lyonnais Bank Nederland N.V.
Crédit Suisse
Credit Suisse First Boston Ltd.
Creditanstalt-Bankverein
Credito Italiano
Crocker National Bank
The Cyprus Popular Bank

The Dai-Ichi Kangyo Bank, Ltd.
The Daiwa Bank, Ltd.
Deutsche Bank A.G.
Discount Bank (Overseas) Ltd.
Dresdner Bank A.G.

Euro-Latinamerican Bank Ltd.
European Arab Bank Ltd.
European Banking Company Ltd.
European Brazilian Bank Ltd.

Fidelity Bank N.A.
First City National Bank of Houston
First Interstate Bank of California
First Interstate Ltd.
The First National Bank of Boston
The First National Bank of Chicago
First National Bank of Maryland
First National Bank of Minneapolis
First Pennsylvania Bank N.A.
First Wisconsin National Bank of Milwaukee
Robert Fleming & Co.Ltd.
French Bank of Southern Africa Ltd.
The Fuji Bank, Ltd.

Gerrard & National p.l.c.
Ghana Commercial Bank
Girozentrale und Bank der österreichischen Sparkassen A.G.
Grindlay Brandts Ltd.
Grindlays Bank p.l.c.
Guinness Mahon & Co.Ltd.
Gulf International Bank B.S.C.

Habib Bank A.G. Zurich
Habib Bank Ltd.
Hambros Bank Ltd.
Hanil Bank
Havana International Bank Ltd.
Hessische Landesbank-Girozentrale-
Hill Samuel & Co.Ltd.
C.Hoare & Co.
The Hokkaido Takushoku Bank, Ltd.
The Hongkong and Shanghai Banking Corporation
Hungarian International Bank Ltd.

The Industrial Bank of Japan, Ltd.
InterFirst Bank Dallas, N.A.
International Commercial Bank p.l.c.
International Energy Bank Ltd.
International Mexican Bank Ltd.
International Westminster Bank p.l.c.
Irving Trust Company
Istituto Bancario San Paolo di Torino
Italian International Bank p.l.c.

Japan International Bank Ltd.
Jessel, Toynbee & Gillett p.l.c.
Johnson Matthey Bankers Ltd.
Leopold Joseph & Sons Ltd.

King & Shaxson p.l.c.
Kleinwort, Benson Ltd.
Korea Exchange Bank
Korea First Bank
The Kyowa Bank, Ltd.

Lazard Brothers & Co.,Ltd.
Libra Bank p.l.c.
Lloyds Bank p.l.c.
Lloyds Bank International Ltd.
Lloyds Bank International (France) Ltd.
London & Continental Bankers Ltd.
London Interstate Bank Ltd.
The Long-Term Credit Bank of Japan, Ltd.

Malayan Banking Berhad
Manufacturers Hanover Ltd.
Manufacturers Hanover Trust Company
Marine Midland Bank N.A.
Mellon Bank, N.A.
Mercantile Bank Ltd.
Merrill Lynch International Bank Ltd.
Midland Bank p.l.c.
The Mitsubishi Bank Ltd.
The Mitsubishi Trust and Banking Corporation
The Mitsui Bank Ltd.
The Mitsui Trust & Banking Company Ltd.
Samuel Montagu & Co.Ltd.
Morgan Grenfell & Co.Ltd.
Morgan Guaranty Trust Company of New York
Moscow Narodny Bank Ltd.

NCNB National Bank of North Carolina
National Australia Bank Ltd.
National Bank of Abu Dhabi
National Bank of Canada
National Bank of Detroit
National Bank of Greece S.A.
The National Bank of New Zealand Ltd.
National Bank of Pakistan
National Westminster Bank p.l.c.
Nedbank Ltd.
Nederlandsche Middenstandsbank N.V.
The Nippon Credit Bank, Ltd.
Noble Grossart Ltd.
Nordic Bank p.l.c.
Northern Bank Ltd.
The Northern Trust Company

Orion Royal Bank Ltd.
Oversea-Chinese Banking Corporation Ltd.
Overseas Union Bank Ltd.

PK Christiania Bank (UK) Ltd.
Philippine National Bank
Postipankki (UK) Ltd.
Privatbanken Ltd.
Punjab National Bank

Qatar National Bank S.A.Q.
Gerald Quin, Cope & Co.Ltd.

Rafidain Bank
Rea Brothers p.l.c.
P.S.Refson & Co.Ltd.
RepublicBank Dallas, N.A.
Reserve Bank of Australia
The Riggs National Bank of Washington, D.C.
N.M.Rothschild & Sons Ltd.
The Royal Bank of Canada
The Royal Bank of Scotland p.l.c.
The Royal Trust Company of Canada

The Saitama Bank, Ltd.
The Sanwa Bank, Ltd.
Saudi International Bank (Al-Bank Al-Saudi Al-Alami Ltd.)
Scandinavian Bank Ltd.
J.Henry Schroder Wagg & Co.Ltd.
Seccombe Marshall & Campion p.l.c.
Security Pacific National Bank
Shanghai Commercial Bank Ltd.
Singer & Friedlander Ltd.
Smith St.Aubyn & Co.Ltd.
Société de Banque Occidentale
Société Générale
Société Générale Merchant Bank Ltd.
Sonali Bank
Standard Chartered Bank
Standard Chartered Bank Africa p.l.c.
Standard Chartered Merchant Bank Ltd.
Standard Chartered p.l.c.
State Bank of India
The Sumitomo Bank, Ltd.
The Sumitomo Trust and Banking Company Ltd.
Swiss Bank Corporation
Syndicate Bank

The Taiyo Kobe Bank Ltd.
Texas Commerce Bank N.A.
The Thai Farmers Bank Ltd.
The Tokai Bank, Ltd.
The Toronto-Dominion Bank
The Toyo Trust & Banking Company Ltd.

UBAF Bank Ltd.
Ulster Bank Ltd.
Ulster Investment Bank Ltd.
Union Bank of Switzerland
The Union Discount Company of London p.l.c.
United Bank Ltd.
The United Bank of Kuwait Ltd.
United Commercial Bank
United Overseas Bank Ltd.

S.G.Warburg & Co.Ltd.
Wardley London Ltd.
Wells Fargo Bank N.A.
Westdeutsche Landesbank Girozentrale
Westpac Banking Corporation
Williams & Glyn's Bank p.l.c.
Wintrust Securities Ltd.
Württembergische Kommunale Landesbank Girozentrale

The Yasuda Trust and Banking Co.,Ltd.
Yorkshire Bank p.l.c.

Zambia National Commercial Bank Ltd.
Zivnostenská Banka National Corporation

2 Licensed deposit-taking institutions

A1 (Investment) Ltd.
Abbey Finance Co.Ltd.
Adam & Company p.l.c.
Afghan National Credit & Finance Ltd.
African Continental Bank Ltd.
Aitken Hume Ltd.
Ak International Ltd.
Al Baraka International Ltd.
Al Saudi Banque S.A.
The Alliance Trust p.l.c.
Allied Banking Corporation
Allied Irish Finance Co.Ltd.
Altajir Ltd.
Anglo-Yugoslav (LDT) Ltd.
Arab African International Bank
Arab Bank Investment Co.Ltd.
Arab Banking Corporation B.S.C.
Armada Investments Ltd.
Armco Trust Ltd.
Assemblies of God Property Trust
Associated Credits Ltd.
Associates Capital Corporation Ltd.
Auban Finance Ltd.
Avant Overseas Finance Ltd.
Avco Trust Ltd.

B.A.I.I. p.l.c.
B.C.F. Finance Co.Ltd.
BMI (Hampshire) Ltd.
Badische Kommunale Landesbank Girozentrale
Banca Nazionale dell'Agricoltura SpA
Banca Serfin S.N.C.
Banco di Santo Spirito
Bank Handlowy w Warszawie S.A.
Bank Mees & Hope N.V.
Bank of Credit and Commerce International S.A.
Bank of Ireland Finance Ltd.
Bank of Ireland Finance (N.I.) Ltd.
Bank of New England N.A.
The Bank of Nova Scotia Trust Company (United Kingdom) Ltd.
Bank of Oman Ltd.
Bank of Seoul
Bank Tejarat
Bankers Trust International Ltd.

Banque du Liban et d'Outre-Mer
Banque Internationale pour l'Afrique Occidentale S.A.
The Baptist Union Corporation Ltd.
Barbados National Bank
Barclays Bank Trust Company Ltd.
Barclays Bank UK Ltd.
Thomas Barlow & Bro.Ltd.
Barrie Vanger & Co.Ltd.
Beaver Guarantee Ltd.
Beirut Riyad Bank S.A.L.
Beneficial Trust Ltd.
Boston Trust & Savings Ltd.
Bradford Investments
Bridgeover Ltd.
Bridgeway Finance Ltd.
British Credit Trust Ltd.
Brook Securities & Co.Ltd.
Buchanan Securities Ltd.
Bucks Land & Building Co.Ltd.
Bunge & Co.Ltd.
Burns-Anderson Trust Company Ltd.
Business Mortgages Trust p.l.c.
Byblos Bank S.A.L.

Caisse Nationale de Crédit Agricole
Calculus Finance p.l.c.
Canada Permanent Mortgage Corporation (UK) Ltd.
Canara Bank
Castle Phillips Finance Co.Ltd.
Cattles Holdings Finance Ltd.
Cayzer Ltd.
Cedar Holdings Ltd.
Century Factors Ltd.
Chancery Securities p.l.c.
Charter Consolidated Financial Services Ltd.
Chartered Trust p.l.c.
Charterhouse Japhet Credit Ltd.
Chesterfield Street Trust Ltd.
Citibank Trust Ltd.
City Trust Ltd.
Close Brothers Ltd.
Clydesdale Bank Finance Corporation Ltd.
CE Coates & Co.Ltd.
Cobnar Finance Co.Ltd.
Combined Capital Ltd.
Commercial Credit Services Ltd.
Commonwealth Savings Bank of Australia
Consolidated Credits & Discounts Ltd.
Consumer Credit Investments Ltd.
The Continental Trust Ltd.
Co-operative Bank (Commercial) Ltd.
Copenhagen Handelsbank A/S
Coutts Finance Co.
Craneheath Securities Ltd.
Crédit Commercial de France
Crédit du Nord
Credito Italiano International Ltd.
Cue & Co.
Cyprus Credit Bank Ltd.
Cyprus Finance Corporation (London) Ltd.

Dalbeattie Finance Co.Ltd.
Darlington Merchant Credits Ltd.
Dartington & Co.Ltd.
Den Danske Bank af 1871 Aktieselskab
Deutsche Genossenschaftsbank
The Development Bank of Singapore Ltd.
The Dorset, Somerset & Wilts Investment Society Ltd.
Dryfield Finance Ltd.
Dunbar & Co.Ltd.
Duncan Lawrie Ltd.
Dunsterville Allen p.l.c.

E.T.Trust Ltd.
Eagil Trust Co.Ltd.
East Anglian Securities Trust Ltd.
East Midlands Finance Co.Ltd.
Eccles Savings and Loans Ltd.
The English Association Trust Ltd.
Ensign Discount Co.Ltd.
Enskilda Securities-Skandinaviska Enskilda Ltd.
Equatorial Trust Corporation Ltd.
Everett Chettle Associates
Exeter Trust Ltd.

FIBI Financial Trust Ltd.
Fairmount Trust Ltd.
Family Finance Ltd.
Farmers (WCF) Finance Ltd.
Federated Trust Corporation Ltd.
FennoScandia Ltd.
Financial and General Securities Ltd.
James Finlay Corporation Ltd.
Finova Finance Ltd.
First Bank of Nigeria Ltd.
First Commercial Bank
First Co-operative Finance Ltd.
First Indemnity Credit Ltd.
First National Boston Ltd.
First National Securities Ltd.
Fleet National Bank
Ford Financial Trust Ltd.
Ford Motor Credit Co.Ltd.
Foreign & Colonial Management Ltd.
Forward Trust Ltd.
Robert Fraser & Partners Ltd.

Gillespie Bros. & Company Ltd.
Goldman Sachs Ltd.
Goode Durrant Trust p.l.c.
Gota (UK) Ltd.
Granville Finance Ltd.
H.T.Greenwood Ltd.
Greetwell Finance Ltd.
Gresham Trust p.l.c.
Greyhound Guaranty Ltd.
Grindlays Humberclyde Ltd.
Grindlays Industrial Finance Ltd.
Grosvenor Acceptances Ltd.
Gulf Guarantee Trust Ltd.

HFC Trust & Savings Ltd.
H.& J.Finance Co. (Midlands) Ltd.
Habibsons Trust and Finance Ltd.
The Hardware Federation Finance Co.Ltd.
Harris Trust and Savings Bank
Harrods Trust Ltd.
Harton Securities Ltd.
The Heritable & General Trust Ltd.
Holdenhurst Securities Ltd.
Houston Financial Services Ltd.

IBJ International Ltd.
Industrial Finance and Investment Corporation p.l.c.
Industrial Funding Trust Ltd.
The Investment Bank of Ireland Ltd.
Investment Trustees Ltd.
Investors in Industry p.l.c.
Investors in Industry Group p.l.c.
Iran Overseas Investment Corporation Ltd.
ItaB Group Ltd.

Jabac Finances Ltd.
Jordan Finance Consortium p.l.c.

Kansallis-Osake-Pankki
Keesler Federal Credit Union
Knowsley & Co.Ltd.
Kredietbank N.V.

Liechtenstein (UK) Ltd.
Little Lakes Finance Ltd.
Lloyds & Scottish p.l.c.
Lloyds Bank (LABCO) Ltd.
Lloyds Bowmaker Ltd.
Lodhi Finance Ltd.
Lombard Acceptances Ltd.
Lombard & Ulster Ltd.
Lombard North Central p.l.c.
Lombard Street Investment Trust Co.Ltd.
London and Arab Investments Ltd.
London Law Securities Ltd.
London Scottish Finance Corporation p.l.c.
Lordsvale Finance Ltd.

McNeill Pearson Ltd.
Mallinhall Ltd.
Manchester Exchange Trust Ltd.
W.M.Mann & Co. (Investments) Ltd.
Edward Manson & Co.Ltd.
Manufacturers Hanover Export Finance Ltd.
Manufacturers Hanover Finance Ltd.
The Mardun Investment Co.Ltd.
Matheson Trust Co.Ltd.
Medens Trust Ltd.
Meghraj & Sons Ltd.
Mercantile Credit Company Ltd.
Mercury Provident Society Ltd.
Merseyside Finance Ltd.
The Methodist Chapel Aid Association Ltd.
Middle East Bank Ltd.
Midland Bank Equity Holdings Ltd.
Midland Bank Finance Corporation Ltd.
Midland Bank Trust Company Ltd.
Milford Mutual Facilities Ltd.
Minster Trust Ltd.
Moneycare Ltd.
Moorgate Mercantile Holdings p.l.c.
Mount Credit Corporation Ltd.
Multibanco Comermex S.N.C.
Muslim Commercial Bank Ltd.
Mynshul Trust Ltd.

N.I.I.B. Group Ltd.
National Bank of Egypt
National Bank of Fort Sam Houston
The National Bank of Kuwait S.A.K.
National Bank of Nigeria Ltd.
National Commercial & Glyns Ltd.
National Guardian Finance Corporation Ltd.
New Nigeria Bank Ltd.
Norddeutsche Landesbank Girozentrale
The North of Scotland Finance Co.Ltd.
North West Securities Ltd.
Northern Bank Development Corporation Ltd.
Northern Bank Executor & Trustee Company Ltd.
Norwich General Trust Ltd.

Omega Trust Co.Ltd.
Oppenheimer Money Management Ltd.
Oriental Credit Ltd.
Overseas Trust Bank Ltd.

PL Investments & Savings Ltd.
Park Street Securities Ltd.
The People's Trust & Savings Ltd.
Phibrobank A.G.
Philadelphia National Bank
Pointon York Ltd.
Prestwick Investment Trust p.l.c.
Provincial Trust Ltd.
Punjab & Sind Bank

Ralli Investment Company Ltd.
R.Raphael & Sons p.l.c.
Rathbone Bros. & Co.
Reliance Trust Ltd.
Republic National Bank of New York
Rhone Trust Ltd.
Riyad Bank
Roxburghe Guarantee Corporation Ltd.
The Rural and Industries Bank of Western Australia

S.P.Finance Ltd.
St.Margaret's Trust Ltd.
Schroder Leasing Ltd.
Scottish Amicable Money Managers Ltd.
Seattle-First National Bank
Security Pacific Trust Ltd.
Shawlands Securities Ltd.
The Siam Commercial Bank, Ltd.
Smith & Williamson Securities
South Notts Finance Ltd.

Southsea Mortgage & Investment Co.Ltd.
Spring Gardens Securities p.l.c.
Spry Finance Ltd.
Standard Credit Services Ltd.
Standard Property Investment p.l.c.
State Bank of New South Wales
State Bank of South Australia
State Bank of Victoria
State Street Bank and Trust Company
Sterling Trust Ltd.
Svenska International Ltd.
Swiss Bank Corporation International Ltd.

TCB Ltd.
The Teachers & General Investment Co.Ltd.
Thames Trust Ltd.
Thorncliffe Finance Ltd.
Trade Development Bank
Treloan Ltd.
Trucanda Trusts Ltd.
The Trust Bank of Africa Ltd.
Tullett and Riley Money Management Ltd.
Turkish Bank Ltd.
Türkiye Iş Bankasi A.Ş.
Tyndall & Co.

Ulster Bank Trust Company
Union Bank of Finland Ltd.
Union Bank of India
Union Bank of Nigeria Ltd.
United Dominions Trust Ltd.
United Mizrahi Bank Ltd.
Unity Trust Ltd.
Universal Credit Ltd.

Venture Finance Ltd.
Vernons Trust Corporation
Volkskas Ltd.

Wagon Finance Ltd.
Wallace, Smith Trust Co.Ltd.
Welbeck Finance p.l.c.
West Riding Securities Ltd.
Western Trust & Savings Ltd.
Whiteaway Laidlaw & Co.Ltd.
Wimbledon & South West Finance Co.Ltd.
N.H.Woolley & Co.Ltd.

Yorkshire Bank Finance Ltd.
H.F.Young & Co.Ltd.

Changes to the list

The following changes were made during the year to the list of authorised institutions.

Additions

1 Recognised banks

Banco di Sicilia
CIC—Union Européenne, International et Cie
Cassa di Risparmio delle Provincie Lombarde
Girozentrale und Bank der österreichischen Sparkassen A.G.
Istituto Bancario San Paolo di Torino
Nederlandsche Middenstandsbank N.V.

2 Licensed deposit-taking institutions

Avant Overseas Finance Ltd.
Banca Nazionale dell'Agricoltura SpA
Banco di Santo Spirito
Bank of New England N.A.
Caisse Nationale de Crédit Agricole
Copenhagen Handelsbank A/S
Credito Italiano International Ltd.
First Commercial Bank
Gota (UK) Ltd.
Habibsons Trust and Finance Ltd.
Harris Trust and Savings Bank
ItaB Group Ltd.
Jordan Finance Consortium p.l.c.
Kansallis-Osake-Pankki
Kredietbank N.V.
Liechtenstein (UK) Ltd.
Norddeutsche Landesbank Girozentrale
Omega Trust Co.Ltd.
Philadelphia National Bank
Scottish Amicable Money Managers Ltd.
Seattle-First National Bank
State Bank of South Australia
Thames Trust Ltd.
Trade Development Bank
The Trust Bank of Africa Ltd.
Union Bank of Finland Ltd.
Unity Trust Ltd.
Volkskas Ltd.
Cassa di Risparmio delle Provincie Lombarde
Castle Court Trust Ltd.
Cross & Bevingtons (Finance) Ltd.
Eastcheap Investments Ltd.
Girozentrale und Bank der österreichischen Sparkassen A.G.
Hobart Securities Ltd.
Istituto Bancario San Paolo di Torino
Kingsnorth Trust Ltd.
Kintyre Securities Ltd.
Mortgage Management & Investments Ltd.
Musket Finance Ltd.
Nederlandsche Middenstandsbank N.V.
Northern Ireland Industrial Bank (I.O.M.) Ltd.
Savings Bank of South Australia
Texas Commerce International Ltd.
Volkskas International Ltd.
Wells Fargo Ltd.

Deletions

1 Recognised banks

(The former) Barclays Bank p.l.c.(1)
Centerre Bank N.A.
Credit Industriel et Commercial
Harris Trust and Savings Bank
Seattle-First National Bank
Trade Development Bank

2 Licensed deposit-taking institutions

Banco de Jerez S.A.
Banco di Sicilia
Banque du Rhone et de la Tamise S.A.
Bremar Holdings Ltd.

Name changes

1 Recognised banks

Allied Irish Banks Ltd.	*to*	Allied Irish Banks p.l.c.
Barclays Bank International Ltd.	*to*	Barclays Bank p.l.c.(1)
The Chartered Bank	*to*	Standard Chartered Bank
Commonwealth Trading Bank of Australia	*to*	Commonwealth Bank of Australia
Continental Illinois Ltd.	*to*	First Interstate Ltd.
The Fidelity Bank	*to*	Fidelity Bank N.A.
Italian International Bank Ltd.	*to*	Italian International Bank p.l.c.
Libra Bank Ltd.	*to*	Libra Bank p.l.c.
National Commercial Banking Corporation of Australia Ltd.	*to*	National Australia Bank Ltd.
Société Générale Bank Ltd.	*to*	Société Générale Merchant Bank Ltd.
The Standard Bank p.l.c.	*to*	Standard Chartered Bank Africa p.l.c.
Standard Chartered Bank p.l.c.	to	Standard Chartered p.l.c.

2 Licensed deposit-taking institutions

Banca Serfin S.A.	*to*	Banca Serfin S.N.C.
Bank of Seoul & Trust Co.	*to*	Bank of Seoul
Beaver Investments Ltd.	*to*	Beaver Guarantee Ltd.
Canada Permanent Trust Co. (UK) Ltd.	*to*	Canada Permanent Mortgage Corporation (UK) Ltd.
CP Choularton Sons & Partners	*to*	Provincial Trust Ltd.
F&C Management Ltd.	*to*	Foreign & Colonial Management Ltd.
K. S. Consumer Credit Finance Ltd.	*to*	Consumer Credit Investments Ltd.
M.H. Credit Corporation Ltd.	*to*	Manufacturers Hanover Finance Ltd.
Midland Bank Industrial Equity Holdings Ltd.	*to*	Midland Bank Equity Holdings Ltd.

(1) The former Barclays Bank p.l.c. changed its name to Barclays p.l.c. and ceased to be a recognised bank, while Barclays Bank International Ltd., also a recognised bank, changed its name to Barclays Bank p.l.c.

Addresses and telephone numbers

London	Head Office	Threadneedle Street London EC2R 8AH	*01-601 4444* [1]
	Registrar's Department	New Change London EC4M 9AA	*01-601 4444*
	Clearing Centre	161 City Road London EC1V 1PA	*01-601 4444*
	Printing Works	Langston Road Loughton Essex IG10 3TN	*01-508 6221*
Branches	Birmingham	PO Box 3 55 Temple Row Birmingham B2 5EY	*021-643 8571*
	Bristol	PO Box 10 Wine Street Bristol BS99 7AH	*0272 277251*
	Leeds	King Street Leeds LS1 1HT	*0532 441711*
	Liverpool	PO Box 76 31 Castle Street Liverpool L69 2AZ	*051-236 7092*
	Manchester	PO Box 301 Faulkner Street Manchester M60 2HP	*061-228 1771*
	Newcastle	PO Box 2BE Pilgrim Street Newcastle upon Tyne NE99 2BE	*0632 611411*
	Southampton	PO Box 20 31–33 High Street Southampton SO9 7AZ	*0703 39421*
Glasgow Agency		25 St Vincent Place Glasgow G1 2EB	*041-221 7973*

(1) Enquiries relating to this *Report* or to the *Quarterly Bulletin* may be made on 01-601 4030.