The Bank's accounts

The *Banking Department* accounts for the year ended 28 February 1986 show an operating profit, before exceptional items, of £87.8 million, compared with £71.7 million in 1984/85. During the year, there were two exceptional items:

(i) a surplus of £11.5 million on the disposal of the Bank's investment in Commonwealth Development Finance Company Limited;

(ii) a release of £7.0 million from the provision for payments under indemnity given to Johnson Matthey Bankers Limited.[(1)]

After a payment in lieu of dividend of £39.4 million (compared with £25.3 million) and a tax charge of £23.0 million, the profit transferred to reserves amounts to £43.9 million, compared with £7.5 million last year.

The current cost profit before tax and dividend, after adjustments in accordance with Statement of Standard Accounting Practice No. 16, was £98.7 million (some £7.6 million less than in the historical cost accounts). After tax and dividend payments the current cost profit was £36.3 million.

The *Issue Department* accounts are shown on page 36. 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 £1,396.8 million compared with £1,089.8 million in 1984/85.

(1) In 1984/85 a provision of £34.0 million was made for payment under indemnity to Johnson Matthey Bankers Limited.

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 23 to 35, and the statements of account of the Issue Department on page 36, 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 23 to 33 give a true and fair view of the state of affairs of the Banking Department at 28 February 1986 and of the profit and source and application of funds for the year then ended.

2 The statements of account on page 36 present fairly the outcome of the transactions of the Issue Department for the year ended 28 February 1986 and its balances at that date.

3 The abridged supplementary current cost accounts of the Banking Department on pages 34 and 35 have been properly prepared in accordance with the policies and methods described in notes 1 to 3, to give the information set out in Statement of Standard Accounting Practice No. 16.

DELOITTE HASKINS & SELLS

Chartered Accountants

London

8 May 1986

Banking Department

Profit and loss account
for the year ended 28 February 1986

1985			1986
£000			£000
71,660	Operating profit before exceptional items	(*Note 2*)	87,787
	Exceptional items:		
—	Surplus over book value on disposal of investment		11,528
(*34,000*)	Movement in provision for payment under indemnity		7,000
37,660			106,315
25,300	Payment to the Treasury under Section 1(4) of the Bank of England Act 1946	(*Note 4*)	39,400
12,360	Profit before taxation		66,915
4,862	Taxation	(*Note 5*)	22,957
7,498	Profit transferred to reserves	(*Note 6*)	43,958

The notes on pages 26 to 32 form part of these accounts.

Banking Department

Balance sheet: 28 February 1986

1985 £000			1986 £000	£000
14,553	**Capital**		14,553	
403,242	**Reserves**	(*Note 6*)	447,200	
417,795				461,753
	Current liabilities			
4,157,286	Public deposits	(*Note 7*)	3,935,507	
688,055	Bankers' deposits	(*Note 8*)	850,237	
1,330,203	Other accounts		1,164,419	
25,300	Payable to the Treasury	(*Note 4*)	39,400	
6,200,844				5,989,563
6,618,639				6,451,316

The notes on pages 26 to 32 form part of these accounts.

Banking Department

Balance sheet: 28 February 1986

1985 £000			1986 £000	£000
	Liquid assets			
10,565	Notes and coin		10,651	
202,357	Cheques in course of collection		226,042	
4,687,848	Treasury and other bills	(*Note 9*)	4,738,495	
4,900,770				4,975,188
397,568	**Investments**	(*Note 10*)		399,562
964,953	**Advances and other accounts, less provisions**			718,236
127,710	**Subsidiary companies**	(*Note 11*)		125,080
227,638	**Premises and equipment**	(*Note 12*)		233,250
6,618,639				6,451,316

R Leigh-Pemberton *Governor*

George Blunden *Deputy Governor*

Nelson of Stafford *Director*

H C E Harris *Chief of Corporate Services*

1 Accounting policies

a Form of presentation of accounts

Although the Bank's constitution is not governed by the Companies Act 1985, the accounts have been prepared so as to comply with the requirements of that Act 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 Sections 257 to 260 of, and Schedule 9 to, the Companies Act 1985.

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 on the liability method in respect of all material timing differences except where it is expected that the relevant timing difference will not reverse in the foreseeable future.

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:

1985 *£ thousands*		1986 £ thousands
	Income	
	Interest:	
178,673	Treasury and other bills	543,497
	Securities of, or guaranteed by, the	
45,714	British Government	48,455
14,985	Advances	33,385
	Interest and dividends:	
1,546	Listed securities	1,695
4,029	Unlisted securities	6,095
46,223	Charges for services to the Government	47,940
2,188	Rents	2,136
	Charges	
131,003	Interest paid to depositors	488,367
541	Directors' emoluments (*Note 3*)	600
70	Auditors' remuneration	70
65	Hire of computers and other equipment	46
7,549	Depreciation of premises and equipment	8,458
589	Loss on disposal of fixed assets	189

3 Directors' and employees' emoluments

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

1985		1986
£11,500	Fees	£11,230
£529,850	Other emoluments, including remuneration of Governors and Executive Directors and contributions to Directors' Pension Scheme	£589,108*

*Includes £14,067 paid by a subsidiary company.

The Governor's emoluments, excluding pension contributions, totalled £90,085 (1985 £85,095).

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.

1985 Directors	*1985 Employees*		1986 Directors	1986 Employees
12		£0–£ 5,000	10	
—		£10,001–£15,000	1	
—		£15,001–£20,000	1	
—	*66*	£30,001–£35,000	—	93
—	*24*	£35,001–£40,000	—	42
—	*25*	£40,001–£45,000	—	24
—	*18*	£45,001–£50,000	—	21
—	*7*	£50,001–£55,000	—	11
4	*3*	£55,001–£60,000	—	4
—	—	£60,001–£65,000	4	2
1	—	£70,001–£75,000	1	—

The aggregate remuneration of the employees of the Bank was £66.6 million (1985 £63.3 million).

4 Payment to the Treasury

1985 *£ thousands*		1986 £ thousands
8,000	Payable 5 April	18,750
17,300	Payable 5 October	20,650
25,300		39,400

5 Taxation

The charge for taxation comprises:

1985 *£ thousands*		1986 £ thousands
15,079	UK corporation tax at an average rate of 40.416% (1985 45.416%) based on the profits of the year	14,050
414	Income tax on franked investment income	469
(1,307)	Prior year adjustment	4
(9,324)	Deferred tax	8,434
4,862		22,957

The deferred tax liability of £6,759,000 is included under Other accounts (1985 Advances and Other accounts) and is comprised as follows:

1985 *£ thousands*		1986 £ thousands
(11,427)	Short-term timing differences	(2,987)
9,752	Accelerated capital allowances	9,746
(1,675)		6,759

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 £8,300,000.

6 Reserves

	General reserve	Revaluation surplus	Total
			£ thousands
Balance at 1 March 1985	242,059	161,183	403,242
Profit of the year retained	43,958	—	43,958
Balance at 28 February 1986	286,017	161,183	447,200

7 Public deposits

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

8 Bankers' deposits

1985 *£ thousands*		1986 £ thousands
582,167	Cash ratio deposits	673,702
105,888	Other deposits	176,535
688,055		850,237

9 Treasury and other bills

1985 £ thousands		1986 £ thousands
197,874	British Government Treasury Bills	144,170
4,489,974	Other bills	4,594,325
4,687,848		4,738,495

10 Investments

1985 £ thousands Book value	1985 Valuation		1986 £ thousands Book value	1986 Valuation
		Securities of, or guaranteed		
375,041	*432,247*	by, the British Government	377,043	462,066
		Other securities:		
7,487	*34,904*	Listed	7,487	41,506
15,040	*50,320*	Unlisted	15,032	60,779
397,568	*517,471*		399,562	564,351

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

1985 Percentage held		1986 Percentage held
	Over 20%	
27	Agricultural Mortgage Corporation p.l.c. shares of £1 Share capital and reserves as at 31 March 1985 £32,709,000 Profit for the year ended 31 March 1985 £3,344,000	27
29	Portals Holdings p.l.c. ordinary stock Share capital and reserves as at 31 December 1985 £80,139,000 Profit for the year ended 31 December 1985 £5,043,000	29

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

Both the above companies are incorporated in Great Britain.

1985 Percentage held		1986 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

The Bank's investment in the Commonwealth Development Finance Company Limited was disposed of during the year.

11 Subsidiary companies

This comprises:

1985 £ thousands		1986 £ thousands
16,982	Investments in subsidiary companies	92,082
110,728	Amounts owing by subsidiary companies	32,998
127,710		125,080

(a) Johnson Matthey Bankers Limited

At 28 February 1985, the Bank held the entire issued share capital (60,000,000 shares of £1) of Johnson Matthey Bankers Limited (JMB) which it acquired in October 1984 for a nominal consideration. The capital of JMB was reorganised in June 1985, when the Bank subscribed for £50 million of ordinary shares, £25 million of Redeemable £1 shares and £25 million of variable rate subordinated unsecured loan stock. At the same time there was a cancellation of 59,999,900 existing issued £1 shares and of 15 million unissued £1 shares. This was followed by the repayment by JMB of a deposit of £100 million made by the Bank in November 1984. Interest received of £4.1 million on the Bank's deposit and of £2.1 million on the variable rate unsecured loan stock have been dealt with in the profit and loss account on page 23.

At 28 February 1985 an amount of £34 million was provided by the Bank in respect of payments to be made 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. Based on the latest audited accounts of JMB at 30 June 1985, it is expected that the final amounts to be paid under the indemnity together with interest will not exceed £27 million and accordingly the provision has been reduced to this amount.

The auditors' report on JMB's accounts for the period ended 30 June 1985 stated that 'the group is currently, or may become, party to claims against or by third parties which may involve substantial amounts'. No account has been taken of these claims as it is not practicable to judge the outcome at this stage.

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.

In a press release dated 10 April 1986, the Bank announced that Heads of Agreement had been signed to sell the major part of the business of JMB to Westpac Banking Corporation for a sum comprising a premium of £17.5 million over the net worth of the business being transferred. This disposal, and other disposals in prospect, means that the net asset value of JMB is not less than the cost of the Bank's investment.

(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
Debden Security Printing Ltd	100,000 ordinary shares of £1

The accounts of EBS Investments Ltd and Slater, Walker Ltd have not been consolidated with those of the Bank because, in the opinion of the Directors, it would be misleading to consolidate their 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, The Securities Management Trust Ltd and Debden Security Printing Ltd have not been consolidated with those of the Bank as the amounts are considered to be not material.

The net aggregate profits of the subsidiary companies attributable to the Bank, 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:

1985 *£ thousands*		1986 £ thousands
7,614	For the year ended 28 February 1986	2,356
18,207	Since acquisition	20,563

Included within Current liabilities is a total of £2,095,000 (1985 £2,004,000) 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 1985	129,806	86,245	2,089	32,730	250,870
Acquisition of freehold	6,850	(6,850)	—	—	—
Additions	6,540	53	—	7,792	14,385
Disposals	—	—	(21)	(2,038)	(2,059)
Adjustment in respect of fully depreciated assets	—	—	—	(861)	(861)
At 28 February 1986	143,196	79,448	2,068	37,623	262,335
Accumulated depreciation					
At 1 March 1985	6,710	3,660	214	12,648	23,232
Acquisition of freehold	580	(580)	—	—	—
Charge for the year	2,651	1,054	99	4,654	8,458
On disposals	—	—	—	(1,744)	(1,744)
Adjustment in respect of fully depreciated assets	—	—	—	(861)	(861)
At 28 February 1986	9,941	4,134	313	14,697	29,085
Net book value at 28 February 1986	133,255	75,314	1,755	22,926	233,250
Net book value at 28 February 1985	*123,096*	*82,585*	*1,875*	*20,082*	*227,638*
Cost or valuation at 28 February 1986 comprised:					
At 1982 valuation	124,515	75,715	30	—	200,260
At cost	18,681	3,733	2,038	37,623	62,075
	143,196	79,448	2,068	37,623	262,335

Contracts for capital expenditure authorised by the Directors and outstanding at 28 February 1986 totalled £6,114,280 (1985 £8,685,000). Further capital expenditure authorised at that date, but not contracted for, is estimated at £26,000,000 (1985 £2,675,000).

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	173

There were no quasi loans or other credit transactions required to be shown under the Companies Act 1985. 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 £127,000; 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 £20 million (1985 £76 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 1986 was £195 million (1985 £225 million).

16 Date of approval

The Court of Directors approved the accounts on pages 23 to 35 on 8 May 1986.

Banking Department

Statement of source and application of funds for the year ended 28 February 1986

1985 £000		1986 £000
	Source of funds	
71,660	Operating profit before exceptional items	87,787
	Adjustment for items not involving the movement of funds:	
8,138	Depreciation, net of profits/(losses) on disposal of fixed assets	8,646
(391)	Other	—
79,407	Funds generated by operations	96,433
	Funds from other sources:	
—	Repayment of taxation	1,929
8	Disposal of Other securities	11,535
307	Disposal of premises and equipment	84
—	Repayment from subsidiary	75,000
79,722		184,981
	Application of funds	
11,094	Payment of taxation	15,346
1,700	Payment under indemnity	14,089
21,750	Payment to the Treasury	25,300
20	Purchase of Other securities	—
—	Investment in subsidiaries	75,100
100,000	Advance to subsidiary	—
13,958	Purchase of premises and equipment	14,342
(68,800)	Increase/(decrease) in working capital (see below)	40,804
79,722		184,981
	Analysis of increase/(decrease) in working capital	
3,607,131	Current assets	76,420
422,605	Advances and other accounts	(244,718)
2,367	Advances to subsidiary companies	(2,730)
4,032,103		(171,028)
	Less:	
4,100,903	Current liabilities, excluding taxation and payment to the Treasury	(211,832)
(68,800)		40,804

Current cost profit and loss acount
for the year ended 28 February 1986

1985 £ millions				1986 £ millions
37.7	Operating profit as in historical cost accounts			106.3
	Current cost adjustments:			
1.1	Additional depreciation charge	(Note 2)	0.8	
7.8	Monetary working capital	(Note 3)	6.8	7.6
28.8	Current cost operating profit			98.7
25.3	Payment to the Treasury under Section 1(4) of the Bank of England Act 1946			39.4
3.5	Current cost profit before taxation			59.3
4.9	Taxation			23.0
(1.4)	Current cost profit/(loss) for the year			36.3

Current cost balance sheet: 28 February 1986

1985 £ millions			1986 £ millions
14.5	Capital		14.5
489.2	Reserves	(Note 4)	567.8
503.7			582.3
6,200.8	Current liabilities		5,989.6
6,704.5			6,571.9
4,900.8	Liquid assets		4,975.2
460.2	Investments		479.3
964.9	Advances		718.2
127.7	Subsidiary companies		125.1
250.9	Premises and equipment	(Note 5)	274.1
6,704.5			6,571.9

The notes on page 35 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 26 and 27.

(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 1986, 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

	1986 £ millions
Balance at 1 March 1985	489.2
Surplus on revaluation of premises, equipment and investments	35.5
Monetary working capital adjustment	6.8
Current cost profit for the year	36.3
Balance at 28 February 1986	567.8
Reserves comprise:	
Current cost reserve	199.0
Revenue reserve	207.6
Revaluation reserve	161.2
	567.8

5 Premises and equipment

1985 £ millions Net		1986 £ millions Gross	Depreciation	Net
226.1	Premises	247.2	—	247.2
24.8	Equipment	58.4	31.5	26.9
250.9		305.6	31.5	274.1

Issue Department

Account for the year ended 28 February 1986

1985		1986	
£000		£000	£000
	Income and profits:		
191,944	Securities of, or guaranteed by, the British Government	196,163	
938,462	Other securities	1,248,844	
6,851	Other receipts	191	1,445,198
	Expenses:		
31,479	Cost of production of Bank notes	29,498	
12,997	Cost of issue, custody and payment of Bank notes	15,199	
2,952	Other expenses	3,744	48,441
1,089,829	Payable to the Treasury		1,396,757

Statement of balances: 28 February 1986

1985		1986	*1985*		1986
£000		£000	*£000*		£000
	Notes issued:		*11,015*	Government debt	11,015
12,029,677	In circulation	12,309,767		Other securities of, or guaranteed by, the British Government	
10,323	In Banking Department	10,233	*1,971,644*		2,023,271
			10,057,341	Other securities	10,285,714
12,040,000		12,320,000	*12,040,000*		12,320,000

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 1986.

2 The Court of Directors approved the above statements of account on 8 May 1986.

R Leigh-Pemberton *Governor*

George Blunden *Deputy Governor*

Nelson of Stafford *Director*

H C E Harris *Chief of Corporate Services*

Banking Act 1979

Annual report by the Bank of England 1985/86

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 which ended on 28 February 1986.

I Developments in the system of banking supervision

The year under review has been marked by progress on several fronts in the development of banking supervision in the United Kingdom. In particular, there has been a report enquiring into the system of banking supervision and a Government White Paper setting out the framework for a new Banking Act. The Bank, meanwhile, has been active in reviewing and improving its supervisory arrangements under the current Act.

Leigh-Pemberton Report

Last year's report referred to the establishment by the Chancellor of the Exchequer of a committee under the chairmanship of the Governor to consider any necessary changes in the present supervisory system. The committee's report ('the Leigh-Pemberton Report') was published by the Government in June 1985[1] and was accepted by the Chancellor as a basis for consultation with the banks and other interested parties.

The Leigh-Pemberton Report made a number of important recommendations aimed at strengthening existing arrangements. These included the replacement of the present two-tier classification under the Banking Act of recognised bank and licensed deposit-taker by a single category of authorisation; the establishment of a procedure to enable a regular dialogue to take place between supervisors and banks' auditors; more rigorous controls over concentrations of risk in banks' assets; closer monitoring by the supervisors of the effectiveness of banks' management control systems; and improved procedures for ensuring the prompt submission by banks of supervisory data. The report also highlighted the need for further increases in staff within the Banking Supervision Division of the Bank and the desirability of providing it with staff experienced in working in commercial banks.

Consultations with banking and accountancy bodies

Following publication of the Leigh-Pemberton Report, the Bank issued three consultative papers. The first outlined the main changes to the Banking Act recommended by the committee or flowing from its conclusions, and suggested a number of areas in which the Bank's supervisory powers might be strengthened. The second paper set out the Bank's proposals for enhanced supervisory controls over large credit exposures undertaken by banks. The third paper made proposals for establishing a regular dialogue between supervisors and banks' auditors.

The Bank's papers were the subject of extensive discussions with the principal banking and accountancy associations. Comments were also received from many institutions and individuals. The response was on the whole favourable and a broad measure of agreement on the main issues was reached.

White Paper

Following these consultations, the Government issued a White Paper on Banking Supervision[2] in

(1) *Report of the Committee set up to Consider the System of Banking Supervision* (Cmnd 9550).
(2) *Banking Supervision* (Cmnd 9695).

December 1985 outlining its intentions and endorsing most of the proposals in the consultative documents. In addition it proposed the establishment within the Bank of England of a Board of Banking Supervision to assist the Bank in its banking supervisory responsibilities by bringing commercial banking, accountancy and legal experience to bear on supervisory decisions at the highest level. Many of the proposals do not require legislation and either have been introduced already or will be introduced as soon as possible. Where legislation is needed, it is the Government's intention to introduce a Bill at an early date.

Nature of the supervisory process

The proposals in the Leigh-Pemberton Report and in the White Paper do not involve a fundamental change in the approach to banking supervision in the United Kingdom. Rather, the intention is to tackle a number of weaknesses which have become apparent both in the present statutory framework and in its implementation. The supervisory process is discussed further in the following paragraphs, but three aspects of the proposals are worthy of note. First, the desirability of establishing a banking inspectorate was considered but it was concluded that it would be more effective to strengthen the Bank's existing statutory powers and resources. As described later in this report the Bank has intensified its programme of supervisory visits. It has also been decided that it would be beneficial to obtain the opinion of reporting accountants on authorised institutions' control systems and on the information supplied to the Bank in supervisory returns. Second, there is recognition that while co-operation between banks and supervisors strengthens the supervisory process substantially, there is a need for adequate powers to be available to the supervisors to deal with those few cases in which voluntary co-operation is not forthcoming. Finally, partly because of the current pace of change in banking markets and instruments, there is a need to increase the commercial experience of the supervisors in order to improve their capacity to reach informed judgements on the banks they are supervising. The steps which the Bank is taking to this end are described in section III.

Routine supervision

As noted above, not all the changes which are proposed require legislation. The Bank has already introduced a number of improvements and others will follow during the present year. In many cases the result has been the acceleration of changes which were already under way, arising from the experience gained over the first five years of the administration of the present Act.

The basic method of supervision applied by the Bank was described briefly in the Bank's report for 1981/82. This involves the regular reporting by each authorised institution of statistical information in a set of returns giving both balance sheet and profit and loss account data, material on the maturity structure of assets and liabilities, country and sectoral analysis of business and details of concentrations of risk in assets and deposits. This information is analysed to provide the basis for regular discussions with the senior management of each institution.

This cycle of analysis and discussion of past performance will continue. The Bank aims to meet UK institutions on average twice a year, with full analyses of the data more frequently; but the frequency may be varied to meet the Bank's perception of the needs of each institution. With larger and more complex banks or banking groups meetings are more frequent: in addition to two meetings at group level, there will normally be further interviews on specific areas of business (for example, domestic, international, treasury operations etc) and separate meetings to review the progress of major authorised subsidiaries.

The Bank now discusses a bank's corporate plans and strategies for the future in greater detail than hitherto in the course of routine supervisory contacts, and draws in the discussions on information which serves as the basis for management decision-taking within a bank, such as its own financial budgets and forecasts. This is generally welcomed by banks and can be done without involving the Bank in the taking of decisions, which remains the prerogative of management.

The Bank is also taking additional steps to enhance its knowledge of supervised institutions. While, in the past, the majority of routine supervisory interviews have taken place at the Bank, the aim is now to hold a substantial proportion of interviews at institutions' own premises. Over the past year almost half of the scheduled routine meetings have taken place in the institutions concerned, enabling the Bank to talk to a broader range of the management than in the past. This has been a particularly valuable development.

Increasingly, too, as mentioned in last year's report, Bank staff are visiting overseas branches and subsidiaries of UK banking groups in order to meet their management, assess their position at first hand and have the opportunity to exchange views with overseas supervisory authorities. Visits to overseas countries have also been made for discussions with the head offices and parent institutions of banks with branches and subsidiaries in the United Kingdom.

The integrated system of statistics covering supervisory, monetary, and other economic data has generally met the needs of the supervisors very well. Changes introduced following the last comprehensive review of banking statistics, and the form which the integrated system then took, were described in the Bank's *Quarterly Bulletin* in March 1983. However, the Bank is now increasingly supplementing the formal reporting regime by the regular receipt of management accounts and other data drawn from banks' management information systems. This has enabled the focus of supervision, while remaining founded on the analysis of historic data, to be increasingly directed towards the future.

Role of auditors

The proposed relationship between supervisors and banks' auditors will involve the Bank's receiving from authorised institutions each year a report prepared by their auditors or by reporting accountants on the operation of their internal controls and accounting records. Auditors will also be asked to examine a sample of supervisory returns and report on them to the Bank. Auditors will participate at least once a year in a meeting between each bank and the supervisors, mainly to discuss these reports. Similar arrangements will apply to the UK branches of overseas banks. It is proposed that the Bank should have power to require supervised institutions to appoint a second firm of accountants if it is dissatisfied with work already carried out.

It is expected that the new legislation will set out in simple terms the requirement for banks to have appropriate internal controls and accounting books and records. The Bank will publish its interpretation of the minimum criteria in order to give guidance on how these requirements may be satisfied by authorised institutions. It will also issue guidance on the form of the reports which it is to receive. The accounting profession's Auditing Practices Committee is engaged in developing auditing guidelines for the statutory audit of banking companies; it is expected that their work will also encompass the periodic supervisory reports to be made to the Bank. The Bank will be liaising closely with the accountancy bodies and banking associations on this work.

Full implementation of the proposed new arrangements will be dependent on legislation since confidentiality constraints between supervisors and auditors will need to be removed. In the interim, the Bank is keen to take those steps open to it to facilitate communication with auditors and has sought agreement from all banks to contacts between supervisors and their auditors if the need should arise in exceptional cases.

Most UK-incorporated institutions have given at least qualified permission for such contacts to take place, although a number have preferred to reserve their position until the consultations regarding the precise characteristics of the proposed dialogue are completed. The Bank is moving, where appropriate, to extend its contacts with auditors, by involving them in discussions with some smaller institutions about specific aspects of their business.

The Bank hopes to co-operate during the current year with a small number of institutions and their auditors in an exercise aimed at testing the statute and the Bank would have to specify in writing its reasons for objecting in a particular case; there would be a procedure for appeals against the Bank's decision.

Board of Banking Supervision

The White Paper announced that the forthcoming legislation will provide for the establishment within the Bank of a Board of Banking Supervision. The Board, which will be advisory in nature, will receive reports on the Bank's supervisory activities and provide advice to the Bank on the exercise of its functions under the Banking Act. The Board is to have eight members, three of whom are to be, ex officio, the Governor, Deputy Governor and the Executive Director of the Bank in charge of Banking Supervision. Remaining members are to be appointed by the Governor with the agreement of the Chancellor of the Exchequer. The Chancellor and the Governor have agreed that it would be appropriate for the Board to be put in place as soon as possible on a non-statutory basis until the new legislation takes effect.

Implications of the changes

The system of supervision outlined above and the changes which the Bank is engaged in implementing represent a material strengthening in the arrangements rather than any fundamental change of approach. It is the Government's and the Bank's firm intention that the system of supervision should remain responsive to developments in individual banks and in the banking system and effective in dealing with them. The proposed abolition of the current two tiers of authorisation underlines the fact that the tests and methods used by the Bank in its supervision apply equally to all institutions. But the Bank will continue to supervise flexibly and to exercise discretion in its dealings with individual institutions. The Bank will thus, as in the past, adjust the intensity of its supervision to reflect its judgement of the strength of the particular institution concerned. The intention remains to build on the basis of close co-operation which currently exists between the Bank and supervised institutions.

The changes outlined above clearly involve significant increases in supervisory resources as well as some change in management procedures within the Bank. These matters are dealt with in section III.

II Supervisory developments

During the year the Bank continued to encourage banks to strengthen their financial resources. It also continued to refine certain of its supervisory techniques and was active in developing arrangements to respond to the profound changes taking place in the markets and instruments in which banks conduct their business.

Trends in capital and profitability

With the Bank's encouragement, most UK banks strengthened significantly both the quantity and quality of their capital during the year. This followed a period during which risk asset ratios—the Bank's principal test of capital adequacy—had weakened. During 1980–83, the ratios of many major UK banks fell, reflecting the effects of domestic and international recession. In 1984, the changes affecting leasing business introduced in the Finance Act of that year resulted in a further decline, as most banks chose to meet the need for additional provisions for their deferred taxation by transfer from their existing reserves.

During 1985, however, the ground lost between 1980 and 1984 was more than recovered. Banks achieved this improvement through raising additional capital and from internally-generated funds in a period when their balance sheets grew only modestly. A number of banks raised significant amounts of primary perpetual subordinated loan stock: in all, market issues of such stock totalled the equivalent of some £4½ billion. In addition, major banks' other primary capital rose by some £2 billion through issues of equity and from increases in retained earnings from higher profits. This gave banks headroom within the supervisory limits(1) to issue further amounts of fixed-term subordinated debt. Although this type of

(1) Described in the Bank's paper *The measurement of capital* (September 1980).

loan stock does not have the quality of primary capital because it cannot absorb losses in an ongoing business, it allows banks, as with perpetual debt, to raise part of their capital in a foreign currency. For banks engaged in international business, this improves their ability to match the currency composition of their capital with that of their assets.

In the main, banks achieved a high level of profitability during the year. Domestically, some banks looked to the personal sector, and in particular to mortgage lending, as an area for profits. Interest in this sector seems likely to grow further and there are already clear signs that conditions will become even more competitive. Exposures to some corporate customers continued to be a problem for some banks, and good quality corporate business has, on the whole, continued to be difficult to obtain.

International business was also generally profitable, although less so than domestic business. But banks with a concentration of lending to the major problem debtor countries continued to add to their provisions for bad and doubtful debts. The debt problems of many of these countries have remained serious. The weak oil price has compounded problems for those countries which rely heavily on oil exports to generate foreign currency for the servicing of their debt although it has eased the position of oil-importing debtors.

In the light of the continuing need for prudence, the Bank has been reassured by the significant progress made by banks in strengthening their capital resources. In this regard, the Bank has participated in the work of the Basle Supervisors' Committee aimed at constructing a framework which will provide a basis for comparison of standards of capital adequacy among international banks. While direct comparisons continue to present difficulties, UK banks appear to fall into an intermediate group internationally in terms of capital adequacy—less well capitalised than some countries' banks, but significantly better than those of some others.

Capital adequacy

In last year's report the Bank explained its requirement for each institution to maintain a specified minimum level of capital adequacy, normally as measured by the risk asset ratio. The level set in agreement with each bank is regarded as the minimum prudent level of capital adequacy for the bank concerned. Any fall in the risk asset ratio below this level is therefore treated seriously by the supervisors and calls into question whether the bank continues to meet the statutory criteria for retaining authorisation. The Bank requires any bank whose ratio falls below this level to set out immediately in writing its proposals either to increase its capital resources or to make some other adjustment to its balance sheet. Over the past year the Bank has made further progress in giving effect to this system of minimum—or trigger—capital ratios with individual institutions, and this work will continue.

The Bank referred in last year's report to the publication in November 1984 of a consultative paper dealing with a number of matters relating to subordinated loan capital. This paper formed the basis for detailed discussions between the Bank and the banking community. A notice to authorised institutions stating the Bank's policy, in the light of the discussions, was issued in March 1986.[1]

Large exposures

The Bank's consultative paper issued in July 1985 set out proposals for the development of its policy on large exposures, following closely the recommendations in the Leigh-Pemberton Report. The principal proposals were endorsed in the Government's White Paper.

Additionally, however, the Government concluded that policy on large exposures should have statutory backing and proposed that the forthcoming legislation should provide for rules requiring automatic notification of any exposures to an individual customer or a group of connected customers in excess of 10% of a bank's capital base. Exposures in excess of 25% of capital base—which

(1) *Subordinated loan capital issued by recognised banks and licensed deposit-takers* (BSD/1986/2).

should occur only in the most exceptional circumstances—would require prior notification to the supervisors.

A further consultative paper on large exposures taking into account comments on the earlier paper is being prepared.

Supervision of banking groups

The current process of rapid structural change involving the removal of traditional barriers throughout the financial services sector presents challenges to which all the regulatory bodies concerned need to respond. It calls, in particular, for the development of co-ordination between supervisors of different parts of financial conglomerates. It is necessary to ensure that complex groups can be effectively supervised and that the requirements of different regulators neither leave gaps nor are unreasonably burdensome in total.

In view of the new legislation for various parts of the financial sector which is currently being prepared, these matters have been under discussion in a working group including representatives from HM Treasury, the Bank and the Department of Trade and Industry. The working group has recommended that co-operation should be achieved through extra-statutory arrangements to nominate one of the supervisors of a financial conglomerate as its lead regulator.

The task of the lead regulator will be to co-ordinate action and the exchange of information by individual supervisors, who will continue to carry out their statutory duties and responsibilities. The lead regulator will promote an agreed solution which adequately takes account of the interests of all the regulators. It will be for the supervisors concerned to decide which of them should assume the role of lead regulator for each financial conglomerate. The working group also concluded that effective co-operation between supervisors would require the removal of existing statutory obstacles to the flow of information between them. The concept of the lead regulator was announced in an answer to a Parliamentary Question,[1] along with the Government's intention to include in the Financial Services Bill powers to enable the exchange between supervisors of information obtained under the Banking, Companies and Insurance Companies Acts. Similar provision is being made in the Building Societies Bill, also currently before Parliament.

In a discussion paper published in May 1985, the Bank described its proposed approach to the consolidated supervision of banking groups. Following consultations with the banking industry and other interested parties, the Bank issued in March 1986 a statement[2] of its policy in this area. The policy was agreed with HM Treasury and its implementation will fulfil, inter alia, the United Kingdom's obligations to the European Community under the Consolidated Supervision Directive.[3] The policy is consistent with the arrangements for co-operation between supervisors outlined in the preceding paragraphs.

Consolidated supervision involves an assessment of the overall strength of a banking group, and of the potential impact on a bank of the operations of other parts of the group to which it belongs. Such supervision will often, but not invariably, require the preparation of consolidated financial statements. In deciding which parts of a group should be included in consolidated statistical reporting, the Bank has regard to the nature of the particular activities and the position of each company within the overall structure of the group. Among the factors to be taken into account are: the managerial structure of the group; the size of the company in relation to the bank; the extent of any funding provided by the bank; and potential calls on, or other adverse consequences for, the bank which may arise from the activities of the company. The Bank will wish to obtain information about

(1) Hansard, 21 January 1986.
(2) *Consolidated supervision of institutions authorised under the Banking Act 1979* (BSD/1986/3).
(3) Council Directive of 13 June 1983 on the supervision of credit institutions on a consolidated basis (83/350/EEC). See also section III of the Annual Report under the Banking Act, 1984/85.

group companies which are not included in consolidated returns but which could have a significant impact on the health of the bank or banks within the group.

Where consolidated returns are required, the Bank's basic approach is to require full accounting consolidation for all majority shareholdings in credit or financial institutions. Full consolidation may also be justified where the bank's risk cannot be assumed to be limited to its shareholding. Conversely, where there is a good reason to believe that the responsibilities, and therefore risks, can be limited to the extent of the shareholding, pro rata consolidation may be justified. The appropriate treatment in particular cases is currently under discussion with the management of individual banks and groups.

In order to minimise duplication and possible conflicting supervisory requirements, the Bank will have regard to the supervision carried out by other UK supervisory authorities. In particular, in assessing the adequacy of group capital, the Bank generally will not make an independent quantitative assessment of the adequacy of capital in those group companies which are subject to supervision by other UK supervisory authorities. To do so might result in the capital set by the supervisor of, for example, a related securities company being inconsistent with the capital required by the Bank in its assessment of the capital adequacy of the banking group as a whole.

The Bank will not, therefore, normally require group companies undertaking an investment or insurance business and supervised by another UK supervisory body to be included within banks' consolidated statistical returns (except in relation to the consolidated country exposures return and large exposures). The Bank will, however, include such companies within its consolidated supervision of the group and will maintain close relations with the supervisory bodies concerned so as to ensure that both they and the Bank are aware of significant developments in the group which may affect the companies for which they have responsibility.

Liquidity

In its paper *The future structure of the gilt-edged market*(1) the Bank indicated its intention to terminate the arrangements under which, for monetary control purposes, all eligible banks undertake to maintain balances with members of the London Discount Market Association and with Stock Exchange money brokers and gilt-edged jobbers. It is intended that these arrangements will be withdrawn before the end of October 1986.

Although these arrangements were originally introduced primarily as a transitional measure to ensure the adequate availability of funds to the bill and gilt-edged markets, the Bank is considering whether, on prudential grounds, there is a need to put in place an arrangement which would continue to ensure that a minimum stock of high quality sterling liquidity is held by banks at all times, and intends to clarify its policy on this shortly.

Off balance sheet risks

During the past year competitive pressures, deregulation and technological progress, as well as supervisory concerns to strengthen banks' capital adequacy, have continued to provide a strong impetus for the development of off balance sheet operations in both domestic and international business.

In April 1985, the Bank introduced, for the purposes of the measurement of capital adequacy, a provisional risk asset ratio weighting for underwriting obligations arising out of note issuance facilities and revolving underwriting facilities, and announced a review of the whole range of off balance sheet risks including the more traditional contingent liabilities.

During the past year the Bank has had informal discussions on various aspects of off balance sheet risk with bankers from many institutions and also with a number of auditors. Drawing on these

(1) Issued in April 1985.

discussions a consultative document has been published,[1] to form the basis for more structured consultations with banks, banking associations, and accountants.

The consultative document argues that while off balance sheet business gives rise in varying degrees to credit risk, interest rate and foreign exchange exposures, liquidity risks and information and management control problems, these risks are, in principle, no different from those associated with business recorded on the face of the balance sheet, although in some cases new approaches to the measurement of risk are required. The paper offers the basis for an approach to the credit risks arising from off balance sheet business, and suggests that these risks should be included in the assessment of capital adequacy in a more systematic manner than hitherto, by according them a weighting in the risk asset ratio measure. The other forms of risk set out above are to be dealt with elsewhere in the supervisory framework.

In parallel with its discussions with banks in the United Kingdom the Bank has taken part in work on this subject with central banks and supervisory authorities in other countries. In particular, the Bank has been closely involved in the work on off balance sheet risk which has been undertaken in the Basle Supervisors' Committee. The Committee published a preliminary report on the subject in March 1986.[2] In addition a Study Group with members drawn from a number of central banks including the Bank of England has been carrying out a fact finding examination of innovations as they affect the international markets. The results of this study were published by the Bank for International Settlements in April 1986.[3]

Large exposures in relation to mergers and acquisitions

The scale and nature of banks' involvement in facilitating large mergers or acquisitions in the UK corporate sector have developed markedly over recent months. A number of banks or banking groups have arranged to acquire significant strategic shareholdings in the companies involved and in some cases to buy individual subsidiaries from companies involved.

The Bank issued a Notice in February 1986[4] making clear its attitude to these arrangements. Banks and banking groups are expected to give the Bank prior notification of their intention to enter into these types of transactions or any similar transactions. The Bank will not normally regard as prudent such acquisitions of shares in a company which, taken together with existing exposures to that company or group, exceed 25% of the bank's or banking group's capital base. Moreover, the Bank will in certain circumstances treat acquisitions of such shares as though they were investments in subsidiaries and will deduct the value of this investment from the capital base.

Computer risk

In February 1985 the Bank distributed to all institutions with deposit-taking authority a study, *Security and Control in Computer and Telecommunications Systems*. During the year the guidance given in this study has been discussed in normal prudential interviews; and such security and control aspects will continue to feature in these meetings. As a result, a number of companies have sought professional advice, and some have changed their procedures and systems for computer and telecommunications security.

III Staffing and administration

The number of staff of the Banking Supervision Division has expanded steadily since the 1979 Act came into force. Total staff engaged directly in supervisory work—including both the supervision of individual institutions and development of supervisory policy—increased from about 60 immediately before the Act was introduced to 94 by

(1) *Off balance sheet business of banks* (March 1986).
(2) See section IX of this report.
(3) *Recent innovations in international banking*.
(4) *Large exposures in relation to mergers and acquisitions* (BSD/1986/1).

the end of February 1985. The developments in supervisory arrangements recommended by the Leigh-Pemberton Report postulated a further substantial increase in staff within the division. The increasing complexity of the work also demanded improvements and changes in the division's procedures. Changes have been made in the structure of the division, designed to shorten and clarify lines of responsibility and communication between senior staff and managers immediately responsible for supervising individual institutions.

Staff numbers have increased sharply during the year: at end-February 1986 total staff (excluding support staff) had increased to 122, a rise of almost one third since February 1985.[(1)] In addition, Mr Sidney Procter, formerly Chief Executive of the Royal Bank Group, joined the Bank during the year as an adviser to the Governor on matters relating to banking supervision. Senior management of the division has been strengthened; and the number of managers and analysis groups has been increased in order to reduce substantially the number of institutions for which each manager has direct supervisory responsibility. Leaving out of account senior management and those staff involved in policy work, the average number of authorised institutions per member of the supervisory staff is currently 6 against a figure of 10 previously. The number of supporting staff has also increased.

The division has conducted a successful pilot study involving greater use of personal computing, word processing and other office service facilities, including access to information held on the mainframe computer. It is intended that this system will be extended to cover the entire division. One of the results of these developments will be to facilitate the flow of management information, thereby enabling the pressures on individual staff to be more effectively monitored than hitherto.

The Bank has given high priority to making available the necessary resources but it has inevitably taken time to arrange for staff of appropriate quality to be recruited; moreover the process has had to be phased with care in view of the additional burden on present members of the division resulting from the need to manage and train these new staff.

The Bank is keeping the division's staff requirements under careful review in order to ensure that the benefits flowing from the easing in pressures of work are not eroded. Staff levels are intended to reach 160 by the end of 1986, to be achieved by a mixture of internal transfers and external recruitment. This reflects two factors: first, a further increase in the volume of work which will result from developments such as the dialogue with auditors, and the liaison with other financial regulatory bodies both in the United Kingdom and abroad described earlier in this report; and second, the resource implications of a much enhanced programme of the division's training, both internal and external. If the legislation is enacted in the form proposed in the White Paper, further staff will be required, for example, to handle the case-load arising from the powers to investigate unauthorised deposit-taking.

The Leigh-Pemberton Report, while paying tribute to the quality and commitment of existing staff, drew attention to the desirability of improving their commercial banking experience. To this end, it identified a need for many more inward and outward secondments from and to banks and accountancy firms. An expanded programme of inward secondments is now under way. Managers from six major commercial banks and accountancy firms have joined the division, mainly on two-year secondments. Additional banking and accountancy secondments will take place during the current year. The seconded bankers and accountants are involved mainly in undertaking reviews of banks' loan books and systems, in conjunction with members of the Bank's staff, as described in section I of this report. In addition, however, they provide

(1) The numbers of staff in this report relate purely to the Bank's Banking Supervision Division and do not include staff of the Money Markets Division responsible for the supervision of the discount houses.

a source of commercial experience to be drawn on more generally by Bank staff.

The programme of outward secondments has taken longer to put in place because of the difficulties of releasing staff, given the pressure of work which the division has faced. The first outward secondments of Bank staff in this programme have been arranged and will take place later in the year. Over a period of years all the division's managers, and significant numbers of more junior staff, who have not already had the benefit of commercial banking experience will be sent out on one to two-year secondments.

IV New authorisations and authorisations surrendered or revoked

There continued to be strong interest during the year in obtaining deposit-taking authority under the Act, and the Bank had preliminary discussions with representatives of a large number of institutions from the United Kingdom and abroad. Twenty-five applications for deposit-taking authority were received (compared with twenty-three in 1984/85). The number of applications for deposit-taking authority from overseas banks or their subsidiaries was less than in recent years; however, this was offset by a larger number of applications from UK interests.

During the year eighteen institutions, including one former recognised bank, were granted deposit-taking licences (compared with twenty-eight in 1984/85). Of these, eight were overseas institutions opening branches (fourteen in 1984/85), and two were subsidiaries of overseas institutions (five in 1984/85). Six overseas (the same as in 1984/85) and three UK-incorporated institutions (none in 1984/85) were granted recognition as banks.

There were twenty-nine deletions from the list of licensed institutions (twenty one in 1984/85), including seven which were granted recognition. Four of the deletions were outright revocations by the Bank (two in 1984/85) and eighteen surrendered their licences (fourteen in 1984/85).

Eight institutions ceased to be recognised banks. Three surrendered recognition after a decision to cease taking deposits in the United Kingdom; four surrendered recognition consequent on group reorganisations and takeovers, deposit-taking authority either being granted to, or already existing in, a company elsewhere in the group; and one was granted a licence.

V 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 list is regularly brought up to date and is available from the Bank on request.

The following table shows the number of recognised banks and licensed institutions at the end of each of the Bank's financial years since 1981:

Financial year ending:	1981	1982	1983	1984	1985	1986
Recognised banks	281	293	295	290	290	291
Licensed institutions	286	300	295	308	315	304

Of the institutions authorised at end-February 1986, 252 were overseas institutions with UK branches (250 in February 1985), 65 were UK-incorporated subsidiaries of overseas institutions and 24 were UK-incorporated joint ventures between overseas institutions and, in some cases, between overseas and UK institutions (both figures unchanged from last year). The net increase of 2 in the number of branches or subsidiaries of overseas banks compares with increases of around 20 in each of the two preceding years. This reflects both a decline in applications and a reassessment by some banks of their international operations.

VI 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 for authorisation set out in Schedule 2 to the Act remain 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

During the course of the year the Bank revoked outright under section 7(1)(a) of the Act the full licences of five institutions as well as the second conditional licence of another institution. One of these institutions has appealed against the revocation to the Chancellor of the Exchequer under section 11 of the Act; the revocation will not, therefore, come into force unless the Chancellor confirms the Bank's decision. The Bank also revoked under section 7(1)(b) two institutions' full licences and replaced them with conditional licences: one of these institutions subsequently surrendered its licence and, since the end of the period under review, the other has had its licence revoked outright. One overseas institution, in the process of a controlled run down of its UK activities, had its recognition revoked and a licence granted in its place. As in previous years, a number of other institutions surrendered their licences when it became apparent that the Bank's powers to revoke had become exercisable and that the Bank was likely to initiate revocation procedures. In each of the cases in which a licence was revoked, the institution concerned had total liabilities of less than £10 million.

During the year the Bank made use of its revocation powers under section 7(1) more frequently than in any other year since the Act came into force. To some extent, this reflects the increasing use by the Bank of investigations conducted under the Act or with the agreement of the institution concerned, as a result of which deficiencies in the businesses were brought to light. In all cases where the Bank revoked a licence under section 7(1) it had the benefit of some form of investigation report.

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. In all cases where licences were revoked, the Bank's powers to revoke became exercisable because it appeared that one or more of the authorisation criteria were no longer fulfilled and that depositors' interests were threatened. The threat to depositors' interests does not have to be immediate for the Bank to conclude that its powers should be exercised. Thus revocation followed by the grant of a conditional licence, or even in some instances outright revocation, may well be the appropriate course to protect depositors' interests where the capital and liquidity have not fallen to unacceptable levels but where there is a real risk of further deterioration and no firm prospect that deficiencies relevant to the criteria will be remedied.

The reasons varied for the Bank's concluding that the criteria in Schedule 2 to the Act were not fulfilled with respect to the institutions whose licences it revoked during the year. Reasons for deciding that the 'prudent conduct' criterion was not fulfilled included: exposures imprudently large in relation to capital; deficiencies in lending procedures and control systems; and imprudent amounts of connected lending. In some cases there was a failure to maintain adequate capital or liquidity or to make adequate provisions. Reasons for concluding that the 'fit and proper' criterion was not fulfilled included the provision of false or misleading information to the Bank in statistical returns and the failure of directors, managers and controllers adequately to carry out their duties and responsibilities. In three cases, the Bank concluded that the 'four eyes' criterion was not fulfilled, as only one person was responsible for formulation of the policy and implementation of the business of the institution.

Windings up

No winding up orders were made against authorised institutions or formerly authorised institutions with deposit liabilities outstanding. However, since the end of the year under review, a meeting of creditors of Spring Gardens Securities p.l.c., an institution which had been authorised, has been called to consider a voluntary winding up of the company.

Prosecutions

The Bank brought no prosecutions in respect of offences under the Banking Act during the year. However the Bank has been involved in investigating some 30 cases mainly involving possible contraventions of section 1 of the Act. In some instances, contraventions have been inadvertent and, following the Bank's inquiries, the situation has been regularised without a need for prosecution. The Bank has continued to liaise closely with other enforcement bodies and is considering with the Director of Public Prosecutions and the police the bringing of charges under section 1 and section 39 of the Act in a small number of cases.

VII Other matters relating to supervision

Building societies legislation

Legislation to make fresh provision with respect to the establishment, authorisation and control of building societies is currently before Parliament. It includes provisions for societies to undertake a wider range of activities, through the establishment of subsidiary companies. Moreover, the Bill sets out provisions whereby societies will be able to convert themselves into companies. This would involve their leaving their current supervisory regime and applying for authorisation under the Banking Act. Provision similar to that in the financial services legislation, including an amendment to section 19 of the Banking Act, will permit the passing of information between the Building Societies Commission, the Bank and other supervisors.

Insolvency Act 1985

The Act amends section 18 of the Banking Act in respect of the grounds under which the court, on the Bank's petition, may wind up an authorised or previously authorised institution. When the amendment is in force, the Bank will be able to petition for an institution to be wound up on, inter alia, 'just and equitable' grounds.

The Insolvency Act will also introduce the administration procedure, whereby the court may appoint an administrator to a company that is or is likely to become insolvent. The Act at present excludes authorised and previously authorised institutions from the administrator provisions. However, section 229 of the Act empowers the Secretary of State with the agreement of the Treasury and after consultation with the Bank, to introduce by order a modified version of the procedure to apply to recognised banks, licensed institutions and other institutions covered by the Banking Act. It is intended that the order will be made so that the modified version will come into force by the end of 1986, concurrently with the Act's main provisions.

The Insolvency Act also makes a number of minor and consequential amendments to the Banking Act.

VIII Advertising and related matters

Advertisements regulations

The Banking Act 1979 (Advertisements) Regulations 1985 (SI 1985 No 220) came into effect on 1 July 1985; the requirements of the regulations were described in section VI of the report for 1984/85.

The Bank has sought to liaise closely with advertisers, their marketing agents and publishers in order to seek to ensure that they are aware of the regulations. No proceedings were instituted by the Bank during the year.

Investment banking

Section 36 of the Banking Act restricts the use of the words 'bank', 'banker' and like terms by those carrying on a business in the United Kingdom. The persons who may use banking names and descriptions include recognised banks and a few other institutions. The prohibition extends to the use of descriptions such as 'investment bank' and 'investment banking'. Generally, such terms may be used by businesses in the United Kingdom only if they come within the categories set out in section 36(1) of the Act. The Bank has had to draw the attention of a number of companies during the year to the fact that their advertising and other material appeared to be in breach of the Act.

IX International supervisory co-operation

The Bank attaches great importance to the development of international supervisory co-operation and has continued to play a full part in this process. Differences in supervisory policies can have a significant impact on the terms on which banks compete. Considerable efforts are being devoted to reducing these differences but, understandably, progress remains slow.

The Committee on Banking Regulations and Supervisory Practices (the 'Basle Supervisors' Committee'), which normally meets at the Bank for International Settlements in Basle, brings together supervisors from the Group of Ten major industrial countries and Luxembourg under the chairmanship of Mr W P Cooke, an Associate Director of the Bank of England.

The Committee meets several times each year in order to tackle the large number of complex issues facing all national supervisors. It maintains close relations with other supervisory groups, in particular the Commission of Banking Supervisory and Inspection Bodies of Latin America and the Caribbean, the Offshore Group of Supervisors and the developing SEANZA forum of banking supervisors which includes supervisors from South East Asia, the Indian sub-continent, New Zealand and Australia. An international conference of banking supervisors will be held in Amsterdam in October 1986.

Among a number of subjects under consideration, particular attention has been paid during the year under review to the related subjects of capital adequacy and off balance sheet exposures.

The Committee published a study[1] of the range of off balance sheet exposures which banks incur and offering a preliminary assessment from the supervisory point of view of the risks of this business. The paper, and the discussions which have led to it, demonstrate the efforts being made at the international level to achieve some measure of supervisory co-ordination and co-operation in a rapidly expanding area of business.

In the European context the Bank is represented on the Banking Advisory Committee, a high level body meeting twice a year, which assists the European Commission in its programme of co-ordination in the field of European banking supervision. In addition, it participates in the Contact Group of supervisors from member States of the European Community which is designed to promote a closer relationship between supervisors and thereby facilitate co-operation on both complex supervisory issues and individual problem cases.

In addition, the Bank has been involved in discussions on a range of European Commission proposals including the definition of own funds (capital), and large exposures. It has also studied Commission proposals for a draft Directive on the Reorganisation and Winding up of Credit Institutions, which concerns, inter alia, measures taken by supervisory authorities to prevent failure of credit institutions and which contains proposals in relation to deposit protection schemes within the Community. Work continues on the Bank Accounts Directive, which will prescribe disclosure and valuation rules for the annual accounts of banks and other financial institutions, and also on the Mortgage Credit Directive which is designed to remove obstacles facing mortgage credit institutions wishing to operate in other member States. Interest on all these areas of work has been intensified as a result of recent endorsement, at ministerial level, of the goal of achieving substantial progress towards the creation of the internal market by 1992.

As provided for under Article 6 of the First Banking Co-ordination Directive of December 1977, the Commission together with the Banking Advisory Committee and the Contact Group have continued to develop and refine a series of methods of calculating various observation ratios: these relate to the monitoring of the solvency, profitability and liquidity of credit institutions

(1) *The management of banks' off balance sheet exposures: a supervisory perspective* (March 1986).

using a standard formula. On capital measurement, there has been considerable effort to align, as far as practicable, the approach in Brussels and that adopted, for a wider grouping of countries, in Basle.

X Orders and regulations

The following orders and regulations, subsequent to those noted in last year's report, were introduced under the Act—

1985 No 797 The Banking Act 1979 (Order 1985 Commencement No 3)

This order brought into operation on 1 July 1985 section 39 of the Banking Act (fraudulent inducement to make a deposit) and (with some minor exceptions) all the remaining provisions concerned with the amendment and repeal of certain enactments. It also repealed, inter alia, the Protection of Depositors Act 1963 and the equivalent Northern Ireland legislation.

1985 No 1845 The Banking Act 1979 (Exempt Transactions) (Amendment) (No 3) Regulations 1985

These regulations exempted from the prohibition on deposit-taking in section 1(1) of the Act the acceptance by a member of The Stock Exchange of deposits made by a client in specified circumstances in connection with a contract subject to the rules of a traded options market. The regulations also deleted the London Gold Futures Market Limited and the London and New Zealand Futures Association Limited from the list of market organisations whose members are exempt in certain circumstances from the above prohibition.

The following order was introduced under the Trustee Savings Bank Act 1985—

1986 No 100 The Banking Act 1979 (Removal of 1819 Banks) Order 1986

This order, which came into operation on 28 January 1986, removed certain Scottish savings banks from the list of persons set out in Schedule 1 to the Act to whom the prohibition in section 1(1) on the acceptance of a deposit does not apply.

Appendix

List of institutions recognised or licensed at 28 February 1986

1 Recognised banks

ANZ Merchant Bank Ltd.
A P Bank Ltd.
Alexanders Discount p.l.c.
Algemene Bank Nederland N.V.
Allied Arab Bank Ltd.
Allied Bank of Pakistan Ltd.
Allied Irish Banks p.l.c.
Allied Irish Investment Bank p.l.c.
American Express Bank Ltd.
American National Bank and Trust Company of Chicago
Amsterdam-Rotterdam Bank N.V.
Anglo-Romanian Bank Ltd.
Henry Ansbacher & Co.Ltd.
Arab Bank Ltd.
Arab Banking Corporation B.S.C.
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 Hispano Americano Ltd.
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.
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 Internationale pour l'Afrique Occidentale S.A.
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.
Charterhouse Japhet p.l.c.
Chase Bank (Ireland) Ltd.
The Chase Manhattan Bank, N.A.
Chase Manhattan Ltd.
Chemical Bank
Chemical Bank International Ltd.
Cho-Hung Bank
The Chuo Trust & Banking Company Ltd.
Citibank N.A.
Citicorp Investment Bank Ltd.
City Merchants Bank Ltd.
Clive Discount Company Ltd.
Clydesdale Bank p.l.c.
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 Commercial de France
Crédit du Nord
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.
Den Danske Bank af 1871 Aktieselskab
Den norske Creditbank p.l.c.
Deutsche Bank A.G.
Deutsche Genossenschaftsbank
Discount Bank and Trust Co.
Dresdner Bank A.G.

EBC Amro Bank Ltd.
Euro-Latinamerican Bank Ltd.
European Arab Bank Ltd.
European Brazilian Bank Ltd.

Fidelity Bank N.A.
First City National Bank of Houston
First Interstate Bank of California
First Interstate Capital Markets Ltd.
The First National Bank of Boston
The First National Bank of Chicago
First National Bank of Maryland
First National Bank of Minneapolis
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
Girobank p.l.c.
Girozentrale und Bank der österreichischen Sparkassen A.G.
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.
HongkongBank 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 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.
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 (France) Ltd.
Lloyds Merchant Bank 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.
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.
Quin Cope Ltd.

Rafidain Bank
Rea Brothers p.l.c.
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

S.F.E. Bank Ltd.
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 Générale
Société Générale Merchant Bank p.l.c.
Sonali Bank
Standard Chartered Bank
Standard Chartered Bank Africa p.l.c.
Standard Chartered Merchant Bank Ltd.
State Bank of India
The Sumitomo Bank, Ltd.
The Sumitomo Trust and Banking Company Ltd.
Swiss Bank Corporation
Swiss Bank Corporation International Ltd.
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.
Uco Bank
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 Overseas Bank Ltd.

S.G.Warburg & Co.Ltd.
Westdeutsche Landesbank Girozentrale
Westpac Banking Corporation
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 Credit Ltd.
Abbey Finance Co.Ltd.
Adam & Company p.l.c.
Afghan National Credit & Finance Ltd.
African Continental Bank Ltd.
Airdrie Savings Bank
Aitken Hume Ltd.
Ak International Ltd.
Al Baraka International Ltd.
Al Saudi Banque S.A.
The Alliance Trust p.l.c.
Allied Bank International
Allied Banking Corporation
Allied Dunbar & Co. p.l.c.
Allied Irish Finance Co.Ltd.
Anglo-Yugoslav (LDT) Ltd.
Arab African International Bank
Arab Bank Investment Co.Ltd.
Argonaut Securities Ltd.
Armada Investments Ltd.
Assemblies of God Property Trust
Associated Credits Ltd.
Associates Capital Corporation Ltd.
Auban Finance Ltd.
Avco Trust Ltd.

B.A.I.I. p.l.c.
B.C. Finance Ltd.
BMI (Hampshire) Ltd.
Badische Kommunale Landesbank Girozentrale
Banca Nazionale dell'Agricoltura SpA
Banca Serfin S.N.C.
Banco de Sabadell
Banco di Napoli
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 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 à Luxembourg 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.
Beirut Riyad Bank S.A.L.
Beneficial Trust Ltd.
Boston Trust & Savings Ltd.
Bradford Investments
Bridgeover Ltd.
Bridgeway Finance Ltd.
British Credit Trust Ltd.
British Railways Savings Company Ltd.
Buchanan Securities Ltd.
Bunge Finance 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.
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.
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.
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.
The Development Bank of Singapore Ltd.
The Dorset, Somerset & Wilts Investment Society Ltd.
Dryfield Finance 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 Trust Company Ltd.
Ensign Finance 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.

Goldman Sachs Ltd.
Goode Durrant Trust p.l.c.
Gota (UK) Ltd.
Granville Finance Ltd.
H.T.Greenwood 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.

IBJ International Ltd.
IFICO Trust Ltd.
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.

Laurentian Financial Services Ltd.
Legal & General (Money Managers) Ltd.
Liechtenstein (UK) Ltd.
Little Lakes Finance Ltd.
Lloyds Bowmaker Ltd.
Lloyds Bowmaker Finance 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 & Pacific Trust Ltd.
London Law Securities Ltd.
London Scottish Finance Corporation p.l.c.
Lordsvale Finance Ltd.

MLA Finance Ltd.
McNeill Pearson 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.
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 Dubai
National Bank of Egypt
National Bank of Fort Sam Houston
The National Bank of Kuwait S.A.K.

National Bank of Nigeria 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.
Omnibank A.G.
Oppenheimer Money Management Ltd.
Oriental Credit Ltd.
Osterreichische Länderbank A.G.
Overseas Trust Bank Ltd.

PKFinans International (UK) Ltd.
The People's Trust & Savings Ltd.
Philadelphia National Bank
Philadelphia National Ltd.
Phillips & Drew Trust Ltd.
Pointon York Ltd.
Prestwick Investment Trust p.l.c.
Provincial Trust Ltd.
Punjab & Sind Bank

Rabobank Nederland
(Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.)
Ralli Investment Company Ltd.
R.Raphael & Sons p.l.c.
Rathbone Bros. & Co.
Reliance Trust Ltd.
Republic National Bank of New York
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
Secure Homes Ltd.
Security Pacific Trust Ltd.
Shawlands Securities Ltd.
The Siam Commercial Bank, Ltd.
Smith & Williamson Securities

Southsea Mortgage & Investment Co.Ltd.
Spring Gardens Securities p.l.c.
Spry Finance 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 Volksbank

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 p.l.c.
Universal Credit Ltd.

Venture Finance Ltd.
Vernons Trust Corporation
Volkskas Ltd.

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

Arab Banking Corporation B.S.C.
Banque Internationale pour l'Afrique Occidentale S.A.
Crédit Commercial de France
Crédit du Nord
Den Danske Bank af 1871 Aktieselskab
Deutsche Genossenschaftsbank
Girobank p.l.c.
Lloyds Merchant Bank Ltd.
Swiss Bank Corporation International Ltd.

2 Licensed deposit-taking institutions

Airdrie Savings Bank
Allied Bank International
Banco de Sabadell
Banco di Napoli
Banque Internationale à Luxembourg S.A.
British Railways Savings Company Ltd.
Bunge Finance Ltd.
IFICO Trust Ltd.
Legal & General (Money Managers) Ltd.
MLA Finance Ltd.
National Bank of Dubai
Osterreichische Länderbank A.G.
PKFinans International (UK) Ltd.
Philadelphia National Ltd.
Phillips & Drew Trust Ltd.
Rabobank Nederland
(Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.)
Secure Homes Ltd.
Swiss Volksbank
Crédit Commercial de France
Crédit du Nord
Den Danske Bank af 1871 Aktieselskab
Deutsche Genossenschaftsbank
Gillespie Bros. & Company Ltd.
Greetwell Finance Ltd.
Houston Financial Services Ltd.
Industrial Finance and Investment Corporation p.l.c.
Lloyds Bank (LABCO) Ltd.
Mallinhall Ltd.
Merseyside Finance Ltd.
National Commercial & Glyns Ltd.
PL Investments & Savings Ltd.
Park Street Securities Ltd.
Rhone Trust Ltd.
Standard Credit Services Ltd.
Swiss Bank Corporation International Ltd.
West Riding Securities Ltd.
Yorkshire Bank Finance Ltd.

Deletions

1 Recognised banks

Allied Bank International
Comerica Bank—Detroit
First Pennsylvania Bank N.A.
Jessel, Toynbee & Gillett p.l.c.
Société de Banque Occidentale
Standard Chartered p.l.c.
Wells Fargo Bank NA
Williams & Glyn's Bank p.l.c. (1)

2 Licensed deposit-taking institutions

Altajir Ltd.
Arab Banking Corporation B.S.C.
Armco Trust Ltd.
Bank of Ireland Finance (N.I.) Ltd.
Banque Internationale pour l'Afrique Occidentale S.A.
Beaver Guarantee Ltd.
Bunge & Co.Ltd.
Bucks Land & Building Co.Ltd.
Century Factors Ltd.
Cobnar Finance Co.Ltd.

Name changes

1 Recognised banks

American Express International Banking Corporation	*to*	American Express Bank Ltd.
Allied Irish Investment Bank Ltd.	*to*	Allied Irish Investment Bank p.l.c.
Banco Urquijo Hispano Americano Ltd.	*to*	Banco Hispano Americano Ltd.
The Cho-Heung Bank, Ltd.	*to*	Cho-Hung Bank
Citicorp International Bank Ltd.	*to*	Citicorp Investment Bank Ltd.
Discount Bank (Overseas) Ltd.	*to*	Discount Bank and Trust Co.
European Banking Company Ltd.	*to*	EBC Amro Bank Ltd.
First Interstate Ltd.	*to*	First Interstate Capital Markets Ltd.
Grindlay Brandts	*to*	ANZ Merchant Bank Ltd.
International Energy Bank Ltd.	*to*	S.F.E. Bank Ltd.
Lloyds Bank International (France) Ltd.	*to*	Lloyds Bank (France) Ltd.
Nordic Bank p.l.c.	*to*	Den norske Creditbank p.l.c.
P.S. Refson & Co.Ltd.	*to*	City Merchants Bank Ltd.
Gerald Quin, Cope & Co.Ltd.	*to*	Quin Cope Ltd.
Société Générale Merchant Bank Ltd.	*to*	Société Générale Merchant Bank p.l.c.
United Commercial Bank	*to*	Uco Bank
Wardley London Ltd.	*to*	HongkongBank Ltd.

2 Licensed deposit-taking institutions

A1 (Investment) Ltd.	*to*	A1 Credit Ltd.
Avant Overseas Finance Ltd.	*to*	London & Pacific Trust Ltd.
B.C.F. Finance Co.Ltd.	*to*	B.C. Finance Ltd.
Brook Securities & Co.Ltd.	*to*	Laurentian Financial Services Ltd.
Dunbar & Co.Ltd.	*to*	Allied Dunbar & Co. p.l.c.
The English Association Trust Ltd.	*to*	The English Trust Company Ltd.
Ensign Discount Co. Ltd.	*to*	Ensign Finance Ltd.
Lloyds & Scottish p.l.c.	*to*	Lloyds Bowmaker Finance Ltd.
Phibrobank A.G.	*to*	Omnibank A.G.
South Notts Finance Ltd.	*to*	Argonaut Securities Ltd.
Unity Trust Ltd.	*to*	Unity Trust p.l.c.

(1) As from 30 September 1985 the undertakings of both Williams & Glyn's Bank p.l.c. and The Royal Bank of Scotland p.l.c. were transferred to a company which was then renamed The Royal Bank of Scotland p.l.c. This new company has been granted recognised status under the Act.

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.