

Report of the Auditors

To the Governor and Company of the Bank of England

We have audited the accounts of the Banking Department on pages 17 to 28, and the statements of account of the Issue Department on page 30, in accordance with Auditing Standards.

In our opinion

- 1 The accounts on pages 17 to 28 give a true and fair view of the state of affairs of the Banking Department at 28 February 1990 and of the profit and source and application of funds for the year then ended.

- 2 The statements of account on page 30 present fairly the outcome of the transactions of the Issue Department for the year ended 28 February 1990 and its balances at that date.

COOPERS & LYBRAND DELOITTE

Chartered Accountants

London

17 May 1990

Banking Department

Profit and loss account for the year ended 28 February 1990

| 1989 £000 | | | 1990 £000 |
|----------------|---|----------|----------------|
| 85,974 | Operating profit before exceptional items | (Note 2) | 108,633 |
| | Exceptional items: | (Note 3) | |
| — | Profit on sale of investment | | 41,765 |
| 46,776 | Recoveries from support operations | | 15,000 |
| (14,000) | Provision for severance costs | | — |
| 18,457 | Release of provision against investment | | — |
| <u>137,207</u> | | | <u>165,398</u> |
| 56,600 | Payment to the Treasury under Section 1(4) of the Bank of England Act 1946 | (Note 5) | 72,800 |
| <u>80,607</u> | Profit before taxation | | <u>92,598</u> |
| 13,115 | Taxation | (Note 6) | 17,222 |
| <u>67,492</u> | Profit transferred to reserves | (Note 8) | <u>75,376</u> |

Banking Department

Balance sheet: 28 February 1990

| 1989 £000 | | | 1990 £000 | 1990 £000 |
|------------------|------------------------------|-----------|--------------|------------------|
| 14,553 | Capital | (Note 7) | 14,553 | |
| 675,224 | Reserves | (Note 8) | 750,600 | |
| <u>689,777</u> | | | | 765,153 |
| | Current liabilities | | | |
| 549,961 | Public deposits | (Note 9) | 454,178 | |
| 1,412,789 | Bankers' deposits | (Note 10) | 1,665,265 | |
| 1,395,308 | Other deposits | | 1,288,434 | |
| 62,409 | Taxation and other creditors | | 89,675 | |
| 56,600 | Payable to the Treasury | (Note 5) | 72,800 | |
| <u>3,477,067</u> | | | | <u>3,570,352</u> |
| <u>4,166,844</u> | | | | <u>4,335,505</u> |

Banking Department

| 1989 £000 | | | 1990 £000 | £000 |
|------------------|---|-----------|--------------|------------------|
| | Liquid assets | | | |
| 8,620 | Notes and coin | | 9,289 | |
| 495,970 | Cheques in course of collection | | 429,691 | |
| 1,742,416 | Treasury and other bills | (Note 11) | 1,540,034 | |
| <u>2,247,006</u> | | | | 1,979,014 |
| 681,271 | Investments | (Note 12) | | 875,989 |
| 245,715 | Advances to customers, less provisions | | | 650,793 |
| 515,591 | Other accounts receivable | | | 383,322 |
| 103,319 | Subsidiary companies | (Note 13) | | 71,243 |
| 373,942 | Premises and equipment | (Note 14) | | 375,144 |
| <u>4,166,844</u> | | | | <u>4,335,505</u> |

R LEIGH-PEMBERTON *Governor*

E A J GEORGE *Deputy Governor*

ADRIAN CADBURY *Director*

H C E HARRIS *Associate Director*

Notes on the Banking Department accounts

1 Accounting policies

a Form of presentation of accounts

Although the Bank's constitution is not governed by the Companies Acts, the accounts have been prepared so as to comply with the requirements of the Companies Act 1985 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, Local Authority and other bills

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

c Investments

Securities of, or guaranteed by, the British Government, and Other securities are stated in the balance sheet at cost less provisions.

Profits and losses on realisation are taken to the 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 1987 plus the cost of subsequent additions and less 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.

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

| | |
|--------------------|---|
| Freehold buildings | 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 the balance sheet date.

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, at the estimated rates at which future taxation will become payable, on all material timing differences where it is probable that a liability to taxation will crystallise in the foreseeable future.

j Dividends from subsidiaries

Dividends from subsidiaries are included as income when declared.

k Leasing

Operating lease rentals are charged to the profit and loss account as incurred.

l Retirement benefits

The cost of pensions is assessed in accordance with the advice of the actuary and accounted for on the basis of charging the cost to the profit and loss account over the employees' service lives using the projected unit method. Variations from the regular cost are spread over the average remaining service of the members of the scheme.

This represents a change of accounting policy from previous years when the charge to profit and loss was the contributions payable. This change of policy results from the implementation of Statement of Standard Accounting Practice 24.

2 Operating profit

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

| 1989 £ thousands | | 1990 £ thousands |
|---------------------|---|---------------------|
| | Income | |
| | Interest: | |
| 163,539 | Treasury and other bills | 244,963 |
| 58,541 | Securities of, or guaranteed by, the British Government | 78,524 |
| 21,867 | Advances | 23,137 |
| | Interest and Dividends: | |
| 2,201 | Listed securities | 1,497 |
| 6,301 | Unlisted securities | 6,508 |
| 52,938 | Charges for services to the Government | 52,295 |
| 2,790 | Rents | 2,997 |
| | Charges | |
| 76,788 | Interest paid to depositors | 99,132 |
| | Loss/(profit) on sale of British Government Securities | 39,683 |
| (4,826) | Directors' emoluments (Note 4) | 855 |
| 761 | Auditors' remuneration | 103 |
| 98 | Hire of computers and other equipment | 932 |
| 435 | Other operating lease rentals | 632 |
| 451 | Depreciation of premises and equipment | 23,976 |
| 14,973 | Loss on disposal of fixed assets | 80 |
| 18 | | |

The depreciation charge for the year has been increased by £7,499,000 of additional depreciation on machinery not required for production.

3 Exceptional items

| 1989 £ thousands | | 1990 £ thousands |
|---------------------|--|---------------------|
| — | Profit on sale of investment in Portals Holdings PLC | 41,765 |
| 37,500 | Recoveries from support operations: | |
| (20,724) | Dividends from Minorities Finance Ltd (Note 13a) | 15,000 |
| 16,776 | less amount paid to counter-indemnitors | — |
| 30,000 | Dividend from Slater, Walker Ltd (Note 13b) | 15,000 |
| 46,776 | | — |
| 18,457 | Release of provision against investment as no longer required | — |
| (14,000) | Provision for severance costs relating to the relocation of the Registrar's Department | — |

4 Directors' and employees' emoluments

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

| 1989 | | 1990 |
|----------|---|----------|
| £15,875 | Fees | £11,500 |
| £745,106 | Other emoluments, including remuneration of Governors and Executive Directors and contributions to Court Pension Scheme | £843,404 |

The Governor's emoluments, excluding pension contributions, totalled £132,558 (1989 £127,121).

The emoluments of the highest paid Director, for whom the Bank made no pension contribution, totalled £133,986. In the year ended 28 February 1989 no Director's emoluments exceeded those of the Governor.

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

| 1989 | | | 1990 | | |
|-----------|-----------|---------------------|-----------|-----------|---|
| Directors | Employees | £ | Directors | Employees | £ |
| 10 | | 0-£ 5,000 | 10 | | |
| 2 | | £ 5,001-£ 10,000 | 2 | | |
| 1 | | £ 10,001-£ 15,000 | — | | |
| 1 | | £ 15,001-£ 20,000 | — | | |
| 1 | 227 | £ 20,001-£ 25,000 | — | 324 | |
| — | 133 | £ 25,001-£ 30,000 | — | 172 | |
| — | 73 | £ 30,001-£ 35,000 | — | 104 | |
| — | 42 | £ 35,001-£ 40,000 | — | 64 | |
| — | 24 | £ 40,001-£ 45,000 | — | 31 | |
| — | 26 | £ 45,001-£ 50,000 | — | 25 | |
| — | 11 | £ 50,001-£ 55,000 | — | 24 | |
| — | 7 | £ 55,001-£ 60,000 | — | 11 | |
| — | 3 | £ 60,001-£ 65,000 | — | 11 | |
| 1 | 5 | £ 65,001-£ 70,000 | — | 3 | |
| — | — | £ 70,001-£ 75,000 | — | 6 | |
| 2 | — | £ 75,001-£ 80,000 | 2 | — | |
| — | — | £ 80,001-£ 85,000 | 1 | — | |
| — | — | £ 85,001-£ 90,000 | 1 | — | |
| 1 | — | £ 90,001-£ 95,000 | — | — | |
| — | — | £ 95,001-£ 100,000 | — | — | |
| — | — | £ 100,001-£ 110,000 | — | — | |
| — | — | £ 110,001-£ 125,000 | — | — | |
| — | — | £ 125,001-£ 130,000 | — | — | |

The emoluments of a Director in respect of his services on the Board of Banking Supervision are incorporated in the above figures for the year ended 28 February 1989. The Bank made no pension contribution in respect of Non-executive Directors.

5 Payment to the Treasury

| 1989 | | 1990 |
|---------------|-------------------|---------------|
| £ thousands | | £ thousands |
| 26,600 | Payable 5 April | 35,500 |
| 30,000 | Payable 5 October | 37,300 |
| <u>56,600</u> | | <u>72,800</u> |

6 Taxation

The charge for taxation comprises:

| 1989 | | 1990 |
|---------------|--|---------------|
| £ thousands | | £ thousands |
| 14,662 | UK corporation tax at a rate of 35% based on the profits of the year | 16,835 |
| 537 | Tax on franked investment income | 402 |
| (667) | Prior year adjustment—corporation tax | (261) |
| 787 | Prior year adjustment—deferred tax | — |
| (2,204) | Deferred tax | 246 |
| <u>13,115</u> | | <u>17,222</u> |

The tax charge for the year has benefited because the capital gain on the sale of the investment in Portals Holdings PLC is subject to a lower effective rate of tax.

The deferred tax liability of £8,038,000 is comprised as follows:

| 1989 | | 1990 |
|--------------|--------------------------------|--------------|
| £ thousands | | £ thousands |
| 4,481 | Short-term timing differences | 3,346 |
| 9,350 | Accelerated capital allowances | 7,635 |
| (6,039) | Other timing differences | (2,943) |
| <u>7,792</u> | | <u>8,038</u> |

Tax of £3,000,000 (1989 £2,700,000) has not been provided in respect of further accelerated capital allowances as the provision at 28 February 1990 is considered adequate.

7 Capital

The entire capital comprising £14,553,000 of Bank Stock is held by the Treasury Solicitor on behalf of Her Majesty's Treasury.

8 Reserves

| | General reserve | Revaluation surplus | £ thousands Total |
|------------------------------|-----------------|---------------------|----------------------|
| Balance at 1 March 1989 | 413,787 | 261,437 | 675,224 |
| Retained profit for the year | 75,376 | — | 75,376 |
| Balance at 28 February 1990 | <u>489,163</u> | <u>261,437</u> | <u>750,600</u> |

9 Public deposits

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

10 Bankers' deposits

| 1989 | | 1990 |
|------------------|---------------------|------------------|
| £ thousands | | £ thousands |
| 1,135,522 | Cash ratio deposits | 1,490,570 |
| 277,267 | Other deposits | 174,695 |
| <u>1,412,789</u> | | <u>1,665,265</u> |

11 Treasury, Local Authority and other bills

| 1989 | | 1990 |
|------------------|-----------------------------------|------------------|
| £ thousands | | £ thousands |
| 171,685 | British Government Treasury bills | 384,480 |
| 5,308 | Local Authority bills | — |
| 1,565,423 | Other bills | 1,155,554 |
| <u>1,742,416</u> | | <u>1,540,034</u> |

12 Investments

| 1989 | | | 1990 | |
|----------------|----------------|---|----------------|----------------|
| £ thousands | | | £ thousands | |
| Book value | Valuation | | Book value | Valuation |
| 640,356 | 711,129 | Securities of, or guaranteed by, the British Government | 842,561 | 852,810 |
| 7,487 | 47,483 | Other securities: | | |
| 33,428 | 88,103 | Listed in Great Britain | — | — |
| | | Unlisted | 33,428 | 96,197 |
| <u>681,271</u> | <u>846,715</u> | | <u>875,989</u> | <u>949,007</u> |

Valuation represents middle-market values except for unlisted investments which are at Directors' valuation.

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

| 1989 | | 1990 |
|-----------------|---|-----------------|
| Percentage held | | Percentage held |
| | <i>Over 20%</i> | |
| 27 | The Agricultural Mortgage Corporation PLC shares of £1 Share capital and reserves of the company as at 31 March 1989 £46,252,000 Profit of the company for the year ended 31 March 1989 £3,542,000 As a matter of policy, the Bank does not seek to influence the above company's commercial or financial decisions. | 27 |
| 26 | Portals Holdings PLC ordinary stock | — |
| | Both the above companies are incorporated in Great Britain. | |
| | <i>Under 20%</i> | |
| 15 | 3i Group plc 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 |

13 Subsidiary companies

This comprises:

| 1989 | | 1990 |
|----------------|---------------------------------------|---------------|
| £ thousands | | £ thousands |
| 54,582 | Investments in subsidiary companies | 59,592 |
| 48,737 | Amounts owing by subsidiary companies | 11,651 |
| <u>103,319</u> | | <u>71,243</u> |

Included within Current liabilities is a total of £23,077,000 (1989 £4,088,000) due, in the normal course of business, to subsidiary companies.

(a) Minorities Finance Ltd

Throughout the year ended 28 February 1990, the Bank held the entire issued share capital of 37.5 million £1 ordinary shares of Minorities Finance Ltd (MFL), which is registered in England. As a condition of a capital reduction which took place in June 1987 the Bank gave an indemnity whereby any future deficit in MFL's shareholders' funds would be made good by the Bank up to a maximum of £37.5 million.

MFL's accounts as at 31 December 1989 bear an unqualified audit report. The company has continued its principal activity of realisation of loans and other non-liquid assets which, with income generating monetary assets, comprise its remaining assets. MFL will continue to pursue repayment of its remaining outstanding loans and advances.

The continuing recoveries of outstanding loans and advances produced a surplus for the year of £15.3 million, bringing MFL's distributable reserves to £23.1 million. MFL has declared dividends from these reserves of £15 million of which £7.5 million was paid to the Bank on 30 September 1989 and £7.5 million on 27 April 1990.

With the receipt of these dividends, the Bank has received aggregate dividends of £52.5 million of which, as reported last year, £20.7 million was repaid to the other banks and members of the London Bullion Market Association who contributed under the indemnity given to MFL. The amount of £31.8 million retained by the Bank includes the recovery of the Bank's own indemnity contribution of £20.8 million.

The accounts of MFL have not been consolidated with those of the Banking Department because, in the opinion of the Directors, it would be misleading to include its assets and liabilities with those of the Banking Department in view of the circumstances of the acquisition of the company by the Bank and the company's realisation policy.

| | |
|---|-------------|
| Profit for the year to 31 December 1989 | £15,289,000 |
| Accumulated Reserves as at 31 December 1989 | |
| after provision for dividends | £8,051,000 |
| Net Assets at 31 December 1989 | |
| after provision for dividends | £45,551,000 |

(b) Subsidiaries in liquidation

Two subsidiaries which the Bank acquired through support operations were put into members voluntary liquidation during the year. EBS Investments Ltd, whose share capital was £100, passed the necessary resolutions on 31 December 1989 and Slater, Walker Ltd, whose share capital comprised 100,000 £1 ordinary shares and 10,000,000 £1 deferred shares, was put into liquidation on 31 January 1990. Both companies are registered in England.

The investments in these companies are included in the Bank's balance sheet at £17 million and the Bank expects to recover in excess of this sum from the liquidation of these companies.

(c) Other subsidiaries

Investments in other 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:

| | |
|-------------------------------------|------------------------|
| B.E. Property Holdings Ltd | 5,000,000 shares of £1 |
| BE Services Ltd | 5,000 shares of £1 |
| B.E. Museum Ltd | 10,000 shares of £1 |
| The Securities Management Trust Ltd | 1,000 shares of £1 |
| Debden Security Printing Ltd | 100,000 shares of £1 |

The accounts of these companies have not been consolidated with those of the Bank as the amounts are considered not to be material. The aggregate amount of the Bank's investment in the shares of the above subsidiaries is £5.1 million.

The net aggregate profits of these subsidiary companies attributable to the Bank, which have not been dealt with in the accounts of the Banking Department, and which are stated by reference to audited accounts are as follows:

| | £ thousands |
|-------------------------------------|-------------|
| For the year ended 28 February 1990 | 33 |
| Since acquisition | 144 |

14 Premises and equipment

| | £ thousands | | | |
|--|--------------------|-------------------------------|----------------------------|-----------|
| | Leasehold premises | | | |
| | Freehold premises | (50 years and over unexpired) | (under 50 years unexpired) | Equipment |
| Cost or valuation | | | | Total |
| At 1 March 1989 | 203,785 | 141,934 | 55 | 64,830 |
| Additions | 3,199 | 9,163 | — | 19,673 |
| Disposals | (4,514) | — | — | (6,377) |
| At 28 February 1990 | 202,470 | 151,097 | 55 | 78,126 |
| Accumulated depreciation | | | | |
| At 1 March 1989 | 4,392 | 5,755 | 55 | 26,460 |
| Charge for the year | 2,605 | 3,880 | — | 17,491 |
| On disposals | (20) | — | — | (4,014) |
| At 28 February 1990 | 6,977 | 9,635 | 55 | 39,937 |
| Net book value at 28 February 1990 | 195,493 | 141,462 | — | 38,189 |
| Net book value at 28 February 1989 | 199,393 | 136,179 | — | 38,370 |
| Cost or valuation at 28 February 1990 comprised: | | | | |
| At 1987 valuation | 187,505 | 125,100 | 55 | — |
| At cost | 14,965 | 25,997 | — | 78,126 |
| | 202,470 | 151,097 | 55 | 78,126 |

Contracts for capital expenditure authorised by the Directors and outstanding at 28 February 1990 totalled £9,235,000 (1989 £19,047,000). Further capital expenditure authorised at that date, but not contracted for, is estimated at £6 million (1989 £20 million).

15 Transactions with Directors and Officers

The following particulars are given relating to loans by the Bank of England to Directors and Officers of the Bank and persons connected with them:

| | Number | Total amount £ thousands |
|-----------|--------|-----------------------------|
| Directors | 4 | 164 |
| Officers | 17 | 815 |

There were no other transactions that would be required to be shown under the provisions of the Companies Act 1985. None of the Directors or Officers 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.

The above information concerning Officers is presented only in respect of those employees of the Bank who would be considered as managers within the meaning of the Banking Act 1987.

16 Retirement benefits

The Bank operates defined benefit pension schemes providing benefits based on final pensionable pay for employees of the Bank and its subsidiary BE Services Ltd. The assets of the schemes are held separately from those of the Bank in independent trustee-administered funds.

The main scheme, the Bank of England Pension Fund, is valued every three years by an independent qualified actuary. The latest actuarial valuation was as at 28 February 1987, used the projected unit method and showed that the actuarial value of the Fund's assets represented 101% of the benefits that had accrued to members at that date, after allowing for future increases in earnings and pensions in payment. The market value of the Fund's assets at that time was £726 million. The actuary is in the course of preparing the valuation as at 28 February 1990 and the results of this will be reflected in the accounts to 28 February 1991.

The principal assumptions were that, over the long term, the return on new investments would exceed the rate of increase in salaries by 2% and the rate of increase in pensions by 3.5%. It was also assumed that the equity dividend growth would be lower by 0.5% than the rate of future pension increases.

The pension cost for the year was £8.5 million (1989 £14.4 million). The effect of the change in accounting policy, referred to in note 1, was to reduce the charge for the year by £7 million. The calculation of this reduction was based on the estimated surplus in the Fund at 1 March 1989. A prepayment of £7 million, representing the excess of the amounts funded during the year over the cost, is included in other accounts receivable.

17 Leasing commitments

At the year end, annual commitments under operating leases were:

| 1989 £ thousands | | 1990 £ thousands |
|---------------------|--|---------------------|
| | Land and Buildings on leases expiring: | |
| — | Within one year | 215 |
| 421 | Between two and five years | 494 |
| 190 | Beyond five years | 190 |
| | Equipment on leases expiring: | |
| 50 | Within one year | 60 |
| 542 | Between two and five years | 967 |

18 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.

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 at the balance sheet date was £202 million (1989 £186 million).

19 Date of approval

The Court of Directors approved the accounts on pages 17 to 29 on 17 May 1990.

Banking Department

Statement of source and application of funds for the year ended 28 February 1990

| 1989 £000 | | 1990 £000 |
|--|---|-----------------|
| Source of funds | | |
| 85,974 | Operating profit before exceptional items | 108,633 |
| | Adjustment for items not involving the movement of funds: | |
| 14,991 | Depreciation, including losses on disposal of fixed assets | 24,056 |
| 2,058 | Other | — |
| <u>103,023</u> | Funds generated by operations | <u>132,689</u> |
| | Funds from other sources: | |
| 1,879 | Disposal of premises and equipment | 2,484 |
| — | Sale of premises to subsidiary | 4,293 |
| — | Sale of investment | 49,252 |
| 21,000 | Dividends from subsidiaries | 54,000 |
| <u>125,902</u> | | <u>242,718</u> |
| Application of funds | | |
| 16,506 | Payment of taxation | 17,648 |
| 20,724 | Payment to counter-indemnitors | — |
| 26,121 | Payment to the Treasury | 56,600 |
| 204,393 | Purchase of British Government Securities | 202,205 |
| — | Purchase of shares in subsidiaries | 5,010 |
| 32,248 | Purchase of premises and equipment | 32,035 |
| (174,090) | Decrease in working capital (see below) | (70,780) |
| <u>125,902</u> | | <u>242,718</u> |
| Analysis of decrease in working capital | | |
| 501,322 | Liquid assets | (267,992) |
| (201,520) | Advances and other accounts | 272,809 |
| (5,237) | Advances to subsidiary companies | 1,914 |
| <u>294,565</u> | | <u>6,731</u> |
| | Less: | |
| (468,655) | Current liabilities, excluding taxation and payment to the Treasury | (77,511) |
| <u>(174,090)</u> | | <u>(70,780)</u> |

Banking Department

Current cost accounts

Adjusted earnings statement for the year ended 28 February 1990

| 1989 £ millions | | | 1990 £ millions |
|--------------------|---|-----------|--------------------|
| 137.2 | Operating profit as in historical cost accounts | | 165.4 |
| 6.1 | Current cost adjustments: | | |
| 0.1 | Additional depreciation charge | (Note 2a) | 3.3 |
| 15.6 | Fixed asset disposal | | 0.2 |
| | Monetary working capital | (Note 2b) | 19.6 |
| 115.4 | Current cost operating profit | | 142.3 |

Abridged current cost balance sheet: 28 February 1990

| 1989 £ millions | | | 1990 £ millions |
|--------------------|--|----------|--------------------|
| 14.6 | Capital | | 14.6 |
| 895.1 | Reserves | | 962.6 |
| 909.7 | | | 977.2 |
| 3,477.1 | Current liabilities | | 3,570.4 |
| 4,386.8 | | | 4,547.6 |
| 2,247.0 | Liquid assets | | 1,979.0 |
| 776.0 | Investments | | 938.8 |
| 761.3 | Advances and other accounts receivable | | 1,034.1 |
| 103.3 | Subsidiary companies | | 71.2 |
| 499.2 | Premises and equipment | (Note 4) | 524.5 |
| 4,386.8 | | | 4,547.6 |

Notes to the current cost accounts

1 Bases of preparation

The current cost information has been prepared on the basis of current cost asset valuations and the operating capital maintenance concept. The current cost information should be read in conjunction with the notes to the historical cost accounts. Except as indicated below, the accounting policies adopted have been the same as those described in note 1 on pages 20 and 21.

2 Earnings statement adjustments

(a) 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.

(b) 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.

3 Abridged current cost balance sheet

(a) Premises and equipment

The figures relating to property interests reflect a professional valuation of Bank freehold and leasehold premises as at 28 February 1987, on an open-market value for existing use basis, with revisions of value as at 28 February 1990, and having regard to appropriate professional advice. Equipment is included at net current replacement cost estimated by use of appropriate indices or by reference to suppliers' current price lists.

(b) Investments

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

(c) Other assets and liabilities

These are stated at the amounts shown in the historical cost accounts.

4 Premises and equipment

| 1989 £ millions | | | 1990 £ millions | |
|--------------------|-----------|-------|--------------------|-------|
| Net | | Gross | Depreciation | Net |
| 461.5 | Premises | 486.2 | — | 486.2 |
| 37.7 | Equipment | 109.5 | 71.2 | 38.3 |
| 499.2 | | 595.7 | 71.2 | 524.5 |

Issue Department

Account for the year ended 28 February 1990

| 1989 £000 | | 1990 £000 | 1990 £000 |
|----------------------------|---|--------------|------------------|
| Income and profits: | | | |
| 727,964 | Securities of, or guaranteed by, the British Government | 1,597,903 | |
| 686,721 | Other securities | 309,851 | |
| 415 | Other receipts | 51,186 | |
| <u>1,415,100</u> | | | <u>1,958,940</u> |
| Expenses: | | | |
| 32,993 | Cost of production of Bank notes | 37,228 | |
| 12,780 | Cost of issue, custody and payment of Bank notes | 13,864 | |
| 1,553 | Other expenses | 2,678 | |
| <u>47,326</u> | | | <u>53,770</u> |
| <u>1,367,774</u> | Payable to the Treasury | | <u>1,905,170</u> |

Statement of balances: 28 February 1990

| 1989 £000 | | 1990 £000 | 1989 £000 | | 1990 £000 |
|----------------------|-----------------------|-------------------|-------------------|---|-------------------|
| Notes issued: | | | 11,015 | Government debt | 11,015 |
| 14,111,693 | In circulation | 15,020,924 | | Other securities of, or guaranteed by, the British Government | 10,009,525 |
| 8,307 | In Banking Department | 9,076 | 9,695,105 | Other securities | 5,009,460 |
| | | | <u>4,413,880</u> | | |
| <u>14,120,000</u> | | <u>15,030,000</u> | <u>14,120,000</u> | | <u>15,030,000</u> |

Notes:

- 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 1990.
- The Court of Directors approved the above statements of account on 17 May 1990.

R LEIGH-PEMBERTON *Governor*

E A J GEORGE *Deputy Governor*

ADRIAN CADBURY *Director*

H C E HARRIS *Associate Director*

Addresses and telephone numbers

| | | | |
|----------|---------------------------|---|-----------------------------|
| London | Head Office | Threadneedle Street London EC2R 8AH | 071-601 4444 ⁽¹⁾ |
| | Registrar's Department | New Change London EC4M 9AA | 071-601 4444 |
| | Clearing Centre | 161 City Road London EC1V 1PA | 071-601 4444 |
| | Printing Works | Langston Road Loughton Essex IG10 3TN | 081-508 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 |
| | Manchester | PO Box 301 Faulkner Street Manchester M60 2HP | 061-228 1771 |
| | Newcastle | PO Box 2BE Pilgrim Street Newcastle upon Tyne NE99 2BE | 091-261 1411 |
| Agencies | Glasgow | 25 St Vincent Place Glasgow G1 2EB | 041-221 7972 |
| | Liverpool | Lancaster House Mercury Court Tithebarn Street Liverpool L2 2QP | 051-227 2553 |
| | Southampton Area | PO Box 15 Canister House 27 Jewry Street Winchester Hampshire SO23 8LP | 0962-840161 |

(1) Enquiries relating to this Report or to the *Quarterly Bulletin* may be made on 071-601 4030.