

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 19 to 31, and the statements of account of the Issue Department on page 32, in accordance with Auditing Standards.

In our opinion

- 1 The accounts on pages 19 to 31 give a true and fair view of the state of affairs of the Banking Department at 28 February 1991 and of the profit and source and application of funds for the year then ended.

- 2 The statements of account on page 32 present fairly the outcome of the transactions of the Issue Department for the year ended 28 February 1991 and its balances at that date.

COOPERS & LYBRAND DELOITTE

Chartered Accountants

London
9 May 1991

Banking Department

Profit and loss account for the year ended 28 February 1991

1990 £000			1991 £000
122,909	Operating profit before exceptional item	(Note 2)	161,798
	Exceptional item:	(Note 3)	
41,765	Profit on sale of investment		—
164,674			161,798
72,800	Payment to the Treasury under Section 1 (4) of the Bank of England Act 1946	(Note 5)	81,535
91,874	Profit before taxation		80,263
16,969	Taxation	(Note 6)	18,082
74,905	Profit transferred to reserves	(Note 8)	62,181

Movements in reserves are set out in Note 8.

Banking Department

Balance sheet: 28 February 1991

1990			1991
£000			£000
14,553	Capital	(Note 7)	14,553
769,954	Reserves	(Note 8)	832,135
<u>784,507</u>			<u>846,688</u>
	Current liabilities		
454,178	Public deposits	(Note 9)	367,372
1,665,265	Bankers' deposits	(Note 10)	1,796,586
1,288,434	Other deposits		2,082,839
100,097	Taxation and other creditors		113,230
72,800	Payable to the Treasury	(Note 5)	81,535
<u>3,580,774</u>			<u>4,441,562</u>
<u>4,365,281</u>			<u>5,288,250</u>

Banking Department

1990		1991
£000		£000
	Liquid assets	
9,289	Notes and coin	5,665
429,691	Cheques in course of collection	352,999
1,540,034	Treasury and other bills (Note 11)	621,405
<u>1,979,014</u>		<u>980,069</u>
905,765	Investments (Note 12)	980,507
650,793	Advances to customers, less provisions	1,841,463
383,322	Other accounts receivable	1,021,482
71,243	Subsidiary companies (Note 13)	79,864
375,144	Premises and equipment (Note 14)	384,865
<u>4,365,281</u>		<u>5,288,250</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 Accounting Standards Board in so far as they are appropriate.

The accounts have been prepared on the historical cost basis of accounting, modified to include the revaluation of certain fixed assets and in accordance with Section 255 of, and Schedule 9 to, the Companies Act 1985.

b Treasury and other bills

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

c Investments

Securities of the British government are stated at cost adjusted for the amortisation of premiums or discounts on a straight line basis over the period to maturity; income includes the amortisation of premiums or discounts. This represents a change from the previous accounting policy under which such investments were stated at cost less provisions. This change results from the recent Statement of Recommended Accounting Practice issued by the British Bankers' Association. The effects of this change are described in Note 8. All comparative figures have been restated to reflect the new policy.

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 any 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. Income and

expenditure are translated into sterling at the exchange rates ruling at the time of the transaction.

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 an independent 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 lives of the members of the scheme.

2 Operating profit

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

1990		1991
£ thousands		£ thousands
	Income	
	Interest:	
244,963	Treasury and other bills	246,243
	*Securities of, or guaranteed by, the	
85,689	British government, including amortisation	114,895
34,615	Advances and other accounts	97,337
	Interest and Dividends:	
1,497	Listed securities	—
6,508	Unlisted securities	7,886
15,000	Subsidiary companies	12,000
52,295	Charges for services to the government	54,606
2,997	Rents	4,226
	Charges	
110,363	Interest paid to depositors	154,534
	*Loss on sale of British government	
47,572	securities	44,024
3,057	Cost of severance schemes	17,633
855	Directors' emoluments (Note 4)	1,024
103	Auditors' remuneration	112
932	Hire of computers and other equipment	1,025
632	Other operating lease rentals	1,247
23,976	Depreciation of premises and equipment	16,461
80	Loss on disposal of fixed assets	128

* The comparative figures have been restated following the change in accounting policy set out in Note 8.

3 Exceptional item

1990 £ thousands		1991 £ thousands
<u>41,765</u>	Profit on sale of investment in Portals Holdings PLC	<u>—</u>

4 Directors' emoluments

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

1990 £ thousands		1991 £ thousands
<u>£11,500</u>	Fees	<u>£11,500</u>
	Other emoluments, including remuneration of Governors and Executive Directors and contributions to Court Pension Scheme	
<u>£803,174</u>	Pensions to former Directors and widows of former Directors	<u>£950,855</u>
<u>£40,230</u>		<u>£61,267</u>

The Governor's emoluments, excluding pension contributions, totalled £155,019 (1990 £132,558).

In the year ended 28 February 1990 the emoluments of the highest paid Director, for whom the Bank made no pension contribution, totalled £133,986. In the year ended 28 February 1991 no Director's emoluments exceeded those of the Governor.

The following table shows for the year ended 28 February the number of other Directors receiving remuneration within the bands stated.

1990		1991
10	£0—£5,000	12
2	£5,001—£10,000	—
2	£85,001—£90,000	—
1	£95,001—£100,000	—
—	£100,001—£105,000	1
—	£105,001—£110,000	1
1	£110,001—£115,000	2
—	£140,001—£145,000	1

The Bank made no pension contribution in respect of non-executive Directors.

5 Payment to the Treasury

1990 £ thousands		1991 £ thousands
<u>35,500</u>	Payable 5 April	<u>40,150</u>
<u>37,300</u>	Payable 5 October	<u>41,385</u>
<u>72,800</u>		<u>81,535</u>

6 Taxation

The charge for taxation comprises:

1990 £ thousands		1991 £ thousands
	UK corporation tax at an average rate of 34.0833% (1990 35%) based on the	
16,835	profits of the year	15,194
402	Tax on franked investment income	159
(261)	Prior year corporation tax	(1,182)
—	Prior year deferred tax	469
(7)	Deferred tax	3,442
<u>16,969</u>		<u>18,082</u>

The deferred tax liability of £22,371,000 is comprised as follows:

1990 £ thousands		1991 £ thousands
3,346	Short-term timing differences	9,131
7,635	Accelerated capital allowances	2,247
7,479	Other timing differences	10,993
<u>18,460</u>		<u>22,371</u>

Tax of £8,000,000 (1990 £3,000,000) has not been provided in respect of further accelerated capital allowances as the provision at 28 February 1991 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	Total £ thousands
Balance at 1 March 1990	489,163	261,437	750,600
Prior year adjustment	19,354	—	19,354
As restated	508,517	261,437	769,954
Retained profit for the year	62,181	—	62,181
Balance at 28 February 1991	<u>570,698</u>	<u>261,437</u>	<u>832,135</u>

The prior year adjustment represents the effect of the change in accounting policy on British government securities. Previously these were carried at cost and no adjustment was made for any premiums or discounts over nominal value. Profits and losses over cost were recognised when realised. In accordance with the recently issued Statement of Recommended Accounting Practice premiums and discounts over nominal value, arising on acquisition, are now amortised over the period to maturity on a straight line basis. The carrying value of these stocks is adjusted to reflect the accumulated amortisation. Profits and losses on disposal are calculated with reference to the adjusted carrying value. This adjustment has

resulted in an increase in opening reserves as at 1 March 1990 of £29,775,000 less deferred tax of £10,421,000. The effect on the reported profit of the current year and previous year was not material.

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

1990		1991
£ thousands		£ thousands
1,490,570	Cash ratio deposits	1,516,563
174,695	Other deposits	280,023
<u>1,665,265</u>		<u>1,796,586</u>

11 Treasury and other bills

1990		1991
£ thousands		£ thousands
384,480	British government treasury bills	621,405
1,155,554	Other bills	—
<u>1,540,034</u>		<u>621,405</u>

12 Investments

1990		1991	
£ thousands		£ thousands	
Book Value	Valuation	Book Value	Valuation
			Securities of, or guaranteed by, the
872,337	852,810	947,079	British government
33,428	96,197	33,428	Unlisted securities
<u>905,765</u>	<u>949,007</u>	<u>980,507</u>	<u>1,141,109</u>

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

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

1990	1991
Percentage held	Percentage held
Over 20%	
27	The Agricultural Mortgage Corporation PLC shares of £1
	Share capital and reserves of the company as at 31 March 1990 £50,776,000 Profit of the company for the year ended 31 March 1990 £4,948,000
	27

As a matter of policy, the Bank does not seek to influence the commercial or financial decisions of the above company, which is registered in England, and accordingly it is not treated as an associated company.

Under 20%

15	3i Group plc shares of £1 (Registered in England)	15
10	Bank for International Settlements shares of 2,500 Swiss gold francs (25% paid) (Incorporated in Switzerland)	10

13 Subsidiary companies

This comprises:

1990 £ thousands		1991 £ thousands
59,592	Investments in subsidiary companies (at cost)	59,592
11,651	Amounts owing by subsidiary companies	20,272
<u>71,243</u>		<u>79,864</u>

Included within Current liabilities is a total of £22,602,000 (1990 £23,077,000) due, in the normal course of business, to subsidiary companies.

(a) Minories Finance Ltd

Throughout the year ended 28 February 1991, the Bank held the entire issued share capital of 37.5 million £1 ordinary shares of Minories 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 1990 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 £12.3 million, bringing MFL's distributable reserves to £20.4 million. MFL has declared dividends from these reserves of £12 million of which £6 million was paid to the Bank on 28 September 1990 and £6 million on 30 April 1991.

The accounts of MFL have not been consolidated with those of the Banking Department because, in the opinion of the Directors, the effect of including its assets, liabilities and profit, together with those of the Bank's other subsidiaries, with those of the Banking Department would not be material.

Profit for the year to 31 December 1990	£12,305,000
Accumulated Reserves as at 31 December 1990	
after provision for dividends	£8,356,000
Net Assets at 31 December 1990	
after provision for dividends	£45,856,000

(b) Subsidiaries in liquidation

Two subsidiaries, Slater, Walker Ltd and EBS Investments Ltd, which the Bank acquired through support operations have been in members voluntary liquidation throughout the year to 28 February 1991. Both companies are registered in England.

The investments in these companies are included in the Bank's balance sheet at £17 million.

(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 because, in the opinion of the Directors, the amounts are not 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 1991	158
Since acquisition	302

14 Premises and equipment

£ thousands

	Freehold premises	Leasehold premises (50 years and over unexpired)	(under 50 years unexpired)	Equipment	Total
Cost or valuation					
At 1 March 1990	202,470	151,097	55	78,126	431,748
Additions	3,935	14,001	—	8,678	26,614
Disposals	—	(198)	—	(1,536)	(1,734)
At 28 February 1991	206,405	164,900	55	85,268	456,628
Accumulated depreciation					
At 1 March 1990	6,977	9,635	55	39,937	56,604
Charge for the year	2,841	3,883	—	9,737	16,461
On disposals	—	(78)	—	(1,224)	(1,302)
At 28 February 1991	9,818	13,440	55	48,450	71,763
Net book value at 28 February 1991	196,587	151,460	—	36,818	384,865
Net book value at 28 February 1990	195,493	141,462	—	38,189	375,144
Cost or valuation at 28 February 1991 comprised:					
At 1987 valuation	187,505	124,902	55	—	312,462
At cost	18,900	39,998	—	85,268	144,166
	206,405	164,900	55	85,268	456,628

Contracts for capital expenditure authorised by the Directors and outstanding at 28 February 1991 totalled £8.1 million (1990 £9.2 million). Further capital expenditure authorised at that date, but not contracted for, is estimated at £7 million (1990 £6 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	5	174
Officers	20	1,004

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 1990, used the projected unit method and showed that the actuarial value of the Fund's assets represented 127% 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 £896 million and the required contribution rate was 22.4%. The surplus will be used to reduce the Bank's contribution rate.

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 4%. It was also assumed that the equity dividend growth would be lower by 0.5% than the rate of future pension increases.

This valuation does not take into account the May 1990 ruling in the European Court of Justice relating to the equality of treatment as between men and women in pension funds. It is not possible to estimate the effect of this ruling as the precise implications of this decision on pension funds is not yet known.

The pension cost for the year was £3.0 million (1990 £12.4 million). A prepayment of £17.3 million (1990 £7.0 million), representing the excess of the amounts funded over the cost, is included in other accounts receivable.

17 Leasing commitments

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

1990		1991
£ thousands		£ thousands
	Land and Buildings on leases expiring:	
215	Within one year	122
494	Between two and five years	177
190	Beyond five years	686
	Equipment on leases expiring:	
60	Within one year	363
967	Between two and five years	332

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 £159 million (1990 £202 million).

19 Date of approval

The Court of Directors approved the accounts on pages 19 to 31 on 9 May 1991.

Banking Department

Statement of source and application of funds for the year ended 28 February 1991

1990 £000		1991 £000
Source of funds		
122,909	Operating profit before exceptional items	161,798
	Adjustment for items not involving the movement of funds:	
24,056	Depreciation, including losses on disposal of fixed assets	16,589
724	Other	(1,613)
147,689	Funds generated by operations	176,774
	Funds from other sources:	
2,484	Disposal of premises and equipment	304
4,293	Sale of premises to subsidiary	—
49,252	Sale of investment	—
30,000	Dividends from Slater, Walker Ltd	—
233,718		177,078
Application of funds		
17,648	Payment of taxation	16,972
56,600	Payment to the Treasury	72,800
202,205	Purchase of British government securities	73,130
5,010	Purchase of shares in subsidiaries	—
32,035	Purchase of premises and equipment	26,614
(79,780)	Decrease in working capital (see below)	(12,438)
233,718		177,078
Analysis of decrease in working capital		
(267,992)	Liquid assets	(998,944)
272,809	Advances and other accounts	1,826,544
(7,086)	Advances to subsidiary companies	8,621
(2,269)		836,221
Less:		
(77,511)	Current liabilities, excluding taxation and payment to the Treasury	(848,659)
(79,780)		(12,438)

Issue Department

Account for the year ended 28 February 1991

1990 £000		1991 £000	1991 £000
1,597,903	Income and Profits:		
	Securities of, or guaranteed by, the British government	2,022,556	
309,851	Other securities	580,250	
51,186	Other receipts	110	
1,958,940			2,602,916
37,228	Expenses:		
	Cost of production of Bank notes	37,960	
13,864	Cost of issue, custody and payment of Bank notes	16,135	
2,678	Other expenses	3,049	
53,770			57,144
1,905,170	Payable to the Treasury		2,545,772

Statement of balances: 28 February 1991

1990 £000		1991 £000	1990 £000		1991 £000
15,020,924	Notes issued:	15,374,578	11,015	Government debt	11,015
	In circulation			Other securities of, or guaranteed by, the British government	8,443,617
9,076	In Banking Department	5,422	10,009,525		
			5,009,460	Other securities	6,925,368
15,030,000		15,380,000	15,030,000		15,380,000

Notes:

- In accordance with the requirements of the Currency and Bank Notes Act 1928 and the National Loans Act 1968, income and profits include interest received on securities, discount received on short-dated bills and the effects of the quarterly revaluation of securities. The value of securities includes the effects of the quarterly revaluation. The last such valuation was made at 27 February 1991.
- The Court of Directors approved the above statements of account on 9 May 1991.

R LEIGH-PEMBERTON

E A J GEORGE

ADRIAN CADBURY

H C E HARRIS

Governor

Deputy Governor

Director

Associate Director

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