Bank of England
Report and accounts
1993

Bank of England

Report and accounts for the year ended 28 February 1993

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Court of Directors

1 March 1993

	Date of first appointment	Expiry date of current appointment
The Rt Hon Robert Leigh-Pemberton, *Governor*	1 July 1983	30 June 1993
Edward Alan John George, *Deputy Governor* *(First appointed to the Court 1 March 1982)*	1 March 1990	28 February 1995
Sir George Adrian Hayhurst Cadbury *(Chairman, PRONED)*	1 March 1970	28 February 1994
Anthony Laurie Coleby *(Executive Director)*	1 March 1990	28 February 1994
Sir Colin Ross Corness *(Chairman, Redland plc)*	1 March 1987	28 February 1995
Andrew Duncan Crockett *(Executive Director)*	1 March 1989	28 February 1997
Frances Anne Heaton *(Director General, Panel on Takeovers and Mergers)*	1 March 1993	28 February 1997
Sir Christopher Anthony Hogg *(Chairman, Reuters Holdings plc)*	1 March 1992	29 February 1996
Sir Martin Wakefield Jacomb *(Chairman, POSTEL Investment Management Ltd)*	19 May 1986	28 February 1995
Sir John Chippendale Lindley Keswick *(Chairman, Hambros Bank Ltd)*	1 March 1993	28 February 1997
Mervyn Allister King *(Executive Director)*	1 March 1990	29 February 1996
Gavin Harry Laird CBE *(General Secretary, Amalgamated Engineering and Electrical Union)*	1 March 1986	28 February 1994
Sir David Bryan Lees *(Chairman and Chief Executive, GKN plc)*	1 March 1991	28 February 1995
Sir Christopher Jeremy Morse KCMG *(Former Chairman, Lloyds Bank plc)*	1 March 1993	28 February 1997
Brian Quinn *(Executive Director)*	1 April 1988	29 February 1996
Sir David Gerald Scholey CBE *(Chairman, S G Warburg Group plc)*	1 March 1981	28 February 1994
Professor Sir Roland Smith *(Chairman, Hepworth plc)*	1 March 1991	29 February 1996
Sir Colin Grieve Southgate *(Chairman, Thorn EMI plc)*	1 March 1991	28 February 1995

Sir Brian Corby, The Rt Hon the Lord Haslam of Bolton and Sir David Walker retired on 28 February 1993 on completing their terms of office. Mrs Heaton, Sir Chippendale Keswick and Sir Jeremy Morse KCMG were appointed in their place.

The term of office of Mr Crockett expired on 28 February 1993; he was re-appointed for a further period of four years.

Mr George has been appointed Governor with effect from 1 July 1993, on the retirement of the Rt Hon Robert Leigh-Pemberton, and Mr Rupert Lascelles Pennant-Rea succeeds Mr George as Deputy Governor with effect from the same date.

Associate Directors

Hugh Christopher Emlyn Harris (appointed 1 April 1988)
Pendarell Hugh Kent (appointed 1 May 1988)
Ian Plenderleith (appointed 1 March 1990)

Secretary of the Bank G A Croughton

Organisation of the Bank

March 1993

The Governor — The Deputy Governor

- **P H Kent** (Associate Director)
  - A W Jarvis (General Manager) — *Printing Works*
  - *T A Clark (Head of Division) — *Financial Markets and Institutions Division*
  - M T R Smith (Head of Division) — *Industrial Finance Division*
- **Brian Quinn** (Executive Director)
  - G E A Kentfield (Chief of Banking Department and Chief Cashier)
    - Ms M V Lowther (Head of Division) — *Banking Division*
    - P G Mitchell (Head of Division) — *Banknotes and Security Division*
    - P W Allsopp (Head of Division) — *Payment Systems Division*
  - *R A Barnes (Assistant Director and Head of Division) — *Banking Supervision Division*
    - John Bartlett (Deputy Head of Division - North American and European banks)
    - R H Farrant (Deputy Head of Division - Policy)
    - D W Green (Deputy Head of Division - Small UK banks)
    - D J Reid (Deputy Head of Division - Other overseas banks)
    - Mrs C F Sergeant (Deputy Head of Division - UK retail and merchant banks)
- **P C Peddie** (Adviser to the Governor) — *Legal Unit*
- **I G Watt** (Adviser to the Governor) — *Special Investigations Unit*
- **A L Coleby** (Executive Director)
  - *J S Beverly (Head of Division) — *Wholesale Markets Supervision Division*
  - J C Townend (Head of Division) — *Gilt-Edged and Money Markets Division*
    - J G Hill (Chief Dealing Manager)
  - W A Allen (Head of Division) — *Foreign Exchange Division*
    - T R Smeeton (Chief Manager - Foreign Exchange)
    - I D Saville (Chief Manager - Reserves Management)
- **Ian Plenderleith** (Associate Director)
  - D A Bridger (Chief Registrar and Chief Accountant) — *Registrar's Department*
- **M A King** (Executive Director)
  - J R E Footman (Head of Division) — *Information Division*
  - L D D Price (Head of Division) — *Economics Division*
  - P A Bull (Head of Division) — *Financial Statistics Division*
- **A D Crockett** (Executive Director)
  - *Oliver Page (Head of Division) — *Developing World Division*
  - *M D K W Foot (Head of Division) — *European Division*
  - C T Taylor (Chief Adviser)
  - *A R Latter (Head of Division) — *Industrial World Division*
  - M E Hewitt (Director of Studies) — *Centre for Central Banking Studies*
  - M J W Phillips (Auditor) — *Audit Division*
- **H C E Harris** (Associate Director)
  - G A Croughton (Secretary of the Bank) — *Secretary's Division*
  - G F J Everett (Head of Division) — *Premises Division*
  - Gordon Midgley (Head of Division) — *Management Services Division*
  - J S Rumins (Head of Division) — *Finance and Resource Planning Division*
  - D A Sharp (Head of Division) — *Personnel Division*
  - T P Sweeney (Adviser) — *Officials' Career Development*

Advisers to the Governor

*J P Charkham
Sir Peter Petrie

* J P Charkham, an Adviser to the Governor, retires on 30 June 1993.
Other changes in 1993 are as follows: J S Beverly becomes Head of Financial Markets and Institutions Division; T A Clark becomes Head of European Division; S P Collins becomes Head of Industrial World Division; M D K W Foot succeeds R A Barnes, who is retiring, as Head of Banking Supervision Division; A R Latter becomes Head of Developing World Division; and Oliver Page becomes Head of Wholesale Markets Supervision Division.

Foreword

In my foreword to last year's Annual Report, I noted the beneficial effect of sterling's ERM membership on inflation and inflationary expectations. But by the summer of 1992 there was growing tension between monetary policy requirements in Germany and monetary policy requirements elsewhere. Tight monetary policies in Germany, responding to inflationary and fiscal pressures there, were transmitting an excessive disinflationary impulse to other ERM countries, and the weakness of the dollar was also contributing to tensions within the ERM.

The Danish referendum result in May led markets to question their previous assumptions about a smooth transition from the prevailing ERM arrangements to full monetary union, and with a French referendum due in September - and with the likely date of a German rate cut looking increasingly distant - speculative pressures increased. Finland abandoned its peg to the ECU on 8 September, and Sweden raised short-term rates to 75%, and later to 500%, to defend its own ECU parity. Over the weekend of 12-13 September the lira was devalued by 7%. In the following week, following a period of extraordinary market turbulence, and very heavy official intervention, sterling and the lira were suspended from the system, and the peseta was devalued by 5%. Even then, tensions among European currencies remained acute. There was heavy speculation against the French franc; the Swedish krona and the Norwegian krone floated; the peseta and the escudo were devalued on 23 November; and the Irish punt was devalued on 1 February.

Sterling's withdrawal from the ERM made it essential to put in place, very rapidly, a new framework which would underpin our counter-inflation objective and carry conviction with the markets. But withdrawal also gave us the opportunity to reduce interest rates to levels which were more appropriate to our domestic circumstances, and to do so earlier than would have been possible had we remained in the ERM and waited for conditions in Germany to allow a fall in rates there. UK base rates were cut by 4% between September and January - all of these reductions fully justified by our rapidly improving inflation performance and the state of the domestic economy.

These reductions could not have taken place had we not made a full response to the major challenge of restating and clarifying the objectives of monetary policy and the means by which their achievement could be judged. Adherence to an ERM parity provided a framework for monetary policy but was not itself a full statement of policy, the basic aim of which was the achievement of price stability. That remains the target. The Chancellor made this explicit in his letter of 8 October to the Treasury and Civil Service Select Committee, in which he set an inflation target of 1%-4%, with the aim of achieving a rate in the lower half of this range by the end of the present Parliament. He set out the indicators which would be taken into account in setting policy to achieve that target and, significantly for the Bank, he asked us to publish, each quarter, an independent assessment of the progress being made towards the Government's inflation objective. In a lecture which I gave to the London School of Economics shortly afterwards, I made it clear that the Bank's assessment would be entirely independent: we regard the new quarterly 'Inflation Report' as a document in which we put our reputation on the line. Two reports have now been published, and I hope it is clear from these how seriously we are taking this new responsibility.

The tensions in the markets both before and after the events of 16 September placed heavy pressures on the Bank's markets divisions, especially the foreign exchange, gilts and money dealers. They demonstrated professional skills of a high order during periods of, at times, intense market turbulence. The year had already been a busy one for the markets divisions: the gilts dealers, in particular, had succeeded in selling substantial amounts of new stock into the rally during the night of the general election, including issuing new tap stocks at 2.30am. As described elsewhere in this Report, a substantial programme of foreign currency borrowing was embarked upon in September, including a revolving bank credit facility, a deutschmark bond and a dollar bond. In addition, there has been a full programme of conventional gilt-edged funding.

Our separate Annual Report under the Banking Act describes the discharge of our supervisory responsibilities over the past year. The unexpected persistence, severity and depth of the recession, and the impact that it had on asset values, caused our major banks to make further significant provisions against bad debts. But these banks had entered the recession soundly capitalised - we implemented the new Basle capital ratios in 1988, ahead of any other country - and they have maintained or improved their capital ratios since.

I noted in last year's Report that we had been keeping under very close review the positions of smaller banks, especially those which drew their funding from the wholesale money markets. These markets had become tighter, as banks from other major centres, often as a result of financial fragility at home, reduced their asset bases by withdrawing funds from wholesale deposit markets. Other participants in UK wholesale money markets in turn sought to retrench, and there was a substantial shrinkage in the pool of funds available to the smaller banks. The pressures on liquidity were exacerbated by the failure of several small banks in 1990 and the early part of 1991, and by the reaction to these failures of some local authorities, who were heavy placers of wholesale funds. All of the smaller banks which drew their funds from these markets were subject to intense monitoring by the Bank, and in some cases direct supervisory action; and all were required to undertake detailed forward planning of their liquidity through what was clearly likely to be a difficult period.

The quite unrelated failure of BCCI, in which several local authorities had placed funds, added to the tension. As has subsequently been disclosed, in the period following the summer of 1991, the Bank provided liquidity support to a small number of the institutions affected, in order to prevent problems in those institutions developing into a wider systemic disturbance. Partly as a consequence of these operations, which were limited in scope, but more importantly because of the wider and very intense monitoring of all institutions in the sector, many of the banks affected have either reduced their business, or found alternative secure sources of funding, despite the continuing attrition of asset values as the recession persisted. The operation was thus successful in averting what could have been a serious and much wider systemic crisis.

Inevitably, the provision of liquidity support to a few institutions involved some risk for the Bank, and as the recession continued to erode asset values and to require additional provisions in some banks, we have felt it prudent ourselves to make provisions of some £115 million against possible losses.

Over the year we have made a number of changes in our supervision in response to Sir Thomas Bingham's Report, which was critical of our approach to the BCCI case. The most important element in his Report, and in our response, was the need to develop a greater awareness of and alertness to the risk of fraud in banking. The specific changes that we have made include the formation of a Special Investigations Unit, responsible for pursuing any indication of fraud or malpractice affecting banks and to co-ordinate with other agencies; extended on-site examination of banks; formation of a new specialist Legal Unit; and strengthened systems for internal communication. These measures are carefully aimed at addressing the rather special concerns raised by the BCCI case, but do not represent a major tightening of supervisory standards as they apply to the generality of banks. Indeed Sir Thomas Bingham considered that the Bank's approach to supervision and that of the Board of Banking Supervision had served the community well, and that nothing in the BCCI episode called for a radical change in the basic system of supervision employed in this country. While the Bank has been criticised for its supervision of BCCI, and I entirely accept the need for the changes we have made, I regard those comments in the Bingham Report as a favourable reflection on our supervisory staff, who do a difficult job in which their many successes are inevitably unseen.

Again we have been focusing closely on payment and settlement issues during the year and I particularly welcome the decision of the APACS banks to convert the UK's main large value payments system, CHAPS, into a real-time gross settlement system by 1995. This will bring about a substantial improvement in our payments systems.

There have been three departures from Court this year: Sir Brian Corby, Lord Haslam and Sir David Walker. I am grateful for their immense contributions to the Bank as Non-Executive Directors, and in Sir David Walker's case also as an Executive Director for a number of years.

Sir Jeremy Morse, who was an Executive Director of the Bank from 1965 until 1972, has re-joined the Court as a Non-Executive Director following his retirement from Lloyds Bank; and Sir Chips Keswick and Frances Heaton have also joined the Court.

This is my last Annual Report as Governor of the Bank. The past ten years have been eventful and challenging. There have been disappointments, most notably the failure to prevent the resurgence of inflation in the late 1980s, but equally some real progress has been made. The need for price stability as a precondition of achieving our economic goals is now more widely talked about, and more widely accepted, than at any time that I can remember. The role of the central bank in delivering price stability is much better understood. This is true internationally: the need to contain inflation has dominated G5 and G7 meetings in my time as Governor; and in Europe the debate on monetary union focused attention on the part that central banks must play in economic management. It is also true at home, now that we have an explicit inflation target and the Bank itself has an explicit role in monitoring its achievement. The Bank's tasks are, I believe, better specified and better understood than in the past; that is to be greatly welcomed.

I am delighted that Eddie George is to succeed me as Governor; he has been a tower of strength throughout my time in the Bank, as an invaluable colleague, and lately making an immense contribution as Deputy Governor. Rupert Pennant-Rea, the new Deputy Governor, will bring to the Bank wide experience and a new perspective. I wish the new Governors well and express deep gratitude to all those who have been my colleagues whether on the Court or the Bank's staff, from all of whom I have always enjoyed loyalty, support and encouragement to the full. I must also thank my colleagues in the central banking community worldwide who have given me a splendid measure of understanding, co-operation and good counsel over the past ten years.

Robin Leigh-Pemberton

Governor of the Bank of England

Report of the Court of Directors

The Court of Directors is pleased to present its Report together with the audited accounts for the Banking and Issue Departments for the year ended 28 February 1993.

The Bank is the central bank of the United Kingdom. Its core purposes are to maintain the value of the currency and the integrity of the financial system, and to promote the efficiency of financial markets.

Financial results

The Banking Department accounts for the year ended 28 February 1993 are given on pages 23-37 and show an operating profit, before exceptional item, of £178.3 million, compared with £191.2 million in 1991/92.

Included in operating profit is £8.3 million from the sale of the Bank's investment in The Agricultural Mortgage Corporation plc which was concluded in February 1993. This is described in more detail below.

Provisions made in respect of support operations reduce the profit by £90 million (1991/92 £25 million). The background to these provisions is discussed below.

After a payment in lieu of dividend to Her Majesty's Treasury of £38.1 million (compared with £67.6 million in the previous year) and a tax charge of £12.1 million (1991/92 £30.9 million), the profit transferred to reserves amounts to £38.1 million which compares with £67.7 million last year.

The accounts for the Issue Department (which are shown on page 38) show that the profits of the note issue were £1,555.5 million, compared with £1,874.7 million in 1991/92. These profits are all payable to the Treasury. 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.

Minories Finance Limited, formerly Johnson Matthey Bankers Limited which was acquired by the Bank in October 1984, has continued to realise its remaining assets and has declared dividends of £5.6 million, equivalent to its surplus for the year to 31 December 1992. This brings the total dividends to date to £77.6 million, enabling the Bank both to repay the £20.7 million contributed by others under the indemnity arrangements (as reported in previous years) and substantially to cover its own costs.

The Agricultural Mortgage Corporation plc

Included in operating profit is £8.3 million from the sale of the Bank's investment in The Agricultural Mortgage Corporation plc, which dates back to 1928. The Bank, along with National Westminster Bank plc, Barclays Bank plc, Midland Bank plc and The Royal Bank of Scotland plc, concluded the sale of their shareholdings in February 1993 to Lloyds Bank plc, an existing shareholder.

The Agricultural Mortgage Corporation plc has an established identity and franchise in the agricultural finance market and provides long-term secured lending. Prior to 1991, its activities were constrained by statute. During the process of deregulation, the shareholders, and in particular the Bank of England, undertook to ensure that the transition from a regulated environment was carried out in an orderly manner. The Bank (and other selling shareholders) had been conscious of these obligations in determining the future of the Corporation and believe that the acquisition of the balance of the share capital by Lloyds Bank plc provides the best outcome for all parties.

Provisions

The Bank has made a provision of £90 million (1991/92 £25 million) in respect of indemnities given to lenders to a number of small authorised banks. For a period following the middle of 1991 the Bank put in place arrangements to support the liquidity of a few small authorised banking institutions which drew their funds largely from the wholesale markets. The support was designed to avert the possibility of more widespread difficulties in the banking system and in the wider economy, and was successful in containing the potential problem. It took place against the background of substantial withdrawals of wholesale funding from smaller banking institutions arising out of a number of factors, including the pressures on banks in major overseas markets, notably the US and Japan, the earlier closure of a number of other small UK banks, followed by BCCI, and the reaction to those events by local authorities and other placers of wholesale funds. The Bank kept the Government informed but there was no Government guarantee.

The markets have become calmer since the period in which these arrangements were put in place, and there has been an improvement in the position of small authorised institutions. Those supported, and many others which were subject to close monitoring at the time, have been able to re-order their affairs, either by securing fresh longer-term funding on a commercial basis, or by adjusting their activities to the funding now available to them, or by winding down their affairs in an orderly manner. Inevitably, as the recession persisted, and asset values eroded further, many institutions had to make still more provisions, and it became necessary for the Bank, also, to make provisions against some of the indemnities granted to creditors of some of the institutions supported.

Activities

The Bank's monetary policy operations are described fully in successive issues of the Quarterly Bulletin; and a full account of banking supervision is given in the Annual Report under the Banking Act, published alongside this Report. This Report covers only those activities of the Bank which are not otherwise reported on a regular basis.

The note issue

The value of the note issue was £16,965 million at the end of February 1993, £844 million (5.2%) larger than a year earlier.

Value of notes in circulation

£ millions

End-February	1990	1991	1992	1993
£1(a)	62	61	59	58
£5	1,539	1,373	1,166	1,163
£10	5,866	5,810	5,743	5,348
£20	4,380	4,847	5,288	6,101
£50	2,292	2,375	2,515	2,732
Other notes (b)	882	909	1,350	1,563
Total	**15,021**	**15,375**	**16,121**	**16,965**

(a) No £1 notes have been issued since 1984.

(b) Includes higher value notes used internally in the Bank eg as cover for the note issues of banks of issue in Scotland and Northern Ireland in excess of their permitted issues.

Number of new notes issued each year, by denomination

Millions

Year to end-February	1990	1991	1992	1993
£5	424	507	355	318
£10	627	619	638	752
£20	194	252	489	329
£50	22	24	21	23
Total	**1,267**	**1,402**	**1,503**	**1,422**

A new £10 note, the third of the Series E denominations, was launched on 29 April 1992. The changeover from the Series D £10 note led to an increase in new £10 notes issued in the year 1992/93. The £10 note remains the most commonly issued denomination, while the demand for £5 notes continues to decline. The fall in the issue of the £20 note in 1992/93 reflects the more normal growth trend after the issue of the new Series E £20 note in 1991.

In response to public comment on the new series, the Bank announced in February 1993 that denomination numerals on Series E notes would be enhanced. A new variant £5 note was issued from 1 March 1993 and new variant £10 and £20 notes will follow in due course. The Series E £50 note will be issued during the first half of 1994.

Legal tender status was withdrawn from the Series D £20 note on 19 March 1993.

The major investment programme in printing machinery and equipment for the Bank of England Printing Works at Debden in Essex continued, enabling further productivity gains to be realised through higher machine speeds and larger sheet sizes. These improvements in the efficiency of the note printing operation have been effected without compromising quality. The trend towards lower staff numbers and reduced unit costs in real terms was also maintained.

During the year thefts were discovered of used bank notes at the Printing Works. The estimated loss was in the order of £1mn. Six staff have been dismissed. There has been one criminal conviction, the recovery of £170,000 has been secured and civil proceedings are being taken to secure further recoveries. Measures have been taken to prevent any re-occurence.

Management of Government debt

The Bank has been active throughout the year in managing a substantial programme of sales of gilt-edged stock to fund the public sector borrowing requirement. Gross sales during the 1992/93 financial year totalled close to £40 billion including £3 billion of calls tied up for the 1993/94 financial year. The scale of funding was therefore considerably larger than in the previous year, when some £18 billion worth of gilt-edged stock was sold.

As in previous years, the opportunity was taken to establish large, liquid benchmark stocks: in some cases existing issues were re-opened and, as yields fell in the second half of the year, new current-coupon benchmark stocks were created. The auction technique was typically used to issue large amounts of these stocks. Five auctions were held at broadly two-monthly intervals, contributing around one third of the total raised.

Auctions were combined with direct placings of stock with the Bank for sale to the gilt-edged market-makers 'on tap'. The flexibility of this mixed approach proved valuable: auctions provided a solid foundation to the funding programme, while placings of stock with the Bank for tap sales enabled the Bank to respond quickly to periods of emerging demand for stock, including during the rally immediately following the General Election result.

Evidence of increasing interest in gilts among personal investors emerged in the second half of the year; the Bank sought to ensure that facilities in the market to accommodate such demand were improved. Since the year-end the Bank has published an information booklet on gilts designed to help personal investors understand the market.

On 3 September 1992 the Government announced that it would borrow foreign currencies in an amount equivalent to ECU 10 billion, to be sold to support sterling. The borrowing programme was begun immediately with an ECU 5 billion multi-currency revolving credit facility with a 3-year maturity which was fully drawn at issue. The balance of the programme was raised by two securities issues. In October 1992 a DM 5.5 billion 5-year eurobond was announced; and the programme was completed by a US$ 3 billion 10-year eurobond announced the following month. At the time they were the largest eurobond issues in the market. Both were issued on the finest terms and have performed well.

In October 1992, following the volatility in the foreign exchanges in August and September, the procedures for the regular monthly tender for ECU 1 billion of Treasury Bills (launched in October 1988) were modified with the Bank setting maximum yields at which bids would be accepted. Subsequent auctions generally saw progressively stronger bidding. In April 1993 the Bank reverted to the normal practice of holding auctions without maximum yields. There are ECU 3.6 billion of Bills outstanding.

In January 1992 a programme of ECU Treasury Notes was initiated to create a series of liquid benchmark securities in the less developed intermediate maturity area of the market. The programme, involving quarterly tenders, has many features in common with the ECU Treasury Bill programme. The first Note (maturing in January 1995) reached a total size of ECU 2 billion. No tender was held in October 1992 in the light of disturbance in the foreign exchange markets. The second Note (maturing in 1996) for ECU 500 million, launched in February 1993, was heavily oversubscribed and tightly priced.

Management of the stock registers

1,132,073 transfers of stock were registered in 1992/93, an increase of almost 25% on 1991/92. 523,316 transfers were effected through the Central Gilts Office, representing 46% of the total.

Transfers registered

Thousands

Year to end-February	1990	1991	1992	1993
Stock transfer forms	557	578	474	609
Electronic transfers through Central Gilts Office	487	473	433	523
Total	**1,044**	**1,051**	**907**	**1,132**

The nominal value of British government securities managed by the Bank rose by 19% to £148,375 million; the total of other securities under management fell by over 10% to £3,491 million. The number of accounts fell by over 7% to 1,252,500 of which 1,237,800 related to British government securities.

Securities in issue under management at the Bank of England.

£ millions nominal End-February	1991	1992	1993
British government securities:			
Registered stock	115,034	124,538	148,343
of which index-linked	*12,548*	*13,348*	*16,362*
Bearer bonds	42	37	32
	115,076	124,575	148,375
Other securities:			
Government-guaranteed	476	428	257
Commonwealth & overseas	3,188	3,262	3,027
Local authorities	81	41	41
The Agricultural Mortgage Corporation plc	169	131	121
Other	45	45	45
	3,959	3,907	3,491
Total	**119,035**	**128,482**	**151,866**

Payment and settlement systems

Payment systems issues remain a high priority for the Bank. Discussions between the Bank and the APACS banks on ways to reduce and ultimately to eliminate risks in London's wholesale payments systems have continued, resulting in significant progress. Initial measures to limit individual banks' exposures to one another in CHAPS, the UK's same-day, high-value electronic payments system, were smoothly implemented during the course of 1992. Also, agreement in principle was reached in September 1992 to develop the present CHAPS system into a real-time gross settlement system by 1995. This was confirmed as feasible in Spring 1993 and work has begun to draw up the detailed system specifications.

The proportion of British government stock held on accounts in the Central Gilts Office continued to rise and had reached nearly 90% of the total value of nominal stock in issue by the end of the year. The percentage of sterling money-market instruments held in the Central Moneymarkets Office also rose to around 90% of the total nominal value of sterling money market instruments outstanding. In early August 1992 the Bank announced its decision to develop similar same-day book-entry transfer facilities for ECU-denominated securities as part of its continuing efforts to enhance the infrastructure of ECU markets in London. It is planned to launch the service in August 1993.

Last year's Report noted that the Bank was also taking steps to strengthen ECU clearing and settlement arrangements, by offering two collateralised liquidity facilities to members of the Ecu Banking Association's Clearing and Settlement system. These facilities were made available from March 1993.

Since the year-end the Bank, following a request from the Chairman of the London Stock Exchange, has established a Securities Settlement Task Force chaired by Mr Kent, an Associate Director. This will make proposals to the Governor, by the end of June, for a system of equity settlement to replace the TAURUS project, which was halted by the London Stock Exchange in March.

European Community developments

The Bank has continued during the year to take part in discussions with City practitioners and government departments and in negotiations in Brussels about Community legislation under the Single Market programme which either is directed at, or may have implications for, financial markets and institutions. The Bank has also participated fully in the work of the Committee of EC Central Bank Governors and its various sub-committees and working groups. In the past year this has included analysis of developments in the European Monetary System, as requested by the European Council at its meeting in Birmingham in September 1992, and preparation of the institutional framework and working procedures which will need to be in place if the European Monetary Institute is to be established on 1 January 1994 as envisaged under the Treaty signed at Maastricht.

Administration of restrictions on Iraq, Serbia and Montenegro

The Bank has continued to administer the restrictions on Iraqi assets which remain in force. In addition, the Bank took on responsibility for administering the sanctions on Serbian and Montenegrin assets which were introduced in June 1992.

Financial Fraud Information Network

Last Autumn the Chancellor announced that he would be establishing new machinery to strengthen communications and co-operation between supervisors and other relevant authorities responsible for deterring, investigating and prosecuting financial fraud. Subsequently, in November 1992, supervisors, certain goverment departments and investigatory and prosecutory agencies combined to form a Financial Fraud Information Network (FFIN). The Bank is a member of FFIN and has provided as its first Chairman Mr Watt, Head of the Bank's Special Investigations Unit, with a Secretariat provided by the Securities and Investments Board. Members of FFIN meet regularly to exchange information which may point to financial fraud or other criminal activity in the UK financial system and to identify appropriate courses of action.

Competitiveness of UK financial markets

Promoting the efficiency and competitiveness of UK financial markets remains an important part of the Bank's role.

The Bank has become directly involved in a variety of market initiatives, usually in response to approaches from practitioners. This has been the case, for example, in relation to plans for a UK Futures and Options Association, and in relation to the Securities Settlement Task Force referred to above.

The Legal Risk Review Committee, under the Chairmanship of Lord Alexander of Weedon, produced its final report in October 1992. Its main proposal was that a permanent Financial Law Panel be established as a forum to tackle any problems of legal uncertainty as they affected the UK wholesale financial markets. The Bank fully endorsed this recommendation, regarding it as an important initiative to strengthen the infrastructure of the UK's financial markets, and took immediate steps to implement it. Lord Donaldson of Lymington, former Master of the Rolls, is to be its first Chairman and other members have subsequently been appointed. The Corporation of London and the Bank have agreed to act as the Panel's co-sponsors and to contribute to its initial funding. A large number of the leading institutions and firms active in the wholesale markets have also agreed to become inaugural subscribers.

The Bank has continued to support the Corporation of London and British Invisibles in their efforts to promote the City of London and UK financial services generally.

Industrial finance

The Bank has continued to make available its good offices to help secure agreement among the bankers to companies in serious financial difficulty. 'The London Approach', which the Bank has promoted, seeks to ensure that decisions by banks on the support of companies in difficulty should be taken in a well-founded and orderly way. It continues to be widely regarded as a sensible and constructive approach to organising multi-bank workouts. There have been very few instances where an attempt to agree the terms of a workout has failed because of irreconcilable differences of view among the banks involved.

Training and technical assistance in central banking

The past year has seen a further increase in both the demand for training and technical assistance in central banking, notably from Eastern Europe, and in the provision of it through the Bank's Centre for Central Banking Studies. The Centre runs training courses mainly for foreign central banks, both in London and abroad, and co-ordinates the provision of technical assistance from the Bank. In the year to end-February 1993, the Centre ran 39 courses - 20 in London, and 19 abroad (four in Romania, three each in Poland and Russia, two in Hungary, and the remainder widely dispersed). To date well over 1,000 trainees from over 100 countries have attended these courses. Highlights of the year were the two-week seminar in London in July for the chairmen of the central banks of the new republics of the former Soviet Union, and the three-week series of courses in St Petersburg with teams of lecturers training over 100 staff of the Central Bank of Russia.

The Bank has continued to provide technical assistance in the form of short-term assignments of senior members of its own staff to many overseas central banks (including those of Bangladesh, the Caribbean, China, the Czech and Slovak Republics, Poland, Slovenia and Zimbabwe), and to the Polish, Romanian and Hong Kong governments. This effort has totalled 478 man days in the year under review. In addition, nine of the Bank's staff on long-term secondment abroad are providing technical assistance. The Bank also actively participates in the provision of technical assistance to Central and Eastern Europe and to Russia and other countries of the former Soviet Union, which is being co-ordinated by the International Monetary Fund. The Bank has seconded one of its senior officials as Adviser to the Governor of the National Bank of Ukraine for most of the past year. Areas where the Bank's expertise has been particularly in demand again include the role of a central bank in a market based economy; monetary and foreign exchange policy and operations; the establishment and functioning of capital markets and government debt management; technical assistance in the field of banking supervision and payment systems; personnel, management and administration; and finally a wide ranging analysis of training needs for a newly reorganised central bank.

The Bank has also seconded one of its officials for another year to British Invisibles to act as their Director for Eastern Europe and is providing support for him through the Centre for Central Banking Studies.

Public information and education

The facilities for visiting groups from educational and other establishments continue to be popular. Schools have also shown considerable interest in the new video discussing the Bank's objectives and functions which complements the series of Fact Sheets on the Bank and related matters. The successful interactive video in the Museum has recently been updated and re-edited.

For the second year running, the Museum has seen an increase in the number of visitors. Over 107,000 visited the Museum during 1992. Two main exhibitions were staged during the year; the first a display of items from the Bank's collection of silver and the second, with a Dickensian theme, to coincide with the issue of the Series E £10 note. In addition the Museum was used as the venue for several external functions including the Annual Lecture and Meeting of the Association of Independent Museums.

'A Domestic History of the Bank of England 1930-1960' by Elizabeth Hennessy was published in July 1992. This companion volume to J S Fforde's official history discusses the Bank's internal administration.

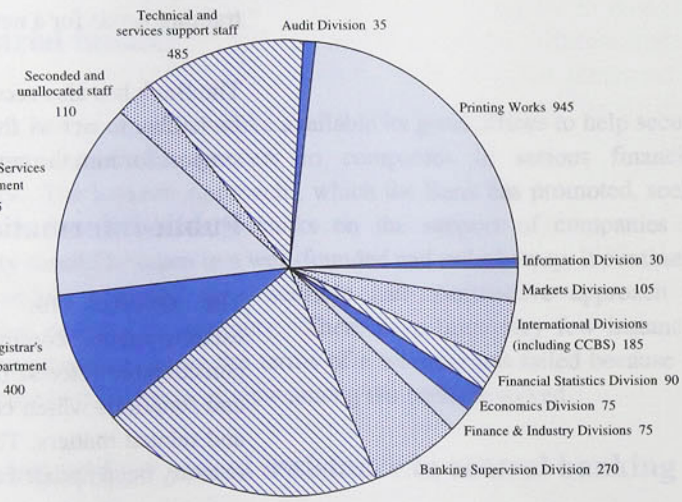
Administration

The average number of persons employed by the Bank and its subsidiaries during the year was 4,570 of whom 4,420 were employed by the Bank. The aggregate remuneration was £101 million. In 1991/92 the average was 4,940 (of whom 4,780 were employed by the Bank). The aggregate remuneration was £104 million.

At 28 February 1993 the Bank employed 4,130 full-time and 215 part-time staff; of these, 185 full-time and 40 part-time staff were engaged on fixed-term contracts. The distribution at the year-end is shown in the following table; part-time staff are included pro rata.

At 28 February 1993 25 members of the Bank's staff were on secondment overseas with other central banks, governments, international institutions and UK missions. Another 19 staff were with UK organisations such as the Panel on Takeovers and Mergers, government departments and banks. The number of inward secondees to the Bank from UK and overseas organisations was 21. The Bank also has two students on sponsored post-graduate economics courses.

Staff numbers at end-February 1993



Banking support staff have been included in the areas where they are working.
Banking Supervision Division figures include the new Special Investigations and Legal Units.

Employment policies

The Bank is an equal opportunities employer and ensures that all job applicants and members of staff receive equal treatment; there is no discrimination on grounds of sex, marital status, colour, religion, racial origin or disability. During the year there have been improvements in facilities for employees with disabilities, co-ordinated by a Disability Project Manager seconded from the Spastics Society under the Fast Track Programme. Staff continued to take advantage of the flexible working arrangements designed to facilitate the combination of career and family life: there are currently 19 women on a career break and 35 women have temporary part-time working arrangements. Those on a career break are able to keep up to date with developments at the Bank by receiving regular notices and by attending a one day annual seminar. The Bank has recently announced enhancements to its leave arrangements for maternity, paternity and carers. As part of the Bank's involvement with the Opportunity 2000 campaign, which aims to increase the quality and quantity of women's participation in the workforce, a series of central and local goals and action plans have been identified.

The Bank's approach to the training and development of staff remains clearly focused on the business needs of the Bank. Some training is delivered by local areas and some centrally by the Training Centre, the intention being to provide an integrated programme ranging from technical, job-related skills training to strategic management for senior managers.

Having reviewed its language training needs in the light of developments in the European Community the Bank is now offering a range of training opportunities which will ensure that staff have the necessary linguistic ability to play their full part in these developments. During the year over 80 members of staff have undertaken language courses, mostly in French and German. A small number of staff have visited language schools in France and Germany for advanced training. During 1993 and 1994 Banking Supervision Division will extend its existing programme of external courses in accountancy, banking and legal issues to include training on alertness to indications of financial fraud and malpractice. The Registrars' Department in Gloucester have committed themselves to attaining 'Investors in people' accreditation and are seeking to supplement their training through National Vocational Qualifications.

The Bank is fully committed to providing a safe and healthy work environment and accepts its responsibilities for looking after the health, safety and welfare of its staff, members of the public, visitors and contractors working within its buildings. Procedures and policies are reviewed regularly to ensure that working practices are kept in line with current legislation. The quality of the Health and Safety training has been recognised by the award of a Commendation for Effective Training in the 1992 National Training Awards.

Information systems

Following a major reappraisal of its Information Systems needs in 1991, the Bank adopted a new long-term strategy. This involved moving away from the centralised provision of shared mainframe facilities towards dedicated departmental computing. In the light of this decision it was apparent that the group of staff operating the mainframe equipment would no longer be required after the implementation of the strategy. The Bank therefore entered into a facilities management agreement with Hoskyns Group plc whereby the shared mainframe service would be contracted out during the transition period and Hoskyns would employ the associated group of staff. This decision resulted in 41 compulsory redundancies.

Community involvement

During the year the Bank contributed a total of £1.5 million in support of its community programme, encompassing donations, sponsorships, secondments and other community-related activities. Of this figure £323,000 was given to charitable organisations and a further £1,177,000 was contributed to a variety of other causes in the UK such as research and academic organisations and enterprise agencies. The Bank has continued to match, on a £1 for £1 basis, donations made by staff and pensioners to registered charities under the Payroll Giving Scheme (Give As You Earn).

The Bank continues to support the following ventures:

Business in the Community
Spitalfields Community Job Link
Windsor Fellowship
Prince's Trust Volunteers
The Industrial Society
Enterprise Agencies
Youth Training
Business/Education Compact
Opportunities for People with Disabilities
Employers Forum on Disability
National Star Centre for Disabled Youth
Blind in Business
Project Fullemploy (within GrandMet Trust)
North Peckham Task Force
Hackney Task Force
Employee Volunteering
Making Training Work
Workwise
The Trident Trust
The City and Inner London North Training and Enterprise Council (CILNTEC)
Raleigh International

As at 28 February 1993 there were 19 members of staff on community secondments. Staff are also given time off to serve their local communities, for example as school governors and as magistrates.

No donations were made for political purposes.

Corporate governance

Under the Bank of England Act, 1946 and The Charters of the Bank of England, the Court of Directors is responsible for the affairs of the Bank. The Governor, the Deputy Governor and the sixteen other members of the Court of Directors are appointed by the Crown. Up to four Directors may serve as Executive Directors.

Statement of Directors' responsibilities

The names of the members of Court are given on page 3 together with the dates of their first appointment and expiry of their current terms. The principal outside appointments of the Non-Executive Directors are also given. The areas of responsibility of the Executive Directors and Associate Directors at 1 March 1993 are set out on page 4.

The current members of the Audit Committee are:- Sir David Scholey (Chairman), Sir Colin Corness, Mr A D Crockett, Sir David Lees, Sir Colin Southgate and Sir Jeremy Morse.

The current members of the Remuneration Committee, which makes recommendations to Court on the salaries of the Governors and the executive members of Court are:- Sir Adrian Cadbury (Chairman), Sir David Scholey, Mr G H Laird, and Sir Colin Corness.

The Bank of England is not governed by the Companies Act 1985 but has chosen, for the accounts of the Banking Department, to comply with the accounting provisions of the Act, as applicable to banks, so far as is appropriate to a central bank. The Court of Directors is responsible for ensuring that these accounts give a true and fair view of the state of affairs of the Banking Department as at 28 February 1993 and of the profit for the year to that date. The accounts of the Issue Department are drawn up in accordance with provisions agreed between the Bank and HM Treasury to implement the requirements of the Currency and Bank Notes Act 1928 and the National Loans Act 1968. The Court of Directors is responsible for ensuring that the accounts are drawn up in accordance with these requirements.

The Court of Directors confirms that suitable accounting policies, consistently applied and supported by reasonable and prudent judgement and estimates, have been used in the preparation of the accounts of the Banking Department. Accounting standards applicable in the United Kingdom have been followed in preparing the accounts of the Banking Department in so far as they are appropriate to a central bank.

Auditors

Coopers & Lybrand will continue as auditors of the Bank.