

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 29 to 43, and the statements of account of the Issue Department on pages 44 to 46.

Respective responsibilities of directors and auditors

As described on page 27 the Bank's Court of Directors is responsible for the preparation of the accounts. It is our responsibility to form an independent opinion on these accounts based on our audit, and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Bank's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the

presentation of information in the accounts, the basis of which is described in Note 1(a).

Opinion

The accounts of the Banking Department have been prepared on the basis set out in Note 1(a) to comply with the requirements of Schedule 9 of the Companies Act 1985 and applicable Accounting Standards in the United Kingdom in so far as they are appropriate to a central bank.

In our opinion

- 1 The accounts on pages 29 to 43 present fairly, on the basis referred to above, the state of affairs of the Banking Department at 28 February 1994 and of the profit, total recognised gains and cash flows for the year then ended.
- 2 The statements of account on pages 44 to 46 present fairly, on the basis described on page 45, the outcome of the transactions of the Issue Department for the year ended 28 February 1994 and its balances at that date.

COOPERS & LYBRAND

*Chartered Accountants
and Registered Auditors*

*London
12 May 1994*

Banking Department

Profit and loss account for the year ended 28 February 1994

	Notes	1994 £m	1993 £m
Profit after provisions and before tax	2	120.2	88.3
Payment to HM Treasury under Section 1(4) of the Bank of England Act 1946	5	48.4	38.1
Tax on profit on ordinary activities	6	24.4	12.1
Retained profit for the year		<u>47.4</u>	<u>38.1</u>

All activities are regarded as continuing.

Statement of recognised gains and losses for the year ended 28 February 1994

	Notes	1994 £m	1993 £m
Profit transferred to reserves		47.4	38.1
Unrealised deficit on revaluation of properties	19	(19.2)	(10.3)
Total recognised gains and losses relating to the year		<u>28.2</u>	<u>27.8</u>

Banking Department

Balance Sheet at 28 February 1994

	Notes	1994 £m	1993 £m
Assets			
Cash		6.7	5.1
Items in course of collection		359.8	367.1
Treasury and other eligible bills	8	797.3	951.3
Loans and advances to banks, the money market and customers	9	7,063.8	5,131.1
Debt securities	10	998.2	990.4
Equity shares	11	33.2	33.2
Shares in subsidiary undertakings	12	59.6	59.6
Tangible fixed assets	13	369.6	370.5
Prepayments, accrued income and other assets		85.1	97.0
Total assets		<u>9,773.3</u>	<u>8,005.3</u>
Liabilities			
Deposits by central banks	14	1,530.4	2,539.8
Deposits by banks	15	1,731.8	1,558.3
Customer accounts	16	5,402.3	2,706.6
Other liabilities	17	146.7	266.7
Capital	18	14.6	14.6
Revaluation reserves	19	223.7	242.9
Profit and loss account	19	723.8	676.4
Total liabilities		<u>9,773.3</u>	<u>8,005.3</u>

E A J GEORGE	Governor
R L PENNANT-REA	Deputy Governor
DAVID SCHOLEY	Director
H C E HARRIS	Associate Director

Banking Department

Cash flow statement for the year ended 28 February 1994

		1994 £m	1993 £m
Net cash inflow from operating activities	Note 21	2,558.9	2,092.6
Payments to the Treasury		(38.1)	(67.6)
Corporation tax paid		(34.8)	(28.2)
		<u>2,486.0</u>	<u>1,996.8</u>
Investing activities:			
Disposal of investments		—	8.9
Investment in subsidiary companies		—	(0.1)
Repayment of loan by subsidiary company		14.0	1.0
Purchase of premises and equipment		(35.6)	(24.9)
Sales of premises and equipment		0.5	3.4
		<u>(21.1)</u>	<u>(11.7)</u>
Increase in cash and cash equivalents	Note 21	<u>2,464.9</u>	<u>1,985.1</u>

Notes to the Banking Department accounts

1 Accounting policies

a Form of presentation of accounts

Although the Bank's financial statements are not subject to the requirements of the Companies Acts, they have been prepared so as to present fairly the state of affairs of the Banking Department and its profit, cash flows and total recognised gains and in accordance with Section 255 of and Part 1 of Schedule 9 to the Companies Act 1985 and applicable Accounting Standards in the United Kingdom in so far as they are appropriate to a central bank: that is with the limitations explained below.

In exceptional circumstances, as part of its central banking responsibilities, the Bank may act as "lender of last resort" to financial institutions in difficulty in order to prevent a loss of confidence spreading through the financial system as a whole. In some cases confidence can best be sustained if the Bank's support is disclosed only when the conditions giving rise to potentially systemic disturbance have improved. Accordingly, although the financial effects of such operations will be included in the financial statements in the year in which they occur, these financial statements may not explicitly identify the existence of such support. However, the existence of such support will be disclosed in the Annual Report when the need for secrecy or confidentiality has ceased.

As a result the Bank's financial statements disclose less detail than would be required under the Companies Acts of the constituent elements of the profit and loss account, particularly of interest income and expense and any provisions for bad and doubtful debts, together with consequential restrictions in detailed disclosures in the balance sheet, cash flow statement and the notes to the financial statements. The 1993 comparatives have been restated accordingly.

The accounts have been prepared on the historical cost basis of accounting, modified to include the revaluation of certain fixed assets.

The Directors consider that the Banking Department constitutes a single business all conducted in the United Kingdom. The Bank of England has no branches or operations abroad. Accordingly, no further analysis into business or geographic segments is appropriate.

b Treasury and other eligible bills

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

c Debt securities and equity shares

British government securities are held as investment securities and 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.

Equity shares are also held as an investment and 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 Tangible fixed assets

The Directors have revalued the Bank's property portfolio as at 28 February 1994 and reflected this in the accounts. This valuation, which has been made by the

Directors, having taken professional advice, is on an open-market for existing use basis and is in addition to the regular five-yearly professional valuation, which was carried out as at 29 February 1992. No account is taken of any liability to taxation which could arise if the premises were disposed of at their revalued amounts. One leasehold property is classified as an investment property.

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

Provision for bad and doubtful debts is made as considered necessary having regard to both specific and general factors. The general element arises in relation to existing losses which, although not separately identified, are known from experience to be present in any portfolio of bank advances. Provision made (less amounts released) during the year is charged against profits.

f Foreign currency translation

Assets and liabilities denominated 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. Other retirement benefits, including healthcare for certain pensioners, are treated in these accounts on the basis of the annual premium payable or other cost.

2 Profit on ordinary activities before tax

	1994 £m	1993 £m
Is stated after:		
(i) Staff costs:		
- wages and salaries	79.5	80.6
- social security costs	6.6	6.2
- other pension costs	12.8	1.7
(ii) Income:		
- income from unlisted investments	10.7	8.9
- charges for services to HM Government	49.5	49.2
- rents	4.6	3.8
- profit on sale of investments	-	8.6
(iii) Charges:		
- cost of severance schemes	2.9	4.3
- hire of computers and equipment	1.1	1.0
- other operating lease rentals	1.9	1.9
- depreciation of premises and equipment	16.3	16.4

The auditors' remuneration was £124,000 (1993 £120,000).

The auditors' remuneration for non-audit work was £326,000 (1993 £195,000).

More details of the Bank's operations during the year are given in the Directors' Report.

3 Emoluments of Directors

	1994 £	1993 £
Fees	11,500	11,500
Remuneration of Governors and Executive Directors	952,223	920,921
Payments in respect of notional benefits of travel on		
Bank business	9,456	24,880
Pension contributions	244,707	123,093
Pensions to former Directors and widows of former Directors	87,547	63,269
	<u>1,305,433</u>	<u>1,143,663</u>

The increase in pension contributions for Governors and Executive Directors is the result of an increase in the rate of contribution following an actuarial valuation. The Bank made no pension contribution in respect of Non-Executive Directors.

The office of Governor was held by two people during the year. Lord Kingsdown, who served from 1 March to 30 June 1993, and Mr E A J George, who has served since 1 July 1993. Their fees and other emoluments were:

	1994		1993
	Lord Kingsdown	Mr George	Lord Kingsdown
	£	£	£
Fees	667	1,333	2,000
Remuneration	75,000	150,000	190,865
	<u>75,667</u>	<u>151,333</u>	<u>192,865</u>

In the year ended 28 February 1993 remuneration of £34,135 was waived by Lord Kingsdown.

In addition, in 1994 Lord Kingsdown received other benefits of £2,492 (1993 £3,732) and Mr George received other benefits of £3,353. Mr George also received £500 in fees and £65,842 as remuneration in respect of his service as Deputy Governor from 1 March to 30 June 1993.

The following table shows for the year ended 28 February the number of Governors and Directors receiving remuneration, including payments in respect of notional benefits of travel on Bank business, within the bands stated.

Emoluments £	Directors	
	1994	1993
0 - 5,000	12	12
20,001 - 25,000	1	—
75,001 - 80,000	1	—
115,001 - 120,000	1	—
120,001 - 125,000	1	—
125,001 - 130,000	1	1
130,001 - 135,000	1	1
140,001 - 145,000	1	1
145,001 - 150,000	—	1
190,001 - 195,000	—	1
205,001 - 210,000	—	1
220,001 - 225,000	1	—

4 Pension costs

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 by 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 1993, used the projected unit method and showed that the actuarial value of the Fund's assets represented 108% 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 £1,010 million and the required contribution rate was 19.5%. The surplus will continue to 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 1/2% and the rate of increase in pensions by 4 1/2%. It was also assumed that the equity dividend growth would equal the rate of future pension increases.

The pension cost for the year was £12.8 million (1993 £1.7 million) of which £1.6 million (1993 £1.7 million) was recharged to the Issue Department. The increase in pension costs is the consequence of the new actuarial valuation showing a significantly reduced surplus on the Pension Fund. £27.4 million (1993 £31.3 million), representing the excess of the amounts funded over the cost, is included in other assets.

In addition, the Bank provides healthcare cover and other post-retirement benefits for 2,300 employees and pensioners. The charge to the profit and loss account for the year in respect of these benefits was £1.4 million (1993 £1.9 million). The present value of the accumulated post-retirement obligation is estimated at some £50 million (1993 £80 million), net of tax, for which no provision has been made in these accounts. The reduction in the estimated liability from the £80 million disclosed last year is the result of refinements in the actuary's calculations and the availability of better data on healthcare costs.

5 Payment to the Treasury

	1994 £m	1993 £m
Payable 5 April	22.4	21.9
Payable 5 October	26.0	16.2
	<u>48.4</u>	<u>38.1</u>

6 Tax on profit on ordinary activities

	1994 £m	1993 £m
United Kingdom corporation tax at 33%	18.4	32.0
Tax credit on franked investment income	1.1	1.3
Prior year corporation tax	0.1	—
Deferred taxation	4.8	(21.2)
	<u>24.4</u>	<u>12.1</u>

The charge for taxation is computed on the residual profit on ordinary activities after deduction of the payment to HM Treasury (in lieu of dividend). The charge has been reduced by £2 million (1993 £1 million) in respect of taxation likely to be deferred for the foreseeable future in respect of timing differences.

The deferred tax liability of £7.3 million, included in other liabilities, is comprised as follows:

	1994 £m	1993 £m
Short-term timing differences	10.6	11.5
Accelerated capital allowances	2.0	2.0
Other timing differences	(5.3)	(11.0)
	<u>7.3</u>	<u>2.5</u>

Tax of £12 million (1993 £10 million) has not been provided in respect of further accelerated capital allowances as the provision at 28 February 1994 is considered adequate.

7 Assets and liabilities

	1994 £m	1993 £m
Sterling/non-sterling analysis of assets and liabilities:		
Assets:		
Denominated in sterling	8,357.3	5,694.4
Denominated in currencies other than sterling	1,416.0	2,310.9
	<u>9,773.3</u>	<u>8,005.3</u>
Liabilities:		
Denominated in sterling	8,358.8	5,696.2
Denominated in currencies other than sterling	1,414.5	2,309.1
	<u>9,773.3</u>	<u>8,005.3</u>

8 Treasury bills and other eligible bills

	1994 £m	1993 £m
British government Treasury bills	647.6	275.7
Other eligible bills	149.7	675.6
	<u>797.3</u>	<u>951.3</u>

9 Loans and advances to banks, the money market and customers

	1994 £m	1993 £m
Repayable on demand	391.5	306.5
Remaining maturity:		
- over 5 years	64.7	80.2
- 5 years or less but over 1 year	13.2	12.3
- 1 year or less but over 3 months	201.9	37.2
- 3 months or less	<u>6,392.5</u>	<u>4,694.9</u>
	<u>7,063.8</u>	<u>5,131.1</u>
Of which due from subsidiary undertakings (unsubordinated)	<u>0.2</u>	<u>14.3</u>
Sterling accounts:		
- money market and banks	5,550.8	2,708.2
- other	98.5	113.5
Foreign currency accounts:		
- banks	1,414.5	2,309.4
	<u>7,063.8</u>	<u>5,131.1</u>

10 Debt securities

	1994		1993	
	Balance sheet £m	Market value £m	Balance sheet £m	Market value £m
Investment securities:				
- British government securities, listed on a recognised UK exchange	<u>998.2</u>	<u>1,263.3</u>	<u>990.4</u>	<u>1,218.5</u>
	Cost	Discounts and premiums	Carrying value	
	£m	£m	£m	
At 1 March 1993	933.4	57.0	990.4	
Amortisation of discounts and premiums		12.8	12.8	
Redemptions	(4.3)	(0.7)	(5.0)	
At 28 February 1994	<u>929.1</u>	<u>69.1</u>	<u>998.2</u>	

11 Equity shares

	1994		1993	
	Balance	Directors'	Balance	Directors'
	sheet-cost	Valuation	sheet-cost	Valuation
	£m	£m	£m	£m
Investment securities - unlisted	<u>33.2</u>	<u>146.6</u>	<u>33.2</u>	<u>119.8</u>

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

	Percentage held	
	1994	1993
3i Group plc shares of £1 (Registered in England)	14.5	14.6
Bank for International Settlements shares of 2,500 Swiss gold francs (25% paid) (Incorporated in Switzerland)	10.1	10.1

12 Shares in subsidiary undertakings

	£m
Cost at 1 March 1993 and 28 February 1994	<u>59.6</u>

The accounts of the subsidiaries detailed in (a) and (c) below have not been consolidated with those of the Banking Department because, in the opinion of the Directors, the effect of including their assets, liabilities and profits with those of the Banking Department would not be material.

(a) Minorities Finance Ltd

Throughout the year ended 28 February 1994, 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. In addition, 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 1993 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 accounts of MFL show:

Profit for the year to 31 December 1993	£3.0 million
Accumulated reserves as at 31 December 1993 after provision for dividends of £3 million	£8.1 million
Net assets at 31 December 1993 after provision for dividends	£45.6 million

(b) Subsidiaries in liquidation

A wholly owned subsidiary, Slater, Walker Ltd, which the Bank acquired through support operations has been in members' voluntary liquidation throughout the year to 28 February 1994. The company is registered in England.

The investment in this company is included in the Bank's balance sheet at £17 million.

A further wholly owned subsidiary, EBS Investments Ltd, also acquired through a support operation, was dissolved during the year.

(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 an aggregate cost of £5.1 million 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 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:

	£m
For the year ended 28 February 1994	0.5
Since formation	1.1

13 Tangible fixed assets

	Freehold land and buildings	Leases of 50 years or more unexpired	Leases of less than 50 years unexpired	Equipment	Total
Cost or valuation					
At 1 March 1993	191.0	143.9	2.4	107.3	444.6
Additions	4.0	6.1	—	7.2	17.3
Transfer from a subsidiary	21.0	—	—	—	21.0
Disposals	—	—	—	(7.6)	(7.6)
Transfers	—	(0.3)	—	0.3	—
(Deficit)/surplus on revaluation	(53.6)	11.4	(0.3)	—	(42.5)
At 28 February 1994	<u>162.4</u>	<u>161.1</u>	<u>2.1</u>	<u>107.2</u>	<u>432.8</u>
Accumulated depreciation					
At 1 March 1993	11.8	1.0	0.1	61.2	74.1
Charge for the year	6.7	0.4	0.1	9.1	16.3
Transfer from a subsidiary	3.2	—	—	—	3.2
On disposals	—	—	—	(7.1)	(7.1)
Written back on revaluation	(21.7)	(1.4)	(0.2)	—	(23.3)
At 28 February 1994	<u>—</u>	<u>—</u>	<u>—</u>	<u>63.2</u>	<u>63.2</u>
Net book value					
at 28 February 1994	<u>162.4</u>	<u>161.1</u>	<u>2.1</u>	<u>44.0</u>	<u>369.6</u>
Net book value					
at 28 February 1993	<u>179.2</u>	<u>142.9</u>	<u>2.3</u>	<u>46.1</u>	<u>370.5</u>
Cost or valuation at					
28 February 1994 comprised:					
At 1994 valuation	162.4	161.1	2.1	—	325.6
At Cost	<u>162.4</u>	<u>161.1</u>	<u>2.1</u>	<u>107.2</u>	<u>432.8</u>

The figures relating to property interests reflect a Directors' valuation, based on professional advice, of Bank freehold and leasehold premises as at 28 February 1994, on an open-market value for existing use basis. Included in leasehold premises (50 years and over) is an investment property held at open-market value of £153.0 million (1993 £134.7 million) which was valued by St Quintin, Chartered Surveyors, as at 28 February 1994.

Contracts for capital expenditure authorised by the Directors and outstanding at 28 February 1994 totalled £24.8 million (1993 £4.7 million). Further capital expenditure authorised at that date, but not contracted for, is estimated at £16.9 million (1993 £15.1 million).

14 Deposits by central banks

	1994 £m	1993 £m
Remaining maturity:		
- 1 year or less but over 3 months	130.7	33.4
- 3 months or less but not repayable on demand	1,050.2	1,757.9
Repayable on demand	<u>349.5</u> <u>1,530.4</u>	<u>748.5</u> <u>2,539.8</u>

15 Deposits by banks

	1994 £m	1993 £m
Cash ratio deposits	1,420.7	1,409.1
Other deposits repayable on demand	<u>311.1</u> <u>1,731.8</u>	<u>149.2</u> <u>1,558.3</u>

Cash ratio deposits are computed on the basis of banks' eligible liabilities. Any change in the amount due, as a result of either the gain or loss of authorisation under the Banking Act 1987, the twice yearly recalculation of deposits or a change in the percentage used for calculation, is payable immediately.

16 Customer accounts

	1994 £m	1993 £m
Remaining maturity:		
- 1 year or less but over 3 months:		
Other deposits	67.5	0.1
- 3 months or less but not repayable on demand:		
Public deposits	27.9	38.4
Other deposits	72.9	134.9
Repayable on demand:		
- Public deposits	1,522.4	2,301.8
- Deposit by Issue Department	3,500.0	-
- Other deposits	<u>211.6</u> <u>5,402.3</u>	<u>231.4</u> <u>2,706.6</u>

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

17 Other liabilities

	1994 £m	1993 £m
Include:		
Payable to HM Treasury	48.4	38.1
Due to subsidiaries	27.8	22.8

18 Capital

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

19 Reserves

	Profit and loss account	Revaluation reserve	Investment property revaluation reserve	£m Total
Balance at 1 March 1993	676.4	141.6	101.3	919.3
Retained profit for the year	47.4	-	-	47.4
(Deficit)/surplus on revaluation of properties	-	(33.5)	14.3	(19.2)
Balance at 28 February 1994	<u>723.8</u>	<u>108.1</u>	<u>115.6</u>	<u>947.5</u>

20 Statement of reconciliation of shareholder's funds

	1994 £m	1993 £m
Shareholder's funds at 1 March	933.9	906.1
Retained profit for the year	47.4	38.1
Deficit on revaluation of properties	(19.2)	(10.3)
Shareholder's funds at 28 February	<u>962.1</u>	<u>933.9</u>

21 Cash flow statement

(i) Reconciliation of operating profit to net cash inflow from operating activities

	1994 £m	1993 £m
Profit after provisions and before tax	120.2	88.3
Decrease/(increase) in interest receivable and prepaid expenses	17.8	(19.6)
(Decrease)/increase in interest payable and accrued expenses	(7.2)	10.2
Depreciation	16.3	16.4
Profit on sale of other investments	—	(8.6)
Effect of provisions, deferrals and accruals on operating activity cash flow	(24.9)	76.5
Net cash flow from trading activities	<u>122.2</u>	<u>163.2</u>
Net (decrease)/increase in foreign currency deposits	(894.6)	462.0
Net increase in other deposits	2,755.9	1,968.1
Net decrease/(increase) in foreign currency accounts with banks	894.9	(462.2)
Net (increase)/decrease in advances to banks and customers	(329.1)	12.9
Net (increase)/decrease in other assets	(2.0)	4.3
Decrease in securities held	4.3	—
Decrease/(increase) in items in course of collection	7.3	(55.7)
Net cash inflow from operating activities	<u>2,558.9</u>	<u>2,092.6</u>

(ii) Analysis of changes in cash and cash equivalents during the year

	1994 £m	1993 £m
Balance at 1 March	3,664.1	1,679.0
Net cash inflow	2,464.9	1,985.1
Balance at 28 February	<u>6,129.0</u>	<u>3,664.1</u>

(iii) Analysis of the balances of cash and cash equivalents

	1994 £m	Change in year £m	1993 £m
Cash	6.7	1.6	5.1
Advances to money market and certain banks	5,325.0	2,617.3	2,707.7
Treasury and other eligible bills	797.3	(154.0)	951.3
	<u>6,129.0</u>	<u>2,464.9</u>	<u>3,664.1</u>

Advances to money market and certain banks and Treasury and other eligible bills are treated as cash equivalents as they represent the Bank's principal liquidity. The allocation of this liquidity between advances and bills depends on prevailing market conditions.

22 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:

	Total amount £000	Number
Directors	124	4
Officers	1,133	19

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.

23 General

(i) Operating lease commitments

	1994		1993	
	Land and buildings	Computer and other equipment	Land and buildings	Computer and other equipment
	£m	£m	£m	£m
At the year end, annual commitments under non-cancellable operating leases were:				
expiring:				
- within one year	—	0.1	—	—
- between one and five years	—	0.9	—	0.9
- in five years or more	0.7	—	1.9	—
	<u>0.7</u>	<u>1.0</u>	<u>1.9</u>	<u>0.9</u>

(ii) Average number of employees

The average number of persons employed by the Bank (excluding those at the Printing Works who are shown separately in the Issue Department accounts) during the year was made up as follows:

	1994	1993
Managers	279	283
Clerical staff	2,439	2,517
Others	597	605
	<u>3,315</u>	<u>3,405</u>

24 Contingent liabilities

Contingent liabilities and commitments, some of which are offset by corresponding obligations of third parties, arise in the normal course of business, including contingent liabilities in respect of guarantees and indemnities in connection with liquidity support operations. In addition, there are forward contracts for the purchase and sale of foreign currencies. Provision is made for any estimated irrecoverable liability that may arise from these transactions.

In 1993, a writ was issued against the Bank by certain depositors in the Bank of Credit and Commerce International SA claiming substantial but unquantified damages. The Bank's Directors are of the opinion that the Bank has a strong defence against the claim and will defend the action vigorously. Accordingly no provision is made in these accounts.

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 £214 million (1993 £193 million).

25 Date of approval

The Court of Directors approved the accounts on pages 29 to 43 on 12 May 1994.

Issue Department

Account for the year ended 28 February 1994

1993 £m		1994 £m	1994 £m
	Income and Profits:		
777.8	Securities of, or guaranteed by, the British government	354.9	
838.9	Other securities	824.5	
<u>1,616.7</u>			1,179.4
	Expenses:		
38.8	Cost of production of Bank notes	38.8	
19.4	Cost of issue, custody and payment of Bank notes	20.7	
3.0	Other expenses	2.9	
<u>61.2</u>			62.4
<u>1,555.5</u>	Payable to the Treasury		<u>1,117.0</u>

Statement of balances: 28 February 1994

1993 £m		1994 £m	1993 £m		1994 £m
	Notes issued:		11.0	Government debt	11.0
16,965.1	In circulation	17,163.5	3,139.7	Other securities of, or guaranteed by, the British government	1,036.2
4.9	In Banking Department	6.5			
			13,819.3	Other securities and assets including those acquired under repurchase agreements	16,122.8
<u>16,970.0</u>		<u>17,170.0</u>	<u>16,970.0</u>		<u>17,170.0</u>

E A J GEORGE	Governor
R L PENNANT-REA	Deputy Governor
DAVID SCHOLEY	Director
H C E HARRIS	Associate Director

Notes to the Issue Department accounts

1 Accounting policies

The statements of account are prepared in accordance with the requirements of the Currency and Bank Notes Act 1928 and the National Loans Act 1968. All profits of the note issue are payable to the National Loans Fund.

- a The statements of account are prepared on the basis of amounts received and paid as modified by the effects of the revaluation of securities.
- b All securities are revalued and are stated in the balance sheet at this valuation. Longer-dated stocks are valued at mid-market prices. Bills are valued at an average price approximating to market price. The last valuation was made at 25 February 1994.
- c If the revaluation of securities shows a net gain this is included in income. A deficit is not taken against income but is offset against payments of profit to the National Loans Fund.
- d Assets acquired under repurchase agreements have been reclassified to conform with this year's presentation in the accounts.

2 Staff costs

Included within the expenses of note issue is the cost of staff at the Printing Works:

1993		1994
£m		£m
19.5	Wages and salaries	18.5
1.5	Social security costs	1.5
1.7	Other pension costs	1.6
<u>22.7</u>		<u>21.6</u>

The average number of persons employed at the Printing Works during the year was 972 (1993 1,011)

3 Notes in circulation

1993		1994
£m		£m
58.2	£1 (a)	57.3
1,162.5	£5	1,135.1
5,347.6	£10	5,245.3
6,101.6	£20	6,817.8
2,732.0	£50	2,883.9
1,563.2	Other notes (b)	1,024.1
<u>16,965.1</u>		<u>17,163.5</u>

- a No £1 notes have been issued since 1984.
- b Includes higher value notes used internally in the Bank, for example as cover for the note issues of banks of issue in Scotland and Northern Ireland in excess of their permitted issues.

4 Government debt

This represents the debt incurred by the Government to the Bank up to 1834 and the balance has remained unchanged since then.

5 Other securities of, or guaranteed by, the British government

These include partly paid stocks, Treasury bills and any Ways and Means advance to the National Loans Fund.

6 Other securities and assets including those acquired under repurchase agreements

1993 £m		1994 £m
9,892.0	Commercial bills	8,164.6
4.0	Local authority bills	—
1,266.0	Promissory notes	807.8
—	Deposit with Banking Department	3,500.0
2,657.3	Other assets	3,650.4
<u>13,819.3</u>		<u>16,122.8</u>

7 Date of approval

The Court of Directors approved the statements of account on pages 44 to 46 on 12 May 1994.

Addresses and telephone numbers

London	Head Office	Threadneedle Street London EC2R 8AH	071-601 4444 ⁽¹⁾
	Clearing Centre	161 City Road London EC1V 1PA	071-601 4444
	Printing Works	Langston Road Loughton Essex IG10 3TN	081-508 6221
Gloucester	Registrar's Department	Southgate House Southgate Street Gloucester GL1 1UW	0452 398000
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	East Anglia and South East	Industrial Finance Division Bank of England Threadneedle Street London EC2R 8AH	071-601 4335
	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 may be made on 071-601 4878.

Enquiries relating to the Bank of England Quarterly Bulletin and Inflation Report may be made on 071-601 4030.