Bank of England Report and accounts 1995

Bank of England

Report and accounts for the year ended 28 February 1995

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Court of Directors

1 March 1995

	Date of first appointment	Expiry date of current appointment
Edward Alan John George, *Governor* *(First appointed to the Court 1 March 1982 and appointed Deputy Governor 1 March 1990)*	1 July 1993	30 June 1998
Rupert Lascelles Pennant-Rea, *Deputy Governor*	1 July 1993	30 June 1998 *
Sir David James Scott Cooksey *(Chairman, Advent Ltd)*	1 March 1994	28 February 1998
Frances Anne Heaton *(Director, Lazard Brothers & Co., Ltd)*	1 March 1993	28 February 1997
Sir Christopher Anthony Hogg *(Chairman, Reuters Holdings plc)*	1 March 1992	29 February 1996
Pendarell Hugh Kent *(Executive Director)*	1 January 1994	28 February 1997
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
Sir David Bryan Lees *(Chairman, GKN plc)*	1 March 1991	28 February 1999
Sheila Valerie Masters *(Partner, KPMG)*	1 March 1994	28 February 1998
Sir Christopher Jeremy Morse KCMG *(Former Chairman, Lloyds Bank plc)*	1 March 1993	28 February 1997
Ian Plenderleith *(Executive Director)*	1 March 1994	28 February 1998
Brian Quinn *(Executive Director)*	1 April 1988	29 February 1996
Sir David Gerald Scholey CBE *(Executive Chairman, S G Warburg Group plc)*	1 March 1981	28 February 1998
Neville Ian Simms *(Deputy Chairman and Group Chief Executive, Tarmac plc)*	1 March 1995	28 February 1999
David Alec Gwyn Simon CBE *(Deputy Chairman and Group Chief Executive, The British Petroleum Company plc)*	1 March 1995	28 February 1999
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 1999

Hugh Harris, an Associate Director, retired from the Bank on 30 November 1994.

Sir Colin Corness and Sir Martin Jacomb retired on 28 February 1995 on completing their terms of office. Neville Simms and David Simon CBE were appointed with effect from 1 March 1995.

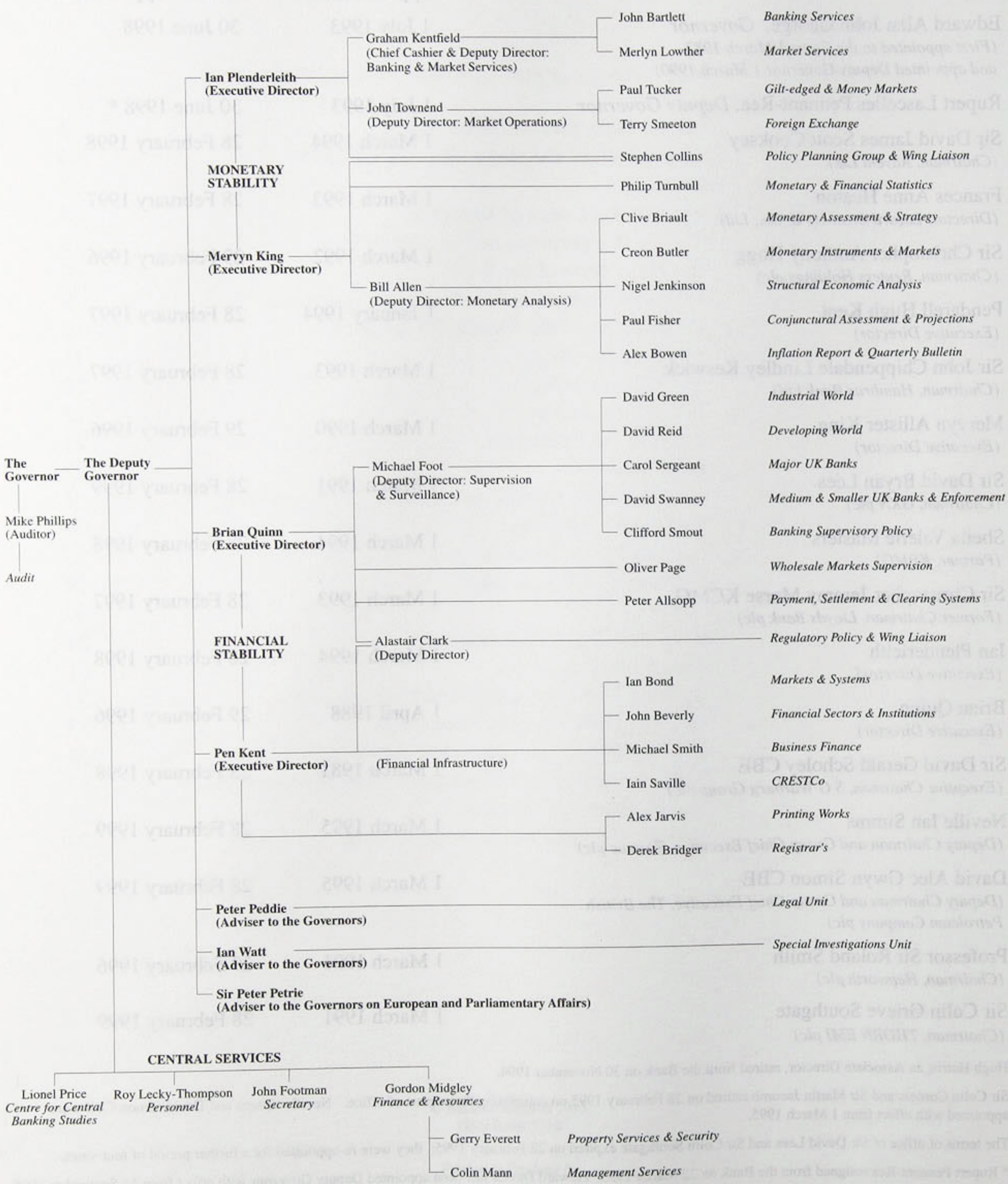
The terms of office of Sir David Lees and Sir Colin Southgate expired on 28 February 1995; they were re-appointed for a further period of four years.

* Rupert Pennant-Rea resigned from the Bank on 22 March 1995. Howard Davies has been appointed Deputy Governor with effect from 11 September 1995.

Secretary of the Bank J R E Footman

Organisation of the Bank

March 1995



Foreword

In my Report last year, I suggested that the Government's new monetary framework - an unambiguous counter-inflation objective, and a more transparent policy-making process - had laid the foundation for steady, non-inflationary growth. The need, then, was for expectations of inflation in the markets and in the economy at large to adjust to the prospect of low inflation; the faster they did so, the more swift and costless would be the achievement of a more stable economic environment.

Over the past year monetary policy actions have been directed to shaping those expectations. A year ago, we were at the low point of the interest rate cycle - some would have said we were still in the downward phase. But the recovery was gathering pace, and in time the pressures of demand could threaten to feed through to inflation. Our readiness to respond promptly to that prospect was to be the first real test of the new framework. The evidence was, of course, far from clear cut but by early autumn the balance of risks pointed towards raising interest rates.

Since September 1994, the Chancellor has, on the Bank's advice, increased interest rates by 1fi% and his readiness to do this, in response more to the prospect of higher inflation rather than to any contemporary evidence of it, marked a decisive break with the past. The message could not have been clearer; we were and remain prepared to pre-empt inflation, rather than just react to it. By doing this, we believe we can safeguard the recovery and sustain it, and ensure that the eventual rise in rates, through the cycle as a whole, will be less than it would have been had we waited. The evidence, both from financial markets and the real economy, that the implications of our actions have been understood and indeed welcomed, has been encouraging.

The arrangements for monetary policy transparency now have two essential features. First, our *Inflation Report*, which provides a quarterly assessment of the prospect of achieving the Government's inflation target; that is now firmly established as providing, in an independent and authoritative way, the background to our monetary policy decisions. Second, we now have a year's experience of the publication of the minutes of my monthly monetary policy meetings with the Chancellor. This has exposed, very publicly, the technical debate about the short-term policy settings necessary to achieve the inflation target. Both of these innovations have exposed the Bank's analysis far more than in the past; only if our analysis is well-founded will the credibility gains of recent years be retained.

Favourable economic conditions have led to an improvement in the profitability of large UK banks and, until the end of the year, I would have described the supervisory side of the Bank's work as relatively quiet. But towards the end of February, Barings failed after discovering massive losses in their Far East futures business - losses which substantially exceeded their entire capital base. It was clear to the Bank, from the outset, that this was not a case where our own capital should be put at risk. It was a case of insolvency, not illiquidity, so any injection of money from the Bank would have involved near-certain loss; and the risks of knock-on effects through the financial system as a whole seemed to us relatively small. Nevertheless we were ready to explore the possibility of a private sector rescue. But with Barings' losses unquantifiable at that stage, a rescue proved impossible, and Barings went into administration, with the bulk of its business being subsequently sold by the administrator to Internationale Nederlanden Group NV.

The Barings failure is now the subject of an enquiry by the Board of Banking Supervision, which will establish the facts that led to the bank's collapse and draw out any lessons there may be for supervisory and regulatory arrangements. We will, of course, pay close attention to the report and any supervisory and regulatory issues will be addressed in the coming year.

The past year has seen the new European Monetary Institute (EMI) installed in Frankfurt. The Bank is playing a full and active part in its work. Ten of our staff are working in Frankfurt on attachment to the EMI, and much parallel work is in train in the Bank. A key part of the EMI's task is to prepare for monetary union; this means advising on the achievement of economic convergence, which is a critical prior condition of any move to EMU, and undertaking technical preparations, for example on the formulation and execution of monetary policy and on payments systems and notes and coin. Whether or not EMU goes ahead, and whether or not the United Kingdom is involved, it is important that the Bank should play a full part in this preparatory work so as to ensure that the choices are clearly and sensibly specified and that the system, should we join it, is fully thought through.

Another area of intense activity has again been in domestic payments and settlement systems. The Real-Time Gross Settlement project is nearing completion and will become operational over the next eighteen months. This will be a major advance, increasing the efficiency and greatly reducing the inherent risk in the large-value domestic sterling payments systems. Work on CREST has continued, with the project remaining on schedule and within budget. During the year a private company, CRESTCo Ltd, was formed to own and eventually manage the project.

Last year we celebrated the Bank's tercentenary, and were honoured by a visit to the Bank by Her Majesty the Queen, following a service of thanksgiving at St Paul's Cathedral. Earlier, I had been able to welcome more than 100 central bankers from around the world at a symposium on the future of central banking.

1994 also saw much internal change in the Bank. To allow for a fuller debate on major issues, the Court of Directors now meets for an extended session each month, and we have taken many steps to involve Court more closely and continuously in the Bank's strategic planning. More generally, the major internal reorganisation, which was at the planning stage at the time of last year's Report, has now been completed. It has been the most comprehensive restructuring for many years. The new management structure reflects very closely our core purposes - the achievement of monetary and financial stability, and the promotion of the efficiency and effectiveness of the financial sector. In the main, the new structure is functioning well and we are now working through some of the implications for personnel planning.

Rupert Pennant-Rea played a very large part in masterminding these changes. We were all greatly saddened by his resignation in March. He had made a major contribution to our work, not least through his dedicated and imaginative contribution to the reorganisation of the Bank. Howard Davies will be joining the Bank in September 1995, and I look forward to working with him.

Martin Jacomb and Colin Corness retired from the Court in February 1995, and I am grateful to both for their contributions. In their place, we welcome David Simon, the Chief Executive of BP, and Neville Simms, the Chief Executive of Tarmac. We remain fortunate in our ability to secure Directors of such calibre. I am also grateful to Hugh Harris, who retired from the Bank last year after 35 years service, much of it in the Personnel and Corporate Services areas which, as Associate Director, he headed.

Radical changes such as took place last year are not achieved without much uncertainty and upheaval and I am grateful to all of the staff for the flexibility and forbearance that they showed at all stages. I believe we have now a structure which will encourage and reward excellence and promote the achievement of our aims.

Governor of the Bank of England

Report of the Court of Directors

The Court of Directors is pleased to present its Report with the audited financial statements for the Banking Department and statements of account for the Issue Department for the year ended 28 February 1995.

The Bank's purposes and responsibilities

As the central bank of the United Kingdom, the Bank of England is committed to promoting the public good by maintaining a stable and efficient monetary framework as its contribution to a healthy economy. In pursuing this goal it has three core purposes: maintaining the integrity and value of the currency; maintaining the stability of the financial system, both domestic and international; and seeking to ensure the effectiveness of the UK's financial services sector. Although the Bank's three core purposes relate primarily to the UK, achieving them requires the Bank to understand the international developments that may have a bearing on them and to co-operate actively with other monetary authorities and international organisations.

Reorganisation of the Bank

In July 1994 a reorganisation of the Bank's internal structure took effect. The aim was threefold: to achieve a management structure which related much more directly to the Bank's core purposes; to bring the staff responsible for the Bank's operational and analytical work more closely together; and to ensure that the Bank has the right number of staff with the appropriate skills in the right places. As the organisation chart (page 4) shows, the changes group many of the Bank's activities into two wings, focusing on monetary stability and financial stability respectively, and embracing all aspects of the Bank's three core purposes, as well as drawing together the domestic and international dimensions of the Bank's work. The new Monetary Stability wing extends from domestic and international economic and monetary analysis, through preparation of the Bank's monetary policy advice and *Inflation Report*, to implementation of policy in the markets and to the banking services which support the Bank's policy operations. It is also responsible for collecting and publishing a range of monetary and financial statistics, which are used for monetary policy purposes and to assist banking supervision. The Financial Stability wing brings the Bank's statutory and non-statutory supervision together with surveillance of domestic and international markets and systems, co-operation with other financial supervisors both in the UK and overseas, and work on payment and settlement arrangements. It also covers the activities associated with promoting the efficiency and competitiveness of the UK's financial sector, such as acting as a catalyst to ensure that London and other UK financial centres develop the necessary financial infrastructure to maintain the UK's international competitive position, and that the UK continues to provide the most effective and efficient forms of corporate finance.

One consequence of these changes has been the disappearance of the separate International and Economics Divisions. Since the Bank's international work is an integral part of most of its other activities, the decision was taken to combine the resources and skills accordingly. International macroeconomic analysis has, therefore, become part of the analysis area of the Monetary Stability wing. In the Financial Stability wing, the assessment of developments in overseas economies and markets has been made an integral part of the operational supervision of banks and the analysis of financial markets in the UK.

The new Central Services area combines Finance, Personnel, Secretary's and the Centre for Central Banking Studies. Gordon Midgley, formerly Head of Management Services, has become Director of Finance and Resources, an area combining finance, premises and procurement and information technology. Roy Lecky-Thompson was recruited as Director of Personnel; he was formerly Personnel Director at Cameron Markby Hewitt. The Information and Secretary's Divisions merged under John Footman, who became Secretary of the Bank. The Legal and Special Investigations Units, Audit, Printing Works and Registrar's Department are largely unaffected by the reorganisation other than changes in reporting lines. The staffing implications of the reorganisation are covered on page 26 in the staff and administration section of this Report.

Financial background to the Bank's operations

The Bank does not have as a principal objective the making of profit. Nevertheless it requires income and capital to enable it to carry out its functions, the majority of which do not in themselves directly generate revenue. The Bank has a responsibility to manage its resources and activities in such a way as not to impose an unnecessary burden on the banking community, whilst satisfying its shareholder, HM Treasury, that it makes effective use of its capital and provides, through payments in lieu of dividend, an appropriate return.

Since 1844, the Bank has, for accounting purposes, been divided into "Issue" and "Banking". The Issue Department is solely concerned with the note issue, the assets backing the issue, the income generated by those assets and the costs incurred by the Bank in printing, issuing, sorting and destroying notes. The entire profits of the note issue are paid over to HM Treasury.

The Banking Department's income derives principally from investments in British government securities, Treasury and commercial bills and advances to customers. The main source of funds is Cash Ratio Deposits (CRDs), which banks in the UK place interest-free with the Bank. The sum each bank deposits is calculated on the basis of the size of its eligible liabilities. These deposits are re-calculated twice a year. The investment of these funds, and of the accumulated capital and reserves, produced approximately 70% of the Bank's income in

1994/95. The remaining income is derived mainly from charges to HM Government matching the cost of services provided to them.

During the 1980s, the liabilities on which CRDs are calculated grew faster than the rate of inflation and the Bank, without risk to the security of its income and capital, was able to reduce the percentage rate for CRDs: first from 0.45% to 0.4% in January 1991, and then to 0.35% in January 1992. The latter was stated to be a temporary reduction; the Bank indicated that it would raise the rate if it became necessary to do so, and that the rate would revert to 0.4% in 1996 unless the Bank decided otherwise. It has not been necessary to raise the rate in 1994/95.

About 50% of the Bank's costs are staff-related. The Bank therefore attaches considerable importance to ensuring that its personnel are deployed effectively and are properly trained. In recent years the Bank has managed to reduce its staff in total whilst taking on new or increased responsibilities in the areas of supervision, provision of market settlement systems and training for overseas central bankers.

Payment in lieu of dividend to HM Treasury

The Bank of England Act 1946 requires the Bank to pay to HM Treasury, in lieu of dividend on the Bank's capital, a sum agreed between the Bank and HM Treasury. The dividend is paid in two parts. An interim dividend is paid on 5 April, based on provisional figures for the profit for the year. The final dividend is payable on 5 October.

Presentation of the financial statements

Banking Department

Although the Bank is not governed by the Companies Acts, the Court of Directors present the financial statements of the Banking Department so as to follow, as far as is appropriate for a central bank, and with the major exception described below, the accounting requirements for banks as laid down in the legislation or in accounting standards and practice.

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 Department's 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 Department's financial statements disclose less detail of the constituent elements of the profit and loss account than would be required under the Companies Acts. In particular there is less disclosure in respect 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.

Issue Department

The statements of account of the Issue Department are prepared in accordance with the requirements of the Currency and Bank Notes Act 1928 and the National Loans Act 1968.

Financial results

The Banking Department financial statements for the year ended 28 February 1995 are given on pages 32-52 and show a profit after provisions and before tax of £225.9 million (including £119.5 million from the sale of 3i Group plc shares) compared with £114.2 million in 1993/94.

The average interest rate during the year has remained virtually the same as the previous year. The value of the CRDs has on average increased by 3% compared to the previous year. The Bank has continued to exercise tight control over costs which has resulted in aggregate staff remuneration remaining constant in 1994/95, in line with government pay policy. This year, it has become necessary to make provision for the costs of health cover and other benefits for pensioners. The accounts also include provision for severance costs as a consequence of the reorganisation of the Bank. No release of provision in respect of the support operations described on page 12 has been made in this year's accounts. The combined effect of these factors has resulted in operating profit being £8 million lower than in 1993/94.

As mentioned above, this year's profit benefits, by £119.5 million, from the results of the flotation of 3i Group plc. The Bank has been a shareholder of 3i since the company's origination in 1945. The flotation process, incorporating a special dividend and rights issue, resulted in a reduction of the Bank's shareholding in 3i Group plc from 14.5% to a current level of 6.6%. It was announced, on 12 May 1995, that certain of the founder bank shareholders in 3i, including the Bank, intend to make further sales of 3i shares in the market shortly after the publication of 3i's annual results, expected in early June 1995.

After a payment in lieu of dividend to HM Treasury of £102.2 million (compared with £48.4 million in the previous year) and a tax charge of £32.7 million (1993/94 £22.4 million), the profit transferred to reserves amounts to £91.0 million which compares with £43.4 million last year.

The accounts for the Issue Department (which are given on pages 53 to 55) show that the profits of the note issue were £967.2 million compared with £1,117.0 million in 1993/94. These profits are all payable to HM Treasury. In accordance with the Currency and Bank Notes Act 1928, the assets of the Issue Department comprise securities sufficient to cover the fiduciary note issue.

The statement of balances reflects the repayment during the year of the original government debt, which dated back to the Bank's foundation in 1694. The figure of £11 million had appeared on the statement, unchanged, since the Issue Department was created 150 years ago. The Government decided to repay this debt as it had no contemporary operational relevance. In view of the purely historical significance it was felt appropriate that the repayment should be made on 27 July 1994, the Bank's tercentenary.

Provisions for support operations

As stated in previous Reports, the Bank has made provisions in respect of indemnities given to lenders to a number of small authorised banks. These indemnities arose out of arrangements that the Bank put in place in 1991 to support the liquidity of the banks concerned; this support was designed to avert the possibility of widespread difficulties in the banking system and in the economy, and was successful in containing the potential problem. These provisions amounted to £105 million at 28 February 1994, down from £115 million in 1993.

The Bank acquired, on 29 September 1994, the National Mortgage Bank PLC (NMB), the institution which necessitated the major part of the provision. This acquisition, which was for the nominal sum of £1, was to facilitate better control over the realisation process. The position of the NMB group is improving but no release of provision has been made.

Monetary stability

Monetary analysis

The greatly increased openness of the monetary policy process has exposed the Bank's policy advice to public scrutiny and this has given a sharper focus to the Bank's macroeconomic and monetary analysis. The immediate task of the newly created Monetary Analysis divisions, working together with the monetary operations area, was to integrate domestic and international analysis and apply the results of research work much more rigorously to the Bank's monetary policy advice and operations. The liaison work of the Bank's Agents has also been integrated more effectively into the Bank's economic analysis. One of the new divisions has taken responsibility for writing the *Inflation Report* and co-ordinating briefing on the UK economy, as well as for publishing the *Quarterly Bulletin*. The *Inflation Report* is released quarterly after a press conference, which is now on the record.

Seven working papers were issued during the year, including work on the construction of the Bank's RPIY measure of inflation, the monetary transmission mechanism and the new currencies of the former Soviet Union. Amongst the topics researched within Monetary Analysis have been inflation targets, both in the UK and elsewhere; how information about expectations can be derived from the prices of financial instruments; smaller, more useful, economic models; and labour market developments in the UK and overseas. Staff from the monetary analysis and operations areas have also participated in the work of the European Monetary Institute (discussed below) as well as in several international working groups, including the G10 study on savings and investment; the Bank for International Settlements study on the monetary transmission mechanism; and the Hannoun Group study of the macroeconomic and monetary effects of derivatives.

European Union developments

The Bank has continued to be fully involved with the work of the European Monetary Institute (EMI) which was established at the beginning of 1994, and which moved from temporary accommodation in the Bank for International Settlements in Basle to its own offices in Frankfurt in November 1994. As required by the Maastricht Treaty, the Bank has contributed to the resources of the EMI; our contribution, ECU 94.5 million (£74.7 million), is 15.35% of the EMI's total resources, and its investment will provide the EMI with income to meet its operating expenses. (For further details see note 11(b) to the Banking Department financial statements on page 43.)

A major part of the EMI's work is to make technical preparations for Stage 3 of EMU. Under the terms of the Maastricht Treaty, these preparations are to be complete by the end of 1996 (which, however, has no implication for when Stage 3 will begin). The EMI has accordingly established a detailed work programme to meet that timetable. Much of the work is conducted in various sub-committees and working groups, with discussion subsequently in the Committee of Alternates and then in the Council of the EMI, of which the Governor is a member. The Bank plays a full part in discussions at all these levels. There are also several Bank staff on full-time secondment to the EMI.

The EMI's other major task is the monitoring and promotion of economic convergence among the Member States. This is also among the tasks of the EU's Monetary Committee, on which the Bank is represented alongside HM Treasury. The EMI's work is discussed more fully in its 1994 Annual Report, published on 4 April 1995.

Management of the money markets

The Bank's money market operations have continued to be directed to establishing and maintaining short-term interest rates at the officially desired level. By acting normally as the marginal supplier of liquidity, the Bank provides sufficient funds to allow the settlement banks to meet the daily requirement for positive balances on their accounts at the Bank. As a result, it is able to maintain money market rates within a tolerably close margin of the chosen level, and to exert influence over commercial bank base rates. The Bank may provide liquidity at the official rate via open market operations in the bill market through the discount houses or through direct lending on a secured basis to its counterparties.

The Bank's daily bill market operations have been supplemented since January 1994 by a twice-monthly gilt repo facility, for which banks in the UK, building societies, discount houses and gilt-edged market makers are eligible to be counterparties. A Master Legal Agreement for the facility was introduced on 20 April 1994. This facility, together with the reduction in the stock of the Bank's money market assets arising from changes to the Government's operation of the full fund policy announced in the 1993 Budget, has been instrumental in reducing significantly volatility in interest rates at the short end of the sterling money market.

Management of government debt

The need to fund a large PSBR, originally forecast at some £38 billion for 1994/95, meant that the Bank was again very active in managing a substantial programme of gilt-edged sales.

On 17 March 1994, HM Treasury published a funding remit for the year ahead to clarify the respective responsibilities of the Treasury and the Bank in the funding programme. In addition to specifying the funding target for the year, the remit set out the broad parameters within which the Treasury asked the Bank to carry out the necessary funding operations.

As in previous years, auctions provided the backbone of the funding programme. Ten were held during the year, one each month but omitting the August and December holiday periods. As had already become standard practice, all auctions were conducted on the last Wednesday of the month, with the exception of November, when the auction was delayed to early December so that it would not fall on the day following the Chancellor's Budget. Auctions were used to build up large, liquid benchmark stocks. There are now fifteen stocks with over £5 billion outstanding, including five of over £7 billion and two of over £8 billion. Auctions were supplemented by tap issuance, which accounted for a quarter of the total and enabled the Bank to respond to evident demand as it emerged and to enhance the liquidity of non-benchmark and off-the-run issues.

Index-linked stocks were issued through taps to the value of £3.3 billion, some 11% of total gilt-edged issuance in the year. Taking account of the inflation uplift, outstanding index-linked gilts totalled £40 billion and accounted for 17% of the Government's gilt-edged obligations at the year-end, by far the largest index-linked sector in any government bond market.

Following the announcement by the Chancellor of the Exchequer in his Budget on 29 November 1994, the Bank issued a consultative paper on the development of an open gilt repo market. This marks the most important structural change in the gilt-edged market since the Big Bang reforms in 1986, with the potential to increase levels of activity and efficiency, contributing over time to reducing the government's funding costs. The market is due to commence on 2 January 1996. The Bank published its detailed plans on 29 March 1995, reflecting market comments on its proposals.

On 10 November 1994, HM Treasury announced that it was conducting a Debt Management Review to consider the existing arrangements for the selling of new government debt and the management of existing debt.

Although no new issues of debt in foreign currencies other than ECU were made this year, previously-issued non-ECU government obligations, amounting to the equivalent of US$ 13.3 billion, were outstanding at end-February 1995. Having been issued on very fine terms, these non-ECU debt issues continue to perform well in the secondary market.

The monthly tender for ECU Treasury bills continued at an unchanged level of ECU 1 billion throughout the year. Tenders have been consistently oversubscribed, with increasingly tight pricing as the year progressed. Turnover continued gradually to recover from the low levels of late 1992, and averaged ECU 2.5 billion per month during the year. The fourth three-year ECU Treasury note in the Government's programme was launched in January 1995 with the auction of ECU 1 billion. The note was reopened in April 1995 with the auction of a further ECU 0.5 billion. Both auctions were oversubscribed. Overall turnover in the outstanding notes substantially increased from 1993 to average ECU 3-4 billion per month.

Banking and market services

The Bank's custodial services, which it provides to customers as part of its normal banking operations, have played a part in the last few years in facilitating international debt rescheduling operations. Acting as "escrow" agent, or in a similar trustee capacity, the Bank has held securities and/or cash which form part of an agreed overall settlement between the debtor country and its creditor commercial banks while the detailed process of reconciling creditor claims has taken place. The Bank has acted in this capacity as part of the arrangements for the debt rescheduling of Argentina, Brazil, Poland, Ecuador and Russia.

One of the priorities of the Market Services Division is the development of a real-time gross settlement system, which is discussed in the payment, settlement and clearing systems section of this Report on page 19.

New computer systems are being introduced to run the Bank's mainstream banking operations. The opportunity is also being taken to reorganise the office structure. As a consequence, two new offices have been created: the Sterling Banking Office, within the Banking Services Division, which has absorbed the functions of Drawing Office and the

Bank's Clearing Centre; and Customer Settlement Services, within the Market Services Division, which brings together the settlement and custody functions for gold, foreign currencies and securities.

Administration of financial sanctions

The Bank administers, on behalf of HM Treasury, the restrictions on assets of Iraq, Serbia and Montenegro, and Libya. Sanctions on certain assets of the military authorities in Haiti were removed on 16 October 1994 following the return of President Aristide to his country.

The note issue

The value of the note issue was £18,056 million at the end of February 1995, £893 million (5.2%) larger than a year earlier.

Value of notes in circulation

£ Millions

End-February	1992	1993	1994	1995
£1 (a)	59	58	57	57
£5	1,166	1,163	1,135	1,072
£10	5,743	5,348	5,245	5,348
£20	5,288	6,101	6,818	7,723
£50	2,515	2,732	2,884	2,852
Other notes (b)	1,350	1,563	1,024	1,004
Total	**16,121**	**16,965**	**17,163**	**18,056**

(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.

Number of new notes issued each year by denomination

Millions

Year to end-February	1992	1993	1994	1995
£5	355	318	325	308
£10	638	752	622	624
£20	489	329	339	342
£50	21	23	22	39
Total	**1,503**	**1,422**	**1,308**	**1,313**

A new £50 note was issued on 20 April 1994, completing the "E" Series which commenced in 1990. A silver foil was introduced for the first time, as an additional security feature on this note.

Counterfeits

Although the number of counterfeits removed from circulation remains small, it has increased slightly in recent years and the consequent losses to members of the public has been a matter of great concern to the Bank. With the support of major banks and building societies, the Bank launched a campaign in October 1994 to increase public awareness of the main security features of its notes. Some 6 million leaflets were distributed, mainly through banks, building societies and the Post

Office. A video was also produced to aid the training of bulk cash handlers and over 10,000 were sold.

Financial stability

Banking supervision

Under the Banking Act 1987, the Bank is responsible for the prudential supervision of all UK banks except branches of banks incorporated in other countries in the European Economic Area (EEA). (The latter are supervised by their home state authorities. The Bank, with the home supervisor, is responsible only for ensuring that the EEA branches have adequate liquidity.) The number of banks authorised to accept deposits in the UK fell, for the tenth consecutive year, to 481 in 1994/95; of these, 224 are UK incorporated, 155 are branches of non-EEA banks and 102 are branches of EEA banks. The rate of decline was lower than in recent years, reflecting in part the improved state of the UK economy. 16 banks surrendered their authorisation in the year, while 12 new UK banks were authorised. The Bank did not exercise its power to revoke any institution's authorisation but restrictions were placed on one.

In late February 1995, the merchant bank Barings was placed in administration following large scale losses on futures and options trading by a Singapore subsidiary. The businesses of the authorised institution, Baring Brothers and Co, were subsequently purchased by Internationale Nederlanden Group NV, a Dutch bank, with no loss to depositors.

On 27 February 1995, the Chancellor asked the Board of Banking Supervision to investigate the Barings collapse. This investigation has two aims: to establish the facts that led to the collapse and reach any immediately applicable conclusions; and to draw out any broader lessons there may be for supervisory and regulatory arrangements. The Board asked Ian Watt, an adviser to the Governors and Head of the Bank's Special Investigations Unit, to lead the first, fact finding stage. He is being assisted by lawyers, accountants and a derivatives expert drawn from outside the Bank.

During the year the Bank was heavily involved in work on the measurement of market risk taken by banks. (Market risk can be defined as the risk of losses in on- and off-balance sheet positions in equity and debt securities, foreign exchange and commodities arising from movements in market prices.) In April 1995 the Bank published a notice setting out how the EU Capital Adequacy Directive (CAD) would be applied to UK incorporated banks. This followed the publication of a consultative document in December 1994 and a consultation period ending in February 1995. The CAD will introduce capital requirements for market risks in banks' trading books and must be implemented from 1 January 1996. At the same time, the Bank has participated in the production of revised proposals by the Basle Supervisors' Committee for extending the Basle Accord to cover market risks. This document was published in April 1995. It is hoped that the Basle proposals will be finalised by the end of the year but the earliest possible implementation date is probably 1998. During 1994/95 the Bank also published notices revising its requirements for subordinated debt intended to be included in banks' capital and amending its capital adequacy treatment of sale and repurchase transactions (repos and reverse repos).

As part of the reorganisation of the Bank, supervision was combined with surveillance (the monitoring of risks to financial stability arising from other countries to which UK institutions have significant exposures or from which banks in the UK originate). This will help the Bank to develop a better overall view of the whole bank in the case of UK branches of overseas banks, and to understand overseas supervisory environments more fully.

A full account of banking supervision is given in the Annual Report under the Banking Act, published alongside this Report.

Supervision of wholesale markets

Besides its Banking Act responsibilities for the prudential supervision of banks and discount houses, the Bank is responsible for the prudential supervision of the core gilts market participants (gilt-edged market makers, Stock Exchange money brokers and gilt inter-dealer brokers) under the Financial Services Act 1986 (FSA) and also, via the London Code of Conduct, for the conduct of business regulation of wholesale financial markets under Section 43 of the FSA. During the course of the year, it was confirmed that the Bank would be a competent authority, under the CAD, for the former, and under the Investment Services Directive, for the latter, when these EU directives come into force on 1 January 1996.

Work has continued on the development of capital adequacy regimes to implement the CAD, taking account of the specific circumstances and business of the specialist firms which make up the gilts market. Detailed proposals were issued in December 1994. The work is at an earlier stage on the Section 43 side. An information document was issued in July 1994; this will be followed by a revised "Grey Paper" (which sets out the regime) and London Code of Conduct later this year.

Otherwise, as part of its planning for an open gilt repo market (see section on management of government debt on page 14), the Bank has been working towards ensuring that standards of conduct in this new financial market will be high, and that the prudential regimes which will apply deal fully with the risks. As part of this process, the Bank circulated for comment, alongside the detailed plans issued on 29 March 1995, drafts of a gilt repo legal agreement and a code of best practice.

In part to assist the Bank's oversight of the London Code of Conduct, the Bank has, for many years, had two Joint Standing Committees of market participants, covering the foreign exchange and sterling money markets. A third Joint Standing Committee was set up in 1994 to cover the derivatives market; this has proved a useful sounding board in redrafting key sections of the Code, which has been promulgated more widely for comment.

Payment, settlement and clearing systems

Real-Time Gross Settlement (RTGS)

Work has continued in the Bank and by members of the CHAPS Clearing Company Ltd (co-ordinated by APACS) to develop a real-time gross settlement system, primarily for large value payments, by evolution from the current CHAPS system. The building phase of the RTGS programme, during which all the new software was developed, has been completed and implementation began in the spring of 1995. Following extensive testing, a phased migration will be undertaken beginning in December 1995 and continuing during the first half of 1996. In this period the new software and accompanying arrangements for the provision of intra-day liquidity will be progressively introduced.

CREST

Last year's Report described the Bank's role in identifying the way forward for equity settlement following the decision by the Stock Exchange, in March 1993, to abandon TAURUS. The Securities Settlement Task Force recommended that the Bank should prepare designs for a replacement system to be known as CREST. Accepting this recommendation, the Bank established a Project Team, which by 3 May 1994 had produced a complete design specification for CREST, with a recommendation that building the system should begin immediately.

Since then work has proceeded in order to assemble all the elements necessary for the CREST system to begin operations: putting in place the finance and ownership structure for CREST; taking the design to a greater degree of detail and beginning the creation of the software; establishing the legal and regulatory framework in which CREST would operate; developing the market practices to support CREST; and selecting firms to provide network and facilities management services for CREST. This work is on schedule. The software development is subject to both internal and external audit throughout. The Project Team expect to be ready for the trialling of the system in the first half of 1996, with the start of live operations in the third quarter. Consultation with all parts of the securities industry continues to be a key element in the Project Team's approach and they have undertaken an intensive series of visits and seminars to disseminate information and to listen to reactions.

At the time when the design was finalised in May 1994, a group of market institutions gave a commitment in principle to finance the development of CREST. Subsequently, a company called CRESTCo Limited was established and, in October 1994, 69 institutions, including the London Stock Exchange, subscribed £12 million of capital (£6 million of shares and £6 million of share premium) to the company. This amount is expected to reimburse the Bank for the expenditure incurred from September 1993 onwards and to finance the development to the end of 1995. The project continues to operate within this budget. The Bank holds £100 of Temporary Controlling Shares in CRESTCo, which for the time being control all voting rights. It has appointed Mr Pen Kent as Chairman of CRESTCo and Mr Iain Saville, the Project Controller, as Chief Executive. An Advisory Committee has been established to represent the interests of the other shareholders. On commercial, as distinct from system design, issues, the directors of CRESTCo will normally expect to follow the recommendations of this committee. The Bank will relinquish its voting rights at a time to be agreed with the Advisory Committee, but in any case before CREST begins live operations. With effect from 1 April 1995 the majority of the Bank staff on the Project Team were seconded to CRESTCo for a two-year term, to provide continuity of staffing until the system is fully established.

Preparations for Stage 3 of Economic and Monetary Union

In December 1993, the then Committee of EC Central Bank Governors agreed to develop links between domestic real-time gross settlement systems (which either exist or will be introduced in all EU countries by the end of 1996). During 1994, the EMI and the national central banks have taken forward work on this topic, and have held preliminary discussions with representatives of the banking community. A proposal for a new payment mechanism, to be called TARGET (Trans-European Automated Real-Time Gross Settlement Express Transfer system), has been approved by the EMI Council. The new mechanism, which will be decentralised, will involve harmonisation of elements of the linked national systems only to the extent necessary for the proper functioning of the system. Work to implement the project is now in hand. It will be run by the EMI, with the full involvement of the national central banks.

Group of Ten Countries

The Bank has continued to be closely involved in the work of the Committee on Payment and Settlement Systems, which reports to the governors of the central banks of the Group of Ten Countries. One aspect of this work has been a study group report on cross-border securities settlements, which was published in March 1995. This report examined the particular risks that arise in settling securities transactions between parties located in different countries (most of these risks reflecting the more frequent involvement of intermediaries in such settlements than in purely domestic settlements), and it noted a number of implications for the policy objectives of central banks.

A further study group is currently working on ways to reduce the risks associated with settling foreign exchange transactions (Herstatt risk). The group is considering how to improve the current practices of those engaged in foreign exchange trading and settlement by means of initiatives to be taken by commercial banks and by central banks.

Foreign exchange clearing houses

The Bank, acting in conjunction with other interested central banks, has been examining two private sector proposals to establish clearing houses in the foreign exchange market. The concern is to ensure that any such scheme is legally well-founded and incorporates appropriate risk management features. Intensive discussions have been held with the proponents of the London-based scheme, Exchange Clearing House (ECHO).

Money laundering

The Bank has continued to play a significant role in developing money laundering counter-measures, responsibility for which has been centralised in the Special Investigations Unit. In February 1995, the Joint Money Laundering Steering Group, chaired by the Chief Cashier, published revised editions of the Money Laundering Guidance Notes, which refined and expanded earlier guidance in certain difficult areas (eg tax offences). The Bank has also given full support to the work of the Financial Action Task Force, now the main international body focusing on combating money laundering.

Business finance

In his foreword to last year's report and accounts, the Governor explained the close attention the Bank had been paying to the relationship between smaller businesses and their bankers, culminating in a speech by him, and the publication of a report entitled "Finance for Small Firms", in January 1994. Since then, the Bank has maintained its contact and interest with the aim of promoting a longer-term partnership between banks, small businesses and the Government. In its second Report, published in January 1995, the Bank was able to report progress in many of the areas previously identified, including a marked shift from overdrafts to term loans within the total of bank borrowing by small businesses. However, much remains to be done and the Bank intends to continue its role of facilitating debate and monitoring progress. It will report again early in 1996.

Registrar's Department

The volume of work handled by the Registrar's Department in 1994/95 was 7% lower than in the previous year. The number of staff fell by 10%. A restricted severance scheme was announced in October 1994 with the aim of reducing the number of managerial and senior clerical staff in line with the continuing contraction in work volumes. Some restructuring of the Department has already taken place and further changes are planned.

Management of the stock registers

1,054,976 transfers of stock were registered in 1994/95, an increase of 1.3% on 1993/94. While transfers effected through the Central Gilts Office rose to 585,926, representing 56% of the total, paper transfers fell by nearly 8%, broadly in line with the reduction in work volumes generally across the Department.

Transfers registered

Thousands Year to end-February	1992	1993	1994	1995
Stock transfer forms	474	609	509	469
Electronic transfers through Central Gilts Office	433	523	533	586
Total	**907**	**1,132**	**1,042**	**1,055**

The nominal value of British government securities managed by the Bank rose by 11% to £215,007 million and the total of other securities under management rose by almost 15% to £3,819 million. The number of accounts, however, fell by over 11% to 1,033,621 of which 1,023,168 related to British government securities.

Securities in issue under management at the Bank of England

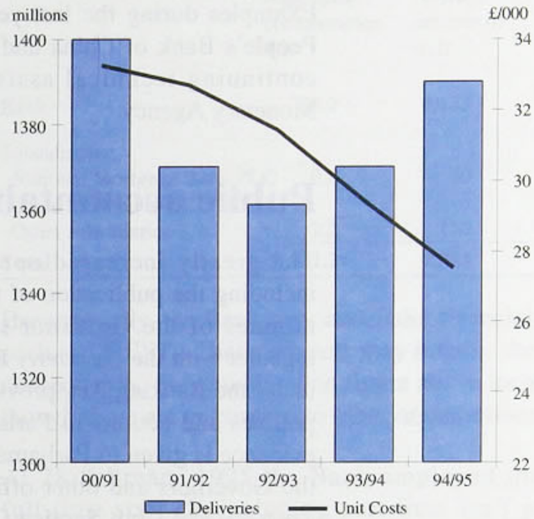
£ millions nominal End-February	1993	1994	1995
British government securities:			
Registered stock	148,343	193,630	214,984
of which index-linked	*16,362*	*21,395*	*23,285*
Bearer bonds	32	26	23
	148,375	193,656	215,007
Other securities:			
Government-guaranteed	257	224	226
Commonwealth and overseas	3,027	2,990	3,485
Local authorities	41	41	41
The Agricultural Mortgage Corporation plc	121	22	22
Other	45	45	45
	3,491	3,322	3,819
Total	**151,866**	**196,978**	**218,826**

Printing Works

The Printing Works produced 1,390 million new notes, at an average unit cost of £27.10/1,000, and 288 million ATM-fit notes in the year, exceeding targets in both cases, and has continued to increase both productivity and cost efficiency. Production of new notes exceeded the volume issued (by almost 6%), in order to build up stocks of the new "E" Series.

The chart below shows that unit costs have reduced further whilst deliveries have remained fairly constant. These improvements flow from a number of measures: the introduction of a new Series of smaller notes, substantial investment in new plant and equipment and the decision to retrench by moving all operations into the main factory and refurbish the plant and services. The year has seen the vacating of the Returned Note building and the transfer of the entire Returned Note operation to a newly refurbished area within the main building, along with the installation of new Currency Systems International used note sorting machines.

New note deliveries & unit costs (at 1994/5 prices)



An initiative called PW2000, which encourages the staff to focus on a number of key values - continuous improvement, customer partnerships and teamwork - will help to ensure that the Printing Works continues to drive costs down in line with the recent Value for Money Study carried out by the Bank's Auditors.

Training and technical assistance in central banking

The volume of requests for training and technical assistance in all aspects of central banking continues to increase. Resource constraints mean the Bank is unable to accede to all requests. Priority is generally given to those economies or institutions where prospects of reform are highest; and efforts are made to ensure that the assistance is compatible with that of other international providers.

The Bank's activities in these areas are co-ordinated through its Centre for Central Banking Studies (CCBS). 46 courses in total were run in 1994/95, of which 24 were held in London and 22 abroad. Approximately 826 foreign central bankers attended CCBS courses during the past year. A higher level syllabus has been offered, in line with the rapid development of many countries towards a market economy, with more seminars and workshops where the countries invited can share their experiences and develop best practice under the tutorship of the CCBS. At the same time, the Bank has continued to provide technical assistance to many central banks, either by releasing specialist staff for short visits overseas or by organising technical programmes in the Bank for individuals or small groups.

The Bank continues to regard Eastern and Central Europe and the former Soviet Union as high priority areas for training and technical assistance, but other countries, where the central bank or monetary authority is adapting to changing circumstances, are not neglected. Examples during the last year have been tailor-made courses for the People's Bank of China and the Hong Kong Monetary Authority, and continuing technical assistance for the newly-formed Palestine Monetary Agency.

Public accountability

The greatly increased openness of the monetary policy process, including the publication of the *Inflation Report* and publication of the minutes of the Governor's monthly meeting with the Chancellor, together with the *Quarterly Bulletin*, this Report and the Annual Report under the Banking Act, provide opportunities for the Bank to explain its policies and actions to Parliament and the wider public. In addition, evidence is given to Parliamentary Committees and during the past year the Governors and other officials have appeared five times before the Treasury and Civil Service Committee of the House of Commons, and before the European Parliament Economic and Monetary Affairs Committee. Written evidence was submitted to the House of Commons Select Committee on Home Affairs. Through membership of the Industry and Parliament Trust and by other means, the Bank has continued to inform Members of the UK and European Parliaments about its activities.

Each year the Bank deals with over 40,000 enquiries from the public. Most of the simple telephone enquiries are answered immediately, but for the more complex requests a target response time of 14 days has been set. The Governors see the results of the continuous monitoring exercise which covers both the speed of response and the quality of the replies. There has also been considerable interest in a new video about the Bank, which complements the existing series of fact sheets.

The Museum was one of the focal points of the Bank's tercentenary programme. During the year it held four exhibitions with themes related to the development of the Bank and was visited by a record 117,000 people. The Museum collections, together with the Bank's Archive, also provided a wealth of material for *Promises to Pay* by Derrick Byatt, a 300-year history of Bank of England notes, which was launched in May 1994 as part of the official programme to commemorate the tercentenary. Another publication arising from the tercentenary celebrations was the record of the symposium on the future of central banking, held at the Barbican on 9 June 1994, at which central bankers from 110 countries were present. The papers were published by the Cambridge University Press on 24 February 1995.

Staff and administration

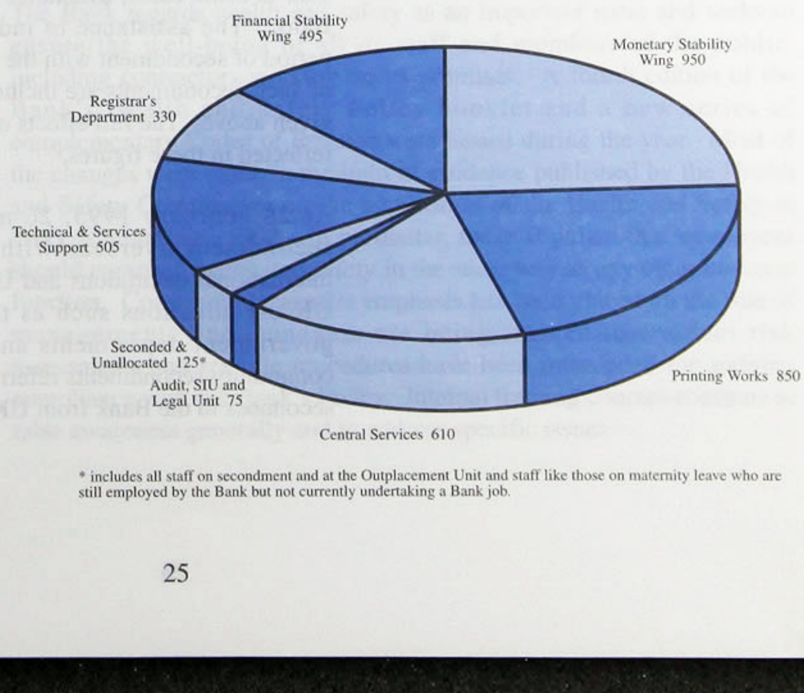
The average number of people employed during the year by the Bank and its subsidiaries, including the Governors and Executive Directors, and their aggregate remuneration, was as follows:

	1995		1994	
	Aggregate remuneration £m	Average number of staff	Aggregate remuneration £m	Average number of staff
Bank	98.2	4,123	98.2	4,293
Subsidiaries:				
National Mortgage Bank PLC (from 29 September 1994)	0.8	60	Not applicable	
Other subsidiaries	2.2	150	2.3	157
Total	**101.2**	**4,333**	**100.5**	**4,450**

Exceptionally, the Bank may undertake financial infrastructure projects, such as CREST. These projects may involve the use of Bank staff and, consequently, the remuneration figure above includes their salaries, even though these are re-charged to other organisations.

At 28 February 1995 the Bank employed the equivalent of 3,940 full-time staff (ie including part-time staff pro-rata). This figure comprises 3,800 full-time staff, 215 permanent part-time staff and 70 staff temporarily working part time; of these, 365 full-time and 40 part-time staff were engaged on fixed-term contracts and 80 were agency computer staff employed on specific short-term projects such as RTGS and CREST. The distribution at the year-end is shown in the following chart.

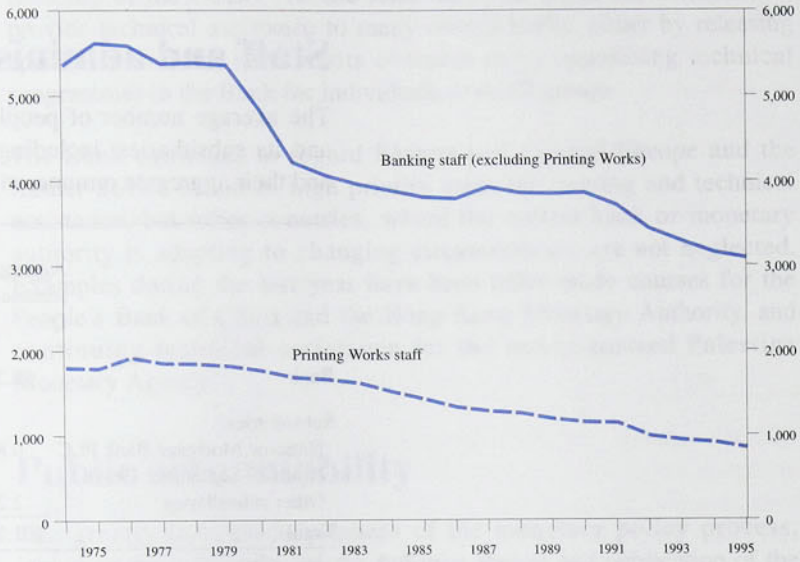
Staff numbers at end-February 1995



* includes all staff on secondment and at the Outplacement Unit and staff like those on maternity leave who are still employed by the Bank but not currently undertaking a Bank job.

The chart below shows the extent to which the Bank's staff has fallen since the peak of 1976.

Numbers of staff employed by the Bank at end-February



The Bank places great emphasis on making effective use of its staff, who are its most important asset and key investment; the aim is continually to achieve efficiency improvements in all business activities, and to ensure that personnel costs are carefully controlled. The personnel function is being reorganised during 1995 to provide more effective support to local line managers.

The internal reorganisation, described on page 8 of this Report, has had an impact on the number of staff and their remuneration. The restructuring of functions and responsibilities identified a number of areas where skills shortages could not easily be met by available staff from elsewhere within the Bank. The Bank is therefore recruiting a number of staff with skills and experience suited to the new structure. This process will continue during 1995/96, offset by natural wastage and, in some cases, assistance to individuals making careers outside the Bank. The assistance to individuals includes, on occasion, a short period of secondment with the costs being borne by the Bank. The costs of such secondments are included in the aggregate remuneration figures given above. The full effects of the reorganisation are, therefore, not yet reflected in these figures.

At 28 February 1995, 26 members of the Bank's staff were on secondment overseas with other central banks, governments, international institutions and UK missions. Another 25 staff were with UK organisations such as the Panel on Takeovers and Mergers, government departments and banks. These are additional to the community secondments referred to on page 29. The number of inward secondees to the Bank from UK and overseas organisations was 24.

Employment policies

The Bank is fully committed to equality of opportunity for all its staff and endeavours to make it an integral part of the corporate culture. Selection and promotion are on the basis of merit, regardless of sex, marital status, nationality, ethnic origin, religion or disability. Policies are in place to guard against discrimination and a comprehensive package of training has been designed for managers and staff on their responsibilities under the equal opportunities policy. The Bank joined Opportunity 2000 at its launch in 1991 and has agreed a set of action plans to increase the quality and quantity of women's participation in the workforce. There are currently 33 women on a career break and a further 70 staff who have opted to work part time for a period following the birth of a child. 1995 will be the eighth year in which the Bank has supported an ethnic minority student under the Windsor Fellowship scheme and in May the Bank hosted the Fellowship's Open Day, when some 200 students met prospective sponsors. Action for disabled staff continues to focus on improved access to premises and increasing the availability to these employees of appropriate new technology. Bank staff's general awareness of disability issues is increasing: 50 staff who work or are in contact with deaf staff have now volunteered to learn basic sign language in their own time.

The Bank's core purposes provide the cornerstone for the identification of training and development needs of the staff. Two major reviews of training needs have been carried out. An external consultant was commissioned to review technical training for staff in Supervision and Surveillance; a revised training programme will be introduced in September 1995. The second survey, on management skills across the Bank, was carried out by the Training Centre in the light of nine management skills identified by local working parties. The results of the survey are being used to re-focus the provision of management training in the Bank. Two other aspects of training are worth mentioning: the economics course run by Birkbeck College for Bank staff for the first time last year, will be repeated this year; and, following the adoption of an agreed standard for PC-based office systems, large numbers of staff are receiving appropriate training.

The Bank regards health and safety as an important issue and seeks to ensure the well-being of all its staff and members of the public, including contractors working on its premises. A fourth edition of the Bank's Health and Safety Policy booklet and a new series of complementary Codes of Practice were issued during the year. Most of the changes were made in the light of guidance published by the Health and Safety Commission on the application of the Health and Safety at Work Regulations, 1992. In particular, these stipulate that employees should approach health and safety in the same way as any other business function. Consequently, greater emphasis has been placed on the role of management; line managers are being trained to conduct risk assessments and specific procedures have been introduced for auditing compliance with the Bank's Policy. Internal training courses continue to raise awareness generally and to address specific issues.

Payment of bills

The Bank endorses the Chancellor's and the CBI's initiative on prompt payment of bills. Based on a sample period in November and December 1994, the Bank paid over 88% of its bills within agreed payment terms or, where these were not specified, within 30 days of receipt of a valid invoice. The Bank intends to improve on this during the current year.

Community involvement

Although not a member, the Bank subscribes to the principles of Business in the Community's Per Cent Club in that it contributes no less than half a per cent of its pre-tax profit to the community. Last year the Bank contributed £1,068,000 (1% of pre-tax profit excluding the proceeds from the flotation of 3i Group plc) in support of its community programme. This covers the cost of secondments, donations to charities and to academic research, and contributions to other community-related activities. £348,000 was donated to registered charities and £110,000 to other organisations, whilst the cost of community secondments and subsidised accommodation totalled £610,000. The Bank matched, on a £1 for £1 basis, the £58,000 donated by staff and pensioners to registered charities under the payroll giving scheme (Give As You Earn). It also matched £10,000 raised by staff for this year's appeal, Children in Cities.

The Bank continues to support the following activities:

Blind in Business
Business in the Community
The City and Inner London North Training and Enterprise Council (CILNTEC)
East London Partnership
Education Business Partnerships
Employee Volunteering
Employers' Forum on Disability
Enterprise Agencies
Hackney Community College
Hackney Task Force
The Industrial Society
The Local Recruitment Brokerage
National Star Centre for Disabled Youth
Opportunities for People with Disabilities
Prince's Trust Volunteers
Scope's Fast Track Programme
Spitalfields Community Job Link
The Trident Trust
Windsor Fellowship
Workable
Workwise
Youth Training

As at 28 February 1995 there were 18 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 have been made for political purposes.

Governance of the Bank

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.

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 appointment of each Non-Executive Director is also given. The areas of responsibility of the Executive and Deputy Directors at 1 March 1995 are set out on page 4.

The day-to-day management of the Bank is the responsibility of the Executive members of Court. Their main forum for discussion and decision-making is the Executive Committee, comprising the Executive Directors under the Chairmanship of the Governor or Deputy Governor.

The Court of Directors meets to review and examine major issues of policy and strategy proposed by the Executive members of Court. Meetings vary in length, with one monthly meeting set aside for substantive discussion on policy and strategic issues relating to one of the Bank's core functions. During 1994/95 more emphasis has been put on these longer meetings.

The main committees are the Remuneration Committee, which makes recommendations to Court on the salaries of the Governors and the Executive members of Court, and the Audit Committee. The current members of the Remuneration Committee are Sir David Scholey (Chairman), Sir David Lees, Professor Sir Roland Smith, Sir Colin Southgate and Sir Christopher Hogg. The current members of the Audit Committee are Sir David Lees (Chairman), Sir Jeremy Morse, Sir David Cooksey, Ms Sheila Masters and Mr Neville Simms.

Statement of Directors' responsibilities

The Bank of England is not formally governed by the Companies Act 1985 but has chosen, for the financial statements of the Banking Department, to comply with the accounting provisions of the Act, as applicable to banks, modified as set out in note 1 of the financial statements. The Court of Directors is responsible for ensuring that these financial statements, on the basis set out in the financial statements, present fairly the state of affairs of the Banking Department as at 28 February 1995 and of the profit for the year to that date. The statements of account 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 statements of account are drawn up in accordance with these requirements.

The Court of Directors is responsible for ensuring proper accounting records are kept, which disclose at any time the financial position of the Bank and enable the Court to ensure that the financial statements comply with the requirements set out in note 1 thereto. The Court of Directors is also responsible for safeguarding the assets of the Bank and its subsidiaries, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Court of Directors confirms that suitable accounting policies, consistently applied and supported by reasonable and prudent judgment and estimates, have been used in the preparation of the financial statements of the Banking Department. Accounting standards applicable in the United Kingdom have been followed in preparing the financial statements of the Banking Department in so far as they are appropriate to the basis of accounting set out in the notes to the financial statements.

Auditors

Coopers and Lybrand will continue as auditors of the Bank.