

# Report of the Auditors

*To the Governor and Company of the Bank of England*

We have audited the financial statements of the Banking Department on pages 32 to 52, and the statements of account of the Issue Department on pages 53 to 55.

## Respective responsibilities of directors and auditors

As described on page 29 the Bank's Court of Directors is responsible for the preparation of the financial statements and the statements of account. It is our responsibility to form an independent opinion, based on our audit, on the financial statements and the statements of account 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, 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 financial statements 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 financial statements, the basis of which is described in note 1(a).

## Opinion

The financial statements of the Banking Department have been prepared on the basis set out in note 1(a) to comply with the requirements 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.

In our opinion

- 1 The financial statements on pages 32 to 52 present fairly, on the basis referred to above, the state of affairs of the Banking Department at 28 February 1995 and the profit, total recognised gains and cash flows for the year then ended.
- 2 The statements of account on pages 53 to 55 present fairly, on the basis described on page 54, the outcome of the transactions of the Issue Department for the year ended 28 February 1995 and its balances at that date.

COOPERS & LYBRAND

*Chartered Accountants  
and Registered Auditors*

London  
17 May 1995

## Banking Department

### Profit and loss account for the year ended 28 February 1995

	Notes	1995 £m	1994 as restated £m
Profit after provisions and before tax	2	225.9	114.2
Payment to HM Treasury under Section 1(4) of the Bank of England Act 1946	5	(102.2)	(48.4)
Tax on profit on ordinary activities	6	(32.7)	(22.4)
Retained profit for the year	19	<u>91.0</u>	<u>43.4</u>

All activities are regarded as continuing. There is no material difference between the retained profit for the year disclosed above, and its historical cost equivalent.

### Statement of total recognised gains and losses for the year ended 28 February 1995

	Notes	1995 £m	1994 as restated £m
Profit transferred to reserves		91.0	43.4
Unrealised surplus/(deficit) on revaluation of property		<u>4.2</u>	<u>(19.2)</u>
Total recognised gains and losses for the year		95.2	24.2
Prior year adjustment	19	(50.2)	—
Total gains and losses recognised since the last annual report		<u>45.0</u>	<u>24.2</u>



## Banking Department

### Balance Sheet as at 28 February 1995

	Notes	1995 £m	1994 as restated £m
<b>Assets</b>			
Cash		4.1	6.7
Items in course of collection		387.2	359.8
Treasury and other eligible bills	8	347.7	797.3
Loans and advances to banks, the money market and customers	9	5,344.1	7,063.8
Debt securities	10	1,066.1	998.2
Equity shares and participating interests	11	93.8	33.2
Shares in subsidiary undertakings	12	59.6	59.6
Tangible fixed assets	13	389.2	369.6
Prepayments, accrued income and other assets		122.3	102.6
<b>Total assets</b>		<u>7,814.1</u>	<u>9,790.8</u>
<b>Liabilities</b>			
Deposits by central banks	14	1,407.6	1,530.4
Deposits by banks	15	1,709.8	1,731.8
Customer accounts	16	3,394.9	5,402.3
Other liabilities	17	294.7	214.4
		<u>6,807.0</u>	<u>8,878.9</u>
Capital	18	14.6	14.6
Revaluation reserves	19	227.8	223.7
Profit and loss account	19	764.7	673.6
Shareholder's Funds	20	<u>1,007.1</u>	<u>911.9</u>
<b>Total liabilities</b>		<u>7,814.1</u>	<u>9,790.8</u>

**E A J GEORGE**

*Governor*

**B QUINN**

*Acting Deputy Governor*

**DAVID SCHOLEY**

*Director*

**G MIDGLEY**

*Finance Director*

## Banking Department

### Cash flow statement for the year ended 28 February 1995

	Notes	1995 £m	1994 £m
<b>Operating activities</b>			
Net cash (outflow)/inflow from operating activities	21	(1,841.6)	2,558.9
<b>Payments to HM Treasury under Section 1(4) of the Bank of England Act 1946</b>		(48.4)	(38.1)
<b>Taxation</b>			
UK corporation tax paid		(27.1)	(34.8)
		<u>(1,917.1)</u>	<u>2,486.0</u>
<b>Investing activities:</b>			
Disposal of investment securities		125.7	-
Investment in European Monetary Institute		(74.7)	-
Repayment of loan by subsidiary company		-	14.0
Purchase of premises and equipment		(32.0)	(35.6)
Sales of premises and equipment		0.6	0.5
		<u>19.6</u>	<u>(21.1)</u>
(Decrease)/increase in cash and cash equivalents	21	<u>(1,897.5)</u>	<u>2,464.9</u>



## Notes to the Banking Department financial statements

### 1 Accounting Policies

#### a Form of presentation of financial statements

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 losses 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 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 financial statements have been prepared on the historical cost basis of accounting, modified to include the revaluation of certain fixed assets. The accounting policies set out below have been applied consistently with the exception of the change in method of accounting for post-retirement benefits described in policy 1.

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, equity shares and participating interests

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 and participating interests are held as an investment and are stated in the balance sheet at cost.

Profits and losses on realisation are taken into the profit and loss account in the year in which they arise.



#### **d Tangible fixed assets**

The Bank's properties, with the exception of one leasehold property classified as an investment property, are stated at valuation made by the Directors as at 28 February 1994 plus the cost of subsequent additions and less depreciation. No account is taken of any liability to taxation which could arise if the premises were disposed of at their revalued amounts. One leasehold property is classified as an investment property and in accordance with SSAP 19 is revalued annually as at 28 February and stated at a professional valuation on an open-market basis. The surplus or deficit on revaluation is transferred to a revaluation reserve. No depreciation is charged on this property. The requirement of the Companies Act 1985 is to depreciate all properties, but this requirement conflicts with the generally accepted accounting principle set out in SSAP 19. The Directors consider that to depreciate the investment property would not present a fair view and that it is necessary to adopt SSAP 19 in order to present a fair view. If this policy had not been adopted, the profit would have been reduced by depreciation on this property of £5.3 million (1994 £4.9 million).

Freehold land is not depreciated

Equipment is stated at cost less depreciation.

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

Freehold buildings	over the estimated future life
Leasehold land and buildings	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**

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date. Other assets denominated in foreign currency are stated at cost, being the sterling equivalent of the foreign currency at the date of acquisition of the asset. Foreign currency liabilities intended to hedge assets denominated in foreign currency follow the policy adopted for the hedged asset. Income and expenditure are translated into sterling at the exchange rate ruling at the time of the transaction.

#### **g Commitments on behalf of HM Treasury**

Commitments in foreign currencies and gold, or on a gold basis, 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 Subsidiary undertakings

Shares in subsidiary undertakings are stated in the balance sheet at cost less provision for permanent diminution in value. Dividends from subsidiaries undertakings 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, on a systematic basis, over the employees' service lives using the projected unit method. Variations from the regular cost are spread over the remaining service lives of the members of the scheme.

With effect from 1 March 1994, the Bank changed the method of accounting for other post-retirement benefits, principally healthcare for certain pensioners, to a basis similar to that used to account for pension obligations. Previously such benefits were treated on the basis of the annual premium payable and other costs. This change of policy is to comply with Urgent Issues Task Force Abstract 6 on Accounting for Post-retirement Benefits. Following the change in policy, a deferred tax asset has been recognised in full in respect of this liability. The effects of this change are described in note 19. All comparative figures have been restated to reflect the new policy.

## 2 Profit after provisions and before tax

1995	1994
£m	as restated £m

Profit after provisions and before tax is stated after:

### (i) Profit arising on the flotation of 3i Group plc:-

- special dividend	52.7	-
- profit on sale of shares	66.8	-
	<u>119.5</u>	<u>-</u>

On 18 July 1994, the shares of 3i Group plc were floated on the London Stock Exchange. The Bank sold approximately 45% of its holding in the flotation.

### (ii) Staff Costs:

-wages and salaries	80.3	79.6
-social security costs	6.6	6.6
-other pension costs and post-retirement benefits	20.1	20.1
-cost of severance schemes	11.5	2.9

### (iii) Income:

-income from unlisted investments	10.6	10.7
-income from listed investments	1.3	-
-charges for services to HM government	50.1	49.5
-rents	10.9	4.6

### (iv) Charges:

-hire of computers and equipment	1.0	1.1
-other operating lease rentals	0.7	1.9
-depreciation of premises and equipment	15.7	16.3



The auditors' remuneration was £129,000 (1994 £124,000).

The auditors' remuneration for non-audit work was £347,000 (1994 £371,000).

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

### 3 Emoluments of Directors

Under the Bank's Charter, fees are payable at the rate of £2,000 to the Governor, £1,500 to the Deputy Governor, and £500 per annum to the other Directors. Additional remuneration for the Executive members of Court - the Governors and the four Executive Directors - is determined by the Non-Executive Directors on the advice of the Remuneration Committee, the membership of which is set out on page 29. The Committee seeks to establish levels of pay for the Bank's most senior staff which reflect their qualifications, experience and responsibilities while taking account of the Bank's relationship within the public sector. In line with the practice for Bank staff, the Committee may from time to time recommend the payment of non-pensionable bonuses as a means of rewarding individual performance.

	1995 £	1994 £
Fees	11,500	11,500
Remuneration of Governors and Executive Directors	975,282	952,223
Payments in respect of notional benefits of travel on Bank business	2,060	9,456
Pension contributions	328,174	244,707
Pensions to former Directors and widows of former Directors	103,996	87,547
	<u>1,421,012</u>	<u>1,305,433</u>

Included above are non-pensionable bonuses paid to the Deputy Governor and Executive Directors, amounting in aggregate to £25,000 (1994 Nil).

Payments in respect of notional benefits of travel on Bank business arise because of the Inland Revenue's practice of treating travel by spouses accompanying a Governor or Director on official business as a taxable benefit. The presence of the spouse on certain official business is regarded by the Bank as necessary and accordingly the Bank meets any tax liability that may arise in respect of such occasions.

Governors and Executive Directors are members of the Court pension scheme, contributions to which are assessed annually in accordance with actuarial advice. This is the main means of securing pensions for Governors, Executive Directors and their dependants. The Bank's contribution was 25% (1994 30%) of pensionable salary. The Remuneration Committee keeps under review the pension arrangements for present and former Executive members of Court. In certain circumstances Court, on the advice of the Committee, may grant additional pensions to Directors, former Directors and the widows of former Directors and these are unfunded. The amount of such pensions paid during the year is given in the above table. A provision of £1,135,000 based on actuarial advice has been made for these unfunded benefits in this year's accounts for the first time. The amount in respect of pensions in payment is included with other provisions. The amount of the charge which related to current Directors is included in pension contributions shown above and amounted to £135,000 of which £85,000 related to previous years. The Bank provides no pension in respect of Non-Executive Directors.



The Governor's emoluments were:

	1995	1994	
Mr George	Mr George	Lord Kingsdown	
	(Service from 1 July 1993)	(Service up to 30 June 1993)	
£	£	£	
Fees	2,000	1,333	667
Remuneration	225,000	150,000	75,000
	<u>227,000</u>	<u>151,333</u>	<u>75,667</u>

The Governor's remuneration is fixed for the current term of his office from 1 July 1993 to 30 June 1998.

Mr George received other benefits of £2,415 (1994 aggregate for Mr George and Lord Kingsdown £5,845). In the year to 28 February 1994, Mr George also received, in respect of his services as Deputy Governor from 1 March to 30 June 1993, £500 in fees and £65,842 as remuneration. The Governor is a member of the Court pension scheme and has no unfunded pension arrangement.

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	
	1995	1994
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
130,001-135,000	1	1
135,001-140,000	1	—
140,001-145,000	1	1
150,001-155,000	1	—
185,001-190,000	1	—
220,001-225,000	—	1
225,001-230,000	1	—

\* These members served for only part of the year.

Mr Pennant-Rea resigned on 22 March. Under the terms of his departure, his salary continues for three months from the date of his resignation or, if earlier, until, with the Governor's agreement, he accepts full-time employment. He also maintains his accrued pension rights as at the end of the period described above with no enhancement.

#### 4 Pension costs and other post-retirement benefits

The Bank operates defined benefit pension schemes providing benefits based on final pensionable pay for employees of the Bank and its subsidiary BE Services Ltd. The assets of the schemes are held separately by the Bank in



independent trustee-administered funds. The Bank also provides other post-retirement benefits, principally healthcare, for certain pensioners.

The main pension scheme, the Bank of England Pension Fund, is valued every three years by an independent qualified actuary. The latest actuarial valuation was 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 2.5% and the rate of increase in pensions by 4.5%. It was also assumed that the equity dividend growth would equal the rate of future pension increases.

The other post-retirement benefits are unfunded and provision, based on actuarial advice, is made for the liability in the accounts. The principal assumption used in determining the required provisions was that the rate of increase in medical costs would exceed the rate of inflation by 3%.

The total cost of all post-retirement benefits for the year was £20.1 million (1994 £20.1 million) of which £1.7 million (1994 £1.6 million) was recharged to the Issue Department. £24.0 million (1994 £27.4 million), representing the excess of the pension amounts funded over the cost, is included in other assets. £81.0 million (1994 £75.0 million) representing the provision in respect of other post-retirement benefits is included in other liabilities.

## 5 Payment to HM Treasury under Section 1(4) of the Bank of England Act 1946

	1995	1994
	£m	£m
Payable 5 April	51.8	22.4
Payable 5 October	50.4	26.0
	<u>102.2</u>	<u>48.4</u>

## 6 Tax on profit on ordinary activities

	1995	1994
	£m	as restated £m
United Kingdom corporation tax at 33%	19.5	18.4
Tax credit on franked investment income	11.8	1.1
Prior year - corporation tax	(32.4)	0.1
- deferred tax	34.7	-
Deferred taxation	(0.9)	2.8
	<u>32.7</u>	<u>22.4</u>

The charge for taxation is computed on the residual profit on ordinary activities after deduction of the payment to HM Treasury. The charge is lower than that calculated using the UK corporation tax rate of 33% as part of the proceeds of the sale of 3i Group plc is not subject to corporation tax and also because tax on the remainder is computed according to Capital Gains Tax rules, which produce a lower effective rate of tax.



The deferred tax liability of £16.3 million, included in other liabilities, (1994 as restated, asset of £17.5 million) is comprised as follows:

	1995	1994 as restated
	£m	£m
Short-term timing differences	10.9	10.6
Accelerated capital allowances	2.0	2.0
Other timing differences	3.4	(30.1)
	<u>16.3</u>	<u>(17.5)</u>

The movement on the provision for deferred taxation is as follows:

	1995
	£m
At 1 March 1994	7.3
Prior year adjustment	(24.8)
As restated	(17.5)
Profit and loss account	33.8
	<u>16.3</u>

Tax of £10 million (1994 £10 million) has not been provided in respect of further accelerated capital allowances as the provision at 28 February 1995 is considered adequate.

## 7 Assets and Liabilities

	1995	1994 as restated
	£m	£m
<b>Sterling/non-sterling analysis of assets and liabilities:</b>		
<b>Assets:</b>		
Denominated in sterling	6,491.8	8,374.8
Denominated in currencies other than sterling	1,322.3	1,416.0
	<u>7,814.1</u>	<u>9,790.8</u>
<b>Liabilities:</b>		
Denominated in sterling	6,495.4	8,376.3
Denominated in currencies other than sterling	1,318.7	1,414.5
	<u>7,814.1</u>	<u>9,790.8</u>

## 8 Treasury bills and other eligible bills

	1995	1994
	£m	£m
British government Treasury bills	347.7	647.6
Other eligible bills	—	149.7
	<u>347.7</u>	<u>797.3</u>



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

	1995 £m	1994 £m
Repayable on demand	287.8	391.5
Remaining maturity:		
- over 5 years	9.9	64.7
- 5 years or less but over 1 year	7.8	13.2
- 1 year or less but over 3 months	53.4	201.9
- 3 months or less	<u>4,985.2</u>	<u>6,392.5</u>
	<u>5,344.1</u>	<u>7,063.8</u>
Of which the gross amount due from subsidiary undertakings, before provisions - unsubordinated (note 12)	<u>280.2</u>	<u>0.2</u>
Sterling accounts:		
- money market and banks	4,060.2	5,550.8
- other	37.8	98.5
Foreign currency accounts:		
- banks	<u>1,246.1</u>	<u>1,414.5</u>
	<u>5,344.1</u>	<u>7,063.8</u>

## 10 Debt Securities

	1995		1994	
	Balance sheet £m	Market value £m	Balance sheet £m	Market value £m
Investment securities:				
- British government securities, listed on a recognised UK exchange	<u>1,066.1</u>	<u>1,194.2</u>	<u>998.2</u>	<u>1,263.3</u>
Due within one year	63.6	62.7	30.9	32.5
Due one year and over	<u>1,002.5</u>	<u>1,131.5</u>	<u>967.3</u>	<u>1,230.8</u>
	<u>1,066.1</u>	<u>1,194.2</u>	<u>998.2</u>	<u>1,263.3</u>
	£m		£m	
Unamortised discounts and premiums	<u>99.4</u>		<u>110.0</u>	
	Cost	Discounts and premiums	Carrying value	
	£m	£m	£m	
At 1 March 1994	929.1	69.1	998.2	
Amortisation of discounts and premiums		12.6	12.6	
Purchases	86.0	0.2	86.2	
Sales	(24.9)	(1.0)	(25.9)	
Redemptions	(4.6)	(0.4)	(5.0)	
At 28 February 1995	<u>985.6</u>	<u>80.5</u>	<u>1,066.1</u>	



## 11 Equity shares and participating interests

	1995		1994	
	Balance sheet-cost £m	Valuation £m	Balance sheet-cost £m	Valuation £m
Investment securities:				
- UK listed equity shares	17.6	132.4	-	-
- unlisted equity shares	1.5	57.2	33.2	146.6
Participating interests - unlisted	74.7	76.6	-	-
	<u>93.8</u>	<u>266.2</u>	<u>33.2</u>	<u>146.6</u>

Valuation represents middle-market values for listed investments and Directors' valuation for unlisted investments and participating interests.

### (a) Equity shares

Movements in equity shares were as follows:

	£m
At 1 March 1994	33.2
Sales during the year	(14.1)
At 28 February 1995	<u>19.1</u>

The principal holdings of equity shares included in listed and unlisted securities are as follows:

	Percentage held	
	1995	1994
<b>Listed:-</b>		
3i Group plc shares of £1 (Registered in England)	6.6	14.5
<b>Unlisted:-</b>		
Bank for International Settlements shares of 2,500 Swiss gold francs (25% paid) (Incorporated in Switzerland)	10.1	10.1

As explained in note 2, the shares of 3i Group plc were floated during the year on the London Stock Exchange. The Bank sold approximately 45% of its holding. At the time of the flotation further shares were issued to new investors and consequently the Bank's proportionate holding was further reduced to the percentage given above. As the shares are now listed on the London Stock Exchange, the Bank's remaining holding is now classified as a listed holding.

### (b) Participating interests

This is the cost in sterling of the Bank's contribution of ECU 94.5 million to the financial resources of the European Monetary Institute. These resources, of which the Bank's share is 15.35%, are invested by the European Monetary Institute to provide it with the income needed to finance its operations. The contributions are repayable on the dissolution of the EMI and have accordingly been accounted for as an investment. The majority of the Bank's contribution is



hedged against movements in exchange rates by a deposit, also denominated in ECU. The valuation of this interest disclosed above represents the contribution translated at the exchange rate ruling on 28 February 1995.

## 12 Shares in subsidiary undertakings

	£m	
Cost at 1 March 1994 and 28 February 1995	<u>59.6</u>	
	1995	1994
	£m	£m
In addition, gross advances to subsidiaries, before provisions, included under loans and advances to banks, the money market and customers (note 9) amount to	<u>280.2</u>	<u>0.2</u>

The accounts of the subsidiaries detailed in (a), (b) 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. CRESTCo Ltd has not been consolidated as the Bank's control is intended to be temporary.

### (a) National Mortgage Bank PLC

The National Mortgage Bank PLC (NMB) was one of several institutions supported by the Bank in 1991/92, in an operation designed to prevent liquidity problems facing a few small banks from spreading more widely through the banking system. Provisions in relation to this operation, the major part of which related to NMB, amounted to £115.0 million at 28 February 1993 and £105.0 million at 28 February 1994 and were reported in the Bank's Report and Accounts for those years. The provision in relation to support operations remains at £105.0 million, of which £102.5 million relates to NMB.

On 29 September 1994, the Bank purchased NMB and its subsidiaries from National Home Loans Holdings plc, for a nominal consideration of £1. The Bank owns NMB's entire share capital of 75 million £1 ordinary shares.

The acquisition of NMB by the Bank changes the form of the Bank's support, but not the substance. NMB has continued its principal activity of realising its loans and other non-liquid assets and will continue to do so. Included on the Bank's balance sheet within "loans and advances to banks" is £280 million lent to NMB which is the NMB group's principal funding. In addition, the Bank has given an indemnity against losses on the NMB's asset portfolio. After taking account of this indemnity, the NMB group's accounts show net assets of nil and the result for the year is similarly nil, as any change in the underlying position of NMB is reflected in a movement in provisions.



The consolidated accounts of NMB and its subsidiaries as at 28 February 1995 show:

	£m
Loans and advances to banks	7.9
Loans and advances to customers	197.7
Other assets	<u>94.9</u>
	<u>300.5</u>
Creditors	
Bank of England	(280.0)
Debt securities	(12.9)
Other liabilities	<u>(7.6)</u>
	<u>(300.5)</u>
	<u>nil</u>
Equity Share Capital	75.0
Accumulated deficit	<u>(75.0)</u>
	<u>nil</u>

#### (b) Minorities Finance Ltd

Throughout the year ended 28 February 1995, 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. The investment in this company is included in the Bank's balance sheet at £37.5 million. 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 1994 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:

Loss for the year to 31 December 1994	(£1.4 million)
Accumulated reserves as at 31 December 1994	£6.7 million
Net assets at 31 December 1994	£44.2 million

#### (c) 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 1995. The company is registered in England.

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



#### (d) CRESTCo Ltd

CRESTCo Ltd has been established by the Bank to develop and subsequently own and run the CREST settlement system. The company's capital comprises 100 £1 temporary controlling shares owned by the Bank and £6 million of redeemable non-voting shares held by financial institutions. The temporary controlling shares will be held by the Bank during the development process in order that the Bank can oversee the development. These shares will lose their voting rights, and the company will therefore cease to be a subsidiary of the Bank on the date on which CREST starts operations, which is expected to be during 1996.

The accounts of CRESTCo Ltd to 31 December 1994 show:

Net assets	£12.1 million
Share Capital	£ 6.0 million
Share Premium	£ 6.0 million
Profit and loss	£ 0.1 million

#### (e) 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 1995	0.4
Since formation	<u>1.5</u>



### 13 Tangible fixed assets

£m

	Freehold land and buildings	Leases of 50 years or more unexpired	Leases of less than 50 years unexpired	Equipment	Total
<b>Cost or valuation</b>					
At 1 March 1994	162.4	161.1	2.1	107.2	432.8
Additions	19.6	—	0.1	12.1	31.8
Disposals	(0.4)	(0.2)	—	(7.3)	(7.9)
Surplus on revaluation	—	4.2	—	—	4.2
At 28 February 1995	<u>181.6</u>	<u>165.1</u>	<u>2.2</u>	<u>112.0</u>	<u>460.9</u>
<b>Accumulated depreciation</b>					
At 1 March 1994	—	—	—	63.2	63.2
Charge for the year	5.9	0.4	0.1	9.3	15.7
On disposals	—	—	—	(7.2)	(7.2)
At 28 February 1995	<u>5.9</u>	<u>0.4</u>	<u>0.1</u>	<u>65.3</u>	<u>71.7</u>
<b>Net book value</b>					
At 28 February 1995	<u>175.7</u>	<u>164.7</u>	<u>2.1</u>	<u>46.7</u>	<u>389.2</u>
<b>Net book value</b>					
At 28 February 1994	<u>162.4</u>	<u>161.1</u>	<u>2.1</u>	<u>44.0</u>	<u>369.6</u>
<b>Cost or valuation at 28 February 1995 comprised:</b>					
At 1995 valuation	—	157.0	—	—	157.0
At 1994 valuation	162.4	8.1	2.1	—	172.6
At cost	<u>19.2</u>	<u>—</u>	<u>0.1</u>	<u>112.0</u>	<u>131.3</u>
	<u>181.6</u>	<u>165.1</u>	<u>2.2</u>	<u>112.0</u>	<u>460.9</u>

Included in leasehold premises (50 years and over) is an investment property held at open-market value of £157.0 million (1994 £153.0 million) which was valued by St Quintin, Chartered Surveyors, as at 28 February 1995. The figures relating to other 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, plus the cost of additions since that date.

The Bank occupies a small proportion of the investment property for its own purposes. The Bank occupies its other properties for its own purposes with the exception of an immaterial proportion.

Contracts for capital expenditure authorised by the Directors and outstanding at 28 February 1995 totalled £16.0 million (1994 £24.8 million). Further capital expenditure authorised at that date, but not contracted for, is estimated at £11.6 million (1994 £16.9 million).



## 14 Deposits by central banks

	1995 £m	1994 £m
Remaining maturity:		
- 1 year or less but over 3 months	50.2	130.7
- 3 months or less but not repayable on demand	909.9	1,050.2
Repayable on demand	447.5	349.5
	<u>1,407.6</u>	<u>1,530.4</u>

## 15 Deposits by banks

	1995 £m	1994 £m
Cash ratio deposits	1,496.2	1,420.7
Other deposits repayable on demand	213.6	311.1
	<u>1,709.8</u>	<u>1,731.8</u>

Included in cash ratio deposits as at 28 February 1995 is a deposit of £1.1 million by a subsidiary, National Mortgage Bank PLC.

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

	1995 £m	1994 £m
Remaining maturity:		
5 years or less but over 1 year:		
- Public deposits	72.6	-
1 year or less but over 3 months:		
- Other deposits	0.3	67.5
3 months or less but not repayable on demand:		
- Public deposits	22.0	27.9
- Other deposits	207.3	72.9
Repayable on demand:		
- Public deposits	427.7	1,522.4
- Deposit by Issue Department	2,352.6	3,500.0
- Other deposits	312.4	211.6
	<u>3,394.9</u>	<u>5,402.3</u>

Public deposits are the balances on government accounts, including Exchequer, National Loans Fund, National Debt Commissioners and dividend accounts and include a deposit, denominated in ECU, from the Exchange Equalisation Account.



## 17 Other liabilities

	1995	1994 as restated
	£m	£m
Include:		
Payable to HM Treasury	102.2	48.4
Due to subsidiaries	28.3	27.8
Provision for post-retirement benefits	81.0	75.0

## 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 1994	723.8	108.1	115.6	947.5
Prior year adjustment	(50.2)	—	—	(50.2)
As restated	673.6	108.1	115.6	897.3
Reserve realised on disposal of premises	0.1	(0.1)	—	—
Retained profit for the year	91.0	—	—	91.0
Surplus on revaluation of property	—	—	4.2	4.2
Balance at 28 February 1995	<u>764.7</u>	<u>108.0</u>	<u>119.8</u>	<u>992.5</u>

The Bank provides unfunded post-retirement benefits, principally healthcare, to certain pensioners. In the current year, and in accordance with Urgent Issues Task Force Abstract 6, the method of accounting for these obligations has been changed from being based on the annual premium payable or other cost, to a basis similar to that used to account for pension obligations. The value of this obligation in respect of service up to the beginning of the year amounted to £75.0 million. In addition, as permitted by UITF 6, a deferred tax asset has been established at 1 March 1994 of £24.8 million, resulting in a net prior year adjustment for post-retirement benefits of £50.2 million. The accrued liability is included within "other liabilities". The effect of this change in accounting policy is to reduce the current year's profit by £6.0 million (1994 £6.0 million).

## 20 Statement of reconciliation of shareholder's funds

	1995	1994 as restated
	£m	£m
Shareholder's funds at 1 March (as restated)	911.9	887.7
Retained profit for the year	91.0	43.4
Surplus/(deficit) on revaluation of property	4.2	(19.2)
Shareholder's funds at 28 February	<u>1,007.1</u>	<u>911.9</u>



## 21 Cash flow statement

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

	1995	1994 as restated
	£m	£m
Profit after provisions and before tax	225.9	114.2
(Increase)/decrease in interest receivable and prepaid expenses	(0.6)	17.8
Decrease in interest payable and accrued expenses	(5.4)	(7.2)
Depreciation	15.7	16.3
Profit on sale of investments securities	(69.5)	—
Special dividend received on flotation of 3i Group plc	(52.7)	—
Effect of provisions, deferrals and accruals on operating activity cash flow	(0.6)	(18.9)
Net cash inflow from trading activities	112.8	122.2
Net decrease in foreign currency deposits	(168.4)	(894.6)
Net (decrease)/increase in other deposits	(1,979.8)	2,755.9
Net decrease in foreign currency accounts with banks	168.4	894.9
Net decrease/(increase) in advances to banks and customers	106.0	(329.1)
Net decrease/(increase) in other assets	2.7	(2.0)
(Increase)/decrease in securities held	(55.9)	4.3
(Increase)/decrease in items in course of collection	(27.4)	7.3
Net cash (outflow)/inflow from operating activities	<u>(1,841.6)</u>	<u>2,558.9</u>

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

	1995	1994
	£m	£m
Balance at 1 March	6,129.0	3,664.1
Net cash (outflow)/inflow	(1,897.5)	2,464.9
Balance at 28 February	<u>4,231.5</u>	<u>6,129.0</u>

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

	1995	Change in year	1994
	£m	£m	£m
Cash	4.1	(2.6)	6.7
Advances to money market and certain banks	3,879.7	(1,445.3)	5,325.0
Treasury and other eligible bills	347.7	(449.6)	797.3
	<u>4,231.5</u>	<u>(1,897.5)</u>	<u>6,129.0</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.



#### (iv) Purchase of subsidiary

The Bank acquired The National Mortgage Bank PLC on 29 September 1994 for £1. The net assets acquired, but not consolidated as explained in note 12(a), were as follows:

	£m
Loans and advances to banks	3.8
Loans and advances to customers	198.3
Other assets	117.6
	<u>319.7</u>
Creditors:	
Bank of England	(295.0)
Debt securities	(17.7)
Other liabilities	(7.0)
	<u>(319.7)</u>
Net assets	<u>nil</u>

## 22 Transactions with Directors and Officers

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

	Total amount outstanding at 28 February 1995 £000	Number
Directors	219	4
Officers	1,032	18

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

	1995		1994	
	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	-	0.8	-	0.9
- in five years or more	0.7	-	0.7	-
	<u>0.7</u>	<u>0.8</u>	<u>0.7</u>	<u>1.0</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:

	1995	1994
Governors and Executive Directors	6	6
Managers	278	279
Clerical Staff	2,346	2,439
Others	564	597
	<u>3,194</u>	<u>3,321</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. There are also forward contracts for the purchase and sale of foreign currencies. Provision is made for any estimated irrecoverable liability that may arise from these transactions.

As part of its normal business, the Bank acts as custodian of its customers' assets and fulfils an agency role. No significant irrecoverable liability arises from these transactions.

In 1993 and 1994, writs were 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 £199 million (1994 £214 million).

## 25 Date of approval

The Court of Directors approved the financial statements on pages 32 to 52 on 17 May 1995.



## Issue Department

### Account for the year ended 28 February 1995

1994 £m		1995 £m	£m
	Income and profits:		
354.9	Securities of, or guaranteed by, the British government	593.2	
824.5	Other securities	434.1	
—	Other income	1.1	
<u>1,179.4</u>			1,028.4
	Expenses: (note 2)		
38.8	Cost of production of Bank notes	37.7	
20.7	Cost of issue, custody and payment of Bank notes	20.7	
2.9	Other expenses	2.8	
<u>62.4</u>			61.2
<u>1,117.0</u>	Payable to HM Treasury		<u>967.2</u>

### Statement of balances: 28 February 1995

1994 £m	Note	1995 £m	1994 £m	Note	1995 £m		
	Notes issued:		11.0	Government debt	4	—	
17,163.5	In circulation	3	18,056.1	1,036.2	Other securities of, or guaranteed by, the British government	5	10,910.2
6.5	In Banking Department		3.9				
			16,122.8	Other securities and assets including those acquired under repurchase agreements	6	7,149.8	
<u>17,170.0</u>		<u>18,060.0</u>	<u>17,170.0</u>			<u>18,060.0</u>	

**E A J GEORGE**

**B QUINN**

**DAVID SCHOLEY**

**G MIDGLEY**

*Governor*

*Acting Deputy Governor*

*Director*

*Finance 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 27 February 1995.
- 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.

### 2 Staff costs

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

1994		1995
£m		£m
18.5	Wages and salaries	17.9
1.5	Social security costs	1.5
1.6	Other pension costs	1.7
<u>21.6</u>		<u>21.1</u>

The average number of persons employed at the Printing Works during the year was 929 (1994 972).

### 3 Notes in circulation

1994		1995
£m		£m
57.3	£1(a)	56.6
1,135.1	£5	1,072.1
5,245.3	£10	5,347.6
6,817.8	£20	7,723.4
2,883.9	£50	2,852.3
1,024.1	Other notes (b)	1,004.1
<u>17,163.5</u>		<u>18,056.1</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 in Scotland and Northern Ireland in excess of their permitted issues.



#### 4 Government debt

This item represents the debt incurred by the Government to the Bank up to 1834. The balance had remained unchanged since then until it was repaid in full on 27 July 1994, the 300th anniversary of the Bank's foundation.

#### 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

1994		1995
£m		£m
8,164.6	Commercial bills	3,005.2
807.8	Promissory notes	384.0
3,500.0	Deposit with Banking Department	2,352.6
3,650.4	Other assets	1,408.0
<u>16,122.8</u>		<u>7,149.8</u>

#### 7 Date of approval

The Court of Directors approved the statements of account on pages 53 to 55 on 17 May 1995.

## Addresses and telephone numbers

London	Head Office	Threadneedle Street London EC2R 8AH	0171-601 4444 <sup>(1)</sup>
	Clearing Centre	161 City Road London EC1V 1PA	0171-601 4444
	Printing Works	Langston Road Loughton Essex IG10 3TN	0181-508 6221
Gloucester	Registrar's Department	Southgate House Southgate Street Gloucester GL1 1UW	01452 398000
Branches	Birmingham	PO Box 3 55 Temple Row Birmingham B2 5EY	0121-643 8571
	Bristol	PO Box 10 Wine Street Bristol BS99 7AH	01179 277251
	Leeds	King Street Leeds LS1 1HT	01132 441711
	Manchester	PO Box 301 Faulkner Street Manchester M60 2HP	0161-228 1771
	Newcastle	PO Box 2BE Pilgrim Street Newcastle upon Tyne NE99 2BE	0191-261 1411
Agencies	East Anglia and South East	Industrial Finance Division Bank of England Threadneedle Street London EC2R 8AH	0171-601 4335
	Glasgow	25 St Vincent Place Glasgow G1 2EB	0141-221 7972
	Liverpool	Lancaster House Mercury Court Tithebarn Street Liverpool L2 2QP	0151-227 2553
	Southampton Area	PO Box 15 Canister House 27 Jewry Street Winchester Hampshire SO23 8LP	01962 840161

(1) Enquiries relating to this Report may be made on 0171-601 4878.

Enquiries relating to the *Bank of England Quarterly Bulletin* and *Inflation Report* may be made on 0171-601 4030.