

# REPORT OF THE AUDITORS

LONDON 15 MAY 1996

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

We have audited the financial statements of the Banking Department on pages 48 to 67, and the statements of account of the Issue Department on pages 68 and 69.

## *Respective responsibilities of directors and auditors*

As described on page 44, 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 48 to 67 present fairly, on the basis referred to above, the state of affairs of the Banking Department at 29 February 1996 and the profit, total recognised gains and cash flows for the year then ended.

**2** The statements of account on pages 68 and 69 present fairly, on the basis described on page 69, the outcome of the transactions of the Issue Department for the year ended 29 February 1996 and its balances at that date.

COOPERS & LYBRAND

*Chartered Accountants  
and Registered Auditors*



## BANKING DEPARTMENT

### PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 29 FEBRUARY 1996

	Notes	1996 £m	1995 £m
Profit after provisions and before tax	2	214.4	225.9
Payment to HM Treasury under Section 1(4) of the Bank of England Act 1946	5	(88.0)	(102.2)
Tax on profit on ordinary activities	6	(38.1)	(32.7)
Retained profit for the year	19	<u>88.3</u>	<u>91.0</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 29 FEBRUARY 1996

	1996 £m	1995 £m
Profit transferred to reserves	88.3	91.0
Unrealised (deficit)/surplus on revaluation of property	(12.0)	4.2
Total recognised gains and losses for the year	<u>76.3</u>	<u>95.2</u>



## BANKING DEPARTMENT

## BALANCE SHEET AS AT 29 FEBRUARY 1996

	Notes	1996 £m	1995 <i>restated</i> £m
<b>Assets</b>			
Cash		12.2	4.1
Items in course of collection		274.8	387.2
Treasury and other eligible bills	8	18.9	347.7
Loans and advances to banks, the money market and customers	9	4,152.0	5,344.1
Debt securities	10	1,137.7	1,066.1
Equity shares and participating interests	11	76.2	93.8
Shares in subsidiary undertakings	12	59.6	59.6
Tangible fixed assets	13	379.1	389.2
Prepayments, accrued income and other assets		85.4	124.5
<b>Total assets</b>		<b>6,195.9</b>	<b>7,816.3</b>
<b>Liabilities</b>			
Deposits by central banks	14	1,082.9	1,407.6
Deposits by banks	15	1,728.4	1,709.8
Customer accounts	16	2,000.3	3,396.5
Other liabilities	17	300.9	295.3
		<b>5,112.5</b>	<b>6,809.2</b>
Capital	18	14.6	14.6
Revaluation reserves	19	215.8	227.8
Profit and loss account	19	853.0	764.7
Shareholder's funds	20	<b>1,083.4</b>	<b>1,007.1</b>
<b>Total liabilities</b>		<b>6,195.9</b>	<b>7,816.3</b>

<b>E A J GEORGE</b>	Governor
<b>H J DAVIES</b>	Deputy Governor
<b>DAVID SCHOLEY</b>	Director
<b>G MIDGLEY</b>	Finance Director

## BANKING DEPARTMENT

### CASH FLOW STATEMENT FOR THE YEAR ENDED 29 FEBRUARY 1996

	Notes	1996 £m	1995 £m
<b>Operating activities</b>			
Net cash outflow from operating activities	21	(1,317.2)	(1,841.6)
<b>Payments to HM Treasury under Section 1(4) of the Bank of England Act 1946</b>		(102.2)	(48.4)
<b>Taxation</b>			
UK corporation tax received/(paid)		9.0	(27.1)
		<u>(1,410.4)</u>	<u>(1,917.1)</u>
<b>Investing activities</b>			
Disposal of investment securities		136.0	125.7
Investment in European Monetary Institute		-	(74.7)
Purchase of premises and equipment		(26.6)	(32.0)
Sales of premises and equipment		0.5	0.6
		<u>109.9</u>	<u>19.6</u>
Decrease in cash and cash equivalents	21	<u>(1,300.5)</u>	<u>(1,897.5)</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.

The accounts incorporate all assets and liabilities, income and expenditure of the Printing Works. This is a change from previous practice under which only certain major assets and liabilities of the Printing Works and part of the income and expenditure arising there, the majority of which is charged to the Issue Department as costs of Issue, were reflected in the accounts of the Banking Department. There is no material effect on the balance sheet or result for the year. The comparative figures for the previous year have been restated.

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 in the financial statements.

**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 end-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 for the year would have been reduced by depreciation on this property of £5.6 million (1995 £5.3 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 lives which range from ten to thirty years
Leasehold land and buildings	over the period of lease or estimated future lives which range from ten to thirty years
Plant within buildings	over periods ranging from five to twenty years
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 arising 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 subsidiary 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.

Other post-retirement benefits, principally healthcare for certain pensioners, are accounted for on a basis similar to that used to account for pension obligations. A deferred tax asset has been recognised in full in respect of this liability under UITF6.

**2 Profit after provisions and before tax**

	1996 £m	1995 <i>restated</i> £m
Profit after provisions and before tax is stated after:		
(i) Profit arising on the flotation and subsequent sale of shares in 3i Group plc:		
- special dividend	-	52.7
- profit on sale of shares	118.4	66.8
	<u>118.4</u>	<u>119.5</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 and its remaining shares in June 1995.		
(ii) Staff costs (inc. Governors and Executive Directors):		
- wages and salaries	97.3	97.5
- social security costs	8.1	8.1
- other pension costs and post-retirement benefits	20.5	20.1
- cost of severance schemes	19.2	11.5
(iii) Income:		
- charges for services to HM Government, including charges to the Issue Department in respect of the Note Issue	83.5	87.3
- rents	12.5	10.9
(iv) Charges:		
- operating lease rentals	1.7	1.7
- depreciation of premises and equipment	22.4	15.7

The auditors' remuneration was £135,000 (1995 £140,000 as restated)

The auditors' remuneration for non-audit work was £250,000 (1995 £347,000)

As explained in note 1(a) the above figures include expenditure and income arising at the Printing Works.

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

### 3 Emoluments of Directors

	1996 £	1995 £
Fees	11,136	11,500
Remuneration of Governors and Executive Directors	931,940	975,282
Payment in respect of notional benefits of travel on Bank business	3,728	2,060
	<u>946,804</u>	<u>988,842</u>
Pension contributions *	186,106	328,174
Pensions to former Directors and widows of former Directors	100,744	103,996
	<u><u>1,233,654</u></u>	<u><u>1,421,012</u></u>

An analysis of emoluments is given below.

	Salary & fees (Note i) £	Bonuses (Note ii) £	Benefits (Note iii) £	Total £	Prior year Total £
<b>Governors</b>					
Governor					
Mr E A J George	227,000	-	5,423	232,423	229,415
Deputy Governor					
Mr R L Pennant-Rea (note v)	56,544	-	562	57,106	189,091
Mr H J Davies (w.e.f. 11 September 1995)	86,053	-	413	86,466	-
<b>Executive Directors</b>					
Mr B Quinn	145,500	15,000	2,380	162,880	152,437
Mr M A King	137,167	-	217	137,384	140,765
Mr P H Kent	131,500	-	2,042	133,542	137,380
Mr I Plenderleith	126,667	-	4,336	131,003	133,754
<b>Non-Executive Directors</b>					
(note vi)	6,000	-	-	6,000	6,000
	<u><u>916,431</u></u>	<u><u>15,000</u></u>	<u><u>15,373</u></u>	<u><u>946,804</u></u>	<u><u>988,842</u></u>

(i) The Bank's Charter of 1946 provides for the payment of fees at the rate of £2,000 per annum to the Governor, £1,500 per annum to the Deputy Governor, and £500 per annum to the other Directors. The Charter also provides for the payment of "special remuneration" to the Executive members of Court - the Governors and Executive Directors. The amounts of special remuneration are determined by the Non-Executive members of Court on the advice of the Remuneration Committee, the membership of which is set out on page 44. The Governor's salary and fees are fixed for the current term of his office from 1 July 1993 to 30 June 1998.



The Committee seeks to establish levels of pay for the Bank's most senior officials which adequately reflect their qualifications, experience, responsibilities and performance, while also taking account of the Bank's position within the public sector. It takes into account, with the benefit of professional advice as appropriate, the levels of pay and benefits in comparable institutions.

(ii) In addition to recommending salary levels, the Remuneration Committee may recommend the payment of bonuses as a means of rewarding special performance. For the year ended 29 February 1996, a non-pensionable bonus of £15,000 was paid to Mr Quinn in recognition of his services as Acting Deputy Governor from 27 March 1995 to 10 September 1995. In the year to 28 February 1995, non-pensionable bonuses totalling £25,000, in aggregate, were paid to the Deputy Governor and Executive Directors.

(iii) The Committee also keeps under review other benefits available to Directors, including medical insurance and loans for housing and other purposes. The latter are available to Governors and Executive Directors on the same basis as for Bank staff, subject to any limitations that would apply to a banking company incorporated under the Companies Acts.

The principal benefits received during the year were beneficial loans and medical insurance, together with the notional benefit of travel on Bank business. The total of all benefits was £15,373.

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.

The Committee is also responsible for reviewing the pension arrangements for current and former Executive members of Court, which are generally provided through the Court pension scheme. The contributions to the scheme are assessed annually in accordance with actuarial advice in order to fund, over a number of years, the benefits payable to members. The Bank's contribution for the year to 29 February 1996 was 19% (1995 25%) of pensionable salaries and this is included in the first table above.

In certain circumstances Court, on the advice of the Remuneration Committee, may grant additional pensions or pension entitlements to Directors, former Directors or the widows of former Directors. These are unfunded, but provision, based on actuarial advice, is made for them in the Bank's accounts. The total provision in the balance sheet for such unfunded pensions at 29 February 1996 was £1,145,000, of which £103,000 relates to current members of Court.

(iv) No Governor or Executive Director has a service contract with the Bank, and the terms of their employment contain no provision for compensation on early termination of employment. Governors and Directors are required to provide services only to the Bank. With Court's approval other directorships relevant to the Bank's work may be accepted, but any fees must be paid to the Bank. A similar policy applies to any other income received by Executive members of Court arising from Bank-related work, for example fees from speaking engagements.

(v) Mr Pennant-Rea resigned on 22 March 1995. His salary continued for three months from the date of his resignation. He also maintained his accrued pension rights for the same period, with no enhancements. The value of the unfunded pension benefits attributable to Mr Pennant-Rea in respect of his total service was £65,000.

(vi) A total of 12 Non-Executive Directors served during the year ended 29 February 1996 (1995 12). In accordance with the Bank's Charter of 1946, a fee of £500 (1995 £500) was paid to each Director.

#### 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, which was as at 28 February 1993, used the projected unit method and showed that the actuarial value of the Fund's assets represented 108% of the benefits that had accrued to members at that date, after allowing for future increases in earnings and pensions in payment. The market value of the Fund's assets at that time was £1,010 million and the required contribution rate was 19.5%. The surplus will continue to be used to reduce the Bank's contribution rate. The principal assumptions were that, over the long term, the return on new investments would exceed the rate of increase in salaries by 2.5% 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 £20.5 million (1995 £20.1 million) of which £1.5 million (1995 £1.7 million) was recharged to the Issue Department. £20.4 million (1995 £24.0 million), representing the excess of the pension amounts funded over the cost, is included in other assets. £87.4 million (1995 £81.0 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

	1996 £m	1995 £m
Payable 5 April	47.0	51.8
Payable 5 October	41.0	50.4
	<u>88.0</u>	<u>102.2</u>



## 6 Tax on profit on ordinary activities

	1996 £m	1995 £m
United Kingdom corporation tax at 33%	44.0	19.5
Tax credit on franked investment income	0.4	11.8
Prior year - corporation tax	(1.2)	(32.4)
- deferred tax	0.1	34.7
Deferred taxation	(5.2)	(0.9)
	<u>38.1</u>	<u>32.7</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 the profit on the sale of shares in 3i Group plc is subject to tax computed according to Capital Gains Tax rules, which produce a lower effective rate of tax.

The deferred tax liability of £11.2 million, included in other liabilities, (1995 £16.3 million) is comprised as follows:

	1996 £m	1995 £m
Short-term timing differences	11.4	10.9
Accelerated capital allowances	2.0	2.0
Other timing differences	(2.2)	3.4
	<u>11.2</u>	<u>16.3</u>

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

	1996 £m
At 1 March 1995	16.3
Profit and loss account	(5.1)
	<u>11.2</u>

Tax of £6 million (1995 £10 million) has not been provided in respect of further accelerated capital allowances as the provision at 29 February 1996 is considered adequate.

## 7 Assets and liabilities

	1996 £m	1995 <i>restated</i> £m
<b>Sterling/non-sterling analysis of assets and liabilities:</b>		
<b>Assets</b>		
Denominated in sterling	5,072.9	6,494.0
Denominated in currencies other than sterling	1,123.0	1,322.3
	<u>6,195.9</u>	<u>7,816.3</u>
<b>Liabilities</b>		
Denominated in sterling	5,076.6	6,497.6
Denominated in currencies other than sterling	1,119.3	1,318.7
	<u>6,195.9</u>	<u>7,816.3</u>

## 8 Treasury and other eligible bills

	1996 £m	1995 £m
British government Treasury bills	<u>18.9</u>	<u>347.7</u>

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

	1996 £m	1995 £m
Remaining maturity:		
- over 5 years	5.5	9.9
- 5 years or less but over 1 year	6.5	7.8
- 1 year or less but over 3 months	221.7	53.4
- 3 months or less	3,258.1	4,985.2
- Repayable on demand	660.2	287.8
	<u>4,152.0</u>	<u>5,344.1</u>

Of which the gross amount due from subsidiary undertakings,  
before provisions (note 12)

240.2    280.2

## 10 Debt securities

	1996		1995	
	Balance sheet £m	Market value £m	Balance sheet £m	Market value £m
Investment securities:				
- British government securities, listed on a recognised UK exchange	<u>1,137.7</u>	<u>1,296.8</u>	<u>1,066.1</u>	<u>1,194.2</u>
Due within one year	35.0	35.0	63.6	62.7
Due one year and over	<u>1,102.7</u>	<u>1,261.8</u>	<u>1,002.5</u>	<u>1,131.5</u>
	<u>1,137.7</u>	<u>1,296.8</u>	<u>1,066.1</u>	<u>1,194.2</u>

	£m	£m
Unamortised discounts and premiums	<u>85.9</u>	<u>99.4</u>

Movement in debt securities:

	Cost £m	Discounts and premiums £m	Carrying value £m
At 1 March 1995	985.6	80.5	1,066.1
Amortisation of discounts and premiums		11.7	11.7
Purchases	88.6	0.1	88.7
Redemptions	(25.2)	(3.6)	(28.8)
At 29 February 1996	<u>1,049.0</u>	<u>88.7</u>	<u>1,137.7</u>



## 11 Equity shares and participating interests

	1996		1995	
	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	62.7	1.5	57.2
Participating interests - unlisted	74.7	81.1	74.7	76.6
	<u>76.2</u>	<u>143.8</u>	<u>93.8</u>	<u>266.2</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 1995	19.1
Sales during the year	(17.6)
At 29 February 1996	<u>1.5</u>

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

	Percentage held	
	1996	1995
Listed:		
3i Group plc shares of £1 (Incorporated in Great Britain)	-	6.6
The shares in 3i Group plc were sold during the year.		
Unlisted:		
Bank for International Settlements shares of 2,500 Swiss gold francs (25% paid) (Incorporated in Switzerland)	10.1	10.1

## (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, a body established by European Treaty. 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 (note 16). The valuation of the interest disclosed above represents the Bank's share of the EMI's net assets translated at the exchange rate ruling at 29 February 1996.

## 12 Shares in subsidiary undertakings

	1996 £m	1995 £m
Cost	<u>59.6</u>	<u>59.6</u>

In addition, gross advances to subsidiaries, before provisions, included under loans and advances to banks, the money market and customers (note 9) amount to

240.2      280.2

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 results 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) The National Mortgage Bank PLC

Throughout the year ended 29 February 1996, the Bank held the entire issued share capital of 75 million £1 ordinary shares of The National Mortgage Bank PLC (NMB), which is incorporated in Great Britain.

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. The acquisition of NMB by the Bank in September 1994 changed the form of the Bank's support, but not the substance.

The provision in relation to support operations has been reduced by £10 million to £95.0 million at 29 February 1996, of which £92.5 million relates to NMB. This follows a previous reduction from £115 million as at 28 February 1993 to £105 million at 28 February 1994.

Included on the Bank's balance sheet within "loans and advances to banks" is £240 million lent to NMB which is the NMB group's principal funding. In addition, the Bank has given an indemnity against losses on 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 29 February 1996, which bear an unqualified audit report show:

	1996 £m	1995 £m
Loans and advances to banks	6.4	7.9
Loans and advances to customers	187.2	197.7
Other assets	<u>54.8</u>	<u>94.9</u>
	248.4	300.5
Creditors:		
Bank of England	(240.0)	(280.0)
Debt securities	(0.2)	(12.9)
Other liabilities	<u>(8.2)</u>	<u>(7.6)</u>
	(248.4)	(300.5)
	<u>nil</u>	<u>nil</u>
Equity Share Capital	75.0	75.0
Accumulated deficit	<u>(75.0)</u>	<u>(75.0)</u>
	<u>nil</u>	<u>nil</u>



**(b) Minories Finance Ltd**

Throughout the year ended 29 February 1996, the Bank held the entire issued share capital of 37.5 million £1 ordinary shares of Minories Finance Ltd (MFL), which is incorporated in Great Britain. 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 1995 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. A dividend of £3.4 million has been declared and reflected in the Bank's accounts.

The accounts of MFL show:

Profit for the year to 31 December 1995	£3.4 million
Accumulated reserves as at 31 December 1995 after provision for dividends	£6.7 million
Net assets at 31 December 1995 after provision for dividends	£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 29 February 1996. The company is incorporated in Great Britain.

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

**(d) CRESTCo Ltd**

CRESTCo Ltd, a company incorporated in Great Britain, 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 15 July 1996.

The accounts of CRESTCo Ltd to 31 December 1995 show:

Net assets	£ 12.3 million
Share Capital	£ 6.0 million
Share Premium	£ 6.0 million
Accumulated reserves	£ 0.3 million
of which profit for the year	£ 0.2 million

**(e) Other subsidiaries**

Investments in other subsidiary companies, all of which are wholly owned and incorporated in Great Britain, 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 29 February 1996	0.2
Since formation	1.7

The aggregate net assets of these subsidiary companies are £6.8 million.

### 13 Tangible fixed assets

	Freehold land and buildings	Leases of 50 years or more unexpired	Leases of less than 50 years unexpired	Equipment	£m Total
<b>Cost or valuation</b>					
At 1 March 1995	181.6	165.1	2.2	112.0	460.9
Additions	16.3	-	0.2	8.2	24.7
Disposals	-	-	-	(7.9)	(7.9)
Deficit on revaluation	-	(12.0)	-	-	(12.0)
At 29 February 1996	<u>197.9</u>	<u>153.1</u>	<u>2.4</u>	<u>112.3</u>	<u>465.7</u>
<b>Accumulated depreciation</b>					
At 1 March 1995	5.9	0.4	0.1	65.3	71.7
Charge for the year	12.1	0.5	0.1	9.7	22.4
On disposals	-	-	-	(7.5)	(7.5)
At 29 February 1996	<u>18.0</u>	<u>0.9</u>	<u>0.2</u>	<u>67.5</u>	<u>86.6</u>
<b>Net book value</b>					
At 29 February 1996	<u>179.9</u>	<u>152.2</u>	<u>2.2</u>	<u>44.8</u>	<u>379.1</u>
<i>Net book value</i>					
At 28 February 1995	<u>175.7</u>	<u>164.7</u>	<u>2.1</u>	<u>46.7</u>	<u>389.2</u>
Cost or valuation at 29 February 1996 comprised:					
At 1996 valuation	-	145.0	-	-	145.0
At 1994 valuation	162.4	8.1	2.1	-	172.6
At cost	35.5	-	0.3	112.3	148.1
	<u>197.9</u>	<u>153.1</u>	<u>2.4</u>	<u>112.3</u>	<u>465.7</u>

Included in leasehold premises (50 years and over) is an investment property held at open-market value of £145.0 million (1995 £157.0 million) which was valued by St Quintin, Chartered Surveyors, as at 29 February 1996. 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 29 February 1996 totalled £5.2 million (1995 £16.0 million). Further capital expenditure authorised at that date totalled £7.8 million (1995 £11.6 million).



## 14 Deposits by central banks

	1996 £m	1995 £m
Remaining maturity:		
- 1 year or less but over 3 months	218.1	50.2
- 3 months or less but not repayable on demand	524.8	909.9
Repayable on demand	340.0	447.5
	<u>1,082.9</u>	<u>1,407.6</u>

## 15 Deposits by banks

	1996 £m	1995 £m
Cash ratio deposits	1,688.4	1,496.2
Other deposits repayable on demand	40.0	213.6
	<u>1,728.4</u>	<u>1,709.8</u>

Included in cash ratio deposits as at 29 February 1996 is a deposit of £0.9 million (1995 £1.1 million) by a subsidiary, The 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

	1996 £m	1995 <i>restated</i> £m
Remaining maturity:		
5 years or less but over 1 year:		
- Public deposits	72.6	72.6
1 year or less but over 3 months:		
- Other deposits	0.7	0.3
3 months or less but not repayable on demand:		
- Public deposits	24.4	22.0
- Other deposits	237.2	207.3
Repayable on demand:		
- Public deposits	339.6	427.7
- Deposit by Issue Department	1,016.3	2,352.6
- Other deposits	309.5	314.0
	<u>2,000.3</u>	<u>3,396.5</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

	1996 £m	1995 £m
Include:		
Payable to HM Treasury	88.0	102.2
Due to subsidiaries	27.8	28.3
Provision for post-retirement benefits	87.4	81.0

## 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 1995	764.7	108.0	119.8	992.5
Retained profit for the year	88.3	-	-	88.3
Deficit on revaluation of property	-	-	(12.0)	(12.0)
Balance at 29 February 1996	<u>853.0</u>	<u>108.0</u>	<u>107.8</u>	<u>1,068.8</u>

## 20 Statement of reconciliation of shareholder's funds

	1996 £m	1995 £m
Shareholder's funds at 1 March	1,007.1	911.9
Retained profit for the year	88.3	91.0
(Deficit)/surplus on revaluation of property	(12.0)	4.2
Shareholder's funds at 29 February	<u>1,083.4</u>	<u>1,007.1</u>

## 21 Cash flow statement

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

	1996 £m	1995 £m
Profit after provisions and before tax	214.4	225.9
Decrease/(increase) in interest receivable and prepaid expenses	2.4	(0.6)
Increase/(decrease) in interest payable and accrued expenses	3.7	(5.4)
Depreciation	22.4	15.7
Profit on sale of investment securities	(118.4)	(69.5)
Special dividend received on flotation of 3i Group plc	-	(52.7)
Profit on sale of tangible fixed assets	(0.1)	-
Effect of provisions, deferrals and accruals on operating activity cash flow	(1.7)	(0.6)
Net cash inflow from trading activities	<u>122.7</u>	<u>112.8</u>
Net decrease in foreign currency deposits	(199.4)	(168.4)
Net decrease in other deposits	(1,511.9)	(1,979.8)
Net decrease in foreign currency accounts with banks	199.2	168.4
Net decrease in advances to banks and customers	23.1	106.0
Net (increase)/decrease in other assets	(3.2)	2.7
Increase in securities held	(60.2)	(55.9)
Decrease/(increase) in items in course of collection	112.5	(27.4)
Net cash outflow from operating activities	<u>(1,317.2)</u>	<u>(1,841.6)</u>



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

	1996 £m	1995 £m
Balance at 1 March	4,231.5	6,129.0
Net cash outflow	(1,300.5)	(1,897.5)
Balance at 29 February	<u>2,931.0</u>	<u>4,231.5</u>

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

	1996 £m	Change in year £m	1995 £m
Cash	12.2	8.1	4.1
Advances to money market and certain banks	2,899.9	(979.8)	3,879.7
Treasury and other eligible bills	18.9	(328.8)	347.7
	<u>2,931.0</u>	<u>(1,300.5)</u>	<u>4,231.5</u>

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

## 22 Related parties

**(a) HM Government**

The Bank provides several services to its shareholder, HM Treasury and to other Government departments and bodies.

The main services are:-

- provision of banking services, including holding the principal accounts of HM Government
- debt management, including management of the issue on behalf of HM Government of short and long-term debt and provision of registration services in respect of gilt-edged stocks
- management of the Exchange Equalisation Account
- management of the Note Issue, including printing of Bank notes
- operation of sanctions against specific countries.

The aggregate balances on HM Treasury and other public sector accounts are disclosed in note 16 as public deposits. The total charges made to government are disclosed in note 2.

**(b) Subsidiary companies**

All material transactions and balances between the Bank and its subsidiaries are disclosed in note 12.

**(c) The Deposit Protection Board**

The Bank provides, and charges for, the Secretariat for the Deposit Protection Board, a separate legal entity established under the Banking Act 1987. The Governor, Deputy Governor and Chief Cashier are ex-officio members of the Board. The remaining members of the Board are appointed by the Governor and include the Executive Director responsible for Supervision and Surveillance. The Bank also provides banking facilities to the Board, including advances within limits agreed with HM Treasury. The balance due from the Board at 29 February 1996 was £11.9 million.

#### (d) Directors and Officers

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

	1996		1995	
	Total amount outstanding £000	Number	Total amount outstanding £000	Number
Directors	213	4	219	4
Officers	907	18	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, either within the meaning of the Banking Act 1987 or as defined under Financial Reporting Standard 8.

#### (e) The Bank's pension schemes

The Bank provides the secretariat, the investment management and some custodial services to the Bank's pension schemes. These activities are undertaken on behalf of, and under the supervision of, the trustees of the schemes. Apart from the contributions paid to the schemes, which are described in note 4, there were no material transactions between the Bank and the Pension Funds during the year to 29 February 1996.

#### (f) Other entities with links to the Bank

In the normal course of its activities as a central bank, the Bank has relationships, involving some representation at management level and participation in funding, with international and domestic institutions. With the exception of the European Monetary Institute, in which it has a participating interest as disclosed in note 11, the Bank does not consider these institutions to be related parties. There were no material transactions with the European Monetary Institute during the year.

## 23 General

#### (i) Operating lease commitments

1996		1995	
Land and buildings £m	Computer and other equipment £m	Land and buildings £m	Computer and other equipment £m

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

expiring:

- within one year	0.1	-	-	-
- between one and five years	0.5	0.3	-	0.8
- in five years or more	0.7	-	0.7	-
	<u>1.3</u>	<u>0.3</u>	<u>0.7</u>	<u>0.8</u>



**(ii) Average number of employees**

The average number of persons employed by the Bank during the year was made up as follows:

	1996	1995 <i>restated</i>
Governors and Executive Directors	6	6
Managers and analysts	485	493
Clerical	2,001	2,129
Technical/Other	1,340	1,478
	<u>3,832</u>	<u>4,106</u>

On 1 April 1995, Bank staff working on the CREST project were transferred to CRESTCo Ltd. An average of 17 staff worked on this project during 1994/95 and to aid comparison have been excluded from the above table.

**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 £219 million (1995 £199 million).

**25 Date of approval**

The Court of Directors approved the financial statements on pages 48 to 67 on 15 May 1996.

## ISSUE DEPARTMENT

### ACCOUNT FOR THE YEAR ENDED 29 FEBRUARY 1996

	Notes	1996 £m	1995 £m
Income and profits:			
Securities of, or guaranteed by, the British Government		1,012.9	593.2
Other securities		336.5	434.1
Other income		0.4	1.1
		<u>1,349.8</u>	<u>1,028.4</u>
Expenses:	2		
Cost of production of Bank notes		32.6	37.7
Cost of issue, custody and payment of Bank notes		19.2	20.7
Other expenses		3.6	2.8
		<u>55.4</u>	<u>61.2</u>
Payable to HM Treasury		<u>1,294.4</u>	<u>967.2</u>

### STATEMENT OF BALANCES: 29 FEBRUARY 1996

	Notes	1996 £m	1995 £m
<b>Assets</b>			
Securities of, or guaranteed by, the British Government	3	9,633.2	10,910.2
Other securities and assets including those acquired under repurchase agreements	4	<u>10,026.8</u>	<u>7,149.8</u>
<b>Total assets</b>		<u>19,660.0</u>	<u>18,060.0</u>
<b>Liabilities</b>			
Notes issued:			
In circulation	5	19,648.0	18,056.1
In Banking Department		12.0	3.9
<b>Total Liabilities</b>		<u>19,660.0</u>	<u>18,060.0</u>

<b>E A J GEORGE</b>	Governor
<b>H J DAVIES</b>	Deputy Governor
<b>DAVID SCHOLEY</b>	Director
<b>G MIDGLEY</b>	Finance Director



NOTES TO THE  
ISSUE DEPARTMENT  
STATEMENTS OF ACCOUNT**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 28 February 1996.

**c** If the revaluation of securities shows a net gain this is included in income. A deficit is not taken against income but is settled by a transfer from the National Loans Fund.

**2 Expenses**

The expenses shown here represent charges from the Banking Department for costs incurred in relation to the Note Issue.

**3 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.

**4 Other securities and assets including those acquired under repurchase agreements**

	1996 £m	1995 £m
Commercial bills	3,663.2	3,005.2
Promissory notes	513.2	384.0
Deposit with Banking Department	1,016.3	2,352.6
Other assets	4,834.1	1,408.0
	<u>10,026.8</u>	<u>7,149.8</u>

**5 Notes in circulation**

	1996 £m	1995 £m
£1 (a)	56.1	56.6
£5	1,067.5	1,072.1
£10	5,687.6	5,347.6
£20	8,579.1	7,723.4
£50	3,103.7	2,852.3
Other notes (b)	1,154.0	1,004.1
	<u>19,648.0</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.

**6 Date of approval**

The Court of Directors approved the statements of account on pages 68 and 69 on 15 May 1996.

# ADDRESSES AND TELEPHONE NUMBERS

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	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	0113-244 1711
	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	Monetary Analysis 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

\* Enquiries relating to the Bank may be made on 0171-601 4878 or through its World Wide Web pages at <http://www.bankofengland.co.uk>  
Enquiries relating to the *Bank of England Quarterly Bulletin* and *Inflation Report* may be made on 0171-601 4030



