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 64-83, and the statements of account of the Issue Department on pages 84-86.

RESPECTIVE RESPONSIBILITIES OF THE MEMBERS OF COURT AND AUDITORS

The Members of Court are responsible for preparing the Annual Report, including as described on page 53, the financial statements and the statements of account. We have taken our responsibilities, as independent auditors, to be those which would have applied if they had been established primarily by the Companies Acts, and those applied by the Auditing Practices Board, and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements of the Banking Department give a fair presentation and are properly prepared on the basis of note 1 (a). We also report to you our opinion as to whether the statements of account of Issue Department give a fair presentation, and are properly prepared on the basis described on page 85. Furthermore, we report to you if, in our opinion, the Report from Members of Court on pages 50-59 is not consistent with the financial statements and the statements of account, if the Bank has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements or the statements of account.

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 and the statements of account. It also includes an assessment of the significant estimates and judgements made by the Members of Court in the preparation of the financial statements and the statements of account, 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 and the statements of account 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 of Banking Department, the basis of which is described in note 1(a) and the statements of account of Issue Department, the basis of which is described on page 85.

OPINION

In accordance with the Bank of England Act 1998, 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 except in so far as the Bank has not considered it appropriate to do so having regard to its functions.

In our opinion

1/ The financial statements on pages 64-83 present fairly, on the basis referred to above, the state of affairs of the Banking Department at 28 February 1999 and the profit, total recognised gains and losses and cash flows for the year then ended.

2/ The statements of account on pages 84-86 present fairly, on the basis described on page 85, the outcome of the transactions of the Issue Department for the year ended 28 February 1999 and its balances at that date.

PRICEWATERHOUSECOOPERS
Chartered Accountants and Registered Auditors

London
19 May 1999

Banking Department

Profit and loss account for the year ended 28 February 1999

	Notes	1999 £m	*1998 £m*
Profit after provisions and before tax	2	172	*179*
Payable to HM Treasury under Section 1(4) of the Bank of England Act 1946	5	(70)	*(70)*
Tax on profit on ordinary activities	6	(32)	*(39)*
Retained profit for the year	19	**70**	***70***

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 1999

		1999 £m	*1998 £m*
Profit transferred to reserves		70	*70*
Unrealised (deficit)/surplus on revaluation of property	13	(3)	*10*
Total recognised gains and losses for the year		**67**	***80***

Balance sheet as at 28 February 1999

	Notes	1999 £m	*1998 £m*
Assets			
Cash		8	*2*
Items in course of collection		217	*278*
Treasury and other eligible bills	8	18	*4*
Due from central banks in respect of TARGET	9	7,949	*–*
Loans and advances to banks, the money market and customers	9	7,773	*11,336*
Debt securities	10	3,715	*1,363*
Equity shares and participating interest	11	26	*64*
Shares in group undertakings	12	18	*18*
Tangible fixed assets	13	353	*368*
Prepayments, accrued income and other assets		316	*158*
Total assets		**20,393**	***13,591***
Liabilities			
Due to central banks in respect of TARGET	9	7,349	*–*
Deposits by central banks	14	2,187	*1,060*
Deposits by banks and building societies	15	1,890	*2,797*
Customer accounts	16	7,280	*8,211*
Other liabilities	17	398	*301*
		19,104	***12,369***
Capital	18	15	*15*
Revaluation reserves	19	239	*235*
Profit and loss account	19	1,035	*972*
Shareholder's funds	20	1,289	*1,222*
Total liabilities		**20,393**	***13,591***

E A J George Governor
D C Clementi Deputy Governor
Sheila Masters Director
G Midgley Finance Director

Cash flow statement for the year ended 28 February 1999

	Notes	1999 £m	*1998* *£m*
Net cash inflow from operating activities	21	162	*373*
Corporation tax paid		(41)	*(48)*
Net receipt from financial investment	11(b)	39	*–*
Purchases (net of sales) of premises and equipment		(5)	*(9)*
Capital expenditure and financial investment	21	**34**	***(9)***
		155	*316*
Payment to HM Treasury under Section 1(4) of the Bank of England Act 1946		(70)	*(49)*
Increase in cash	21	**85**	***267***

Notes to the Banking Department Financial Statements

1/ ACCOUNTING POLICIES

a/ Form of presentation of the financial statements

Under the Bank of England Act 1998, the Bank, in preparing the financial statements of the Banking Department, is subject to requirements corresponding to the Companies Acts requirements relating to a banking company. The Bank may, however, disregard a requirement to the extent that it considers it appropriate to do so having regard to its functions. The financial statements have, therefore, 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 the requirements of 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 having regard to its functions: that is, in particular, with the limitations explained below. This basis for preparing the financial statements has been followed for a number of years.

In exceptional circumstances, as part of its central banking functions, 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 Banking Department's financial statements in the year in which they occur, these financial statements may not explicitly identify the existence of such support. However, the existence of such support will be disclosed in the Annual Report when the need for secrecy or confidentiality has ceased.

As a result, the Bank's financial statements disclose less detail 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 than would be required under the Companies Acts and applicable Accounting Standards.

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 Members of Court 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 interest

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.

Securities of foreign governments or other institutions held for the purposes of the TARGET settlement system are held as investment securities. These are stated at cost, in euro, adjusted for the amortisation of premiums or discounts on a straight line basis over the period to maturity. They are translated into sterling at the exchange rates ruling at the balance sheet date. Net unrealised gains arising from exchange rate movements on this portfolio and the swaps used to hedge it are taken to an investment securities revaluation reserve; net unrealised losses are taken to the profit and loss account.

Reverse repurchase agreements (repos) are accounted for as advances.

Equity shares are held as investments and are stated in the balance sheet at cost. The participating interest in the European Central Bank is stated in the balance sheet at its original cost in foreign currency, translated at the exchange rate ruling at the date of acquisition. In 1998, the participating interest in the European Monetary Institute was stated at the original cost in foreign currency, translated at the exchange rate ruling at the balance sheet date.

d/ Tangible fixed assets

The Bank's properties are stated at a professional valuation as at 28 February 1997 plus the cost of subsequent additions and less depreciation. No account is taken of any liability to taxation which could arise if the properties were disposed of at their revalued amounts, except in respect of properties which are available for sale. 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 Members of Court consider that it is necessary to adopt SSAP 19 in order to present a fair view and accordingly the investment property has been revalued and not depreciated. If this policy had not been adopted, the profit for the year would have been reduced by depreciation on this property of £5 million *(1998 £5 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 fifteen to twenty 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 when held for the long term are stated at cost, being the sterling equivalent of the foreign currency at the date of acquisition of the asset. Income and expenditure are translated into sterling at the exchange rate ruling at the time of the transaction. Foreign exchange swaps used in money market operations are carried at market value. Currency and foreign exchange swaps used to finance specific assets denominated in foreign currency are translated at the exchange rates ruling at the balance sheet date.

g/ Commitments on behalf of HM Treasury

Commitments on behalf of HM Treasury in foreign currencies and gold, or on a gold basis, arising in the course of operating the Exchange Equalisation Account, are not included in these financial statements 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 or asset will crystallise in the foreseeable future.

j/ Group undertakings

Shares in group undertakings are stated in the balance sheet at cost less provision for permanent diminution in value. Dividends from group 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 UITF 6.

2/ PROFIT AFTER PROVISIONS AND BEFORE TAX

	1999	*1998*
	£m	*£m*
Profit after provisions and before tax is stated after:		
i/ Staff costs (inc. Governors and Executive Directors):		
- wages and salaries	84	*97*
- social security costs	7	*8*
- pension costs and other post-retirement benefits	6	*15*
- cost of severance schemes	6	*6*
ii/ Income:		
- charges for service to HM Government, including charges to the Issue Department in respect of the Note Issue	71	*79*
- rents	13	*12*
iii/ Charges:		
- operating lease rentals	2	*2*
- depreciation of premises and equipment	21	*21*
- retrenchment costs (see below)	–	*10*

The auditors' remuneration was £147,000 *(1998 £132,000)*
The auditors' remuneration for non-audit work was £333,000. This includes £39,000 paid to Coopers & Lybrand and

£192,000 paid to Price Waterhouse prior to their merger on 1 July 1998. Non-audit fees of £290,000 for the year ended 28 February 1998 consisted solely of amounts paid to Coopers & Lybrand.

For subsidiary companies which are not consolidated, the auditors' remuneration was £51,500 *(1998 £45,000)* and fees for non-audit work were £90,000. This includes £9,000 paid to Coopers & Lybrand and £14,000 paid to Price Waterhouse prior to their merger. Non-audit fees of £48,000 and £63,000 were paid to Coopers & Lybrand and Price Waterhouse respectively for the year ended 28 February 1998.

As noted last year, the decision was taken in the year ended 28 February 1998 that the Bank would consolidate its activities and staff in London into one building. Part of the total cost of this consolidation and refurbishment project is shown above as retrenchment costs in 1998; retrenchment costs mainly involve the decommissioning of other buildings. The overall refurbishment project is described on page 29 of the Annual Report.

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

3/ EMOLUMENTS OF GOVERNORS AND DIRECTORS

		1999	*1998*
		£	*£*
Remuneration of Governors and Directors		794,691	*1,017,914*
Payment in respect of notional benefits of travel on Bank business		4,901	*4,853*
		799,592	***1,022,767***
Pension costs in respect of	- current executive members of Court	68,200	*224,054*
	- former executive members of Court	404,729	*327,976*
		1,272,521	***1,574,797***

Further details of the remuneration of Governors and Directors are given in the Remuneration Report on pages 45-49.

4/ PENSION COSTS AND OTHER POST-RETIREMENT BENEFITS

The Bank operates defined benefit pension schemes providing benefits based on final pensionable pay. 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 as at 29 February 1996, used the projected unit method and showed that the actuarial value of the Fund's assets represented 120% 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 £1,348 million and the required future service contribution rate for the year to 28 February 1999 was 21.6% *(1998 21.6%)* of pensionable earnings. Subject to review at the 1999 triennial actuarial valuation, the principal assumptions were amended with effect from the year ended 28 February 1998 to take account of the estimated effect of the abolition of the tax credit on UK equity dividends, such that the long term rate of return has been reduced by 0.25% per annum. This means that, over the long term, the return on new investments would exceed the rate of increase in salaries by 2.25% (reduced from 2.5%) and the rate of increase in pensions by 4.25% (reduced from 4.5%). It was also assumed that the equity dividend growth would equal the rate of future pension increases.

During the year, a payment was made by the Bank of England Pension Fund to the Financial Services Authority (FSA) Pension Fund in respect of the benefits for staff transferred to the FSA. After this transfer, the surplus on the Bank of England Pension Fund remains of such a size that the Bank had no need this year to make a contribution.

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

£15 million *(1998 £17 million)*, representing the excess of the pension amounts funded over the cost, is included in other assets. £103 million *(1998 £102 million)* representing the provision in respect of other post-retirement benefits is included in other liabilities. The total cost of all post-retirement benefits for the year was £6 million *(1998 £15 million)*.

5/ PAYABLE TO HM TREASURY UNDER SECTION 1(4) OF THE BANK OF ENGLAND ACT 1946

	1999	*1998*
	£m	*£m*
Payable 5 April	32	*35*
Payable 5 October	38	*35*
	70	***70***

6/ TAX ON PROFIT ON ORDINARY ACTIVITIES

	1999	*1998*
	£m	*£m*
United Kingdom corporation tax at an average rate of 31% *(1998 31.2%)*	33	*39*
Prior year - corporation tax	(1)	*(1)*
- deferred tax	1	*1*
Deferred taxation	(1)	*(1)*
- adjustment on account of changes in the tax rate	–	*1*
	32	***39***

The charge for taxation is computed on the residual profit on ordinary activities after deduction of the amount payable to HM Treasury.

The deferred tax asset of £7 million *(1998 £7 million)*, included in other assets, is comprised as follows:

	1999	*1998*
	£m	*£m*
Short-term timing differences	–	–
Accelerated capital allowances	2	*2*
Other timing differences	(9)	*(9)*
	(7)	***(7)***

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

	£m
At 1 March 1998	(7)
Profit and loss account	–
At 28 February 1999	**(7)**

Tax of £1 million *(1998 £1 million)* has not been provided in respect of further accelerated capital allowances as the provision at 28 February 1999 is considered adequate.

7/ ASSETS AND LIABILITIES

	1999 £m	*1998 £m*
Sterling/non-sterling analysis of assets and liabilities:		
Assets:		
Denominated in sterling	4,880	*9,529*
Denominated in currencies other than sterling	15,513	*4,062*
	20,393	***13,591***
An analysis of the foreign currencies held is given below		
Gold	561	*627*
$US	3,767	*3,329*
Euro	11,141	*–*
Other	44	*106*
	15,513	***4,062***
Liabilities:		
Denominated in sterling	10,405	*12,516*
Denominated in currencies other than sterling	9,988	*1,075*
	20,393	***13,591***
An analysis of the foreign currencies held is given below		
Gold	561	*627*
$US	767	*345*
Euro	8,618	*–*
Other	42	*103*
	9,988	***1,075***

Included in assets are US dollar deposits of £3,000 million *(1998 £2,983 million)* arising from swap transactions and on which no significant exchange exposure arises. The forward leg of the transactions is valued at market value and included in other assets or other liabilities, as appropriate. These swaps have been undertaken as part of the Bank's operations in the money market.

Included in assets denominated in euro are securities and deposits held in relation to TARGET. These assets are matched by currency and foreign exchange swaps, which are off-balance sheet, so that no significant currency exposure exists. Further details are given in the Risk Management section of the Annual Report on pages 53-59.

8/ TREASURY AND OTHER ELIGIBLE BILLS

	1999 £m	*1998 £m*
British government Treasury bills	18	*4*

9/ TARGET BALANCES AND LOANS AND ADVANCES TO BANKS, THE MONEY MARKET AND CUSTOMERS

a/ TARGET balances

These balances, denominated in euro, arise from the operation of the TARGET settlement system, which began on 4 January 1999. This system, which links the real-time settlement systems in all countries of the European Union (EU), enables payments to be made across borders within the EU. Such payments result in claims arising between the central banks in the member countries and with the European Central Bank. For operational purposes, it is the net position of each central bank against the other members that is relevant. The balances with individual central banks are not, however, subject to any legal netting or set-off arrangement. Accordingly the TARGET balances are shown gross in the balance sheet.

The overall position at 28 February 1999 was as follows:

	1999		*1998*	
	£m	€m	*£m*	*€m*
Due from central banks in respect of TARGET	7,949	11,601	–	–
Due to central banks in respect of TARGET	(7,349)	(10,726)	–	–

b/ Loans and advances to banks, the money market and customers

	1999 £m	*1998 £m*
Remaining maturity:		
Loans and advances		
- over 5 years	3	*4*
- 5 years or less but over 1 year	3	*3*
- 1 year or less but over 3 months	569	*112*
- 3 months or less	6,660	*10,758*
- Repayable on demand	538	*459*
	7,773	*11,336*

Included in the above is:

	1999 £m	*1998 £m*
Gross amount due from subsidiary, before provisions, (note 12)	114	*137*

10/ DEBT SECURITIES

	1999 Balance sheet £m	1999 Market value £m	*1998 Balance sheet £m*	*1998 Market value £m*
Investment securities:				
- British government securities, listed on a recognised UK exchange	1,352	1,668	*1,363*	*1,602*
- Foreign government securities, listed on recognised exchanges	2,357	2,357	–	–
- Other foreign securities, listed on recognised exchanges	6	6	–	–
	3,715	**4,031**	***1,363***	***1,602***
Due within one year	190	192	*8*	*10*
Due one year and over	3,525	3,839	*1,355*	*1,592*
	3,715	**4,031**	***1,363***	***1,602***

Movements in debt securities were as follows:

	Cost £m	Discounts and premiums £m	Carrying value £m
British government securities:			
At 1 March 1998	1,265	98	1,363
Amortisation of discounts and premiums		8	8
Redemptions	(16)	(3)	(19)
At 28 February 1999	**1,249**	**103**	**1,352**

	1999 £m	*1998 £m*
Net unamortised discounts and premiums on British government securities	**46**	*55*

	Cost £m	Discounts and premiums £m	Carrying value £m
Foreign securities:			
At 1 March 1998	–	–	–
Purchases	2,431		2,431
Amortisation of premiums		(11)	(11)
Foreign currency revaluation effects	(57)	–	(57)
At 28 February 1999	**2,374**	**(11)**	**2,363**

	1999 £m	*1998 £m*
Unamortised premiums on foreign securities	**205**	–

Included within investment securities is a portfolio of foreign government and other securities, denominated in euro. These securities are held to enable the Bank to provide liquidity in the TARGET settlement system (note 9).

11/ EQUITY SHARES AND PARTICIPATING INTEREST

	1999 Balance sheet-cost £m	1999 Members of Court Valuation £m	*1998 Balance sheet-cost £m*	*1998 Members of Court Valuation £m*
Investment securities - unlisted equity shares	1	72	*1*	*67*
Participating interest - unlisted	25	25	*63*	*63*
	26	**97**	***64***	***130***

a/ Investment securities

The principal holding of equity shares included in investment securities is as follows:

	Percentage held 1999	*1998*
Bank for International Settlements shares of 2,500 Swiss gold francs (25% paid) (Incorporated in Switzerland)	9.2	*9.2*

b/ Participating interest

The European Central Bank

This is the sterling cost of the Bank's contribution of €36.7 million to the capital of the European Central Bank (ECB). This contribution, which is not refundable, represents 5% of the capital contribution of the UK's full share (of the ECB's capital) that would have been payable had the UK participated in monetary union. This payment has been accounted for as an investment.

The Bank previously contributed ECU 94.5 million to the financial resources of the European Monetary Institute (EMI), a body established by European Treaty. These resources, of which the Bank's share was 15.35%, were invested by the EMI to provide it with the income needed to finance its operations. The EMI went into liquidation on 1 June 1998, on the establishment of the ECB. The Bank's contribution was used to pay, in ECU, the UK's contribution of €36.7 million to the capital of the ECB and to fund the UK's share of ECU 2.7 million of the total EMI's final deficit. The balance of ECU 55.1 million (£39 million) was repaid in euro on 4 January 1999 together with the accumulated interest since 1 June 1998 of €1.3 million.

The majority of the Bank's contribution to the EMI was hedged against movements in exchange rates by a deposit, also denominated in ECU (note 16). This deposit was repaid in January 1999.

12/ SHARES IN GROUP UNDERTAKINGS

	1999 £m	*1998 £m*
Cost of shares in group undertakings (all of which are subsidiaries)	18	*18*
In addition, gross advances to a subsidiary, before provisions, included under loans and advances to banks, the money market and customers (note 9) amount to	114	*137*

The financial statements of the subsidiaries detailed below have not been consolidated with those of the Banking Department because, in the opinion of the Members of Court, the effect of including their assets, liabilities and results with those of the Banking Department would not be material.

a/ The NMB Group plc

Throughout the year ended 28 February 1999, the Bank held the entire issued share capital of 75 million £1 ordinary shares in The NMB Group plc (NMB), which is incorporated in Great Britain. The investment in this company is included in the Bank's balance sheet at a nominal £1.

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 to £74 million at 28 February 1999, of which £72 million relates to NMB. This follows reductions from £115 million as at 28 February 1993 to £105 million at 28 February 1994, to £95 million at 29 February 1996 and 28 February 1997 and £85 million at 28 February 1998.

Included in the Bank's balance sheet within "loans and advances to banks" is £114 million *(1998 £137 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 The NMB Group plc as at 28 February 1999, which bear an unqualified audit report, show:

The NMB Group plc

	1999	*1998*
	£m	*£m*
Mortgage loans	63	*82*
Current assets	51	*59*
	114	*141*
Creditors:		
Bank of England	(114)	*(137)*
Other liabilities	–	*(4)*
	(114)	*(141)*
	nil	***nil***
Equity share capital	75	*75*
Accumulated deficit	(75)	*(75)*
	nil	***nil***

b/ Minories Finance Ltd

Throughout the year ended 28 February 1999, the Bank held the entire issued share capital of 12.5 million £1 ordinary shares in Minories Finance Ltd (MFL), which is incorporated in Great Britain. The investment in this company is included in the Bank's balance sheet at 28 February 1999 at £13 million *(1998 £13 million)*. As a condition of reductions in capital in June 1987 and November 1996, the Bank gave indemnities whereby any future deficit in MFL's shareholders' funds would be made good by the Bank up to a maximum of £63 million in total.

MFL's accounts as at 31 December 1998 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 £1 million has been declared and reflected in the Bank's financial statements.

The accounts of MFL show:

Profit for the year to 31 December 1998	£1 million
Accumulated reserves as at 31 December 1998 after provision for dividends	£7 million
Net assets at 31 December 1998 after provision for dividends	£19 million

c/ Other group undertakings

Investments in other group undertakings, 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 million and include the following subsidiaries:

Debden Security Printing Ltd	100,000 shares of £1
B.E. Property Holdings Ltd (Non-trading)	5,000,000 shares of £1

The net aggregate results of the subsidiary companies attributable to the Bank, which have not been dealt with in the financial statements of the Banking Department, and which are stated by reference to audited financial statements (all of which bear unqualified audit reports) are as follows:

	£m
For the year ended 28 February 1999	–
Accumulated profits since formation	1

The aggregate net assets of these subsidiary companies are £6 million.

13/ TANGIBLE FIXED ASSETS

	Freehold land and buildings	Leases of 50 years or more unexpired	Leases of less than 50 years unexpired	Equipment	Total £m
Cost or valuation					
At 1 March 1998	181	159	2	111	453
Additions	7	–	–	8	15
Disposals	(5)	(2)	–	(5)	(12)
Revaluation	–	(3)	–	–	(3)
At 28 February 1999	**183**	**154**	**2**	**114**	**453**
Accumulated depreciation					
At 1 March 1998	10	–	–	75	85
Charge for the year	10	–	–	11	21
On disposals	–	–	–	(6)	(6)
At 28 February 1999	**20**	**–**	**–**	**80**	**100**
Net book value at 28 February 1999	**163**	**154**	**2**	**34**	**353**
Net book value at 28 February 1998	***171***	***159***	***2***	***36***	***368***
Cost or valuation at 28 February 1999 comprised:					
At 1999 valuation	–	153	–	–	153
At 1997 valuation	171	1	2	–	174
At cost	12	–	–	114	126
	183	**154**	**2**	**114**	**453**

Included in leasehold premises (50 years and over) is an investment property held at open market value of £153 million *(1998 £156 million)* which was valued by Richard Ellis St Quintin, Chartered Surveyors, as at 28 February 1999. The figures for other property interests reflect a professional valuation of Bank freehold and leasehold properties as at 28 February 1997.

Certain properties that the Bank has vacated and which are available for sale have been valued at an open market value. The figures relating to other property interests reflect a valuation on an existing use value basis.

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 Members of Court and outstanding at 28 February 1999 totalled £3 million *(1998 £1 million)*.

14/ DEPOSITS BY CENTRAL BANKS

	1999	*1998*
	£m	*£m*
Remaining maturity:		
- 1 year or less but over 3 months	567	*110*
- 3 months or less but not repayable on demand	1,259	*652*
- Repayable on demand	361	*298*
	2,187	***1,060***

15/ DEPOSITS BY BANKS AND BUILDING SOCIETIES

	1999	*1998*
	£m	*£m*
Cash ratio deposits	1,206	*2,562*
Euro deposits repayable on demand	596	*–*
Other deposits repayable on demand	88	*235*
	1,890	***2,797***

Cash ratio deposits are computed on the basis of banks' and building societies' eligible liabilities. Any change in the amount due, as a result of either becoming or ceasing to be an eligible institution for the purpose of the Bank of England Act 1998, the twice yearly recalculation of deposits or a change in the percentage used for calculation, is payable immediately. Under the Bank of England Act 1998, with effect from 1 June 1998, the percentage used in calculating the cash ratio deposits is set by HM Treasury, having regard to the financial needs of the Bank and subject to the approval of both Houses of Parliament.

16/ CUSTOMER ACCOUNTS

	1999 £m	*1998 £m*
Remaining maturity:		
1 year or less but over 3 months:		
- Public deposits	–	*62*
3 months or less but not repayable on demand:		
- Public deposits	9	*3*
- Other deposits	–	*1*
Repayable on demand:		
- Public deposits	330	*371*
- Deposit by Issue Department	6,623	*7,337*
- Other deposits	318	*437*
	7,280	***8,211***

Public deposits are the balances on HM Government accounts, including Exchequer, National Loans Fund, National Debt Commissioners and dividend accounts and, for 1998, included a deposit, denominated in ECU, from the Exchange Equalisation Account. This deposit was repaid in January 1999.

17/ OTHER LIABILITIES

	1999 £m	*1998 £m*
Include:		
Payable to HM Treasury	70	*70*
Due to subsidiaries	13	*7*
Provision for post-retirement benefits	103	*102*

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 1998	972	117	118	1,207
Retained profit for the year	70	–	–	70
Deficit on revaluation of property	–	–	(3)	(3)
Transfer of net revaluation deficit to profit and loss account	(7)	7	–	–
Balance at 28 February 1999	**1,035**	**124**	**115**	**1,274**

20/ STATEMENT OF RECONCILIATION OF SHAREHOLDER'S FUNDS

	1999 £m	1998 £m
Shareholder's funds at 1 March	1,222	1,142
Retained profit for the year	70	70
(Deficit)/surplus on revaluation of property	(3)	10
Shareholder's funds at 28 February	**1,289**	**1,222**

21/ CASH FLOW STATEMENT

a/ Reconciliation of operating profit to net cash inflow from operating activities

	1999 £m	1998 £m
Profit after provisions and before tax	172	179
Increase in interest receivable and prepaid expenses	(22)	(60)
Increase in interest payable and accrued expenses	55	9
Depreciation	21	21
Profit on sale of tangible fixed assets	(3)	–
Effect of other deferrals and accruals on cash flow	(20)	(9)
Increase in net TARGET balances with central banks	(600)	–
Net inflow of euro deposits	547	–
Net increase in foreign currency deposits	1,026	14
Net (decrease)/increase in other deposits	(2,338)	7,164
Net increase in foreign currency advances to banks (including swaps)	(940)	(2,857)
Net increase in Treasury and other eligible bills	(14)	(1)
Net decrease/(increase) in advances to banks and customers	4,699	(4,021)
Purchase of foreign securities	(2,502)	–
Decrease/(increase) in debt securities held	19	(81)
Net decrease/(increase) in other assets	1	(5)
Decrease in items in course of collection	61	20
Net cash inflow from operating activities	**162**	**373**

b/ Capital expenditure and financial investment

	1999 £m	1998 £m
Repayment of Bank's capital contribution by the European Monetary Institute	64	–
Payment of Bank's contribution to the European Central Bank	(25)	–
Purchases of premises and equipment	(15)	(12)
Proceeds from sales of premises and equipment	10	3
	34	**(9)**

c/ Analysis of cash balances

	At 1 March 1998 £m	Cashflows £m	At 28 February 1999 £m
Cash	2	6	8
Advances to banks repayable on demand	459	79	538
	461	85	546

d/ The cash flow statement has been prepared under FRS1. The definition of cash in the Standard is not wholly appropriate to the Bank. The Bank requires a stock of liquidity for operational purposes and regards advances to the money market and banks, Treasury and other eligible bills, and reverse repurchase agreements as a pool of assets for these purposes. The allocation of this liquidity between the components depends upon prevailing market conditions. The Bank's total liquidity position at 28 February 1999 was as follows:

	At 1 March 1998 £m	Cashflows £m	At 28 February 1999 £m
Cash	2	6	8
Advances to money market and certain banks	10,258	(4,747)	5,511
Treasury and other eligible bills	4	14	18
	10,264	(4,727)	5,537

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 during the year to 28 February 1999 were:-

- provision of banking services, including holding the principal accounts of the Government

- provision of registration services in respect of gilt-edged stocks

- management of the Exchange Equalisation Account

- management of the Note Issue, including printing of 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 the Government are disclosed in note 2.

b/ Group undertakings

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

c/ Governors, Directors and Officers

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

	1999		*1998*	
	Total amount outstanding £000	**Number**	*Total amount outstanding £000*	*Number*
Governors and Directors	–	–	*287*	*4*
Officers	1,237	14	*965*	*12*

There were no other transactions that would be required to be shown under the provisions of the Companies Act 1985. None of the Governors, 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. For the year ended 28 February 1999, the Executive Directors are included under Officers.

d/ The Deposit Protection Board

Until 1 June 1998, the Bank provided, and charged 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 were ex-officio members of the Board. The remaining members of the Board were appointed by the Governor and included the Executive Director responsible for Supervision and Surveillance. The Bank also provided banking facilities to the Board, including advances within limits agreed with HM Treasury.

Under the Bank of England Act 1998, the Governor, and Chief Cashier ceased to be ex-officio members of the Board with effect from 1 June 1998, from when the Governor also ceased to appoint the remaining members. The Deputy Governor responsible for Financial Stability is a member of the Board ex-officio. The Bank no longer provides the Secretariat for the Board but continues to provide banking facilities, excluding an advance facility. The Bank considers that the Board ceased to be a related party with effect from 1 June 1998.

e/ The Bank's pension schemes

The Bank provides the Secretariat, the investment management and some custodial services to the Bank's pension schemes. In the year to 28 February 1999 a charge of £1.4 million *(1998 £nil)* was made for these services. These activities are undertaken on behalf of, and under the supervision of, the trustees of the schemes. There were no other material transactions between the Bank and the pension schemes during the year to 28 February 1999.

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 (EMI), in which it had a participating interest as disclosed in note 11, the Bank does not consider these institutions to be related parties. The repayment by the EMI of the Bank's capital contribution is described in note 11. There were no other material transactions with the European Monetary Institute during the year.

In view of its small share of the capital of the European Central Bank (ECB), the Bank does not consider the ECB to be a related party.

23/ GENERAL

a/ Operating lease commitments

	1999		*1998*	
	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	–	1	*–*	*1*
- expiring in five years or more	1	–	*1*	*–*
	1	**1**	***1***	***1***

b/ Average number of employees

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

	1999	*1998*
Governors and Executive Directors	6	*6*
Managers and analysts	434	*529*
Clerical staff	1,407	*1,757*
Technical/other	963	*1,091*
	2,810	***3,383***

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.

On 30 July 1997, Mr (now Lord) Justice Clarke dismissed all the claims against the Bank. On 4 December 1998, the Court of Appeal upheld his judgement. This decision is subject to an appeal to the House of Lords by the Plaintiffs. The Bank's Members of Court are of the opinion that the Bank has a strong defence against the claim and will oppose the appeal vigorously. Accordingly no provision is made in these financial statements.

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 £150 million *(1998 £151 million).*

25/ DATE OF APPROVAL

The Members of Court approved the financial statements on pages 64-83 on 19 May 1999.

Issue Department

Account for the year ended 28 February 1999

	Notes	1999 £m	*1998 £m*
Income and profits:			
Securities of, or guaranteed by, the British Government		958	*977*
Other securities and assets		751	*604*
Other income		55	*–*
		1,764	***1,581***
Expenses:	2		
Cost of production of Bank notes		35	*31*
Cost of issue, custody and payment of bank notes		20	*19*
Other expenses		4	*3*
		59	***53***
Payable to HM Treasury		**1,705**	***1,528***

Statement of balances: 28 February 1999

	Notes	1999 £m	*1998 £m*
Assets			
Securities of, or guaranteed by, the British Government	3	3,015	*1,162*
Other securities and assets including those acquired under reverse repurchase agreements	4	21,785	*22,388*
Total assets		**24,800**	***23,550***
Liabilities			
Notes issued:			
In circulation	5	24,792	*23,548*
In Banking Department		8	*2*
Total liabilities		**24,800**	***23,550***

E A J George	Governor
D C Clementi	Deputy Governor
Sheila Masters	Director
G Midgley	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 25 February 1999.

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 British Government stocks, Treasury bills and any Ways and Means advance to the National Loans Fund.

4/ OTHER SECURITIES AND ASSETS INCLUDING THOSE ACQUIRED UNDER REVERSE REPURCHASE AGREEMENTS

	1999	*1998*
	£m	*£m*
Commercial bills	1,140	*1,087*
Deposit with Banking Department	6,623	*7,337*
Other assets	14,022	*13,964*
	21,785	***22,388***

5/ NOTES IN CIRCULATION

	1999 £m	1998 £m
£1 (a)	–	55
£5	1,111	1,034
£10	5,966	5,960
£20	11,414	10,621
£50	3,962	3,636
Other notes (b)	2,339	2,242
	24,792	**23,548**

a/ No £1 notes have been issued since 1984. The outstanding £1 notes were written off in March 1998 in accordance with the provisions of the Currency Act 1983.

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 Members of Court approved the statements of account on pages 84-86 on 19 May 1999.

Addresses and Telephone Numbers

HEAD OFFICE

Threadneedle Street
London EC2R 8AH
0171 601 4444*

REGISTRAR'S DEPARTMENT

Southgate House
Southgate Street
Gloucester GL1 1UW
01452 398 000

PRINTING WORKS

Langston Road
Loughton
Essex IG10 3TN
0181 508 6221

LEEDS CASH CENTRE

King Street
Leeds LS1 1HT
0113 244 1711

* General enquiries relating to the Bank may be made on 0171 601 4878 or by e-mail on enquires@bankofengland.co.uk Information about the Bank and its publications and additional telephone numbers and e-mail addresses are available on the Bank's website at http://www.bankofengland.co.uk There is a page on the Bank's website dedicated to euro-related information and publications at http://www.bankofengland.co.uk/euro.htm

Enquiries relating to the *Bank of England Quartely Bulletin and Inflation Report* may be made on 0171 601 4030; *Financial Stability Review* on 0171 601 4439; and *Bank of England: Monetary and Financial Statistics* on 0171 601 5353.

REGIONAL AGENCIES

The South East and East Anglia
1 New Change
London EC4M 9AA
0171 601 4335

Greater London
1 New Change
London EC4M 9AA
0171 601 5001

Central Southern England
PO Box 793
Notebeme House
84 High Street
Southampton SO14 2SU
01703 231060

South West
Redcliff Quay
120 Redcliff Street
Bristol BS1 6HU
0117 927 7251

Wales
Emperor House
Scott Harbour
Capital Waterside
Cardiff CF10 4WA
01222 453600

West Midlands
Cornwall Court
19 Cornwall Street
Birmingham B3 2DT
0121 200 2599

East Midlands
3 College Street
Nottingham NG1 5AQ
0115 947 4577

Yorkshire and the Humber
King Street
Leeds LS1 1HT
0113 242 0355

North West (Liverpool) and Northern Ireland
Lancaster House
Mercury Court
Tithebarn Street
Liverpool L2 2QP
0151 227 2553

North West (Manchester)
PO Box 301
82 King Street
Manchester M60 2HP
0161 834 6199

North East and Cumbria
Alderman Fenwick's House
PO Box 2BE
98-100 Pilgrim Street
Newcastle Upon Tyne NE99 2BE
0191 261 1411

Scotland
19 St Vincent Place
Glasgow G1 2DT
0141 221 7972

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