Bank of England Banking Act report for 1990/91

Banking Act 1987

Annual report under the Banking Act for 1990/91

This report on the exercise of the Bank's functions under the Banking Act 1987 during the year to 28 February 1991 is presented to the Chancellor of the Exchequer, and by him to Parliament, pursuant to section 1 (3) of the Act.

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Assessment

1990 was a difficult year for banks; the UK economy swung into recession and uncertainty was caused by events in the Middle East. The effects of the slowdown in the growth of domestic demand, evidenced by a sharp drop in the rate of growth of banks' domestic lending, were initially focused on the property, construction and non-food retailing sectors of the economy, but during the second half of the year the signs of a broader and deeper impact were evident. There was a rapid and sizable increase in the provisions made by banks against their UK loan portfolios. In part this was expected after a long period of upswing and rapid growth of lending; but its speed and dimension were greater than in previous recessions. Financial liberalisation during the last decade may have been one of the factors contributing to this, by enabling many borrowers to become more highly geared than before, and thereby more vulnerable to a combination of high interest rates and weakening demand.

The banks reacted to new uncertainty by becoming more cautious in their assessment of the creditworthiness of borrowers, some of whom seem to be placing more value than in recent years on banking relationships that emphasise the reliability of sources of funds. The difficult trading conditions also prompted many banks to announce plans to restructure and retrench, both at home and internationally, in order to meet the major challenge of controlling costs and improving the efficiency of their operations. In the second half of the year, in part reflecting the reduction in competition among banks, there were definite signs of a widening in lending margins.

The UK experience has not been unique; a reversal of earlier asset price inflation was evident in Japan and the United States. During 1990 banks in many countries experienced lower earnings and deteriorating asset quality leading to higher provisions against problem loans. Many internationally active banks have been re-examining their strategy and scale of operations, including their activities in London.

The recession has produced the first real challenge to the international capital standards introduced by the Basle Convergence Agreement of 1988. Some concerns have been expressed in the United Kingdom and elsewhere about the banks' capacity to lend to creditworthy borrowers while continuing to comply with international capital standards.

These concerns have been misplaced. The evidence does not suggest that the potential supply of credit by banks incorporated in the United Kingdom to creditworthy borrowers has been constrained by shortages of capital. Where interest margins have increased it has typically been from extremely low levels. The capital ratios of UK banks are comfortably above the international standard, which is therefore not an operative restraint. UK banks have been anxious to meet a higher standard than the 7.25% ratio required under the Basle Agreement by the end of last year in order to enhance their standing in money and capital markets, and thereby ensure access to the funds they require for lending to their customers. A reduction of the international standard, rather than strengthening their position, would run the risk of diminishing confidence in the banks, which in turn could reduce their ability to service customers. The maintenance of capital standards is particularly important in a period of retrenchment following rapid expansion, when there is more uncertainty about future prospects.

Bank lending[1]

Banks' lending (sterling and foreign currency) to *UK residents* continued to reflect the tightening of monetary policy which began in the second quarter of 1988. A weakening in the demand for loans was the principal cause of the decline in the rate of growth of lending (excluding interbank loans) to 10% (Table I and Chart 1). There were signs that towards the end of the year the large UK banks were becoming more cautious in their lending decisions, and some major foreign banks were also restricting their activities, particularly loans to large companies.

Table I
UK banks: lending to UK residents [a]

Annual growth rates for year to end-February (per cent)

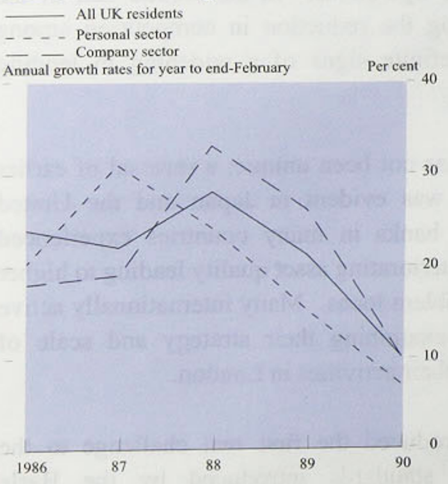
	1986/7	1987/8	1988/9	1989/90	1990/1
Lending to UK residents	24.0	22.0	28.0	21.0	10.0
of which:					
Lending to the company sector	*18.0*	*19.0*	*33.0*	*26.0*	*10.0*
Lending to the personal sector	*20.0*	*31.0*	*24.0*	*15.0*	*7.0*
Lending to the non-bank financial sector	.. (b)	*21.0*	*21.0*	*19.0*	*13.0*

.. not available.

(a) Loans, advances, acceptances and sterling commercial paper in both sterling and other currencies, the latter adjusted to remove the estimated effects of exchange rate movements. No account is taken of changes in either reporting population or reporting dates.

(b) Break in series.

Chart 1
UK banks: lending to UK residents



The financial position of the *company sector* worsened markedly during the second half of last year. Tighter company liquidity was underlined in the fourth quarter by the first sizable fall since 1982 in deposits with banks. There was also a sharp decline in takeover activity during 1990 which reflected not only worsening company liquidity but also a more circumspect attitude on the part of banks towards financing highly leveraged transactions. Looking across borrowing in the sector as a whole, the picture was mixed, with evidence that some companies reduced their indebtedness to banks while others sought bank finance to cover liquidity difficulties which they regarded as both temporary and sustainable. The combined effect was a sharp fall in the rate of growth of bank lending to companies (Table I).

The deterioration in the property market led to a decline in the growth of bank lending to *property companies,* which in the

(1) Unless otherwise specified, data are for the year to end-February.

Table II
Large British banks: personal lending [a]

£ billions

Percentages in italics	1986	1987	1988	1989	1990
Total personal advances	40.1	50.7	62.1	70.2	77.7
growth, per cent	*18.6*	*26.4*	*22.5*	*13.0*	*10.7*
As percentage of total sterling advances	*40.3*	*41.9*	*44.4*	*41.2*	*39.5*
Total lending for house purchase	21.6	28.8	38.6	431.	46.8
As percentage of personal advances	*53.9*	*56.8*	*62.2*	*61.4*	*60.2*
As percentage of total sterling advances	*21.7*	*23.8*	*27.6*	*25.3*	*23.8*
Other lending to persons	18.5	21.9	23.5	27.1	30.9
As percentage of total sterling advances	*18.6*	*18.1*	*16.9*	*15.9*	*15.7*

(a) Data are end-November from 1987, mid-November for 1986.

Chart 2
Bank lending by sector to UK residents

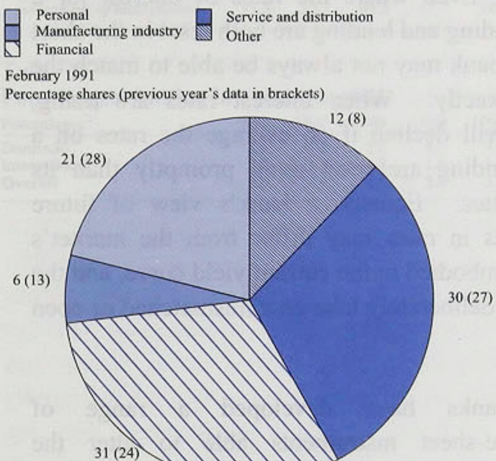
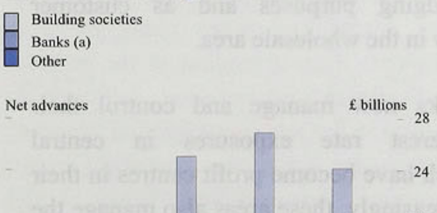


Chart 3
Loans for house purchase



(a) Including non-bank subsidiaries of banks.

year to February 1991 was 18% compared with 44% in 1989/90. That the growth rate remained so strong is in large part a reflection of drawings on existing unused facilities, and where new lending occurred banks generally sought to reduce loan to value ratios. Although most UK banks do some lending for property development and investment, the distribution of exposure is not uniform. The share of overseas banks in the financing of major property projects exceeds their share of total lending to UK residents; and even within this group there were marked differences in behaviour in 1990, for instance the exposure of Japanese banks continued to rise whereas US banks slowed their lending markedly.

Borrowing by the *personal sector* from banks (Tables I and II) provided further evidence of economic slowdown and adjustment to tighter monetary policy. The annual growth rate has fallen consistently from a peak in early 1988, reflecting high borrowing costs and the impact on personal sector wealth of lower property prices. Housing finance continued to be a weak source of demand for personal sector loans (Chart 3), although the banks' share of loans for house purchase remained almost constant at the 1989 level of 23%, compared with over 30% in 1987.

Bank earnings

The earnings of banks characteristically decline after the onset of a recession, reflecting, among other things, a decreasing demand for bank lending, falling asset values and increasing loan loss provisions. Although there has in the past been variance in the speed with which recessions affect banks and their customers, the performance of banks during 1990 (Table III) probably reflects their concern to identify potential problem loans and provide against them at an earlier stage than in the previous recession of the early 1980s.

The large banks achieved only modest growth in *net interest income* (Table IV). Net income from domestic lending was adversely affected not only by the rapid growth in non-performing loans on which interest was no longer being accrued but also by the slowdown of lending to the personal sector. As a result a greater share of lending by large banks was accounted for by (lower margin) corporate loans (TableV). However, in the company sector itself there was also a change during the course of 1990; in the early part of the year downward pressure on margins continued, while in the later months there were signs that lending margins were widening for larger companies.

Among other UK banks the picture was broadly similar, although the performance of the smaller banks underlined the diversity of these institutions. Property and consumer credit

The effects on banks of interest rate movements

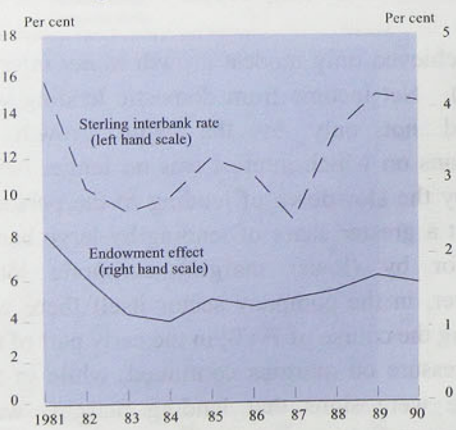
Tighter monetary policy over the last three years has re-focused attention on the impact of interest rate movements on the profitability and solvency of banks.

Floating or variable rates predominate in the UK banking environment. While the interest rates on wholesale loans and deposits are normally reset at regular intervals during their life, in line with short-term money-market rates, the interest rates on retail business are reset less frequently, and less automatically. UK banks have not therefore had major structural mismatches of the sort experienced by the savings and loan industry in the United States.

During the last two decades there have been significant changes for banks arising from greater interest rate competition, which in part has originated from other providers of financial services.

First, the proportion of banks' funding that is interest-free has declined, as depositors have switched to interest-bearing accounts. Interest-free accounts contribute substantially to banks' earnings, as net interest income is boosted by the interest earned on employing the funds, a benefit sometimes termed the 'endowment effect'. The chart below illustrates the declining contribution of this effect to the major clearing banks' net interest margin in recent years compared with the last period of high interest rates in the early 1980s. The endowment effect nevertheless remains a significant factor and, in itself, constitutes an interest rate exposure in that earnings fall as interest rates decline and vice versa.

Four largest banks: the endowment effect



Notes:
Endowment effect: the net interest margin *minus* the net interest spread (the interest benefit of non-interest-bearing liabilities).

Net interest margin: net interest income divided by average interest-bearing assets.

Net interest spread: the average interest rate earned on interest-bearing assets *minus* the average interest rate paid on interest-bearing liabilities.

Second, the volatility of interest rates has become a more significant factor for banks' wholesale activities. Even where the rates of interest for a bank's funding and lending are both reset in the short term, the bank may not always be able to match the timings exactly. When interest rates are rising, earnings will decline if on average the rates on a bank's funding are reset more promptly than its lending rates. Equally, a bank's view of future movements in rates may differ from the market's view, as embodied in the current yield curve, and the bank may deliberately take on a mismatched or open position.

Third, banks have developed a range of off-balance-sheet instruments able to alter the interest rate exposure arising from on-balance-sheet items (for instance using swaps to match floating-rate funding and fixed-rate lending), both for their own hedging purposes and as customer products largely in the wholesale area.

Typically, banks now manage and control their wholesale interest rate exposures in central treasuries, which have become profit centres in their own right. Increasingly, these areas also manage the bank's 'structural' exposures (eg arising from the endowment effect), leaving retail areas to concentrate on the setting of spreads between their deposit and loan rates. These changes have underlined the importance of banks having systems and controls that are capable of monitoring constantly the scale and nature of open positions. At the same time they have prompted supervisors to re-examine their approach to interest rate risk and the appropriate capital adequacy treatment. Work to this end is currently being undertaken by both the Basle Committee on Banking Supervision and the European Community, as described in Part II of this report.

Table III
Large British banks: earnings

£ billions

Percentages in italics	1986	1987	1988	1989	1990
Trading profits before bad debts	5.58	6.02	6.86	7.72	7.29
Pre-tax profits	3.84	0.73	5.67	0.86	2.81
Post-tax profits	2.48	0.09	3.68	0.50	1.36
Pre-tax return on equity	*24.30*	*4.00*	*27.50*	*3.80*	*11.70*
Post-tax return on equity	*15.70*	*0.50*	*17.80*	*2.20*	*5.70*
Return on total assets	*1.20*	*0.21*	*1.51*	*0.19*	*0.60*

Table IV
Large British banks: sources of income

£ billions	1986	1987	1988	1989	1990
Net interest	10.40	11.06	12.32	13.92	13.97
Non-interest	5.23	6.02	7.02	8.44	8.95
Total income	**15.63**	**17.08**	**19.34**	**22.36**	**22.92**
Non-interest income as percentage of total income	*33.5*	*35.3*	*36.3*	*37.7*	*39.1*

Table V
Four largest banks: interest margins

Percentages	1986	1987	1988	1989	1990
Domestic	5.6	5.5	5.0	4.7	4.3
International	2.0	1.8	1.8	1.8	1.9
Overall	**3.6**	**3.6**	**3.6**	**3.4**	**3.3**

lenders have been more affected by the recession than other institutions.

In the past banks have benefited during periods of higher interest rates from the existence of a substantial non-interest-bearing element in their deposits (the endowment effect). This benefit has been mainly confined to the large banks which take retail deposits; for the smaller banks, funding is more often obtained only at market-related rates. However, increasing competition for personal savings (both among the banks and between them and other financial institutions such as building societies and life assurance companies) has led to banks offering a wider range of interest-bearing current accounts and has eroded gains which might have been expected from the endowment effect during the latest period of tighter monetary policy. In 1970, non-interest-bearing sterling deposits were as much as 50% of total deposits for many large banks, but since then they have declined progressively and are currently around 15%. However, for the large banks in particular there was some compensation during 1990 from an increase in savings by the personal sector which reduced their need for higher cost wholesale funding.

Non-interest income grew both absolutely and as a proportion of total income (Table IV), but there was considerable variation in the contributions from different sources. Fee income from more traditional banking services, such as money transmission, continued to be a stable source, and many banks are looking to develop such services further. There was also modest growth in earnings for those banks that have increased the fees charged for account-related and ancillary services. Among newer areas of business, increased fees from marketing life assurance and pensions were partly offset by reduced earnings from residential property-related services.

The UK merchant banking sector experienced a weaker business environment in 1990, with fee income from corporate finance work, and large domestic merger and acquisition transactions below 1989 levels. The decline in wholly domestic transactions (by some 50% in value terms) was only partially offset by an increase in the value of inward and outward deals involving continental European parties. Equity market operations proved generally unrewarding, and the much reduced turnover in Japanese equity warrants, with the value of primary issues nearly 70% down on the 1989 level, affected the profits of those merchant banks involved in that market. Lending and treasury operations produced mixed results in 1990, although for some merchant banks these sources of earnings were an important counterbalance to weaknesses elsewhere. Fund management was one of the most consistent sources of profits, although they grew very little from 1989 levels.

Over the last year attention has focused not only on the volume of corporate finance and other fee earning activities but also on the probity of behaviour in financial markets. The Bank attaches great importance to the integrity with which banks conduct all activities and the threat to reputation which can occur if their business conduct is called into question. It has therefore held meetings with a number of banks, particularly those active in corporate finance, to discuss what measures are taken to minimise these risks to their reputation. Meetings have focused on the need to promote awareness of reputational risks and on the contribution that 'corporate culture', in addition to systems and controls, can make to the development of an environment of business integrity.

Table VI
Large British banks: domestic bad debt provisions and charges

£ billions	1986	1987	1988	1989	1990
Stock of domestic commercial provisions	2.2	2.2	2.3	2.7	4.1
As percentage of total lending	*1.9*	*1.6*	*1.3*	*1.3*	*1.9*
Charges to domestic commercial provisions	0.8	0.7	0.6	1.1	3.5
As percentage of total lending	*0.7*	*0.5*	*0.3*	*0.5*	*1.6*

(a) All figures for stocks are year-end; charges are gross charges during the year.

Bad debt and provisions

After increasing by 80% in 1989, the large banks' domestic commercial bad debt charges (excluding problem country loans) tripled in 1990, and as a percentage of outstanding loans were higher than in any year during the 1980s (Table VI). For most of the banks the growth in bad debts, which was concentrated mainly on domestic lending, accelerated rapidly towards the end of 1990. Company insolvencies increased sharply, mainly among small and medium-sized companies in the property, retail and service sectors. In some well publicised failures of larger companies, takeovers and restructurings had created high levels of gearing and in some others falling property values had upset plans for asset disposals. Bad debt charges against lending to the personal sector also rose markedly throughout last year. Although the broad picture of rising loan losses has been repeated across all groups of banks in the United Kingdom, experience varied particularly sharply among those smaller banks which specialise in lending to particular sectors or regions, and a number of these banks were able to limit losses through close monitoring of their lending.

The scale of provisions made by banks and the speed at which they have been required following the onset of recession have differed markedly from the early 1980s. There are a number of reasons for this: first, the corporate and personal sectors are more highly geared, and thus more vulnerable to high interest rates; second, the property market has been hit harder than in the early 1980s; third, the banks have generally improved their ability to detect problems and provide against them earlier; and finally, the penalties for wrongful trading introduced in the 1986 Insolvency Act appear to have led companies to enter administration or liquidation sooner.

Table VII
Large British banks: country provisioning

£ billions (end-year)
Percentages in italics

	1987	1988	1989	1990
Total assets	345.3	392.8	461.7	471.1
Shareholders' funds	18.7	22.6	22.3	21.9
Gross exposure to problem country debtors	16.3	15.8	15.2	11.5
Provisions	5.0	5.1	9.2	6.5
as a percentage of gross exposure	*30.5*	*32.3*	*60.3*	*56.5*
Unprovided exposure	11.3	10.7	6.0	5.0
as a percentage of total assets	*3.3*	*2.7*	*1.3*	*1.1*
as a percentage of shareholders' funds	*60.7*	*47.3*	*27.1*	*22.8*

Chart 4
Large British banks' retained earnings

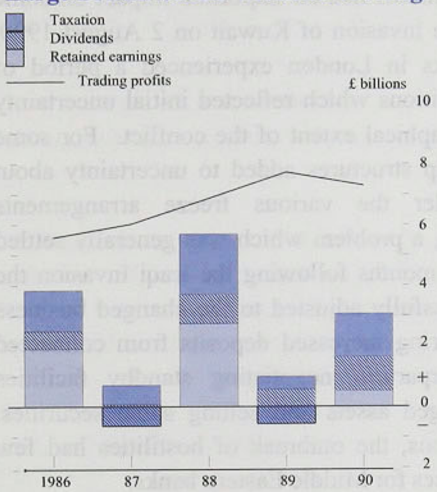


Table VIII
Large British banks: capital constituents

Convergence basis (a)

£ billions	1987	1988	1989	1990
Tier 1				
Shareholders' funds excluding property revaluation reserves	16.44	19.54	20.08	20.35
Preference shares	0.01	0.01	0.41	0.47
Minorities	0.41	0.50	0.59	0.63
Total Tier 1	**16.86**	**20.05**	**21.08**	**21.45**
Tier 2				
Property revaluation reserves	2.29	3.04	2.22	1.47
Hybrid capital	4.19	5.20	6.67	5.40
General provisions	1.09	1.07	1.10	1.48
Tier 2 minorities	—	0.07	0.08	0.01
Qualifying subordinated loan stocks	5.07	7.21	7.61	7.63
Headroom deduction	-1.13	-0.42	-0.53	-0.49
Total Tier 2	**11.51**	**16.17**	**17.15**	**15.50**
Total capital	**28.37**	**36.22**	**38.23**	**36.95**

(a) The convergence figures for 1987 and 1988 are not strictly comparable with those for 1989 and 1990, as in the earlier years the banks did not need to meet the new capital requirements.

Table IX
Large British banks: sources of new capital (a)

£ billions	1986	1987	1988	1989	1990
Retained earnings	1.91	-0.64	2.74	-0.57	0.52
Perpetual debt	1.25	0.09	0.01	0.93	0.10
Term subordinated debt	-0.29	0.44	1.56	0.11	0.18
Share issues	1.42	1.96	1.33	0.33	0.23
Total	**4.29**	**1.85**	**5.64**	**0.80**	**1.03**

(a) Excludes certain items affecting reserves, such as surpluses on property revaluations.

The international operations of the large banks for the most part performed better in 1990, except in some specific areas, notably the United States and Australia. There were no major additions to provisions against problem country sovereign lending in 1990, in contrast to the large increases in 1989; indeed some modest write-backs of provisions were made where banks disposed of loans at a price greater than the loss implied by their holding of provisions. A number of factors contributed to a decline during last year in UK banks' overall problem country exposure (Table VII). Since the banks' exposures to problem countries are mainly denominated in dollars their book value was reduced as a result of sterling's appreciation against the dollar. Some banks reduced their total exposure by means of various debt swaps and sales in the secondary market for loans (resulting also in a fall in the level of provisions). A restructuring was agreed for Venezuela which allowed banks to swap their exposure on a similar basis to that agreed for Mexico in 1989.

Capital and risk asset ratios

For a large number of UK banks, domestic bad debt problems had a pronounced impact on both pre-tax profits and retained earnings. Among the large banks, profit retentions (Chart 4) recovered only modestly from the 1989 level, when they were affected by problem country debt provisions. Indeed, if the latter effect is ignored, returns on equity and total assets fell sharply in 1990 (Table III). For the first time for many years two large banks cut their dividends. For a number of smaller banks new lending was reduced significantly, and, although further provisioning may well become necessary, for some this has provided an opportunity for increasing capital ratios.

Details of the stock of capital of the large banks are contained in Table VIII; and sources of new capital in Table IX. There were two issues of share capital during 1990, both preference shares, and one scrip issue capitalising a portion of property revaluation reserves (see page 16 for further discussion). The generally unfavourable market conditions allowed only a small number of issues of subordinated debt eligible for inclusion in the capital base. The overall result was a small fall in capital (after allowing for exchange rate effects) which, along with the similar small decline in risk assets, meant that the risk asset ratios of the large banks were largely unchanged over the year (Table X).

Costs and restructuring

Banks' operating costs continued to rise, although at a slower rate than in 1989 (Table XI). The continued increase was a result of investment in new technology, some new business initiatives, branch refurbishment and higher staff costs (which for some were associated with restructuring and for many

Table X
Large British banks: capital ratios [(a)]

£ billions	1986	1987	1988	1989	1990
Total assets	334.7	345.3	392.8	461.7	471.1
Weighted assets	251.7	268.3	315.4	377.1	374.9
Adjusted capital base (b)	26.5	26.1	31.6	34.7	34.5
Risk asset ratio (per cent)	**10.5**	**9.7**	**10.0**	**9.2**	**9.2**

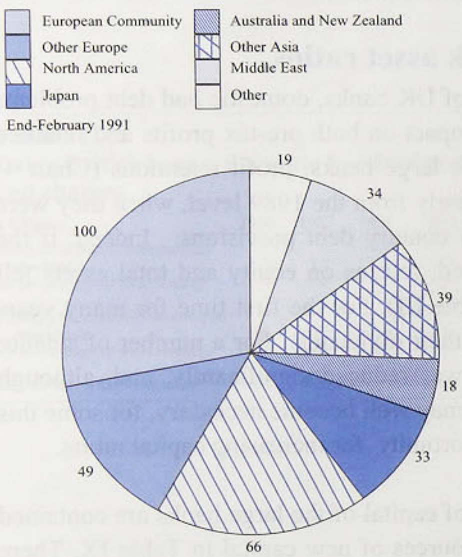
(a) On the convergence basis from 1989: the capital base is adjusted to allow for deductions from the capital constituents when calculating the risk asset ratio.

(b) Total capital (from Table IX) *minus* deductible holdings.

Table XI
Large British banks: costs

£ billions	1986	1987	1988	1989	1990
Staff	6.18	6.64	7.56	8.50	8.92
Premises and equipment	1.91	2.02	2.21	2.56	2.95
Other	2.26	2.68	3.09	3.93	3.71
Total operating costs	**10.35**	**11.34**	**12.86**	**14.99**	**15.58**
As percentage of total income	*66.2*	*66.4*	*66.5*	*67.0*	*68.0*

Chart 5
Geographical representation of overseas institutions



(a) Branch and subsidiary operations, together with controlling stakes in consortium banks: see Appendix 3 for further details.

included additional resources needed to manage the growing number of problem loans). The decline in the growth of new business activity, combined with pressure on earnings, highlighted for banks the major challenge they face in controlling cost-income ratios and improving the efficiency of their operations. During 1990 nearly all of the large banks announced plans to reduce staff numbers.

International developments

International developments had an important impact on some banks. Following the invasion of Kuwait on 2 August 1990, Middle Eastern banks in London experienced a period of difficult trading conditions which reflected initial uncertainty over the likely geographical extent of the conflict. For some institutions, ownership structures added to uncertainty about their treatment under the various freeze arrangements throughout the world, a problem which was generally settled quickly. During the months following the Iraqi invasion the affected banks successfully adjusted to the changed business environment by securing increased deposits from connected and friendly counterparties, negotiating standby facilities secured against pledged assets and selling some securities. Following these actions, the outbreak of hostilities had few additional consequences for Middle Eastern banks.

In keeping with announcements of domestic cutbacks, the large UK banks have adopted a very selective approach to international expansion in the run-up to the European single market in 1993. For a few, the increasing pressure on earnings led them to sell or cut back international operations. For the rest, a Europe-wide retail banking strategy has not become a favoured option; rather, the focus is on building up a significant local presence in the principal European markets, with the main emphasis on corporate and investment banking and on the high value personal market. This strategy was pursued during 1990 through the purchase of new or increased stakes in banks in France, Germany, the Netherlands and Spain. The large banks also looked at opportunities for forming partnerships with financial institutions in other EC countries with a view to using local branch networks for distributing credit cards and mortgages, and non-banking products such as insurance.

Foreign banks in the United Kingdom, like their British counterparts, faced difficult trading conditions during 1990, and this caused many to reassess their strategy. Some European banks have decided to anticipate the introduction of the single market by converting from UK-incorporated to branch status; others have cut back their activities, *inter alia* by transferring some assets to their parent bank, thereby saving staff. A number of US, Australasian and other banks have reduced the scale of their operations in London, reflecting a world-wide policy of cutting costs and improving profitability. Some other foreign banks from outside the European Community have continued their preparations for 1993, and a number have shown a keen interest in establishing before 1993 a presence which would enable them to take advantage of the 'passport' to operate in other member states (which will be accorded by the Second Banking Co-ordination Directive to institutions incorporated in the EC).

The standing of London as a financial centre has been affected by the continuing uncertainty surrounding local authorities' swaps transactions. In January the House of Lords ruled that local authorities had no powers to undertake transactions in swaps or related instruments. The judgment is likely to lead to the affected banks making new provisions against their exposures to local authority swaps. Subsequently, in evidence to the House of Commons Treasury and Civil Service Committee, the Governor, while recognising the importance attached by the Government to the *ultra vires* doctrine as a means of protecting chargepayers, argued that legislation should be introduced to validate local authorities' past swap transactions thereby upholding the sanctity of contracts freely undertaken. The Governor highlighted the risks of prolonged litigation if appropriate action was not taken. Such litigation would lead to an intensification of the damage already done to the reputation of the City of London and of the United Kingdom as a whole.

Last year's report noted that a few banks from non-industrialised countries were likely to close their London operations during the coming year. In the event, four banks did so (Chart 5), and there were a further four closures among consortium banks. The latter all formed part of a group of banks established around twenty years ago in order to specialise in lending to developing countries and to provide experience of international banking markets for their shareholders. Over recent years the need for consortium banks to make provisions against problem country loans, as well as the overlap with international operations of their shareholders has prompted the latter to consider closure.

During 1990 UK banks began to consider what initiatives they should take in order to establish a presence in the newly liberalising economies of Eastern Europe. So far the banks have shown caution in their approach, and initiatives to date have been limited to the opening of a small number of representative offices. Trade finance for UK exporters is likely to provide one of the first opportunities for banks.

Part II
Policy developments

(i) Implementation

Capital adequacy

In December 1990 the Bank published a notice implementing the EC Solvency Ratio Directive,[1] which establishes a standard measure of the credit risk run by banks and sets a minimum capital ratio of 8% from 1 January 1993. At the same time the Bank published a notice reflecting the requirements of the EC Own Funds Directive, which defines a bank's capital base for supervisory purposes.[2] The existing notice[3] covering the Implementation of the Basle Convergence Agreement in the United Kingdom was withdrawn. The new notices introduce few substantive changes to the existing capital adequacy system: like the Basle Agreement, the Solvency Ratio Directive requires banks to maintain a minimum 8% risk assets ratio. There will be no amendment to the arrangements whereby each UK bank is set a minimum ('trigger') and working ('target') ratio resulting from the implementation of this Directive.

The Bank, along with other supervisory authorities in the G10 countries and EC member states, continues to attach importance both to monitoring the implementation of capital adequacy regulations and to ensuring a broad degree of consistency between the Basle and EC approaches. To this end, the Basle Committee on Banking Supervision has assessed new proposals for Tier 1 capital and the treatment for capital adequacy purposes of general provisions. The latter resulted in the issue in February 1991 of a consultation paper seeking comments on a proposed treatment.[4]

The inclusion in Tier 1 capital of UK banks' scrip issues capitalising property revaluation reserves over the last two years has proved controversial internationally, and prompted criticism that the United Kingdom was not adhering to the spirit of the Basle agreement. The matter has been raised in the Basle Supervisors' Committee and will continue to be under review. The Bank has argued that such scrip issues are legally part of a bank's equity capital, and that it looks for a reasonable proportion of the reserve to remain uncapitalised in order to absorb future declines in property values before the current year's profit and loss account is affected.

Consolidated risk asset ratios

The Bank has reviewed the criteria established in 1986[5] for the consolidation of certain subsidiaries of banks when computing their 'solo' capital ratios (ie covering the authorised institution only). These are intended to capture those subsidiaries whose capital is readily available to support depositors in the parent bank. As a result, the Bank published a notice,[6] which revised the requirement that solo consolidated subsidiaries had to be fully funded by their parent bank by, in particular, adding the case where all a subsidiary's assets are exposures to the parent bank. The Bank continues to regard it as essential that banks are supervised on a solo as well as a consolidated basis.

Liquidity

The lengthy consultation period which followed publication of the Revised Proposals for a Stock of High Quality Liquidity was concluded in April 1990. Those proposals were withdrawn as the consultations confirmed that the Bank's 1982 notice on the measurement of liquidity[7] continues to provide a sound framework for measuring the adequacy of banks' overall liquidity.

Taking the 1982 paper as a basis, the Bank has sought to improve its assessment of each bank's liquidity, by asking for a description of its liquidity policy, identification of particular strengths and weaknesses and analysis of its capacity to survive a crisis. The

(1) *Implementation in the United Kingdom of the Solvency Ratio Directive* (BSD/1990/3). 89/647/EEC.
(2) *Implementation in the United Kingdom of the Directive on Own Funds of Credit Institutions* (BSD/1990/2). 89/299/EEC.
(3) *Implementation of the Basle Convergence Agreement in the United Kingdom* (BSD/1988/3).
(4) *Proposals for the inclusion of general provisions/general loan-loss reserves in capital.*
(5) *Consolidated supervision of institutions authorised under the Banking Act* (BSD/1986/3).
(6) Amendment to the *Bank's notice 'Consolidated supervision of institutions authorised under the Banking Act 1979 (BSD/1986/3)'*, issued in March 1986 (BSD/1990/4).
(7) *The measurement of liquidity* (July 1982).

description should include an assessment of the contribution of a stock of high quality liquidity in conjunction with measures of maturity mismatch. The ensuing review with each bank is serving to increase awareness of the need for prudent liquidity management.

Meanwhile the Basle sub-group on liquidity, which met three times during the year, has continued to compare different members' approaches to liquidity supervision. The group has also been considering the liquidity management techniques of banks with sophisticated treasury operations as part of its mandate to develop best market practice in liquidity supervision among G10 member countries.

Accounting developments

Significant progress was made during 1990 towards implementing the EC Bank Accounts Directive,[1] which establishes common rules in relation to the content and valuation methods of individual and consolidated accounts of banks and other financial institutions. The Directive is due to be implemented into UK law later this year and will apply to accounting periods beginning on or after 1 January 1993. The UK legislation will introduce a number of major changes to banks' financial statements. These will include setting out specific formats for balance sheets and profit and loss accounts, laying down valuation rules to be applied to particular balance sheet items and prohibiting the establishment of hidden reserves.

Also during 1990, a Statement of Recommended Practice (SORP) on accounting for securities was issued by the British Bankers' Association. This SORP deals with the valuation, recognition and disclosure of securities transactions. Work continues on the preparation of SORPs covering a number of other areas including off-balance-sheet commitments and contingencies and loans and advances. A draft SORP on off-balance-sheet commitments and contingencies was issued in September 1990.

Guidance notes on money laundering

The British Bankers' Association and the Building Societies Association, working in close co-operation with the Bank and the law enforcement agencies, issued detailed Guidance Notes on money laundering for UK banks and building societies on 10 December 1990.[2] This guidance aims to enhance the effectiveness of the 1986 Drug Trafficking Offences Act by drawing on experience gained over the past four years, and seeks to develop the Basle Statement of Principles on Money Laundering by setting out best practice in a number of areas of banking activity.

The Guidance Notes are intended to assist banks and building societies to increase the effectiveness of their procedures in this area and to help staff to meet their legal obligations. Installation and maintenance of adequate systems, including those covering money laundering related areas, influence the Bank's consideration of whether an institution continues to meet the criteria set out in Schedule 3 to the Banking Act. The Bank has advised that it expects all authorised institutions to be able to demonstrate that their policies, records and systems at least meet the standards set out in the Guidance Notes.

Code of conduct for the advertising of interest bearing accounts

The abolition of composite rate tax with effect from 6 April 1991 made it necessary for the British Bankers' Association, Building Societies Association and Finance Houses Association to revise the code of conduct dealing with the advertising of savings and deposit accounts. The original code was developed in 1985 and both then and in 1988 the Bank had made clear to all authorised institutions that it expected them to adhere to its provisions. In December 1990 the Bank similarly advised all authorised institutions that it expected them to adhere to the provisions of the revised code, and that it would continue to monitor the standard of advertising for deposits.

(ii) Areas under consideration

Investment Services Directive[3]

While this draft directive primarily relates to non-bank investment firms, for which it would establish authorisation procedures and the 'single licence' valid throughout the European Community (already agreed for banks in the Second Banking Co-ordination

(1) 86/635/EEC.
(2) *Money laundering: guidance notes for banks and building societies* (December 1990).
(3) COM(89)629.

Directive[1]) many of its provisions are relevant also to banks' investment business. For example, a list of investment activities covered by the directive and requirements for the conduct of investment business would both apply to banks.

European Council discussions have continued throughout the year, but negotiations are proving very difficult. The most contentious items are the scope of the directive, the access of banks to stock exchanges, the extent to which trading should be permitted outside the major exchanges in each country, and trade-reporting publication.

Market risks

Council discussions are also under way on the draft Capital Adequacy Directive,[2] which sets out a capital adequacy framework that would apply to non-bank investment firms and banks' investment business. The key element for banks is the capital requirement to cover market risks.

Besides the EC discussions on the draft Capital Adequacy Directive, there have been further regular meetings of the three sub-groups set up by the Basle Supervisors' Committee.

The sub-group on *interest rate risk* has concentrated on capital requirements for banks' trading books, which is directly relevant to the approach taken in the Capital Adequacy Directive, and on a measurement system for the interest rate risk in the rest of a bank's business. The approach being pursued includes the risk arising from off-balance-sheet instruments such as swaps, futures, forward rate agreements and options.

The sub-group on *position risk on traded securities* has concentrated on equities and equity derivative instruments. A key question has been the extent to which the benefits of hedging and diversification should be recognised in setting capital requirements for equity-trading portfolios. The sub-group has also reported to the Basle Supervisors' Committee on the definition of capital used by securities supervisors, which is an important consideration in comparing requirements for banks and non-banks.

The third sub-group has focused on the measurement of exposure to *foreign exchange risk* across all the business of banks and, following from that, the amount of capital to cover it. While members of the sub-group generally favour a simple approach, as currently applied to UK banks, they do not rule out a more sophisticated method, taking account of volatility and correlation factors for each currency pair if a fair and practical method of application can be devised.

A joint meeting of the Basle Supervisors' Committee and securities supervisors in September 1990 reinforced the liaison already established, in particular with the International Organisation of Securities Commissions (IOSCO), and securities supervisors now attend both the interest-rate risk and equity-position risk sub-groups.

The Basle, IOSCO and EC work on capital adequacy for investment business is being carried out in close co-operation, with the aim of achieving as much compatibility as possible. While a broad framework has been established for the capital requirements against market risks, at least for trading books, a number of issues are still under discussion.

Netting

In November 1990, a Report of the Basle Committee on Interbank Netting Schemes endorsed by Central Bank Governors of the G10 countries was published.[3] This committee considered the policy implications of cross-border and multicurrency netting arrangements, including the legal effectiveness of such schemes. In its report, the Committee recognised the potential of netting arrangements to improve the efficiency and stability of interbank settlements, but also to increase the risks to the financial system. It made recommendations on minimum standards for the design and operation of cross border and multicurrency netting schemes, and on the principles for co-operative oversight by central banks of such schemes. Various netting schemes which are either in operation or under development are being examined in the light of these minimum standards. The Basle Supervisors' Committee is now reviewing the treatment of both bilateral and multilateral netting under the 1988 Capital Agreement.

(1) 89/646/EEC.
(2) COM(90)141.
(3) *Report of the Committee on Interbank Netting Schemes of the Central Banks of the Group of Ten Countries* (November 1990).

Large exposures

The Bank is continuing to review its large exposures policy, as outlined last year, and has held informal discussions with a number of banks during the course of the year.

Following the Recommendation of the European Commission in 1986 on the monitoring and control of large exposures, the Commission has adopted a proposal for a directive(1) which is intended to apply from the beginning of 1993. Council working group meetings are expected to take place during the summer. The proposal provides for a limitation of large exposures to a single counterparty to 25% of the lending bank's capital, and regular reporting of large exposures in excess of 10% of capital. These limits are in line with the Bank's current policy on large exposures.

Consolidated supervision

A proposal for a second EC Directive on the supervision of credit institutions on a consolidated basis (replacing the 1983 Directive on Consolidated Supervision(2)) was adopted by the European Commission in October 1990.(3) Since then a number of meetings of a European Council working group have been held; the directive is scheduled for implementation by 1 January 1993.

The 1983 Directive requires the consolidation of a bank with its financial subsidiaries for the purposes of monitoring capital adequacy, unless the subsidiaries are insignificant or consolidation would be misleading or inappropriate. The new proposal widens this scope by extending consolidation to the bank's parent and the parent's financial subsidiaries where the majority of the group's activities are of a financial nature. The scope of consolidation is extended to include large exposures as well as capital adequacy. In addition there is a procedure for determining which supervisor should undertake consolidated supervision when there is more than one supervisory authority with an interest in banks within the group. Where banks belong to a group in which the majority of activities are not of a financial nature, consolidation is not required. Instead the proposed directive provides for the relevant banking supervisors to have powers to require banks to supply information about the groups to which they belong. The new EC proposal does not involve any substantive extension of the requirements or the Banking Act 1987.

(iii) Liaison with other supervisors

Relations with other supervisors in the United Kingdom

Work continues to ensure effective co-ordination between the Bank and other supervisors in the United Kingdom. This is particularly important in the case of banks that are part of wider financial groups where different supervisors have responsibility for particular entities within the group. For all such groups a 'lead regulator' has been appointed who is responsible for calling a meeting of the 'college of supervisors' to co-ordinate the various supervisors involved. A well established college arrangement is extremely valuable at times when a financial group is experiencing problems. Such a case arose last year, and the college functioned well as a forum for those UK supervisory authorities with a direct interest in the group.

The Banking Supervision Division continues to submit quarterly reports containing summary capital adequacy, balance sheet and other relevant information to the Securities and Investments Board (SIB) and the Self-Regulating Organisations (SROs) in respect of banks authorised by these bodies under the Financial Services Act (FSA). The Securities Association (TSA)—renamed the Securities and Futures Authority (SFA) following merger with the Association of Futures Brokers and Dealers—decided last July with the approval of the SIB that it would no longer require the additional 'hybrid' capital adequacy test to be undertaken for banks which did more than a 'de minimis' amount of securities trading business. The Bank subsequently decided that it would no longer require these banks to submit TSA or 'Grey paper' returns nor would it introduce position and counterparty risk reporting requirements of its own. In a letter to the banks concerned, the Bank did, however, draw attention to the fact that the proposed EC Capital Adequacy Directive includes a trading book option for banks which has some similarities with the hybrid test.

(1) COM(91)68.
(2) 83/350/EEC.
(3) COM(90)451.

The number of routine and 'ad hoc' contacts between the Bank and the SIB and the SROs has been increasing and good working relationships have been established between all those involved in administering the FSA. As far as branches of overseas banks with authorisations under the FSA are concerned, in most cases the Bank continues to act as a conduit for the passage of information between the home supervisory authorities, the SIB and the SROs.

The Basle Committee on Banking Supervision

The Committee has continued to monitor progress in the implementation of the Basle Convergence Agreement in G10 member countries, to work to extend it to cover market risks and to refine it, notably in respect of those general provisions which may be included in Tier 2 capital (described above).

A first joint meeting was held with insurance regulators in December 1990 at which the idea of formulating proposals to facilitate exchanges of information between insurance and bank supervisors was discussed.

The sixth international conference of banking supervisors was held in Frankfurt in October 1990, with the Deutsche Bundesbank and the German Federal Banking Supervisory Office acting as joint hosts and co-sponsors with the Basle Supervisors' Committee. Bank officials joined the representatives of 100 countries attending.

Discussion centred on two issues, in addition to reviewing work on market risks, the supervision of financial conglomerates and large exposures. The Conference concluded that there is no single way in which the supervision of financial conglomerates can best be carried out. It was noted that effective supervision requires co-operation between regulators of the component parts of a conglomerate. Participants welcomed the initiative of the Basle Supervisors' Committee to develop closer working relationships between banking and securities regulators, and the intention to seek closer contacts with insurance supervisors was also considered to be an important initiative. The steps that had been taken to establish principles for the exchange of information between supervisors in different sectors and countries were also welcomed. The Conference agreed that supervision of banks' large exposures should encompass both on and off-balance-sheet items and pay special attention to lending to borrowers connected to the originating bank.

The next International Conference of Banking Supervisors is to take place in Cannes in 1992.

EC supervisory bodies

The Banking Advisory Committee (BAC) and the Contact Group of EC Supervisory Authorities ('Groupe de Contact') have met regularly during the year, the former focusing primarily on new ideas for legislation proposed by the Commission and the latter on a wide range of practical and technical supervisory matters.

The BAC commissioned a further Community-wide solvency observation exercise last year, covering a large number of EC credit institutions. The exercise, which was based closely on the provisions in the EC Own Funds and Solvency Ratio Directives, enabled Member States to assess the likely impact of these directives on their banks and other credit institutions. In the case of UK institutions, the results of the exercise confirmed the Bank's view that the minimum 8% solvency ratio had already been met or exceeded by a large majority of banks. The exercise will be repeated this year and probably the following year.

EC Governors' Sub-Committee

The Supervisory Sub-Committee of EC Governors, established in accordance with the recommendations of the Delors report, has met five times this year. As reported last year, representatives of the banking supervisory authorities of three Member States in which a central bank is not directly responsible for supervision also participate. The Director General of DGXV of the European Commission has also been invited, on a discretionary basis, to attend meetings of the Sub-Committee as an observer where matters relevant to the Commission's competence are raised.

During the year, the Sub-Committee discussed and reported to the EC Governors on the possible role for a European Central Bank in the area of banking supervision, and began work on a report on the European Commission's discussion paper on retail payment systems. It has also started to address the practical implications for central banks of the introduction of the single passport arrangements under the EC Second Banking Co-ordination Directive.[1] Other matters discussed by the Sub-Committee included money laundering, the development of financial conglomerates and banking and supervisory aspects of German unification.

(iv) The GATT

The 8th (Uruguay) Round of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT) which began in 1986 failed to produce agreement at the Brussels Ministerial meeting in December 1990. Negotiations have, however, reopened with the objective of reaching an early and successful conclusion. The scope of the Round is wider than its predecessors, including not only trade in goods but also trade in services, of which financial services is one element.

In the field of financial services, the aim of further liberalisation will need to be tempered by the objective of maintaining the integrity of financial markets. Of equal importance is the need to ensure that there is nothing in the GATT agreement which prevents the upholding of established supervisory standards. There are, however, a number of important unresolved issues. These include the administration of financial services arrangements within the GATT, cross-sectional retaliation and the way in which the disputes settlement process will work in practice, including the representation of financial services experts on the disputes body.

(1) 89/646/EEC.

Part III
Operational supervision

The authorised population

Authorisations

The number of applications for authorisation under the Banking Act was slightly lower in the year to end-February 1991. In total, fifteen authorisations were granted, the same number as in 1989/90. Eleven authorisations were granted to overseas incorporated institutions for branches, one of which was outstanding from 1989/90, and the other four were granted to UK-incorporated institutions. The Bank also considered a number of draft applications, some of which have not been proceeded with; but others may become formal applications during 1991.

Table XII
New authorisations

Year to end-February	1986	1987	1988	1989	1990	1991
Authorisations	18	37	21	12	15	15

Of the 530 institutions authorised at end-February 1991, 255 were overseas incorporated institutions with UK branches, 91 were UK-incorporated subsidiaries of overseas banks and non-banks and 10 were UK-incorporated joint ventures involving overseas institutions. The geographical origin of authorised institutions is very wide and has been stable in recent years: banks from 73 countries have offices here (for nine countries these comprise representative offices only).

Table XIII
Number of authorised institutions

End-February	1986	1987	1988	1989	1990	1991
UK-incorporated	343	334	313	295	289	275
Incorporated outside the United Kingdom	252	254	254	256	259	255
Total	**595**	**588**	**567**	**551**	**548**	**530**

Surrenders

Thirty institutions surrendered their authorisation during the year compared to eighteen in 1989/90. Nine institutions surrendered because of group reorganisations, with authorisations already existing in or being granted to a successor or a company in the same group; and six because of mergers with other institutions and the grant of authorisation to successor institutions taking over their business. Fifteen institutions surrendered following a decision to stop accepting deposits in the United Kingdom.

Where an institution has surrendered its authorisation, the Bank continues to have a supervisory interest until it has repaid all its deposits. The Bank may, *inter alia,* require such institutions to provide it with information and may give them directions in the interests of depositors. There were no directions given during the year to end-February 1991.

Revocations and restrictions

Three revocations by the Bank under section 11 of the Act became effective during the year, one of which was outstanding from1989/90. The Bank gave notice of its intention to revoke the authorisation of two institutions and gave directions under section 19. Representations were received from both institutions and decisions to revoke were made. Both institutions' operations continue to be subject to directions under section 19. Restrictions have been given under section 12 in relation to one institution, and under section 14 where it appeared necessary to take action urgently in relation to three institutions.

Table XIV
Revocations and restrictions[(a)]

Year to end-February	1986	1987	1988	1989	1990	1991
Revocation of authorisation	5	1	2	—	—	3
Restriction of authorisation (b)	4	2	5	2	—	4
Revocation of restricted authorisation (b)	—	3	—	—	—	—

(a) The table records cases in the year that the Bank's formal notice of revocation or restriction was given. In some cases the revocation did not take effect until the following year and in a few cases the institution surrendered, or a conditional authorisation expired, before the revocation took effect. In addition the Bank has used its powers more than once in respect of a few institutions. It is not therefore a record of authorisations revoked or restricted but of the use of the Bank's powers.

(b) The terms of the 1987 Act are here used to record use of the corresponding powers under the 1979 Act.

Where the Bank moved to revoke an authorisation the decision reflected the view that some of the criteria in Schedule 3 to the Act, including the fit and proper criterion and the prudent conduct criterion, were not fulfilled. Reasons for concluding that the prudent conduct criterion was not fulfilled included insufficiency of net assets and inadequate provision for bad and doubtful debts.

Appeals

Two appeals were lodged against the Bank's decisions during 1990/91. One appeal was against a decision by the Bank to restrict authorisation, the other related to the Bank's decision to revoke an institution's authorisation. Both appeals were withdrawn.

Administration orders and liquidations

During the year three administration orders relating to authorised institutions or former authorised institutions were made under section 8 of the Insolvency Act 1986. Pending the hearing of a winding-up petition presented by the Bank in accordance with section 92 of the Banking Act, a provisional liquidator was appointed to an authorised institution.

Supervision and enforcement

Statement of principles

The following papers are added to the table in paragraph 2.5 of the Statement of Principles published in May 1988 under section 16 of the Act.

(i) Implementation in the United Kingdom of the Directive on Own Funds of Credit Institutions (BSD/1990/2).
(Issued December 1990.)

(ii) Implementation in the United Kingdom of the Solvency Ratio Directive (BSD/1990/3).
(Issued December 1990.)

(iii) Amendment to the Bank's Notice 'Consolidated Supervision of Institutions authorised under the Banking Act 1979' (BSD/1986/3) (BSD/1990/4).
(Issued December 1990.)

Statutory instruments

Previous Annual Reports summarised the orders and regulations which had been introduced under the Act up to February 1990. The following statutory instruments were made under theAct during the last year:

1990 No 1018 The Banking Act 1987 (Exempt Transactions) (Amendment No 2) Regulations 1990

These regulations amend regulation 7 of the Banking Act 1987 (Exempt Transactions) Regulations 1988, which relates to the acceptance of deposits by retail and other co-operative societies. They extend the range of societies that can benefit from the exemption by including societies whose principal business is the sale of goods or the provision of services to retail societies.

1990 No 1529 The Banking Act 1987 (Exempt Transactions) (Amendment No 3) Regulations 1990

These regulations amend the Banking Act 1987 (Exempt Transactions) Regulations 1988 by inserting a new regulation which provides that sums paid by government departments to the Students Loans Company Limited in accordance with the arrangements made by the Secretary of State under the Education (Student Loans) Act 1990, or by the Department of Education for Northern Ireland under the Education (Student Loans) (Northern Ireland) order 1990, are not caught by the prohibition on deposit-taking imposed by Section 3 of the Banking Act 1987.

1990 No 2064 The Deposit Protection Board (Increase of Borrowing Limit) (No 2) Order 1990

The Order prescribes a limit of £50 million for the borrowing power of the Deposit Protection Board in place of the limit of £10 million stipulated in Section 64(i) of the Banking Act 1987.

1991 No 29 The Banking Act 1987 (Exempt Transactions) (Amendment) Regulations 1991

These regulations amend Regulation 13 of the Banking Act 1987 (Exempt Transactions) Regulations 1988, which relates to commercial paper and medium-term notes. They replace the reference to the exclusion of bodies listed in Schedule 2 (certain public undertakings) with a reference to the exclusion of bodies to which regulation 10(1) applies. This has the effect of allowing certain former public undertakings to issue commercial paper and medium-term notes.

1991 No 66 The Banking Act 1987 (Exempt Persons) Order 1991

These regulations exempt the European Bank for Reconstruction and Development from the prohibition in Section 67 of the Banking Act 1987 relating to the restriction on the use of banking names and the prohibition in Section 69(1) of that Act relating to the restriction on the use of banking descriptions. The regulations also add the European Bank for Reconstruction and Development to the list of exempted persons in Schedule 2 to the Act.

Interviews, visits and prudential/statistical returns

Over three thousand interviews were conducted during 1990/91, a similar number to each of the previous three years. Around two thirds were non-routine meetings to discuss specific issues. Of the 1,089 routine prudential interviews, just under half were conducted on institutions' premises. A number of visits were made to UK banks' offices abroad and head offices of foreign institutions with branches and subsidiaries in the United Kingdom, as well as to overseas supervisory authorities. Visits included Europe, Australia, New Zealand, the United States and Japan.

In addition to interviews for routine prudential purposes and on specific issues, the Bank continues to send review teams consisting of Bank staff together with seconded bankers and accountants to visit authorised institutions. Such visits typically last 2–3 days but may be longer. Their purpose is to provide more detailed knowledge of the institution's management structure, key business and operational areas, and internal control systems and procedures. In some cases applicants for authorisation are subject to such a review.

These visits are conducted with the agreement of the institutions concerned and do not involve the Bank's use of its statutory powers. Such visits are sometimes followed by further visits to enable the Bank to monitor progress, for example in taking remedial action in respect of any weaknesses identified and discussed with management. During the year there were 117 review team visits (including follow-up visits); 61 were to domestic institutions and 56 to subsidiaries and branches of overseas banks; 56 visits covered the whole range of activities while 28 targeted loan book quality and 33 operating and control systems. The Bank also conducted 29 visits to institutions to review or establish foreign exchange exposure guidelines and to discuss operational risks that arise from particular, often specialist, areas of business.

Investigations into authorised institutions

The Bank continues to monitor closely the reporting record of all authorised institutions with regard to accuracy and timeliness and to require improvements where necessary.

Table XV
Use of section 17/41 powers

Year to end-February	1986	1987	1988	1989	1990	1991
Number of investigations	5	4	6 (a)	4	3	4

(a) One under section 17 of the 1979 Act and 5 under Section 41 of the 1987 Act.

The section 39 powers to require an institution to commission a report by reporting accountants have been used routinely to establish whether systems and records are maintained in accordance with the requirements of the Act and to comment on the accuracy of prudential and statistical returns. The section 39 powers were also used in one case in response to identified problems. Four investigations under section 41 were begun during the year. The use of the section 41 powers (and their equivalent under section 17 of the 1979 Act) is shown in Table XV.

Shareholder controllers of authorised institutions

The Bank's powers in relation to shareholder controllers and prospective shareholder controllers under sections 21, 22, 24 and 26 of the Act were outlined in the Annual Report for 1988/89 which also set out some of the considerations which guide the Bank in its vetting procedures. During 1990/91 the Bank received 74 notifications of proposals for new or increased control under section 21. In some cases multiple notifications were received at the same time, in others, the notifiers did not proceed to acquire control.

In one case the Bank issued a preliminary notice of objection under section 22 but it was not necessary to serve a final notice because of a subsequent change of control.

The Bank did not issue any notices under sections 24 or 26 during the year.

Representative offices of overseas institutions

In the past year 30 overseas institutions notified the Bank of their intention to establish representative offices in the United Kingdom, and three institutions notified the Bank of their intention to change the name used by them in the United Kingdom. The Bank continues to investigate instances where representative offices appear to have been established contrary to section 75 of the Act. Enquiries have generally discovered no physical presence of the entities in the United Kingdom, and at most only a mail forwarding service.

Banking names and descriptions

Thirty-two authorised institutions changed their names during the year after giving notice to the Bank under section 70 of the Act. No notices of objection to the proposed name changes were issued.

The Bank also dealt with 136 names submitted during the year by unauthorised institutions in order to consider whether they would be likely to breach the prohibition on the use of banking names in section 67. The Bank indicated that twenty-three of the proposed names did appear to breach the prohibition.

During the year the Bank became aware of, and pursued, a number of cases where names or descriptions were being used in a manner that appeared to breach the prohibitions in sections 67 and 69. These cases were regularised without formal action being required.

The prohibition on deposit-taking

During the year, 26 investigations of unauthorised deposit-taking were commenced while 13 cases carried over from the previous year were taken forward. While caseload numbers were little changed from 1989/90, the trend of recent years towards more substantial, complex cases involving larger sums continued. The Bank increased its investigatory resources during the past year to meet the growing workload.

Most of the Bank's investigations are conducted under the powers contained in the Act. In 1990/91 a total of 69 notices were served under the provisions of section 42 requiring relevant information, documents and explanations.

During the year the Bank applied for and was granted injunctions under section 93 in four cases. The injunctions restrained further contraventions of the Act, and in three cases they froze the assets of the individuals involved. The courts also granted a repayment order under the provisions of section 48. The Bank is presently considering making an application for a section 48 order in a further case. This procedure where the Bank can apply to the court for an order that unauthorised deposits be repaid is available only where the defendant's assets are sufficient to meet his liabilities.

Prosecutions were commenced in two cases. In one, the charges related to sections 3 and 35, and in the other to section 35, along with the equivalent section 39 of the 1979 Banking Act.

The close working relationships which have been developed with other regulatory bodies have been maintained. The Bank's enquiries also involve co-ordination with the Crown Prosecution Service, the Serious Fraud Office and local police forces.

Discount houses

There have been no changes in the names or number of discount houses over the year. The Bank continues to have a direct dealing relationship in the sterling money market with eight discount houses authorised under the Banking Act and one gilt-edged market maker. Four discount houses are wholly-owned by larger banking groups—one based in the United Kingdom and three overseas—while four groups containing discount houses remain independent.

The discount houses are supervised by the Wholesale Markets Supervision Division of the Bank. Supervisory arrangements are largely unchanged from those set out in the Bank's paper of October 1988[1] although minor refinements have been made to accommodate new developments. The Bank is making arrangements to monitor the compliance of the discount houses with the terms of their exemption from the full provisions of the EC Solvency Ratio Directive. Application of the Solvency Ratio Directive, with its emphasis on credit risk, was considered to be inappropriate for the discount houses which principally carry interest rate risk. The exemption imposes a numerical limit on the discount houses' exposures to the non-bank private sector which is consistent with their specialist role as the providers of sterling liquidity to the banking system.

(1) Bank of England operations in the sterling money market.

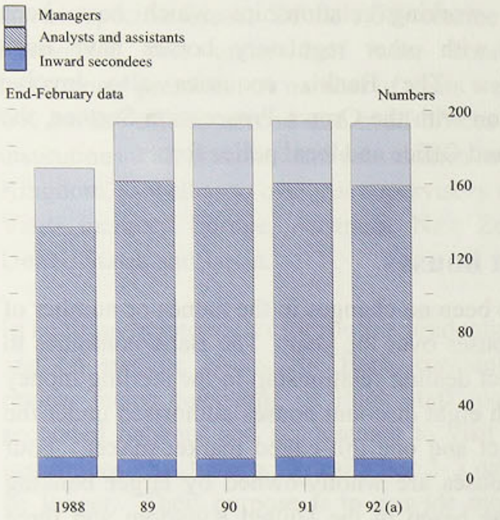
Part IV
Organisation and staffing of Banking Supervision Division

Staff

Staff numbers in Banking Supervision Division showed no significant variation from those in the previous year, and the staffing situation remained generally good.

For the year to end-February 1992 the staff establishment, at some 194, is 6 less than in the year to February 1991, a reduction which will be achieved without impairment to the Division's supervisory response. The Bank continues to value highly the contribution made to the work of Banking Supervision Division by inward secondees of whom four come from clearing banks, six from firms of chartered accountants and one from a firm of solicitors. It is hoped that a further secondee solicitor will join the Division shortly.

Chart 6
Staff numbers in Banking Supervision Division



(a) Budget numbers: 1988-91 are actual staff numbers not budgeted figures.

Table XVI
Allocation of Banking Supervision Division staff

End-February	Staff 1991	Staff 1990	Institutions 1991	Institutions 1990
UK retail and merchant banks (a)	23	24	70	75
UK branches and subsidiaries of overseas banks (b)	72	77	336	340
Small and medium-sized UK institutions (c)	36	41	116	125
Policy and legal matters (d)	44	34	—	—
Administration	19	16	—	—
Total	**194**	**192**	**522** (e)	**540** (e)

(a) Groups 3-5 on the organogram at Appendix 1.
(b) Groups 11–18.
(c) Groups 6–9.
(d) Groups 1–2, 10, Information Technology and Confidential Equiries.
(e) Excluding the discount houses, supervised by Wholesale Markets Supervision Division.

Training

The Division has continued to send staff on external training courses in accountancy, banking and legal issues. Members of the Division also attend various internal management courses while new graduates participate additionally in a Bank-wide graduate training programme. All newcomers to the Division receive an introductory course in a number of supervisory topics.

The Division continues to have managers on outward secondments in three overseas areas. A manager will shortly start a secondment to a clearing bank to replace a manager who completed such an assignment in the autumn. The Division's policy remains to look for appropriate opportunities to second staff.

Visits to Banking Supervision Division

During the year some 50 people from institutions abroad (mostly central banks) visited the Division, principally to familiarise themselves with the Bank's supervisory work.

The political developments in Eastern Europe, with the accompanying economic liberalisation, have resulted in a considerable demand for technical expertise to assist in the establishment and regulation of new financial institutions and markets. Banking supervision is a key area, and the Bank has sought to play its part in meeting requests for assistance. A feature of the year was visits from personnel from a number of central banks in East European countries wishing to learn about the Bank's approach to supervision in the light of changes to the banking systems in their own countries. In October a new managerial position was created within the Division in order to help the Bank provide technical assistance and training. Close liaison is maintained with the Basle Committee on Banking Supervision which has assumed the role of co-ordinator for such assistance to Eastern Europe.

Information systems

The year saw continued development of the Division's Management Information System (MIS). Specific attention was paid to improving the quality of systems documentation and the introduction of a rolling programme of training modules. A review of the use made of information technology in the Division, undertaken late in the year, identified a programme of work for the coming year aimed at improving cost-effectiveness. Initial efforts will concentrate on providing better management information on the use of resources, and improving the tools available for statistical analysis.

The system of electronic reporting of banking forms (STARS) operated by the Bank's Financial Statistics Division, as an alternative to paper returns, now has over 30 operational users.

Appendix 1
Banking Supervision Division organogram

As at 1 May 1991

The Governors — **Board of Banking Supervision**

Brian Quinn
Executive Director

R A Barnes
Assistant Director
Head of Banking Supervision Division

- R H Farrant, *Deputy Head, Policy/Legal*
  - Mrs S L Richardson, E A Jarman — *Managers, Group 1, Legal*
  - R A Allen, I D Bond, J A Hoskins, J C W Osborn (1) — *Managers, Group 2, General Policy, Foreign exchange*
  - W D R Swanney — *Manager, Accountancy & special issues, Secretary of Board of Banking Supervision*
  - R J MacDonald — *Manager, Research*
  - T A Plumb — *Manager, Information Technology*
  - C J C Sparkes — *Manager, Confidential enquiries, Secretary of Deposit Protection Board*
- *United Kingdom retail and merchant banks*
  - D T R Carse (1) — *Manager, Group 3, Major English clearers*
  - D M Sutherland — *Manager, Group 4, Scottish and other UK clearers*
  - C J Thompson — *Manager, Group 5, Major UK merchant banks*
- T P Sweeney, *Deputy Head, Medium and smaller UK institutions*
  - D A Reeves — *Manager, Group 6, A-B & T-Z*
  - J F Rippon — *Manager, Group 7, C-E*
  - P W Filmer — *Manager, Group 8, F-L*
  - J C Cleland (3) — *Manager, Group 9, M-S*
  - G R Dargie — *Manager, Group 10, Investigations*
- J Bartlett, *Deputy Head, Overseas banks, North America & West Europe*
  - R E P Diggory — *Manager, Group 11, Denmark, France, Finland, Luxembourg, Norway*
  - Miss W M Hyde (2) — *Manager, Group 12, USA*
  - M D Craig (4) — Manager, Group 13, Austria, Belgium, Canada, Germany, Switzerland
  - Miss J M Haddon — *Manager, Group 14, Greece, Gibraltar, Ireland, Italy, Malta, Netherlands, Portugal, Spain, Sweden*
- J W Anderson, *Deputy Head, Overseas banks, Rest of the World*
  - Mrs P D Jackson — *Manager, Group 15, Israel, Japan, Turkey*
  - A N Piper — *Manager, Group 16, Afghanistan, Australasia, Eastern Europe, Indian sub-Continent, South Africa*
  - M J Fuggle — *Manager, Group 17, Middle East, Cyprus*
  - D A Ware — *Manager, Group 18, Bermuda, Caribbean, Far East, Latin America, Other Africa*
- C M D Bird — *Manager, Administration, Staff training*
  - P J Marr — *Manager, Review Team visits*
  - R D Chalmers — *Manager, Technical assistance*

(1) Mr Osborn takes over from Mr Carse on 2 May.
(2) Mr P A C Smout takes over from Miss Hyde on 2 May.
(3) Miss J R Cooper takes over from Mr Cleland on 3 June.
(4) Mr Cleland takes over from Mr Craig on 3 June.

Current supervisory notices

The following is a list of policy and practice notices issued by Banking Supervision Division which are currently in force:

Title	Date of issue
Foreign currency exposure	April 1981
Measurement of liquidity	July 1982
Connected lending; accounts; large exposures, fraudulent invitations; floating charges (BSD/1983/1)	April 1983
Foreign currency options	April 1984
Notice on advertising code of conduct	March 1985
Note issuance facilities/revolving underwriting facilities (BSD/1985/2)	April 1985
Statistical notice to monetary sector institutions (released in conjunction with previous paper)	April 1985
Further notice on advertising code of conduct and attachments	November 1985
Large exposures in relation to mergers and acquisitions (BSD/1986/1)	February 1986
Subordinated loan capital (BSD/1986/2)	March 1986
Consolidated supervision (BSD/1986/3)	March 1986
Statistical notice to monetary sector institutions (released in conjunction with previous paper)	June 1986
Large exposures (BSD/1987/1)	September 1987
Guidance note on accounting and other records and internal control systems and reporting accountants' reports thereon (BSD/1987/2)	September 1987
Guidance note on reporting accountants' reports on Bank of England returns used for prudential purposes (BSD/1987/3)	October 1987
The Bank of England's relationship with auditors and reporting accountants (BSD/1987/4)	December 1987
Large underwriting exposures (BSD/1987/1.1) (to be read in conjunction with the large exposures paper)	February 1988
Advertising for deposits (BSD/1988/1)	April 1988
Supervisory treatment of ECU Treasury bills (BSD/1988/2)	October 1988
Letter to authorised institutions concerning money laundering	January 1989
Loan transfers and securitisation (BSD/1989/1)	February 1989
Consolidated supervision (BSD/1989/2) (amendment to the 1986 paper)	March 1989
Further letter to authorised institutions concerning money laundering	November 1989
Letter to authorised institutions concerning debt provisioning (the new matrix)	January 1990

Large exposures (BSD/1990/1) (amendment to the 1986 paper)	February 1990
Letter to authorised institutions concerning advertising of interest bearing accounts	December 1990
Implementation in the United Kingdom of the Directive on Own Funds of Credit Institutions (BSD/1990/2)	December 1990
Implementation in the United Kingdom of the Solvency Ratio Directive (BSD/1990/3)	December 1990
Consolidated supervision (BSD/1990/4) (amendment to the 1986 paper)	December 1990

Geographical representation of overseas institutions

The following table shows the geographical origins and status of foreign institutions represented in the United Kingdom at end-February 1991.

Country of ownership	Branch of an overseas bank (1)	UK incorporated subsidiary of an overseas		Controlling (15% or more) stake in a consortium bank	Representative offices (2)	Total
		Bank(1)	Non-bank			
Afghanistan	—	1	—	—	—	1
Argentina	1	—	—	—	1	2
Australia	8	8	—	—	—	16
Austria	4	—	—	—	2	6
Bahamas	—	—	—	—	2	2
Bahrain	2	1	—	—	2	5
Bangladesh	1	—	—	—	1	2
Belgium	5	1	—	—	—	6
Bermuda	—	—	—	—	2	2
Brazil	4	—	—	—	6	10
Bulgaria	—	—	—	—	1	1
Canada	7	2	2	—	—	11
China	1	—	—	—	—	1
Cuba	—	1	—	—	—	1
Cyprus	3	1	—	—	—	4
Czechoslovakia	1	—	—	—	—	1
Denmark	2	2	—	—	1	5
Ecuador	—	—	—	—	2	2
Egypt	2	—	—	—	—	2
Finland	3	—	—	1	2	6
France	15	8	1	—	10	34
Germany	15	3	—	—	3	21
Ghana	1	—	—	—	—	1
Gibraltar	—	—	—	—	1	1
Greece	1	—	—	—	3	4
Hong Kong	4	2	—	—	1	7
Hungary	—	1	—	—	—	1
India	6	—	—	—	—	6
Indonesia	1	—	—	—	3	4
Iran	5	—	—	1	—	6
Iraq	1	—	—	—	—	1
Ireland	6	3	1	—	1	11
Israel	2	2	—	—	3	7
Italy	13	5	—	—	27	45
Japan	24	4	4	1	21	54
Jordan	1	—	—	1	—	2
Kenya	—	—	—	—	1	1
Kuwait	1	—	—	1	4	6
Lebanon	2	—	—	—	2	4
Liechtenstein	—	—	1	—	—	1
Luxembourg	2	—	—	—	3	5
Libya	—	—	—	1	—	1
Malaysia	2	—	—	—	2	4
Mexico	4	—	—	1	2	7
Netherlands	6	—	—	—	3	9
New Zealand	1	—	1	—	—	2
Nigeria	2	—	—	—	3	5
Norway	3	1	—	—	1	5
Pakistan	4	—	—	—	—	4
Panama	—	—	—	—	1	1
Philippines	2	—	—	—	—	2
Poland	1	—	—	—	—	1
Portugal	3	—	—	—	2	5
Qatar	1	—	—	—	—	1
Romania	—	—	—	1	—	1
Saudi Arabia	4	—	1	1	3	9

Country of ownership	Branch of an overseas bank (1)	UK incorporated subsidiary of an overseas Bank(1)	UK incorporated subsidiary of an overseas Non-bank	Controlling (15% or more) stake in a consortium bank	Representative offices (2)	Total
Singapore	4	—	—	—	—	4
South Africa	4	—	—	—	3	7
South Korea	6	—	—	—	7	13
Spain	7	1	—	—	9	17
Sri Lanka	1	—	—	—	—	1
Sweden	5	4	—	—	—	9
Switzerland	11	2	1	—	13	27
Taiwan	1	—	—	—	1	2
Thailand	3	—	—	—	—	3
Turkey	2	1	—	—	7	10
Uganda	—	—	—	—	1	1
UAE	4	—	—	—	—	4
USA	29	13	11	3	9	65
USSR	—	1	—	—	—	1
Venezuela	—	—	—	—	2	2
Yugoslavia	—	—	—	1	8	9
Zambia	1	—	—	—	—	1
Totals	**255**	**68**	**23**	**13** (3)	**182**	**541** (4)
of which						
EC countries (5)	75	23	2	—	62	162
Other Europe	33	11	2	3	35	84
North America	36	15	13	3	9	76
Japan	24	4	4	1	21	54
Australia & New Zealand	9	8	1	—	—	18
Other Asia	36	3	—	—	15	54
Middle East	25	3	1	5	14	48
Other	17	1	—	1	26	45

(1) Includes institutions authorised to conduct banking business in the country of origin.
(2) This covers only those representative offices included in the list published at the end of January 1991.
(3) Representing 10 institutions. In addition there was one other consortium bank.
(4) Representing 539 institutions.
(5) Other than the United Kingdom.

List of institutions authorised at 28 February 1991

1 UK-incorporated [1]

ABC International Bank plc
ANZ Grindlays Bank plc
ANZ Merchant Bank Ltd
Abbey National plc
Abbey National Treasury Services plc
Adam & Company plc
Afghan National Credit & Finance Ltd
Airdrie Savings Bank
Aitken Hume Bank plc
Ak International Bank Ltd
Albaraka International Bank Ltd
Alexanders Discount plc
Alliance Trust (Finance) Ltd
Allied Trust Bank Ltd [2]
Anglo Irish BankCorp (UK) plc
Anglo-Romanian Bank Ltd [2]
Anglo Yugoslav Bank Ltd [2]
Henry Ansbacher & Co Ltd
Arbuthnot Latham Bank Ltd
Assemblies of God Property Trust
Associates Capital Corporation Ltd
Atlanta Trust Ltd
Avco Trust Ltd

BNL Investment Bank plc
Banca Novara (UK) Ltd
Banco Hispano Americano Ltd
Bank Leumi (UK) plc
Bank of America International Ltd
Bank of Boston Ltd
Bank of Cyprus (London) Ltd
Bank of Scotland
Bank of Tokyo International Ltd
Bank of Wales plc
Bankers Trust International Ltd
Banque Belge Ltd
Banque de la Méditerranée (UK) Ltd
Banque Nationale de Paris plc
The Baptist Union Corporation Ltd
Barclays Bank plc
Barclays de Zoete Wedd Ltd
Barclays Bank Trust Company Ltd
Baring Brothers & Co Ltd
Belmont Bank Ltd
Benchmark Bank plc
Beneficial Bank plc
Birmingham Capital Trust plc
Boston Safe Deposit and Trust Company (UK) Ltd
British & Commonwealth Merchant Bank plc
The British Bank of the Middle East
British Credit Trust Ltd
The British Linen Bank Ltd
British Railways Savings Company Ltd
Brown, Shipley & Co Ltd
Bunge Finance Ltd
Burns-Anderson Trust Company Ltd

Caledonian Bank plc
Cater Allen Ltd
Chancery plc
The Charities Aid Foundation Money Management Company Ltd
Chartered Trust plc
Chartered WestLB Ltd
Charterhouse Bank Ltd
Chase Investment Bank Ltd
Chesterfield Street Trust Ltd
Citibank Trust Ltd
Citicorp Investment Bank Ltd
City Merchants Bank Ltd
City Trust Ltd
Clive Discount Company Ltd
Close Brothers Ltd
Clydesdale Bank plc
Clydesdale Bank Finance Corporation Ltd
Combined Capital Ltd
Commercial Bank Trust plc
Commercial Bank of London plc
Confederation Bank Ltd
Consolidated Credits Bank Ltd
Co-operative Bank plc
Coutts & Co
Craneheath Securities Ltd
Credito Italiano International Ltd
Credit Suisse Financial Products

DG Investment Bank Ltd
Daiwa Europe Bank plc
Dalbeattie Finance Co Ltd
Darlington Merchant Credits Ltd
Dartington & Co Ltd
Deacon Hoare & Co Ltd
Den norske Bank plc
The Dorset, Somerset & Wilts Investment Society Ltd
Dryfield Finance Ltd
Dunbar Bank plc
Duncan Lawrie Ltd

East Trust Ltd
Eccles Savings and Loans Ltd
Edington plc
English Trust Company Ltd
Enskilda Securities-Skandinaviska Enskilda Ltd
Equatorial Bank plc
Everett Chettle Associates
Exeter Bank Ltd

FIBI Bank (UK) Ltd
Fairmount Trust Ltd
Family Finance Ltd
FennoScandia Bank Ltd [2]
Financial & General Bank plc
James Finlay Bank Ltd
First Interstate Capital Markets Ltd
First National Bank plc
First National Commercial Bank plc
The First Personal Bank plc
Robert Fleming & Co Ltd
Ford Motor Credit Co Ltd
Foreign & Colonial Management Ltd
Forward Trust Ltd
Robert Fraser & Partners Ltd
Frizzell Banking Services Ltd

Gartmore Money Management Ltd
Gerrard & National Ltd
Girobank plc

(1) Including partnerships formed under the law of any part of the United Kingdom.
(2) Consortium banks.

Goldman Sachs Ltd
Goode Durrant Bank plc
Granville Trust Ltd
Gresham Trust plc
Greyhound Bank plc
Guinness Mahon & Co Ltd

HFC Bank plc
Habibsons Bank Ltd
Hambros Bank Ltd
Hampshire Trust plc
The Hardware Federation Finance Co Ltd
Harrods Bank Ltd
Harton Securities Ltd
Havana International Bank Ltd
The Heritable & General Investment Bank Ltd
Hill Samuel Bank Ltd
Hill Samuel Personal Finance Ltd
C Hoare & Co
Julian Hodge Bank Ltd
Holdenhurst Securities plc
HongkongBank London Ltd
Humberclyde Finance Group Ltd
Hungarian International Bank Ltd

3i plc
3i Group plc
IBJ International Ltd
Independent Trust and Finance Ltd
International Mexican Bank Ltd [2]
Iran Overseas Investment Bank Ltd [2]
Italian International Bank plc

Japan International Bank Ltd [2]
Jordan International Bank plc [2]
Leopold Joseph & Sons Ltd

King & Shaxson Ltd
Kleinwort Benson Ltd
Kleinwort Benson Investment Management Ltd

Lazard Brothers & Co Ltd
Lloyds Bank plc
Lloyds Bank (BLSA) Ltd
Lloyds Bank (France) Ltd
Lloyds Bowmaker Ltd
Lloyds Merchant Bank Ltd
Lombard Bank Ltd
Lombard & Ulster Ltd
Lombard North Central plc
London Arab Investment Bank Ltd
London Italian Bank Ltd
London Scottish Bank plc
Lordsvale Finance plc

McDonnell Douglas Bank Ltd
McNeill Pearson Ltd
Manchester Exchange and Investment Bank Ltd
W M Mann & Co (Investments) Ltd
Manufacturers Hanover Ltd
Marks and Spencer Financial Services Ltd
Mase Westpac Ltd
Matheson Bank Ltd
Matlock Bank Ltd
Meghraj Bank Ltd
Mercantile Credit Company Ltd
Mercury Provident plc
Merrill Lynch International Bank Ltd
The Methodist Chapel Aid Association Ltd
Midland Bank plc
Midland Bank Finance Corporation Ltd
Midland Bank Trust Company Ltd
Minories Finance Ltd
Minster Trust Ltd
Samuel Montagu & Co Ltd
Moorgate Mercantile Holdings plc
Morgan Grenfell & Co Ltd

Moscow Narodny Bank Ltd
Mount Banking Corporation Ltd
Municipal Mutual Bank plc
Mutual Trust & Savings Ltd
Mynshul Bank Ltd
NIIB Group Ltd
NWS bank plc
National Guardian Mortgage Corporation Ltd
The National Mortgage Bank plc
National Westminster Bank plc
NatWest Investment Bank Ltd
The Nikko Bank (UK) plc
Noble Grossart Ltd
Nomura Bank International plc
Northern Bank Ltd
Northern Bank Executor & Trustee Company Ltd
Norwich General Trust Ltd
Nykredit Mortgage Bank plc

Omega Trust Co Ltd

PaineWebber International Bank Ltd
Panmure Gordon Bankers Ltd
Peoples Bank Ltd
Philadelphia National Ltd
Pointon York Ltd
The Private Bank & Trust Company Ltd
Property Lending Bank plc
Provincial Bank plc

Ralli Investment Company Ltd
R Raphael & Sons plc
Rathbone Bros & Co Ltd
Rea Brothers Ltd
Reliance Bank Ltd
Riggs A P Bank Ltd
N M Rothschild & Sons Ltd
Roxburghe Bank Ltd
Royal Bank of Canada Europe Ltd
The Royal Bank of Scotland plc
Royal Trust Bank
RoyScot Trust plc

SP Finance Ltd
Sanwa International plc
Saudi International Bank [2]
(Al-Bank Al-Saudi Al-Alami Ltd)
Scandinavian Bank Group Ltd
Schroder Leasing Ltd
J Henry Schroder Wagg & Co Ltd
Scotiabank (UK) Ltd
Scottish Amicable Money Managers Ltd
Seccombe Marshall & Campion plc
Secure Homes Ltd
Security Pacific Trust Ltd
Shire Trust Ltd
Singer & Friedlander Ltd
Smith & Williamson Securities
Société Générale Merchant Bank plc
Southsea Mortgage & Investment Co Ltd
Standard Chartered Bank
Standard Chartered Bank Africa plc
Sterling Bank & Trust Ltd
Svenska International plc

TSB Bank plc
TSB Bank Northern Ireland plc
TSB Bank Scotland plc
Tyndall & Co Ltd

UBAF Bank Ltd [2]
UCB Bank plc
ULC Trust Ltd
Ulster Bank Ltd
Unibank plc
Union Discount Company Ltd
The United Bank of Kuwait plc [2]

United Dominions Trust Ltd
Unity Trust Bank plc

WPZ Bank (UK) Ltd
Wagon Finance Ltd
Wallace, Smith Trust Co Ltd
S G Warburg & Co Ltd
S G Warburg Discount Ltd
Western Trust & Savings Ltd
Whiteaway Laidlaw Bank Ltd
Wimbledon & South West Finance plc
Wintrust Securities Ltd

Yamaichi Bank (UK) plc
Yorkshire Bank plc
H F Young & Co Ltd

2 Incorporated outside the UK[3]

AIB Capital Markets plc[4]
AIB Finance Ltd [2]
ASLK-CGER Bank [2]
Algemene Bank Nederland NV [2]
Allied Bank of Pakistan Ltd
Allied Banking Corporation
Allied Irish Banks plc [2]
American Express Bank Ltd [5]
Amsterdam-Rotterdam Bank NV [2]
Arab African International Bank
Arab Bank plc
Arab Banking Corporation BSC
Arab National Bank
Australia & New Zealand Banking Group Ltd [3]

BSI-Banca della Svizzera Italiana [3]
Banca CRT—Cassa di Risparmio di Torino[2]
Banca Commerciale Italiana [2]
Banca Nazionale dell'Agricoltura SpA [2]
Banca Nazionale del Lavoro [2]
Banca Popolare di Milano [2]
Banca Serfin SNC
Banco Bilbao-Vizcaya[2]
Banco Central, SA [2]
Banco de la Nación Argentina
Banco de Sabadell [2]
Banco di Napoli [2]
Banco di Roma SpA [2]
Banco di Santo Spirito[2]
Banco di Sicilia [2]
Banco do Brasil SA
Banco do Estado de São Paulo SA
Banco Español de Crédito SA [2]
Banco Espirito Santo e Comercial de Lisboa [2]
Banco Exterior Internacional SA
Banco Mercantil de São Paulo SA
Banco Nacional de México SNC
Banco Português do Atlântico [2]
Banco Real SA
Banco Santander [2]
Banco Totta & Açores SA [2]
Bancomer SNC
Bangkok Bank Ltd
Bank Julius Baer & Co Ltd [3]
Bank Bumiputra Malaysia Berhad
Bank für Gemeinwirtschaft AG [2]
Bank Handlowy w Warszawie SA
Bank Hapoalim BM
Bank Mees & Hope NV[2]
Bank Mellat
Bank Melli Iran
Bank Negara Indonesia 1946
Bank of America NT & SA [3]

Bank of Baroda
The Bank of California NA [3]
Bank of Ceylon
Bank of China
Bank of Credit and Commerce International SA[2]
The Bank of East Asia Ltd
Bank of India
The Bank of Ireland [2]
Bank of Montreal [3]
The Bank of New York [3]
Bank of New Zealand [3]
The Bank of Nova Scotia [3]
Bank of Oman Ltd
Bank of Seoul
The Bank of Tokyo, Ltd [3]
The Bank of Yokohama, Ltd [3]
Bank Saderat Iran
Bank Sepah-Iran
Bank Tejarat
Bankers Trust Company [3]
Bankorp Ltd
Banque Arabe et Internationale d'Investissement [2]
Banque Bruxelles Lambert SA [2]
Banque de l'Orient Arabe et d'Outre-Mer
Banque Française de l'Orient [2]
Banque Française du Commerce Extérieur [2]
Banque Indosuez [2]
Banque Internationale à Luxembourg SA [2]
Banque Internationale pour L'Afrique Occidentale SA [2]
Banque Nationale de Paris [2]
Banque Paribas [2]
Banque Worms [2]
Bayerische Hypotheken-und Wechsel-Bank AG [2]
Bayerische Landesbank Girozentrale [2]
Bayerische Vereinsbank AG [2]
Beirut Riyad Bank SAL
Belgolaise SA [2]
Berliner Bank AG [2]
Berliner Handels-und Frankfurter Bank [2]
Byblos Bank SAL

CBI—TDB Union Bancaire Privée [3]
CIC—Union Européenne, International et Cie [2]
Caisse Nationale de Crédit Agricole [2]
Canadian Imperial Bank of Commerce [3]
Canara Bank
Cassa di Risparmio delle Provincie Lombarde [2]
The Chase Manhattan Bank, NA [3]
Chemical Bank [3]
The Chiba Bank Ltd [3]
Cho Hung Bank
Christiania Bank og Kreditkasse [3]
The Chuo Trust & Banking Co, Ltd [3]
Citibank NA [3]
Commercial Bank of Korea Ltd
Commerzbank AG [2]
Commonwealth Bank of Australia [3]
Confederacion Española de Cajas de Ahorros [2]
Continental Bank, National Association [3]
CoreStates Bank NA [3]
Crédit Commercial de France [2]
Crédit du Nord [2]
Crédit Lyonnais [2]
Crédit Lyonnais Bank Nederland NV [2]
Crédit Suisse [3]
Creditanstalt—Bankverein [3]
Credito Italiano [2]
Cyprus Credit Bank Ltd
The Cyprus Popular Bank

The Dai-Ichi Kangyo Bank, Ltd [3]
The Daiwa Bank, Ltd [3]

(3) Includes partnerships or other unincorporated associations formed under the law of any member State of the European Community other than the United Kingdom.
(4) Non-UK EC institution.
(5) Non-EC OECD institution: OECD here includes those countries which have concluded special lending arrangements with the IMF associated with the General Agreement to Borrow.

Den Danske Bank Aktieselskab[2]
Den norske Bank A/S [3]
Deutsche Bank AG[2]
Deutsche Genossenschaftsbank [2]
The Development Bank of Singapore Ltd
Discount Bank and Trust Company [3]
Dresdner Bank AG [2]

Fidelity Bank NA [3]
First Bank of Nigeria Ltd
First City, Texas-Houston, NA [3]
First Commercial Bank
First Interstate Bank of California [3]
The First National Bank of Boston [3]
The First National Bank of Chicago [3]
Fleet National Bank [3]
French Bank of Southern Africa Ltd
The Fuji Bank, Ltd [3]
Generale Bank [2]
Ghana Commercial Bank
Girozentrale und Bank der österreichischen Sparkassen AG [3]
Gota Bank [3]
Gulf International Bank BSC

Habib Bank AG Zurich [3]
Habib Bank Ltd
Hamburgische Landesbank Girozentrale [2]
Hanil Bank
Harris Trust and Savings Bank [3]
Hessische Landesbank—Girozentrale [2]
The Hokkaido Takushoku Bank, Ltd [3]
The Hokuriku Bank Ltd [3]
The Hongkong and Shanghai Banking Corporation Ltd

The Industrial Bank of Japan, Ltd [3]
The Investment Bank of Ireland Ltd [2]
Istituto Bancario San Paolo di Torino [2]

Jyske Bank [2]

Kansallis-Osake-Pankki [3]
Keesler Federal Credit Union [3]
Korea Exchange Bank
Korea First Bank
Kredietbank NV [2]
The Kyowa Bank, Ltd [3]
The Long-Term Credit Bank of Japan, Ltd [3]

Malayan Banking Berhad
Manufacturers Hanover Trust Company [3]
Mellon Bank, NA [3]
Merchants National Bank & Trust Company of Indianapolis [3]
Middle East Bank Ltd
The Mitsubishi Bank, Ltd [3]
The Mitsubishi Trust and Banking Corporation [3]
The Mitsui Taiyo Kobe Bank, Ltd [3]
The Mitsui Trust & Banking Co Ltd [3]
Monte dei Paschi di Siena [2]
Morgan Guaranty Trust Company of New York [3]
Multibanco Comermex SNC

NBD Bank, NA [3]
NCNB National Bank of North Carolina [3]
NMB Postbank Groep NV [2]
National Australia Bank Ltd [3]
National Bank of Abu Dhabi
National Bank of Canada [3]
The National Bank of Dubai Ltd
National Bank of Egypt
National Bank of Greece SA [2][4]
The National Bank of Kuwait SAK
The National Commercial Bank [3]
National Bank of Pakistan
NedPerm Bank Ltd
New Bank of New England NA [3]

The Nippon Credit Bank, Ltd [3]
Nordbanken [3]
Norddeutsche Landesbank Girozentrale [2]
The Northern Trust Company [3]

Osterreichische Länderbank AG [3]
Oversea-Chinese Banking Corporation Ltd
Overseas Trust Bank Ltd
Overseas Union Bank Ltd
Philippine National Bank
Postipankki Ltd [3]

Qatar National Bank SAQ

The R&I Bank of Western Australia Ltd [3]
Rabobank Nederland [2]
(Coöperatieve Centrale Raiffeisen-Boerenleenbank BA)
Rafidain Bank
Raiffeisen Zentralbank Osterreich AG [3]
Republic National Bank of New York [3]
Reserve Bank of Australia [3]
The Riggs National Bank of Washington, DC [3]
Riyad Bank [3]
Royal Bank of Canada [3]

The Saitama Bank, Ltd [3]
The Sanwa Bank, Ltd [3]
Saudi American Bank [3]
Security Pacific National Bank [3]
Shanghai Commercial Bank Ltd
The Siam Commercial Bank, Ltd
Skandinaviska Enskilda Banken [3]
Société Générale [2]
Sonali Bank
State Bank of India
State Bank of New South Wales Ltd [3]
State Bank of South Australia [3]
State Street Bank and Trust Company [3]
Südwestdeutsche Landesbank Girozentrale [2]
The Sumitomo Bank, Ltd [3]
The Sumitomo Trust & Banking Co Ltd [3]
Svenska Handelsbanken [3]
SwedBank [3]
Swiss Bank Corporation [3]
Swiss Cantobank (International) [3]
Swiss Volksbank [3]
Syndicate Bank

TC Ziraat Bankasi [3]
The Thai Farmers Bank Ltd
The Tokai Bank, Ltd [3]
The Toronto-Dominion Bank [3]
The Toyo Trust & Banking Company, Ltd [3]
Turkish Bank Ltd
Türkiye Is Bankasi AS [3]

Uco Bank
Ulster Investment Bank Ltd [2]
Union Bank of Finland Ltd [3]
Union Bank of Nigeria Ltd
Union Bank of Norway [3]
Union Bank of Switzerland [3]
United Bank Ltd
United Mizrahi Bank Ltd
United Overseas Bank [3]
(Banque Unie pour les Pays d'Outre Mer)
United Overseas Bank Ltd

Volkskas Bank Ltd

Westdeutsche Landesbank Girozentrale [2]
Westpac Banking Corporation [3]

The Yasuda Trust & Banking Co, Ltd [3]

Zambia National Commercial Bank Ltd
Zivnostenská Banka National Corporation

Changes to the list of authorised institutions

The following changes were made during the year to the list of authorised institutions:

Additions

1. UK-incorporated

ABC International Bank plc
Credit Suisse Financial Products
Sanwa International Ltd

2. Incorporated outside the United Kingdom

Arab National Bank
Banca CRT—Cassa di Risparmio di Torino
Banco Español de Crédito SA
CBI-TDB Union Bancaire Privée
The Chiba Bank Ltd
The Hokuriku Bank Ltd
New Bank of New England NA
Nordbanken
Postipankki Ltd
The R&I Bank of Western Australia Ltd (1)
State Bank of New South Wales Ltd (2)
SwedBank

Deletions

1. UK-incorporated

Associated Japanese Bank (International) Ltd
Authority Bank Ltd
Credit Suisse First Boston Ltd
Euro-Latinamerican Bank plc
Federated Trust Corporation Ltd
Gulf Guarantee Bank plc
International Commercial Bank plc
Jabac Finances Ltd
Libra Bank plc
Little Lakes Finance Ltd
The Mardun Investment Co Ltd
Moneycare Ltd
Postipankki (UK) Ltd
Prestwick Investment Trust plc
Treloan Ltd
Ulster Bank Trust Company
Unidanmark Holding plc

2. Incorporated outside the United Kingdom

African Continental Bank Ltd
Bank of New England NA
Barbados National Bank
Copenhagen Handelsbank A/S
First Bank National Association
NCNB Texas National Bank
The National Bank of New Zealand Ltd
National Bank of Nigeria Ltd
New Nigeria Bank Ltd
Provinsbanken A/S
The Rural and Industries Bank of Western Australia (1)
Seattle—First National Bank
State Bank of New South Wales (2)
State Bank of Victoria
TDB American Express Bank
The Taiyo Kobe Bank, Ltd

Name changes

1. UK-incorporated

ANZ McCaughan Merchant Bank Ltd	*to*	ANZ Merchant Bank Ltd
Argonaut Securities Ltd	*to*	Independent Trust and Finance Ltd
Bank in Liechtenstein (UK) Ltd	*to*	WPZ Bank (UK) Ltd
Business Mortgages Bank plc	*to*	Nykredit Mortgage Bank plc
Commercial Bank (Cheshire) Ltd	*to*	Commercial Bank Trust plc
The Commercial Bank of the Near East plc	*to*	Commercial Bank of London plc
Den norske Creditbank plc	*to*	Den norske Bank plc
Duménil Ltd	*to*	Belmont Bank Ltd
Eagil Trust Co Ltd	*to*	ULC Trust Ltd
Exeter Trust Ltd	*to*	Exeter Bank Ltd
MLA Bank Ltd	*to*	Municipal Mutual Bank plc
PK English Trust Company Ltd	*to*	English Trust Company Ltd
The People's Bank Ltd	*to*	Peoples Bank Ltd
Privatbanken Ltd	*to*	Unibank plc
Property Lending Trust plc	*to*	Property Lending Bank plc
Roxburghe Guarantee Corporation Ltd	*to*	Roxburghe Bank Ltd
SDS Bank Ltd	*to*	Unidanmark Holding plc
Sanwa International Ltd	*to*	Sanwa International plc
Scandinavian Bank Group plc	*to*	Scandinavian Bank Group Ltd
Standard Property Investment plc	*to*	Caledonian Bank plc
Wimbledon & South West Finance Co Ltd	*to*	Wimbledon & South West Finance plc

2. Incorporated outside the United Kingdom

Arab Bank Ltd	*to*	Arab Bank plc
Banco Exterior—UK SA	*to*	Banco Exterior Internacional SA
Banque Belgo-Zairoise SA	*to*	Belgolaise SA
Bergen Bank A/S	*to*	Den norske Bank A/S
Den Danske Bank af 1871 Aktieselskab	*to*	Den Danske Bank Aktieselskab
Götabanken	*to*	Gota Bank
The Mitsui Bank, Ltd	*to*	The Mitsui Taiyo Kobe Bank, Ltd
National Bank of Detroit	*to*	NBD Bank, NA
Philadelphia National Bank	*to*	CoreStates Bank NA
The Royal Bank of Canada	*to*	Royal Bank of Canada
The Trust Bank of Africa Ltd	*to*	Bankorp Ltd

(1) & (2) Reauthorisation was necessary following a change in corporate status in Australia.

Annual report by the Board of Banking Supervision

Board of Banking Supervision
Membership as at 28 February 1991

Chairman:	The Rt Hon Robin Leigh-Pemberton	*ex-officio*
	E A J George	*ex-officio*
	Brian Quinn	*ex-officio*
	P N Gerrard	
	A J Hardcastle	
	P E Leslie	
	N J Robson	
	Rt Hon Lord Swaythling	
	Harry Taylor	

This is the Board's report for the year to the end of February 1991. During the year Mr Peter Gerrard was appointed to the Board for a five-year term with effect from 1 October 1990, to replace Mr Andrew Caldecott who died suddenly on 14 July 1990. The Board wishes to record its appreciation of the outstanding contribution Mr Caldecott had made to its work. He had been a member of the Board since its inception, and before that was a member of the informal board which preceded the 1987 Banking Act.

The Board met 15 times during the year. It maintained under review all aspects of the Bank's work relating to its responsibilities under the Banking Act; the independent members gave advice to the ex-officio members on matters of supervisory policy and on the conduct of individual cases.

As usual, reports on the work of the Banking Supervision Division were received each month, covering matters of general policy and the Bank's handling of individual cases—in particular, those in which formal action under the Act might be required. The independent members in these and other cases offered advice where they thought it right to do so. During the year there were no instances of disagreement between the ex-officio and the independent members requiring notification to the Chancellor of the Exchequer pursuant to Section 2(5) of the Act.

The Board considered matters relating to a large number of authorised institutions and covering a wide range of circumstances. The Board played an active role in advising the Bank on action proposed in respect of those authorised institutions and their directors, controllers and managers involved in matters which were the subject of reports by inspectors appointed by the Department of Trade and Industry. The Board was also kept advised on the impact on the banking system of Iraq's invasion of Kuwait, and considered the implications for banks of group structures which also contained significant non-banking businesses.

The Board considered a number of papers looking at strategic implications for the major banks in London, and had a number of discussions on the threats and opportunities which seem to face them. The Board also gave advice on the Bank's approach to dealing with the problems of illegal deposit-taking and the resources to be employed in this area.

The Board advised on several policy issues, in particular the Bank's position on the need for a stock of high quality liquidity in the UK banking system. The Board considered and affirmed the appropriateness of UK banks having non-executive directors and audit committees and had a preliminary discussion of the supervision of banks which also engaged in securities business. The Board discussed four papers dealing with specific sectors of the banking industry and reviewed the staffing arrangements for Banking Supervision Division.

Secretary, by order of the Board