Bank of England Banking Act report for 1989/90

Banking Act 1987

Annual report under the Banking Act for 1989/90

This report on the exercise of the Bank's functions under the Banking Act 1987 during the year to 28 February 1990 is presented to the Chancellor of the Exchequer, and by him to Parliament, pursuant to section 1(3) of the Act.

ISSN 0308-5279

Printed in England by Greenaways

Contents

Appendices

Annex

Part I
Market developments

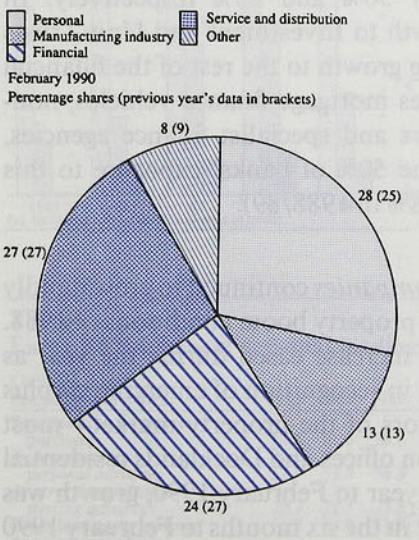
Introduction

1989 was a more difficult year for banks in the United Kingdom as tighter monetary policy at home checked the growth of the UK economy and led to a sharp deterioration in the property markets and to signs of strain elsewhere in the corporate sector; while a perceived deterioration in the position of a number of problem country debtors led to a substantial increase in provisioning. The larger banks still saw some growth in trading profits; but the smaller banks were less able to cope with tougher competition in a more difficult market.

Many banks are re-examining their overall business strategy, particularly in the light of increased domestic competition and the opportunities offered by the European Single Internal Market; but their responses to these developments vary widely.

This year's assessment of market developments begins with an overview of the pattern of lending of the banking sector as a whole, followed by more detailed sections on the large UK banks; on merchant banks and smaller UK banks; and on international developments.

Chart 1
Bank lending by sector to UK residents



Direction of lending[1]

The growth in *bank lending to UK residents* (excluding interbank lending) fell back somewhat to 22% in 1989/90 (28% in 1988/89). The shares represented by different sectors at end-February 1990 are illustrated in Chart 1. *Lending overseas* in sterling terms rose by 12% in the same period (5% in 1988/89); but adjusted for exchange rate fluctuations there was little change in its growth rate. Virtually all of the growth in overseas lending was to industrialised countries: claims on developing countries fell.

Bank lending to the corporate sector in 1989 continued the strong upward growth seen throughout 1988, reflecting in part the strength of capital investment. It grew by 27% in 1989/90 (34% in 1988/89), although part of the increase was due to exchange rate effects (some 18% of such lending is in foreign currencies). At the same time, deteriorating

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

trading conditions have given rise to financing difficulties for a number of companies, in particular those dependent directly or indirectly on the previously buoyant housing market.

The use of *highly leveraged transactions* (HLTs) in the UK market was a growing cause for concern to the Bank. Public attention was focused on this issue by the scale of the Hoylake bid for BAT Industries in mid-1989; and there was considerable speculation that HLTs could become more prominent in the United Kingdom. In a speech to the Association of Corporate Treasurers in October last year[1] the Governor stressed the need for banks in particular to exercise caution and to ensure that their involvement is commensurate with their expertise. In the event, tighter monetary policy and more difficult trading conditions helped to ensure that HLTs have been assessed more critically by the banks. This caution seems likely to persist, at least in the short to medium term, not least because of recent developments in the US junk bond and HLT markets.

Lending to the financial sector grew by 20% (25% in 1988/89). As with lending to the corporate sector, part of the increase was due to exchange rate effects: around 37% of such lending is in foreign currencies. Lending to leasing enterprises, and to securities firms and stockbrokers, some of which are subsidiaries of the lending banks, continued to grow strongly—by 36% and 25% respectively. In contrast, lending growth to Investment and Unit Trusts slowed to 9%. Lending growth to the rest of the financial sector—which includes mortgage finance vehicles, non-bank mortgage lenders and specialist finance agencies, and accounts for some 50% of banks' exposure to this sector—fell to 19% (28% in 1988/89).

Lending to property companies continued to grow rapidly in 1989, following the property boom conditions of 1988. However, the rate of increase eased during the year as interest rates rose and in recognition of emerging surplus supply in certain sectors of the property market—most notably City of London offices and Docklands residential developments. In the year to February 1990, growth was 43% (56% in 1988/89): in the six months to February 1990 the annualised growth rate was down to 32%.

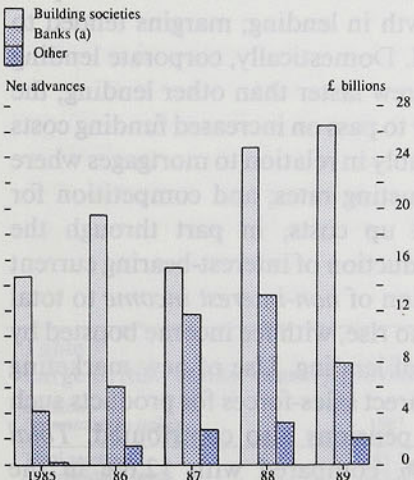
(1) See the November 1989 *Quarterly Bulletin*, page 545.

In 1989 banks increasingly took on the funding of property investment from other financial institutions; and overseas banks have been noticeably more active in the financing of major property projects. Bank losses to date have been relatively small, although more recently a number of property development companies have experienced difficulties, with some highly-publicised cases of companies going into receivership.

The Governor's speech to the Royal Institution of Chartered Surveyors in October again drew attention to the risks of property lending and the need for vigilance in monitoring concentrations of risk and controlling exposures. There is evidence that the banks have recently been taking a more conservative approach to new lending to property companies.

Growth in lending to the personal sector slowed as the monetary squeeze began to take effect, from 22% in the year to February 1989 to 15% in the year to February 1990. Competition with the building societies and specialist home mortgage lenders for personal sector business—which still provides a substantial proportion of the banks' gross income—remained intense. But the strong demand for *house finance* seen in 1988 weakened, bank lending increasing by 15% over the year. This was despite attempts by some to counter the trend by offering mortgages with higher loan-to-value ratios, often associated with partial ('top slice') insurance cover; and 'designer' mortgages—some offering deferment of interest, some denominated in foreign, low interest-rate, currencies. The banks' share of new mortgage finance dropped from 32% in 1988 to around 22% during 1989.

Chart 2
Loans for house purchase



(a) Including non-banks subsidiaries of banks.

Chart 2 illustrates total new advances (net of repayments) for house purchase and demonstrates the building societies' continued success in recovering market share. Table I shows lending by the large British banks for house purchase over the past five years, both in absolute terms and as a proportion of their total domestic business.

Table I
Large British banks: personal lending[(a)]

£ billions *Percentages in italics*	1985	1986	1987	1988	1989
Total lending for house purchase	17.5	21.6	28.8	38.6	43.1
As percentage of personal advances	*51.9*	*53.8*	*56.8*	*62.1*	*61.4*
As percentage of total sterling advances	*20.3*	*21.7*	*23.8*	*27.6*	*25.3*
Other lending to persons	16.3	18.5	21.9	23.5	27.1
As percentage of total sterling advances	*18.9*	*18.6*	*18.1*	*16.9*	*15.9*
Total personal advances	33.8	40.1	50.7	62.1	70.2
growth, per cent	*19.9*	*18.6*	*26.4*	*22.5*	*13.0*
Growth in total sterling advances	*17.3*	*15.5*	*21.6*	*15.4*	*22.1*

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

There has been some concern that unsolicited offers of unsecured credit to persons, particularly at a time of economic downturn, leads to an over-extension of credit, resulting in difficulties in the future—although as yet there is no evidence that this is a significant prudential problem. Some borrowers may be increasing mortgage borrowing in order to repay other, more short-term debt, or using mortgage finance to purchase consumer goods. This reflects in part the increasing sophistication of the personal borrower, and the blurring of the distinction between mortgage and non-mortgage finance.

Credit and debit cards

The growing emphasis on profitability and its impact on strategic behaviour is exemplified in the plastic card market—especially credit and debit cards. Interest receipts from credit cards have suffered from the increasing tendency of cardholders to pay off outstanding balances before interest becomes due and from competitive pressures on interest margins. (The increasingly competitive nature of this market was a factor which influenced the conclusions of the Monopolies and Mergers Commission report on bank credit cards published in August 1989.) With income from cardholders under pressure, the large banks are competing more actively for the fee-based handling of the card-processing needs of retailers; and one bank has introduced a fixed annual fee for cardholders, while another has announced its intention to do so. The declining profitability of credit cards has given impetus to the promotion of debit cards: two competing systems, Switch and Visa, are now in increasing use.

Large British banks

The greater emphasis on profitability and on increasing returns for shareholders has continued (see box). Both domestically and internationally, the large banks were increasingly prepared to withdraw from businesses where returns were inadequate; and to target particular markets to maximise competitive advantage. With income growth from traditional business ever more difficult to achieve, there was a continuing emphasis on cost control, and on less capital-intensive, fee-based income sources. The large banks have varied widely in their response to the opportunities offered in Europe as 1992 approaches.

Trading profits

Trading profits for the large banks continued the upwards trend of recent years. *Net interest income* rose last year due to the overall growth in lending; margins tended to fall—see Tables I to III. Domestically, corporate lending (with lower margins) grew faster than other lending; the banks were unable fully to pass on increased funding costs to their customers, notably in relation to mortgages where there is a delay in adjusting rates; and competition for retail funding pushed up costs, in part through the more widespread introduction of interest-bearing current accounts. The proportion of *non-interest income* to total income has continued to rise, with fee income boosted by the increased volume of lending. Use of new marketing techniques including direct sales-forces for products such as life assurance and pensions also contributed. *Total income* rose by 15.7%, compared with 12.6% in the previous year.

As in 1988, investment in new technology and branch refurbishment, and in some cases the costs of restructuring, made a significant impact on operating costs (Table IV), although in the longer term it is of course hoped that these changes will improve cost-income ratios.

Table II
Large British banks: sources of income

£ billions	1985	1986	1987	1988	1989
Net interest	9.71	10.40	11.06	12.32	13.92
Other	4.44	5.23	6.02	7.02	8.44
Total income	**14.15**	**15.63**	**17.08**	**19.34**	**22.36**
Non-interest income as percentage of total income	*31.4*	*33.5*	*35.3*	*36.3*	*37.7*

Table III
Four largest banks: interest margins

Percentages	1985	1986	1987	1988	1989
Domestic	5.7	5.6	5.5	5.0	4.7
International	2.2	2.0	1.8	1.9	1.8
Overall	3.6	3.6	3.6	3.6	3.4

Table IV
Large British banks: costs

£ billions	1985	1986	1987	1988	1989
Staff	5.64	6.18	6.64	7.56	8.50
Premises and equipment	1.77	1.91	2.02	2.21	2.56
Other	2.02	2.26	2.68	3.09	3.93
Total operating costs	**9.43**	**10.35**	**11.35**	**12.86**	**14.99**
As percentage of total income	*66.6*	*66.2*	*66.4*	*66.5*	*67.0*

Provisions: commercial and personal lending

The large banks' net commercial bad debt charge was materially higher than in recent years. *Domestically*, there have been signs of increased difficulties in small and medium-sized companies—particularly among smaller companies involved with the property sector—with corporate insolvencies reaching near record levels in 1989. But, with the exception of a few highly leveraged transactions, there is less evidence so far of problems among larger companies. Problems in the personal sector are as yet less apparent. Mortgage arrears have risen, but are still very small. In the banks' *international* operations, provisions in respect of lending to companies (other than problem country debt provisions) increased compared with 1988, affected particularly by difficult conditions in certain countries.

Net charges in recent years have been exceptionally low, helped by the high level of bad debt recoveries; and as a proportion of total lending, the charge for 1989 remained below those seen in the first half of the decade. However, continuing difficult economic conditions are likely to lead to a further rise in provisions in 1990.

The banks have been trying to mitigate the effect of economic deterioration by improving within branch networks the monitoring of doubtful commercial debts, and by upgrading information systems and credit appraisal techniques. Credit appraisal has also been strengthened by splitting the marketing of loans from the assessment of the risks involved.

Provisions: problem country debt

Greater uncertainty over the position of some of the banks' major problem country debtors—particularly in Latin America—led the banks most affected to announce increased provisions during the year—see Table V. These increases were substantial, with a major effect on their profit and loss accounts.

The large banks increased cover to an average 60% of provisionable exposure (32% a year earlier). Gross exposure fell as they followed an active policy of debt sales. Some debtor countries are believed to have repurchased, informally, some of their debt in the secondary markets at a heavy discount. Formal debt reduction schemes are likely to have a growing role in the future.

Within the aggregate figures there is now a wider range of provisioning levels. However, all these banks meet the overall provisioning standards suggested by the Bank of

Table V
Large British banks: country provisioning

£ billions *Percentages in italics*	1987	1988	1989
Total assets	345.3	392.8	461.7
Shareholders' funds	18.7	22.6	22.3
Gross exposure to problem country debtors	16.3	15.8	15.2
Provisions	5.0	5.1	9.2
as a percentage of gross exposure	*30.5*	*32.3*	*60.3*
Unprovided exposure	11.4	10.7	6.0
as a percentage of total assets	*3.3*	*2.7*	*1.3*
as a percentage of shareholders' funds	*60.7*	*47.3*	*27.1*

England's revised matrix produced at the end of the year (the revision is described in Part II.ii of this Report).

The decline in uncovered problem country exposure as a percentage of shareholders' funds is an indication of the success of the large UK banks' efforts to deal with what has been the major difficulty to face them during the past decade. However, in some cases profits remain sensitive to the non-payment of interest on problem country loans.

Capital and risk asset ratios

The decision of the large British banks to add substantial new provisions against problem country debt during 1989 had a sharp impact on both pre-tax profits and retained earnings; Chart 3 indicates clearly the fall in the level of retentions. Even before including problem country debt provisions, the rise in commercial provisions meant that returns on equity and total assets declined from the exceptionally high levels achieved in 1988; after problem country provisions, as Table VI shows, the returns were very small.

Details of the stock of new capital are contained in Table VII; and sources of capital in Table VIII. Little share capital was issued for cash, though, as in 1988, a number of banks capitalised part of their property revaluation reserves. The banks made some use of perpetual and term debt issues, although less overall than in 1988. The continued growth in lending, coupled with a relatively small increase in capital and the need to make substantial provisions, resulted in a decline in risk asset ratios for the large British banks—see Table IX. A number of banks have disposed of assets in order to improve their ratios.

Merchant banks

1989 was generally a good year for the UK merchant banking groups. Continued high levels of domestic and international merger and acquisition activity—in spite of signs of a slowdown in the domestic economy—have maintained corporate finance as a buoyant income source for many institutions. Investment in the United States and the EC has contributed here. Those houses with large corporate finance departments had a particularly successful year. Overall, banking profits remained steady; and as with the large banks, their composition continues to shift from net interest income towards fees, reflecting both pressure on margins and the trend towards

Chart 3
Large British banks' retained earnings

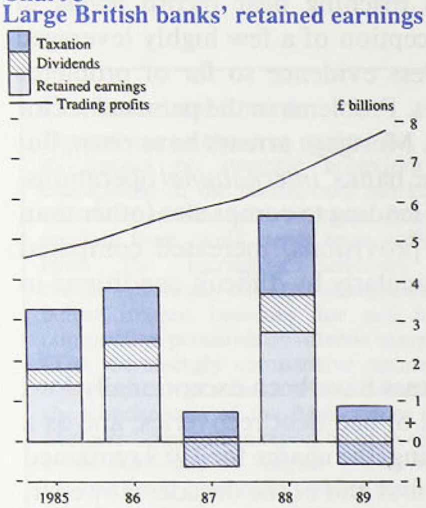


Table VI
Large British banks: earnings

£ billions *Percentages in italics*	1985	1986	1987	1988	1989
Trading profits before bad debts	4.97	5.58	6.02	6.86	7.72
Pre-tax profits	3.29	3.84	0.73	5.67	0.86
Post-tax profits	1.80	2.48	0.09	3.68	0.50
Pre-tax return on equity	*24.6*	*24.3*	*4.0*	*27.5*	*3.8*
Post-tax return on equity	*13.4*	*15.7*	*0.5*	*17.8*	*2.2*
Return on total assets	*1.10*	*1.20*	*0.21*	*1.51*	*0.19*

Table VII
Large British banks: capital constituents

(a) Pre-convergence basis

£ billions	1985	1986	1987	1988	1989
Shareholders' funds	13.91	17.53	18.73	22.58	22.30
Preference shares	0.01	0.01	0.01	0.01	0.43
Primary perpetual debt	4.05	5.39	4.18	5.19	6.66
General provisions	1.67	1.29	1.09	1.07	1.10
Minority interests	0.38	0.44	0.41	0.56	0.67
Primary capital	20.02	24.67	24.42	29.41	31.16
Secondary capital	5.70	5.30	5.07	7.21	7.61
Total capital	**25.92**	**29.97**	**29.50**	**36.64**	**38.77**

(b) Convergence basis(a)

	1987	1988	1989
Shareholders' funds, excluding revaluation reserves	16.44	19.54	20.08
Preference shares	0.01	0.01	0.41
Minorities	0.41	0.50	0.59
Tier 1	**16.86**	**20.04**	**21.10**
Revaluation reserves	2.29	3.04	2.22
Hybrid capital	4.19	5.20	6.67
General provisions	1.09	1.07	1.10
Tier 2 minorities	—	0.07	0.08
Qualifying subordinated loan stocks	5.07	7.21	7.61
Headroom deduction	−1.13	−0.42	−0.53
Tier 2	**11.51**	**16.17**	**17.16**
Total	**28.37**	**36.21**	**38.26**

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

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

£ billions	1985	1986	1987	1988	1989
Retained earnings	1.39	1.91	−0.64	2.74	−0.57
Perpetual debt	3.82	1.25	0.09	0.01	0.93
Term subordinated debt	0.05	−0.29	0.44	1.56	0.11
Share issues	0.70	1.42	1.96	1.33	0.33
	5.97	4.29	1.85	5.64	0.80

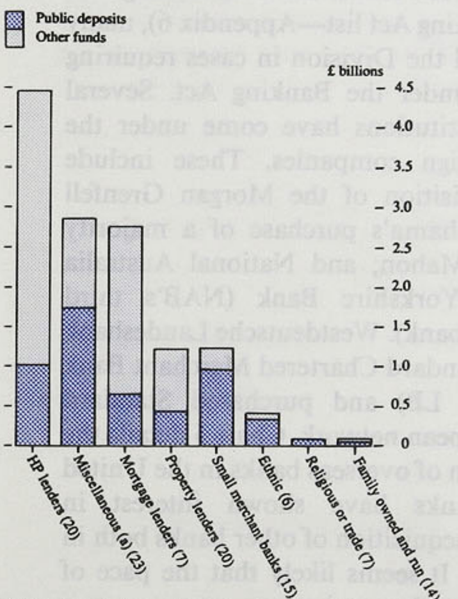
(a) Excludes certain items affecting reserves, such as surpluses on property revaluations.

Table IX
Large British banks: capital ratios (a)

£ billions	1985	1986	1987	1988	1989
Total assets	303.2	334.7	345.3	392.8	461.7
Weighted assets	236.0	251.7	268.3	315.4	377.1
Adjusted capital base	23.0	26.5	26.1	31.6	34.7
Risk asset ratio (per cent)	9.7	10.5	9.7	10.0	9.2

(a) On the new convergence basis from 1989

Chart 4
Smaller and medium-sized institutions



(a) These are normally owned by and run for non-financial companies.
The numbers in brackets denote the number of institutions in each category.

syndication and the arrangement of deals for customers. Slightly easier markets and the continued emphasis in some cases on off-balance-sheet products contributed towards improvements in treasury performance. Securities markets operations experienced mixed fortunes. The performance of equity market operations improved as a result of better market conditions, withdrawal by some competitors and steps taken to reduce costs and rationalise business. Gilts and other debt securities trading, however, continued to be difficult areas for most institutions.

After a difficult period, banks' related fund management operations have shown some improvement, benefiting from higher volumes, increased value of funds under management and steps taken to reduce costs.

Smaller UK banks

This year's report identifies for the first time a number of categories within the group 'smaller UK banks'. Chart 4 shows the relative size and the number of institutions within each category. It also shows the larger categories —HP, mortgage and property lenders—to be funded primarily from sources other than public deposits, whereas ethnic, religious or trade, and family run institutions are heavily or totally reliant on such deposits.

The effect on these banks of the slowdown in economic activity was mixed. Whereas the large clearing banks were able to maintain their margins, the smaller institutions found conditions more difficult, often being forced to choose between cutting back or taking on residual business left by others. The specialist mortgage lenders and hire purchase companies were less affected; but most small institutions experienced some increase in arrears, and higher provisions seem likely to follow.

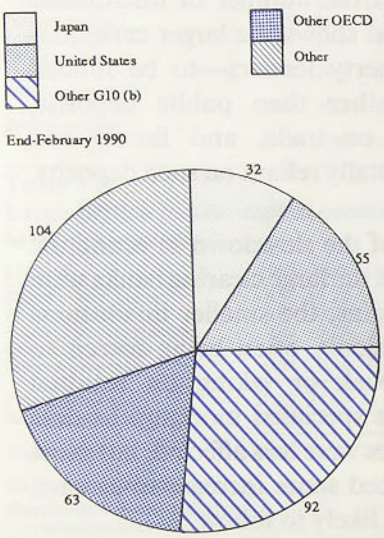
These pressures have brought varying reactions from the institutions. A number of the smaller institutions have sought further capital and some are known to be for sale if buyers acceptable to the Bank can be identified.

International developments

Both European and non-European banks have been reviewing their activities in the European Community ahead of the introduction of the single market from 1992 onwards. The results in terms of adjustments to strategies have become increasingly apparent, with banks choosing to take a variety of different courses.

A number of banks have opted to increase their international networks within Europe organically, either through opening additional branches or establishing subsidiaries. Some non-European institutions are interested in opening subsidiaries in the United Kingdom ahead of 1992 in order to take advantage of the 'passport' to be provided to EC incorporated institutions by the Second Banking Co-ordination Directive—see II(iv) below. By contrast some overseas banks have sought to expand through selective acquisitions in banking or related financial services, or by entering into collaborative arrangements with other banks. In certain cases these have been accompanied by the taking of cross-shareholdings by the respective partners.

Chart 5
Geographical representation of overseas institutions[a]



(a) Branch and subsidiary operations, together with controlling stakes in consortium banks.
(b) Including Swiss banks.

These influences have been felt in the United Kingdom (see changes to the Banking Act list—Appendix 6), many of which have involved the Division in cases requiring formal consideration under the Banking Act. Several well-known British institutions have come under the control of larger foreign companies. These include Deutsche Bank's acquisition of the Morgan Grenfell Group; Bank of Yokohama's purchase of a majority interest in Guinness Mahon; and National Australia Bank's purchase of Yorkshire Bank (NAB's third acquisition of a British bank). Westdeutsche Landesbank took a 50% share in Standard Chartered Merchant Bank (now Chartered West LB) and purchased Standard Chartered Bank's European network. Chart 5 details the geographical breakdown of overseas banks in the United Kingdom. British banks have shown interest in partnerships with and acquisition of other banks both in the EC and elsewhere. It seems likely that the pace of change will continue into the coming year.

In contrast to the plans for expansion described above, a few banks from the non-industrialised countries have already closed, or are likely soon to close, their London operations—mainly owing to an inability to generate a satisfactory return.

Last year's report suggested that, in the light of the international trend towards financial liberalisation, consideration of the comparative costs and benefits of a UK presence might lead some foreign banks to review their position. Some believe that financial regulation in London has become excessively onerous. In addition, the uncertainties raised by the Hammersmith and Fulham local authorities swaps case—where the courts initially ruled that local authorities lacked the legal powers to enter into, and to continue servicing existing, swap transactions—may make some institutions more reluctant to put certain types of business through London, notwithstanding the Appeal Court ruling that some of the transactions may have been within the powers of the local authorities. The case will now go to the House of Lords.

The need to maintain and enhance London's competitiveness as an international financial centre continues to be an object of the Bank's supervision. The Bank expects continued interest from various countries, notably Japan but also the EC, North America and the Far and Middle East, in setting up new operations in London.

Conclusions and outlook

The early years of the new decade are likely to see continued pressures on the banking system to adjust to changing circumstances and increased competition. Apart from the advent of the European Single Internal Market, the breaking down of market barriers will see more competition from the building societies, from insurance and investment companies, and from special-purpose lenders funded from the wholesale rather than the retail markets. At the same time, both personal and corporate customers are becoming more demanding, the former in particular no longer so ready to place money with banks at a low rate of return.

It is not yet clear how the banks will fare against the background of the first significant slowdown in the domestic economy for some time. The growth in lending seen in recent years has already begun to level off, particularly in respect of mortgage lending. It seems probable that there will be fewer large, highly leveraged transactions; and likewise that there will be a slowing of property lending. There is also likely to be a further increase in corporate, and perhaps personal sector, difficulties in the short term, reflected in higher provisions against bad debts.

The banks have now largely overcome their vulnerability to problem country debt; but sovereign lending does not, for the most part, represent an attractive option, either because profits are too low or the risks too high. That said, developments in Eastern Europe offer a number of new opportunities, for instance providing expertise in such areas as project appraisal and credit techniques, or assisting Western investors and entrepreneurs interested in joint ventures.

Banks are responding to these challenges by seeking to use their capital and their branch networks and existing market expertise more efficiently. Apart from continued careful attention to costs, this is likely to involve closer control of asset quality and portfolio distribution; and more concentration on fee-based income, including the use of syndicated lending and loan sales. The role of branch networks for retail banking and deposit taking will continue to come under scrutiny as the banks explore the possibilities offered by information technology and telephone banking. While some banks will pursue their aims through diversification and growth, others are likely to focus more narrowly on their core business or the development of niche markets.

Glossary of terms for Part I

Sources of data:	*Audited financial statements for the large British banks, with the exception of the tables on capital ratios and mortgage lending. Bank of England statistical returns. The tables relating to loan portfolios adopt the sectoral classifications used in the* Bank of England Quarterly Bulletin *and in the Central Statistical Office's* Financial Statistics.
	In some instances, previous year's figures have been restated in the light of more recent information and changes in accounting policy. Not all the columns in the tables balance, on account of rounding.
Large British banks	Barclays, Lloyds, Midland and National Westminster (the four largest banks) together with Standard Chartered, Bank of Scotland, The Royal Bank of Scotland and the TSB. All data for these banks are consolidated. Calendar year-end information except for Bank of Scotland, The Royal Bank of Scotland and the TSB; 1989 data for Bank of Scotland are annualised half-year figures.
Trading profits	Profit before taxation and bad debt provisions (including the exceptional problem country charges in 1987 and 1989).
Pre-tax profits	Profit after bad debt provisions but before taxation.
Post-tax profits	Profit after taxation and before extraordinary items; includes amounts attributable to minority shareholders in subsidiary operations.
Return on equity.	Percentage ratio of pre/post-tax profits to average shareholders' funds plus minority interests. Shareholders' funds defined as paid-up share capital and reserves.
Return on total assets	Percentage ratio of pre-tax profits to average total assets.
Retained earnings	Current year's post-tax profits after extraordinary items and distributions.
Term subordinated debt	Subordinated debt with a fixed maturity and satisfying the Bank of England's conditions for secondary capital.
Hybrid (debt/equity) capital	Perpetual irredeemable cumulative preferred shares; perpetual cumulative preferred shares redeemable at the option of the issuer with the prior consent of the Bank; and perpetual subordinated debt meeting the requirements for primary perpetual debt.
Primary perpetual debt	Perpetual debt eligible for inclusion as primary capital under Bank of England rules. Qualifying criteria require that the debt can only be converted into equity, is available at all times to absorb losses, and provides for the deferment of interest payments in certain circumstances.
Total assets	Balance sheet footings.
Weighted assets	Total assets adjusted in accordance with the risk weightings as set out in the supervisory notice, *Measurement of capital* (as amended) and, for 1989, *Implementation of the Basle Convergence Agreement in the United Kingdom.*

Adjusted capital base	Total capital (see below) less: goodwill, equipment, connected lending of a capital nature, investments in subsidiaries and associates, and holdings of bank paper in excess of market dealing concession.
Risk asset ratio	Percentage ratio of adjusted capital base to weighted assets.
Tier 1 and Tier 2 capital	As defined under the agreement on international convergence of capital measurement and capital standards.
Headroom deduction	Tier 2 capital which cannot count towards total capital because of insufficient Tier 1 or upper Tier 2 capital on an institution's books.
Net interest income	Gross interest income less interest paid on borrowings.
Other income	Includes investment income.
Interest margin	Net interest income/average interest-earning assets.

Part II
Policy developments

(i) Domestic: Areas under consideration

Liquidity

The last consultative paper, *Revised proposals for a stock of high quality liquidity*, was published in December 1988 and has been followed by an extended consultation period. During this time the Bank has had detailed discussions with individual banks and representative banking organisations. It has given full consideration to the particular concerns raised by the banking community relating not only to the rationale for the proposals, but also to the costs that banks fear would be imposed by a stock requirement.

As a result of a thorough reassessment of liquidity policy, the Bank has determined that it should not at this stage pursue any further the introduction of a generally applied stock requirement. The need for a new general requirement has not yet been shown to be sufficiently pressing to anticipate studies being or about to be undertaken internationally on liquidity. In particular the Bank does not wish to introduce a new liquidity requirement now which might have to be changed substantially in order to comply with an EC or other international initiative.

The Bank will instead strengthen its assessment of the adequacy of banks' liquidity on the basis set out in the 1982 *Measurement of Liquidity* notice; and will seek to agree new liquidity guidelines individually with all banks during 1990.

Large exposures

The Bank is reviewing its large exposures policy.[1] Informal discussions between the Bank and the banking community are taking place; and the work in the European Community on a Large Exposures Directive (see Part II.iv) will also need to be taken into account. There are three main areas under review. First, the development of an appropriate methodology for measuring risk on interest rate and exchange rate related contracts, foreshadowed in the 1987 notice. Second, the Bank is considering certain problems of integrating secondary market securities trading fully into the large exposures framework. And third, the implementation of the Basle Convergence Agreement[2] has highlighted a number of detailed definitional differences between it and the Large Exposures policy. The Bank needs to assess whether these differences are justified.

- *Interest-rate and exchange rate contracts.* The Basle Agreement's methodology for assessing credit risk is based on the potential cost of replacing the cash flows if the counterparty defaults. The concept of replacement cost is equally valid for large exposure purposes, but the Basle measurement of exposure, based on average risks for a portfolio, may not be appropriate in a large exposure context, where the risks on individual contracts need to be assessed on a 'worst case' basis. The Bank is considering how to incorporate these contracts within the scope of the large exposures policy.
- *Securities trading.* Banks (and banking groups) are required continuously to comply with the large exposure thresholds of 10% and 25% of capital. The systems implications, particularly for groups containing substantial

(1) As set out in the notice *Large exposures undertaken by institutions authorised under the Banking Act 1987*, BSD/1987/1, published in September 1987.

(2) *International convergence of capital measurement and capital standards*, July 1988, published by the Basle Committee on Banking Regulations and Supervisory Practices; see also BSD/1988/3 of October 1988; *Implementation of the Basle Convergence Agreement in the UK.*

securities trading operations, have caused some difficulties; but banks have also been concerned at the potential constraint this rule has placed on their ability to carry out large but very short-term trades in the secondary market. The Bank is considering a very limited extension of its concessionary rules for securities underwritings for those banks involved in such trading.

- *Alignment with the Basle agreement.* In a substantial number of details the Basle Convergence Agreement and the large exposures policy offer divergent approaches. Where appropriate the Bank is proposing to align the two by modifying the reporting of large exposures. A notice altering the method of calculation of the capital base[1] was the first product of this review.

(ii) Domestic policy implementation

Capital adequacy

Implementation of the Basle Convergence Agreement in the United Kingdom commenced with effect from end-December 1989 with UK incorporated banks completing the new Capital Adequacy Return (form BSD1) on both an unconsolidated and a consolidated basis. The opportunity was taken to review 'trigger' and 'target' risk asset ratios for individual banks. These are mostly unchanged from the previous system; and, as before, are confidential between the Bank and each bank.

The Bank has not taken up the option of adopting a transitional period up to end 1992 for the capital adequacy standard and has moved straight to the 8% minimum. Transitional arrangements have, however, been applied concerning the inclusion of general provisions in Tier 2 capital.

Loan transfers and securitisation

The Bank published a notice[2] on loan transfers and securitisation in February 1989 after consultations with market participants. The notice gives banks guidance on the conditions which must be fulfilled in order to eliminate all risks pertaining to an asset which is sold, thus allowing it to be removed from the balance sheet for capital adequacy purposes.

There is no requirement for loan transfer documentation to be specifically approved by the Bank: it is sufficient for a bank to have evidence that its auditors and legal advisers are satisfied that a scheme meets the terms of our notice. But the complexity of some issues has meant that the Bank has been asked to comment on various detailed aspects of several draft schemes.

Publicly issued securitisation schemes (a number of which were made by non-banks) levelled off in 1989 at around £2.7 billion. But it is not possible to gauge the overall size of the loan transfers 'market'. Neither is it possible to be categorical about the reasons for transferring loans. In some cases banks are responding to capital adequacy pressures; but perhaps more often loan transfers are used to increase the flexibility and liquidity of a loan portfolio, and to make more efficient use of capital. Most schemes thus far have involved the sale of loans secured by property. As the market develops, banks may proceed to securitising or otherwise on-selling other types of assets. This seems certain to involve the Bank in advising on further regulatory questions.

Money laundering

In November 1989 the Bank wrote to all authorised institutions reminding them of their responsibilities to adopt policies consistent with the Basle Statement of Principles on Money Laundering (circulated in January 1989), and of the statutory provisions relating to the reporting of suspicious transactions to law enforcement

(1) *Amendment to the Bank's notice 'Large exposures undertaken by institutions authorised under the Banking Act 1987* (BSD/1987/1)', issued in February 1990 (BSD/1990/1).

(2) Loan transfers and securitisation (BSD/1989/1).

authorities. The letter informed authorised institutions that the Bank may include a review of control systems and accounting records in areas relevant to money laundering as part of the regular reports requested under section 39 of the Banking Act. It also carried a warning that failure to install or maintain adequate systems to cope with money laundering would be taken into account in the Bank's consideration of whether an institution continued to meet the criteria for authorisation.

In setting supervisory standards in the area of money laundering, the Bank will continue to take account of the work emerging from various international initiatives. In particular, the recommendations of the Financial Action Task Force (set up by the Paris Economic Summit in 1989) and the work being done on those recommendations aimed at financial institutions by a working group established and chaired by the Bank with representatives of banks, building societies and law enforcement agencies, will provide further reference points against which the adequacy of bank systems and controls may be assessed.

Reporting accountants

1989 was the first full year of the arrangements involving the use of reporting accountants to prepare reports on institutions' accounting records and controls and prudential returns.(1) Reports were made on most authorised institutions, and digesting the volume of reports received by the Bank in a short space of time was not easy.

The limited experience so far suggests the exercise has considerable potential supervisory benefit, and this has been acknowledged by many banks despite the burden on their resources. The banks remain troubled about the cost and the possibility of duplication with the requirements of other regulators. The Bank believes that at present any overlap is limited, a view endorsed by the major accounting firms, but is concerned to minimise duplication.

The reports in the main confirmed the Bank's own assessments of institutions' systems rather than bringing to light major, previously undetected weaknesses. Nevertheless, there were cases where the reports were important in convincing management of the need for change, and in encouraging many banks to take action to improve systems in anticipation of the report and discussions with the Bank.

The reports on prudential returns have revealed many cases of inaccurate reporting, although in all but a very few cases errors were minor and had no material effect on the Bank's supervisory view of an institution. Banks' management should now be more aware of the importance of ensuring accurate reporting, and a marked improvement in standards in the future is expected.

Institutions will continue to be required to commission reporting accountants' reports regularly, but not always annually.

Provisioning and the new matrix

In August 1987 the Bank published its country debt provisioning matrix(2) as guidance to banks in assessing the adequacy of provisions against exposures to problem debtor countries, and as a starting point for discussions with them. During 1989 a review of the structure of the matrix was undertaken, to take account of two years' experience of its application in practice, and of the widespread market perception that the situation among debtor countries had deteriorated significantly.

In the course of 1989 the big four clearing banks raised their level of provisions from 30%–35% at end-1988, first to around 50% and later, in some cases, up to 70%. Similar moves took place in a number of other countries. The revised matrix(3)

(1) The origin and purpose of these arrangements is set out on pages 29 to 31 of the Banking Act Report 1987/88.

(2) See pages 18 to 20 of the Banking Act Report 1987/88.

(3) A copy of the revised matrix, with explanatory notes, is reproduced as Appendix 1.

delivered an average level of provisions against UK banks' aggregate exposures at June 1989 to 48 problem debtor countries, based on the conditions at end-1989, of just under 50%. It retains the basic structure of its predecessor, but there are a number of important changes at a technical level and in the intended method of application:

(i) The factor analysis: one new factor has been added, designed to penalise countries which are able to clear interest arrears only by capitalisation or by advances of new money; the scoring ranges for a number of the factors have been extended, to score more heavily those countries with deep-seated payment difficulties; and there are refinements to some of the definitions.

(ii) The country score: in order to avoid sharp fluctuations in the country scores which might exaggerate an underlying change in the position of a debtor country, a smoothing technique has been introduced, based on the use of a moving average score.

(iii) The minimum score: under the original matrix the minimum country score, below which provisioning did not need to be considered, had to be attributable to actual events of default; this restriction is removed because the Bank believes it right to take account of the likelihood of future default in assessing the need for provisions. However, a score just above the minimum which is attributable to economic factors rather than to a default, although it should prompt a bank to consider the need for provisions, may not always lead to provisions being required.

(iv) The provisioning bands: the bands which relate country scores to provisioning percentages have been adjusted.

(v) Tax allowances: the original matrix was accepted by the Inland Revenue as relevant to the determination of tax allowances. In the March 1990 Budget, the Chancellor announced new rules for calculating the amount of debt eligible for tax relief (which will follow, very broadly, the new matrix guidelines) and for phasing relief in some circumstances.

Relations with other supervisors

The effort to ensure effective liaison with other supervisors has continued. This is required either when a single institution is subject to authorisation and supervision by two or more bodies, or when a number of supervisors have responsibility for different entities within a financial group. A lead regulator is identified for each UK financial conglomerate to promote exchanges of information between supervisors and to co-ordinate any necessary remedial action; and a 'college of supervisors' for each financial group normally meets once a year, chaired by the lead regulator. In the case of groups involving banks, the Bank is normally the lead regulator.

Additionally, where overseas banks require authorisation under the Financial Services Act (FSA), the Bank has in many cases undertaken to act as a conduit for information passed by the home supervisor to the Securities and Investments Board (SIB) and the Self-Regulating Organisations (SROs). The majority of UK branches of overseas banks have now been authorised under the FSA, although several continue to be authorised on an interim basis pending agreement on co-operation between their home supervisors and the relevant UK authorities.

(iii) Basle

The Basle Committee on Banking Supervision

The Supervisors' Committee has met regularly in 1989/90 under the chairmanship of Mr Huib Muller, Executive Director of de Nederlandsche Bank. The Bank of England has continued to play a full role in its deliberations.

The Committee has continued to monitor progress in the implementation of the Basle Convergence Agreement in G10 member countries, particularly those areas where national discretion can be applied. The bulk of the Committee's work has, however, been to discuss issues referred to it from the various sub-groups—notably the Capital Liaison Group (see below).

A joint meeting with securities supervisors was held in September 1989, where consideration was given to a joint memorandum on facilitating the exchange of information between banking and securities supervisors internationally. In October 1989 the Committee held a joint meeting with offshore supervisors to discuss general supervisory issues, including a possible extension to the Basle Concordat of 1983 and the prevention of the criminal use of the banking system. Committee delegates also attended a joint meeting with the Gulf Co-Operation Council in January 1990.

Capital Liaison Group

The Liaison Group has met regularly since April 1989, its first meeting, under the chairmanship of Mr Peter Hayward, Secretary of the Basle Committee. The role of this group is to maintain the integrity of the Basle Convergence Agreement; but it also provides an informal forum for supervisors to discuss points of interpretation. The group has considered technical issues related primarily to the acceptability of particular instruments as capital, and also the appropriate risk weighting for various banking transactions. The United Kingdom has been particularly active within the group and has referred several issues for discussion.

One of the first matters to be referred to the group was the acceptability of so-called 'repackaged' perpetual loan stock as hybrid (Upper Tier 2) capital instruments. In early 1989 the Bank approved in principle a repackaging scheme developed by the Royal Bank of Scotland as hybrid capital; and after extensive discussion the group agreed the Bank's ruling was correct at the time the scheme was put forward. It was, however, decided that henceforth no new issue of perpetuals which is in repackaged form at the time of issue should qualify as hybrid capital.

The group has also been considering how to strengthen policy in the Basle Agreement on the inclusion of general provisions in Tier 2 capital; and how to treat mortgage backed securities, which are not well known in a number of countries.

Sub-group on liquidity

The sub-group on liquidity has been reconvened and has met twice in the last year, chaired by Dr F C Musch of de Nederlandsche Bank. At present the mandate for the group is to further its understanding of different approaches to liquidity supervision and to develop best practice in liquidity supervision among G10 member countries.

Sub-groups on position risk

The three sub-groups established by the Supervisors' Committee to consider the measurement of banks' exposure to foreign exchange risk, interest rate risk and securities risk have each met a number of times during the year. Their work is being co-ordinated with other international groups discussing these risks: in particular, the European Commission has observer status on all three groups, and representatives of US and UK securities supervisors also attend the securities risk group as observers.

The securities risk sub-group has also taken steps to liaise with the International Organisation of Securities Commissions (IOSCO).

Mr Roger Barnes, an Assistant Director of the Bank and the Head of Banking Supervision Division, took over as Chairman of the sub-group on securities risk in April 1990.

The Basle Committee on Interbank Netting Schemes

This Committee, chaired by Mr Lamfalussy, General Manager of the Bank for International Settlements, gave further consideration to bilateral, multilateral and cross-border netting, including the legal effectiveness of such schemes.

(iv) The EC

EC Directives

The adoption in 1989 of three key banking directives has established the framework for the completion of the internal market in banking. The

Own Funds Directive,[1] which defines a bank's capital base for supervisory purposes, was adopted in April and mentioned in last year's report. It is now complemented by the adoption of the *Solvency Ratio Directive*[2] and the *Second Banking Co-ordination Directive*[3] in December.

The Solvency Ratio Directive establishes a standard measure of the credit risks run by Community credit institutions and sets a minimum capital adequacy requirement. These standards are generally consistent with the Basle Convergence Agreement, though a number of relatively minor specific national derogations have been agreed. In the case of the United Kingdom, the discount houses are in effect exempted from the scope of this directive: they will continue to be supervised by the Bank's Wholesale Markets Supervision Division (see also Part III of the Report).

The Second Banking Co-ordination Directive provides that credit institutions established in one EC Member State—and therefore subject to the Own Funds and Solvency Ratio Directives—will be able freely to branch or to offer a variety of specified services into any other Community country on the basis of their single home country authorisation. As reported last year, considerable efforts were made to ensure that the reciprocity provisions contained in this directive were directed towards the promotion rather than curtailment of liberalisation. The final text was approved by all Member States.

The Bank, together with the Government, is now considering in greater detail the practical implementation of this directive and its impact on the Bank's supervision both of branches of banks incorporated in other EC countries, and of UK-incorporated banks with branches in other EC states.

In December 1989 the EC also adopted a *Regulation on the Control of Concentrations*,[4] giving the European Commission exclusive jurisdiction over the approval or blocking of mergers having a 'Community dimension'. This is defined in terms of the combined size of the entities involved, measured either by turnover or, in the case of banks, in terms of the asset base. National authorities will still be allowed to block mergers on prudential grounds which otherwise would be approved under the regulation.

Work has continued on the proposals for an *Investment Services Directive*[5] and its associated *Capital Adequacy Directive*,[6] both described in some detail last year. The latter proposal was adopted by the Commission in April 1990. The Commission is seeking to make progress urgently in order to enable the introduction of an internal market in investment as well as banking services in 1993. In the meantime, discussions in Council have begun on the text of the draft Investment Services Directive itself.

Discussions have continued in the Commission on a directive to replace the 1983 *Directive on Consolidated Supervision*.[7] The proposals bring holding companies and their subsidiaries within the scope of consolidated supervision and are in principle favoured by the United Kingdom.

The Commission is also drafting a proposal for a directive to replace the 1986 *Recommendation on large exposures* (see also part II.i); but it is not yet clear what its content will be. Following further discussion, the proposal for a *Mortgage Credit Directive*[8] has been set on one side, pending a

(1) 89/299/EEC.
(2) 89/647/EEC.
(3) 89/646/EEC.
(4) 89/4064/EEC.
(5) COM(89)629.
(6) Awaiting publication.
(7) 83/350/EEC.
(8) COM(87)255.

review of the need for an explicit measure to liberalise these markets. Most Member States believe that the Second Banking Co-ordination Directive will suffice.

EC supervisory bodies

During the year the Banking Advisory Committee (BAC) and the Contact Group of EC Supervisory Authorities ('Groupe de Contact') have both met regularly, considering a variety of practical and technical supervisory issues and maintaining their close working relationship. Mr Brian Gent, a Deputy Head of Banking Supervision Division who was elected chairman of the Groupe de Contact in 1988, retired from the Bank in March 1990 and consequently left the Group. Mr John Bartlett, Deputy Head of Banking Supervision Division, will succeed him as the Bank's representative.

In 1988 the BAC commissioned a new solvency observation exercise to enable Member States to assess the likely impact of the Own Funds and Solvency Ratio Directives on a wide range of Community credit institutions. This exercise was repeated in 1989, and is again being undertaken this year. The implications for banks of other EC directives are also carefully assessed by these two groups.

EC Governors' Sub-Committee

The Delors Report specified that in Stage One of the implementation of its recommendations the Committee of Governors of the Central Banks of the EC Member States should establish a Sub-Committee to meet regularly to discuss matters of policy which have implications for: (i) the European Community in the area of banking supervision; and (ii) for the execution of banking supervision where there is a Community-wide dimension.

A group of senior central bank officials, which met informally in 1988 and 1989, has now been established as that Sub-Committee. Where an EC central bank is not directly responsible for supervision, a representative of the relevant banking supervisory authority has been invited to participate. The Sub-Committee will report regularly on its activities to the Governors.

Mr Brian Quinn, Executive Director of the Bank responsible for banking supervision, is the first Chairman, with a three year term of office.

(v) The GATT

The 8th (Uruguay) Round of multilateral trade negotiations under the General Agreement of Tariffs and Trade (GATT) began at the Ministerial meeting in Punta del Este in 1986 and is due to be completed in Brussels in December 1990. This Round is more ambitious than its predecessors in that it goes beyond visible trade to cover trade-related aspects of intellectual property and investment, and trade in services, including financial services. The objective is further liberalisation; but it will be necessary to combine this with the preservation of effective prudential regulation and maintenance of the integrity of financial markets. Mechanisms to achieve this are now beginning to be explored.

Part III
Operational supervision

The authorised population

Authorisations

The number of applications for authorisation under the Banking Act (shown in Table X) increased slightly in the year to February 1990. In total, fifteen institutions were granted authorisation, compared with twelve in 1988/89. The one outstanding application was granted in March this year. Eight authorisations (nine in the previous year) were granted to overseas-incorporated institutions for branches, and the other seven (three in 1988/89) were granted to UK-incorporated institutions. The Bank also considered a number of draft applications, which may become formal applications during the current year or which, in some cases, were not proceeded with for various reasons.

Table X
Applications and authorisations

Year to end-February	1986	1987	1988	1989	1990
Applications	25	34	21(a)	13	16
Authorisations	18	37	21	12	15

(a) Including the submission under the 1987 Act of two applications which lapsed on the repeal of the 1979 Act and thus had to be resubmitted.

Of the 548 institutions authorised at end-February 1990, 259 were overseas-incorporated institutions with UK branches (256 at the same time last year), 65 were UK-incorporated subsidiaries of overseas institutions (68 in 1988/89) and 15 (17 in 1988/89) 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 74 countries have offices here (10 have representative offices only)—see Appendix 5.

Table XI
Number of authorised institutions

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

Surrenders

Eighteen institutions surrendered their authorisation during the year compared to twenty seven in 1988/89. Seven institutions surrendered because of group reorganisations, with authorisation already existing in, or being granted, to a successor or a company in the same group; and four because of mergers with other institutions and the grant of authorisation to successor institutions taking over their business. Seven institutions surrendered following a decision to cease accepting deposits in the United Kingdom.

Where an institution has surrendered its authorisation, the Bank continues to have a supervisory interest in it 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. The Bank did not give directions to any institution which surrendered during the year; but it did give further directions to institutions which had surrendered in earlier years.

Revocations and restrictions

No revocations by the Bank under section 11 of the Act became effective during the year; but the Bank gave notice of its intention to revoke the authorisation of one institution under this section and received representations from the institution. A formal decision to revoke was made, but this did not immediately become effective because the institution appealed to the Banking Appeals Tribunal. The revocation came into effect during the current year following the institution's withdrawal of the appeal. Its operations continue to be subject to directions under section 19 of the Act.

In one case the Bank gave notice of its intention to restrict the authorisation of an institution; but following subsequent events it was not necessary to give a final notice.

Table XII
Revocations and restrictions [(a)]

Year to end-February	1986	1987	1988	1989	1990
Revocation of authorisation	5	1	2	—	—
Restriction of authorisation (b)	4	2	5	2	—
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 notice 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 or restrict an authorisation, the decision reflected the view that some of the criteria in Schedule 3 of 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 inadequacies in lending strategies, management and staffing, records and systems, provisions for bad and doubtful debts, and capital.

Appeals

Two appeals against the Bank's decisions were lodged during 1989/90. One appeal was against a decision of the Bank that a person who had notified his intention to become a shareholder controller was not fit and proper, and the other was against the Bank's decision to revoke the authorisation of an institution. In both cases the appeals were withdrawn.

Liquidations

There were no winding up or administration orders relating to authorised institutions or former authorised institutions during the year.

The Banks (Administration Proceedings) Order 1989, made under the Insolvency Act 1986, came into effect on 23 August 1989. It allows an administration order to be made in relation to an authorised institution or former authorised institution, and makes special provision to permit the Bank to petition for such orders and for the involvement of the Bank and the Deposit Protection Board in the conduct of administration proceedings. The Bank has not yet petitioned for any administration orders.

Supervision and enforcement

Statement of principles

The following paper is added to the table in paragraph 2.5 of the statement of principles published in May 1988 under section 16 of the Act.

Large exposures (BSD/1990/1) (amendment to the 1987 paper)	Issued February 1990

Statutory instruments

Last year's report summarised the orders and regulations which had been introduced under the Act up to April 1989. Since then one further statutory instrument has been made under the Act:

1990 No 20 The Banking Act 1987 (Exempt Transactions) (Amendment) Regulations 1990

These regulations amended the Banking Act 1987 (Exempt Transactions) Regulations 1988 by extending from one to five years the maximum redemption period of debt securities which may be issued under the 1988 regulations, and permitting the redemption value to be denominated other than in sterling.

Interviews, visits and prudential/statistical returns

Over three thousand interviews were conducted during 1989/90, a similar number to both of the previous two years. Over two thirds were non-routine meetings to discuss specific issues. Of the routine prudential interviews, just under half were conducted on the institution's 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, the Indian sub-continent, the Middle East and the Far East.

In addition to interviews for routine prudential purposes and on specific issues, the Bank regularly sends 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 do not involve the Bank's use of its statutory powers of investigation under the Act, but are conducted with the agreement of the institutions concerned. Such visits are generally followed by meetings between the Bank and the institution at which any points raised by the review are discussed and a timetable for implementation of any necessary remedial action is agreed. During the year there were 116 review team visits (including follow-up visits) compared with 126 in 1988/89; 51 were to domestic institutions and 65 to subsidiaries and branches of overseas banks (57 and 69 respectively in the previous year). 59 visits covered the full range of activities, while 20 targeted loan book quality and 37 operating and control systems. The Bank also conducted 43 visits to institutions to review or establish foreign exchange exposure guidelines and to discuss the operational risks that arise from particular, often specialist, areas of business.

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. The Bank's powers of investigation under section 39 are used routinely in order to verify the accuracy of the figures submitted by institutions in their prudential returns.

Investigations into authorised institutions

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 (see Part II.ii above). The section 39 powers were also used in two cases in response to identified problems. Additionally, one such report was required from a controller of an authorised institution and one from a significant shareholder.

Three 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 XIII.

Table XIII
Use of section 17/41 powers

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

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

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 last year's report; some of the considerations which guide the Bank in its operation of the vetting procedures were also set out. During 1989/90, the Bank received 72 notifications of proposals for new or increased control under section 21 of the Act. In the case of some institutions multiple notifications were received at the same time. In one case the Bank issued a notice of objection under section 22 of the Act, as it was not satisfied that the person concerned was fit and proper to hold his prospective position nor that the Schedule 3 criteria to the Act would continue to be met were he to do so.

In three other cases the Bank issued preliminary notices of objection under section 22 of the Act, but it was not necessary to serve a final notice because the persons withdrew their notifications. Some intending controllers decided, after giving notice under section 21, not to proceed following discussions with the Bank.

There were no notices of objection issued under section 24 or section 26 by the Bank during the year.

Representative offices of overseas institutions

Any overseas institution wishing to establish a representative office in the United Kingdom, or wishing to change the name of an existing representative office, is required under the Act to give two months' notice to the Bank. During that time the Bank may, under section 76 of the Act, object to the institution's name if it appears misleading to the public or otherwise undesirable and may (before and after establishment) require the provision of information or documents under section 79. In the past year nineteen such institutions have notified the Bank under section 75 of the intention to establish (twenty-one in 1988/89); and in one case the Bank, after extensive enquiries (including formal enquiries under section 42 of the Act), issued a notice of objection under section 76. Also during the year, eleven institutions notified the Bank of their intention to change the name used in the United Kingdom. The Bank investigated several instances where representative offices appeared to have been established contrary to section 75; these all closed during or following approaches from the Bank.

Banking names and descriptions

Thirty-two authorised institutions changed their names during the year (the same as in 1988/89) after giving notice to the Bank under section 70 of the Act; twelve proposals to change business names (thirteen in 1988/89) were also considered. No notices of objection to authorised institutions' name changes were issued during the year.

The Bank also dealt with 142 names (over 150 in 1988/89) submitted during the year by unauthorised institutions in order to consider whether such names would be likely to breach the prohibition on the use of banking names in section 67 of the Act. The Bank indicated that eighteen 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 of the Act. In almost all cases the situation was regularised without formal action being required.

The prohibition on deposit-taking

The number of suspected cases of unauthorised deposit-taking on the Bank's books at end-February 1990 was 34, down from 40 at end 1989/90. A number of these investigations involved substantial, and in some cases complex, enquiries. In 12 cases (5 in 1988/89) notices were issued under the powers contained in section 42 of the Banking Act 1987, requiring information, documents and explanations from persons with relevant information. During the year the Bank applied to the courts successfully in two cases for injunctions under section 93 of the Act, both to prevent further breaches of the deposit-taking prohibition and to preserve the assets of the businesses concerned in the interests of depositors. In addition, in one of these cases the Bank obtained a court order under section 48 of the Act requiring the repayment of illegally accepted deposits.

One prosecution for illegal deposit-taking was undertaken in 1989/90. A custodial sentence was imposed, but on appeal this was replaced with a suspended sentence. A number of investigations are continuing where further prosecutions are likely to be considered in the coming year. In a number of these cases other serious offences appear also to have been involved and the Bank is co-ordinating its inquiries with those of other regulatory bodies and the Crown Prosecution Service.

Discount houses

The number of counterparties with whom the Bank has a direct dealing relationship fell to nine at the beginning of 1990 (eight discount houses and one gilt-edged market maker (GEMM)). Quin Cope, the smallest of the discount houses, owned by Generale Bank, ceased to trade at the end of last year and surrendered its Banking Act authorisation following the repayment of its last public deposit. The withdrawal of Quin Cope from the market had no significant adverse effect on the market or on the Bank's money market operations.

Agreement was reached last summer amongst the EC Member States that the discount houses should be given a qualified exemption from the Solvency Ratio Directive to reflect the unique nature of these institutions: they have a specialist function and are subject principally to interest rate risk rather than credit risk (see also Part II.iv above). Without special provision, the houses would have been subject to the standard 8% minimum capital adequacy ratio applied under the directive to other credit institutions. A numerical limit has been imposed on their exposure to the non-bank private sector, emphasising their specialist nature.

In addition, the Solvency Ratio Directive has a general provision which allows bank lending to certain institutions secured by a combination of assets which are weighted at 0% or 20% under the directive—in the UK context, discount houses, GEMMs and Stock Exchange money brokers (SEMBs)—to be given a uniform 10% weight, irrespective of the distribution of that collateral. This treatment is consistent with the present weighting applied by the Bank to these institutions.

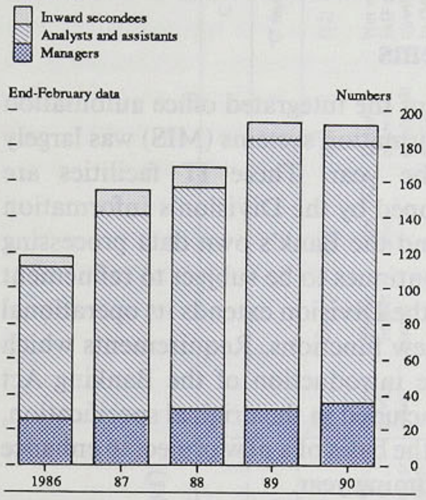
Part IV
Organisation and staffing of Banking Supervision Division

Staff

For the first time in several years there was no increase in overall staff numbers in Banking Supervision Division. The staffing situation in the Division was generally good.

The current budget of some 200 staff is unchanged for the year to end-February 1991 and reflects some redistribution of resources to meet the demands made on the service, investigatory and legal areas of the Division. The Bank continues to attach great importance to the contribution made by inward secondees. Four from clearing banks and six from firms of chartered accountants currently work in the Division.

Chart 6
Staff numbers in Banking Supervision Division



Training

Staff again attended a variety of external courses, most of which have been tailored to meet the Division's needs in banking, legal and accountancy matters. Members of the Division are also encouraged to attend internal courses, and the Bank's comprehensive graduate training programme is attended by all new graduates. All new entrants to the Division participate as appropriate in a training course run by the Division.

A number of staff currently working in the Division have benefited from outward secondments. Currently, the Division has managers on secondment in three overseas areas and, within the United Kingdom, one manager is seconded to a clearing bank and another was with a merchant bank until the autumn. It is hoped to increase the scope and number of such UK assignments.

Table XIV
Allocation of Banking Supervision Division staff

End-February	Staff		Institutions	
	1990	1989	1990	1989
UK retail and merchant banks(a)	24	27	75	71
UK branches and subsidiaries of overseas banks(b)	77	78	340	325
Small and medium-sized UK institutions(c)	41	46	125	146
Policy and legal matters(d)	34	27	—	—
Administration	16	15	—	—
Total	**192**	**193**	**540(e)**	**542(e)**

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

A divisional reorganisation towards the end of the year resulted in some of the overseas-owned institutions being reallocated from the groups covering small and medium UK institutions to those covering overseas institutions. At the same time, a new group, Investigations, was set up.

Visits to Banking Supervision Division

During the year the Division received visits from over forty people from institutions abroad (mostly central banks), principally for the purpose of familiarising themselves with the Bank's supervisory work. Individual programmes were drawn up for each visit, which varied in duration from the norm of one or two days to a fortnight where the visit might often form part of a wider tour of the Bank. Looking forward, the Soviet Union and other East European countries have expressed interest in sending a number of supervisory staff to the Bank for short periods.

Outward visits

Banking Supervision staff made a number of overseas visits, mostly to Basle to attend BIS meetings, and to Brussels to attend EC meetings. There have also been prudential and policy-related visits abroad.

Information systems

The implementation of the integrated office automation and management information systems (MIS) was largely completed during the year. These IT facilities are supported and developed by the Division's Information Technology Group and the Bank's own data processing division. The MIS continues to be subject to refinement and enhancement as the Division extends its operational use and introduces new functions. Requirements which have arisen since the introduction of the Banking Act 1987, and were not included in the original specification, are expected to form the basis of a new project to enhance the MIS during the coming year.

During the year 20 additional personal computers (PCs) were installed within the Division, increasing the total number of devices accessing the systems to 134.

Work proceeded in Financial Statistics Division on the Statistical Automated Reporting Returns System (STARS), which will enable participating banks to make all reporting returns to the Bank in electronic form rather than in hard copy. It is hoped that participating banks should soon be able to submit a range of Banking Supervision forms using STARS.

Appendix 1

Country debt provisioning matrix

Analysis of country debt recoverability (see explanatory notes overleaf)

Category	A			B				C									Total
	'A' factors			'B' factors				'C' factors									
Column	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	
Definition	Moratorium in effect	Rescheduled at any time in the last 5 years or in the process of rescheduling, or has significant transfer problems and/or a limit on debt servicing without agreement from creditors	Second or more rescheduling during the last 5 years of principal amounts rescheduled since January 1983, or transfer problems recorded in column 2 (12 for latter)	Significant arrears of interest or principal to IFIs	Arrears of principal on original or rescheduled loans from other external creditors: excluding agreed arrears	Arrears of interest on original or rescheduled loans from other external creditors: excluding agreed arrears	New money to clear arrears, or capitalised interest arrears, or Paris Club rescheduling of arrears	Interest service ratio	Visible import cover	Debt/GDP ratio	Debt/exports goods and services ratio	Not meeting IMF targets/unwilling to go to IMF	Unfilled financing gap over next 12 months excluding agreed arrears during restructuring negotiations	Market price	Highly dependent on a single source of income: commodity export, single commodity based export, service earning	Other factors	Total score (Max 145)
Score range	*0–3 months =2 4–12 months =4 12–36 months =8 >36 months =12*	*(12 for latter) 3–5 years =6 2–3 years =8 <2 years ago =12*	*2–5 years =6 1–2 years =8 <12 months =12*	*<2 years =10 >=12 months =15*	*0–3 months =4 >3 months =8 >12 months =10*	*0–3 months =4 >3 months =8 >12 months =10*	*3–5 years =4 2–3 years =8 <2 years =10*	*>15% =3 >25% =5 >35% =7 >45% =10*	*<4 months =3 <2 months =5 <1 month =7 <0.5 months =10*	*>50% =3 >75% =5 >100% =7 >150% =10*	*>200% =3 >300% =5 >400% =7 >600% =10*	*3*	*2*	*<70 =2 <50 =4 <30 =8 <10 =12*	*2*		
	2, 4, 8, or 12	*6, 8 or 12*	*6, 8 or 12*	*10 or 15*	*4, 8 or 10*	*4, 8 or 10*	*4, 8 or 10*	*3–10*	*3–10*	*3–10*	*3–10*	*3*	*2*	*2–12*	*2*	*0 to 5*	

Translation of matrix score to provision range:

Score	Provision
10– 24	5– 13%
25– 39	14– 23%
40– 54	24– 37%
55– 69	38– 58%
70– 84	59– 75%
85– 99	76– 89%
100–119	90– 96%
120–145	97–100%

Notes to the matrix

'A' factors

(1) Moratorium in effect

Score unilateral action by a country to limit debt servicing payments to a creditor,[(A)] either totally or partially. Score 2 if a moratorium has been in effect for up to three months; score 4 for over three and up to twelve months; score 8 for over twelve and up to 36 months. Any moratorium in effect for over 36 months scores 12.

(2) Rescheduled at any time in the last 5 years, or in the process of rescheduling, or has significant transfer problems and/or a limit on debt servicing without agreement from creditors

Score a country that has rescheduled[(B)] either commercial or official debt in the last five years. Score 6 for a rescheduling agreement signed more than three and up to five years ago; score 8 for more than two and up to three years ago. Score 12 for:

(i) an agreement signed up to two years ago;

(ii) an agreement in principle to reschedule; and

(iii) a country which, exceptionally, in the last five years has refused to co-operate in the rescheduling process and whose debt stance is such, or whose transfer problems are so severe, that under normal circumstances it would have had to reschedule in the last five years and in all probability would still have arrears.

(3) Second or more rescheduling of principal amounts rescheduled since January 1983, or transfer problems recorded in column 2

Column to score a country that has rescheduled principal already rescheduled since January 1983. Score 6 for a re-rescheduling agreement signed more than two and up to five years ago; score 8 for an agreement signed more than twelve months and up to two years ago. Score 12 for:

(i) an agreement signed up to twelve months ago;

(ii) an agreement in principle to re-reschedule; and

(iii) a country which, exceptionally, in the last five years has refused to co-operate in the rescheduling process and whose debt stance is such, or whose transfer problems are so severe, that it would have had to reschedule at least twice in the last five years and in all probability would still have arrears.

'B' factors

(4) Significant arrears of interest or principal to IFI's

Score a country that is in arrears[(C)] on either interest or principal to the International Financial Institutions (IMF, World Bank, Regional Development Banks) over the threshold to be declared ineligible to draw on the General Resources Account (in the case of the IMF) *or* to stop disbursement of loans (in the case of the World Bank and Regional Development Banks). Score 10 where arrears have existed for less than two years; score 15 for more than two years.

(5) Arrears of principal on original or rescheduled loans from other external creditors excluding agreed arrears

Score any current arrears of *principal* on loans (*either* original *or* rescheduled) from external creditors other than those taken into account in column (4). Exclude arrears effectively capitalised with the agreement of creditors during the course of the negotiation of a refinancing package. Score

---

(A) **Creditor**
It is only intended that a moratorium in respect of a general class of creditor should be scored. Thus, suspension of payments to an individual creditor or creditor country would not be scored. If a moratorium is about to end the score should be reduced to 2 where applicable.

(B) **Rescheduling** (columns 2 and 3)
For these purposes, rescheduling is defined broadly to include restructuring agreements which reduce a country's debt or debt servicing obligations.

(C) **Arrears** (columns 4 to 6)
In this context arrears arising out of temporary administrative delay which are expected to be corrected within a relatively short period of time should not be scored, whereas generalised and non-correcting arrears should be scored.

4 for arrears in existence for up to three months; score 8 for over three months and up to twelve months; score 10 for over twelve months.

(6) Arrears of interest on original or rescheduled loans from other external creditors excluding agreed arrears

Score any current arrears of *interest* on loans (*either* original *or* rescheduled) from other external creditors. Exclude arrears effectively capitalised with the agreement of creditors during the course of the negotiation of a refinancing package. Score 4 for arrears in existence for up to three months; score 8 for over three months and up to twelve months; score 10 for over twelve months.

(7) New money to clear arrears, or capitalisation of interest arrears, or Paris Club rescheduling of arrears

Score an increase in a country's external indebtedness (in comparison with the level as it would have been had repayments of principal been made as they fell due) resulting from agreements (including those of the Paris Club) which effectively capitalise arrears (excluding agreed arrears) of interest or which reschedule arrears of principal. This applies *inter alia* to capitalisation of arrears on previously rescheduled principal and of long-standing arrears on unrescheduled principal, but excludes payment delays on principal not previously rescheduled which arise during the preparatory stages of a rescheduling agreement. Score 4 for such an agreement signed more than three and up to five years ago; score 8 for more than two and up to three years ago; score 10 for an agreement signed in the last two years.

'C' factors

(8) Interest service ratio

This is defined as interest payable (including interest due but not paid) divided by the value of exports of goods and services (including interest receipts and other factor services) in the latest available twelve months and rounded to one decimal place. An interest service ratio of between 15.0% and 24.9% scores 3; between 25.0% and 34.9% scores 5; between 35.0% and 44.9% scores 7; 45.0% or more scores 10.

(9) Visible import cover

This is defined as the number of months' import cover (ie the annual value of imports divided by 12 and then divided into reserves for the latest available period, the result rounded to one tenth of a month). Reserves should include gold valued at 75% of the market price for the relevant period. Import cover of between 2.0 and 3.9 months scores 3; between 1.0 and 1.9 months scores 5; between 0.5 and 0.9 of a month scores 7; 0.4 of a month or less scores 10.

(10) Debt/GDP ratio

This is defined as total external debt divided by Gross Domestic Product for the latest available period expressed as a percentage and the result rounded to the nearest one tenth of a percentage point. A ratio of between 50.0% and 74.9% scores 3; between 75.0% and 99.9% scores 5; between 100.0% and 149.9% scores 7; 150.0% and over scores 10.

(11) Debt/exports ratio

This is defined as the total external debt divided by the value of exports of goods and services (including interest receipts and other factor services) for the latest available 12 months expressed as a percentage, the result rounded to the nearest percentage point. A debt export ratio of between 200% and 299% scores 3; a ratio of between 300% and 399% scores 5; a ratio of between 400% and 599% scores 7; a ratio of 600% or more scores 10.

(12) Not meeting IMF targets/unwilling to go to IMF

A country should score under this criterion if it is in breach of IMF targets (ie performance criteria for any programme) or is unable or unwilling to go the IMF.

(13) Unfilled financing gap over next 12 months excluding agreed arrears during restructuring negotiations

Score a country which has an unfilled external financing gap between its prospective payments outflows and its prospective inflows over the next 12 months after taking into account all currently available sources of finance. Do not score in cases where an agreement in principle with main creditors to fill a financing gap has been concluded, even where the gap has not actually been filled and arrears remain.

(14) Market price

Score according to the secondary market 'bid' price for the country's debt (as a percentage of face value): for a price of between 50.00% and 69.99% score 2; between 30.00% and 49.99% score 4; between 10.00% and 29.99% score 8; less than 10.00% score 12.

(15) High dependence on single source of income, commodity export, single commodity based export, service earning

Score 2 if 30% or more of the value of a country's exports of goods and services in the latest available 12 months comprised of a single primary commodity, commodity based product or source of service earnings (eg workers' remittances).

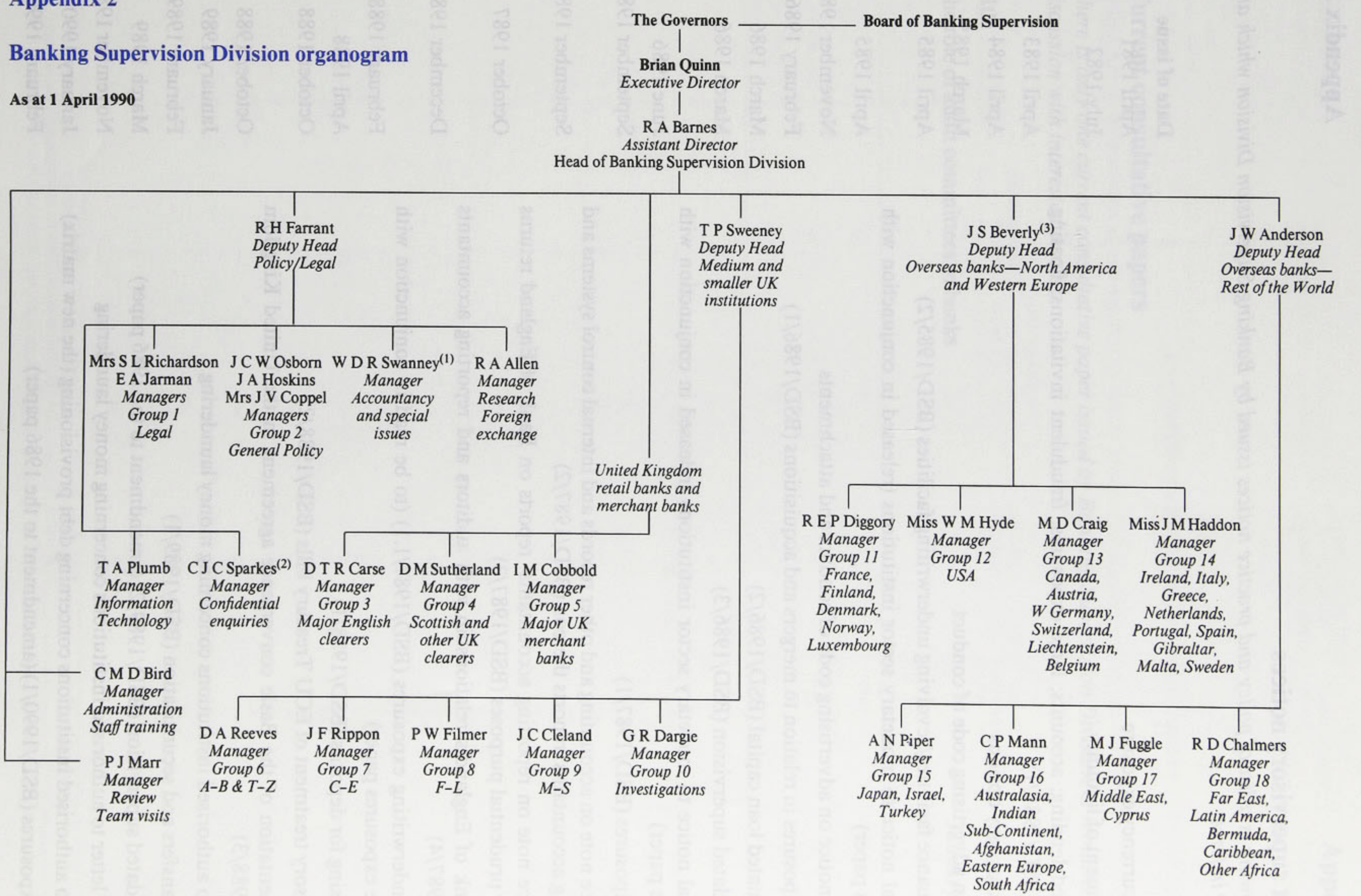
(16) Other factors

Score any number from 0 to 5 depending on your assessment of other conditions in the country (whether economic or political) which affect its ability to repay indebtedness both now and in the future.

Appendix 2

Banking Supervision Division organogram

As at 1 April 1990



(1) Secretary of Board of Banking Supervision.
(2) Secretary of Deposit Protection Board.
(3) Mr Bartlett takes over from Mr Beverly at the end of May.

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
Implementation of the Basle convergence agreement in the United Kingdom (BSD/1988/3)	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

Current consultative papers

There is only one current consultative paper issued by Banking Supervision Division; it remains open for discussion with interested parties.

Title	Date of issue
The role of audit committees in banks	January 1987

Geographical representation of overseas institutions

The following table shows the geographical origins and status of foreign banks represented in the United Kingdom at end-February 1990.

Country of ownership	Branch operations	Subsidiary operations	Controlling (15% or more) stake in consortium banks	Representative offices(1)	Total
Afghanistan	—	1	—	—	1
Argentina	1	—	—	1	2
Australia	9	7	—	—	16
Austria	4	—	—	2	6
Bahamas	—	—	—	2	2
Bahrain	2	—	—	3	5
Bangladesh	1	—	—	1	2
Barbados	1	—	—	—	1
Belgium	5	1	—	—	6
Bermuda	—	—	—	2	2
Brazil	4	—	—	5	9
Bulgaria	—	—	—	1	1
Canada	6	3	—	—	9
China	1	—	—	—	1
Cuba	—	1	—	—	1
Cyprus	3	1	—	—	4
Czechoslovakia	1	—	—	—	1
Denmark	4	2	—	2	8
Ecuador	—	—	—	1	1
Egypt	2	—	—	—	2
Finland	2	1	1	2	6
France	15	6	—	8	29
German Democratic Republic	—	—	—	1	1
German Federal Republic	15	1	—	3	19
Ghana	1	—	—	—	1
Gibraltar	—	—	—	1	1
Greece	1	—	—	3	4
Hong Kong	4	2	1	1	8
Hungary	—	1	—	—	1
India	6	—	—	—	6
Indonesia	1	—	—	3	4
Iran	5	—	1	—	6
Iraq	1	—	—	—	1
Ireland	6	3	—	1	10
Israel	2	2	—	2	6
Italy	12	5	—	28	45
Japan	23	7	2	22	54
Jordan	1	—	1	—	2
Kenya	—	—	—	1	1
Kuwait	1	—	1	4	6
Lebanon	2	—	—	2	4
Liechtenstein	—	1	—	—	1
Luxembourg	2	—	—	4	6
Malaysia	2	—	—	2	4
Mexico	4	—	1	2	7
Netherlands	6	—	—	3	9
New Zealand	2	1	—	—	3
Nigeria	5	—	—	1	6
Norway	3	1	—	1	5
Pakistan	4	—	—	—	4
Panama	—	—	—	1	1
Philippines	2	—	—	—	2

(1) This covers only those representative offices included in the list published by the Bank at the end of January 1990.

Country of ownership	Branch operations	Subsidiary operations	Controlling (15% or more) stake in consortium banks	Representative offices[1]	Total
Poland	1	—	—	—	1
Portugal	3	—	—	2	5
Qatar	1	—	—	—	1
Romania	—	—	1	—	1
Saudi Arabia	3	—	2	3	8
Singapore	4	—	—	—	4
South Africa	4	—	—	3	7
South Korea	6	—	—	6	12
Spain	6	1	—	7	14
Sri Lanka	1	—	—	—	1
Sweden	3	3	1	2	9
Switzerland	10	—	—	14	24
Taiwan	1	—	—	—	1
Thailand	3	—	—	—	3
Turkey	2	1	—	7	10
Uganda	—	—	—	1	1
UAE	4	—	—	—	4
USA	34	16	5	12	67
USSR	—	—	—	—	1
Venezuela	—	—	—	2	2
Yugoslavia	—	—	1	8	9
Zambia	1	—	—	—	1
Totals	**259**	**69**	**18[2]**	**184**	**530[3]**
of which					
EC countries	75	19		62	156
North America	40	19	5	12	76
S E Asia	42	9	3	29	83
Other OECD	35	15	2	28	80
Other	67	7	8	53	135

Indo, Mal, SK, Taiw, Thai Sing = 29

(1) This covers only those representative offices included in the list published by the Bank at the end of January 1990.
(2) Representing 13 institutions. In addition there were two other consortium banks.
(3) Representing 525 institutions.

The authorised population

List of institutions authorised at 28 February 1990

1 UK-incorporated (1)

ANZ Grindlays Bank plc
ANZ McCaughan 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
Argonaut Securities Ltd
Assemblies of God Property Trust
Associated Japanese Bank (International) Ltd (2)
Associates Capital Corporation Ltd
Atlanta Trust Ltd
Authority Bank Ltd
Avco Trust Ltd

BNL Investment Bank plc
Banca Novara (UK) Ltd
Banco Hispano Americano Ltd
Bank in Liechtenstein (UK) 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
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
Business Mortgages 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 (Cheshire) Ltd
The Commercial Bank of the Near East plc
Confederation Bank Ltd
Consolidated Credits Bank Ltd
Co-operative Bank plc
Coutts & Co
Craneheath Securities Ltd
Credito Italiano International Ltd
Credit Suisse First Boston Ltd

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 Creditbank plc
The Dorset, Somerset & Wilts Investment Society Ltd
Dryfield Finance Ltd
Duménil Ltd
Dunbar Bank plc
Duncan Lawrie Ltd

Eagil Trust Co Ltd
East Trust Ltd
Eccles Savings and Loans Ltd
Edington plc
Enskilda Securities-Skandinaviska Enskilda Ltd
Equatorial Bank plc
Euro-Latinamerican Bank plc (2)
Everett Chettle Associates
Exeter Trust Ltd

FIBI Bank (UK) Ltd
Fairmount Trust Ltd
Family Finance Ltd
Federated Trust Corporation 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
Goldman Sachs Ltd
Goode Durrant Bank plc
Granville Trust Ltd
Gresham Trust plc
Greyhound Bank plc
Guinness Mahon & Co Ltd
Gulf Guarantee Bank plc

HFC Bank plc
Habibsons Bank Ltd
Hambros Bank Ltd

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

(2) Consortium banks.

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
International Commercial Bank plc (2)
International Mexican Bank Ltd (2)
Iran Overseas Investment Bank Ltd (2)
Italian International Bank plc

Jabac Finances Ltd
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
Libra Bank plc (2)
Little Lakes Finance 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

MLA Bank Ltd
McDonnell Douglas Bank Ltd
McNeill Pearson Ltd
Manchester Exchange and Investment Bank Ltd
W M Mann & Co (Investments) Ltd
Manufacturers Hanover Ltd
The Mardun Investment Co 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
Moneycare Ltd
Samuel Montagu & Co Ltd
Moorgate Mercantile Holdings plc
Morgan Grenfell & Co Ltd
Moscow Narodny Bank Ltd
Mount Banking Corporation Ltd
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

Omega Trust Co Ltd

PK English Trust Company Ltd
PaineWebber International Bank Ltd
Panmure Gordon Bankers Ltd
The People's Bank Ltd
Philadelphia National Ltd
Pointon York Ltd
Postipankki (UK) Ltd
Prestwick Investment Trust plc
Privatbanken Ltd
The Private Bank & Trust Company Ltd
Property Lending Trust 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 Guarantee Corporation Ltd
Royal Bank of Canada Europe Ltd
The Royal Bank of Scotland plc
Royal Trust Bank
RoyScot Trust plc

SDS Bank Ltd
SP Finance Ltd
Saudi International Bank (2)
(Al-Bank Al-Saudi Al-Alami Ltd)
Scandinavian Bank Group plc
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
Standard Property Investment plc
Sterling Bank & Trust Ltd
Svenska International plc

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

UBAF Bank Ltd (2)
UCB Bank plc
Ulster Bank Ltd
Ulster Bank Trust Company
Union Discount Company Ltd
The United Bank of Kuwait plc (2)
United Dominions Trust Ltd
Unity Trust Bank plc

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 Co Ltd
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 (4)
ASLK-CGER Bank (4)
African Continental Bank Ltd
Algemene Bank Nederland NV (4)
Allied Bank of Pakistan Ltd
Allied Banking Corporation
Allied Irish Banks plc (4)

(2) Consortium banks.

(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.

American Express Bank Ltd (5)
Amsterdam-Rotterdam Bank NV (4)
Arab African International Bank
Arab Bank Ltd
Arab Banking Corporation BSC
Australia & New Zealand Banking Group Ltd (5)

BSI-Banca della Svizzera Italiana (5)
Banca Commerciale Italiana (4)
Banca Nazionale dell'Agricoltura SpA (4)
Banca Nazionale del Lavoro (4)
Banca Popolare di Milano (4)
Banca Serfin SNC
Banco Bilbao-Vizcaya (4)
Banco Central, SA (4)
Banco de la Nación Argentina
Banco de Sabadell (4)
Banco di Napoli (4)
Banco di Roma SpA (4)
Banco di Santo Spirito (4)
Banco di Sicilia (4)
Banco do Brasil SA
Banco do Estado de São Paulo SA
Banco Espirito Santo e Comercial de Lisboa (4)
Banco Exterior—UK SA (4)
Banco Mercantil de São Paulo SA
Banco Nacional de México SNC
Banco Portugues do Atlantico (4)
Banco Real SA
Banco Santander (4)
Banco Totta & Acores SA (4)
Bancomer SNC
Bangkok Bank Ltd
Bank Julius Baer & Co Ltd
Bank Bumiputra Malaysia Berhad
Bank für Gemeinwirtschaft AG (4)
Bank Handlowy w Warszawie SA
Bank Hapoalim BM
Bank Mees & Hope NV (4)
Bank Mellat
Bank Melli Iran
Bank Negara Indonesia 1946
Bank of America NT & SA (5)
Bank of Baroda
The Bank of California NA (5)
Bank of Ceylon
Bank of China
Bank of Credit and Commerce International SA (4)
The Bank of East Asia Ltd
Bank of India
The Bank of Ireland (4)
Bank of Montreal (5)
Bank of New England NA (5)
The Bank of New York (5)
Bank of New Zealand (5)
The Bank of Nova Scotia (5)
Bank of Oman Ltd
Bank of Seoul
The Bank of Tokyo, Ltd (5)
The Bank of Yokohama, Ltd (5)
Bank Saderat Iran
Bank Sepah-Iran
Bank Tejarat
Bankers Trust Company (5)
Banque Arabe et Internationale d'Investissement (4)
Banque Belgo-Zairoise SA (4)
Banque Bruxelles Lambert SA (4)
Banque de l'Orient Arabe et d'Outre-Mer
Banque Française de l'Orient (4)
Banque Française du Commerce Extérieur (4)
Banque Indosuez (4)
Banque Internationale à Luxembourg SA (4)
Banque Internationale pour L'Afrique Occidentale SA (4)
Banque Nationale de Paris (4)
Banque Paribas (4)
Banque Worms (4)
Barbados National Bank
Bayerische Hypotheken—und Wechsel—Bank AG (4)
Bayerische Landesbank Girozentrale (4)
Bayerische Vereinsbank AG (4)
Beirut Riyad Bank SAL
Bergen Bank A/S (5)
Berliner Bank AG (4)
Berliner Handels-und Frankfurter Bank (4)
Byblos Bank SAL

CIC—Union Européenne, International et Cie (4)
Caisse Nationale de Crédit Agricole (4)
Canadian Imperial Bank of Commerce (5)
Canara Bank
Cassa di Risparmio delle Provincie Lombarde (4)

The Chase Manhattan Bank, NA (5)
Chemical Bank (5)
Cho Hung Bank
Christiania Bank og Kreditkasse (5)
The Chuo Trust & Banking Co, Ltd (5)
Citibank NA (5)
Commercial Bank of Korea Ltd
Commerzbank AG (4)
Commonwealth Bank of Australia (5)
Confederacion Española de Cajas de Ahorros (4)
Continental Bank, National Association (5)
Copenhagen Handelsbank A/S (4)
Crédit Commercial de France (4)
Crédit du Nord (4)
Crédit Lyonnais (4)
Crédit Lyonnais Bank Nederland NV (4)
Crédit Suisse (5)
Creditanstalt—Bankverein (5)
Credito Italiano (4)
Cyprus Credit Bank Ltd
The Cyprus Popular Bank

The Dai-Ichi Kangyo Bank, Ltd (5)
The Daiwa Bank, Ltd (5)
Den Danske Bank af 1871 Aktieselskab (4)
Deutsche Bank AG (4)
Deutsche Genossenschaftsbank (4)
The Development Bank of Singapore Ltd
Discount Bank and Trust Company (5)
Dresdner Bank AG (4)

Fidelity Bank NA (4)
First Bank National Association (5)
First Bank of Nigeria Ltd
First City, Texas-Houston, NA (5)
First Commercial Bank
First Interstate Bank of California (5)
The First National Bank of Boston (5)
The First National Bank of Chicago (5)
Fleet National Bank (5)
French Bank of Southern Africa Ltd
The Fuji Bank, Ltd (5)

Generale Bank (4)
Ghana Commercial Bank
Girozentrale und Bank der österreichischen Sparkassen AG (5)
Götabanken (5)
Gulf International Bank BSC

Habib Bank AG Zurich (5)
Habib Bank Ltd
Hamburgische Landesbank Girozentrale (4)
Hanil Bank
Harris Trust and Savings Bank (5)
Hessische Landesbank—Girozentrale (4)
The Hokkaido Takushoku Bank, Ltd (5)
The Hongkong and Shanghai Banking Corporation Ltd

The Industrial Bank of Japan, Ltd (5)
The Investment Bank of Ireland Ltd (4)
Istituto Bancario San Paolo di Torino (4)

Jyske Bank (4)

Kansallis-Osake-Pankki (5)
Keesler Federal Credit Union (5)
Korea Exchange Bank
Korea First Bank
Kredietbank NV (4)
The Kyowa Bank, Ltd (5)

The Long-Term Credit Bank of Japan, Ltd (5)

Malayan Banking Berhad
Manufacturers Hanover Trust Company (5)
Mellon Bank, NA (5)
Merchants National Bank & Trust Company of Indianapolis (5)
Middle East Bank Ltd
The Mitsubishi Bank, Ltd (5)
The Mitsubishi Trust and Banking Corporation (5)
The Mitsui Bank, Ltd (5)
The Mitsui Trust & Banking Co Ltd (5)
Monte dei Paschi di Siena (4)
Morgan Guaranty Trust Company of New York (5)
Multibanco Comermex SNC

NCNB National Bank of North Carolina (5)
NCNB Texas National Bank (5)
NMB Postbank Groep NV (4)
National Australia Bank Ltd (5)
National Bank of Abu Dhabi

(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.

National Bank of Canada (5)
National Bank of Detroit (5)
The National Bank of Dubai Ltd
National Bank of Egypt
National Bank of Greece SA (4)
The National Bank of Kuwait SAK
The National Bank of New Zealand Ltd (5)
National Bank of Nigeria Ltd
The National Commercial Bank (5)
National Bank of Pakistan
NedPerm Bank Ltd
New Nigeria Bank Ltd
The Nippon Credit Bank, Ltd (5)
Norddeutsche Landesbank Girozentrale (4)
The Northern Trust Company (5)

Osterreichische Länderbank AG (5)
Oversea-Chinese Banking Corporation Ltd
Overseas Trust Bank Ltd
Overseas Union Bank Ltd

Philadelphia National Bank (5)
Philippine National Bank
Provinsbanken A/S (4)

Qatar National Bank SAQ

Rabobank Nederland (4)
(Cooperatieve Centrale Raiffeisen-Boerenleenbank BA)
Rafidain Bank
Raiffeisen Zentralbank Osterreich AG (5)
Republic National Bank of New York (5)
Reserve Bank of Australia (5)
The Riggs National Bank of Washington, DC (5)
Riyad Bank (5)
The Royal Bank of Canada (5)
The Rural and Industries Bank of Western Australia (5)

The Saitama Bank, Ltd (5)
The Sanwa Bank, Ltd (5)
Saudi American Bank (5)
Seattle—First National Bank (5)
Security Pacific National Bank (5)
Shanghai Commercial Bank Ltd
The Siam Commercial Bank, Ltd
Skandinaviska Enskilda Banken (5)

Société Générale (4)
Sonali Bank
State Bank of India
State Bank of New South Wales (5)
State Bank of South Australia (5)
State Bank of Victoria (5)
State Street Bank and Trust Company (5)
Sudwestdeutsche Landesbank Girozentrale (5)
The Sumitomo Bank, Ltd (5)
The Sumitomo Trust & Banking Co Ltd (5)
Svenska Handelsbanken (5)
Swiss Bank Corporation (5)
Swiss Cantobank (International) (5)
Swiss Volksbank (5)
Syndicate Bank

TC Ziraat Bankasi (5)
TDB American Express Bank (5)
The Taiyo Kobe Bank, Ltd (5)
The Thai Farmers Bank Ltd
The Tokai Bank, Ltd (5)
The Toronto-Dominion Bank (5)
The Toyo Trust & Banking Company, Ltd (5)
The Trust Bank of Africa Ltd
Turkish Bank Ltd
Turkiye Iş Bankasi AŞ (5)

Uco Bank
Ulster Investment Bank Ltd (4)
Union Bank of Finland Ltd (5)
Union Bank of Nigeria Ltd
Union Bank of Norway (5)
Union Bank of Switzerland (5)
United Bank Ltd
United Mizrahi Bank Ltd
United Overseas Bank (5)
(Banque Unie pour les Pays d'Outre Mer)
United Overseas Bank Ltd

Volkskas Bank Ltd

Westdeutsche Landesbank Girozentrale (4)
Westpac Banking Corporation (5)

The Yasuda Trust & Banking Co, Ltd (5)

Zambia National Commercial Bank Ltd
Zivnostenská Banka National Corporation

(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.

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

Abbey National plc
Abbey National Treasury Services plc
Confederation Bank Ltd
Kleinwort Benson Investment Management Ltd
The National Home Loans Bank plc
The Private Bank & Trust Company Ltd
Property Lending Trust plc

2. Incorporated outside the United Kingdom

ASLK-CGER Bank
Banca Popolare di Milano
The Bank of East Asia Ltd
Banque de l'Orient Arabe et d'Outre-Mer
Banque Française de l'Orient
Hamburgische Landesbank Girozentrale
Merchants National Bank & Trust Company of Indianapolis
Raiffeisen Zentralbank Osterreich AG

Deletions

1. UK-incorporated

Associated Credits Ltd
Canadian Laurentian Bank Ltd
Central Capital Mortgage Corporation Ltd
Charter Consolidated Financial Services Ltd
Coutts Finance Co
EBC Amro Bank Ltd
First Indemnity Credit Ltd
Ford Financial Trust Ltd
International Westminster Bank plc
Medens Trust Ltd
Quin Cope Ltd(1)
Sangster Trust Corporation
Spry Finance Ltd

2. Incorporated outside the United Kingdom

Al Saudi Banque SA
The Bank of New York(2)
Banque du Liban et d'Outre-Mer SAL
First Wisconsin National Bank of Milwaukee
Muslim Commercial Bank Ltd

Name changes

1. UK-incorporated

Aitken Hume Ltd	*to*	Aitken Hume Bank plc
Allied Arab Bank Ltd	*to*	Allied Trust Bank Ltd
BC Finance Ltd	*to*	Birmingham Capital Trust plc
Business Mortgages Trust plc	*to*	Business Mortgages Bank plc
CL-Alexanders Discount plc	*to*	Alexanders Discount plc
James Capel Bankers Ltd	*to*	HongkongBank London Ltd
ET Trust Ltd	*to*	Commercial Bank (Cheshire) Ltd
Greyhound Bank Ltd	*to*	Greyhound Bank plc
Grindlays Bank plc	*to*	ANZ Grindlays Bank plc
Industrial Funding Trust Ltd	*to*	Anglo Irish BankCorp (UK) plc
Itab Bank Ltd	*to*	London Italian Bank Ltd
London & Continental Bankers Ltd	*to*	DG Investment Bank Ltd
London Law Securities Ltd	*to*	Duménil Ltd
The National Home Loans Bank plc	*to*	The National Mortgage Bank plc
North West Securities Ltd	*to*	NWS Bank plc
Orion Royal Bank Ltd	*to*	Royal Bank of Canada Europe Ltd
SFE Bank Ltd	*to*	Banca Novara (UK) Ltd
Standard Chartered Merchant Bank Ltd	*to*	Chartered WestLB Ltd
TSB England & Wales plc	*to*	TSB Bank plc
TSB Northern Ireland plc	*to*	TSB Bank Northern Ireland plc
TSB Scotland plc	*to*	TSB Bank Scotland plc
Trucanda Trusts Ltd	*to*	Matlock Bank Ltd
Welbeck Finance plc	*to*	The First Personal Bank plc

2. Incorporated ouside the United Kingdom

Allied Irish Finance Co Ltd	*to*	AIB Finance Ltd
Allied Irish Investment Bank plc	*to*	AIB Capital Markets plc
Banca della Svizzera Italiana	*to*	BSI-Banca della Svizzera Italiana
First City National Bank of Houston	*to*	First City, Texas-Houston, NA
The Hongkong and Shanghai Banking Corporation	*to*	The Hongkong and Shanghai Banking Corporation Ltd
Irving Trust Company	*to*	The Bank of New York(2)
Nedbank Ltd	*to*	NedPerm Bank Ltd
Nederlandsche Middenstandsbank NV	*to*	NMB Postbank Groep NV
Volkskas Ltd	*to*	Volkskas Bank Ltd

(1) Supervised by Wholesale Markets Supervision Division.
(2) Irving Trust Company merged with The Bank of New York and adopted its name.

Report by the Board of Banking Supervision

Board of Banking Supervision
Membership as at 28 February 1990

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

This is the Board's report for the year to the end of February 1990.

There were a number of changes in the membership of the Board during the year. Sir Philip Wilkinson resigned from the Board with effect from 24 July 1989, and Sir Donald Barron retired on 3 November 1989. Mr Caldecott's term of office also expired on 3 November 1989, and he was re-appointed for a further five-year term.

Mr Peter Leslie was appointed to the Board with effect from 1 November 1989 and Lord Swaythling was appointed with effect from 1 January 1990, both for a term of five years.

The Board wishes to acknowledge its appreciation of the valuable contribution which Sir Donald Barron has made as a member both of the Board and of its non-statutory predecessor. The Board also thanks Sir Philip Wilkinson for the contribution he made in his short period of membership.

Sir George Blunden retired from his position as Deputy Governor of the Bank on 28 February 1990. He was succeeded as Deputy Governor and ex-officio member of the Board by Mr E A J George. The Board wishes to record its gratitude to Sir George Blunden for his guidance and direction while it was a non-statutory body and in the years since its formal establishment under the 1987 Banking Act.

The Board met 18 times during the year, routinely each month, together with six additional meetings. It continued to keep 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.

Reports on the work of the Banking Supervision Division continued to be received each month. These covered matters of general policy and the Bank's handling of individual cases. The independent members in these and other cases offered advice, and called for further information where they thought it right to do so. The views of the independent members were also sought by the Bank on a wide range of other questions including those raised by consultative papers issued by the Division. 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 reviewed developments concerning a number of authorised institutions and covering a wide range of circumstances, many involving the taking of action under the Banking Act. In other cases, the Board was made aware of matters of concern which appeared to be arising in respect of particular institutions and offered its advice as appropriate.

Among other cases during the last year the Board played an important role in advising the Bank in relation to action it proposed to take 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's advice was particularly sought on the nature of the action the Bank proposed to take, whether using its formal powers under the Banking Act or within the scope of its normal supervisory role.

The Board reviewed questions concerning the ownership of UK banks both generally and specifically, the implementation of the G10 central banks' proposals for convergence of capital adequacy standards and the operation of the reporting accountants arrangements. The Board considered a paper on the incidence of illegal deposit-taking in the United Kingdom, and the resources devoted by the Bank to investigate these cases. The Board gave close attention to the approach which the Bank should follow and encouraged an increase in the resources allocated to this area.

The Board also discussed further papers on commercial and residential property lending and on lending for leveraged acquisitions, and three papers dealing with specific sectors of the banking industry.

Secretary, by order of the Board