Transparency and financial reporting in mid-twentieth century British banking

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Abstract

Until 1970, British banks were firm believers in the merits of ‘non-disclosure’, which obscured their ‘true’ profits and capital through profits smoothing and the use of hidden reserves. Many other companies adopted the same view for as long as legislation permitted, but there were special reasons why non-disclosure endured for longer in banking. This paper examines the persistence and demise of non-disclosure in banking, placing it in the context of the wider development of financial reporting in Britain, and highlights similarities and differences in financial reporting between banks and other types of company.

Keywords: Banks; Hidden reserves; Disclosure; Transparency; Stability

1. Introduction

Transparency in modern financial reporting is considered crucial in helping users to understand, and reach their own conclusions about, businesses. The volume of information available has reached levels not previously seen and continues to grow as reporting requirements become more extensive and voluntary disclosures are made for a variety of reasons. There is wide acceptance that this long-term trend is appropriate in today’s business world with greater emphasis on corporate governance issues, driven by more demanding shareholders and other interested parties. Major corporate scandals or crises, such as Enron in the USA and Equitable Life in the UK, prompt calls for increased transparency in financial reporting, although it is not obvious that reforms reduce the incidence of such events (Hooper and Kearins, 2007).

But disclosure and the resulting transparency have not always been considered desirable in all circumstances. An example is the banking sector in Britain, where only on publication of the major banks’ 1969 financial statements, an event referred to
in this paper as ‘disclosure’, did their ‘true’ profits and capital become known. Banks enjoyed, at first through custom and practice and later through legal exemption, reporting requirements which permitted them to avoid reporting ‘true’ profits and capital. The maintenance of ‘inner’ or ‘hidden’ reserves allowed banks to smooth their reported profits and understate their capital strength, thereby reassuring depositors and shareholders of their financial soundness and prudent behaviour through conservative accounting.

This paper considers how and why this shift towards fuller disclosure in British banks’ financial reporting unfolded. First we introduce the arguments for and against transparency in financial reporting by banks, followed by a description of the techniques used to support non-disclosure and some changes in banks’ published accounts over time. We next compare the financial reporting practices of banks to those of other British companies, before discussing how the banks gained and later surrendered a unique legal status for their financial reporting. We then consider explanations for the persistence and ultimate demise of non-disclosure before reaching a conclusion.

2. Financial reporting by banks and transparency

2.1 The international regulatory consensus

Currently the framework of banking regulation is extensive and there is a clear international consensus that transparency in banks’ financial reporting is desirable. Thus, the provision of information on a transparent and timely basis, reflected in Pillar 3 of the Basel 2 Accord, is intended to allow more effective operation of market discipline by the providers of capital, depositors, and other market counterparties (see, for example, Heffernan, 2005, pp.203, 216-8).

But while disclosure and transparency are considered fundamental in modern financial markets, significant international differences in these areas have been recognised. Banks in Japan and Germany, for instance, have been considered notably less transparent in their reporting than those in the UK or USA (see, for example, Sawabe
Transparency and financial reporting in mid-twentieth century British banking (2002) and ‘Japan’s banks: Surreal’, *Economist*, 20 April 2002, p.89). However, international comparability should be enhanced by moves towards greater uniformity in financial reporting such as the recent adoption by EU-listed groups of International Financial Reporting Standards.

### 2.2 Transparency and regulated disclosure

A recent study, which relates the incidence of banking crises in the 1990s to the regulation of disclosures made by banks, characterised the arguments over disclosure in banking into two categories: ‘transparency-stability’ and ‘transparency-fragility’ (Tadesse, 2006). The ‘transparency-stability’ view is reflected in the Basel 2 Accord: disclosure enhances transparency and improves information flows, thereby helping market discipline and leading to the more efficient allocation of resources, with sound banks rewarded and the unsound penalised. The ‘transparency-fragility’ view, which prevailed in Britain until the 1970s, holds that ‘disclosure creates “negative externalities”’ (Tadesse, 2006, p.34). These include the possibility that disclosure that particular banks faced financial difficulties would stimulate bank-runs, which would disrupt the banking system as a whole and have wider negative economic consequences.

This view has been reflected in attempts to curb banking transparency in different countries at different times. For example, Bernal Lloréns (2004) reveals that in mid-nineteenth century Spain publication of financial statements of banks became less frequent during periods of financial crisis. In Italy in 1931-2 Mussolini’s government helped to prevent a crisis by suppressing information through ‘... the suspension of publication of regular accounts of balances and assets ...’ (James, 1992, p.611).

### 3. Non-disclosure in banks’ published accounts

#### 3.1 Background to non-disclosure and banking market structure

This paper uses the term ‘non-disclosure’ to describe a number of techniques adopted by British banks before 1970 to obscure ‘true’ profits and capital and otherwise
present a different picture from the underlying reality. These mainly reflect the non-recognition of transactions or balances in the primary financial statements, or through a lack of description in the notes to the accounts.

Many of the banks' financial accounting practices arose from their origins as private banks and partnerships. Most such banks had been absorbed in the amalgamation process which by 1920 had produced the ‘Big Five’ joint-stock banks in England and Wales, known by this date or within a few years as Barclays, Lloyds, Midland, National Provincial, and Westminster. Together with a handful of smaller banks, the Big Five were ‘clearing banks’, with access to the London Clearing House through which cheques were cleared. The Big Five retained shares of commercial bank deposits and advances in excess of 80 per cent until the late 1960s, but increasing financial sophistication and competition from other institutions eroded their share in the overall market for financial services, despite their attempts to diversify.

The Big Five all made significant use of hidden reserves, and obscurity in financial reporting by banks was the norm. Capie and Billings (2001) characterise the 1920s and 1930s as periods of profits smoothing, but other periods, notably the 1950s, as periods of profits understatement. For the Big Five, ‘true’ capital always exceeded published capital during the period of non-disclosure, but the extent of understatement in published financial statements varied considerably from bank to bank and over time (Billings and Capie, 2007). The example in Table 1 illustrates how the various practices contributing to non-disclosure could affect the published accounts of a major bank and these practices are now discussed in more detail. [INSERT TABLE 1 HERE]

3.2 Profits smoothing and hidden reserves

‘Profits smoothing’ was facilitated by the use of, and transfers to and from, ‘hidden’ or ‘inner’ reserves. Hidden reserves resulted in the understatement of capital in published accounts, and in turn distorted other balance sheet figures because hidden reserve balances, as Table 1a illustrates, could be included in published deposits totals and/or netted off advances and/or investments. Some banks maintained only one
hidden reserve, others several, and practices changed over time. In the example given in Table 1a, the total hidden reserves amounted to around two-thirds of published capital, and part of these balances was deducted from investment headings in the balance sheet.

Various devices were used in published accounts to indicate the existence and use of hidden reserves, such as subtleties in the wording and titles of balances or account headings (Edwards, 1981, pp.36-41; 1989, pp.138-9). It was usual to show a single balance sheet heading ‘deposits and other accounts’, which included at least some part of hidden reserves. Asset valuation policies, including accounting for fixed assets, investments and subsidiaries, were obscure, rarely clearly stated, and often contributed to profits smoothing (Capie and Billings, 2001). For example, ‘... before World War One in the main it was probably undervaluation of assets wherein lay the greatest part of hidden reserves’ (Goodhart, 1972, p.20), including a tendency to over-provide for bad debts (Goodhart, 1972, pp.23-5).

Valuations of bank premises remained an area of difference and ambiguity in published financial statements. There was no generally accepted basis for valuation and only in the 1960s and 1970s did banks revalue properties to reflect increases in value (Capie and Billings, 2001, pp.237-8). But there was an awareness of the implications of the valuations shown in published balance sheets. For example, in 1948 Barclays’ concern that its premises valuation was unrealistically low, failing to reflect market values, led to fears that this could result in inadequate compensation to shareholders in the event of nationalisation, then considered a realistic possibility. The bank investigated possible solutions to allow a higher valuation to be shown, although this came to nothing, as did a similar exercise in 1954 (Ackrill and Hannah, 2001, pp.134-5).

Banks sometimes made unambiguous statements to shareholders’ meetings to stress the conservativeness of their accounting and indicate that they were smoothing profits or making use of hidden reserves. There were examples in 1902 and 1905 when significant undervaluations of bank premises were clearly signalled (Goodhart, 1972, pp.20-1). Similar comments in chairmen’s statements or answers to shareholders’
questions are found in later periods, particularly in the 1920s and 1930s and again in the 1950s, but more typically on matters such as ‘exceptional’ bad debts and investment profits and losses, rather than underlying profitability. Examples include Lloyds’ 1925, 1927, 1930, 1931 and 1943 annual general meetings (AGMs) and the smaller Williams Deacon’s AGM in 1930.

3.3 Balance sheet categorisation

Although the published accounts of different banks show strong similarities in appearance, a consequence of non-disclosure was that many balance sheet categories lacked common definition between banks, and definitions used by individual banks changed over time. Two examples can be noted. Lloyds was concerned immediately after World War Two that its accounts appeared to show a smaller proportion of its assets in the form of customer lending than at other major banks. This resulted from greater disaggregation in balance sheet presentation, with ‘Advances’, ‘Balances with Banks Abroad’, ‘Items in Transit’ and ‘Other Assets and Accounts’ shown as separate items, whereas other banks combined these categories (Lloyds TSB, Winton ‘Post-War Reconstruction’: ‘Draft of Notes for Chairman of Meeting of Central Committee’, 14 January 1946). A similar issue arose in 1961 when several banks made reclassifications between the balance sheet categories ‘Money at Call’, ‘Advances’ and ‘Bills Discounted’ as a result of differences which emerged from the implementation of additional reporting requirements arising from the 1959 Radcliffe Report (BoE, EID 4/110). The banks learned the lesson of such inconsistencies and prepared in great detail for disclosure in 1970.

3.4 Window-dressing of cash balances

The amount of cash shown on a bank’s balance sheet is one indicator of its soundness. The practice of ‘window-dressing’, which originated in the second half of the nineteenth century when banks began to publish balance sheets on a regular basis, was used by the clearing banks until the 1940s to inflate cash balances at balance sheet dates to give the appearance of greater liquidity. There were various methods of window-dressing, such as the taking of deposits from other banks with different
balance sheet dates for short periods across year-ends. Other methods included the shuffling of short-term assets just before balance sheet dates to boost cash balances, such as arranging that holdings of bills of exchange matured just prior to balance sheet dates and recalling short-term money market deposits. Through such methods Lloyds Bank, for example, systematically overstated its cash ratios, although the extent of overstatement varied over time - typically it showed cash representing more than 10 per cent of total assets in published financial statements when the true ratios were between 9 and 10 per cent (Winton, 1982, pp.80-2).

The Bank of England (‘the Bank’), concerned about the impact of window-dressing on cash ratios and hence on credit creation, estimated that window-dressing raised cash ratios overall by 1-2 per cent in both 1927 and 1930, but by at least 2 per cent in 1943 and 1946 (BoE, EID 4/31 and EID 4/36). Not all banks indulged in the practice to the same extent or, indeed, supported it. During World War Two ‘... the Midland was strongly in favour of abandoning the practice and ... have so arranged their affairs for a number of years past as to avoid the necessity of window dressing’ (BoE, C40/101, Note to Governor, 30 July 1945). Its official demise came at the end of 1946, by agreement between the banks prompted by the Bank, which then placed greater emphasis on a broader liquidity ratio. Capie and Webber’s analysis of the clearing banks led them to conclude that ‘... there probably was a genuine attempt to cease doing this after 1946’ (1985, p.268), although some believe that manipulation continued after its official abandonment. Indeed, the practice was apparently commonplace among the ‘secondary banks’ which developed in the 1960s and early 1970s, including London & County Securities, which collapsed in a spectacular manner in 1973 (Matthews, 2005).

3.5 Valuation of government securities

The valuation of securities was another area of obscurity in bank balance sheets. Banks rarely held investments other than British government securities with fixed

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1 Capie and Webber (1985, pp.266-8) and Collins (1988, pp.241-3) provide detailed discussions of window-dressing.
maturity dates, ‘trade investments’ in other financial institutions, and small holdings in certain other types of fixed interest securities such as colonial government bonds. The traditional formula for the balance sheet valuation of fixed interest securities was to state these ‘at or below market value’.²

In 1952, in response to a sharp fall in prices of government securities, four of the Big Five banks (the exception was National Provincial) changed their valuation basis to ‘at or under cost and below redemption price’, with aggregate market value disclosed in a footnote when below balance sheet value, although the Companies Act 1948 did not require this. Traditionally the banks sought to obscure falls in the value of such securities by deducting hidden reserve balances from balance sheet values to reduce the apparent size of unrealised losses, thereby signalling financial strength. The banks’ fear that hidden reserve balances would be insufficient to cover unrealised depreciation prompted the changed valuation basis.³ Some banks also purchased additional securities to inflate balance sheet figures to try to obscure falls in value (for example, Barclays - Ackrill and Hannah, 2001, p.138), a practice also followed in the early 1900s, if not earlier (Goodhart, 1972, p.25).

In 1931, when similar circumstances to the 1950s had arisen, the banks drew on published reserves to write down balance sheet values of government securities, adjustments later reversed as securities prices rose. The 1952 change in practice attracted much attention at the time (Economist, July 19 1952, pp.180-2; The Banker, August 1952, pp.63-71), although disclosure of market values produced little impact: ‘The practice ... caused no stir in the market’ (Checkland, 1975, p.632). This perhaps showed the weakness of the transparency-fragility view, and may ultimately have allowed the banks to move towards disclosure with fewer concerns.

² Ma (1982) found limited but suggestive evidence on the use of market prices for such valuations in the nineteenth century.

³ Billings and Capie (2007, p.151, Table 7) demonstrate the large fluctuations in unrealised profits and losses on investments between balance sheet dates. Intra-year fluctuations could be more extreme.
At a time when the banks were still prevented from raising new capital, the changed practice in the 1950s caused private concerns at the Bank: ‘... it will be seen that the capital structure of the Clearing Banks is far from sound ... At present it is clear that in times of trouble they must either put footnotes on their balance sheets - which we deplore - or lean on us for financial aid, which would be disastrous ...’ (BoE, C40/102, note to Chief Cashier and The Governors, 26 September 1958). Thus, the Bank viewed the banks’ use of such footnotes as a sign of weakness. But it seems the Bank was inconsistent in its attitude, as the change in practice between the 1930s and 1950s was apparently based on the Bank Governor’s advice (Tuke and Gillman, 1972, pp.14, 34-5).

Historians of different banks view very differently the significance of unrealised losses on investments, despite their magnitude. The historians of Lloyds and the Midland (supported by Capie and Billings, 2001, pp.228-9) do not consider such losses to be of great significance, whereas Barclays’ historians regard them more seriously (Ackrill and Hannah, 2001, pp.137-9; Holmes and Green, 1986, pp.219; Winton, 1982, p.163). But the banks’ preoccupation with the valuation basis and disclosure of investments can be questioned. Securities prices could be observed directly and inferences about the value of investments drawn from these. Furthermore, in the absence of liquidity pressures forcing the sale of fixed interest securities, those with fixed maturity dates (virtually all) could be held to maturity, limiting capital losses to any premiums paid over redemption prices. This argument has persisted in recent debates over distinctions between ‘trading’ and ‘investment’ portfolios. What is interesting is that the banks believed that fluctuating securities prices mattered, and chose to manipulate their financial statements to minimise the apparent impact.

3.6 Securities holdings in industrial companies

An intriguing issue relating to the disclosure of investments arose after implementation of the Companies Act 1929. At this time Westminster Bank owned £500,000 6 per cent Preference Shares and £750,000 6 per cent Debentures in the Partington Iron and Steel Company, giving the bank beneficial ownership of 53 per
cent of the company. Westminster was concerned that the Act would require
disclosure of Partington as a subsidiary, but the bank and its auditors concluded that
this was unnecessary as full provision had been made against the Westminster’s
exposure and therefore no value was attributed to the bank’s holdings (RBS,
WES/1174/47).  

The strong desire to avoid showing an industrial company as a subsidiary reflects
concerns about the disclosure of information during a sensitive period for banks and
many of their customers, particularly those in traditional manufacturing industries.
Westminster would have had several reasons for wishing to conceal its interest in
Partington: a simple desire to protect customer confidentiality; an unwillingness to
appear to be acting as a ‘universal’ bank on the stereotypical continental European
model - although differences between the English and continental European systems
may have been exaggerated (Collins, 1998); and the moral hazard issue of not wishing
to signal to other industrial customers its preparedness to accept securities in place of
straightforward short-term advances.

4. Comparisons between banks and other companies

Until the Companies Acts of 1947 and 1948 the legal position of banks in relation to
financial reporting did not differ from that of other companies. Arnold and Matthews
(2002 [hereafter AM], p.14) agree with Maltby (2000) that these Acts were the
catalysts for change in financial reporting generally, ‘rather than a change of position
towards corporate disclosure on the part of the business community’. We now
compare the level of disclosure by banks to that of the wider population of companies
in this period.

4 Tolliday (1987, pp.211-2) discusses Westminster’s relationship with Partington,
part of the Pearson and Knowles Group, in turn 75% owned by Armstrong Whitworth.
4.1 Hidden reserves

The professionalisation of auditing in the nineteenth century appears to have encouraged the general use of hidden reserves, not least as protection against shareholders with excessive dividend expectations. Maltby (1999, p.29) argues that ‘a distinctive competence’ of and ‘an important contributing factor in the rise of the audit profession ... was its advice on prudent accounting’, one aspect of which was the use of hidden reserves, believed to be commonplace by the late nineteenth century (Napier, 1995, p.266), and defended by the ICAEW’s president in 1904 (Maltby, 1999, pp.44-5). The accounting profession was generally supportive of hidden reserves and ‘... the concept ... did, overall, receive approval from those witnesses [5] who gave evidence before the Greene [1925 Company Law Amendment] Committee’ (Edwards, 1976, p.280), with the example of banks cited to support this view (ibid: p.287; Bircher, 1991, p.60).

Available evidence seems to support the view that in the late nineteenth and early twentieth centuries banks were the most likely users of hidden reserves (Arnold, 1996, pp.47-9). For example, the Midland, usually the largest bank before 1970, first established a hidden reserve (‘contingent fund’) in 1866 (Holmes and Green, 1986, pp.52 and 328). Overall, the evidence on hidden reserves is unsatisfactory. AM (pp.7, 12-13) and Edwards (1981, pp.35-41; 1989, pp.138-41) note that while the wordings and titles used in financial statements demonstrate the existence of hidden reserves and their use in profits smoothing, their extent is unclear. Arnold (1997 and 1998) provides evidence on the extent of hidden reserves over the period 1900-24, and, together with Edwards (1976, p.278) and Napier (1995, p.272), argues that the difficult economic conditions after World War One and uncertainties of wartime taxation encouraged a decline in the standards of financial reporting. It is clear, however, that generalisations are problematic and there were notable industry variations, with particularly sharp declines in disclosures by shipping companies after World War One (Arnold, 1997).

5 Including, for example, the eminent accountant Francis D’Arcy Cooper, chairman of Lever Brothers Limited (Edwards, 1989, p.149).
AM reviewed disclosure practices in the period 1920-50 for a sample of 50 of the UK’s largest listed companies drawn from a range of sectors, excluding financial institutions. Their analysis of the wordings employed in accounts appears to indicate that the existence of hidden reserves in large non-banking companies increased between 1920 and 1935, although their use in smoothing profits diminished, in line with the implications of the Royal Mail group (hereafter RMG) case discussed below (AM, p.13). For example, the use of the term ‘balance for the year’ in profit and loss accounts was regarded as a coded reference to the use of hidden reserves in smoothing profits (ibid: p.12). Further evidence is provided by Arnold and Collier (2007), who show that in a sample of 21 of the largest 100 British industrial companies in 1948, two-thirds had made recent use of hidden reserves. On average hidden reserves represented only around 10 per cent of total reserves in these companies, much less than in a typical bank, although their extent and treatment in published accounts varied greatly from company to company (ibid, pp.59-65).

AM’s findings indicate some similarity in trends to the Big Five - an increasing number of items appearing in balance sheets and greater provision of consolidated accounts over time. The Companies Act 1928 required publication of profit and loss accounts, increasing the number of non-banks publishing these. Although the banks had published profit and loss accounts before this Act, their lack of detail persisted, with, as shown in Table 1b, only post-tax profits, dividends, and certain other appropriations shown until disclosure.

The 1931 RMG case represented a turning point in attitudes to hidden reserves. The defendants, the RMG chairman, Lord Kylsant, and the auditor, Harold Morland, a Price Waterhouse partner, were acquitted on charges relating to the production of false financial statements. They elicited considerable sympathy in the business community and press, probably indicating that the circumstances of the case were not unusual (Green and Moss, 1982, pp.142-3; Jones, 1995, pp.145-57; Tuke and Gilman, 1972, pp.38-9). Indeed, Napier (1991) demonstrated that many of the same accounting issues featured in the financial statements of another major shipping group, P & O. The RMG case was as much about the complexity of group structure and the
inadequate statutory requirements for group accounting as the question of hidden reserves. But the verdicts implied that it was acceptable to use hidden reserves in smoothing profits only if signalled, a position which did not change until the Companies Act 1947 (Bircher, 1988a). Following the case, British American Tobacco, as a sign of its financial strength, chose to draw to the attention of its shareholders at its 1932 AGM that it held hidden reserves (Cox, 2000, pp.314-5).

4.2 Consolidated accounts

Consolidated group accounts, the publication of which has been described as ‘... arguably, the major twentieth century innovation concerning external financial reporting procedures’ (Edwards, 1991, p.130), were required by the Companies Act 1947, which permitted alternatives, the main one being the publication of accounts for individual subsidiaries. The first-known example of a consolidated balance sheet published by a British company is that of the Pearson and Knowles Coal and Iron Company Ltd. in 1910 (Edwards, 1991). Edwards (1981, pp.28, 30) notes that the UK was slow to adopt a requirement for consolidated accounts and suggests some reasons for this (also see Bircher 1988b). In 1935 only seven of the AM sample of 50 major companies presented some form of consolidated accounts, whereas by 1950 all did so.

The Big Five banks first published consolidated group accounts at different dates. Lloyds did not present such accounts until 1967, when the increasing number of subsidiaries presumably made the main alternative approach impractical. But Midland first published consolidated accounts in 1929, Barclays and National Provincial in 1948, and Westminster in 1957. Barclays, with extensive overseas interests, was probably the bank for which consolidated accounts would have added most information to that already in the public domain. It is unclear why consolidated accounts were first published at different dates. As the various banking groups did not use long-term debt until the late 1960s (Billings and Capie, 2007), explanations based on gearing levels, which could be concealed or manipulated in the absence of consolidated accounts, appear irrelevant.
5. Changing financial reporting in British banking

The Companies Act 1947 required publication of consolidated accounts for groups and prohibited the existence of hidden reserves. But certain companies, ‘banking or discount’, insurance, and shipping companies, were exempted from its full rigour, under Part III of the Act’s First Schedule, more commonly referred to as the exemptions of Part III of the Eighth Schedule of the consolidating 1948 Companies Act. These exemptions reflected previously accepted custom and practice: the use of hidden reserves was permitted; profit and loss accounts needed to show only profits after tax and after transfers to or from hidden reserves; and there was no requirement to disclose the bases of asset valuation. British banks had sought, achieved and then later surrendered this peculiar reporting status. Key developments are discussed in this section.

5.1 Financial reporting reform under the 1947 Companies Act

The financial reporting environment began to change in the 1930s following the well-known RMG case, discussed above. ‘Recommendations on Accounting Principles’, issued by the Taxation and Financial Relations Committee, formed in 1942, of the Institute of Chartered Accountants in England and Wales (ICAEW) addressed issues such as hidden reserves and group accounts (Napier, 1995, p.274) and were reflected in the Cohen Committee Report (1945), which provided the basis for the Companies Acts 1947 and 1948. Maltby (2000) argues that these acts were a response to the financial scandals of the 1920s and 1930s, and the wartime experience and acceptance of greater state regulation (see also Bircher 1988a; Edwards 1989, pp.207-209).

The written evidence of the Committee of London Clearing Bankers (‘CLCB’) to the Cohen Committee neglected to mention banks’ hidden reserves (CLCB, 1943). In November 1943, in anticipation of questioning by the Committee, Lloyds sought information from other banks as to any questions received on this subject at AGMs (Lloyds TSB, HO/L/Com/3). The banks’ oral evidence in January 1944 (Cohen Evidence, 1944, questions 4626 and 4728-4743) was sufficient to secure the exemptions granted under the 1947 and 1948 Acts.
The basis of the banks’ arguments was that they could experience large fluctuations in investment values and irregular patterns of loan losses disproportionate to profits in any single year, the full disclosure of which could cause depositors and the general public to lose confidence. In addition, if foreign depositors lost confidence, sterling could be damaged, an important consideration in the postwar fixed exchange rate environment. In extreme cases, the disclosure of a large bad debt provision could undermine the debtor, which would be against the interests of a range of relevant parties. A consistent theme in the arguments used to support non-disclosure was the priority given to: ‘... the interests of the depositors ... [which] outweigh the interests of shareholders’ (Cohen Committee Report, 1945, para. 101). The Committee’s report referred to the experiences of the 1920s and 1930s and clearly the economic problems of the interwar period weighed heavily in the Committee’s judgement.

5.2 Challenges to non-disclosure and its demise

The typical response of bankers to questions about hidden reserves was along the lines of: ‘... internal reserves are of a somewhat shy disposition and do not like exposing themselves in the public gaze’ (Lloyds Bank, Deputy Chairman, 1925 AGM). By the beginning of the 1960s, however, attitudes had started to shift and the issue of non-disclosure came under scrutiny by the Jenkins Committee on Company Law. The CLCB’s written evidence to the Committee (CLCB, 1960) placed great stress on non-disclosure as a foundation for stability in the banking sector, arguing that the position had not changed since the Cohen Report, emphasising that depositors’ interests were paramount, and drew attention to the possibility of wide fluctuations in banks’ profits from year to year, citing as an example the impact of big falls in gilts prices in the 1950s.

The Jenkins Committee recommended by a majority the retention of bank disclosure exemptions, although five out of fourteen members (‘the dissenters’) favoured their removal (Board of Trade, 1962, paras. 211-216). The minority view was shared by many commentators, for example: ‘The present secrecy makes it strangely possible … to appear to be simultaneously stingy to staff, grasping to borrowers, mean to
depositors and parsimonious to shareholders’ (Bankers Magazine, 1962, May, p.395). The dissenters suggested that the banks could publish three- or five-yearly profit and loss accounts to overcome some of the objections to publishing ‘true’ annual profits (Board of Trade, 1962, para. 215), a suggestion effectively reflected in the ‘Leach-Lawson rules’, which are discussed below.6

The Jenkins Committee’s report produced no immediate changes, but pressure on the banks for fuller disclosure grew with the election of a Labour government in 1964. The bankers were put on notice that their exemptions were at risk at a meeting with the Board of Trade (BoT) on 26 March 1965 (NA, T326/922, 19 November 1965 report, para. 4). The dissenters had recommended that the banks be invited to submit their true accounts in confidence to the BoT to allow consideration of the implications of disclosure before the exemptions were changed (BoT, 1962, para. 217). BoT accountants produced a report based on data supplied by two commercial banks, Midland and Bank of Scotland, two British overseas banks, Chartered Bank and the Bank of London and South America, a discount house (Alexanders) and a merchant bank (Brown Shipley) (NA, T326/922, 19 November 1965 report).

Two key meetings between bankers and government took place in 1966, at both of which the bankers asserted the arguments in favour of non-disclosure (RBS, WES/595/30, CLCB meeting notes). At the first meeting with the BoT on 11 August 1966, issues such as competitive disadvantage by comparison to banks in other countries, the practicality of change, and the nature of banks’ shareholders were raised as arguments against disclosure. The tone of the notes of this meeting suggests that the banks exhibited the same apparently aggressive attitude to criticism that they had displayed in the 1930s (Newton, 2003, p.163). The second meeting on 22 November 1966 also involved the Chancellor of the Exchequer, although essentially featured the same arguments. The pressures for fuller disclosure were reinforced by official reports on the banking sector by the National Board for Prices and Incomes (1967) and the Monopolies Commission, which saw: ‘... no justification for banks of the size and

Luther (2003) provides a history of non-annual financial statements, found in ventures such as shipping, mining and insurance.
strength of the leading clearing banks continuing to conceal their true accounts’ (Monopolies Commission, 1968, para. 278).

The position of the Bank appears ambivalent. Cairncross, the government’s economic adviser, who had been present at a private dinner on 9 August 1966, two days before the first meeting with the BoT, at which several bank chairmen discussed disclosure with the Bank’s Governor, Leslie O’Brien, noted that the Governor had pressed the bankers to consider disclosure (Kynaston, 2001, p.346). The Bank continued to support non-disclosure in private comments to the Treasury, but it ‘was a cause for which the Governor was unwilling to fight’ (Kynaston, 2001, p.347). Points raised in favour of disclosure were the equity of treatment between all public companies and the potential economic benefits from transparency. However, the Bank’s list of arguments against disclosure was longer and reflected the view that banks were ‘special’: bank shareholders were satisfied with non-disclosure, due to the ‘less speculative quality of bank equity’; banks had a public policy role and shareholders could not expect profit-maximisation and a competitive dividend policy; it would bring into the open conflicts between shareholder and the public interest; British banks would be placed at a competitive disadvantage compared to banks operating in other jurisdictions; there was the remote possibility of a large customer provision being reflected in published figures; the anxiety of banks to avoid bad debts could lead to excessively conservative credit standards; and, finally, it could be negative for sterling if profits were seen to be falling at a time when the currency was under pressure - devaluation, of course, came in 1967 (BoE, G14/71, note on ‘Companies Bill: Future of Eighth Schedule’, sent under cover of letter dated 31 October 1966 from the Governor to Sir William Armstrong).

The Companies Act 1967 (Part I, Schedule 12) gave the BoT power to withdraw the 1948 Act’s exemptions and thus force disclosure. In the interim, continuing exemption was conditional on the submission of ‘true’ figures to the Bank which

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7 A note of this dinner by Stirling, Westminster’s chairman, makes no reference to the Governor, dealing mainly with the comments of Sir William Armstrong, the senior Treasury official (RBS, WES/595/30).
passed them in unattributed form to the BoT, which used these figures for 1967 and 1968 to produce a second report covering the whole banking sector (NA, T326/922, 30 May 1969 report). Although both BoT reports confirmed the banks’ assertions of volatility in their ‘true’ profits, they also helped reinforce the view in government that for the large banks, most of whose business was domestic, non-disclosure was allowing them to conceal very strong financial positions and the ‘transparency-fragility’ argument therefore lacked credibility.

Some banks had begun to favour fuller disclosure. Thomson, Barclays’ chairman, indicated in evidence to the Monopolies Commission that his own bank would not object to disclosure, but that others were against (Ackrill and Hannah, 2001, p.178; Monopolies Commission, 1968, para. 209). The newly-merged National Westminster was privately in favour of disclosure (RBS, NWB/1821/1: Memoranda to Board, 8 October and 3 December 1968) and told the Bank this (RBS, NWB/1571/9, note by D.J. Robarts, Chairman, of visit to Bank’s Deputy Governor, 30 June 1969).

In the summer of 1969 the major London banks decided collectively through the CLCB to undertake disclosure voluntarily before it was imposed on them through withdrawal of their legal exemptions. The CLCB decided that standardisation of the banks’ financial reporting was necessary before disclosure could take place. The CLCB had retained the services of the eminent accountants Ronald Leach and Sir William Lawson since October 1966, when the banks decided they would need professional assistance in presenting their case to government. Standardisation was based on a memorandum prepared by Leach and Lawson which made

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8 ICAEW president, 1969-70, and the first chairman of the Accounting Standards Steering Committee from 1970.

9 ICAEW president, 1957-8, and a Jenkins Committee dissenter, he had drafted the dissenting note (RBS, WES/595/30: CLCB informal note, 30 November 1966). His brother, H.B. (later Sir Henry) Lawson, served as Deputy Chief General Manager of Lloyds Bank and gave oral evidence to the Cohen Committee in 1944 as a CLCB representative when Principal of Lloyds’ Legal Department (Lloyds TSB, HO/L/Com/3).
recommendations to overcome the ‘... lack of generally accepted accounting principles as to the determination of banking profits in the United Kingdom’ (Barclays, 296-31, Memorandum on ‘Ascertainment of Banking Profits’, 31 July 1969). These recommendations came to be referred to as the ‘Leach-Lawson rules’ and were implemented by a special working group of the CLCB. The accounts for 1969, the first to disclose ‘true’ profits and capital, were published in February 1970. However, the ‘rules’ did not produce complete transparency and it was not until 1979 that the banks abandoned their most important elements on the treatment of bad debts and profits and losses on investments, which essentially smoothed over five years these important sources of fluctuation in bank performance (Ackrill and Hannah, 2001, pp.201, 258; Accountancy, March 1979, p.26).

Bank chairmen made the best of disclosure, claiming they were in favour, as some undoubtedly were, feeling that it was time for the banks to reassert their competitive nature after spending much of the period since World War Two subject to various forms of implicit and explicit government control. For example, National Westminster’s chairman declared: ‘I am glad that we can now give the shareholder, customer and staff a better understanding of their bank ... It will also, I feel, lead to a sharpening of competition and to even greater efficiency in banking’ (National Westminster Bank, 1970, Chairman’s Statement).

5.3 The British overseas banks

An aside to the affairs of the major banks was the position of the British-owned banks with significant international interests, particularly in colonies and ex-colonies. At the time of the Jenkins Committee they held special concerns that loss of their exemptions would disadvantage them, fearing that disclosure of higher than expected reserves would expose them to higher taxation, excessive wage claims, and even expropriation or nationalisation. Alternatively, the disclosure of lower than expected reserves would result in crises of confidence threatening stability. Disclosure could lead to less risky lending and in turn limit profitability (Barclays, 38-873, note of 30 January 1961).
Differences appeared among the British overseas banks as disclosure approached. Barclays’ position differed from the other ‘Big Five’ banks, with a significant overseas element to the group’s activities through its subsidiary Barclays D.C.O., later Barclays International (Barclays, 80-2105). By July 1969, D.C.O.’s chairman was viewing disclosure favourably, considering that its profitability and reserves in the countries where it operated were lower than believed and that political pressures in these countries had diminished. However, his view was not shared by the chairmen of the other British overseas banks (Barclays, 38-873, Seebohm memorandum of 9 September 1969 and responses from other banks). In the end, D.C.O., with 45 per cent of its shares held by minority shareholders, chose unilateral disclosure.

6. Explanations for the persistence and demise of non-disclosure in banking

6.1 Trust and the absence of crisis

Nineteenth century legislative changes affecting the banks had resulted from crises such as the failure of the City of Glasgow Bank in 1878, which led to the Companies Act 1879. The absence of crisis in twentieth century British banking eliminated one source of pressure over non-disclosure - the system was seen to work and the absence of obvious failure in the banking sector provided the supporters of non-disclosure with a powerful argument. The banks, to their long-term commercial benefit, had earned trust and credibility. While non-disclosure implied some conflict of interest between depositors and shareholders, in that undisclosed transfers to hidden reserves limited profits available for distribution as dividends, it assisted the long-term survival of banks during periods of difficulty. Acceptance of ‘non-disclosure’ required a high degree of trust between the parties. Whereas trust is now established through transparency, previously it had been built on experience. The arguments of O’Neill (2002) that excessive, intrusive, or the wrong type of, transparency may weaken trust provide a modern underpinning for financial reporting practices now regarded as highly anachronistic.
The British banking system was enormously stable during the period of non-disclosure. Worries that fundamental problems in the sector might have been concealed would have been misplaced - the larger banks were always reasonably well-capitalised, despite occasional difficult periods over bad debts and volatile securities prices (Billings and Capie, 2007). Whatever the objections to non-disclosure, no significant bank failed during this period, and although some struggled in the difficult macroeconomic conditions of the late 1920s and early 1930s, this would also surely have occurred had disclosures been fuller.10

Various problems and bank failures arose after disclosure had taken place. There were those in the secondary banking crisis in 1973-4, at which time National Westminster was feared to be suffering liquidity problems (Kynaston, 2001, p.510). These difficulties led to the Banking Act 1979. The failure of Johnson Matthey Bankers in 1984 was instrumental in the Banking Act 1987. Another notable failure was that of the Bank of Credit and Commerce International (BCCI) in 1991 due to money-laundering and fraud, and one factor in its demise was a lack of clarity as to which national regulator(s) should regulate it. The 1995 Barings case is well-known. Arguably none of these failures could be directly attributed to deficiencies in financial reporting, arising rather from macroeconomic mismanagement coupled with financial sector liberalisation, audit and regulatory failures, frauds of various types, and internal control weaknesses. In a study of one of the secondary banks, Matthews (2005) argues that deficiencies in financial reporting in that company were part of a wider failure. Disclosure, therefore, should be seen as a significant event, but part of a broader and more complex picture.

6.2 The relationship between banks and government and the changing banking market

Many commentators consider that the clearing banks operated a cartel in their main markets for loans and deposits during the period 1920-70, although arguably this

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10 For example, the Bank promoted the takeover of two small weak banks: Williams Deacon’s in 1930 and Glyn, Mills & Co. in 1939, both taken over by the Royal Bank of Scotland (Sayers, 1976, pp.252-9).
oversimplifies a complicated situation (Capie and Billings, 2004). One reason for the persistence of this market structure was that governments and the Bank found it a convenient instrument of economic policy in an environment in which they had to deal with a limited number of significant institutions. Under what a recent report on banking competition described as the ‘the old regulatory contract’, banks enjoyed special treatment as part of: ‘... an informal contract between successive governments and banks, designed to deliver public confidence in the banking system. In return for cooperating in the delivery of government objectives, the banking industry escaped the rigours of effective competition’ (Cruickshank, 2000, p.vii).

This argument can be framed in terms of the political costs hypothesis of Watts and Zimmerman (1986). Non-disclosure allowed the banks to conceal their true profits, disclosure of which could have produced ‘political costs’ in the form of demands from shareholders for higher dividends, aware of the existence but not extent of hidden reserves, and political pressures for higher taxation of bank profits in a climate of dividend restraint. The privilege of non-disclosure was granted as part of the implicit regulatory bargain in which the banks acted as a monetary policy tool, albeit an imperfect one. Thus non-disclosure was an arrangement which led to an efficient outcome in minimising political costs.

Many business historians have noted the impact of the Companies Act 1948 reforms in stimulating the wave of takeovers of public companies in Britain in the 1950s (for example, Wilson, 1995, p.202). Non-disclosure in banking could be regarded as a self-serving device to prevent takeovers and restrict market entry. Hong Kong provides an international example where non-disclosure seems to have inhibited the operation of the market for corporate control and protected the Hong Kong and Shanghai Banking Corporation from takeover (Boyns and Edwards, 1991, p.192).

A mixture of factors appears to account for the shift in attitudes to competition. By the end of the 1960s the banks had come to the view that they would prefer to operate in a more competitive environment. The laissez-faire regulatory instincts of the Bank, which had long resented its own role in implementing government restrictions on the banking sector, were leaning in the same direction.
The end of non-disclosure coincided with the injection of greater competition into British banking. The domestic industry structure was changing through mergers. In 1968 Barclays absorbed the Liverpool-based Martins, and the two smallest Big Five banks combined to form the National Westminster. The mergers intensified domestic competition but also undercut the transparency-fragility argument - with a ‘Big Four’, the major banks were now considered ‘too big to fail’. Quantitative and qualitative controls on lending imposed at various times after World War Two had left demand for bank lending unsatisfied as banks charged interest rates below market-clearing levels, leading to the emergence of a variety of institutions which attempted to meet this demand. The introduction of *Competition and Credit Control* in 1971 was intended to contribute to a more competitive environment. American banks too were making an increasing impact, particularly in the market for corporate business (Battilossi and Cassis, 2002).

6.3 Bankers’ attitudes to disclosure, the position of shareholders, the role of dividends, and capital-raising

The reluctance of banks to disclose information extended beyond financial reporting: ‘Bankers were assertively firm in their defence of secrecy in reporting even basic company information’ (Ackrill and Hannah, 2001, p.153). For example, their evidence to the Macmillan Committee in 1930 understated the extent of their commitment to industrial lending at the risk of exposing themselves to criticism in this regard (Ackrill and Hannah, 2001, p.95).

Bankers had long been sceptical of the ability of shareholders, the press and other outside parties to interpret correctly their ‘true’ financial results if these were made available, symptomatic of what Newton (2003, p.151) characterised as ‘the prevailing arrogance in many of the statements’ made in the *Banker’s Magazine* in the interwar period. Such attitudes, not confined to bankers (Bircher, 1988b), were reflected in the low priority attached to the interests of shareholders, reinforced by the inability of, or need for, the banks to raise new capital. After the consolidation of the Big Five, there were few dividend changes until the 1960s, sometimes reflecting voluntary restraint
and at other times due to public policy. Arguably bank shares represented quasi-fixed interest securities and were judged on that basis by investors (Rutterford, 2004), supporting the Bank’s comment on ‘the less speculative quality of bank equity’.  

The capital needs of the banks help to explain why the forces seeking the abandonment of non-disclosure started to gain ground. In the 1960s, the passage of time since the gilts problems of the 1950s allowed the banks to exercise the managerial discretion afforded by non-disclosure to rebuild their hidden reserves (RBS, WES/595/30, CLCB note of dinner at Bank of England, 11 October 1966). But for the first time in several decades the banks raised new share capital through rights issues in 1959, with further issues in the 1960s. The Capital Issues Committee had controlled new issues of shares from early in World War Two and the banks were obliged to wait to make share issues they felt were long overdue (Billings and Capie, 2007). Modern finance theory highlights the signalling role to shareholders about future corporate prospects played by reported profits and dividends. More accurate signalling of current profits, to reduce the information asymmetries faced by shareholders, would have become more important in the support of capital-raising, thus reinforcing pressures for greater disclosure. We have not identified any evidence of direct pressure on banks from shareholders or the London Stock Exchange in favour of disclosure, but this issue featured in bankers’ discussions of the merits of disclosure, for example at National Westminster: ‘... stock exchange opinion is in favour of greater provision of information to shareholders and the investing public generally ... [and] ... the banks are placed at a disadvantage when seeking new capital, 

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11 From 1947-58 undistributed profits were taxed at lower rates than distributed profits (Thomas, 1978, pp.230-5). The introduction of Corporation Tax in 1965 had a similar effect. Thus, ironically, it can be argued that, in the absence of capital gains tax, not introduced until the 1960s, the banks were acting in shareholders’ interests in accumulating reserves through undistributed profits, but there is no evidence that the banks ever considered such arguments.

12 A parallel can be found in nineteenth century France, where industrial companies financed growth from internal resources, with the need to ensure adequate retentions strongly influencing financial reporting practice (Lemarchand, 1993).
because they are prevented from raising funds on terms truly commensurate with the value of their shares’ (RBS, NWB/1821/1, Memorandum for Mr. D.J. Robarts, 24 June 1969).

7. Conclusions

The gradual evolution of accounting regulation in financial reporting in Britain noted by many authors was also found in the banking sector. But banks were permitted to continue with a lack of transparency in their financial reporting for much longer than other companies. Voluntary disclosures made by banks were very limited, but would have given clear signals to those who noted them. The acceptance of non-disclosure for such a long period suggests that those who used banks’ financial statements were under few illusions about what they were reading.

The banks clearly made a persuasive case for special treatment: it survived company law amendment committees, the Royal Mail case, the postwar legislative change which constrained the financial reporting options of other types of company, and the nationalisation of the Bank of England. But financial reporting by banks was not immune to the wider pressures for change in financial reporting, and general dissatisfaction with published financial statements made the banks’ position appear anomalous. It was not until other companies were forced to report on a more transparent basis that banks were obliged to articulate more clearly their arguments that disclosure would create negative externalities. Non-disclosure came under serious challenge only in the 1960s, and the domestic commercial banks opted for collective abandonment of the practice before their privileged position was removed from them, as it surely would have been.

The Bank of England played a significant role in non-disclosure, generally supporting the practice, but initiating both the abandonment of ‘window-dressing’ and the change in the method of valuation for securities in the 1950s, which it later seemed to regret. Its stance on disclosure in the late 1960s seems ambivalent, continuing to present the arguments for non-disclosure to government while also encouraging the banks to
consider disclosure, but this may simply have reflected the Bank’s assessment of the inevitability of disclosure.

Non-disclosure now appears anachronistic, and it seems curious that user groups were willing to accept financial statements that all parties knew could be misleading. But non-disclosure had long-standing historical roots and, for most of the period examined, those most closely involved believed the policy to be in their individual and collective interests, and were generally content to trust bankers to behave responsibly, which they appear to have done. ‘Disclosure’ in 1970 did not result in fully transparent financial statements for British banks, but it brought their financial reporting closer to that of other companies. It was only after disclosure, which coincided with wider changes in the financial sector and rapid economic change, that significant problems in the banking sector emerged, but we can only speculate as to whether disclosure contributed to these.

**Acknowledgements**

We thank the archivists, past and present, of the major banks: Maria Sienkiewicz and Jessie Campbell (Barclays); Edwin Green (HSBC); Karen Sampson and Dr. John Booker (Lloyds TSB); and Philip Winterbottom (The Royal Bank of Scotland). We also thank the two anonymous reviewers, and David Oldroyd for his editorial contribution, in helping us to improve this paper.

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Contemporary trade journals

Accountancy
The Banker
Bankers’ Magazine
Economist

Contemporary reports


*Secondary*


Table 1: Illustrative example, Lloyds Bank 1949

Table 1a: Balance sheet at 31 December 1949

<table>
<thead>
<tr>
<th>Description</th>
<th>Accounting records £000</th>
<th>Adjustment of hidden reserve balances £000</th>
<th>Published financial statements £000</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and balances at Bank of England</td>
<td>93,077</td>
<td></td>
<td>93,077</td>
<td>wd</td>
</tr>
<tr>
<td>Balances with other banks and cheques in course of collection</td>
<td>41,302</td>
<td></td>
<td>41,302</td>
<td>wd</td>
</tr>
<tr>
<td>Money at call and short notice</td>
<td>112,025</td>
<td></td>
<td>112,025</td>
<td>wd</td>
</tr>
<tr>
<td>Bills discounted</td>
<td>195,234</td>
<td></td>
<td>195,234</td>
<td>wd</td>
</tr>
<tr>
<td>Treasury Deposit Receipts</td>
<td>140,500</td>
<td></td>
<td>140,500</td>
<td>short-term British government debt</td>
</tr>
<tr>
<td>British government securities</td>
<td>249,646</td>
<td>-5,500</td>
<td>244,146</td>
<td>valuation basis usually unclear - see section 3.5</td>
</tr>
<tr>
<td>Trade and other investments</td>
<td>34,133</td>
<td>-750</td>
<td>33,383</td>
<td>valuation basis usually unclear - see section 3.5</td>
</tr>
<tr>
<td>Advances to customers</td>
<td>292,500</td>
<td></td>
<td>292,500</td>
<td>hidden reserves were sometimes deducted from the advances total</td>
</tr>
</tbody>
</table>
Transparency and financial reporting in mid-twentieth century British banking

<table>
<thead>
<tr>
<th></th>
<th>Accounting records £000</th>
<th>Adjustment of hidden reserve balances £000</th>
<th>Published financial statements £000</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premises</td>
<td>7,013</td>
<td></td>
<td>7,013</td>
<td>valuation basis and depreciation policy usually unclear</td>
</tr>
<tr>
<td>Investments in group companies</td>
<td>3,566</td>
<td></td>
<td>3,566</td>
<td>typically valued at cost, hidden reserves sometimes deducted</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>1,168,996</td>
<td>-6,250</td>
<td>1,162,746</td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>15,810</td>
<td></td>
<td>15,810</td>
<td></td>
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<tr>
<td>Reserve fund</td>
<td>14,300</td>
<td></td>
<td>14,300</td>
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</tr>
<tr>
<td>Profit and loss account</td>
<td>601</td>
<td></td>
<td>601</td>
<td></td>
</tr>
<tr>
<td>Sundry creditors</td>
<td>507</td>
<td></td>
<td>507</td>
<td></td>
</tr>
<tr>
<td>Deposits and other accounts</td>
<td>1,118,118</td>
<td>13,410</td>
<td>1,131,528</td>
<td>some hidden reserves usually included under this heading</td>
</tr>
<tr>
<td>Hidden reserves</td>
<td>19,660</td>
<td>-19,660</td>
<td>-</td>
<td>nd</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>1,168,996</td>
<td>-6,250</td>
<td>1,162,746</td>
<td></td>
</tr>
</tbody>
</table>
### Table 1b: Profit and loss account for year ended 31 December 1949

<table>
<thead>
<tr>
<th>Accounting records</th>
<th>Published financial statements</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>£000</td>
<td>£000</td>
<td></td>
</tr>
<tr>
<td>Profit before Tax</td>
<td>7,013</td>
<td>nd</td>
</tr>
<tr>
<td>Tax payable</td>
<td>-4,366</td>
<td>nd</td>
</tr>
<tr>
<td>Profit after Tax</td>
<td>2,647</td>
<td>nd</td>
</tr>
<tr>
<td>Transfers to hidden reserves</td>
<td>-938</td>
<td>nd</td>
</tr>
<tr>
<td>Published net profit after tax</td>
<td>1,709</td>
<td>1,709 in published financial statements, neither tax payable nor undisclosed transfers to/from hidden reserves were shown in arriving at this figure</td>
</tr>
<tr>
<td>Dividends payable</td>
<td>-988</td>
<td>-988</td>
</tr>
<tr>
<td>Transfer to reserves</td>
<td>-700</td>
<td>-700 sometimes included disclosed transfers to hidden reserves</td>
</tr>
<tr>
<td>Balance brought forward</td>
<td>-580</td>
<td>-580</td>
</tr>
<tr>
<td>Balance carried forward</td>
<td>601</td>
<td>601</td>
</tr>
</tbody>
</table>

*wd = short-term assets subject to ‘window-dressing’ in earlier periods - see section 3.4
*nd = not disclosed in published financial statements*

*Sources: Lloyds Bank (1950); Lloyds TSB, HO/CA/Acc/18.*