

Financial performance

Introduction

1. This appendix sets out the revenues, account numbers and account balances of the eight banks' personal current account (PCA) businesses that we looked at in detail—Ulster, Northern, BoI, First Trust, Halifax, Abbey, A&L and Nationwide.¹ For simplicity we refer to the eight PCA providers as 'banks', although Nationwide is a building society with mutual ownership.² For the purpose of this appendix we refer to Halifax, Abbey, A&L and Nationwide as the non-clearers.

2. A significant proportion of the financial information presented in this appendix was prepared by the banks solely for the purpose of this inquiry. The banks have had to make assumptions and estimates in order to provide the information on PCAs in Northern Ireland. For the clearers the main issues were to:
 - (a) disaggregate PCAs from other current accounts which fell outside our definition, for example current accounts for SMEs and basic bank accounts for personal customers; and
 - (b) disaggregate PCAs from other personal products—for example, some banks routinely accounted for overdraft and personal loan arrangement charges together.

For the non-clearers the main issue was to separate Northern Ireland accounts from their UK-wide financial information. We noted that banks had to make a number of assumptions and estimates in order to provide the detailed financial data, and therefore whilst the financial analysis presented in the appendix is

¹We requested detailed financial information from the eight largest PCA providers in Northern Ireland. Together these banks provide over 95 per cent of the number of PCAs.

²The ownership of Nationwide should be borne in mind when considering its performance because it passes benefits on to its members via pricing benefits as well as retained profit.

informative in relation to general trends in the marketplace, caution should be exercised in seeking to place material weight on any individual figures.

3. The aggregated information for the eight banks has been presented for calendar years on the basis of the calendar year in which most of the financial year falls. For five of the eight banks the financial year and calendar year are the same. The three exceptions are:

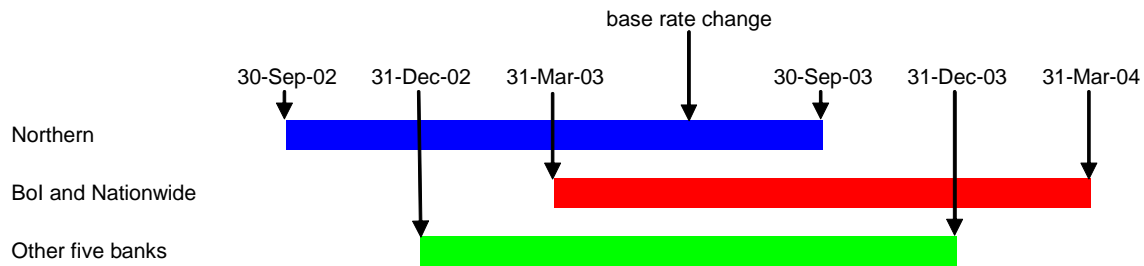
(a) Bol (31 March) and Nationwide (5 April) have been included in the previous year, for example Bol: year ended 31 March 2005 and Nationwide: year ended 5 April 2005 are included in '2004'.

(b) Northern had September financial year ends until September 2004. This has been included in the same calendar year for example year ended 30 September 2004 is included within '2004'. Northern then had a 15-month financial period up to December 2005. In order to have a series of annual figures we have used the 12-month period to September 2005.

4. Figure 1 sets an example of the financial years included with 2003. In a relatively stable economic and financial environment this method of aggregating banks performance is unlikely to distort the analysis. However, changes in base rates (for example, July 2003) may affect banks differently. For example, the base rate change in July 2003 occurred three-quarters of the way through 2003 for Northern and a quarter of the way through 2003 for Bol.

FIGURE 1

Financial year ends—example of '2003'



Source: CC analysis of responses to Questions 4 and 5 of the Financial and Accounting Questionnaire.

5. All figures for Northern exclude Cashmaster and Cashmaster Basic which do not fall within our definition of a PCA. The exclusion of CashMaster means a large number of Northern's PCAs (approximately [X] per cent) have been excluded from the analysis and this has a material effect upon Northern's figures.³

Consideration when reviewing financial performance

6. The financial performance of the eight banks' PCA businesses needs to be placed in context. Whilst there are similarities between some banks' products not all PCAs are the same, either in the services they offer or the way customers are charged:
- (a) Services differ, for example some accounts are 'packaged' with other benefits. The size of the branch network differs significantly between banks (for example, Northern has 101 branches in Northern Ireland and A&L 14). The clearers offer services not provided by the non-clearers such as night safes and safe custody. Some banks also offer free 'customer reviews'. Quality of service generally may differ between banks.
 - (b) Different PCAs generate revenues in different ways, including transaction charges and maintenance charges.

³In particular, the exclusion of CashMaster has resulted in an increase of [X] per cent in the average balance figure for Northern, which in turn increases the average balance for the clearers.

7. The customer profile differs between banks. For example, we understand that Northern has a greater percentage of older customers than the Northern Ireland population as a whole would suggest. Different customer groups may use their PCAs in different ways. Bol emphasized that the differences among the clearers are as significant as the differences between the clearers and the non-clearers.

8. The tables set out in this appendix have separate subtotals (and averages) for clearers and non-clearers as well as overall totals and averages. There may be no meaningful conclusions to be reached from some of the subtotals; however, they are included in every table for completeness and consistency. All 'averages' are weighted averages unless stated otherwise.

Volume data

Number of accounts

9. For each of the eight banks, Table 1 sets out the year-end position of number of PCAs, the number of active PCAs and the number of active PCAs as a percentage of all PCAs.

TABLE 1 Number of accounts

	£'000					
	2002	2003	2004	2005	2005 % of total	2002– 2005 CAGR %
<i>Number of accounts (year end)</i>						
Ulster	{					
Northern						
First Trust						
Bol						
Subtotal clearers	893,883	870,463	900,050	922,521	71.8	1.1
Halifax	{					
Abbey						
A&L						
Nationwide						
Subtotal non-clearers	<u>282,393</u>	<u>310,947</u>	<u>340,088</u>	<u>362,077</u>	28.2	8.6
Total number of accounts (year end)	<u>1,176,276</u>	<u>1,181,410</u>	<u>1,240,138</u>	<u>1,284,598</u>	100.0	3.0
<i>Number of active accounts (year end)</i>						
Ulster	{					
Northern						
First Trust						
Bol						
Subtotal clearers	787,585	728,980	755,959	761,627	72.6	-1.1
Halifax	{					
Abbey						
A&L						
Nationwide						
Subtotal non-clearers	<u>219,980</u>	<u>246,955</u>	<u>276,790</u>	<u>287,700</u>	27.4	9.4
Total number of active accounts (year end)	<u>1,007,566</u>	<u>975,935</u>	<u>1,032,748</u>	<u>1,049,327</u>	100.0	1.4
<i>% of accounts which are 'active'</i>						
Ulster	{					
Northern						
First Trust						
Bol						
Subtotal clearers	88.1	83.7	84.0	82.6		
Halifax	{					
Abbey						
A&L						
Nationwide						
Subtotal non-clearers (%)	<u>77.9</u>	<u>79.4</u>	<u>81.4</u>	<u>79.5</u>		
Total % of accounts which are 'active' (%)	85.7	82.6	83.3	81.7		

Source: CC analysis of responses and updates to Questions 4 and 5 of the Financial and Accounting Questionnaire.

10. Whilst our conceptual preference is that analysis based on active accounts will give us a greater understanding of PCAs in Northern Ireland (see paragraphs 24 to 34), we have reservations concerning some of the data on active accounts. In particular, we note that there are wide variations between some of the banks in the percentage of accounts which are active. If these observed variations do not represent actual variations then they may impact the conclusions we can draw from

our analysis (for example, see paragraph 78). We are considering how to resolve the following variations which are of concern:

- (a) A clearer, [redacted] (in 2002 only). All accounts are active due to difficulties with identifying account numbers.
 - (b) A non-clearer, [redacted] (all years). The percentage of accounts which are active is high ([redacted] per cent) compared with other banks.
 - (c) A non-clearer, [redacted] (all years). The percentage of accounts which are active is low (less than [redacted] per cent in most years) compared with other banks. We understand that this is due to the definition of active accounts used by [redacted].
11. A clearer [redacted] noted that it was unable to identify the number of active accounts it held in 2002 which will necessarily distort any analysis of the financial performance of active accounts in that year. For this reason, [redacted] told us that we should be extremely cautious about focusing only on trends in relation to active accounts.
12. 'Active accounts' are defined as those PCAs which have had a transaction recently (within the previous three months). Inactive accounts, ie accounts with no transactions recently, may have debit or credit balances. A non-clearer, [redacted], defined active accounts as accounts with a customer transaction in the month. For this reason the proportion of [redacted] accounts which are active is significantly lower than the other banks. We are considering further any differences in active account definition and the possible effect on the financial performance analysis. The number of accounts at the year end gives us a 'snapshot' of the position at that date. Inactive accounts at the year end may have been active at some time during the year and therefore earned the bank transaction or other charges as well as net interest income (NII). We explore the impact of assessing performance based on all accounts or active only account in paragraph 24.

13. The total number of PCAs held at the eight banks in 2005 was 1.28 million. In 2005 the number of PCAs held at the clearers totalled 923,000 compared with 894,000 in 2002, an increase of approximately 1 per cent a year. Over the same period the number of accounts held at the non-clearers increased from 282,000 to 362,000, an increase of 8.6 per cent a year. Similarly, the number of active accounts shows a move towards the non-clearers. Between 2002 and 2005 the number of active accounts at the clearers decreased by 1.1 per cent a year, while the number of active accounts at the non-clearers increased by 9.4 per cent a year.

14. We note the following:

(a) The number of a clearer [X] active accounts fell [X] from [X] in 2002 to [X] in 2003, a reduction of [X] per cent. Furthermore in 2002 [X] accounts were considered active whilst in 2003 [X] per cent of accounts were considered active. [X] told us that the number of accounts for 2002 ([X]) does not represent the exact number of accounts in existence as at [X], as this information is not available. The number of accounts of [X] represents the number of accounts in operation at any point in Quarter 4 2002; this therefore includes all accounts and does not reflect those accounts subsequently closed during that period. During the second half of 2002, an exercise to review dormant accounts was conducted, which resulted in [X] account closures. Consequently the account numbers provided are overstated by up to [X]. However, [X] could not determine the exact timing of the account closures and hence the effect is seen in 2003. A subsequent exercise in 2003 closed [X] dormant accounts. Because of the dormant account closures in the second half of 2002, analysis which is based on averages per account for 2002 may be misleading. This is noted in the text where relevant.

- (b) A non-clearer, [X], was unable to provide the number of active accounts in 2002 and 2003, and instead estimated that the percentage of accounts that were active in those years would have been the same as 2004 ([X] per cent).
- (c) In the absence of actual data, a non-clearer, [X], estimated that [X] per cent of PCAs were active in each year.
- (d) The proportion of PCAs which were active for a non-clearer, [X], appears significantly lower than other banks, especially in 2002, 2003 and 2005. This is due, at least in part, to [X] using a different definition of active accounts.
- (e) The proportion of PCAs which were active for a non-clearer, [X], appears significantly higher ([X] per cent) than other banks.

Number of customers, and number of accounts per customer

15. Table 2 sets out the number of customers in 2005 for six of the eight banks. The table also compares the number of customers to the number of PCAs.

TABLE 2 Number of customers and number of accounts (all and active) per customer, 2005

	Number of customers	Number of accounts per customer	
		All accounts	Active accounts
Ulster	[X]	[X]	[X]
Northern			
First Trust			
Bol			
Subtotal clearers			
Halifax	[X]	[X]	[X]
Abbey			
A&L			
Nationwide			
Subtotal non-clearers			
Total number of customers		0.97	0.77

Source: CC analysis of responses and updates to Questions 4 and 5 of the Financial and Accounting Questionnaire.

16. Some of the banks considered that PCAs provided an opportunity to cross-sell other banking products. This implies that consideration should be given to the number of customers, as well as the number of accounts.

17. Six of the banks were able to provide us with customer numbers. The analysis suggests that PCA customers on average hold approximately one PCA. This implies that broadly speaking the number of customers holding multiple accounts is offset by the number of customers with joint accounts. If we consider only active accounts then the average customer holds less than one account—ie there are more customers than active accounts. This suggests that second accounts may be more likely to be inactive.

18. A clearer, [REDACTED], told us that this result was not consistent with the ORC survey results which showed a high degree of multiple account holding (25 per cent); and a high degree of these secondary accounts being 'very active' accounts.

Number of accounts opened

19. Table 3 sets out the number of accounts opened and the number of accounts opened as a percentage of active accounts and all accounts.

TABLE 3 Number of accounts opened, in total and as a percentage of active accounts

	2002	2003	2004	2005	£'000 2002– 2005 average	02–05 % of total accounts opened	02–05 CAGR % accounts opened
<i>Number of accounts opened</i>							
Ulster	[✂]
Northern							
First Trust							
Bol							
Subtotal clearers	91,944	105,303	90,687	83,529	92,866	68.3	-3.1
Halifax	[✂]
Abbey							
A&L							
Nationwide							
Subtotal non-clearers	<u>39,980</u>	<u>45,800</u>	<u>45,372</u>	<u>41,602</u>	<u>43,189</u>	31.7	1.3
Total number of accounts opened	<u>31,924</u>	<u>151,103</u>	<u>136,059</u>	<u>125,131</u>	<u>136,054</u>	100.0	-1.7
<i>Number of accounts opened as % of stock (all accounts)</i>							
Ulster	[✂]
Northern							
First Trust							
Bol							
Subtotal clearers	10.3	12.1	10.1	9.1			
Halifax	[✂]
Abbey							
A&L							
Nationwide							
Subtotal non-clearers	<u>14.2</u>	<u>14.7</u>	<u>13.3</u>	<u>11.5</u>			
Total accounts opened as % of stock	11.2	12.8	11.0	9.7			
<i>Number of accounts opened as % of stock (active accounts)</i>							
Ulster	[✂]
Northern							
First Trust							
Bol							
Subtotal clearers	11.7	14.4	12.0	11.0			
Halifax	[✂]
Abbey							
A&L							
Nationwide							
Subtotal non-clearers	<u>18.2</u>	<u>18.5</u>	<u>16.4</u>	<u>14.5</u>			
Total accounts opened as % of stock	13.1	15.5	13.2	11.9			

Source: CC analysis of responses and updates to Questions 4 and 5 of the Financial and Accounting Questionnaire.

20. Over the four years to 2005, 68.3 per cent of new accounts were opened at the clearers, compared with 31.7 per cent at the non-clearers. There was a slight shift towards the non-clearers during the period under review.

21. Changes in the number of account openings by individual bank show a mixed picture. Reviewing the number of account openings in 2005 compared with 2002, [REDACTED],[REDACTED] and in particular [REDACTED] performed well, whilst [REDACTED] and [REDACTED] experienced a significant reduction. [REDACTED] number of account openings in 2002 appears higher than later years.
22. New accounts as a percentage of total active PCAs are in the region of 12 to 16 per cent (11 to 15 per cent for clearers and 14 to 19 per cent for non-clearers). Similarly, new accounts as a percentage of the total of all accounts is in the region of 10 to 13 per cent (9 to 12 per cent for clearers and 11 to 15 per cent for non-clearers). (See paragraph 4.24.)
23. Regardless of whether we consider all accounts or active accounts only as the denominator:
- (a) new accounts (flow) as a percentage of stock is consistently higher for the non-clearers overall than the clearers; and
 - (b) the non-clearers share of account openings has been higher than their share of accounts each year.

Choice of denominator—active accounts or all accounts

24. At Emerging Thinking we undertook much of our analysis based on active accounts, because we believed that inactive accounts were unlikely to generate significant charges. A clearer, [REDACTED], told us that it accepted that whilst an account was inactive it was unlikely to generate charges. However, it was unlikely that an inactive account would have a zero balance and it would therefore continue to generate NII. It is also important to note that as our definition of an 'inactive' account is an account with no recent activity, it is possible that revenue from charges was generated earlier in the financial year.

25. It is possible to undertake an analysis of, for example, average balance or average revenue per account based on the total number of accounts (active and inactive). We considered that inactive accounts are unlikely to generate significant charges. Using active accounts as the denominator is likely to overstate average revenue per account (as some accounts which are classified as inactive at the year end did in fact earn revenue for the bank in the year), whilst using all accounts as the denominator is likely to understate the average revenue per account. The 'true' position is likely to lie between the two, although we considered that using active accounts as the denominator was likely to be more representative of financial performance.
26. A clearer, [REDACTED], told us that we should include analyses based on the use of 'all accounts as the denominator' because it gave a more accurate view of the total market. There are also IT, compliance and operational costs involved in maintaining inactive accounts.
27. A clearer, [REDACTED], told us that it considered inactive accounts to be relevant to the analysis, not only because they generated revenue for the banks, but also because they provided an important competitive pressure on other providers. This was because inactive accounts could be 'activated' quickly by customers.
28. In producing active account numbers, some of the banks had to make additional assumptions. If these additional assumptions are inaccurate it is possible that for some of the banks the estimate of the number of active accounts is less accurate than the estimate of the number of all accounts.
29. Some of the banks have an ongoing programme of closing inactive accounts where appropriate. Other banks undertake one-off exercises. For banks that take the

latter approach, the total number of accounts may periodically show large reductions which coincide with the one-off closure exercise and analysis based on these figures would show unrepresentative short-term fluctuations. Using active accounts in the analysis may be one way of avoiding such unrepresentative fluctuations.

30. We asked all eight banks to provide us with an analysis of credit balances, debit balances NII on credit balances, NII on debit balances and charges split by active and inactive accounts. Only three banks were able to provide us with robust analysis for 2005. This showed that average credit balances per account on active accounts were significantly higher than credit balances on inactive accounts. Charges are only earned on active accounts. As a result, revenues per account from active accounts were also significantly higher than those from inactive accounts. (Note that these averages are based on two to three banks for 2005 only.)

31. For three of the eight banks, Table 4 sets out the balances and revenues earned from active and inactive accounts in 2005.

TABLE 4 Active and inactive accounts—account numbers, balances and revenues - 2005

	Number of accounts	Balances		NII		Charges £'000	Total income £'000	Ave bal per account		NII on cr bal £	Average per account NII on dr bal		Total income
		Credit £'000	Debit £'000	Credit balances £'000	Debit balances £'000			Credit £	Debit £		Charges		
[X] Active accounts)												
Inactive accounts													
All accounts													
[X] Active accounts													
Inactive accounts													
All accounts													
[X] Active accounts													
Inactive accounts													
All accounts													
Total													
Active accounts	572,696	1,123,232	98,712	50,946	4,911	25,218		1,961	172	89	9	67	164
Inactive accounts	<u>144,465</u>	<u>30,562</u>	<u>5,559</u>	<u>1,442</u>	<u>274</u>	-		212	38	10	2	-	12
All accounts	<u>717,161</u>	<u>1,153,794</u>	<u>104,271</u>	<u>52,388</u>	<u>5,185</u>	<u>25,218</u>	Two banks	1,609	145	73	7	53	133

Source: CC analysis of responses and updates to Questions 4 and 5 of the Financial and Accounting Questionnaire.

32. A clearer, [X], noted that for the three banks that provided information for Table 4 there is no revenues from charges. This may suggest that the accounts considered 'inactive' were inactive for the full 12-month financial period, and therefore may not align with our definition. We are considering this point further.

33. Our analysis is primarily based on a comparison of the relative performance of banks or groups of banks. By applying the same method to each bank any inaccuracies are likely to be minimized. Furthermore, revenue per 'all accounts' could fluctuate depending on the timing of any inactive accounts closure scheme.

34. In summary, we considered that an analysis based on active accounts is important in understanding the financial performance of PCAs. This is our conceptual preference and it forms the basis of the analysis set out in the provisional findings. However, we note that there are some practical difficulties with the number of active accounts. Therefore, within this appendix we have set out analysis based on both active and all accounts. It can be seen that our analysis based on a comparison of the relative performance of the banks holds true whether that calculations are based on active accounts only or all accounts.

Account balances

Credit balances

35. For each of the eight banks, Table 5 sets out the average credit balances and the average debit balance per account.

TABLE 5 Average total credit balances and average credit balance per account

	£'000				2005 % of total credit balances	2002– 2005 CAGR %
	2002	2003	2004	2005		
<i>Average total credit balances</i>						
Ulster	[✂]
Northern						
First Trust						
Bol						
Subtotal clearers	1,242,318	1,389,883	1,538,580	1,656,854	79.4	10.1
<i>Halifax</i>						
Abbey	[✂]
A&L						
Nationwide						
Subtotal non-clearers						
Average total credit balances	1,532,448	1,730,440	1,941,320	2,085,488	100.0	10.8
£						
<i>Average credit balance per all a/c</i>						
Ulster	[✂]
Northern						
First Trust						
Bol						
Subtotal clearers	1,390	1,597	1,709	1,796	110.6	8.9
<i>Halifax</i>						
Abbey	[✂]
A&L						
Nationwide						
Subtotal non-clearers						
Weighted average credit balance per all a/c	1,303	1,465	1,565	1,623	100.0	7.6
<i>Average credit balance per active a/c</i>						
Ulster	[✂]
Northern						
First Trust						
Bol						
Subtotal clearers	1,577	1,907	2,035	2,175	109.5	11.3
<i>Halifax</i>						
Abbey	[✂]
A&L						
Nationwide						
Subtotal non-clearers						
Weighted average credit balance per active a/c	1,521	1,773	1,880	1,987	100.0	9.3

Source: CC analysis of responses and updates to Questions 4 and 5 of the Financial and Accounting Questionnaire.

36. Credit balances are important to the banks as they are a source of funds that can be used elsewhere in the business to earn revenues. In 2005, 79.4 per cent of the credit balances held by the top eight banks were held by the clearers. This suggests that the total market share of the clearers would be higher if calculated on the basis of

total credit balances rather than the number of PCAs. (Table 1 shows that in 2005 the clearers held 72.6 per cent of active accounts.) A clearer, [REDACTED], told us that this was consistent with the non-clearers being particularly successful at encouraging new-to-banking customers to join them. Younger customers may be expected to earn lower salaries and to hold lower credit balances at the start of their career. However, as new-to-banking customers, and those in the short- to medium-term future, feed through into the stock of accounts, and their earning potential increases, it could be expected that this imbalance will be redressed, leading to even greater declines in the market shares of the clearers when measured by value.

37. A clearer, [REDACTED], told us that [REDACTED], it was not obvious why the average balance per account of the clearers had grown by the level shown. It suggested that possibly the exclusion of basic bank accounts had resulted in this figure which seemed very high, especially given the average salaries in Northern Ireland.
38. Total credit balances for the eight banks increased from £1.5 billion in 2002 to £2.1 billion in 2005 (Table 5). All banks have grown their total credit balances, with the non-clearers as a group growing their total credit balances at a faster rate (13.9 per cent CAGR) than the clearers (10.1 per cent CAGR).
39. Average credit balance per account is calculated by dividing the total credit balance by the total number of either active or all PCA accounts. The following is noted:
 - (a) The average credit balance per active account for the clearers as a group is both greater, and increasing faster, than that of the non-clearers. In 2003, 2004 and 2005 all the clearers average credit balance per active account was higher than all the non-clearers.
 - (b) In 2005 [REDACTED] and [REDACTED] have the highest average credit balance per account, whilst [REDACTED] has the lowest average balance per account. [REDACTED]

(c) [X] have shown the most growth in average credit balance per accounts, whilst [X] have experienced minimal growth in their average credit balance per account. [X] growth may be the consequence of the accuracy of the 2002 estimation of account numbers (paragraph 14(a)). [X] told us that Table 5 therefore gave the misleading impression [X].

Debit balances

40. For each of the eight banks, Table 6 sets out the average debit balances and the average debit balance per account.

TABLE 6 Total average debit balances and average debit balance per account

	£'000				2005 % of total debit	2002–2005 CAGR %
£000's	2002	2003	2004	2005		
<i>Average total debit balances</i>						
Ulster	⌈					
Northern						
First Trust						
Bol						
Subtotal clearers	131,546	122,315	124,986	131,135	84.7	-0.1
<i>Halifax</i>						
Abbey	⌈					
A&L						
Nationwide						
Subtotal non-clearers	<u>15,979</u>	<u>17,412</u>	<u>20,180</u>	<u>23,641</u>	<u>15.3</u>	13.9
Average total debit balances	<u>147,524</u>	<u>139,727</u>	<u>145,165</u>	<u>154,777</u>	<u>100.0</u>	1.6
	£				2004 % of average debit balance	
<i>Average debit balance per all a/c</i>						
Ulster	⌈					
Northern						
First Trust						
Bol						
Subtotal clearers	147	141	139	142	118.0	-1.1
<i>Halifax</i>						
Abbey	⌈					
A&L						
Nationwide						
Subtotal non-clearers	57	56	59	65	54.2	4.9
Weighted ave debit balance per all a/c	125	118	117	120	100.0	-1.3
<i>Weighted average debit balance per active a/c</i>						
Ulster	⌈					
Northern						
First Trust						
Bol						
Subtotal clearers	167	168	165	172	116.7	1.0
<i>Halifax</i>						
Abbey	⌈					
A&L						
Nationwide						
Subtotal non-clearers	73	71	73	82	55.7	4.2
Weighted ave debit balance per active a/c	146	143	141	148	100.0	0.2

Source: CC analysis of responses and updates to Questions 4 and 5 of the Financial and Accounting Questionnaire.

41. In terms of size of the balance and compared with the credit balances, debit balances are not particularly significant. In 2005, total debit balances as a percentage of total credit balances was 7.4 per cent. However, there is a difference between clearers (7.9 per cent) and non-clearers (5.5 per cent).

42. Debit (overdraft) balances earn the banks interest income from customers. Furthermore, some charges are earned by the banks if customers are in an authorized overdraft position, with further charges when the overdraft is unauthorized.
43. Average debit balance per account is calculated by dividing the total debit balance by the total number of either active or all PCA accounts. We do not have information on the average number of accounts which are in debit. The debit balance per active account does not present the average debit balance.
44. However measured, debit balances at the clearers are significantly higher than the non-clearers. Total average debit balances were approximately five times those of the non-clearers. However, whilst the total average debit balance for the clearers as a group remained broadly the same in 2005 as 2002, the non-clearers experienced a growth of 13.9 per cent CAGR. Also considering debit balances per account (either active account or all accounts) shows that the clearers debit balances are approximately twice that of the non-clearers.
45. On a bank by bank basis, debit balances in total and per account show a mixed picture. [X] have fallen, whilst [X] have increased their average debit balance per active account. [X] growth may be the consequence of the accuracy of the 2002 estimation of account numbers.

Revenues

For each of the eight banks Table 7 sets out the revenues earned from interest and charges.

TABLE 7 Revenues by type of income

£'000

	2002			2003			2004			2005			2005	2002–2005 CAGR %		
	Interest	Charges	Total	Interest	Charges	Total	Interest	Charges	Total	Interest	Charges	Total	Total	Interest	Charges	Total
Ulster																
Northern																
First Trust																
Bol																
Subtotal clearers	67,544 59%	46,070 41%	113,613 100%	67,590 59%	47,936 41%	115,525 100%	76,230 61%	49,615 39%	125,845 100%	83,484 63%	49,911 37%	133,395 100%	80.0%	7.3%	2.7%	5.5%
Halifax																
Abbey																
A&L																
Nationwide																
Subtotal non-clearers	10,622 54%	8,997 46%	19,620 100%	11,245 52%	10,397 48%	21,642 100%	15,726 56%	12,298 44%	28,023 100%	17,602 53%	15,690 47%	33,291 100%	20.0%	18.3%	20.4%	19.3%
Total revenues	78,166 59%	55,067 41%	133,233 100%	78,835 57%	58,332 43%	137,167 100%	91,955 60%	61,913 40%	153,868 100%	101,086 61%	65,601 39%	166,687 100%	100.0%	8.9%	6.0%	7.8%

Source: CC analysis of responses and updates to Questions 4 and 5 of the Financial and Accounting Questionnaire.

Revenue overview

46. Banks earn revenues on PCAs in three forms:
- (a) NII on credit balances (value of funds elsewhere in bank less interest paid to customer);
 - (b) NII from debit balances (interest received from customer less cost of providing funds); and
 - (c) charges.
47. In 2005, the eight banks earned revenue from the PCA business of £167 million, of which £133 million (80.0 per cent) was earned by the clearers. Between 2002 and 2005 the total revenue of all eight banks grew by 7.8 per cent a year. Revenue growth across the banks was not uniform. However, as a group the clearers experienced average revenue growth of 5.5 per cent a year, whilst the non-clearers experienced average revenue growth of 19.3 per cent a year. Every non-clearer achieved revenue growth which was greater than every clearer.
48. NII and charges are both important sources of revenue for all banks. Although there are slight variations for individual banks, for the eight banks on average the banks earn more than half their total income from NII on credit balances, over 40 per cent from charges and 5 per cent from NII on debit balances.
49. When analysing differences in revenue earned by the banks it should be noted that:
- (a) There may be differences in the behaviour of different banks' customers. One particular bank may attract customers who act in a particular way and therefore more likely to incur certain charges. For example, a bank may attract customers who travel regularly and are often charged for foreign exchange.

- (b) Banks provide other benefits to PCA customers. For example, some customers pay a monthly maintenance charge in return for the benefits of a packaged account.
- (c) Some banks offer additional services such as night safe and safe custody, the charges for which are included within the analysis.
- (d) The charges incurred reflect how the customers use their account, as well as which additional services they choose to use.

Net interest income

- 50. NII is earned from two primary sources: credit balances and debit balances. Table 17 (in Annex 2) analyses NII by these sources. There are some variations between banks. In 2005, approximately 92 per cent of NII was earned from credit balances and 8 per cent from debit balances.

- 51. For each of the eight banks, Table 8 sets out NII on credit balances, showing both gross income and the cost of funds.

TABLE 8 NII on credit balances

	£'000													
	2002			2003			2004			2005			2005 % of total	02-05 CAGR %
	Gross interest income	Cost of funds	NII	Gross interest income	Cost of funds	NII	Gross interest income	Cost of funds	NII	Gross interest income	Cost of funds	NII	NII	NII
Ulster														
Northern														
First Trust														
Bol														
Subtotal clearers	58,624 4.72%	(777) -0.06%	57,847 4.66%	60,061 4.32%	(892) -0.06%	59,169 4.26%	70,035 4.55%	(1,357) -0.09%	68,678 4.46%	77,593 4.68%	(1,597) -0.10%	75,996 4.59%	82.6%	9.5%
Halifax														
Abbey														
A&L														
Nationwide														
Subtotal non-clearers	12,840 4.43%	(3,108) -1.07%	9,732 3.35%	14,923 4.38%	(4,690) -1.38%	10,233 3.00%	20,342 5.05%	(5,499) -1.37%	14,842 3.69%	20,327 4.74%	(4,366) -1.02%	15,962 3.72%	17.4%	17.9%
Total revenues	71,463 4.66%	(3,885) -0.25%	67,578 4.41%	74,984 4.33%	(5,582) -0.32%	69,402 4.01%	90,377 4.66%	(6,856) -0.35%	83,521 4.30%	97,921 4.70%	(5,963) -0.29%	91,958 4.41%	100.0%	10.8%

Source: CC analysis of responses and updates to Questions 4 and 5 of the Financial and Accounting Questionnaire.

52. Gross interest income on credit balances is the value generated by using the funds elsewhere. The cost of these funds is the interest paid to PCA customers. In 2005, 82.6 per cent of NII on credit balances was earned by the clearers, which is slightly lower than 2002. NII on credit balances growth across the banks was not uniform. However, as a group the clearers experienced average revenue growth of 9.5 per cent a year, whilst the non-clearers experienced average revenue growth of 17.9 per cent a year. Within these groups there were also significant variations (for example, [X] ([X] per cent) compared with [X] ([X] per cent).
53. The gross interest income is dependent on the interest rate used by the bank for valuing the use of those funds elsewhere in the bank. For example, in 2002 [X] valued these funds at [X] per cent while [X] valued these funds at [X] per cent.
54. There are two implications arising from valuation of the funds:
- (a) different rates used by different banks can distort inter-bank comparisons; and
 - (b) BoE base rates and market interest rates move over time. This needs to be taken into account when assessing a bank's (or group of banks') financial performance over time ('inter-temporal' impact of interest rates). Also, current base rates placed in a historical context may further inform our analysis of financial performance.

Impact of gross interest rates on inter-bank analysis

55. A significant difference in the valuation applied to the funds may distort inter-bank comparisons. An exercise has been undertaken to 'normalize' the gross interest income, by applying the average gross interest rate for the eight banks to the individual banks. In Table 18 (in Annex 3), gross interest income has been re-calculated for each bank using the overall average for each year (ie 4.66 per cent in

2002, 4.33 per cent in 2003, 4.66 per cent in 2004 and 4.70 in 2005).⁴ This approach does not change the overall gross interest rate.

56. Between using individual and average fund valuations the noticeable differences are:
- (a) NII CAGR is significantly lower under the normalized valuation method for [X] compared with the figures as presented by the banks.
 - (b) NII CAGR is significantly higher for [X] under the normalized valuation method. Using the figures presented by [X], NII fell during the period under review whilst using the normalized version NII increased by [X] per cent a year.

'Inter-temporal' impact of interest rates

57. The value of these funds is dependent on the interest rate used. Most banks used a valuation method which was linked to market rates. We have not normalized the methodology across time because this, in part, reflects changes to market rates and in particular BoE base rate.⁵
58. The financial performance of the banks is inextricably linked to the general economic environment and interest rates. However, it is difficult to say with any degree of certainty how the financial performance of the banks and the PCA market would differ if interest rates were significantly different.

Credit interest paid to customers

59. Interest paid to customers is not an internal valuation and is based upon the actual amounts paid. On average the non-clearers pay more interest on credit balances (2005 average: 1.02 per cent) than the clearers (2005 average: 0.10 per cent). In 2005, the four non-clearers paid £4.4 million in interest to customers compared with

⁴Spreads can be seen in Table 8, for example in 2005 the spread was 4.59 to 4.91 per cent.

⁵BoI and Nationwide have March year ends and Northern had a September year end. No attempt has been made to factor this into the normalized results.

£1.6 million paid by the clearers. Moreover, a non-clearer, [redacted], with a market share of less than 10 per cent (Table 1), paid out more interest on customers' credit balances than did the clearers in total (market share 73 per cent (Table 1)).

60. A clearer, [redacted], told us that as many of the non-clearers published credit interest rates in excess of 2 per cent, the average rate of 1.02 per cent in 2005 would seem to indicate that the minimum entry levels applying to the preferential credit interest rates meant that many customers were not benefiting from the higher credit interest rates seen in the non-clearer's advertisements.
61. For each of the eight banks, Table 9 sets out NII on debit balances, showing both gross income and the cost of funds.

TABLE 9 NII on debit balances

£000's	£'000												2005 % of total	02-05 CAGR %
	2002			2003			2004			2005				
	Gross interest income	Cost of funds	NII	Gross interest income	Cost of funds	NII	Gross interest income	Cost of funds	NII	Gross interest income	Cost of funds	NII	NII	NII
Ulster														
Northern														
First Trust														
Bol														
Subtotal clearers	13,845 10.53%	(5,354) -4.07%	8,491 6.45%	12,087 9.88%	(4,641) -3.79%	7,446 6.09%	12,239 9.79%	(5,668) -4.53%	6,572 5.26%	12,429 9.94%	(6,137) -4.91%	6,292 5.03%	79.4%	-9.5%
Halifax														
Abbey														
A&L														
Nationwide														
Subtotal non-clearers	1,548 9.69%	(659) -4.13%	889 5.56%	1,724 9.90%	(712) -4.09%	1,012 5.82%	1,890 9.37%	(1,009) -5.00%	881 4.37%	2,749 13.62%	(1,116) -5.53%	1,632 8.09%	20.6%	22.5%
Total revenues	15,393 10.43%	(6,013) -4.08%	9,380 6.36%	13,811 9.88%	(5,352) -3.83%	8,459 6.05%	14,129 9.73%	(6,677) -4.60%	7,453 5.13%	15,178 10.46%	(7,253) -5.00%	7,924 5.46%	100.0%	-5.5%

Source: CC analysis of responses and updates to Questions 4 and 5 of the Financial and Accounting Questionnaire.

62. NII on debit balances is set out in Table 9. In 2005, the eight banks earned NII on debit balances of £7.9 million, of which 79.4 per cent was earned by the clearers. During the period under review, NII on debit balances earned by the clearers fell by over 9 per cent a year, whilst for the non-clearers it grew by over 22 per cent a year. In particular, [X] has experienced the largest reduction (2004 [X] per cent a year) and [X] the largest increase (2004 [X] per cent a year).

63. Similar to credit interest an exercise has been undertaken to 'normalize' NII on debit balances for the banks' different valuations for the cost of funds. The normalized figures are set out in Table 19, and compared with Table 9 the differences do not appear significant.

64. For each of the eight banks, Table 10 sets out charges earned in 2005.

TABLE 10 Charges, 2005

£000's	Transaction charges	Arrangement charges	Standing charges	Unauthorized overdraft charges	Other charges	£'000 Total
Ulster	[]		✂			[]
Northern						
First Trust						
Bol						
Subtotal clearers	10,843 21.7%	1,228 2.5%	8,618 17.3%	25,640 51.4%	3,581 7.2%	49,910 100.0%
Halifax	[]		✂			[]
Abbey						
A&L						
Nationwide						
Subtotal non-clearers	3,250 80.0%	- 0.0%	13 0.1%	5,432 19.5%	6,995 0.0%	15,690 100.0%
Total charges	14,093 21.5%	1,228 1.9%	8,631 13.2%	31,072 47.4%	10,575 16.1%	65,600 100.0%

Source: CC analysis of responses and updates to Questions 4 and 5 of the Financial and Accounting Questionnaire.

65. Our information request required the banks to categorize gross revenue from charges into the following:

- (a) revenues from transaction charges (eg charges levied per cheque, per direct debit etc);
- (b) revenues from arrangement charges (eg charges levied to arrange overdrafts);
- (c) revenues from standing charges (eg annual or quarterly charges levied on accounts);
- (d) revenues from unauthorized overdraft charges (requested as part of the updated information for 2005 only); and
- (e) revenues from any other charges.

66. Table 10 sets out charges by bank and by type for 2005. Tables 21 and 22 (in Annex 4) set out charges by bank and by type for 2002 to 2004. The responses we received were mixed, and in particular the non-clearers provided limited analysis. Furthermore, the banks may have had different interpretations of the categories. For example, in [redacted] figures, revenues from [redacted] charges, which might be considered to relate to unauthorized overdrafts, have been included within the 'standing' charges category. Furthermore, the revenues for [redacted] shown under the headings of 'unauthorized overdraft charges' for 2005 and 'other charges' for 2002 to 2004 largely relates to revenue from [redacted] charges.

67. Given the information provided, especially by the non-clearers, it is difficult to comment on the breakdown of charges in respect of these banks. Although there is some uncertainty surrounding the estimate, it was clear that unauthorized overdraft charges are a key source of income. Based on the information provided by the banks, it appears that the eight banks earned £31 million in 2005 from unauthorized overdraft charges, representing 47 per cent of all charges. This is likely to be an underestimate because the analysis from some of the banks allocated no income to unauthorized overdraft charges. We estimate that a more realistic figure for 2005 might be around £35 million, representing over half of all income from charges. We

note that, given the recent and future changes in the clearers' charging structures, unauthorized overdraft charges are likely to become a more important source of income in the future.

Revenue per account

68. In addition to the points in paragraph 49, when analysing the differences in revenues per account between banks the following should be noted:
- (a) The concept of average revenue per account does not reflect the average customer—at a point in time a customer does not operate both a debit and credit balance; therefore to attach a revenue for both in the calculation does not reflect the 'average' customer.
 - (b) The majority of customers operate their account in credit and therefore do not pay any charges in relation to overdrafts or debit interest.
 - (c) Dividing the debit and credit gross interest income by the total number of PCAs implies that all customers operate the same debit and credit balance.
69. For each of the eight banks, Table 11 sets out average total revenue per account.

TABLE 11 Average total revenue per account

	£	2002	2003	2004	£ 2005	2005 % of total	2002–2005 CAGR %
<i>Per all accounts</i>							
Ulster							
Northern					✂		
First Trust							
Bol							
Weighted average clearers		127	133	140	145	111.4%	4.4%
<i>Halifax</i>							
Abbey							
A&L					✂		
Nationwide							
Weighted average non-clearers		69	70	82	92	70.9%	9.8%
Weighted average (weighted by number of accounts)		113	116	124	130	100.0%	4.6%
Per active account							
Ulster							
Northern							
First Trust					✂		
Bol							
Weighted average clearers		144	158	166	175	110.3%	6.7%
<i>Halifax</i>							
Abbey							
A&L					✂		
Nationwide							
Weighted average non-clearers		89	88	101	116	72.8%	9.1%
Weighted average (weighted by number of active accounts)		132	141	149	159	100.0%	6.3%

Source: CC analysis of responses and updates to Questions 4 and 5 of the Financial and Accounting Questionnaire.

70. From Table 11 we can see that average revenues per account (either per active account or per all accounts) are significantly higher for the clearers as a group than the non-clearers as a group. For example, in 2005 the clearers averaged total revenue of £175 per active account compared with £116 for the non-clearers. In particular, [✂] earned £[✂] on average and [✂] £[✂]. The average revenues for the non-clearers as a group have grown at a faster rate than those of the clearers as a group.

71. During the period under review three banks achieved significant growth in the average revenue per active account; [✂] ([✂] per cent a year) and [✂] ([✂] per cent a year). However, the [✂] growth figure may be distorted by the issues concerning the number of accounts in 2002.

Analysis of PCA revenues by source of income

72. In paragraphs 46 to 71 our financial analysis of PCA revenues has been predominately from the perspective of:
- (a) charges;
 - (b) NII on credit balances (value of funds elsewhere in bank less interest paid to customer); and
 - (c) NII from debit balances (interest received from customer less cost of providing funds).
73. Tables 7 to 10 set out 2005 revenues from this perspective, from which we can see that banks earned on average 53 per cent of revenues from NII on credit balances, 41 per cent of revenues from charges and 5 per cent of revenues from NII on debit balances.
74. Alternatively, the banks' PCA revenues can be viewed as flowing from two sources:
- (a) direct revenues from PCA product (charges, gross debit (overdraft) interest paid by customers less credit interest paid to customers); and
 - (b) imputed interest income from PCAs (ie the indirect revenues the bank can earn from using the net credit balances⁶ elsewhere in the bank).
75. For each of the eight banks, Table 12 sets out revenues by source of income (direct or imputed).

⁶Credit balances less debit balances.

TABLE 12 2005 PCA revenues by source of income

£000's	Direct income from PCA product				Imputed income			Total revenue from non-PCA cust	Total revenue
	Total charges	Gross debit int	Credit int paid to customers	Total revenues from PCA cust	Value of cr balances	Cost of dr balances	Capital income		
Ulster Northern First Trust BoI					✂				
Subtotal clearers	50,539	12,429	(1,597)	61,371	77,593	(6,137)	566	72,023	133,394
Halifax Abbey A&L					✂				
Nationwide Subtotal non-clearers	<u>15,690</u>	<u>2,749</u>	<u>(4,366)</u>	<u>14,073</u>	<u>20,327</u>	<u>(1,116)</u>	<u>8</u>	<u>19,219</u>	<u>33,291</u>
Total	<u>66,229</u>	<u>15,178</u>	<u>(5,963)</u>	<u>75,444</u>	<u>97,921</u>	<u>(7,253)</u>	<u>574</u>	<u>91,241</u>	<u>166,685</u>
	40%	9%	-4%	45%	59%	-4%	0%	55%	100%
	88%	20%	-8%	100%					

Source: CC analysis of responses and updates to Questions 4 and 5 of the Financial and Accounting Questionnaire.

76. From Table 12 we can see that, in 2005, banks on average earned 45 per cent of revenues directly from PCAs and 55 per cent of revenues is imputed (ie indirectly from non-PCA products). Furthermore, of the revenues earned directly from PCA customers, 88 per cent is earned on average from charges, 20 per cent is earned from interest on debit balances and negative 8 per cent is paid to customers on credit balances.⁷ This perspective ignores the customers' opportunity cost of having a credit balance on a PCA.

77. Because customers provide funds to a bank on which the bank earns revenue by investing these funds elsewhere, average revenue per active account is not akin to the average price a customer pays. If it is assumed that a customer is concerned with:

- charges;

⁷Excluding credit interest (as this is paid to customers), 81 per cent of income earned from customers comes from charges and 19 per cent from debit interest.

- debit interest he/she pays; and
- credit interest he/she receives;
- **but not** income forgone by holding a credit balance in a PCA (ie income the customer could earn from investing the money elsewhere),

then it is possible to calculate average revenues earned per account. It is calculated as charges plus debit interest paid less credit interest received. It is possible to make inter-bank comparisons by calculating the average per account, and taking into account that average balances (both credit and debit balances) are significantly different for the individual banks. Table 13 sets out the results of this analysis for 2005. (Table 24 sets out the analysis unadjusted for differences in average balances.)

TABLE 13 Average revenues earned per account (interest adjusted for differences in average balances) 2005 using active accounts as the denominator

	2002	2003	2004	2005	2005 analysis			£
	Total	Total	Total	Total	Charges	Debit interest	Credit interest	Total
Ulster Northern First Trust Bol	74	79	78	78	66	14	(2)	78
Weighted average clearers								
Halifax Abbey A&L Nationwide	36	32	32	51	55	17	(20)	51
Weighted average non-clearers								
Weighted average	66	68	67	71	63	14	(6)	71

Source: CC analysis of responses and updates to Questions 4 and 5 of the Financial and Accounting Questionnaire.

78. We noted in paragraph 10 that our conceptual preference is that analysis based on active accounts but there are wide variations between some of the banks in the percentage of accounts which are active and this may impact our analysis. The analysis in Table 13 may be distorted by the specific issues noted in paragraph 10, and the observation that both [X] and [X] have experienced increased revenues in 2005 compared with 2004 (increases of [X] per cent and [X] per cent respectively)

whilst their active account numbers have remained relatively constant (a decrease of [X] per cent and an increase of [X] per cent respectively). We are considering these issues further, and have also included the same analysis but based on all accounts (see Table 14).

79. The purpose of this analysis is not to quantify the savings or additional cost of switching banks. Table 13 suggests that the average revenues earned per active account from PCA customers directly in 2005 is significantly higher for the clearers as a group (£78) than the non-clearers (£51). However, this gap appears to be slightly narrower than in previous years. Furthermore, in 2005 and unlike previous years some of the clearers average figures are similar to those of the non-clearers—in particular, two clearers ([X]) are similar to two non-clearers ([X]).

TABLE 14 Average revenues earned per account (interest adjusted for differences in average balances) 2005 using all accounts as the denominator

	2002	2003	2004	2005	2005 analysis				£
	Total	Total	Total	Total	Charges	Debit interest	Credit interest	Total	
Ulster Northern First Trust Bol Weighted average clearers	65	66	66	64	54	12	(2)	64	
Halifax Abbey A&L Nationwide Weighted average non-clearers	28	26	27	41	X	43	14	(16) 41	
Weighted average	56	56	56	58	51	12	(5)	58	

Source: CC analysis of responses and updates to Questions 4 and 5 of the Financial and Accounting Questionnaire.

80. Comparing Tables 13 and 14, we note that, whilst the magnitude of the figures is different, the observations in paragraphs 49 and 68 based on the differences in the relative performance of the banks are also applicable to Table 14.

81. The data in Table 13 (and Table 14) predates Ulster's new charging structure, Northern's new account portfolio and Bol's proposed new charging structure.

Furthermore the 2005 analysis contains eight months of Northern's Current Account Plus.

82. We note that the comments in paragraph 68 are also applicable to Tables 13 and 14.

Market shares

1. We collected financial information for the top eight banks and not the whole market.
2. In December 2005 MORI data shows that the market share of the top eight banks was 95.5 per cent. We have calculated market shares (Tables 15 and 16) from the financial and accounting data and by making assumptions about the 4.5 per cent of the market for which we do not have information.

TABLE 15 Market shares based on number of accounts and number of active accounts

	<i>per cent</i>			
	2002	2003	2004	2005
Number of accounts (year end)				
Ulster	()	✂)
Northern				
First Trust				
Bol				
Subtotal clearers	73.3	70.9	69.3	68.6
Halifax	()	✂)
Abbey				
A&L				
Nationwide				
Subtotal non-clearers	<u>23.1</u>	<u>25.3</u>	<u>26.2</u>	<u>26.9</u>
Total number of accounts (year end)	96.4	96.2	95.5	95.5
Other	<u>3.6</u>	<u>3.8</u>	<u>4.5</u>	<u>4.5</u>
Total incl other	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Active accounts				
Ulster	()	✂)
Northern				
First Trust				
Bol				
Subtotal clearers	75.4	71.9	69.9	69.3
Halifax	()	✂)
Abbey				
A&L				
Nationwide				
Subtotal non-clearers	<u>21.0</u>	<u>24.3</u>	<u>25.6</u>	<u>26.2</u>
Total % of accounts which are 'active'	96.4	96.2	95.5	95.5
Other	<u>3.6</u>	<u>3.8</u>	<u>4.5</u>	<u>4.5</u>
Total incl Other	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: CC analysis of responses and updates to Questions 4 and 5 of the Financial and Accounting Questionnaire.

TABLE 16 Market shares based on credit balances and revenues

	<i>Total average credit balances, per cent</i>			
	2002	2003	2004	2005
Ulster	(✂))
Northern				
First Trust				
Bol				
Subtotal clearers	78.5	77.9	76.5	76.7
Halifax	(✂))
Abbey				
A&L				
Nationwide				
Subtotal non-clearers	<u>18.3</u>	<u>19.1</u>	<u>20.0</u>	<u>19.9</u>
Total average credit balances	96.9	97.0	96.5	96.6
Other	<u>3.1</u>	<u>3.0</u>	<u>3.5</u>	<u>3.4</u>
Total incl Other	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Revenues based on normalized value/cost of funds				
Ulster	(✂))
Northern				
First Trust				
Bol				
Subtotal clearers	82.7	82.4	80.4	77.5
Halifax	(✂))
Abbey				
A&L				
Nationwide				
Subtotal Non-clearers	<u>14.9</u>	<u>15.3</u>	<u>16.7</u>	<u>19.3</u>
Top 8	97.5	97.7	97.2	96.8
Others	<u>2.5</u>	<u>2.3</u>	<u>2.8</u>	<u>3.2</u>
Revised total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: CC analysis of responses and updates to Questions 4 and 5 of the Financial and Accounting Questionnaire.

NII by source

TABLE 17 NII by source

	2002				2003				2004				2005				£'000
	Credit	Debit	Other	Total	Credit	Debit	Other	Total	Credit	Debit	Other	Total	Credit	Debit	Other	Total	
Ulster																	
Northern																	
First Trust																	
Bol																	
Subtotal clearers	57,849 86%	8,491 13%	1,205 2%	67,545 100%	59,172 88%	7,446 11%	973 1%	67,591 100%	68,681 90%	6,572 9%	978 1%	76,231 100%	75,996 91%	6,292 8%	1,194 1%	83,482 100%	
Halifax																	
Abbey																	
A&L																	
Nationwide																	
Subtotal non-clearers	9,735 92%	889 8%	-0 0%	10,623 100%	10,236 91%	1,013 9%	- 0%	11,247 100%	14,845 94%	881 6%	1 0%	15,727 100%	15,962 91%	1,632 9%	8 0%	17,602 100%	
Total revenues	67,583 86%	9,380 12%	1,205 2%	78,168 100%	69,407 88%	8,459 11%	973 1%	78,838 100%	83,526 91%	7,453 8%	979 1%	91,958 100%	91,958 91%	7,924 8%	1,202 1%	101,084 100%	

Source: CC analysis of responses and updates to Questions 4 and 5 of the Financial and Accounting Questionnaire.

Revenues with normalized NII

TABLE 18 NII on credit balances (value of funds used elsewhere in the bank—'normalized')

	2002			2003			2004			2005			2005 % of total	2002-05 CAGR %
	Gross interest income	Cost of funds	NII	Gross interest income	Cost of funds	NII	Gross interest income	Cost of funds	NII	Gross interest income	Cost of funds	NII		
Ulster														
Northern														
First Trust														
Bol														
Subtotal clearers	57,934 4.66%	(777) -0.06%	57,157 4.60%	60,227 4.33%	(892) -0.06%	59,335 4.27%	71,627 4.66%	(1,357) -0.09%	70,271 4.57%	77,795 4.70%	(1,597) -0.10%	76,197 4.60%	82.9%	10.1%
Halifax														
Abbey														
A&L														
Nationwide														
Subtotal non-clearers	13,530 4.66%	(3,108) -1.07%	10,422 3.59%	14,757 4.33%	(4,690) -1.38%	10,067 2.96%	18,749 4.66%	(5,499) -1.37%	13,250 3.29%	20,126 4.70%	(4,366) -1.02%	15,760 3.68%	17.1%	14.8%
Total revenues	71,463 4.66%	(3,885) -0.25%	67,578 4.41%	74,984 4.33%	(5,582) -0.32%	69,402 4.01%	90,377 4.66%	(6,856) -0.35%	83,521 4.30%	97,921 4.70%	(5,963) -0.29%	91,958 4.41%	100.0%	10.8%

Source: CC analysis of responses and updates to Questions 4 and 5 of the Financial and Accounting Questionnaire.

TABLE 19 NII on debit balances (cost of funds from elsewhere in the bank—'normalized')

	£'000												2005 % of total NII	02-05 CAGR % NII
	2002			2003			2004			2005				
	Gross interest income	Cost of funds	NII	Gross interest income	Cost of funds	NII	Gross interest income	Cost of funds	NII	Gross interest income	Cost of funds	NII		
Ulster														
Northern														
First Trust														
Bol														
Subtotal clearers	13,845 <u>11%</u>	(5,362) <u>-4%</u>	8,483 <u>6%</u>	12,087 <u>10%</u>	(4,685) <u>-4%</u>	7,401 <u>6%</u>	12,239 <u>10%</u>	(5,748) <u>-5%</u>	6,491 <u>5%</u>	12,429 <u>10%</u>	(6,245) <u>-5%</u>	6,184 <u>5%</u>	78.0%	-10.0%
Halifax														
Abbey														
A&L														
Nationwide														
Subtotal non-clearers	1,548 <u>10%</u>	(651) <u>-4%</u>	897 <u>6%</u>	1,724 <u>10%</u>	(667) <u>-4%</u>	1,057 <u>6%</u>	1,890 <u>9%</u>	(928) <u>-5%</u>	962 <u>5%</u>	2,749 <u>14%</u>	(1,008) <u>-5%</u>	1,740 <u>9%</u>	22.0%	24.7%
Total revenues	15,393 <u>10%</u>	(6,013) <u>-4%</u>	9,380 <u>6%</u>	13,811 <u>10%</u>	(5,352) <u>-4%</u>	8,459 <u>6%</u>	14,129 <u>10%</u>	(6,677) <u>-5%</u>	7,453 <u>5%</u>	15,178 <u>10%</u>	(7,253) <u>-5%</u>	7,924 <u>5%</u>	100.0%	-5.5%

Source: CC analysis of responses and updates to Questions 4 and 5 of the Financial and Accounting Questionnaire.

TABLE 20 Revenues by type of income (debit and credit interest—'normalized')

	2002			2003			2004			2005			£'000	2002–2005 CAGR %		
	Interest	Charges	Total	Interest	Charges	Total	Interest	Charges	Total	Interest	Charges	Total		Total	Interest	Charges
Ulster																
Northern																
First Trust																
Bol																
Subtotal clearers	66,846 <u>59%</u>	46,070 <u>41%</u>	112,915 <u>100%</u>	67,711 <u>59%</u>	47,936 <u>41%</u>	115,646 <u>100%</u>	77,741 <u>61%</u>	49,615 <u>39%</u>	127,357 <u>100%</u>	83,577 <u>63%</u>	49,911 <u>37%</u>	133,489 <u>100%</u>	80%	7.7%	2.7%	5.7%
Halifax																
Abbey																
A&L																
Nationwide																
Subtotal non-clearers	11,320 <u>56%</u>	8,997 <u>44%</u>	20,317 <u>100%</u>	11,126 <u>52%</u>	10,397 <u>48%</u>	21,522 <u>100%</u>	14,214 <u>54%</u>	12,298 <u>46%</u>	26,512 <u>100%</u>	17,510 <u>53%</u>	15,691 <u>47%</u>	33,201 <u>100%</u>	20%	15.6%	20.4%	17.8%
Total revenues	78,166 <u>59%</u>	55,067 <u>41%</u>	133,233 <u>100%</u>	78,836 <u>57%</u>	58,332 <u>43%</u>	137,169 <u>100%</u>	91,955 <u>60%</u>	61,913 <u>40%</u>	153,868 <u>100%</u>	101,087 <u>61%</u>	65,602 <u>39%</u>	166,689 <u>100%</u>	100%	8.9%	6.0%	7.8%

Source: CC analysis of responses and updates to Questions 4 and 5 of the Financial and Accounting Questionnaire.

Charges, 2002 to 2004

TABLE 21 Charges, 2002 and 2003

	2002					2003					£'000
	Transaction charges	Arrangement charges	Standing charges	Other charges	Total	Transaction charges	Arrangement charges	Standing charges	Other charges	Total	
Ulster											
Northern											
First Trust											
Bol											
Subtotal clearers	13,299 29.6%	1,529 3.4%	8,576 19.1%	21,501 47.9%	44,904 100.0%	13,122 27.4%	1,645 3.4%	10,468 21.8%	22,676 47.3%	47,911 100.0%	
Halifax											
Abbey											
A&L											
Nationwide											
Subtotal non-clearers	2,046 22.7%	11 0.1%	- 0.0%	6,939 77.1%	8,996 100.0%	2,464 23.7%	11 0.1%	- 0.0%	7,920 76.2%	10,395 100.0%	
Total charges	15,345 28.5%	1,540 2.9%	8,576 15.9%	28,440 52.8%	53,900 100.0%	15,586 26.7%	1,656 2.8%	10,468 18.0%	30,596 52.5%	58,305 100.0%	

Source: CC analysis of responses and updates to Questions 4 and 5 of the Financial and Accounting Questionnaire.

TABLE 22 Charges, 2004

					£'000
	Transaction charges	Arrangement charges	Standing charges	Other charges	Total
Ulster	⌈		✂		⌋
Northern					
First Trust					
Bol					
Subtotal clearers	12,229 25.3%	1,682 3.5%	12,458 25.8%	21,996 45.5%	48,365 100.0%
Halifax	⌈		✂		⌋
Abbey					
A&L					
Nationwide					
Subtotal non-clearers	2,871 23.3%	10 0.1%	- 0.0%	9,415 76.6%	12,296 100.0%
Total charges	15,100 <u>24.9%</u>	1,692 <u>2.8%</u>	12,458 <u>20.5%</u>	31,412 <u>51.8%</u>	60,662 <u>100.0%</u>

Source: CC analysis of responses and updates to Questions 4 and 5 of the Financial and Accounting Questionnaire.

Average revenues earned per account

TABLE 23 Average revenues earned per account (interest not adjusted) 2005 using active accounts as denominator

	£			
	<i>Charges</i>	<i>Debit interest</i>	<i>Credit interest</i>	<i>Total</i>
Ulster Northern First Trust Bol	⌈			
Weighted average clearer	66	16	(2)	80
Halifax Abbey A&L Nationwide	⌈			
Weighted average non-clearer	55	10	(15)	49
Total	63	14	(6)	71

Source: CC analysis of responses and updates to Questions 4 and 5 of the Financial and Accounting Questionnaire.

TABLE 24 Average revenues earned per account (interest adjusted), 2005, using all accounts as denominator

	£			
	<i>Charges</i>	<i>Debit interest</i>	<i>Credit interest</i>	<i>Total</i>
Ulster Northern First Trust Bol	⌈			
Weighted average clearer	54	12	(2)	64
Halifax Abbey A&L Nationwide	⌈			
Weighted average non-clearer	43	14	(16)	41
Total	51	12	(5)	58

Source: CC analysis of responses and updates to Questions 4 and 5 of the Financial and Accounting Questionnaire.