

# United Kingdom

## I. Institutional coverage

The statistics published in *Banking Statistics – Financial Statements of Banks* cover the world-wide operations of the seven main retail banking groups operating in the UK, but the following paragraphs explain the whole financial services sector in the UK.

The primary regulation governing banking in the UK is the Financial Services and Markets Act 2000 (FSMA), which superseded the Banking Act 1987. There is no explicit definition of a bank in FSMA, but national banking statistics cover all regulated credit institutions which are permitted to accept deposits in the UK. At end-December 2008, 239 institutions (either incorporated in the UK or branches of overseas non-European Economic Area institutions) were regulated by the Financial Services Authority. In addition, 97 European authorised institutions (from the European Economic Area) were operating through branches in the UK under The Banking Co-ordination (Second Council Directive) Regulations 1992, having been authorised to do so by the relevant supervisory authority in their home state.

Banking operations in the Channel Islands and the Isle of Man were included in the UK banking sector, prior to September 1997, but thereafter have been classified as “non-resident” banks in UK statistics. All UK national banking statistics cover the institutions within the sector, either in total or by sub-divisions according to the nationality of the parent companies. The aggregated balance sheet at end-2008 is presented in Table 2 below, “Structure of banks in the United Kingdom”.

Retail banks offer a wide range of services, in particular money transmission facilities, to the general public through their extensive branch networks (more than 10 300 in the UK at end-2008). They also have large international operations or branch networks outside the UK. Their subsidiary companies, sometimes themselves banks, tend to concentrate on offering specialised services or facilities such as insurance broking, unit trust and merchant banking services, or leasing and consumer credit.

Besides retail banks, banks in the UK include investment banks, other UK-owned banks, branches and subsidiaries of overseas banks; these generally specialise in certain areas, such as bill finance, new issues, company finance, and instalment credit, or they may have been established in the UK to operate in the wholesale markets through sterling and foreign currency deposits and certificates of deposit. Unlike retail banks, most of these institutions do not seek to provide a regular domestic money transmission service but prefer to deal in bespoke services on behalf of customers. Outside the banking sector, the government’s National Savings and Investment Bank remains primarily a holder of longer-term personal savings deposits. Although the range of institutions offering retail

banking or similar services to the general public is increasing, the data in *Banking Statistics – Financial Statements of Banks* cover the majority of those services in the United Kingdom.

The other main deposit-taking institutions in the United Kingdom are building societies. Unlike banks, these take the form of mutual associations and have historically been governed by their own Acts of Parliament, but are now regulated by the FSA under FSMA. Building societies have become public limited companies and therefore joined the banking sector, a course initially set by The Abbey National Building Society and subsequently followed by the Alliance and Leicester, Bradford and Bingley, Halifax, Northern Rock and Woolwich building societies.

A breakdown by type of financial institution and corresponding balance-sheet total is presented in Table 3 below, “Structure of the financial system”. The banks were dominant with an aggregate balance sheet of GBP 7 918 billion at end-2008. The other major financial institutions are the insurance companies with a balance sheet of GBP 1 241 billion and pension funds totalling GBP 915 billion.

## II. Geographical coverage and degree of consolidation

The data cover the operations, both within the United Kingdom and abroad, of the seven main retail British banking groups.<sup>1</sup> It thus includes the business of:

- the parent bank and other banks in each group;
- other domestic and foreign (non-bank) subsidiaries in each group;
- the group share of the net tangible assets and of the contributions of associate companies.

## III. Summary description of activities of banks

### **Deposit-taking**

The retail banks historically accepted deposits on non-interest-bearing chequable sight accounts and on interest-bearing time deposit accounts. Until the system of credit control was introduced in 1971, the latter were nearly all at seven days’ notice. After 1971, however, these banks were able to expand their activities into other fields and to accept longer-term deposits and issue time certificates of deposits. They also increased their foreign currency business. In the mid-1980’s, the retail banks introduced a number of high interest-bearing chequable and other sight accounts, and subsequently, banks expanded their range of deposit products to offer tiered interest rates dependent on the account balance, automated transfers between accounts and, encouraged by government policy, a range of investment accounts which are exempt of tax.

### **Payment facilities**

The cheque, the traditional instrument of cashless money transmission in the United Kingdom, has been eclipsed in recent years by giro credits (paper and electronic) and automated payments. Banks and building societies process the majority of paper-based payments affecting their customers’ accounts through their membership of three operational clearing companies overseen by the UK Payments Council (formerly the Association for Payment Clearing Services – APACS). These are the Cheque and Credit Clearing Company which operates high volume paper (cheque and credit) clearings; the Bankers’ Automated Clearing System (BACS), which carries out electronic clearing of direct debits, standing orders, etc.; and the Clearing House Automated Payment System (CHAPS)

Clearing Company Ltd., which operates all high-value same day electronic credit transfer and paper debit clearings.

### **Lending**

Corporate customers of the main retail banking groups have a very wide range of financing facilities open to them. Fluctuations in working capital requirements may be accommodated by an agreed overdraft limit on a current account. Longer term financing requirements, may be met by structured term loans, sometimes for up to ten years or more. The banks also carry out bill and acceptance financing. Personal customers' facilities include overdrafts and loans, and also revolving credit and budget accounts; additionally, the banks have traditionally been the sources of bridging finance for those exchanging housing, and, since the early 1980s, have significantly increased their share of the mortgage market, advancing considerable sums in long-term loans for actual house purchase or improvements. Other credit facilities are normally provided to clearing bank customers via subsidiaries, *e.g.* factoring (invoice discounting), and finance for specific acquisitions of fixed assets through instalment credit, consumer credit, and finance leasing contracts.

The provision of finance to central government is mainly in the form of investment in Treasury bills and central government bonds, but current account advances are also made. Similarly, lending to local government takes the form of advances and investment in bills and securities, while funds are also lent to local government through the wholesale markets. Public sector enterprises also maintain current accounts with the clearing banks, on which advances may be made. Much of the international business undertaken by the clearing banks in the United Kingdom is international trade finance, conducted on "open account" terms or through trade bills (letters of credit, acceptance credits, bill negotiation). Special schemes exist for lending to small business under a UK government guarantee and for the provision of fixed-rate export finance in co-operation with the government's Export Credits Guarantee Department.

### **Money market business**

The main retail banks are major participants in the markets for wholesale sterling deposits, Eurocurrency deposits, and both sterling and eurocurrency certificates of deposit. Sterling deposits made with the banks may be lent in the markets at call or for a variety of fixed terms up to one year, either via the discount market or directly, through the offices of brokers, to other banks. The banks also deal in the various types of money market paper, including short-term sale and repurchase arrangements and are major holders of Treasury, local authority, and commercial bills, central government bonds, and other short-term securities. In the Eurocurrency market the banks borrow predominantly at short-term but lend under various arrangements for periods up to five years.

### **Securities, portfolio management, and trust business**

Apart from investment activity on their own account, the banks have traditionally offered executor and trustee services, from which has developed a role as investment managers of private portfolios. They also now are active in the management of unit trusts and of institutional funds such as pension funds.

### **International business**

The banks provide various means of effecting international payments arising from trading and tourists' requirements. Overseas business may be undertaken locally, by means of branch networks, or through co-operative relationships with local banks. Traditional retail banking services are offered in some territories, but the banks' presence overseas is largely in order more easily to deal with the needs of large international corporate customers.

### **Other business**

Other services provided by the clearing banks include acting as insurance brokers, tax advisers, corporate finance advisers, company registrars, new issues receivers, and providers of guarantees, indemnities and performance bonds on behalf of customers.

## **IV. Reconciliation of national data with the OECD presentation<sup>2</sup>**

The United Kingdom national banking statistics, drawn from statistical returns made by banking sector institutions, cannot be reconciled with the statistics in *Banking Statistics – Financial Statements of Banks*, compiled from seven main UK retail banking groups' published reports and accounts, because:

- the coverage of national statistics does not extend to foreign branches and subsidiaries of banks incorporated in the United Kingdom;
- for operating account statistics: the United Kingdom does not publish operating account data for the banking sector nor for any component groups of banks (though some data is published for "financial companies", which comprises both the banking and other financial institutions sectors);
- for balance sheet statistics: data for subsidiaries of the retail banks outside the banking sector are not included in the banking statistics but, depending on the nature of the business, in those for other financial institutions or for private non-financial enterprises.

### **Income statement**

*Impairment (net provisions):* No breakdown is available of provisions into those on loans and those on securities.

### **Balance sheet**

#### **Assets**

*Interbank deposits:* money at call and short notice, certificates of deposit, and placing with banks.

*Loans:* advances to customers less provisions.

*Securities:* British Treasury bills and other bills, and investments (including trade investments).

#### **Liabilities**

*Deposits* comprise deposit, current and other accounts.

*Bonds* comprise loan capital.

### Memorandum items

*Short-term securities:* No breakdown is available on Short-term securities.

Bonds, Shares and participations, Claims on non-residents, and Liabilities to non-residents, are not available.

### Supplementary information

*Number of institutions:* the main retail banks and their United Kingdom banking sector subsidiaries.

*Number of branches:* the branches of the main retail banks in the United Kingdom, together with certain subsidiaries providing mass retail products.

## V. Sources

The data in *Banking Statistics – Financial Statements of Banks* has been compiled by the British Bankers' Association from the published reports of the seven banking groups covered. As explained in Section IV above, official data published in the United Kingdom do not have the same coverage as that included in *Banking Statistics – Financial Statements of Banks*.<sup>3</sup>

All statistical returns by banks in the United Kingdom for official purposes are made to the Bank of England. Balance sheet data for monthly reporting banks, analysed by nationality of ownership groupings, are published in *Monetary and Financial Statistics* each month and reproduced in an interactive database on its website. An Abstract contains quarterly consolidated banking sector information and some information on the income and expenses of the UK offices of the UK banking sector. The Office for National Statistics also publishes banking sector information in *Financial Statistics*, other periodicals and on its website.

### Notes

1. Barclays Group; Bradford and Bingley Group (included in the coverage beginning 1999); HSBC Bank Group; Lloyds Banking Group [comprising the former LloydsTSB Group and HBOS Group (included in the coverage beginning 1996)]; Northern Rock Group (included in the coverage beginning 1997); Santander UK Group (including the former Abbey National Group, the Alliance and Leicester Group (included in the coverage beginning 1996); Royal Bank of Scotland Group. Prior to the 1996 data, the Standard Chartered Group was included.
2. See also the tables "Income statement reconciliation" and "Balance sheet reconciliation" that follow.
3. An income statement for the main British high street banking groups is included in their Annual Abstract of Banking Statistics.

**Table 1. Structure of the banking system**

Monetary financial institutions, other than Central bank, at end-2008 – Number of institutions

Banks incorporated in the UK	157
Branches of banks incorporated in the EEA	97
Branches of banks incorporated elsewhere	82
<b>All banks in the UK</b>	<b>336</b>
Building societies	55

Source: Financial Services Authority.

**Table 2. Structure of banks in the United Kingdom**  
Balance sheet totals at end-2008 (GBP billion)

Central bank	237.7
Building societies	359.0
<b>Analysis of aggregated balance sheet of all banks in United Kingdom</b>	
<b>Assets</b>	
Cash and balances with Central bank	60.3
UK loans to monetary financial institutions	801.9
UK non-monetary financial institutions loans	2 353.0
Non-resident loans	3 179.4
Other assets	1 523.2
<b>Total</b>	<b>7 917.9</b>
<b>Liabilities</b>	
UK deposits from monetary financial institutions	857.8
UK non- monetary financial institutions deposits	1 987.0
Non-resident deposits	3 554.0
Other liabilities	1 519.2
<b>Total</b>	<b>7 917.9</b>

Source: Bank of England.

**Table 3. Structure of the financial system**  
Balance sheet totals at end-2008 (GBP billion)

Central bank	238
Other monetary institutions (all banks)	7 918
Building societies	359
Non-bank credit companies	58
Insurance companies (long-term funds)	1 125
Insurance companies (general insurance)	134
Pension funds	865
Unit trust and investment trust companies	437

## United Kingdom

### Income statement reconciliation – Large commercial banks<sup>1</sup> – 2008

OECD presentation	Million GBP	National presentation
<b>1. Interest incomes</b>	<b>172 286</b>	
		Interest receivable and similar income from debt securities
		Other interest receivable
<b>2. Interest expenses</b>	<b>117 611</b>	
<b>3. Net interest income</b>	<b>54 674</b>	
<b>4. Net non-interest income</b>	<b>30 144</b>	
a. Fees and commissions receivable	31 667	
b. Fees and commissions payable	7 071	
c. Net profit or loss on financial operations	–3 163	
		Dividend income
		Income from associated undertakings
		Minority interests
		Disposal profits
		Dealing profits
		Net insurance income
		Other income
d. Other net non-interest income	8 711	
<b>5. Net interest and non-interest income</b>	<b>84 819</b>	
<b>6. Operating expenses</b>	<b>92 765</b>	
a. Staff costs	29 716	
b. Property costs	16 133	
		Property and equipment
		Depreciation and amortisation
c. Other operating expenses	46 916	
<b>7. Net income before provisions</b>	<b>–7 917</b>	
<b>8. Net provisions</b>	<b>33 711</b>	
a. Provisions on loans	..	
b. Provisions on securities	..	
c. Other net provisions	..	
<b>9. Income before tax</b>	<b>–41 658</b>	
<b>10. Income tax</b>	<b>–4 162</b>	
<b>11. Net income after tax</b>	<b>–37 496</b>	
<b>12. Distributed profit</b>	<b>–8 560</b>	
<b>13. Retained profit</b>	<b>–28 936</b>	

1. Main UK high street banking groups (previously named Major British banking groups).

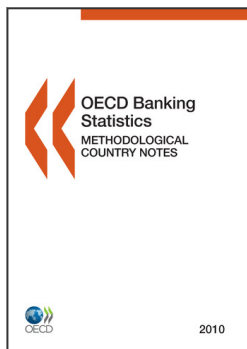
## United Kingdom

Balance sheet reconciliation – Large commercial banks<sup>1</sup> – 2008

OECD presentation	Million GBP	National presentation
<b>Assets</b>		
14. Cash and balances with Central bank	72 853	
15. Interbank deposits	332 303	
16. Loans	2 738 126	<b>Loans and advances to customers</b>
17. Securities	1 066 475	Debt securities
		Equity securities
		Treasury and other bills
18. Other assets	2 762 315	Items in course of collection
		Tangible fixed assets
		Long-term assurance fund assets
		Interest in associated undertakings
		Prepayments and accrued income
		Other assets
<b>Liabilities</b>		
19. Capital and reserves	293 835	<b>Liabilities</b>
		Share capital
		Share premium account
		Revaluation reserve
		Other capital reserve
		Profit and loss account
20. Borrowing from Central bank	0	
21. Interbank deposits	630 791	<b>Deposits by banks</b>
22. Customer deposits	2 080 933	<b>Customer accounts</b>
23. Bonds	1 274 175	Dated loan capital
		Undated loan capital
		Other subordinated liabilities
		Debt securities in issue
24. Other liabilities	2 692 338	Deferred taxation
		Minority interests
		Long-term assurance fund liabilities
		Items in course of collection
		Accruals and deferred income
		Other provisions
		Other liabilities
<b>Balance sheet total</b>		
25. End-year total	6 972 072	<b>Balance sheet total</b>

1. Main UK high street banking groups (previously named Major British banking groups).





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