

Bankers booking profits that might not exist with the f...

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The [FT reports this morning that](#):

Bankers are sounding the alarm over interest-free credit cards, warning they are a "ticking time bomb" that could lead to the kind of revenue scandal that hit supermarket Tesco.

Lenders that offer zero per cent balance transfer cards book upfront some of the revenue that they expect to gain once a customer ends the interest-free period and starts paying a high rate.

But several bank chief executives and analysts have told the Financial Times that the practice is extremely risky as it is based on the assumption that customers will still have the debt on the card when the deal ends and start to pay a high interest rate.

At the heart of this is something simple: it is imprudent accounting.

As a young man training to be an accountant I learned that I was to be prudent on all occasions. Profits were never to be anticipated. And the exact opposite was the case with losses, which should be anticipated whenever there was a chance that they might arise.

The accounting for banks shows just how far in the other (wrong) direction accounting has moved since then. Losses are not recognised now until they are 'realised', which means they have been proved to exist by the failure to pay. This is why bank profits were over-stated before the 2008 crash. Anticipation had disappeared from loss accounting when once it was ever-present.

And as the above-noted accounting for credit card profits that might never arise demonstrates, profits are now anticipated.

There were reasons for prudent accounting.

First it made directors face the reality of their actions when it came to losses.

Second, it prevented directors making up profits for their own gain.

Third, it protected creditors by ensuring that capital was never overstated and the true level of risk that creditors faced was known to them.

Fourth, it encouraged a culture of respect for the responsibilities owed to others that should be at the heart of corporate governance, but is not now.

All these safeguards have been abandoned by an accounting profession that has abandoned its belief in public duty and which has subjugated itself to the wish of its corporate clients.

Who pays the price? Creditors do. And who are the creditors of the banks? There are three of significance.

The first is anyone with a bank account that is in credit: that's what the credit means.

Second, it's us who has to bail them out when everything goes wrong.

And third, that's the government, with spillover effects we've all noted since 2008.

So please don't think reckless accounting is cost-free. You pay the price for it.