Impairment losses

IAS 39 impacted the way in which loan impairment losses are calculated and was implemented on 1 January 2005 without restatement of comparatives. Consequently, the data in the following tables for 2005 and 2004 are not directly comparable.

	2005 £m	2004 £m
New impairment losses	1,879	1,629
less: recoveries of amounts previously written-off	(172)	(144)
Charge to income statement	1,707	1,485
Comprising:		
Loan impairment losses	1,703	1,402
Other impairment losses	4	83
Charge to income statement	1,707	1,485

2005 compared with 2004

Impairment losses were £1,707 million compared with £1,485 million in 2004 with higher provisions in Retail Markets partly offset by improvements in Corporate Markets. Following the implementation of IAS 39 on 1 January 2005, loan impairment losses are based on the discounted value of expected recoveries. As a result, provisions are higher initially but the difference between the discounted and undiscounted amounts emerges as interest income over the recovery period.

New impairment losses were up 15%, £250 million to £1,879 million. Recoveries of amounts previously written off were up £28 million, 19% to £172 million. Consequently the net charge to the income statement was up £222 million, 15% to £1,707 million.

Total balance sheet provisions for impairment amounted to £3,887 million compared with £4,174 million at 31 December 2004. Total provision coverage (the ratio of total balance sheet provisions for impairment to total risk elements in lending) decreased from 76% to 65%.

The ratio of total balance sheet provisions for impairment to total risk elements in lending and potential problem loans decreased to 65% compared with 72% at 31 December 2004. This reflects amounts written-off and the changing mix from unsecured to secured exposure.

Other impairment losses were £4 million compared with £83 million in 2004.

Taxation

	2005 £m	2004 £m
Tax	2,378	1,995
	%	%
UK corporation tax rate	30.0	30.0
Effective tax rate	30.0	27.4

The actual tax charge differs from the expected tax charge computed by applying the standard rate of UK corporation tax as follows:

	2005 £m	2004 £m
Expected tax charge	2,381	2,185
Interest on subordinated debt not allowable for tax	79	—
Non-deductible items	230	110
Non-taxable items	(166)	(128)
Taxable foreign exchange movements	(10)	(10)
Foreign profits taxed at other rates	77	49
Unutilised losses – brought forward and carried forward	(5)	6
Adjustments in respect of prior periods	(208)	(217)
Actual tax charge	2,378	1,995

Divisional performance

The contribution of each division before amortisation of purchased intangible assets, integration costs and net gain on sale of strategic investments and subsidiaries and, where appropriate, Manufacturing costs is detailed below.

	2005 £m	2004 £m
Corporate Markets	5,224	4,226
Retail Markets		
Retail Banking	3,009	3,212
Retail Direct	790	885
Wealth Management	408	357
Total Retail Markets	4,207	4,454
Ulster Bank	530	452
Citizens	1,575	1,071
RBS Insurance	926	863
Manufacturing	(2,743)	(2,552)
Central items	(1,468)	(665)
Profit before amortisation of purchased intangible assets, integration costs and net gain on sale of strategic investments and subsidiaries	8,251	7,849
Amortisation of purchased intangible assets	97	45
Integration costs	458	520
Net gain on sale of strategic investments and subsidiaries	240	–
Profit before tax	7,936	7,284

The performance of each of the divisions is reviewed on pages 22 to 33.

Corporate Markets

	2005 £m	2004 £m
Net interest income	2,960	2,561
Non-interest income	5,855	5,090
Total income	8,815	7,651
Direct expenses		
– staff costs	2,000	1,705
– other	523	459
– operating lease depreciation	733	680
	3,256	2,844
Contribution before impairment losses	5,559	4,807
Impairment losses	335	581
Contribution	5,224	4,226

	31 December 2005 £bn	1 January 2005 £bn
Total assets*	409.2	359.4
Loans and advances to customers – gross*		
– banking book	158.7	136.9
– trading book	11.8	10.1
Rental assets	13.2	11.5
Customer deposits*	111.1	100.8
Weighted risk assets	202.6	178.4

* excluding repos and reverse repos

Corporate Markets achieved excellent results in 2005, with total income up 15% to £8,815 million and contribution up 24% to £5,224 million, reflecting very good performances across our businesses.

RBS remains the number 1 corporate bank in the UK and we have significantly expanded our franchise in Europe and North America, where we are also focussing on the opportunities for increased co-operation between Corporate Markets and Citizens. In Asia, our profile has benefited from the announcement of the Group’s strategic partnership with Bank of China.

Our businesses continue to deliver good returns. Weighted risk assets rose by 14% over the course of the year to £202.6 billion, with much slower growth in the second half following the above-trend spike at 30 June 2005. The ratio of income to average weighted risk assets for 2005 was broadly stable, while the ratio of contribution to average weighted risk assets improved slightly.

Corporate Markets – Mid-Corporate and Commercial

	2005 £m	2004 £m
Net interest income	1,760	1,477
Non-interest income	1,257	1,333
Total income	3,017	2,810
Direct expenses		
– staff costs	529	489
– other	132	123
– operating lease depreciation	335	322
	996	934
Contribution before impairment losses	2,021	1,876
Impairment losses	218	270
Contribution	1,803	1,606

	31 December 2005 £bn	1 January 2005 £bn
Total assets*	70.4	61.6
Loans and advances to customers – gross*	67.9	59.4
Customer deposits*	60.0	51.8
Weighted risk assets	74.2	65.6

* excluding repos and reverse repos

Corporate Markets generated good results in the Mid-Corporate & Commercial customer segment in 2005, building on the strength of its UK franchise. We maintained our market-leading positions in corporate and commercial banking, asset finance and invoice finance. Total income rose by 7% to £3,017 million, whilst contribution rose by 12% to £1,803 million.

Net interest income increased 19% to £1,760 million as a result of strong growth in average lending and in average customer deposits.

Non-interest income declined by 6% to £1,257 million, reflecting the effect of IAS 39 on recognition of fee income being partially offset by our continued success in cross-selling our full range of products and services to customers. Our business has benefited from the co-location of our asset finance and invoice finance managers with our corporate and commercial banking operations.

Expense growth was 7% which included a further investment in customer-facing staff.

Impairment losses were 19% lower than in 2004 at £218 million, reflecting a further improvement in our credit metrics.

Corporate Markets – Global Banking & Markets

	2005 £m	2004 £m
Net interest income excluding funding cost of rental assets	1,652	1,454
Funding cost of rental assets	(452)	(370)
Net interest income	1,200	1,084
Fees and commissions receivable	1,060	969
Fees and commissions payable	(252)	(217)
Income from trading activities	1,964	1,751
Income on rental assets	1,074	924
Other operating income	752	330
Non-interest income	4,598	3,757
Total income	5,798	4,841
Direct expenses		
– staff costs	1,471	1,216
– other	391	336
– operating lease depreciation	398	358
	2,260	1,910
Contribution before impairment losses	3,538	2,931
Impairment losses	117	311
Contribution	3,421	2,620

	31 December 2005 £bn	1 January 2005 £bn
Total assets*	338.8	297.8
Loans and advances to customers – gross*		
– banking book	90.8	77.5
– trading book	11.8	10.1
Rental assets	11.9	10.3
Customer deposits*	51.1	49.0
Weighted risk assets	128.4	112.8

* excluding repos and reverse repos

An excellent performance from our Global Banking & Markets customer segment in 2005 shows the fruits of the global platform we have built over the last five years, with good growth in all major geographies and across-the-board success in income generation from our core banking, structured finance and financial markets activities.

Total income rose by 20% to £5,798 million, with contribution up 31% to £3,421 million, benefiting from cost discipline and continuing benign credit conditions.

Debt underwriting volumes remained strong throughout the course of the year, reflecting our involvement in many of the largest financings in the UK and Europe for both large corporates and private equity sponsors. We were the fourth most active bank worldwide in arranging and underwriting bank lending in 2005. A strong distribution performance brought weighted risk assets to £128.4 billion at year-end, up 14% over the year and back to a more consistent trend level than the amount at 30 June 2005.

Non-interest income grew by 22% to £4,598 million and now accounts for 79% of Global Banking & Markets revenues.

We recorded good growth in fees earned from customer services in risk management, financial structuring and debt-raising. A strong performance from RBS Greenwich Capital, which has been brought together with other Corporate Markets activities in North America, contributed to steady growth in income from trading activities. Customer volumes were higher across all products and particularly good in our credit markets businesses. Average trading Value at Risk was held steady at a very conservative level, £12 million.

Our continuing success in aircraft, train, ship and hotel leasing delivered good growth in net income from rental assets. Other operating income grew strongly, with our structured finance investment portfolio producing good realised gains, notably in the second half of the year.

Growth in expenses was 18%, reflecting variable performance-related costs.

Retail Markets

Retail Markets was established in June 2005 to strengthen co-ordination and delivery of our multi-brand retail strategy across our product range, and comprises Retail Banking, Retail Direct and Wealth Management. The performance of each of these divisions is discussed on pages 26, 27 and 28, respectively.

	2005 £m	2004 £m
Net interest income	4,499	4,261
Non-interest income	3,714	3,869
Total income	8,213	8,130
Direct expenses		
– staff costs	1,514	1,446
– other	821	808
	2,335	2,254
Insurance net claims	486	702
Contribution before impairment losses	5,392	5,174
Impairment losses	1,185	720
Contribution	4,207	4,454

	31 December 2005 £bn	1 January 2005 £bn
Total banking assets	114.4	104.9
Loans and advances to customers		
– mortgages	64.6	56.9
– personal	21.5	20.2
– cards	9.6	9.4
– business	16.7	15.9
Customer deposits	105.9	97.0
Investment management assets – excluding deposits	31.4	26.6
Weighted risk assets	80.6	76.5

Total income increased by 1% to £8,213 million and contribution decreased by 6% to £4,207 million, with good discipline on costs helping to partially offset increased impairment losses on unsecured lending.

At the end of 2004 we referred to the changes being seen in the retail markets with the consumer transitioning from an environment which had seen several years of very fast growth in consumer lending to an increased emphasis on savings and investment.

As a consequence, we planned to refocus our strategy to grow our sales of deposit and bancassurance products faster than the market, to exploit our potential for building profitable market share in the mortgage market and to concentrate more on the development of our branch franchise, building on our strong service proposition. During 2005 this transition has gathered momentum and we have achieved good progress in our strategies.

Branch deposit balances outgrew the market and our bancassurance sales accelerated strongly, with annual premium equivalent sales 25% higher than in 2004. Our share of net mortgage lending, assisted by the launch of the First Active brand, reached 8% in 2005. Our credit card business, meanwhile, made excellent headway in marketing through branch channels; we gained 60% more credit card customers in our core NatWest and RBS brands in the second half than in the same period of 2004.

Retail Banking

	2005 £m	2004 £m
Net interest income	3,175	3,076
Non-interest income	2,258	2,504
Total income	5,433	5,580
Direct expenses		
– staff costs	1,026	964
– other	311	313
	1,337	1,277
Insurance net claims	486	702
Contribution before impairment losses	3,610	3,601
Impairment losses	601	389
Contribution	3,009	3,212

	31 December 2005 £bn	1 January 2005 £bn
Total banking assets	77.1	72.8
Loans and advances to customers – gross		
– mortgages	47.3	44.1
– personal	13.7	13.2
– business	16.3	15.3
Customer deposits	77.7	71.9
Weighted risk assets	54.0	51.1

Retail Banking total income for 2005 of £5,433 million and contribution of £3,009 million were adversely affected by the implementation of IAS 32, IAS 39 and IFRS 4 on 1 January 2005. Contribution before impairment losses increased to £3,610 million.

Overall customer numbers have increased since December 2004 with personal customers up 274,000 (2%) and registered internet customers up 30%. During 2005 we continued to demonstrate our commitment to customer service, with significant progress in terms of the proportion of our customers who are “extremely’’ satisfied and we are making pleasing progress in the current account switcher market. Among the high street banks, Royal Bank of Scotland ranks first for customer satisfaction with NatWest now in joint second place. NatWest remains the number one bank for students. In 2005, 44% of first year students in England and Wales chose to open new accounts with us compared with 42% in 2004.

Against the backdrop of a slower rate of growth in consumer borrowing, we have delivered robust business growth in average loans and advances, especially mortgage lending with particularly good growth in higher margin products such as the offset mortgage. Average unsecured personal lending, where we took further steps to enhance our focus on high quality new business, was also up. Average customer deposits grew, with particularly good inflows into savings products.

Net interest income was £3,175 million. Net interest margin was lower in 2005 than in 2004 with increased product margins offsetting mix effects. Spreads in mortgages and some savings products improved in the latter part of the year.

Non-interest income fell by 10% to £2,258 million. Growth in income from core personal and small business banking services, and good progress in our private banking and investment businesses were more than offset by the affect of IAS 39 and IFRS 4 on recognition of fee income and bancassurance income.

Direct expense grew by 5%, partly due to investment in future income initiatives in the second half. Staff costs increased by 6% to £1,026 million as a result of continued investment in customer-facing staff with over 500 additional customer advisors in branches, an increase in telephone banking advisors, and continued expansion of our bancassurance and investment businesses. We continue to make efficiency gains in other areas resulting in a decrease in other costs to £311 million.

Net claims in bancassurance, which under IFRS include maturities, surrenders and liabilities to policyholders, were £486 million compared with £702 million in 2004.

Impairment losses increased by 54% or £212 million to £601 million. The increased charge principally reflects the implementation of IAS 39 from 1 January 2005 and the growth in lending over recent years, including 17% growth in 2004. We have taken further steps to refine our credit policy and improved our recoveries process. Mortgage arrears remain very low. The average loan-to-value ratio on new mortgages written in 2005 was 62% and on the stock of mortgages was 46%. Small business credit quality remains stable.

Retail Direct

	2005 £m	2004 £m
Net interest income	882	782
Non-interest income	1,084	995
Total income	1,966	1,777
Direct expenses		
– staff costs	230	220
– other	375	359
	605	579
Contribution before impairment losses	1,361	1,198
Impairment losses	571	313
Contribution	790	885

	31December 2005 £bn	1January 2005 £bn
Total assets	27.2	23.0
Loans and advances to customers – gross		
– mortgages	13.8	9.4
– cards	9.5	9.3
– other	4.0	3.8
Customer deposits	2.7	2.8
Weighted risk assets	20.5	19.4

Total income rose by 11% to £1,966 million and contribution before impairment losses by 14% to £1,361 million, a strong performance in the context of slower growth in demand for unsecured credit. This performance reflected disciplined pricing, tight cost control and stringent credit assessment. Contribution after impairment losses decreased by 11% to £790 million.

During the year, the number of customer accounts increased by 734,000, 4%. In the light of changing market conditions we have focussed our marketing efforts on existing customers, and this has resulted in very strong growth in our core NatWest and RBS brands. We gained 336,000 credit card accounts in these brands in the second half of 2005, 60% more than in the equivalent period of 2004.

Net interest income increased by 13% to £882 million, reflecting the success of the First Active brand in the UK mortgage market and the maturing of the MINT portfolio. Average loans and advances rose strongly with the fastest growth coming in mortgages. Personal loan growth slowed, reflecting strategic decisions taken over the last 18 months to reposition pricing and tighten lending criteria for personal loans sold directly.

Net interest margin was only slightly lower than in 2004, as wider margins on our cards portfolio balanced the effects of the increasing weight of mortgage assets in our loan book.

Non-interest income was up 9% to £1,084 million, benefiting from higher volumes in both domestic and international card acquiring, strong sales through Tesco Personal Finance, the introduction of balance transfer fees and good growth in Europe.

Expenses increased by 4% to £605 million, with stringent cost control across all activities, including reduced marketing costs on personal loans. This was consistent with our more cautious approach to direct lending and with our successful focus on recruitment of customers through branches.

Impairment losses rose by 82% to £571 million, reflecting higher lending volumes, the increase in personal arrears signalled at the end of 2004 and the effect of implementing IAS 39 from 1 January 2005. There are some signs of a stabilisation of credit quality, assisted by the tightening of lending criteria. Mortgage arrears remain very low. The average loan-to-value ratio on new mortgages written in 2005 was 51% and on the stock of mortgages was 44%.

Wealth Management

	2005 £m	2004 £m
Net interest income	442	403
Non-interest income	372	370
Total income	814	773
Expenses		
– staff costs	258	262
– other	135	136
	393	398
Contribution before impairment losses	421	375
Impairment losses	13	18
Contribution	408	357

	31December 2005 £bn	1January 2005 £bn
Loans and advances to customers – gross	7.8	7.1
Investment management assets – excluding deposits	25.4	21.6
Customer deposits	25.5	22.3
Weighted risk assets	6.1	6.0

Total income rose by 5% to £814 million, reflecting good growth across all our businesses, and contribution was 14% higher at £408 million. Coutts UK and Adam & Co both gained good numbers of customers, with Coutts up 7% and Adam up 11%. 2005 also saw the continuation of rapid growth in Asia, where the number of private bankers increased by 20%, with particular emphasis placed on recruitment for the Chinese and Indian markets.

Net interest income increased by 10% to £442 million. Strong growth in average customer loans and deposits was partiallly offset by lower net interest margin due to a change in the mix of business.

Non-interest income was steady at £372 million. Average assets under management rose 9% to £23.1 billion as a result of good new business volumes in Coutts UK and the rise in equity markets. Assets under management at the year end were £25.4 billion, an increase of 18%.

Expenses decreased by 1% to £393 million, reflecting a continued focus on efficiency. Despite continued investment in growth markets in both the UK and overseas, staff costs were 2% lower than in 2004. Other costs reduced to £135 million.

Impairment losses amounted to £13 million, down £5 million.

Ulster Bank

	2005 £m	2004 £m
Net interest income	655	550
Non-interest income	203	193
Total income	858	743
Expenses		
– staff costs	191	172
– other	79	79
	270	251
Contribution before impairment losses	588	492
Impairment losses	58	40
Contribution	530	452

	31December 2005 £bn	1January 2005 £bn
Total assets	35.9	28.7
Loans and advances to customers – gross		
– mortgages	13.2	10.1
– other	15.0	12.9
Customer deposits	15.9	13.6
Weighted risk assets	22.4	18.6
Average exchange rate – €/£	1.463	1.474
Spot exchange rate – €/£	1.457	1.418

Total income increased by 15% to £858 million, with contribution up 17% to £530 million, as Ulster Bank achieved another year of strong growth, with excellent customer recruitment, robust lending volumes and very good growth in deposits. First Active continues to perform well and in line with our integration plan. It led the Republic of Ireland market with the introduction of new mortgage products, as well as launching new credit card and direct loan products.

The number of personal and business customers increased by 68,000 in the year. Ulster Bank personal customer numbers rose by 9% in the Republic of Ireland, where our switcher mortgage product has helped us to gain market share. In Northern Ireland, Ulster Bank significantly enhanced its personal current account offering in the fourth quarter to provide free banking to all customers.

Net interest income rose by 19% to £655 million. Average loans and advances and average customer deposits both grew strongly. However, the continuing strong growth in mortgages and business loans led to a decline in net interest margin.

Non-interest income increased by £10 million or 5% to £203 million. This reflected increased volumes of customer transactions and good growth in income from financial markets services.

Expenses increased by 8% to £270 million, as a result of investment to support the growth of the business. This investment will continue into 2006. We have continued with our branch improvement programme, upgrading 50 branches in the Republic of Ireland and 39 in Northern Ireland.

Impairment losses increased by £18 million to £58 million, reflecting the growth in lending.

Citizens

	2005 £m	2004 £m
Net interest income	2,122	1,609
Non-interest income	1,142	659
Total income	3,264	2,268
Expenses		
– staff costs	819	580
– other	739	500
	1,558	1,080
Contribution before impairment losses	1,706	1,188
Impairment losses	131	117
Contribution	1,575	1,071

	31December 2005 US$bn	1January 2005 US$bn
Total assets	158.8	141.7
Loans and advances to customers – gross	104.6	91.7
Customer deposits	106.3	99.2
Weighted risk assets	106.4	93.5
Average exchange rate – US$/£	1.820	1.832
Spot exchange rate – US$/£	1.721	1.935

Citizens performed well in 2005, delivering a strong underlying performance in challenging market conditions both from the old Citizens franchise and from Charter One. Total income, in US dollars, rose by 43% to $5,940 million and contribution by 46% to $2,867 million, including a full year's contribution from Charter One. Excluding Charter One and other acquisitions, income rose by 7% and contribution by 10%, despite the impact of the flattening of the yield curve, which reduced net interest margin and the rate of growth in net interest income.

We have grown our customer numbers in both personal and business segments, with Charter One increasing its small business and corporate customer base by 10%. Co-operation between Citizens and RBS Corporate Markets is yielding good results. Citizens' new international cash management service has already won nearly 300 new accounts with existing RBS customers, bringing in more than $80 million of new core deposits.

Our cards businesses, which are only active in the prime and superprime segments, have made good progress. Credit card balances increased by 19% to $2.5 billion, as RBS National launched into a number of new channels such as Charter One branches. RBS Lynk, our merchant acquiring business, increased its customer base by 24%.

The integration of Charter One progressed well and all phases of the IT conversion were completed in July 2005, five months ahead of schedule. This involved the conversion to Citizens' systems of over 750 branches and three million customer accounts spread over a wide geography. Despite the focus on the integration process, Charter One achieved good growth in business volumes, with loans and advances up 18% over the course of the year and customers deposits up 10%.

Net interest income increased by 31% to $3,861 million. This reflected strong growth in both lending and deposits. Excluding acquisitions, average lending increased by 13% or $6.7 billion, with robust growth in secured consumer lending, and average customer deposits by 9% or $5.7 billion. However, as a consequence of the flattening yield curve, net interest income excluding acquisitions was only 4% higher at $2,534 million.

Non-interest income was up 72% to $2,079 million. Excluding acquisitions, non-interest income grew by 15% to $1,004 million, benefiting from higher fee income, increased student loan and leasing activities, and investment gains.

Expenses were up 43% to $2,834 million. Expense growth, excluding acquisitions, was contained to 6%.

Impairment losses, including acquisitions, were up $25 million to $239 million. Credit quality overall remained stable. More than 90% of our personal sector lending is secured, and as a result there was minimal impact from the change in US bankruptcy laws in 2005.

RBS Insurance

	2005 £m	2004 £m
Earned premiums	5,641	5,507
Reinsurers’ share	(246)	(454)
Insurance premium income	5,395	5,053
Net fees and commissions	(449)	(481)
Other income	543	467
Total income	5,489	5,039
Expenses		
– staff costs	323	304
– other	413	314
	736	618
Gross claims	3,903	3,826
Reinsurers’ share	(76)	(268)
Net claims	3,827	3,558
Contribution	926	863

	31 December 2005	31December 2004
In-force policies (000’s)		
– Motor: UK	8,687	8,338
– Motor: Continental Europe	1,862	1,639
– Non-motor (including home, rescue, pet, HR24): UK	10,898	10,464
General insurance reserves – total (£m)	7,776	7,379

RBS Insurance produced a good performance in 2005, with total income increasing by 9% to £5,489 million and contribution by 7% to £926 million. The integration of Churchill was completed in September 2005, ahead of plan, and Churchill delivered greater transaction benefits than anticipated at the time of the acquisition. Following the integration of Churchill, all our direct general insurance businesses in the UK now operate on a common platform.

RBS Insurance achieved 4% growth in UK motor policies in force. In achieving this against a background of very strong competition in UK motor insurance, we benefited from the strength of our brands and the diversity of our distribution channels. Growth came through our direct brands, through our partnership business, where we operate insurance schemes on behalf of third parties who in turn sell insurance products to their customers, and through NIG, our intermediary business acquired as part of Churchill. Our businesses in Spain, Germany and Italy together delivered 14% growth in motor policies in force. Linea Directa, our joint venture with Bankinter, increased its customer base by 17% and, with more than 1 million policies, is the largest direct motor insurer and sixth largest motor insurer in Spain.

Total home insurance policies declined by 1%. Within this total, we continued to expand through our direct brands but there was attrition of some partner-branded books.

In addition to expanding its intermediary business in motor and home insurance, NIG achieved 10% growth in commercial policies sold to SMEs.

Expenses rose by 19%. Excluding the impact of a change in reinsurance arrangements, total income rose by 6% and expenses by 9%. Net insurance claims on the same basis were up by 5%, reflecting increased volumes, claims inflation in motor and an increase in home claims following severe storms in the UK in January 2005.

The UK combined operating ratio for 2005 was 93.6%.

Manufacturing

	2005 £m	2004 £m
Staff costs	740	753
Other costs	2,003	1,799
Total manufacturing costs	2,743	2,552
Analysis:		
Group Technology	945	852
Group Purchasing and Property Operations	1,013	927
Customer Support and other operations	785	773
Total manufacturing costs	2,743	2,552

Manufacturing’s costs increased by 7% to £2,743 million. Excluding software amortisation, costs rose by 4%. Costs relating to internal software development, which under UK GAAP were written off as incurred, are now under IFRS capitalised and amortised.

Group Technology costs increased by 11% to £945 million. Excluding software amortisation, costs were up 2%, with support for increased business volumes offset by efficiency improvements. The Group Efficiency Programme was substantially completed during the year, with major implementations such as a new system for handling customer queries and a new customer account-opening platform. The Churchill systems integration was completed in September 2005.

Group Purchasing and Property Operations costs increased by 9% to £1,013 million. We improved the efficiency of our property utilisation in 2005 while continuing our programme of investment both in the branch networks and in our major operational centres, including Birmingham, Manchester and our new headquarters in Edinburgh.

Customer Support and other operations costs rose by just 2%, despite a much greater increase in the business volumes supported. Cash withdrawals from ATMs, for example, rose by 13%, while we handled 10% more mortgage applications and 7% more personal loan volumes. These increases were absorbed by improved efficiency through the delivery of new systems and ways of working.