Integration costs

	2002 £m	2001 £m	2000 £m	Proforma 2000 £m
Staff costs	530	598	255	286
Premises and equipment	127	64	27	27
Other administrative expenses	298	188	95	109
Depreciation of tangible fixed assets	2	25	12	12
Integration costs	957	875	389	434

The IT integrations of NatWest and the Mellon Regional Franchise were completed during the year, ahead of schedule in both cases.

Integration costs in relation to NatWest were £810 million compared with £847 million in 2001 and £345 million in 2000. Implementation has been faster which has resulted in revenue benefits and cost savings being achieved ahead of plan.

Expenditure of £134 million and £13 million was incurred in 2002 relating to the integration of Mellon Regional Franchise and Medford respectively compared with £28 million in respect of Mellon Regional Franchise in 2001. The transaction benefits are being delivered more quickly than was planned.

Provisions

	2002 £m	2001 £m	2000 £m	Proforma 2000 £m
Gross new provisions	1,408	1,071	756	841
less: recoveries	(63)	(80)	(164)	(196)
Charge to profit and loss account	1,345	991	592	645
Comprising:				
Provisions for bad and doubtful debts	1,286	984	550	602
Amount written off fixed asset investments	59	7	42	43
Charge to profit and loss account	1,345	991	592	645

2002 compared with 2001

Gross new provisions were up 31%, £337 million to £1,408 million. The increase reflects growth in overall lending and as in the second half of 2001, provisions required in a number of specific corporate situations. Recoveries of amounts previously written off were down £17 million, 21%, to £63 million. Consequently the net charge to the profit and loss account was up £354 million, 36% to £1,345 million.

Bad debt provisions amounted to £1,286 million compared with £984 million in 2001. The charge reflects overall growth in lending and is particularly influenced by provisions required against a number of specific corporate situations. Amounts written off fixed asset investments, largely in the first half of the year, were £59 million against £7 million in 2001.

Total balance sheet provisions for bad and doubtful debts amounted to £3,927 million, up 8% from £3,653 million at 31 December 2001. Total provision coverage (the ratio of total balance sheet provisions to risk elements in lending) at 31 December 2002 was maintained at 81%.

2001 compared with 2000 and pro forma 2000

Gross new provisions were up 42% and 27% compared with 2000 and pro forma 2000 respectively, to £1,071 million. The increase reflected the growth in lending and the deterioration in the short-term economic outlook combined with the impact of a small number of specific customer situations. Recoveries of amounts previously written off were down £84 million and £116 million, compared with 2000 and pro forma 2000 respectively, to £80 million. Consequently the net charge to the profit and loss account increased to £991 million, up £399 million, 67% and £346 million, 54% on 2000 and pro forma 2000 respectively.

Total balance sheet provisions for bad and doubtful debts amounted to £3,653 million (2000 – £3,153 million) equivalent to 81% (2000 – 83%) of risk elements in lending.

Taxation

	2002 £m	2001* £m	2000* £m	Proforma 2000* £m

Tax on profit on ordinary activities	**1,556**	1,537	1,054	1,177

	%	%	%	%
UK corporation tax rate	**30.0**	30.0	30.0	30.0
Effective tax rate	**32.7**	36.1	35.5	35.4

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

	2002 £m	2001 £m	2000* £m	Proforma 2000* £m
Expected tax charge	**1,429**	1,276	891	998
Goodwill amortisation	**183**	169	162	194
Contributions to employee share trust	**(40)**	(48)	(47)	(47)
Non-deductible items	**179**	251	197	189
Non-taxable items	**(163)**	(92)	(217)	(229)
Capital allowances in excess of depreciation	**(340)**	(280)	(143)	(143)
Other	**7**	(7)	(14)	(10)
Adjustments in respect of prior periods	**(15)**	15	(79)	(79)
Current tax charge for year	**1,240**	1,284	750	873
Deferred taxation:				
Origination and reversal of timing differences	**372**	255	225	225
Adjustments in respect of prior periods	**(56)**	(2)	79	79
Actual tax charge	**1,556**	1,537	1,054	1,177

* restated (see page 10)

Divisional performance
The contribution of each division before goodwill amortisation and integration costs and, where appropriate, Manufacturing costs is detailed below.

	2002 £m	2001 £m	2000 £m	Proforma 2000 £m
Corporate Banking and Financial Markets*	**3,203**	3,024	2,431	2,740
Retail Banking	**3,019**	2,807	2,116	2,467
Retail Direct	**701**	551	341	373
Manufacturing	**(1,682)**	(1,568)	(1,426)	(1,660)
Wealth Management	**432**	459	354	405
Direct Line Group	**355**	261	201	201
Ulster Bank*	**244**	229	155	190
Citizens	**766**	501	349	349
Central items	**(587)**	**(486)	(625)	(664)
Profit before goodwill amortisation and integration costs	**6,451**	5,778	3,896	4,401

* Restated to reflect the transfer of Ulster Bank’s leasing business to Corporate Banking and Financial Markets, with effect from 1 January 2002.

** Restated following the implementation of UITF 33 in 2002 (see page 11).

The performance of each of the divisions is reviewed on pages 28 to 43. These discussions include:

(1) Results for the year ended 31 December 2002 compared with the results for the year ended 31 December 2001.

(2) Results for the year ended 31 December 2001 compared with the results for the year ended 31 December 2000.

(3) Results for the year ended 31 December 2001 compared with the pro forma results for the year ended 31 December 2000.

The 2001 results include a full year’s contribution from NatWest businesses whereas the year ended 31 December 2000 only includes NatWest businesses from the date of acquisition, 6 March 2000. In order to provide a more relevant basis for comparing performance, pro forma results for 2000 have been prepared assuming that NatWest was acquired on 1 January 2000. The basis of preparation of pro forma results is set out on page 13.

Corporate Banking and Financial Markets

	2002 £m	2001* £m	2000* £m	Proforma 2000* £m
Net interest income	**2,349**	2,138	1,612	1,828
Non-interest income	**3,703**	3,319	2,510	2,864
Total income	**6,052**	5,457	4,122	4,692
Direct expenses				
– staff costs	**1,271**	1,131	931	1,008
– operating lease depreciation	**461**	434	358	400
– other	**392**	366	196	314
Contribution before provisions	**3,928**	3,526	2,637	2,970
Provisions	**725**	502	206	230
Contribution	**3,203**	3,024	2,431	2,740
Direct cost:income ratio (%)	**35.1**	35.4	36.0	36.7
Total assets** – Corporate Banking (£bn)	**104.7**	96.1	82.1	82.1
– Financial Markets (£bn)	**98.8**	91.6	85.9	85.9
Loans and advances to customers gross (£bn)**	**95.7**	83.7	74.9	74.9
Customer deposits (£bn)**	**62.2**	56.4	52.8	52.8
Weighted risk assets (£bn)	**136.5**	118.3	100.1	100.1

* restated (see page 27)

** excluding repos and reverse repos

2002 compared with 2001

Contribution increased by 6% or £179 million to £3,203 million. Contribution before provisions was up by 11%, £402 million to £3,928 million.

Total income was up 11% or £595 million to £6,052 million. Excluding acquisitions, which added £67 million, total income increased 10%.

Net interest income rose by 10% or £211 million to £2,349 million, reflecting customer lending growth in Corporate Banking and continued good performance by Financial Markets from strong wholesale money market activity. Average loans and advances to customers of the banking business increased by 12%, £9.3 billion to £86.9 billion.

Non-interest income rose by 12% or £384 million to £3,703 million, mainly as a result of increased fees, reflecting growth in lending and in payment and electronic banking activities. Dealing profits benefited from continued customer led business growth and higher revenues from trading in interest rate instruments and matched the strong performance of 2001. Operating lease business expanded significantly during 2002 with average assets increasing by 23% from £3.5 billion to £4.3 billion resulting in higher income, up 16%, £112 million.

Direct expenses increased by 10% or £193 million to £2,124 million. Excluding acquisitions, expenses were up £133 million or 7%, of which £106 million was higher staff costs reflecting business growth and £27 million was higher operating lease depreciation. The direct cost:income ratio improved from 35.4% to 35.1%.

Provisions amounted to £725 million compared with £502 million in 2001. The increase reflected growth in lending and, as in the second half of 2001, provisions required against a number of specific corporate situations, and higher investment provisions.

2001 compared with 2000

Contribution was up 24%, £593 million, to £3,024 million. The results for the year ended 31 December 2001 included a full year’s contribution from NatWest whereas the year ended 31 December 2000 only included NatWest from the date of its acquisition, 6 March 2000. This, together with factors discussed below, contributed to the improvement in performance.

Total income was up 32%, £1,335 million to £5,457 million. Net interest income was up 33%, £526 million, to £2,138 million, largely due to lending growth in Corporate Banking and also as a result of favourable market conditions in Financial Markets.

Non-interest income was up 32%, £809 million, to £3,319 million. The increase reflected growth in customer advances, payment and transmission related fees and higher dealing profits.

Direct expenses were up 30%, £446 million, to £1,931 million mainly due to performance related payments to staff reflecting higher income in Financial Markets, increased business volumes and infrastructure costs of supporting European expansion and acquisitions.

Provisions were up £296 million to £502 million reflecting growth in lending, the global economic slowdown, a small number of specific customer situations and lower recoveries, partially offset by a reduction in amounts written off investments.

2001 compared with pro forma 2000
Contribution was up 10%, £284 million, to £3,024 million.

Total income was up 16%, £765 million, to £5,457 million. Net interest income was up 17%, £310 million, to £2,138 million, primarily due to lending growth in Corporate Banking and also as a result of the benefits of favourable market conditions in Financial Markets. Average loans and advances to customers of the banking business increased by 14%, £9.7 billion, to £77.6 billion, predominantly in Corporate Banking, both in the UK and overseas.

Non-interest income was up 16%, £455 million, to £3,319 million reflecting growth in customer advances, payment and transmission related fees and dealing profits.

Direct expenses were up 12%, £209 million, to £1,931 million. Staff costs increased by 12%, £123 million, mainly due to performance related payments reflecting higher income in Financial Markets. Other expenses, excluding operating lease depreciation, were 17%, £52 million higher, reflecting increased business volumes and infrastructure costs of supporting European expansion and acquisitions. The direct cost:income ratio improved from 36.7% to 35.4%.

Provisions were up £272 million to £502 million. The increase reflected growth in lending, the global economic slowdown, a small number of specific customer situations and lower recoveries, partially offset by a reduction in amounts written off investments.

Retail Banking

	2002 £m	2001 £m	2000 £m	Proforma 2000 £m
Net interest income	2,840	2,622	2,109	2,418
Non-interest income	1,353	1,277	961	1,128
Total income	4,193	3,899	3,070	3,546
Direct expenses				
– staff costs	707	702	636	736
– other	254	226	192	210
Contribution before provisions	3,232	2,971	2,242	2,600
Provisions for bad and doubtful debts	213	164	126	133
Contribution	3,019	2,807	2,116	2,467
Direct cost:income ratio (%)	22.9	23.8	27.0	26.7
Total assets (£bn)	66.1	61.1	57.9	57.9
Loans and advances to customers – gross				
– mortgages (£bn)	31.7	28.5	25.8	25.8
– other (£bn)	23.5	20.5	18.5	18.5
Customer deposits (£bn)	61.7	56.8	53.7	53.7
Weighted risk assets (£bn)	38.6	35.2	31.2	31.2

2002 compared with 2001
Contribution increased by 8% or £212 million to £3,019 million.

Total income was up 8% or £294 million to £4,193 million. The increase in income reflected continued growth in customer numbers. The number of personal current accounts increased by 4% to 10.63 million. Retail Banking is the leading provider of services to small businesses and has 1.10 million customers.

Net interest income rose by 8% or £218 million to £2,840 million, reflecting strong growth in customer loans and deposits. Average loans to customers, excluding mortgages, grew by 14% or £2.7 billion to £21.8 billion. Average mortgage lending was up 10% or £2.7 billion to £29.8 billion. Average customer deposits increased by 6% or £3.1 billion to £57.2 billion.

Non-interest income rose by 6% or £76 million to £1,353 million, reflecting growth in packaged current accounts, transmission income and higher volumes of general insurance products sold through the Royal Bank of Scotland and NatWest networks. Strong sales performance was seen in Bancassurance with new business up 30% although the sharp fall in equity markets depressed Bancassurance income.

Direct expenses increased by 4% or £33 million to £961 million. Staff costs were up £5 million, 1% to £707 million. Other costs rose £28 million, 12% to £254 million partly due to increased incidence of fraud losses.

The direct cost:income ratio improved from 23.8% to 22.9%.

Provisions increased by £49 million to £213 million, reflecting recent growth in lending.

2001 compared with 2000
Contribution was up 33%, £691 million to £2,807 million. The results for the year ended 31 December 2001 included a full year's contribution from NatWest whereas the year ended 31 December 2000 only included NatWest from the date of its acquisition, 6 March 2000. This, together with factors discussed below, have contributed to the improvement in performance.

Total income was up 27%, £829 million to £3,899 million. Net interest income was 24%, £513 million higher at £2,622 million, reflecting strong growth in advances and deposits.

Non-interest income increased by 33%, £316 million to £1,277 million, resulting largely from growth in fee paying packaged accounts together with benefits from integration initiatives.

Direct expenses at £928 million were up 12%, £100 million.

Provisions for bad and doubtful debts were up 30%, £38 million to £164 million, largely due to growth in lending.

2001 compared with pro forma 2000
Contribution increased by 14%, £340 million to £2,807 million.

Total income was up 10%, £353 million to £3,899 million. Net interest income was 8%, £204 million higher at £2,622 million, reflecting strong growth in advances and deposits. Average loans to customers, excluding mortgages, were up 19% to £19.1 billion. Average mortgage lending grew by 9%, £2.3 billion, to £27.1 billion. Average customer deposits were 7%, £3.7 billion higher at £54.1 billion. The customer base continued to grow in both banks, with increased market share of current accounts. The number of personal customers increased by 5% to 12.9 million and small business customers were up 3%. NatWest maintained its market leading position for small business relationships.

Non-interest income increased by 13%, £149 million to £1,277 million, resulting from growth in fee paying packaged accounts, up 33%, together with significant benefits from integration initiatives.

Direct expenses at £928 million were down 2%, £18 million, reflecting lower average headcount. The direct cost:income ratio improved from 26.7% to 23.8%.

Provisions for bad and doubtful debts were up 23%, £31 million to £164 million, primarily due to growth in lending.

Retail Direct

	2002 £m	2001 £m	2000 £m	Proforma 2000 £m
Net interest income	749	674	473	516
Non-interest income	841	696	501	565
Total income	1,590	1,370	974	1,081
Direct expenses				
– staff costs	190	164	136	154
– other	418	400	291	327
Contribution before provisions	982	806	547	600
Provisions for bad and doubtful debts	281	255	206	227
Contribution	701	551	341	373
Direct cost:income ratio (%)	38.2	41.2	43.8	44.5
Total assets (£bn)	19.8	17.2	14.4	14.4
Loans and advances to customers – gross: mortgages (£bn)	7.4	5.9	4.4	4.4
– gross: other (£bn)	12.4	11.2	9.7	9.7
Customer accounts (£bn)	4.4	4.3	2.7	2.7
Weighted risk assets (£bn)	14.6	12.5	11.5	11.5

2002 compared with 2001
Contribution increased by 27% or £150 million to £701 million.

Total income was up 16% or £220 million to £1,590 million, reflecting continued strong growth in the Cards business and in TPF. The number of active credit card accounts increased during the year to 9.5 million. TPF continued its strong growth, increasing customer accounts across all products to 3.4 million.

Net interest income was up 11% or £75 million to £749 million. Average customer lending increased by 16% to £17.9

billion. In TPF, average personal loans rose by 29% to £1.1 billion and average customer deposits rose by 26% to £1.9 billion. Average mortgage lending in The One account was 36% higher at £4.3 billion and in DLFS was up 10% to £2.3 billion. Average personal lending in DLFS and Lombard Direct increased by 20% to £2 billion.

Non-interest income was up 21% or £145 million to £841 million mainly as a result of higher fee income reflecting growth in volumes, especially in TPF, where the total number of general insurance policies increased during the year to 1.3 million.

Direct expenses increased by 8% or £44 million to £608 million reflecting increased volumes and higher marketing activity to support strong business expansion.

The direct cost:income ratio improved from 41.2% to 38.2%.

Provisions increased by £26 million to £281 million due to the growth in lending volumes.

2001 compared with 2000
Contribution was up 62%, £210 million to £551 million. The results for the year ended 31 December 2001 included a full year's contribution from NatWest whereas the year ended 31 December 2000 only included NatWest from the date of its acquisition, 6 March 2000. This, together with factors discussed below, have contributed to the improvement in performance.

Total income was up 41%, £396 million to £1,370 million driven largely by strong performances in Cards and TPF. Net interest income was up £201 million to £674 million. Average mortgage lending in DLFS was 17% higher at £2.1 billion and in The One account (formerly Virgin One) the increase was 81%, from £1.7 billion to £3.1 billion. TPF increased average customer advances and customer deposits by 15% to £1.8 billion, and 29% to £1.4 billion respectively.

Non-interest income rose 39%, £195 million to £696 million largely as a result of increased fees reflecting higher retailer volumes.

Direct expenses at £564 million were 32%, £137 million higher, largely as a result of increased business volumes and marketing activity.

Provisions for bad and doubtful debts increased by 24%, £49 million to £255 million reflecting the increase in unsecured lending.

2001 compared with pro forma 2000
Contribution rose by 48%, £178 million to £551 million, due to expansion of the Cards businesses and strong sales growth in TPF.

Total income was up 27%, £289 million to £1,370 million driven by strong performances in Cards and TPF. Net interest income was up 31%, £158 million to £674 million. Average card balances were up 12% to £6.6 billion. The total number of Cards' merchant outlets increased by 8% to 206,000.

Average mortgage lending in DLFS was 17% higher at £2.1 billion and in The One account the increase was 81%, from £1.7 billion to £3.1 billion. TPF increased its average customer advances and customer deposits by 15% to £1.8 billion, and 29% to £1.4 billion, respectively.

Non-interest income rose 23%, £131 million to £696 million, primarily as a result of increased fees reflecting higher retailer volumes.

Direct expenses at £564 million were 17%, £83 million higher, mainly as a result of increased business volumes and marketing activity. The direct cost:income ratio improved from 44.5% to 41.2%.

Provisions for bad and doubtful debts increased by 12%, £28 million to £255 million reflecting the increase in unsecured lending.

Manufacturing

	2002 £m	2001 £m	2000 £m	Proforma 2000 £m
Staff costs	479	428	409	490
Other costs	1,203	1,140	1,017	1,170
Total manufacturing costs	1,682	1,568	1,426	1,660
Analysis:				
Group Technology	662	632	618	723
Group Purchasing and Property Operations	528	467	420	486
Customer Support and other operations	492	469	388	451
Total manufacturing costs	1,682	1,568	1,426	1,660

2002 compared with 2001
Total manufacturing costs at £1,682 million were 7% or £114 million higher than 2001.

The increase in costs reflects growth in business volumes arising from customer accounts, mortgage applications, personal loans and ATM transactions, and initiatives to enhance customer service, particularly in NatWest telephony. Extending the scope of Manufacturing with transfers from other parts of the Group also contributed to this increase.

Manufacturing successfully completed the integration of NatWest on to the RBS technology platform in October 2002, ahead of schedule.

2001 compared with 2000
Total manufacturing costs of £1,568 million were 10%, £142 million higher. The year ended 31 December 2001 included a full year's costs in respect of NatWest whereas the year ended 31 December 2000 included NatWest from the date of its acquisition, 6 March 2000. This, together with the factors discussed below contributed to the increase in costs.

Expenditure in Customer Support and other operations increased due to volume growth in lending and account management and costs associated with customer service enhancement initiatives.

2001 compared with pro forma 2000
Total manufacturing costs of £1,568 million were 6%, £92 million lower.

Group Technology costs reduced by 13%, £91 million to £632 million reflecting lower staff costs and the benefits of de-duplication initiatives. Expenditure in Customer Support and other operations was up £18 million, 4% to £469 million due to volume growth in lending and account management and costs associated with customer service enhancement initiatives.

Average staff numbers fell by 12%. Integration savings offset a rise in work transferred into the Customer Support areas which extended the Manufacturing service provision and increased support for higher business volumes along with customer service enhancement initiatives.

Wealth Management

	2002 £m	2001 £m	2000 £m	Proforma 2000 £m
Net interest income	**460**	464	373	425
Non-interest income	**447**	469	395	463
Total income	**907**	933	768	888
Expenses				
– staff costs	**317**	298	260	303
– other	**169**	181	159	185
Contribution before provisions	**421**	454	349	400
Net release of provisions for bad and doubtful debts	**11**	5	5	5
Contribution	**432**	459	354	405
Cost:income ratio (%)	**53.6**	51.3	54.6	55.0
Total assets (£bn)	**13.4**	12.5	10.4	10.4
Investment management assets – excluding deposits (£bn)	**20.5**	21.4	21.8	21.8
Customer deposits (£bn)	**29.1**	29.1	27.6	27.6
Weighted risk assets (£bn)	**8.4**	7.8	7.1	7.1

2002 compared with 2001
Contribution at £432 million was £27 million, 6% lower primarily due to the effect of the fall in equity markets on the level of activity and ad valorem fee income.

Total income was down 3% or £26 million to £907 million.

Net interest income declined by 1% or £4 million to £460 million, as a result of a slight contraction in deposit margins due to lower interest rates. Average customer deposits increased from £28.5 billion to £28.7 billion.

Non-interest income was £22 million, 5% lower at £447 million. This reflected lower equity markets which continued adversely to affect fees and commissions. Investment management assets at £20.5 billion were £0.9 billion, 4% lower as new business inflow was more than offset by the significant decline in equity markets.

Expenses were up 1% or £7 million to £486 million.

The cost:income ratio was adversely affected by the fall in income, increasing to 53.6% from 51.3%.

Releases and recoveries of provisions exceeded gross new provisions required. As a result, there was a net release of provisions of £11 million, against a net release of £5 million in 2001.

2001 compared with 2000
Contribution increased by 30%, £105 million to £459 million. The results for the year ended 31 December 2001 included a full year's contribution from NatWest whereas the year ended 31 December 2000 only included NatWest from the date of its acquisition, 6 March 2000. This, together with factors discussed below, have resulted in the improvement in performance.

Total income was up 21%, £165 million to £933 million. Net interest income grew by 24%, £91 million to £464 million. Non-interest income increased 19%, £74 million to £469 million despite the depressed equity markets and the adverse effect on investor confidence particularly in the second half of 2001. The decline in equity market values affected fees earned on assets under management.

Expenses were 14%, £60 million higher at £479 million.

There was a net release of provisions for bad and doubtful debts of £5 million (2000: release of £5 million).

2001 compared with pro forma 2000
Contribution increased by 13%, £54 million to £459 million.

Total income was up 5%, £45 million to £933 million. Net interest income grew by 9%, £39 million to £464 million. This was largely due to higher average customer deposits, which were up 7% from £26.6 billion to £28.5 billion as customers moved out of equity investments, and growth in average customer lending, up 16%, £0.9 billion to £6.4 billion, principally in offshore banking.

Non-interest income increased 1%, £6 million to £469 million despite the depressed equity markets and the adverse effect on investor confidence particularly in the second half of 2001. The decline in equity market values affected fees earned on assets under management.

Expenses were 2%, £9 million lower at £479 million. The cost:income ratio improved from 55.0% to 51.3%.

There was a net release of provisions for bad and doubtful debts of £5 million (2000: release of £5 million).

Direct Line Group

	2002 £m	2001 £m	2000 £m	Proforma 2000 £m
Earned premiums	2,383	1,804	1,344	1,346
Reinsurers' share	(489)	(429)	(394)	(367)
Insurance premium income	1,894	1,375	950	979
Other income	245	168	176	176
Total income	2,139	1,543	1,126	1,155
Expenses				
– staff costs	178	152	124	124
– other	256	182	128	132
Gross claims	1,693	1,263	981	982
Reinsurers' share	(343)	(315)	(308)	(284)
Contribution	355	261	201	201
In-force policies (000's)				
– Motor: UK	4,668	4,017	3,219	3,219
: International	1,224	601	286	286
– Home: UK	1,587	1,360	1,055	1,055
Combined operating ratio – UK (%)	89.4	88.0	86.2	86.2
Insurance reserves – UK (£m)	1,946	1,541	1,221	1,221

2002 compared with 2001
Contribution increased by 36% or £94 million to £355 million.

Total income was up 39% or £596 million to £2,139 million. Excluding acquisitions, which added £73 million, total income was up 34% or £523 million.

After reinsurance, insurance premium income was up 38% or £519 million to £1,894 million, reflecting strong growth in customer numbers. The leading position in the UK direct motor insurance market was maintained with motor insurance policies increasing 16%, or 651,000 to 4.67 million. The number of UK in-force home insurance policies increased by 17% or 227,000 to 1.59 million. The number of international in-force motor policies more than doubled to 1.22 million, including 280,000 from acquisitions.

Other income increased by 46% or £77 million to £245 million. Higher investment income and profit commissions contributed to this increase.

Expenses increased by 30% or £100 million to £434 million. Excluding acquisitions, which added £35 million, expenses were up by 20% or £65 million reflecting business expansion.

Net claims, after reinsurance, increased by 42% or £402 million to £1,350 million reflecting increased volumes.

2001 compared with 2000
Contribution increased by 30%, £60 million to £261 million. This was driven by higher volumes, particularly in motor policies, and increases in partnership businesses including the joint venture with TPF.

Total income was up 37%, £417 million to £1,543 million. Earned premiums grew strongly, up 34%, £460 million to £1,804 million. Net insurance premium income increased by 45%, £425 million to £1,375 million. Direct motor business, where in-force policies increased 13% to 3.3 million, contributed £137 million to this increase and Direct home business was up £19 million. Strong growth from the joint venture with TPF and other motor partnerships accounted for £126 million of the increase. The acquisitions in Italy and Germany contributed £11 million of premium income in the three months since completion.

Expenses were up 33%, £82 million to £334 million reflecting business expansion, including the costs of establishing overseas operations in the second half of the year.

Net claims rose 41%, £275 million to £948 million, reflecting increased volumes.

2001 compared with pro forma 2000
Contribution increased by 30%, £60 million to £261 million. This was driven by higher volumes, particularly in motor policies, and increases in partnership businesses including the joint venture with TPF.

Total income was up 34%, £388 million to £1,543 million. Earned premiums grew strongly, up 34%, £458 million to £1,804 million. Net insurance premium income increased by 40%, £396 million to £1,375 million. Direct motor business, where in-force policies increased 13% to 3.3 million, contributed £137 million to this increase and Direct home business was up £19 million. Strong growth from the joint venture with TPF and other motor partnerships accounted for £126 million of the increase. The acquisitions in Italy and Germany contributed £11 million of premium income in the three months since completion.

Expenses were up 30%, £78 million to £334 million reflecting business expansion, including the costs of establishing overseas operations in the second half.

Net claims rose 36%, £250 million to £948 million, reflecting increased volumes.

Ulster Bank

	2002 £m	2001* £m	2000* £m	Proforma 2000* £m
Net interest income	**339**	313	216	259
Non-interest income	**181**	170	132	164
Total income	**520**	483	348	423
Expenses				
– staff costs	**145**	135	112	134
– other	**109**	104	72	87
Contribution before provisions	**266**	244	164	202
Provisions for bad and doubtful debts	**22**	15	9	12
Contribution	**244**	229	155	190
Cost:income ratio (%)	**48.8**	49.5	52.9	52.2
Total assets (£bn)	**12.7**	10.8	10.1	10.1
Loans and advances to customers – gross (£bn)	**9.1**	7.6	6.7	6.7
Customer deposits (£bn)	**8.8**	7.7	7.1	7.1
Weighted risk assets (£bn)	**9.0**	7.7	6.7	6.7
Average exchange rate – €/£	**1.591**	1.609	1.642	1.642
Spot exchange rate – €/£	**1.536**	1.637	1.606	1.606

* restated (see page 27)

2002 compared with 2001
Contribution increased by 7%, or £15 million to £244 million.

Total income increased by 8%, £37 million to £520 million.

Net interest income rose by 8% or £26 million to £339 million, reflecting good growth in loans and deposits despite a less buoyant economic environment in the Republic of Ireland. Average customer lending and deposits of the banking business increased by 10%, £0.7 billion, to £8.0 billion, and by 7%, £0.5 billion, to £7.9 billion respectively. Average mortgage lending grew by 23% to £1.5 billion and the number of current accounts increased by 5%.

Non-interest income rose by 6% or £11 million to £181 million. Increases of £7 million in net fees and commissions and £6 million in other operating income were partially offset by a £2 million reduction in dealing profits.

Expenses increased by 6% or £15 million to £254 million to support higher business volumes and pay awards.

The cost:income ratio improved from 49.5% to 48.8%.

Provisions were up by £7 million to £22 million reflecting a small number of specific situations.

2001 compared with 2000

Contribution for the year ended 31 December 2001 of £229 million was 48%, £74 million, higher than £155 million for the period from 6 March 2000 (when Ulster Bank became part of the Group as a result of the acquisition of NatWest) to 31 December 2000.

Total income increased by 39%, £135 million to £483 million. Net interest income rose by 45%, £97 million to £313 million due to strong growth in customer loans and deposits. Average loans and advances to customers increased to £7.2 billion, and average customer deposits increased to £7.3 billion.

Non-interest income was up 29%, £38 million to £170 million. The increase was mainly due to higher card, lending and transmission fees.

Expenses rose by 30%, £55 million to £239 million to support business expansion and expenditure related to the preparation for the issue of euro notes and coins in the Republic of Ireland.

Provisions for bad and doubtful debts were up 67%, £6 million, to £15 million. The increase was largely due to growth in lending.

2001 compared with pro forma 2000

Contribution of £229 million was 21%, £39 million higher.

Total income increased by 14%, £60 million to £483 million. Net interest income rose by 21%, £54 million to £313 million due to strong growth in customer loans and deposits. Average loans and advances to customers increased by 24%, £1.4 billion, to £7.3 billion, and average customer deposits increased by 11%, £0.7 billion to £7.4 billion.

Non-interest income was up 4%, £6 million to £170 million. The increase was mainly due to higher card, lending and transmission fees.

Expenses rose by 8%, £18 million to £239 million to support business expansion. Staff costs increased by £1 million. Other expenses increased by 20%, £17 million as a result of higher marketing costs to support business expansion and expenditure related to the preparation for the issue of euro notes and coins in the Republic of Ireland. The cost:income ratio improved from 52.2% to 49.5%.

Provisions for bad and doubtful debts were up 25%, £3 million to £15 million. The increase was largely due to growth in lending.

Citizens

	2002 £m	2001 £m	2000 £m
Net interest income	**1,248**	814	667
Non-interest income	**468**	306	247
Total income	**1,716**	1,120	914
Expenses			
- staff costs	**485**	305	290
- other	**370**	245	235
Contribution before provisions	**861**	570	389
Provisions for bad and doubtful debts	**95**	69	40
Contribution	**766**	501	349
Cost:income ratio (%)	**49.8**	49.1	57.4
Total assets ($bn)	**61.1**	52.4	30.3
Loans and advances to customers - gross ($bn)	**31.4**	26.3	17.9