152	(1)	229	(299)	81

Operating and financial review continued

Provisions

	2003 £m	2002 £m	2001 £m
Gross new provisions	1,566	1,408	1,071
less: recoveries	(72)	(63)	(80)
Charge to profit and loss account	1,494	1,345	991
Comprising:			
Provisions for bad and doubtful debts	1,461	1,286	984
Amounts written off fixed asset investments	33	59	7
Charge to profit and loss account	1,494	1,345	991

2003 compared with 2002
Gross new provisions were up 11%, £158 million to £1,566 million. Recoveries of amounts previously written off were up £9 million, 14%, to £72 million. Consequently the net charge to the profit and loss account was up £149 million, 11% to £1,494 million.

Bad debt provisions amounted to £1,461 million compared with £1,286 million in 2002, an increase of 14%. The increased charge was in line with the growth in lending during 2003. Amounts written off fixed asset investments, largely in the second half of the year, were down £26 million to £33 million compared with £59 million in 2002.

Total balance sheet provisions for bad and doubtful debts amounted to £3,929 million compared with £3,927 million at 31 December 2002. Total provision coverage (the ratio of total balance sheet provisions to total risk elements in lending) was 76% compared with 81% at 31 December 2002.

The ratio of total balance sheet provisions to total risk elements in lending and potential problem loans increased to 68% compared with 65% at 31 December 2002.

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%.

Taxation

	2003 £m	2002 £m	2001 £m
Tax on profit on ordinary activities	1,910	1,556	1,537
	%	%	%
UK corporation tax rate	30.0	30.0	30.0
Effective tax rate	31.0	32.7	36.1

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

	2003 £m	2002 £m	2001 £m
Expected tax charge	1,848	1,429	1,276
Goodwill amortisation	200	183	169
Contributions to employee share schemes	(35)	(40)	(48)
Non-deductible items	231	179	251
Non-taxable items	(207)	(163)	(92)
Capital allowances in excess of depreciation	(626)	(340)	(280)
Other	13	7	(7)
Adjustments in respect of prior periods	(77)	(15)	15

	2003	2002	2001
Current tax charge for year	1,347	1,240	1,284
Deferred taxation:			
Origination and reversal of timing differences	598	372	255
Adjustments in respect of prior periods	(35)	(56)	(2)
Actual tax charge	1,910	1,556	1,537

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

	2003 £m	2002 £m	2001 £m
Corporate Banking and Financial Markets*	3,620	3,261	3,080
Retail Banking	3,126	3,019	2,807
Retail Direct	873	701	551
Manufacturing*	(1,875)	(1,762)	(1,646)
Wealth Management*	438	454	481
RBS Insurance	468	355	261
Ulster Bank	273	244	229
Citizens	857	766	501
Central items	(629)	(587)	(486)
Profit before goodwill amortisation and integration costs	7,151	6,451	5,778
Goodwill amortisation	(763)	(731)	(651)
Integration costs	(229)	(957)	(875)
Profit on ordinary activities before tax	6,159	4,763	4,252

* Prior periods have been restated to reflect the transfer in 2003 of certain activities from Corporate Banking and Financial Markets and Wealth Management to Manufacturing. The performance of each of the divisions is reviewed on pages 26 to 37.

Corporate Banking and Financial Markets

	2003 £m	2002* £m	2001* £m
Net interest income excluding funding cost of rental assets	2,653	2,631	2,338
Funding cost of rental assets	(329)	(282)	(200)
Net interest income	2,324	2,349	2,138
Fees and commissions receivable	1,537	1,394	1,250
Fees and commissions payable	(220)	(157)	(165)
Dealing profits (before associated direct costs)	1,661	1,338	1,349
Income on rental assets	1,088	931	748
Other operating income	307	197	137
Non-interest income	4,373	3,703	3,319
Total income	6,697	6,052	5,457
Direct expenses			
– staff costs	1,410	1,230	1,091
– other	394	375	350
– operating lease depreciation	518	461	434
	2,322	2,066	1,875
Contribution before provisions	4,375	3,986	3,582
Provisions	755	725	502
Contribution	3,620	3,261	3,080

* prior periods have been restated following the transfer of certain activities to Manufacturing	£bn	£bn	£bn
Total assets**	219.0	203.4	187.7
Loans and advances to customers** – gross			
– banking book	99.3	92.1	82.7
– trading book	5.0	3.6	1.0
Rental assets	10.1	7.0	5.5
Customer deposits**	68.6	62.2	56.4
Weighted risk assets – banking	140.0	125.2	105.8
Weighted risk assets – trading	12.6	11.3	12.5

** excluding repos and reverse repos

2003 compared with 2002
Contribution increased by 11% or £359 million to £3,620 million. As well as in the UK, the division also achieved good growth in Europe and North America.

Total income was up 11% or £645 million to £6,697 million with strong growth across all business areas.

Average loans and advances to customers of the banking business increased by 9% or £7.5 billion to £94.3 billion. Lending margin was maintained. Average customer deposits within the banking businesses increased by 7% or £4.1 billion to £61.0 billion; however, the lower interest rate environment adversely affected deposit margins as it reduced the benefit of interest free funds. Net interest income was further impacted by the effect of implementing from 1 January 2003 the pricing remedies agreed following the Competition Commission inquiry into SME banking and by lower money market income, due to less favourable market conditions.

The asset rental business comprising operating leases and investment properties, grew strongly. Average rental assets increased to £8.1 billion and net income after deducting funding costs and operating lease depreciation increased by 28%, £53 million to £241 million.

Fees receivable rose by £143 million, 10% to £1,537 million due to growth in fees related to lending and from the expansion and success of capital markets activities. Fees payable including brokerage were up £63 million to £220 million due to higher volumes in Financial Markets.

Dealing profits which is income before associated direct costs from our role in servicing customer demand for interest and currency rate protection and mortgage backed securitisation rose by 24% to £1,661 million providing incremental profit contribution of some £170 million. There has been steady growth in underlying customer volumes in all product areas. While first half performance was particularly strong given the unusually high levels of demand for mortgage backed securities in the United States, dealing revenues in the second half were up 10% on the prior year period, in line with the growth in income for the division as a whole.

Other operating income was up £110 million, 56% to £307 million partially due to the full year effect of the inclusion of Dixon Motors’ gross profit.

Direct expenses increased by 12% or £256 million to £2,322 million. Excluding the effect of the acquisition of Nordisk Renting and Dixon Motors and operating lease depreciation,

operating expenses were up 10%, £161 million. This was due to performance related costs associated with the strong growth in trading revenues, expansion in all business areas and continued investment in capital market activities and in the growing overseas franchise.

The charge for provisions for bad debts and amounts written off fixed asset investments amounted to £755 million, an increase of £30 million. The charge in the second half of the year was £351 million, 13% lower than the first half. The increase in provisions of 4% over last year was less than the growth in lending of 9%, reflecting an improvement in credit quality and the economic environment during 2003.

2002 compared with 2001
Contribution increased by 6% or £181 million to £3,261 million. Contribution before provisions was up by 11%, £404 million to £3,986 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 £191 million to £2,066 million. Excluding acquisitions, expenses were up £131 million or 7%, of which £104 million was higher staff costs reflecting business growth and £27 million was higher operating lease depreciation.

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.

Operating and financial review continued

Retail Banking

	2003 £m	2002 £m	2001 £m
Net interest income	2,951	2,840	2,622
Non-interest income	1,452	1,353	1,277
Total income	4,403	4,193	3,899
Direct expenses			
– staff costs	777	707	702
– other	227	254	226
	1,004	961	928
Contribution before provisions	3,399	3,232	2,971
Provisions	273	213	164
Contribution	3,126	3,019	2,807
	£bn	£bn	£bn
Total banking assets	63.8	57.4	50.9
Loans and advances to customers – gross			
– mortgages	36.6	32.1	28.5
– other	25.2	23.5	20.5
Customer deposits	66.3	61.7	56.8
Weighted risk assets	42.9	38.8	35.2

2003 compared with 2002
The division achieved strong volume growth across all personal product areas - current accounts, mortgages and loans and savings. Despite lower interest rates and the adverse effect of the pricing remedies agreed following the Competition Commission inquiry into SME banking which were implemented from 1 January 2003, income increased by 5% or £210 million to £4,403 million, and contribution by 4% or £107 million to £3,126 million.

Net interest income rose by 4% or £111 million to £2,951 million, reflecting the continued strong growth in customer advances and deposits which was partially offset by the implementation of the Competition Commission pricing remedies and the impact of a lower interest rate environment. Excluding the effect of the Competition Commission the increase was 8%. Average loans to customers, excluding mortgages, grew by 9% or £1.9 billion to £23.7 billion. Average mortgage lending grew by 12% or £3.6 billion to £33.7 billion. Average customer deposits increased by 6% or £3.7 billion to £60.9 billion.

Non-interest income rose by 7% or £99 million to £1,452 million. This reflected further growth in the customer base and a 15% growth in general insurance income to £301 million. Embedded value profits of the life assurance business increased by 14%, or £7 million to £57 million.

Direct expenses increased by 4% or £43 million to £1,004 million. Staff expenses increased 10% or £70 million to £777 million reflecting further investment in customer facing staff.

Other expenses decreased 11% or £27 million to £227 million, as a result of our rigorous approach to management of non-staff costs.

The charge for provisions for bad debts increased by £60 million to £273 million. The overall quality of the loan portfolio remains stable and the increased charge reflects growth in lending over recent years particularly in NatWest since its acquisition.

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 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.

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

Operating and financial review continued

Retail Direct

	2003 £m	2002 £m	2001 £m
Net interest income	849	749	674
Non-interest income	986	841	696
Total income	1,835	1,590	1,370
Direct expenses			
– staff costs	211	190	164
– other	454	418	400
	665	608	564
Contribution before provisions	1,170	982	806
Provisions	297	281	255
Contribution	873	701	551
	£bn	£bn	£bn
Total assets	21.9	19.4	17.1
Loans and advances to customers – gross			
– mortgages	8.2	7.0	5.9
– other	13.8	12.4	11.2
Customer deposits	4.4	4.4	4.3
Weighted risk assets	16.8	14.4	12.5

2003 compared with 2002
Contribution increased by 25% or £172 million to £873 million.

Total income was up 15% or £245 million to £1,835 million, reflecting continued strong growth in supermarket banking (TPF), mortgages and cards. Net interest income was up 13% or £100 million to £849 million. Average lending rose by 15% to £20.3 billion of which average mortgage lending was 20% higher at £7.6 billion mainly in The One account. Average customer deposits were up 5% to £4.4 billion. During 2003, the total number of customer accounts increased by 1.7 million.

Non-interest income was up 17% or £145 million to £986 million. There was good growth in insurance and ATM income resulting from increased volumes, particularly in TPF and in the Cards Business.

Direct expenses increased by 9% or 7% excluding acquisitions, and other expenses increased by £36 million, 9% (7% excluding acquisitions), with increased processing and operational costs in support of the higher business levels.

The charge for provisions for bad debts increased by £16 million or 6% to £297 million, reflecting growth in lending volumes offset by higher recoveries. The indicators of credit quality remain stable.

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 £2.0 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.

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

Manufacturing

	2003 £m	2002* £m	2001* £m
Staff costs	625	536	484
Other costs	1,250	1,226	1,162
Total manufacturing costs	1,875	1,762	1,646
Analysis:			
Group Technology**	651	613	572
Group Purchasing and Property Operations**	636	585	535
Customer Support and other operations	588	564	539
Total manufacturing costs	1,875	1,762	1,646

* prior periods have been restated following the transfer of certain activities from Corporate Banking and Financial Markets and Wealth Management

** prior periods have also been restated to reflect the transfer of certain business units within Manufacturing

2003 compared with 2002
Manufacturing's costs increased by 6% or £113 million, to £1,875 million.

Group Technology costs have increased by 6% or £38 million to £651 million. This reflects business as usual cost growth and a specific improvement programme, the majority of the cost of which will be borne by Group Technology. This is already providing benefits across the Group and further investment opportunities have been identified which will lead to further efficiency benefits across the Group in 2004 and again in 2005.

The cost base of Group Purchasing and Property Operations rose by 9% or £51 million to £636 million, largely as a result of the continuing upgrade of the property portfolio in major UK centres to support the Group's core business.

Customer Support and other operations costs were £588 million, 4% or £24 million higher than the previous year. This reflects further expansion of business operations with increased expenditure in customer support areas of Lending, Telephony, Payments and Security. In telephony, the Royal Bank of Scotland customer service proposition has been introduced to NatWest customers who can now choose between speaking to their local branch, to a customer service officer or using the automated telephone service.

2002 compared with 2001
Total manufacturing costs at £1,762 million were 7% or £116 million higher than 2001.

The increase in costs reflected 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.

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

Wealth Management

	2003 £m	2002* £m	2001* £m
Net interest income	465	460	464
Non-interest income	414	447	469
Total income	879	907	933
Expenses			
– staff costs	275	301	282
– other	157	163	175
	432	464	457
Contribution before provisions	447	443	476
Provisions for bad and doubtful debts – charge/(release)	9	(11)	(5)
Contribution	438	454	481
	£bn	£bn	£bn
Total assets	15.2	13.4	12.5
Investment management assets – excluding deposits	27.3	20.5	21.4
Customer deposits	29.3	29.1	29.1

Weighted risk assets	9.1	8.4	7.8

* Prior periods have been restated following the transfer of certain activities to Manufacturing.

2003 compared with 2002
Contribution was £438 million, £16 million or 4% lower than 2002. Excluding the acquisition and disposals, income was up 1%, with contribution before provisions up 4%. The charge for provisions for bad and doubtful debts was £9 million compared with a net release of £11 million in 2002.

Total income was down by 3% or £28 million to £879 million.

Net interest income increased by 1% or £5 million to £465 million. The benefit from growth in lending volumes was partly negated by the effect of lower interest rates which also caused a tightening of deposit margins.

Non-interest income declined by 7% or £33 million to £414 million. Excluding the acquisition and disposals the decrease was 1%. This reflects the impact of lower equity markets adversely affecting fees and commissions.

Investment management assets increased by £6.8 billion or 33% to £27.3 billion principally due to the acquisition of Bank von Ernst in the year.

Expenses were down by 7% or £32 million to £432 million reflecting tight cost control in difficult market conditions and the 7% reduction in staff numbers since 31 December 2002.

Provisions for bad and doubtful debts were £9 million compared with a net release of £11 million in 2002.

2002 compared with 2001
Contribution at £454 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 2% or £7 million to £464 million.

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.

RBS Insurance (formerly Direct Line)

	2003 £m	2002 £m	2001 £m
Earned premiums	3,565	2,383	1,804
Reinsurers’ share	(504)	(489)	(429)
Insurance premium income	3,061	1,894	1,375
Net fees and commissions	(99)	65	26
Other income	283	180	142
Total income	3,245	2,139	1,543
Expenses			
– staff costs	241	178	152
– other	341	256	182
	582	434	334
Gross claims	2,644	1,693	1,263
Reinsurers’ share	(449)	(343)	(315)
Net claims	2,195	1,350	948
Contribution	468	355	261
In-force policies (000’s)			
– Motor: UK	8,086	4,668	4,017
: International	1,541	1,224	601
– Home: UK	5,154	1,587	1,360
Combined operating ratio – UK (%)	91.6	89.4	88.0
Gross insurance reserves – total (£m)	6,582	3,002	2,370

2003 compared with 2002
Contribution increased by 32% or £113 million to £468 million. Excluding Churchill, contribution increased by 26% or £92 million.

Total income was up 52% or £1,106 million to £3,245 million. Excluding Churchill, total income grew by 25% or £525 million.

After reinsurance, insurance premium income was up 62% or £1,167 million to £3,061 million. Excluding Churchill, insurance premium income (net of reinsurance) grew by 26% or £487 million. The number of UK in-force motor insurance policies increased by 3.4 million of which 3.1 million was from Churchill, while the number of UK in-force home insurance policies increased by 3.6 million including 3.4 million from Churchill. The number of international in-force motor policies increased by 317,000 during the year.

Other income net of commissions payable was down from £245 million to £184 million. Excluding Churchill, which included £148 million commissions payable to brokers and intermediaries, other income was up 16% or £38 million due to higher investment income, embedded value profits and share of associates profits.

Expenses increased by 34% or £148 million to £582 million. Excluding Churchill, expenses increased by 9% or £40 million. Staff numbers, excluding Churchill, increased by 4% (400) to support growth in business volumes, particularly in the partnership business.

Net claims, after reinsurance, increased by 63% or £845 million to £2,195 million. Excluding Churchill, net claims increased by 29% or £393 million.

UK combined operating ratio was 91.6%. Excluding Churchill, the UK ratio improved from 89.4% to 89.2%.

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.

Ulster Bank

	2003 £m	2002 £m	2001 £m
Net interest income	396	339	313
Non-interest income	185	181	170
Total income	581	520	483
Expenses			
– staff costs	164	145	135
– other	112	109	104
	276	254	239
Contribution before provisions	305	266	244
Provisions	32	22	15
Contribution	273	244	229

	£bn	£bn	£bn
Total assets	15.6	12.7	10.8
Loans and advances to customers – gross	11.6	9.1	7.6
Customer deposits	9.7	8.8	7.7
Weighted risk assets	11.0	9.0	7.7
Average exchange rate – €/£	1.445	1.591	1.609
Spot exchange rate – €/£	1.416	1.536	1.637

2003 compared with 2002
Contribution increased by 12% or £29 million to £273 million driven by strong volume growth in both loan and deposit products. The number of customers increased in 2003 by 36,000.

Total income increased by 12% or £61 million to £581 million reflecting the strong volume growth, in particular residential mortgages.

Net interest income rose by 17% or £57 million to £396 million, reflecting strong growth in both average customer lending and deposits which increased by 26% or £2.1 billion, to £10.1 billion and by 13% or £1.0 billion, to £8.9 billion respectively.

Non-interest income increased by £4 million to £185 million. Strong growth in lending, transmission and card fee income was partially offset by lower dealing profits. Uncertainty in equity markets adversely affected brokerage fees in the stockbroking business which was sold in October 2003.

Expenses increased by 9% or £22 million to £276 million. This reflected the annual pay award and the additional costs to support increased business volumes.

The charge for provisions for bad debts was up £10 million to £32 million reflecting growth in lending.

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.

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

Citizens

	2003 £m	2002 £m	2001 £m
Net interest income	1,310	1,248	814
Non-interest income	514	468	306
Total income	1,824	1,716	1,120
Expenses			
– staff costs	505	485	305
– other	374	370	245
	879	855	550
Contribution before provisions	945	861	570
Provisions	88	95	69
Contribution	857	766	501
	$bn	$bn	$bn
Total assets	76.8	61.1	52.4
Loans and advances to customers – gross	43.5	31.4	26.3
Customer deposits	62.8	51.1	42.8
Weighted risk assets	50.8	38.8	35.8
Average exchange rate – $/£	1.635	1.503	1.440
Spot exchange rate – $/£	1.786	1.613	1.450

2003 compared with 2002
Contribution which increased by 12% or £91 million to £857 million was diminished by the weakening of the US dollar in relation to sterling. In US dollar terms, contribution increased by 22% or $250 million to $1,401 million.

Total income was up 16% or $406 million to $2,984 million.

Net interest income increased by 14% or $268 million to $2,143 million. Excluding the acquisitions, net interest income was up 9% or $164 million (£100 million), reflecting strong organic growth in personal loans and deposits. Excluding the acquisitions, average loans were up 29% or $8.0 billion and average deposits were up 20% or $9.1 billion. The benefit of this growth was reduced by a narrowing interest margin due to reductions in US interest rates.