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 80% 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.

Taxation

	2004 £m	2003* £m	2002* £m
Tax on profit on ordinary activities	2,155	1,888	1,582
	%	%	%
UK corporation tax rate	30.0	30.0	30.0
Effective tax rate	31.2	31.1	32.6

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

	2004 £m	2003* £m	2002* £m
Expected tax charge	2,075	1,823	1,456
Goodwill amortisation	241	200	183
Contributions to employee share schemes	(32)	(35)	(40)
Non-deductible items	227	248	179
Non-taxable items	(251)	(207)	(188)
Capital allowances in excess of depreciation	(415)	(626)	(340)
Other	45	16	6
Adjustments in respect of prior periods	(168)	(77)	(15)
Current tax charge for year	1,722	1,342	1,241
Deferred taxation:			
Origination and reversal of timing differences	482	581	397
Adjustments in respect of prior periods	(49)	(35)	(56)
Actual tax charge	2,155	1,888	1,582

* restated (see page 85)

Divisional performance

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

	2004 £m	2003 £m	2002 £m
Corporate Banking and Financial Markets	4,265	3,620	3,261
Retail Banking*	3,279	3,170	3,074
Retail Direct*	1,040	881	708
Manufacturing*	(2,439)	(2,114)	(1,952)
Wealth Management*	468	402	407
RBS Insurance*	862	609	456
Ulster Bank*	468	354	318
Citizens	1,037	857	766
Central items**	(879)	(711)	(498)
Profit before goodwill amortisation and integration costs	8,101	7,068	6,540
Goodwill amortisation	915	763	731
Integration costs	269	229	957
Profit on ordinary activities before tax	6,917	6,076	4,852

* prior periods have been restated to reflect the transfer in 2004 of certain activities from Wealth Management to Retail Banking and from other divisions, principally RBS Insurance and Ulster Bank, to Manufacturing.
** restated following the implementation of FRS 17

The performance of each of the divisions is reviewed on pages 26 to 37.

Corporate Banking and Financial Markets

	2004 £m	2003 £m	2002 £m
Net interest income excluding funding cost of rental assets	2,959	2,653	2,631
Funding cost of rental assets	(414)	(329)	(282)

Net interest income	2,545	2,324	2,349
Fees and commissions receivable	1,723	1,537	1,394
Fees and commissions payable	(277)	(220)	(157)
Dealing profits (before associated direct costs)	1,855	1,661	1,338
Income on rental assets	1,282	1,088	931
Other operating income	381	307	197
Non-interest income	4,964	4,373	3,703
Total income	7,509	6,697	6,052
Direct expenses			
– staff costs	1,642	1,410	1,230
– other	412	394	375
– operating lease depreciation	610	518	461
	2,664	2,322	2,066
Contribution before provisions	4,845	4,375	3,986
Provisions	580	755	725
Contribution	4,265	3,620	3,261

	£bn	£bn	£bn
Total assets*	265.3	219.0	203.4
Loans and advances to customers – gross*			
– banking book	114.9	99.3	92.1
– trading book	10.0	5.0	3.6
Rental assets	11.2	10.1	7.0
Customer deposits*	74.9	68.6	62.2
Weighted risk assets – banking	160.9	140.0	125.2
– trading	16.9	12.6	11.3

*excluding repos and reverse repos

2004 compared with 2003

Contribution increased by 18%, £645 million to £4,265 million reflecting growth in all business areas.

Total income was up 12% or £812 million to £7,509 million. Strong growth in all locations was partially masked by the effect of stronger sterling on the translation of income from Europe and North American businesses. At constant exchange rates, income grew by 14% and contribution was up 20%.

Net interest income, excluding the cost of funding rental assets, increased 12% or £306 million to £2,959 million. Average loans and advances to customers of the banking business increased by 10% or £9.5 billion to £103.8 billion. The second half of 2004 saw a modest recovery in large corporate lending. Average customer deposits within the banking business increased by 8% or £5.0 billion to £66.0 billion. An improvement in margins was achieved through strong growth in our UK mid-corporate relationships.

Fees receivable rose by £186 million, 12% to £1,723 million with growth driven by lending, structured finance and capital markets activities. Fees payable, including brokerage, were up £57 million to £277 million due to the greater volumes of trading and structuring business.

Dealing profits, which is income (before associated direct costs) arising from our role in providing customers with debt and risk management products in interest rate, currency and credit asset classes, rose by 12% to £1,855 million. Growth was achieved across all our customer segments and product classes with further diversification of dealing revenues in the US to compensate for lower residential mortgage refinancing volume than in 2003. The Group's trading value-at-risk (VaR) remains modest and the average VaR was £10.8 million (2003 – £9.4 million).

The asset rental business, comprising operating lease assets and investment properties continued to grow strongly. Rental assets increased to £11.2 billion and income after deducting funding costs and operating lease depreciation increased by 7%, £17 million to £258 million.

Other operating income also grew strongly, up £74 million or 24% to £381 million.

Direct expenses increased by 15% or £342 million to £2,664 million. Excluding operating lease depreciation, operating expenses were up 14%, £250 million. This was mainly due to the mix effect of faster growth in businesses with inherently higher cost:income ratios, such as Capital Markets and our overseas businesses, together with the investment in new revenue initiatives in the US.

The charge for provisions for bad debts and amounts written off fixed asset investments amounted to £580 million, a decrease of 23%, £175 million. The reduction reflects an improvement in corporate credit quality and the economic environment in 2004.

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. Rental assets increased to £10.1 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) arising from our role in providing customers with debt and risk management products in interest rate, currency and credit asset classes, rose by 24% to £1,661 million providing incremental profit contribution of some £170 million. There was 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.

Retail Banking

	2004 £m	2003* £m	2002* £m
Net interest income	3,112	2,959	2,849
Non-interest income	1,630	1,514	1,430
Total income	4,742	4,473	4,279
Direct expenses			
– staff costs	834	793	729
– other	240	237	263
	1,074	1,030	992
Contribution before provisions	3,668	3,443	3,287
Provisions	389	273	213
Contribution	3,279	3,170	3,074

	£bn	£bn	£bn
Total banking assets	74.2	63.9	57.4
Loans and advances to customers – gross			
– mortgages	44.1	36.6	32.1
– small business	15.2	13.8	12.5
– consumer lending	12.9	11.4	11.0
Customer deposits	70.6	66.5	61.9
Weighted risk assets	49.7	42.9	38.8

* prior periods have been restated to reflect the transfer in 2004 of certain activities from Wealth Management.

2004 compared with 2003

The division continued to achieve strong volume growth across all key product areas – in particular mortgages, loans and savings – supported by increased customer numbers. As a result, income increased by 6% or £269 million to £4,742 million, and contribution by 3% or £109 million to £3,279 million.

Net interest income rose by 5% or £153 million to £3,112 million, reflecting strong growth in lending and deposits which more than offset the impact of business mix – particularly strong growth in low risk mortgage lending – and the impact of lower margin in some areas, especially unsecured lending. Average loans to customers, excluding mortgages, grew by 12% or £2.8 billion to £26.5 billion. Average mortgage lending grew by 21% or £7.0 billion to £40.7 billion. Both mortgage and non-mortgage lending have evidenced a slowdown in growth in the second half of the year. Average customer deposits increased by 8% or £4.9 billion to £66.0 billion.

Non-interest income rose by 8% or £116 million to £1,630 million. This reflected higher fee income associated with strong asset growth in both personal and business sectors together with increased volumes of money transmission activity.

Direct expenses increased by 4% or £44 million to £1,074 million. Staff expenses increased 5% or £41 million to £834 million, principally due to the deployment of an additional one thousand customer facing staff in the NatWest network. The increase in other expenses was 1% or £3 million, reflecting rigorous cost management.

The charge for provisions for bad and doubtful debts increased by £116 million to £389 million. The increased charge reflects the anticipated increase in delinquency rates in the NatWest portfolio following growth in unsecured lending in recent years. NatWest credit experience is now broadly consistent with the RBS portfolio which has been stable for a number of years. As reported in the first half, there has also been a higher incidence of fraud which has led to some deterioration in recovery rates.

The overall quality of the loan portfolio, the majority of which is mortgage lending, as measured by probability of default, remained in line with expectations.

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 £194 million to £4,473 million, and contribution by 3% or £96 million to £3,170 million.

Net interest income rose by 4% or £110 million to £2,959 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 6% or £84 million to £1,514 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 £38 million to £1,030 million. Staff expenses increased 9% or £64 million to £793 million reflecting further investment in customer facing staff.

Other expenses decreased 10% or £26 million to £237 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 remained stable and the increased charge reflected growth in lending over recent years particularly in NatWest since its acquisition.

Retail Direct

	2004 £m	2003* £m	2002* £m
Net interest income	938	849	749
Non-interest income	1,191	986	841
Total income	2,129	1,835	1,590
Direct expenses			
– staff costs	259	211	190
– other	453	446	411
	712	657	601
Contribution before provisions	1,417	1,178	989
Provisions	377	297	281
Contribution	1,040	881	708

	£bn	£bn	£bn
Total assets	26.9	21.9	19.4
Loans and advances to customers – gross			
– mortgages	9.2	8.2	7.0
– other	16.0	13.8	12.4
Customer deposits	4.4	4.4	4.4
Weighted risk assets	21.1	16.8	14.4

* prior periods have been restated to reflect the transfer in 2004 of certain activities to Manufacturing.

2004 compared with 2003

Contribution increased by 18% or £159 million to £1,040 million.

Total income was up 16% or £294 million to £2,129 million, reflecting continued strong growth across all products, particularly credit cards. Excluding acquisitions income rose by 9%, £155 million, and contribution was up by 14%, £125 million. Net interest income was up 10% or £89 million to £938 million. Average lending rose by 19% to £24.2 billion, of which average mortgage lending was 16% higher at £8.8 billion, mainly in The One account. Average customer deposits were stable. The new MINT branded credit card was launched in December 2003 and while the 0% introductory interest rate for nine months on MINT cards depressed net interest margin, over 711,000 MINT credit cards have been issued and attracted significant balances. During 2004, the total number of customer accounts increased by 2.3 million.

Non-interest income was up 21% or £205 million to £1,191 million, reflecting increased volumes and acquisitions.

Direct expenses increased by 8% or £55 million to £712 million. Staff costs were up 23%, due to the acquisitions and increased headcount to support higher business volumes. Excluding acquisitions, staff costs were up 8%. The increase in other expenses was limited to 2%, as a result of tight cost management and efficiencies within the core businesses.

The charge for provisions for bad debts increased by £80 million or 27% to £377 million, reflecting the growth in lending volumes and the acquisition of the credit card business from People's Bank.

Excluding acquisitions, provisions for bad debts were up 14%, £41 million. Credit metrics across the portfolio remain broadly stable, however consistent with the market there was some increase in the levels of arrears towards the end of the year in credit cards.

2003 compared with 2002

Contribution increased by 24% or £173 million to £881 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 £35 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 remained stable.

Manufacturing

	2004 £m	2003* £m	2002* £m
Staff costs	794	671	571
Other costs	1,645	1,443	1,381
Total manufacturing costs	2,439	2,114	1,952
Analysis:			
Group Technology	807	686	665
Group Purchasing and Property Operations	854	718	649
Customer Support and other operations	778	710	638
Total manufacturing costs	2,439	2,114	1,952

* prior periods have been restated to reflect the transfer in 2004 of certain activities, principally from RBS Insurance and Ulster Bank.

2004 compared with 2003

Manufacturing’s costs increased by £325 million, 15% to £2,439 million.

Manufacturing is now supporting RBS Insurance and Ulster Bank and of the £325 million increase, £82 million reflects technology and property operations of Churchill (2004 – £96 million; 2003 – £33 million) and First Active (2004 – £19 million; 2003 – £nil) which were acquired in September 2003 and January 2004 respectively.

The balance of the increase was required to support higher business volumes, to upgrade the Group's regional property portfolio and to invest in the Group Efficiency Programme initiatives that are improving the Group's overall efficiency.

A number of initiatives aimed at improving efficiency and customer service were introduced in the year, including a sales prompt system on screens in NatWest branches and in RBS and NatWest telephony: enhanced fraud prevention; conversion of paper based branch reports to screen; image and workflow capability in service centres; the introduction of a new image enabled mortgage platform which has improved the efficiency and quality of our service and the introduction of an on-line customer query management system.

2003 compared with 2002

Manufacturing’s costs increased by 8% or £162 million, to £2,114 million.

Group Technology costs increased by £21 million to £686 million. This reflected 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 providing benefits across the Group and further investment opportunities were identified which will lead to further efficiency benefits across the Group.

The cost base of Group Purchasing and Property Operations rose by 11% or £69 million to £718 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 £710 million, 11% or £72 million higher than the previous year. This reflected 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 was 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.

Wealth Management

	2004 £m	2003* £m	2002* £m
Net interest income	497	457	451
Non-interest income	451	352	370
Total income	948	809	821
Expenses			
– staff costs	299	259	279
– other	164	139	146
	463	398	425
Contribution before provisions	485	411	396
Provisions for bad and doubtful debts – charge/(release)	17	9	(11)
Contribution	468	402	407
	£bn	£bn	£bn

Loans to customers	9.2	7.9	7.3
Investment management assets – excluding deposits	22.3	22.3	16.1
Customer deposits	31.7	29.1	28.9
Weighted risk assets	8.3	9.1	8.4

* prior periods have been restated to reflect the transfer of certain activities to Retail Banking and Manufacturing.

2004 compared with 2003

Contribution at £468 million was £66 million or 16% higher than 2003. Excluding the acquisition and adjusting for the disposal, contribution was up 14%, £54 million.

Total income increased by 17% or £139 million to £948 million, including a full year contribution from Bank von Ernst. Excluding the acquisition and disposal, income was 12%, £94 million higher.

Net interest income increased by 9% or £40 million to £497 million. The increase reflects growth in both lending and deposit volumes, combined with the benefit of higher average interest rates.

Non-interest income increased by 28% or £99 million to £451 million, reflecting higher fee income as a result of the improved equity markets and the acquisition of Bank von Ernst.

Investment management assets were stable at £22.3 billion. Excluding the acquisition and disposal and at constant exchange rates, investment assets increased 7%.

Expenses were up by 16% or £65 million to £463 million to support the growth in income and reflecting the acquisition of Bank von Ernst. Excluding the acquisition and disposal, expenses were up 9%, £33 million.

The charge for provisions for bad and doubtful debts was £17 million compared with £9 million in 2003, reflecting a small number of specific cases.

2003 compared with 2002

Contribution was £402 million, £5 million or 1% 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 1% or £12 million to £809 million.

Net interest income increased by 1% or £6 million to £457 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 5% or £18 million to £352 million. Excluding the acquisition and disposals the decrease was 1%. This reflected the impact of lower equity markets adversely affecting fees and commissions.

Investment management assets increased by £6.2 billion or 39% to £22.3 billion principally due to the acquisition of Bank von Ernst in the year.

Expenses were down by 6% or £27 million to £398 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.

RBS Insurance

	2004 £m	2003* £m	2002* £m
Earned premiums	5,357	3,627	2,442
Reinsurers’ share	(413)	(504)	(489)
Insurance premium income	4,944	3,123	1,953
Net fees and commissions	(488)	(161)	6
Other income	478	283	180
Total income	4,934	3,245	2,139
Expenses			
– staff costs	293	222	166
– other	299	219	167
	592	441	333
Gross claims	3,724	2,644	1,693
Reinsurers’ share	(244)	(449)	(343)
Net claims	3,480	2,195	1,350
Contribution	862	609	456

In-force policies (000’s)			
– Motor: UK	8,338	8,086	4,668
– Motor: Continental Europe	1,639	1,425	1,165
– Other (including home, rescue, pet): UK	10,919	10,518	6,697
Gross insurance reserves – total (£m)	7,394	6,582	3,002

* prior periods have been restated to reflect the transfer in 2004 of certain activities to Manufacturing and to recognise a reclassification of income from net fees and commissions to insurance premium income.

2004 compared with 2003

Contribution increased by 42% or £253 million to £862 million and included the first full year's contribution from Churchill, which was acquired in September 2003. Excluding Churchill, contribution grew by 13%, £73 million.

Total income was up 52% or £1,689 million to £4,934 million. Excluding Churchill, total income grew by 17%, £450 million.

After reinsurance, insurance premium income was up 58% or £1,821 million to £4,944 million. Excluding Churchill, net insurance premium income grew by 17%. At 31 December 2004, the number of UK in-force motor insurance policies was 8.3 million and the number of in-force motor policies in Continental Europe was 1.6 million. The International Division passed the milestone of 1 million motor policies in Spain in December. Non-motor policies, including home, rescue and pet insurance, increased to 10.9 million at 31 December 2004.

Net fees and commissions payable increased from £161 million to £488 million, due mainly to commissions payable to intermediaries in the broker division acquired as part of Churchill. Other income was up due to the acquisition of Churchill and increased investment income driven by higher business volumes.

Expenses increased by 34% or £151 million to £592 million. Excluding Churchill, expenses increased by 10%, £37 million, to support higher business volumes.

Net claims, after reinsurance, increased by 59% or £1,285 million to £3,480 million. Excluding Churchill, net claims increased by 20%, consistent with mix and volume growth.

The UK combined operating ratio, which includes manufacturing costs, was 93.7% compared with 91.2% for 2003. This deterioration is attributable in part to a change in business mix due to the full year impact of commissions payable to brokers and intermediaries in Churchill. Excluding Churchill, the UK ratio was broadly in line with the prior year (2004 – 89.9%; 2003 – 88.6%).

2003 compared with 2002

Contribution increased by 34% or £153 million to £609 million. Excluding Churchill, contribution increased by 22% or £99 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 60% or £1,170 million to £3,123 million. Excluding Churchill, insurance premium income (net of reinsurance) grew by 25% or £490 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 motor policies in Continental Europe increased by 260,000 during the year.

Other income net of commissions payable was down from £186 million to £122 million. Excluding Churchill, which included £148 million commissions payable to brokers and intermediaries, other income was up 19% or £35 million due to higher investment income, embedded value profits and share of associates profits.

Expenses increased by 32% or £108 million to £441 million. Excluding Churchill, expenses increased by 10% or £33 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 91.2%. Excluding Churchill, the UK ratio was 88.6% compared with 88.2% for 2002.

Operating and financial review continued

Ulster Bank

	2004 £m	2003* £m	2002* £m
Net interest income	550	396	339
Non-interest income	193	185	181
Total income	743	581	520
Expenses			
– staff costs	158	137	122
– other	77	58	58
	235	195	180
Contribution before provisions	508	386	340
Provisions	40	32	22
Contribution	468	354	318

	£bn	£bn	£bn
Total assets	27.4	15.6	12.7
Loans and advances to customers – gross			
– mortgages	8.8	2.8	1.8
– other	12.9	8.8	7.3
Customer deposits	13.5	9.7	8.8
Weighted risk assets	18.5	11.0	9.0
Average exchange rate – €/£	1.474	1.445	1.591
Spot exchange rate – €/£	1.418	1.416	1.536

* prior periods have been restated to reflect the transfer in 2004 of certain activities to Manufacturing.

2004 compared with 2003

Contribution increased by 32% or £114 million to £468 million.

Total income increased by 28% or £162 million to £743 million reflecting the acquisition of First Active and strong organic growth, particularly in residential mortgages. Adjusting for First Active and the disposal in October 2003 of NCB Stockbrokers ('NCB'), income increased by 12% at constant exchange rates. During 2004, the number of customers increased by 454,000, of which 374,000 relate to First Active.

Net interest income rose by 39% or £154 million to £550 million, reflecting strong growth across all customer lending products and in customer deposits. Excluding First Active and NCB and at constant exchange rates, net interest income increased by 14%. The net interest margin decreased mainly due to strong growth in low risk mortgage lending both organic and due to the acquisition of First Active, a leading mortgage provider in the Republic of Ireland. Underlying product margins remain stable.

Non-interest income increased by £8 million, 4% to £193 million. Strong growth in lending fees and sales of treasury products was partially offset by a reduction in brokerage fees following the disposal of NCB. Excluding First Active and NCB, non-interest income was up 6%, £10 million.

Expenses increased by 21% or £40 million to £235 million. Excluding First Active and NCB expenses increased by 8% to support the growth in business.

The charge for provisions for bad debts increased by £8 million to £40 million, reflecting the growth in lending business. Excluding First Active and NCB provisions for bad and doubtful debts were up £4 million. Asset quality remains strong.

2003 compared with 2002

Contribution increased by 11% or £36 million to £354 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 8% or £15 million to £195 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.

Citizens

	2004 £m	2003 £m	2002 £m
Net interest income	1,540	1,310	1,248
Non-interest income	601	514	468
Total income	2,141	1,824	1,716
Expenses			
– staff costs	551	505	485
– other	473	374	370
	1,024	879	855
Contribution before provisions	1,117	945	861
Provisions	80	88	95
Contribution	1,037	857	766

	$bn	$bn	$bn
Total assets	132.1	76.8	61.1
Loans and advances to customers – gross	83.4	43.5	31.4
Customer deposits	99.2	62.8	51.1
Weighted risk assets	87.4	50.8	38.8
Average exchange rate – $/£	1.832	1.635	1.503
Spot exchange rate – $/£	1.935	1.786	1.613

2004 compared with 2003

Contribution was affected by the weak US dollar relative to sterling and at £1,037 million was up 21%, £180 million. In US dollar terms, contribution increased by 36% or $499 million to $1,900 million. Excluding the acquisitions, contribution increased by 13% or $183 million to $1,570 million.

Total income was up 31% or $939 million to $3,923 million. During 2004, Citizens increased its personal customer base by 1,993,000 accounts and its business customers by 174,000. Excluding the acquisitions, Citizens increased its personal customers by 199,000 and its business customers by 30,000.

Net interest income increased by 32% or $678 million to $2,821 million, reflecting the acquisitions and strong organic growth in both personal loans and deposits. Excluding the acquisitions, net interest income increased by 11% or $228 million, average loans were up 24% or $8.8 billion and average deposits were up 14% or $8.0 billion. The benefit from higher volumes more than offset the impact of interest rates on margins.

Non-interest income rose by 31% or $261 million to $1,102 million. Excluding the acquisitions, non-interest income increased 6% or $47