



# ECCH Collection

## The Royal Bank of Scotland's Growth Strategies

*This case was written by Sharad Gupta, under the direction of Gandhir S, ICFAI Business School Case Development Centre. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.*

*The case was compiled from published sources.*





# The Royal Bank of Scotland's Growth Strategies

*"Organic growth in a highly consolidated market is more difficult. It's easier to buy a powerful incumbent, even at a premium."*

– David Golden (of Mercer Oliver Wyman)<sup>1</sup>

## Introduction

The Royal Bank of Scotland (RBS) stood in June 2004 as the second largest bank in the United Kingdom (UK) and Europe and the fifth largest in the world<sup>2</sup>. One of the world's leading financial service providers, RBS was founded in Edinburgh, by royal charter in 1727. The bank opened its first branch in Glasgow in 1783. During the nineteenth century, the bank expanded throughout Scotland and opened its first England-based branch in London in 1874. RBS gained a major presence in England through major acquisitions in the first half of the twentieth century. The latter half of the twentieth century saw RBS move into the foreign markets including the United States (US) and Hong Kong. Diversification and expansionary policies, since the 1980s, constantly gave a fillip to the prospects of RBS to emerge as a market leader.

The last 25 years (1979-2004) saw RBS successfully acquire and integrate new companies into its group. The period witnessed over 30 strategic acquisitions; Citizens Financial Group, National Westminster Bank, Virgin One, Royal Insurance and Churchill Insurance Group, were some of the prominent ones. In May 2004, RBS agreed to purchase Charter One Financial, one of the major financial holding companies operating in the US, for \$10.5 billion in cash<sup>3</sup>. The acquisition of Charter One would position RBS among the 10 largest commercial banks in the US (Exhibit 1).

## Acquiring Growth

The RBS, as of 2004, had grown far from its roots as a regional bank in Edinburgh. Slowly and steadily, RBS built an empire stretching from Beijing, China, to the shores of Lake Erie in the United States. The architects of this expansion laid down the foundations its organic and inorganic growth of the bank. The bank's diversification and innovative products gave momentum to the organic growth while its acquisition strategies helped in its inorganic growth.

The RBS demonstrated its willingness to innovate in 1728 by introducing the 'cash credit', forerunner of the 'overdraft', whereby a merchant of good standing, backed by the bond of friends, could borrow more than he had deposited. The bank also began to accept deposits at interest. In the years that followed, RBS developed connections with a growing number of provincial banking companies that finally led to its pioneering correspondent banking in Scotland. The bank then focused on establishing a strong foothold in Scotland, by building its network of branches, in the nineteenth century.

The bank's first English branch in 1874 marked the beginning of an era of its major presence in England. The First World War heralded a period of rapid change in the banking industry in Europe. The volume of banking business grew

<sup>1</sup> "Banking is becoming a less local business" by The Economist Print Edition, [http://www.economist.com/PrinterFriendly.cfm?Story\\_ID=2570117](http://www.economist.com/PrinterFriendly.cfm?Story_ID=2570117), April 15th 2004

<sup>2</sup> "RBS Press Release" Apr-04 [www.rbs.co.uk/Group\\_Information/Newsroom/Press\\_Releases/2004/April/20\\_global.htm](http://www.rbs.co.uk/Group_Information/Newsroom/Press_Releases/2004/April/20_global.htm), April 2004

<sup>3</sup> "Citizens vows a local focus after Charter purchase" by Jason Perez-Dornilzer 17-May-04 <http://www.pbn.com/contentmgr/showdetails.php?id/106273>

due to the funding of the government's war expenditures. A series of major amalgamations and moves to affiliate certain Scottish and English Banks took place in 1918. The RBS embarked upon a policy of expansion in London, acquired Drummonds Bank (established 1717) in 1924 and Williams Deacon's Bank (established 1771), along with its large network of branches in the northwest of England, in 1930. In 1939, RBS negotiated the purchase of Glyn, Mills & Co (established 1753) of London. Glyn, Mills & Co, Britain's most important private bank at that time, which offered a wide range of services, usually associated with merchant banks. The bank brought with it the prestigious and established London banking businesses of Child & Co (established 1580s) of Fleet Street and Holt & Co (established 1809) of Whitehall. The Williams Deacon's Bank and Glyn, Mills continued in business as separate entities and together with RBS came to be known as 'The Three Banks Group'.

The bank's expansion continued during the Second World War, the 1950s and the 1960s with the bank opening new branches in Scotland and London. During the same period, the bank launched new services such as personal loans and cash dispensers.

In April 1969, RBS amalgamated with National Commercial Bank of Scotland, which comprised of a branch network and administration formed by the fusion of National Bank of Scotland (established 1825) and Commercial Bank of Scotland (established 1810). The new bank thus formed had 693 branches and enjoyed over forty per cent of Scotland's banking business<sup>4</sup>.

The 1970s was the period when the bank launched its own leasing and finance companies. The RBS flourished as it played a leading role in lending to businesses that served the North Sea oil and gas industry. In the year 1972, RBS became the first British clearing bank to introduce a house purchase loan scheme for customers. Cashline, the new automatic tellers introduced in 1977, replaced the earlier fixed-amount machines. Williams & Glyn's was similarly successful and innovative; the bank introduced the 'Masterguard Insurance Scheme' and free banking for personal customers.

RBS diversified in the 1980s by setting up a novel style car insurance company. The company was based on the most up-to-date technology, eliminated the need for agents and middlemen, and sold by telephone and coupon response. The subsidiary subsequently was known as Direct Line.

In 1985, RBS merged with Williams & Glyn's Bank to trade throughout Britain as a single entity. The merger followed primarily as a result of unsuccessful bids on RBS by Standard Chartered Bank and Hongkong and Shanghai Banking Corporation,

In order to diversify into retail banking markets in another currency area, in 1988, RBS acquired Citizens Financial Group (established 1828) of Providence, Rhode Island, US. Amidst fierce competition in New England, Citizens surged ahead by buying out a number of struggling banks in the US.

RBS covered further ground in Europe by forging a pioneering alliance with Banco Santander of Spain in 1989. The alliance provided for the commercial collaboration of the bank in areas outside the US. The pair launched a private and offshore investment-banking venture, RBS Gibraltar.

During the early 1990s, RBS refocused on its core business of retail banking and sold its merchant bank interests and acquired, in 1992, the Edinburgh-based private bank of Adam & Company (established 1983). RBS then underwent a period of intense organizational and business change; and restructured the Bank's business to focus more directly on customer requirements. This led to the launch of Direct Banking in 1994, which quickly became Britain's fastest growing twenty-four-hour telephone banking operation. In 1997, RBS announced the UK's first fully-fledged on-line banking service over the Internet. It set up Royal Bank Direct Loans, a telephone-based personal lending service, and launched joint financial services venture with Virgin Group to provide personal banking under the Virgin Brand.

RBS's global rise began with Fred Goodwin's (Chief Executive, RBS) audacious £21bn hostile takeover of National Westminster Bank PLC (NatWest) in March, 2000<sup>5</sup>. Britain's banking world was stunned with the biggest takeover in British banking history. At the time of the deal, NatWest was three times the size of RBS. The takeover made RBS the fifth largest bank in the world, with a market capitalization of £51bn<sup>6</sup>. Post merger, the combination of NatWest's corporate banking, treasury and capital markets arms, and the debt markets subsidiary Greenwich NatWest, with those of RBS, new corporate banking and capital markets division were formed. For 2001, RBS reported, 8% increase

<sup>4</sup> "RBS Group Constituent Histories" [http://www.rbs.co.uk/Group\\_Information/Memory\\_Bank/Our\\_History/Group\\_Constituent\\_Histories/rbs.htm](http://www.rbs.co.uk/Group_Information/Memory_Bank/Our_History/Group_Constituent_Histories/rbs.htm)

<sup>5</sup> "The Survivor's Handbook" by Financial World, <http://www.financialworld.co.uk/mag.pdf/feb03pdf/p26-31CoveroryFWFeb03.pdf>, February 2003

<sup>6</sup> "Employer profile: Royal Bank of Scotland" by eFinancialCareer, [www.efinancialcareers.com/article\\_270.cfm?storyref=170000000016575&xsection=12&xsubsection=11](http://www.efinancialcareers.com/article_270.cfm?storyref=170000000016575&xsection=12&xsubsection=11), September 16th 2003

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in pre-tax profits, to \$6.62 billion, and an 18% rise in revenues, to \$22.6 billion".<sup>7</sup> Over 18,000 employees were removed in the process of achieving cumulative cost savings of \$6.4 billion from 2000 to 2002. Goodwin, who managed the integration, said he valued revenue boosting over cost cutting, saying, "If you can grow income, you can sort everything else out later."<sup>8</sup>

In 2001, RBS purchased the entire share capital of the Virgin One business from its joint-venture partners the Virgin Group and the Australian financial services company AMP. Fred Goodwin, Group Chief Executive of The Royal Bank of Scotland, said: "The One account gives us superb product capabilities which we intend to deploy across a range of our distribution channels"<sup>9</sup>. The same year, it acquired Euro Sales Finance, a leading European provider of sales finance gaining a foothold in France, Germany and the Netherlands.

Direct Line continued its expansion in Europe with RBS's strategic acquisition of Royal & Sun Alliance's direct motor insurance operation in Italy. "Royal Insurance" made RBS's insurance subsidiary, Direct Line, Italy's second largest direct insurer in 2002<sup>10</sup>. Post acquisition, Direct Line's customer base in Italy totaled over 300,000. The acquisition in Italy added to Direct Lines' international operations in Spain, Germany and Japan and took the "number of policies outside of the UK market to over 1.2 million."<sup>11</sup>

In the first half of 2003, RBS, in Europe, purchased Nordisk Renting, a leasing company based in Sweden and Finland for a cash consideration of €104 million.

In the US, Citizens added Commonwealth Bancorp, in Jan 2003, the holding company for Community National Bank, Feitelberg Company, one of New England's largest insurance agencies for USD 450 million. While in April 2003, Citizens announced the acquisition of Port Financial Corp., the holding company of the Massachusetts savings bank, for a cash consideration of USD285 million. Citizens, during the same period, acquired Community Bancorp, Inc., the holding company for Community National Bank, for a cash consideration of USD116 million. The acquisition of Commonwealth Bancorp in Pennsylvania, and Port Financial Corp and Community Bancorp, both in Massachusetts helped Citizens "grow its number of personal customers by 376,000 and business customers by 36,000"<sup>12</sup>.

RBS, by May 2003, announced its decision to acquire the credit card and loan portfolio of Santander Direkt Bank in Germany for a total consideration of approximately €486 million. The acquisition was to help grow RBS's already significant personal loans and cards business in Europe. Santander Direkt Bank, at that time, was the third largest credit card provider in Germany to both personal and commercial customers. The bank had around 490,000 customer accounts.

In June 2003, RBS agreed to purchase the entire share capital of Churchill Insurance Group from Credit Suisse Group for cash consideration of £1.1 billion. The acquisition of Churchill, completed in September 2003, made RBS Insurance "UK's second largest general insurer"<sup>13</sup>. Together with contribution from Churchill, RBS Insurance (formerly Direct Line Group) increased its income by 52% and contribution by 32% to £468 million in 2003. RBS Insurance by April 2004 had 19.3 million policyholders in the United Kingdom and 1.4 million in Continental Europe. The acquisition of Churchill helped it to become the "second largest general insurer in the UK"<sup>14</sup>.

In September, Citizens Financial Group, a wholly owned subsidiary of RBS, agreed to acquire the entire issued share capital of the holding company for Roxborough Manayunk Bank for a consideration of \$136 million payable in cash. Roxborough Manayunk Bank was headquartered in Philadelphia, Pennsylvania. As on 30 June 2003, it had total assets of over \$914million, with \$550million in deposits and \$320million in net loans. The bank extended Citizens' reach with a network of 14 branches in Pennsylvania and 1 in Delaware. The acquisition further strengthened Citizens' position as the second largest bank in the Philadelphia area.

In October 2003, Coutts bank, a wholly owned subsidiary of the RBS group, based in London, reached an agreement with Bayerische Hypo-und Vereinsbank (HVB) to acquire its Zurich-based private banking subsidiary, Bank von Ernst & Cie AG, for £228 million in cash. Bank von Ernst was established in 1869 with its head office in Zurich. The acquisition of Bank von Ernst added about £6 billion of client assets to the RBS group. A spokesman said that for the RBS group it was a "small tactical acquisition"<sup>15</sup>.

<sup>7</sup> "Is This Europe's Best Bank?" by Stanley Reed 29-Jul-02 [http://www.businessweek.com/@@XbeeLIUQJ2BkMQ8A/magazine/content/02\\_30/b3793100.htm](http://www.businessweek.com/@@XbeeLIUQJ2BkMQ8A/magazine/content/02_30/b3793100.htm)

<sup>8</sup> *ibid*

<sup>9</sup> "The Royal Bank of Scotland to Acquire the Balance of Virgin One", [http://www.rbs.co.uk/Group\\_Information/Newsroom/Press\\_Releases/2001/July/28\\_virgin.htm](http://www.rbs.co.uk/Group_Information/Newsroom/Press_Releases/2001/July/28_virgin.htm), July 23rd 2001

<sup>10</sup> "Company Profile - Royal Bank of Scotland", <http://web19.epnet.com>

<sup>11</sup> "RBS Financial Results 2002", [http://www.rbs.co.uk/Group\\_Information/Investor\\_Relations/Financial\\_Results/2002/review2002.pdf](http://www.rbs.co.uk/Group_Information/Investor_Relations/Financial_Results/2002/review2002.pdf)

<sup>12</sup> Flanagan, Martin, "RBS profit soars to a record £7.15bn", <http://thescotsmanscotsmans.com/business.cfm?id=200382004>, February 20th 2004

<sup>13</sup> "RBS Preliminary Annual Results 2003", [www.rbs.co.uk/Group\\_Information/Investor\\_Relations/Company\\_Announcements/2003/pdf/2003\\_annual.pdf](http://www.rbs.co.uk/Group_Information/Investor_Relations/Company_Announcements/2003/pdf/2003_annual.pdf)

<sup>14</sup> "RBS Insurance" [www.rbs.co.uk](http://www.rbs.co.uk)

<sup>15</sup> O'Neill, Niamh, "AIB Corporate Finance Weekly Bankwatch", <http://www.aibcorporate.ie/viewarticle.asp?1054>, October, 13th 2003

RBS Group reached an agreement with People's Bank to acquire its credit card business at a premium of \$360 million, in February 2003. The credit card business of People's Bank, based in Connecticut, was established in 1985, and had approximately 1.1 million customer accounts nation wide, around \$2.3 billion of receivable balances and employed 540 people. This acquisition was an important one for RBS, giving it a credit card platform with card issuing capability across the whole US market, the largest in the world, along with the people and expertise to operate this business. Fred Goodwin, said in a statement, "RBS already operates one of the largest credit card platforms in Europe and this tactical acquisition of a premium credit card portfolio represents a low risk entry to the important US market positioning us well for growth."<sup>16</sup>

In May 2004, RBS announced that its wholly owned subsidiary, Citizens Financial Group, Inc (Citizens) had entered into an agreement to purchase Charter One Financial, one of the major financial holding companies operating in the US, for a cash consideration of approximately \$10.5 billion (£5.8 billion). The transaction was expected to be completed by the fourth quarter of 2004.

### The Road Ahead

Fred Goodwin, while speaking about the acquisition of Charter One, said, "This is a highly logical and very natural acquisition"<sup>17</sup>. The acquisition of Charter One would give RBS an extensive coverage in the US with over 1400 branch offices across Northeastern and Midwestern US states. The bank's assets would increase by almost half to \$128.8 billion, thereby ranking it ahead of Sun Trusts Banks Inc., "the eighth largest lender in US"<sup>18</sup> in May 2004. The bank would witness a significant increase in the scale of activities. Its branch network would "increase by 70%, its loans by 65% and its deposits by 43%"<sup>19</sup>. The bank expected an increase in the proportion of profit before tax, coming from the US to about 25%<sup>20</sup>.

RBS plans to capitalize on Charter One's retail and small business product set by adding corporate banking to the existing model. The bank planned to achieve cost savings by centralizing technology and processing consolidating central functions. RBS expected transaction benefits to increase Citizen's profit before tax by \$407 million in the next three years. RBS estimated the revenue benefits to be around \$378 million on an annualized basis (\$222 million contribution to pre-tax profits after associated costs and bad debts) and the cost savings, that were expected to arise three years down the line amount to \$185 million<sup>21</sup>.

RBS's management planned to seize the new growth opportunities in 2004, improving cross-selling within Retail Banking, expanding Tesco Personal Finance (JV currently making c£200m per annum), fully integrate Churchill and First Active, leverage Angel Trains leasing business into Europe, export direct banking and insurance model to Europe, develop and grow Greenwich Capital in the US, target FleetBoston/Bank of America customers within Citizens, expand supermarket banking and develop the US credit card business. RBS was to focus on diversifying away from the UK branch banking activities in order to remove the volatility from year on year earnings. With the investment demand reviving in the US, Japan and rest of Asia, RBS planned for major global expansion. China was looked upon as a good opportunity primarily because of its sheer scale that implied robust investment inflows. Expecting a positive IMF review of the reform progress in 2004, the bank was also keeping an eye on Latin America.

Fred Goodwin, while talking about RBS, said, "We have a philosophy that you shouldn't try to predict the future, but rather spend your time preparing yourself for what the future might bring."<sup>22</sup>

<sup>16</sup> "RBS Company Announcements 2004" [http://www.rbs.co.uk/Group\\_Information/Investor\\_Relations/Company\\_Announcements/2004/03\\_02\\_peoples\\_bank.htm](http://www.rbs.co.uk/Group_Information/Investor_Relations/Company_Announcements/2004/03_02_peoples_bank.htm)

<sup>17</sup> "Press Release", [http://www.rbs.co.uk/Group\\_Information/Newsroom/Press\\_Releases/2004/May/04\\_charter\\_one\\_b.htm](http://www.rbs.co.uk/Group_Information/Newsroom/Press_Releases/2004/May/04_charter_one_b.htm), May 2004

<sup>18</sup> [http://www.rbs.co.uk/Group\\_Information/Newsroom/Press\\_Releases/2004/May/04\\_charter\\_one\\_b.htm](http://www.rbs.co.uk/Group_Information/Newsroom/Press_Releases/2004/May/04_charter_one_b.htm), May 2004

<sup>19</sup> op cit, "Press Release"

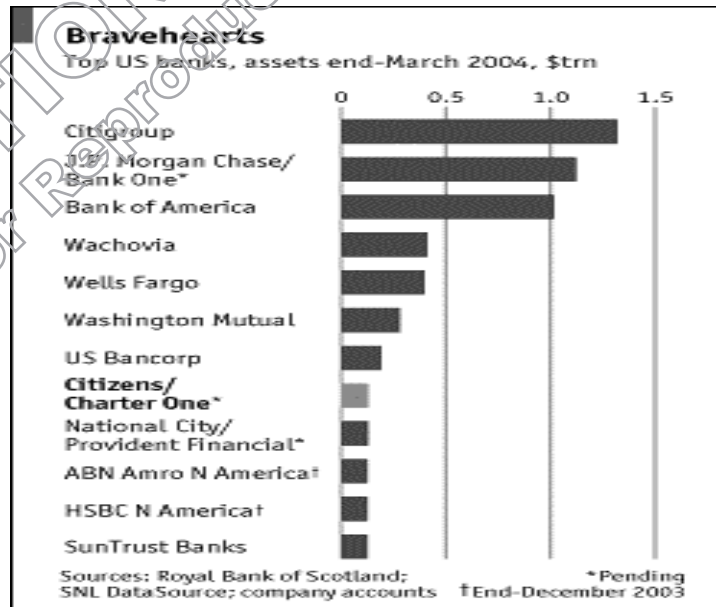
<sup>20</sup> "Ads pave way in US for Royal Bank of Scotland" by Reuters, <http://biz.thestar.com.my/news/story.asp?file=/2004/5/12/business/7959707&sec=business>, May 12th 2004

<sup>21</sup> op cit, "Press Release"

<sup>22</sup> Reed, Stanley, "Is This Europe's Best Bank?", [http://www.businessweek.com/@XbeeLIUQJ2BkMQ8A/magazine/content/02\\_30/b3793100.htm](http://www.businessweek.com/@XbeeLIUQJ2BkMQ8A/magazine/content/02_30/b3793100.htm), July 29th 2002



Exhibit 1

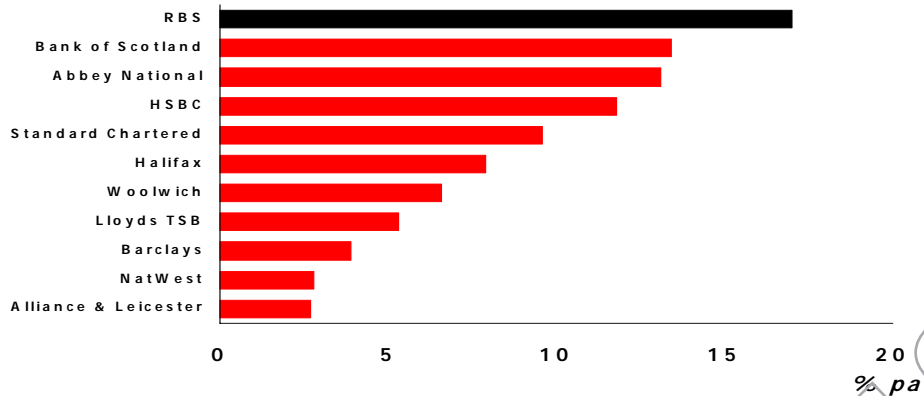


Source: Top Us Banks Assets (March 2004)

Annexure I

### Strong Income Growth

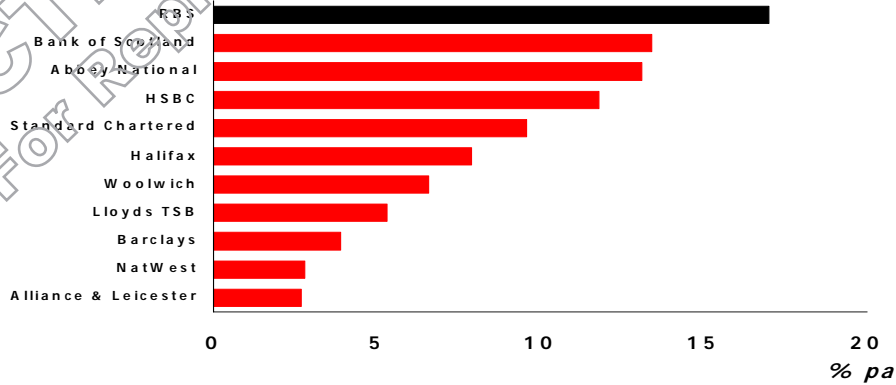
*Average Growth in Income 1992-1999*



Source: [www.rbs.co.uk/Group\\_Information/Investor\\_Relations/Analyst\\_Conferences/Merrill\\_Lynch.ppt](http://www.rbs.co.uk/Group_Information/Investor_Relations/Analyst_Conferences/Merrill_Lynch.ppt)

Annexure II

**Strong Income Growth**  
*Average Growth in Income 1992-1999*

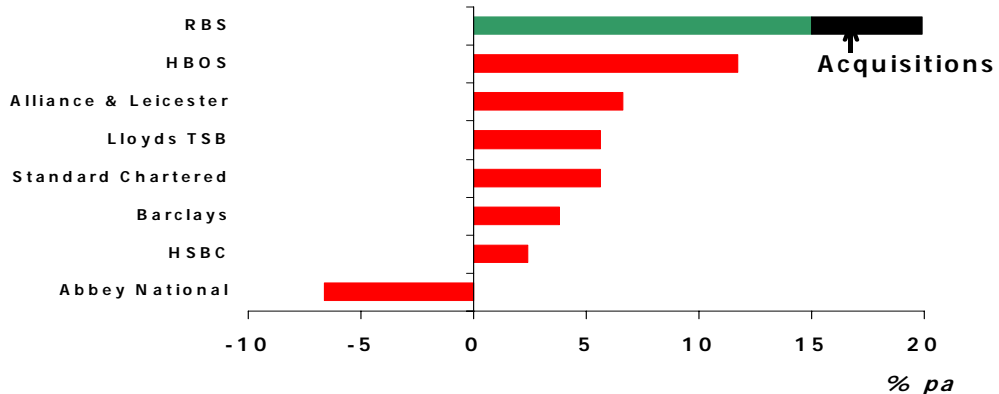


*Income excluding exceptional items*

Source: [www.rbs.co.uk/Group\\_Information/Investor\\_Relations/Analyst\\_Conferences/Merrill\\_Lynch.ppt](http://www.rbs.co.uk/Group_Information/Investor_Relations/Analyst_Conferences/Merrill_Lynch.ppt)

Annexure III

**Strong Income Growth**  
*Growth in Income 1H01 - 1H02*



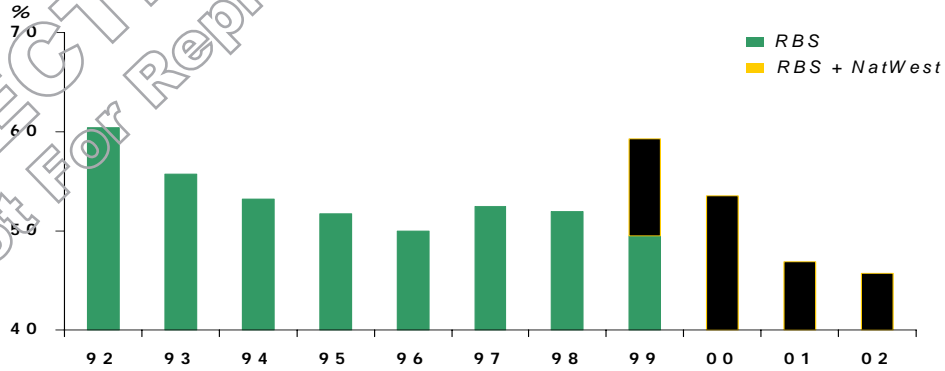
*Income excluding exceptional items*

Source: [www.rbs.co.uk/Group\\_Information/Investor\\_Relations/Analyst\\_Conferences/Merrill\\_Lynch.ppt](http://www.rbs.co.uk/Group_Information/Investor_Relations/Analyst_Conferences/Merrill_Lynch.ppt)

Annexure IV

### Improving Efficiency

*RBS Cost:Income Ratio*

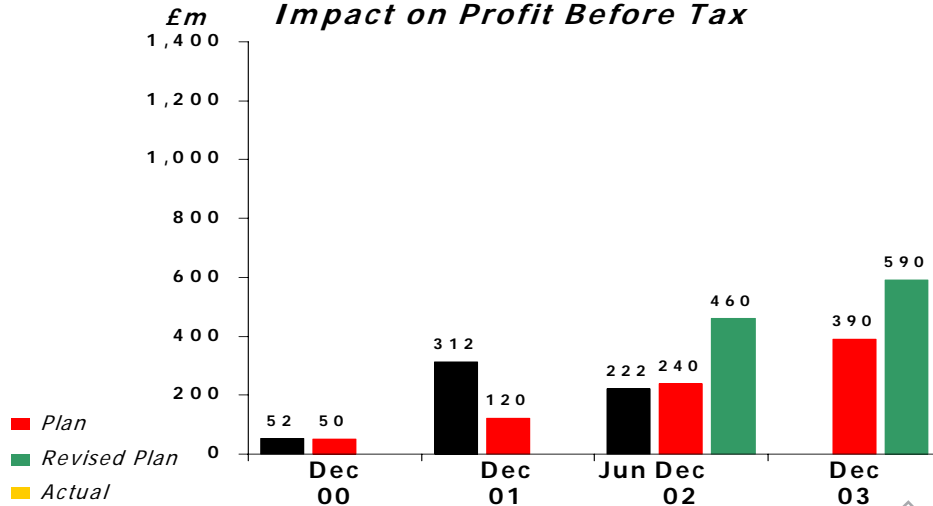


Source: [www.rbs.co.uk/Group\\_Information/Investor\\_Relations/Analyst\\_Conferences/Merrill\\_Lynch.ppt](http://www.rbs.co.uk/Group_Information/Investor_Relations/Analyst_Conferences/Merrill_Lynch.ppt)

Annexure V

### Improving Efficiency

*NatWest Revenue Benefits  
Impact on Profit Before Tax*



Source: [www.rbs.co.uk/Group\\_Information/Investor\\_Relations/Analyst\\_Conferences/Merrill\\_Lynch.ppt](http://www.rbs.co.uk/Group_Information/Investor_Relations/Analyst_Conferences/Merrill_Lynch.ppt)



Annexure VI						
Average Balance Sheet of RBS						
	2003			2002		
	Average Balance	Interest	Rate	Average Balance	Interest	Rate
Assets	£m	£m	%	£m	£m	%
Treasury and other eligible bills						
UK	1,378	48	3.5	910	24	2.6
Overseas	64	1	1.6	351	6	1.7
Loans and advances to banks						
UK	13,724	459	3.3	13,439	532	4
Overseas	9,559	212	2.2	9,811	304	3.1
Loans and advances to customers						
UK	168,390	9,519	5.7	154,202	9,141	5.9
Overseas	44,862	2,240	5	35,759	1,963	5.5
Debt securities						
UK	23,810	754	3.2	17,950	675	3.8
Overseas	17,927	765	4.3	18,188	916	5
Interest-earning assets						
Banking Business						
UK	207,302	10,780	5.2	186,501	10,372	5.6
Overseas	72,412	3,218	4.4	64,109	3,189	5
	279,714	13,998	5	250,610	13,561	5.4
Trading Business	<b>96,648</b>			<b>78,380</b>		
Total interest-earning assets	376,362			328,990		
Non-interest-earning assets	67,026			65,898		
Total Assets	443,388			394,888		
Percentage of assets applicable to Overseas operations	32.40%			32.00%		
Liabilities						
Deposits by banks						
UK	28,220	703	2.5	21,090	544	2.6
Overseas	9,565	218	2.3	9,058	215	2.4
Customer accounts						
UK	133,002	3,009	2.3	120,522	3,067	2.5
Overseas	42,118	704	1.7	36,281	790	2.2
Debt securities in issue						
UK	29,977	914	3	24,154	965	4
Overseas	9,630	119	1.2	8,693	209	2.4
Loan capital						
UK	15,342	534	3.5	13,154	640	4.9
Overseas	154	16	10.4	166	17	10.2
Internal funding of trading business	-22,909	-520	2.3	-21,430	-735	3.4
Interest-bearing liabilities						
Banking Business						
UK	185,283	4,663	2.5	158,791	4,507	2.9
Overseas	59,816	1,034	1.7	52,897	1,205	2.3
	245,099	5,697	2.3	211,688	5,712	2.7
Trading Business	<b>93,466</b>			<b>75,059</b>		
Total interest-bearing liabilities	338,565			286,747		

Contd....

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*Contd...*

Non-interest-bearing liabilities		
Demand Deposits	24,919	28,249
Other Liabilities	51,793	52,600
Shareholders' funds	28,111	27,292
Total Liabilities And Shareholders Funds	443,388	394,888
%age of liabilities applicable to Overseas Opms	30.70%	30.40%

Source: [www.rbs.co.uk/Group\\_Information/Investor\\_Relations/Company\\_Announcements/2003/pdfs/2003\\_annual.pdf](http://www.rbs.co.uk/Group_Information/Investor_Relations/Company_Announcements/2003/pdfs/2003_annual.pdf)  
[http://www.rbs.co.uk/Group\\_Information/Investor\\_Relations/Financial\\_Results/2002/review2002.pdf](http://www.rbs.co.uk/Group_Information/Investor_Relations/Financial_Results/2002/review2002.pdf)

<b>Annexure VII</b>			
<b>Consolidated Profit and Loss Account</b>			
	2003	2002	2001
	£m	£m	£m
Net interest income	8,301	7,849	6,846
Non-interest income (excluding general insurance)	7,867	7,072	6,337
General insurance net premium income	3,061	1,894	1,375
Non-interest income	10,928	8,966	7,712
Total income	19,229	16,815	14,558
Operating expenses	8,389	7,669	6,841
Profit before other operating charges	10,840	9,146	7,717
General insurance net claims	2,195	1,350	948
Operating profit before provisions	8,645	7,796	6,769
Provisions	1,494	1,345	991
Profit before tax, goodwill amortisation and integration costs	7,151	6,451	5,778
Goodwill amortisation	763	731	651
Integration costs	229	957	875
Profit before tax	6,159	4,763	4,252
Tax	1,910	1,556	1,537
Profit after tax	4,249	3,207	2,715
Minority interests (including non-equity)	210	133	90
Preference dividends	261	305	358
	3,778	2,769	2,267
Additional Value Shares dividend	1,463	798	399
Profit attributable to ordinary shareholders	2,315	1,971	1,868

Source: [www.rbs.co.uk/Group\\_Information/Investor\\_Relations/Company\\_Announcements/2003/pdfs/2003\\_annual.pdf](http://www.rbs.co.uk/Group_Information/Investor_Relations/Company_Announcements/2003/pdfs/2003_annual.pdf)  
[http://www.rbs.co.uk/Group\\_Information/Investor\\_Relations/Financial\\_Results/2002/review2002.pdf](http://www.rbs.co.uk/Group_Information/Investor_Relations/Financial_Results/2002/review2002.pdf)