



The Royal Bank of Scotland Group plc
The Rt Hon Viscount Younger of Leckie K.T. K.C.V.O. T.D. D.L.
Chairman

25th August 2000

Dear Shareholder

Following the takeover of National Westminster Bank Plc ("NatWest"), and the recent bonus issue of Additional Value Shares this letter contains information on the base cost of ordinary shares in NatWest. We hope that the questions and answers will be of assistance for the purposes of calculating the capital gain arising as a result of the sale of these shares on the takeover, and on the apportionment of the base cost of ordinary shares in The Royal Bank of Scotland Group plc following the issue of the Additional Value Shares.

We cannot give specific tax advice to shareholders or agree your tax position with the Inland Revenue. Each shareholder must compute his or her own capital gains tax liability and agree it as necessary with the Inland Revenue. If you are in any doubt as to your tax position or if you require more detailed information than that outlined below, you should consult your own independent adviser.

Yours sincerely

Younger of Leckie

The information set out below in question and answer format is intended as a general guide only and should not be treated as a substitute for obtaining advice on your individual circumstances from your own independent adviser. Please also note the other points describing the basis on which this information is given.

Question

How do I apportion the capital gains tax base cost of my ordinary shares in NatWest ("NatWest shares in order to calculate the capital gain on the sale of my NatWest shares on the takeover?)

Answer

For those NatWest shareholders who are individuals and who accepted the offer by The Royal Bank of Scotland Group plc ("RBSG") on or before 6th March 2000, it is expected that the Inland Revenue will be prepared to accept that the tax base cost of the NatWest shares will be apportioned across the different elements of consideration received in the manner set out below. The apportioned amounts are derived from information published by Financial Times Information (formerly published by Extel) and the outcome of the mix and match elections. The market value of RBSG ordinary shares ("RBSG") for capital gains tax purposes on 6th March 2000 was £8.75 per share.

Expected Inland Revenue apportionment:

- Shareholders receiving the Basic Terms 0.67923 of the base cost should be apportioned to RBSG shares and 0.32077 to cash
- Shareholders receiving the Partial Cash Alternative 0.64143 of the base cost should be apportioned to RBSG shares and 0.35857 to cash
 - (i) for shareholders who elected to receive only RBSG shares the whole base cost should be apportioned to RBSG shares (but reduced by an amount equal to any cash received in respect of fractional entitlements to RBSG shares)
 - (ii) for shareholders who elected to receive part of their sale proceeds as cash the base cost should be apportioned between RBSG shares and cash based on the number of RBSG shares (taken to have a market value of £8.75 per share – see above) and cash received
- Shareholders participating in the Additional Share Election
- Shareholders participating in the Additional Cash Election the base cost to be apportioned between RBSG shares and cash based on the number of RBSG shares (taken to have a market value of £8.75 per share – see above) and cash received
- Loan Notes if an election were made to receive loan notes instead of cash, the base cost of the NatWest shares should be apportioned to the loan notes on the basis that £1 nominal value of loan notes replaces £1 of cash

Question

How do I apportion part of the capital gains tax base cost of my RBSG shares to the Additional Value Shares issued?

Answer

It is expected that the capital gains base cost of your RBSG shares will be apportioned between your RBSG shares and the Additional Value Shares by reference to their respective market values for capital gains purposes on the first day for which market prices were quoted for the Additional Value Shares which was 12th July 2000.

The market values of RBSG shares and Additional Value Shares for capital gains tax purposes on 12th July 2000 were £9.98 and £0.7925 per share respectively. These market values give rise to apportionment factors of 0.92643 of your base cost to ordinary shares and 0.07357 to Additional Value Shares. These market values and apportionment factors are derived from information published by Financial Times Information (formerly published by Extel).

The information set out above is intended as a general guide only and is based on current United Kingdom legislation and Inland Revenue practice as at the date of this letter. This information deals only with the position of individual shareholders who are resident in the United Kingdom for tax purposes, who are the beneficial owners of their shares and who hold their shares as an investment. It does not deal with the position of shareholders other than individual shareholders, shareholders who are resident outside the United Kingdom for tax purposes or certain types of shareholders, such as dealers in securities.