

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt as to the action you should take, you are recommended to seek your own financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser duly authorised under the Financial Services Act 1986 if you are resident in the United Kingdom, or, if not, from another appropriately authorised independent financial adviser. This document is being sent for information only to option holders.

If you have sold or otherwise transferred or sell or otherwise transfer on or before 20 June 2000 all your Ordinary Shares, 11% Cumulative Preference Shares or 5½% Cumulative Preference Shares, please forward this document and the accompanying documents immediately to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. If you sell your Ordinary Shares prior to 20 June 2000 and are not on the register of members as at that date, any Selling Facility Form returned by you will be of no effect.

Your attention is drawn to the letter from the Chairman of The Royal Bank of Scotland Group plc set out in Part 1 of this document, which contains a recommendation by your Board to vote in favour of the resolutions to be proposed at the Extraordinary General Meeting referred to below.

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## **The Royal Bank of Scotland Group plc**

*(incorporated in Scotland under the Companies Acts 1948 to 1980 with registered number 45551)*

### **CIRCULAR TO SHAREHOLDERS**

**and**

### **Notice of Extraordinary General Meeting**

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Notice of an Extraordinary General Meeting of The Royal Bank of Scotland Group plc to be held at 11.00 a.m. on 20 June 2000 at the Balmoral Hotel, Princes Street, Edinburgh, is set out as Part 8 of this document. Holders of Ordinary Shares, 11% Cumulative Preference Shares and 5½% Cumulative Preference Shares are asked to complete and return the enclosed Form of Proxy in accordance with the instructions printed thereon as soon as possible, and in any event so as to be received by The Royal Bank of Scotland Group plc's Registrar, Computershare Services PLC, PO Box 858, The Pavilions, Bristol BS99 5WE, by not later than 11.00 a.m. on 18 June 2000.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services Act 1986 (the "UK Listing Authority") for the Additional Value Shares to be admitted to the official list of the UK Listing Authority (the "Official List") and to the London Stock Exchange for such shares to be admitted to trading on the London Stock Exchange's market for listed securities. Admission to the Official List together with admission to trading on the London Stock Exchange's market for listed securities constitute official listing on a stock exchange. The Additional Value Shares will only be made available to Ordinary Shareholders and, other than pursuant to the Selling Facility, will not be generally made available or marketed to the public in the United Kingdom or elsewhere.

Goldman Sachs International, Merrill Lynch International and UBS AG, acting through its financial services group UBS Warburg, each of which is regulated in the United Kingdom by The Securities and Futures Authority Limited, are acting for The Royal Bank of Scotland Group plc and no one else in connection with the issue of Additional Value Shares and the Selling Facility and will not be responsible to anyone other than The Royal Bank of Scotland Group plc for providing the protections afforded to their respective customers nor for providing advice in relation to such issue or any other matter referred to in this document.

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## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	<u>2000</u>
Last time and date for lodging Forms of Proxy for the Extraordinary General Meeting	11.00 a.m. on 18 June
Latest time and date for lodging Selling Facility Forms	11.00 a.m. on 18 June
Extraordinary General Meeting	11.00 a.m. on 20 June
Record date for determining entitlement to Additional Value Shares	5.00 p.m. on 20 June
Announcement of Selling Price <sup>(1)(2)</sup>	5 July
Admission and trading of Additional Value Shares commences <sup>(1) (2)</sup>	8.00 a.m. on 12 July
Despatch of cheques for proceeds of Additional Value Shares sold through the Selling Facility <sup>(1) (2)</sup>	12 July
Despatch of share certificates for Additional Value Shares <sup>(1) (2)</sup>	12 July
Additional Value Shares and proceeds of Additional Value Shares sold through Selling Facility credited to CREST accounts <sup>(1) (2)</sup>	12 July

### Notes:

- (1) The timing of events will be dictated by the bookbuilding process. The indicated dates represent the currently expected latest date. If any of the above times or dates should change, the revised times and/or dates will be notified by an announcement through the Regulatory News Service of the London Stock Exchange.
- (2) All events in the above timetable following the Extraordinary General Meeting are conditional on the passing of the relevant resolutions at the Extraordinary General Meeting and Admission and, if applicable, completion of the Selling Facility.

**IF YOU WISH TO SELL YOUR ADDITIONAL VALUE SHARES PURSUANT TO THE SELLING FACILITY YOU MUST SEND YOUR COMPLETED SELLING FACILITY FORM SO AS TO BE RECEIVED BY COMPUTERSHARE SERVICES PLC AS SOON AS POSSIBLE, AND IN ANY EVENT BY NO LATER THAN 11.00 A.M. ON 18 JUNE 2000. PLEASE NOTE THAT THE SELLING FACILITY WILL BE SUBJECT TO CERTAIN CONDITIONS AS MORE PARTICULARLY DESCRIBED IN PARAGRAPH 3 OF PART 2 OF THIS DOCUMENT.**

## PART 1: LETTER FROM THE CHAIRMAN



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

23 May 2000

To ordinary and cumulative preference shareholders (and, for information only, to share option holders).

*Dear Shareholders*

In the Key Information Sheet dated 31 January 2000 issued in connection with the increased offer for NatWest, RBS announced its intention to issue Additional Value Shares to all shareholders in RBS in the event the offer was successful.

This letter provides details of the proposals which the Company is making in relation to the issue of the Additional Value Shares, for which your approval will be sought at an Extraordinary General Meeting to be held on 20 June 2000. Notice of the Extraordinary General Meeting is set out in Part 8 of this document. Your approval will also be sought for proposals in relation to the Group's share and share option schemes and in relation to technical infringements of the Companies Act 1985 in respect of the payment of interim dividends in 1998 and 1999 on the Ordinary Shares and the payment of certain dividends on the Company's preference shares. Further details in respect of these proposals are set out later in this document.

### **Progress with Integration of the NatWest Group**

As you will no doubt be aware, RBS's offer for NatWest was declared unconditional in all respects on 6 March 2000 and all shares in NatWest have now been acquired. RBS's management is in the process of implementing the various initiatives that were identified during the course of the offer and believes that these will assist in the creation of a pre-eminent banking group in Europe.

#### *Implementation of Key Objectives*

All of the key objectives which were identified and set down for the first 30 days of the integration have now been completed. These include:

- the formation of a new business architecture for the Group;
- confirming all key appointments and responsibilities;
- aligning the internal control structure; and
- the finalisation of a detailed three year operating plan for the Group.

#### *Disposals*

In the offer documentation relating to the acquisition of NatWest, RBS explained that it would carry out a detailed review of the NatWest Group to ascertain whether or not the Group would benefit from the retention or disposal of certain businesses.

As a result of this review, RBS has now agreed, subject to regulatory approvals, to sell Gartmore to Nationwide Mutual Insurance Company of Ohio for approximately £1.03 billion. It is anticipated that this sale will be completed by the end of June 2000.

RBS has also agreed, subject to regulatory approvals, to the sale of Ulster Bank Investment Management Limited to KBC Group of Belgium and is currently proceeding with the disposal of the investment portfolios of NatWest Equity Partners.

It has been decided that the US operations of Greenwich NatWest will be retained.

## **Pro Forma Results**

I am pleased to confirm that the pro forma results of the Group for the six months ended 31 March 2000 (excluding the results of the NatWest Group since its acquisition by RBS on 6 March 2000), have exceeded the forecast results published on 28 January 2000.

The pro forma results were announced on 4 May 2000. Although the NatWest Group was technically part of the Group during part of the period to which the results relate, the results were prepared and published excluding the results of the NatWest Group to facilitate comparison with the profit forecast published on 28 January 2000. Profit before tax increased by 35 per cent. to £715 million (1999 – £531 million). Profit before tax and exceptional items increased by 26 per cent. to £671 million (1999 – £531 million). Total income rose by 20 per cent. to £2,345 million, while operating expenses, before exceptional items, increased by 12 per cent. to £1,133 million. The cost:income ratio improved from 51.8 per cent to 48.3 per cent. The interest margin improved from 2.5 per cent. to 2.7 per cent.

As announced on 19 April 2000, we are changing our financial year end to 31 December. Our interim results announcement will be issued on 1 August 2000, covering the periods ended 31 March and 30 June 2000. A further consequence of the change in year end is that the declaration of the interim dividend will now take place on 1 August 2000 and will be paid later in the year.

The full pro forma results of the Group for the six months ended 31 March 2000 as published on 4 May 2000 (excluding the NatWest Group as aforesaid) are set out in Part 6 of this document.

We have also set out for your information in Part 7 of this document certain pro forma financial information to illustrate the effect upon the results due to the acquisition of the NatWest Group. The unaudited pro forma financial information has been derived from the audited consolidated balance sheet of RBS as at 30 September 1999 and profit and loss account for the year then ended and the audited consolidated balance sheet of NatWest as at 31 December 1999 and profit and loss account for the year then ended.

## **Background — Additional Value Share Proposals**

In the Key Information Sheet, RBS expressed its expectation that the level of profitability generated by the Group was likely to generate excess capital (in the absence of asset sales) and that this capital would be returned to Ordinary Shareholders in the form of Additional Value Shares. Subject to your approval at the Extraordinary General Meeting, the Board now proposes to issue such shares.

RBS's financial advisers Goldman Sachs and Merrill Lynch, and its joint stockbroker, UBS Warburg, have advised on the basis of the assumptions set out below that each Additional Value Share would have a market value of approximately 70 pence if issued at the date of this document. This valuation estimate is based on prevailing market conditions on 22 May 2000 (being the latest practicable date prior to the publication of this document), including yields on relevant gilt-edged securities and prevailing credit spreads. It has also been assumed that there is no material supply and demand imbalance. It is not a guarantee of the market price obtainable at the time of issuance of the Additional Value Shares which will depend, amongst other matters, upon market conditions at the time of sale. Nor is it any guarantee of the price which may be received in respect of the sale of Additional Value Shares pursuant to the Selling Facility. Further details of the Selling Facility are set out in paragraph 3 of Part 2 of this document. The valuation is exclusive of all fees and commissions but takes account of the discount which would be imposed by any purchaser for stamp duty/stamp duty reserve tax costs payable in relation to such purchase. Further details of such costs are set out later in this letter.

## **Summary of the Additional Value Share Proposals**

The Additional Value Share Proposals involve the following principal elements:

- There will be a bonus issue of Additional Value Shares to all Ordinary Shareholders on the register of members at 5.00 p.m. on 20 June 2000 (the Record Date) on the basis of one Additional Value Share for each Ordinary Share held. Each Additional Value Share will have a nominal value of £0.01 and limited voting rights.
- Each Additional Value Share will provide, at the discretion of the Board:
  - dividends in aggregate of £1 per Additional Value Share as described below; or
  - conversion into Ordinary Shares and a resale mechanism as described below.

- Ordinary Shareholders will have the opportunity to sell their Additional Value Shares through the Selling Facility described in Paragraph 3 of Part 2 of this document. Subject to certain conditions, the proceeds of sale of the Additional Value Shares (less relevant commissions and expenses) will be paid to Ordinary Shareholders electing to sell their Additional Value Shares. In the event that such conditions are not satisfied the Selling Facility will not be available and Ordinary Shareholders will receive delivery of the Additional Value Shares.
- Subject to the discretion of the Board and to declaration, dividends will be payable on the following basis:
  - 15 pence per Additional Value Share on 1 December 2001;
  - 30 pence per Additional Value Share on 1 December 2002; and
  - the balance of 55 pence per Additional Value Share on 1 December 2003.
- If on or before 1 December 2003 aggregate dividends of £1 have not been paid in respect of each Additional Value Share, the Additional Value Shares will convert into Ordinary Shares and RBS will use its reasonable efforts to procure bids so as to result in the proceeds from the sale of such Ordinary Shares being an amount per Additional Value Share equal to £1 less the aggregate amount of any dividends paid in respect of each such Additional Value Share.

The Additional Value Share Proposals will result in the issue of approximately 2.7 billion Additional Value Shares with a total nominal value of approximately £27 million. The Additional Value Share Proposals are conditional upon the passing of the relevant resolutions in the notice of Extraordinary General Meeting set out in Part 8 of this document and upon the admission of the Additional Value Shares to the Official List and to trading on the London Stock Exchange's market for listed securities.

The Selling Facility and the admission to trading of the Additional Values Shares give shareholders the choice, depending on their individual circumstances, to realise, net of certain costs and expenses as more particularly set out below, cash proceeds for their Additional Value Shares at the time of sale. **Ordinary Shareholders should note that elections to participate in the Selling Facility must be received by 11.00 a.m. (London time) on 18 June 2000. Elections are irrevocable although the Selling Price will not have been determined at such time. Further, there is no guarantee of the Selling Price which will be determined as described in paragraph 3 of Part 2 of this document after irrevocable elections have been made.**

Further details of the Additional Value Share Proposals including the Selling Facility are set out in Part 2 of this document. A description of the Additional Value Shares is set out in Part 3 of this document.

#### **Taxation**

A guide to the general tax position of UK and US Ordinary Shareholders in respect of the Additional Value Share Proposals as at the date of this document is set out in Part 4 of this document. **Shareholders who are in any doubt as to their tax position or who are subject to tax in a jurisdiction other than the UK or the US should consult their professional advisers.**

#### **Listing, Settlement and Dealings**

Applications have been made for all the Additional Value Shares to be admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange's market for listed securities. It is expected that Admission will become effective and trading will commence on or before 12 July 2000.

#### *Additional Shares in certificated form*

Shareholders who hold their Ordinary Shares in certificated form at the Record Date will receive Additional Value Shares in certificated form which will be despatched before, on, or as soon as practicable after 12 July 2000. In the case of joint holders, certificates will be despatched to the person whose name appears first in the register. Pending receipt of certificates, transfers will be certified against the register. No temporary documents of title will be issued.

#### *Additional Value Shares in Uncertificated Form*

Shareholders who hold their Ordinary Shares in Uncertificated Form at the Record Date will receive Additional Value Shares in Uncertificated Form. It is expected that Additional Value Shares will be credited to the CREST account of the Ordinary Shareholder concerned on or before 12 July 2000.

RBS reserves the right to issue Additional Value Shares to all Ordinary Shareholders in certificated form if, for any reason, it wishes to do so.

#### *Proceeds from Additional Value Shares sold through the Selling Facility*

The net proceeds from Additional Value Shares sold through the Selling Facility will be paid to selling shareholders by cheque which will be despatched on or before 12 July 2000 to their respective addresses as appearing on RBS's register of members or in accordance with any special instructions that RBS has for such holders regarding communications. The cheque will be made payable to the person whose name appears first on the register. Where Ordinary Shareholders hold their shares in Uncertificated Form, payment will be credited to the relevant CREST account on or before 12 July 2000. Proceeds from the sale of Additional Value Shares through the Selling Facility will be paid to shareholders net of dealing expenses and commissions. The commission level is one per cent. of the gross proceeds raised from Additional Value Shares sold through the Selling Facility and this together with dealing expenses is not expected to exceed 1 penny per Additional Value Share.

#### *Administration*

Mandates in force at the Record Date relating to the payment of dividends and other instructions given to RBS in respect of Ordinary Shares will, unless specifically revoked or amended, be deemed to apply to holdings of Additional Value Shares.

All certificates and cheques will be sent by pre-paid first-class post at the risk of the person entitled thereto.

### **Share Option and Profit Sharing Schemes**

#### *Share Option Schemes*

In accordance with the rules of the Share Option Schemes the number of Ordinary Shares in respect of which options granted under the Share Option Schemes may be exercised and the price at which Ordinary Shares may be acquired by the exercise of such options will be adjusted to take account of the Bonus Issue, subject (i) to the prior approval of the Inland Revenue in the case of Inland Revenue approved Share Option Schemes, and (ii) where so required under the rules of the Share Option Schemes, to the auditors of the Company confirming that such adjustments are fair and reasonable. In due course, the holders of options under the Share Option Schemes will be notified of the adjustments to their subsisting options.

#### *Profit Sharing Schemes*

Beneficial owners of Ordinary Shares held under the Profit Sharing Schemes will be entitled to receive the Additional Value Shares on the basis described in this document and have today been sent a letter providing them with further information.

### **Option 2000 and the Employee Share Ownership Plan**

The Board believes that following the recent acquisition of the NatWest Group, it is important that employees throughout the Group should have the opportunity to benefit from RBS's success by taking part in employee share schemes.

RBS currently operates a Sharesave Scheme and a Profit Sharing Scheme for employees. In addition to these schemes, the Board now wishes to introduce two new schemes for employees and your approval is being sought for the adoption of these schemes.

The first of these schemes is called Option 2000. Under Option 2000, employees in the Group will be granted an option to purchase 150 shares in RBS at the market value of the shares when the options are granted. The options will normally be exercisable between three and six years after they are granted. It is not intended that options will be granted on a regular annual basis, although if the Board thinks it appropriate, additional options may be granted in future years.

The second scheme is called the Employee Share Ownership Plan. This scheme will be a new Inland Revenue approved share ownership arrangement based upon proposals published by the Government in November 1999 and confirmed in the March 2000 Budget. This scheme will, in due course, replace the existing RBS 1999 Profit Sharing (Share Ownership) Scheme and will not be operated in the same year as that scheme.

Summaries of Option 2000 and the Employee Share Ownership Plan are set out in Part 5 of this document and resolutions for their adoption are set out in the Notice of Extraordinary General Meeting in Part 8 of this document.

## **Dividend Rectification**

Between December 1996 and December 1999 RBS paid a number of dividends on its Ordinary Shares, Non-cumulative Dollar Preference Shares and Sterling Preference Shares inadvertently without first filing interim accounts showing the requisite level of distributable profits. This includes the interim dividend payments made in 1998 and 1999 on the Ordinary Shares. As a result, these dividends were partially paid in technical infringement of the Act. The aggregate sum which has been paid in technical infringement of the Act is £240 million. At the time of payment of such dividends, RBS had sufficient distributable profits. A full list of the relevant payments is set out in the schedule to the Notice of Extraordinary General Meeting in Part 8 of this document.

RBS has been advised that it may have claims against present and past shareholders who were recipients of these payments to recover the amounts paid in technical infringement of the Act. RBS has also been advised that it may have claims against those directors who participated at the Board meeting at which the decisions were taken to pay the relevant interim dividends. Any sums recovered from such shareholders and directors would be repayable with interest at a reasonable rate.

It is clearly not the intention of RBS that any such claim should be made by RBS against either shareholders or directors. This matter can be remedied by shareholders passing resolutions which put shareholders and directors into the position in which they were always intended to be. Resolutions will be proposed at the Extraordinary General Meeting to sanction the appropriation of profits to the payments concerned, to waive any rights of RBS against those shareholders who received the relevant interim dividends, to waive any rights of RBS against both past and present directors in respect of the dividends and to approve RBS entering into deeds of release in favour of such shareholders and directors. The forms of the deeds are available for inspection as explained in Part 2 of this document.

The Inland Revenue has provided written confirmation that the relevant dividends will continue to be treated as distributions for tax purposes (made at the time at which the relevant interim dividends were paid) and that the proposed waiver will have no tax implications for shareholders. Accordingly, the Inland Revenue will treat the tax position of UK tax resident shareholders as being unaffected. If any non-UK tax resident shareholder has any doubt about his foreign tax position, he should consult his own professional advisers.

## **Extraordinary General Meeting**

A notice convening an Extraordinary General Meeting to approve the Additional Value Share Proposals, the Share Scheme Proposals and the Dividend Proposals is set out in Part 8 of this document. The Extraordinary General Meeting will be held at the Balmoral Hotel, Princes Street, Edinburgh at 11.00 a.m. on 20 June 2000.

An explanation of the resolutions to be proposed at the Extraordinary General Meeting is set out in Paragraph 6 of Part 2 of this document.

## **Action to be taken**

### *(a) In relation to the Extraordinary General Meeting*

A Form of Proxy in relation to the Extraordinary General Meeting accompanies this document. You are asked to complete, sign and date this form in accordance with the instructions printed thereon and return it as soon as possible and in any event so as to be received by RBS's registrars Computershare Services PLC, PO Box 858, The Pavilions, Bristol, BS99 5WE no later than 11.00 a.m. (London time) on 18 June 2000. A reply paid envelope is included for this purpose for use in the UK only. Completion and return of the Form of Proxy will not preclude you from attending the Extraordinary General Meeting and voting in person if you wish to do so.

### *(b) In relation to the Selling Facility*

Qualifying Shareholders will also have received with this document a Selling Facility Form. Qualifying Shareholders wishing to sell their Additional Value Shares pursuant to the Selling Facility should complete this form in accordance with the instructions printed thereon and return it with the Form of Proxy to Computershare Services PLC in the reply paid envelope, as soon as possible and in any event so as to be received by 11.00 a.m. (London time) on 18 June 2000.

Non-qualifying Shareholders cannot participate in the Selling Facility. Such shareholders should read the statement of additional information for Non-qualifying Shareholders in Paragraph 4 of Part 2 of this document.

**Ordinary Shareholders who do not wish to sell their Additional Value Shares should not return the Selling Facility Form. Shareholders not returning a Selling Facility Form completed in all respects by 11.00 a.m. (London time) on 18 June 2000 will be deemed to have elected not to participate in the Selling Facility.**

In accordance with London market practice, any Ordinary Shareholder who sells or otherwise disposes of Ordinary Shares before such shares are quoted ex-AVS may be obliged to account for the related Additional Value Shares (or if such shareholder has made an election to participate in the Selling Facility, the proceeds) to the purchaser or transferee. If an Ordinary Shareholder completes and returns a Selling Facility Form but subsequently sells or disposes of his Ordinary Shares and is no longer on the register of members at the Record Date, the form will have no effect. A purchaser acquiring Ordinary Shares should, if appropriate, separately obtain and complete a Selling Facility Form and return it in accordance with the instructions printed thereon by 11.00 a.m. (London time) on 18 June 2000 failing which, that purchaser will not be able to participate in the Selling Facility in respect of any Additional Value Shares to which that shareholder is entitled. Additional Selling Facility Forms may be obtained from Computershare Services PLC at the address set out above.

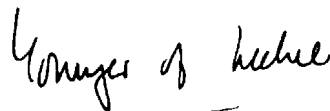
#### **Helpline**

If you require assistance to complete the Form of Proxy or the Selling Facility Form, please contact Computershare Services PLC. A shareholder helpline has been set up on 0870 702 0187 to assist shareholders in the UK with enquiries. The shareholder helpline will be available during normal business hours between 9.00 a.m. and 5.00 p.m., Monday to Friday until 16 June 2000.

#### **Recommendation**

Your Directors believe that the Additional Value Share Proposals, the Share Scheme Proposals and the Dividend Proposals being put to shareholders are in the best interests of shareholders as a whole and unanimously recommend that you vote in favour of the resolutions to be proposed at the Extraordinary General Meeting. The Directors unanimously intend to vote in favour of such resolutions in respect of their own beneficial shareholdings, which at 18 May 2000 comprised in total 447,542 Ordinary Shares (representing approximately 0.02 per cent. of the existing issued Ordinary Share capital) save that Directors who are also shareholders (including myself) will not be voting on the resolutions relating to the Dividend Proposals in view of our interests in the subject matter of these proposals.

Yours sincerely



Viscount Younger  
*Chairman*



## PART 2: ADDITIONAL INFORMATION

### 1. The Bonus Issue

The Board is proposing to effect the Bonus Issue by capitalising an amount standing to the credit of the Company's share premium account or merger reserve (not exceeding £27 million) and allotting, on a one for one basis, new fully paid Additional Value Shares to holders of Ordinary Shares on the register of members at 5.00 p.m. on 20 June 2000.

In aggregate, approximately 2.7 billion Additional Value Shares will be issued with a total nominal value of approximately £27 million. The Additional Value Shares, which will be issued in both certificated and Uncertificated Form, will have a nominal value of £0.01 each.

A summary of the rights and restrictions attaching to the Additional Value Shares is set out in Part 3 of this document. The full rights and restrictions attaching to the Additional Value Shares are contained within the provisions to be set out in the Articles if approved at the Extraordinary General Meeting. These are set out in Part 9 of this document.

Ordinary Shareholders are referred to paragraph 5 below in relation to potential selling restrictions in relation to the Additional Value Shares.

### 2. Conditions precedent to the Bonus Issue becoming effective

The Bonus Issue is conditional on:

- (a) Resolution 1 proposed at the Extraordinary General Meeting being passed by the requisite majority; and
- (b) admission of the Additional Value Shares to the Official List and to trading on the London Stock Exchange's market for listed securities.

### 3. The Selling Facility

As part of the Additional Value Share Proposals, Goldman Sachs, Merrill Lynch and UBS Warburg have undertaken to provide (or procure the provision of) a facility whereby Qualifying Shareholders may elect to sell all their Additional Value Shares.

Goldman Sachs, Merrill Lynch and UBS Warburg have proposed that Additional Value Shares which are sold under the Selling Facility will either be placed in the market or will be acquired by a special company (or companies) formed for the purpose of repackaging the Additional Value Shares and issuing shares or securities (the terms of which will reflect its underlying holding of Additional Value Shares) to institutional and other investors. The structure for, and details of, the mechanism that Goldman Sachs, Merrill Lynch and UBS Warburg will use to dispose of the Additional Value Shares to be sold under the Selling Facility (which will determine the Selling Price payable to Ordinary Shareholders) will be determined at a later date taking into account market conditions at the time and the number of Additional Value Shares to be sold. The Selling Price which will be paid to Ordinary Shareholders in respect of their Additional Value Shares that are to be sold under the Selling Facility will be determined, amongst other factors, by reference to the price for the Additional Value Shares or such shares or securities issued by a special purpose company which is obtained in the market from investors following a book-building exercise for the sale of such securities conducted by Goldman Sachs, Merrill Lynch and UBS Warburg together with credit ratings applicable to such securities and the imposition and level of any stamp duty/stamp duty reserve tax. The latest time at which the Selling Price will be announced is 5 July 2000. Any structure involving the acquisition of Additional Value Shares by a special purpose company (or companies) or any similar structure will result in such Additional Value Shares ceasing to be traded on the open market. The liquidity of the remaining Additional Value Shares will diminish in proportion to the amount of Additional Value Shares acquired by the special purpose company.

**In the light of the matters set out in the previous paragraph Ordinary Shareholders should be aware that there can be no guarantee that the Selling Price for Additional Value Shares which will be achieved under the Selling Facility will equal or exceed the valuation set out in Part 1 of this document and it may be lower than such valuation. The Selling Price achieved under the Selling Facility may also be lower than the price at which Additional Value Shares are traded in the market. Shareholders who have elected to sell their Additional Value Shares under the Selling Facility will receive the Selling Price for their Additional Value Shares as so determined (less dealing expenses and commissions specified in Part 1 of this document).**

Once the Selling Price has been determined, the Selling Facility will be subject to certain conditions (including the absence of any material adverse change in the financial position of RBS before payment for the Additional Value Shares and other market related conditions). If those conditions are not fulfilled and the Selling Facility terminates the Selling Facility Forms will be of no further effect. In these circumstances, Additional Value Shares will be issued to Ordinary Shareholders as set out in this document.

To elect to sell your Additional Value Shares, you must complete and return a Selling Facility Form as set out in Part 1 of this document. **Shareholders should note that by completing and returning a Selling Facility Form, they commit irrevocably to sell their Additional Value Shares under the Selling Facility irrespective of the Selling Price achieved for such Additional Value Shares. They should further note that at the time of such election and return of the Selling Facility Form, the Selling Price for the Additional Value Shares under the Selling Facility and therefore the proceeds of sale that they will receive will not yet be known.** The Selling Price will only be finally determined following the book-building exercise as described above and will depend upon, amongst other things and in addition to the factors mentioned above, market conditions and the level of demand from investors at the time.

Non-qualifying Shareholders cannot participate in the Selling Facility. Such shareholders should read Paragraphs 4 and 5 below.

The completion and return by any shareholder of the Selling Facility Form constitutes his or her submission to the jurisdiction of the Scottish courts in relation to all matters arising in connection with such form.

#### **4. Non-qualifying Shareholders**

Non-qualifying Shareholders are not entitled to participate in the Selling Facility. Any Selling Facility Form returned by such shareholders is accordingly invalid. Such shareholders will nevertheless receive the Additional Value Shares to which they are entitled. Subject to relevant applicable securities laws (see further paragraph 5 below) such shareholders may be able to sell such Additional Value Shares through the London Stock Exchange following Admission.

#### **5. Sales or disposals of Additional Value Shares**

Shareholders receiving Additional Value Shares should note that certain restrictions may apply in the jurisdictions in which they are resident or domiciled to the sale or disposal of Additional Value Shares otherwise than pursuant to the Selling Facility (available only to Qualifying Shareholders). Shareholders should consult their professional advisers to ascertain whether any such subsequent disposal by them of Additional Value Shares will be subject to any restrictions or require compliance with any formalities imposed by the laws or regulations of, or any body or authority located in, the jurisdiction in which they are resident or domiciled.

French shareholders should note that this document has not been prepared in the context of a public offer of securities in France within the meaning of Regulation No 98.01 or Regulation No 98.08 of the Commission des Opérations de Bourse (COB), and has therefore not been submitted to the COB for prior approval. It is made available on the condition that it will not be passed on to any person nor reproduced (in whole or in part) and that shareholders would receive the Additional Value Shares for their own account and undertake not to re-transfer, directly or indirectly, such shares to the public in France, other than in compliance with applicable laws and regulations.

#### **6. Extraordinary General Meeting**

Notice of the Extraordinary General Meeting to be held at 11.00 a.m. on 20 June 2000 at the Balmoral Hotel, Princes Street, Edinburgh is set out in Part 8 of this document. The following is an explanation of the resolutions to be put to the Extraordinary General Meeting:

##### *Resolution 1*

- (a) Paragraph (A) of Resolution 1 will increase the authorised share capital of RBS by the creation of new Additional Value Shares of £0.01 each, having an aggregate nominal value of £27 million and Non-Voting Deferred Shares of £0.01 each, having an aggregate nominal value of £323 million.

The increase in share capital which will result from such shares represents a 1.8 per cent. increase in aggregate nominal value over the current authorised Sterling share capital in respect of the Additional Value Shares and 20.9 per cent. in respect of the Non-Voting Deferred Shares. The Non-Voting Deferred Share capital is only required if dividends are not paid on the Additional Value Shares and the Additional Value Shares are required to convert into Ordinary Shares. See further discussion on this point in (c) below.

- (b) Paragraph (B) of Resolution 1 will, without limitation to any other authority to allot unissued shares, give the Directors authority to allot the Additional Value Shares created pursuant to paragraph (A) of the resolution.
- (c) Paragraph (C) of Resolution 1 will give the Directors authority to allot rights to convert the Additional Value Shares created pursuant to paragraph (A) of the resolution into up to 1.4 billion Ordinary Shares and allot Non-Voting Deferred Shares created pursuant to paragraph (A) of the resolution up to an aggregate nominal amount of £323 million for the purposes of such conversion. The Directors recognise that the authorities granted pursuant to paragraph (C) of the resolution may be in excess of what is actually required (although this will not be finally determined until and if the conversion rights become exercisable, as the number of Ordinary Shares into which they carry the right to convert depends, among other things, on the market price of an Ordinary Share at that date and the aggregate dividends (if any) paid on each Additional Value Share prior to the date of conversion). The number of Ordinary Shares in respect of which authority is sought to allot rights to convert in connection with the issue of the Additional Value Shares has been determined so as to ensure that sufficient Ordinary Shares are available to satisfy the conversion rights of holders of Additional Value Shares without the need to seek further shareholder authority. The Directors will not (without the prior approval of shareholders in general meeting) exercise their power pursuant to paragraph (C) of the resolution to allot rights to convert into Ordinary Shares or the Non-Voting Deferred Shares other than in connection with the conversion of the Additional Value Shares created pursuant to paragraph (A) of the resolution.
- (d) Paragraph (D) of Resolution 1 will authorise the Directors to capitalise such sum (not exceeding £27 million) standing to the credit of such part of the Company's share premium account as the Directors may specify and/or merger reserve, as determined by the Directors prior to allotment, and to appropriate and apply such sum in allotting the Additional Value Shares to holders of Ordinary Shares on the Record Date. This authority will also allow shareholders to renounce their right to such allotment to enable them to sell their shares pursuant to the Selling Facility.
- (e) Paragraph (E) of Resolution 1 will authorise the Directors, in converting any Additional Value Shares to do so by way of consolidation or consolidation and subdivision in terms of the provisions of the Articles proposed to be adopted.
- (f) Paragraph (F) of Resolution 1 will alter the Articles to incorporate the provisions relating to the Additional Value Shares. The paragraph will also alter the Articles (i) to provide, for clarity, that the existing provisions relating to the capitalisation of the Company's reserves include the power to do so to effect the conversion of any of the Company's convertible shares, and (ii) to bring together in the principal definitions clause, for ease of reference, definitions of all the classes of non-cumulative preference shares which have been created at the general meetings of the Company held in January and February of this year.

#### *Resolutions 2 and 3*

- (f) Resolutions 2 and 3 will approve the adoption by the Company of Option 2000 and the Employee Share Ownership Plan as summarised in Part 5 of this document or as otherwise amended or added to by the Board provided that such amendments and additions do not conflict in any material respect with such summary.

#### *Resolution 4*

- (g) Paragraph (A) of Resolution 4 ratifies and confirms the payment of dividends to holders of the Company's Ordinary Shares, Non-cumulative Dollar Preference Shares and Cumulative Sterling Preference Shares as more particularly set out in the schedule to the Notice of Extraordinary General Meeting (the "Dividends").

- (h) Paragraph (B) of Resolution 4 releases Ordinary Shareholders on the register of members on the relevant record dates relating to the Dividends from any claim in respect of the Dividends and authorises the Company to enter into a deed of release in relation thereto.
- (i) Paragraph (C) of Resolution 4 appropriates distributable reserves in respect of the release by the Company of any claims it may have against Ordinary Shareholders as aforesaid.
- (j) Paragraph (D) of Resolution 4 releases past and current directors from any claim in respect of the Dividends and authorises the Company to enter into a deed of release in relation thereto.

## **7. Consents**

- (a) Each of Goldman Sachs, Merrill Lynch and UBS Warburg have given and not withdrawn their written consent to the issue of this document with the inclusion of the references to their names in the form and context in which they respectively appear.
- (b) Deloitte & Touche has given and not withdrawn its written consent to the inclusion in this document of its letters in Parts 6 and 7 and the references thereto and to its name in the form and context in which they appear and has authorised the contents of its letters for the purposes of section 152(1)(e) of the Financial Services Act 1986.

## **8. General**

The Registrar of RBS is Computershare Services PLC of Owen House, P.O. Box 435, 8 Bankhead Crossway North, Edinburgh, EH11 4BR. Proxies and Selling Facility Forms should however be returned to Computershare Services PLC, PO Box 858, The Pavilions, Bristol BS99 5WE.

## **9. Documents available for inspection**

The following documents will be available for inspection at the registered office of the Company and at the offices of Freshfields, 65 Fleet Street, London EC4Y 1HS, during normal working hours on any week day, from the date of this document until 20 June 2000 and for at least 15 minutes prior to, and during, the Extraordinary General Meeting:

- (a) the form of the deed of release in favour of shareholders and of the deed of release in favour of directors in respect of the ordinary and preference dividends, the subject of the Dividend Proposals;
- (b) a copy of the draft rules of The Royal Bank of Scotland Group plc Option 2000 Scheme; and
- (c) copies of the draft rules and the draft trust deed of The Royal Bank of Scotland Group plc Employee Share Ownership Plan.

### **PART 3: DESCRIPTION OF ADDITIONAL VALUE SHARES**

#### **General**

The Additional Value Shares will either be registered in certificated form or Uncertificated Form. Shares held in Uncertificated Form will be held through and transferable only in accordance with the rules and procedures of CREST.

#### **Pre-emptive Rights**

Holders of Additional Value Shares will have no pre-emptive rights.

#### **Dividends**

Each Additional Value Share will provide, subject to declaration by and at the discretion of the directors, dividends in aggregate of £1 per Additional Value Share as described below or conversion into Ordinary Shares and a resale mechanism as described in "Conversion into Ordinary Shares" below. Subject as aforesaid, dividends are payable on the following basis:

- (a) 15 pence per Additional Value Share on 1 December 2001;
- (b) 30 pence per Additional Value Share on 1 December 2002; and
- (c) 55 pence per Additional Value Share on 1 December 2003 (the "Final Dividend Date").

Any dividends paid will be out of the distributable profits of the Company.

If any date on which dividends are payable on the Additional Value Shares is not a day on which banks in London are open for business, then the Company will pay the dividend payable on that date on the next succeeding day which is a business day (and without any interest or other payment in respect of the delay).

#### **Declaration of Dividends**

The directors have a discretion as to whether to pay any dividend on any dividend payment date, or to convert the Additional Value Shares into Ordinary Shares following the Final Dividend Payment Date. In deciding whether to declare and pay a dividend the directors will, inter alia, have regard to:

- (a) whether the distributable profits of the Company are sufficient to cover the payment in full of dividends on the Additional Value Shares on any dividend payment date and also the payment in full of all other dividends (if any) stated to be payable on any preference share in the capital of the Company. The directors are precluded from paying any dividend due on the Additional Value Shares if in their opinion the distributable profits of the Company are not likely to be sufficient to pay any dividend due for payment on any preference share within 90 days of the relevant dividend payment date;
- (b) whether the distributable profits of the Company are adequate or are likely to be adequate having regard to the Company's obligation to make dividend payments on any preference share in the capital of the Company. The Act defines "distributable profits" as, in general terms, and subject to adjustment, accumulated realised profits less accumulated realised losses;
- (c) the effect of the payment of the dividend on the regulatory capital structure of the Company and on its consolidated banking and trading book target and trigger ratios as prescribed by the Financial Services Authority from time to time; and
- (d) the Company's best interests having regard to its future cash requirements and actual and contingent liabilities.

Without prejudice to the foregoing, and for the avoidance of doubt, no dividend will be paid on the Additional Value Shares if and to the extent that such payment would constitute an unauthorised variation or abrogation of the rights as to participation in profits attached to any preference shares in the capital of the Company.

Holders of Additional Value Shares will have no claim in respect of the failure of the directors to declare and/or pay any dividend(s) and the directors will not be bound to give their reasons for not declaring or paying such a dividend save that the Directors will announce their intention in respect of the payment of any dividend expressed to be payable no later than 14 days prior to the relevant dividend payment date (save in respect of the Final Dividend Date in which case notice must be given on or before 1 September 2003).

## **Payment of Dividends**

Dividends will be paid on the Additional Value Shares out of distributable profits in Sterling. Dividends in respect of Additional Value Shares will be paid by cheque, warrant or other financial instrument sent through the post to the registered address of the member or person entitled thereto.

If and to the extent that any dividend (whether in whole or in part) is not declared for payment on any dividend payment date, such amount will fall to be considered for payment on the following dividend payment date in addition to any dividend falling to be considered for payment on that date.

Except as described herein no holder of an Additional Value Share shall have the right to participate in the profits of the Company.

The Company will be free to pay dividends or make other distributions in respect of any other class of shares in the capital of the Company including without limitation any class of preference share and the Ordinary Shares notwithstanding that the directors have not declared and/or paid any dividend on the Additional Value Shares provided that no dividend shall be declared on the Ordinary Shares in the capital of the Company where the Additional Value Shares are to be, but have not on the Final Dividend Date been, converted into Ordinary Shares unless at the date of declaration relating to such payment the amount outstanding on each Additional Value Share has been paid or Ordinary Shares delivered pursuant to the conversion mechanisms in satisfaction of such amount outstanding.

Any dividend which has remained unclaimed for 12 years from the date when it became due for payment will, if the directors so resolve, be forfeited and will revert to the Company.

## **Rights upon Liquidation**

If the Company is wound up or liquidated or there is a return of capital (other than a redemption or purchase of any shares of any class in the capital of the Company), the holders of the Additional Value Shares will be entitled to receive in Sterling out of the surplus assets of the Company available for distribution amongst the members in priority to the holders of the Ordinary Shares of the Company but after payment of all amounts outstanding to holders of any preference share in the capital of the Company or any other share ranking in priority to the Additional Value Shares, an amount of £1 less the aggregate amount of any dividends paid in respect of each Additional Value Share prior to the date of the winding up or liquidation (but for the avoidance of doubt excluding any distribution paid in the winding up or liquidation).

If the assets available for distribution are insufficient to pay in full the amounts payable with respect to the Additional Value Shares, the holders of the Additional Value Shares will share rateably in the distribution of assets (if any) in proportion to the full preferential amounts to which they are respectively entitled.

After payment of the full amount of the liquidation distribution to which they are entitled, the holders of the Additional Value Shares will have no right or claim to any of the Company's surplus assets.

## **Voting Rights**

The holders of the Additional Value Shares will not be entitled to receive notice of, attend or vote at any general meeting of shareholders except as provided by applicable law or as described below.

If any resolution is proposed for adoption by shareholders varying or abrogating any of the rights attaching to the Additional Value Shares or proposing that the Company would be wound up, the holders of the Additional Value Shares will be entitled to receive notice of and to attend the general meeting of shareholders at which the resolution is to be proposed and will be entitled to speak and vote on such resolution, but not on any other resolution. No voting right will be afforded as a result of the non-payment of any dividend.

Whenever holders of Additional Value Shares are so entitled to vote on a resolution, on a show of hands every such holder who is present in person will have one vote and, on a poll, every such holder who is present in person or by proxy will have such number of votes for the Additional Value Shares held by him as he would have had if those shares had been converted into Ordinary Shares

on the date of the notice of the meeting pursuant to the conversion procedure described in “Conversion into Ordinary Shares” below and at a price per Additional Value Share calculated on the basis that the date of the notice of the meeting was the relevant conversion date.

The holders, including holders of Additional Value Shares at a time when they have voting rights for the reasons described above, of not less than 10 per cent. of the paid up capital that at the relevant date carries the right to vote at general meetings of the Company, are entitled to require the directors to convene an extraordinary general meeting. In addition, the holders of Additional Value Shares may have the right to vote separately as a class in certain circumstances as described below under the heading “Variation of Rights.”

#### **Form and Denomination**

The Additional Value Shares will, when issued, be fully paid and, as such, will not be subject to a call for any additional payment. Additional Value Shares will be held in either certificated form or Uncertificated Form as described in “General” above.

Title to Additional Value Shares in registered form will pass by transfer and registration on the register for the Additional Value Shares.

Each registration of transfer of Additional Value Shares in registered form will be effected by entry on the register for the Additional Value Shares kept by the Company’s registrar at its office in the UK (see “Registrar and Paying and Settlement Agent” below). Any registration of transfer will be effected without charge to the person requesting the registration, but the requesting person will be required to pay any related taxes, stamp duties or other governmental charges.

#### **Variation of Rights**

The rights attached to Additional Value Shares may be varied or abrogated only with the written consent of the holders of 75 per cent. in nominal value of the outstanding Additional Value Shares or with the sanction of an extraordinary resolution passed at a separate class meeting of the holders of the Additional Value Shares. An extraordinary resolution will be adopted if passed by a majority of 75 per cent. of those holders voting in person or by proxy at the meeting. The quorum required for any such class meeting will be two persons holding or representing by proxy one-third in nominal amount of the outstanding Additional Value Shares affected, except at any adjourned meeting, where any two holders present in person or by proxy will constitute a quorum.

The rights attached to the Additional Value Shares will be deemed not to be varied by the creation, allotment or issue of any shares ranking equally with, in priority to, or behind, the Additional Value Shares in any respect whatsoever including (without limitation) as to ranking in respect of dividends or of rights in liquidation of the Company.

#### **Notice of Meetings**

The Company will cause a notice of any meeting at which holders of Additional Value Shares are entitled to vote to be mailed to each holder of Additional Value Shares. Each such notice will state:

- (a) the date of the meeting;
- (b) a description of any resolution to be proposed for adoption at the meeting on which those holders are entitled to vote; and
- (c) instructions for the delivery of proxies.

A holder of Additional Value Shares in registered form who is not registered with an address in the UK and who has not supplied an address within the UK to the Company for the purpose of notices is not entitled to receive notices of meetings.

#### **Conversion into Non-Voting Deferred Shares**

Following the payment of aggregate dividends of £1 in respect of each Additional Value Share the Additional Value Shares will be de-listed from the Official List and from trading on the London Stock Exchange’s market for listed securities and will convert automatically into non-voting deferred shares of £0.01 each (“Non-Voting Deferred Shares”), which will be certificated shares and will have only the following rights and restrictions:

- (i) On a winding-up or other return of capital, the Non-Voting Deferred Shares will entitle the holders of such shares only to payment of the amounts paid up on those shares, after repayment to the holders of Ordinary Shares of the nominal amount paid up thereon and the payment of £100,000 on each Ordinary Share.

- (ii) The Non-Voting Deferred Shares will not entitle the holders of such shares to the payment of any dividend or other distribution or to receive notice of or to attend or vote at any general meeting of the Company or otherwise receive any shareholder communication.
- (iii) The Non-Voting Deferred Shares will not, save as provided below or otherwise with the written consent of the directors, be transferable.
- (iv) No certificates will be issued in respect of any Non-Voting Deferred Shares.
- (v) Following conversion, the Non-Voting Deferred Shares will be transferred for no consideration to such person as may be nominated by the Directors, whether or not an officer of the Company (and for such purposes the Directors shall have irrevocable authority to appoint a person on behalf of any holder of Non-Voting Deferred Shares to enter into an agreement to transfer and to execute and deliver a transfer of his Non-Voting Deferred Shares to such other person).

### **Conversion into Ordinary Shares**

If on 1 September 2003 aggregate dividends of £1 have not been paid in respect of each Additional Value Share, then unless the Directors have resolved that a dividend be paid on or before the Final Dividend Date of such amount that aggregate dividends paid on each Additional Value Share will be £1 and that dividend is duly paid on or before the Final Dividend Date or the following Business Day where that date is not a Business Day, the Additional Value Shares will be converted into fully paid up Ordinary Shares and the Company will use its reasonable efforts, to the extent permitted by applicable law, to sell such Ordinary Shares to raise sale proceeds equivalent to an amount per Additional Value Share of £1 less the aggregate amount of any dividends paid in respect of each such Additional Value Share (the "Settlement Amount").

The Company will use reasonable efforts to arrange for the sale, on behalf of holders, of the Ordinary Shares into which Additional Value Shares will convert so as to raise net cash proceeds of an amount equal to the Aggregate Settlement Amount in relation to such Additional Value Shares. The Company will select a broker which will solicit bids for the Ordinary Shares during a period of 20 London Stock Exchange trading days ending 30 London Stock Exchange trading days before the relevant settlement date. The price for the Ordinary Shares to be sold will be set by reference to bids received by the broker during this 20 trading day period. The Company will convert the relevant number of Additional Value Shares, and arrange the sale through the broker on the 25th London Stock Exchange trading day prior to the relevant settlement date, of that number of Ordinary Shares sufficient for the purposes of the placing. The Directors will have irrevocable authority on behalf of each holder to appoint any person on behalf of such holder to enter into an agreement to transfer and execute and deliver a transfer of Ordinary Shares required for such placing. The Company will not be obliged to procure the transfer of Ordinary Shares at a price below the nominal value thereof, currently £0.25.

If the placing does not raise an amount equal to the Settlement Amount for each Additional Value Share, then the Company will pay the proceeds that it raised from the placing among all the holders of Additional Value Shares pro rata. Satisfaction of the remaining portion of the Settlement Amount in relation to each Additional Value Share will be effected by the conversion of the remaining Additional Value Shares into Ordinary Shares, valued as described in the following paragraph. If there is no placing, or a dividend resolved upon as at 1 September 2003 is not paid on the Final Dividend Date, satisfaction of the Settlement Amount will be effected by the conversion of the Additional Value Shares held by each holder, valued as described in the following paragraph.

If Ordinary Shares are to be delivered on the relevant settlement date, the number of Ordinary Shares to be delivered will be calculated on the basis of a deemed market price for the Ordinary Shares. The deemed market price will be the greater of (i) 95% of the weighted average closing price per Ordinary Share during the 20 London Stock Exchange trading days ending five London Stock Exchange trading days prior to the relevant settlement date and (ii) the nominal value of the Ordinary Shares.

A London Stock Exchange trading day is a day, other than a Saturday, Sunday or public holiday in the UK, when the London Stock Exchange is open or was due to be open for trading.

### **Certain Conditions**

Conversion into Ordinary Shares is subject to the following conditions:

- (i) there being a sufficient number of authorised but unissued shares for the purpose of the conversion at the relevant time;
- (ii) the directors having all necessary authority under UK law to allot and issue a sufficient number of shares for the purpose of the conversion at the relevant time; and
- (iii) there being sufficient profits or reserves available for the purposes of any capitalisation required in order to effect the conversion.



Assuming the approval of the relevant resolutions proposed for the Extraordinary General Meeting, there will, at that time, be a sufficient number of authorised but unissued shares and the directors will have all necessary authority to permit the Company, at the current market price of the Ordinary Shares, to convert a number of Additional Value Shares equal to approximately 5.70 times the number of Additional Value Shares the Company is currently proposing to issue.

The Company will use its reasonable efforts to ensure that sufficient authorised but unissued share capital and authorities to issue the relevant shares in the conversion process (“Relevant Shareholder Authorities”) (and sufficient profits or reserves) are available in order to permit the conversion of the relevant number of Additional Value Shares as at the relevant conversion date.

In the event the Company does not have sufficient Relevant Shareholder Approvals (or there are insufficient profits or reserves) to permit, at the relevant time, the conversion of the outstanding Additional Value Shares, the Company will convert the maximum number of outstanding Additional Value Shares which it is legally permitted to convert at that time. The Company will use the conversion procedure outlined above and use reasonable efforts to arrange for the sale of such Ordinary Shares as result from the conversion of such Additional Value Shares. The proceeds of such sale will be paid, and where the proceeds of such sale are insufficient, the balance of any Additional Value Shares converted into Ordinary Shares, in each case pro rata to the persons who were holders of Additional Value Shares immediately prior to conversion of all outstanding Additional Value Shares.

Any Additional Value Shares which are not converted because the Company has insufficient Relevant Shareholder Approvals (or sufficient profits or reserves) will remain outstanding and be converted as soon as such authorised capital (or profits or reserves) exist or authorities are in place.

For as long as any such unconverted Additional Value Shares remain outstanding, the Company will propose resolutions at each subsequent annual shareholders’ meeting that, if approved, would permit conversion of all such outstanding Additional Value Shares. During such time as any Additional Value Shares remain unconverted no dividends will be paid on the Ordinary Shares.

### **Governing Law**

The creation and issuance of the Additional Value Shares and the rights attached to them will be governed by and construed in accordance with Scottish law.

### **Registrar and Paying and Settlement Agent**

The Company has appointed Computershare Services PLC as registrar and paying and settlement agent for the Additional Value Shares. Computershare’s address as registrar is PO Box 435, Owen House, 8 Bankhead Crossway North, Edinburgh EH11 4BR. Computershare’s address as paying and settlement agent is P.O. Box 858, The Pavilions, Bristol BS99 5WE.

## **PART 4: TAXATION**

### **UK TAX DISCLOSURE**

The statements below summarise advice received by the Directors in relation to certain aspects of the UK tax treatment of the issue of Additional Value Shares for Ordinary Shareholders. They are intended only as a general guide to current UK tax law and practice for Ordinary Shareholders who are resident or ordinarily resident in the UK for tax purposes, who are the beneficial owners of their Additional Value Shares, and who hold them as investments. Any person who is in any doubt as to his tax position or who may be subject to tax in any jurisdiction outside the UK should consult an appropriate professional adviser.

#### **UK taxation of chargeable gains (“CGT”)**

##### *Bonus Issue of Additional Value Shares*

For the purposes of CGT, the issue of Additional Value Shares should be treated as a reorganisation of the share capital of RBS. Accordingly an Ordinary Shareholder should not be treated as making a disposal of all or part of his holding of Ordinary Shares to the extent that he is allotted Additional Value Shares.

The Additional Value Shares allotted in respect of an Ordinary Shareholder’s holding of Ordinary Shares and the Ordinary Shares (together the “New Holding”), will be treated as the same asset as, and as having been acquired at the same time as, the Ordinary Shares.

##### *Disposal of Additional Value Shares or Ordinary Shares*

The following two paragraphs assume that the Additional Value Shares have not been converted into Ordinary Shares.

On a subsequent disposal of the whole or any part of any shares comprised in the New Holding, a shareholder may be subject to tax on the amount of any chargeable gain realised. For the purposes of calculating the shareholder’s base cost on such disposal, the base cost in respect of the New Holding (being the same as the base cost in the existing Ordinary Shares) will be apportioned between the existing Ordinary Shares and the Additional Value Shares by reference to their respective market values on the first day on which market values or prices are quoted or published for the Additional Value Shares. Generally, shareholders who sell or otherwise transfer their Additional Value Shares for an amount less than the base cost attributable to their shares may be able to claim an allowable capital loss.

For a holder of Additional Value Shares who is an individual or other non-corporate holder, some indexation allowance (in respect of periods up to April 1998) and some taper relief may be available to reduce the amount of chargeable gain realised on a disposal of those shares. For a holder of Additional Value Shares within the charge to corporation tax, any chargeable gain realised on a disposal of those shares should be calculated taking into account the base cost attributable to those shares and indexation allowance on that cost.

##### *Conversion of Additional Value Shares into Ordinary Shares*

For the purposes of CGT, a conversion of the Additional Value Shares into Ordinary Shares should be treated as a reorganisation of the share capital of RBS. Accordingly a holder of Additional Value Shares will not be treated as making a disposal of all or part of his holding of Additional Value Shares to the extent that he receives Ordinary Shares (“New Ordinary Shares”) upon conversion and his base cost in the New Ordinary Shares will be the same as his base cost in the Additional Value Shares (determined in accordance with the apportionment referred to above). The disposal of New Ordinary Shares immediately following conversion may give rise to tax on any chargeable gain realised.

Shareholders are referred to the paragraphs below under the heading “Section 703 of the Income and Corporation Taxes Act 1988 (“ICTA”)”.

#### **UK taxation of dividends payable on the Additional Value Shares**

RBS will not be required to account for advance corporation tax in respect of dividends. Furthermore, RBS will not be required to withhold tax at source when paying a dividend.

Individual holders of Additional Value Shares resident in the UK (for tax purposes) should generally be entitled to a tax credit in respect of any dividend paid by RBS which they can offset against their total income tax liability. The amount of the tax credit for dividends paid is equal to 10 per cent. of the aggregate of the dividend and the tax credit (the "gross dividend"), which is also equal to one-ninth of the amount of the net cash dividend. The gross dividend is included in computing the income of such an individual holder for UK tax purposes.

The rate of income tax on dividends is 10 per cent. of the gross dividend for taxpayers liable to income tax at rates not exceeding the basic rate. The tax credit will discharge the income tax liability on the dividend of an individual holder of Additional Value Shares who is not liable to income tax at a rate higher than the basic rate. Higher rate taxpayers will be liable to tax on the dividend at the rate of 32.5 per cent. of the gross dividend; the tax credit will be set against but not fully match their tax liability on the dividend and they will have to account for additional tax equal to 22.5 per cent. of the gross dividend (which is also equal to 25 per cent. of the net cash dividend received) to the extent that the gross dividend, when treated as the top slice of their income, falls above the threshold for higher rate income tax.

UK resident taxpayers who are not liable to UK tax on the dividends, including individuals not liable to income tax, pension funds and charities, will not be entitled to claim repayment of the tax credit attaching to dividends paid by RBS although charities will generally be entitled to limited compensation in lieu of repayable tax credits until 5 April 2004. Tax credits on dividends paid by RBS in respect of Additional Value Shares held in personal equity plans or individual savings accounts will generally be repayable until 5 April 2004.

A UK resident corporate holder of Additional Value Shares will not normally be liable to corporation tax in respect of any dividend received. Such a holder will not be able to claim repayment of tax credits attaching to dividends.

A holder of Additional Value Shares who is not resident in the UK for tax purposes will generally not benefit from any entitlement to a refund of any part of the tax credit.

Shareholders are referred to the paragraphs below under the heading "Section 703 of the Income and Corporation Taxes Act 1988 ("ICTA")".

### **Section 703 of the Income and Corporation Taxes Act 1988 ("ICTA")**

Under the provisions of section 703 ICTA, the Inland Revenue can, in certain circumstances, counteract tax advantages arising in relation to transactions in securities.

It is possible that the Inland Revenue may seek to apply the provisions of section 703 ICTA in the case of those persons who would otherwise be entitled to repayment of the whole or part of the tax credit or, in the case of charities, to compensation in lieu of the tax credit attaching to dividends on the Additional Value Shares (see above). If section 703 ICTA were to be applied to such persons repayment of the tax credit may be denied. It is also possible that the Inland Revenue may seek to apply the provisions of section 703 ICTA to persons who dispose of their Additional Value Shares. If section 703 ICTA were to be applied to those persons, the Inland Revenue may effectively seek to tax as income some or all of the chargeable gain which would otherwise arise on such disposal.

No clearance will be sought from the Inland Revenue to the effect that the provisions of section 703 ICTA will not be applied.

However, there is an exemption from the application of the provisions of section 703 ICTA. The provisions of section 703 ICTA will not apply where a person shows that the relevant transaction or transactions were carried out either for bona fide commercial reasons or in the ordinary course of making or managing investments, and that none of them had as their main object, or one of their main objects, to enable tax advantages to be obtained.

RBS has been advised that, by reason of the application of the exemption referred to above, the provisions of section 703 ICTA are not likely to apply to deny the repayment of tax credits or, in the case of charities, the payment of the compensation in lieu of the tax credit, in respect of dividends on

the Additional Value Shares where the holders of those shares are persons who were (a) holders of Ordinary Shares at the date of announcement of the proposal to issue Additional Value Shares (31 January 2000) or (b) holders of ordinary shares in NatWest at such date, who received Ordinary Shares pursuant to the increased offer for NatWest and who receive Additional Value Shares in respect of those Ordinary Shares. For the same reason, RBS has been advised that the provisions of section 703 are not likely to apply to impose a charge to tax on income on such holders of Additional Value Shares who sell those shares pursuant to the Selling Facility.

All other persons who receive dividends on the Additional Value Shares, or who sell their shares otherwise than pursuant to the Selling Facility, are strongly recommended to consult an appropriate professional adviser in respect of the possible application of the provisions of section 703 ICTA in their own particular circumstances.

#### **UK stamp duty and stamp duty reserve tax**

No stamp duty or stamp duty reserve tax will be payable on the issue of the Additional Value Shares.

#### **US TAX DISCLOSURE**

The statements below summarise advice received by the Directors in relation to certain US federal income tax consequences under present law of the receipt, ownership and disposition of an Additional Value Share. The summary is not a full discussion of all tax considerations that may be relevant to an Ordinary Shareholder or purchaser of an Additional Value Share. The summary addresses only Ordinary Shareholders that receive Additional Value Shares through the Bonus Issue, that will hold Additional Value Shares as capital assets and use the US dollar as their functional currency. It does not deal with the tax treatment of investors subject to special rules, such as banks, dealers, insurance companies, tax-exempt entities, holders of 10 per cent. or more of the Company's voting shares, or persons holding Additional Value Shares as part of a hedging, straddle, conversion or constructive sale transaction. **Ordinary Shareholders should consult their tax advisors about the US federal, state and local tax consequences to them of receiving an Additional Value Share.**

As used here, "US Holder" means a beneficial owner of an Additional Value Share or Ordinary Share that is (i) a US citizen or resident, (ii) a corporation, partnership or other business entity organized under US laws, (iii) a trust subject to the control of a US person and the primary supervision of a US court or (iv) an estate the income of which is subject to US federal income tax regardless of its source.

#### *Bonus Issue of Additional Value Shares*

A US Holder of an Ordinary Share will be treated as receiving a dividend equal to the US dollar fair market value of the Additional Value Share when it is issued to the holder. The dividend will be ordinary income from foreign sources. It will not be eligible for the dividends-received deduction available to corporations. The holder's basis in the Additional Value Share will equal its fair market value when issued.

The Company intends solely for purposes of determining the timing and amount of a holder's income for US federal income tax purposes to treat each Additional Value Share as an accreting preferred share that provides for, in lieu of cash dividends, a premium redemption price of £1 payable on 1 December 2003, subject to prepayment at the Company's option.

#### *Taxation of income from Additional Value Shares*

A US Holder of an Additional Value Share will be required to include the redemption premium on the Additional Value Share in income on a constant yield to maturity basis over the term of the Additional Value Share. The redemption premium will equal the difference between the total payments to be received on the Additional Value Share and the issue price of the Additional Value Share. For this purpose, the issue price will equal the fair market value of the Additional Value Share when issued and the total amount of payments will equal £1 the total of the payments on the Additional Value Share. The redemption premium will be ordinary income from foreign sources. The redemption premium will accrue in sterling. The basis on which a US Holder should convert the accrued sterling amounts into US dollars is uncertain, but the holder likely should convert using the average exchange rate during the relevant accrual period. A holder's tax basis in the Additional Value Share will be increased by the

amount of redemption premium included in income and decreased by the amount of any payments received on the Additional Value Share. Should a US Holder receive a payment on the Additional Value Share that exceeds the holder's adjusted tax basis in the Additional Value Share, the excess is likely to be treated as ordinary income from foreign sources.

A US Holder entitled to the benefits of the UK-US income tax treaty may claim from the UK Inland Revenue a payment equal to the amount of the tax credit that UK resident individuals can claim against UK tax imposed on any dividend payment received on an Additional Value Share. The dividend payment received and the tax credit payment are subject to a UK withholding tax equal to the lesser of 15 per cent of the sum of those payments or the amount of the UK tax credit payment. See "UK taxation of dividends payable on the Additional Value Shares." The UK withholding tax will exactly equal the UK tax credit payment due to qualified US Holders, and the offsetting payments will not actually be made. A US Holder may elect to include the UK tax credit payment in income and to claim a foreign tax credit for the UK withholding tax imposed on the tax credit payment, subject to generally applicable limitations. A taxpayer making that election must file a completed US Internal Revenue Service ("IRS") Form 8833 with its US federal income tax return for the relevant year. The UK-US income tax treaty is being renegotiated, and a new or modified treaty is likely to alter the treatment of dividends. US Holders should consult their tax advisors about the US tax treatment of the UK tax credit payment and the UK withholding tax.

#### *Disposal of Additional Value Shares*

A US Holder who sells or otherwise disposes of an Additional Value Share generally will recognize gain or loss equal to the difference between the amount realized on the sale or disposition and the holder's adjusted tax basis in the Additional Value Share. A US Holder who receives foreign currency upon the sale or other disposition of an Additional Value Share will realize an amount equal to the US dollar value of the foreign currency on the date of sale (or, in the case of cash basis and electing accrual basis taxpayers, the settlement date). To the extent that US dollar value differs from the US dollar value of the foreign currency amount at the exchange rates used to establish the US Holder's US dollar tax basis in the Additional Value Share, the holder's gain or loss is likely to be ordinary income or loss from US sources. It is possible that all of a US Holder's gain on sale or disposition of an Additional Value Share could be treated as ordinary income, but any loss could be treated as a capital loss. A US Holder will have a tax basis in any foreign currency received on sale or disposition equal to the US dollar amount realized. Any gain or loss realized by a US Holder on a subsequent conversion of the foreign currency for a different amount will be ordinary income or loss from US sources.

#### *Conversion of Additional Value Shares into Ordinary Shares*

If the Additional Value Shares are converted into Ordinary Shares, a US Holder will be deemed to receive the number of Ordinary Shares issued for its Additional Value Shares whether or not any of the Ordinary Shares are sold in the Placing. The holder will not recognize gain or loss on the receipt of the Ordinary Shares, and its tax basis in the Ordinary Shares received will equal its adjusted tax basis in the Additional Value Shares at the time of conversion. Any cash received from the Placing will be treated as proceeds from the sale of Ordinary Shares. The holder will recognize gain or loss equal to the difference between the amount received and the holder's tax basis in the Ordinary Shares. Amounts received in foreign currency will be converted to US dollars at the rate on the date of sale (or, in the case of cash basis and electing accrual basis taxpayers, the settlement date). Gain or loss on the sale will be capital gain or loss from US sources.

**THE ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE IMPORTANT TO A PARTICULAR SHAREHOLDER. SHAREHOLDERS ARE STRONGLY URGED TO CONSULT THEIR OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES OF RECEIVING AN ADDITIONAL VALUE SHARE.**

## **PART 5: OPTION 2000 AND THE EMPLOYEE SHARE OWNERSHIP PLAN**

### **A. Summary of The Royal Bank of Scotland Group plc Option 2000 Scheme (the “Scheme”)**

#### **General**

The Company intends to obtain Inland Revenue approval for the Scheme. There is also a schedule to the Scheme which is not designed for Inland Revenue approval. This schedule will be used where grants are to be made either to employees who have more than £30,000 worth of outstanding approved options under another scheme or to employees who are not resident in the UK.

#### **Eligibility**

All employees (including executive directors) of participating companies within the Group may be eligible to participate at the discretion of the Board, although the Scheme cannot be operated so as to discriminate in favour of higher paid employees.

#### **Grant of options**

Options may be granted within six weeks following the approval of the Scheme by the Inland Revenue and thereafter within six weeks after the announcement by the Company of its results for any period and at other times in circumstances considered to be exceptional by the Remuneration Committee of the Board. No options may be granted later than 10 years after the approval of the Scheme by shareholders.

Options may be granted both over new issue Ordinary Shares and over Ordinary Shares purchased in the market (in conjunction with an employee trust).

No payment will be required for the grant of options and options are not transferable. Benefits under the Scheme are not pensionable.

#### **Acquisition price**

The price per Ordinary Share payable upon the exercise of an option will normally be the average of the middle market quotations of an Ordinary Share on the London Stock Exchange for the five dealing days preceding the day on which the option is granted (or, if higher, and the option is over new issue Ordinary Shares, the nominal value of an Ordinary Share).

#### **Limits on grants of options to individuals**

No participant may hold options under the Scheme with a value (calculated by reference to the market value of Ordinary Shares when the options are granted) greater than £30,000.

#### **Limits on the issue of shares**

No options may be granted under the Scheme which would cause the number of Ordinary Shares issued or issuable under all employee share options granted under the Scheme or any other option scheme during the preceding 10 years, or issued during that period under any profit sharing scheme adopted by the Company, to exceed 10 per cent. of the issued Ordinary Share capital from time to time (but excluding any options which cease to be exercisable).

#### **Exercise of options**

Options will not normally be exercisable for three years. The exercise of options will normally be permitted between the third and sixth anniversaries of the date they are granted, although for ease of administration of the Scheme, the times at which options can be exercised in this period may be restricted. Options will not be exercisable after the sixth anniversary of the date on which they are granted.

Options will normally lapse on cessation of employment. Exercise will however be permitted for a limited period (irrespective of the period for which the option has been held) following death, cessation of employment by reason of ill-health, injury, disability, redundancy, retirement, or where the optionholder's employer ceases to be within the Group, or in other circumstances at the discretion of the Board. Early exercise is also permitted in the event of an amalgamation, takeover, reconstruction or winding-up of the Company.

### **Rights attaching to shares**

Ordinary Shares allotted under the Scheme will rank pari passu with all other Ordinary Shares for the time being in issue (except for rights arising by reference to a record date prior to their allotment).

### **Adjustment of options**

In the event of any rights or capitalisation issue, sub-division, consolidation, reduction or any other variation of share capital, the Board may make such adjustments as they consider appropriate to the total number of Ordinary Shares subject to options and the price payable on the exercise of options.

### **Alterations to the Scheme**

The Board may at any time alter or add to the Scheme in any respect, provided that the prior approval of shareholders is obtained for alterations or additions to the advantage of participants to: the rules governing eligibility; the individual limits on participation; the overall limits on the issue of shares; the adjustment of options and the amendment rule itself. The requirement to obtain the prior approval of shareholders will not, however, apply to any minor alteration or addition (other than to the limits on the issue of shares under the Scheme) which is made to obtain or maintain Inland Revenue approval or to comply with the provisions of any existing or proposed legislation or to obtain or maintain favourable taxation, exchange control or regulatory treatment of any Group company or participant, or is made to benefit the administration of the Scheme.

### **Extension of the Scheme beyond the UK**

The Board are seeking authorisation at the Extraordinary General Meeting to have the power to extend the scheme to countries outside the UK. To do this the Board may need to vary the Scheme by adding schedules or to establish other schemes based on the Scheme which will take account of local tax, exchange control or securities laws in the relevant jurisdictions. Any Ordinary Shares issued under such schedules or schemes will count towards individual and the overall limits on the issue of shares under the Scheme and the limit on the grant of options to individuals under the Scheme.

## **B. Summary of The Royal Bank of Scotland Group plc Employee Share Ownership Plan (the "Plan")**

### **General**

The Company intends to obtain Inland Revenue approval for the rules and the trust deed of the Plan.

### **Eligibility**

UK resident employees of the Company and participating subsidiaries who have been employed within the Group for a period of 12 months (or such other shorter period as determined by the Board) may participate in the Plan. The Board may amend the eligibility conditions and have a discretion to allow other employees to participate.

### **Operation**

The Plan contains three elements and the Company will decide each year which (if any) of these elements will be offered to employees.

- (a) "Free Shares", which may be distributed to employees by the Company.

The market value of Free Shares distributed to an employee in any tax year may not exceed £3,000 or such higher limit as may be permitted by the relevant legislation. Free Shares may be distributed equally amongst employees, or on the basis of salary, length of service, hours worked, or performance, within the limits specified by the relevant legislation.

- (b) "Partnership Shares", which an employee may purchase out of his or her pre-tax earnings.

The amount an employee can agree to spend buying Partnership Shares under the Plan in any tax year under the proposed legislation may not exceed £1,500 (or 10 per cent. of an employee's salary if lower). Partnership Shares are purchased on behalf of employees by the trustees of the Plan. The funds used to purchase shares will be deducted from the employee's salary.

- (c) “Matching Shares”, which may be distributed to employees by the Company following a purchase of Partnership Shares.

Matching Shares are additional Free Shares. The maximum number of Matching Shares which the Company can allocate to an employee following a purchase of Partnership Shares are two Matching Shares for every one Partnership Share purchased by the employee. The same ratio will apply to all employees who purchase Partnership Shares at that time.

The Plan may not be operated more than 10 years after its approval by shareholders. Benefits provided by Free and Matching Shares are not pensionable. Any salary used to acquire Partnership Shares will continue to be treated as pensionable income.

### **Retention of Shares**

The trustees will initially hold all Free Shares or Matching Shares distributed to employees and any Partnership Shares acquired on the employees' behalf through a trust. Employees can withdraw Partnership Shares from the trust at any time. Free Shares and Matching Shares must normally be held by the trustees for a specified period, which cannot be less than three years or more than five years.

If employees cease to be employed within the Group at any time when the trustees hold shares on their behalf, those shares must be withdrawn from the trust.

The Plan provides that if the Board so determines, employees who cease to be employed within the Group within three years of being allocated Free or Matching Shares (or such shorter period as the Board may specify) will forfeit those shares, except in certain circumstances, for example death, redundancy or retirement on reaching normal retirement age. Also, the Plan provides that if the Board so determines, where employees withdraw Partnership Shares (for whatever reason) within three years of being acquired any related Matching Shares held by the trustees will be forfeited.

### **Source of Shares and Plan Limit**

The trustees may either subscribe for new shares or purchase existing shares for the purposes of the Plan. No more than 10 per cent. of the Company's issued Ordinary Shares may be issued to the trustees under the Plan over a 10 year period, when aggregated with Ordinary Shares issued in that period under any other profit sharing scheme or on the exercise of options granted in that period under any of the Company's share option schemes.

### **Issue Price — Free and Matching Shares**

The subscription price of Free and Matching Shares will not be less than the market value of an Ordinary Share at the time of issue. For these purposes, the market value of an Ordinary Share will be the middle market quotation of an Ordinary Share on a dealing day (or the average of the middle market quotations of a share over several dealing days) within the period of 14 days ending with the date the Ordinary Shares are distributed (provided that no such days may fall before the Company last announced its results for any period).

### **Issue Price — Partnership Shares**

Where the funds applied relate to only one deduction from the pay of employees, the subscription price of Partnership Shares will be the market value (calculated as above) of an Ordinary Share at the time of issue. Where the funds applied relate to more than one deduction from the pay of employees, the subscription price of Partnership Shares will be the lower of the market value (calculated as above) of an Ordinary Share at the start and end of the pay periods to which the deductions relate. The pay periods may be up to 12 months in duration.

### **Rights attaching to Shares**

Any Ordinary Shares allotted under the Plan will rank pari passu with all other Ordinary Shares then in issue, except that they will not normally rank for dividends or for any other rights if the record date is prior to the date of allotment.



### **Dividends on Shares held by Trustees**

Employees will be treated as the beneficial owners of shares held for them by the trustees. Any dividends paid on the shares may either be used to acquire additional shares for employees or may be distributed to employees.

### **Alterations**

The Board may at any time alter or add to the Plan in any respect, provided that the prior approval of shareholders is obtained for alterations or additions to the advantage of participants to: the rules governing eligibility; the individual limits on participation; the overall limits on the issue of shares; the rights attaching to shares acquired; the basis for determining a participant's entitlement to shares; and the amendment rule itself. The requirement to obtain the prior approval of shareholders will not, however, apply to any minor alteration made to benefit the administration of the Plan, to take account of a change in legislation or to obtain or maintain favourable tax treatment, exchange control, or regulatory treatment for participants or for the Company or for any participating company. No alteration to the terms of the Plan or to the Trust Deed may be made while the Plan is approved by the Inland Revenue without their approval.

### **Extension of Plan Overseas**

The Board will be seeking authorisation at the forthcoming Extraordinary General Meeting to extend the Plan to countries outside the UK. To do this, the Board may vary the Plan by adding schedules or may establish new schemes based on the Plan which will take account of local tax, exchange controls or securities laws in the relevant jurisdictions. Any shares issued under such schedules or schemes will count towards the individual and overall limits on the issue of shares under the Plan and the limits on the levels of participation of individuals under the Plan.

**THE BOARD ALSO RESERVES THE RIGHT UP TO THE FORTHCOMING EXTRAORDINARY GENERAL MEETING TO MAKE SUCH AMENDMENTS AND ADDITIONS TO THE SCHEME AND THE PLAN AS IT CONSIDERS APPROPRIATE, PROVIDED SUCH AMENDMENTS AND ADDITIONS DO NOT CONFLICT IN ANY MATERIAL RESPECT WITH THE SUMMARIES SET OUT IN THIS PART 5.**

## **PART 6: PRO FORMA\* UNAUDITED RESULTS FOR THE SIX MONTHS ENDED 31 MARCH 2000**

The pro forma information set out in this Part 6 covers the period to 31 March 2000 and was published on 4 May 2000 to facilitate comparison with the profit forecast for the same period published on 28 January 2000. The pro forma financial information has been prepared on a basis consistent with the profit forecast. In particular it excludes the results of the NatWest Group since its acquisition by RBS on 6 March 2000. **REFERENCES IN THIS PART 6 TO THE GROUP ACCORDINGLY EXCLUDE THE NATWEST GROUP.**

The following is the full text of the announcement made on 4 May 2000. Various cross-references and definitions have been amended for the purposes of conformity with this document.

### **GROUP\* INCREASES SIX MONTHS' PROFIT**

Group profit before tax increased by 35 per cent. to £715 million (1999—£531 million). Profit before tax and exceptional items increased by 26 per cent. to £671 million (1999—£531 million).

The Group's total income rose by 20 per cent. to £2,345 million, while operating expenses, before exceptional items, increased by 12 per cent. to £1,133 million. The Group's cost: income ratio improved from 51.8 per cent. to 48.3 per cent. The interest margin improved from 2.5 per cent. to 2.7 per cent.

#### **Divisional performances:**

- In the largest business area, the UK Bank profit increased by 22 per cent. to £418 million (1999—£344 million).
- In the USA, Citizens Financial Group increased its profit before exceptional items by 18 per cent. to £140 million (1999—£119 million).
- The Group's insurance division, comprising Direct Line Insurance, Privilege Insurance and Green Flag (from the date of acquisition in November 1999), increased its profit from £9 million to £20 million. Because of the seasonal pattern of claims the Group's motor insurance businesses tend to make the larger proportion of their profit in the second half of the year.
- The Group's New Retail Financial Services Businesses recorded a profit of £1 million compared with a loss of £17 million in 1999.
- Angel Trains, the Group's train leasing business increased its profit from £24 million to £36 million.
- RBS Cards increased its profit from £37 million to £47 million.
- The Group's offshore business, The Royal Bank of Scotland International, increased its profit by 32 per cent. to £45 million (1999—£34 million).
- The above results exclude an exceptional gain of £100 million realised from the sale of the Group's main investor services businesses in October 1999 and exceptional restructuring costs of £56 million incurred in relation to the acquisitions by Citizens Financial Group of UST Corp. of Boston and the commercial banking business of State Street Corporation.

\* **Excluding** the results of NatWest since the date of its acquisition by RBS on 6 March 2000.

**PRO FORMA\* RESULTS FOR THE SIX MONTHS ENDED 31 MARCH 2000 (unaudited)**

The Group results for the six months ended 31 March 2000 are as follows:

	6 months ended 31/3/00	Forecast 6 months ended 31/3/00	6 months ended 31/3/99	% increase	(Audited) 12 months ended 30/9/99
	£m	£m	£m		£m
Profit before tax and exceptional items . . . . .	671	651	531	26	1,211
Profit before tax . . . . .	715	695	531	35	1,211
Profit attributable to ordinary shareholders . . . . .	444	433	333	33	776

\* **Excluding** the results of NatWest since the date of its acquisition by RBS on 6 March 2000.

**PRO FORMA\* PROFIT AND LOSS ACCOUNT (unaudited)**

	6 months ended 31/3/00	Forecast 6 months ended 31/3/00	6 months ended 31/3/99	(Audited) 12 months ended 30/9/99
	£m	£m	£m	£m
NET INTEREST INCOME .....	1,045	1,033	865	1,756
NON-INTEREST INCOME .....	834	824	753	1,672
General insurance premiums (net of reinsurance) .....	466	468	335	710
<b>TOTAL INCOME .....</b>	<b>2,345</b>	<b>2,325</b>	<b>1,953</b>	<b>4,138</b>
OPERATING EXPENSES .....	1,133	1,133	1,011	2,048
RESTRUCTURING COSTS ON CFG ACQUISITIONS** ...	56	55	—	—
<b>TOTAL OPERATING EXPENSES .....</b>	<b>1,189</b>	<b>1,188</b>	<b>1,011</b>	<b>2,048</b>
PROFIT BEFORE OTHER OPERATING CHARGES .....	1,156	1,137	942	2,090
General insurance claims (net of reinsurance) .....	395	395	302	590
PROFIT BEFORE PROVISIONS FOR BAD AND DOUBTFUL DEBTS .....	761	742	640	1,500
Provisions for bad and doubtful debts .....	146	146	108	276
Amounts written off investments .....	—	—	1	13
<b>GROUP OPERATING PROFIT .....</b>	<b>615</b>	<b>596</b>	<b>531</b>	<b>1,211</b>
Profit on sale of business** .....	100	99	—	—
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAX .....</b>	<b>715</b>	<b>695</b>	<b>531</b>	<b>1,211</b>
Tax on Group profit on ordinary activities .....	(216)	(212)	(164)	(361)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAX .....</b>	<b>499</b>	<b>483</b>	<b>367</b>	<b>850</b>
Minority interests — equity .....	5	7	2	6
<b>PROFIT AFTER MINORITY INTERESTS .....</b>	<b>504</b>	<b>490</b>	<b>369</b>	<b>856</b>
Preference dividends*** .....	60	57	36	80
<b>PROFIT ATTRIBUTABLE TO ORDINARY SHAREHOLDERS*** .....</b>	<b>444</b>	<b>433</b>	<b>333</b>	<b>776</b>

\*\* Exceptional item

\*\*\* Prior to the shares issued as a consequence of the acquisition of NatWest

The results for the year ended 30 September 1999 are not statutory accounts. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was not qualified.

\* **Excluding** the results of NatWest since the date of its acquisition by RBS on 6 March 2000.

## OVERVIEW OF RESULTS\*

Group profit before tax up 35%, from £531 million to £715 million. Profit before tax and exceptional items up by 26%, from £531 million to £671 million.

Net interest income up by 21% to £1,045 million.

Non-interest income, excluding general insurance, up by 11% to £834 million.

General insurance premium income, after reinsurance, up by 39% to £466 million.

Total income up by 20% to £2,345 million.

Operating expenses, before exceptional items, up by 12% to £1,133 million.

Group cost: income ratio improves from 51.8% to 48.3%.

General insurance claims, after reinsurance, up by 31% to £395 million.

Provisions for bad debts up by £38 million to £146 million.

Exceptional items are a gain of £100 million from the sale of the Group's main investor services businesses and restructuring costs of £56 million in relation to Citizens' acquisitions.

Tax charge of £216 million on profits before tax of £715 million, an effective rate of 30.2%.

Profit attributable to ordinary shareholders, after tax, minority interests and preference dividends, up by 33%, from £333 million to £444 million.

Segmental analysis of Group operating profit before exceptional items is shown below.

	6 months ended 31/3/00	Forecast 6 months ended 31/3/00	6 months ended 31/3/99	(Audited) 12 months ended 30/9/99
	£m	£m	£m	£m
UK Bank . . . . .	418	411	344	736
New Retail Financial Services Businesses . . . . .	1	(1)	(17)	(26)
Angel Trains . . . . .	36	33	24	53
RBS Cards . . . . .	47	47	37	85
Direct Line Insurance Division . . . . .	20	14	9	93
Citizens . . . . .	140	135	119	242
The Royal Bank of Scotland International . . . . .	45	44	34	70
Central Items . . . . .	(36)	(32)	(26)	(56)
Investor Services — discontinued . . . . .	—	—	7	14
Group operating profit before exceptional items . . . . .	<u>671</u>	<u>651</u>	<u>531</u>	<u>1,211</u>

Privilege Insurance (previously included in the New Retail Financial Services Businesses) is now included with Direct Line Insurance and Green Flag as the Direct Line Insurance Division. The 1999 figures have been adjusted to reflect this.

\* **Excluding** the results of NatWest since the date of its acquisition by RBS on 6 March 2000.

## **Independent Review Report to The Royal Bank of Scotland Group plc**

### **Introduction**

We have been instructed by The Royal Bank of Scotland Group plc to review the financial information set out on pages 27 to 29 and we have read the other information contained in the results announcement and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

### **Directors' responsibilities**

The results announcement, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The UK Listing Rules issued by the Financial Services Authority require that the accounting policies and presentation applied to the figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

### **Review work performed**

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

### **Review conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 March 2000.

**Deloitte & Touche**  
**Chartered Accountants**  
**39 George Street**  
**Edinburgh**  
**EH2 2HZ**

3 May 2000

**PART 7: GROUP UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION FOR THE  
YEAR ENDED 31 DECEMBER 1999.**

The following pro forma financial information for the Group reflects the acquisition of NatWest by RBS. The pro forma financial information is for illustrative purposes only and does not include all fair value and other adjustments which may be required in the Group's consolidated accounts to be prepared in accordance with UK GAAP for the year ending 31 December 2000. Because of its nature, the pro forma financial information may not give a true picture of the financial position and results of the Group.

**PROFIT AND LOSS ACCOUNT**

The following Group Unaudited Pro Forma Combined Profit and Loss Account for the year ended 31 December 1999, which has been prepared under UK GAAP, is derived from the audited consolidated profit and loss account of RBS for the year ended 30 September 1999 and the audited consolidated profit and loss account of NatWest for the year ended 31 December 1999, after giving effect to the pro forma adjustments described in Notes 1 to 4 to the Group Unaudited Pro Forma Combined Financial Information. Such adjustments have been determined as if the acquisition of NatWest had taken place on 1 January 1999.

**GROUP UNAUDITED PRO FORMA COMBINED PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 1999**

	RBS	NatWest	Pro forma adjustments			Pro Forma Combined
	12 months ended 30 September 1999	12 months ended 31 December 1999	(Note 2)	(Note 3)	(Note 4)	
	£m	£m	£m	£m	£m	£m
<b>Net interest income</b> (Note 1) . . . . .	1,756	3,620	(231)	—	—	5,145
Dividend income . . . . .	34	19	—	—	—	53
Fees and commissions receivable . . . . .	1,084	2,809	—	—	—	3,893
Fees and commissions payable . . . . .	(93)	(575)	—	—	—	(668)
Dealing profits . . . . .	191	844	—	—	—	1,035
Other operating income (Note 1) . . . . .	456	791	—	—	—	1,247
	1,672	3,888	—	—	—	5,560
General insurance						
–earned premiums . . . . .	869	—	—	—	—	869
–reinsurance . . . . .	(159)	—	—	—	—	(159)
<b>Non-interest income</b> . . . . .	2,382	3,888	—	—	—	6,270
<b>Total income</b> . . . . .	4,138	7,508	(231)	—	—	11,415
Administrative expenses						
–staff costs . . . . .	1,003	2,740	—	—	—	3,743
–other (Note 1) . . . . .	766	1,766	—	—	—	2,532
Depreciation and amortisation (Note 1 and 6) . . . . .	279	561	—	—	—	840
<b>Operating expenses</b> . . . . .	2,048	5,067	—	—	—	7,115
<b>Profit before other operating charges</b> . .	2,090	2,441	(231)	—	—	4,300
General insurance						
–gross claims . . . . .	720	—	—	—	—	720
–reinsurance . . . . .	(130)	—	—	—	—	(130)
<b>Profit before provisions for bad and doubtful debts</b> . . . . .	1,500	2,441	(231)	—	—	3,710
Provisions for bad and doubtful debts . . .	276	237	—	—	—	513
Amounts written off investments . . . . .	13	23	—	—	—	36
<b>Group operating profit</b> . . . . .	1,211	2,181	(231)	—	—	3,161
Losses on disposal/termination of businesses . . . . .	—	(28)	—	—	—	(28)
Discontinued operations . . . . .	—	110	—	—	(110)	0
<b>Profit on ordinary activities before tax</b>	1,211	2,263	(231)	—	(110)	3,133
Tax on profit on ordinary activities . . . . .	(361)	(584)	70	—	7	(868)
<b>Profit on ordinary activities after tax</b> . .	850	1,679	(161)	—	(103)	2,265
Minority interests . . . . .	6	(11)	—	(39)	—	(44)
<b>Profit after minority interests</b> . . . . .	856	1,668	(161)	(39)	(103)	2,221
Preference dividends . . . . .	(80)	(39)	(203)	39	—	(283)
<b>Profit attributable to ordinary share- holders</b> . . . . .	776	1,629	(364)	0	(103)	1,938

See notes to the unaudited pro forma combined financial information.



## BALANCE SHEET

The following Group Unaudited Pro Forma Combined Balance Sheet as at 31 December 1999, which has been prepared under UK GAAP, is derived from the audited consolidated balance sheet of RBS as at 30 September 1999 and the audited consolidated balance sheet of NatWest as at 31 December 1999 after giving effect to the pro forma adjustments described in Notes 5 to 9 to the Group Unaudited Pro Forma Combined Financial Information.

### GROUP UNAUDITED PRO FORMA COMBINED BALANCE SHEET AS AT 31 DECEMBER 1999

	RBS 30 September 1999	NatWest 31 December 1999	Pro Forma Adjustments				Pro Forma Combined
	£m	£m	(Note 6) £m	(Note 7) £m	(Note 8) £m	(Note 9) £m	£m
<b>Assets</b>							
Cash and balances at central banks . . . . .	1,394	1,503					2,897
Treasury bills and other eligible bills . . . . .	701	2,577	(156)		3,910		7,032
Loans and advances to banks . . . . .	10,375	28,793					39,168
Items in course of collection due from other banks . . . .	1,655	2,243					3,898
Loans and advances to customers . . . . .	49,340	88,998					138,338
Debt securities . . . . .	15,389	39,536					54,925
Equity shares . . . . .	913	308	161				1,382
Interests in associated undertakings . . . . .	43	74					117
Intangible fixed assets . . . .	11	540	11,990				12,541
Tangible fixed assets (Note 5) . . . . .	2,526	3,604					6,130
Other assets . . . . .	3,326	7,467					10,793
Prepayments and accrued income . . . . .	1,166	1,807					2,973
	<u>86,839</u>	<u>177,450</u>	<u>11,995</u>		<u>3,910</u>		<u>280,194</u>
Long-term assurance assets attributable to policyholders . . . . .	2,013	8,274					10,287
<b>TOTAL ASSETS . . . . .</b>	<u><b>88,852</b></u>	<u><b>185,724</b></u>	<u><b>11,995</b></u>		<u><b>3,910</b></u>		<u><b>290,481</b></u>
<b>Liabilities</b>							
Deposits by banks . . . . .	6,418	27,451	7,109				40,978
Items in course of collection due to other banks . . . . .	975	1,201					2,176
Customer accounts . . . . .	55,180	98,117					153,297
Debt securities in issue . . . .	9,199	11,556	240				20,995
Other liabilities . . . . .	4,634	19,104					23,738
Accruals and deferred income . . . . .	2,582	2,447					5,029
Provisions for liabilities and charges . . . . .	471	593	48				1,112
Subordinated liabilities . . . .	3,032	7,541					10,573
Minority interests . . . . .	146	96		480			722
Called up share capital . . . .	224	2,150	(1,279)	(480)	273	27	915
Share premium account . . . .	2,130	1,237	11,834		3,637	(27)	18,811
Other reserves . . . . .	147	301	(301)				147
Revaluation reserve . . . . .	17	30	(30)				17
Profit and loss account . . . .	1,684	5,626	(5,626)				1,684
	<u>86,839</u>	<u>177,450</u>	<u>11,995</u>	<u>0</u>	<u>3,910</u>	<u>0</u>	<u>280,194</u>
Long-term assurance liabilities attributable to policyholders . . . . .	2,013	8,274					10,287
<b>TOTAL LIABILITIES . . . . .</b>	<u><b>88,852</b></u>	<u><b>185,724</b></u>	<u><b>11,995</b></u>	<u><b>0</b></u>	<u><b>3,910</b></u>	<u><b>0</b></u>	<u><b>290,481</b></u>

See notes to unaudited pro forma combined financial information.

## NOTES TO THE GROUP UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION

### A. Profit & Loss Account

#### (1) Reclassifications

In accordance with RBS's accounting presentation, operating lease assets are classified as tangible fixed assets. Rental income on these assets is credited to "Other operating income" and depreciation of operating lease assets is included in "Depreciation and amortisation". NatWest includes these items in "Net interest income". The profit and loss account for NatWest has been reclassified to bring it into line with RBS's accounting presentation. As a result "Net interest income" has been reduced by £95 million with a corresponding increase in "Other operating income" of £350 million, and "Depreciation and amortisation" of £255 million.

NatWest's "Income from associated undertakings" of £16 million has been reclassified to "Other operating income".

In addition, amounts included by NatWest as "Other operating charges" of £749 million have been reclassified to "Administrative expenses—other".

#### (2) Funding costs

	<u>£m</u>	<u>£m</u>
Interest on net funding of £3,595 million at coupon of 6.43625%, being six-month LIBOR on 3 March 2000 .....		(231)
Tax at 30.25% .....		<u>70</u>
		(161)
Amortisation of preference shares issue costs .....	(6)	
Dividends on preference shares issued .....	<u>(197)</u>	
		(203)
Net post tax funding cost .....		<u>(364)</u>

The net funding outflow comprises cash paid and loan notes issued to NatWest ordinary shareholders of £7,349 million and fees and expenses of £176 million relating to the acquisition, less net proceeds of £3,910 million arising from the issue of new shares (191.5 million new RBS 25 pence ordinary shares and £2,300 million preference shares less issue costs, see note 8) and £20 million of proceeds from the exercise of options over NatWest ordinary shares.

#### (3) Minority interests

NatWest preference dividends have been reclassified as "Minority interests".

#### (4) Discontinued operations

Pro forma adjustment has been made to eliminate the effect of NatWest's discontinued operations from the Group Unaudited Pro Forma Combined Profit and Loss Account. The effect of this adjustment is set out below:

	<u>£m</u>
Profit attributable to ordinary shareholders of NatWest for the year ended 31 December 1999 as reported .....	1,629
Pro forma adjustment:	
Additional consideration on sale of Bancorp .....	(110)
Tax on the above .....	<u>7</u>
	(103)
Pro forma profit attributable to ordinary shareholders from continuing operations . .	<u><u>1,526</u></u>

## B. Balance Sheet

### (5) Operating lease assets

In accordance with RBS's accounting presentation, NatWest's operating lease assets of £1,373 million have been reclassified as "Tangible fixed assets" in the Group Unaudited Pro Forma Combined Balance Sheet.

### (6) Fair value adjustments and goodwill

	<u>£m</u>
<b>Acquisition cost:</b>	
Issue of 1,563.5 million new RBS 25 pence ordinary shares to NatWest ordinary shareholders .....	13,462
Issue of cash and loan notes to NatWest ordinary shareholders .....	7,349
Fees and expenses related to the acquisition .....	176
	<u>20,987</u>
<b>Net assets acquired:</b>	
NatWest net assets as at 31 December 1999 .....	8,864
Fair value adjustments:	
Goodwill in NatWest .....	(540)
Equity shares held by NatWest .....	161
Tax thereon .....	(48)
NatWest option proceeds .....	20
Adjusted net assets acquired .....	<u>8,457</u>
Goodwill arising on acquisition .....	<u>12,530</u>

The Combined Group intends to account for the new business combination using the acquisition method of accounting under UK GAAP. The resultant goodwill is assumed to have an infinite useful life for the purposes of this pro forma financial information, thereby resulting in no amortisation charge being recorded under UK GAAP in the year. A full assessment of the useful economic life of the goodwill arising on acquisition will be undertaken prior to results for the period to 30 June 2000 being announced and this assumption, which has been made for the purposes of this pro forma financial information only, is not an indication of the treatment which will actually apply. In the event that the useful life was determined at 20 years, the annual charge to the profit and loss account would be £627 million.

The "Acquisition cost" information has been prepared on the basis of closing price on the London Stock Exchange on 3 March 2000, the trading day immediately prior to the transaction being declared unconditional in all respects, of 861 pence per RBS ordinary share of 25 pence each.

NatWest ordinary shareholders had the right to receive, for each NatWest share held, 0.968 new RBS 25 pence ordinary shares plus 400 pence in cash or loan notes. A "Partial cash alternative" was also offered, which, for each NatWest share held, consisted of 0.92 new RBS 25 pence ordinary shares plus 450 pence in cash or loan notes. The majority of NatWest shareholders opted for the "Partial cash alternative". The cash paid to NatWest ordinary shareholders is assumed to be funded through increased "Deposits by banks". In practice this funding arises from a number of different sources. Loan notes issued to NatWest ordinary shareholders amounted to £240 million.

The value of "Equity shares" held by NatWest has been increased by £161 million being the surplus over book value as estimated by NatWest directors in the audited accounts for the year ended 31 December 1999.

The fair value adjustments noted above are estimates and are not the result of a fair value exercise. A full fair value exercise is currently being undertaken.

On 30 March 2000 RBS announced that it had entered into an agreement to sell Gartmore to Nationwide Mutual Insurance Company. This sale is conditional upon regulatory approval. Based on the sale price the fair value of this investment is approximately £700 million higher than its tangible net asset value. Therefore the goodwill arising on acquisition of NatWest would be correspondingly lower.

For the purposes of the Group Unaudited Pro Forma Combined Balance Sheet, the excess over the nominal value of the shares issued has been credited to the "Share premium account". A final decision on whether or not to apply the merger relief provision of the Companies Act 1985 has not yet been taken.

(7) Preference Share Capital

As at 31 December 1999, NatWest preference share capital totalled £480 million, comprising \$550 million non-cumulative preference shares of \$25 each and £140 million non-cumulative preference shares of £1 each. Such preference shares are reclassified as "Minority interests" in the Group Unaudited Pro Forma Combined Balance Sheet.

(8) Funding adjustments:

	<u>£m</u>
Issue of 144.3 million new RBS 25p ordinary shares to BSCH . . . . .	1,200
Issue of 47.2 million new RBS 25p ordinary shares to BSCH . . . . .	500
Issue of £2,300 million preference shares as follows:	
\$1,000 million at a coupon of 9.118%	
\$500 million at a coupon of 8.817%	
Euro 750 million at a coupon of 6.77%	
£900 million to CGU plc at a coupon of 9%	
	2,300
Issue expenses . . . . .	<u>(90)</u>
	<u>3,910</u>

(9) Additional Value Shares

Approval is being sought from the ordinary shareholders for a bonus issue of Additional Value Shares of 1p each on the basis of one Additional Value Share for each 25p ordinary share held at 20 June 2000. Based on the maximum number of Additional Value Shares which may be issued on exercise of options prior to the record date, this bonus issue would result in an increase in "Called up share capital" of £27 million. For the purposes of this pro forma financial information, the nominal value of the shares issued has been charged to the "Share premium account".

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**Deloitte  
& Touche**

The Directors  
The Royal Bank of Scotland Group plc  
42 St Andrew Square  
Edinburgh  
EH2 2YE

23 May 2000

### **The Royal Bank of Scotland Group plc**

We report on the unaudited pro forma combined profit and loss account and unaudited pro forma combined balance sheet (“the pro forma financial information”) of The Royal Bank of Scotland Group plc (“the Company”) and its subsidiary undertakings (together “the Group”) set out in Part 7 of the Shareholders’ Circular dated 23 May 2000 (“the Circular”) issued by the Company. The pro forma financial information has been prepared for illustrative purposes only.

### **Responsibilities**

It is the responsibility solely of the Directors of the Company to prepare the pro forma financial information in accordance with paragraph 12.29 of the UK Listing Rules issued by the Financial Services Authority (“the Listing Rules”).

It is our responsibility to form an opinion, as required by the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom our reports were addressed by us at the dates of their issue.

### **Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and the Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the Directors of the Company.

**Deloitte  
Touche  
Tohmatsu**

Aberdeen, Belfast, Birmingham, Bracknell, Bristol, Cambridge, Cardiff, Crawley, Edinburgh, Glasgow, Leeds, Leicester, Liverpool, London, Manchester, Milton Keynes, Newcastle upon Tyne, Nottingham, St Albans and Southampton.

Principal place of business at which a list of partners’ names is available: Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR.

Authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

**Opinion**

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 12.29 of the Listing Rules.

Yours faithfully

Deloitte & Touche

## **PART 8: NOTICE OF EXTRAORDINARY GENERAL MEETING**

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of The Royal Bank of Scotland Group plc (the "Company") will be held at 11.00 a.m. on 20 June 2000 at the Balmoral Hotel, Princes Street, Edinburgh for the purpose of considering and, if thought fit, passing the following resolutions, of which resolutions 1 and 4 will be proposed as special resolutions and resolutions 2 and 3 will be proposed as ordinary resolutions.

### **RESOLUTION 1**

**THAT:**

- (A) subject to and conditional upon the admission of the Additional Value Shares in the capital of the Company to the Official List of the Financial Services Authority and admission to trading with the London Stock Exchange becoming effective, the authorised share capital of the Company be and it is hereby increased by the creation of Additional Value Shares of £0.01 each, having an aggregate nominal value of £27 million, and Non-Voting Deferred Shares of £0.01 each, having an aggregate nominal value of £323 million, such shares having attached thereto the rights and being subject to the limitations and restrictions set out in the articles of association of the Company, as amended by this resolution;
- (B) for the purposes of section 80 of the Companies Act 1985 the directors be and they are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot all of the Additional Value Shares created pursuant to paragraph (A) of this resolution; provided that this authority shall expire on the fifth anniversary of the passing of this resolution, except that the Company may before the expiry of such period make an offer or agreement which would or might require relevant securities (within the meaning of the said section 80) to be allotted after the expiry of such period and the directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred hereby had not expired, and shall be in addition to any other authority conferred on the directors of the Company pursuant to the said section 80;
- (C) for the purposes of section 80 of the Companies Act 1985 the directors be and they are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot rights to convert the Additional Value Shares created pursuant to paragraph (A) of this resolution into up to 1.4 billion new Ordinary Shares of £0.25 each in the capital of the Company and to allot Non-Voting Deferred Shares of £0.01 each up to an aggregate nominal amount of £323 million for the purposes of such conversion provided that this authority shall expire on the fifth anniversary of the passing of this resolution, except that the Company may before the expiry of such period make an offer or agreement which would or might require relevant securities (within the meaning of the said section 80) to be allotted after the expiry of such period and the directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred hereby had not expired, and shall be in addition to any other authority conferred on the directors of the Company pursuant to the said section 80;
- (D) the directors be authorised, in accordance with regulation 148(A) of the articles of association of the Company (as amended by this resolution), to capitalise such sum (not exceeding £27 million) being part of the amount standing to the credit of such part of the Company's share premium account as the Directors may specify or merger reserve (as determined by the Directors), and to appropriate such sum and apply it in allotting to the holders of Ordinary Shares of £0.25 each, as shown in the register of members of the Company at 5.00 p.m. on 20 June 2000 (the "Record Date") or as they may direct, Additional Value Shares credited as fully paid at par, on the basis of one such Additional Value Share for every Ordinary Share held by them at the close of business on the Record Date;
- (E) in any case where in accordance with the new Article 4D to be adopted pursuant to paragraph (F) of this resolution, any Additional Value Shares are to be consolidated, or to be consolidated with Non-Voting Deferred Shares, into a consolidated share, and that consolidated share is to be subdivided into Ordinary Shares or into Ordinary Shares and Non-Voting Deferred Shares, such shares be consolidated and sub-divided in accordance with the provisions of the said Article;
- (F) the articles of association of the Company be amended by:
  - (i) the adoption and insertion, immediately before article 5, of the following new article as article 4D:  
"4D Additional Value Shares  
Each Additional Value Share of £0.01 forming part of the share capital of the Company (an "Additional Value Share") shall confer the rights as to participation in the profits and assets of the Company, receipt of notices, attendance and voting at meetings and

conversion specified or referred to in Schedule 4 to these presents (“Schedule 4”) which schedule shall be regarded as part of these presents”;

(ii) the adoption and inclusion, at the end of the articles of association of the Company, of the schedule set out in Part 9 of the Circular dated 23 May 2000 of which the notice of this meeting forms part (the purpose of such schedule being to set forth the rights and restrictions attaching to the Additional Value Shares created by paragraph (A) of this resolution);

(iii) the adoption and inclusion of the following definition in Article 2:

“London Stock Exchange dealing day” a day, other than a Saturday, Sunday or public holiday in the UK when the London Stock Exchange is open or was due to be open for trading”;

(iv) the redesignation of Article 148 as 148(A) and adoption and inclusion of the following Article 148(B):

“148(B) In addition and without limiting the generality of paragraph (A) of this Article, the Directors may at any time without any resolution of the shareholders capitalise any profit or reserve which may be capitalised pursuant to paragraph (A) of this Article and which is required to be capitalised to enable the Company to allot and issue fully paid shares to the holders of convertible securities pursuant to the rights of conversion conferred upon such holders and in any such case the Directors shall apply any sum so capitalised in paying up and issuing to such holders such number of shares of such nominal amounts and conferring such rights and being subject to such restrictions as shall be required to enable the Company to comply with its obligations.”;

(v) the deletion of the existing definition of “New Preference Shares” in Article 2, and the adoption and inclusion of the following definitions to that article:

““Additional Value Share” The meaning given in Article 4D.

“Non-cumulative Euro Preference Share” The meaning given in Article 4A.

“Non-cumulative Convertible Sterling Preference Share” The meaning given in Article 4B(1).

“Non-cumulative Convertible Dollar Preference Share” The meaning given in Article 4B(2).

“Non-cumulative Convertible Euro Preference Share” The meaning given in Article 4B(3).

“Convertible Preference Shares” The meaning given in Article 4B(4).

“Category II Non-cumulative Dollar Preference Shares” The meaning given in Article 4(E)(1).

“Category II Non-cumulative Convertible Sterling Preference Share” The meaning given in Article 4C.

“New Preference Shares” The Non-cumulative Sterling Preference Shares, the Non-cumulative Dollar Preference Shares, the Non-cumulative Euro Preference Shares, the Category II Non-cumulative Dollar Preference Shares, the Convertible Preference Shares and the Category II Non-cumulative Convertible Sterling Preference Shares (which classes of non-cumulative preference shares all rank *pari passu inter se* as regards participation in the profits and assets of the Company), together with any other share in the



capital of the Company (other than the Cumulative Preference Shares) which is expressed to rank as regards participation in the profits or assets of the Company in some or all respects *pari passu* therewith.””

## RESOLUTION 2

### THAT:

- (A) The Royal Bank of Scotland Group plc Option 2000 Scheme (the “Scheme”), the main features of which are summarised in Section A of Part 5 of the Circular dated 23 May 2000 of which the notice of this meeting forms part and a copy of which is produced to the meeting and signed by the Chairman for the purposes of identification, be and the same is hereby approved and the directors be and are hereby authorised to do all such acts and things as may be necessary or desirable to carry the same into effect, including making such amendments as may be necessary to obtain the approval of the Inland Revenue and/or such other approvals as the directors may consider necessary or desirable;
- (B) the directors be and are hereby authorised to establish such schedules to the Scheme or establish such other employee share schemes based on the Scheme, to take account of local tax, exchange controls or securities laws outside the UK, provided that any shares issued under the schedules or other schemes must be treated as counting against the individual and overall limits on participation contained in the Scheme; and
- (C) the directors be and are hereby authorised to vote and be counted in the quorum, on any matter connected with the Scheme, notwithstanding that they may be interested in the same (except that no director may be counted in a quorum or vote in respect of his own participation) and any prohibition on voting by interested directors contained in the Articles of Association of the Company be and is hereby relaxed accordingly.

## RESOLUTION 3

### THAT:

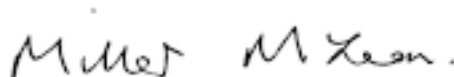
- (A) The Royal Bank of Scotland Group plc Employee Share Ownership Plan (the “Plan”), the main features of which are summarised in Section B of Part 5 of the Circular dated 23 May 2000 of which the notice of this meeting forms part and copies of the rules and trust deed in respect of which are produced to the meeting and signed by the Chairman for the purposes of identification, be and the same is hereby approved and the directors be and are hereby authorised to do all such acts and things as may be necessary or desirable to carry the same into effect, including making such amendments as may be necessary to take account of changes to the proposed legislation on the Plan or to obtain the approval of the Inland Revenue and/or such other approvals as the directors may consider necessary or desirable;
- (B) the directors be and are hereby authorised to establish such schedules to the Plan or establish such other employee share schemes based on the Plan, to take account of local tax, exchange controls or securities laws outside the UK, provided that any shares issued under the schedules or other schemes must be treated as counting against the individual and overall limits on participation contained in the Plan; and
- (C) the directors be and are hereby authorised to vote and be counted in the quorum, on any matter connected with the Plan, notwithstanding that they may be interested in the same (except that no director may be counted in a quorum or vote in respect of his own participation) and any prohibition on voting by interested directors contained in the Articles of Association of the Company be and is hereby relaxed accordingly.

## RESOLUTION 4

### THAT:

- (A) the payment of the ordinary and preference dividends more particularly set out in the schedule following Part 8 of the Circular dated 23 May 2000 of which this notice of meeting forms part (the "Dividends"), and the entries in the audited accounts of the Company for the years ended 30 September 1996 to 30 September 1999 inclusive for Dividends paid between such dates, and in the interim accounts made up to 31 December 1999 for Dividends paid in the financial quarter ending on that date, whereby distributable profits of the Company were appropriated to the payments of the Dividends be and they are hereby ratified and confirmed;
- (B) any and all claims which the Company may have in respect of the payments of the Dividends or any of them against its shareholders who appeared on the register of shareholders on the relevant record dates be released and a deed of release in favour of such shareholders be entered into by the Company in the form of the deed produced to this meeting and signed by the Chairman for the purposes of identification and thereafter be delivered to the Secretary of the Company for retention by him on behalf of the said shareholders;
- (C) any distribution involved in the giving of any such release in relation to any particular Dividend be made out of the profits appropriated to such Dividend as aforesaid by reference to a record date identical to the record date for the Dividend concerned; and
- (D) any and all claims which the Company may have against its directors (both past and present) arising out of the payment of the Dividends be released and that a deed of release in favour of the Company's directors be entered into by the Company in the form of the deed produced to this meeting and signed by the Chairman for the purposes of identification and thereafter be delivered to the Secretary of the Company for retention by him on behalf of the said directors.

By order of the board



Miller R McLean  
*Secretary*

### Note:

Pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, the Company gives notice that only those shareholders entered on the register of members of the Company at the close of business on 16 June 2000 will be entitled to attend or vote at the aforesaid meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register after the close of business on 16 June 2000 will be disregarded in determining the rights of any person to attend or vote at the meeting. Every member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of the member. A proxy need not be a member of the Company. A form appointing a proxy is enclosed with this notice and may be returned in the enclosed pre-paid envelope. To be effective, it must be completed and be received at the Company's transfer office not less than 48 hours before the time fixed for the meeting.

### General Enquiries

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Facsimile: 0131 557 6140  
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### Registrar (shareholder enquiries)

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8 Bankhead Crossway North  
Edinburgh EH11 4BR  
Telephone: 0870 702 0135  
Facsimile: 0131 442 4924

### Registered office

36 St. Andrew Square  
Edinburgh EH2 2YB  
Telephone: 0131 556 8555

### Auditors

Deloitte & Touche  
39 George Street  
Edinburgh EH2 2HZ

### **SCHEDULE OF DIVIDEND PAYMENTS**

1. Dividends paid on the Ordinary Shares on 17 July 1998 and 16 July 1999.
2. Dividends paid on the Non-cumulative Dollar Preference Shares in the capital of the Company (Series A to E) on 31 December 1996.
3. Dividends paid on the Non-cumulative Dollar Preference Shares in the capital of the Company (Series B to F) on 30 September 1997 and 31 December 1997.
4. Dividends paid on the Non-cumulative Dollar Preference Shares in the capital of the Company (Series B to G) on 30 June 1998, 30 September 1998 and 31 December 1998.
5. Dividends paid on the Non-cumulative Dollar Preference Shares in the capital of the Company (Series B to I) on 30 September 1999.
6. Dividends paid on the Non-cumulative Dollar Preference Shares in the capital of the Company (Series B to J) on 31 December 1999.
7. Dividends paid on the Cumulative Sterling Preference Shares in the capital of the Company on 31 December 1997, 31 December 1998 and 30 December 1999.

## PART 9: RIGHTS AND RESTRICTIONS OF ADDITIONAL VALUE SHARES

The schedule set out below will be inserted in the Articles pursuant to paragraph (F) of Resolution 1 to be proposed at the Extraordinary General Meeting if that resolution is passed:

### SCHEDULE 4

#### Additional Value Shares

1. The Company shall have a class of Additional Value Shares. They shall confer the rights and be subject to the restrictions set out or referred to in this Schedule 4.
2. Each Additional Value Share shall confer the following rights as to participation in the profits and assets of the Company, receipt of notices, attendance and voting at meetings and conversion.

#### 2.1 *Income*

The right to dividends to be paid out of the distributable profits of the Company, subject in each case to declaration by and at the discretion of the Directors and the provisions of sub-paragraph 2.2, as follows:

- (i) 15 pence per Additional Value Share on 1 December 2001;
- (ii) 30 pence per Additional Value Share on 1 December 2002; and
- (iii) 55 pence per Additional Value Share on 1 December 2003 (the "Final Dividend Date").

References in this Schedule to a "dividend" on the Additional Value Shares include a reference to each dividend paid on the Additional Value Shares (whether or not in accordance with the proposed dividends set out in this sub-paragraph 2.1 and including any dividend of a lesser amount than stated or any dividend aggregating two or more such dividends or any part thereof) and references to "dividend payment dates" are to dividend payment dates in respect of the Additional Value Shares only (such dividend payment dates being, subject to sub-paragraph 2.2, those specified in this sub-paragraph 2.1).

#### 2.2 *Further provisions as to income*

The following provisions shall apply:

- (i) In deciding whether to declare and pay a dividend on the Additional Value Shares the Directors shall have regard inter alia to the following factors:
  - (A) whether the distributable profits of the Company are sufficient to cover the payment in full of dividends on the Additional Value Shares on any dividend payment date and also the payment in full of all other dividends (if any) stated to be payable on any Cumulative Preference Share or New Preference Share provided that in any event the Directors shall not pay any dividend due on the Additional Value Shares if in their opinion the distributable profits of the Company are not likely to be sufficient to pay any dividend due on any Cumulative Preference Share or New Preference Share due for payment within 90 days of the relevant dividend payment date;
  - (B) whether the distributable profits of the Company are adequate or are likely to be adequate having regard to the Company's obligation to make dividend payments on any Cumulative Preference Share or New Preference Share;
  - (C) the effect of the payment of such dividend on the regulatory capital structure of the Company and on its consolidated banking and trading book target and trigger ratios as prescribed by the Financial Services Authority Limited from time to time; and
  - (D) the Company's best interests having regard to its future cash requirements and actual and contingent liabilities.
- (ii) Without prejudice to the foregoing and for the avoidance of doubt, no dividend shall be paid on the Additional Value Shares if and to the extent that such payment would constitute an unauthorised variation or abrogation of the rights as to participation in profits attached to the Cumulative Preference Shares or any New Preference Shares.
- (iii) Holders of Additional Value Shares shall have no claim in respect of the failure of the Directors to declare and/or pay any dividend(s) and the Directors shall not be bound to give their reasons for not declaring or paying such a dividend save that the Directors shall

announce their intention in respect of the payment of any dividend referred to in sub-paragraph 2.1 no later than 14 days prior to the relevant dividend payment date (save in respect of the Final Dividend Date in which case notice must be given on or before 1 September 2003).

- (iv) Dividends declared by the Directors shall be payable without necessity for any resolution on the part of the Company in General Meeting on the relevant dividend payment date to holders of Additional Value Shares entered on the register of members at the close of business on the date which falls one calendar month before the relevant dividend payment date (or on such other date prior to the relevant dividend payment date as the Directors may in their absolute discretion decide).
- (v) Subject to sub-paragraph 2.1 and this sub-paragraph 2.2, if and to the extent that any dividend is not declared for payment on any dividend payment date (whether in whole or in part), such amount shall fall to be considered for payment on the following dividend payment date in addition to any dividend falling to be considered for payment on that date.
- (vi) No Additional Value Share shall carry any right to participate in the profits of the Company other than as set out in sub-paragraph 2.1 above and this sub-paragraph 2.2.
- (vii) If any dividend payment date in respect of which dividends are declared to be payable in accordance with sub-paragraph 2.1 above is not a day on which banks in London are open for business (a "Business Day"), then payment of the dividend payable on such date will be made on the next succeeding Business Day and without any interest or other payment in respect of such delay.
- (viii) Save as set out in sub-paragraph 2.7(xiv) and for the avoidance of doubt, the Company shall be free to pay dividends or make other distributions to any holder of any other class of shares in the capital of the Company (including for the avoidance of doubt, the Cumulative Preference Shares, New Preference Shares and the Ordinary Shares) notwithstanding that the Directors have not declared and/or paid any dividend on the Additional Value Shares.

### *2.3 Capital*

The right on a winding up, liquidation or other return of capital other than a redemption or purchase by the Company of any shares of any class, to receive in respect of each Additional Value Share in Sterling out of the surplus assets of the Company available for distribution amongst the members in priority to the holders of the Ordinary Shares of the Company but after payment of all amounts outstanding to holders of Cumulative Preference Shares and New Preference Shares and any other share in the capital of the Company expressed to rank as to participation in capital or assets in priority to the Additional Value Shares, an amount of £1 less the aggregate amount of any dividends paid in respect of each Additional Value Share prior to the date of the winding up or liquidation (but for the avoidance of doubt excluding any distribution paid in the winding up or liquidation).

If on any such winding up, liquidation or other return of capital the amounts available for payment are insufficient to cover in full the amounts payable on the Additional Value Shares on such return of capital, the holders of such Additional Value Shares will share rateably in the distribution of assets (if any) in proportion to the full amounts to which they are respectively entitled under this sub-paragraph 2.3.

No Additional Value Share shall confer any further right to participate in the capital or assets of the Company available for distribution among the members other than as set out in this sub-paragraph 2.3.

### *2.4 Receipt of Notices*

The right to have sent to the holder of each Additional Value Share (at the same time as the same are sent to the holders of Ordinary Shares) a copy of the Company's Annual Report and Accounts and/or Interim Financial Statement together with any notice of any General Meeting of the Company at which such holder is entitled to attend and vote.

## 2.5 *Attendance and Voting at Meetings*

The right to attend at a General Meeting of the Company and to speak to or vote upon any Resolution proposed thereat in circumstances where it is proposed at the Meeting either to vary or abrogate any of the rights attached to the Additional Value Shares or proposing the winding up of the Company (and then in each such case only to speak to and vote upon any such Resolution) but not otherwise.

Whenever holders of Additional Value Shares are so entitled to vote on a Resolution, on a show of hands every such holder who is present in person shall have one vote and, on a poll, every such holder who is present in person or by proxy shall have such number of votes for the Additional Value Shares held by him as he would have had if those shares had been converted into Ordinary Shares on the date of the notice of the meeting pursuant to the conversion procedure set out in paragraph 2.7 of this Schedule 4 and at a price per Additional Value Share calculated on the basis that the date of the notice of the meeting was the Second Conversion Date.

## 2.6 *De-listing and Conversion into Non-Voting Deferred Shares*

The Directors shall be entitled (without being required to obtain the sanction of any holder of any Additional Value Share) in their absolute discretion and shall have irrevocable authority at any time after the payment of aggregate dividends of £1 in respect of each Additional Value Share to procure that the Additional Value Shares be de-listed from the Official List of the UK Listing Authority and from trading on the London Stock Exchange's market for listed securities. The Additional Value Shares shall convert automatically into non-voting deferred shares of £0.01 ("Non-Voting Deferred Shares"), which shall be certificated shares and shall have the following rights and restrictions only:

- (i) On a winding-up or other return of capital, the Non-Voting Deferred Shares shall entitle the holders of such shares only to payment of the amounts paid up on those shares, after repayment to the holders of Ordinary Shares of the nominal amount paid up on the Ordinary Shares held by them respectively and the payment of £100,000 on each Ordinary Share.
- (ii) The Non-Voting Deferred Shares shall not entitle the holders of such shares to the payment of any dividend or other distribution or to receive notice of or to attend or vote at any general meeting of the Company or otherwise receive any shareholder communication.
- (iii) The Non-Voting Deferred Shares shall not, save as provided below or otherwise with the written consent of the Directors, be transferable.
- (iv) Notwithstanding any other provision in these presents and unless specifically required by the provisions of the 1985 Act, the Company shall not be required to issue any certificates in respect of any Non-Voting Deferred Shares.
- (v) Following conversion, the Non-Voting Deferred Shares shall be transferred for no consideration to such person as may be nominated by the Directors, whether or not an officer of the Company (and for such purposes the Directors shall have irrevocable authority to appoint a person on behalf of any holder of Non-Voting Deferred Shares to enter into an agreement to transfer and to execute and deliver a transfer of his Non-Voting Deferred Shares to such other person).

## 2.7 *Conversion into Ordinary Shares*

- (i) If on 1 September 2003 aggregate dividends of £1 have not been paid in respect of each Additional Value Share, then unless the Directors have resolved that a dividend be paid on the Additional Value Shares on or before the Final Dividend Date of such amount that aggregate dividends paid on Additional Value Shares will be £1 (and that dividend is duly paid on or before the Final Dividend Date or the following Business Day where that date is not a Business Day), the Additional Value Shares shall be converted into fully paid up Ordinary Shares in the manner set out (and subject to the provisions of) this paragraph 2.7 and the Company shall use its reasonable efforts, to the extent permitted by applicable law, to arrange for a sale of the Ordinary Shares arising on conversion pursuant to paragraph 2.7(iii) below.

- (ii) For the purpose of this paragraph 2.7:
  - (A) the Settlement Amount in relation to each Additional Value Share means an amount of £1 less the aggregate amount of any dividends paid in respect of that share;
  - (B) the Aggregate Settlement Amount in relation to any particular holding of Additional Value Shares means the aggregate Settlement Amount relating to the number of Additional Value Shares comprised in that holding and where the context requires, the Aggregate Settlement Amount relating to all Additional Value Shares to be converted;
  - (C) the First Conversion Date shall be 25 London Stock Exchange trading days prior to the Second Conversion Date and the Second Conversion Date shall be the Final Dividend Date;
  - (D) the expression “holder” shall include a person entitled by transmission and the expressions “hold” and “holding” shall be construed accordingly; and
  - (E) each joint holding in respect of which names of the joint holders differ or are listed in a different order shall be treated as a separate holding and the expressions “held” and “holder” shall be construed accordingly.
- (iii) The Company will use its reasonable efforts, to the extent permitted by applicable law, to arrange for the sale of the Ordinary Shares into which such Additional Value Shares will convert so as to raise net cash proceeds of an amount equal to the Aggregate Settlement Amount in respect of such Additional Value Shares. The sale will be conducted by means of a process pursuant to which a broker selected by the Company (the “Broker”) will solicit bids for the relevant Ordinary Shares (the “Placing”). Such bids will be solicited during the period of 20 London Stock Exchange trading days ending five London Stock Exchange trading days before the First Conversion Date. The Company will not in any circumstances be obliged to procure the transfer of Ordinary Shares in connection with the Placing at a price per share of less than the nominal value of the Ordinary Shares (the “Base Price”).
- (iv) On the First Conversion Date there shall be converted in accordance with sub-paragraph 2.7(xv) the whole or such proportion of each holding of Additional Value Shares as shall be determined by the Directors in the light of the outcome of the Placing. The number of Ordinary Shares into which each Additional Value Share which is converted on the First Conversion Date is to be converted shall be such that the aggregate number of Ordinary Shares arising on the First Conversion Date shall be sufficient for the purposes of the Placing.
- (v) On the First Conversion Date:
  - (A) the Company shall procure the transfer to the Broker or as the Broker shall direct, of the Ordinary Shares so placed; and
  - (B) the Broker shall collect the net cash proceeds of the Placing and hold such proceeds in separate bank account(s) until the Second Conversion Date.

The Directors shall have irrevocable authority on behalf of each holder of an Additional Value Share to appoint any person on behalf of such holder to enter into an agreement to transfer and to execute and deliver a transfer of the Ordinary Shares resulting from conversion on the First Conversion Date.
- (vi) If the proceeds of the Placing are sufficient to enable the Company to pay to each holder of Additional Value Shares the Aggregate Settlement Amount in respect of his holding, the whole of the Additional Value Shares shall be converted on the First Conversion Date and on the Second Conversion Date the net cash proceeds of the Placing (if any) held by the Broker (the “Total Cash Amount”) shall be paid to the persons who were holders of the Additional Value Shares immediately prior to conversion.
- (vii) If the proceeds of the Placing are not sufficient to enable the Company to pay to each holder of Additional Value Shares the Aggregate Settlement Amount then part only of the Additional Value Shares (determined in accordance with paragraph (iv) above) shall be converted on the First Conversion Date and on the Second Date:
  - (A) the Total Cash Amount shall be paid to the persons who were holders of the Additional Value Shares immediately prior to conversion pro rata to their holding of Additional Value Shares, and the amount (if any) by which the cash paid or

payable to a holder falls short of the Aggregate Settlement Amount shall be the "Remaining Settlement Amount"; and

- (B) on the Second Conversion Date the remaining Additional Value Shares shall be converted into such number of Ordinary Shares so that the persons who were holders of Additional Value Shares immediately prior to conversion receive the whole number of Ordinary Shares (if any) calculated by dividing the Remaining Settlement Amount by the Conversion Price, being the higher of (i) 95% of the weighted average closing price per Ordinary Share on the London Stock Exchange during the period of 20 London Stock Exchange dealing days ending five London Stock Exchange dealing days before the Second Conversion Date and (ii) the nominal value of the Ordinary Shares.
- (viii) If there is no Placing or if a dividend resolved upon as at 1 September 2003 is not paid on the Final Dividend Date (or the following Business Day where that date is not a Business Day) then on or as soon as possible after the Second Conversion Date all the Additional Value Shares shall be converted into such number of Ordinary Shares so that each holder receives the whole number of Ordinary Shares (if any) calculated by dividing the Settlement Amount by the Conversion Price, being the higher of (i) 95% of the weighted average closing price per Ordinary Share on the London Stock Exchange during the period of 20 London Stock Exchange dealing days ending five London Stock Exchange dealing days before the Second Conversion Date and (ii) the nominal value of the Ordinary Shares.
- (ix) Where the conversion would otherwise result in a holder being entitled to a fraction of an Ordinary Share such holder's entitlement shall be rounded up or down as the Directors may determine.
- (x) If at the time that the Conversion Price or Base Price is to be calculated the Ordinary Shares are not traded on the London Stock Exchange, references in this article to the London Stock Exchange shall be to such other competent authority or exchange with or on which the Ordinary Shares are listed or traded (as the case may be).
- (xi) The conversion of Additional Value Shares into fully paid Ordinary Shares shall be conditional on:
  - (A) the Company, as at the First Conversion Date or the Second Conversion Date (as the case may be), having sufficient authorised but unissued share capital to issue such Non-Voting Deferred Shares of £0.01 as may fall to be issued on such date in connection with the conversion of Additional Value Shares;
  - (B) the number of Non-Voting Deferred Shares of £0.01 which the Directors have been authorised to issue pursuant to Section 80 of the 1985 Act being sufficient, as at the First Conversion Date or the Second Conversion Date (as the case may be) to allot the shares falling to be allotted on such date in connection with the conversion of Additional Value Shares or the Directors having been authorised prior to such date pursuant to section 80 to allot such shares (together with the condition set out in (A) above, the "Relevant Shareholder Approvals"); and
  - (C) there being sufficient profits or reserves available for capitalisation to enable the Company to allot credited as fully paid the number of Non-Voting Deferred Shares of £0.01 each falling to be allotted as aforesaid.
- (xii) The Company shall use its reasonable efforts to ensure that sufficient authorised but unissued share capital and sufficient profits or reserves are available in order to permit conversion of the Additional Value Shares outstanding on the relevant Conversion Date. If the Relevant Shareholder Approvals (or profits or reserves) are insufficient to permit the allotment and issue of such number of Non-Voting Deferred Shares as fall to be allotted and issued on the First Conversion Date or the Second Conversion Date in connection with the conversion of Additional Value Shares, the Company undertakes to convert the maximum number of Additional Value Shares which it is legally permitted to convert under the existing Relevant Shareholder Approvals (and having regard to existing profits or reserves) pro rata to the respective entitlement of holders. Any Additional Value Shares which could not be converted as at the First Conversion Date and the Second Conversion Date shall be "Unconverted Additional Value Shares".



- (xiii) Unconverted Additional Value Shares will be converted into Ordinary Shares as soon as the Company has sufficient authorised and unissued shares, and sufficient available profits or reserves, to permit conversion of Unconverted Additional Value Shares in full. Paragraphs (ii) to (x) of this Paragraph 2.7 shall apply to the conversion of such Unconverted Additional Value Shares provided that the Second Conversion Date shall be 60 London Stock Exchange dealing days after the first day of the month following the month in which the Company becomes able to convert such shares in full. The Company undertakes that for so long as Unconverted Additional Value Shares remain outstanding:
- (A) such resolutions will be proposed at each subsequent Annual General Meeting that, when approved, would permit the Unconverted Additional Value Shares to be converted in full; and
  - (B) no available profit or reserve will be applied by the Company for any other purpose.
- (xiv) If any Additional Value Shares are to be converted pursuant to this paragraph 2.7, but have not, on the Final Dividend Date (or the following Business Day where that date is not a Business Day) been so converted, (“converted” for the avoidance of doubt, comprising the payment to each holder of Additional Value Shares of the Aggregate Settlement Amount and/or the allotment of Ordinary Shares in respect of the settlement of any Remaining Settlement Amount (as the case may be)) no dividends may be declared on any Ordinary Share in the capital of the Company, and no sum may be set aside for the payment thereof, unless on the date of declaration relative to any such payment, the Aggregate Settlement Amount has been paid in full or set aside or Ordinary Shares delivered in respect of the Aggregate Settlement Amount or any Remaining Settlement Amount.
- (xv) The following provisions shall apply to conversion of the Additional Value Shares:
- (A) Conversion of Additional Value Shares may be effected in such manner as the Directors shall, subject to the requirements of applicable law and the provisions hereof, from time to time determine and, without prejudice to the generality of the foregoing, may be effected, in each case pursuant to the authority conferred by the passing of the resolution which created the Additional Value Shares, by the Company:
    - (aa) capitalising from profits or reserves (including, without limitation, any share premium account, merger reserve or capital redemption reserve) and allotting and issuing to a holder of Additional Value Shares to be converted such number of new Non-Voting Deferred Shares of £0.01 each having the rights and restrictions set out in paragraph 2.6 above as shall bring the total nominal amount of the Additional Value Shares and the new Non-Voting Deferred Shares to the total nominal amount of the Ordinary Shares into which the Additional Value Shares are to be converted on the relevant Conversion Date, consolidating all the Non-Voting Deferred Shares and Additional Value Shares to be converted into one Share (the “Consolidated Share”) and sub-dividing and redesignating the Consolidated Share into the number of Ordinary Shares into which the Additional Value Shares are to be converted;
    - (bb) consolidating such Additional Value Shares into one share (the “Consolidated Share”) and sub-dividing and redesignating the Consolidated Share into the number of Ordinary Shares into which the Additional Value Shares are to be converted and as to any balance into Non-Voting Deferred Shares of £0.01 such Non-Voting Deferred Shares being certificated shares having the rights and restrictions set out in sub-paragraph 2.6 above.
  - (B) Ordinary Shares arising on conversion shall rank pari passu with the Ordinary Shares in issue on the relevant Conversion Date except that the Ordinary Shares so arising will not rank for any dividend or other distribution which has been announced, declared, recommended or resolved on prior to the relevant Conversion Date by the Directors or by the Company in general meeting, if the record date for such dividend or other distribution is on or prior to the relevant Conversion Date.

- (C) Unless the Directors otherwise determine, or unless the Uncertificated Securities Regulations and/or the requirements of the relevant system otherwise require, the Ordinary Shares arising on conversion of any Additional Value Shares shall be in certificated form (where the Additional Value Shares converted were, on the date of conversion, in certificated form) or as uncertificated shares (where the Additional Value Shares converted were, on the date of conversion, in Uncertificated Form) provided that if the Company is unable under the facilities and requirements of the relevant system to arrange for Ordinary Shares in respect of the person entitled thereto to be held in Uncertificated Form, such shares shall be in certificated form.
- (D) The Company shall procure that there shall be dispatched or made free of charge (but uninsured and at the risk of the holder or the person entitled thereto, or the first-named thereof, as the case may be) a certificate in respect of Ordinary Shares arising on conversion which are, in accordance with sub-paragraph 2.7(xv)(C) above, certificated shares not later than 28 days after the relevant Conversion Date.
- (E) For the purposes of this paragraph 2.7(xv), whether any Additional Value Shares are in certificated form or Uncertificated Form on the Conversion Date shall be determined by reference to the register of members as at 12.01 a.m. on the relevant Conversion Date or such other time as the Directors may (subject to the facilities and requirements of the relevant system concerned) in their absolute discretion determine.
- (F) The Company shall use reasonable efforts to procure that the Ordinary Shares arising on conversion of Additional Value Shares are admitted to the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange's market for listed securities at the earliest practicable date.

## 2.8 *Class Rights*

The Company may from time to time create, allot and issue further shares, whether ranking *pari passu* with, in priority to, or behind the Additional Value Shares in any respect (including, without limitation, as to priority in payment of dividends or as to capital in a liquidation of the Company), and such creation, allotment or issue of any such further shares (whether or not ranking in any respect in priority to the Additional Value Shares and whether or not the same confer on the holders voting rights more favourable than those conferred by the Additional Value Shares) shall be deemed not to involve a variation of the rights attaching to the Additional Value Shares for any purpose.

## 2.9 *Additional Limitations*

No Additional Value Share shall (save as otherwise specifically set out herein) confer any right to participate in:

- (i) the profits or assets of the Company;
- (ii) any offer or invitation by way of rights or otherwise to subscribe for additional shares in the capital of the Company; or
- (iii) any future capitalisation or bonus issue of shares in the capital of the Company.

## DEFINITIONS

The following definitions apply throughout this document unless the text otherwise requires:

“Act”	the Companies Act 1985 (as amended)
“Additional Value Share Proposals”	the proposals relating to the Bonus Issue and the Selling Facility
“Additional Value Shares”	the Additional Value Shares of £0.01 each proposed to be created pursuant to the resolutions set out in Part 8 of this document
“Admission”	admission of the Additional Value Shares to the Official List becoming effective in accordance with the Listing Rules and the admission of the Additional Value Shares to trading on the London Stock Exchange’s market for listed securities
“Articles”	the articles of association of RBS
“Board” or “Directors”	the directors of RBS as at the date of this document
“Bonus Issue”	the proposed capitalisation issue of Additional Value Shares on the basis of one Additional Value Share for each Ordinary Share as described in this document
“BSCH”	Banco Santander Central Hispano, S.A.
“Company”	The Royal Bank of Scotland Group plc
“CREST”	the relevant system (as defined in the Regulations) in respect of which CRESTCo Limited is the Operator (as defined in the Regulations)
“Dividend Proposals”	the proposals set out in this document relating to the ordinary and preference dividend payments as more particularly described on page 7 of this document
“Dollar” or “\$”	the lawful currency of the United States
“Extraordinary General Meeting”	the Extraordinary General Meeting of RBS to be held at 11.00 a.m. on 20 June 2000 at the Balmoral Hotel, Princes Street, Edinburgh
“Goldman Sachs”	Goldman Sachs International
“Group”	RBS and its subsidiaries and subsidiary and associated undertakings and, where the context permits, each of them save as otherwise defined in Part 6 of this document
“Key Information Sheet”	the Key Information Sheet issued in relation to the Increased Offer made by RBS for NatWest on 31 January 2000
“Listing Rules”	the Listing Rules of the UK Listing Authority
“London Stock Exchange”	London Stock Exchange Limited
“Non-qualifying Shareholders”	Ordinary Shareholders who are not Qualifying Shareholders
“Merrill Lynch”	Merrill Lynch International
“NatWest”	National Westminster Bank Plc
“NatWest Group”	NatWest and its subsidiaries and subsidiary and associated undertakings and, where the context permits, each of them

“Official List”	the Official List of the UK Listing Authority
“Ordinary Shareholders”	holders of Ordinary Shares
“Ordinary Shares”	ordinary shares of £0.25 each in RBS
“Qualifying Shareholders”	Ordinary Shareholders in the United Kingdom, United States, Australia, Canada, France, Germany, Ireland, New Zealand and Spain
“Plan”	The Royal Bank of Scotland Group plc Employee Share Ownership Plan proposed to be put in place pursuant to the resolutions set out in Part 8 of this document and having the rules summarised in Part 5
“Profit Sharing Schemes”	the profit sharing schemes operated by the Group under which Ordinary Shares are held on behalf of participants
“RBS”	The Royal Bank of Scotland Group plc
“Record Date”	5.00 p.m. on 20 June 2000
“Registrar”	Computershare Services PLC
“Regulations”	the Uncertificated Securities Regulations 1995 (SI 1995 No. 95/3272)
“Scheme” or “Option 2000”	The Royal Bank of Scotland Group plc Option 2000 Scheme proposed to be put in place pursuant to the resolutions set out in Part 8 of this document and having the rules summarised in Part 5
“Selling Facility”	the facility pursuant to which recipients of Additional Value Shares pursuant to the Bonus Issue may sell such shares as described in paragraph 3 of Part 2 of this document
“Selling Facility Form”	the form accompanying this document in relation to the Selling Facility
“Selling Price”	the price which shareholders who elect to sell the Additional Value Shares pursuant to the Selling Facility will receive for such shares, being announced through the Regulatory News Service of the London Stock Exchange on or around 5 July 2000
“Share Option Schemes”	the share option schemes operated by the Group under which Ordinary Shares may be acquired on exercise of options
“Share Scheme Proposals”	the proposals set out in this document relating to the Group’s Share and Share Option Schemes
“Sterling” or “£”	the lawful currency of the United Kingdom
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“UK Listing Authority”	the Financial Services Authority in its capacity as competent authority under the Financial Services Act 1986
“Uncertificated Form”	recorded on the register of members of RBS as being held in uncertificated form in CREST and title to which, by virtue of the Regulations, may be transferred by means of CREST
“UBS Warburg”	UBS AG, acting through its financial services group UBS Warburg
“US or United States”	the United States of America, its territories and possessions, any state of the United States and the District of Columbia and all other areas subject to its jurisdiction

23 May 2000

