

**THIS DOCUMENT AND THE ACCOMPANYING DOCUMENTS ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION.**

**If you are in any doubt as to the action you should take, you are recommended to seek immediately your own personal financial advice from your stockbroker, bank manager, solicitor, accountant, fund manager or other appropriate independent financial adviser, who is authorised under the Financial Services and Markets Act 2000 (the "FSMA") if you are in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.**

If you sell or have sold or otherwise transferred all of your Existing Shares please send this document, together with any accompanying Form of Proxy and Application Form, as soon as possible, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee. If you have sold or transferred, or otherwise disposed of, only part of your holding of Existing Shares you should retain this circular and accompanying Form of Proxy and Application Form and consult the stockbroker, bank or other agent through whom you made the sale, transfer or disposal. However, the distribution of such documents into certain jurisdictions may be restricted by law and therefore persons into whose possession such documents come should inform themselves about and observe such restrictions. In particular, such documents should not be sent to any jurisdiction where to do so might constitute a violation of local securities laws or regulations, including but not limited to the United States.

This document does not set out the full terms and conditions of the Placing and Open Offer. Nothing in this document should be interpreted as a term or condition of the Placing and Open Offer. The full terms and conditions of the Placing and Open Offer are set out in the Prospectus.

An application will be made to the UK Listing Authority and to the London Stock Exchange for the New Shares to be admitted to the Official List of the UK Listing Authority and to trading on the main market for listed securities of the London Stock Exchange, respectively, and to Euronext for the New Shares to be admitted to listing and trading on Euronext Amsterdam. It is expected that Admission will become effective and that dealings on the London Stock Exchange in the New Shares will commence at 8.00 a.m. (London time) on 14 April 2009. It is expected that dealings in the New Shares on Euronext Amsterdam will commence at 9.00 a.m. (CET) on 14 April 2009.

**This document does not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for New Shares to be issued in connection with the Placing and Open Offer.**



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

*(incorporated under the Companies Acts 1948 to 1967 and registered with Registered No. SC45551)*

### **Placing and Open Offer of 16,909,716,385 New Shares at 31.75 pence per New Share, Redemption of Preference Shares and Amendment to Articles of Association**

#### **Circular and Notice of General Meeting**

**Your attention is drawn to the letter from your Chairman which is set out on pages 6 to 21 of this document and which recommends you vote in favour of the Resolutions to be proposed at the General Meeting referred to below. Please read the whole of this document. If you wish to apply for New Shares in the Open Offer, you are also referred to the Prospectus, which contains further information about the Placing and Open Offer and, in particular, the section headed "Risk Factors" in the Prospectus. You should not rely solely on any key or summarised information set out in this document.**

Notice of a General Meeting of RBS, to be held on 3 April 2009 at the Edinburgh International Conference Centre, The Exchange, Morrison Street, Edinburgh EH3 8EE, at 2.00 p.m. (or as soon as possible thereafter immediately following the conclusion or adjournment of the Annual General Meeting of the Company convened for the same day), is set out at the end of this document. A Form of Proxy for use at the General Meeting is enclosed. To be valid, Forms of Proxy should be completed, signed and returned in accordance with the notes to the Notice of General Meeting (at the end of this document) and the Form of Proxy itself.

Merrill Lynch International, UBS Limited and RBS Hoare Govett are acting for RBS and no one else in connection with the Placing and Open Offer and will not regard any other person (whether or not a recipient of this document) as a client in relation to the Placing and Open Offer and will not be responsible to anyone other than RBS for providing the protections afforded to their respective clients or for providing advice in relation to the Placing and Open Offer or any matters referred to in this document.

## FORWARD LOOKING STATEMENTS

This document contains or incorporates by reference “forward looking statements”, within the meaning of Section 27A of the US Securities Act and Section 21E of the US Exchange Act, regarding the belief or current expectations of RBS, RBS’s Directors and other members of its senior management about RBS’s businesses and the transactions described in this document, including statements relating to any future write-downs or impairments. Generally, words such as “may”, “could”, “will”, “expect”, “intend”, “estimate”, “anticipate”, “believe”, “plan”, “seek”, “continue” or similar expressions identify forward looking statements.

These forward looking statements are not guarantees of future performance. Rather, they are based on current views and assumptions and involve known and unknown risks, uncertainties and other factors, many of which are outside the control of RBS and are difficult to predict, that may cause actual results to differ materially from any future results or developments expressed or implied from the forward looking statements. Factors that could cause actual results to differ materially from those contemplated by the forward looking statements include, among other factors:

- the ability of RBS to access sufficient funding to meet its liquidity needs;
- developments in the current crisis in the global financial markets, and their impact on the financial industry in general and RBS in particular;
- the full nationalisation of RBS;
- general economic conditions in the United Kingdom, countries in Europe and Asia in which RBS has business activities, and the United States;
- the financial stability of other financial institutions, and RBS’s counterparties and borrowers;
- the value and effectiveness of any credit protection purchased by RBS;
- the extent of future write-downs and impairment charges caused by depressed asset valuations;
- RBS’s ability to achieve revenue benefits and cost savings from the integration of certain of ABN AMRO’s businesses and assets;
- the potential exposure of RBS to various types of market risks, such as interest rate risk, foreign exchange rate risk, and commodity and equity price risk;
- changes in RBS’s credit ratings;
- RBS’s participation in the APS and the effect of such scheme on RBS’s financial and capital position;
- the issuance by RBS of the B Shares;
- the monetary and interest rate policies of central banks, in particular the Bank of England, the European Central Bank, the Dutch Central Bank, the Board of Governors of the US Federal Reserve System and other G-7 central banks;
- limitations on, or additional requirements imposed on, RBS’s activities as a result of HM Treasury’s investment in RBS;
- changes in the pricing environment;
- the effects of competition and consolidation in the markets in which RBS operates;
- changes in applicable laws, regulations and taxes in jurisdictions in which RBS operates;
- the inability of RBS to hedge certain risks economically;
- the results of the Placing and Open Offer; and
- the success of RBS in managing the risks involved in the foregoing.

These statements are further qualified by the risk factors disclosed in or incorporated by reference in the Prospectus that could cause actual results to differ materially from those in the forward looking statements.

These forward looking statements speak only as at the date of this document. Except as required by the FSA, the London Stock Exchange, the Listing Rules, the Prospectus Rules, the Disclosure and Transparency Rules or applicable law, RBS does not have any obligation to update or revise publicly any forward looking statement, whether as a result of new information, further events or otherwise. Except as required by the FSA, the London Stock Exchange, the Listing Rules, the Prospectus Rules, the Disclosure and Transparency Rules or applicable law, RBS expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statement contained herein to reflect any change in RBS’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

## IMPORTANT NOTICE FOR CUSTODIANS AND NOMINEES HOLDING FOR US HOLDERS

The New Shares to be issued pursuant to the Placing and Open Offer have not been and will not be registered under the US Securities Act or under any securities laws of any state or other jurisdiction of the United States and may not be offered, sold, resold, transferred or delivered, directly or indirectly, within the United States except pursuant to an applicable exemption from the registration requirements of the US Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States.

Accordingly, the Company is not extending the Open Offer into the United States unless an exemption from the registration requirements of the US Securities Act is available and, subject to certain exceptions, none of this document, the Prospectus, the Application Forms or the crediting of Open Offer Entitlements or Excess CREST Open Offer Entitlements to a stock account in CREST or of Euroclear Open Offer Entitlements to a securities account with an Admitted Institution constitutes or will constitute an offer or an invitation to apply for or an offer or an invitation to acquire any New Shares in the United States. Subject to certain exceptions, neither this document, the Prospectus nor an Application Form will or should be sent to any person with a registered address in the United States, and no Open Offer Entitlements or Excess CREST Open Offer Entitlements will or should be credited to a stock account in CREST and no Euroclear Open Offer Entitlements will or should be credited to a securities account with an Admitted Institution where the underlying holder has a registered address in the United States. **Consequently, subject to certain exceptions, please do not send this document, the Prospectus, or an Application Form to any person with a registered address in the United States, or credit any Open Offer Entitlements or Excess CREST Open Offer Entitlements to a stock account in CREST or any Euroclear Open Offer Entitlements to a securities account with an Admitted Institution where the underlying holder of the Existing Shares has a registered address in the United States.**

Subject to certain exceptions, Application Forms sent from, or post-marked in, the United States will be deemed to be invalid and all persons acquiring New Shares and wishing to hold such New Shares in registered form must provide an address for registration of the New Shares outside the United States. Subject to certain exceptions, any person who acquires New Shares will be deemed to have declared, warranted and agreed, by accepting delivery of this document, the Prospectus or the Application Form or by applying for New Shares in respect of Open Offer Entitlements or Excess CREST Open Offer Entitlements credited to a stock account in CREST or of Euroclear Open Offer Entitlements to a Euroclear Nederland securities account, and delivery of the New Shares, that they are not, and that at the time of acquiring the New Shares, they will not be, in the United States or applying for New Shares on behalf of, or for the account or benefit of, persons in the United States on a non-discretionary basis.

The Company reserves the right to treat as invalid any Application Form that appears to the Company or its agents to have been executed in or despatched from the United States, or that provides an address in the United States for the acceptance of the New Shares, or where the Company believes acceptance of such Application Form may infringe applicable legal or regulatory requirements. The Company will not be bound to issue any New Shares to any person or to any person who is acting on behalf of, or for the account or benefit of, any person on a non-discretionary basis with an address in, or who is otherwise located in, the United States. In addition, the Company reserves the right to reject any USE instruction sent by or on behalf of any CREST member that does not make the above warranty or is applying for the New Shares on behalf of, or for the account or benefit of, a person in the United States.

Notwithstanding the foregoing, New Shares may be made available under the Open Offer to Shareholders that are, or who are acting on behalf of, or for the account or benefit of, Qualified Institutional Buyers pursuant to an available exemption from registration under the US Securities Act or, in the sole discretion of the Company, to others who may be offered the New Shares pursuant to an available exemption from such registration.

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The Prospectus, from which certain information has been incorporated by reference into this document, can be obtained from the RBS website (which is at <http://www.rbs.com>) or free of charge from the Company's Registrar, Computershare Investor Services PLC (Telephone 0870 702 0135) provided that, subject to certain exceptions, the Prospectus will not be mailed or otherwise distributed into the United States or an Excluded Territory. Paragraph 3 in Part II of this document sets out the various sections of the Prospectus which are incorporated by reference into this document. Please note that information incorporated by reference into this document will not be provided in hard copy form unless requested as described above. If you wish to apply for New Shares in the Open Offer, you should read the Prospectus as a whole, including, in particular, the Risk Factors set out in the section headed "Risk Factors" in that document.

### PLACING AND OPEN OFFER STATISTICS

Issue Price per New Share . . . . .	31.75 pence
Number of Ordinary Shares in issue at the date of this document . . . . .	39,456,004,899
Number of New Shares to be issued by the Company pursuant to the Placing and Open Offer . . . . .	16,909,716,385
Number of Ordinary Shares in issue immediately following completion of the Placing and Open Offer <sup>(1)</sup> . . . . .	56,365,721,284
New Shares as a percentage of enlarged issued share capital of the Company immediately following completion of the Placing and Open Offer <sup>(1)</sup> . . . . .	30.0%
Estimated net proceeds of the Placing and Open Offer receivable by the Company after expenses <sup>(2)</sup> . . . . .	£5.27 billion
Estimated expenses of the Placing and Open Offer (inclusive of VAT) . . . . .	£95 million

Note:

- (1) On the assumption that no further Ordinary Shares are issued as a result of the exercise of any options under any Discretionary Option Plan or any Sharesave Scheme between the date of this document and the closing of the Placing and Open Offer.
- (2) The net proceeds of the Placing and Open Offer are to be applied in redeeming the Preference Shares and paying the accrued dividend on the Preference Shares and the commissions due to HM Treasury under the Second Placing and Open Offer Agreement.

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Each of the times and dates in the table below is indicative only and may be subject to change.

	<b>2009</b>
Record Date for entitlement under the Open Offer for Qualifying CREST Shareholders and Qualifying Non-CREST Shareholders . . .	close of business on 12 March 2009
Record Date for entitlement under the Open Offer for Qualifying Euroclear Shareholders . . . . .	close of business on 16 March 2009
Ex-Entitlement Date for the Open Offer . . . . .	8.00 a.m. on 17 March 2009
Open Offer Entitlements and Excess CREST Open Offer Entitlements credited to stock accounts of Qualifying CREST Shareholders in CREST and Euroclear Open Offer Entitlements credited to appropriate securities accounts with Admitted Institutions for Qualifying Euroclear Shareholders . . . . .	by 17 March 2009
Recommended latest time for requesting withdrawal of Open Offer Entitlements from CREST . . . . .	4.30 p.m. on 27 March 2009
Latest time and date for depositing Open Offer Entitlements into CREST . . . . .	3.00 p.m. on 31 March 2009
Latest time and date for receipt of General Meeting forms of proxy . . .	2.00 p.m. on 1 April 2009
Latest time and date for splitting Application Forms (to satisfy bona fide market claims only) . . . . .	3.00 p.m. on 2 April 2009
General Meeting . . . . .	2.00 p.m. on 3 April 2009 (or as soon as possible thereafter immediately following the conclusion or adjournment of the Annual General Meeting of the Company convened for the same day)
Latest time and date for payment in full in pounds sterling by applying Qualifying Euroclear Shareholders via their Admitted Institutions . . . . .	by no later than 3.00 p.m. (CET) on 3 April 2009
<b>Latest time and date for receipt of completed Application Forms and payment in full under the Open Offer and settlement of relevant CREST instructions (as appropriate) . . . . .</b>	<b>11.00 a.m. on 6 April 2009</b>
<b>Expected date of announcement of results of the Open Offer . . . . .</b>	<b>7 April 2009</b>
<b>Admission and commencement of dealings in New Shares on the London Stock Exchange . . . . .</b>	<b>8.00 a.m. on 14 April 2009</b>
<b>Commencement of dealings in New Shares on Euronext Amsterdam . . . . .</b>	<b>9.00 a.m. (CET) on 14 April 2009</b>
New Shares in uncertificated form expected to be credited to accounts in CREST and to Euroclear Nederland accounts of the relevant Admitted Institutions . . . . .	by no later than 14 April 2009
Despatch of definitive share certificates for the New Shares in certificated form . . . . .	on or around 17 April 2009

General notes:

- (a) The ability to participate in the Open Offer is subject to certain restrictions relating to Shareholders with registered addresses outside the United Kingdom, details of which are set out in Part III of the Prospectus.
- (b) The times and dates set out in the expected timetable of principal events above and mentioned throughout this document may be adjusted by RBS, in which event details of the new times and dates will be notified to the UK Listing Authority, the London Stock Exchange, Euronext and, where appropriate, Qualifying Shareholders.
- (c) Different deadlines and procedures for applications may apply in certain cases. For example, if you hold your Existing Shares through an Admitted Institution, CREST member or other nominee, that person may set an earlier date for application and payment than the dates noted above.
- (d) References to times in this document are to London times unless otherwise stated.

If Qualifying Euroclear Shareholders have any queries in relation to the procedure for application and payment, they should contact their Admitted Institution or alternatively ABN AMRO Bank on +31 20 383 6707 between 9.00 a.m. and 5.00 p.m. (CET) on any Amsterdam business day. If Qualifying CREST Shareholders or Qualifying Non-CREST Shareholders have any queries regarding the procedure for acceptance and payment, they should contact the Shareholder Helpline on 0870 702 0135, if calling from the United Kingdom, or +44 870 702 0135, if calling from overseas, between 8.30 a.m. and 5.30 p.m. on any London business day. Please note that, for legal reasons, both the Shareholder Helpline and the Dutch Subscription Agent will only be able to provide information contained in this document and information relating to RBS's register of members and will be unable to give advice on the merits of the Placing and Open Offer or provide financial, tax or investment advice.

## PART I

### LETTER FROM THE CHAIRMAN OF RBS



*The Royal Bank of Scotland Group*

Gogarburn  
PO Box 1000  
Edinburgh EH12 1HQ

16 March 2009

Dear Shareholder,

#### **Capital raising by way of a placing and open offer of 16,909,716,385 New Shares at 31.75 pence per New Share to fund a redemption of Preference Shares**

##### **Introduction**

On 19 January 2009, the Board announced that it had reached agreement with HM Treasury and UK Financial Investments to redeem the £5 billion of Preference Shares acquired by HM Treasury on 1 December 2008. In order to raise the proceeds to redeem the Preference Shares, Qualifying Shareholders are being invited to take part in a further placing and open offer underwritten by HM Treasury to raise £5.37 billion (£5.27 billion net of expenses). The purpose of this document is to provide you with a notice of a General Meeting of the Company to be held to consider and, if thought fit, pass, the Resolutions required to implement the Placing and Open Offer and Preference Share Redemption. It also explains (i) the background to and reasons for the Placing and Open Offer and Preference Share Redemption, and (ii) why the Directors consider the Resolutions to be in the best interests of the Company and Shareholders as a whole and recommend that you vote in favour of the Resolutions to be proposed at the General Meeting.

Since the proposed Placing and Open Offer and Preference Share Redemption involve RBS's substantial Shareholder, HM Treasury (which, as at 11 March 2009 held 22,853,798,818 Ordinary Shares, representing approximately 57.9 per cent. of the issued Ordinary Share capital of the Company), they are related party transactions for the purposes of the Listing Rules. The Placing and Open Offer and the Preference Share Redemption are, therefore, conditional, amongst other things, upon the approval of RBS's Shareholders (excluding HM Treasury). In accordance with the Listing Rules, HM Treasury will not vote on Resolution 2 to be proposed at the General Meeting and HM Treasury has undertaken to take all reasonable steps to ensure that its associates, if any, will not vote on Resolution 2. The purpose of the Resolutions is to (i) increase the Company's authorised ordinary share capital and grant the Directors authority to allot Ordinary Shares in connection with the Placing and Open Offer, (ii) approve the Placing and Open Offer and the Preference Share Redemption, (iii) approve amendments to the Articles of Association required in connection with the Preference Share Redemption and (iv) grant the Directors authority to allot Ordinary Shares on a non pre-emptive basis. HM Treasury has agreed, in its capacity as a holder of Ordinary Shares, that to the extent permitted under applicable law, it will vote in favour of the Resolutions (other than Resolution 2 on which it will not vote). In addition, the proposed amendments to the Articles of Association constitute a variation of the class rights of HM Treasury, in its capacity as the holder of the Preference Shares and, as such, the Resolution to amend the Articles of Association is conditional on the written consent of HM Treasury to the variation of its class rights, which HM Treasury has agreed to provide.

On a pro forma basis, the Placing and Open Offer and the Preference Share Redemption are expected to improve materially the Group's capital structure by increasing the Group's pro forma Core Tier 1 ratio by 0.9 per cent. to around 7 per cent., further enhancing RBS's financial strength to the benefit of all customers, counterparties and investors. HM Treasury has agreed, subject to certain conditions, to underwrite the Placing and Open Offer in full. This means that, to the extent the New Shares are not taken up in the Open Offer or in the Placing and the underwriting becomes unconditional in all respects, such New Shares will be subscribed for by HM Treasury, thereby guaranteeing that the capital will be raised. The aggregate proceeds of the Placing and Open Offer (net of expenses) will be used in full to fund the redemption of the Preference Shares held by HM Treasury at 101 per cent. of their issue price together

with the accrued dividend and the commissions payable to HM Treasury under the Second Placing and Open Offer Agreement. Dividends will continue to accrue on the Preference Shares until redemption.

If Resolutions 1, 3 and 4 are not approved by Shareholders and Resolution 2 is not approved by Independent Shareholders and/or the Company is unable to raise sufficient funds through the Placing and Open Offer to effect the Preference Share Redemption (including as a result of the termination of the underwriting commitment of HM Treasury), the Group will remain subject to the terms and conditions of the Preference Shares, will be required to find alternative methods for increasing its Core Tier 1 capital ratio and may face an increased risk of full nationalisation, as a result of which Shareholders could lose the full value of their Shares. The Directors believe that such methods could include an accelerated reduction in risk-weighted assets, disposal of certain businesses, increased reliance on alternative government supported liquidity schemes and other forms of government assistance, all of which will take time to implement and may, therefore, increase the risk of full nationalisation of the Company.

If the Company is unable to raise sufficient funds through the Placing and Open Offer and increase its Core Tier 1 capital ratio sufficiently through the redemption of the Preference Shares and alternative methods for increasing its Core Tier 1 capital ratio are unsuccessful, its business, results of operations and financial condition may suffer, its credit ratings may drop, its ability to access funding will be further limited, its cost of funding may increase and its Share price may decline, all of which may, therefore, increase the risk of full nationalisation of the Company.

### **Background to the Placing and Open Offer**

In the last few weeks of 2008 the continuing dislocation in financial markets and significant uncertainties in credit conditions, together with the sharp deterioration in economic conditions, negatively impacted the trading performance of many financial institutions globally, including RBS. As a result, RBS has incurred significant credit impairment losses and credit-market write-downs, the details of which are provided on pages 122-143 of the Annual Report and Accounts. The prospects for financial markets and for the economies in which RBS operates remain uncertain.

In view of the above, the Board, in conjunction with HM Treasury, has decided to take steps to improve the quality of the Group's capital base by using the proceeds of the Placing and Open Offer to redeem the Preference Shares held by HM Treasury. Qualifying Shareholders will be able to apply to subscribe for £5.37 billion of New Shares pro rata to their existing shareholdings at a fixed price of 31.75 pence per share by way of the Open Offer. This represents an 8.5 per cent. discount to the closing price on 16 January 2009. These New Shares will be offered to Qualifying Shareholders and, pursuant to the Placing, new investors on the same basis as the offer in December 2008. If no New Shares are taken up under the Open Offer or placed in the Placing, following the subscription by HM Treasury pursuant to its underwriting commitment, HM Treasury will hold 39,763,515,203 Ordinary Shares, representing 70.5 per cent. of the enlarged issued share capital of the Company immediately following completion of the Placing and Open Offer.

The proposed capital restructuring will remove the £0.6 billion annual cost of the Preference Share dividend and create £5 billion of additional Core Tier 1 capital, which will provide a higher quality level of capital support against the impact on the Group's business of any further deterioration in economic and financial market conditions.

Various initiatives, such as the APS and the Credit Guarantee Scheme, are being progressed by the UK Government to stabilise the UK banking system further and enhance support for the economy. The stated aims of the APS and the Credit Guarantee Scheme are to reinforce the stability of the financial system, to increase confidence and capacity to lend, and in turn to support the recovery of the UK economy. The other initiatives are expected to focus on asset and funding risks which are central to freeing up additional lending capacity whilst augmenting the impact of the capital measures described above.

By participating in the APS, the Group will be able to free up its lending capacity. Consequently, the Group announced on 26 February 2009 that it would increase its lending to UK homeowners and businesses subject to the Group's ordinary course credit and pricing criteria on the Group's normal contractual terms by £25 billion over the next 12 months. The increased lending will be split £9 billion to mortgage lending and the remaining £16 billion to business lending. Similar levels of lending have been committed to in 2010. This latest commitment supersedes the lending commitments the Group announced in October 2008 and in January 2009 and builds on NatWest's and RBS plc's recently announced pledge to continue to provide committed overdrafts and no increased pricing for small

business customers until at least the end of 2009. These lending commitments will cease if RBS does not participate in the APS and Credit Guarantee Scheme by 1 June 2009 or will reduce if it participates in only one of the APS or Credit Guarantee Scheme prior to 1 June 2009. Further details of these lending commitments are outlined in paragraph 18.13 of Part IX of the Prospectus.

### **RBS governance, management and strategic change**

Stephen Hester became Group Chief Executive and an Executive Director of the Group on 21 November 2008 following Sir Fred Goodwin ceasing to be Group Chief Executive and stepping down from the Board. Lawrence Fish retired as a Non-Executive Director on 31 December 2008.

I was appointed as a Non-Executive Director and the Chairman designate on 19 January 2009 and assumed the Chairmanship of the Group on 3 February 2009, following Sir Tom McKillop stepping down as Chairman and from the Board.

The Board has been considering its future shape in recent months, especially in light of the commitment to appoint three new independent Non-Executive Directors made at the time of the recapitalisation of the Group in October 2008. The Board has determined that a restructured Board with a smaller number of directors, which maintains the continuity of existing Board members as well as drawing on the senior banking credentials of the recently-appointed individuals, will be better able to engage effectively in the restructuring process for the Group going forward. The following Non-Executive Directors retired from the Board with effect from 6 February 2009: Bob Scott, Jim Currie, Bill Friedrich, Charles Koch, Janis Kong, Sir Steve Robson and Peter Sutherland.

I would like to thank each of them for their service to the Group. In particular, I wish to acknowledge the contribution of Sir Tom McKillop who chaired RBS through testing times with great dedication and integrity.

We will appoint a further three independent Non-Executive Directors in due course to bring the Board to full strength.

We are intensely engaged in finalising a strategic restructuring plan for RBS, further details of which are outlined in paragraph 6 of Part A of the Appendix to this letter.

The goal of this plan is to correct those factors that made us particularly vulnerable to the downturn and to further adjust our business to reflect changes in the environment facing our industry. While the plan will not be complete until the second quarter of 2009, we have decided a lot already.

Our strategic plans will take three to five years to execute, given the headwinds of economic downturn. Nevertheless, we expect to make progress each and every year.

Our aspiration is that RBS should again become one of the world's premier financial institutions, anchored in the United Kingdom, but serving individual and institutional customers here and globally, and doing it well. We aim for AA category standalone credit status and to rebuild shareholder value, along the way enabling the UK Government to sell down its shareholding.

We should be known both for our businesses and for how we manage them. We want to restrict our activities to serving enduring customer franchises, with top tier competitive positions where we choose to compete. Our businesses will target 15 per cent. plus return on equity and primarily organic growth at rates consistent with the markets in which they operate. Our businesses should reinforce each other with shared products, customers and expertise. Our risks should be diversified, well controlled and proportionate to the business and customer opportunity.

In management style we want to be purposeful, to "make it happen" for our customers and then for our Shareholders. But our efforts will be anchored in strategic understanding of our businesses and focus on long-term, quality profitability. Our business mix should be more biased to stable customer businesses than before in retail, commercial and wholesale. We aim to rely less on volatile unsecured wholesale funding.

We will create a "Non-Core" division of RBS during the second quarter of 2009. We expect this to be separately managed, but within the existing legal structures of the Group and matrix-managed to donating divisions where necessary. We currently intend that this division will have approximately £240 billion of third party assets, £145 billion of derivative balances and £155 billion of risk-weighted assets, comprising individual assets, portfolios and businesses of the Group that we intend to run off or dispose of during the next three to five years. The arrangements in relation to the management of the APS assets will be subject to further agreement with HM Treasury in terms of RBS's participation in the



APS (a number of the asset management requirements referred to in the APS being summarised at paragraph 7 of Part A of the Appendix to this letter).

### **Our people**

Last year was a period of great anxiety and uncertainty for our employees. Despite this, the vast majority of them contributed to a profitable year for their own businesses and they demonstrated the commitment that will be needed to return the Group to good health. Unfortunately, however, the uncertainty is not over and many of our people will be affected by the steps we must take to restore RBS to strength. My experience of helping to lead businesses through periods of significant change has taught me that people are resilient and work best when they have certainty over strategic direction, clarity about the role they are being asked to play and feel engaged in pursuing shared objectives. We have already begun to provide certainty and clarity over strategy and management structures. My further commitment to our people is that we will move as swiftly as possible where change is required and that we will work to ensure that those affected by change are the first to know about it.

We must also engage our people with a new employment proposition which sets incentives that reward them for delivering sustained and sustainable success.

### **Our customers and communities**

Most of our businesses were profitable in 2008. That was because they met their customers' needs. A consistent hallmark of RBS has been the ability to work with our customers and to provide them with a high quality of service, whether they are personal or corporate customers, be they in the United Kingdom, Ireland, the United States or across continental Europe and Asia. RBS has frequently led our peers in service quality league tables.

We are grateful for the support our customers gave us during 2008, when their faith in us might understandably have been dented, and recognise that our plans will succeed only if we continue to serve them well.

In every country where RBS operates, we do so within a wider community. Our activities affect, and are affected by, the customers, governments, suppliers and other stakeholders with whom we interact. On joining the company, it was encouraging to learn that, according to TNS Global and Ph. Group, we provide banking services to more small firms than any other UK bank and that our flagship money advice and financial education programme, MoneySense, has been in place for many years. As an international company, we have extended MoneySense to Ireland and the United States. We support the causes our staff care about and invest to improve the capacity of community to generate wealth. These programmes are more relevant than ever to the challenges that lie ahead.

We recognise that our reputation has been damaged by the events of the last year. So, too, has the reputation of the banking industry in countries across the globe. We are determined to rebuild our reputation, and to demonstrate leadership in the industry in this respect, partly through our core purpose of business success, but also by playing a constructive and responsible role in the communities in which we operate.

### **Trading and outlook**

On 26 February 2009, RBS announced its results for the year ended 31 December 2008. Further details are outlined in paragraph 5 of Part A of the Appendix to this letter. In that announcement, RBS made the following statement about current trading and outlook for 2009.

“To make any forecast is hazardous beyond the expectation that 2009 will be a very tough year for the world economy. RBS, in common with all banks, will see some erosion of underlying income levels as a result of weaker business activity and low interest rates squeezing savings margins whilst credit costs rise, probably sharply. We hope that markets will be less disrupted than in 2008, with lower associated write-downs, but time will tell. 2009 has, in fact, started positively for our businesses. At the time of writing, RBS is in discussions with the UK Government concerning participation in the proposed Asset Protection Scheme (“APS”). This would be subject to shareholder vote in due course. The result of the APS discussions will have a material impact on RBS’s outlook, positive or negative depending on outcome. More information will be made available as soon as practicable.

Notwithstanding the challenging outlook, our businesses all around the world are inherently good and fully engaged in sustaining as robust a performance as the environment permits. And the strategic

restructuring we have embarked on will see high levels of activity designed to reposition RBS successfully.”

## **Rebuilding RBS**

It is the intention of the new Board and management team that the Group will act decisively to refocus and restructure itself. In my short time at RBS I have already been very impressed by the underlying strength of its franchises and the determination of its employees to get RBS back into good shape so that its reputation and financial strength are restored. However, the global economy and the fragile state of world financial markets, combined with a number of major historical issues that we need to deal with at RBS will be very challenging, and it will be some time before we are able to achieve this.

The need for a third round of strengthening of capital ratios within the last twelve months and the performance of the Shares is extremely disappointing. These have been challenging times for the Shareholders, employees and customers of RBS. We are grateful to the UK Government, UKFI, HM Treasury and the UK taxpayer for their support in our time of need. We are determined to repay fully that support over the next few years and return to a position of contributing to the health of the UK economy and society in the years to come. We are making good and purposeful progress in the restructuring of the Group including the Board. The new Board and management team are determined to take the actions required to re-establish the value and reputation of the Group over time. Everyone at RBS is fully focused on the task in hand; restoring the company to sustainable standalone strength and repaying the support of the UK taxpayer as quickly and effectively as is practicable.

The path to recovery will be neither smooth nor straight. But we build on a number of strengths; excellent businesses, talented people and, above all, millions of loyal customers around the world who recognise the quality of service that we provide. By doing our best by them, in all of our enduring franchises around the world, we will take the actions that will deliver once again sustainable returns for our Shareholders.

## **APS**

On 26 February 2009, RBS confirmed its intended participation in the APS. The arrangements between RBS and HM Treasury would, if completed, allow RBS to secure asset protection that enhances its financial strength and provides improved stability for customers and depositors, and also enhances RBS’s ability to lend into the UK market. The arrangements are subject to, among other things, the approval of Shareholders (excluding HM Treasury) in due course. Further details of the APS are provided in paragraph 7 of Part A and Part B of the Appendix to this letter.

## **Further information**

I refer you to:

- (a) the further explanation and information contained in the Appendix to this letter including, but not limited to, information regarding the APS and to Parts II to XI of the Prospectus; and
- (b) the section of the Chairman’s Statement on page 3 of the Annual Report and Accounts for 2008 with the heading “Aligning remuneration with long-term shareholder value”.

## **Importance of the Resolutions**

Resolutions 1, 3 and 4 must be passed by Shareholders and Resolution 2 must be passed by Independent Shareholders, at the General Meeting, in order for the Placing and Open Offer to proceed. The purpose of the Placing and Open Offer is to allow RBS to raise sufficient funds to effect the Preference Share Redemption, thereby improving the quality of the Group’s capital structure by increasing its Core Tier 1 capital ratio. If Resolutions 1, 3 and 4 are not approved by Shareholders and Resolution 2 is not approved by Independent Shareholders and/or the Company is unable to raise sufficient funds through the Placing and Open Offer to effect the Preference Share Redemption (including as a result of the termination of the underwriting commitment of HM Treasury), the Group will remain subject to the terms and conditions of the Preference Shares, will be required to find alternative methods for increasing its Core Tier 1 capital ratio and may face the increased risk of full nationalisation as a result of which Shareholders could lose the full value of their Shares. The Directors believe that such methods could include an accelerated reduction in risk-weighted assets, disposal of certain businesses, increased reliance on alternative government supported liquidity schemes and other forms of government assistance, all of which will take time to implement and may, therefore, increase the risk of full nationalisation of the Company.

If the Company is unable to raise sufficient funds through the Placing and Open Offer and increase its Core Tier 1 capital ratio sufficiently through the redemption of the Preference Shares and alternative methods for increasing its Core Tier 1 capital ratio are unsuccessful, its business, results of operations and financial condition may suffer, its credit ratings may drop, its ability to access funding will be further limited, its cost of funding may increase and its share price may decline, all of which may, therefore, increase the risk of full nationalisation of the Company.

Further information is contained in paragraph 6 of Part A of the Appendix to this letter.

**Directors' recommendation**

The Board, which has been so advised by Merrill Lynch International and UBS, considers that the Transaction is fair and reasonable so far as Shareholders are concerned. In providing their advice, Merrill Lynch International and UBS have taken into account the Board's commercial assessments of the Transaction.

**The Board considers that the Transaction and the Resolutions are in the best interests of Shareholders taken as a whole and accordingly unanimously recommends that Shareholders vote in favour of the Resolutions to be put to the General Meeting as they intend to do, or procure, in respect of their own beneficial shareholdings held at the time of the General Meeting.**

Yours sincerely,

A handwritten signature in cursive script, appearing to read "Philip Hampton".

Philip Hampton  
Chairman

## APPENDIX TO THE LETTER FROM THE CHAIRMAN OF RBS

### Part A

#### 1 Principal terms of the Placing and Open Offer

Under the Open Offer, RBS invites Qualifying Shareholders to apply to subscribe for 16,909,716,385 New Shares at the Issue Price of 31.75 pence per New Share, to raise £5.37 billion (approximately £5.27 billion net of expenses). Under the Placing, which may or may not take place, each of Merrill Lynch International, UBS and RBS Hoare Govett has agreed to use reasonable endeavours to procure places to take up New Shares at not less than the Issue Price, on such terms as may be agreed by the Company and HM Treasury, subject to the passing of the Resolutions at the General Meeting, Admission of the New Shares and clawback, where applicable, in respect of valid applications by Qualifying Shareholders at the Issue Price. To the extent New Shares are not taken up under the Open Offer (whether by way of Qualifying Shareholders' Open Offer Entitlements, Euroclear Open Offer Entitlements or through the Excess Application Facility) or placed in the Placing, subject to the terms of the Second Placing and Open Offer Agreement, HM Treasury will itself subscribe for such New Shares at the Issue Price. If no New Shares are taken up under the Open Offer or placed in the Placing, following the subscription by HM Treasury pursuant to its underwriting commitment, HM Treasury will hold 39,763,515,203 Ordinary Shares, representing 70.5 per cent. of the enlarged issued share capital of the Company immediately following completion of the Placing and Open Offer.

The aggregate proceeds of the Placing and Open Offer (net of expenses) will be used in full to fund the redemption of the Preference Shares held by HM Treasury at 101 per cent. of their issue price together with the dividend accrued on the Preference Shares from 1 December 2008 to the date of redemption and the commissions payable to HM Treasury under the Second Placing and Open Offer Agreement as described in more detail in paragraph 2 below.

The Issue Price of 31.75 pence per New Share represents an 8.5 per cent. discount to the closing price for an Ordinary Share on 16 January 2009, the last business day before the announcement of the Placing and Open Offer. Qualifying Shareholders are, subject to the terms and conditions of the Open Offer, being given the opportunity under the Open Offer to apply for New Shares at the Issue Price on the following pro rata basis:

#### 3 New Shares for every 7 Existing Shares

Applications by Qualifying Shareholders will be satisfied in full up to their Open Offer Entitlements or Euroclear Open Offer Entitlements (as applicable). In addition, pursuant to the Excess Application Facility, Qualifying Shareholders may apply for New Shares in excess of their Open Offer Entitlements or Euroclear Open Offer Entitlements (as applicable). If the total number of New Shares applied for by all Qualifying Shareholders exceeds 16,909,716,385, applications made under the Excess Application Facility will be scaled back pro rata to the number of New Shares applied for by Qualifying Shareholders under the Excess Application Facility.

Entitlements to New Shares will be rounded down to the nearest whole number and fractional Open Offer Entitlements will not be allotted to Qualifying Shareholders but will be aggregated and the resulting New Shares will be issued and sold for the benefit of the Company. Holdings of Existing Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Open Offer as will holdings under different designations and in different accounts.

The Placing and Open Offer will result in 16,909,716,385 New Shares being issued (representing approximately 42.9 per cent. of the existing issued share capital and 30.0 per cent. of the enlarged issued share capital immediately following completion of the Placing and Open Offer).

The Placing and Open Offer and the obligation of HM Treasury to subscribe for the New Shares are conditional, *inter alia*, upon:

- (i) the passing, without amendment, of the Resolutions that are to be put to RBS Shareholders at the General Meeting;
- (ii) Admission becoming effective by not later than 8.00 a.m. on 14 April 2009 (or such later time and date as HM Treasury may agree); and
- (iii) the Second Placing and Open Offer Agreement having become unconditional in all respects save for the condition relating to Admission.

Certain of the conditions may be waived by HM Treasury at its discretion.

The New Shares, when issued and fully paid, will rank *pari passu* in all respects with the Existing Shares including the right to receive dividends or distributions made, paid or declared after Admission. Application will be made to the UK Listing Authority and to the London Stock Exchange for the New Shares to be admitted to the Official List and to trading on the London Stock Exchange and to Euronext for the New Shares to be admitted to listing and trading on Euronext Amsterdam. It is expected that Admission will occur and that dealings in the New Shares on the London Stock Exchange will commence at 8.00 a.m. on 14 April 2009. It is

also expected that dealings in the New Shares on Euronext Amsterdam will commence at 9.00 a.m. (CET) on 14 April 2009.

For Qualifying Non-CREST Shareholders, completed Application Forms and payment in full (in pounds sterling) should be returned to the Registrar so as to be received by no later than 11.00 a.m. on 6 April 2009. For Qualifying CREST Shareholders, the relevant CREST instructions must have settled by no later than 11.00 a.m. on 6 April 2009. For Qualifying Euroclear Shareholders, the relevant application and payment in full (in pounds sterling) for New Shares (including SDRT payable in respect of any New Shares in excess of their Euroclear Open Offer Entitlements applied for pursuant to the Excess Application Facility) must have been received by the Dutch Subscription Agent by 3.00 p.m. (CET) on 3 April 2009. If you hold your Existing Shares through an Admitted Institution, CREST member or other nominee, that person may set an earlier deadline for application and payment.

Qualifying Shareholders should be aware that the Open Offer is not a rights issue. As such, Qualifying Non-CREST Shareholders should note that their respective Application Forms are not negotiable documents and cannot be traded. Qualifying CREST Shareholders and Qualifying Euroclear Shareholders should note that, although the Open Offer Entitlements and the Excess CREST Open Offer Entitlements, and the Euroclear Open Offer Entitlements, will be admitted to CREST and Euroclear Nederland, respectively, and be enabled for settlement, neither the Open Offer Entitlements, the Excess CREST Open Offer Entitlements nor the Euroclear Open Offer Entitlements will be tradeable or listed and applications in respect of the Open Offer may only be made by the Qualifying Shareholder originally entitled or by a person entitled by virtue of a bona fide market claim. Any New Shares for which application has not been made in respect of the Open Offer may be placed in the Placing and, to the extent they are not placed, will be subscribed for by HM Treasury, with the proceeds being retained by HM Treasury for the benefit of the Company and applied to, amongst other things, the redemption of the Preference Shares as described in more detail in paragraph 2 below.

Some questions and answers, together with details of further terms and conditions of the Placing and Open Offer including the procedure for application and payment, are set out in Parts II and III of the Prospectus and, for Qualifying Non-CREST Shareholders, will also be set out in the Application Form and the Shareholder Guide.

## **2 Preference Share Redemption**

The aggregate proceeds of the Placing and Open Offer (net of expenses) will be used in full to fund the redemption of the Preference Shares held by HM Treasury at 101 per cent. of their issue price, the dividend accrued on the Preference Shares from 1 December 2008 to the date of redemption and the commissions payable to HM Treasury under the Second Placing and Open Offer Agreement. The redemption of the Preference Shares will remove the annual cost of the Preference Share dividend of £0.6 billion. It is also currently a term of the Preference Shares that, unless otherwise agreed by HM Treasury, no dividend may be paid or distribution made on the Ordinary Shares nor may any Ordinary Shares be redeemed, purchased, cancelled or otherwise acquired by the Company nor may the Company effect a reduction of its Ordinary Share capital which involves a distribution to holders of Ordinary Shares until the Preference Shares have been redeemed or repurchased in full. On redemption of the Preference Shares, these restrictions will be removed, although it is not the Board's intention to pay a dividend on the Ordinary Shares in 2009. In the event that HM Treasury is required to subscribe for some or all of the New Shares being offered pursuant to the Open Offer, HM Treasury will hold the subscription monies therefrom for the benefit of RBS, and RBS will authorise HM Treasury to apply such monies to the redemption of the Preference Shares, the payment of the accrued dividend on the Preference Shares and the payment of the commissions due to HM Treasury under the Second Placing and Open Offer Agreement. The redemption of the Preference Shares is conditional on the completion of the Placing and Open Offer.

## **3 Dividends and dividend policy on the Ordinary Shares**

Upon redemption of the Preference Shares the prohibition on payment of dividends on the Ordinary Shares will be removed. The Board is very mindful that dividends are an extremely important part of shareholder return and income. However, it is not the Board's intention to pay a dividend on the Ordinary Shares in 2009. If the B Shares are issued as announced on 26 February 2009, no cash dividend may be paid on the Ordinary Shares unless the cash dividend payable in respect of the same period on the B Shares is paid in full, and no scrip dividend may be paid on the Ordinary Shares unless the cash or scrip dividend payable in respect of the same period on the B Shares is paid in full. Further details of the likely conditions applicable to dividends payable on the B Shares, if issued, are outlined in Part B of this Appendix.

It is the Board's intention over time to return to paying dividends on Ordinary Shares, taking into account the Group's capital position, retained earnings and prospects.

## 4 Capital

The Placing and Open Offer is expected to raise £5.37 billion, (approximately £5.27 billion net of expenses).

Assuming the capital raising had completed on 31 December 2008, the Group's pro forma proportional consolidated Core Tier 1 capital ratio at that date would have been as follows:

	<b>Core Tier 1 capital ratio (%)<sup>(1)</sup></b>
Pro forma proportional consolidated basis . . . . .	7.0

Note:

(1) Prepared using Basel II methodology. Proportional regulatory capital ratios are prepared on a proportional consolidated basis.

## 5 2008 Results

While a downturn was anticipated, few predicted the unprecedented market disruption and global economic downturn that we now experience. With roots in economic imbalances across the world, the downturn has weakened many. However, that is little consolation for the particular vulnerability that RBS has exhibited. In 2008 RBS's overall results were bad, with net attributable losses, before goodwill impairments, of £7.9 billion. This is particularly disappointing since many parts of our business did well, serving customers and generating high quality profitability. All our divisions were profitable except Global Banking and Markets (GBM) and Asia Retail & Commercial Banking. Even in GBM, underlying income reached £10.2 billion on the back of many strong business performances. Unfortunately these profits were more than wiped out by credit and market losses in concentrated areas around proprietary trading, structured credit and counterparty exposures. Over 50 per cent. of these losses pertained to ABN AMRO-originated portfolios.

In addition, the change in market outlook and our vulnerability thereto has required a £16.2 billion accounting write-down of goodwill and other intangibles relating to prior year acquisitions, most notably of ABN AMRO in 2007 and Charter One in the US in 2004. This non-cash item has minimal impact on capital but does highlight the risk of acquisitions if economic conditions adversely change. From a capital perspective, successive capital raisings have substantially strengthened RBS's capital ratios. Reported losses have only partially eroded these, and our Core Tier 1 ratio stood at 7.0 per cent. at the end of 2008, pro forma for the conversion of our preference shares, compared with 4.0 per cent. a year earlier. Additionally, the funded balance sheet was reduced by £93 billion, or 17 per cent. in constant currency terms. Unfortunately, the extreme dislocation of markets has impeded the risk reduction we target, leaving much still to do. Moreover, the fall in exchange rates has exacerbated the impact on RBS because of our international balance sheet and this, plus extreme market movements, also increases the accounting value of our derivatives balances, albeit recording amounts that would be largely netted off under US GAAP. RBS has strong businesses, has taken steps to restore its capital base and benefits from clear Government support. It is our primary task to rebuild standalone strength in the coming years.

## 6 Strategic restructuring plan

We have embarked on a sweeping restructuring of the Group that will fit our activities to the goals outlined above. While the details of the strategic plan will be refined over the coming weeks to take account of the final agreements reached with HM Treasury in respect of RBS's participation in the APS, we are now able to announce that the plan is expected to include the following:

- We will create a "Non-Core" division of RBS during the second quarter of 2009, separately managed, but within the existing legal structures of the Group and matrix-managed to donating divisions where necessary. We currently intend that this division will have approximately £240 billion of third party assets, £145 billion of derivative balances and £155 billion of risk-weighted assets, comprising individual assets, portfolios and businesses of the Group that we intend to run off or dispose of during the next three to five years. The specific timetable will vary in each case but will be as fast as we judge consistent with optimising shareholder value and risk. Approximately 90 per cent. of the Non-Core division will consist of GBM assets, primarily linked to proprietary portfolios, excess risk concentrations and illiquid 'originate and hold' asset portfolios. The rest of the Non-Core division will be risk concentrations, 'out of footprint' assets and smaller, less advantaged businesses within our Regional Markets activities across the world. As part of this effort it is intended that our representation in approximately 36 of the 54 countries we operate in around the world will be significantly reduced or sold. We will remain strong in all our major existing global hubs, however. Given the commercial and human sensitivity of these issues, detail on this will not be given until the interim results. The income, expenses, impairments and credit market and other

trading asset write-downs associated with the Non-Core Division in 2008 were approximately £3.9 billion, £1.1 billion, £3.2 billion and £9.2 billion respectively.

- In addition to eliminating expenses associated with the Non-Core division, we have launched a restructuring plan to make efficiency savings across the Group, aimed at achieving run-rate reductions by 2011 of greater than £2.5 billion (16 per cent. of 2008 cost base) at constant exchange rates. This will involve a wide range of re-engineering and other measures and, regrettably, reductions in employment. This target excludes any impact of inflation, incentive pay movements or cost reductions arising from business exits or the impact of new projects (if any). It includes the £0.5 billion of ABN AMRO integration benefits previously announced but not reflected in 2008 expenses. We will book one-off charges against these actions over the next three years, with run-rate cost savings expected to provide 'payback' in 1.5 to 1.75 years.
- We plan to retain each of our major business divisions since we believe, with intensive restructuring, they can meet the attractive business characteristics outlined as targets above. In many cases the restructuring of these businesses to achieve our goals will be far-reaching, nevertheless. The greatest element of restructuring will be in GBM as signalled above. A substantial shrinkage of size, product and geographic scope will take place. This should leave GBM positioned profitably around those of its existing core strengths that rest on profitable customer franchise business with significantly less illiquid risk overall.
- At all times we will responsibly compare the value to RBS of each of our businesses with realistic alternatives and take different action if they prove compelling. However, the distressed and pessimistic state of markets for financial assets and businesses offers little immediate encouragement in that regard.
- Alongside our business restructuring activities will be substantive changes to management and internal processes. There will continue to be changes of personnel as we promote and reassign internal talent and add to our ranks externally. Our Manufacturing division will re-align with our customer-facing businesses. Businesses will have clear bottom-line returns, allocated equity and balance sheet and funding goals. While we drive for profit, there will be a concentration on earnings quality and sustainability, driven by strategic plans, to ensure alignment of our businesses to their markets and their risk targets. People evaluation and incentivisation will meet best practice levels to support the revised mission of the Company. This will be underpinned by a full suite of risk and funding constraints, including concentration limits.

We have already begun this major change programme. To carry it through in parallel with running our continuing business in difficult markets will test our management capacity. We expect to be successful overall, though we will inevitably have setbacks and make mistakes along the way. But there is no alternative. RBS must change in a far-reaching way. If we do that, the strength, quality and power that are already present in our business across the world will have the chance to shine through once again.

## **7 HM Treasury Asset Protection Scheme and additional capital raising**

On 26 February 2009, RBS confirmed its intended participation in the APS. The arrangements between RBS and HM Treasury will, if completed, allow RBS to secure asset protection in respect of some of its riskiest assets that enhances its financial strength and provides improved stability for customers and depositors, and also enhances RBS's ability to lend into the UK market.

### **Issuance of capital**

On or after the proposed implementation of the APS, HM Treasury will subscribe for £13 billion of B Shares. The arrangements for the subscription of these B Shares are to be determined and the proceeds of such issue will, if such B Shares are issued, be used to increase further the Group's Core Tier 1 capital. A summary of the expected terms of the B Shares is set out in Part B of this Appendix. HM Treasury will also commit to subscribe for an additional £6 billion of B Shares at RBS's option. The detailed terms of such option remain to be agreed between RBS and HM Treasury.

### **Scheme amount**

RBS intends to participate in the APS in respect of assets with a par value of approximately £325 billion and a carrying value net of impairments and write-downs of approximately £302 billion as at 1 January 2009.

### **First loss**

The agreement would see RBS bear the first loss amount relating to the assets in the APS up to £19.5 billion (after taking into account historic impairments and write-downs). Losses arising in respect of the assets after the first loss amount would be borne 90 per cent. by HM Treasury and 10 per cent. by RBS. The APS will, if entered into, apply to losses incurred on the protected assets on or after 1 January 2009.

## **Fee and issuance of capital**

If it enters into the APS, RBS will pay a participation fee of £6.5 billion to HM Treasury. On 26 February 2009, RBS announced that it would issue £6.5 billion of B Shares, and the participation fee may be funded through the proceeds of such issuance. The £6.5 billion of B Shares, which will be issued if RBS enters into the APS, will be in addition to, and on the same terms as, the B Shares referred to above and will constitute Core Tier 1 capital. In addition, RBS has agreed in principle that, if it enters into the APS, it would not claim certain UK tax losses and allowances.

## **Assets**

Specific assets to be included in the APS will be subject to the approval of HM Treasury. The assets would be drawn from RBS's and certain of its affiliates' portfolios of corporate and leveraged loans, commercial and residential property loans, structured credit assets and such other assets as HM Treasury and RBS agree are to be included in the APS. It is also envisaged that the APS may include structured synthetic assets and counterparty risk exposures associated with certain derivatives transactions with monoline insurers and credit derivative product companies. RBS expects that the APS will protect: £225 billion of third party assets, £44 billion of undrawn commitments, and £33 billion in other counterparty risk exposures.

## **Capital ratios**

The APS and proceeds of the issue of B Shares are expected to improve the consolidated capital ratios of RBS by (i) substituting risk weight applicable to the UK Government for that of the protected assets; and (ii) the subscription for the B Shares by HM Treasury (being both the £6.5 billion of B Shares, the proceeds of which may be used to fund the fee for the APS and the additional £13 billion of B Shares to be issued on or after the implementation of the APS). Based on total covered assets of approximately £325 billion, risk weighted assets would reduce by approximately £144 billion. As an illustration, if the Company had issued £19.5 billion of B Shares on 31 December 2008 offset by the expected £6 billion reduction of first loss exposure under the APS from Core Tier 1 capital in accordance with the FSA Handbook, and assuming the completion of the Preference Share Redemption, RBS expects there would have been a significant increase to the pro forma proportional consolidated Core Tier 1 ratio of 7.0 per cent. at that date.

In addition, RBS will continue to look at various market based and/or internal capital management opportunities to generate and further strengthen Core Tier 1 capital.

## **Term**

While it is intended that the APS would apply to the protected assets until their maturity, RBS's participation in the APS would be capable of termination in whole or in part by mutual agreement of RBS and HM Treasury.

## **Management of the assets**

RBS would be required under the APS to manage the assets in accordance with certain asset management requirements as referred to in the APS. These would include, amongst others, (i) reporting requirements to provide financial, risk and performance data in respect of the protected assets and to monitor compliance with the APS, (ii) the adoption of oversight and control procedures with respect to the management of the protected assets, (iii) requirements in relation to organisational structure, staffing, resourcing, systems and controls required for implementation, administration and monitoring compliance with the APS and (iv) the monitoring and management of conflicts of interest and potential conflicts of interest. As the APS is intended to apply to losses on protected assets arising from 1 January 2009, RBS has agreed with HM Treasury certain interim arrangements (in force with immediate effect) relating to the management of those assets likely to be part of the APS.

## **Impact on the capital structure of the Company**

If all of the New Shares and the additional £6 billion of B Shares are subscribed for by HM Treasury and £25.5 billion of B Shares convert mandatorily, or are converted by HM Treasury, into Ordinary Shares in the hands of HM Treasury, the percentage of HM Treasury's ownership of RBS's Ordinary Shares will be 84.5 per cent., with Shareholders experiencing a corresponding dilution to their interests in the Company. However, without prejudice to rights arising on the mandatory conversion into Ordinary Shares, HM Treasury shall not be entitled to exercise its option to convert B Shares into Ordinary Shares for as long as it holds 75 per cent. or more of the Ordinary Shares or if the exercise of such option would result in it holding 75 per cent. or more of the Ordinary Shares. Further details regarding the effect of the B Shares on the dividends payable on the Ordinary Shares and the control rights of the B Shares are outlined in Part B of this Appendix.



## **Conditions to accession to the Scheme**

Implementation of the APS for RBS will be subject to further due diligence by HM Treasury and its advisers, documentation and satisfaction of applicable conditions (including the application criteria and asset eligibility criteria of the APS), adoption of a prescribed remuneration policy in respect of assets managed under the APS and conditions precedent to accession in the APS, including State aid, regulatory and shareholder approvals. RBS has agreed to provide certain information to HM Treasury in the period prior to RBS's proposed accession, including:

- (i) an indicative list of the Proposed Assets, with a view to agreeing such list by 30 April 2009;
- (ii) information and data relating to the Proposed Assets for the purposes of HM Treasury's due diligence; and
- (iii) access to RBS's premises, books, records, senior executives, relevant personnel and professional advisers.

On 26 February 2009, RBS entered into a deed poll in favour of certain UK Government departments under which it undertook to support lending to creditworthy borrowers in the UK in a commercial manner with effect from 1 March 2009. This lending commitment is a pre-requisite to RBS's proposed participation in the APS and other Government-backed schemes the objective of which is to reinforce the stability of the financial system and support the recovery of the economy.

As at the date of this document, the timing for the implementation of the APS is still to be determined. The proposed entry by the Company into the APS and any associated capitalisation would constitute a related party transaction for the purposes of the Listing Rules requiring the approval of Independent Shareholders. Therefore if the Company is to participate in the APS, it will convene a further general meeting to seek Independent Shareholder approval and a circular explaining the proposals and containing the relevant general meeting notice will be sent to Shareholders in due course, although no prospectus will be required.

## **8 General Meeting**

As a consequence of the proposed Transaction being a related party transaction for the purposes of the Listing Rules and to give the Directors certain authorities required to effect the Placing and Open Offer, the Transaction is conditional, amongst other things, upon the approval of Shareholders (including HM Treasury to the extent it is permitted to do so under the Listing Rules and applicable law) in general meeting.

A notice convening a General Meeting of the Company to be held on 3 April 2009 at the Edinburgh International Conference Centre, The Exchange, Morrison Street, Edinburgh EH3 8EE at 2.00 p.m. (or as soon as possible thereafter immediately following the conclusion or adjournment of the Annual General Meeting of the Company convened for the same day) is set out at the end of this document and details of the Resolutions proposed to be passed at the General Meeting are set out in the notice. The General Meeting is being held for the purpose of considering and, if thought fit, passing four resolutions related to the Placing and Open Offer and Preference Share Redemption. The first resolution, Resolution 1, is to increase the Company's authorised ordinary share capital by creating 16,909,716,385 new ordinary shares of 25p each in the capital of the Company and to grant the Directors authority to allot Ordinary Shares in connection with the Placing and Open Offer. The second resolution, Resolution 2, is to approve the Transaction. The third resolution, Resolution 3, is to approve amendments to the Articles of Association required in connection with the Preference Share Redemption. Resolution 3 is conditional on HM Treasury, in its capacity as the holder of the Preference Shares, consenting in writing to the variation of its class rights arising from the amendment to the Articles of Association; HM Treasury has agreed to provide such written consent. The fourth resolution, Resolution 4, is to grant the Directors authority to allot Ordinary Shares on a non pre-emptive basis pursuant to the Placing and Open Offer.

As the Transaction is a related party transaction for the purposes of the Listing Rules, in accordance with the Listing Rules, HM Treasury will not vote on Resolution 2 described above and HM Treasury has undertaken to take all reasonable steps to ensure that its associates, if any, will not vote on Resolution 2. HM Treasury has agreed, in its capacity as a holder of Ordinary Shares, that to the extent permitted under applicable law, it will vote in favour of the Resolutions (other than Resolution 2 on which it will not vote).

A Form of Proxy is enclosed. To be effective, Forms of Proxy must be completed by Shareholders and received at the Company's transfer office at Computershare Investor Services PLC, Corporate Actions 1, The Pavilions, Bridgwater Road, Bristol BS99 6AF by 2.00 p.m., on 1 April 2009.

## **9 Risk factors to be considered by Shareholders**

The Directors are aware of the following material risks relating to the Group's business and strategy, funding, the Placing and Open Offer and the Shares which they wish to draw to the attention of Shareholders. There

may be other risks that are not summarised below that the Directors are not aware of or that the Directors do not consider material.

The business, financial condition or results of operations of the Group could be adversely affected by any of these risks. The trading price of the Shares (including once allotted, the New Shares) could decline due to any of these risks, and as a result Shareholders may lose all or part of their investment.

### ***Risks related to RBS***

- The Company may face the risk of full nationalisation and under such circumstances Shareholders may lose the full value of their Shares.
- If RBS is unable to participate in the APS, or the operation of the APS fails to have the desired effect on RBS's financial and capital position, the Company may face the increased risk of full nationalisation. If the costs of participation outweigh the benefits, this could have a negative impact on RBS's business, earnings and financial prospects and its Share price may suffer.
- If the Company does not raise capital through the Placing and Open Offer (including as a result of the Resolutions not being approved and/or termination of the underwriting commitments of HM Treasury), it may be unable to access additional funds or find alternative methods of increasing its Core Tier 1 capital ratio or redeeming the Preference Shares.
- RBS's businesses, earnings and financial condition have been and will continue to be affected by the continued deterioration in the global economy, as well as ongoing instability in the global financial markets.
- Any conversion of the B Shares would significantly increase HM Treasury's ownership interest in RBS, have a corresponding dilutive effect on other RBS Shareholders and could result in the delisting of RBS's securities.
- Lack of liquidity is a risk to RBS's business and its ability to access sources of liquidity has been, and will continue to be, constrained.
- Governmental support schemes are subject to cancellation change or withdrawal (on a general or individual basis), which may have a negative impact on the availability of funding in the markets in which RBS operates.
- The financial performance of RBS has been and will be affected by borrower credit quality.
- The actual or perceived failure or worsening credit of RBS's counterparties has adversely affected and could continue to adversely affect RBS.
- RBS's earnings and financial condition have been, and its future earnings and financial condition are likely to continue to be, affected by depressed asset valuations resulting from poor market conditions.
- The value or effectiveness of any credit protection that RBS has purchased from monoline and other insurers and other market counterparties (including credit derivative product companies) depends on the value of the underlying assets and the financial condition of the insurers and such counterparties.
- Changes in interest rates, foreign exchange rates, bond, equity and commodity prices, and other market factors have significantly affected and will continue to affect RBS's business.
- RBS's borrowing costs and its access to the debt capital markets depend significantly on its credit ratings.
- RBS's business performance could be adversely affected if its capital is not managed effectively.
- The value of certain financial instruments recorded at fair value is determined using financial models incorporating assumptions, judgements and estimates that may change over time or may ultimately not turn out to be accurate.
- RBS's future earnings and financial condition in part depend on the success of the Group's strategic refocus on core strengths and its disposal programme.
- RBS operates in markets that are highly competitive and consolidating. If RBS is unable to perform effectively, its business and results of operations will be adversely affected.
- RBS has agreed to certain undertakings in relation to the operation of its business in the First Placing and Open Offer Agreement, the Second Placing and Open Offer Agreement and in connection with the proposed APS, which may serve to limit the Group's operations.
- RBS could fail to attract or retain senior management or other key employees.

- Each of the Group's businesses is subject to substantial regulation and oversight. Any significant regulatory developments could have an effect on how the Group conducts its business and on its results of operations and financial condition.
- The Group's results have been and could be further adversely affected in the event of goodwill impairment.
- RBS may be required to make further contributions to its pension schemes if the value of pension fund assets is not sufficient to cover potential obligations.
- RBS is and may be subject to litigation and regulatory investigations that may impact its business.
- Operational risks are inherent in RBS's operations.
- RBS is exposed to the risk of changes in tax legislation and its interpretation and to increases in the rate of corporate and other taxes in the jurisdictions in which it operates.
- The acquisition of a majority shareholding in RBS by HM Treasury in December 2008 could lead to certain adverse tax consequences for the RBS Group.
- RBS's insurance businesses are subject to inherent risks involving claims.
- RBS's operations have inherent reputational risk.
- In the United Kingdom and in other jurisdictions, RBS is responsible for contributing to compensation schemes in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers.
- RBS's business and earnings may be affected by geopolitical conditions.
- The restructuring proposals for ABN AMRO are complex and may not realise the anticipated benefits for RBS.

#### ***Risks relating to the New Shares and the Placing and Open Offer***

- Subject to certain terms and conditions, any New Shares not subscribed for in the Placing and Open Offer by existing RBS Shareholders and new placees will be taken up by HM Treasury, which will therefore increase its already significant shareholding in the Group. This, and the increase in RBS's share capital, may lead to adverse tax consequences for RBS. HM Treasury may take actions that are not in the interests of minority Shareholders.
- RBS's share price may fluctuate.
- RBS's ability to pay dividends on or make other distributions in respect of the Ordinary Shares will depend on the availability of distributable reserves. If the Resolutions are not passed, RBS's ability to pay dividends on or make other distributions in respect of the Ordinary Shares will also depend on how quickly it is able to repurchase or redeem the Preference Shares.
- Shareholders who do not take up their Open Offer Entitlements or Euroclear Open Offer Entitlements to apply for New Shares in full or are not eligible to do so will experience dilution in their ownership of RBS.

#### **10 Action to be taken by Shareholders**

A Form of Proxy is enclosed which covers the Resolutions to be proposed at the General Meeting and which is for use by the holders of Ordinary Shares and Cumulative Preference Shares. If you are a person nominated under section 146 of the 2006 Act to enjoy information rights, please read Note 3 to the General Meeting Notice.

Completed Forms of Proxy should be returned in the pre-paid envelope as soon as possible, but in any event no later than 2.00 p.m. on 1 April 2009. In addition, it is possible to appoint and instruct your proxy electronically by following the instructions on the enclosed Form of Proxy. Completion of a Form of Proxy will not prevent you from attending and voting at the General Meeting if you so wish. To appoint more than one proxy (each of whom must be appointed to exercise rights attached to the different shares held by you), see Note 2 on the reverse of the Form of Proxy.

At the General Meeting the Company will disclose, for each Resolution, the total of the proxy votes received and any votes cast at the meeting, the proportion for and against each Resolution, and the number of votes withheld. Votes withheld will not be counted in the calculation of the proportion of votes 'for' and 'against' a resolution.

Voting at the General Meeting in respect of each Resolution, will be conducted by way of a poll. The Directors believe it is important that the intentions of all members who register a vote are fully taken into account. Voting on a poll is more transparent and equitable, since it allows the votes of all shareholders who wish to vote to be taken into account, and it reflects evolving best practice. Shareholders who attend the meeting will still be able to ask questions relevant to the business of the meeting prior to voting on the resolutions.

## Part B

### Terms and conditions of the B Shares

At the same time as it announced RBS plc's intended participation in the APS, RBS announced that it expected to issue to HM Treasury (i) £6.5 billion of B Shares at the time of entering into the APS and (ii) a further £13 billion of B Shares on or after implementation of the APS. RBS also announced that it had been agreed with HM Treasury that, at RBS's option, a further £6 billion of B Shares could be issued to HM Treasury. The detailed terms of this option remain to be agreed between RBS and HM Treasury. All of these B Shares are expected to constitute Core Tier 1 capital and will be issued on the same terms. Key terms of the B Shares are expected to include the following:

- Nominal value and issue price: £0.50 per B Share.
- Ranking: on a winding-up, holders of the B Shares will rank *pari passu* with the holders of any other classes of Ordinary Shares and junior to preference shareholders. For these purposes, on a winding-up each holder of a B Share will be deemed to hold one Ordinary Share of RBS for every B Share held at the date of the commencement of such winding-up (the "Winding Up Ratio").
- Dividend entitlement: non-cumulative dividends will be declared at the discretion of RBS, which dividends shall be paid in priority to any dividend on any other class of ordinary share capital. If declared, dividends on the B Shares will be paid semi-annually in arrear. The first such semi-annual dividend in respect of any financial year shall be payable on the date that is three business days after the record date in respect of the interim dividend payable on the Ordinary Shares in respect of such financial year, if such interim dividend on the Ordinary Shares is to be paid. The second such semi-annual dividend in respect of any financial year shall be payable on the date that is three business days after the record date in respect of the final dividend payable on the Ordinary Shares in respect of such financial year, if such final dividend on the Ordinary Shares is to be paid. If no interim dividend on the Ordinary Shares is to be paid in respect of any financial year, the first semi-annual dividend on the B Shares in respect of such financial year, if to be paid, shall be payable on 31 October in such financial year, and if no final dividend on the Ordinary Shares is to be paid in respect of any financial year the second semi-annual dividend on the B Shares in respect of such financial year, if to be paid, shall be payable on 31 May in the immediately following financial year.
- If to be paid, the dividend per B Share will be equivalent to (i) 7 per cent. of the issue price of each B Share multiplied by the number of days in the period from (and including) the immediately preceding Relevant Date (as defined below) or, in the case of the first semi-annual dividend in 2009, the date of issue to (but excluding) the current Relevant Date divided by 365 (or 366 in a leap year) or (ii) in the case of any second semi-annual dividend in respect of any financial year, if greater and if a dividend or dividends or other distribution(s) is/are paid or made (whether interim or final) on the Ordinary Shares in respect of the period from (but excluding) the Relevant Date falling on (or nearest to) one year prior to the current Relevant Date to (and including) the current Relevant Date, 250 per cent. (the "Participation Rate") of the aggregate amount of such dividend(s) or distribution(s) per Ordinary Share less the amount of the first semi-annual dividend (if any) paid in respect of such financial year. "Relevant Date" means each date on which RBS pays a semi-annual dividend or, if no such payment has been made, 31 October in respect of the first semi-annual dividend in respect of any financial year and 31 May in the immediately following financial year in respect of the second semi-annual dividend in respect of any financial year.
- Scrip dividends: if RBS decides to pay a dividend on the B Shares in respect of a semi-annual period and either (i) no dividend has been paid on the Ordinary Shares and/or distribution made thereon in respect of the same period or (ii) a dividend has been paid and/or a distribution has been made thereon otherwise than in cash in respect of the same period, RBS may in its discretion determine that the dividend on the B Shares in respect of the corresponding period shall be paid in whole or in part by RBS issuing further B Shares to the holders of B Shares. The number of further B Shares to be issued to each holder shall be such number of B Shares as shall be certified by an independent investment bank (acting as expert) to equal the value in cash of the dividend otherwise payable on the B Shares in respect of the relevant period.
- Restrictions following non-payment of dividend: if RBS decides not to pay any semi-annual dividend on the B Shares in cash or otherwise, then until such time as semi-annual dividends on the B Shares have been resumed in full RBS will be prohibited from paying dividends or other distributions (whether in cash or otherwise) on, or redeeming, purchasing or otherwise acquiring, (i) its Ordinary Shares or (ii) any other securities of RBS or any other member of the Group ranking or expressed to rank *pari passu* with the Ordinary Shares and the B Shares on a winding-up, either issued by RBS or, where issued by another member of the Group, where the terms of the securities benefit from a guarantee or support agreement entered into by RBS which ranks or is expressed to rank *pari passu* with the Ordinary Shares and the B Shares on a winding-up.

- Redemption rights: none, but RBS may purchase the B Shares subject to applicable laws and FSA consent.
- Conversion rights: at any time a holder of a B Share may deliver a notice to RBS requesting conversion of B Shares into Ordinary Shares of RBS. All B Shares shall automatically and mandatorily convert into Ordinary Shares if the volume weighted average trading price of the Ordinary Shares for 20 complete trading days in any 30 trading day period equals or exceeds £0.65 per Ordinary Share. The number of Ordinary Shares to be issued upon conversion will be determined by dividing the aggregate issue price (£0.50 per B Share) of the B Shares being converted by the Conversion Price. The conversion price of the B Shares will be £0.50 (the "Conversion Price").
- Limitations on optional conversion: without prejudice to the provisions above concerning the mandatory conversion of the B Shares, HM Treasury shall not be entitled to exercise its option to convert B Shares into Ordinary Shares to the extent that it holds 75 per cent. or more of the Ordinary Shares or to the extent that the exercise of such option would result in it holding 75 per cent. or more of the Ordinary Shares.
- Voting rights before conversion: holders of the B Shares will only have voting rights in limited circumstances (resolutions varying/abrogating class rights and resolutions to wind up, or in relation to the winding-up of, RBS). If entitled to vote, on a poll holders of B Shares will have two votes for each B Share held. HM Treasury shall not be so entitled to vote the B Shares to the extent the votes cast on such B Shares, together with any other votes which HM Treasury is entitled to cast in respect of any Ordinary Shares held by or on behalf of HM Treasury, would exceed 75 per cent. of the total votes eligible to be cast on a resolution proposed at a general meeting of RBS.
- Voting rights after conversion: HM Treasury shall not be entitled to vote in respect of Ordinary Shares acquired by it as a result of the conversion of B Shares into Ordinary Shares to the extent that votes cast on such Ordinary Shares, together with any other votes which HM Treasury is entitled to cast in respect of any other Ordinary Shares held by or on behalf of HM Treasury, would exceed 75 per cent. of the total votes eligible to be cast on a resolution proposed at a general meeting of RBS.
- Pre-emption rights: HM Treasury shall agree that it shall not exercise any pre-emption rights it may be entitled to as a holder of B Shares in respect of future issues of Ordinary Shares.
- Ordinary Share buy-back: for as long as any B Shares remain outstanding, RBS may not purchase any of its Ordinary Shares.
- Listing: the B Shares will not initially be listed. HM Treasury is entitled to require RBS to seek a listing of the B Shares.
- Adjustment events: the Winding Up Ratio and Participation Rate shall be subject to anti-dilution adjustments. The Conversion Price shall be adjusted in accordance with standard Euro-market anti-dilution adjustments other than customary change of control adjustments or extraordinary dividend adjustments (to the extent compensated by dividends paid at the Participation Rate).

## PART II

### ADDITIONAL INFORMATION

#### 1 Responsibility

The Company and the Directors, whose names are set out on page 33 of the Prospectus, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Company and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

#### 2 Incorporation and registered office

RBS was incorporated and registered in Scotland on 25 March 1968 under the Companies Act 1948 to 1967 as a private limited company under the name National and Commercial Banking Group Limited. On 3 September 1979, it changed its name to The Royal Bank of Scotland Group Limited. On 10 March 1982, it changed its name to its present name and was registered under the Companies Act 1948 to 1980 as a public company with limited liability. The Company is registered under company number SC45551.

The Company is domiciled in the United Kingdom. Its head office is at RBS Gogarburn, PO Box 1000, Edinburgh EH12 1HQ and its registered office is at 36 St Andrew Square, Edinburgh EH2 2YB (Tel. No. 0131 556 8555 or, if dialling from outside the United Kingdom, +44 131 556 8555).

The principal laws and legislation under which the Company operates, and under which the Ordinary Shares have been created, are the Companies Act and regulations made thereunder.

#### 3 Relevant Documentation

The following disclosures in the Prospectus are incorporated by reference into this Circular:

<u>Information</u>	<u>Sections of the Prospectus incorporated by reference into this Circular</u>
Risk Factors	Risk Factors
Unaudited pro forma proportional Core Tier 1 capital ratio as at 31 December 2008	Part A of Part VI—Unaudited Pro Forma Financial Information
Report on the RBS Group's unaudited pro forma Core Tier 1 capital ratio	Part B of Part VI—Unaudited Pro Forma Financial Information
Details of material contracts relating to the RBS Group	Paragraph 18 of Part IX—Additional Information
The no significant change statement of RBS	Paragraph 22 of Part IX—Additional Information
Documents available for inspection	Paragraph 25 of Part IX—Additional Information

#### 4 Significant shareholdings

As at 11 March 2009 (being the latest practicable date prior to the publication of this document), the Company had been notified of or was otherwise aware of the following Shareholders who were directly or indirectly interested in 3 per cent. or more of the issued Ordinary Shares:

	<u>As at 11 March 2009</u>	
	<u>Ordinary Shares</u>	<u>Percentage of issued share capital</u>
Solicitor for the Affairs of Her Majesty's Treasury as Nominee for Her Majesty's Treasury . . . . .	22,853,798,818	57.92

Save as disclosed in this paragraph 4, RBS is not aware of any person who, as at 11 March 2009 (being the latest practicable date prior to the publication of this document), directly or indirectly, has a holding which exceeds the threshold of 3 per cent. or more of the total voting rights attaching to its issued share capital.

RBS is not aware of any persons who, as at 11 March 2009 (being the latest practicable date prior to the publication of this document), directly or indirectly, jointly or severally, exercise or could exercise control over RBS nor is it aware of any arrangements, the operation of which may at a subsequent date result in a change of control of the Company save as disclosed in this paragraph 4.

None of the Shareholders referred to in this paragraph 4 has different voting rights from any other holder of Shares in respect of any Shares held by them.

## **5 Documents available for inspection**

Copies of all documents referred to in paragraph 25 of Part IX of the Prospectus—Additional Information and the written consents referred to in paragraph 6 below will be available for inspection at the following addresses during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of publication of this document until Admission:

- A. the registered office of the Company; and
- B. the offices of Linklaters LLP, One Silk Street, London EC2Y 8HQ.

They will also be available for inspection at the General Meeting for at least 15 minutes prior to and during the General Meeting.

## **6 General**

Merrill Lynch International, whose address is 2 King Edward Street, London EC1A 1HQ, has given and has not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which they appear.

UBS Limited, whose address is 1 Finsbury Avenue, London EC2M 2PP, has given and has not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which they appear.

RBS Hoare Govett, whose address is 250 Bishopsgate, London EC2M 4AA, has given and has not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which they appear.

Dated: 16 March 2009

## DEFINITIONS

In this document, the following expressions have the following meaning unless the context otherwise requires:

<b>2006 Act</b> . . . . .	the UK Companies Act 2006.
<b>ABN AMRO</b> . . . . .	ABN AMRO Holding N.V. and its subsidiaries or any one of them, as the context so requires.
<b>ABN AMRO Bank</b> . . . . .	ABN AMRO Bank N.V., a wholly owned subsidiary of ABN AMRO.
<b>Admission</b> . . . . .	the admission of the New Shares to the Official List becoming effective in accordance with the Listing Rules and the admission of such shares to trading on the London Stock Exchange's market for listed securities becoming effective in accordance with the Admission and Disclosure Standards and the admission of the New Shares to listing and trading on Euronext Amsterdam becoming effective in accordance with the Euronext Rule Books.
<b>Admission and Disclosure Standards</b> . . . . .	the "Admission and Disclosure Standards" of the London Stock Exchange containing, among other things, the admission requirements to be observed by companies seeking admission to trading on the London Stock Exchange's main market for listed securities.
<b>Admitted Institutions</b> and each an <b>Admitted Institution</b> . . . . .	admitted institutions ( <i>aangesloten instellingen</i> ) of Euroclear Nederland within the meaning of the Dutch Securities Giro Act, which institutions hold a collective depot ( <i>verzameldepot</i> ) in relation to Euroclear Shares.
<b>Annual Report and Accounts</b> . . . . .	the annual report and accounts of the Group for the year ended 31 December 2008.
<b>Application Form</b> . . . . .	the personalised application form on which Qualifying Non-CREST Shareholders may apply for New Shares under the Open Offer.
<b>Articles of Association</b> . . . . .	the articles of association of the Company, details of which are set out in paragraph 4.2 of Part IX of the Prospectus.
<b>Asset Protection Scheme or APS</b> . . . . .	the asset protection scheme announced by HM Treasury on 19 January 2009.
<b>B Shares</b> . . . . .	B shares in the capital of the Company, the key expected terms of which are set out in Part B of the Appendix to the letter from the Chairman of RBS in Part I of this document.
<b>Basel Committee</b> . . . . .	the Basel Committee on Banking Supervision.
<b>Basel II</b> . . . . .	the June 2004 Basel Accord of the Basel Committee.
<b>Board</b> . . . . .	the board of Directors of RBS.
<b>business day</b> . . . . .	a day (excluding Saturdays and Sundays or public holidays in England and Wales) on which banks generally are open for business in London for the transaction of normal business.
<b>certificated or in certificated form</b> . . . . .	where a share or other security is not in uncertificated form.
<b>CET</b> . . . . .	Central European Time.
<b>Companies Act</b> . . . . .	the UK Companies Act 1985, as amended, or the 2006 Act, as the context so requires.
<b>Company or RBS</b> . . . . .	The Royal Bank of Scotland Group plc, a company incorporated under the laws of Scotland (registered under no. SC45551), with its registered office at 36 St Andrew Square, Edinburgh EH2 2YB.
<b>Credit Guarantee Scheme</b> . . . . .	the extended credit guarantee scheme announced by the UK Government on 19 January 2009.
<b>CREST</b> . . . . .	the relevant system, as defined in the CREST Regulations (in respect of which Euroclear UK is the operator as defined in the CREST Regulations).



<b>CREST Manual</b> . . . . .	the rules governing the operation of CREST, consisting of the CREST Reference Manual, CREST International Manual, CREST Central Counterparty Service Manual, CREST Rules, Registrars Service Standards, Settlement Discipline Rules, CCSS Operations Manual, Daily Timetable, CREST Application Procedure and CREST Glossary of Terms (all as defined in the CREST Glossary of Terms promulgated by Euroclear UK on 15 July 1996 and as amended since).
<b>CREST member</b> . . . . .	a person who has been admitted to Euroclear UK as a system member (as defined in the CREST Regulations).
<b>CREST Regulations or Regulations</b> . . . . .	the Uncertificated Securities Regulations 2001 (SI 2001 No. 01/378), as amended.
<b>Cumulative Preference Shares</b> . . . . .	the 11 per cent. cumulative preference shares of £1 each and 5.5 per cent. cumulative preference shares of £1 each in the capital of the Company.
<b>Directors</b> . . . . .	the Executive Directors and Non-Executive Directors, whose names appear on page 33 of the Prospectus.
<b>Disclosure and Transparency Rules</b> . . . . .	the rules relating to the disclosure of information made in accordance with Section 73A(3) of the FSMA.
<b>Discretionary Option Plans</b> . . . . .	the Discretionary Option Plans adopted by the Company described in paragraph 13.1 of Part IX of the Prospectus.
<b>Dutch Securities Giro Act</b> . . . . .	the Dutch <i>Wet giraal effectenverkeer</i> .
<b>Dutch State</b> . . . . .	the State of the Netherlands.
<b>Dutch Subscription Agent</b> . . . . .	ABN AMRO Bank N.V., trading under the name “RBS”.
<b>Euroclear Nederland</b> . . . . .	Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V., the Dutch depositary and settlement institute.
<b>Euroclear Open Offer Entitlement</b> . . . . .	an entitlement to apply for New Shares, calculated on the pro rata basis of 3 New Shares for every 7 Existing Shares held, allocated to a Qualifying Euroclear Shareholder pursuant to, and subject to the terms of, the Open Offer.
<b>Euroclear Share</b> . . . . .	interests in, and corresponding to, the Existing Shares which at the Record Date are registered in the name of Euroclear Nederland and which are traded on Euronext Amsterdam.
<b>Euroclear UK</b> . . . . .	Euroclear UK & Ireland Limited, the operator of CREST.
<b>Euronext</b> . . . . .	Euronext Amsterdam N.V.
<b>Euronext Amsterdam</b> . . . . .	Euronext Amsterdam by NYSE Euronext, the regulated market of Euronext.
<b>Excess Application Facility</b> . . . . .	the arrangement pursuant to which Qualifying Shareholders may apply for New Shares in excess of their Open Offer Entitlements or Euroclear Open Offer Entitlements (as applicable).
<b>Excess CREST Open Offer Entitlements</b> . . . . .	in respect of each Qualifying CREST Shareholder, the conditional entitlements to apply for New Shares credited to his stock account in CREST, which are subject to scaling back in accordance with the provisions of the Prospectus, the ISIN of which is GB00B60SSG76.
<b>Excluded Territories and each an Excluded Territory</b> . . . . .	Australia and South Africa.
<b>Executive Directors</b> . . . . .	the executive directors of RBS.
<b>Existing Shares</b> . . . . .	the Ordinary Shares in issue as at the date of this document.
<b>Ex-Entitlement Date</b> . . . . .	the date on which the Ordinary Shares are marked “ex-entitlement”, being 17 March 2009.
<b>Financial Services Authority or FSA</b> . . . . .	the Financial Services Authority of the United Kingdom.

<b>First Placing and Open Offer Agreement</b> . . . . .	the placing and open offer agreement effective as of 13 October 2008 between the Company, HM Treasury, Merrill Lynch International and UBS.
<b>Fortis</b> . . . . .	Fortis N.V., a company incorporated under the laws of the Netherlands (Trade Register number 30072145), with registered office at Archimedes 6, 3584 BA Utrecht, the Netherlands, and Fortis SA/NV, a company incorporated under the laws of Belgium, with registered office at Rue Royale 20, 1000 Brussels, Belgium, together, where the context so requires, with their subsidiaries.
<b>FSMA</b> . . . . .	the Financial Services and Markets Act 2000, as amended.
<b>G-7</b> . . . . .	the group of seven industrialised nations constituted by Canada, France, Germany, Italy, Japan, the United Kingdom and the United States.
<b>GBM</b> . . . . .	the Global Banking & Markets division of the Group.
<b>General Meeting</b> . . . . .	the general meeting of RBS to be held at 2.00 p.m. on 3 April 2009 (or as soon as possible thereafter immediately following the conclusion or adjournment of the Annual General Meeting of the Company convened for the same day), notice of which is set out in this document.
<b>General Meeting Notice</b> . . . . .	the notice of the General Meeting set out in this document.
<b>HM Treasury</b> . . . . .	Her Majesty's Treasury or, where the context requires, any person to whom the Second Placing and Open Offer Agreement is novated.
<b>Independent Shareholders</b> . . . . .	the Shareholders, excluding HM Treasury and any person acting in concert with HM Treasury.
<b>ISIN</b> . . . . .	International Securities Identification Number.
<b>Issue Price</b> . . . . .	31.75 pence per New Share.
<b>Listing Rules</b> . . . . .	the Listing Rules made by the FSA under Part VI of the FSMA.
<b>London Stock Exchange</b> . . . . .	London Stock Exchange plc.
<b>Merrill Lynch International</b> . . . . .	Merrill Lynch International of Merrill Lynch Financial Centre, 2 King Edward Street, London EC1A 1HQ.
<b>New Shares</b> . . . . .	the new Ordinary Shares to be offered to Qualifying Shareholders under the Open Offer and which may be placed, subject to clawback in respect of valid applications by Qualifying Shareholders or taken by HM Treasury pursuant to the Second Placing and Open Offer Agreement.
<b>Non-Executive Directors</b> . . . . .	the non-executive directors of RBS.
<b>Official List</b> . . . . .	the Official List of the FSA pursuant to Part VI of the FSMA.
<b>Open Offer</b> . . . . .	the offer to Qualifying Shareholders constituting an invitation to apply for the New Shares on the terms and subject to the conditions set out in the Prospectus and also, in the case of Qualifying Non-CREST Shareholders, in the Application Form.
<b>Open Offer Entitlement</b> . . . . .	an entitlement to apply for New Shares, calculated on a pro rata basis of 3 New Shares for every 7 Existing Shares held, allocated to a Qualifying CREST Shareholder or Qualifying Non-CREST Shareholder pursuant to, and subject to the terms of, the Open Offer, the ISIN of which is: GB00B60SSF69.
<b>Ordinary Shares or Shares</b> . . . . .	the ordinary shares of 25 pence each in the share capital of the Company (including, if the context requires, the New Shares).
<b>Placing</b> . . . . .	the placing of New Shares with Placees as described in the Prospectus.
<b>pounds sterling or £</b> . . . . .	the lawful currency of the United Kingdom.
<b>Preference Shares</b> . . . . .	the non-cumulative sterling preference shares issued to HM Treasury pursuant to the Preference Share Issue.
<b>Preference Share Issue</b> . . . . .	the issue of the Preference Shares to HM Treasury pursuant to the terms of the Preference Share Subscription Agreement.
<b>Preference Share Redemption</b> . . . . .	the proposed redemption of the Preference Shares for a cash amount equal to 101 per cent. of their issue price, together with accrued interest to the date of redemption.

<b>Preference Share Subscription Agreement</b> . . .	the preference share subscription agreement effective as of 13 October 2008 between the Company and HM Treasury in connection with the Preference Share Issue.
<b>proportional consolidated basis</b> . . . . .	a level of consolidation which excludes those ABN AMRO businesses to be transferred to the Dutch State (previously Fortis) and Santander (including their proportional ownership of shared assets and shared liabilities).
<b>Prospectus</b> . . . . .	the prospectus dated 16 March 2009 prepared in connection with the Placing and Open Offer.
<b>Prospectus Rules</b> . . . . .	the Prospectus Rules published by the FSA under Section 73A of the FSMA.
<b>Qualified Institutional Buyer or QIB</b> . . . . .	has the meaning given in Rule 144A under the US Securities Act.
<b>Qualifying CREST Shareholders</b> . . . . .	Qualifying Shareholders holding Ordinary Shares in uncertificated form in CREST.
<b>Qualifying Euroclear Shareholders</b> . . . . .	holders of a securities account with an Admitted Institution which on the Record Date includes Euroclear Shares, resulting in the holders having an interest in the relevant Admitted Institution's collective depot of Euroclear Shares, with the exclusion (subject to exceptions) of holders with a registered address, resident or located in the United States or an Excluded Territory.
<b>Qualifying Non-CREST Shareholders</b> . . . . .	Qualifying Shareholders holding Ordinary Shares in certificated form.
<b>Qualifying Shareholders</b> . . . . .	holders of Ordinary Shares on the register of members of the Company at the Record Date, with the exclusion (subject to exceptions) of persons with a registered address or located or resident in the United States or an Excluded Territory, but including, where the context permits, Qualifying Euroclear Shareholders.
<b>RBS Group or the Group</b> . . . . .	the Company and each of its subsidiaries and subsidiary undertakings from time to time.
<b>RBS Hoare Govett</b> . . . . .	RBS Hoare Govett Limited of 250 Bishopsgate, London EC2M 4AA.
<b>RBS plc</b> . . . . .	The Royal Bank of Scotland plc of 36 St Andrew Square, Edinburgh EH2 2YB.
<b>Record Date</b> . . . . .	in respect of Qualifying Euroclear Shareholders, close of business on 16 March 2009 and, in respect of Qualifying CREST Shareholders and Qualifying Non-CREST Shareholders, close of business on 12 March 2009.
<b>Registrar or Computershare</b> . . . . .	Computershare Investor Services PLC.
<b>Resolution 1</b> . . . . .	the ordinary resolution to be proposed at the General Meeting, notice of which is set out in this document, increasing the Company's authorised share capital and granting the Directors authority to allot Ordinary Shares in connection with the Placing and Open Offer.
<b>Resolution 2</b> . . . . .	the ordinary resolution to be proposed at the General Meeting, notice of which is set out in this document, to approve the Transaction.
<b>Resolution 3</b> . . . . .	the special resolution to be proposed at the General Meeting, notice of which is set out in this document, amending the Articles of Association in connection with the Preference Share Redemption.
<b>Resolution 4</b> . . . . .	the special resolution to be proposed at the General Meeting, notice of which is set out in this document, granting the Directors authority to allot Ordinary Shares in connection with the Placing and Open Offer on a non-pre-emptive basis.
<b>Resolutions</b> . . . . .	Resolution 1, Resolution 2, Resolution 3 and Resolution 4.
<b>RFS Holdings</b> . . . . .	RFS Holdings B.V., the investment vehicle through which RBS, Fortis and Santander acquired ABN AMRO, which is now owned by RBS, the Dutch State and Santander.

<b>Santander</b> . . . . .	Banco Santander, S.A.
<b>Second Placing and Open Offer Agreement</b> . . . . .	the second placing and open offer agreement dated 19 January 2009 between the Company, HM Treasury, Merrill Lynch International and UBS.
<b>Shareholder</b> or <b>RBS Shareholder</b> . . . . .	a holder of Ordinary Shares and, where the context permits, a holder of Cumulative Preference Shares and/or a holder of Preference Shares.
<b>Shareholder Guide</b> . . . . .	the guide attached to the Application Forms containing instructions as to the completion of the Application Forms.
<b>Sharesave Schemes</b> . . . . .	the Sharesave Schemes and Sharesave Plans adopted by the Company described in paragraph 13.1 of Part IX of the Prospectus.
<b>stock account</b> . . . . .	an account within a member account in CREST to which a holding of a particular share or other security in CREST is credited.
<b>subsidiary undertaking</b> . . . . .	as defined in section 258 of the Companies Act.
<b>Transaction</b> . . . . .	the Placing and Open Offer and the Preference Share Redemption, taken together.
<b>UBS</b> or <b>UBS Investment Bank</b> or <b>UBS Limited</b> . . . . .	UBS Limited of 1 Finsbury Avenue, London EC2M 2PP.
<b>UK Financial Investments</b> or <b>UKFI</b> . . . . .	UK Financial Investments Limited, a company wholly-owned by the UK Government.
<b>UK Listing Authority</b> or <b>UKLA</b> . . . . .	the FSA in its capacity as the competent authority for the purposes of Part VI of the FSMA and in the exercise of its functions in respect of the admission to the Official List otherwise than in accordance with Part VI of the FSMA.
<b>uncertificated</b> or <b>in uncertificated form</b> . . . . .	recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST or constituting a giro depot ( <i>girodepot</i> ) maintained by Euroclear Nederland in accordance with the Dutch Securities Giro Act as a result of which title may be transferred in accordance with the Dutch Securities Giro Act.
<b>United Kingdom</b> or <b>UK</b> . . . . .	the United Kingdom of Great Britain and Northern Ireland.
<b>United States</b> or <b>US</b> . . . . .	the United States of America, its territories and possessions, any state of the United States and the District of Columbia.
<b>US Exchange Act</b> . . . . .	the United States Securities Exchange Act of 1934, as amended.
<b>US Holder</b> . . . . .	a beneficial owner of New Shares that is, for US federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to US federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for US federal income tax purposes.
<b>US Securities Act</b> . . . . .	the United States Securities Act of 1933, as amended.
<b>USE Instruction</b> . . . . .	has the meaning given in the CREST Manual.

## NOTICE OF GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that a **GENERAL MEETING** of The Royal Bank of Scotland Group plc (the "**Company**") will be held on 3 April 2009 at The Edinburgh International Conference Centre, The Exchange, Morrison Street, Edinburgh EH3 8EE at 2.00 p.m. (or as soon as possible thereafter immediately following the conclusion or adjournment of the Annual General Meeting of the Company convened for the same day and at the same place) for the purposes of considering and, if thought fit, passing the following resolutions:

### Ordinary Resolutions

**1** THAT:

- 1.1 the authorised share capital of the Company be increased by the creation of 16,909,716,385 new ordinary shares of 25 pence each in the capital of the Company, such shares forming one class with the existing ordinary shares and having attached thereto the respective rights and privileges and being subject to the limitations and restrictions set out in the Articles of Association of the Company (the "**Articles of Association**"); and
- 1.2 in addition and without prejudice to the authority conferred on the Directors by paragraph (1) of Article 13(B) of the Articles of Association and any other subsisting authority conferred on the Directors pursuant to the aftermentioned Section 80 the Directors be generally and unconditionally authorised pursuant to and in accordance with Section 80 of the Companies Act 1985 (the "**Act**") to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of the Act) up to an aggregate nominal amount of £4,227,429,096.25, provided that:
  - 1.2.1 such authority shall be limited to the allotment of relevant securities pursuant to or in connection with the placing and open offer described in the circular dated 16 March 2009 (the "**Circular**") of which this notice forms part (the "**Placing and Open Offer**") made for the purposes of financing the redemption of the Preference Shares (as defined in the Circular);
  - 1.2.2 such authority shall expire on 2 April 2010; and
  - 1.2.3 by such authority and power the Directors may during such period make offers or enter into agreements which would, or might, require securities to be allotted after the expiry of such period.

**2** THAT the Transaction (as defined in the Circular), being a related party transaction for the purposes of the Listing Rules of the United Kingdom Listing Authority, be and is hereby approved.

### Special Resolutions

- 3** THAT, subject to and conditional upon HM Treasury, in its capacity as the holder of the Preference Shares, consenting in writing to the variation of its class rights, the amendments set out in Appendix 1 be made to the Articles of Association in connection with the Preference Share Redemption (as defined in the Circular).
- 4** THAT, subject to and conditional upon Resolution 1 being passed, the Directors be and are hereby generally empowered pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94(2) of the Act) wholly for cash pursuant to the authority given by Resolution 1 above as if Section 89(1) of the Act did not apply to any such allotment provided that:
  - 4.1 such power shall be limited to the allotment of equity securities pursuant to the Placing and Open Offer up to an aggregate nominal amount of £4,227,429,096.25;
  - 4.2 such authority shall expire on 2 April 2010; and
  - 4.3 by such power the Company may make offers or enter into agreements during this period which would, or might, require equity securities to be allotted after the expiry of such period.

By order of the Board of Directors of the Company  
Miller McLean  
Group Secretary

Date: 16 March 2009

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#### Notes:

- (1) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company gives notice that only those shareholders entered on the register of members of the Company at close of business on 1 April 2009, or, if the General Meeting is adjourned, on the register of members of the Company 48 hours before the time of the adjourned meeting will be entitled to attend or vote at the General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register after close of business on 1 April 2009 will be disregarded in determining the rights of any person to attend or vote at the meeting.

- (2) Every member entitled to attend, speak and vote at the General Meeting is entitled to appoint a proxy or proxies to attend, speak and vote instead of the member. A proxy need not be a member of the Company. A member may appoint more than one proxy in relation to the General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by a member. 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 at Computershare Investor Services PLC, Corporate Actions 1, The Pavilions, Bridgwater Road, Bristol BS99 6AF by 2.00 p.m. on 1 April 2009. The appointment of a proxy will not prevent a member from subsequently attending and voting at the meeting in person.
- (3) Any person to whom this General Meeting Notice has been sent, whose shares are held on their behalf by another person and who has been nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
- (4) The statement of the rights of shareholders in relation to the appointment of proxies in notes 2 above and 5 below do not apply to Nominated Persons. The rights described in these notes can only be exercised by shareholders.
- (5) CREST members who wish to appoint and/or give instructions to a proxy or proxies through the CREST electronic proxy appointment service may do so through the issuer's agent (ID 3RA50) by the latest time for receipt of proxy appointments specified above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
- (6) As at 11 March 2009 (being the latest practicable date prior to the printing of this document), the issued share capital of the Company conferring the right to vote at the General Meeting consisted of 39,456,004,899 ordinary shares of 25p each carrying one vote each, 400,000 5.5 per cent. cumulative preference shares of £1 each carrying four votes each, and 500,000 11 per cent. cumulative preference shares of £1 each carrying four votes each and 5,000,000 non-cumulative sterling preference shares of £1 each carrying one vote each on resolution 3. Therefore, the total number of voting rights in the Company as at 11 March 2009 was 39,459,604,899 or 39,464,604,899, where the voting rights of the non-cumulative sterling preference shares are included.
- (7) In order to facilitate voting by corporate representatives at the General Meeting, arrangements will be put in place at the meeting to follow the procedure set out in the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives. Please see [www.icsa.org.uk](http://www.icsa.org.uk) for further details of this procedure or contact the Company's Registrar on 0870 702 0135 or, if calling from outside the UK, +44 870 702 0135.

## APPENDIX 1

### Proposed changes to the Articles of Association

It is proposed that:

- 1 the words “(save for the Non-cumulative Sterling Preference Shares, Series 2 which shall be redeemable in accordance with the provisions of Article 4(C)(2)(ff))” be inserted in Article 4(C)(2)(f)(i) after the words “...each series of Non-cumulative Sterling Preference Shares shall...”; and
- 2 the following words be inserted after Article 4(C)(2)(f) in the Articles of Association of the Company to form a new Article 4(C)(2)(ff):

“(ff) Redemption of the Non-cumulative Sterling Preference Shares, Series 2

- (i) The Non-cumulative Sterling Preference Shares, Series 2 shall, subject to the provisions of the Statutes, be redeemable at the option of the Company in accordance with the following provisions.
- (ii) In the case of the Non-cumulative Sterling Preference Shares, Series 2:-
  - (A) the Company may, subject to sub-paragraph (AA) below, redeem on any Redemption Date (as hereinafter defined) all or some only of the Non-cumulative Sterling Preference Shares, Series 2 by giving to the holders of the Non-cumulative Sterling Preference Shares, Series 2 to be redeemed no less than 14 days’ prior notice in writing (a “Notice of Redemption”) of the relevant Redemption Date. “Redemption Date” means, in relation to the Non-cumulative Sterling Preference Share, Series 2 any date which either (i) falls no earlier than such date (if any) as may be fixed by the Directors as being the earliest date on which the Company may redeem such share, and the date so fixed shall be no earlier than five years and one day, and no later than thirty years and one day, after the relevant date of allotment or (ii) is the date on which the Early Redemption Right (as hereinafter defined) is exercised;
  - (AA) Notwithstanding the provisions of sub-paragraph (A) above, the Company may redeem the Non-cumulative Sterling Preference Shares, Series 2 at any time provided that such redemption is financed wholly by the proceeds of the issue of new Ordinary Shares pursuant to the placing and open offer agreement dated 19 January 2009 between inter alia, the Company and The Commissioners of Her Majesty’s Treasury (the “Early Redemption Right”). No Notice of Redemption shall be required in connection with any redemption by the Company pursuant to this sub-paragraph (AA);
  - (B) there shall be paid on each Non-cumulative Sterling Preference Share, Series 2 so redeemed, in Sterling, (i) other than in the case of redemption pursuant to the Early Redemption Right described in sub-paragraph (AA) above the aggregate of the nominal amount thereof together with any premium paid on issue and together with arrears (if any) of dividends thereon (whether earned or declared or not) in respect of the period from the dividend payment date last preceding the Redemption Date to the Redemption Date; and (ii) in the case of redemption pursuant to the Early Redemption Right described in sub-paragraph (AA) above, the aggregate of (x) 101 per cent. of the aggregate liquidation preference amount of the Non-cumulative Sterling Preference Shares, Series 2 outstanding and (y) dividends accrued thereon (whether earned or declared or not) in respect of the period from the issue date of the Non-cumulative Sterling Preference Shares, Series 2 to the date on which the Non-cumulative Sterling Preference Shares, Series 2 are redeemed;
  - (C) in the case of a redemption of some only of the Non-cumulative Sterling Preference Shares, Series 2, the Company shall for the purpose of determining the particular Non-cumulative Sterling Preference Shares, Series 2 to be redeemed cause a drawing to be made at the Office or such other place as the Directors may approve in the presence of the Auditors for the time being of the Company;
  - (D) any Notice of Redemption given under sub-paragraph (ii)(A) above shall specify the applicable Redemption Date, the particular Non-cumulative Sterling Preference Shares, Series 2 to be redeemed and the redemption price (specifying (in the case of any Non-cumulative Sterling Preference Shares, Series 2 allotted prior to the coming into force of the Relevant Section) the amount of the accrued and unpaid dividend per share to be included therein and stating that dividends on the Non-cumulative Sterling Preference Shares, Series 2 to be redeemed will cease to accrue on redemption), and shall state the place or places at which documents of title in respect of such

Non-cumulative Sterling Preference Shares, Series 2 are to be presented and surrendered for redemption and payment of the redemption monies is to be effected. Upon such Redemption Date, the Company shall redeem the particular Non-cumulative Sterling Preference Shares, Series 2 to be redeemed on that date subject to the provisions of this paragraph and of the Statutes. No defect in the Notice of Redemption or in the giving thereof shall affect the validity of the redemption proceedings;

- (E) subject to sub-paragraph (I) below, the provisions of this and the following sub-paragraph shall have effect in relation to Non-cumulative Sterling Preference Shares, Series 2 for the time being issued and registered in the Register of Members ("Registered Shares") and represented by certificates ("Certificates"). Payments in respect of the amount due on redemption of a Registered Share shall be made by Sterling cheque drawn on a bank in London or upon the request of the holder or joint holders not later than the date specified for the purpose in the Notice of Redemption by transfer to a Sterling account maintained by the payee with a bank in London or, in the event of the exercise of the Early Redemption Right, in such other manner as may be agreed between the Company and the holders of the Non-cumulative Sterling Preference Shares, Series 2. Such payment will be against presentation and surrender of the relative Certificate at the place or one of the places specified in the Notice of Redemption and if any Certificate so surrendered includes any Non-cumulative Sterling Preference Shares, Series 2 not to be redeemed on the relevant Redemption Date the Company shall within 14 days thereafter issue to the holder, free of charge, a fresh Certificate in respect of such Non-cumulative Sterling Preference Shares, Series 2. All payments in respect of redemption monies will in all respects be subject to any applicable fiscal or other laws;
  - (F) as from the relevant Redemption Date the dividend on the Non-cumulative Sterling Preference Shares, Series 2 due for redemption shall cease to accrue except on any such Non-cumulative Sterling Preference Share, Series 2 in respect of which, upon the due surrender of the Certificate in accordance with sub-paragraph (E) above, payment of the redemption monies due on such Redemption Date shall be improperly withheld or refused, in which case such dividend, at the rate then applicable, shall be deemed to have continued and shall accordingly continue to accrue from the relevant Redemption Date to the date of payment of such redemption monies. Such Non-cumulative Sterling Preference Share, Series 2 shall not be treated as having been redeemed until the redemption monies in question together with the accrued dividend thereon shall have been paid;
  - (G) if the due date for the payment of the redemption monies on any Non-cumulative Sterling Preference Share, Series 2 is not a Sterling Business Day then payment of such monies will be made on the next succeeding day which is a Sterling Business Day and without any interest or other payment in respect of such delay unless such day shall fall within the next calendar month whereupon such payment will be made on the preceding Sterling Business Day;
  - (H) the receipt of the holder for the time being of any Registered Share (or in the case of joint holders the receipt of any one of them) in respect of the monies payable on redemption on such Registered Share shall constitute an absolute discharge to the Company; and
  - (I) subject as aftermentioned, the provisions of sub-paragraphs (E) and (F) above shall have effect in relation to Registered Shares which are in uncertificated form within the meaning of the Uncertificated Securities Regulations 1995 (as in force on 15 January 1998) in the same manner as they have effect in relation to Registered Shares represented by Certificates or, in the event of the exercise of the Early Redemption Right, in such other manner as may be agreed between the Company and the holders of the Non-cumulative Sterling Preference Shares, Series 2, save that (i) any provision of the said paragraphs requiring presentation and surrender of a Certificate shall be satisfied in the manner prescribed or permitted by the said Regulations (or by any enactment or subordinate legislation which amends or supersedes those Regulations) or (subject to those Regulations or such enactment or subordinate legislation) in such manner as may from time to time be prescribed by the Directors), and (ii) the Company shall not be under any obligation to issue a fresh Certificate under sub-paragraph (E);
- (iii) upon the redemption of any Non-cumulative Sterling Preference Share, Series 2 the nominal amount of such shares comprised in the capital of the Company shall thereafter be divided into, and reclassified as, Ordinary Shares without any further resolution or consent being required."