

**THIS DOCUMENT AND ANY 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 in certificated form before 8.00 a.m. (9.00 a.m. CET) on 17 March 2009, please send the Application Form (having completed Box 8 on the Application Form) as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for delivery to the purchaser or the transferee, except that 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 and the Excluded Territories. If you sell or have sold or otherwise transferred part of your holding of Existing Shares held in certificated form prior to such date, please consult the stockbroker, bank or other agent through whom the sale or transfer was effected and refer to the instructions regarding split applications set out in the Application Form. If you sell or have sold or otherwise transferred all or part of your Existing Shares in uncertificated form before 8.00 a.m. (9.00 a.m. CET) on 17 March 2009, a claim transaction will automatically be generated by Euroclear UK and Euroclear Nederland which, on settlement, will transfer the appropriate number of Open Offer Entitlements or Euroclear Open Offer Entitlements (as applicable) to the purchaser or transferee.

This document, which comprises a prospectus relating to the Placing and Open Offer prepared in accordance with the Prospectus Rules of the UK Listing Authority made under Section 73A of the FSMA, has been approved by the Financial Services Authority (the "FSA") in accordance with Section 87A of the FSMA and made available to the public in accordance with Rule 3.2 of the Prospectus Rules. Pursuant to Section 87I of the FSMA, the Company has requested that the FSA provides a certificate of approval and a copy of this document (and translated summary, where applicable) to the relevant competent authority in the Netherlands, France, Germany, Ireland and Spain.

The Existing Shares are listed and admitted to trading on the London Stock Exchange's main market for listed securities and listed and admitted to trading on Euronext Amsterdam, the regulated market of Euronext. 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.



## **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**

**Merrill Lynch International**  
Joint Financial Adviser, Joint Sponsor,  
Joint Bookrunner and Joint Broker

**UBS Investment Bank**  
Joint Financial Adviser, Joint Sponsor,  
Joint Bookrunner and Joint Broker

**RBS Hoare Govett**  
Joint Bookrunner and Joint Broker

**Your attention is drawn to the letter from your Chairman which is set out on pages 35 to 50 of this document. You should read the whole of this document and any documents incorporated herein by reference. Shareholders and any other persons contemplating a purchase of New Shares should review the risk factors set out on pages 12 to 25 of this document for a discussion of certain factors that should be considered when deciding on what action to take in relation to the Placing and Open Offer and deciding whether or not to purchase New Shares.**

**The latest time and date for acceptance and payment in full by Qualifying Non-CREST Shareholders and Qualifying CREST Shareholders under the Open Offer is expected to be 11.00 a.m. on 6 April 2009. The latest time and date for acceptance and payment in full by Qualifying Euroclear Shareholders under the Open Offer is expected to be 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 date for application and payment. The procedure for application and payment is set out in Part III of this document and, where relevant, in the Application Form.**

The New Shares 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. There will be no public offer in the United States.

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. Merrill Lynch International, UBS Limited and RBS Hoare Govett are not underwriting the Placing and Open Offer.

Apart from the responsibilities and liabilities, if any, which may be imposed on Merrill Lynch International, UBS Limited and RBS Hoare Govett by the FSMA, Merrill Lynch International, UBS Limited and RBS Hoare Govett accept no responsibility whatsoever and make no representation or warranty, express or implied, for the contents of this document, including its accuracy, completeness or verification or for any other statement made or purported to be made by them, or on their behalf, in connection with RBS, the New Shares or the Placing and Open Offer, and nothing in this document is or shall be relied upon as a promise or representation in this respect, whether as to the past or future. Merrill Lynch International, UBS Limited and RBS Hoare Govett accordingly disclaim to the fullest extent permitted by law all and any responsibility and liability whether arising in tort, contract or otherwise (save as referred to above) which they might otherwise have in respect of this document or any such statement.

This statement relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority.

This statement is intended for distribution only to persons of a type specified in those rules. It must not be delivered to, or relied on by, any other person. The Dubai Financial Services Authority has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The Dubai Financial Services Authority has not approved this document or taken steps to verify the information set out in it, and has no responsibility for it. The securities to which this document relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the securities offered should conduct their own due diligence on the securities. If you do not understand the contents of this document, you should consult an authorised financial adviser.

Dated: 16 March 2009

**The New Shares have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the United States or any US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the New Shares or the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence.**

Subject to certain exceptions, this document does not constitute an offer of New Shares to any person with a registered address, or who is resident or located, in the United States or the Excluded Territories. The New Shares have not been and will not be registered under the relevant laws of any state, province or territory of the United States or any Excluded Territories and may not be offered, sold, resold, transferred or delivered, directly or indirectly, within the United States or any Excluded Territory except pursuant to an applicable exemption from registration requirements.

All Overseas Shareholders and any person (including, without limitation, a nominee or trustee) who has a contractual or legal obligation to forward this document or any Application Form, if and when received, or other document to a jurisdiction outside the United Kingdom, should read paragraph 6 of Part III of this document.

NOTICE TO NEW HAMPSHIRE RESIDENTS: NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

### **Notice to Canadian Investors**

The distribution of securities offered in Canada pursuant to this document is being made in each of the Provinces of Canada (individually, a “Canadian Jurisdiction” and collectively, the “Canadian Jurisdictions”) as part of an international open offer. The securities offered by this document will be distributed under exemptions from the prospectus and registration requirements of applicable securities laws in each of the Canadian Jurisdictions. Any certificates representing the securities offered pursuant to this document may bear legends required or desirable under applicable securities laws or policies.

Any resale of the securities offered hereby will be restricted and must be made in accordance with, or pursuant to exemptions from, the prospectus and registration requirements available under applicable securities laws of the Canadian Jurisdictions. Canadian readers are advised to seek legal advice prior to any resale of the securities offered hereby.

By its receipt of this document, each Canadian investor confirms that it has expressly requested that all documents evidencing or relating in any way to the sale of the securities described herein (including for greater certainty any purchase confirmation or any notice) be drawn up in the English language only. *Par la reception de ce document, chaque investisseur canadien confirme paries présentes qu’il a expressement exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit a la vente des valeurs mobilières decrites aux presentes (incluant, pour plus de certitude, toute confirmation d’achat ou tout avis) soient redigés en anglais seulement.*

The offering in the Canadian Jurisdictions is being made solely by this document and no person has been authorised to give any information or to make any representation other than as provided for herein.

Canadian readers should be aware that the financial statements and other financial information contained in this document have been prepared in accordance with IFRS and thus may not be comparable to financial statements and financial information of Canadian companies. Holding and disposing of the securities offered under this document may have tax consequences in Canada and other jurisdictions that are not described in this document. Canadian readers are advised to consult their tax advisers.

RBS is formed under the laws of a jurisdiction outside Canada. All of the directors and officers of RBS may be located outside Canada and, as a result, it may not be possible for purchasers to effect service of process within Canada upon RBS or such persons. All or a substantial portion of the assets of RBS may be located outside Canada and, as a result, it may not be possible for purchasers to satisfy or collect a judgement in Canada against RBS or its directors and officers or to enforce a judgement obtained in Canadian courts against RBS or such persons outside Canada.

This document is not, and under no circumstances is to be construed as, a prospectus, an advertisement or a public offering of these securities in Canada. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed upon this prospectus or the merits of the New Shares, and any representation to the contrary is an offence.

### **Notice to Japanese Investors**

The Open Offer of New Shares has not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the “Financial Instruments and Exchange Law”) and disclosures under the Financial Instruments and Exchange Law have not been and will not be made with respect to such Shares. Accordingly, in connection with the offering made hereby, New Shares may not, directly or indirectly, be offered or sold in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and other relevant laws and regulations of Japan.

### **Notice to Singaporean Investors**

#### *Offer to holders of Existing Shares in Singapore*

This document has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this document and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of New Shares may not be circulated or distributed, nor may New Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to a holder of Existing Shares pursuant to Section 273(1)(cd) of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”) or (ii) otherwise pursuant to, and in accordance with, the conditions of an exemption under any provision of Subdivision (4) of Division 1 of Part XIII of the SFA.

#### *Offer to institutional investors and sophisticated investors in Singapore*

This document has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this document and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of New Shares may not be circulated or distributed, nor may New Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where New Shares are subscribed or purchased under Section 275 of the SFA by a relevant person that is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that

corporation or that trust has acquired the New Shares pursuant to an offer made under Section 275 except:

- (1) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;
- (2) where no consideration is or will be given for the transfer; or
- (3) where the transfer is by operation of law.

### **Notice to Swiss Investors**

This document does not constitute a public offering prospectus as that term is understood pursuant to article 652a or 1156 of the Swiss Code of Obligations. This document may not be issued, circulated or distributed or otherwise made publicly available in or from Switzerland and is not intended as an offer or solicitation with respect to the purchase or sale of the New Shares by the public.

### **Notice to Investors in the United Arab Emirates**

This document is strictly private and confidential and is being distributed to a limited number of investors and must not be provided to any person other than the original recipient, and may not be reproduced or used for any other purpose.

By receiving this document, the person or entity to whom it has been issued understands, acknowledges and agrees that none of the New Shares or this document have been approved by the UAE Central Bank, the UAE Ministry of Economy and Planning or any other authorities in the United Arab Emirates, nor has the placement agent, if any, received authorisation or licensing from the UAE Central Bank, the UAE Ministry of Economy and Planning or any other authorities in the United Arab Emirates to market or sell the New Shares within the United Arab Emirates. No marketing of the New Shares has been or will be made from within the United Arab Emirates and no subscription for the New Shares may or will be consummated within the United Arab Emirates. It should not be assumed that the placement agent, if any, is a licensed broker, dealer or investment adviser under the laws applicable in the United Arab Emirates, or that it advises individuals resident in the United Arab Emirates as to the appropriateness of investing in or purchasing or selling securities or other financial products. The interests in the New Shares may not be offered or sold, directly or indirectly, to the public in the United Arab Emirates. This does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial Companies Law, Federal Law No. 8 of 1984 (as amended) or otherwise.

### **General Notice**

Nothing contained in this document is intended to constitute investment, legal, tax, accounting or other professional advice. This document is for your information only and nothing in this document is intended to endorse or recommend a particular course of action. You should consult with an appropriate professional for specific advice rendered on the basis of your situation.

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## SUMMARY

**The following summary information should be read as an introduction to the more detailed information appearing elsewhere in this document. Any investment decision relating to the New Shares should be based on the consideration of the document as a whole and not solely on this summarised information. Where a claim relating to the information contained in this document is brought before a court in a member state of the European Economic Area, the claimant may, under the national legislation of that member state where the claim is brought, be required to bear the costs of translating this document before legal proceedings are initiated. Civil liability attaches to those persons who are responsible for this summary, including any translation of this summary, but only if this summary is misleading, inaccurate or inconsistent when read together with other parts of this document.**

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

In 2008 the Board concluded that the Group needed to strengthen its capital base and to accomplish this two capital raisings were carried out. A £12 billion rights issue was completed in June 2008. Then, due to a severe deterioration in financial markets and economic conditions, a second capital raising totalling £20 billion was completed in December 2008. Of the £20 billion raised in December, £15 billion was in the form of Ordinary Shares, and £5 billion was in the form of Preference Shares purchased entirely by HM Treasury. As a result of the First Placing and Open Offer, HM Treasury acquired approximately 57.9 per cent. of the issued Ordinary Share capital of the Company. The intention of the Board was that HM Treasury's holding of Preference Shares would be redeemed as soon as practicable.

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 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.

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 Asset Protection Scheme ("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.

While redemption of the Preference Shares would allow the resumption of a sustainable and progressive dividend policy for the Ordinary Shares (it is a term of the Preference Shares that no

such dividends may be paid while the Preference Shares are in issue), 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. A summary of the expected key terms of the B Shares is outlined in Part B of the Appendix to the letter from the Chairman of RBS contained in Part I of this document.

## **2 Trading and outlook**

On 26 February 2009, RBS announced its results for the year ended 31 December 2008. 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.”

## **3 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 placees 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 4.

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.



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 this document and, for Qualifying Non-CREST Shareholders, will also be set out in the Application Form and the Shareholder Guide.

#### 4 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 addition, if the B Shares are issued, 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.

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.

#### 5 Selected financial information on RBS

The data for the years ended 31 December 2008, 2007 and 2006 set out below have been extracted without material adjustment from, and should be read together with, RBS's audited consolidated financial statements included in its Annual Report and Accounts for the year ended 31 December 2008, which are incorporated by reference herein.

	As of and for the year ended 31 December		
	2008	2007	2006
	<i>(£ millions except per share data, percentages and ratios)</i>		
<b>Key income statement data</b>			
Income before credit market write-downs and one-off items . . . .	31,509	31,634	28,002
Credit market write-downs and one-off items . . . . .	(5,641)	(1,268)	—
Total income . . . . .	25,868	30,366	28,002
Operating expenses <sup>(1),(2),(3),(4)</sup> . . . . .	54,033	13,942	12,480
(Loss)/profit before other operating charges and impairment losses . . . . .	(28,165)	16,424	15,522
Operating (loss)/profit before tax . . . . .	(40,667)	9,832	9,186
(Loss)/profit for the year . . . . .	(34,373)	7,712	6,497
(Loss)/profit attributable to ordinary shareholders . . . . .	(24,137)	7,303	6,202
<b>Key balance sheet data</b>			
Total assets . . . . .	2,401,652	1,840,829	856,832
Owners' equity . . . . .	58,879	53,038	40,227
<b>Other key financial data</b>			
Earnings per ordinary share (pence) . . . . .	(145.7p)	64.0	54.4
Diluted earnings per ordinary share (pence) <sup>(5)</sup> . . . . .	(145.7p)	63.4	53.9
Dividends per ordinary share paid (pence) . . . . .	19.3	27.0	21.6
Tier 1 capital ratio <sup>(6)</sup> . . . . .	10.0%	7.3%	7.5%
Total capital ratio <sup>(6)</sup> . . . . .	14.1%	11.2%	11.7%

Notes:

- (1) Includes write-down of goodwill and other intangible assets of £32,581 million of which £15,670 million relates to RFS Holdings Minority Interests (31 December 2007: nil; 31 December 2006: nil).
- (2) Includes credit market write-downs and one-off items of £338 million credit for the year ended 31 December 2007.
- (3) Includes integration and restructuring expenditure of £1,357 million for the year ended 31 December 2008 (31 December 2007: £108 million; 31 December 2006: £134 million).
- (4) Includes amortisation of purchased intangibles of £443 million for the year ended 31 December 2008 (31 December 2007: £262 million; 31 December 2006: £94 million).
- (5) None of the convertible preference shares had a dilutive effect for the year ended 31 December 2008. In prior periods, all the convertible preference shares had a dilutive effect and as such have been included in the computation of diluted earnings per share.
- (6) Capital ratios at 31 December 2008 are fully consolidated and were calculated on Basel II basis; prior periods were calculated on Basel I basis.

## 6 Summary of risk factors

Shareholders should carefully consider the following key risks:

### 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.

## RISK FACTORS

*The following risks should be considered carefully by Shareholders before making any investment decision.*

*This section addresses the existing and future material risks to RBS's business. The risks below are not the only ones that RBS will face. Some risks are not yet known and some that are not currently deemed material could later turn out to be material. All of these risks could materially affect RBS, its income, operating profits, earnings, net assets, liquidity and capital resources. In such a case, the market price of Ordinary Shares may decline and Shareholders could lose all or part of their investment. Shareholders should read this section in conjunction with the letter from the Chairman of RBS and the Appendix thereto contained in Part I of this document.*

### 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.***

Under the provisions of the Banking Act, substantial powers have been granted to HM Treasury, the Bank of England and the FSA as part of the Special Resolution Regime to stabilise banks that are in financial difficulties. The Special Resolution Regime gives the authorities three stabilisation options: private sector transfer of all or part of the business of a UK-incorporated institution with permission to accept deposits (a "relevant entity"); transfer of all or part of the business of the relevant entity to a "bridge bank" established by the Bank of England; and temporary public ownership (nationalisation) of the relevant entity or its UK-incorporated holding company.

The purpose of the stabilising options is to address the situation where all or part of the business of the relevant entity has encountered, or is likely to encounter, financial difficulties. Accordingly, the stabilisation options may only be exercised if the FSA is satisfied that a relevant entity such as RBS's banking subsidiaries, including RBS plc and NatWest Plc, (i) is failing, or is likely to fail, to satisfy the threshold conditions set out in Schedule 6 to the FSMA and (ii) having regard to timing and other relevant circumstances it is not reasonably likely that action will be taken that will enable the relevant entity to satisfy those threshold conditions. The threshold conditions are conditions which an FSA-authorized institution must satisfy in order to retain its FSA authorisation. They are relatively wide-ranging and deal with most aspects of a relevant entity's business, including, but not limited to, minimum capital resource requirements. It is therefore possible that the FSA may exercise one of the stabilisation options before a relevant entity is in severe difficulties and before an application for insolvency or an administration order could be made.

The stabilisation options may be exercised by means of powers to transfer property, rights or liabilities of a relevant entity and shares and other securities issued by a relevant entity. HM Treasury may also take the parent company of a relevant entity (such as RBS) into temporary public ownership provided that certain conditions set out in Section 82 of the Banking Act are met. Temporary public ownership is effected by way of a share transfer order.

If HM Treasury makes the decision to take the holding company of a relevant entity into temporary public ownership, it may take various actions in relation to securities (including the New Shares) issued by the holding company, including:

- to transfer securities free from any contractual or legislative restrictions on transfer;
- to transfer securities free from any trust, liability, or encumbrance;
- to extinguish rights to acquire securities;
- to delist securities; or
- to convert securities into another form or class.

Where HM Treasury has made a share transfer order in respect of securities issued by the holding company of a relevant entity, HM Treasury may make an order providing for the property, rights or liabilities of the holding company or of any relevant entity in the holding company group to be transferred.

Shareholders may have a claim for compensation under one of the compensation schemes provided for in the Banking Act. For the purposes of determining an amount of compensation, an independent valuer must disregard actual or potential financial assistance provided by the Bank of England or HM Treasury. There can be no assurance that Shareholders would thereby recover compensation promptly and/or equal to any loss actually incurred.

If RBS were made subject to the Special Resolution Regime and a partial transfer of RBS's business was effected, the nature and mix of the assets and liabilities not transferred may adversely affect its financial condition and increase the risk that RBS may eventually become subject to administration or insolvency proceedings.

Over the last six months, the UK Government has taken action under the Banking (Special Provisions) Act 2008 in respect of a number of UK financial institutions, including in extreme circumstances, full and part nationalisation. There have been concerns in the market in recent months regarding the risks of such nationalisation in relation to RBS and other UK banks. If economic conditions in the UK or globally continue to deteriorate, or the events described in the following risk factors occur to such an extent that they have a materially adverse impact on the financial condition, perceived or actual credit quality, results of operations or business of any of the relevant entities in the RBS Group, the UK Government may decide to take similar action in relation to RBS. Given the extent of HM Treasury's and the Bank of England's powers under the Banking Act, it is difficult to predict what effect such actions might have on RBS and any securities issued by it. However, potential impacts may include full nationalisation of RBS and the total loss of value in RBS 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.***

On 26 February 2009, RBS announced its intention to participate in the APS, the terms of which are summarised in the Appendix to the letter from the Chairman of RBS set out in Part I of this document. However, its ability to participate in the APS is subject to the satisfaction of a number of conditions which may not be satisfied, including, among others, the completion of due diligence by (and to the satisfaction of) HM Treasury, the receipt of certain regulatory approvals (including European Commission State Aid clearance), the approval of a majority of RBS's Independent Shareholders, finalisation of the terms of the APS and RBS's participation therein and the satisfaction by RBS of certain specified application criteria. The failure to satisfy these conditions could result in RBS being unable to participate in the APS and therefore failing to obtain protection against stressed losses through the economic cycle as well as failing to improve its capital ratios at the RBS consolidated Group level. The result of this may mean intervention by the UK Government, which could include full nationalisation, under which circumstances any compensation payable to Shareholders would be subject to the provisions of the Banking Act, and Shareholders may lose the full value of their Shares.

Furthermore, even if RBS is able to participate in the APS, there can be no assurance that such participation will enable RBS to achieve all of the stated goals of the APS. While the APS is expected to limit losses associated with assets to be covered by the APS, RBS would remain fully exposed in respect of a specified "first loss" amount and exposed to 10 per cent. of losses exceeding that "first loss" amount. In addition, RBS would continue to be exposed to the risk of losses, impairments and write-downs with respect to assets not covered by the APS. Although RBS would have the option to obtain an additional £6 billion in capital from HM Treasury (in the form of a subscription for further B Shares) there can be no assurance that such additional capital, together with RBS's strengthened capital position as a result of the Placing and Open Offer, and the capital resulting from the proposed issue of the £6.5 billion and £13 billion of B Shares, will be sufficient to maintain the Group's capital ratios in the event of further losses, which could cause RBS's business, results of operation and financial condition to suffer, its credit rating to drop, its ability to lend and access funding to be further limited, its cost of funding to increase and its Share price to decline, any of which would increase the risk of the full nationalisation of RBS.

In addition, there can be no assurance that the costs to RBS of its participation in the APS will not outweigh any benefits received. For example, RBS has agreed in principle that if it accedes to the APS, it will give up the right to certain tax losses and allowances which may affect the after-tax returns of the Group in future years. As a result of RBS's agreement to give up such UK tax losses and allowances it is



likely that RBS will pay UK corporation tax in earlier accounting periods than it would otherwise have done.

***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.***

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 and enhancing significantly its financial flexibility in the face of continuing turbulence and uncertainty in the global economy. If Resolutions 1, 3 and 4 are not approved by Shareholders and Resolution 2 is not approved by Independent Shareholders (that is, Shareholders excluding HM Treasury) 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, and will be required to find alternative methods for increasing its Core Tier 1 capital ratio. 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. There can be no assurance that any of these alternative methods will be available or would be successful in increasing the Company's Core Tier 1 capital ratio to the desired level or on the timetable currently envisaged or enable the Group to redeem the Preference Shares. 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, 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.

***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.***

The performance of RBS has been and will continue to be influenced by the economic conditions of the countries in which it operates, particularly the United Kingdom, the United States and other countries throughout Europe and Asia. Recessionary conditions are present in many of these countries, including the United Kingdom and the United States, and such conditions are expected to continue or worsen over the near to medium term. In addition, the global financial system is continuing to experience the difficulties which first manifested themselves in August 2007, and the financial markets have deteriorated significantly since the bankruptcy filing by Lehman Brothers in September 2008. These conditions have led to severe and continuing dislocation of financial markets around the world and unprecedented levels of illiquidity, resulting in the development of significant problems at a number of the world's largest corporate institutions operating across a wide range of industry sectors, many of whom are RBS's customers and counterparties in the ordinary course of its business. In response to this economic instability and illiquidity in the market, a number of governments, including the UK Government, the governments of the other EU member states and the US Government, have intervened in order to inject liquidity and capital into the financial system, and, in some cases, to prevent the failure of these institutions.

Despite such measures, the volatility and disruption of the capital and credit markets have continued at unprecedented levels, and global recessionary conditions are expected to continue. These conditions have produced and will continue to produce downward pressure on stock prices and on availability and cost of credit for financial institutions, including RBS, and will continue to impact the credit quality of RBS's customers and counterparties. Such conditions, alone or in combination with regulatory changes or actions of other market participants, may cause RBS to experience further reductions in business activity, increased funding costs and funding pressures, lower share prices, decreased asset values, additional write-downs and impairment charges and lower profitability or to incur losses.

In addition, RBS will continue to be exposed to the risk of loss if major corporate borrowers or counterparty financial institutions fail or are otherwise unable to meet their obligations. RBS's performance may also be affected by future recovery rates on assets and the historical assumptions underlying asset recovery rates, which may no longer be accurate given the unprecedented market disruption and general economic instability. The precise nature of all the risks and uncertainties RBS

faces as a result of current economic conditions cannot be predicted and many of these risks are outside RBS's control.

***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.***

At the same time as RBS announced its proposed participation in the APS, RBS announced that, if it participated in the APS, it would issue £6.5 billion of B Shares to HM Treasury. RBS also announced that it would issue a further £13 billion of B Shares to HM Treasury on or after implementation of the APS, and HM Treasury would grant RBS the option to require HM Treasury to purchase a further £6 billion of B Shares from it. The B Shares, if issued, will rank *pari passu* with the Ordinary Shares on a winding-up. The B Shares would be convertible, at the option of the holder at any time, into Ordinary Shares at an initial conversion price of £0.50 per Ordinary Share. HM Treasury would agree not to convert any B Shares it holds if, as a result of such conversion, it would hold 75 per cent. or more of the Ordinary Shares, unless the price of the Ordinary Shares is equal to or exceeds £0.65 for a specified period in which case conversion is mandatory in any event. If all £25.5 billion of B Shares are issued and all the New Shares are subscribed for by HM Treasury, such conversion of the B Shares would significantly increase HM Treasury's ownership interest in RBS up to approximately 84.5 per cent. of the Company's issued share capital, and have a corresponding dilutive effect on other RBS Shareholders (as would the issue of the B Shares themselves in the event of a winding-up) although any such conversion would have no impact on the Group's Tier 1 capital position. Furthermore, a mandatory conversion of the B Shares by HM Treasury would put RBS in breach of the Listing Rules requirement that 25 per cent. of its issued share capital must be in public hands. Although RBS may apply to the UKLA for a waiver in such circumstances, there is no guarantee that such a waiver would be granted, the result of which could be the delisting of RBS from the Official List and potentially other exchanges where its securities are currently listed and traded. In addition, HM Treasury will 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, but only 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 presented at a general meeting of the Company.

***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.***

Liquidity risk is the risk that a bank will be unable to meet its obligations, including funding commitments, as they fall due. This risk is inherent in banking operations and can be heightened by a number of enterprise specific factors, including an over-reliance on a particular source of funding (including, for example, short-term and overnight funding), changes in credit ratings or market-wide phenomena such as market dislocation and major disasters. Credit markets worldwide have experienced and continue to experience a severe reduction in liquidity and term-funding in the aftermath of events in the US sub-prime residential mortgage market and the current severe market dislocation. Perception of counterparty risk between banks has also increased significantly following the bankruptcy filing by Lehman Brothers. This increase in perceived counterparty risk has led to further reductions in inter-bank lending, and hence, in common with many other banks, RBS's access to traditional sources of liquidity has been, and may continue to be, restricted.

RBS's liquidity management focuses on maintaining a diverse and appropriate funding strategy for its operations, controlling the mismatch of maturities and carefully monitoring its undrawn commitments and contingent liabilities. However, RBS's ability to access sources of liquidity (for example, through the issue or sale of financial and other instruments or through the use of term loans) during the recent period of liquidity stress has been constrained to the point where it, like other banks, has had to rely on shorter term and overnight funding with a consequent reduction in overall liquidity, and to increase its recourse to liquidity schemes provided by central banks.

In addition, there is also a risk that corporate and institutional counterparties with credit exposures may look to reduce all credit exposures to banks, given current risk aversion trends. It is possible that credit market dislocation becomes so severe that overnight funding from non-government sources ceases to be available.

Furthermore, like many banks, RBS relies on customer deposits to meet a considerable portion of its funding requirements and such deposits are subject to fluctuation due to certain factors outside RBS's control, such as a loss of confidence, competitive pressures or the encouraged or mandated repatriation of deposits by foreign wholesale or central bank depositors, which could result in a significant outflow of deposits within a short period of time. Any material decrease in RBS's deposits could, particularly if accompanied by one of the other factors described above, have a negative impact on RBS's liquidity unless corresponding actions were taken to improve the liquidity profile of other deposits or to reduce assets.

The governments of some of the countries in which RBS operates have taken steps to guarantee the liabilities of the banks and branches operating in their respective jurisdiction. Whilst in some instances the operations of RBS are covered by government guarantees alongside other local banks, in other countries this may not necessarily always be the case. This may place subsidiaries operating in those countries, such as Ulster Bank Ireland Ltd, which did not participate in such government guarantee schemes, at a competitive disadvantage to the other local banks and therefore may require RBS to provide additional funding and liquidity support to these operations.

There can be no assurance that these measures, alongside other available measures, will succeed in improving the funding and liquidity in the markets in which RBS operates, or that these measures, combined with any increased cost of any funding currently available in the market, will not lead to a further increase in RBS's overall cost of funding, which could have an adverse impact on RBS's financial condition and results of operations or result in a loss of value in the Shares.

***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.***

Governmental support schemes are subject to cancellation, change or withdrawal (on a general or individual basis), based on changing economic and political conditions in the jurisdiction of the relevant scheme. Furthermore, certain schemes which have been recently announced, have in fact not been fully implemented, or their terms have not yet been finalised. To the extent government support schemes are cancelled, changed or withdrawn in a manner which diminishes their effectiveness, or to the extent such schemes fail to generate additional liquidity or other support in the relevant markets in which such schemes operate, RBS, in common with other banks, may continue to face limited access to, have insufficient access to, or incur higher costs associated with, funding alternatives, which could have a material adverse impact on RBS's business, financial condition, results of operations and prospects and result in a loss of value in the Shares.

***The financial performance of RBS has been and will be affected by borrower credit quality.***

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of RBS's businesses. The outlook for the global economy over the near to medium term has continued to deteriorate, particularly in the UK, the United States and other European economies. For example, there is an expectation of further reductions in residential and commercial property prices, higher unemployment rates and reduced profitability of corporate borrowers. As a result, RBS has seen and expects to continue to see adverse changes in the credit quality of its borrowers and counterparties, with increasing delinquencies, defaults and insolvencies across a range of sectors. This trend has led and may lead to further impairment charges, higher costs, additional write-downs and losses for RBS or result in a loss of value in the Shares.

***The actual or perceived failure or worsening credit of RBS's counterparties has adversely affected and could continue to adversely affect RBS.***

RBS's ability to engage in routine funding transactions has been and will continue to be adversely affected by the actual or perceived failure or worsening credit of its counterparties, including other financial institutions and corporate borrowers. RBS has exposure to many different industries and counterparties and routinely executes transactions with counterparties in the financial industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds and other institutional clients. As a result, defaults by, or even the perceived creditworthiness of or concerns about, one or more corporate borrowers, financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by RBS or by

other institutions. Many of these transactions expose RBS to credit risk in the event of default of RBS's counterparty or client. In addition, RBS's credit risk is exacerbated when the collateral it holds cannot be realised or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure that is due to RBS, which is most likely to occur during periods of illiquidity and depressed asset valuations, such as those currently experienced. Any such losses could have a material adverse effect on RBS's results of operations and financial condition or result in a loss of value in the Shares.

***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.***

Financial markets are currently subject to significant stress conditions, where steep falls in perceived or actual asset values have been accompanied by a severe reduction in market liquidity, as exemplified by recent events affecting asset backed collateralised debt obligations ("CDOs"), the US sub-prime residential mortgage market and the leveraged loan market. In dislocated markets, hedging and other risk management strategies have proven not to be as effective as they are in normal market conditions due in part to the decreasing credit quality of hedge counterparties, including monoline and other insurance companies and credit derivative product companies. Severe market events have resulted in RBS recording large write-downs on its credit market exposures in 2007 and 2008. RBS expects that the deterioration in economic and financial market conditions will lead to further impairment charges and write-downs during the current financial year. Moreover, recent market volatility and illiquidity has made it difficult to value certain of RBS's exposures. Valuations in future periods, reflecting, among other things, then-prevailing market conditions and changes in the credit ratings of certain of the Group's assets, may result in significant changes in the fair values of the Group's exposures, even in respect of exposures, such as credit market exposures, for which the Group has previously recorded write-downs. In addition, the value ultimately realised by RBS may be materially different from the current or estimated fair value. Any of these factors could require RBS to recognise further significant write-downs or realise increased impairment charges, any of which may adversely affect its capital position, its financial condition and its results of operations or result in a loss of value in the Shares.

For further information about the write-downs which RBS has incurred and the assets it has reclassified during the year ended 31 December 2008, see pages 122-143 of the Annual Report and Accounts for 2008 which are incorporated by reference herein.

***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.***

RBS has credit exposure arising from over-the-counter derivative contracts, mainly credit default swaps ("CDSs"), which are carried at fair value. The fair value of these CDSs, as well as RBS's exposure to the risk of default by the underlying counterparties, depends on the valuation and the perceived credit risk of the instrument against which protection has been bought. Since 2007, monoline and other insurers and other market counterparties (including credit derivative product companies) have been adversely affected by their exposure to residential mortgage linked and corporate credit products. As a result, their actual and perceived credit worthiness deteriorated significantly in 2008 and has continued, and may continue, to be so impacted in 2009. If the financial condition of these counterparties or their actual and perceived credit worthiness deteriorates further, RBS may record further credit valuation adjustments on the CDSs bought from these counterparties in addition to those already recorded.

***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.***

Some of the most significant market risks RBS faces are interest rate, foreign exchange, bond, equity and commodity price risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between lending and borrowing costs, the effect of which may be heightened during periods of liquidity stress, such as those experienced in recent months. Changes in currency rates, particularly in the sterling-US dollar and sterling-euro exchange rates, affect the value of assets, liabilities, income and expenses denominated in foreign currencies and the reported earnings of RBS's non-UK subsidiaries (principally ABN AMRO, Citizens and RBS Greenwich Capital) and may affect income from foreign exchange dealing. The performance of financial markets may affect bond,



equity and commodity prices and, therefore, cause changes in the value of RBS's investment and trading portfolios. This has been the case during the period since August 2007, with market disruptions and volatility resulting in significant reductions in the value of such portfolios. While RBS has implemented risk management methods to mitigate and control these and other market risks to which it is exposed, it is difficult, particularly in the current environment, to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on RBS's financial performance and business operations or result in a loss of value in the Shares.

***RBS's borrowing costs and its access to the debt capital markets depend significantly on its credit ratings.***

On 19 January 2009, S&P affirmed the long-term and short-term counterparty credit ratings for RBS plc at A+ and A-1 respectively. The outlook for all entities of RBS was confirmed as stable, reflecting S&P's view that RBS is of systemic importance to the UK banking system and that S&P now explicitly factor four notches of uplift into their long-term counterparty credit rating on RBS. At the same time S&P lowered its ratings on RBS's hybrid capital issues to BB from BBB, additionally the BB rating was placed under CreditWatch with negative implications.

On the same date, Fitch affirmed RBS and RBS plc's Long-term and Short-term Issuer Default Ratings at AA- and F1+ respectively and downgraded RBS and RBS plc's individual ratings to E from B/C. The outlook for the Issuer Default Ratings remains stable reflecting Fitch's expectation of continued strong government support for RBS. RBS's support rating was upgraded from 1 to 5 and its support floor revised to AA- from No Floor. Fitch also downgraded RBS and RBS plc's Tier 1 preference shares to BB- from A+, and upper tier 2 hybrid capital instruments issued by RBS companies to BB from A+ and placed all of these securities on Rating Watch Negative.

Moody's on 20 January 2009 downgraded the senior unsecured rating of RBS plc to Aa3 from Aa1 with a negative outlook. RBS's senior debt rating was downgraded to A1 from Aa2 again with a negative outlook. The Bank Financial Strength Rating was lowered to C- from B and remains under review for further possible downgrade. The short term P-1 ratings of both RBS and RBS plc were affirmed. The outlook for all RBS entities incorporates Moody's view on the long-term credit profile of RBS beyond the current government support-phase as well as their view of the very high probability of on-going support from the Aaa-rated UK Government.

Any future reductions in the long-term credit ratings of RBS or one of its principal subsidiaries (particularly RBS plc) could further increase its borrowing costs. Any further reductions may also limit the Group's access to the capital markets and trigger additional collateral requirements in derivative contracts and other secured funding arrangements. Credit ratings of RBS and RBS plc are also important to the Group when competing in certain markets, such as over-the-counter derivatives. As a result, any further reductions in RBS's or RBS plc's credit ratings could adversely affect its access to liquidity and competitive position, increase its funding costs and have a negative impact on the Group's earnings and financial condition or result in a loss of value in the Shares.

***RBS's business performance could be adversely affected if its capital is not managed effectively.***

Effective management of RBS's capital is critical to its ability to operate its businesses, to grow organically and to pursue its strategy. RBS is required by regulators in the United Kingdom, the United States, the Netherlands and in other jurisdictions in which it undertakes regulated activities, to maintain adequate capital. The maintenance of adequate capital is also necessary to enhance the Group's financial flexibility in the face of continuing turbulence and uncertainty in the global economy. Accordingly, the purpose of the First Placing and Open Offer and the issue of the Preference Shares was to allow the Company to strengthen its capital position. As at 31 December 2008, the Group's Tier 1 and Core Tier 1 capital ratios were 9.9 per cent. and 6.1 per cent., respectively, as reported on a proportional consolidated basis using the Basel II methodology. Although the net proceeds of the First Placing and Open Offer and the Preference Share Issue strengthened RBS's capital base significantly, and the net proceeds of the Placing and Open Offer will be used to redeem the existing £5 billion of Preference Shares and thereby improve the quality of the Group's capital by increasing the Group's Core Tier 1 capital ratio, any change that limits RBS's ability effectively to manage its balance sheet and capital resources going forward (including, for example, reductions in profits and retained earnings as a result of write-downs or otherwise, increases in risk-weighted assets, delays in the disposal of certain assets or the inability to syndicate loans as a result of market conditions or otherwise) or to access funding



sources, could have a material adverse impact on its financial condition and regulatory capital position or result in a loss of value in the Shares.

***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.***

Under IFRS, RBS recognises at fair value: (i) financial instruments classified as “held-for-trading” or “designated as at fair value through profit or loss”; (ii) financial assets classified as “available-for-sale”; and (iii) derivatives, each as further described in “Accounting Policies” on pages 178-188 of the Annual Report and Accounts for 2008, which are incorporated by reference herein. Generally, to establish the fair value of these instruments, RBS relies on quoted market prices or, where the market for a financial instrument is not sufficiently active, internal valuation models that utilise observable market data. In certain circumstances, the data for individual financial instruments or classes of financial instruments utilised by such valuation models may not be available or may become unavailable due to changes in market conditions, as has been the case during the current financial crisis. In such circumstances, RBS’s internal valuation models require RBS to make assumptions, judgements and estimates to establish fair value. In common with other financial institutions, these internal valuation models are complex, and the assumptions, judgements and estimates RBS is required to make often relate to matters that are inherently uncertain, such as expected cash flows, the ability of borrowers to service debt, residential and commercial property price appreciation and depreciation, and relative levels of defaults and deficiencies. Such assumptions, judgements and estimates may need to be updated to reflect changing facts, trends and market conditions. The resulting change in the fair values of the financial instruments has had and could continue to have a material adverse effect on RBS’s earnings and financial condition. Also, recent market volatility and illiquidity has challenged the factual bases of certain underlying assumptions and has made it difficult to value certain of RBS’s financial instruments. Valuations in future periods, reflecting prevailing market conditions, may result in further significant changes in the fair values of these instruments, which could have a negative effect on RBS’s results of operations and financial condition or result in a loss of value in the Shares.

***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.***

In light of the recently changed global economic outlook, the Group has embarked on a restructuring which is focussed on achieving appropriate risk-adjusted returns under these changed circumstances, reducing reliance on wholesale funding and lowering exposure to capital intensive businesses. The Group will also continue with its disposal programme and continue to review its portfolio to identify further disposals of certain non-core assets. For further details of these re-structuring plans, see paragraph 6 of Part A of the Appendix to the letter from the Chairman of RBS contained in Part I of this document. Although the Group expects the proceeds of the Placing and Open Offer to improve the quality of its capital by replacing the existing £5 billion of Preference Shares with £5 billion of Core Tier 1 capital, the global credit markets remain challenging and the Group’s execution of its current and future strategic plans may not be successful. In connection with the implementation of these plans, the Group may incur restructuring charges, which may be material. Furthermore, if the Group’s plans, including any planned disposals, are not successful or fail to achieve the results expected, RBS’s business, capital position, financial condition, results of operations and future prospects may be negatively impacted or this could result in a loss of value in the Shares.

***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.***

Recent consolidation among banking institutions in the United Kingdom, the United States and throughout Europe is changing the competitive landscape for banks and other financial institutions. This consolidation, in combination with the introduction of new entrants into the US and UK markets from other European and Asian countries, could increase competitive pressures on RBS. Moreover, if financial markets continue to be volatile, more banks may be forced to consolidate. In addition to the effects of consolidation, increased government ownership of, and involvement in, banks generally may have an impact on the competitive landscape in the major markets in which RBS operates. Although, at present, it is difficult to predict what the effects of this increased government ownership and involvement will be or how it will differ from jurisdiction to jurisdiction, such involvement may cause RBS to experience

stronger competition for corporate, institutional and retail clients and greater pressure on profit margins. Since the markets in which the Group operates are expected to remain highly competitive in all areas, these and other changes to the competitive landscape could adversely affect RBS's business, margins, profitability and financial condition or result in a loss of value in the Shares.

***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.***

Under the terms of the First Placing and Open Offer Agreement, RBS provided certain undertakings aimed at ensuring that the subscription by HM Treasury for the relevant Ordinary Shares and the Preference Shares and RBS's potential participation in the guarantee scheme promoted by HM Treasury as part of its support for the UK banking industry are compatible with the common market under EU law. These undertakings include (i) supporting certain initiatives in relation to mortgage lending and lending to SMEs until 2011, (ii) regulating management remuneration and (iii) regulating the rate of growth of the Group's balance sheet. Under the terms of the Second Placing and Open Offer Agreement, the Group's undertakings in relation to mortgage lending and lending to SMEs were extended to larger commercial and industrial companies in the United Kingdom. These undertakings may serve to limit the Group's operations. In addition, pursuant to the Lending Commitments Letter, RBS is subject to further undertakings, which supersede the lending commitments made to HM Treasury in October 2008 and January 2009 by agreeing to lend £16 billion above the amount RBS had budgeted to lend to UK businesses and £9 billion above the amount RBS had budgeted to lend to UK homeowners in the year commencing 1 March 2009, with a commitment to lend at similar levels in the year commencing 1 March 2010. For a description of these undertakings, see paragraph 18 of Part IX of this document.

***RBS could fail to attract or retain senior management or other key employees.***

RBS's ability to implement its strategy depends on the ability and experience of its senior management and other key employees. The loss of the services of certain key employees, particularly to competitors, could have a negative impact on the Group's business. The Group's future success will also depend on its ability to attract, retain and remunerate highly skilled and qualified personnel competitively with its peers. This cannot be guaranteed, particularly in light of heightened regulatory oversight of banks and heightened scrutiny of, and (in some cases) restrictions placed upon, management compensation arrangements, in particular those in receipt of Government funding (such as RBS). RBS recently announced changes to its compensation structure which included significant reductions in bonuses to be paid in respect of 2008 and limitations on pay rises in 2009. Details of these changes are outlined in the Directors' Remuneration Report which forms part of the Annual Report and Accounts for 2008 which are incorporated by reference into this document. In addition to the effects of such measures on RBS's ability to retain senior management and other key employees, the marketplace for skilled personnel is becoming more competitive, which means the cost of hiring, training and retaining skilled personnel may continue to increase. The failure to attract or retain a sufficient number of appropriately skilled personnel could prevent RBS from successfully implementing its strategy, which could have a material adverse effect on the Group's financial condition and results of operations or result in a loss of value in the Shares.

***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 is subject to financial services laws, regulations, administrative actions and policies in each location in which it operates. All of these are subject to change, particularly in the current market environment, where there have been unprecedented levels of government intervention and changes to the regulations governing financial institutions, including recent nationalisations in the United Kingdom, the United States and other European countries. As a result of these and other ongoing and possible future changes in the financial services regulatory landscape (including requirements imposed by virtue of the Group's participation in any government or regulator-led initiatives), RBS expects to face greater regulation in the United Kingdom, the United States, the Netherlands and other countries in which it operates, including throughout the rest of Europe. Compliance with such regulations may increase RBS's capital requirements and costs and have an adverse impact on its business, the products and services it offers and the value of its assets or result in a loss of value in the Shares.

Other areas where governmental policies and regulatory changes could have an adverse impact include, but are not limited to:

- the monetary, interest rate, capital adequacy and other policies of central banks and regulatory authorities;
- general changes in government or regulatory policy or changes in regulatory regimes that may significantly influence investor decisions in particular markets in which RBS operates or may increase the costs of doing business in those markets;
- changes to financial reporting standards;
- other general changes in the regulatory requirements, such as prudential rules relating to the capital adequacy framework and the imposition of onerous compliance obligations, restrictions on business growth or pricing and requirements to operate in a way that prioritises objectives other than shareholder value creation;
- changes in competition and pricing environments;
- further developments in the financial reporting environment;
- differentiation amongst financial institutions by governments with respect to the extension of guarantees to bank customer deposits and the terms attaching to such guarantees, including requirements for the entire Group to accept exposure to the risk of any individual member of the Group, or even third party participants in guarantee schemes, failing;
- implementation of, or costs related to, local customer or depositor compensation or reimbursement schemes;
- transferability and convertibility of currency risk;
- expropriation, nationalisation and confiscation of assets;
- changes in legislation relating to foreign ownership; and
- other unfavourable political, military or diplomatic developments producing social instability or legal uncertainty which, in turn, may affect demand for RBS's products and services.

***The Group's results have been and could be further adversely affected in the event of goodwill impairment.***

The Group capitalises goodwill, which is calculated as the excess of the cost of an acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Acquired goodwill is recognised initially at cost and subsequently at cost less any accumulated impairment losses. As required by IFRS, the Group tests goodwill for impairment annually or more frequently, at external reporting dates, when events or circumstances indicate that it might be impaired. An impairment test involves comparing the recoverable amount (the higher of value in use and fair value less cost to sell) of an individual cash generating unit with its carrying value. The value in use and fair value of the Group's cash generating units are affected by market conditions and the performance of the economies in which the Group operates. Where the Group is required to recognise a goodwill impairment, it is recorded in the Group's income statement, although it has no effect on the Group's regulatory capital position. For the year ended 31 December 2008, the Group recorded a £16.2 billion accounting write-down of goodwill and other intangibles relating to prior year acquisitions.

***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 maintains a number of defined benefit pension schemes for past and current employees. Pensions risk is the risk that the liabilities of RBS's various defined benefit pension schemes which are long term in nature will exceed the schemes' assets, as a result of which RBS is required or chooses to make additional contributions to the schemes. The schemes' assets comprise investment portfolios that are held to meet projected liabilities to the scheme members. Risk arises from the schemes because the value of these asset portfolios and returns from them may be less than expected and because there may be greater than expected increases in the estimated value of the schemes' liabilities. In these circumstances, RBS could be obliged, or may choose, to make additional contributions to the schemes, and during recent periods, RBS has voluntarily made such contributions. Given the current economic

and financial market difficulties and the prospects for them to continue over the near and medium term, the Group may be required or elect to make further contributions to the pension schemes and such contributions could be significant and have a negative impact on RBS's capital position, results of operations or financial condition or result in a loss of value in the Shares.

***RBS is and may be subject to litigation and regulatory investigations that may impact its business.***

The Group's operations are diverse and complex and it operates in legal and regulatory environments that expose it to potentially significant litigation, regulatory investigation and other regulatory risk. As a result, the Group is, and may in the future be, involved in various disputes, legal proceedings and regulatory investigations in the United Kingdom, the United States and other jurisdictions, including class-action litigation. Furthermore, the Group, like many other financial institutions, has come under greater regulatory scrutiny over the last year and expects that environment to continue for the foreseeable future, particularly as it relates to compliance with new and existing corporate governance, employee compensation, conduct of business, anti-money laundering and anti-terrorism laws and regulations, as well as the provisions of applicable sanctions programmes. Disputes, legal proceedings and regulatory investigations are subject to many uncertainties, and their outcomes are often difficult to predict, particularly in the earlier stages of a case or investigation. Adverse regulatory action or adverse judgements in litigation could result in restrictions or limitations on the Group's operations or result in a material adverse effect on the Group's reputation or results of operations or result in a loss of value in the Shares. For details about certain litigation and regulatory investigations in which RBS is involved, see paragraphs 16 and 17 of Part IX of this document.

***Operational risks are inherent in RBS's operations.***

RBS's operations are dependent on the ability to process a very large number of transactions efficiently and accurately while complying with applicable laws and regulations where it does business. The Group has complex and geographically diverse operations and operational risk and losses can result from internal and external fraud, errors by employees or third-parties, failure to document transactions properly or to obtain proper authorisation, failure to comply with applicable regulatory requirements and conduct of business rules (including those arising out of anti-money laundering and anti-terrorism legislation, as well as the provisions of applicable sanctions programmes), equipment failures, natural disasters or the inadequacy or failure of systems and controls, including those of RBS's suppliers or counterparties. Although RBS has implemented risk controls and loss mitigation actions, and substantial resources are devoted to developing efficient procedures, to identifying and rectifying weaknesses in existing procedures and to training staff, it is not possible to be certain that such actions have been or will be effective in controlling each of the operational risks faced by the Group. Any weakness in these systems or controls, or any breaches or alleged breaches of applicable laws or regulations could have a materially negative impact on the Group's business, reputation, results of operations and Share price. Notwithstanding anything contained in this risk factor, it should not be taken as implying that either the Company or the Group will be unable to comply with its obligations as a company with securities admitted to the Official List or as a supervised firm regulated by the FSA.

***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.***

RBS's activities are subject to tax at various rates around the world computed in accordance with local legislation and practice. Action by governments to increase tax rates or to impose additional taxes would reduce RBS's profitability. Revisions to tax legislation or to its interpretation might also affect RBS's results in the future.

***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.***

The acquisition by HM Treasury of a majority shareholding in RBS in consequence of the First Placing and Open Offer could, in certain circumstances, have adverse tax consequences which could affect the post-tax profitability of the RBS Group. However, if RBS enters into the APS it has agreed, in principle, to give up the right to certain UK tax losses and allowances and this may limit the adverse tax consequences of the acquisition by HM Treasury of a majority shareholding in RBS.



***RBS's insurance businesses are subject to inherent risks involving claims.***

Future claims in RBS's general and life assurance business may be higher than expected as a result of changing trends in claims experience resulting from catastrophic weather conditions, demographic developments, changes in mortality and other causes outside RBS's control. These trends could affect the profitability of current and future insurance products and services. RBS reinsures some of the risks it has assumed and is accordingly exposed to the risk of loss should its reinsurers become unable or unwilling to pay claims made by the Group against them.

***RBS's operations have inherent reputational risk.***

Reputational risk, meaning the risk to earnings and capital from negative public opinion, is inherent in RBS's business. Negative public opinion can result from the actual or perceived manner in which RBS conducts its business activities or from actual or perceived practices in the banking and financial industry. Negative public opinion may adversely affect RBS's ability to keep and attract customers and, in particular, corporate and retail depositors. RBS cannot ensure that it will be successful in avoiding damage to its business from 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.***

In the United Kingdom, the Financial Services Compensation Scheme (the "Scheme") was established under the FSMA and is the UK's statutory fund of last resort for customers of authorised financial services firms. The Scheme can pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it and, if the Banking Bill is enacted in its current form, may be required to make payments either in connection with the exercise of a stabilisation power or in exercise of the bank insolvency procedures under that Bill. The Scheme is funded by levies on firms authorised by the FSA, including RBS. In the event that the Scheme raises funds from the authorised firms, raises those funds more frequently or significantly increases the levies to be paid by such firms, the associated costs to RBS may have a material impact on its results of operations and financial condition. During the financial year ended 31 December 2008, RBS made a provision of £150 million related to a levy by the Scheme.

In addition, to the extent that other jurisdictions where the Group operates have introduced or plan to introduce similar compensation, contributory or reimbursement schemes (such as in the United States with the Federal Deposit Insurance Corporation), the Group may make further provisions and may incur additional costs and liabilities, which may negatively impact its financial condition and results of operations or result in a loss of value in the Shares.

***RBS's business and earnings may be affected by geopolitical conditions.***

The performance of RBS is significantly influenced by the geopolitical and economic conditions prevailing at any given time in the countries in which it operates, particularly the United Kingdom, the United States and other countries in Europe and Asia. For example, RBS has a presence in countries where businesses could be exposed to the risk of business interruption and economic slowdown following the outbreak of a pandemic, or the risk of sovereign default following the assumption by governments of the obligations of private sector institutions. Similarly, RBS faces the heightened risk of trade barriers, exchange controls and other measures taken by sovereign governments which may impact a borrower's ability to repay. Terrorist acts and threats and the response to them of governments in any of these countries could also adversely affect levels of economic activity and have an adverse effect upon RBS's business.

***The restructuring proposals for ABN AMRO are complex and may not realise the anticipated benefits for RBS.***

The restructuring plan in place for the integration and separation of ABN AMRO into and among the businesses and operations of the Consortium Members is complex, involving substantial reorganisation of ABN AMRO's operations and legal structure. In addition, the plan contemplates activities taking place simultaneously in a number of businesses and jurisdictions. Although integration efforts are well underway and are being advanced on a number of fronts, the implementation of the reorganisation and the realisation of the forecast benefits within the planned timescales, particularly given current market and economic conditions, remains challenging, although RBS remains confident that such goals will be



achieved. Execution of the restructuring requires management resources previously devoted to RBS businesses and the retention of appropriately skilled ABN AMRO staff. RBS may not realise the benefits of the acquisition or the restructuring when expected or to the extent projected. The occurrence of any of these events, including as a result of staff losses or performance issues, may have a negative impact on RBS's financial condition and results of operations. It is not expected that the Dutch State's acquisition of Fortis Bank Nederland's shares in RFS Holdings, which was effected in December 2008, will materially affect the integration benefits envisaged by the Group.

## **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.***

As at 11 March 2009 (being the last practicable date prior to the publication of this document), the UK Government, acting through HM Treasury, held 22,853,798,818 Ordinary Shares. Under the Placing and Open Offer, HM Treasury will underwrite the offering of the New Shares and give existing Shareholders and placees an opportunity to buy the New Shares. Any offered New Shares not subscribed for by existing Shareholders and placees will be taken up by HM Treasury, provided that certain conditions in the Second Placing and Open Offer Agreement are satisfied or waived. Consequently, HM Treasury could increase its existing shareholding in the Group up to 70.5 per cent. of RBS's Ordinary Share capital, increasing further (subject to a cap on voting rights) to up to 84.5 per cent. if all of the £25.5 billion of the B Shares are issued and converted into Ordinary Shares. Although HM Treasury has indicated that it intends to respect the commercial decisions of RBS and that RBS will continue to have its own independent board of directors and management team determining its own strategy, should its current intentions change, and it increases its existing shareholding in the Group, HM Treasury may be able to exercise a significant degree of influence over, among other things, the election of directors and the appointment of senior management. Furthermore, if HM Treasury's interests were to conflict with those of the minority Shareholders, HM Treasury would have the ability to prevent or cause a change in control and could take other actions that may not be favourable to minority Shareholders. For example, with its current holding, HM Treasury is able to ensure that ordinary resolutions on which it is eligible to vote and decides to vote in favour will be carried and vice versa. Furthermore, an increase in HM Treasury's shareholding in RBS (including as a result of the conversion of any B Shares, if issued), and/or the increase in RBS's share capital pursuant to the Placing and Open Offer could, in certain circumstances, have adverse tax consequences which could affect the post-tax profitability of the RBS Group. However, if RBS enters into the APS it has agreed, in principle, to give up the right to certain UK tax losses and allowances and this may limit the adverse tax consequences of the increase in RBS's share capital pursuant to the Placing and Open Offer. See Part IV of this document for a further discussion of the relationship between RBS and the UK Government.

### ***RBS's share price may fluctuate.***

The market price of the Ordinary Shares has been and could continue to be subject to significant fluctuations due to a change in sentiment in the market regarding the Ordinary Shares and, if entered into by RBS, the APS and (if issued) the B Shares. Further fluctuations could result from natural and global economic and financial conditions, the market's response to the Placing and Open Offer, the plans and proposals of the UK, US and other governments with respect to the global financial crisis, market perceptions as to when RBS will be able to pay dividends on the Ordinary Shares and various other facts and events, including liquidity of financial markets, regulatory changes affecting the Group's operations, variations in the Group's operating results, business developments of the Group and/or its competitors (including the potential for full or part nationalisation of RBS or any of its competitors). Stock markets have recently experienced significant price and volume fluctuations that have affected the market prices for the Group's securities. Furthermore, the operating results and prospects may be below the expectations of market analysts and investors. The occurrence of these events has resulted in and could in the future result in, a decline in the market price of the Ordinary Shares and in the context of a full nationalisation, the complete loss in value of such Shares. As at 11 March 2009, being the latest practicable date prior to the date of this document, the closing price for an Ordinary Share trading on the

London Stock Exchange was 21.20p, or 33.2 per cent. below the Issue Price. There is no guarantee that the trading price of the Ordinary Shares will rise to or above the level of the Issue Price.

***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.***

RBS agreed that it would not pay dividends on or make other distributions in respect of its Ordinary Shares until the Preference Shares are no longer in issue, which may occur through repurchase or redemption. Although it is the Board's intention to effect the Preference Share Redemption, if the Resolutions are not passed, the Company will not be able to complete the Preference Share Redemption and will, therefore, continue to be subject to the current restrictions on the payment of dividends on the Ordinary Shares. If the B Shares are issued, 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.

RBS's ability to pay dividends is also limited under UK company law, which limits a company to only paying cash dividends to the extent that it has distributable reserves and cash available for this purpose. As a holding company, RBS's ability to pay dividends in the future is affected by a number of factors, principally its ability to receive sufficient dividends from subsidiaries. The payment of dividends to RBS by its subsidiaries is, in turn, subject to restrictions, including certain regulatory requirements and the existence of sufficient distributable reserves and cash in RBS's subsidiaries. The ability of these subsidiaries to pay dividends and RBS's ability to receive distributions from its investments in other entities are subject to applicable local laws and regulatory requirements and other restrictions, including, but not limited to, applicable tax laws and covenants in some of RBS's debt facilities. These laws and restrictions could limit the payment of future dividends and distributions to RBS by its subsidiaries, which could restrict RBS's ability to fund other operations or to pay, in due course, a dividend to holders of the Existing Shares or the New 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.***

If Shareholders do not take up the offer of New Shares or are not eligible to participate in the Open Offer, their proportionate ownership and voting interests in RBS will be reduced and the percentage that their Shares will represent of the total share capital of the Company will be reduced accordingly.

## 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.

	2009
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

Notes:

- (1) 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 this document.
- (2) 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.
- (3) 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.
- (4) 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.

## IMPORTANT INFORMATION

### Presentation of financial information

The Company publishes its financial statements in pounds sterling (“£” or “sterling”). The abbreviations “£m” and “£bn” represent millions and thousands of millions of pounds sterling, respectively, and references to “pence” and “p” represent pence in the United Kingdom. Reference to “USD”, “dollars” or “\$” are to US dollars. The abbreviations “\$m” and “\$bn” represent millions and thousands of millions of dollars, respectively, and references to “cents” represent cents in the United States. The abbreviation “€” represents the euro, the European single currency, and the abbreviations “€m” and “€bn” represent millions and thousands of millions of euro, respectively. The abbreviation “S\$” represents the Singapore dollar.

The financial information presented in a number of tables in this document has been rounded to the nearest whole number or the nearest decimal place. Therefore, the sum of the numbers in a column may not conform exactly to the total figure given for that column. In addition, certain percentages presented in the tables in this document reflect calculations based upon the underlying information prior to rounding and, accordingly, may not conform exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers.

Unless otherwise stated the financial information contained herein was derived without material adjustment from the Group’s unaudited management information.

### Exchange rates

Indicative exchange rates of pounds sterling against the US dollar and the euro, comprising the average rate used for income statements and the period-end rate used for balance sheet information, are shown below:

#### *US dollar : pounds sterling*

<u>Period</u>	<u>Average rate</u>	<u>Period-end rate</u>
Year ended 31 December 2006 . . . . .	1.844	1.965
Year ended 31 December 2007 . . . . .	2.001	2.004
Year ended 31 December 2008 . . . . .	1.853	1.460
January 2009 . . . . .	1.449 <sup>(1)</sup>	1.442
February 2009 . . . . .	1.446 <sup>(1)</sup>	1.427

Note:

(1) Calculated on a year-to-date basis.

On 11 March 2009, being the last practicable date prior to the publication of this document, the US dollar: pounds sterling exchange rate was 1.379:1 as published in the Daily Official List.

#### *Euro : pounds sterling*

<u>Period</u>	<u>Average rate</u>	<u>Period-end rate</u>
Year ended 31 December 2006 . . . . .	1.467	1.490
Year ended 31 December 2007 . . . . .	1.461	1.361
Year ended 31 December 2008 . . . . .	1.258 <sup>(1)</sup>	1.047
January 2009 . . . . .	1.091 <sup>(1)</sup>	1.124
February 2009 . . . . .	1.108 <sup>(1)</sup>	1.122

Note:

(1) Calculated on a year-to-date basis.

On 11 March 2009, being the last practicable date prior to the publication of this document, the euro: pounds sterling exchange rate was 1.079:1 as published in the Daily Official List.



## **International Financial Reporting Standards**

As required by the Companies Act and Article 4 of the European Union IAS Regulation, the consolidated financial statements of the Group are prepared in accordance with IFRS issued by the IASB and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB as adopted by the European Union. The consolidated financial statements of the Group also comply with IFRS as issued by the IASB. On implementation of IFRS on 1 January 2005, the Group took advantage of the option in IFRS 1 “First-time Adoption of International Financial Reporting Standards” to implement IAS 39 “Financial Instruments: Recognition and Measurement”, IAS 32 “Financial Instruments: Disclosure and Presentation” and IFRS 4 “Insurance Contracts” from 1 January 2005 without restating its 2004 income statement and balance sheet. The date of transition to IFRS for the Group and the Company and the date of their opening IFRS balance sheets was 1 January 2004.

## **Classification of financial instruments**

Under applicable generally accepted accounting principles, financial instruments are measured at fair value or amortised cost depending on their classification. Similar financial instruments may be reported by RBS in more than one classification and, as a result, measured on different bases. For example, loans classified as loans and receivables under IFRS are carried at amortised cost less impairment losses while loans classified as held-for-trading are carried at fair value. Furthermore, similar financial instruments may be classified and measured differently by different financial institutions. In addition, different financial institutions may use different valuation methodologies which may result in different fair values for similar instruments. For a discussion of how RBS classifies and values financial instruments, see “Accounting policies” on pages 178-188 of the Annual Report and Accounts for 2008 which are incorporated by reference herein.

## **Amendments to IAS 39**

The Group has reclassified certain loans and debt securities out of the held-for-trading category as permitted by the 2008 amendment to IAS 39. Further information on the effects of the amendments to IAS 39 on the Company is on pages 208-209 of the Annual Report and Accounts for 2008 which are incorporated by reference herein.

## **RFS Holdings and consolidation of ABN AMRO**

RFS Holdings, the investment vehicle through which RBS, Fortis and Santander acquired ABN AMRO, is jointly owned by RBS, the Dutch State and Santander. However, RFS Holdings is controlled by RBS and is therefore fully consolidated in RBS’s financial statements. ABN AMRO is fully consolidated in the results of the Group for the 12 months ended 31 December 2008. The interests of the Dutch State and Santander in RFS Holdings are included in minority interests in the Group’s financial statements.

## **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 this document that could cause actual results to differ materially from those in the forward looking statements. See "Risk Factors".

These forward looking statements speak only as at the date of this document. Except as required by the FSA, the London Stock Exchange, the Part VI 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 Part VI 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.

#### **Notice to all investors**

Any reproduction or distribution of this document, in whole or in part, and any disclosure of its contents or use of any information contained in this document for any purpose other than considering an investment in the New Shares is prohibited. By accepting delivery of this document, each offeree of the New Shares agrees to the foregoing.

The distribution of this document and/or the Application Forms and/or the transfer of the New Shares into jurisdictions other than the United Kingdom, the Netherlands, France, Germany, Ireland and Spain may be restricted by law. Persons into whose possession these documents come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may

constitute a violation of the securities laws of any such jurisdiction. In particular, such documents should not be distributed, forwarded to or transmitted in or into the United States or the Excluded Territories. The Application Forms and the New Shares are not transferable, except in accordance with, and the distribution of this document is subject to, the restrictions set out in paragraph 6 of Part III of this document. No action has been taken by RBS that would permit an offer of the New Shares or possession or distribution of this document or any other offering or publicity material or the Application Forms in any jurisdiction where action for that purpose is required, other than in the United Kingdom, the Netherlands, France, Germany, Ireland and Spain.

No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied upon as having been authorised by RBS. Neither the delivery of this document nor any subscription or sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of RBS since the date of this document or that the information in this document is correct as at any time subsequent to its date.

In making an investment decision, each investor must rely on their own examination, analysis and enquiry of the Company and the terms of the Open Offer.

Following the announcement of the Placing and Open Offer, RBS and ABN AMRO, through certain identifiable business units, and certain of their affiliates, have engaged, and intend to continue to engage, in various dealing and brokerage activities involving Ordinary Shares. Certain asset management companies, insurance companies, trustees and personal representatives and banking units that are affiliates of RBS and ABN AMRO have purchased and sold, and intend to continue to purchase and sell, Ordinary Shares and derivatives as part of their ordinary investing activities. ABN AMRO, through an affiliate, has made a market, from time to time, and continues to make a market, from time to time, in Ordinary Shares by purchasing and selling Ordinary Shares for its own account in the United Kingdom on the London Stock Exchange and Euronext Amsterdam. RBS and ABN AMRO, through certain market making and derivatives business units, have also engaged, and intend to continue to engage, in the issuance, purchase and sale of derivatives (such as options, warrants and other instruments) relating to Ordinary Shares for RBS's and ABN AMRO's accounts and accounts of RBS's and ABN AMRO's customers, as well as in purchases and sales of Ordinary Shares for the purpose of hedging the positions established in connection with the market making and derivatives activities relating to Ordinary Shares entered into by RBS and ABN AMRO and their respective customers. RBS and ABN AMRO, through their respective brokerage business units, have also engaged, and intend to continue to engage, in unsolicited brokerage transactions in Ordinary Shares with RBS's and ABN AMRO's customers. These activities occurred and are expected to continue to occur in the United Kingdom, the Netherlands, elsewhere in Europe and elsewhere outside the United States. Citizens has also engaged and may continue to engage in unsolicited brokerage transactions in Ordinary Shares in the United States. All of these activities could have the effect of preventing or retarding a decline in the market price of the Ordinary Shares. RBS and ABN AMRO have sought and received from the US Securities and Exchange Commission certain exemptive relief from Regulation M in order to permit its identifiable business units and affiliates to engage in the foregoing activities during the Regulation M restricted period.

In connection with the Open Offer, each of the Joint Brokers and any of their respective affiliates, acting as an investor for its own account, may take up New Shares in the Open Offer and in that capacity may retain, purchase or sell for its own account such securities and any New Shares or related investments and may offer or sell such New Shares or other investments otherwise than in connection with the Open Offer. Accordingly, references in this document to New Shares being offered or placed should be read as including any offering or placement of New Shares to any of the Joint Brokers or any of their respective affiliates acting in such capacity. None of the Joint Brokers intends to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

Save as set out in Part X of this document, the contents of the websites of the Group do not form part of this document.

Capitalised terms have the meanings ascribed to them in Part XI of this document.

## **WHERE TO FIND HELP**

Part II of this document answers some of the questions most often asked by shareholders about placings and open offers. If you have further questions, please telephone the Shareholder Helpline on the numbers set out below. This helpline is available from 8.30 a.m. to 5.30 p.m. on any London business day.

### **Shareholder Helpline**

0870 702 0135 (from inside the United Kingdom)

or +44 870 702 0135 (from outside the United Kingdom)

*Please note that, for legal reasons, the Shareholder Helpline 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 to provide financial, tax or investment advice.*

## DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

### Directors

Philip Hampton	Chairman
Stephen Hester	Group Chief Executive
Guy Whittaker	Group Finance Director
Gordon Pell	Deputy Chief Executive
Colin Buchan <sup>(1)</sup>	Non-Executive Director
Archie Hunter <sup>(1)</sup>	Non-Executive Director
Joe MacHale <sup>(1)</sup>	Non-Executive Director
John McFarlane <sup>(1)</sup>	Non-Executive Director
Arthur "Art" Ryan <sup>(1)</sup>	Non-Executive Director

Note:

(1) Denotes Independent Non-Executive Director.

Each of the Directors' business address is the Company's registered address at 36 St Andrew Square, Edinburgh EH2 2YB.

### Group General Counsel and Group Secretary

Miller McLean

### Registered office

36 St Andrew Square  
Edinburgh EH2 2YB

Telephone: 0131 556 8555, or, when dialling from outside the United Kingdom, +44 131 556 8555

Registered in Scotland No. SC45551



**Joint Financial Adviser, Joint Sponsor,  
Joint Bookrunner and Joint Broker**

Merrill Lynch International  
Merrill Lynch Financial Centre  
2 King Edward Street  
London EC1A 1HQ

**Joint Financial Adviser, Joint Sponsor,  
Joint Bookrunner and Joint Broker**

UBS Limited  
1 Finsbury Avenue  
London EC2M 2PP

**Joint Bookrunner and Joint Broker**

RBS Hoare Govett Limited  
250 Bishopsgate  
London EC2M 4AA

**Auditors**

Deloitte LLP  
Saltire Court  
20 Castle Terrace  
Edinburgh EH1 2DB

**Reporting Accountants**

Deloitte LLP  
Saltire Court  
20 Castle Terrace  
Edinburgh EH1 2DB

**Legal Advisers to RBS  
as to English, US and Dutch law**

Linklaters LLP  
One Silk Street  
London EC2Y 8HQ

Linklaters LLP  
World Trade Centre Amsterdam  
Tower H, 22nd Floor  
Zuidplein 180  
1077 XV Amsterdam

**Legal Advisers to the Joint Financial  
Advisers, Joint Sponsors and the  
Joint Bookrunners  
as to English and US law**

Freshfields Bruckhaus Deringer LLP  
65 Fleet Street  
London EC4Y 1HS

**Legal Advisers to RBS  
as to Scottish law**

Dundas & Wilson C.S. LLP  
Saltire Court  
20 Castle Terrace  
Edinburgh EH1 2EN

**Legal Advisers to HM Treasury  
as to English law**

Slaughter and May  
One Bunhill Row  
London EC1Y 8YY

**Registrar**

Computershare Investor Services PLC  
The Pavilions  
Bridgwater Road  
Bristol BS99 6ZZ

**Receiving Agent**

Computershare Investor Services PLC  
Corporate Actions 1  
The Pavilions  
Bridgwater Road  
Bristol BS99 6AF

**Dutch Subscription, Listing and Paying Agent**

ABN AMRO Bank N.V., trading under the name "RBS"  
Equity Capital Markets/Corporate Actions  
Gustav Mahlerlaan 10  
1082 PP Amsterdam

## PART I

### LETTER FROM THE CHAIRMAN OF RBS



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 Placing and Open Offer is one aspect of a two-part capital restructuring, the purpose of which is to allow RBS to raise sufficient funds to effect the Preference Share Redemption. 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.

This letter provides you with further details ahead of the General Meeting to be held on 3 April 2009 at which we will ask for your approval of the Resolutions set out in the General Meeting Notice contained in the Circular.

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 for 2008 which are incorporated by reference herein. 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 this document.

### **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 this document; and
- (b) the section of the Chairman's Statement on page 3 of the Annual Report and Accounts for 2008 which are incorporated by reference herein with the heading "Aligning remuneration with long-term shareholder value".

### **Directors' intentions**

The Directors do not currently intend to apply for any New Shares under the Open Offer.

Yours sincerely,



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 this document 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.

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 Further information**

Your attention is drawn to the further information set out in Parts II to XI of this document. Qualifying Shareholders should read the whole of this document and not rely solely on the information set out in this letter. In addition, you should consider the risk factors set out on pages 12 to 25 of this document.

## **9 General Meeting**

Shareholders are being sent the Circular containing the General Meeting Notice. The General Meeting 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). 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 with the Circular. 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.

## **10 Overseas Shareholders**

The attention of Overseas Shareholders who have registered addresses outside the United Kingdom, or who are citizens of or resident or located in countries other than the United Kingdom, is drawn to the information in paragraph 6 of Part III of this document.

## **11 UK and US taxation**

Certain information about UK and US taxation in relation to the Open Offer is set out in Part VIII of this document. If you are in any doubt as to your tax position, or you are subject to tax in a jurisdiction other than the United Kingdom or the United States, you should consult your own independent tax adviser without delay.

## **12 Action to be taken in respect of the Open Offer**

Qualifying Shareholders should note that if RBS's share price is less than the Issue Price of 31.75 pence during the period of the Open Offer, it may not be economically advantageous for Qualifying Shareholders to take up their Open Offer Entitlements. However RBS recommends that if Qualifying Shareholders wish to clarify what action they should take in this respect, they should seek their own personal financial advice from their stockbroker, bank manager, solicitor, fund manager or other appropriate independent financial adviser who is authorised under FSMA if they are in the UK or, if not, from another appropriately authorised independent financial adviser.

*Qualifying Non-CREST Shareholders (i.e. Shareholders who hold their Ordinary Shares in certificated form)*

If you are a Qualifying Non-CREST Shareholder, you will receive an Application Form, which gives details of your basic entitlement under the Open Offer (as shown by the number of Open Offer Entitlements set out in Box 2 of the Application Form). If you wish to apply for New Shares under the Open Offer, you should complete the Application Form in accordance with the procedure for application set out in paragraph 4.1 of Part III of this document, the Application Form and the Shareholder Guide. Completed Application Forms, accompanied by full payment in pounds sterling in accordance with the instructions in paragraph 4.1(c) of Part III of this document, should be returned by you by post (using the accompanying reply paid envelope, if you are within the United Kingdom) or by hand (during normal business hours only) to the Registrar, Computershare Investor Services PLC, Corporate Actions 1, The Pavilions, Bridgwater Road, Bristol BS99 6AF or by hand (during normal business hours) to a Computershare UK Office (as detailed on page 57), so as to arrive as soon as possible and in any event so as to be received by no later than 11.00 a.m. on 6 April 2009. If you do not wish to apply for any New Shares under the Open Offer, you should not complete or return the Application Form.

*Qualifying CREST Shareholders*

If you are a Qualifying CREST Shareholder, no Application Form will be sent to you and you will receive a credit to your appropriate stock account in CREST in respect of the Open Offer Entitlements representing your basic entitlement under the Open Offer and also in respect of your Excess CREST Open Offer Entitlements. You should refer to the procedure for application set out in paragraph 4.2 of Part III of this document. The relevant CREST instructions must have settled in accordance with the instructions in paragraph 4.2 of Part III of this document by no later than 11.00 a.m. on 6 April 2009.

*Qualifying Euroclear Shareholders*

If you are a Qualifying Euroclear Shareholder, no Application Form will be sent to you and you will receive a credit to your appropriate securities account with your Admitted Institution in respect of the Euroclear Open Offer Entitlements representing your basic entitlement under the Open Offer. You should refer to the procedure for application set out in paragraph 4.3 of Part III of this document. The relevant application and payment (including SDRT payable in respect of any New Shares applied for in excess of your Euroclear Open Offer Entitlements pursuant to the Excess Application Facility) in full in pounds sterling for New Shares must have been received by the Dutch Subscription Agent by no later than 3.00 p.m. (CET) on 3 April 2009. Your Admitted Institution may set an earlier deadline for application and payment in order to permit it to communicate your application to the Dutch Subscription Agent in a timely manner.

The Company will bear the cost of SDRT arising on the issue of New Shares in respect of Euroclear Open Offer Entitlements. However, if you use the Excess Application Facility to apply for New Shares in excess of your Euroclear Open Offer Entitlements, then you will be required to pay an amount in respect of the SDRT arising on your application for New Shares under the Excess Application Facility, which will be 1.5 per cent. of the Issue Price of such New Shares. On application, you will be required to pay the relevant amount of SDRT together with the amount you must pay for the New Shares you apply for. See paragraph 4.3(f) of Part III of this document for further information about the Excess Application Facility and the SDRT due in relation thereto.

*All Qualifying Shareholders*

If you sell or have sold or otherwise transferred all of your Existing Shares held in certificated form before 8.00 a.m. on 17 March 2009, please forward the Application Form (having completed Box 8 on the Application Form) to the purchaser or transferee or the bank, stockbroker or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee, except that 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 and the Excluded Territories.

If you sell or have sold or otherwise transferred only part of your holding of Existing Shares held in certificated form before 8.00 a.m. on 17 March 2009, you should refer to the instructions regarding split applications in Part III of this document and the Application Form.

**Please be aware that 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 that set by the Company.**

If you sell or have sold or otherwise transferred all or some of your Ordinary Shares held in uncertificated form before 8.00 a.m. (9.00 a.m. CET) on 17 March 2009, a claim transaction will automatically be generated by Euroclear UK or Euroclear Nederland which, on settlement, will transfer the appropriate number of Open Offer Entitlements or Euroclear Open Offer Entitlements (as applicable) to the purchaser or transferee. In this event, Excess CREST Open Offer Entitlements will not be transferred but CREST members will still be able to apply under the Excess Application Facility by following the procedures set out in paragraph 4.2(h) of Part III of this document.

Qualifying CREST Shareholders who are CREST sponsored members should refer to their CREST sponsor regarding the action to be taken in connection with this document and the Placing and Open Offer.

If you are in any doubt as to the action you should take, you should immediately seek your own financial advice from your stockbroker, bank manager, solicitor, accountant, fund manager or other independent financial adviser authorised under the FSMA if you are within the United Kingdom or, if you are outside the United Kingdom, from another appropriately authorised independent financial adviser.



## 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

### SOME QUESTIONS AND ANSWERS ABOUT THE PLACING AND OPEN OFFER

*The questions and answers set out in this Part II are intended to be in general terms only and, as such, you should read Part III of this document for full details of what action you should take. If you are in any doubt as to what action you should take, you are recommended immediately to seek your own financial advice from your stockbroker, bank manager, solicitor, accountant, fund manager or other independent financial adviser, duly authorised under the FSMA if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.*

*This Part II deals with general questions relating to the Open Offer but mainly focuses on persons resident in the United Kingdom who hold their Ordinary Shares in certificated form only. Qualifying Non-CREST Shareholders should also consult the Shareholder Guide. If you are an Overseas Shareholder, you should read paragraph 6 of Part III of this document and you should take professional advice as to whether you are eligible and/or you need to observe any formalities to enable you to take up your Open Offer Entitlements, Excess CREST Open Offer Entitlements or Euroclear Open Offer Entitlements (as applicable). If you are a Qualifying CREST Shareholder or you are a Qualifying Euroclear Shareholder you should read Part III of this document for full details of what action you should take. If you are a CREST sponsored member, you should also consult your CREST sponsor. If you do not know whether your Ordinary Shares are in certificated or uncertificated form, please call the Shareholder Helpline on 0870 702 0135 (from inside the United Kingdom) or +44 870 702 0135 (from outside the United Kingdom). Qualifying Euroclear Shareholders should contact their Admitted Institution or call the Dutch Subscription Agent on +31 20 383 6707. For legal reasons, neither the Shareholder Helpline nor the Dutch Subscription Agent will be able to give advice on the merits of the Placing and Open Offer or to provide financial, tax or investment advice.*

#### **1 What is a placing and open offer?**

A placing and open offer is a way for companies to raise money. Companies do this by giving their existing shareholders a right to buy further shares at a fixed price in proportion to their existing shareholdings (the open offer) and arranging for new investors to buy any shares not bought by the Company's existing shareholders (the placing). The fixed price is normally at a discount to the market price of the Existing Shares prior to announcement of the open offer.

The Open Offer is an invitation to Qualifying Shareholders by RBS to apply to subscribe for 3 New Shares per 7 Existing Shares. If you hold Ordinary Shares on the respective Record Dates or have a bona fide market claim, other than, subject to certain exceptions, where you are a Shareholder with a registered address or located in the United States or the Excluded Territories, you will be permitted to buy New Shares under the Open Offer.

New Shares are being offered to Qualifying Shareholders in the Open Offer at a discount to the share price on the last dealing day before the details of the Placing and Open Offer were announced on 19 January 2009. The Issue Price of 31.75 pence per New Share represents an 8.5 per cent. discount to the closing middle market price quotation as derived from the Daily Official List of 34.70 pence per Ordinary Share on 16 January 2009.

The Open Offer is on the basis of 3 New Shares for every 7 Existing Shares held by Qualifying Shareholders on the respective Record Dates. If you are a Qualifying Non-CREST Shareholder, your basic pro rata entitlement to New Shares and their price is set out in the Application Form. The Excess Application Facility allows Qualifying Shareholders to apply for New Shares in excess of their Open Offer Entitlements or Euroclear Open Offer Entitlements (as applicable). Applications made under the Excess Application Facility will be scaled back pro rata to the number of New Shares applied for under the Excess Application Facility if applications are received from Qualifying Shareholders for more than the available number of New Shares.

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.

Unlike in a rights issue, Application Forms are not negotiable documents and neither they nor the Open Offer Entitlements, the Excess CREST Open Offer Entitlements nor the Euroclear Open Offer Entitlements can themselves be traded.

## **2 I hold my Existing Shares in certificated form. How do I know if I am eligible to participate in the Open Offer?**

If you receive an Application Form and where you are not, subject to certain exceptions, a holder with a registered address or located in the United States or in any of the Excluded Territories, then you should be eligible to participate in the Open Offer as long as you have not sold all of your Existing Shares before 8.00 a.m. on 17 March 2009 (the time when the Existing Shares are expected to be marked “ex-entitlement” by the London Stock Exchange and Euronext Amsterdam).

## **3 I hold my Existing Shares in certificated form. What do I need to do in relation to the Open Offer and what are my choices?**

If you hold your Existing Shares in certificated form and, subject to certain exceptions, do not have a registered address and are not located in the United States or any of the Excluded Territories, you will be sent an Application Form that shows:

- how many Existing Shares you held at the close of business on 12 March 2009 (the Record Date for Qualifying Non-CREST Shareholders under the Open Offer);
- how many New Shares you are entitled to buy on the basis of your Open Offer Entitlement; and
- how much you need to pay if you want to take up your right to buy all your Open Offer Entitlement to the New Shares.

If you would like to apply for any New Shares, you should complete the Application Form as follows and allow at least four business days for delivery if sent by first-class post from within the United Kingdom:

### *(a) If you want to take up all of your Open Offer Entitlement*

If you want to take up all of the New Shares in your Open Offer Entitlement, all you need to do is sign and date the Application Form and either send it, together with your cheque or banker’s draft for the full amount, payable to “Computershare re RBS Group plc Open Offer” and crossed “Account Payee Only”, by post to Computershare Investor Services PLC, Corporate Actions 1, The Pavilions, Bridgwater Road, Bristol BS99 6AF or deliver it by hand (during normal business hours) to a Computershare UK Office (as detailed on page 57) to arrive by no later than 11.00 a.m. on 6 April 2009. Within the United Kingdom only, you can use the reply-paid envelope which will be enclosed with the Application Form. Full instructions are set out in Part III of this document.

### *(b) If you want to apply for some but not all of your Open Offer Entitlement*

If you want to apply for some but not all of the New Shares comprised in your Open Offer Entitlement, you should write the number of New Shares you want to apply for in Box 4; for example, if you have an Open Offer Entitlement for 50 New Shares but you only want to apply for 25 New Shares, then you should write “25” in Box 4. To work out how much you need to pay for the New Shares, you need to multiply the number of New Shares you want (in this example, “25”) by £0.3175 (being 31.75 pence) giving you an amount of £7.93, in this example (being £7.9375 rounded down to the nearest penny). You should write this amount in Box 7 and it should be the amount your cheque or banker’s draft is made out for. You should then return your Application Form, together with your cheque or banker’s draft for the full amount payable to “Computershare re RBS Group plc Open Offer” and crossed “Account Payee Only”, by post to Computershare Investor Services PLC, Corporate Actions 1, The Pavilions, Bridgwater Road, Bristol BS99 6AF or by hand (during normal business hours) to a Computershare UK Office (as detailed on page 57) to be received by 11.00 a.m. on 6 April 2009. Within the United Kingdom only, you can use the reply-paid envelope which will be enclosed with the Application Form.

### *(c) If you want to apply for more than your Open Offer Entitlement*

If you want to apply for more New Shares than the amount allocated to you pursuant to your Open Offer Entitlement, you should write the number of New Shares comprised in your Open Offer Entitlement (as indicated in Box 2 of the Application Form) in Box 4 and write the number of additional New Shares for



which you would like to apply in Box 5. You should then add the totals in Boxes 4 and 5 and insert the total number of New Shares for which you would like to apply in Box 6. For example, if you have an Open Offer Entitlement for 50 New Shares but you want to apply for 215 New Shares, then you should write “50” in Box 4, “165” in Box 5 and “215” in Box 6. To work out how much you need to pay for the New Shares, you need to multiply the number of New Shares you want (in this example, “215”) by £0.3175 (being 31.75 pence) giving you an amount of £68.26, in this example (being 68.2625 rounded down to the nearest penny). You should then return your Application Form together with your cheque or banker’s draft for the full amount payable to “Computershare re RBS Group plc Open Offer” and crossed “Account Payee Only” by post to Computershare Investor Services PLC, Corporate Actions 1, The Pavilions, Bridgwater Road, Bristol BS99 6AF or by hand (during normal business hours) to a Computershare UK Office (as detailed on page 57) to be received by 11.00 a.m. on 6 April 2009. Within the United Kingdom only, you can use the reply-paid envelope which will be enclosed with the Application Form.

#### **4 I hold my Existing Shares in uncertificated form in Euroclear Nederland. What do I need to do in relation to the Open Offer?**

Qualifying Euroclear Shareholders should be informed by the Admitted Institution through which they hold their Euroclear Shares of the number of New Shares for which they are entitled to apply under the Open Offer. Qualifying Euroclear Shareholders should contact their Admitted Institution if they have received no information in relation to their Euroclear Open Offer Entitlements. If a Qualifying Euroclear Shareholder wishes to apply for New Shares under the Open Offer, it must instruct its Admitted Institution with respect to application and payment (in pounds sterling) in accordance with the procedures of that Admitted Institution, which will be responsible for instructing the Dutch Subscription Agent accordingly. Qualifying Euroclear Shareholders are entitled to apply for more New Shares than the number they can obtain by exercising their Euroclear Open Offer Entitlements.

The Company will bear the cost of SDRT arising on the issue of New Shares in respect of Euroclear Open Offer Entitlements. Each Qualifying Euroclear Shareholder who uses the Excess Application Facility to apply for New Shares in excess of its Euroclear Open Offer Entitlements should be aware that it will be required to pay an amount in respect of the SDRT arising on its application for New Shares under the Excess Application Facility, which will be 1.5 per cent. of the Issue Price of such New Shares. Qualifying Euroclear Shareholders will be required to pay the relevant amount of SDRT together with the aggregate amount they must pay for the New Shares for which they have applied. Amounts relating to New Shares applied for and SDRT payable in respect of any New Shares applied for pursuant to the Excess Application Facility will be returned (at the Qualifying Euroclear Shareholder’s sole risk), without payment of interest, to the Qualifying Euroclear Shareholder’s Admitted Institution for repayment to the relevant Qualifying Euroclear Shareholder and other Qualifying Euroclear Shareholders holding through that Admitted Institution as soon as reasonably practicable if (i) the Placing and Open Offer does not become unconditional by 9.00 a.m. (CET) on 14 April 2009, or such later date as HM Treasury may agree, and the Placing and Open Offer lapses (in which case the full amount of application monies and SDRT will be repaid), (ii) the number of New Shares applied for by all Qualifying Euroclear Shareholders does not exceed the aggregate Euroclear Open Offer Entitlements available to all Qualifying Euroclear Shareholders under the Open Offer (in which case only the full amount of SDRT will be repaid), or (iii) the total number of New Shares applied for by all Qualifying Shareholders pursuant to the Excess Application Facility exceeds the number of New Shares available under the Open Offer, resulting in a scaling back of applications made under the Excess Application Facility (in which case an amount of application monies and SDRT attributable to the number of New Shares not allocated to the Qualifying Euroclear Shareholders will be repaid).

#### **5 I hold my Existing Shares in uncertificated form in CREST. What do I need to do in relation to the Open Offer?**

CREST members should follow the instructions set out in Part III of this document. Persons who hold Existing Shares through a CREST member should be informed by the CREST member through which they hold their Existing Shares of the number of New Shares for which they are entitled to subscribe under the Open Offer and should contact them should they not receive this information.



## **6 I acquired my Existing Shares prior to the Record Date and hold my Existing Shares in certificated form. What if I do not receive an Application Form or I have lost my Application Form?**

If you do not receive an Application Form, this probably means that you are not eligible to participate in the Open Offer. Some Non-CREST Shareholders, however, will not receive an Application Form but may still be eligible to participate in the Open Offer, namely:

- Qualifying CREST Shareholders and Qualifying Euroclear Shareholders who held their Existing Shares in uncertificated form on 12 March 2009 and 16 March 2009 respectively and who have converted them to certificated form;
- Qualifying Non-CREST Shareholders who bought Existing Shares before 8.00 a.m. on 17 March 2009 but were not registered as the holders of those shares at the close of business on 12 March 2009; and
- certain Overseas Shareholders.

If you do not receive an Application Form but think that you should have received one or you have lost your Application Form, please contact the Shareholder Helpline on 0870 702 0135 (from inside the United Kingdom) or +44 870 702 0135 (from outside the United Kingdom) between 8.30 a.m. and 5.30 p.m. on any business day. For legal reasons, the Shareholder Helpline will only be able to provide information contained in this document (and in addition information relating to RBS's register of members) and will be unable to give advice on the merits of the Open Offer or to provide financial, tax or investment advice.

## **7 I am a Qualifying Shareholder. Do I have to apply for all the New Shares for which I am entitled to apply and can I apply for more?**

You can apply for the number of New Shares or fewer New Shares than those comprised in your Open Offer Entitlements or Euroclear Open Offer Entitlements (as applicable). Any application by a Qualifying Shareholder for a number of New Shares which is equal to or less than that person's Open Offer Entitlement or Euroclear Open Offer Entitlement (as applicable) will be satisfied, subject to the Open Offer becoming unconditional. If you decide not to apply for all of the New Shares comprised in your Open Offer Entitlement or Euroclear Open Offer Entitlement (as applicable), then your proportion of the ownership and voting interest in RBS will be reduced. The Excess Application Facility enables Qualifying Shareholders to 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 being applied for by all Qualifying Shareholders exceeds 16,909,716,385, applications 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.

Qualifying Shareholders should be aware that the Open Offer is not a rights issue. As such, Qualifying Non-CREST Shareholders should also note that their 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 will be admitted to CREST and the Euroclear Open Offer Entitlements will be admitted to Euroclear Nederland, 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. New Shares for which application has not been made under the Open Offer will not be sold in the market for the benefit of those who do not apply under the Open Offer and Qualifying Shareholders who do not apply to take up New Shares will have no rights under the Open Offer or receive any proceeds from it. 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 for the benefit of the Company.

## **8 What if I change my mind?**

If you are a Qualifying Non CREST Shareholder, once you have sent your Application Form and payment to the Registrar, you cannot withdraw your application or change the number of New Shares for which

you have applied, except in the very limited circumstances which are set out in this document. Please refer to paragraph 7 of Part III of this document for information on withdrawal rights.

If you are a Qualifying CREST Shareholder, once your USE Instruction has settled, you cannot withdraw your application or change the number of New Shares for which you have applied, except in the very limited circumstances which are set out in this document.

If you are a Qualifying Euroclear Shareholder and you have instructed your Admitted Institution with respect to application and payment in accordance with the procedures of that Admitted Institution, you cannot withdraw your application or change the number of New Shares you have applied for, except in the very limited circumstances which are set out in this document.

**9 What if the number of New Shares to which I am entitled is not a whole number: am I entitled to fractions of New Shares?**

If the number is not a whole number, you will not receive a fraction of a New Share and your entitlement will be rounded down to the nearest whole number.

**10 I hold my Existing Shares in certificated form. What should I do if I want to spend more or less than the amount set out in Box 3 of the Application Form?**

If you want to spend less than the amount set out in Box 3, you should divide the amount you want to spend by £0.3175 (being 31.75 pence, the price of each New Share under the Open Offer). This will give you the number of New Shares you should apply for. You can only apply for a whole number of New Shares. For example, if you want to spend £100 you should divide £100 by £0.3175, which comes to 314.96. You should round that down to 314 to give you the number of New Shares for which, in this example, you can apply without exceeding your chosen amount. Write 314 in Box 4. To then get an accurate amount to put on your cheque or banker's draft, you should multiply the whole number of New Shares you want to apply for (314) by £0.3175 (being 31.75 pence) and then fill in that amount (in this example £99.69) in Box 7 and on your cheque or banker's draft accordingly.

If you want to spend more than the amount set out in Box 3, you should divide the amount you want to spend by £0.3175 (being 31.75 pence, the price of each New Share under the Open Offer). As above, this will give you the number of New Shares for which you should apply. You can only apply for a whole number of New Shares. For example, if you want to spend £200 you should divide £200 by £0.3175, which comes to 629.92. You should round that down to 629 to give you the number of New Shares for which, in this example, you can apply without exceeding your chosen amount. Write the total number of New Shares (in this example 629) in Box 6, write the number of New Shares comprising your Open Offer Entitlement (shown in Box 2) in Box 4, subtract the number in Box 4 from the number in Box 6 and write that number in Box 5. To then get an accurate amount to put on your cheque or banker's draft, you should multiply the whole number of New Shares you want to apply for (629) by £0.3175 and then fill in that amount (in this example, £199.70, being £199.708 rounded down to the nearest penny), in Box 7 and on your cheque or banker's draft accordingly.

**11 What if I hold options and awards under the RBS Employee Share Plans?**

The options and awards granted under the Option Plans and the Performance Plans may be adjusted in such a way as the Directors consider appropriate as a result of the Open Offer. Such adjustments, if any, will be subject to approval by the Company's auditors and by HMRC, where appropriate. Participants will be contacted separately with further information on how their options and awards may be affected by the Open Offer.

Participants in the Employee Share Ownership Plans, the Ulster Bank Group Employee Share Incentive Scheme, the ABN AMRO (Ireland) Limited Share Scheme and The Royal Bank of Scotland Group plc Irish Profit Sharing (Share Ownership) Scheme will be contacted separately about their Open Offer Entitlements.

**12 Will the Open Offer and Preference Share Redemption affect the future dividends RBS pays?**

Upon redemption of the Preference Shares the restriction on the payment of dividends on the Ordinary Shares will be removed, although the declaration of any dividend by the Company will be subject to

operational performance and other factors, including in relation to legal and taxation considerations. However, it is not the Board's intention to pay a dividend on the Ordinary Shares in 2009.

**13 I hold my Existing Shares in certificated form. What should I do if I have sold some or all of my Existing Shares?**

If you sold some or all of your Existing Shares before 8.00 a.m. on 17 March 2009, being the Ex Entitlement Date, you should contact the buyer or the person/company through whom you sold your Existing Shares. The buyer may be entitled to apply for New Shares under the Open Offer in respect of your prior shareholding. If you sold any of your Existing Shares after 8.00 a.m. on 17 March 2009, you may still apply for the New Shares under the Open Offer by following the procedures set out in paragraph 4.1(c) of Part III of this document.

**14 I hold my Existing Shares in certificated form. How do I pay?**

You should return your Application Form with a cheque or banker's draft drawn in pounds sterling on a UK Bank or Building Society account in the reply-paid envelope enclosed with the Application Form or by hand (during normal business hours) to a Computershare UK Office (as detailed on page 57 of this document). Cheques should be drawn on a personal account of the person who is applying for the New Shares. The funds should be made payable to "Computershare re RBS Group plc Open Offer". In each case, the cheque should be crossed "Account Payee Only". Payments via CHAPS, BACS or electronic transfer will not be accepted.

**15 I hold my Existing Shares in certificated form. Where do I send my Application Form?**

If you wish to apply for New Shares, you should send your completed Application Form and monies by post to: Computershare Investor Services PLC, Corporate Actions 1, The Pavilions, Bridgwater Road, Bristol BS99 6AF. Within the United Kingdom only, you can use the reply-paid envelope which will be enclosed with the Application Form. Alternatively, you can deliver it by hand (during normal business hours) to a Computershare Office (as detailed on page 57 of this document). Applications must be received by 11.00 a.m. on 6 April 2009.

If you do not want to apply for any New Shares then you need take no further action.

**16 I hold my Existing Shares in certificated form. When do I have to decide if I want to apply for New Shares?**

The Registrar must receive your completed Application Form and cheque or banker's draft by 11.00 a.m. on 6 April 2009.

**17 I hold my Existing Shares in certificated form. When will I receive my new share certificate?**

It is expected that the Registrar will post all new share certificates on or around 17 April 2009.

**18 What should I do if I live outside the United Kingdom?**

Your ability to apply to subscribe for New Shares may be affected by the laws of the country in which you live or are located and you should take professional advice as to whether you require any governmental or other consents or need to observe any other formalities to enable you to take up your Open Offer Entitlement or Euroclear Open Offer Entitlement and/or apply for further New Shares. Shareholders with registered addresses or who are located in the United States or the Excluded Territories are, subject to certain exceptions, not eligible to participate in the Open Offer. Your attention is drawn to the information in paragraph 6 of Part III of this document.

**19 Where are the Computershare Offices?**

If you wish to hand deliver your Application Form to Computershare rather than sending it through the post, you can deliver it to the following addresses during normal business hours (Monday to Friday between the hours of 8.00 a.m. and 6.00 p.m. and between 9.00 a.m. and 1.00 p.m. on Saturday 4 April 2009 and Sunday 5 April 2009). However, please note that no receipt will be provided and Computershare will not be able to check the completion of your Application Form or cheque upon delivery.

Bristol: Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS13 8AE

Dublin: Computershare Investor Services (Ireland) PLC, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18

Edinburgh: Computershare Investor Services PLC, Lochside House, 7 Lochside Avenue, Edinburgh Park, Edinburgh EH12 9DJ

London: Computershare Investor Services PLC, 2nd Floor, Vintners Place, 68 Upper Thames Street, London EC4V 3BJ

In all cases, Application Forms and cheques or banker's drafts must be received by Computershare no later than 11.00 a.m. on 6 April 2009. If you hold your Existing Shares through an Admitted Institution, CREST member or other nominee, in order to supply such materials to Computershare or the Dutch Subscription Agent in a timely manner, that person may set an earlier date for such materials to be returned to them. Please contact your financial intermediary for further information about their particular requirements.

**20 If the RBS share price is below the Issue Price, should I participate in the Placing and Open Offer?**

Qualifying Shareholders should note that if RBS's share price is less than the Issue Price of 31.75 pence during the period of the Open Offer, it may not be economically advantageous for Qualifying Shareholders to take up their Open Offer Entitlements. However RBS recommends that if Qualifying Shareholders wish to clarify what action they should take in this respect, they should seek their own personal financial advice from their stockbroker, bank manager, solicitor, fund manager or other appropriate independent financial adviser who is authorised under FSMA if they are in the UK or, if not, from another appropriately authorised independent financial adviser.

## PART III

### TERMS AND CONDITIONS OF THE OPEN OFFER

#### 1 Introduction

As explained in the letter from the Chairman of RBS contained in Part I of this document, the Company is proposing to issue 16,909,716,385 New Shares to raise £5.37 billion (approximately £5.27 billion net of expenses), through the Placing and Open Offer. Subject to Shareholders passing the Resolutions at the General Meeting to be held on 3 April 2009 and Admission, 16,909,716,385 New Shares will be issued pursuant to the Placing and Open Offer, representing approximately 42.9 per cent. of the existing issued share capital of the Company and 30.0 per cent. of the enlarged issued share capital of the Company immediately following completion of the Placing and Open Offer.

This document and, for Qualifying Non-CREST Shareholders only, the Application Forms, contain the formal terms and conditions of the Open Offer. Your attention is drawn to paragraph 4 of this Part III which gives details of the procedure for application and payment for the New Shares. The attention of Overseas Shareholders is drawn to paragraph 6 of this Part III.

Qualifying Shareholders who apply for New Shares under the Open Offer will be able to receive dividends on the New Shares in the same manner as they receive their dividend on their Existing Shares.

Under the Placing, which may or may not take place, each of Merrill Lynch International, UBS and RBS Hoare Govett have agreed to use reasonable endeavours to procure placees to take up New Shares at not less than the Issue Price, on such terms as may be agreed by HM Treasury and the Company, subject to the passing of the Resolutions and Admission and, in the case of any placees procured prior to the announcement of the results of the Open Offer, subject to clawback in respect of valid applications by Qualifying Shareholders at the Issue Price. Subject to the terms of the Second Placing and Open Offer Agreement, any New Shares which are not so placed or taken up by Qualifying Shareholders will be subscribed for by HM Treasury at the Issue Price.

The Open Offer is an opportunity for Qualifying Shareholders to apply for, in aggregate, 16,909,716,385 New Shares at the Issue Price of 31.75 pence per New Share in accordance with the terms of the Open Offer.

Any Qualifying Shareholder who has sold or transferred all or part of his or her holding(s) of Ordinary Shares prior to 8.00 a.m. on 17 March 2009 is advised to consult his or her stockbroker, bank or other agent through or to whom the sale or transfer was effected as soon as possible, since the invitation to apply for New Shares under the Open Offer may be a benefit which may be claimed from him by the purchaser(s).

#### 2 The Open Offer

Subject to the terms and conditions set out below (and, in the case of Qualifying Non-CREST Shareholders, in the Application Form), Qualifying Shareholders are being given the opportunity to apply for any number of New Shares at the Issue Price (payable in full on application and free of all expenses) on the following pro rata basis:

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

and so in proportion to any other number of Existing Shares held on the relevant Record Date. Applications by Qualifying Shareholders will be satisfied in full up to their Open Offer Entitlements or Euroclear Open Offer Entitlements (as applicable). In addition, under 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). 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 if applications are received from Qualifying Shareholders under the Open Offer for more than the available number of New Shares (being 16,909,716,385 New Shares).

Fractions of New Shares will not be allotted to Qualifying Shareholders in the Open Offer and fractional Open Offer Entitlements will be rounded down to the nearest whole number of New Shares, with New Shares representing the aggregated fractions being 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.**

If you are a Qualifying Non-CREST Shareholder, the Application Form shows the number of Existing Shares registered in your name on the Record Date (in Box 1) and also shows your Open Offer Entitlement (in Box 2).

Qualifying CREST Shareholders will have their Open Offer Entitlements and Excess CREST Open Offer Entitlements credited to their stock accounts in CREST and should refer to paragraph 4.2 of this Part III and also to the CREST Manual for further information on the relevant CREST procedures. Qualifying Euroclear Shareholders will have their Euroclear Open Offer Entitlements credited to their securities accounts with Admitted Institutions and should refer to paragraph 4.3 of this Part III for further information on the relevant Euroclear Nederland procedures.

Qualifying Shareholders will have a basic pro rata entitlement to apply for New Shares which, in the case of Qualifying Non-CREST Shareholders, is equal to the number of Open Offer Entitlements shown in Box 2 on the Application Form, or, in the case of Qualifying CREST Shareholders, is equal to the number of Open Offer Entitlements that will be credited to their stock account in CREST on 17 March 2009 or, in the case of Qualifying Euroclear Shareholders, is equal to the Euroclear Open Offer Entitlements that will be credited to their securities account with an Admitted Institution multiplied by 3/7 (approximately 0.4286). Applications by Qualifying Shareholders will be satisfied in full up to their Open Offer Entitlements or Euroclear Open Offer Entitlements (as applicable). The Excess Application Facility enables Qualifying Shareholders to 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 being 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 under the Excess Application Facility by Qualifying Shareholders. Qualifying Euroclear Shareholders should be aware that if they use the Excess Application Facility to apply for New Shares in excess of their Euroclear Open Offer Entitlements, they will be required to pay an amount in respect of the SDRT arising on their application for New Shares under the Excess Application Facility, which will be 1.5 per cent. of the Issue Price of such New Shares. See paragraph 4.3(f) of this Part III for further information about the Excess Application Facility and the SDRT due in relation thereto.

Following the issue of the New Shares to be allotted pursuant to the Placing and Open Offer, Qualifying Shareholders who do not take up any of their Open Offer Entitlements or Euroclear Open Offer Entitlements (as applicable) will suffer a dilution of approximately 30.0 per cent. to their interests in the Company. Qualifying Shareholders should note that if RBS's share price is less than the Issue Price of 31.75 pence during the period of the Open Offer, it may not be economically advantageous for Qualifying Shareholders to take up their Open Offer Entitlements. However RBS recommends that if Qualifying Shareholders wish to clarify what action they should take in this respect, they should seek their own personal financial advice from their stockbroker, bank manager, solicitor, fund manager or other appropriate independent financial adviser who is authorised under FSMA if they are in the UK or, if not, from another appropriately authorised independent financial adviser.

Qualifying Shareholders should be aware that the Open Offer is not a rights issue. As such, Qualifying Non-CREST Shareholders should note that their 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 will be admitted to CREST and the Euroclear Open Offer Entitlements will be admitted to Euroclear Nederland, and be enabled for settlement, neither the Euroclear Open Offer Entitlements, the Excess CREST Open Offer Entitlements nor the 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. New Shares for which application has not been made under the Open Offer will not be sold in the market for the benefit of those who do not apply under the Open Offer and Qualifying Shareholders who do not apply to take up New Shares will have no rights under the Open Offer or receive any proceeds from it. 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 retained by HM Treasury for the benefit of the Company and applied to the redemption of the Preference Shares.

The Existing Shares are already admitted to CREST and Euroclear Nederland. Accordingly, no further application for admission to CREST or Euroclear Nederland is required for the New Shares. All New Shares, when issued and fully paid, may be held and transferred by means of CREST or Euroclear Nederland, respectively.

Application has been made for the Open Offer Entitlements and the Excess CREST Open Offer Entitlements to be admitted to CREST and the Euroclear Open Offer Entitlements to be admitted to Euroclear Nederland. The Open Offer Entitlements and the Excess CREST Open Offer Entitlements are expected to be admitted to CREST and Euroclear Open Offer Entitlements to Euroclear Nederland with effect from 17 March 2009.

The New Shares will be issued credited as fully paid and will rank *pari passu* in all respects with the Existing Shares. The New Shares are not being made available in whole or in part to the public except under the terms of the Open Offer.

### **3 Conditions and further terms of the Open Offer**

The Placing and Open Offer and the obligation of HM Treasury to subscribe for the New Shares are conditional upon (amongst other things):

- (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.

Accordingly, if these conditions are not satisfied or waived (where permissible), the Placing and Open Offer will not proceed and any applications made by Qualifying Shareholders will be rejected. In such circumstances, application monies will be returned (at the applicant's sole risk), without payment of interest, as soon as reasonably practicable thereafter.

HM Treasury's commitment to subscribe for New Shares which are not taken up by Qualifying Shareholders 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, is subject to the terms of the Second Placing and Open Offer Agreement, a summary of which is set out in paragraph 18 of Part IX of this document.

No temporary documents of title will be issued in respect of New Shares held in uncertificated form. Definitive certificates in respect of New Shares taken up are expected to be posted to those Qualifying Shareholders who have validly elected to hold their New Shares in certificated form on or around 17 April 2009. In respect of those Qualifying Shareholders who have validly elected to hold their New Shares in uncertificated form, the New Shares are expected to be credited to their stock accounts maintained in CREST on 14 April 2009 and the Dutch Subscription Agent will thereafter credit the relevant number of New Shares to the appropriate Admitted Institutions who will subsequently credit them to the relevant securities accounts of Qualifying Euroclear Shareholders.

Applications will be made for the New Shares to be listed on the Official List and to be admitted to trading on the London Stock Exchange's main market for listed securities and for the New Shares to be admitted to listing and trading on Euronext Amsterdam. Admission to the London Stock Exchange is expected to occur at 8.00 a.m. on 14 April 2009, when dealings in the New Shares are expected to begin. It is expected that dealings of the New Shares on Euronext Amsterdam will commence at 9.00 a.m. (CET) on 14 April 2009.

If for any reason it becomes necessary to adjust the expected timetable as set out in this document, the Company will make an appropriate announcement to a Regulatory Information Service, giving details of the revised dates.

### **4 Procedure for application and payment**

The action to be taken by you in respect of the Open Offer depends on whether, at the relevant time, you have an Application Form in respect of your Open Offer Entitlements or you have Open Offer Entitlements and Excess CREST Open Offer Entitlements credited to your CREST stock account or

Euroclear Open Offer Entitlements credited to your securities account with an Admitted Institution in respect of such entitlement.

Qualifying Shareholders who hold all their Existing Shares in certificated form will be allotted New Shares in certificated form. Qualifying Shareholders who hold all their Existing Shares in CREST will be allotted New Shares in CREST and Qualifying Shareholders who hold their Existing Shares in Euroclear Nederland will receive New Shares in Euroclear Nederland. Qualifying Shareholders who hold part of their Existing Shares in uncertificated form will be allotted New Shares in uncertificated form to the extent that their entitlement to New Shares arises as a result of holding Existing Shares in uncertificated form. However, it will be possible for Qualifying Shareholders to deposit Open Offer Entitlements into, and withdraw them from, CREST. Further information on deposit and withdrawal from CREST is set out in paragraph 4.2(l) of this Part III.

CREST sponsored members should refer to their CREST sponsor, as only their CREST sponsor will be able to take the necessary action specified below to apply under the Open Offer in respect of the Open Offer Entitlements or, where applicable, the Excess CREST Open Offer Entitlements of such members held in CREST. CREST members who wish to apply under the Open Offer in respect of their Open Offer Entitlements or Excess CREST Open Offer Entitlements in CREST should refer to the CREST Manual for further information on the CREST procedures referred to below. Qualifying Euroclear Shareholders should refer to their Admitted Institution.

#### **4.1 If you have an Application Form showing your Open Offer Entitlements in respect of your entitlement under the Open Offer**

##### **(a) General**

Subject as provided in paragraph 6 of this Part III in relation to Overseas Shareholders, Qualifying Non-CREST Shareholders will receive an Application Form. The Application Form shows the number of Existing Shares registered in their name on the Record Date in Box 1. It also shows in Box 2 the number of New Shares for which they are entitled to apply under the Open Offer based on their Open Offer Entitlement. Entitlements to New Shares are rounded down to the nearest whole number and fractional Open Offer Entitlements have therefore also been rounded down. Fractional Open Offer Entitlements will be aggregated and the resulting New Shares will be sold for the benefit of the Company. Qualifying Non-CREST Shareholders may apply for less than their Open Offer Entitlement should they wish to do so. Qualifying Non-CREST Shareholders may also hold such an Application Form by virtue of a bona fide market claim. Under the Excess Application Facility, Qualifying Shareholders may apply for more than their Open Offer Entitlements or Euroclear Open Offer Entitlements should they wish to do so. If the total number of New Shares applied for by all Qualifying Shareholders exceeds 16,909,716,385, applications 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.

The instructions and other terms set out in the Application Form form part of the terms of the Open Offer for Qualifying Non-CREST Shareholders.

##### **(b) Bona fide market claims**

Applications to subscribe for New Shares may only be made on the Application Form and may only be made by the Qualifying Non-CREST Shareholder named in it or by a person entitled by virtue of a bona fide market claim in relation to a purchase of Existing Shares through the market prior to 8.00 a.m. on 17 March 2009, the date upon which the Existing Shares will be marked "ex" the entitlement to participate in the Open Offer. Application Forms may not be assigned, transferred or split, except to satisfy bona fide market claims up to 3.00 p.m. on 2 April 2009. The Application Form is not a negotiable document and cannot be separately traded. A Qualifying Non-CREST Shareholder who has sold or otherwise transferred all or part of his holding of Existing Shares prior to the date upon which the Existing Shares were marked "ex" the entitlement to participate in the Open Offer being 8.00 a.m. on 17 March 2009 should consult his broker or other professional adviser as soon as possible, as the invitation to subscribe for New Shares under the Open Offer may be a benefit which should be claimed by the transferee.

Qualifying Non-CREST Shareholders who have sold or otherwise transferred all of their registered holdings shown in Box 1 of the Application Form prior to 8.00 a.m. on 17 March 2009 should, if the market claim is to be settled outside CREST, complete Box 8 on the Application Form and immediately send it with the Circular and the Shareholder Guide to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee, or directly to the purchaser or transferee, if known. The Application Form should not, however, be forwarded to or transmitted in or into the US or any Excluded Territory. If the market claim is to be settled outside CREST, the beneficiary of the claim should complete Box 9 of the Application Form and then follow the procedures set out in paragraph 4.1(c) below. If the market claim is to be settled in CREST, the beneficiary of the claim should follow the procedures set out in paragraph 4.2(l) below.

Qualifying Non-CREST Shareholders who have sold or otherwise transferred part only of their Existing Shares shown on Box 1 of their Application Form prior to 8.00 a.m. on 17 March 2009 should, if the market claim is to be settled outside CREST, complete Box 8 on the Application Form and immediately deliver the Application Form, together with a letter stating the number of Application Forms required (being one for the Qualifying Non-CREST Shareholder in question and one for each of the purchasers or transferees), the total number of Existing Shares to be included in each Application Form (the aggregate of which must equal the number shown in Box 1) and the total number of Open Offer Entitlements to be included in each Application Form (the aggregate of which must equal the number shown in Box 2), to the stockbroker, bank or other agent through whom the sale or transfer was effected or return it by post to Computershare Investor Services PLC, Corporate Actions 1, The Pavilions, Bridgwater Road, Bristol BS99 6AF. Computershare will then create new Application Forms, mark the Application Forms "Declaration of sale or transfer duly made" and send them by post to the person submitting the original Application Form.

**(c) Application procedures**

Qualifying Non-CREST Shareholders wishing to subscribe for New Shares (whether in respect of all or part of their Open Offer Entitlements or in addition to their Open Offer Entitlements under the Excess Application Facility) should complete the Application Form in accordance with the instructions set out in the Shareholder Guide and the Application Form itself. Should the number of New Shares for which application is made by all Qualifying Shareholders exceed 16,909,716,385, applications under the Excess Application Facility will be scaled back pro rata to the number of excess New Shares applied for by Qualifying Shareholders under the Excess Application Facility. Completed Application Forms and payments should be returned by post to the Registrar to Computershare Investor Services PLC, Corporate Actions 1, The Pavilions, Bridgwater Road, Bristol BS99 6AF or by hand (during normal business hours) to a Computershare UK Office (as detailed on page 57) (Computershare Investor Services PLC will act as receiving agent in relation to the Open Offer) so as to be received by Computershare Investor Services PLC by no later than 11.00 a.m. on 6 April 2009, after which time, subject to the limited exceptions set out below, Application Forms will not be valid. Applications delivered by hand will not be checked upon delivery and no receipt will be provided. Within the United Kingdom you can use the reply paid envelope which will be enclosed with the Application Form. Qualifying Non-CREST Shareholders should note that applications, once made, will, subject to the very limited withdrawal rights set out in this document, be irrevocable and receipt thereof will not be acknowledged. If an Application Form is being sent by first class post in the United Kingdom, Qualifying Shareholders are recommended to allow at least four working days for delivery.

Completed Application Forms should be returned with a cheque or banker's draft drawn in pounds sterling on a bank or building society in the United Kingdom which is either a member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or which has arranged for its cheques and banker's drafts to be cleared through facilities provided by any of those companies. Such cheques or banker's drafts must bear the appropriate sort code in the top right-hand corner and must be for the full amount payable on application.



Cheques should be drawn on a personal account in respect of which the Qualifying Shareholder has sole or joint title to the funds and should be made payable to "Computershare re RBS Group plc Open Offer" and crossed "Account Payee Only". Third party cheques (other than building society cheques or banker's drafts where the building society or bank has confirmed that the relevant Qualifying Shareholder has title to the underlying funds) will be subject to the Money Laundering Regulations which would delay or prevent Qualifying Shareholders receiving their New Shares (please see paragraph 5 below). Payments via CHAPS, BACS or electronic transfer will not be accepted.

Cheques and banker's drafts will be presented for payment on receipt and it is a term of the Open Offer that cheques and banker's drafts will be honoured on first presentation. The Company may elect to treat as valid or invalid any applications made by Qualifying Non-CREST Shareholders in respect of which cheques and banker's drafts are not so honoured. Should such cheques or banker's drafts not be so honoured, the Company may undertake any action to recover the value of the application and any costs associated with such recovery (including the forfeiture and sale of any New Shares allotted pursuant to such an application). If the Placing and Open Offer does not become unconditional, no New Shares will be issued and all monies will be returned (at the applicant's sole risk), without payment of interest, to applicants as soon as reasonably practicable following the lapse of the Placing and Open Offer.

Subject to the provisions of the Second Placing and Open Offer Agreement, the Company may in its sole discretion, but shall not be obliged to, treat an Application Form as valid and binding on the person by whom or on whose behalf it is lodged, even if not completed in accordance with the relevant instructions or not accompanied by a valid power of attorney where required, or if it otherwise does not strictly comply with the terms and conditions of the Open Offer. The Company further reserves the right (but shall not be obliged) to accept either:

- (i) Application Forms received after 11.00 a.m. on 6 April 2009; or
- (ii) applications in respect of which remittances are received before 11.00 a.m. on 6 April 2009 from authorised persons (as defined in the FSMA) specifying the New Shares applied for and undertaking to lodge the Application Form in due course but, in any event, within two business days.

Multiple applications will not be accepted. All documents and remittances sent by, to, from or on behalf of an applicant (or as the applicant may direct) will be sent at the applicant's own risk.

If New Shares have already been allotted to a Qualifying Non-CREST Shareholder and such Qualifying Non-CREST Shareholder's cheque or banker's draft is not honoured upon first presentation or such Qualifying Non-CREST Shareholder's application is subsequently otherwise deemed to be invalid, the Company shall be authorised (in its absolute discretion as to manner, timing and terms) to make arrangements, on behalf of Qualifying Non-CREST Shareholders, for the sale of such Qualifying Non-CREST Shareholder's New Shares. None of Merrill Lynch International, UBS, RBS Hoare Govett or the Company, nor any other person, shall be responsible for, or have any liability for, any loss, expense or damage suffered by such Qualifying Non-CREST Shareholder as a result.

**(d) *The Excess Application Facility***

The Excess Application Facility enables Qualifying Shareholders to apply for New Shares in excess of their Open Offer Entitlements, subject to the total number of New Shares being applied for under the Open Offer not exceeding 16,909,716,385 New Shares, in which case 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.

Should the Placing and Open Offer become unconditional and applications for New Shares under the Open Offer exceed 16,909,716,385 New Shares, resulting in a scale back of applications, each Qualifying Non CREST Shareholder who has made a valid application for excess New Shares under the Excess Application Facility and from whom payment in full for excess New Shares has been received will receive a pounds sterling



amount equal to the number of New Shares validly applied and paid for but not allocated to the relevant Qualifying Non CREST Shareholder multiplied by the Issue Price. Monies will be returned as soon as reasonably practicable thereafter, without payment of interest and at the applicant's sole risk.

Qualifying Non-CREST Shareholders who wish to apply for New Shares in excess of their Open Offer Entitlements must complete the Application Form in accordance with the instructions set out in the Shareholder Guide accompanying the Application Form and the Application Form itself.

**(e) Effect of application**

By completing and delivering an Application Form the applicant:

- (i) represents and warrants that he has the right, power and authority, and has taken all action necessary, to make the application under the Open Offer and to execute, deliver and exercise his rights, and perform his obligations under any contracts resulting therefrom and that he is not a person otherwise prevented by legal or regulatory restrictions from applying for New Shares or acting on behalf of any such person on a non-discretionary basis;
- (ii) agrees that all applications under the Open Offer and contracts resulting therefrom and any non-contractual obligations related thereto shall be governed by and construed in accordance with the laws of England;
- (iii) confirms that in making the application he is not relying on any information or representation in relation to RBS other than those contained in this document, and the applicant accordingly agrees that no person responsible solely or jointly for this document or any part thereof, or involved in the preparation thereof, shall have any liability for any such information or representation not so contained and further agrees that, having had the opportunity to read this document, he will be deemed to have had notice of all information in relation to RBS contained in this document (including information incorporated by reference);
- (iv) confirms that in making the application he is not relying and has not relied on the Joint Brokers or any person affiliated with the Joint Brokers in connection with any investigation of the accuracy of any information contained in this document or his investment decision;
- (v) confirms that no person has been authorised to give any information or to make any representation concerning the Company or its subsidiaries or the New Shares (other than as contained in this document) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Company or the Joint Brokers;
- (vi) represents and warrants that he is the Qualifying Shareholder originally entitled to the Open Offer Entitlements comprised in his pro rata entitlement or that he received such Open Offer Entitlements by virtue of a bona fide market claim;
- (vii) represents and warrants that, if he has received some or all of his Open Offer Entitlements from a person other than RBS, he is entitled to apply under the Open Offer in relation to such Open Offer Entitlements and additional New Shares (if applicable) by virtue of a bona fide market claim;
- (viii) requests that the New Shares, to which he will become entitled be issued to him on the terms set out in this document and the Application Form;
- (ix) represents and warrants that he is not, nor is he applying on behalf of any person who is, a citizen or resident of or located in, or which is a corporation, partnership or other entity created or organised in or under any laws of, any Excluded Territory or any jurisdiction in which the application for New Shares is prevented by law and he is not applying with a view to re-offering, re-selling, transferring or delivering any of the New Shares which are the subject of his application to, or for the benefit of, a person who is a citizen or resident of or located in or which is a corporation, partnership or other entity created or organised in or under any laws of, any

Excluded Territory or any jurisdiction in which the application for New Shares is prevented by law (except where proof satisfactory to the Company has been provided to the Company that he is able to accept the invitation by the Company free of any requirement which the Company (in its absolute discretion) regards as unduly burdensome), nor acting on behalf of any such person on a non-discretionary basis nor (a) person(s) otherwise prevented by legal or regulatory restrictions from applying for New Shares under the Open Offer;

- (x) represents and warrants that he is not, nor is he applying on behalf of, or for the account or benefit of, any person on a non-discretionary basis who is in the United States or any state of the United States or any Excluded Territory or any jurisdiction in which the application for New Shares is prevented by law (except, in either case, where proof satisfactory to the Company has been provided to the Company that he is able to accept the invitation by the Company free of any requirement which the Company (in its absolute discretion) regards as unduly burdensome); and
- (xi) represents and warrants that he is not, and nor is he applying as nominee or agent for, a person who is or may be liable to account for tax under the Stamp Duty Reserve Tax Regulations 1986 at any of the increased rates referred to in Section 93 (depository receipts) or Section 96 (clearance services) of the Finance Act 1986.

All enquiries in connection with the procedure for application and completion of the Application Form should be addressed to the Registrar, Computershare Investor Services PLC, Corporate Actions 1, The Pavilions, Bridgwater Road, Bristol BS99 6AF (telephone 0870 702 0135 if calling from the United Kingdom, or if calling from overseas +44 870 702 0135). Please note that Computershare will be unable to give advice on the merits of the Open Offer or as to whether applicants should take up their Open Offer Entitlements or to provide financial, tax or investment advice.

For information on how to deposit Open Offer Entitlements into CREST, please see paragraph 4.2(l) below.

Qualifying Non CREST Shareholders who do not want to apply for the New Shares under the Open Offer should take no action and should not complete or return the Application Form.

#### **4.2 If you have Open Offer Entitlements and Excess CREST Open Offer Entitlements credited to your stock account in CREST in respect of your entitlement under the Open Offer**

##### **(a) General**

Subject as provided in paragraph 6 of this Part III in relation to certain Overseas Shareholders, each Qualifying CREST Shareholder will receive a credit to his stock account in CREST of his Open Offer Entitlement equal to the basic number of New Shares for which he is entitled to apply under the Open Offer and of Excess CREST Open Offer Entitlements (see paragraph 4.2(h) below). Entitlements to New Shares will be rounded down to the nearest whole number and fractional Open Offer Entitlements will therefore also be rounded down. Fractional Open Offer Entitlements will be aggregated and the resulting New Shares will be sold for the benefit of the Company.

The CREST stock account to be credited will be an account under the participant ID and member account ID that apply to the Existing Shares held on the Record Date by the Qualifying CREST Shareholder in respect of which the Open Offer Entitlements have been allocated.

If for any reason the Open Offer Entitlements and/or the Excess CREST Open Offer Entitlements cannot be admitted to CREST by, or the stock accounts of Qualifying CREST Shareholders cannot be credited by, 5.00 p.m. on 19 March 2009, or such later time and/or date as the Company may decide, an Application Form will be sent to each Qualifying CREST Shareholder in substitution for the Open Offer Entitlements and/or the Excess CREST Open Offer Entitlements which should have been credited to his stock account in CREST. In these circumstances the expected timetable as set out in this document will be

adjusted as appropriate and the provisions of this document applicable to Qualifying Non-CREST Shareholders with Application Forms will apply to Qualifying CREST Shareholders who receive such Application Forms.

CREST members who wish to apply to subscribe for New Shares should refer to the CREST Manual for further information on the CREST procedures referred to below. Should you need advice with regard to these procedures, please contact the Registrar on telephone number 0870 702 0135 if calling from within the United Kingdom, or if calling from overseas +44 870 702 0135. Please note that the Registrar cannot provide financial advice on the merits of the Open Offer or as to whether applicants should take up their Open Offer Entitlements. If you are a CREST sponsored member you should consult your CREST sponsor if you wish to apply for New Shares as only your CREST sponsor will be able to take the necessary action to make the relevant applications in CREST.

**(b) *Bona fide market claims***

The Open Offer Entitlements will constitute a separate security for the purposes of CREST. Although Open Offer Entitlements will be admitted to CREST and be enabled for settlement, applications in respect of Open Offer Entitlements may only be made by the Qualifying Shareholder originally entitled or by a person entitled by virtue of a bona fide market claim. Transactions identified by the CREST Claims Processing Unit as “cum” the Open Offer Entitlement will generate an appropriate market claim transaction and the relevant Open Offer Entitlement(s) will thereafter be transferred accordingly.

**(c) *USE Instructions***

Qualifying CREST Shareholders who are CREST members and who want to apply for New Shares in respect of all or some of their Open Offer Entitlements in CREST must send (or, if they are CREST sponsored members, procure that their CREST sponsor sends) an Unmatched Stock Event (“USE”) Instruction to Euroclear UK which, on its settlement, will have the following effect:

- (i) the crediting of a stock account of the Registrar under the participant ID and member account ID specified below, with a number of Open Offer Entitlements corresponding to the number of New Shares applied for; and
- (ii) the creation of a CREST payment, in accordance with the CREST payment arrangements in favour of the payment bank of the Registrar in respect of the amount specified in the USE Instruction which must be the full amount payable on application for the number of New Shares referred to in (i) above.

**(d) *Content of USE Instruction in respect of Open Offer Entitlements***

The USE Instruction must be properly authenticated in accordance with Euroclear UK’s specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:

- (i) the number of New Shares for which application is being made (and hence the number of the Open Offer Entitlement(s) being delivered to the Registrar);
- (ii) the ISIN of the Open Offer Entitlement. This is GB00B60SSF69;
- (iii) the CREST participant ID of the accepting CREST member;
- (iv) the CREST member account ID of the accepting CREST member from which the Open Offer Entitlements are to be debited;
- (v) the participant ID of the Registrar in its capacity as a CREST receiving agent. This is 3RA40;
- (vi) the member account ID of the Registrar in its capacity as a CREST receiving agent. This is ROYAL;
- (vii) the amount payable by means of a CREST payment on settlement of the USE Instruction. This must be the full amount payable on application for the number of New Shares referred to in (i) above;
- (viii) the intended settlement date. This must be on or before 11.00 a.m. on 6 April 2009; and

- (ix) the Corporate Action Number for the Open Offer. This will be available by viewing the relevant corporate action details in CREST.

In order for an application under the Open Offer to be valid, the USE Instruction must comply with the requirements as to authentication and contents set out above and must settle on or before 11.00 a.m. on 6 April 2009.

In order to assist prompt settlement of the USE Instruction, CREST members (or their sponsors, where applicable) should add the following non-mandatory fields to the USE Instruction:

- (i) a contact name and telephone number (in the free format shared note field); and
- (ii) a priority of at least 80.

CREST members and, in the case of CREST sponsored members, their CREST sponsors, should note that the last time at which a USE Instruction may settle on 6 April 2009 in order to be valid is 11.00 a.m. on that day.

**(e) *Validity of application***

A USE Instruction complying with the requirements as to authentication and contents set out above which settles by no later than 11.00 a.m. on 6 April 2009 will constitute a valid application under the Open Offer.

**(f) *CREST procedures and timings***

CREST members and (where applicable) their CREST sponsors should note that Euroclear UK does not make available special procedures in CREST for any particular corporate action. Normal system timings and limitations will therefore apply in relation to the input of a USE Instruction and its settlement in connection with the Open Offer. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST sponsored member, to procure that his CREST sponsor takes) such action as shall be necessary to ensure that a valid application is made as stated above by 11.00 a.m. on 6 April 2009. In this regard CREST members and (where applicable) their CREST sponsors are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

**(g) *Incorrect or incomplete applications***

If a USE Instruction includes a CREST payment for an incorrect sum, the Company, through the Registrar, reserves the right:

- (i) to reject the application in full and refund the payment to the CREST member in question (without interest);
- (ii) in the case that an insufficient sum is paid, to treat the application as a valid application for such lesser whole number of New Shares as would be able to be applied for with that payment at the Issue Price, refunding any unutilised sum to the CREST member in question (without interest); and
- (iii) in the case that an excess sum is paid, to treat the application as a valid application for all the New Shares referred to in the USE Instruction, refunding any unutilised sum to the CREST member in question (without interest).

**(h) *The Excess Application Facility***

The Excess Application Facility enables Qualifying Shareholders to apply for New Shares in excess of their Open Offer Entitlements, subject to the total number of New Shares for which application is made in the Open Offer not exceeding 16,909,716,385 in which case 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. A Qualifying CREST Shareholder should not make an application under the Excess Application Facility unless such relevant Qualifying CREST Shareholder has applied for his New Shares pursuant to his Open Offer Entitlements in full. The CREST accounts of Qualifying CREST Shareholders are being credited with Excess CREST Open Offer Entitlements in order for any applications for excess New Shares to be settled

through CREST and the credit of such Excess CREST Open Offer Entitlements does not in any way give you a right to the New Shares attributable to the Excess CREST Open Offer Entitlements as the Excess CREST Open Offer Entitlements are subject to scaling back in accordance with the terms of this document. **Excess CREST Open Offer Entitlements may not be sold or otherwise transferred. However, should a CREST member become entitled to Open Offer Entitlements by virtue of a bona fide market claim, in circumstances where the CREST member was not otherwise a Qualifying CREST Shareholder and therefore does not already have Excess CREST Open Offer Entitlements credited to his CREST account, such CREST member may apply to the Registrar for the credit to his CREST account of Excess CREST Open Offer Entitlements and thereby apply for further New Shares pursuant to the Excess Application Facility. Such requests should be made no later than 11.00 a.m. on 2 April 2009.**

Subject as provided in paragraph 6 of this Part III in relation to certain Overseas Shareholders, each Qualifying CREST Shareholder will receive a credit to his stock account in CREST of 16,909,716,385 Excess CREST Open Offer Entitlements, which is equal to the aggregate number of New Shares available to be issued under the Open Offer. To apply for excess New Shares pursuant to the Open Offer, **Qualifying CREST Shareholders should follow the instructions below and must not return a paper form or a cheque.**

The provisions of paragraphs 4.2(b) to 4.2(c) above, paragraphs 4.2(e) to 4.2(g) above and paragraphs 4.2(j) to 4.2(k) below apply *mutatis mutandis* to applications in respect of Excess Open Offer Entitlements, save that: (i) where the context permits references to “Open Offer Entitlements” shall be deemed to be references to Excess CREST Open Offer Entitlements; and (ii) should a transaction be identified by the CREST Claims Processing Unit as “cum” the Open Offer Entitlements and the relevant Open Offer Entitlement(s) be transferred, the Excess CREST Open Offer Entitlements will not transfer with the Open Offer Entitlement(s). Should a Qualifying CREST Shareholder cease to hold all of its Existing Shares as a result of one or more bona fide market claims, the Excess CREST Open Offer Entitlements admitted to CREST and allocated to the relevant Qualifying Shareholder will be disabled. **Please note that an additional USE Instruction must be sent in respect of the Excess CREST Open Offer Entitlements.**

Should the Placing and Open Offer become unconditional and applications for New Shares under the Open Offer exceed 16,909,716,385 New Shares resulting in a scale back of applications, each Qualifying CREST Shareholder who has made a valid application pursuant to Excess CREST Open Offer Entitlements under the Excess Application Facility, and from whom payment in full for the excess New Shares has been received, will receive a pounds sterling amount equal to the number of New Shares validly applied and paid for but which are not allocated to the relevant Qualifying CREST Shareholder multiplied by the Issue Price. Monies will be returned as soon as reasonably practicable following the completion of the scale back, without payment of interest and at the applicant’s sole risk.

Fractions of New Shares will not be issued under the Excess Application Facility and fractions of New Shares will be rounded down to the nearest whole number.

**(i) Content of USE Instruction in respect of Excess CREST Open Offer Entitlements**

The USE Instruction must be properly authenticated in accordance with Euroclear UK’s specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:

- (i) the number of New Shares for which application is being made (and hence the number of the Excess CREST Open Offer Entitlement(s) being delivered to the Registrar);
- (ii) the ISIN of the Excess CREST Open Offer Entitlements. This is GB00B60SSG76;
- (iii) the CREST participant ID of the accepting CREST member;
- (iv) the CREST member account ID of the accepting CREST member from which the Excess CREST Open Offer Entitlements are to be debited;



- (v) the participant ID of the Registrar in its capacity as a CREST receiving agent. This is 3RA40;
- (vi) the member account ID of the Registrar in its capacity as a CREST receiving agent. This is ROYAL;
- (vii) the amount payable by means of a CREST payment on settlement of the USE Instruction. This must be the full amount payable on application for the number of New Shares referred to in (i) above;
- (viii) the intended settlement date. This must be on or before 11.00 a.m. on 6 April 2009; and
- (ix) the Corporate Action Number for the Open Offer. This will be available by viewing the relevant corporate action details in CREST.

In order for an application under the Open Offer to be valid, the USE Instruction must comply with the requirements as to authentication and contents set out above and must settle on or before 11.00 a.m. on 6 April 2009.

In order to assist prompt settlement of the USE Instruction, CREST members (or their sponsors, where applicable) should add the following non-mandatory fields to the USE Instruction:

- (i) a contact name and telephone number (in the free format shared note field); and
- (ii) a priority of at least 80.

CREST members and, in the case of CREST sponsored members, their CREST sponsors, should note that the last time at which a USE Instruction may settle on 6 April in order to be valid is 11.00 a.m. on that day. **Please note that automated CREST generated claims and buyer protection will not be offered on the Excess CREST Open Offer Entitlements.**

**(j) *Effect of application***

A CREST member who makes or is treated as making a valid application in accordance with the above procedures thereby:

- (i) represents and warrants that it has the right, power and authority, and has taken all action necessary, to make the application under the Open Offer and to execute, deliver and exercise its rights, and perform its obligations, under any contracts resulting therefrom and that it is not a person otherwise prevented by legal or regulatory restrictions from applying for New Shares or acting on behalf of any such person on a non-discretionary basis;
- (ii) agrees to pay the amount payable on application in accordance with the above procedures by means of a CREST payment in accordance with the CREST payment arrangements (it being acknowledged that the payment to the Registrar's payment bank in accordance with the CREST payment arrangements shall, to the extent of the payment, discharge in full the obligation of the CREST member to pay the amount payable on application);
- (iii) agrees that all applications and contracts resulting therefrom under the Open Offer and all non-contractual obligations related thereto shall be governed by, and construed in accordance with, the laws of England;
- (iv) confirms that in making the application it is not relying on any information or representation in relation to RBS other than those contained in this document, and the applicant accordingly agrees that no person responsible solely or jointly for this document or any part thereof, or involved in the preparation thereof, shall have any liability for any such information or representation not so contained and further agrees that, having had the opportunity to read this document, it will be deemed to have had notice of all the information in relation to RBS contained in this document (including information incorporated by reference);

- (v) confirms that in making the application it is not relying and has not relied on the Joint Brokers or any person affiliated with the Joint Brokers in connection with any investigation of the accuracy of any information contained in this document or its investment decision;
- (vi) confirms that no person has been authorised to give any information or to make any representation concerning the Company or its subsidiaries or the New Shares (other than as contained in this document) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Company or the Joint Brokers;
- (vii) represents and warrants that it is the Qualifying Shareholder originally entitled to its Open Offer Entitlements and Excess CREST Open Offer Entitlements or that it has received its Open Offer Entitlements and additional New Shares (if applicable) by virtue of a bona fide market claim;
- (viii) represents and warrants that if it has received some or all of its Open Offer Entitlements from a person other than RBS, it is entitled to apply under the Open Offer in relation to such Open Offer Entitlements by virtue of a bona fide market claim;
- (ix) requests that the New Shares to which it will become entitled be issued to it on the terms set out in this document, subject to the memorandum of association and articles of association of the Company;
- (x) represents and warrants that he is not, nor is he applying on behalf of any person who is, a citizen or resident of or located in, or which is a corporation, partnership or other entity created or organised in or under any laws of, any Excluded Territory or any jurisdiction in which the application for New Shares is prevented by law and it is not applying with a view to re-offering, re-selling, transferring or delivering any of the New Shares which are the subject of his application to, or for the benefit of, a person who is a citizen or resident of or located in or which is a corporation, partnership or other entity created or organised in or under any laws of any Excluded Territory or any jurisdiction in which the application for New Shares is prevented by law (except where proof satisfactory to the Company has been provided to the Company that it is able to accept the invitation by the Company free of any requirement which the Company (in its absolute discretion) regards as unduly burdensome), nor acting on behalf of any such person on a non-discretionary basis nor (a) person(s) otherwise prevented by legal or regulatory restrictions from applying for New Shares under the Open Offer;
- (xi) represents and warrants that (i) it is not, nor is it applying on behalf of, or for the account or benefit of, a person who is located in the United States; or (ii) if it is, or is applying on behalf of or for the account or benefit of, a person located in the United States, it, or such person on whose behalf or account or benefit it is applying, is a QIB that has executed an investor representation letter confirming, among other things, its status as a QIB and its ability to rely on an exemption from the registration requirements of the US Securities Act in connection with its participation in the Placing and Open Offer; and
- (xii) represents and warrants that it is not, and nor is it applying as nominee or agent for, a person who is or may be liable to account for tax under the Stamp Duty Reserve Tax Regulations 1986 at any of the increased rates referred to in Section 93 (depository receipts) or Section 96 (clearance services) of the Finance Act 1986.

**(k) *Company's discretion as to the rejection and validity of applications***

Subject to the provisions of the Second Placing and Open Offer Agreement, the Company may in its sole discretion:

- (i) treat as valid (and binding on the CREST member concerned) an application which does not comply in all respects with the requirements as to validity set out or referred to in this Part III;

- (ii) accept an alternative properly authenticated dematerialised instruction from a CREST member or (where applicable) a CREST sponsor as constituting a valid application in substitution for or in addition to a USE Instruction and subject to such further terms and conditions as the Company may determine;
- (iii) treat a properly authenticated dematerialised instruction (in this sub-paragraph the “first instruction”) as not constituting a valid application if, at the time at which the Registrar receives a properly authenticated dematerialised instruction giving details of the first instruction or thereafter, either the Company or the Registrar has received actual notice from Euroclear UK of any of the matters specified in Regulation 35(5)(a) of the CREST Regulations in relation to the first instruction. These matters include notice that any information contained in the first instruction was incorrect or notice of lack of authority to send the first instruction; and
- (iv) accept an alternative instruction or notification from a CREST member or CREST sponsored member or (where applicable) a CREST sponsor, or extend the time for settlement of a USE instruction or any alternative instruction or notification, in the event that, for reasons or due to circumstances outside the control of any CREST member or CREST sponsored member or (where applicable) CREST sponsor, the CREST member or CREST sponsored member is unable validly to apply for New Shares by means of the above procedures. In normal circumstances, this discretion is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or any part of CREST) or on the part of the facilities and/or systems operated by the Registrar in connection with CREST.

**(I) Deposit of Open Offer Entitlements into, and withdrawal from, CREST**

A Qualifying Non-CREST Shareholder’s entitlement under the Open Offer as shown by the number of Open Offer Entitlements set out in his Application Form may be deposited into CREST (either into the account of the Qualifying Non-CREST Shareholder named in the Application Form or into the name of a person entitled by virtue of a bona fide market claim). Similarly, Open Offer Entitlements held in CREST may be withdrawn from CREST so that the Open Offer Entitlement is reflected in an Application Form. Normal CREST procedures (including timings) apply in relation to any such deposit or withdrawal, save (in the case of a deposit into CREST) as set out in the Application Form.

If you are the registered holder(s) of the Existing Shares set out in Box 1 of the Application Form, Box 11 which is entitled, “CREST Deposit Form” should be completed and then the Application Form should be deposited with the CREST Courier and Sorting Service. In addition, the normal CREST stock deposit procedures will need to be carried out, except that (a) it will not be necessary to complete and lodge a separate CREST transfer form (as prescribed under the Stock Transfer Act 1963) with the CREST Courier and Sorting Service and (b) only the total number of the Open Offer Entitlements shown in Box 2 of the Application Form may be deposited into CREST.

If you are entitled to the Open Offer Entitlements shown in Box 2 by virtue of a bona fide market claim, the declaration in Box 8 on page 2 must have been completed or (in the case of a Application Form which has been split) marked “Declaration of sale duly made”, and then the CREST Deposit Form in Box 11 on page 2 must be completed and deposited with the CREST Courier and Sorting Service in accordance with the instructions above. A holder of more than one Application Form who wishes to deposit the Open Offer Entitlements shown on those Application Forms into CREST must complete Box 11 of each Application Form.

A holder of an Application Form who is proposing to deposit the Open Offer Entitlements set out in such Application Form into CREST is recommended to ensure that the deposit procedures are implemented in sufficient time to enable the person holding or acquiring the Open Offer Entitlements following their deposit into CREST to take all necessary steps in connection with taking up the Open Offer Entitlement prior to 11.00 a.m. on 6 April 2009.

In particular, having regard to normal processing times in CREST and on the part of the Registrar, the recommended latest time for depositing an Application Form with the CREST Courier and Sorting Service, where the person entitled wishes to hold the Open Offer

Entitlements under the Open Offer set out in such Application Form as Open Offer Entitlements in CREST, is 3.00 p.m. on 31 March 2009 and the recommended latest time for receipt by Euroclear UK of a dematerialised instruction requesting withdrawal of Open Offer Entitlements from CREST is 4.30 p.m. on 27 March 2009, in either case so as to enable the person acquiring or (as appropriate) holding the Open Offer Entitlements following the deposit or withdrawal (whether as shown in an Application Form or held in CREST) to take all necessary steps in connection with applying in respect of the Open Offer Entitlements prior to 11.00 a.m. on 6 April 2009.

Delivery of an Application Form with the CREST deposit form duly completed, whether in respect of a deposit into the account of the Qualifying Shareholder named in the Application Form or into the name of another person, shall constitute a representation and warranty to the Company and the Registrar by the relevant Qualifying Shareholder that it/they is/are not in breach of the provisions of the declaration under the paragraph headed "CREST Deposit Form" on page 2 of the Application Form, and a declaration to the Company and the Registrar from the relevant Qualifying Shareholder that it is/they are not citizen(s) or resident(s) of or located in the US or any Excluded Territory or any jurisdiction in which the application for New Shares is prevented by law and, where such deposit is made by a beneficiary of a bona fide market claim, a representation and warranty that the relevant CREST member(s) is/are entitled to apply under the Open Offer by virtue of a bona fide market claim.

**(m) Lapse of the Open Offer**

In the event that the Placing and Open Offer does not become unconditional by 8.00 a.m. on 14 April 2009 (or such later time and date as HM Treasury may agree), the Placing and Open Offer will lapse, the Open Offer Entitlements and Excess CREST Open Offer Entitlements admitted to CREST will be disabled and the Registrar will refund the amount paid by a Qualifying CREST Shareholder by way of a CREST payment, without interest, as soon as reasonably practicable thereafter. The interest earned on such monies, if any, will be retained for the benefit of the Company.

**4.3 If you have Euroclear Open Offer Entitlements credited to your securities account with an Admitted Institution in respect of your entitlement under the Open Offer**

**(a) General**

For all enquiries in connection with the procedure for application and payment by Qualifying Euroclear Shareholders, such persons should refer to their Admitted Institution.

**(b) Bona fide market claims**

The Euroclear Open Offer Entitlements will constitute a separate security for the purposes of Euroclear Nederland. Although Euroclear Open Offer Entitlements will be admitted to Euroclear Nederland and be enabled for settlement, the Euroclear Open Offer Entitlements are non-tradeable and will not be listed on Euronext Amsterdam, and applications in respect of Euroclear Open Offer Entitlements may only be made by the Qualifying Euroclear Shareholder originally entitled or by a person entitled by virtue of a bona fide market claim transaction. Transactions identified by Euroclear Nederland as "cum" the Euroclear Open Offer Entitlement(s) will generate an appropriate market claim transaction and the relevant Euroclear Open Offer Entitlement(s) will thereafter be transferred accordingly.

**(c) Euroclear Open Offer Entitlements**

Existing Shares traded on Euronext Amsterdam are registered in the name of Euroclear Nederland. Euroclear Nederland is a CREST member and will hold legal title to the Open Offer Entitlements issued to it, for the benefit of the Qualifying Euroclear Shareholders in accordance with the Dutch Securities Giro Act. Euroclear Nederland will credit the accounts of its Admitted Institutions with the relevant number of Euroclear Open Offer Entitlements and the Admitted Institutions will credit the appropriate securities accounts of the Qualifying Euroclear Shareholders as of 17 March 2009. Euroclear Nederland will, as a Qualifying CREST Shareholder, be invited to take up the Open Offer Entitlements held by it

in CREST. In order to enable Euroclear Nederland to take up such Open Offer Entitlements by making an instruction in accordance with the wishes of Qualifying Euroclear Shareholders, the following procedure for taking up Euroclear Open Offer Entitlements will apply for Qualifying Euroclear Shareholders. The terms of the Open Offer apply *mutatis mutandis* to this application process.

To establish the entitlements of Qualifying Euroclear Shareholders to New Shares, Euroclear Open Offer Entitlements will be used within the system of Euroclear Nederland, under which each Qualifying Euroclear Shareholder will receive one Euroclear Open Offer Entitlement for each Euroclear Share held on Euronext Amsterdam at 9.00 a.m. (CET) on 17 March 2009. Every Euroclear Open Offer Entitlement will be equivalent to one Euroclear Share held at the relevant Record Date or to which a Qualifying Euroclear Shareholder is entitled pursuant to a bona fide market claim. As the Open Offer is being made on the basis of 3 New Shares for every 7 Existing Shares, each Euroclear Open Offer Entitlement will entitle a Qualifying Euroclear Shareholder to apply for New Shares in the ratio of 3/7 (being approximately 0.4286 New Shares for each Euroclear Open Offer Entitlement). Fractions of Euroclear Shares will not be allocated to Qualifying Euroclear Shareholders and fractions will be settled in accordance with the procedures of the relevant Admitted Institution.

**(d) Application and payment**

Qualifying Euroclear Shareholders should be informed by the Admitted Institution through which they hold their Euroclear Shares of the number of New Shares for which they are entitled to apply under the Open Offer. Any such application will be conditional on the Open Offer becoming unconditional. Qualifying Euroclear Shareholders should contact their Admitted Institution if they have received no information in relation to their Euroclear Open Offer Entitlements. If a holder of Euroclear Open Offer Entitlements wishes to apply for New Shares under the Open Offer, he must instruct his Admitted Institution with respect to application and payment in accordance with the procedures of that Admitted Institution, which will be responsible for instructing the Dutch Subscription Agent accordingly.

Applications of and payments (in pounds sterling) for New Shares must be received by the Dutch Subscription Agent as soon as possible but in any event no later than 3.00 p.m. (CET) on 3 April 2009. Applications under the Open Offer are, subject to the very limited withdrawal rights set-out in this document, irrevocable and will not be acknowledged or confirmed.

The Admitted Institution through which application is made will be responsible for passing on the monies (in pounds sterling) and the Euroclear Open Offer Entitlements as received from Qualifying Euroclear Shareholders to the Dutch Subscription Agent, who will in turn be responsible for paying to Computershare on behalf of Euroclear Nederland the aggregate amount (in pounds sterling) equal to the product of the number of New Shares applied for under Qualifying Euroclear Shareholders' Euroclear Open Offer Entitlements and the Issue Price and will, as agent for Euroclear Nederland, pay to HMRC the amount of SDRT (funded by the Company) payable in respect of the New Shares issued in respect of Euroclear Open Offer Entitlements. **See paragraph 4.3(f) of this Part III for further information on the Excess Application Facility and the SDRT due in relation thereto.**

**(e) Effect of application**

By applying for New Shares in the Open Offer, including under the Excess Application Facility, a Qualifying Euroclear Shareholder (in relation to his Admitted Institutions), also on behalf of any person he is acting for or otherwise representing, and an Admitted Institution (in relation to the Dutch Subscription Agent):

- (i) agrees that all applications, acceptances of applications and contracts resulting therefrom under the Open Offer shall be governed by, and construed in accordance with, English law, provided that if and to the extent that (a) the provisions of the Dutch Securities Giro Act, or the procedures determined by Euroclear Nederland from time to time otherwise require, and/or (b) the applicable procedures of the Admitted Institution through which he holds his Euroclear Shares apply, the same shall be governed by the laws of the Netherlands (or, in respect of the procedures referred to in (b), any other applicable law);



- (ii) represents and warrants that he has the right, power and authority, and has taken all action necessary, to make the application under the Open Offer and to execute, deliver and exercise his rights, and perform his obligations, under any contracts resulting therefrom and that he is not a person otherwise prevented by legal or regulatory restrictions from applying for New Shares or acting on behalf of any such person on a non-discretionary basis;
- (iii) confirms that, in making the application, he is not relying on any information or representation other than such as may be contained in this document and he, accordingly, agrees that no person responsible solely or jointly for this document or any part of it, or any person involved in its preparation, shall have any liability for any representation or information not so contained and further agrees that, having had the opportunity to read this document, he will be deemed to have had notice of all the information in relation to RBS contained in this document (including information incorporated by reference);
- (iv) confirms that in making the application he is not relying and has not relied on the Joint Brokers or any person affiliated with the Joint Brokers in connection with any investigation of the accuracy of any information contained in this document or his investment decision;
- (v) confirms that no person has been authorised to give any information or to make any representation concerning the Company or its subsidiaries or the New Shares (other than as contained in this document) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Company or the Joint Brokers;
- (vi) confirms that he is or is representing the Qualifying Shareholder of the Euroclear Open Offer Entitlements used to apply for New Shares and that he is acting in accordance with relevant securities laws;
- (vii) requests that the New Shares to which he will become entitled be credited to his securities account with an Admitted Institution on the terms set out in this document, subject to the memorandum of association and articles of association of the Company;
- (viii) represents and warrants that he is not, nor is he applying on behalf of any person who is, a citizen or resident of or located in, or which is a corporation, partnership or other entity created or organised in or under any laws of, any Excluded Territory or any jurisdiction in which the application for New Shares is prevented by law and it is not applying with a view to re-offering, re-selling, transferring or delivering any of the New Shares which are the subject of his application to, or for the benefit of, a person who is a citizen or resident of or located in or which is a corporation, partnership or other entity created or organised in or under any laws of any Excluded Territory or any jurisdiction in which the application for New Shares is prevented by law (except where proof satisfactory to the Company has been provided to the Company that it is able to accept the invitation by the Company free of any requirement which the Company (in its absolute discretion) regards as unduly burdensome), nor acting on behalf of any such person on a non-discretionary basis nor (a) person(s) otherwise prevented by legal or regulatory restrictions from applying for New Shares under the Open Offer; and
- (ix) represents and warrants that (i) it is not, nor is it applying on behalf of, or for the account or benefit of, a person who is located in the United States; or (ii) if it is, or is applying on behalf of or for the account or benefit of, a person located in the United States, it, or such person on whose behalf or account or benefit it is applying, is a QIB that has executed an investor representation letter confirming, among other things, its status as a QIB and its ability to rely on an exemption from the registration requirements of the US Securities Act in connection with its participation in the Placing and Open Offer.

Delivery of the interests in the New Shares to Qualifying Euroclear Shareholders who apply for New Shares in the Open Offer will take place through the book-entry facilities of Euroclear Nederland in accordance with the provisions of the Dutch Securities Giro Act and the procedures determined by Euroclear Nederland and its Admitted Institutions from time to time. The timing of the crediting of the interests in, and corresponding to, the New Shares to the securities accounts of applying Qualifying Euroclear Shareholders may vary depending on the securities account systems of the relevant Admitted Institutions and, if applicable, other banks or financial institutions.

All questions concerning the timelines, validity and form of instruction and payment to the Admitted Institution of a Qualifying Euroclear Shareholder in relation to the application for New Shares will be determined by such Admitted Institution in accordance with its usual terms of business or as it otherwise notifies to such Qualifying Euroclear Shareholder.

Any Qualifying Euroclear Shareholder who does not wish to apply for any of the New Shares to which he/she is entitled under the Open Offer should not make an application.

The Company reserves the right to treat an application as valid and binding on the person(s) by whom or on whose behalf it is made, even if it is not made in accordance with the relevant instructions and is not accompanied by the required payment or verification of identity satisfactory to the Company to ensure that the Money Laundering Regulations would not be breached by acceptance of the payment submitted in connection with the application.

**(f) *The Excess Application Facility***

The Excess Application Facility enables Qualifying Euroclear Shareholders to apply for New Shares in excess of their Euroclear Open Offer Entitlements. Euroclear Nederland, as registered holder of the Existing Shares traded on Euronext Amsterdam, will apply for excess New Shares on behalf of the Qualifying Euroclear Shareholders pursuant to its Open Offer Entitlement. If the total number of New Shares applied for by all Qualifying Shareholders exceeds 16,909,716,385, the application by Euroclear Nederland made under the Excess Application Facility pursuant to Euroclear Nederland's Open Offer Entitlement will be scaled back pro rata to the number of excess New Shares applied for by Qualifying Shareholders under the Excess Application Facility. Qualifying Euroclear Shareholders will ultimately be scaled back in accordance with the customary procedures of their Admitted Institutions. The scale back ratio may not be pro rata to the number of excess New Shares applied for by Qualifying Euroclear Shareholders and could deviate per Admitted Institution. Qualifying Euroclear Shareholders are therefore instructed to contact their Admitted Institutions, should they have any questions regarding their scale back ratio.

If Qualifying Euroclear Shareholders use the Excess Application Facility to apply for New Shares in excess of their Euroclear Open Offer Entitlements, they will be required to pay an amount in respect of the SDRT arising on their application for New Shares under the Excess Application Facility, which will be 1.5 per cent. of the Issue Price of such New Shares.

Application and payment (including SDRT payable) (in pounds sterling) for New Shares in excess of a Qualifying Euroclear Shareholders' Euroclear Open Offer Entitlement must follow the procedures set out above. For Qualifying Euroclear Shareholders, the relevant application and payment in full (including SDRT payable) for New Shares must have been received by the Dutch Subscription Agent by 3.00 p.m. (CET) on 3 April 2009. The Admitted Institutions may set an earlier deadline for application by Qualifying Euroclear Shareholders in order to permit the Admitted Institutions to communicate this acceptance to the Dutch Subscription Agent in a timely manner. The Dutch Subscription Agent will, as agent for Euroclear Nederland, pay to HMRC the amount of SDRT (funded by the relevant Qualifying Euroclear Shareholders) payable in respect of New Shares issued under the Excess Application Facility.

Amounts relating to SDRT payable in respect of any New Shares applied for under the Excess Application Facility will be returned (at the Qualifying Euroclear Shareholder's sole risk), without payment of interest, to the Qualifying Euroclear Shareholder's Admitted

Institution for repayment to the relevant Qualifying Euroclear Shareholder and other Qualifying Euroclear Shareholders holding through that Admitted Institution as soon as reasonably practicable if (i) the Placing and Open Offer does not become unconditional by 9.00 a.m. (CET) on 14 April 2009 (or such later date as HM Treasury may agree) and the Placing and Open Offer lapses (in which case the full amount of SDRT will be repaid), (ii) the number of New Shares applied for by all Qualifying Euroclear Shareholders does not exceed the aggregate Euroclear Open Offer Entitlements available to all Qualifying Euroclear Shareholders under the Open Offer (in which case the full amount of SDRT will be repaid), or (iii) the total number of New Shares applied for by all Qualifying Shareholders pursuant to the Excess Application Facility exceeds the number of New Shares available under the Open Offer, resulting in a scaling back of applications under the Excess Application Facility (in which case an amount of SDRT attributable to the number of New Shares not allocated to the Qualifying Euroclear Shareholders will be repaid).

Should the Placing and Open Offer become unconditional and applications for New Shares under the Open Offer exceed 16,909,716,385 New Shares resulting in a scaling back of applications under the Excess Application Facility, the Dutch Subscription Agent will distribute to the relevant Admitted Institutions a pounds sterling amount equal to the number of New Shares validly applied and paid for under the Excess Application Facility but which are not allocated to the relevant Admitted Institution by virtue of the scaling back multiplied by the Issue Price. Each Admitted Institution will credit such amounts received on a proportionate basis to the securities accounts of Qualifying Euroclear Shareholders who have made a valid application under the Excess Application Facility and from whom payment in full for the excess New Shares has been received. Monies will be returned as soon as reasonably practicable following the completion of the scale back, without payment of interest and at the applicant's sole risk.

**(g) *Lapse of the Open Offer***

In the event that the Placing and Open Offer does not become unconditional by 9.00 a.m. (CET) on 14 April 2009 (or such later date as HM Treasury may agree), the Placing and Open Offer will lapse, the Euroclear Open Offer Entitlements admitted to Euroclear Nederland will be disabled and the Dutch Subscription Agent will refund any amounts paid by Qualifying Euroclear Shareholders to the relevant Admitted Institutions (including SDRT paid in respect of New Shares applied for under the Excess Application Facility) for repayment, without interest and at the Qualifying Euroclear Shareholders' risk, to Qualifying Euroclear Shareholders as soon as reasonably practicable thereafter.

**5 Money Laundering Regulations**

**5.1 Holders of Application Forms**

To ensure compliance with the Money Laundering Regulations, the Registrar may require, at its absolute discretion, verification of the identity of the person by whom or on whose behalf the Application Form is lodged with payment (which requirements are referred to below as the "verification of identity requirements"). If the Application Form is submitted by a United Kingdom regulated broker or intermediary acting as agent and which is itself subject to the Money Laundering Regulations, any verification of identity requirements are the responsibility of such broker or intermediary and not of the Registrars. In such case, the lodging agent's stamp should be inserted on the Application Form.

The person lodging the Application Form with payment and in accordance with the other terms as described above (the "acceptor"), including any person who appears to the Registrar to be acting on behalf of some other person, accepts the Open Offer in respect of such number of New Shares as is referred to therein (for the purposes of this paragraph 5 the "relevant New Shares") shall thereby be deemed to agree to provide the Registrar with such information and other evidence as the Registrar may require to satisfy the verification of identity requirements.

If the Registrar determines that the verification of identity requirements apply to any acceptor or application, the relevant New Shares (notwithstanding any other term of the Open Offer) will not be issued to the relevant acceptor unless and until the verification of identity requirements have been satisfied in respect of that acceptor or application. The Registrar is entitled, in its absolute

discretion, to determine whether the verification of identity requirements apply to any acceptor or application and whether such requirements have been satisfied, and neither the Registrar nor the Company will be liable to any person for any loss or damage suffered or incurred (or alleged), directly or indirectly, as a result of the exercise of such discretion.

If the verification of identity requirements applies, failure to provide the necessary evidence of identity within a reasonable time may result in delays in the despatch of share certificates or in crediting CREST accounts. If, within a reasonable time following a request for verification of identity, the Registrar has not received evidence satisfactory to it as aforesaid, Computershare may, in its absolute discretion, treat the relevant application as invalid, in which event the monies payable on acceptance of the Open Offer will be returned (at the acceptor's risk) without interest to the account of the bank or building society on which the relevant cheque or banker's draft was drawn.

**Submission of an Application Form with the appropriate remittance will constitute a warranty from the applicant that the Money Laundering Regulations will not be breached by application of such remittance.**

The verification of identity requirements will not usually apply:

- (i) if the applicant is an organisation required to comply with the Money Laundering Directive (the Council Directive on prevention of the use of the financial system for the purpose of money laundering (91/308/EEC));
- (ii) if the acceptor is a regulated UK broker or intermediary acting as agent and is itself subject to the Money Laundering Regulations;
- (iii) if the applicant (not being an applicant who delivers his application in person) makes payment by way of a cheque drawn on an account in the applicant's name; or
- (iv) if the aggregate application price for the New Shares is less than €15,000 (approximately £12,000).

In other cases the verification of identity requirements may apply. Satisfaction of these requirements may be facilitated in the following ways:

- (a) if payment is made by cheque or banker's draft in pounds sterling drawn on a branch in the United Kingdom of a bank or building society which bears a UK bank sort code number in the top right hand corner, the following applies. Cheques should be made payable to "Computershare re RBS Group plc Open Offer" in respect of an application by a Qualifying Shareholder and crossed "A/C Payee Only". Third party cheques may not be accepted, with the exception of building society cheques or banker's drafts where the building society or bank has confirmed the name of the account holder by stamping or endorsing the cheque/banker's draft to such effect. However, third party cheques will be subject to the Money Laundering Regulations, which would delay Shareholders receiving their New Shares. The account name should be the same as that shown on the Application Form; or
- (b) if the Application Form is lodged with payment by an agent which is an organisation of the kind referred to in (i) above or which is subject to anti-money laundering regulation in a country which is a member of the Financial Action Task Force (the non-European Union members of which are Argentina, Australia, Brazil, Canada, China, Gibraltar, Hong Kong, Iceland, Japan, Mexico, New Zealand, Norway, Russian Federation, Singapore, South Africa, Switzerland, Turkey, United Kingdom Crown Dependencies and the US and, by virtue of their membership of the Gulf Cooperation Council, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates), the agent should provide, with the Application Form, written confirmation that it has that status and a written assurance that it has obtained and recorded evidence of the identity of the person for whom it acts and that it will on demand make such evidence available to the Registrar. If the agent is not such an organisation, it should contact the Registrar at the address set out on page 34 of this document.

To confirm the acceptability of any written assurance referred to in (b) above, or in any other case, the acceptor should contact the Registrar. The telephone number of the Registrar is 0870 702 0135, if calling from within the United Kingdom, or +44 870 702 0135, if calling from overseas.

If the Application Form(s) is/are in respect of New Shares with an aggregate application price of €15,000 (approximately £12,000) or more and is/are lodged by hand by the acceptor in person, or if the Application Form(s) in respect of New Shares is/are lodged by hand by the acceptor and the accompanying payment is not the acceptor's own cheque, he or she should ensure that he or she has with him or her evidence of identity bearing his or her photograph (for example, his or her passport) and separate evidence of his or her address.

If, within a reasonable period of time following a request for verification of identity, and in any case by no later than 11.00 a.m. on 6 April 2009, the Registrar has not received evidence satisfactory to it as aforesaid, the Registrar may, at its discretion, as agent of the Company, reject the relevant application, in which event the monies submitted in respect of that application will be returned (at the applicant's risk) without interest to the account at the drawee bank from which such monies were originally debited (without prejudice to any rights to undertake proceedings to recover monies in respect of the loss suffered as a result of the failure to produce satisfactory evidence as aforesaid).

## **5.2 Open Offer Entitlements in CREST**

If you hold your Open Offer Entitlements in CREST and apply for New Shares in respect of all or some of your Open Offer Entitlements as agent for one or more persons and you are not a UK or EU regulated person or institution (e.g. a UK financial institution), then, irrespective of the value of the application, the Registrar is obliged to take reasonable measures to establish the identity of the person or persons on whose behalf you are making the application. You must therefore contact the Registrar before sending any USE or other instruction so that appropriate measures may be taken.

Submission of a USE instruction which on its settlement constitutes a valid application as described above constitutes a warranty and undertaking by the applicant to provide promptly to the Registrar such information as may be specified by the Registrar as being required for the purposes of the Money Laundering Regulations. Pending the provision of evidence satisfactory to the Registrar as to identity, the Registrar may in its absolute discretion take, or omit to take, such action as it may determine to prevent or delay issue of the New Shares concerned. If satisfactory evidence of identity has not been provided within a reasonable time, then the application for the New Shares represented by the USE instruction will not be valid. This is without prejudice to the right of the Company to take proceedings to recover any loss suffered by it as a result of failure to provide satisfactory evidence.

## **5.3 Euroclear Open Offer Entitlements in Euroclear Nederland**

In relation to application(s) and payment(s) (in pounds sterling) in respect of New Shares pursuant to the Open Offer, Qualifying Euroclear Shareholders will need to comply with identification requirements as may be imposed by their Admitted Institution, where applicable.

## **6 Overseas Shareholders**

This document has been approved by the FSA, being the competent authority in the United Kingdom. RBS has requested the FSA provides a certificate of approval and a copy of this document (and translated summary, where applicable) to the relevant competent authorities in the Netherlands, France, Germany, Ireland and Spain, pursuant to the passporting provisions of the FSMA. In addition, the Open Offer is being made to Qualifying Shareholders in Japan and Canada.

Accordingly, the making of the Open Offer to persons located or resident in, or who are citizens of, or who have a registered address, in countries other than the United Kingdom, the Netherlands, France, Germany, Ireland, Spain, Japan and Canada may be affected by the law or regulatory requirements of the relevant jurisdiction. Any Shareholder who is in any doubt as to his position should consult an appropriate professional adviser without delay.

### **6.1 General**

**The distribution of this document and the making of the Open Offer to persons who have registered addresses in, or who are located, resident or ordinarily resident in, or citizens of, or which are corporations, partnerships or other entities created or organised under the**



**laws of countries other than the United Kingdom or to persons who are nominees of or custodians, trustees or guardians for citizens or residents in or nationals of, countries other than the United Kingdom may be affected by the laws or regulatory requirements of the relevant jurisdictions. Those persons should consult their professional advisers as to whether they require any governmental or other consents or need to observe any applicable legal requirement or other formalities to enable them to apply for New Shares under the Open Offer.**

No action has been or will be taken by the Company or the Joint Brokers to permit a public offering or distribution of this document (or any other offering or publicity materials or application form(s) relating to the New Shares) in any jurisdiction where action for that purpose may be required, other than in the United Kingdom, the Netherlands, France, Germany, Ireland and Spain.

Receipt of this document and/or an Application Form and/or a credit of Open Offer Entitlements or Excess CREST Open Offer Entitlements to a stock account in CREST or a credit of Euroclear Open Offer Entitlements to a securities account with an Admitted Institution will not constitute an invitation or offer of securities for subscription, sale or purchase in those jurisdictions in which it would be illegal to make such an invitation or offer and, in those circumstances, this document and/or the Application Form must be treated as sent for information only and should not be copied or redistributed.

Application Forms will not be sent to, and neither Open Offer Entitlements nor Excess CREST Open Offer Entitlements will be credited to, stock accounts in CREST of persons with registered addresses in the United States or any Excluded Territory or their agent or intermediary, except where the Company is satisfied that such action would not result in the contravention of any registration or other legal requirement in any jurisdiction.

No person receiving a copy of this document and/or an Application Form and/or a credit 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 a bank or financial institution in any territory other than the United Kingdom, the Netherlands, France, Germany, Ireland, Spain, Japan or Canada may treat the same as constituting an invitation or offer to him or her, nor should he or she in any event use any such Application Form and/or credit 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 unless, in the relevant territory, such an invitation or offer could lawfully be made to him or her and such Application Form and/or credit of Open Offer Entitlements or Excess CREST Open Offer Entitlements to a stock account in CREST and/or credit of Euroclear Open Offer Entitlements to a securities account with an Admitted Institution could lawfully be used, and any transaction resulting from such use could be effected, without contravention of any registration or other legal or regulatory requirements. In circumstances where an invitation or offer would contravene any registration or other legal or regulatory requirements, this document and/or the Application Form must be treated as sent for information only and should not be copied or redistributed.

It is the responsibility of any person (including, without limitation, custodians, agents, nominees and trustees) outside the United Kingdom wishing to apply for New Shares under the Open Offer to satisfy himself or herself as to the full observance of the laws of any relevant territory in connection therewith, including obtaining any governmental or other consents that may be required, observing any other formalities required to be observed in such territory and paying any issue, transfer or other taxes due in such territory.

None of the Company or the Joint Brokers, or any of their respective representatives, is making any representation to any offeree or purchaser of the New Shares regarding the legality of an investment in the New Shares by such offeree or purchaser under the laws applicable to such offeree or purchaser.

Persons (including, without limitation, custodians, agents, nominees and trustees) receiving a copy of this document and/or an Application Form and/or a credit of Open Offer Entitlements to a stock account in CREST or of Euroclear Open Offer Entitlements to a securities account with an Admitted Institution, in connection with the Open Offer or otherwise, should not distribute or send either of those documents nor transfer Open Offer Entitlements or Euroclear Open Offer

Entitlements in or into any jurisdiction where to do so would or might contravene local securities laws or regulations. If a copy of this document and/or an Application Form and/or a credit of Open Offer Entitlements or Excess CREST Open Offer Entitlements to a stock account in CREST or a securities account with an Admitted Institution is received by any person in any such territory, or by his or her custodian, agent, nominee or trustee, he or she must not seek to apply for New Shares unless the Company determines that such action would not violate applicable legal or regulatory requirements. Any person (including, without limitation, custodians, agents, nominees and trustees) who does forward a copy of this document and/or an Application Form and/or transfers Open Offer Entitlements or Euroclear Open Offer Entitlements into any such territory, whether pursuant to a contractual or legal obligation or otherwise, should draw the attention of the recipient to the contents of this Part III and specifically the contents of this paragraph 6.

Subject to paragraphs 6.2 to 6.6 below, any person (including, without limitation, custodians, agents, nominees and trustees) outside the United Kingdom, the Netherlands, France, Germany, Ireland or Spain wishing to apply for New Shares must satisfy himself or herself as to the full observance of the applicable laws of any relevant territory, including obtaining any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such territories.

The Company reserves the right, but shall not be obliged, to treat as invalid, and will not be bound to allot or issue any New Shares in respect of, any application or purported application for New Shares that appears to the Company or its agents to have been executed, effected or dispatched from the United States or an Excluded Territory or in a manner that may involve a breach of the laws or regulations of any jurisdiction or if the Company or its agents believe that the same may violate applicable legal or regulatory requirements or if it provides an address for delivery of the share certificates of New Shares or, in the case of a credit of Open Offer Entitlements or Excess CREST Open Offer Entitlements to a stock account in CREST, to a CREST member who would be located in, or whose registered address would be, or in the case of a credit of Euroclear Open Offer Entitlements to a securities account of a Qualifying Euroclear Shareholder whose address or location would be, in the US or an Excluded Territory or any other jurisdiction outside the United Kingdom or the Netherlands in which it would be unlawful to deliver such share certificates or make such a credit.

The attention of Overseas Shareholders is drawn to paragraphs 6.2 to 6.6 below.

Overseas Shareholders who wish, and are permitted, to apply for New Shares should note that payment must be made in sterling denominated cheques or bankers' drafts.

Subject to certain limited exceptions, Shareholders located in the United States and holders of American depository shares representing Ordinary Shares will not be entitled to participate in the Placing and Open Offer.

## **6.2 United States**

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 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 subscribe for any New Shares in the United States. Subject to certain exceptions, neither this document nor an Application Form will be sent to, and no Open Offer Entitlements or Excess CREST Open Offer Entitlements will be credited to, a stock account in CREST with a bank or financial institution of any person with 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 Shares in registered form must provide an address for registration of the New Shares issued outside the United States.

Subject to certain exceptions, any person who subscribes for New Shares will be deemed to have declared, warranted and agreed, by accepting delivery of this document 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 securities account with an Admitted Institution, 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. Such Shareholders will be required to execute an investor representation letter confirming, among other things, their status as a Qualified Institutional Buyer, and their ability to rely on an exemption from the registration requirements of the US Securities Act in connection with their participation in the Placing and Open Offer. New Shares may also be made available, in the sole discretion of the Company, to other Shareholders who may be offered the New Shares pursuant to an available exemption from registration.

### **6.3 Excluded Territories**

Due to restrictions under the securities laws of the Excluded Territories, and subject to certain exemptions, persons who have registered addresses in, or who are located, resident or ordinarily resident in, or citizens of, any Excluded Territory will not qualify to participate in the Open Offer and will not be sent an Application Form, nor will their stock accounts in CREST or securities accounts in Euroclear Nederland be credited with Open Offer Entitlements or Excess CREST Open Offer Entitlements, or Euroclear Open Offer Entitlements, respectively.

The New Shares have not been and will not be registered under the relevant laws of any Excluded Territory or any state, province or territory thereof and may not be offered, sold, resold, delivered or distributed, directly or indirectly, in or into any Excluded Territory or to, or for the account or benefit of, any person with a registered address in, or who is located, resident or ordinarily resident in, or a citizen of, any Excluded Territory except pursuant to an applicable exemption.

No offer of New Shares is being made by virtue of this document or the Application Forms into any Excluded Territory.

### **6.4 Other overseas territories**

Application Forms will be sent to Qualifying Non-CREST Shareholders and Open Offer Entitlements and Excess CREST Open Offer Entitlements will be credited to the stock account in CREST of Qualifying CREST Shareholders and Euroclear Open Offer Entitlements will be credited to the securities accounts with Admitted Institutions of Qualifying Euroclear Shareholders. Qualifying Shareholders in jurisdictions other than the US or the Excluded Territories may, subject to the laws of their relevant jurisdiction, take up New Shares under the Open Offer in accordance with the instructions set out in this document and, if relevant, the Application Form.

**Qualifying Shareholders who have registered addresses in or who are located or resident in, or who are citizens of, countries other than the United Kingdom should consult their**

**professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to apply for New Shares in respect of the Open Offer.**

## **6.5 Representations and warranties relating to Overseas Shareholders**

### **(a) *Qualifying Non-CREST Shareholders***

Any person completing and returning an Application Form or requesting registration of the New Shares comprised therein represents and warrants to the Company and/or the Registrar that, except where proof has been provided to the Company's satisfaction that such person's use of the Application Form will not result in the contravention of any applicable legal requirements in any jurisdiction: (i) such person is not requesting registration of the relevant New Shares from within the United States or any Excluded Territory; (ii) such person is not in any territory in which it is unlawful to make or accept an offer to subscribe for New Shares in respect of the Open Offer or to use the Application Form in any manner in which such person has used or will use it; (iii) such person is not acting on a non-discretionary basis on behalf of, or for the account or benefit of, a person located within the United States or any Excluded Territory or any territory referred to in (ii) above at the time the instruction to accept was given; and (iv) such person is not acquiring New Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such New Shares into the United States or any Excluded Territory or any territory referred to in (ii) above. The Company may treat as invalid any acceptance or purported acceptance of the allotment of New Shares comprised in an Application Form if it: (i) appears to the Company or its agents to have been executed, effected or dispatched from the United States or an Excluded Territory or in a manner that may involve a breach of the laws or regulations of any jurisdiction or if the Company or its agents believe that the same may violate applicable legal or regulatory requirements; or (ii) provides an address in the United States or an Excluded Territory for delivery of the share certificates of New Shares (or any other jurisdiction outside the United Kingdom in which it would be unlawful to deliver such share certificates); or (iii) purports to exclude the warranty required by this sub-paragraph (a).

### **(b) *Qualifying CREST Shareholders***

A CREST member who makes a valid acceptance either on its own behalf or on behalf of one of its clients in accordance with the procedures set out in this Part III represents and warrants to the Company that, except where proof has been provided to the Company's satisfaction that such person's acceptance will not result in the contravention of any applicable legal requirement in any jurisdiction: (i) neither it nor its client is within the United States or any Excluded Territory; (ii) neither it nor its client is in any territory in which it is unlawful to make or accept an offer to subscribe for New Shares; (iii) it is not accepting on a non-discretionary basis on behalf of, or for the account or benefit of, a person located within the United States or any Excluded Territory or any territory referred to in (ii) above at the time the instruction to accept was given; and (iv) neither it nor its client is acquiring any New Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such New Shares into the United States or any Excluded Territory, or any territory referred to in (ii) above. The Company reserves the right to reject any USE Instruction from the United States or any Excluded Territory or any territory referred to in (ii) above or by a CREST Member who is acting on a non-discretionary basis for the account or benefit of a person located within the US or any Excluded Territory or any territory referred to in (ii) above.

### **(c) *Qualifying Euroclear Shareholders and Admitted Institutions***

An Admitted Institution which communicates to the Dutch Subscription Agent a valid application on behalf of one of its clients in accordance with the procedures set out in this Part III represents and warrants to Euroclear Nederland, the Company and the Dutch Subscription Agent (in addition to the representations and warranties listed in paragraph 4.3(e) of this Part III), that, except where proof has been provided to Euroclear Nederland's and the Company's satisfaction that such client's application will not result in the contravention of any applicable legal requirement in any jurisdiction: (i) such client is



not within the United States or any of the Excluded Territories; (ii) such client is not in any territory in which it is unlawful to make or accept an offer to apply for New Shares; (iii) it is not accepting on a non-discretionary basis on behalf of, or for the account or benefit of, a person located within the United States or any Excluded Territory or any territory referred to in (ii) above at the time the instruction to accept was given; and (iv) such client is not acquiring New Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such New Shares into the United States or any Excluded Territory or any territory referred to in (ii) above.

## **6.6 Waiver**

The provisions of this paragraph 6 and of any other terms of the Open Offer relating to Overseas Shareholders may be waived, varied or modified as regards specific persons or on a general basis by the Company, in its absolute discretion. Subject to this, the provisions of this paragraph 6 supersede any terms of the Open Offer inconsistent herewith. References in this paragraph 6 to Shareholders shall include references to the person or persons executing an Application Form and, in the event of more than one person executing an Application Form, the provisions of this paragraph 6 shall apply to them jointly and to each of them.

## **7 Withdrawal rights**

Persons wishing to exercise or direct the exercise of statutory withdrawal rights pursuant to Section 87Q(4) of the FSMA after the issue by the Company of a prospectus supplementing this document must do so by lodging a written notice of withdrawal within two business days, commencing on the business day after the date on which the supplementary prospectus is published. The withdrawal notice must include the full name and address of the person wishing to exercise statutory withdrawal rights and, if such person is a CREST member, the participant ID and the member account ID of such CREST member. The notice of withdrawal must be deposited by hand only (during normal business hours only) with the Registrar to Computershare Investor Services PLC, Corporate Actions 1, The Pavilions, Bridgwater Road, Bristol BS99 6AF or by facsimile to the Registrar (please call the Registrar on 0870 702 0135, if calling from within the United Kingdom, or, if calling from overseas on +44 870 702 0135 for further details) so as to be received before the end of the withdrawal period. Notice of withdrawal given by any other means or which is deposited with the Registrar after expiry of such period will not constitute a valid withdrawal. The Company will not permit the exercise of withdrawal rights after payment by the relevant person for the New Shares in full and the allotment of such New Shares to such person becoming unconditional, save to the extent required by statute. In such event, Shareholders are advised to seek independent legal advice. Persons may also have withdrawal rights on the basis of section 5:23 of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*) and are advised to seek independent legal advice in the event that a prospectus supplementing this document is published.

## **8 Admission, settlement and dealings**

The result of the Open Offer is expected to be announced on 7 April 2009. Applications will be made to the FSA for the New Shares to be admitted to the Official List and to the London Stock Exchange for the New Shares to be admitted to trading on the London Stock Exchange's main market for listed securities 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, fully paid, will commence at 8.00 a.m. on 14 April 2009. It is expected that dealings of the New Shares on Euronext Amsterdam will commence at 9.00 a.m. (CET) on 14 April 2009.

The Existing Shares are already admitted to CREST and Euroclear Nederland. Accordingly, no further application for admission to CREST or Euroclear Nederland is required for the New Shares. All such shares, when issued and fully paid, may be held and transferred by means of CREST or Euroclear Nederland.

Open Offer Entitlements and Excess CREST Open Offer Entitlements held in CREST are expected to be disabled in all respects after 11.00 a.m. on 6 April 2009 (the latest date for applications under the Open Offer). If the conditions to the Open Offer described above are satisfied, New Shares will be issued in uncertificated form to those persons who submitted a valid application for New Shares by utilising the CREST application procedures and whose applications have been accepted by the Company. On 14 April 2009, the Registrar will instruct Euroclear UK to credit the appropriate stock accounts of such



persons with such persons' entitlements to New Shares with effect from Admission (expected to be 14 April 2009). The stock accounts to be credited will be accounts under the same CREST participant IDs and CREST member account IDs in respect of which the USE Instruction was given.

After the Admitted Institutions have made their applications on behalf of the relevant Qualifying Euroclear Shareholders, the Dutch Subscription Agent will credit the relevant number of New Shares to the appropriate accounts of Admitted Institutions. Subsequently, the Admitted Institutions will credit the securities accounts of the applying Qualifying Euroclear Shareholders with the relevant number of New Shares, which may be traded on Euronext Amsterdam.

Notwithstanding any other provision of this document, the Company reserves the right to send Qualifying CREST Shareholders an Application Form instead of crediting the relevant stock account with Open Offer Entitlements and Excess CREST Open Offer Entitlements, and to allot and/or issue any New Shares in certificated form. In normal circumstances, this right is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or of any part of CREST) or on the part of the facilities and/or systems operated by the Registrar in connection with CREST.

For Qualifying Non-CREST Shareholders who have applied by using an Application Form, share certificates in respect of the New Shares validly applied for are expected to be despatched by post on or around 17 April 2009. No temporary documents of title will be issued and, pending the issue of definitive certificates, transfers will be certified against the UK share register of the Company. All documents or remittances sent by it, from or on behalf of applicants, or as they may direct, will be sent at their own risk. For more information as to the procedure for application, Qualifying Non-CREST Shareholders are referred to paragraph 4.1 above and their respective Application Forms and Shareholder Guides.

## **9 Times and dates**

The Company shall, in its discretion and after consultation with its financial and legal advisers, be entitled to amend the dates that Application Forms are despatched or amend or extend the latest date for acceptance under the Open Offer and all related dates set out in this document and in such circumstances shall notify the UK Listing Authority and Euronext, and make an announcement on a Regulatory Information Service approved by the UK Listing Authority and, if appropriate, by Shareholders **but Qualifying Shareholders may not receive any further written communication.**

If a supplementary prospectus is issued by the Company two or fewer business days prior to the latest time and date for acceptance and payment in full under the Open Offer specified in this document, the latest date for acceptance under the Open Offer shall be extended to the date that is three business days after the date of issue of the supplementary prospectus (and the dates and times of principal events due to take place following such date shall be extended accordingly).

## **10 Governing law and jurisdiction**

The terms and conditions of the Open Offer as set out in this document, the Application Form and any non-contractual obligation related thereto shall be governed by, and construed in accordance with, English law. The courts of England and Wales are to have exclusive jurisdiction to settle any dispute which may arise out of or in connection with the Open Offer, this document or the Application Form. By taking up their Open Offer Entitlements or Euroclear Open Offer Entitlements (as applicable) under the Open Offer in accordance with the instructions set out in this document and, where applicable, the Application Form and the Shareholder Guide, Qualifying Shareholders irrevocably submit to the jurisdiction of the courts of England and Wales and waive any objection to proceedings in any such court on the ground of venue or on the ground that proceedings have been brought in an inconvenient forum.

## **11 Taxation**

Certain statements regarding United Kingdom and United States taxation in respect of the New Shares and the Open Offer are set out in Part VIII of this document. Persons who are in any doubt as to their tax position in relation to taking up their Open Offer Entitlements or Euroclear Open Offer Entitlements (as applicable) under the Open Offer, or who are subject to tax in any jurisdiction other than the United Kingdom, should immediately consult a suitable professional adviser.

## **12 Further information**

Your attention is drawn to the further information set out in this document and also, in the case of Qualifying Non-CREST Shareholders and other Qualifying Shareholders to whom the Company has sent Application Forms to the terms, conditions and other information printed on the Application Form and the Shareholder Guide.

## PART IV

### INFORMATION ON RBS

#### Overview

RBS is the holding company of a large global banking and financial services group. Headquartered in Edinburgh, the Group operates in the United Kingdom, the United States and internationally through its two principal subsidiaries, RBS plc and NatWest Plc. Both RBS plc and NatWest Plc are major UK clearing banks whose origins go back over 275 years. In the United States, the Group's subsidiary Citizens is a large commercial banking organisation. The Group has a large and diversified customer base and provides a wide range of products and services to personal, commercial and large corporate and institutional customers in over 50 countries.

The Group had total assets of £2,401.7 billion and owners' equity of £58.9 billion at 31 December 2008. The Group's capital ratios, which included the equity minority interest of the Dutch State and Santander in ABN AMRO, were a total capital ratio of 14.1 per cent., a Core Tier 1 capital ratio of 6.8 per cent. and a Tier 1 capital ratio of 10 per cent., as at 31 December 2008. Updated information on the Group's capital position is contained in paragraph 4 of Part A of the Appendix to the letter from the Chairman of RBS contained in Part I of this document.

On 17 October 2007, RFS Holdings, which at the time was owned by RBS, Fortis and Santander and controlled by RBS, completed the acquisition of ABN AMRO. RFS Holdings, which is now jointly owned by RBS, the Dutch State and Santander, is in the process of implementing an orderly separation of the business units of ABN AMRO, with ABN AMRO's global wholesale businesses and international retail businesses in Asia and the Middle East subject to the outcome of RBS's strategic review. Certain other assets will continue to be shared by the Consortium Members. An explanation of the Consortium Agreement governing the relationship between the Consortium Members can be found on pages 60 to 63 of the listing particulars dated 20 July 2007 prepared by RBS in connection with the acquisition of ABN AMRO, which are incorporated by reference herein.

On 26 February 2009 RBS announced the initial results of a strategic review. This review is expected to result in changes to RBS's organisation and management structure. Further details of this strategic review are outlined in paragraph 6 of Part A of the Appendix to the letter from the Chairman of RBS contained in Part I of this document.

#### UK Retail & Commercial Banking

This comprises retail, commercial and corporate banking, and wealth management services in the United Kingdom. It supplies financial services through both the RBS and NatWest brands.

UK Retail Banking offers a full range of banking products and related financial services to the personal market. It serves customers through two of the largest networks of branches and ATMs in the United Kingdom, and also through telephone and internet channels and, according to Gfk NOP, is the second largest provider of personal current accounts. The division also issues credit and charge cards, including through other brands such as MINT.

UK Business & Commercial Banking is the largest provider of banking, finance, and risk management services to the SME sector in the United Kingdom. It offers a full range of banking products and related financial services through a nationwide network of relationship managers, and also through telephone and internet channels. The product range includes asset finance, in which, according to the Finance Lease Association, it has a strong market presence through the Lombard brand.

According to Ph. Group, UK Corporate Banking holds the largest market share in the United Kingdom of relationships with larger companies, offering a full range of banking, finance, and risk management services.

UK Wealth Management provides private banking and investment services through Coutts, Adam & Co., RBS International and NatWest Offshore.

## **US Retail & Commercial Banking**

Citizens Financial Group provides financial services primarily through the Citizens and Charter One brands.

Citizens is engaged in retail and corporate banking activities through its branch network in 13 states in the United States and through non-branch offices in other states. Citizens is a large commercial banking organisation.

Following RBS's strategic review, Citizens intends to invest in its core business through increased marketing activity and targeted technology investments while reducing activity in its out-of-footprint national businesses in consumer and commercial finance.

## **Europe & Middle East Retail & Commercial Banking**

This comprises Ulster Bank and the Group's combined retail and commercial businesses in Europe and the Middle East.

Ulster Bank provides a comprehensive range of financial services across the island of Ireland. Its retail banking arm has a network of branches and operates in the personal, commercial and wealth management sectors, while its corporate markets operations provide services in the corporate and institutional markets.

The retail and commercial businesses in Europe and the Middle East have smaller activities in Romania, Kazakhstan and the United Arab Emirates. Following RBS's strategic review, RBS has decided to exit sub-scale retail and commercial activities outside its core markets in the United Kingdom, Europe and the United States.

## **Asia Retail & Commercial Banking**

Asia Retail & Commercial Banking has presence in India, Pakistan, China, Taiwan, Hong Kong, Indonesia, Malaysia and Singapore. It provides financial services across four segments: affluent banking, cards and consumer finance, business banking and international wealth management, which offers private banking and investment services to clients in selected markets through the RBS Coutts brand. Following RBS's strategic review, RBS has decided to exit sub-scale retail and commercial activities outside its core markets in the United Kingdom, Europe and the United States.

## **Global Banking & Markets**

Global Banking & Markets is a leading banking partner to major corporations and financial institutions in the United Kingdom and around the world, providing a range of debt and equity financing, risk management and investment services to its customers. The division is organised along the following four principal business lines: rates, currencies and commodities, including RBS Sempra Commodities LLP, the commodities marketing joint venture between RBS and Sempra Energy formed on 1 April 2008; equities; credit markets; and asset and portfolio management.

Following RBS's strategic review, GBM is planning to re-focus its business around its core corporate and institutional clients, concentrating its activities in major financial centres and scaling back its presence elsewhere. It will exit illiquid proprietary trading and balance sheet-heavy niche products segments.

## **Global Transaction Services**

Based on RBS's review of transaction services revenue of principal competitors, Global Transaction Services ranks among the top five global transaction services providers, offering global payments, cash and liquidity management, as well as trade finance, UK and international merchant acquiring and commercial card products and services. It includes the Group's corporate money transmission activities in the United Kingdom and the United States.

Following RBS's strategic review, Global Transaction Services intends to reduce its international network while retaining the capability to serve multinational clients globally.

## **RBS Insurance**

RBS Insurance sells and underwrites retail and SME insurance over the telephone and internet, as well as through brokers and partnerships. Its brands include Direct Line, Churchill, Privilege, Green Flag and

NIG, Direct Line, Churchill and Privilege sell general insurance products direct to the customer. Through its international division, RBS Insurance sells general insurance, mainly motor, in Spain, Germany and Italy. The Intermediary and Broker division sells general insurance products through independent brokers.

Following RBS's strategic review, RBS has decided to retain RBS Insurance.

### **Group Manufacturing**

Group Manufacturing comprises the Group's worldwide manufacturing operations. It supports the Group's customer facing businesses and provides operational technology, customer support in telephony, account management, lending and money transmission, global purchasing, property and other services. Global Manufacturing drives efficiencies and supports income growth across multiple brands and channels by using a single, scalable platform and common processes wherever possible. It also leverages the Group's purchasing power and has become the centre of excellence for managing large scale and complex change.

### **The Centre**

The Centre comprises group and corporate functions, such as capital raising, finance, risk management, legal, communications and human resources. The Centre manages the Group's capital resources and Group-wide regulatory projects and provides services to the Group's operating divisions.

### **Non-core division**

RBS intends to create during the second quarter of 2009 a non-core division to manage separately approximately £240 billion of third party assets, £145 billion of derivative balances and £155 billion of risk weighted assets that it intends to run off or dispose of over the next three to five years. The division will contain primarily assets from the GBM division linked to proprietary trading portfolios, excess risk concentrations and other illiquid portfolios. It will also include excess risk concentrations from other divisions as well as a number of small Regional Markets businesses that RBS has concluded are no longer strategic.

### **Sale of investment in Bank of China**

On 14 January 2009, pursuant to (i) a placing agreement entered into between RBS, RBS China Investments S.à r.l. (a Luxembourg incorporated subsidiary of RBS) and ABN AMRO Bank N.V., Hong Kong Branch, (ii) a placing agreement entered into between RBS, RBS China Investments S.à r.l., ABN AMRO Bank N.V., Hong Kong Branch and Morgan Stanley & Co. International plc, and (iii) a share purchase agreement entered into between RBS China Investments S.à r.l., Primestar Resource Holdings Limited and Orientmax Capital Limited, RBS (through RBS China Investments S.à r.l.) sold its entire 4.26 per cent. investment in Bank of China for HKD 18.4 billion.

### **Relationship with major shareholder**

Pursuant to the First Placing and Open Offer, the UK Government acquired approximately 57.9 per cent. of the issued Ordinary Share capital of RBS. The UK Government's shareholding in RBS is currently held by the Solicitor for the Affairs of HM Treasury as nominee for HM Treasury and managed by UK Financial Investments Limited ("UKFI"), a company wholly-owned by HM Treasury. No formal relationship agreement has been concluded between RBS and the UK Government, although the relationship falls within the scope of the framework document between HM Treasury and UKFI published on 2 March 2009. This document states that UKFI will manage the UK financial institutions in which HM Treasury holds an interest "on a commercial basis and will not intervene in day-to-day management decisions of the Investee Companies (including with respect to individual lending or remuneration decisions)", which is designed to ensure that control of the relationship is not abused. This document also makes it clear that such UK financial institutions will continue to be separate economic units with independent powers of decision and "will continue to have their own independent boards and management teams, determining their own strategies and commercial policies (including business plans and budgets)."

These goals are consistent with the stated public policy aims of the UK Government, as articulated in a variety of public announcements.



In the framework document between UKFI and HM Treasury, UKFI stated that its goal was to “develop and execute an investment strategy for disposing of the investments [in the banks] in an orderly and active way through sale, redemption, buy-back or other means within the context of an overarching objective of protecting and creating value for the taxpayer as shareholder, paying due regard to the maintenance of financial stability and to acting in a way that promotes competition.”

It was also stated that UKFI intended to “engage robustly with banks’ boards and management, holding both strategy and financial performance to account, and taking a strong interest in getting the incentives structures right on the board and beyond—accounting properly for risk and avoiding inefficient rewards for failure.”

In this connection, RBS announced on 17 February 2009 that it had reached an agreement with UKFI in respect of certain changes to its remuneration policy. RBS has also undertaken to conduct a review of its strategy and UKFI has been actively engaged in reviewing the output of this review.

In connection with its proposed access to the APS (further details of which are set out in paragraph 18.12 of Part IX of this document), RBS has undertaken to provide lending to creditworthy UK homeowners and businesses in a commercial manner. The UK Government will monitor RBS’s compliance with this commitment (further details of which are set out in paragraph 18.13 of Part IX of this document) monthly. The lending commitment does not require RBS to lend in excess of its single name or sectoral risk concentration limits or otherwise to engage in uncommercial practices.

RBS, in common with other financial institutions, also works closely with a number of UK Government departments and agencies on various industry-wide initiatives that are intended to support the UK Government’s objective of supporting stability in the wider financial system.

Other than in relation to these areas, however, the UK Government has confirmed publicly that its intention is to allow the financial institutions in which it holds an interest to operate their business independently.

## PART V

### OVERVIEW OF BUSINESS PERFORMANCE AND OPERATING AND FINANCIAL REVIEW OF RBS

#### 1 Business performance and operating and financial review

*The key information that comprises the discussion of RBS's current trading and prospects can be found in the paragraphs entitled 2008 Results and Trading and outlook of the letter from the Chairman of RBS contained in Part I of this document.*

*The key information that comprises the business description and business review of RBS for the year ended 31 December 2008 can be found on the following pages of its Annual Report and Accounts for 2008 and are incorporated by reference herein:*

*Pages 23-144*

*The key information that comprises the financial review of RBS for the year ended 31 December 2007 can be found on the following pages of its Annual Report and Accounts for 2007 and are incorporated by reference herein:*

*Pages 27-90*

*The key information that comprises the financial review of RBS for the year ended 31 December 2006 can be found on the following pages of its Annual Report and Accounts for 2006 and are incorporated by reference herein:*

*Pages 43-100*

*See Part X of this document for further details about information that has been incorporated by reference into this document.*

## 2 Capitalisation and indebtedness

The table below sets forth RBS's consolidated capitalisation and indebtedness as at 31 December 2008. Please read this table together with the financial statements and the notes to those financial statements incorporated by reference in this document.

	As at 31 December 2008 <i>(£ millions)</i>
<b>Share capital – authorised</b>	
Ordinary Shares of 25p each . . . . .	11,151
Non-voting deferred shares of £0.01 each . . . . .	323
Additional value shares of £0.01 each . . . . .	27
Preference shares <sup>(1)</sup> . . . . .	529
	12,030
<b>Share capital – allotted, called up and fully paid</b>	
Ordinary Shares of 25p each . . . . .	9,864
Non-voting deferred shares of £0.01 each . . . . .	27
Preference shares <sup>(2)</sup> . . . . .	7
	9,898
<b>Reserves</b> . . . . .	48,981
<b>Total owners' equity</b> . . . . .	58,879
<b>Group indebtedness</b>	
<b>Dated loan capital</b> . . . . .	30,162
<b>Undated loan capital</b> . . . . .	11,697
<b>Preference shares</b> . . . . .	2,194
<b>Trust preferred securities</b> . . . . .	5,101
	49,154
<b>Total subordinated liabilities</b> . . . . .	300,289
<b>Debt securities in issue</b> . . . . .	349,443
<b>Total indebtedness</b> . . . . .	408,322
<b>Total capitalisation and indebtedness</b> . . . . .	408,322

Notes:

- (1) The authorised preference share capital of the Group as at 31 December 2008 was £529 million consisting of 516 million non-cumulative preference shares of US\$0.01 each, 3.9 million non-cumulative convertible preference shares of US\$0.01 each, 66 million non-cumulative preference shares of €0.01 each, 3 million non-cumulative convertible preference shares of €0.01 each, 900 million non-cumulative convertible preference shares of £0.25 each, 1 million non-cumulative convertible preference shares of £0.01 each, 0.9 million cumulative preference shares of £1 each and 300 million non-cumulative preference shares of £1 each.
- (2) The allotted, called-up and fully paid equity preference share capital of the Group as at 31 December 2008 consisted of 254 million non-cumulative preference shares of US\$0.01 each, 2.5 million non-cumulative preference shares of €0.01 each and 5.75 million non-cumulative preference shares of £1 each.
- (3) The allotted, called-up and fully paid non-equity preference share capital of the Group as at 31 December 2008 consisted of 54 million non-cumulative preference shares of US\$0.01 each, 1 million non-cumulative convertible preference shares of US\$0.01 each, 0.2 million non-cumulative convertible preference shares of £0.01 each and 0.9 million cumulative preference shares of £1 each.
- (4) As at 31 December 2008, the Group had total liabilities and equity of £2,402 billion, including deposits by banks of £258 billion and customer accounts of £640 billion.
- (5) All of the indebtedness, except for £58.7 billion of debt securities in issue, is unsecured. None of the indebtedness described above or below is guaranteed.
- (6) There has been no material change in the total capitalisation of the Group since 31 December 2008.

## 3 Capital resources and liquidity management

The Group effected two capital raisings during 2008 featuring a £12 billion rights issue in June 2008 and a further £20 billion issue completed in December 2008, including £5 billion of Preference Shares purchased entirely by HM Treasury. The £15 billion of Ordinary Shares issued under the first Placing and

Open Offer were principally subscribed for by HM Treasury under the UK Government's bank recapitalisation scheme.

Financial market and economic conditions continued to deteriorate towards the end of the year and significant credit impairment losses and credit-market write-downs were booked by the Group in 2008; prospects for financial markets and key economies remain uncertain and challenging and, in particular, the Group continues to experience credit market write-downs, including further write-downs in respect of monoline exposures, in 2009.

The effective management of the Group's capital is key to sustaining its ability to operate its businesses, grow organically and pursue its strategy. The maintenance of adequate capital is also necessary to enhance the Group's financial flexibility in the face of continuing turbulence and uncertainty in global economies as currently being experienced.

The Board, in conjunction with HM Treasury, has resolved to improve the quality of the Group's capital base by using the proceeds of the proposed Placing and Open Offer to redeem the Preference Shares held by HM Treasury. This will directly strengthen Core Tier 1 capital to give the Group enhanced financial capability to protect and deliver the value of its established and profitable customer franchises during continued difficult economic and market conditions. The enhancement to the Group's financial strength will also support lending commitments given to the UK Government and be to the benefit of all customers, counterparties and investors.

On 26 February 2009, RBS confirmed its intended participation in the UK Government's APS and its possible issuance of up to £25.5 billion of B Shares, qualifying as Core Tier 1 capital. Under the proposed terms of the APS, HM Treasury will provide loss protection against a significant element of potential losses arising in a pool of assets with an expected par value of around £325 billion. Fuller details of the APS and the B Shares are set out in paragraph 7 of Part A to the Appendix to the letter from the Chairman of this document. The Board believes, subject to confirmation of final terms and conditions, that participation in the APS will enhance the financial strength of the Group and provide improved stability for customers and depositors, consolidating its ability to lend into the UK market although there can be no guarantee that final agreement will be reached.

RBS's policy will continue to be to maintain a strong capital base, to develop this base as appropriate and to utilise it efficiently throughout RBS's activities in order to optimise shareholder returns while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, RBS follows the supervisory requirements of the FSA. The FSA uses Risk Asset Ratio ("RAR") as a measure of capital adequacy in the UK banking sector, comparing a bank's capital resources with its risk-weighted assets (the assets and off-balance sheet exposures being "weighted" to reflect the inherent credit and other risks). The FSA have also set out their expectation in relation to the respective levels of Core Tier 1 capital and Tier 1 capital that banks participating in the UK Government's recapitalisation scheme should maintain.

As at 31 December 2008, the Group's total RAR was 14.2 per cent. and the Tier 1 and Core Tier 1 capital ratios were 9.9 per cent. and 6.1 per cent. respectively, as reported on a proportional consolidated basis using the Basel II methodology. On 19 January 2009, the FSA announced that, in respect of the banks participating in the UK Government's recapitalisation scheme, they expect each of the participating banks to have a minimum Core Tier 1 ratio of 4 per cent. At the time of the recapitalisation they also used a Tier 1 ratio of 8 per cent. to help them determine the appropriate level of buffer. They estimate 6-7 per cent. to be a comparable post stress Tier 1 number to the Core Tier 1 number of 4 per cent.

The major franchise of RBS is in the UK economy and this faces the prospect of significant recession in 2009, and possibly for a more protracted period. This could result in both erosion of RBS's capital base as losses are incurred, and increases in risk weighted assets due to adverse risk migration. The Board considers that the new capital to be raised in the Placing and Open Offer will provide a buffer against these developments but is also mindful of the fact that greater stresses in the economy are a significant vulnerability. Proposed participation in the APS is representative of strategic action to mitigate against the potential scale of these vulnerabilities.

Total capital resources principally comprise shareholders' equity, minority interests and subordinated liabilities less goodwill and other intangible assets and other supervisory deductions such as the Group's investment in insurance companies. The Group redeemed no subordinated notes between 31 December 2008 and the date of this document. Changes in shareholders' equity since 31 December 2008 reflect trading results, exit from the Bank of China investment structure, changes in the fair values of

available-for-sale investments and cash flow hedges, and exchange differences on translation of foreign operations.

In connection with its ongoing capital management efforts, RBS from time to time considers market based and/or internal capital management opportunities to generate and further strengthen Core Tier 1 capital. In particular, RBS and its subsidiaries have engaged and may engage in transactions involving the sale, issuance, purchase, redemption, pledge, hypothecation or other acquisition or transfer of assets, liabilities or securities, any of which may result in changes to the Group's assets, liabilities, capital structure and capital ratios.

Upon completion of the Placing and Open Offer, RBS will issue, in accordance with the terms of the Placing and Open Offer Agreement, 16,909,716,385 New Shares, raising £5.27 billion, net of expenses. The fair value of these New Shares is £3.58 billion based on the closing price of the Ordinary Shares of 21.20 pence per Ordinary Share set forth in the London Stock Exchange Daily Official List on 11 March 2009, the last practicable date prior to the date of this document.

Had the Placing and Open Offer and Preference Share Redemption completed on 31 December 2008, it would have had the effect of increasing the Group's reported 31 December 2008 Core Tier 1 ratio to 7.0 per cent., on a proportional consolidated basis; the Group's total RAR and Tier 1 ratio would be unchanged from 14.2 per cent. and 9.9 per cent. respectively.

Liquidity management within RBS focuses on the overall balance sheet structure, the control, within prudent limits, of risk arising from the mismatch of maturities of assets and liabilities across the balance sheet, and the risks arising from undrawn commitments and other contingent obligations. RBS manages the structure of its balance sheet with the aim of maintaining substantial diversification, minimising concentration across its various deposit sources and containing the level of reliance on total short-term wholesale sources of funds. As part of its planning process, RBS reviews regularly the forecasted structure of its balance sheet over the planning period.

The most important and largest single source of funding for RBS are customer deposits that are diversified across the retail, wealth and small and medium enterprise customer base. Customer deposits were £460,318 million at 31 December 2008 which represents an increase over the balance of £437,060 million at the end of December 2007. There was a temporary reduction to customer deposits at the height of the financial turbulence in October 2008, but these had all been restored by the year end.

RBS also uses secured funding markets to fund its balance sheet and at 31 December 2008 had £58,143 million of customer secured funding and £83,666 million of bank secured funding.

Funding from banks of £178,268 million<sup>(1)</sup> and debt securities in issue of £269,188 million<sup>(1)</sup> at 31 December 2008 are the major sources of unsecured wholesale funding. These markets have been heavily impacted by the global financial crisis. During the second half of 2008 and into the current year there has been a significant deterioration in the interbank and term funding markets with a reduction in the availability of longer-term funding. As a result, banks including RBS have had to source more shorter-term and overnight funding with a consequent reduction in overall liquidity and to increase recourse to liquidity schemes provided by central banks. RBS has also raised funding guaranteed by the UK Government to ensure that it is able to fully support its balance sheet.

In this regard, governments and central banks have taken various actions to improve funding and liquidity within their respective banking systems. For example, on 8 October 2008, the UK Government announced a range of measures intended to ease both the causes and the symptoms of the current difficulties in the UK banking system. These include the provision of liquidity and funding support to banks, including, for example, the raising, by qualifying banks, of liabilities that are guaranteed by HM Treasury, which RBS has taken advantage of. In September and October 2008, the Bank of England, the European Central Bank and the US Federal Reserve announced a number of tools for the provision of liquidity to banks in their respective jurisdictions, including those in which RBS operates. Such global measures include entering into weekly and longer-term repurchase agreements, expanding the types of collateral accepted by these central banks as security for funding and co-ordinating global action to strengthen the banking system and functioning of the interbank markets. These central bank and government facilities are an important tool in the liquidity management solutions for banks, including RBS, and are in addition to RBS's other diversified funding sources, such as significant retail deposits.

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(1) Group before RFS Holdings Minority Interest.



However, there can be no assurance that these global measures will succeed in improving the funding and liquidity of the markets in which the major banks, including RBS, operate.

There are a significant number of these schemes that RBS is eligible to participate in within the United Kingdom, Europe and the United States alone, which are in addition to schemes that are operated by other central banks and governments in jurisdictions in which RBS operates. As with many other banks, RBS makes use of a number of central bank schemes to assist with its funding and liquidity management. The general purpose of such schemes is to allow a bank to pledge or enter into a repurchase agreement in respect of collateral for varying periods of time in exchange for funding. On 19 January 2009, HM Treasury announced a comprehensive package of measures designed to reinforce the stability of the financial system. Included within this package was the extension of the Bank of England's Discount Window Facility with its maturity increasing from 30 days to one year.

RBS believes that its access to a range of governmental and non-governmental sources of liquidity, in combination with its increased capital ratios following the completion of the Placing and Open Offer and the Preference Share Redemption, should allow it to better absorb further write-downs and unexpected changes in market conditions and will help the Group to maintain customer support and confidence, while providing the resources to support its future development.

Further disclosures about the Group's management of capital resources and liquidity are set out on pages 73 and 78-144 in the Annual Report and Accounts for 2008, which are incorporated by reference herein.

As discussed above, the global markets for short and medium term sources of funding on which banks rely to support their business activities have continued to undergo a period of unprecedented upheaval, which has led to direct intervention by HM Treasury and the Bank of England to directly supplement existing sources of funding and create the environment for an improvement in the availability of other traditional sources of funding. Due to this dislocation and the uncertainty surrounding the implementation of new government funding schemes (including the APS), the UK Listing Authority has agreed that a statement regarding the adequacy of working capital for at least the next 12 months should not be required in this document. There is therefore no working capital statement in this document.

#### **4 Impact of the Placing and Open Offer and the Preference Share Redemption on RBS**

The effect of the Placing and Open Offer and the Preference Share Redemption is to improve the quality of RBS's regulatory capital by increasing RBS's Core Tier 1 ratio as outlined in more detail in Part VI of this document; the Tier 1 ratio is not affected. The Placing and Open Offer and Preference Share Redemption will have no other impact on RBS's balance sheet. The Preference Shares carry a coupon of 12 per cent. at the discretion of the Board while the New Shares will in future rank *pari passu* with the Existing Shares for any dividend payments. Accordingly, other than the elimination of the annual distribution at the discretion of the Board in respect of the Preference Share coupon, and the inclusion of the New Shares in the payment of any future dividends on RBS's Ordinary Shares, the Placing and Open Offer and Preference Share Redemption will have no impact on the Group's income statement.

## PART VI

### UNAUDITED PRO FORMA FINANCIAL INFORMATION

#### A Unaudited pro forma proportional Core Tier 1 capital ratio as at 31 December 2008

The pro forma regulatory capital ratio on a proportional consolidated basis below is being provided to give a better understanding of what the RBS Group's Core Tier 1 ratio would have looked like at 31 December 2008 on a proportional basis had the Placing and Open Offer and the Preference Share Redemption been completed at that date. The pro forma regulatory capital ratio assumes all proceeds received are used to redeem the Preference Shares.

	Adjustments			Adjusted RBS <sup>(3)</sup> Group
	RBS Group <sup>(1)</sup>	Placing and Open Offer <sup>(2)</sup>	Preference Share Redemption <sup>(2)</sup>	
Core Tier 1 capital ratio (%)	6.1	0.9	—	7.0

Notes:

- (1) The proportional regulatory capital ratios of the RBS Group have been extracted from its unaudited management accounts as at 31 December 2008, without material adjustment.
- (2) Reflecting the net proceeds of £5 billion from the Placing and Open Offer and subsequent Preference Share Redemption.
- (3) RBS Group regulatory capital ratio including the effect of the Placing and Open Offer and Preference Share Redemption and the ABN AMRO businesses to be realigned by the RBS Group, as set out in the CSA, including its share of shared assets.
- (4) The pro forma Core Tier 1 capital ratios above do not reflect any adjustment in respect of the issue of any B Shares.

# Deloitte.

The Board of Directors  
The Royal Bank of Scotland Group plc  
Gogarburn  
Edinburgh, EH12 1HQ

Merrill Lynch International  
Merrill Lynch Financial Centre  
2 King Edward Street  
London, EC1A 1HQ

UBS Limited  
1 Finsbury Avenue  
London, EC2M 2PP

16 March 2009

Dear Sirs,

**PROPOSED PLACING AND OPEN OFFER BY THE ROYAL BANK OF SCOTLAND GROUP PLC (THE "COMPANY", TOGETHER WITH ITS SUBSIDIARIES THE "GROUP") IN RELATION TO ORDINARY SHARES (THE "NEW ORDINARY SHARES") OF THE COMPANY AND PROPOSED ADMISSION TO THE OFFICIAL LIST OF THE FINANCIAL SERVICES AUTHORITY (THE "FSA") AND PROPOSED ADMISSION TO TRADING ON THE LONDON STOCK EXCHANGE OF THE NEW ORDINARY SHARES (THE "TRANSACTION")**

We report on the pro forma proportional Core Tier 1 capital ratio information (the "Pro Forma Financial Information") set out in paragraph A of Part VI of the Prospectus dated 16 March 2009 (the "Prospectus"), which has been prepared on the basis described therein, for illustrative purposes only, to provide information about how the Transaction and the Preference Share Redemption might have affected the proportional Core Tier 1 capital ratio of the Group. This report is required by Annex I item 20.2 of Commission Regulation (EC) No 809/2004 (the "Prospectus Directive Regulation") and is given for the purpose of complying with that requirement and for no other purpose.

## *Responsibilities*

It is the responsibility of the directors of the Company (the "Directors") to prepare the Pro Forma Financial Information in accordance with Annex I item 20.2 and Annex II items 1 to 6 of the Prospectus Directive Regulation.

It is our responsibility to form an opinion, in accordance with Annex I item 20.2 of the Prospectus Directive Regulation, as to the proper compilation of the Pro Forma Financial Information and to report that opinion to you in accordance with Annex II item 7 of the Prospectus Directive Regulation.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law, we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the purposes of complying with Annex I item 23.1 of the Prospectus Directive Regulation, consenting to its inclusion in the Prospectus.

## *Basis of Opinion*

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the Directors.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Group.

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

*Opinion*

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of the Group.

*Declaration*

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Annex I item 1.2 of the Prospectus Directive Regulation.

Yours faithfully

A handwritten signature in black ink, appearing to read "Deloitte W". The signature is written in a cursive, flowing style.

Deloitte LLP  
Chartered Accountants

## PART VII

### FINANCIAL INFORMATION ON RBS

*The consolidated financial statements of RBS and its subsidiaries included in the Annual Report and Accounts of RBS for each of the years ended 31 December 2008, 2007 and 2006 together with the audit reports thereon are incorporated by reference into this document. Deloitte LLP (formerly Deloitte & Touche LLP) of Saltire Court, 20 Castle Terrace, Edinburgh EH1 2DB, United Kingdom, Chartered Accountants regulated by the ICAEW, has issued unqualified audit opinions on the consolidated financial statements of RBS and its subsidiaries included in the Annual Report and Accounts of RBS for each of the three years ended 31 December 2008, 2007 and 2006. The audit opinion for the year ended 31 December 2008 is set out on pages 172 to 173 of the Annual Report and Accounts 2008. The audit opinion for the year ended 31 December 2007 is set out on pages 118 to 119 of the Annual Report and Accounts 2007. The audit opinion for the year ended 31 December 2006 is set out on pages 128 to 129 of the Annual Report and Accounts 2006.*

*See Part X of this document for further details about information that has been incorporated by reference into this document.*



**PART VIII**  
**TAXATION**

**(A) United Kingdom**

**1 General**

The statements set out below are intended only as a general and non-exhaustive guide to current UK tax law and practice and apply only to certain categories of person. The summary does not purport to be a complete analysis or listing of all the potential tax consequences of holding New Shares. Prospective acquirers of New Shares are advised to consult their own professional tax advisers concerning the consequences under UK law of the acquisition, ownership and disposition of New Shares. This summary is based upon current UK law and HM Revenue & Customs (“HMRC”) published practice, as at the date of this document, each of which may be subject to change, possibly with retroactive effect.

Unless specified otherwise, the statements apply only to holders of New Shares who are resident (and, in the case of individuals only, ordinarily resident and domiciled) solely in the United Kingdom for tax purposes, who hold the New Shares as an investment and who are the absolute beneficial owners of the New Shares and any dividends paid in respect of them. The statements are not addressed to: (i) special classes of Shareholders such as, for example, dealers in securities, broker dealers, insurance companies and collective investment schemes; (ii) Shareholders who hold New Shares as part of hedging transactions; (iii) Shareholders who have (or are deemed to have) acquired their New Shares by virtue of an office or employment; and (iv) Shareholders who hold New Shares in connection with a trade, profession or vocation carried on in the United Kingdom (whether through a branch or agency or, in the case of a corporate shareholder, through a permanent establishment or otherwise).

**Shareholders who are in any doubt about their taxation position and Shareholders who are not resident for tax purposes in the United Kingdom should consult their own professional advisers.**

**2 Taxation of dividends**

The Company will not be required to withhold tax at source when paying a dividend.

A UK resident individual Shareholder who receives a dividend from the Company will be entitled to a tax credit which may be set off against the Shareholder’s total income tax liability on the dividend. The tax credit will be equal to 10 per cent. of the aggregate of the dividend and the tax credit (the “gross dividend”), which is also equal to one-ninth of the cash dividend received. Such an individual UK resident Shareholder who is liable to income tax at a rate not exceeding the basic rate will be subject to tax on the dividend at the rate of 10 per cent. of the gross dividend, so that the tax credit will satisfy in full such Shareholder’s liability to income tax on the dividend. In the case of such an individual Shareholder who is liable to income tax at the higher rate, the tax credit will be set against but not fully match the Shareholder’s tax liability on the gross dividend and such Shareholder will have to account for additional income tax equal to 22.5 per cent. of the gross dividend (which is also equal to 25 per cent. of the cash dividend received) to the extent that the gross dividend when treated as the top slice of the Shareholder’s income falls above the threshold for higher-rate income tax.

The UK Government has announced proposals to introduce, with effect from 6 April 2011, a new tax rate of 45 per cent. for taxable non-savings and savings income above £150,000. Dividends which would otherwise be taxable at the new 45 per cent. rate would, however, be liable to income tax at a new rate of 37.5 per cent.

A UK resident individual Shareholder who is not liable to income tax in respect of the gross dividend and other UK resident taxpayers who are not liable to UK tax on dividends, including pension funds and charities, will not be entitled to claim repayment of the tax credit attaching to dividends paid by the Company.

Shareholders who are within the charge to UK corporation tax will generally not be subject to UK corporation tax on dividends paid by the Company. Such Shareholders will not be able to claim repayment of tax credits attaching to dividends. The Government has announced the introduction of provisions (from a date to be appointed by Treasury Order) which, if enacted in the form proposed in the draft legislation published on 9 December 2008, would result in shareholders who are within the charge to corporation tax being subject to corporation tax on dividends paid by the Company, unless the

dividends fall within an exempt class and certain other conditions are met. It is expected that the dividends paid by the Company would generally be exempt.

Non-UK resident Shareholders will not generally be able to claim repayment from HMRC of any part of the tax credit attaching to dividends paid by the Company. A Shareholder resident outside the United Kingdom may also be subject to foreign taxation on dividend income under local law. Shareholders who are not resident for tax purposes in the United Kingdom should obtain their own tax advice concerning tax liabilities on dividends received from the Company.

### **3 Taxation of capital gains**

#### **3.1 UK tax resident Shareholders**

(a) *New Shares acquired pursuant to the Open Offer*

As a matter of UK tax law, the acquisition of New Shares may not be regarded as a reorganisation of the share capital of the Company for the purposes of UK taxation of chargeable gains. The published practice of HMRC to date has been to treat an acquisition of Shares by an existing Shareholder up to his pro rata entitlement pursuant to the terms of an open offer as a reorganisation but it is understood that HMRC may not apply this practice in circumstances where an open offer is not made to all Shareholders.

To the extent that the acquisition of New Shares under the Open Offer is regarded as a reorganisation, the New Shares acquired by each Qualifying Shareholder under the Open Offer and the Existing Shares in respect of which they are issued will, for the purposes of UK taxation of chargeable gains, be treated as the same asset and as having been acquired at the same time as the Existing Shares. The amount paid for the New Shares will be added to the base cost of the Existing Shares when computing any gain or loss on any subsequent disposal.

If, or to the extent that, the acquisition of New Shares under the Open Offer is not regarded as a reorganisation, the New Shares acquired by each Qualifying Shareholder under the Open Offer will, for the purposes of UK taxation of chargeable gains, be treated as acquired as part of a separate acquisition of Ordinary Shares.

(b) *New Shares acquired pursuant to the Placing*

The issue of New Shares under the Placing will not constitute a reorganisation of share capital for the purposes of UK taxation of chargeable gains and, accordingly, any New Shares acquired pursuant to the Placing will be treated as acquired as part of a separate acquisition of Ordinary Shares.

(c) *Disposal of New Shares*

A disposal or deemed disposal of New Shares by a Shareholder who is resident or, in the case of an individual, ordinarily resident in the United Kingdom for tax purposes may give rise to a chargeable gain (or allowable loss) for the purposes of UK capital gains tax (where the Shareholder is an individual) and UK corporation tax on chargeable gains (where the Shareholder is within the charge to UK corporation tax), depending on their circumstances and subject to any available exemption or relief.

As regards an individual Shareholder, the principal factors that will determine the extent to which a gain will be subject to UK capital gains tax are the extent to which he or she realises any other capital gains in the tax year of assessment in which the gain arises, the extent to which he or she has incurred capital losses in that or any earlier tax year of assessment and the level of the annual allowance of tax-free gains in the tax year of assessment in which the disposal takes place.

#### **3.2 Temporary non-UK tax resident Shareholders**

An individual Shareholder who ceases to be resident or ordinarily resident in the United Kingdom for a period broadly of less than five years and who disposes of New Shares during that period of temporary non-residence may be liable to UK capital gains tax on his or her return to the United Kingdom (subject to available exemptions or reliefs).

### 3.3 Non-UK tax resident Shareholders

A Shareholder who is not resident or, in the case of an individual, ordinarily resident for tax purposes in the United Kingdom (and is not temporarily non-resident as described above) will not be liable for UK tax on capital gains realised on the sale or other disposal of his or her New Shares unless such New Shares are used, held or acquired for the purposes of a trade, profession or vocation carried on in the United Kingdom through a branch or agency or, in the case of a corporate Shareholder, through a permanent establishment. Such Shareholders may be subject to foreign taxation on any gain under local law subject to the terms of any applicable double tax treaty.

## 4 UK stamp duty and stamp duty reserve tax (“SDRT”)

4.1 No stamp duty or SDRT will be payable on the issue of New Shares pursuant to the Open Offer or the Placing, other than as explained in paragraph 4.2 below.

4.2 Where New Shares are issued or transferred (i) to, or to a nominee for, a person whose business is or includes the provision of clearance services (a “Clearance Service”) or (ii) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts (a “Depositary Receipts System”), stamp duty or SDRT will be payable at the higher rate of 1.5 per cent. of the consideration payable or, in certain circumstances, the value of the New Shares (rounded up in the case of stamp duty to the nearest £5). Clearance Services may opt under Section 97A of the Finance Act 1986, provided certain conditions are satisfied, for the normal rate of stamp duty or SDRT to apply to issues or transfers of Shares into, and to transactions within, such services instead of the higher rate applying to an issue or a transfer of Shares into the clearance service. Euroclear Nederland is a Clearance Service. Where New Shares are issued into Euroclear Nederland, a charge to SDRT will arise on issue. The charge will be equal to 1.5 per cent. of the Issue Price. The SDRT liability will fall on Euroclear Nederland, but to the extent that a Qualifying Euroclear Shareholder’s New Shares are issued into Euroclear Nederland in respect of a Qualifying Euroclear Shareholder’s Euroclear Open Offer Entitlements, the Company will pay an amount equal to such SDRT to discharge such liability. If a Qualifying Euroclear Shareholder uses the Excess Application Facility to apply for New Shares in excess of its Euroclear Open Offer Entitlements, that Qualifying Euroclear Shareholder will be required to pay an amount in respect of the SDRT arising on the issue of New Shares for its benefit under the Excess Application Facility.

Further information in relation to the payment of SDRT in respect of the Excess Application Facility is set out in paragraph 4.3(f) of Part III of this document. Subsequent dealings in New Shares issued into Euroclear Nederland will be free from SDRT and, in practice, stamp duty.

4.3 Save as mentioned in paragraph 4.2 above, any subsequent dealings in New Shares will be subject to stamp duty or SDRT in the normal way. The transfer on sale of Existing Shares or New Shares will be liable to *ad valorem* stamp duty, generally at the rate of 0.5 per cent. thereof (rounded to the nearest multiple of £5) of the consideration paid. An unconditional agreement to transfer such Shares will be liable to SDRT, generally at the rate of 0.5 per cent. of the consideration paid, but such liability will be cancelled or a right to a repayment in respect of the SDRT liability will arise if the agreement is completed by a duly stamped transfer within six years of the agreement having become unconditional. SDRT is normally the liability of the purchaser. An exemption from stamp duty will be available on an instrument transferring New Shares where the amount or value of the consideration is £1,000 or less, and it is certificated on the instrument that the transaction effected by the instrument does not form part of a larger transaction or series of transactions for which the aggregate consideration exceeds £1,000.

4.4 Under the CREST system for paperless share transfers, no stamp duty or SDRT will arise on a transfer of Shares into the system provided (i) the shares are not issued into the CREST account of, or of a nominee for, a Depositary Receipt System or the CREST account of, or of a nominee for, a Clearance Service which has not made an election under Section 97A of the Finance Act 1986, and (ii) in the case of SDRT, the transfer is not for money or money’s worth. Transfers of Shares within CREST are liable to SDRT (at a rate of

0.5 per cent. of the amount or value of the consideration payable) rather than stamp duty, and SDRT on relevant transactions settled within the system or reported through it for regulatory purposes will be collected by CREST.

**The statements in this paragraph 4 apply to any holders of New Shares irrespective of their residence, summarise the current position and are intended as a general guide only. Special rules apply to agreements made by, amongst others, intermediaries.**

## **5 Inheritance tax**

UK inheritance tax may be chargeable on the death of, or in certain circumstances on a gift by, the owner of New Shares where the owner is an individual. For inheritance tax purposes, a transfer of assets at less than the full market value may be treated as a gift.

### **(B) United States**

#### **CERTAIN US FEDERAL INCOME TAX CONSIDERATIONS**

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

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## **1 General**

The following is a summary of certain material US federal income tax consequences of participation in the Open Offer and the ownership and disposition of New Shares by a US Holder (as defined below). This summary deals only with initial purchasers of New Shares that are US Holders that will hold the New Shares as capital assets. The discussion does not cover all aspects of US federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of New Shares by particular investors, and does not address state, local, foreign or other tax laws. This summary also does not address tax considerations applicable to investors that own (directly or indirectly) 10 per cent. or more of the voting stock of the Company, nor does this summary discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the US federal income tax laws (such as financial institutions, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the New Shares as part of straddles, hedging transactions or conversion transactions for US federal income tax purposes or investors whose functional currency is not the US dollar).

As used herein, the term "US Holder" means a beneficial owner of Existing Shares or 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.

The US federal income tax treatment of a partner in a partnership that holds Existing Shares or New Shares will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are partnerships should consult their tax advisers concerning the US federal income tax consequences to their partners of the acquisition, ownership and disposition of New Shares by the partnership.

The summary assumes that the Company is not and will not become a passive foreign investment company (a "PFIC") for US federal income tax purposes, which the Company believes to be the case.

The Company's possible status as a PFIC must be determined annually and therefore may be subject to change. If the Company were to be a PFIC in any year, materially adverse consequences could result for US Holders—see paragraph 6 below.

The summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, as well as on the income tax treaty between the United States and the United Kingdom, all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

**THE SUMMARY OF US FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NEW SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.**

## **2 Consequences of the Open Offer**

The Open Offer Entitlement should not be taxable to US Holders. It is uncertain whether the Open Offer Entitlement should be treated as a distribution of rights to acquire New Shares, but the following discussion assumes that this treatment is correct. The receipt of New Shares from the Company by a US Holder that subscribes for the New Shares pursuant to the terms of the Open Offer should also not be taxable.

If, on the date of the Open Offer, the fair market value of the Open Offer Entitlements is less than 15 per cent. of the fair market value of the Existing Shares held by the US Holder, no portion of the US Holder's basis in Existing Shares will be allocated to New Shares, unless the US Holder irrevocably elects (in a statement attached to his federal tax return for the taxable year in which the application for New Shares is received pursuant to the Open Offer) to allocate tax basis in proportion to the relative fair market values of the Existing Shares and the Open Offer Entitlements right. US Holders should consult their own tax advisors regarding the advisability of and procedures for making such an election.

If, on the date of the Open Offer, the fair market value of the Open Offer Entitlements is equal to or greater than 15 per cent. of the fair market value of the Existing Shares held by the US Holder, then the US Holder is required to allocate to the Open Offer Entitlement a portion of his tax basis in the Existing Shares held before the Open Offer. This allocation generally is made on the basis of the relative fair market values of the Existing Shares and the Open Offer Entitlements.

Notwithstanding the foregoing, a US Holder will only be entitled to allocate basis to the Open Offer Entitlements to the extent that Open Offer Entitlement is exercised by subscribing for New Shares.

## **3 Dividends**

Distributions paid by the Company out of current or accumulated earnings and profits (as determined for US federal income tax purposes) will generally be taxable to a US Holder as foreign source dividend income, and will not be eligible for the dividends received deduction allowed to corporations. Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of the US Holder's basis in the New Shares and thereafter as capital gain. However, the Company does not maintain calculations of its earnings and profits in accordance with US federal income tax accounting principles. US Holders should therefore assume that any distribution by the Company with respect to New Shares will constitute ordinary dividend income. US Holders should consult their own tax advisers with respect to the appropriate US federal income tax treatment of any distribution received from the Company.

For taxable years that begin before 2011, dividends paid by the Company will generally be taxable to a non-corporate US Holder at the special reduced rate normally applicable to long-term capital gains. A US Holder will be eligible for this reduced rate only if it has held the New Shares for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date.

Prospective purchasers should consult their tax advisers concerning the applicability of the foreign tax credit and source of income rules to dividends on the New Shares.

Dividends paid in sterling will be included in income in a US dollar amount calculated by reference to the exchange rate in effect on the day the dividends are received by the US Holder, regardless of whether the sterling is converted into US dollars at that time. If dividends received in sterling are converted into US



dollars on the day they are received, the US Holder generally will not be required to recognise foreign currency gain or loss in respect of the dividend income.

#### **4 Sale or other disposition**

Upon a sale or other disposition of New Shares, a US Holder generally will recognise capital gain or loss for US federal income tax purposes equal to the difference, if any, between the amount realised on the sale or other disposition and the US Holder's adjusted tax basis in the New Shares. This capital gain or loss will be long-term capital gain or loss if the US Holder's holding period in the New Shares exceeds one year. However, regardless of a US Holder's actual holding period, any loss may be long-term capital loss to the extent the US Holder receives a dividend that qualifies for the reduced rate described in paragraph 3 above, and exceeds 10 per cent. of the US Holder's basis in its New Shares.

The basis of each New Share acquired pursuant to the Open Offer will equal the sum of the US dollar equivalent of the subscription price and the amount of any basis in Existing Shares allocated (under the rules described under paragraph 2 above) to the right to acquire New Shares in the Open Offer. Subject to the PFIC rules discussed below, the holding period of any New Shares acquired in the Open Offer will begin with and include the date of Subscription by the US Holder. The US dollar cost of a New Share purchased with foreign currency will generally be the US dollar value of the Issue Price on the date of purchase, or the settlement date for the purchase if the New Shares are purchased by a cash basis US Holder (or an accrual basis US Holder that so elects). Such an election by an accrual basis US Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS. The amount realised on a sale or other disposition of New Shares for an amount in foreign currency will be the US dollar value of this amount on the date of sale or disposition. On the settlement date, the US Holder will recognise US source foreign currency gain or loss (taxable as ordinary income or loss) equal to the difference (if any) between the US dollar value of the amount received based on the exchange rates in effect on the date of sale or other disposition and the settlement date. However, in the case of New Shares that are sold by a cash basis US Holder (or an accrual basis US Holder that so elects), the amount realised will be based on the exchange rate in effect on the settlement date for the sale, and no exchange gain or loss will be recognised at that time.

#### **5 Disposition of foreign currency**

Foreign currency received on the sale or other disposition of a Share will have a tax basis equal to its US dollar value on the settlement date. Foreign currency that is purchased will generally have a tax basis equal to the US dollar value of the foreign currency on the date of purchase. Any gain or loss recognised on a sale or other disposition of a foreign currency (including its use to purchase New Shares or upon exchange for US dollars) will be US source ordinary income or loss.

#### **6 Passive Foreign Investment Company considerations**

A foreign corporation will be a PFIC in any taxable year in which, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to applicable "look-through rules", either (i) at least 75 per cent. of its gross income is "passive income" or (ii) at least 50 per cent. of the average value of its assets is attributable to assets which produce passive income or are held for the production of passive income. The Company does not believe that it is a PFIC for its current taxable year and does not expect to become a PFIC in future years. Although interest income is generally passive income, a special rule allows banks to treat their banking business income as non-passive. To qualify for this rule, a bank must satisfy certain requirements regarding its licensing and activities. The Company believes that it currently meets these requirements. The Company's possible status as a PFIC must be determined annually, however, and may be subject to change if the Company fails to qualify under this special rule for any year in which a US Holder holds New Shares. If the Company were to be treated as a PFIC in any year during which a US Holder holds New Shares, the US Holder would generally be subject to adverse US federal income tax consequences. Holders should consult their own tax advisers as to the potential application of the PFIC rules to the ownership and disposition of New Shares.

#### **7 Backup withholding and information reporting**

Payments of dividends and other proceeds with respect to New Shares by a US paying agent or other US intermediary will be reported to the IRS and to the US Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the US Holder fails to provide an

accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its US federal income tax returns. Certain US Holders (including, among others, corporations) are not subject to backup withholding. US Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

## **8 Transfer reporting requirements**

A US Holder who purchases New Shares may be required to file Form 926 (or similar form) with the IRS if the purchase, when aggregated with all transfers of cash or other property made by the US Holder (or any related person) to the Company within the preceding 12-month period, exceeds US\$100,000 (or its equivalent). This reporting requirement applies only if immediately after the Placing and Open Offer persons that participate in the Placing and Open Offer (including, for this purpose, HM Treasury) own stock possessing at least 80 per cent. of the total combined voting power of all classes of stock entitled to vote (including any voting stock held by such persons prior to the Placing and Open Offer) and at least 80 per cent. of the total number of share of all other classes of stock of the Company. A US Holder who fails to file any such required form could be required to pay a penalty equal to 10 per cent. of the gross amount paid for the New Shares (subject to a maximum penalty of US\$100,000, except in cases of intentional disregard). US Holders should consult their tax advisers with respect to this or any other reporting requirement that may apply to an acquisition of the New Shares.

## PART IX

### ADDITIONAL INFORMATION

#### 1 Responsibility

The Company and the Directors, whose names are set out on page 33 of this document, 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

- 2.1** 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.
- 2.2** 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).
- 2.3** 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 RBS's share capital

- 3.1** As at 11 March 2009 (being the latest practicable date prior to the date of this document), the authorised, issued and fully paid share capital of the Company was as follows:

Class of Share	Authorised		Issued and fully paid	
	Number	Amount	Number	Amount
Non-cumulative Convertible Preference Shares of £0.01 each . . . . .	1,000,000	£10,000	200,000	£2,000
Non-voting Deferred Shares of £0.01 each . . . . .	32,300,000,000	£323,000,000	2,660,556,304	£26,605,563.04
Category II Non-cumulative Convertible Preference Shares of £0.25 each . . . . .	900,000,000	£225,000,000	—	—
Ordinary Shares of £0.25 each . . . . .	44,603,278,460	£11,150,819,615	39,456,004,899	£9,864,001,224.75
11% Cumulative Preference Shares of £1.00 each . . . . .	500,000	£500,000	500,000	£500,000
5.5% Cumulative Preference Shares of £1.00 each . . . . .	400,000	£400,000	400,000	£400,000
Non-cumulative Preference Shares of £1.00 each . . . . .	300,000,000	£300,000,000	5,750,000	£5,750,000
Additional Value Shares of £0.01 each . . . . .	2,700,000,000	£27,000,000	—	—
Non-cumulative Convertible Preference Shares of €0.01 each . . . . .	3,000,000	€30,000	—	—
Non-cumulative Preference Shares of €0.01 each . . . . .	66,000,000	€660,000	2,526,000	€25,260
Category II Non-cumulative Preference Shares of US\$0.01 each . . . . .	500,000,000	US\$5,000,000	308,015,000	US\$3,080,150
Non-cumulative Preference Shares of US\$0.01 each . . . . .	16,000,000	US\$160,000	—	—
Non-cumulative Convertible Preference Shares of US\$0.01 each . . . . .	3,900,000	US\$39,000	1,000,000	US\$10,000

**3.2** The authorised, issued and fully paid ordinary share capital of the Company immediately following completion of the Placing and Open Offer<sup>(1)(2)</sup> is expected to be as follows:

Authorised		Issued and fully paid	
Number	£	Number	£
91,512,994,845 . . . . .	<u>22,878,248,711</u>	56,365,721,284 . . . . .	<u>14,091,430,321</u>

Note:

- (1) The number of Ordinary Shares in issue immediately following the Placing and Open Offer assumes that no options are exercised under the RBS Employee Share Plans between the date of this document and completion of the Placing and Open Offer.
- (2) Assuming that the resolution increasing the Company's authorised share capital by 30,000,000,000 Ordinary Shares is passed at the Annual General Meeting to be held on 3 April 2009.

**3.3** Save as disclosed in paragraphs 3.5, 3.6, 3.7, 3.8, 3.9 and 3.10 below, since 1 January 2006, there has been no issue of ordinary share capital of RBS, fully or partly paid, either in cash or for other consideration, and (other than in connection with the Placing and Open Offer and the exercise of options) no such issues are proposed. Other than in connection with the RBS Employee Share Plans, no ordinary share capital of RBS or any of its subsidiaries is under option or agreed conditionally or unconditionally to be put under option. As at the date of this document, RBS holds no treasury shares.

**3.4** The number of Ordinary Shares outstanding at the beginning and end of the last financial year is as follows:

Date	Authorised	Issued and fully paid
1 January 2008 . . . . .	12,070,491,722	10,006,215,087
31 December 2008 . . . . .	44,603,278,460	39,456,004,899

**3.5 History of ordinary share capital**

*Authorised ordinary share capital*

As at 1 January 2006, the first day covered by the historical financial information incorporated by reference into this document, the authorised ordinary share capital of the Company was £1,269,843,851.50, divided into 5,079,375,406 Ordinary Shares. Since 1 January 2006, the authorised ordinary share capital was increased by £1,608,743,154 on 8 May 2007, by a further £139,035,925 on 10 October 2007, by a further £625,000,000 on 23 April 2008, by a further £1,780,752,615.50 on 14 May 2008 and by a further £5,727,444,069 on 20 November 2008.

*Issued ordinary share capital*

As at 1 January 2006, the first day covered by the historical financial information incorporated by reference into this document, 3,196,543,671 Ordinary Shares were in issue fully paid or credited as fully paid. Since 1 January 2006, there have been the following changes in the issued ordinary share capital of the Company:

	2006	2007	2008
Ordinary Shares issued as a result of the exercise of Options granted under Sharesave Scheme . . . . .	1,248,450	19,145,755	1,135,528
Ordinary Shares issued as a result of the exercise of Executive Share Option Scheme . . . . .	2,566,736	—	794,244
Ordinary Shares issued as a result of the issue of Profit Sharing Shares . . . . .	2,190,017	—	11,326,806
Ordinary Shares issued in connection with Option 2000 Scheme . . . . .	3,981,772	—	—
Ordinary Shares re-purchased by RBS . . . . .	(53,698,621)	(695,000)	—
Ordinary Shares issued in connection with MPP . . . . .	12,310	—	279,090
Ordinary Shares allotted as a result of the Bonus Issue . . . . .	—	6,304,298,670	—
Ordinary Shares allotted in respect of the acquisition of ABN AMRO . . . . .	—	530,621,327	—

	2006	2007	2008
Ordinary Shares issued in connection with the Rights Issue . . . . .	—	—	6,123,010,462
Ordinary Shares issued in connection with the Capitalisation Issue . . . . .	—	—	403,467,406
Placing and Open Offer 2008 . . . . .	—	—	22,909,776,276

At 31 December 2008, the authorised ordinary share capital of the Company was £11,150,819,615 divided into 44,603,278,460 Ordinary Shares, of which 39,456,004,899 were issued and fully paid up.

- 3.6** Subject to the passing of the Resolutions and Admission, pursuant to the Placing and Open Offer, 16,909,716,385 New Shares will be issued at a price of 31.75 pence per New Share. This will result in the issued ordinary share capital of the Company increasing by approximately 42.9 per cent.

Qualifying Shareholders who take up their Open Offer Entitlements and/or Euroclear Open Offer Entitlements (as applicable) in full will suffer no dilution to their interests in the Company. Qualifying Shareholders who do not take up any of their rights to apply for the New Shares will suffer an immediate dilution of 30.0 per cent. to their interests in the Company. Qualifying Shareholders should note that if RBS's share price is less than the Issue Price of 31.75 pence during the period of the Open Offer, it may not be economically advantageous for Qualifying Shareholders to take up their Open Offer Entitlements. However RBS recommends that if Qualifying Shareholders wish to clarify what action they should take in this respect, they should seek their own personal financial advice from their stockbroker, bank manager, solicitor, fund manager or other appropriate independent financial adviser who is authorised under FSMA if they are in the UK or, if not, from another appropriately authorised independent financial adviser.

- 3.7** At an annual general meeting of the Company held on 23 April 2008, the power conferred on the Directors by paragraph (1) of Article 13(B) of the Articles of Association was renewed for the period expiring at the conclusion of the annual general meeting of RBS in 2009 and for the purposes of that Article the "Section 80 amount" was set at £833,925,071.

At that annual general meeting, the following resolutions were also passed:

- 3.7.1 the power conferred on the Directors by paragraph (2) of Article 13(B) of the Articles of Association was renewed for the period ending at the conclusion of the annual general meeting of RBS in 2009 and for that purpose the "Section 89 amount" was £125,088,760;
- 3.7.2 pursuant to Article 11 of the Articles of Association, the Company was generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act) of Ordinary Shares, provided that:
- (a) the maximum number of Ordinary Shares to be purchased is 1,000,710,085 (representing 10 per cent. of the then issued ordinary share capital);
  - (b) the minimum price which may be paid for an Ordinary Share is 25 pence per share which amount shall be exclusive of expenses;
  - (c) the maximum price (exclusive of expenses) which may be paid for an Ordinary Share is, in respect of an Ordinary Share contracted to be purchased on any day, the higher of (i) an amount equal to 105 per cent. of the average of the mid-market quotations for an Ordinary Share of the Company as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which the Ordinary Share is contracted to be purchased and (ii) that stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation (Commission Regulation (EC) of 22 December 2003 (Number 2273/2003));
  - (d) the authority will expire at the conclusion of the annual general meeting of the Company in 2009 or 18 months from the date of the resolution (whichever is the earlier) unless such authority is renewed prior to such time; and
  - (e) the Company may conclude a contract to purchase Ordinary Shares under the authority prior to the expiry of such authority which will or may be executed wholly or



partly after such expiry, and may make a purchase of Ordinary Shares in pursuance of any such contract as if the authority had not expired; and

3.7.3 for the purposes of Section 80 of the Companies Act 1985, the Directors were authorised to exercise all the powers of the Company to allot: (1) 191,985,000 category II non-cumulative dollar preference shares of US\$0.01 each; (2) 63,474,000 non-cumulative euro preference shares of €0.01 each; and (3) 299,250,000 non-cumulative sterling preference shares of £1 each, such authority expiring on the fifth anniversary of the passing of the resolution.

**3.8** At a general meeting of the Company held on 14 May 2008, the following resolutions were passed:

3.8.1 the authorised ordinary share capital of the Company was increased to £5,173,375,546 by the creation of 6,123,010,462 Ordinary Shares;

3.8.2 the power conferred on the Directors by paragraph (1) of Article 13(B) of the Articles of Association was renewed for a period expiring at the conclusion of the Company's annual general meeting in 2009 and for the purposes of that Article the "Section 80 amount" was set at £2,364,677,687;

3.8.3 in addition to the increase in the authorised share capital referred to in paragraph 3.8.1 above, the authorised share capital of the Company was increased by the creation of an additional 1,000,000,000 Ordinary Shares;

3.8.4 pursuant to Article 148 of the Articles of Association, an amount of up to £250,000,000 (being part of the sums standing to the credit of any of the Company's distributable reserves, share premium account or capital redemption reserve as the Directors at their discretion may determine) was capitalised, being such amount as the Directors might determine for the purposes of issuing new Ordinary Shares instead of paying an interim dividend in respect of the financial year ending on 31 December 2008 and the Directors were authorised to apply such amount in paying up new Ordinary Shares and to allot such shares, credited as fully paid, to the holders of Ordinary Shares on the register on such record date as the Directors may determine with authority to deal with fractional entitlements arising out of such allotment as they think fit and authority to take all such other steps as they may deem necessary or desirable to implement such capitalisation and allotment; and

3.8.5 the Directors were generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot relevant securities up to an aggregate nominal amount of £250,000,000 provided that such authority was limited to the allotment of relevant securities pursuant to, in connection with or for the purposes of the capitalisation of reserves, with such authority to expire on 31 December 2008 and by such authority and power the Directors were authorised to make offers or agreements which would or might require securities to be allotted after the expiry of such period.

**3.9** At a general meeting of the Company held on 20 November 2008, the following resolutions were passed:

3.9.1 the authorised ordinary share capital of the Company was increased to £11,150,819,615 by the creation of 22,909,776,276 Ordinary Shares; and

3.9.2 the power conferred on the Directors by paragraph (1) of Article 13(B) of the Articles of Association was varied by increasing the Section 80 amount by £5,727,444,069 to £8,092,121,756.

**3.10** Resolution 1, if passed by the Shareholders at the General Meeting, will increase the authorised ordinary share capital of the Company by £4,227,429,096.25 by the creation of 16,909,716,385 Ordinary Shares and in addition and without prejudice to the authority conferred from time to time by paragraph (1) of Article 13(B) of the Articles of Association, generally and unconditionally authorise the Directors to allot relevant securities up to an aggregate nominal amount of £4,227,429,096.25 for the purposes of the Placing and Open Offer.

This specific authority to allot relevant securities will authorise the Directors to allot relevant securities representing approximately 42.9 per cent. of the Ordinary Share capital of RBS as at the date of this document for the period expiring on 2 April 2010.

## **4 Memorandum and Articles of Association**

The Memorandum and Articles of Association are available for inspection at the address specified in paragraph 25 below.

### **4.1 Memorandum of Association**

The Memorandum of Association provides, amongst other things, that the main objects for which the Company is formed and incorporated is to carry on the business of banking in all or any of its aspects and to carry on the business of a holding company. The objects of the Company are set out in full in clause 4 of the Memorandum of Association of the Company.

### **4.2 Articles of Association**

The Articles of Association adopted pursuant to a resolution passed at the Company's annual general meeting on 23 April 2008 contain provisions to the following effect:

#### *4.2.1 Voting rights*

Subject to any special rights or restrictions provided by the Articles of Association, on a show of hands at a general meeting of the Company, every holder of Ordinary Shares and Cumulative Preference Shares present in person or by proxy and entitled to vote shall have one vote. On a poll, every holder of Ordinary Shares present in person or by proxy and entitled to vote shall have one vote for every share held. On a poll, every holder of Cumulative Preference Shares present in person or by proxy and entitled to vote shall have four votes for every share held. Voting rights may not be exercised by a member who has been served with a restriction notice after failure to provide RBS with information concerning interests in shares to be provided under UK law.

Holders of non-cumulative preference shares are not entitled to attend or vote at any general meeting unless the business of the meeting includes the consideration of a resolution for the winding-up of RBS or any resolution directly varying or abrogating the rights attached to any such shares and then in such case only to speak to and vote upon any such resolution. However, holders have the right to vote in respect of any matter when the dividend payable on their shares has not been declared in full for such number of dividend periods as the Directors shall determine prior to the allotment thereof.

#### *4.2.2 Shareholders' meetings*

The Board must call an annual general meeting once in every year, subject to the Companies Act. All other general meetings are to be called general meetings and may be called by the Directors whenever they think fit. The Directors must also convene a meeting upon the request of Shareholders holding not less than 10 per cent. of RBS's paid-up capital carrying voting rights at general meetings of Shareholders. A request for a general meeting of Shareholders must state the objects of the meeting, and must be signed by the requesting Shareholders and deposited at RBS's registered office. If RBS's directors fail to give notice of such meeting to Shareholders within 21 days from receipt of notice, the Shareholders that requested the general meeting, or any of them representing more than one-half of the total voting rights of all Shareholders that requested the meeting, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months. Any such meeting must be convened in the same manner, as reasonably as possible, as that in which meetings are to be convened by RBS's directors.

RBS must give at least 21 days' notice in writing of an annual general meeting. All other general meetings may be called by at least 14 days' notice in writing. Notice shall be given to the auditors and to every member of RBS, other than those who are not entitled to receive such notice under the provisions of the Articles of Association.

A meeting may be called by shorter notice provided that:

- (a) in the case of an annual general meeting, all the members entitled to attend and vote at the meeting agree to the short notice; and
- (b) in the case of a General Meeting, by a majority in number of the members having a right to attend and vote thereat, being a majority holding not less than 95 per cent. in nominal value of the shares giving that right.

The notice calling a general meeting must specify the place, day and time of the meeting.

#### 4.2.3 *Attendance at Shareholders' meetings; proxies and votes by mail*

In general, all Shareholders (subject to restrictions for holders of non-cumulative preference shares as set out above) who have properly registered their shares may participate in general meetings. Shareholders may attend in person or by proxy. Shareholders may vote in person or by proxy.

In order to attend or vote at any general meeting, a person must be entered on the register of members by the time, being not more than 48 hours before the meeting, specified in the notice of the general meeting.

A Shareholder may appoint a proxy in writing or by electronic communication. The appointment of a proxy must be delivered to or received by RBS at the address specified for that purpose not later than 48 hours before the time appointed for the holding of the meeting. A proxy need not be a member of RBS.

A member may appoint more than one proxy in relation to a general meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member.

#### 4.2.4 *Quorum*

The Articles of Association state that no business other than the appointment of a chairman of the meeting shall be transacted at any general meeting unless a quorum is present. A quorum for the purposes of a general meeting is five Shareholders present in person and entitled to vote at the meeting.

If a quorum is not present at a general meeting within 15 minutes of the time appointed for the meeting (or such longer time not exceeding one hour as the chairman of the meeting may determine), the meeting shall be adjourned to either the day and time specified in the notice convening the meeting for such purpose or (if not specified) such time as the chairman of the meeting may determine. In the event of the latter, not less than seven days' notice of the adjourned meeting shall be given. If a quorum is not present at the adjourned meeting within 15 minutes of the time appointed, the members present in person or by proxy and entitled to vote at the meeting shall constitute a quorum.

#### 4.2.5 *Votes required for Shareholder action*

A simple majority of Shareholders may pass an ordinary resolution. To pass a special resolution, a majority of not less than three quarters of the members entitled to vote at the meeting is required.

#### 4.2.6 *Amendments affecting Shareholder rights*

Shareholder rights of a class of shares in the capital of RBS may be varied either with the written consent of the holders of three quarters of the issued shares of the class affected, or by a special resolution passed at a separate general meeting of the class of Shareholders affected. The provisions of the Articles of Association relating to general meetings shall apply to such separate class meetings, except that (other than at an adjourned meeting) the necessary quorum shall be at least two persons holding or representing by proxy one-third of the nominal amount of the issued shares of the class, and that any holder of the shares present in person or by proxy may demand a poll and on such a poll every holder shall have one vote for every share of the class held by him.

#### 4.2.7 *Financial statements and other communications with Shareholders*

Not less than 21 days before the date of a general meeting, RBS must send or make available a copy of every balance sheet and profit and loss account which is to be laid before a general meeting, and a copy of the Directors' and auditors' reports, to every member of RBS and every person who is entitled to receive notice of the meeting.

#### 4.2.8 *Dividends*

RBS may declare dividends on the Ordinary Shares by ordinary resolution but no dividend shall be payable except out of distributable profits. No dividend shall be payable in excess of the amount recommended by the Directors, or in contravention of the special rights attaching to any share. Dividends shall be declared and paid according to the amounts paid on the shares in respect of which the dividend is paid. As regards any shares not fully paid, the dividend shall be apportioned and paid pro rata according to the amounts paid on the shares during the period in respect of which the dividend is paid.

No dividend payable shall bear interest against RBS.

Each Cumulative Preference Share confers the right to a fixed cumulative preferential dividend payable half-yearly. Each non-cumulative preference share confers the right to a preferential dividend (not exceeding a specified amount) payable in the currency of the relevant share. The rate of such dividend and the date of payment thereof, together with the terms and conditions of the dividend are as may be determined by the Directors prior to allotment. Cumulative Preference Share dividends are paid in priority to any dividend on any other class of share.

The non-cumulative preference shares rank for dividend after the Cumulative Preference Shares but rank *pari passu* with each other and any shares expressed to rank, in terms of participation in the profits of RBS, in some or all respects *pari passu* therewith and otherwise in priority to dividends payable on the Ordinary Shares and any other share capital in RBS.

Dividends will be declared and paid in full on non-cumulative preference shares if, in the opinion of the Directors, RBS has sufficient distributable profits, after payment in full or the setting aside of a sum to provide for all dividends accrued on the Cumulative Preference Shares, to cover such payment in full.

If, in the opinion of the Directors, insufficient profits of RBS are available to cover the payment in full of dividends after having paid any dividends payable on the Cumulative Preference Shares, dividends will be declared by the Directors pro rata on the non-cumulative preference shares to the extent of the available distributable profits.

The non-cumulative preference shares will carry no further rights to participate in the profits of RBS and, if, and to the extent that, any dividend or part of any dividend is on any occasion not paid for the reasons described above, holders of non-cumulative preference shares will have no claim in respect of such non-payment.

If any dividend is not payable for the reasons described above, or if payment of any dividend would cause a breach of the FSA's capital adequacy requirements applicable to RBS or its subsidiaries, the Directors may pay a special dividend not exceeding US\$0.01, £0.01 or €0.01 (depending on the currency of the relevant preference share) per share.

#### 4.2.9 *Changes in share capital*

RBS may, by ordinary resolution, increase its share capital by such sum to be divided into shares of such amounts, and denominated in such currencies as prescribed by the resolution.

RBS may also, by ordinary resolution:

- (a) consolidate and divide any of its share capital into shares of larger amount than its existing shares;

- (b) cancel any shares which, at the date of passing the resolution, have not been taken by any person and diminish the amount of its capital by the amount of the shares cancelled; or
- (c) sub-divide any of its shares into shares of smaller amount than is fixed by the Memorandum of Association.

RBS may reduce its share capital or any capital redemption reserve, share premium account or other undistributable reserve in any manner and subject to any incident authorised, and consent required, by law.

#### *4.2.10 Pre-emption rights*

Under UK law, if RBS issues specific kinds of additional securities, current Shareholders will have pre-emption rights to those securities on a pro rata basis. Pre-emption rights are transferable during the subscription period relating to a particular offering.

The Shareholders may, by way of a special resolution, grant authority to the directors to allot shares as if the pre-emption rights did not apply. This authority may be either specific or general and may not exceed a period of five years. If Directors wish to seek authority to disapply the pre-emption rights, the Directors must produce a statement that is circulated to Shareholders detailing their reasons for seeking the disapplication of such pre-emption rights.

The pre-emption rights attaching to the Ordinary Shares do not apply to any allotments in respect of a rights issue (which definition includes an open offer) where Ordinary Shares are allotted pursuant to the Directors' authority to allot set out in the Articles of Association.

#### *4.2.11 Form, holding and transfer of Shares*

Shares may be held in either certificated or uncertificated form.

Shares held in certificated form are evidenced by a certificate and a register of Shareholders is maintained by RBS's registrar. Any member may transfer all or any of his certificated shares by an instrument of transfer in any usual form or a form approved by the directors.

Title to certificated shares is evidenced by entry in the register of RBS's members. The Directors may decline to register any transfer of a certificated share unless:

- (a) the instrument of transfer is lodged at the specified place and accompanied by the certificate for the shares to which it relates;
- (b) the instrument of transfer is in respect of only one class of share; and
- (c) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four.

Existing Ordinary Shares held in uncertificated form are held through CREST (the computerised settlement system to facilitate the transfer of title to shares in uncertificated form operated by Euroclear UK).

Subject to any applicable restrictions in the Articles of Association, any member may transfer all or any of his uncertificated shares by means of a relevant system in the manner provided for in the Uncertificated Securities Regulations 2001 and the rules of the relevant system.

Title to uncertificated shares is evidenced by entry in the operator register maintained by Euroclear UK (which forms part of the Company's register of members).

The Directors may decline to register the transfer of an uncertificated share in accordance with the Uncertificated Securities Regulations 2001, and, in the case of jointly held shares, where the share is to be transferred to more than four joint holders.

No fee is payable for the registration of transfers of either certificated or uncertificated shares, although see Part VIII of this document for tax consequences thereof.



#### 4.2.12 Liquidation rights

If RBS is liquidated, the liquidator may, with the authority of a special resolution, divide among the members *in specie* or kind the whole or any part of the assets of RBS. The liquidator may determine how such division is to be carried out as between members or classes of members.

In the event of a return of capital on a winding-up or otherwise, the holders of Cumulative Preference Shares are entitled to receive out of the surplus assets of RBS available for distribution amongst the members (a) in priority to the holders of the non-cumulative preference shares and any other shares ranking *pari passu* therewith, the arrears of any fixed dividends including the amount of any dividend due for payment after the date of commencement of any winding-up or liquidation but which is payable in respect of a half year period ending on or before such date and (b) *pari passu* with the holders of the non-cumulative preference shares and any other shares ranking *pari passu* therewith, the amount paid up or credited as paid up on such shares together with any premium.

Each non-cumulative preference share shall confer on a winding-up or liquidation, voluntary or otherwise other than (unless otherwise provided by the terms of issue) a redemption or purchase by RBS of any shares of any class, the right to receive out of surplus assets of RBS available for distribution amongst the members after payment of the arrears (if any) of the cumulative dividend on the Cumulative Preference Shares and in priority to the holders of the Ordinary Shares, repayment of the amount paid up or credited as paid up on the non-cumulative preference shares together with any premium paid on issue *pari passu* with the holders of the Cumulative Preference Shares and together with an amount equal to accrued and unpaid dividends.

#### 4.2.13 Disclosure of holdings exceeding certain percentages

The Disclosure and Transparency Rules require Shareholders to notify RBS if the voting rights held by such Shareholder (including by way of a certain financial instrument) reaches, exceeds or falls below 3 per cent., 4 per cent., 5 per cent., 6 per cent., 7 per cent., 8 per cent., 9 per cent., 10 per cent. and each 1 per cent. threshold thereafter up to 100 per cent. Under the Disclosure and Transparency Rules, certain voting rights in RBS may be disregarded.

Pursuant to the Companies Act, RBS may also send a notice to any person whom RBS knows or believes to be interested in RBS's shares requiring that person to confirm whether he has such an interest and if so details of that interest.

Under the Articles of Association and UK law, if a person fails to comply with such a notice or provides information that is false in a material particular in respect of any shares (the "default shares"), the Directors may serve a restriction notice on such person. Such a restriction notice will state that the default shares and, if the Directors determine, any other shares held by that person shall not confer any right to attend or vote at any general meeting of RBS.

In respect of a person with a 0.25 per cent. or more interest in the issued ordinary share capital of RBS, the Directors may direct in the restriction notice that, subject to certain exceptions, no transfers of shares held by such person (in certificated or uncertificated form) shall be registered and that any dividends or other payments on the shares shall be retained by RBS pending receipt by RBS of the information requested by the Directors.

#### 4.2.14 Purchase of RBS's shares by RBS

Subject to UK law, and to any rights conferred on the holders of any class of shares and to any requirements imposed by the London Stock Exchange, RBS may purchase any of its own shares. The Directors are not obliged to select the shares to be purchased rateably or in any other particular manner as between the holders of shares of the same class or different classes.

#### 4.2.15 Conversion

Convertible preference shares carry the right to convert into Ordinary Shares if they have not been the subject of a notice of redemption from RBS, on or before a specified date

determined by the Directors. The right to convert will be exercisable by service of a conversion notice on RBS within a specified period. RBS will use reasonable endeavours to arrange the sale, on behalf of convertible preference shareholders who have submitted a conversion notice, of the Ordinary Shares which result from such conversion and to pay to them the proceeds of such sale so that they receive net proceeds equal to the nominal value of the convertible preference shares which were the subject of the conversion notice and any premium at which such shares were issued, provided that Ordinary Shares will not be sold at below a benchmark price (as determined prior to the issue of the relevant convertible preference shares by the Directors).

#### *4.2.16 Lien and forfeiture*

RBS has a lien on every partly paid Share for all amounts payable to RBS in respect of that Share. The Directors may call any monies unpaid on Shares and may sell Shares on which calls or amounts payable under the terms of issues are not duly paid.

#### *4.2.17 Ownership of Shares by non-UK persons*

There are no provisions in the Articles of Association that restrict non-resident or foreign shareholders from holding Ordinary Shares or from exercising voting rights attaching to Ordinary Shares.

#### *4.2.18 Untraceable Shareholders*

RBS shall be entitled to sell, at the best price reasonably obtainable, the shares of a member or the shares to which a person is entitled by transmission if:

- (a) during a period of 12 years prior to the date of advertising its intention to sell such shares at least three cash dividends in respect of such shares have become payable but all dividends or other monies payable remain unclaimed;
- (b) as soon as practicable after the expiry of the period referred to in paragraph 4.2.18(a) above, RBS inserts advertisements in one daily newspaper with a national circulation in the United Kingdom, one Scottish daily newspaper and one newspaper circulating in the area of the last known address of the member or other person giving notice of its intention to sell the shares;
- (c) during the period referred to in paragraph 4.2.18(a) above and the period of three months following the publication of the advertisements referred to in paragraph 4.2.18(b) above, RBS receives no indication of the whereabouts or existence of the member or other person; and
- (d) if the shares are listed on the London Stock Exchange, RBS gives notice to the London Stock Exchange of its intention to sell the shares prior to publication of the advertisements.

The net proceeds of such sale shall belong to RBS, which shall be obliged to account to the former member or other person previously entitled to the shares for an amount equal to the proceeds as a creditor of RBS.

## **5 Mandatory takeover bids, squeeze-out and sell-out rules**

Other than as provided by the Companies Act and the City Code, there are no rules or provisions relating to mandatory bids and/or squeeze-out and sell-out rules in relation to the Ordinary Shares.

## 6 Directors of the Company

### Directors

The Directors and their principal functions are as follows:

Philip Hampton . . . . .	Chairman
Stephen Hester . . . . .	Group Chief Executive
Guy Whittaker . . . . .	Group Finance Director
Gordon Pell . . . . .	Deputy Chief Executive
Colin Buchan <sup>(1)</sup> . . . . .	Non-Executive Director
Archie Hunter <sup>(1)</sup> . . . . .	Non-Executive Director
Joe MacHale <sup>(1)</sup> . . . . .	Non-Executive Director
John McFarlane <sup>(1)</sup> . . . . .	Non-Executive Director
Arthur "Art" Ryan <sup>(1)</sup> . . . . .	Non-Executive Director

Notes:

(1) Denotes Independent Non-Executive Director.

Brief biographical details of the Directors are as follows:

#### Philip Hampton (age 55)

Chairman

Appointed to the Board and to the position of Chairman designate on 19 January 2009 and to the position of Chairman on 3 February 2009, Philip Hampton has held the position of chairman of J Sainsbury plc since 2004. Previously, he was group finance director of Lloyds TSB Group plc from 2002 to 2004, group finance director of BT Group plc from 2000 to 2002, group finance director of BG Group plc from 1997 to 2000, group finance director of British Gas plc from 1995 to 1997, group finance director of British Steel plc from 1990 to 1995, an executive director of Lazards from 1981 to 1990 and a non-executive director of RMC Group plc from 2002 to 2005. Philip Hampton is the former chairman of UK Financial Investments Limited, the company established to manage the UK Government's shareholding in banks subscribing to its recapitalisation fund, and has also been a non-executive director of Belgacom (the Belgian telecom group) since 2004.

In addition to his directorship of RBS and any directorships of RBS Group companies, Philip Hampton holds or has held in the past five years the following directorships. He has not been a partner in any partnerships during the past five years.

<u>Company</u>	<u>Status (Current/ Previous)</u>
Belgacom Group NV/SA . . . . .	Current
J Sainsbury plc . . . . .	Current
RMC Group plc . . . . .	Previous
UK Financial Investments Limited . . . . .	Previous

#### Stephen Hester (age 48)

Group Chief Executive

Appointed to the Board on 1 October 2008, and as Group Chief Executive on 21 November 2008, Stephen Hester was previously chief executive of The British Land Company PLC. He was previously chief operating officer of Abbey National plc and, prior to that, he held positions with Credit Suisse First Boston including chief financial officer, head of fixed income and co-head of European investment banking. In February 2008, he was appointed non-executive deputy chairman of Northern Rock plc, a position he relinquished on 1 October 2008. He is also a trustee of The Foundation and Friends of the Royal Botanic Gardens, Kew.

In addition to his directorship of RBS and any directorships of RBS Group companies, Stephen Hester holds or has held in the past five years the following directorships. He has not been a partner in any partnerships during the past five years.

<u>Company</u>	<u>Status (Current/ Previous)</u>
The Foundation and Friends of the Royal Botanic Gardens, Kew . . . . .	Current
Broughton Grange Estates Limited . . . . .	Current
British Land Company Public Limited Company (The) . . . . .	Previous
Northern Rock plc . . . . .	Previous
Abbey National plc . . . . .	Previous
Abbey National Treasury Services PLC . . . . .	Previous
Abbey National Employees' Trustees Limited . . . . .	Previous

**Guy Whittaker (age 52)**

Group Finance Director

Appointed to the Board in February 2006, Guy Whittaker joined RBS after spending 25 years with Citigroup where he was formerly group treasurer based in New York, and prior to that had held a number of management positions within the financial markets business based in London.

In addition to his directorship of RBS and any directorships of RBS Group companies, Guy Whittaker has held in the past five years the following directorships. He has not been a partner in any partnerships during the past five years.

<u>Company</u>	<u>Status (Current/ Previous)</u>
Cambridge In America . . . . .	Previous
Associated Madison Companies Inc . . . . .	Previous
Citibank Overseas Investment Corporation . . . . .	Previous
Citicorp Banking Corporation . . . . .	Previous
Citigroup Funding Inc . . . . .	Previous
Citigroup Insurance Holding Corporation . . . . .	Previous

**Gordon Pell (age 59)**

Deputy Chief Executive

Appointed to the Board in March 2000, Gordon Pell was formerly group director of Lloyds TSB UK Retail Banking before joining National Westminster Bank Plc as a director in February 2000 and then becoming Chief Executive, Retail Banking. He is also a director of Race for Opportunity and a member of the FSA Practitioner Panel. He was appointed chairman of the Business Commission on Racial Equality in the Workplace in July 2006 and deputy chairman of the Board of the British Bankers' Association in September 2007.

He does not hold nor has he held any directorships in the past five years other than his directorship of RBS and any directorships of RBS Group companies. He has not been a partner in any partnerships during the past five years.

**Colin Buchan (age 54)**

Appointed to the Board in June 2002, Colin Buchan was educated in South Africa and spent the early part of his career in South Africa and the Far East. He has considerable international investment banking experience, as well as experience in very large risk management in the equities business. He was formerly global head of equities UBS Warburg, a member of the group management board of UBS AG and chairman of UBS Securities Canada Inc. He is a director of Standard Life plc and chairman of Standard Life Investments Limited.

In addition to his directorship of RBS and any directorships of RBS Group companies, Colin Buchan holds or has held in the past five years the following directorships and partnerships.

<u>Company</u>	<u>Status (Current/ Previous)</u>
BlackRock World Mining Trust Plc . . . . .	Current
BlackRock World Mining Investment Company Limited . . . . .	Current
Prytania Holdings LLP . . . . .	Current
Standard Life plc . . . . .	Current
Standard Life Investments Limited . . . . .	Current
Standard Life Investments (Holdings) Limited . . . . .	Current
The Fettes Foundation . . . . .	Current
Wood MacKenzie Investments Limited . . . . .	Current
BlackRock Gold Limited . . . . .	Current
Applecross Property Partnership LLP . . . . .	Current
Applecross Properties (Land) Limited . . . . .	Previous
Butterstone School . . . . .	Previous
UBS Securities Canada Inc . . . . .	Previous
Royal Scottish National Orchestra Society Limited . . . . .	Previous

**Archie Hunter (age 65)**

Appointed to the Board in September 2004, Archie Hunter is a chartered accountant. He was Scottish senior partner of KPMG between 1992 and 1999 and president of The Institute of Chartered Accountants of Scotland in 1997/1998. He has extensive professional experience in the United Kingdom and North and South America. He is currently chairman of Macfarlane Group plc, a director of Edinburgh US Tracker Trust plc and a governor of the Beatson Institute for Cancer Research.

In addition to his directorship of RBS and any directorships of RBS Group companies, Archie Hunter holds or has held in the past five years the following directorships. He has not been a partner in any partnerships during the past five years.

<u>Company</u>	<u>Status (Current/ Previous)</u>
Beatson Institute for Cancer Research . . . . .	Current
Edinburgh US Tracker Trust plc . . . . .	Current
Le Chardon D'Or Limited . . . . .	Current
Macfarlane Group plc . . . . .	Current
The Scottish Cancer Foundation . . . . .	Current
Beatson Technology Limited . . . . .	Current

**Joe MacHale (age 57)**

Appointed to the Board in September 2004, Joe MacHale is a non-executive director and chairman of the remuneration committee of Brit Insurance Holdings PLC and a trustee and treasurer of MacMillan Cancer Support. He held a number of senior executive positions with JP Morgan between 1979 and 2001 and was latterly chief executive of JP Morgan Europe, Middle East and Africa Region. He is a fellow of the Institute of Chartered Accountants.



In addition to his directorship of RBS and any directorships of RBS Group companies, Joe MacHale holds or has held in the past five years the following directorships and partnerships.

<u>Company</u>	<u>Status (Current/ Previous)</u>
Brit Insurance Holdings PLC . . . . .	Current
Macmillan Cancer Support . . . . .	Current
Prytania Holdings LLP . . . . .	Current
Galahad Finance Limited . . . . .	Previous
The Morgan Crucible Company plc . . . . .	Previous

**John McFarlane (age 61)**

Appointed to the Board on 1 October 2008, John McFarlane is former chief executive officer of Australia and New Zealand Banking Group Limited. Previously he was a group executive director of Standard Chartered and was managing director of Citicorp/Citibank in the United Kingdom and Ireland. He is currently a non-executive director of Westfield Holdings Limited and a director of Old Oak Holdings Limited. He is a former President of the International Monetary Conference and a former chairman of the Australian Bankers Association. He has previously served as a director of the London Stock Exchange and a member of the Auditing Practices Board.

In addition to his directorship of RBS and any directorships of RBS Group companies, John McFarlane holds or has held in the past five years the following directorships. He has not been a partner in any partnerships during the last past five years.

<u>Company</u>	<u>Status (Current/ Previous)</u>
Old Oak Holdings Limited . . . . .	Current
Westfield Holdings Limited . . . . .	Current
Westfield Management Limited . . . . .	Current
Westfield America Management Limited . . . . .	Current
ANZ National Bank Limited . . . . .	Previous
Australian and New Zealand Banking Group Limited . . . . .	Previous

**Arthur “Art” Ryan (age 66)**

Appointed to the Board on 1 October 2008, Arthur Ryan is an American national. He is the former chairman, chief executive officer and president of Prudential Financial Inc. Previously he held senior positions with Prudential Insurance and the former Chase Manhattan Bank NA. He is currently a non-executive director of Regeneron Pharmaceuticals Inc. and an active member of numerous community boards. He was a founding member of the Financial Services Forum.

In addition to his directorship of RBS and any directorships of RBS Group companies, Arthur Ryan holds the following directorships. He has not been a partner in any partnerships during the last past five years.

<u>Company</u>	<u>Status (Current/ Previous)</u>
Regeneron Pharmaceuticals Inc. . . . .	Current
Prudential Financial Inc . . . . .	Previous
The Prudential Insurance Company of America . . . . .	Previous

**7 Directors’ interests**

Save as set out in paragraphs 7.1 and 7.2 below, no Director has any interests (beneficial or non-beneficial) in the share capital of the Company or any of its subsidiaries.

## 7.1 Directors' shareholdings

As at 11 March 2009 (being the latest practicable date prior to the publication of this document), the interests (all of which are beneficial unless otherwise stated) of the Directors (as well as their immediate families) in the share capital of RBS or (so far as is known or could with reasonable due diligence be ascertained by the relevant Director) interests of a person connected (within the meaning of Section 252 of the Companies Act) with a Director and the existence of which was known to or could, with reasonable diligence, be ascertained by the Directors as at 11 March 2009 together with such interests as are expected to be held immediately following completion of the Placing and Open Offer are as follows:

### Executive Directors

	As at 11 March 2009		Immediately following completion of the Placing and Open Offer <sup>(2)</sup>	
	Number of Existing Shares	Percentage of issued share capital	Number of New and Existing Shares	Percentage of issued share capital
Stephen Hester . . . . .	1,225,643	0.00311	1,225,643	0.00217
Gordon Pell . . . . .	611,927	0.00155	611,927	0.00109
Guy Whittaker . . . . .	1,366,622	0.00346	1,366,622	0.00242

### Chairman

	As at 11 March 2009		Immediately following completion of the Placing and Open Offer <sup>(2)</sup>	
	Number of Existing Shares	Percentage of issued share capital	Number of New and Existing Shares	Percentage of issued share capital
Philip Hampton . . . . .	26,312	0.00007	26,312	0.00005

	As at 11 March 2009		Immediately following completion of the Placing and Open Offer <sup>(2)</sup>	
	Number of Existing Shares	Percentage of issued share capital	Number of New and Existing Shares	Percentage of issued share capital
<b>Non-Executive Directors</b>				
Colin Buchan . . . . .	157,515	0.00040	157,515	0.00028
Archie Hunter . . . . .	41,344	0.00010	41,344	0.00007
Joe MacHale . . . . .	284,317	0.00072	284,317	0.00050
John McFarlane . . . . .	—	—	—	—
Arthur "Art" Ryan . . . . .	50,000	0.00013	50,000	0.00009

Notes:

- (1) Details of the options and awards over Shares held by the Directors are set out in paragraph 7.2 below. They are not included in the interests of the Directors shown in the table above.
- (2) Assuming that no share options are exercised or awards vest between the date of this document and Admission.

## 7.2 Directors' options and awards

As at 11 March 2009 (being the latest practicable date prior to the publication of this document), the Directors held options and awards to subscribe for Shares, or were allocated Shares under the RBS Employee Share Plans which may be satisfied by a subscription of Shares, as detailed in

the table below. The number of options and the related option price have been adjusted to reflect the Rights Issue and Capitalisation Issue during 2008.

Name	Share plan	Date of grant	Number of Shares	Option price	Market price at date of award	Vested/Unvested	Exercise period
				£	£		
<b>Gordon Pell</b>	Executive Share Option Scheme	14-Aug-01	104,252	4.795402	—	Vested	14.08.04-13.08.11
	Executive Share Option Scheme	14-Mar-02	98,879	5.074529	—	Vested	14.03.05-13.03.12
	Executive Share Option Scheme	13-Mar-03	178,412	3.452801	—	Vested	13.03.06-12.03.13
	Executive Share Option Scheme	11-Mar-04	169,158	4.840062	—	Vested	11.03.07-10.03.14
	Executive Share Option Scheme	10-Mar-05	181,304	4.826105	—	Vested	10.03.08-09.03.15
	Executive Share Option Plan	16-Aug-07	310,364	4.697707	—	Unvested	16.08.10-15.08.17
	Executive Share Option Plan	06-Mar-08	640,871	2.972702	—	Unvested	06.03.11-05.03.18
	<b>Overall Total</b>			<b>1,683,240</b>			

Name	Share plan	Date of grant	Number of Shares	Option price	Market price at date of award	Vested/Unvested	Exercise period
				£	£		
<b>Guy Whittaker</b>	Executive Share Option Plan	16-Aug-07	335,269	4.697707	—	Unvested	16.08.10-15.08.17
	Executive Share Option Plan	06-Mar-08	582,803	2.972702	—	Unvested	06.03.11-05.03.18
	Medium-term Performance Plan	04-Apr-08	277,525	Nil	2.972702	Unvested*	
	Restricted Stock Award	28-Feb-06	44,500	—	5.409481	Unvested	01.02.10
	Sharesave Plan	16-Jan-09	45,592	0.380000	—	Unvested**	01.03.16-31.08.16
	<b>Overall Total</b>			<b>1,285,689</b>			

Name	Share plan	Date of grant	Number of Shares	Option price	Market price at date of award	Vested/Unvested	Exercise period
				£	£		
<b>Stephen Hester</b>	Restricted Stock Award	21-Nov-08	6,494,764	—	0.48	Unvested	21.11.08-29.05.11
	Restricted Stock Award	21-Nov-08	1,832,062	—	0.48	Unvested	21.11.09-21.11.11
	<b>Overall Total</b>			<b>8,326,826</b>			

Name	Share plan	Date of grant	Number of Shares	Option price	Market price at date of award	Vested/Unvested	Exercise period
				£	£		
<b>Philip Hampton</b>	Restricted Stock Award	27 Feb 09	5,172,413	—	0.29	Unvested	27.02.12
<b>Overall Total</b>			<b>5,172,413</b>				

Notes:

\* Unvested option based awards and contingent awards under the Medium-term Performance Plan will vest at the end of the performance period.

\*\* Options held under the Sharesave Schemes which are not subject to performance conditions.

No RBS Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or is or was significant to the business of the Company and which was effected by any member of the RBS Group in the current or immediately preceding financial year or which was effected during an earlier financial year and remains in any respect outstanding or unperformed.

There are no guarantees provided by any member of the RBS Group for the benefit of the Directors.

Within the period of five years preceding the date of this document, none of the Directors:

- 7.2.1 has any convictions in relation to fraudulent offences;
- 7.2.2 has been a director or senior manager (who is relevant to establishing that a company has the appropriate expertise and experience for the management of that company) of any company at the time of any bankruptcy, receivership or liquidation of such company; or
- 7.2.3 has received any official public incrimination and/or sanction by any statutory or regulatory authorities (including designated professional bodies) or has been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company.

**7.3** Save as disclosed above, none of the Directors has any potential conflicts of interests between their duties to the Company and their private interests or other duties.

## **8 Remuneration details, Directors' service contracts and letters of appointment**

### **8.1 Group remuneration policy for 2009 and subsequent years**

In December 2008, it was agreed with HM Treasury that, in addition to complying with the Association of British Insurers' best practice code on remuneration, the Remuneration Committee will continue to work to ensure that future remuneration arrangements are linked to long-term value creation in line with the Group's business strategy, with appropriate account taken of any FSA guidance, risk and avoiding a bias towards short-term indicators such as profit or revenues. RBS is also actively engaged in discussions with the FSA in relation to remuneration policies and practices across the banking sector and intends that any remuneration policies will comply with the FSA's proposed Code of Remuneration Practice.

Accordingly, in conjunction with the Board and independent advisers, and in consultation with Shareholders, the Remuneration Committee is undertaking a comprehensive review of its remuneration policy which it will complete during 2009. The following changes have been agreed for 2009 remuneration for Executive Directors:

- No base salary increases will be awarded in 2009.
- Any bonus earned in 2009 will be deferred and subject to clawback provisions.
- No further payments will be made under the company's Profit Sharing Scheme for 2009 onwards.
- Annual incentives for 2009 will be based on performance against a framework of measures, with all payments deferred over three years with clawback.
- The exceptional maximum annual incentive opportunity will not be available.
- The individual performance management processes will be strengthened at executive levels. This includes a revised performance scorecard. The five performance areas are strategic direction, finance and operations, stakeholder management (including employee and customer satisfaction), efficiency and control, and capability and development.
- Long-term incentive awards will continue to be made under the Medium-term Performance Plan and the Executive Share Option Plan but the level of awards will be lowered compared to 2008. All awards will only vest if stretching performance conditions are met in three years time.

The following changes are also proposed for remuneration in 2009 below Executive Director level:

- It is intended that a new Deferral Plan will be adopted, under which bonuses can be deferred into awards of subordinated debt. It is also intended that participants will be given the opportunity to borrow against part of their awards. Awards under the plan may be reduced and/or forfeited after reviewing (amongst other things) the performance of the employing company, any member of the Group, or of the relevant individual. Details of this are set out in paragraph 13.4 below.
- It is intended that a new 2009 Restricted Share Plan will be adopted, to be operated as a replacement of the current Restricted Share Plan. Details of this are set out in paragraph 13.3.3 below.
- It is intended that a new option plan will be adopted for eligible employees in GBM, on broadly similar terms as the RBS Group plc 2007 Executive Share Option Plan except that the Shares will be sourced in the market and the limits specified in paragraph 13.1 below do not apply.

There will be no increases to Non-Executive Directors' fees in 2009.

## 8.2 Remuneration of Directors

8.2.1 In the financial year ended 31 December 2008, the aggregate total remuneration paid (including contingent or deferred compensation) and benefits in kind granted (under any description whatsoever) to the Directors by members of the Group was £5,488,000.

Under the terms of their service contracts and applicable incentive plans, in the year ending 31 December 2008, the Executive Directors were entitled to the remuneration and benefits set out below:

	<u>Salary/ fees</u>	<u>Performance bonus</u>	<u>Pension allowance</u> (£000)	<u>Benefits</u>	<u>2008 Total</u>
<b>Chairman</b>					
Philip Hampton <sup>(1)</sup> . . . .	—	—	—	—	—
<b>Executive Directors</b>					
Stephen Hester <sup>(2)</sup> . . . .	163	—	52	1	216
Gordon Pell <sup>(3)</sup> . . . . .	908	1,377	—	1	2,286
Guy Whittaker <sup>(3)</sup> . . . . .	829	1,425	282	4	2,540

Note:

- (1) Philip Hampton did not join the Board until 19 January 2009. His annual fee is £750,000. He was granted a one-off restricted stock award over shares, which will normally vest on the third anniversary of grant, subject to the satisfaction of appropriate performance conditions. The amount of this award was two times his annual fee, based on the share price on the date of grant.
- (2) Stephen Hester was appointed Group Chief Executive on 21 November 2008. He was previously a Non-Executive Director from 1 October 2008. Mr Hester's employment under his executive service agreement commenced on 16 November 2008 and he commenced as Group Chief Executive on 21 November 2008.
- (3) The performance bonuses shown in the table above relate to performance during 2007, and were paid in March 2008. No bonuses have been paid to Executive Directors in relation to performance during 2008.



<u>Non-Executive Directors</u>	<u>Board fees</u>	<u>Board committee fees</u>	<u>Total 2008</u>
		(£000)	
Colin Buchan . . . . .	73	57	130
Archie Hunter . . . . .	73	101	174
Joe MacHale . . . . .	73	33	106
John McFarlane <sup>(1)</sup> . . . . .	18	—	18
Arthur “Art” Ryan <sup>(1)</sup> . . . . .	18	—	18

Note:

(1) Appointed on 1 October 2008.

No Director received any expense allowances chargeable to UK income tax or compensation for loss of office/termination payment. The Non-Executive Directors did not receive any bonus payments or benefits.

8.2.2 In the financial year ended 31 December 2008, the total amount set aside or accrued by the Group to provide pension, retirement or other benefits to the Directors not including amounts set out in the table at paragraph 8.2.1 above is £1,428,000.

### 8.3 UK-based Directors

#### *Benefits*

Executive Directors are eligible to receive various employee benefits or a cash equivalent from a flexible benefits account on a similar basis to other employees.

#### *Annual incentives*

No annual incentive has been awarded to any Executive Director in relation to 2008 performance.

UK-based Executive Directors have a normal maximum annual incentive opportunity of between 160 per cent. and 200 per cent. of salary (with an exceptional maximum opportunity of 200-250 per cent. of salary). The on-target opportunity is 107 per cent. to 133 per cent. of salary.

The Remuneration Committee has determined that, for the financial year ending 31 December 2009, the exceptional maximum incentive opportunity will not be available.

Any annual incentive payments earned in 2009 will be deferred and released in equal annual instalments over three years. The Remuneration Committee will reserve the right to review performance prior to each element of deferred bonus vesting and reduce the proportion that vests if there is evidence that the financial performance for 2009 was materially inaccurate or there is a material loss or reputational damage as a result of activity during the deferral period.

Any incentive payments in 2009 will reflect performance across five performance categories: Strategic Direction, Finance and Operations, Stakeholders, Efficiency and Control and Capability and Development. Group business unit and functional performance will be considered as appropriate.

#### *Long-term incentives*

RBS provides long-term incentives in the form of share options and share or share equivalent awards. Their objective is to encourage the creation of value over the long term and to align the rewards of the Executive Directors with the returns to shareholders. The Remuneration Committee is formulating proposals under which awards may be made in the future under two plans, the Medium-term Performance Plan and the Executive Share Option Plan. Any awards will be subject to rigorous performance conditions on which shareholders will be consulted

#### *Medium-term Performance Plan*

The Medium-term Performance Plan was approved by shareholders in April 2001. Each Executive Director is eligible for an annual award under the plan in the form of share or share equivalent awards. Whilst the rules of the plan allow awards over shares worth up to one and a half times earnings, the Remuneration Committee has adopted a policy of granting awards based on a

multiple of salary. No changes will be made to this policy without prior consultation with shareholders.

The award levels for 2009 will be reduced from the policy applied for awards in 2008. The following share or share equivalent awards were made under the Medium-term Performance Plan in 2007 and 2008. The number of share equivalents and the market price at the date of the award have been adjusted to reflect the Rights Issue and Capitalisation Issue during 2008.

	Number of share or share equivalents subject to award		Market price per Share (at date of award)		Aggregate value (at date of award)	
	2007	2008	2007	2008	2007	2008
<b>Continuing Directors</b>						
			(£)		(£)	
Gordon Pell . . . . .	138,384	305,177	5.853294	2.972702	810,002.24	907,200.28
Guy Whittaker . . . . .	128,134	277,525	5.853294	2.972702	750,005.97	824,999.12

#### Options

The Executive Share Option Plan was approved by shareholders at RBS's 2007 Annual General Meeting.

In 2008, options were granted to Executive Directors under the executive share option plan approved by shareholders in 2007, over shares worth between one and a half times salary and three times salary. For 2009, the award levels will be reduced from the policy applied in 2008.

#### 8.4 Severance provisions

Except as noted below, in the event of severance of contract where any contractual notice period is not worked, the employing company may pay a sum to the Executive Director in lieu of this period of notice. Any such payment would, at maximum, comprise base salary and a cash value in respect of fixed benefits (including pension plan contributions). In the event of situations involving breach of the employing company's policies resulting in dismissal, reduced or no payments may be made to the Executive Director. Depending on the circumstances of the termination of employment, the Executive Director may be entitled, or the Remuneration Committee may exercise its discretion to allow, the Executive Director to exercise outstanding awards under long-term incentive arrangements subject to the rules of the relevant plan.

Gordon Pell is a member of The RBS Group Pension Fund (the "RBS Fund") and is contractually entitled to receive all pension benefits in accordance with its terms which apply to all members. The RBS Fund rules allow all members, including Executive Directors, who retire early at the request of their employer to receive a pension based on accrued service with no discount applied for early retirement. The provision for an undiscounted pension on early retirement at employer request will not apply to any Executive Director appointed in the future. The RBS Fund is closed to employees, including any Executive Directors, joining the Group after 30 September 2006.

In the event that Stephen Hester's employment is terminated by the Company, (other than by reason of his personal under-performance) the following will apply: first, Mr Hester will be entitled to receive a payment in lieu of notice to the value of base salary, bonus and benefits (including pension contributions), secondly, any share awards granted to him to replace bonus and share awards he forfeited on leaving The British Land Company PLC will vest immediately on such termination. If Mr Hester's employment is terminated by reason of his personal under-performance, the Company is entitled to terminate by giving written notice with immediate effect and without making any payment in lieu of notice, and Mr Hester will forfeit any unvested stock awards. If Mr Hester voluntarily resigns and the Company does not require him to work out his notice period, Mr Hester may receive a payment in lieu of notice based on salary only (i.e. not bonus or benefits) and he will also forfeit any unvested stock awards.

## 8.5 Directors' service contracts and letters of appointment

Details of the Executive Directors' notice periods under their service contracts are set out below:

<u>Name</u>	<u>Date of current contract/employing company</u>	<u>Notice period – from company</u>	<u>Notice period – from executive</u>
Stephen Hester <sup>(1)</sup> . . . . .	4 November 2008 (RBS plc)	See note 1 below	12 months
Gordon Pell . . . . .	20 February 2006 (RBS plc)	12 months	6 months
Guy Whittaker . . . . .	19 December 2005 (RBS plc)	12 months	12 months

Note:

- (1) On appointment Mr Hester was entitled to 24 months' notice from the Company at the commencement of his employment. This notice period reduces on a daily basis so that it will be 12 months by the first anniversary of the commencement of his employment and will remain at 12 months thereafter.

The Non-Executive Directors do not have service contracts or notice periods, although they each have letters of engagement reflecting their responsibilities and commitments. Under the Articles of Association, all Directors must seek election or re-election by Shareholders at least every three years. The dates in the table below reflect the latest date for re-election. No compensation would be paid to any Non-Executive Director (other than the Chairman) in the event of termination.

The original date of appointment as a Director of the Company and the latest date for the next re-election are as follows:

	<u>Date first appointed</u>	<u>Latest date for election or next re-election</u>
Philip Hampton <sup>(1)</sup> . . . . .	19 January 2009	2009
Colin Buchan . . . . .	1 June 2002	2011
Archie Hunter . . . . .	1 September 2004	2010
Joe MacHale . . . . .	1 September 2004	2010
John McFarlane . . . . .	1 October 2008	2009
Arthur "Art" Ryan . . . . .	1 October 2008	2009

Note:

- (1) Philip Hampton will be entitled to receive a payment in lieu of notice if his appointment is terminated by the Group other than by reason of his personal under-performance. This payment will be based on a notice period of 24 months initially, reducing on a daily basis so that from the first anniversary of his appointment, his notice period is 12 months and will remain at 12 months thereafter.

## 9 Board practices

The Combined Code recommends that at least half the members of the board of directors (excluding the chairman) of a public limited company incorporated in the United Kingdom should be independent in character and judgement and free from relationships or circumstances which are likely to affect, or could appear to affect, their judgement.

As at the date of this document, RBS is in full compliance with the provisions of the Combined Code except in relation to three items. Authority is reserved to the Board to make the final determination of the remuneration of the Executive Directors. As a consequence of the retirement of the directors outlined on page 37 of this document, during the period following these changes to the Board on 6 February 2009 and the date of this document, RBS has not had a senior independent director and the Remuneration Committee has comprised two independent Non-Executive Directors and the Chairman of the Board rather than the three independent Non-Executive Directors required by the Combined Code. Appointments to these roles will be made in due course. The Board is in the process of recruiting three additional independent Non-Executive Directors and plans to appoint a senior independent Director and an additional member of the Remuneration Committee as part of the recruitment process.

The Remuneration Committee makes recommendations to the Board on the remuneration arrangements for the Executive Directors and the Chairman. The Board as a whole reserves the authority to make the final determination of the remuneration of the Directors as it considers that this two-stage process allows greater consideration and evaluation and is consistent with the unitary nature of the Board. No Director is included in decisions regarding his or her own remuneration.

Currently, the Board is composed of nine members, consisting of the Chairman, three Executive Directors and five Non-Executive Directors, all of whom are independent.

The roles of the Chairman and Group Chief Executive are distinct and separate, with a clear division of responsibilities. The Chairman leads the Board and ensures the effective engagement and contribution of all Non-Executive and Executive Directors. The Group Chief Executive has responsibility for all RBS Group businesses and acts in accordance with the authority delegated by the Board. Responsibility for the development of policy and strategy and operational management is delegated to the Group Chief Executive and other Executive Directors.

The Board has established Nominations, Remuneration and Audit Committees, with formally delegated duties and responsibilities with written terms of reference. From time to time, separate committees may be set up by the Board to consider specific issues when the need arises.

## **Nominations Committee**

### **Current members**

Philip Hampton (Committee Chairman), Colin Buchan, Archie Hunter, Joe MacHale, John McFarlane and Art Ryan.

The Nominations Committee comprises independent Non-Executive Directors, under the chairmanship of the Chairman of the Board. The Nominations Committee meets as required.

The Nominations Committee is responsible for assisting the Board in the formal selection and appointment of directors. The Committee engages with external consultants, it considers potential candidates and recommends appointments of new Directors to the Board. The appointments are based on merit and against objective criteria, including the time available to, and the commitment which will be required of, the potential director.

In addition, the Nominations Committee considers succession planning for the Chairman, Group Chief Executive and Non-Executive Directors. The Nominations Committee takes into account the knowledge, mix of skills, experience and networks of contacts which are anticipated to be needed on the Board in the future. The Chairman, Group Chief Executive and Non-Executive Directors meet to consider executive succession planning. No Director is involved in decisions regarding his own succession.

## **Remuneration Committee**

### **Current members**

Colin Buchan (Committee Chairman), Philip Hampton and John McFarlane.

The members of the Remuneration Committee comprise independent Non-Executive Directors together with the Chairman of the Board. The Remuneration Committee holds at least three meetings each year.

The Remuneration Committee is responsible for assisting the Board in discharging its responsibilities and making all relevant disclosures in relation to the formulation and review of the Group's executive remuneration policy. The Remuneration Committee makes recommendations to the Board on the remuneration arrangements for the Executive Directors and the Chairman.

Responsibility for determining the remuneration of the Executive Directors has not been delegated to the Remuneration Committee, and in that sense the provisions of the Combined Code have not been complied with.

## Audit Committee

### Current members

Colin Buchan, Archie Hunter (Committee Chairman) and Joe MacHale.

All members of the Audit Committee are independent Non-Executive Directors. The Audit Committee holds at least five scheduled meetings each year, two of which are held immediately prior to submission of the interim and annual financial statements to the Board. This core programme is supplemented by additional meetings as required. Audit Committee meetings are attended by relevant Executive Directors, the internal and external auditors and finance and risk management executives. At least twice per annum, the Audit Committee meets privately with the external auditors. The Audit Committee also visits RBS Group business divisions and selected group functions under a programme set out at the beginning of each year. The Audit Committee held a total of 10 meetings in 2007, 10 meetings in 2008, and has held three meetings so far in 2009.

The Audit Committee is responsible for:

- assisting the Board in discharging its responsibilities and in making all relevant disclosures in relation to the financial affairs of the RBS Group;
- reviewing accounting and financial reporting and regulatory compliance;
- reviewing the RBS Group's system of internal control; and
- monitoring the RBS Group's processes for internal audit, risk management and external audit.

### 10 Significant shareholdings

**10.1** As at 11 March 2009, 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:

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

**10.2** Save as disclosed in this paragraph 10, 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.

**10.3** 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 10.

**10.4** None of the Shareholders referred to in this paragraph 10 has different voting rights from any other holder of Shares in respect of any Shares held by them.



## 11 Subsidiaries

### Members of the RBS Group

RBS is the parent company of the RBS Group. The following table contains a list of the principal subsidiaries of RBS (each of which is considered by RBS to be likely to have a significant effect on the assessment of the assets, liabilities, the financial position and/or the profits and losses of the RBS Group):

<u>Name</u>	<u>Percentage ownership interest and voting power</u>	<u>Field of activity</u>	<u>Country of incorporation</u>	<u>Registered office</u>
The Royal Bank of Scotland plc	100	Banking	Scotland	36 St Andrew Square Edinburgh EH2 2YB
National Westminster Bank Plc	100	Banking	England	135 Bishopsgate London EC2M 3UR
Citizens Financial Group, Inc.	100	Banking	US	One Citizens Plaza Providence Rhode Island 02903 United States
Coutts & Co	100	Private banking	England	440 Strand London WC2R 0QS
Greenwich Capital Markets, Inc.	100	Broker dealer	US	600 Steamboat Road Greenwich Connecticut 06830 United States
RBS Insurance Group Limited	100	Insurance	England	Churchill Court Westmoreland Road Bromley Kent BR1 1DP
Ulster Bank Limited	100	Banking	Northern Ireland	11-16 Donegall Square East Belfast BT1 5UB
ABN AMRO Bank N.V. <sup>(1)</sup>	38	Banking	The Netherlands	Gustav Mahlerlaan 10 1082 PP Amsterdam Netherlands

Note:

(1) ABN AMRO Bank N.V. is a subsidiary undertaking of RBS.

## 12 Employees

As at 31 December 2008, RBS had approximately 199,500 employees. The numbers below represent employees in continuing operations excluding temporary staff.

	<u>As at 31 December 2008</u>	<u>As at 31 December 2007</u>	<u>As at 31 December 2006</u>
Global Banking & Markets . . . . .	18,700	17,600	7,600
Global Transaction Services . . . . .	4,200	3,900	2,500
UK Retail & Commercial Banking . . . . .	46,100	45,700	46,300
US Retail & Commercial Banking . . . . .	18,700	19,000	19,800
Europe & Middle East Retail & Commercial Banking . . . . .	7,900	8,700	5,700
Asia Retail & Commercial Banking . . . . .	11,600	12,500	4,600
RBS Insurance . . . . .	17,400	18,000	18,500
Group Manufacturing . . . . .	43,600	44,500	34,100
Centre . . . . .	4,200	3,800	2,700
Group share before RFS Holdings Minority Interest . . . . .	172,400	173,700	141,800
RBS share of shared assets . . . . .	400	1,200	—
RFS minority interest . . . . .	26,700	28,600	—
<b>Group Total</b> . . . . .	<b>199,500</b>	<b>203,500</b>	<b>141,800</b>

## 13 RBS Employee Share Plans (“Plans”)

### 13.1 Option Plans

The Company operates the following option plans (“Option Plans”)<sup>(1)</sup>:

#### 13.1.1 Sharesave Schemes

- (a) The Royal Bank of Scotland Group plc 2007 Sharesave Plan;
- (b) The Royal Bank of Scotland Group plc 2007 Irish Sharesave Plan; and
- (c) The Royal Bank of Scotland Group plc 1997 Sharesave Scheme.

#### 13.1.2 Discretionary Option Plans

- (a) The Royal Bank of Scotland Group plc 2007 Executive Share Option Plan;
- (b) The Royal Bank of Scotland Group plc Option 2000 Scheme;
- (c) The Royal Bank of Scotland Group plc 1999 Executive Share Option Scheme;
- (d) The Royal Bank of Scotland Group plc Executive Share Option Scheme 1986;
- (e) First Active PLC 2002 Approved Share Option Scheme\*;
- (f) First Active PLC 1998 Share Option Scheme\*; and
- (g) The National Westminster Bank Group 1994 Executive Share Option Scheme\*.

#### 13.1.3 Terms of the Option Plans

The following terms apply to all of the Option Plans:

##### *Time limit for option grants*

Options may not be granted more than 10 years after Shareholder approval.

##### *Overall plan limits*

In any 10 calendar year period, the Company may not issue (or grant rights to issue) more than 10 per cent. of its issued ordinary share capital under the Option Plans and any other all-employee share plans adopted by the Company.

In addition, in any 10 calendar year period, the Company may not issue (or grant rights to issue) more than 5 per cent. of its issued ordinary share capital under the executive share plans adopted by the Company.

Ordinary Shares in treasury will count as new issue shares for the purposes of these limits unless the Association of British Insurers decides that they need not count.

##### *Variation of capital*

In the event of any variation in the Company’s share capital, adjustments may be made to the number of Ordinary Shares under option and the price payable on the exercise of an option as considered appropriate.

##### *Other features of options*

Options are not transferable, except on death. Options are not pensionable.

##### *Rights attaching to Ordinary Shares*

Any Ordinary Shares allotted when an option is exercised will rank equally with Ordinary Shares then in issue (except for rights arising by reference to a record date prior to their allotment).

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Note:

- (1) All the Option Plans marked “\*” are legacy plans and relate to either the acquisition of NatWest or First Active PLC and have not been summarised in detail. Under the legacy plans, grants were originally made by NatWest and First Active PLC over the ordinary shares of those companies. All outstanding rights under the legacy plans are over Ordinary Shares.

### *Alterations to the Option Plans*

The Board or a committee (as appropriate) may amend the Option Plans in any respect, provided that the prior approval of Shareholders is obtained for the amendment of certain provisions to the advantage of participants.

The requirement to obtain the prior approval of Shareholders will not, however, apply to any minor alteration made to benefit the administration of the Option Plans, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any company in the Group. Shareholder approval will also not be required for any amendment to any performance conditions.

Alterations to plans approved by the relevant tax authority are generally subject to the prior approval of the relevant tax authority.

#### *13.1.4 Sharesave Schemes*

The following additional terms apply to the Sharesave Schemes as well as those set out in paragraph 13.1.3 above:

##### *Eligibility*

Employees and full-time Directors of the Company and any designated participating subsidiary who are resident and ordinarily resident in the relevant jurisdiction for tax purposes will be eligible to participate. The Board may require employees to have completed a qualifying period of employment of up to five years (or three years in Ireland) before the grant of options. All eligible employees must be invited to participate. The Board may allow other employees to participate.

##### *Grant of options*

Options can only be granted to employees who enter into approved savings contracts, under which monthly savings are normally made over a period of three or five years. Options must be granted within 30 days (or 42 days if applications are scaled back) of the first day by reference to which the option price is set. The number of Ordinary Shares over which an option is granted will be such that the total option price payable will correspond to the proceeds on maturity of the related savings contract.

##### *Individual participation*

Monthly savings by an employee under all savings contracts linked to options granted under any Sharesave Scheme may not exceed the statutory maximum (currently £250 in the United Kingdom and €500 in Ireland). The Board can set a lower limit in relation to any particular grant.

##### *Option price*

The price per RBS Ordinary Share payable upon the exercise of an option will not be less than 80 per cent. of the average middle market quotation of an RBS Ordinary Share on the London Stock Exchange on the three days preceding a date specified in an invitation to participate (or such other day or days as may be agreed with the relevant tax authority).

The option price will be determined by reference to dealing days which fall within the period of six weeks following the announcement by the Company of its results for any period or at any other time which the Board considers to be sufficiently exceptional to justify offering options.

##### *Exercise of options*

Options will normally be exercisable for a six-month period after the end of each savings contract. Earlier exercise is permitted in certain circumstances, otherwise options will lapse on cessation of employment or directorship with the Company's group.

The Royal Bank of Scotland Group plc 1997 Sharesave Scheme is no longer in operation; however, there are still outstanding options under it.

### 13.1.5 Discretionary Option Plans

The following additional terms apply to the Discretionary Option Plans, as well as those set out in paragraph 13.1.3 above:

#### *Eligibility*

Any employee (including an Executive Director) of the Company and its subsidiaries will be eligible to participate.

#### *Grant of options*

The committee may grant options to acquire Ordinary Shares within six weeks following the Company's announcement of its results for any period. The committee may also grant options within six weeks of Shareholder approval of any plan or at any other time if the committee considers there are exceptional circumstances which justify the granting of options.

No payment is required for the grant of an option.

#### *Individual participation*

The committee will determine which employees may participate and the extent of their participation. The maximum value of Ordinary Shares over which options may be granted to an employee will be set at the discretion of the committee, subject to the limits specified in the rules of the particular plan.

#### *Option price*

The price per RBS Ordinary Share payable upon exercise of an option will not be less than the market value of an RBS Ordinary Share on the dealing day (or a limited period before the dealing day, depending on the plan) before the date of grant (or such other dealing day(s) as the committee may decide).

#### *Performance conditions*

The committee may impose a performance condition which must be satisfied before the exercise of options.

The committee may set different or no performance conditions for participants who are not Directors or senior executives.

The committee may vary the performance conditions applying to existing options if an event has occurred which causes the committee to consider that it would be appropriate to amend the performance conditions, provided the committee considers the varied conditions are fair and reasonable and not materially less challenging.

#### *Exercise of options*

Options will normally become capable of exercise three years after grant to the extent that any performance conditions have been satisfied and provided the participant remains employed in the Group. Options will lapse on the day before the 10th anniversary of the date of grant (or six years for The Royal Bank of Scotland Group plc Option 2000 Scheme) or after such shorter period as determined by the committee at the time of grant.

Ordinary Shares will normally be allotted or transferred to participants within 30 days of exercise. Where permitted under the plan rules, the committee can decide to satisfy options which are not tax-advantaged by the payment of a cash amount.

#### *Leaving employment and corporate events*

As a general rule, an option will lapse upon a participant ceasing to hold employment or be a Director within the Group. However, if a participant ceases to be an employee or Director in the Group by reason of his death, ill-health, injury, disability, redundancy, retirement, his employing company or the business for which he works being sold out of the Company's

group or in other circumstances at the discretion of the committee, then his option will become exercisable on the date of his cessation or on such later date as the committee may decide and remain exercisable for a limited period thereafter.

Similarly, in the event of a corporate event not being an internal corporate reorganisation, all options will become exercisable early for a limited time. The extent to which an option will become exercisable in these situations will depend upon two factors:

- (a) the extent to which any performance conditions have been satisfied by reference to the date of cessation; and
- (b) the pro-rating of the option to reflect the number of months (rounded up) between its grant and the time of cessation or corporate event, although the committee can decide not to pro-rate an option if it regards it as inappropriate to do so in the particular circumstances.

The Royal Bank of Scotland Group plc 1999 Executive Share Option Scheme and The Royal Bank of Scotland Group plc 1986 Executive Share Option Scheme are no longer in operation; however, there are still outstanding options under these plans.

First Active PLC 2002 Approved Share Option Scheme\*, First Active PLC 1998 Share Option Scheme\* and the National Westminster Bank Group 1994 Executive Share Option\* have only a few participants with minimal outstanding awards.

#### *13.1.6 The Royal Bank of Scotland Group plc 2007 Executive Share Option Plan*

##### *Reduction of option*

Options under the plan may be reduced and/or forfeited after reviewing (amongst other things) the performance of the employing company, any member of the Group, or of the relevant individual. If exercise has already occurred, under the rules participants may be required to return or repay some or all of the Shares and/or cash they received.

## **13.2 Employee Share Ownership Plans**

The Company operates the following employee share ownership plans (the “Employee Share Ownership Plans”):

#### *13.2.1 The Royal Bank of Scotland Group plc Employee Share Ownership Plan*

##### *Eligibility*

All employees of the Company and any participating subsidiary may participate. When these plans are operated, all eligible employees must be invited to participate.

##### *Operation*

Employees may be offered free, partnership and matching shares, as the Directors decide.

##### *Free shares*

Participants can be given free Ordinary Shares (“free shares”) up to a market value limited by the UK tax legislation to, currently, £3,000 a year. The Directors may make the awards of free shares subject to performance targets. Free shares must generally be held in trust for between three and five years.

UK employees may be offered the opportunity to buy Ordinary Shares (“partnership shares”) by deduction from their pre-tax salary. Such partnership shares are bought at market value. Under current UK legislation, they can buy up to £1,500 in each tax year or, if less, 10 per cent. of salary.

The Directors may award additional free Ordinary Shares (“matching shares”) on a matching basis to participants who buy partnership shares. Under the current legislation, up to a maximum of two matching shares can be offered for each partnership share.



### *Dividends*

Cash dividends paid on Ordinary Shares held in the Employee Share Ownership Plans may be reinvested in further Ordinary Shares up to certain limits set out in the legislation.

### *Voting rights*

The trustees can only vote Ordinary Shares held in the Employee Share Ownership Plans in accordance with participants' instructions.

### *General offers*

If a general offer is made to the Shareholders of the Company, participants may direct the trustees how to act in respect of any Ordinary Shares held on their behalf.

## *13.2.2 Ulster Bank Group Employee Share Incentive Scheme ("ESIS")*

### *Eligibility*

Any employee of the Ulster Bank Group (or participating group company) is eligible to participate in the ESIS at the discretion of the Board.

### *Grants of awards*

The Board, at its absolute discretion, can invite any eligible employee to participate in the ESIS by offering the right to take all or part of any bonus or other sum due and owing to the employee in the form of shares. These shares are purchased by a trustee and held in the trustee's name for a period of up to five years and one month. After this time, the shares are transferred into the employee's name.

### *General*

This ESIS does not have any leaver specific provision to allow for early release of shares.

## *13.2.3 The Royal Bank of Scotland Group plc Irish Profit Sharing (Share Ownership) Scheme*

The Royal Bank of Scotland Group plc Irish Profit Sharing (Share Ownership) Scheme is currently operated and allocations are made subject to Irish revenue limit.

### *Eligibility*

Employees and Directors of the Company and participating subsidiaries at the end of the previous financial year may be allocated Ordinary Shares.

### *Holding periods*

Shares are normally held by the trustee for a minimum period of two years after allocation. In certain circumstances, for example death, redundancy or reaching the age of 60, Ordinary Shares may be released before the expiry of the two-year period. After three years, the Ordinary Shares are transferred to employees free of income tax.

### *Voting rights*

The trustee can only vote Ordinary Shares held in the plans in accordance with participants' instructions.

### *General offers*

If a general offer is made to the Shareholders of the Company, participants may direct the trustee how to act in respect of any shares held on their behalf.

## *13.2.4 The ABN AMRO (Ireland) Limited Share Scheme*

The ABN AMRO (Ireland) Limited Share Scheme is an Irish revenue approved profit sharing scheme under which shares in the Company may be allocated to employees of ABN AMRO and its subsidiaries, subject to Irish revenue limits. Its terms are similar to those of The Royal Bank of Scotland Group plc Irish Profit Sharing (Share Ownership) Scheme. It

is not currently intended to operate this scheme on an ongoing basis, although existing awards will continue to be held subject to the scheme rules.

### 13.3 Performance Plans

The Company operates the following Performance Plans:

- The Royal Bank of Scotland Group plc Medium-term Performance Plan (“MPP”);
- The Royal Bank of Scotland Group plc Restricted Share Plan (“RSP”); and
- The Royal Bank of Scotland Group plc 2009 Restricted Share Plan.

#### 13.3.1 The MPP

##### *Eligibility*

Any employee (including an Executive Director) of the Company and its subsidiaries (except a subsidiary which the Board has expressly designated as not a participating subsidiary) will be eligible to participate in the MPP.

##### *Grant of options*

The Remuneration Committee (or such other person acting with the prior consent of the Board) may grant awards to participants. Awards under the MPP may be in the form of rights to acquire Ordinary Shares by way of a nil-cost option or a contingent award or in the form of phantom shares or phantom share options. The amount of the award is determined at the discretion of the Remuneration Committee. The type of the award is either determined by the Remuneration Committee or the participant. The award is made subject to conditions based on the financial performance of the Company and its subsidiaries over a performance period.

##### *Individual participation*

The Remuneration Committee will determine which employees may participate and the extent of their participation. The maximum value of awards which may be granted to an employee will be set at the discretion of the Remuneration Committee but it is not intended that this will normally be above 150 per cent. of an employee’s base salary in any financial year. Special conditions apply if an award is made in excess of this limit.

##### *Performance conditions*

The Remuneration Committee will impose a performance condition on the exercise of options and vesting of awards.

The Remuneration Committee may vary the performance conditions applying to an award if an event has occurred which causes the Remuneration Committee to consider that it would be appropriate to amend the performance conditions, provided the Remuneration Committee reasonably considers the varied conditions are a fairer measure of performance, and not materially more difficult or less challenging than the original conditions.

##### *Rights of exercise or vesting*

Awards will not be capable of exercise or vesting earlier than the expiry of the performance period (except in exceptional circumstances). Awards will only be capable of exercise or vest to the extent that any performance conditions have been satisfied and provided the participant remains employed in the Group.

Awards will lapse on the day before the 10th anniversary of the date of grant.

Ordinary Shares will be allotted or transferred to participants within 30 days of exercise of a nil-cost option or vesting of a contingent award. The grantor can decide to satisfy such nil-cost options or vested contingent awards by the payment of a cash amount.

On the exercise of a phantom option or vesting of a phantom share award, a cash payment equal to the market value of each phantom share will be made to the participants within 30 days of such exercise or vesting.

#### *Leaving employment*

As a general rule, an award is not capable of exercise, or will not vest, if a participant ceases to hold employment or be a Director within the Group. However, if a participant ceases to be an employee or Director in the Group by reason of his death, ill-health, injury, disability, redundancy, retirement, his employing company or the business for which he works being sold out of the Company's group or in other circumstances at the discretion of the committee, then a contingent award will vest on the date of cessation and a nil-cost option can be exercised in the 12 months following the cessation of employment. An award may be reduced pro rata to reflect the length of service within a performance period and the extent to which any conditions have been satisfied.

#### *Corporate events*

In the event of certain corporate events such as a takeover or winding-up of the Company, all awards will become exercisable early (for a limited period) or vest early. The extent to which awards will become exercisable or vest in these situations will depend on the extent to which any performance conditions have been satisfied.

#### *Reduction of award*

Awards under the MPP may be reduced and/or forfeited after reviewing (amongst other things) the performance of the employing company, any member of the Group, or of the relevant individual. If vesting or exercise has already occurred, under the rules participants may be required to return or repay some or all of the Shares and/or cash they received.

### 13.3.2 *The RSP*

#### *Eligibility*

Any employee (but excluding any person who is a main Board Director of the Company) of the Company and its subsidiaries will be eligible to participate in the RSP.

#### *Grant of award*

The Board may grant a conditional right to acquire Ordinary Shares at no cost or a beneficial interest in Ordinary Shares ("restricted shares") in the Company.

No payment is required for the grant of award.

#### *Performance conditions*

The Board may make the vesting of an award conditional on satisfying one or more conditions.

The Board may vary the performance conditions applying to an award if an event has occurred which causes the Board to consider that it would be appropriate to either waive the existing conditions in whole or in part, or to amend the performance conditions, provided the Board reasonably considers the varied conditions are a fairer measure of performance, and not materially more difficult or less challenging than the original conditions.

#### *Vesting of an award*

The Board can decide to satisfy awards by the payment of a cash amount.

The RSP only uses existing Ordinary Shares, and trustees are not permitted to subscribe for any new issue shares.

### *Leaving employment*

As a general rule, an award will lapse upon a participant ceasing to hold employment within the Group. However, if a participant ceases to be an employee in the Group by reason of his death, ill-health, injury, disability, redundancy, retirement, his employing company or the business for which he works being sold out of the Company's group or in other circumstances at the discretion of the Board, then his award will vest on the date of his cessation even if conditions have not been satisfied. Certain awards may be reduced pro rata based on time elapsed since the grant date.

### *Corporate events*

In the event of a takeover, amalgamation, reconstruction or winding-up of the Company (not being an internal corporate reorganisation or merger), all awards will vest early and in full (unless the Board determines otherwise).

#### *13.3.3 2009 Restricted Share Plan*

Awards under the new 2009 Restricted Share Plan to be adopted for awards made in 2009 onwards will be governed by similar terms as outlined above for the RSP, except as set out below.

### *Grant of awards*

The Remuneration Committee (or such other individual or group of persons so authorised by the Remuneration Committee) may grant awards, in the form of conditional rights to acquire Shares at no cost. Awards may also include the right to receive a dividend equivalent on vesting, which may be paid in cash or in shares.

Where local restrictions apply to the use of Shares, awards may be granted in the form of "phantom cash" awards.

### *Reduction of award*

Awards under the plan may be reduced and/or forfeited after reviewing (amongst other things) the performance of the employing company, any member of the Group, or of the relevant individual. If vesting has already occurred, under the rules participants may be required to repay some or all of the Shares and/or cash they received.

### *Leaving employment*

Under the 2009 Restricted Share Plan, as a general rule, awards lapse on the date of cessation of employment or, if the Committee so decides, on the date the participant gives or receives notice. However, if a participant ceases to be an employee of the Group by reason of ill-health, injury or disability, death, retirement with the agreement of the employer, sale of employing company or business, redundancy or other reasons at the discretion of the Committee, awards will vest on cessation of employment, subject to any performance conditions and a reduction pro rata based on time elapsed since the grant date (unless the Committee determines pro rating will not apply in any particular case).

### *Corporate events*

In the event of a change of control of the Company, awards vest on the date of the change of control, unless the Committee decides otherwise. However, any vesting of awards will be subject to any performance conditions and a reduction pro rata based on time elapsed since the grant date (unless the Committee determines pro rating will not apply in any particular case).

In the event of a variation in share capital, demerger, distribution (other than an ordinary dividend) or other transaction affecting the current or future value of the Shares, the Committee may allow awards to vest in whole or in part, subject to any performance conditions; determine that awards are exchanged for new awards over shares in the acquiring company or other company; determine that they lapse; and/or adjust the number of Shares in an award.

## 13.4 Deferral Plan

Under the Deferral Plan, awards are made in the form of conditional rights to receive subordinated debt (“Deferred Awards”) in substitution for a cash bonus which might otherwise have been paid. Participants may also be given the opportunity to borrow against part of their Deferred Awards.

### *Eligibility*

All employees of the Company, ABN AMRO Bank N.V. and their subsidiaries (excluding Executive Directors) are eligible to participate.

### *Grant of Deferred Awards*

The Remuneration Committee (or such other individual or group of persons so authorised by the Remuneration Committee) may grant Deferred Awards in substitution for a cash bonus which might otherwise have been paid.

### *Reduction of Deferred Award*

Awards under the Deferral Plan may be reduced and/or forfeited after reviewing (amongst other things) the performance of the employing company, any member of the Group, or of the relevant individual. If vesting has already occurred, under the rules participants may be required to repay some or all of the subordinated debt they received.

### *Vesting of a Deferred Award*

The Committee may decide to satisfy Deferred Awards by the payment of an equivalent cash amount or the transfer of an equivalent value in Shares. No new Shares may be issued under the Deferral Plan or transferred out of treasury.

Deferred Awards may include the right to receive an amount on vesting equal to the notional interest on the amount of cash that has vested, at an interest rate determined by the Committee.

### *Leaving employment*

As a general rule, Deferred Awards lapse on the date of cessation of employment or, if the Committee so decides, on the date the participant gives or receives notice.

However, if a participant ceases to be an employee of the Group (including ABN AMRO Bank N.V. and its subsidiaries) by reason of ill-health, injury or disability, death, retirement with the agreement of the employer, sale of employing company or business, redundancy or other reasons at the discretion of the Committee (“good leaver reasons”), Deferred Awards continue to vest on their original vesting dates subject to the rules.

For US taxpayers, if they leave for good leaver reasons, vesting may be accelerated for tax purposes, however the awards will not be released until the original vesting dates.

### *Corporate Events*

In the event of a variation in share capital, demerger, distribution (other than an ordinary dividend), change of control, delisting or other transaction affecting the current or future value of the subordinated debt, Deferred Awards are not affected, unless the Committee determines that: Deferred Awards vest, subject to any conditions that may be imposed; Deferred Awards lapse; and/or any other appropriate action should be taken.

## 13.5 Employee Benefit Trusts

The Company has also set up three employee benefit trusts, The Royal Bank of Scotland Group plc 2001 Employee Share Trust, The Royal Bank of Scotland plc 1992 Employee Share Trust and The Royal Bank of Scotland Group 2007 US Employee Share Trust (the “Employee Benefit Trusts”) in Jersey. The Employee Benefit Trusts may be used to provide Ordinary Shares to some or all employees in connection with some or all of the RBS Group Employee Share Plans.



## **14 Pension benefits**

Members of the Group sponsor a number of pension schemes in the United Kingdom and overseas, predominantly of the defined benefit type, whose assets are independent of the Group's finances. Defined benefit pensions generally provide a pension of one-sixtieth of final pensionable salary for each year of service prior to retirement up to a maximum of 40 years. Employees do not make contributions for basic pensions but may make voluntary contributions to secure additional benefits on a money purchase basis. Since October 2006, The RBS Group Pension Fund has been closed to new entrants.

Details of the funding position of the pension schemes are contained in the Annual Report and Accounts for 2008. For information on the pension benefits paid by the Group, please see pages 192-194 in the Annual Report and Accounts for 2008, which are incorporated herein by reference.

## **15 Environmental issues**

The Company is of the opinion that there are no environmental issues which may affect the Company's utilisation of its tangible fixed assets.

## **16 Litigation**

As a participant in the financial services industry, the Group operates in a legal and regulatory environment that exposes it to potentially significant litigation risks. As a result, RBS plc and other members of the Group are involved in various disputes and legal proceedings in the United Kingdom, the United States and other jurisdictions, including litigation. Such cases are subject to many uncertainties, and their outcome is often difficult to predict, particularly in the earlier stages of a case. Currently, the Group is involved in litigation arising out of its operations.

Other than as set out in this section—"Litigation", so far as RBS is aware, neither RBS nor any member of the Group is or has been engaged in nor has pending or threatened any governmental, legal or arbitration proceedings which may have or have had in the recent past (covering the 12 months immediately preceding the date of this document) significant effect on the Group's financial position or profitability.

### *United Kingdom*

In common with other banks in the United Kingdom, RBS plc and NatWest have received claims and complaints from a large number of customers relating to the legal status and enforceability of current and historic contractual terms in personal current account agreements relating to unarranged overdraft and unpaid item charges ("Relevant Charges") and seeking repayment of Relevant Charges that had been applied to their accounts in the past. The claims and complaints are based primarily on the common law penalty doctrine and the Unfair Terms in Consumer Contracts Regulations 1999 (the "Regulations"). Because of the High Court test case referred to below, most existing and new claims in the County Courts are currently stayed and there is currently an FSA waiver of the complaints-handling process and a standstill of Financial Ombudsman Service decisions.

On 27 July 2007, following discussions between the Office of Fair Trading (the "OFT"), the Financial Ombudsman Service, the Financial Services Authority and major UK banks (including RBS), the OFT issued proceedings in a test case against the banks which was intended to determine certain preliminary issues concerning the legal status and enforceability of contractual terms relating to Relevant Charges.

A High Court judgment on some of the preliminary issues was handed down on 24 April 2008. The April judgment primarily addressed the contractual terms relating to Relevant Charges in personal current account (excluding basic bank account) agreements in force in early 2008 ("Current Terms") and not contractual terms in historic personal current account agreements. The judgment held that the Current Terms used by RBS plc and NatWest (i) are not unenforceable as penalties, but (ii) are not exempt from assessment for fairness under the Regulations.

RBS and the other banks have accepted that the ruling in the April judgment that the Current Terms used by RBS plc and NatWest are not exempt from assessment for fairness under the Regulations applies also to a sample of the contractual terms relating to Relevant Charges in basic bank account agreements and in personal current account agreements in force between 2001 and 2007 ("Basic and Historic Terms"). The High Court made an order to this effect on 24 October 2008.

RBS and the other banks appealed against the ruling in the April judgment that the Current Terms are not exempt from assessment for fairness under the Regulations and against the order of 24 October 2008 in relation to the Basic and Historic Terms. The Court of Appeal delivered its judgment on 26 February 2009 and rejected the appeals. RBS intends to seek leave from the House of Lords to appeal the Court of Appeal's decision.

High Court judgments on further preliminary issues were handed down on 8 October 2008 and 21 January 2009. These judgments primarily addressed the question of whether various Basic and Historic Terms were capable of being unenforceable penalty clauses. The judge decided that all of RBS plc's and most of NatWest's Basic and Historic Terms are not penalties, but that a term contained in personal current account conditions of NatWest used in 2001 was a contractual prohibition on a customer using a card to obtain an unarranged overdraft. The judge did not decide whether any charge payable upon a breach of this prohibition was a penalty. RBS has not appealed that decision.

The issues relating to the legal status and enforceability of the Relevant Charges are complex. RBS maintains that its Relevant Charges are fair and enforceable and believes that it has a number of substantive and credible defences. RBS cannot, however, at this stage, predict with any certainty if, or for how long, the stays, waiver and standstill referred to above will remain in place. Nor can it at this stage predict with any certainty the timing or substance of the final outcome of the customer claims and complaints, appeals and any further stages of the test case. It is unable reliably to estimate the liability, if any, that may arise as a result of or in connection with these matters or its effect on the Group's consolidated net assets, operating results or cash flows in any particular period. Consistent with RBS's obligations as a company admitted to the Official List, RBS will give further details in relation to the OFT litigation when they become available, including its potential impact on RBS.

#### *United States*

Proceedings, including consolidated class actions on behalf of former Enron securities holders, have been brought in the United States against a large number of defendants, including the Group, following the collapse of Enron. The claims against the Group could be significant; the class plaintiff's position is that each defendant is responsible for an entire aggregate damage amount less settlements—they have not quantified claimed damages against the Group in particular. The Group considers that it has substantial and credible legal and factual defences to these claims and will continue to defend them vigorously. Recent decisions by the US Supreme Court and the US federal court for the Fifth Circuit provide further support for the Group's position. The Group is unable reliably to estimate the liability, if any, that might arise or its effect on the Group's consolidated net assets, its operating results or cash flows in any particular period.

RBS Group companies have been named as defendants in a number of purported class action and other lawsuits in the United States that relate to the sub-prime mortgage business. In general, the cases involve the issuance of sub-prime-related securities or the issuance of shares in companies with sub-prime related exposure, where the plaintiffs have brought actions against the issuers and underwriters (including RBS Group companies) of such securities claiming that certain disclosures used in connection with the relevant offerings of such securities were false or misleading. The Group considers that it has substantial and credible legal and factual defences to these claims and will continue to defend them vigorously. The Group does not currently expect these lawsuits, individually or in the aggregate, to have a material impact on its consolidated net assets, its operating results or its cash flows in any particular period.

RBS plc, RBS, Greenwich Capital Markets, Inc., and certain individual officers and directors, have been named as defendants in a number of class action complaints filed in the United States District Court for the Southern District of New York. The complaints allege that public filings in connection with the issuance of RBS plc Non-cumulative Dollar Preference Shares, ADS, including Series Q, Series R, Series S, and Series T, contained false and misleading statements, and variously assert claims under Sections 11, 12 and 15 of the US Securities Act, Section 10 of the US Exchange Act, and Rule 10b-5 under the US Exchange Act. Plaintiffs seek unquantified damages on behalf of purchasers of these shares. The proceedings are in their initial stages. The Group considers that it has substantial and credible legal and factual defences to these claims and will defend them vigorously. The Group is unable reliably to estimate the liability, if any, that might arise or its effect on the Group's consolidated net assets, its operating results or cash flows in any particular period.

## 17 Investigations

RBS's businesses and financial condition can be affected by the fiscal or other policies and other actions of various governmental and regulatory authorities in the United Kingdom, the European Union, the United States and elsewhere. RBS has engaged, and will continue to engage, in discussions with relevant regulators, including in the United Kingdom and the United States, on an ongoing and regular basis informing them of operational, systems and control evaluations and issues as deemed appropriate or required and it is possible that any matters discussed or identified may result in investigatory actions by the regulators, increased costs being incurred by the Group, remediation of systems and controls, public or private censure or fines. Any of these events or circumstances could have a material adverse impact on RBS, its business, reputation, results of operations or Share price.

There is continuing political and regulatory scrutiny of the operation of the retail banking and consumer credit industries in the United Kingdom and elsewhere. The nature and impact of future changes in policies and regulatory action are not predictable and are beyond RBS's control but could have an adverse impact on RBS's businesses and earnings.

### *European Union*

In the European Union, these regulatory actions included an inquiry into retail banking in all of the then 25 member states by the European Commission's Directorate General for Competition. The inquiry examined retail banking in Europe generally. On 31 January 2007, the European Commission announced that barriers to competition in certain areas of retail banking, payment cards and payment systems in the European Union had been identified. The European Commission indicated that it will consider using its powers to address these barriers and will encourage national competition authorities to enforce European and national competition laws where appropriate.

In 2007, the European Commission issued a decision that, while interchange is not illegal per se, MasterCard's current multilateral interchange fee ("MIF") arrangement for cross border payment card transactions with MasterCard and Maestro-branded consumer credit and debit cards in the European Union are in breach of competition law. MasterCard was required by the decision to withdraw the relevant cross border MIFs by 21 June 2008. MasterCard lodged an appeal against the decision with the European Court of First Instance on 1 March 2008, and on 12 June 2008 it announced that it would be temporarily withdrawing its cross border MIF, pending the outcome of the appeal. RBS has been granted leave to intervene in the appeal proceedings. Visa's MIFs were exempted in 2002 by the European Commission for a period of five years up to 31 December 2007 subject to certain conditions. On 26 March 2008, the European Commission opened a formal inquiry into Visa's current MIF arrangements for cross border payment card transactions with Visa-branded debit and consumer credit cards in the European Union. There is no deadline for the closure of the inquiry.

### *United Kingdom*

In the United Kingdom, in September 2005, the Office of Fair Trading ("OFT") received a supercomplaint from the Citizens Advice Bureau relating to payment protection insurance ("PPI"). As a result, the OFT commenced a market study on PPI in April 2006. In October 2006, the OFT announced the outcome of the market study and, on 7 February 2007, following a period of consultation, the OFT referred the PPI market to the Competition Commission ("CC") for an in-depth inquiry. The CC published its final report on 29 January 2009. It found a lack of competition in the PPI market as a result of various factors, including a lack of transparency and barriers to entry for standalone providers. The CC will therefore impose by Order a range of remedies, including a prohibition on actively selling PPI at point of sale of the credit product (and for 7 days thereafter), a ban on single premium policies and other measures to increase transparency (in order to improve customers' ability to search and improve price competition). The expected deadline for implementation is 2010.

The FSA has been conducting a broad industry thematic review of PPI sales practices and in September 2008 announced that it intends to escalate its level of regulatory intervention. The FSA is expected to publish a further update in 2009. Substantial numbers of customer complaints alleging the mis-selling of PPI policies have been made to banks and to the Financial Ombudsman Service ("FOS") and many of these are being upheld by the FOS against the banks. Discussions continue between the FSA, the FOS and industry bodies on how best to handle these complaints. Separately, discussions are ongoing between the FSA and the Group in respect of concerns expressed by the FSA over certain categories of historic PPI sales.

The OFT has carried out investigations into Visa and MasterCard domestic credit card interchange rates. The decision by the OFT in the MasterCard interchange case was set aside by the Competition Appeals Tribunal in June 2006. The OFT's investigations in the Visa interchange case and a second MasterCard interchange case are ongoing. The outcome is not known, but these investigations may have an impact on the consumer credit industry in general and, therefore, on RBS's business in this sector. On 9 February 2007, the OFT announced that it was expanding its investigation into domestic interchange rates to include debit cards.

On 29 March 2007, the OFT announced that, following an initial review into bank current account charges, it had decided to conduct a market study into personal current accounts in the United Kingdom and a formal investigation into the fairness of bank current account charges.

On 16 July 2008, the OFT published the results of its market study into personal current accounts in the United Kingdom. The OFT found evidence of competition and several positive features in the personal current account market but believes that the market as a whole is not working well for consumers and that the ability of the market to function well has become distorted. The OFT is currently consulting with the banking industry, consumer groups and interested parties on its report. After this consultation the OFT will decide on next steps, which could include further discussions or agreed remedies with the industry, or possibly a reference of the market to the CC.

The OFT's investigation into the fairness of bank current account charges is ongoing. On 12 August 2008, the OFT indicated to RBS and other banks that, although it had not concluded its investigation and had reached no final view, it had serious concerns that contractual terms relating to Relevant Charges in personal current account agreements were unfair under the Regulations. The OFT is currently consulting with RBS and other banks on this issue.

Given the stage of the investigation, RBS cannot reliably estimate the impact of any adverse outcome of the OFT's market study or investigation upon it, if any. However, the Company is co-operating fully with the OFT to achieve resolution of the matters under investigation.

On 26 January 2007, the FSA issued a Statement of Good Practice relating to Mortgage Exit Administration Fees. On 1 March 2007, the Group adopted a policy of charging all customers the fee applicable at the time the customers took out the mortgage or, if later, varied their mortgage. The Company believes that it is currently in compliance with the Statement of Good Practice and will continue to monitor its performance against those standards.

#### *United States*

In July 2004, ABN AMRO signed a written agreement with the US regulatory authorities concerning ABN AMRO's dollar clearing activities in the New York branch. In addition, in December 2005, ABN AMRO agreed to a Cease and Desist Order with the Dutch Central Bank and various US federal and state regulators. This involved an agreement to pay an aggregate civil penalty of US\$75 million and a voluntary endowment of US\$5 million in connection with deficiencies in the US dollar clearing operations at ABN AMRO's New York branch and OFAC compliance procedures regarding transactions originating at its Dubai branch. ABN AMRO and members of ABN AMRO's management continue to provide information to law enforcement authorities in connection with ongoing criminal investigations relating to ABN AMRO's dollar clearing activities, OFAC compliance procedures and other Bank Secrecy Act compliance matters. The Cease and Desist Order with the Dutch Central Bank was lifted on 26 July 2007 and the Cease and Desist Order agreed with the US authorities was lifted on 9 September 2008. Although no written agreement has yet been reached and negotiations are ongoing, ABN AMRO has reached an agreement in principle with the US Department of Justice that would resolve all presently known aspects of the ongoing investigation. Under the terms of the agreement in principle, ABN AMRO and the United States would enter into a deferred prosecution agreement in which ABN AMRO would waive indictment and agree to the filing of information in the United States District Court charging it with certain violations of federal law based on information disclosed in an agreed factual statement. ABN AMRO would also agree to continue co-operating in the United States' ongoing investigation and to settle all known civil and criminal claims currently held by the United States for the sum of US\$500 million. The precise terms of the deferred prosecution agreement are still under negotiation.

These compliance issues and the related sanctions and investigations have had, and will continue to have, an impact on ABN AMRO's operations in the United States, including limitations on expansion. ABN AMRO is actively exploring all possible options to resolve these issues. The ultimate resolution of



these compliance issues and related investigations and the nature and severity of possible additional sanctions cannot be predicted.

The New York State Attorney General has issued subpoenas to a wide array of participants in the sub-prime mortgage industry, including mortgage originators, appraisers, due diligence firms, investment banks and rating agencies, focusing on the information underwriters obtained as part of the due diligence process from the independent due diligence firms and whether that information is adequately disclosed to investors. RBS Greenwich Capital has produced documents requested by the New York State Attorney General principally related to sub-prime loans that were pooled into one securitisation transaction.

In addition to the above, certain of the Group's subsidiaries have received requests for information from various US governmental agencies and self-regulatory organisations including in connection with sub-prime mortgages and securitisations, collateralised debt obligations and synthetic products related to sub-prime mortgages. In particular, during March 2008, RBS was advised by the SEC that it had commenced a non-public, formal investigation relating to RBS's US sub-prime securities exposures and US residential mortgage exposures. RBS and its subsidiaries are co-operating with these various requests for information and investigations.

## **18 Material contracts**

The following are all of the contracts (not being contracts entered into in the ordinary course of business) that have been entered into by members of the RBS Group: (a) within the two years immediately preceding the date of this document which are, or may be, material to the RBS Group; or (b) at any time and contain obligations or entitlements which are, or may be, material to the RBS Group as at the date of this document:

### **18.1 CSA**

On 28 May 2007, Fortis, RBS, Santander and RFS Holdings entered into the CSA. Fortis Bank Nederland acceded to the CSA on 26 July 2007. On 3 October 2008, the Dutch State acquired Fortis Bank Nederland. On 24 December 2008 the Dutch State acceded to the CSA following its acquisition of the shares held by Fortis Bank Nederland in RFS Holdings pursuant to a Deed of Accession entered into between RFS Holdings, RBS, Fortis Bank Nederland, Santander and the Dutch State. The CSA governs the relationships amongst the parties thereto in relation to the acquisition by RFS Holdings of ABN AMRO. The CSA details, *inter alia*, the funding of RFS Holdings in connection with the acquisition of ABN AMRO, the equity interests in RFS Holdings, the governance of RFS Holdings both before and after the acquisition of ABN AMRO, the arrangements for the transfer of certain ABN AMRO businesses, assets and liabilities to the Dutch State (previously Fortis Bank Nederland), RBS and Santander post-acquisition of ABN AMRO, further funding obligations of the Dutch State (previously Fortis Bank Nederland), RBS and Santander after the acquisition of ABN AMRO where funding is required by regulatory authorities in connection with the ABN AMRO businesses, the allocation of Core Tier 1 capital and the allocation of taxes and conduct of tax affairs.

### **18.2 Standby underwriting commitment letter**

On 28 May 2007, RBS and Merrill Lynch International entered into a standby underwriting commitment letter, pursuant to which Merrill Lynch International undertook to underwrite one or more issues by RBS of securities eligible to be treated as part of its innovative or non-innovative Tier 1 capital and/or convertible securities convertible into Ordinary Shares, the proceeds of which would be used to finance part of the cash portion of consideration payable to ABN AMRO shareholders upon settlement of the offers for shares in ABN AMRO. The aggregate amount of Merrill Lynch International's standby underwriting commitment was €6.2 billion. Pursuant to the letter, RBS agreed to pay certain fees and expenses to Merrill Lynch International in consideration for its standby commitment.

### **18.3 Agreement with Bank of America for the sale of LaSalle**

On 22 April 2007, ABN AMRO Bank and Bank of America entered into an agreement for the sale by ABN AMRO Bank to Bank of America of all of the outstanding shares of common stock of ABN AMRO North America Holding Company ("ABN AMRO North America"), a Delaware



corporation whose subsidiaries include LaSalle. The consideration for the shares was US\$21 billion, subject to a potential purchase price adjustment if ABN AMRO Bank's estimate of the net income of ABN AMRO North America for the pre-closing period was less than a specified income threshold. The agreement also provided for approximately US\$6 billion owed by ABN AMRO North America to other members of the ABN AMRO group to be converted into common stock of ABN AMRO North America. ABN AMRO Bank gave certain representations and warranties to Bank of America, including, *inter alia*, as to title to the shares, authority and capacity to enter into the agreement, financial statements, tax and employee benefits. The warranties given by ABN AMRO Bank were repeated on closing of the agreement. ABN AMRO Bank is liable to indemnify and hold harmless Bank of America for damages arising out of certain specified events, including breach of any covenant that survives closing.

#### **18.4 Underwriting agreement**

On 22 April 2008, RBS, Goldman Sachs International, Merrill Lynch International, UBS and RBS plc entered into an underwriting agreement, pursuant to which Merrill Lynch International, Goldman Sachs International and UBS agreed to procure subscribers for, or failing which themselves to subscribe for, Ordinary Shares not taken up under the Rights Issue, in each case at the relevant issue price. Pursuant to the underwriting agreement, RBS agreed to pay certain fees and expenses to Merrill Lynch International, Goldman Sachs International and UBS in consideration for their underwriting commitment. RBS gave certain representations and warranties and indemnities to those persons defined as underwriters in the Underwriting Agreement. The liabilities of RBS were uncapped as to time and amount.

#### **18.5 Sale of Angel Trains**

On 6 August 2008, RBS completed the sale of Angel Trains Group to a consortium advised by Babcock & Brown for an enterprise value of £3.6 billion.

#### **18.6 Sale of Tesco Personal Finance**

On 28 July 2008, RBS announced that it had agreed to sell its 50 per cent. shareholding in Tesco Personal Finance to its joint venture partner Tesco plc for a cash consideration of £950 million, subject to transaction adjustments. As part of this transaction, RBS will continue to provide certain commercial services to Tesco Personal Finance post-completion. The sale completed on 19 December 2008.

#### **18.7 First Placing and Open Offer Agreement**

Pursuant to a placing and open offer agreement effective as of 13 October 2008 entered into between RBS, UBS, Merrill Lynch International and HM Treasury, (i) RBS agreed to invite qualifying shareholders to apply to acquire new Shares at the issue price of 65.5 pence by way of the First Open Offer, (ii) UBS and Merrill Lynch International were appointed as joint sponsors, joint bookrunners and joint placing agents and agreed to use reasonable endeavours to procure placees to acquire the new Shares at not less than the issue price of 65.5 pence on such terms as agreed by HM Treasury on the basis that the new Shares placed were subject to clawback to the extent they were taken up under the First Open Offer and (iii) HM Treasury agreed that, to the extent not placed or taken up under the First Open Offer and subject to the terms and conditions set out in the First Placing and Open Offer Agreement, HM Treasury would acquire such new Shares itself at the issue price of 65.5 pence.

In consideration of its services under the First Placing and Open Offer Agreement, HM Treasury was paid (i) a commission of 0.5 per cent. of the aggregate value of the new Shares at the issue price of 65.5 pence per new Share payable on Admission (as defined in the First Placing and Open Offer Agreement) and the second business day after the day on which the First Placing and Open Offer Agreement terminated and (ii) a further commission of 1 per cent. of the aggregate value of the new Shares acquired by placees (including HM Treasury) at the issue price of 65.5 pence per new Share payable on Admission (as defined in the First Placing and Open Offer Agreement). RBS paid all legal and other costs and expenses of HM Treasury, those of UBS and Merrill Lynch International properly incurred and the costs and expenses of HM Treasury's

financial advisers incurred in connection with the First Placing and Open Offer and the Preference Share Issue.

RBS also bore all costs and expenses relating to the First Placing and Open Offer and the Preference Share Issue, including (but not limited to) the fees and expenses of its professional advisers, the cost of preparation, advertising, printing and distribution of the First Placing and Open Offer prospectus and all other documents connected with the First Placing and Open Offer and the Preference Share Issue, the listing fees of the FSA, any charges by CREST and the fees of the London Stock Exchange and Euronext.

RBS gave certain undertakings to HM Treasury in relation to such matters as mortgage lending, lending to SMEs and Board remuneration. These undertakings were aimed at ensuring that any state aid involved in the potential acquisition of new Shares and RBS's potential participation in the guarantee scheme to be promoted by HM Treasury as part of its support for the UK banking industry was compatible with the common market under EU law. These constraints will cease to apply when, broadly, it is determined that RBS is no longer in receipt of state aid.

The undertakings RBS gave to HM Treasury included the following:

- (i) no bonus will be awarded to any Director for 2008 and any bonuses earned by Directors in respect of 2009 will be paid in restricted shares, remuneration will seek to reward long term value creation and not encourage excessive risk taking (short term indicators will be taken into account only where fully consistent with long term value creation and not encouraging excessive risk taking) and Directors who are dismissed will receive a severance package which is reasonable and perceived as fair;
- (ii) to work with HM Treasury on the appointment of up to three new independent Non-Executive Directors;
- (iii) to maintain its SME and mortgage lending availability to at least 2007 levels until the end of 2011 with the active marketing of competitively priced loan products;
- (iv) to increase its support to shared equity projects until the end of 2009 in order to assist those in difficulties with their mortgage payments to stay in their homes, either through individual bank schemes or paid into a central fund run by industry; and
- (v) to publish an annual report, for each year until 2011, on its lending to SMEs and establish transparent public reporting on both SME and mortgage lending as agreed with HM Treasury.

The undertakings relating to SME and mortgage lending have been superseded by the Lending Commitments Letter outlined in paragraph 18.13 below.

In addition, RBS agreed to limit its activities to the higher of: (i) the annual growth rate of growth of UK nominal GDP in the preceding year; and (ii) the average historical growth of the balance sheets in the UK banking sector during the period 1987-2007, unless there is evidence that the thresholds are exceeded for reasons unrelated to the provision of the aid. HM Treasury agreed, in certain circumstances, to consult with RBS with a view to making submissions to the European Commission to obtain clarity as to the duration of the conditions and/or seek their disapplication.

## **18.8 Sale of Bank of China Investment**

On 14 January 2009, pursuant to (i) a placing agreement entered into between RBS, RBS China Investments S.à r.l. (a Luxembourg incorporated subsidiary of RBS) and ABN AMRO Bank N.V., Hong Kong Branch, (ii) a placing agreement entered into between RBS, RBS China Investments S.à r.l., ABN AMRO Bank N.V., Hong Kong Branch and Morgan Stanley & Co. International plc, and (iii) a share purchase agreement entered into between RBS China Investments S.à r.l., Primestar Resource Holdings Limited and Orientmax Capital Limited, RBS (through RBS China Investments S.à r.l.) sold its entire 4.26 per cent. investment in Bank of China for HKD 18.4 billion.

## **18.9 Second Placing and Open Offer Agreement**

Pursuant to a placing and open offer agreement dated 19 January 2009 entered into between RBS, UBS, Merrill Lynch International and HM Treasury, (i) RBS agreed to invite Qualifying Shareholders to apply to subscribe for New Shares at the Issue Price by way of the Open Offer,

(ii) UBS and Merrill Lynch International were appointed as joint sponsors, joint bookrunners and joint placing agents and agreed to use reasonable endeavours to procure Placees to subscribe for the New Shares on such terms as may be agreed by the Company and HM Treasury at not less than the Issue Price on the basis that the New Shares placed will be subject to clawback to the extent they are taken up under the Open Offer and (iii) HM Treasury agreed that, to the extent not placed or taken up under the Open Offer and subject to the terms and conditions set out in the Placing and Open Offer Agreement, HM Treasury will subscribe for such New Shares itself at the Issue Price.

Pursuant to the terms of the Second Placing and Open Offer Agreement, the aggregate proceeds of the Placing and Open Offer (net of expenses) will be used in full to fund the redemption on Admission of the Preference Shares held by HM Treasury at 101 per cent. of their issue price (£5,050,000,000) together with the accrued dividend on the Preference Shares (from and including 1 December 2008 to but excluding the date of Admission) and the commissions payable to HM Treasury under the Second Placing and Open Offer Agreement. Should the proceeds of the Placing and Open Offer be insufficient to fund the redemption of the Preference Shares, RBS shall provide additional finance from its own resources and make use of its own reserves to enable such redemption to be effected in full.

In consideration of the provision of its services under the Second Placing and Open Offer Agreement, RBS shall pay to HM Treasury (i) a commission of 0.5 per cent. of the aggregate value of the New Shares at the Issue Price per New Share payable on the earlier of Admission and the second Business Day after the day on which the Second Placing and Open Offer Agreement is terminated and (ii) a further commission of 1 per cent. of the aggregate value of the New Shares subscribed for by Placees at the Issue Price per New Share payable on the date of Admission.

RBS shall pay to each of HM Treasury, UBS and Merrill Lynch International all legal and other costs and expenses (properly incurred in the case of UBS and Merrill Lynch International) and those of HM Treasury's financial advisers, incurred in connection with the Placing and Open Offer, the redemption of the Preference Shares or any arrangements referred to in the Second Placing and Open Offer Agreement.

RBS shall also bear all costs and expenses relating to the Placing and Open Offer and the Preference Share Redemption, including (but not limited to) the fees and expenses of its professional advisers, the cost of preparation, advertising, printing and distribution of this document and all other documents connected with the Placing and Open Offer and the Preference Share Redemption, the listing fees of the FSA, any charges by CREST and the fees of the London Stock Exchange and Euronext.

The obligations of HM Treasury, UBS and Merrill Lynch International under the Second Placing and Open Offer Agreement are subject to certain conditions including, amongst others:

- (i) the passing of the Resolutions to be proposed at the General Meeting;
- (ii) the obtaining of regulatory approvals; and
- (iii) 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).

Certain of the conditions may be waived by HM Treasury at its discretion. Prior to Admission, HM Treasury may terminate the Second Placing and Open Offer Agreement in certain circumstances. On a termination event arising, neither UBS nor Merrill Lynch International are entitled to effect the termination of the Second Placing and Open Offer Agreement but each may terminate its obligations under the Second Placing and Open Offer Agreement.

On termination of appointment by UBS or Merrill Lynch International, the Second Placing and Open Offer Agreement will continue to be in force as between the non-terminating parties.

HM Treasury is entitled to novate its rights under the Second Placing and Open Offer Agreement to any entity that is owned, directly or indirectly, by HM Treasury.

RBS has given certain representations and warranties and indemnities to each of HM Treasury, UBS and Merrill Lynch International under the Second Placing and Open Offer Agreement. The liabilities of RBS are unlimited as to time and amount.

RBS also gave HM Treasury the following undertakings:

- (a) to extend the lending commitments made to HM Treasury in the First Placing and Open Offer Agreement in respect of the UK mortgage and SME lending markets. These commitments will now also apply to the Company's lending to larger commercial and industrial companies in the United Kingdom; and
- (b) a commitment to increase the level at which competitively priced lending is made available and actively marketed by the Group in the United Kingdom by £6 billion.

RBS's commitments described at (a) and (b) above have been superseded by the Lending Commitments Letter pursuant to which RBS has agreed, among other things, to lend £16 billion above the amount RBS has budgeted to lend to UK businesses and £9 billion above the amount RBS has budgeted to lend to UK homeowners in the year commencing 1 March 2009, with a commitment to lend at similar levels in the year commencing 1 March 2010. For further details see paragraph 18.13 below.

#### **18.10 Preference Share Subscription Agreement**

Pursuant to a preference share subscription agreement effective as of 13 October 2008 between RBS and HM Treasury, HM Treasury subscribed for, and RBS allotted and issued to HM Treasury, the Preference Shares for a total consideration of £5 billion. RBS and HM Treasury agreed that applications would be made to the UKLA for the Preference Shares to be admitted to the Official List and to the London Stock Exchange for the Preference Shares to be admitted to trading on the London Stock Exchange. Pursuant to the Preference Share Subscription Agreement, RBS agreed to pay the costs and expenses of both parties in relation to the negotiation of the Preference Share Subscription Agreement and the subscription for, and allotment and issue of, the Preference Shares (including, without limitation, any stamp duty or stamp duty reserve tax). HM Treasury was entitled to novate its rights under the Preference Share Subscription Agreement to any entity that is owned, directly or indirectly, by HM Treasury.

The Preference Share Subscription Agreement was conditional on the First Placing and Open Offer Agreement becoming unconditional in accordance with its terms.

#### **18.11 Subscription and Transfer Agreements**

In connection with the First Placing and Open Offer, the Company, Merrill Lynch International, UBS, Computershare and Newco entered into several agreements dated 4 November 2008, in respect of the subscription and transfer of ordinary shares and redeemable preference shares in Newco. Under the terms of these agreements:

- (a) the Company and UBS and/or Merrill Lynch International agreed to acquire ordinary shares in Newco and enter into put and call options in respect of the ordinary shares in Newco subscribed for by UBS and/or Merrill Lynch that were exercisable if the Placing and Open Offer did not proceed;
- (b) Merrill Lynch International or UBS, as applicable, agreed to apply monies received from Qualifying Shareholders, placees or HM Treasury under the Placing and Open Offer to subscribe for redeemable preference shares in Newco to an aggregate value equal to such monies, after deduction of the amount of certain commissions and expenses; and
- (c) the Company agreed to allot and issue the new Shares to those persons entitled thereto in consideration of Merrill Lynch International or UBS, as applicable, transferring its holding of redeemable preference shares and ordinary shares in Newco to the Company.

Accordingly, instead of receiving cash as consideration for the issue of the new Shares, at the conclusion of the First Placing and Open Offer, the Company owned the entire issued ordinary and redeemable preference share capital of Newco whose only assets were its cash reserves, which represented an amount equivalent to the net proceeds of the First Placing and Open Offer. The Company was able to utilise this amount equivalent to the First Placing and Open Offer net proceeds by exercising its right of redemption over the redeemable preference shares it held in Newco.

Qualifying Shareholders were not party to these arrangements and so did not acquire any direct right against Merrill Lynch International, UBS and Computershare pursuant to these arrangements. The Company was responsible for enforcing the other parties' obligations thereunder.

#### **18.12 Pre-accession Commitments Letter**

On 26 February 2009, RBS plc entered into a deed poll in favour of HM Treasury, pursuant to which RBS plc gave a series of undertakings, with immediate effect unless otherwise agreed, in relation to the provision of information and the management of the Proposed Assets in the period prior to RBS plc's proposed accession to the APS.

RBS plc has undertaken to HM Treasury, among other things, to:

- (i) provide all such assistance and information and data as is reasonably requested which is pertinent to the implementation of the APS and RBS plc's potential participation in the APS;
- (ii) provide, as soon as practicable, an indicative list of the Proposed Assets with a view to agreeing such list by 30 April 2009;
- (iii) provide, as promptly as practicable, information and data relating to the Proposed Assets reasonably requested for due diligence purposes and to provide certain other information concerning the RBS Group's business and the financial performance and risk of the Proposed Assets;
- (iv) provide access to the RBS Group's premises, books, records, senior executives, relevant personnel and professional advisers on reasonable terms;
- (v) consult with HM Treasury regarding the management and operations of the Proposed Assets and to ensure that the management of the Proposed Assets is in accordance with usual business practices and also without regard to the possible benefits under the APS;
- (vi) develop and, subject to market conditions, implement a liability management plan which is designed to enable the RBS Group to meet certain Core Tier 1 capital targets for 2009; and
- (vii) use best endeavours (giving regard to reasonable operational requirements) to maintain regular, adequate and effective monitoring, reporting, risk management and audit controls and procedures in order, among other things, to ensure that risks relating to key business processes which affect the Proposed Assets are identified, assessed and reported and are managed and mitigated appropriately.

In addition, RBS plc has agreed in principle that, if and only if RBS plc accedes to the APS, it will not claim, and will disclaim, certain UK tax losses and allowances arising to members of the RBS group in respect of any accounting period ending on or after 31 December 2008, provided that this undertaking will not apply in respect of any such tax benefits arising in the earlier of (a) the first accounting period beginning more than five years after the relevant accession date and (b) the first accounting period beginning after the relevant accession date in which the RBS group becomes profitable.

RBS plc has acknowledged that HM Treasury and the FSA propose to commence a consultation in relation to a Code of Remuneration Practice for banking institutions and has confirmed that it will comply with any such Code, and any other legal or regulatory requirements relating to remuneration policies, to which it becomes subject from time to time.

#### **18.13 Lending Commitments Letter**

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.

Pursuant to this lending commitment, RBS has agreed to increase its lending in the 12 months commencing 1 March 2009 from its UK banking operations to UK businesses by £16 billion above the amount previously budgeted and to maintain in the 12 months commencing 1 March 2010



similar levels of lending to UK businesses as in the 12 months commencing 1 March 2009. Such additional lending is subject to RBS's ordinary course pricing and other terms, and certain commercial, risk, credit and regulatory considerations.

RBS has also made a commitment to increase lending to homeowners, including first time buyers, in the United Kingdom. RBS has undertaken to increase its residential mortgage lending by at least £9 billion above the amount previously budgeted in the 12 months commencing 1 March 2009 and to maintain in the 12 months commencing 1 March 2010 similar levels of residential mortgage lending as in the 12 months commencing 1 March 2009 subject to adjustment of the commitments by the UK Government departments from time to time.

RBS's compliance with its lending commitments will be monitored by the UK Government, and will be subject to a reporting process.

RBS has also made certain undertakings as regards marketing in support of its lending commitments and certain other matters relating to its business and residential lending practices and policies. The lending commitments made in the deed poll supersede the commitments given by RBS in the First Placing and Open Offer Agreement and the Second Placing and Open Offer Agreement.

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.

## 19 Other contingencies

Additional contingent liabilities arise in the normal course of the Group's business. It is not currently anticipated that any material loss will arise from these transactions.

## 20 Related party transactions

Other than as disclosed in the financial information incorporated by reference into this document for the financial years ended 31 December 2006, 2007 and 2008, there are no related party transactions between the Company or members of the RBS Group that were entered into during the financial years ended 31 December 2006, 2007 and 2008 and during the period between 1 January 2009 and 11 March 2009 (the latest practicable date prior to the publication of this document).

With effect from 17 October 2007, the Group transferred to Santander (a related party for the purpose of the Listing Rules) its rights and obligations under the CSA in respect of the ABN AMRO Global Clients business in Brazil for €750 million.

On 30 June 2008, the Group sold its European consumer finance business to Santander (a related party for the purposes of the Listing Rules).

## 21 Dividends

The following table sets out the dividend per Ordinary Share paid in each of the financial years ended 31 December 2008, 31 December 2007 and 31 December 2006:

	<b>Dividend per Share (pence per Ordinary Share)<sup>(1)</sup></b>
2008 . . . . .	19.3
2007 . . . . .	27.0
2006 . . . . .	21.6

Note:

(1) The data have been adjusted to reflect the effect of the rights issue in June 2008 and the capitalisation issue in September 2008.

## **22 No significant change**

As outlined in the first paragraph under “Part I—Letter from the Chairman—Background to the Placing and Open Offer”, the statement regarding current trading and outlook for 2009 under “Part I—Letter from the Chairman—Trading and Outlook” and the second paragraph of “Part V—Overview of Business Performance and Operating and Financial Review of RBS—Capital resources and liquidity management”, the RBS Group continues to be, and expects to continue to be, affected by market uncertainty and credit market write-downs, including further write-downs in respect of monoline exposures.

However, there has been no significant change in the trading or financial position of the RBS Group since 31 December 2008 (the date to which the latest published financial information of the RBS Group was prepared).

## **23 Consents**

- 23.1** Merrill Lynch International has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of the references to its name in the form and context in which they appear.
- 23.2** UBS Limited has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of the references to its name in the form and context in which they appear.
- 23.3** RBS Hoare Govett Limited has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of the references to its name in the form and context in which they appear.
- 23.4** Deloitte LLP is a member firm of the Institute of Chartered Accountants in England and Wales and has given and not withdrawn its written consent to the inclusion of its report in Part VII of this document in the form and context in which it appears and has authorised the contents of the Part of this document which comprises its report for the purposes of Rule 5.5.3R(2)(f) of the Prospectus Rules. As the New Shares and Preference Shares have not been and will not be registered under the US Securities Act, Deloitte LLP has not filed a consent under the US Securities Act.

## **24 General**

- 24.1** The financial information concerning the RBS Group contained in this document does not constitute statutory accounts within the meaning of Section 434(3) of the Companies Act. The consolidated financial statements of the Company in respect of the three years ended 31 December 2008 were reported on by Deloitte LLP (formerly Deloitte & Touche LLP), the auditors of the Company, within the meaning of Section 495 of the Companies Act for the period of the historical financial information set out in this document. The auditors of the Company made reports under Section 503 of the Companies Act in respect of the three years ended 31 December 2008 and such reports were unqualified reports within the meaning of Sections 836 to 841 of the Companies Act.
- 24.2** The total costs, charges and expenses payable by the Company in connection with the Placing and Open Offer are estimated to be £95 million (inclusive of VAT).
- 24.3** The Company remains subject to the continuing obligations of the Listing Rules with regard to the issue of securities for cash and the provisions of Section 89 of the Companies Act (which confers on Shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash) apply to the balance of the authorised but unissued share capital of the Company which is not the subject of the disapplication in Article 13(B)(2) of the Articles of Association.
- 24.4** The Existing Shares are in registered form, are capable of being held in uncertificated form and are admitted to the Official List and are traded on the main market for listed securities of the London Stock Exchange and Euronext Amsterdam.
- 24.5** The New Shares will be in registered form and, from Admission, will be capable of being held in uncertificated form and title to such shares may be transferred by means of a relevant system (as

defined in the CREST Regulations). Where New Shares are held in certificated form, share certificates will be sent to the registered members by first class post. Where New Shares are held in CREST, the relevant CREST stock account of the registered members will be credited. Where New Shares are held in Euroclear Nederland, the relevant securities account of the Admitted Institutions will be credited. The New Shares have the ISIN GB0007547838.

**24.6** The New Shares will be issued at 31.75 pence per share. This represents a premium of 6.75 pence per Ordinary Share to the nominal value of 25 pence per Ordinary Share.

## **25 Documents available for inspection**

Copies of the following documents may be inspected at the registered office of the Company and at the offices of Linklaters LLP, One Silk Street, London EC2Y 8HQ 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 Memorandum and Articles of Association;
- (b) the Annual Reports and audited consolidated accounts of the RBS Group for the three financial years ended 31 December 2008, 2007 and 2006;
- (c) the shareholder circular dated 20 July 2007 prepared by RBS in connection with the acquisition of ABN AMRO;
- (d) the listing particulars dated 20 July 2007 prepared by RBS in connection with the acquisition of ABN AMRO;
- (e) the consent letters referred to in paragraph 23 above;
- (f) the Circular; and
- (g) this document.

## **26 Sources of information**

The sources and bases of statements relating to the market position of RBS are set out in this document where the statement is made. Certain information has been obtained from external publications and is sourced in this document where the information is included. RBS confirms that this information has been accurately reproduced and, so far as RBS is aware and is able to ascertain from the information published by third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. Unless otherwise stated, such information has not been audited.

## **27 Announcement on results of the Placing and Open Offer**

The Company will make an appropriate announcement(s) to a Regulatory Information Service giving details of the results of the Placing and Open Offer.

16 March 2009

## PART X

### DOCUMENTATION INCORPORATED BY REFERENCE

The Annual Report and Accounts of RBS for each of the financial years ended 31 December 2008, 2007 and 2006 are available for inspection in accordance with paragraph 25 of Part IX of this document and contains information which is relevant to the Placing and Open Offer. This document is also available on RBS's website at [www.rbs.com](http://www.rbs.com).

The Circular is available for inspection in accordance with paragraph 25 of Part IX of this document and contains information which is relevant to the Placing and Open Offer. This document is also available on RBS's website at [www.rbs.com](http://www.rbs.com).

The shareholder circular dated 20 July 2007 prepared by RBS in connection with the acquisition of ABN AMRO is available for inspection in accordance with paragraph 25 of Part IX of this document. It contains information which is relevant to the Placing and Open Offer. This document is also available at [www.investors.rbs.com/investor\\_relations/uk\\_offerdocs.cfm](http://www.investors.rbs.com/investor_relations/uk_offerdocs.cfm).

The table below sets out the various sections of such documents which are incorporated by reference into this document so as to provide the information required under the Prospectus Rules and to ensure that Shareholders and others are aware of all information which, according to the particular nature of RBS, ABN AMRO and of the New Shares, is necessary to enable Shareholders and others to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of RBS.

<u>Document</u>	<u>Section</u>	<u>Page numbers in such document</u>
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## PART XI

### DEFINITIONS

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

<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>ADS</b>	American depository shares, each representing one ordinary share of ABN AMRO.
<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 this document.
<b>Asset Protection Scheme</b> or <b>APS</b>	the asset protection scheme announced by HM Treasury on 19 January 2009.
<b>Audit Committee</b>	the audit committee established by the Board.
<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>Banking Act</b>	the Banking Act 2009.
<b>Basel Committee</b>	the Basel Committee on Banking Supervision.
<b>Basel I</b>	the 1988 Basel Accord of the Basel Committee.
<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>Capitalisation Issue</b>	the issue in September 2008 of Ordinary Shares instead of the payment of the 2008 interim dividend.

<b>CC</b>	the UK Competition Commission.
<b>CDS</b>	credit default swap.
<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>Circular</b>	the circular to Shareholders dated 16 March 2009 issued by the Company in connection with the Placing and Open Offer and including the General Meeting Notice.
<b>Citizens</b>	Citizens Financial Group Inc., a wholly owned subsidiary of RBS.
<b>City Code</b>	The City Code on Takeovers and Mergers.
<b>Claims Processing Unit</b>	has the meaning given in the CREST Manual.
<b>Combined Code</b>	the UK Combined Code on Corporate Governance.
<b>Companies Act</b>	the UK Companies Act 1985, as amended, or the UK Companies Act 2006, 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>Computershare Offices</b>	the addresses at which the hand delivery of Application Forms may be made as outlined on page 57 of this document.
<b>Consortium Members</b>	RBS, Santander, Fortis Bank and the Dutch State.
<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 Courier and Sorting Service</b>	the CREST Courier and Sorting Service established by Euroclear UK to facilitate, amongst other things, the deposit and withdrawal of securities.
<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 participant</b>	a person who is, in relation to CREST, a system participant (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>CREST sponsor</b>	a CREST participant admitted to CREST as a CREST sponsor.
<b>CREST sponsored member</b>	a CREST member admitted to CREST as a sponsored member.

<b>CSA or Consortium Agreement</b>	the Consortium and Shareholders' Agreement dated 28 May 2007, among RBS, Fortis, Fortis Bank Nederland, Santander and RFS Holdings, as amended from time to time and as acceded to by the Dutch State pursuant to a Deed of Accession dated 24 December 2008.
<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>Daily Official List</b>	the daily record setting out the prices of all trades in shares and other securities conducted on the London Stock Exchange.
<b>Directors</b>	the Executive Directors and Non-Executive Directors, whose names appear on page 33 of this document.
<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 this document.
<b>Dutch Central Bank</b>	De Nederlandsche Bank N.V.
<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>Employee Share Ownership Plans</b>	the Employee Share Ownership Plans adopted by the Company described in paragraph 13.2 of Part IX of this document.
<b>EU or European Union</b>	the European Union.
<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>European Economic Area</b>	the European Union, Iceland, Norway and Liechtenstein.
<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 this document, 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 Open Offer</b>	the open offer undertaken by the Group in November and December 2008.
<b>First Placing and Open Offer</b>	the placing and open offer of 22,909,776,276 Ordinary Shares at 65.5 pence per Ordinary Share undertaken by the Group in November and December 2008.
<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>Fortis Bank Nederland</b>	Fortis Bank Nederland (Holding) N.V., a company incorporated under the laws of the Netherlands (Trade Register number 30080428), with its registered office at Archimedes 6, 3584 BA Utrecht, the Netherlands.
<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 the Circular.
<b>General Meeting Notice</b>	the notice of the General Meeting set out in the Circular.
<b>HKD</b>	Hong Kong dollars, the lawful currency of Hong Kong
<b>HMRC</b>	HM Revenue & Customs.
<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>IAS</b>	International Accounting Standard.
<b>IASB</b>	the International Accounting Standards Board.
<b>ICAEW</b>	the Institute of Chartered Accountants in England and Wales.
<b>IFRS</b>	International Financial Reporting Standards as issued by the International Accounting Standards Board.

<b>Independent Shareholders</b>	the Shareholders, excluding HM Treasury and any person acting in concert with HM Treasury.
<b>IRS</b>	the Internal Revenue Service of the United States.
<b>ISIN</b>	International Securities Identification Number.
<b>Issue Price</b>	31.75 pence per New Share.
<b>Joint Brokers</b>	Merrill Lynch International, UBS and RBS Hoare Govett.
<b>Lehman Brothers</b>	Lehman Brothers Inc. and, where the context permits, its subsidiaries and affiliates.
<b>Lending Commitments Letter</b>	the deed poll entered into by RBS on 26 February 2009 in favour of certain UK Government departments.
<b>Listing Rules</b>	the Listing Rules made by the FSA under Part VI of the FSMA.
<b>London Stock Exchange member account ID</b>	London Stock Exchange plc. the identification code or number attached to any member account in CREST.
<b>Memorandum of Association</b>	the memorandum of association of the Company, details of which are set out in paragraph 4.1 of Part IX of this document.
<b>Merrill Lynch International</b>	Merrill Lynch International of Merrill Lynch Financial Centre, 2 King Edward Street, London EC1A 1HQ.
<b>Money Laundering Regulations monoline insurer</b>	the Money Laundering Regulations 2007 (SI 2007/2157). an insurer that provides a guarantee for the timely repayment of principal and interest under a bond or other security upon an issuer default and is solely focused on insurance for capital markets products.
<b>NatWest</b>	National Westminster Bank Plc.
<b>Newco</b>	Encuentro Limited, a company incorporated in Jersey.
<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>Nominations Committee</b>	the nominations committee established by the Board.
<b>Non-Executive Directors</b>	the non-executive directors of RBS.
<b>OFAC</b>	the Office of Foreign Assets Control of the US Treasury Department.
<b>Official List</b>	the Official List of the FSA pursuant to Part VI of the FSMA.
<b>OFT</b>	the Office of Fair Trading.
<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 this document 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>Option Plans</b>	the Discretionary Option Plans and the Sharesave Schemes.



<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>Overseas Shareholders</b>	Shareholders with registered addresses outside the United Kingdom or who are citizens or residents of, or located in, countries outside the United Kingdom.
<b>Part VI Rules</b>	the rules made by the FSA in accordance with the FSMA.
<b>participant ID</b>	the identification code or membership number used in CREST to identify a particular CREST member or other CREST participant.
<b>Performance Plans</b>	the Medium-term Performance Plan and the Restricted Share Plan, as described in paragraph 13.3 of Part IX of this document.
<b>Placees</b>	placees of New Shares pursuant to the Placing.
<b>Placing</b>	the placing of New Shares with Placees as described herein.
<b>pounds sterling or £</b>	the lawful currency of the United Kingdom.
<b>PPI</b>	payment protection insurance.
<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>Profit Sharing Scheme</b>	the former arrangements for the payment of a bonus to eligible employees linked to the profits of the Group.
<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>Proposed Assets</b>	means the assets, commitments and exposures that RBS proposes to include within the APS.
<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 Employee Share Plans</b>	the Option Plans, the Employee Share Ownership Plans, the Ulster Bank Group Employee Share Incentive Scheme, The Royal Bank of Scotland Group plc Irish Profit Sharing (Share Ownership) Scheme, the Performance Plans and the Deferral Plan described in Part IX of this document.
<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.
<b>RBS plc</b>	The Royal Bank of Scotland plc.
<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>Regulation M</b>	Regulation M under the US Exchange Act.
<b>Regulatory Information Service</b>	one of the regulatory information services authorised by the UK Listing Authority to receive, process and disseminate regulatory information in respect of listed companies.
<b>Remuneration Committee</b>	the remuneration committee established by the Board.
<b>Resolution 1</b>	the ordinary resolution to be proposed at the General Meeting, notice of which is set out in the Circular, 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 the Circular, 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 the Circular, 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 the Circular, 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 Minority Interests</b>	those activities of ABN AMRO that are attributable to other consortium members.
<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>Rights Issue</b>	the issue by way of rights of 6,123,010,462 Ordinary Shares at 200 pence per share as described in the prospectus dated 30 April 2008.

<b>Santander</b>	Banco Santander, S.A.
<b>SDRT</b>	stamp duty reserve tax.
<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>SEC or US Securities and Exchange Commission</b>	the United States government agency having primary responsibility for enforcing the federal securities laws and regulating the securities industry/stock market.
<b>Shareholder or 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 this document.
<b>SMEs</b>	small and medium sized entities.
<b>Special Resolution Regime</b>	the regime granting powers to HM Treasury, the Bank of England and the FSA pursuant to the Banking Act.
<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>S&amp;P</b>	Standard & Poor's.
<b>Transaction</b>	the Placing and Open Offer and the Preference Share Redemption taken together.
<b>UBS or UBS Investment Bank or UBS Limited</b>	UBS Limited of 1 Finsbury Avenue, London EC2M 2PP.
<b>UK Financial Investments or UKFI</b>	UK Financial Investments Limited, a company wholly-owned by the UK Government.
<b>UK Listing Authority or 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 or 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 or UK</b>	the United Kingdom of Great Britain and Northern Ireland.
<b>United States or 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.

**US Holder**

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.

**US Securities Act**

the United States Securities Act of 1933, as amended.

**USE Instruction**

has the meaning given in the CREST Manual.

