



Royal Bank of Scotland Group PLC - Publication of Prospectus

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16 March 2009

Publication of Circular and Prospectus

Further to the announcement on 19 January 2009 regarding the Placing and Open Offer of approximately £5 billion of new ordinary shares (fully underwritten by HM Treasury ("HMT")) in order to raise funds for the redemption of the £5 billion of preference shares held by HMT (the "Preference Shares"), RBS announces that the UK Listing Authority has approved both the prospectus for the new ordinary shares to be issued (the "Prospectus"), and a circular to shareholders (the "Circular"), both dated 16 March 2009.

The Circular and notice convening a General Meeting on 3 April 2009 (the "Notice") have been posted to shareholders. The General Meeting is being held to seek approval for four resolutions: (i) to increase RBS's authorised share capital and to grant the Directors authority to allot shares in connection with the Placing and Open Offer, (ii) to approve the Placing and Open Offer and the Preference Share Redemption as a related party transaction, (iii) to approve amendments to the Articles of Association required in connection with the Preference Share Redemption; and (iv) to grant the Directors authority to allot the new ordinary shares on a non-pre emptive basis.

Under the Placing and Open Offer, shareholders of RBS on the register at close of business on 12 March 2009 will be invited to apply for ordinary shares pro rata to their existing holdings on the basis of 3 new ordinary shares for every 7 existing shares at a price of 31.75p per new ordinary share. However, RBS ordinary shares will continue to trade on the London Stock Exchange and Euronext Amsterdam with the right to participate in the Offer attached until they are marked ex-rights at 8.00 a.m. on 17 March 2009. Shareholders who were not on the register by close of business on 12 March 2009, but who purchased RBS ordinary shares prior to them being marked ex-rights, will be able to claim their right to participate in the Open Offer via the normal market claims process. Shareholders will also be able to apply for additional shares (the "Excess Application Facility") provided that if the aggregate number of new ordinary shares applied for exceeds the number of new ordinary shares available, applications under the Excess Application Facility will be scaled back pro rata to the number of new ordinary shares applied for under the Excess Application Facility. Any shares not taken up by existing shareholders or otherwise placed will be acquired by HM Treasury.

Further information

Further details regarding the principal terms of the Placing and Open Offer are set out in Appendix II to this announcement.

In this announcement, all capitalised terms not defined herein shall have the meanings attributed to them in the Prospectus dated 16 March 2009. The Prospectus, Circular and Notice are available on the RBS website (<http://www.rbs.com/shareholder>) and are available for inspection during normal London business hours at the UK Listing Authority's Document Viewing Facility, situated at:

Financial Services Authority

25 The North Colonnade

Canary Wharf

London E14 5HS

Merrill Lynch International ("Merrill Lynch") and UBS Limited ("UBS") are acting as joint financial advisers to RBS and are joint sponsors of the Placing and Open Offer. Merrill Lynch, UBS and RBS Hoare Govett Limited ("RBS Hoare Govett") are acting as joint brokers to RBS and joint bookrunners of the Placing and Open Offer.

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Appendices

I Letter from the Chairman

II Principal Terms of the Placing and Offer, Preference Share Redemption, Dividends and dividend policy on the Ordinary Shares and No Significant Change

III Expected Timetable of Principal Events

Summary Expected Timetable of Principal Events

Further details are contained in Appendix III to this announcement.

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| Ex-Entitlement Date for the Open Offer | 2009 8.00 a.m. on 17 March |
| Latest time and date for receipt of General Meeting forms of proxy | 2.00 p.m. on 1 April |
| General Meeting | 2.00 p.m. on 3 April (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 receipt of completed Application Forms and payment in full under the Open Offer and settlement of relevant CREST instructions (as appropriate) | 11.00 a.m. on 6 April |
| Expected date of announcement of results of the Open Offer | 7 April |
| Admission and commencement of dealings in New Shares on the London Stock Exchange | 8.00 a.m. on 14 April |

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

Despatch of definitive share certificates for the New Shares in certificated form on or around 17 April

Merrill Lynch International, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting exclusively for RBS and for no-one else in relation to the Placing and Open Offer and the listing of the New Shares to be issued pursuant to the Placing and Open Offer on the Official List and their admission to trading on the London Stock Exchange's market for listed securities and will not regard any other person as a client in relation to the above and will not be responsible to anyone other than RBS for providing the protections afforded to clients of Merrill Lynch International or for providing advice in connection with the proposed Placing and Open Offer, the proposed listing or admission to trading or the contents of this document or any other matters referred to in this document.

UBS Limited is acting exclusively for RBS and for no-one else in relation to the Placing and Open Offer and the listing of the New Shares to be issued pursuant to the Placing and Open Offer on the Official List and their admission to trading on the London Stock Exchange's market for listed securities and will not regard any other person as a client in relation to the above and will not be responsible to anyone other than RBS for providing the protections afforded to clients of UBS Limited or for providing advice in connection with the proposed Placing and Open Offer, the proposed listing or admission to trading or the contents of this document or any other matters referred to in this document.

RBS Hoare Govett Limited is acting exclusively for RBS and for no-one else in relation to the Placing and Open Offer and the listing of the New Shares to be issued pursuant to the Placing and Open Offer on the Official List and their admission to trading on the London Stock Exchange's market for listed securities and will not regard any other person as a client in relation to the above and will not be responsible to anyone other than RBS for providing the protections afforded to clients of RBS Hoare Govett Limited or for providing advice in connection with the proposed Placing and Open Offer, the proposed listing or admission to trading or the contents of this document or any other matters referred to in this document.

A copy of the Prospectus is available from the registered office of The Royal Bank of Scotland Group plc at 36 St Andrew Square, Edinburgh, EH2 2YB and from its head office at Gogarburn, PO Box 1000, Edinburgh, EH12 1HQ. The Prospectus will be also available for inspection during usual business hours on any weekday (Saturdays, Sundays and bank holidays excepted) from the date of its publication until Admission at the offices of Linklaters LLP, One Silk Street, London, EC2Y 8HQ.

This document is not a Prospectus but an advertisement and investors should not subscribe for any securities referred to in this document (the "Securities") except on the basis of the information contained in the Prospectus.

This document does not constitute an offer to sell, or a solicitation of an offer to subscribe for, Securities in any jurisdiction.

This document is not for distribution, directly or indirectly, in or into the United States (including its territories and dependencies, any state of the United States and the District of Columbia), Canada, Australia, Japan or South Africa. This document does not constitute or form a part of any offer or solicitation to purchase or subscribe for securities in the United States. The Securities have not been, and will not be, registered under the United States Securities Act of 1933 (the "Securities Act").

The Securities may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act. There will be no public offer of the Securities in the United States. In addition, subject to certain limited exceptions, holders of American depository shares representing ordinary shares will not be entitled to participate in the Placing and Open Offer.

Neither the content of RBS's website nor any website accessible by hyperlinks on RBS's website is incorporated in, or forms

part of, this document.

The distribution of this document and/or the Prospectus and/or the Application Forms and/or the transfer or offering of New Shares into jurisdictions other than the United Kingdom may be restricted by law. Persons into whose possession this document comes 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.

This document has been prepared for the purposes of complying with applicable law and regulation in the United Kingdom and the information disclosed may not be the same as that which would have been disclosed if this announcement had been prepared in accordance with the laws and regulations of any jurisdiction outside of the United Kingdom.

Certain statements made in this document constitute forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. Forward looking statements can be identified by the use of words such as "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "plan", "seek", "continue" or similar expressions and relate to, among other things, risks concerning borrower credit quality, the performance of RBS's various business units in the near to medium term, the amount by which RBS expects to write down the value of certain of its assets, RBS's expectations in respect of the securities offering, its capital ratios and its dividend payout ratio, RBS's business strategy and its plans and objectives for future operations. Such statements are based on current expectations and, by their nature, are subject to a number of risks and uncertainties that could cause actual results and performance to differ materially from any expected future results or performance, expressed or implied, by the forward-looking statement. Factors that might cause forward-looking statements to differ materially from actual results, include but are not limited to: 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 forward-looking statements speak only as of the date of this announcement. The information and opinions contained in this announcement are subject to change without notice and, subject to compliance with applicable law, RBS assumes no responsibility or obligation to update publicly or review any of the forward-looking statements contained herein.

Appendix I

The following information is contained in the Circular.

LETTER FROM THE CHAIRMAN OF RBS

16 March 2009

Dear Shareholder,

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

Introduction

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

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

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

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

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

Background to the Placing and Open Offer

In the last few weeks of 2008 the continuing dislocation in financial markets and significant uncertainties in credit conditions, together with the sharp deterioration in economic conditions, negatively impacted the trading performance of many financial institutions globally, including RBS. As a result, RBS has incurred significant credit impairment losses and credit-market write-downs, the details of which are provided on pages 122-143 of the Annual Report and Accounts. The prospects for financial markets and for the economies in which RBS operates remain uncertain. In view of the above, the Board, in conjunction with HM Treasury, has decided to take steps to improve the quality of the Group's capital base by using the proceeds of the Placing and Open Offer to redeem the Preference Shares held by HM Treasury. Qualifying Shareholders will be able to apply to subscribe for £5.37 billion of New Shares pro rata to their existing shareholdings at a fixed price of 31.75 pence per share by way of the Open Offer. This represents an 8.5 per cent. discount to the closing price on 16 January 2009. These New Shares will be offered to Qualifying Shareholders and, pursuant to the Placing, new investors on the same basis as the offer in December 2008. If no New Shares are taken up under the Open Offer or placed in the Placing, following the subscription by HM Treasury pursuant to its underwriting commitment, HM Treasury will hold 39,763,515,203 Ordinary Shares, representing 70.5 per cent. of the enlarged issued share capital of the Company immediately following completion of the Placing and Open Offer.

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

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

By participating in the APS, the Group will be able to free up its lending capacity. Consequently, the Group announced on 26 February 2009 that it would increase its lending to UK homeowners and businesses subject to the Group's ordinary course credit and pricing criteria on the Group's normal contractual terms by £25 billion over the next 12 months. The increased lending will be split £9 billion to mortgage lending and the remaining £16 billion to business lending. Similar levels of lending have been committed to in 2010. This latest commitment supersedes the lending commitments the Group announced in October 2008 and in January 2009 and builds on NatWest's and RBS plc's recently announced pledge to continue to provide committed overdrafts and no increased pricing for small business customers until at least the end of 2009. These lending commitments will cease if RBS does not participate in the APS and Credit Guarantee Scheme by 1 June 2009 or will reduce if it participates in only one of the APS or Credit Guarantee Scheme prior to 1 June 2009. Further details of these lending commitments are outlined in paragraph 18.13 of Part IX of the Prospectus.

RBS governance, management and strategic change

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

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

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

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

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

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

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 in the Circular).

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 the Circular. 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 in the Circular.

Further information

I refer you to:

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

Importance of the Resolutions

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

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

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

Directors' recommendation

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

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

Yours sincerely,

Philip Hampton

Chairman Appendix II

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:

- the passing, without amendment, of the Resolutions that are to be put to RBS Shareholders at the General Meeting;
- 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
- the Second Placing and Open Offer Agreement having become unconditional in all respects save for the condition relating to Admission.

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

The New Shares, when issued and fully paid, will rank pari passu in all respects with the Existing Shares including the right to receive dividends or distributions made, paid or declared after Admission. Application will be made to the UK Listing Authority and to the London Stock Exchange for the New Shares to be admitted to the Official List and to trading on the London Stock Exchange and to Euronext for the New Shares to be admitted to listing and trading on Euronext Amsterdam. It is expected that Admission will occur and that dealings in the New Shares on the London Stock Exchange will commence at 8.00 a.m. on 14 April 2009. It is also expected that dealings in the New Shares on Euronext Amsterdam will commence at 9.00 a.m. (CET) on 14 April 2009.

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

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

Some questions and answers, together with details of further terms and conditions of the Placing and Open Offer including the procedure for application and payment, are set out in Parts II and III of the Prospectus and, for Qualifying Non-CREST Shareholders, will also be set out in the Application Form and the Shareholder Guide. The Prospectus and the Shareholder Guide are available on the RBS website (<http://www.rbs.com/shareholder>) and from the Registrar at the contact details below:

Computershare Investor Services PLC

Corporate Actions 1, The Pavilions

Bridgwater Road, Bristol BS99 6AF

Tel: +44 (0) 870 702 0135

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 the Appendix to this letter in the Circular.

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. No Significant Change statement

As outlined in the Letter from the Chairman and the Prospectus, 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).

Appendix III

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

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

Record Date for entitlement under the Open Offer for Qualifying

2009
close of business on 12 March

| | |
|--|---|
| CREST Shareholders and Qualifying Non-CREST Shareholders | |
| Record Date for entitlement under the Open Offer for Qualifying Euroclear Shareholders | close of business on 16 March |
| Ex-Entitlement Date for the Open Offer | 8.00 a.m. on 17 March |
| 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 |
| Recommended latest time for requesting withdrawal of Open Offer Entitlements from CREST | 4.30 p.m. on 27 March |
| Latest time and date for depositing Open Offer Entitlements into CREST | 3.00 p.m. on 31 March |
| Latest time and date for receipt of General Meeting forms of proxy | 2.00 p.m. on 1 April |
| Latest time and date for splitting Application Forms (to satisfy bona fide market claims only) | 3.00 p.m. on 2 April |
| General Meeting | 2.00 p.m. on 3 April (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 |
| 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) | 11.00 a.m. on 6 April |
| Expected date of announcement of results of the Open Offer | 7 April |
| Admission and commencement of dealings in New Shares on the London Stock Exchange | 8.00 a.m. on 14 April |
| Commencement of dealings in New Shares on Euronext Amsterdam | 9.00 a.m. (CET) on 14 April |
| 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 |
| Despatch of definitive share certificates for the New Shares in certificated form | on or around 17 April |

END