

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 10 November 2008, 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 10 November 2008, 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 1 December 2008. It is expected that dealings in the New Shares on Euronext Amsterdam will commence at 9.00 a.m. (CET) on 1 December 2008.



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 22,909,776,276 New Shares at 65.5 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 33 to 48 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 15 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 25 November 2008. 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 24 November 2008. 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.

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 presentes 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.

TABLE OF CONTENTS

	<u>Page</u>
SUMMARY	6
PLACING AND OPEN OFFER STATISTICS	13
EXPECTED TIMETABLE OF PRINCIPAL EVENTS	14
RISK FACTORS	15
IMPORTANT INFORMATION	26
DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS	31
PART I LETTER FROM THE CHAIRMAN OF RBS	33
PART II SOME QUESTIONS AND ANSWERS ABOUT THE PLACING AND OPEN OFFER	49
PART III TERMS AND CONDITIONS OF THE OPEN OFFER	56
PART IV INFORMATION ON RBS	84
PART V OVERVIEW OF BUSINESS PERFORMANCE AND OPERATING AND FINANCIAL REVIEW OF RBS	87
PART VI FINANCIAL INFORMATION ON RBS	91
PART VII OPERATING AND FINANCIAL REVIEW OF ABN AMRO	92
PART VIII FINANCIAL INFORMATION ON ABN AMRO	93
PART IX UNAUDITED PRO FORMA FINANCIAL INFORMATION	94
PART X TAXATION	106
PART XI ADDITIONAL INFORMATION	112
PART XII DOCUMENTATION INCORPORATED BY REFERENCE	161
PART XIII DEFINITIONS	165

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

Earlier this year, the Board concluded that the Group needed to strengthen its capital base and, to accomplish this, it conducted a £12 billion rights issue which completed in June 2008. At the same time the Group announced higher target capital ratios. The Group reported good progress against those targets in its interim results. However, within a matter of weeks, another severe deterioration in financial market conditions prompted a re-appraisal of capital ratios in the banking sector in Europe and the United States, and an expectation by market participants and governments that these should be strengthened further.

What began as a sub-prime mortgage crisis in the United States last year has evolved into a global financial crisis which, by September 2008, reached the point where confidence in the financial system itself was being called into question. As the Bank of England reported in its October 2008 Financial Stability Report, governments and central banks around the world have responded with large scale interventions. In total, approximately £4.5 trillion has been allocated to support the global financial system, including £395 billion being used to support the recapitalisation of banks.

HM Treasury and the Bank of England have announced a comprehensive scheme to support bank funding and capital. The Board has decided that it is necessary for RBS to take the opportunity this provides to strengthen significantly the Group's capital position. In connection with HM Treasury agreeing to underwrite the Placing and Open Offer, HM Treasury has stated that it intends to respect the commercial decisions of RBS and that RBS will continue to have its own independent Board and management team, determining its own strategy. In addition, it is the intention of the Board that the UK Government's holding of Preference Shares will be repurchased in full as soon as it is prudent to do so and HM Treasury has indicated its encouragement that the Preference Shares be repurchased as soon as practicable. This 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).

Just as important as the Group's capital position are the UK Government's continuing efforts to support liquidity and funding markets. With the benefit of these actions, the Group is committed to continuing to support its customers in these testing times. While the lending that the Group undertakes must be both responsible and economic, the UK Government's measures improve our ability to continue this support.

2 Current trading and prospects

The Group's total income for the first nine months of the year, before credit market write-downs and movements in the fair value of own debt, held stable at the levels recorded in the same period in 2007. Costs were held flat while insurance claims declined, resulting in profit before impairment losses in the nine month period growing by 7 per cent.

Credit metrics show a deteriorating trend across all divisions. Non-performing and potential problem loans at 30 September 2008 represented 1.72 per cent. of loans and advances, compared with 1.47 per cent. at 30 June 2008. The annualised impairment charge in the nine months to 30 September 2008 represented 0.51 per cent. of loans and advances, compared with 0.46 per cent. in the first six months of 2008.

Consequently, operating profit, before credit market write-downs and gains on the fair value of own debt, was 8 per cent. lower in the first nine months of 2008 than in the same period in 2007.

Credit market write-downs of £206 million were charged against income in the third quarter, in addition to the £5.9 billion of write-downs recorded in the first half of 2008. Following amendments recently issued by the International Accounting Standards Board, a number of assets previously designated as held-for-trading have been reclassified. These reclassifications have had the effect of increasing operating profit by a net £1.2 billion in the third quarter. However, of this amount, £682 million was charged to equity through available-for-sale reserves.

Although loan growth slowed across a number of segments, RBS's risk-weighted assets increased to £543.1 billion at 30 September 2008, compared with £491.7 billion at 30 June 2008, principally as a result of foreign exchange movements and the expiry of a number of risk-mitigating transactions within GBM. As a result, RBS's core Tier 1 ratio at 30 September 2008 was 5.2 per cent. and its Tier 1 ratio was 7.9 per cent., on a proportional consolidated basis, compared with 5.7 per cent. and 8.6 per cent., respectively, at 30 June 2008, on the same basis.

Had the recommended capital raising been completed on 30 September 2008, it would have had the effect of increasing the Group's 30 September 2008 core Tier 1 capital ratio to 7.9 per cent. and its Tier 1 ratio to 11.6 per cent. each on a proportional consolidated basis. Actual capital ratios at 31 December 2008 will, however, depend on a number of other factors, including earnings retentions, movements in risk-weighted assets, further possible credit market write-downs and disposals.

RBS has continued to make good progress with the integration of the ABN AMRO businesses it acquired, with both cost savings and revenue synergies achieved in the first nine months of 2008 well ahead of budget.

3 Principal terms of the Placing and Open Offer

Under the Open Offer, RBS invites Qualifying Shareholders to apply to acquire 22,909,776,276 New Shares at the Issue Price of 65.5 pence per New Share, raising approximately £15 billion (approximately £14.7 billion net of expenses). Under the Placing, which may or may not take place, each of Merrill Lynch International, UBS and RBS Hoare Govett will 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, subject to the passing of both 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 Placing and Open Offer Agreement, HM Treasury will itself acquire such New Shares at the Issue Price.

The Issue Price of 65.5 pence per New Share represents an 8.6 per cent. discount to the closing price for an Ordinary Share on 10 October 2008, 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:

18 New Shares for every 13 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 22,909,776,276, 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 22,909,776,276 New Shares being issued (representing approximately 138 per cent. of the existing issued share capital and 58 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 acquire the New Shares are conditional, *inter alia*, upon:

- (i) the passing, without amendment, of both 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 12 December 2008 (or such later time and date as HM Treasury may agree); and
- (iii) the 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 1 December 2008. It is also expected that dealings in the New Shares on Euronext Amsterdam will commence at 9.00 a.m. (CET) on 1 December 2008.

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 25 November 2008. For Qualifying CREST Shareholders, the relevant CREST instructions must have settled by no later than 11.00 a.m. on 25 November 2008. 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 24 November 2008. 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 acquired by HM Treasury, with the proceeds being retained for the benefit of the Company.

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 Issue

Under the Preference Share Subscription Agreement, RBS intends to issue to HM Treasury five million Preference Shares at £1,000 per Preference Share, raising £5 billion. The Preference Share Issue is conditional upon the Placing and Open Offer Agreement becoming unconditional in accordance with its terms.

In respect of the period from (and including) the issue date of the Preference Shares to (but excluding) the date falling five years after such issue date, dividends on the Preference Shares will be payable

semi-annually at a rate of 12 per cent. of the liquidation preference of £1,000 per Preference Share per annum. In respect of the period from (and including) the date falling five years after such issue date, to the extent that the Preference Shares are not repurchased on or before such date, dividends will be payable quarterly at a rate, reset quarterly, of 7 per cent. per annum above three-month sterling LIBOR.

No dividend will be paid on the Ordinary Shares until the Preference Shares are no longer in issue unless otherwise agreed by HM Treasury. Accordingly, it is the Board's intention to repurchase the Preference Shares as soon as is prudent and practicable. Such repurchase would be subject to FSA approval and take account of the Group's capital position at the time of the proposed repurchase and prevailing market conditions. The Preference Shares can be repurchased using replacement Tier 1 capital, retained earnings, the proceeds of disposals (up to an amount equivalent to the core Tier 1 benefit arising from such disposals), gross reductions in risk-weighted assets or as otherwise permitted by the FSA. Repurchase within five years will also require approval of the holders of the Preference Shares. HM Treasury has indicated its encouragement that the Preference Shares be repurchased as soon as practicable, applying a repurchase price of 101 per cent. of their issue price for six months after the date of their issue and, thereafter, a price reflecting prevailing market conditions (with no value to be attributed to the fact that upon repurchase by the Company it may become able to pay dividends), in each case subject to FSA approval. HM Treasury has also indicated that upon any sale by it of some or all of the Preference Shares, it would, at its discretion, either impose on any purchaser an obligation to allow the relevant Preference Shares to be repurchased or redeemed by RBS on the same terms (subject to maintaining the Preference Shares' Tier 1 treatment) or would lift the restrictions on the payment of dividends on Ordinary Shares. The Preference Shares will also be redeemable by the Company at their issue price at its option five years after issue (subject to one month's notice to the FSA). Dividends on the other preference shares issued by the Company will continue to be payable in accordance with their terms. The restriction on payment of dividends does not preclude the declaration of a capitalisation issue paid out of non-distributable reserves.

Holders of Preference Shares will not be entitled to attend, speak or vote at any general meeting of RBS, except in certain circumstances as outlined in more detail in paragraph 2 of the Appendix to the Letter from the Chairman of RBS contained in Part I of this document.

5 Selected financial information on RBS

The data for the six-month periods ended 30 June 2008 and 2007 and the years ended 31 December 2007, 2006 and 2005 set out below have been extracted without material adjustment from, and should be read together with, RBS's unaudited interim condensed consolidated financial statements included in its Form 6-K dated 30 September 2008 and its audited consolidated financial statements included in its Annual Report and Accounts for the year ended 31 December 2007, which are incorporated by reference into this document. The per share data for 2007, 2006 and 2005 have been restated to reflect the 11-for-18 Rights Issue in June 2008.

	As of and for the six months ended 30 June		As of and for the year ended 31 December		
	2008	2007	2007	2006	2005
	<i>(millions, except per share data, percentages and ratios)</i>		<i>(millions, except per share data, percentages and ratios)</i>		
	(£)		(£)		
Key income statement data					
Income before credit market write-downs and one-off items .	18,842	14,728	31,520	28,002	25,569
Credit market write-downs and one-off items	(5,113)	(38)	(405)	—	333
Total income	13,729	14,690	31,115	28,002	25,902
Operating expenses ⁽¹⁾⁽²⁾⁽³⁾	10,571	6,396	14,435	12,480	11,946
Profit before other operating charges and impairment losses	3,158	8,294	16,680	15,522	13,956
Operating (loss)/profit before tax .	(692)	5,008	9,900	9,186	7,936
(Loss)/profit for the period/year . .	(125)	3,736	7,712	6,497	5,558
(Loss)/profit attributable to ordinary shareholders	(802)	3,555	7,303	6,202	5,392
Key balance sheet data					
Total assets	1,948,745	1,011,266	1,900,519	871,432	776,827
Owners' equity	61,637	41,544	53,038	40,227	35,435
Other key financial data					
Earnings per ordinary share (pence) ⁽⁴⁾	(6.6)	32.3	65.6	55.7	48.5
Diluted earnings per ordinary share (pence) ⁽⁴⁾⁽⁵⁾	(6.6)	32.0	65.0	55.3	48.1
Dividends per ordinary share paid (pence) ⁽⁴⁾	23.1	22.1	27.6	22.1	17.3
Tier 1 capital ratio ⁽⁶⁾⁽⁷⁾	9.1%	7.4%	7.3%	7.5%	7.6%
Total capital ratio ⁽⁶⁾	13.2%	12.5%	11.2%	11.7%	11.7%

Notes:

- (1) Includes credit market write-downs and one-off items of £31 million credit for the six months ended 30 June 2007 (31 December 2007: £338 million credit) and loss on sale of subsidiaries of £93 million for the year ended 31 December 2005.
- (2) Includes integration expenditure of £316 million for the six months ended 30 June 2008 (30 June 2007: £55 million) and £108 million for the year ended 31 December 2007 (31 December 2006: £134 million; 31 December 2005: £458 million).
- (3) Includes amortisation of purchased intangibles of £182 million for the six months ended 30 June 2008 (30 June 2007: £43 million) and £274 million for the year ended 31 December 2007 (31 December 2006: £94 million; 31 December 2005: £97 million).
- (4) Does not reflect the Company's 1-for-40 capitalisation issue on 12 September 2008 pursuant to which the Company issued 403 million Ordinary Shares.
- (5) None of the convertible preference shares had a dilutive effect for the six months ended 30 June 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 30 June 2008 are fully consolidated and were calculated on Basel II basis; prior periods were calculated on Basel I basis.
- (7) The Company's Tier 1 capital ratios at 30 September 2008 and 30 June 2008, on a proportional consolidated basis, were 7.9 per cent. and 8.6 per cent., respectively.
- (8) The income statement data for the year ended 31 December 2007 has not been restated for the reclassification of Banco Real as a discontinued operation.

6 Summary of risk factors

Shareholders should carefully consider the following key risks:

Risks related to RBS

- If the Company does not raise sufficient capital through the Placing and Open Offer and the issue of the Preference Shares (including as a result of the Resolutions not being approved 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 and Tier 1 capital ratios, there will be further limits on its ability to access funding and its business, financial condition, results of operations and share price will suffer.
- RBS's businesses, earnings and financial condition have been and will continue to be affected by the current crisis in the global financial markets and the deterioration in the global economic outlook.
- 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 liquidity schemes are subject to cancellation or change, which may have a negative impact on the availability of funding in the markets in which RBS operates.
- The actual or perceived failure or worsening credit of other financial institutions and counterparties could 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.
- The financial performance of RBS will be affected by borrower credit quality.
- 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 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 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.
- 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 could be 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.
- RBS's insurance businesses are subject to inherent risks involving claims.

- 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.
- Change of control provisions may be triggered if HM Treasury acquires control of the Group, which may lead to adverse consequences for the Group.
- RBS could fail to attract or retain senior management or other key employees.
- The restructuring proposals for ABN AMRO are complex and may not realise the anticipated benefits for RBS.
- 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.

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 places will be taken up by HM Treasury, which could therefore acquire a significant shareholding in the Group. This 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 has agreed to certain undertakings in relation to the operation of its business in the Placing and Open Offer Agreement.
- RBS's ability to pay dividends on or make other distributions in respect of the Ordinary Shares will depend on how quickly it is able to repurchase or redeem the Preference Shares and the availability of distributable reserves.
- 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.

PLACING AND OPEN OFFER STATISTICS

Issue Price per New Share	65.5 pence
Number of Ordinary Shares in issue at the date of this document	16,545,949,533
Number of New Shares to be issued by the Company pursuant to the Placing and Open Offer	22,909,776,276
Number of Ordinary Shares in issue immediately following completion of the Placing and Open Offer ⁽¹⁾	39,455,725,809
New Shares as a percentage of enlarged issued share capital of the Company immediately following completion of the Placing and Open Offer ⁽¹⁾	58%
Estimated net proceeds of the Placing and Open Offer receivable by the Company after expenses	£14.7 billion
Estimated expenses of the Placing and Open Offer (inclusive of VAT)	£265 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.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

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

	2008
Record Date for entitlement under the Open Offer for Qualifying CREST Shareholders and Qualifying Non-CREST Shareholders	close of business on 31 October 2008
Record Date for entitlement under the Open Offer for Qualifying Euroclear Shareholders	close of business on 7 November 2008
Ex-Entitlement Date for the Open Offer	8.00 a.m. on 10 November 2008
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 10 November 2008
Latest time and date for receipt of General Meeting forms of proxy	3.00 p.m. on 18 November 2008
Recommended latest time for requesting withdrawal of Open Offer Entitlements from CREST	4.30 p.m. on 18 November 2008
General Meeting	3.00 p.m. on 20 November 2008
Latest time and date for depositing Open Offer Entitlements into CREST	3.00 p.m. on 20 November 2008
Latest time and date for splitting Application Forms (to satisfy bona fide market claims only)	3.00 p.m. on 21 November 2008
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 24 November 2008
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 25 November 2008
Expected date of announcement of results of the Open Offer	28 November 2008
Admission and commencement of dealings in New Shares on the London Stock Exchange	8.00 a.m. on 1 December 2008
Commencement of dealings in New Shares on Euronext Amsterdam	9.00 a.m. (CET) on 1 December 2008
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 1 December 2008
Despatch of definitive share certificates for the New Shares in certificated form	on or around 5 December 2008

General notes:

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

If Qualifying Euroclear Shareholders have any queries in relation to the procedure for application and payment, they should contact their Admitted Institution or alternatively ABN AMRO Bank on +31 20 383 6707 between 9.00 a.m. and 5.00 p.m. (CET) on any Amsterdam business day. If Qualifying CREST Shareholders or Qualifying Non-CREST Shareholders have any queries regarding the procedure for acceptance and payment, they should contact the Shareholder Helpline on 0870 702 0135, if calling from the United Kingdom, or +44 870 702 0135, if calling from overseas, between 9.00 a.m. and 5.00 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.

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

If the Company does not raise sufficient capital through the Placing and Open Offer and the issue of the Preference Shares (including as a result of the Resolutions not being approved or the 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 and Tier 1 capital ratios, there will be further limits on its ability to access funding and its business, financial condition, results of operations and share price will suffer.

The Placing and Open Offer is expected to enhance significantly the Group's financial flexibility in the face of continuing turbulence and uncertainty in the financial markets. If the Resolutions are not approved by Shareholders and/or the Company is unable to raise sufficient capital through the Placing and Open Offer (including as a result of the termination of the underwriting commitment of HM Treasury) and the issue of the Preference Shares, the Group will need to assess its strategic and operational position and will be required to find alternative methods for achieving requisite capital ratios. Such methods could include a cessation of dividends, an accelerated reduction in risk-weighted assets, disposal of certain businesses, increased issuance of Tier 1 securities, 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 capital ratios to the desired or requisite levels or on the timetable currently envisaged. If the Company is unable to raise sufficient capital through the Placing and Open Offer and the issuance of the Preference Shares and increase its capital ratios sufficiently, its business, results of operations and financial condition will suffer, its credit ratings may drop, its ability to access funding will be further limited, its cost of funding may increase and it may face government intervention. The occurrence of any or all such events may cause its share price to decline substantially with negative implications for Shareholders.

RBS's businesses, earnings and financial condition have been and will continue to be affected by the current crisis in the global financial markets and the deterioration in the global economic outlook.

The performance of RBS is influenced by the economic conditions of the countries in which it operates, particularly the United Kingdom, the United States and countries throughout Europe and Asia. The global financial system has been experiencing difficulties since August 2007 and the financial markets have deteriorated dramatically since the bankruptcy filing by Lehman Brothers in September 2008. This has led to severe 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 commercial banks, investment banks and insurance companies, many of whom are RBS's counterparties in the ordinary course of its business. In response to market instability and illiquidity, 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, and to stabilise, financial markets, and, in some cases, to prevent the failure of these financial institutions.

Despite such measures, the volatility and disruption of the capital and credit markets have continued at unprecedented levels. In addition, recessionary conditions are present in the United Kingdom and the United States, as well as in other countries where RBS operates. In recent weeks, there has been growing concern in financial markets about a global recession. These conditions have produced downward pressure on stock prices and on availability of credit for financial institutions, including RBS,

and other corporations. If these levels of market disruption and volatility continue, worsen or abate and then recur, RBS will 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.

RBS is exposed to increased counterparty risk as a result of recent financial institution failures and nationalisations and will continue to be exposed to the risk of loss if counterparty financial institutions or other corporate borrowers fail or are otherwise unable to meet their obligations. Furthermore, RBS's performance may 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. Moreover, even if the current market disruption and volatility abates, a global recession or a recession in one or more countries significant to RBS's business will further adversely affect RBS's earnings and financial condition. The precise nature of all the risks and uncertainties RBS faces as a result of the current global financial crisis and global economic outlook cannot be predicted and many of these risks are outside RBS's control.

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 source more 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 and competitive pressures 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 less liquid 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, at a competitive disadvantage to the other local banks and therefore may require RBS to provide additional funding and liquidity support to these operations.

HM Treasury announced a package of measures on 8 October 2008, as further detailed in paragraph 3 of Part V of this document, to help support stability in the UK financial system, including a commitment to provide liquidity and capital and guarantee certain bank obligations. Assuming completion of the capital

raising, there will be an increase in the Group's capital base due to the net proceeds of sale from the purchase of Preference Shares and New Shares. In addition, liquidity measures of up to £450 billion have been announced by the UK Government and the Bank of England to support the UK banking system. However, 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 the increased cost of any funding currently available in the market, will not lead to a further increase in RBS's overall cost of funding, and thereby reduce profitability.

Governmental liquidity schemes are subject to cancellation or change, which may have a negative impact on the availability of funding in the markets in which RBS operates.

Governmental liquidity schemes are subject to cancellation or change, 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 liquidity schemes are cancelled or changed in a manner which diminishes their effectiveness, or to the extent such schemes fail to generate additional liquidity in the relevant markets in which such schemes operate, RBS, in common with other banks, may continue to face limited access to, or higher costs associated with, funding alternatives, which could have a material adverse impact on RBS's financial condition and results of operations.

The actual or perceived failure or worsening credit of other financial institutions and counterparties could adversely affect RBS.

RBS's ability to engage in routine funding transactions has been and may continue to be adversely affected by the actual or perceived failure or worsening credit of other financial institutions. Financial services institutions are inter-related as a result of trading, clearing, counterparty and other relationships. 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 questions about, one or more 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.

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 significant write-downs on its credit market exposures in 2007 and during the nine-month period ended 30 September 2008. RBS expects that the deterioration in economic and financial market conditions will lead to a rise in impairment charges and further write-downs during the remainder of 2008. Moreover, recent market volatility and illiquidity has made it difficult to value certain of RBS's exposures. Valuations in future periods, reflecting then-prevailing market conditions, 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 write-downs or realise impairment charges, any of which may adversely affect its financial condition and results of operations.

For further information about the write-downs which RBS has incurred and the assets it has reclassified during the nine-month period ended 30 September 2008, see paragraph 8 of the Appendix to the Letter from the Chairman of RBS contained in Part I of this document.

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. In 2007 and 2008, monoline and other insurers and other market counterparties (including credit derivative product companies) have been adversely affected by their exposure to residential mortgage-linked products and their actual and perceived credit-worthiness has deteriorated significantly in 2008. 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.

The financial performance of RBS 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 in 2008 and 2009 has significantly deteriorated in recent months, including an expectation of continued deterioration of the UK, US 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 and defaults across a range of sectors. Ultimately, this trend will lead to higher impairment charges, higher costs, additional write-downs and lower profitability for RBS.

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 and liabilities denominated in foreign currencies and the reported earnings of RBS’s non-UK subsidiaries (principally ABN AMRO, Citizens, RBS Greenwich Capital and Ulster Bank) 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.

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

In June 2008, Moody’s cut the long-term ratings of RBS to Aa2 from Aa1 and on 14 October 2008, the agency affirmed the senior debt and depositor rating of Aa1 and the Bank Financial Strength Rating of B for RBS plc. On 6 October 2008, Standard & Poor’s cut RBS’s long-term credit rating to A+ from AA – , and on 13 October 2008, the agency moved the short and long term outlook for RBS to “stable” (from negative) following the announcement of the Placing and Open Offer and Preference Share Issue, which the agency viewed as a “material strengthening of RBS’s financial profile”. On 17 October 2008, Fitch cut RBS’s long-term credit rating for senior unsecured debt to AA – from AA. While all three credit

agencies have announced that RBS's credit ratings are now stable, 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.

RBS's business performance could be 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 purpose of the Placing and Open Offer and the issue of the Preference Shares is to allow the Company to strengthen its capital position. Had the Placing and Open Offer and the issue of the Preference Shares completed on 30 September, the receipt of the net proceeds would have had the effect of increasing the Group's 30 September 2008 core Tier 1 capital ratio to 7.9 per cent. and its Tier 1 ratio to 11.6 per cent. each on a proportional consolidated basis. Although the net proceeds of the Placing and Open Offer and the Preference Share issuance are expected to strengthen its capital base significantly, any change that limits its ability effectively to manage its balance sheet and capital resources (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.

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 124-139 of the RBS Annual Report and Accounts for 2007, 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 over the past several months. 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 profitability and financial condition.

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. Although RBS believes its businesses are well suited to compete effectively in such an environment, it may 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.

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.

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;
- expropriation, nationalisation, confiscation of assets and 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 could be 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. The Group considers that current market conditions and the deteriorating economic outlook in the United Kingdom, the United States and Europe in particular are likely to reduce the recoverable amount of the Group's cash generating units. In accordance with the Group's accounting policy, the Group will test its goodwill for impairment at 30 September 2008. This could result in the recognition of impairment losses which could be significant, and which would be recorded in the Group's income statement included in its 2008 financial statements. Such losses would have no effect on the Group's regulatory capital position.

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 results of operations.

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

The Group operates in a legal and regulatory environment that exposes it to potentially significant litigation and regulatory risks. As a result, the Group is involved in various disputes and legal proceedings in the United Kingdom, the United States and other jurisdictions, including litigation and regulatory investigations. These disputes and legal proceedings 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.

Currently, the Group is responding to regulatory inquiries and investigations and is involved in litigation arising from its operations. For details about certain litigation and regulatory investigations in which RBS is involved, see paragraphs 16 and 17 of Part XI 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. Operational losses can result from fraud, errors by employees, errors by third-party contractors, failure to document transactions properly or to obtain proper authorisation, failure to comply with regulatory requirements and conduct of business rules, equipment failures, natural disasters or the failure of external 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 and to staff training, it is not possible to be certain that such procedures will be effective in controlling each of the operational risks faced by RBS. Any weakness in these systems could have a negative impact on the Group's results and its market reputation. 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.

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 future earnings and financial condition in part depend on the success of the Group's strategic refocus on core strengths and its disposal programme.

The Group is undertaking a strategic review of its operations in light of the recently changed global economic outlook, which is expected to focus 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 review its portfolio to identify further disposals of certain non-core assets. Although the Group expects the proceeds of the Placing and Open Offer to increase the Group's capital ratios, allowing the Group to accelerate its de-leveraging, 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, financial condition, results of operations and future prospects may be negatively impacted.

Change of control provisions may be triggered if HM Treasury acquires control of the Group, which may lead to adverse consequences for the Group.

RBS and its subsidiaries are parties to joint ventures, alliances and other agreements containing change of control provisions that will be triggered if HM Treasury acquires control of the Group and the counterparty rights under such provisions are not waived. Agreements with change of control provisions typically provide for, or permit the termination of the agreement upon, the occurrence of a change of control of one of the parties. The operation of change of control provisions could also result in the loss of contractual rights and benefits, as well as the termination of joint venture agreements and other agreements, which, in aggregate, could have a material impact on the Group's results of operations.

The acquisition by HM Treasury of control of the Group will likely trigger the need for filings with and approval from regulators, and there may be risks associated with applicable restrictions imposed by such regulators and any delays associated with obtaining required approvals.

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 and retain highly skilled and qualified personnel, which cannot be guaranteed, particularly in light of heightened regulatory oversight of banks and heightened scrutiny of management compensation arrangements. Furthermore, 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 appropriate 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.

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 Banks 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. It is not expected that the State of the Netherlands' acquisition of Fortis Bank Nederland, including its interest in RFS Holdings, will materially affect the integration benefits envisaged by the Group.

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 industry, such as money laundering or misselling of financial products. 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. 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.

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 incur additional costs and liabilities, which may negatively impact its financial condition and results of operations.

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. Additionally, RBS has a presence in emerging market 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 affect upon RBS' business.

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 could therefore acquire a significant shareholding in the Group. This may lead to adverse tax consequences for RBS. HM Treasury may take actions that are not in the interests of minority shareholders.

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 acquired by existing Shareholders and placees will be taken up by HM Treasury, provided that certain conditions in the Placing and Open Offer Agreement are satisfied or waived. Consequently, HM Treasury could acquire a significant minority or a majority shareholding in the Group. 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 acquires a significant minority or a majority 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 may have the ability to prevent or cause a change in control and could take other actions that may not be favourable to minority shareholders. Furthermore, the acquisition of a significant shareholding in RBS by HM Treasury could, in certain circumstances, have adverse tax consequences, which could affect the post-tax profitability of the Group, in particular if HM Treasury (alone, or together with any other shareholders with a stake of 5 per cent. or more in RBS) acquires a controlling shareholding.

RBS's share price may fluctuate.

The market price of the Ordinary Shares could be subject to significant fluctuations due to a change in sentiment in the market regarding the Ordinary Shares. The 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. Stock markets have recently experienced significant price and volume fluctuations that have affected the market prices for the Group's securities. The Group's securities may also experience further fluctuations when the FSA's current ban on short selling expires. Furthermore, the operating results and prospects from time to time may be below the expectations of market analysts and investors. Any of these events could result in a decline in the market price of the Ordinary Shares.

RBS has agreed to certain undertakings in relation to the operation of its business in the Placing and Open Offer Agreement.

Under the terms of the Placing and Open Offer Agreement, RBS has provided certain undertakings aimed at ensuring that the potential acquisition by HM Treasury of New Shares and Preference 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 is compatible with the common market under EU law, which aims to prevent companies from being given an artificial or unfair competitive advantage as a result of governmental assistance. These undertakings are also aimed at supporting certain objectives of HM Treasury in providing assistance to the UK banking industry. These undertakings, which are consistent with the Group's existing focus in its relevant lines of business, 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. While the Board does not currently believe that these undertakings will have a material effect on the Group, it is possible that, for so long as they are in effect, they could in future impose some limitation on the operations of the Group. For a description of these undertakings, see paragraph 18.7 of Part XI of this document.

RBS's ability to pay dividends on or make other distributions in respect of the Ordinary Shares will depend on how quickly it is able to repurchase or redeem the Preference Shares and the availability of distributable reserves.

RBS has agreed that it will 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 repurchase the Preference Shares as soon as possible, the time frame is uncertain and is subject to the agreement of HM Treasury. The Company may redeem the Preference Shares any time from five years after the date of their issue at its sole discretion.

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.

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 2005	1.820	1.721
Year ended 31 December 2006	1.844	1.965
Year ended 31 December 2007	2.001	2.004
June 2008	1.975 ⁽¹⁾	1.989
July 2008	1.977 ⁽¹⁾	1.981
August 2008	1.966 ⁽¹⁾	1.824
September 2008	1.948 ⁽¹⁾	1.783
October 2008	1.922 ⁽¹⁾	1.614

Note:

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

On 31 October 2008, being the last practicable date prior to the publication of this document, the US dollar : pounds sterling exchange rate was 1.618 : 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 2005	1.463	1.457
Year ended 31 December 2006	1.467	1.490
Year ended 31 December 2007	1.461	1.361
June 2008	1.291 ⁽¹⁾	1.264
July 2008	1.287 ⁽¹⁾	1.270
August 2008	1.284 ⁽¹⁾	1.240
September 2008	1.280 ⁽¹⁾	1.268
October 2008	1.279 ⁽¹⁾	1.266

Note:

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

On 31 October 2008, being the last practicable date prior to the publication of this document, the euro : pounds sterling exchange rate was 1.271 : 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 124-139 of its Annual Report and Accounts for 2007 which are incorporated by reference herein.

Amendments to IAS 39

In October 2008, the International Accounting Standards Board issued, and the European Union endorsed, amendments to IAS 39 “Financial Instruments: Recognition and Measurement” to permit the reclassification of financial assets out of the held-for-trading and available-for-sale categories subject to certain restrictions. Transfers must be made at fair value and this fair value becomes the instruments’ new cost or amortised cost. The amendments are effective from 1 July 2008. Reclassifications made before 1 November 2008 can be backdated to 1 July 2008; subsequent reclassifications will be effective from the date the reclassification is made.

The Group is reviewing its portfolios of financial assets in the light of the amendments and has initially decided to reclassify certain loans and debt securities, for which no active market existed in 2008 and which management intends to hold for the foreseeable future, out of the held-for-trading category. For further information of the effects of the amendments to IAS 39 on the Company see paragraph 8 of the Appendix to the Letter from the Chairman of RBS contained in Part I of this document.

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 State of the Netherlands through Fortis Bank Nederland and Santander. However, RFS Holdings is controlled by RBS and is therefore fully consolidated in RBS’s financial statements. Consequently, the results of the Group for the year ended 31 December 2007 include the results of ABN AMRO for the period from 17 October 2007 to 31 December 2007. ABN AMRO is fully consolidated in the results of the Group for the six months ended 30 June 2008. The interests of Fortis Bank Nederland 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 financial stability of other financial institutions, including RBS’s counterparties;
- 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;
- general economic conditions in the United Kingdom, countries in Europe and Asia in which RBS has business activities and the United States;
- 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 planned investment in RBS;
- changes in the pricing environment;
- the effects of competition and consolidation in the markets in which RBS operates;
- tax consequences of the restructuring of ABN AMRO;
- 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. 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 intend 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 XII 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 XIII 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 9.00 a.m. to 5.00 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

Sir Tom McKillop ⁽¹⁾	Chairman
Sir Fred Goodwin ⁽²⁾	Group Chief Executive
Guy Whittaker	Group Finance Director
Mark Fisher ⁽³⁾	Chairman, Managing Board, ABN AMRO
Gordon Pell	Chairman, Regional Markets
Colin Buchan ⁽⁴⁾	Non-Executive Director
Jim Currie ⁽⁴⁾	Non-Executive Director
Lawrence Fish ⁽⁵⁾	Non-Executive Director
Bill Friedrich ⁽⁴⁾	Non-Executive Director
Stephen Hester ⁽²⁾	Non-Executive Director
Archie Hunter ⁽⁴⁾	Non-Executive Director
Charles "Bud" Koch ⁽⁶⁾	Non-Executive Director
Janis Kong ⁽⁴⁾	Non-Executive Director
Joe MacHale ⁽⁴⁾	Non-Executive Director
John McFarlane ⁽⁴⁾	Non-Executive Director
Sir Steve Robson ⁽⁴⁾	Non-Executive Director
Arthur "Art" Ryan ⁽⁴⁾	Non-Executive Director
Bob Scott ⁽⁴⁾	Non-Executive Director
Peter Sutherland ⁽⁴⁾	Non-Executive Director

Notes:

- (1) Sir Tom McKillop will retire at the Group's next Annual General Meeting to be held in April 2009.
- (2) Sir Fred Goodwin will step down as Group Chief Executive and from the Board and be replaced by Stephen Hester on 21 November 2008.
- (3) Mr Fisher will step down as a Director on 21 November 2008.
- (4) Denotes Independent Non-Executive Director.
- (5) Mr Fish will retire as a Non-Executive Director on 31 December 2008.
- (6) Mr Koch will retire as a Non-Executive Director at the Group's next Annual General Meeting to be held in April 2009.

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

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Registered in Scotland No. SC45551

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Joint Bookrunner and Joint Broker**

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

UBS Limited
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London EC2M 2PP

Joint Bookrunner and Joint Broker

RBS Hoare Govett Limited
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Auditors

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Edinburgh EH1 2DB

Reporting Accountants

Deloitte & Touche 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
Saltire Court
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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.
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

4 November 2008

Dear Shareholder,

Capital raising by way of a placing and open offer of 22,909,776,276 New Shares at 65.5 pence per share

On 13 October 2008, the Board announced its intention to strengthen the Company's balance sheet by way of a placing and open offer of £15 billion in New Shares underwritten by HM Treasury and an issue to HM Treasury of £5 billion of Preference Shares. This is expected to raise total proceeds of £19.7 billion, net of expenses, and enable the Group to avail itself of new sources of liquidity and funding support introduced by HM Treasury as part of its funding and capital package.

This decision was reached by the Board with considerable regret as we recognised the impact it would have on Shareholders. However, the Board is convinced that further significant capital raising is required in order to shift the focus of the Group from capital rebuilding to capital strength, to provide confidence to our customers and investors and to give the Group the financial capability to protect and deliver the value of its established and profitable customer franchises during these unprecedented economic and market conditions.

HM Treasury has agreed, subject to certain conditions, to underwrite the Placing and Open Offer in full. This means that if the New Shares are not taken up in the Open Offer or in the Placing and the underwriting becomes unconditional in all respects, the New Shares and Preference Shares will be purchased by HM Treasury, thereby guaranteeing that the capital will be raised. RBS will be one of the best capitalised banks in Europe once we take account of this new share capital.

This letter provides you with further details ahead of the General Meeting to be held on 20 November 2008 at which we will ask for your approval of the Resolutions set out in the General Meeting Notice contained in the Circular.

Background to the Placing and Open Offer

Earlier this year, the Board concluded that the Group needed to strengthen its capital base and, to accomplish this, it conducted a £12 billion rights issue which completed in June 2008. At the same time, we announced higher target capital ratios for the Group. We reported good progress against those targets in our interim results. However, within a matter of weeks, another severe deterioration in financial market conditions prompted a re-appraisal of capital ratios in the banking sector in Europe and the United States, and an expectation by market participants and governments that these should be strengthened further.

What began as a sub-prime mortgage crisis in the United States last year has evolved into a global financial crisis which, by September 2008, reached the point where confidence in the financial system itself was being called into question. As the Bank of England reported in its October 2008 Financial Stability Report, governments and central banks around the world have responded with large scale interventions. In total, approximately £4.5 trillion has been allocated to support the global financial system, including £395 billion being used to support the recapitalisation of banks.

HM Treasury and the Bank of England have announced a comprehensive scheme to support bank funding and capital. Your Board has decided that it is necessary for RBS to take the opportunity this provides to strengthen significantly the Group's capital position. In connection with HM Treasury agreeing to underwrite the Placing and Open Offer, HM Treasury has stated that it intends to respect the commercial decisions of RBS and that RBS will continue to have its own independent Board and management team, determining its own strategy. In addition, it is the intention of the Board that the UK Government's holding of Preference Shares will be repurchased in full as soon as it is prudent to do so and HM Treasury has indicated its encouragement that the Preference Shares be repurchased as soon as practicable. This 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).

Just as important as the Group's capital position are the UK Government's continuing efforts to support liquidity and funding markets. With the benefit of these actions, the Group is committed to continuing to support its customers in these testing times. While the lending that we undertake must be both responsible and economic, the UK Government's measures improve our ability to continue this support.

RBS governance, management and strategic change

The Board has initiated changes to its own composition as well as the leadership of the Group. Amongst other changes, Stephen Hester will become Group Chief Executive on 21 November 2008, replacing Sir Fred Goodwin who will step down from that role and from the Board. I have agreed to remain in post to oversee the restructuring of the Board and will retire at the AGM in April 2009 (see paragraph 6 of the Appendix to this letter for further details regarding these changes).

Significant change in the global economy and our operating environment has affected our businesses to varying degrees and we must respond. Stephen will lead a strategic review of the Group. Its aim will be to focus the Group on those businesses that have a clear competitive advantage and to reduce risk and balance sheet exposures not contributing to that goal. RBS intends to remain a globally significant bank with a focused range of powerful customer-driven franchises in retail and wholesale businesses. The Group will pursue profitable growth opportunities within a disciplined risk framework, conservative capital and funding ratios and a business mix balanced more towards our stable customer businesses.

Trading performance and outlook

An update on the trading performance of the Group for the third quarter of 2008 is provided in paragraph 7 of the Appendix to this letter. In the first nine months of 2008, the Group's income, before credit market write-downs and movements in the fair value of own debt, held stable at the levels recorded in the same period last year despite the very difficult global market environment. The Group's total underlying operating profit before impairment losses increased by 7 per cent., reflecting the underlying strength of our main customer-facing franchises.

The weakening economic environment has, however, fed through into a deteriorating trend in credit metrics across all divisions in the third quarter. In some of our businesses the increases in impairments are from a low base but these increases are marked, nevertheless. Consequently, operating profit, before credit market write-downs and gains on the fair value of own debt, was 8 per cent. lower in the first nine months of 2008 than in the same period of 2007.

Credit market write-downs of £206 million were charged against income in the third quarter, in addition to the £5.9 billion of write-downs recorded in the first half of 2008. Following amendments recently issued by the International Accounting Standards Board, a number of assets previously designated as held-for-trading have been reclassified. These reclassifications have had the effect of increasing operating profit by a net £1.2 billion in the third quarter. However, of this amount £682 million was charged to equity through available-for-sale reserves.

The Group's customer franchises continue to produce attractive pre-impairment results and trends since the end of September 2008 remain broadly in line with the prior quarter. The effects of the severe market dislocation experienced in recent weeks are expected to have an adverse effect on the underlying profitability of the GBM division. Impairment losses are expected to rise in the fourth quarter as a result of the weakening economic climate.

Significant risks remain in both credit conditions and funding markets and it is not possible to forecast with precision the Group's results for the second half of the year. However, the Board expects that the

acceleration of the economic slowdown, the impact of continuing market dislocation and volatility, measures to reduce risk on our balance sheet and the possibility of a reduction in the carrying value of goodwill will adversely affect the Group's fourth quarter and full year results.

The Board expects the inherent value of the Group's core banking franchises to reassert itself, as world financial conditions improve and the Board's actions take effect. In that regard, the resilience of the core business income, and the restructuring actions planned, provide a good measure of medium-term encouragement.

Further information

I refer you to the further explanation and information contained in the Appendix to this letter and to Parts II to XII of this document.

Directors' intentions

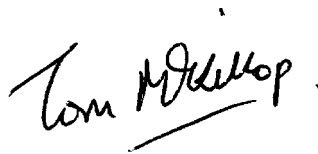
The package of measures provided by the UK Government to secure both funding and capital to the banking sector is essential to the Group's ability to do business.

The Directors are fully supportive of the Open Offer and intend to apply for an aggregate of 4,300,748 New Shares under the Open Offer.

It is the firm intention of the Board and the new management team that the Group will refocus and restructure itself quickly and effectively. This is critical if we are to emerge from this most challenging of periods in the strongest possible position.

This has been an extremely disappointing and difficult time for shareholders, employees and customers but I want to assure you that all of the Board's energy is devoted to re-establishing the value and reputation of the Group.

Yours sincerely,

A handwritten signature in black ink that reads "Tom McKillop". The signature is written in a cursive style with a horizontal line underneath the name.

Sir Tom McKillop
Chairman

APPENDIX TO THE LETTER FROM THE CHAIRMAN OF RBS

1 Principal terms of the Placing and Open Offer

Under the Open Offer, RBS invites Qualifying Shareholders to apply to acquire 22,909,776,276 New Shares at the Issue Price of 65.5 pence per New Share, raising approximately £15 billion (approximately £14.7 billion net of expenses). Under the Placing, which may or may not take place, each of Merrill Lynch International, UBS and RBS Hoare Govett will 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, subject to the passing of both 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 Placing and Open Offer Agreement, HM Treasury will itself acquire such New Shares at the Issue Price.

The Issue Price of 65.5 pence per New Share represents an 8.6 per cent. discount to the closing price for an Ordinary Share on 10 October 2008, 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:

18 New Shares for every 13 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 22,909,776,276, 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 22,909,776,276 New Shares being issued (representing approximately 138 per cent. of the existing issued share capital and 58 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 acquire the New Shares are conditional, *inter alia*, upon:

- (i) the passing, without amendment, of both 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 12 December 2008 (or such later time and date as HM Treasury may agree); and
- (iii) the 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 1 December 2008. It is also expected that dealings in the New Shares on Euronext Amsterdam will commence at 9.00 a.m. (CET) on 1 December 2008.

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 25 November 2008. For Qualifying CREST Shareholders, the relevant CREST instructions must have settled by no later than 11.00 a.m. on 25 November 2008. 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 24 November 2008. 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.

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 Issue

Under the Preference Share Subscription Agreement, RBS intends to issue to HM Treasury five million Preference Shares at £1,000 per Preference Share, raising £5 billion. The Preference Share Issue is conditional upon the Placing and Open Offer Agreement becoming unconditional in accordance with its terms.

In respect of the period from (and including) the issue date of the Preference Shares to (but excluding) the date falling five years after such issue date, dividends on the Preference Shares will be payable semi-annually at a rate of 12 per cent. of the liquidation preference of £1,000 per Preference Share per annum. In respect of the period from (and including) the date falling five years after such issue date, to the extent that the Preference Shares are not repurchased on or before such date, dividends will be payable quarterly at a rate, reset quarterly, of 7 per cent. per annum above three-month sterling LIBOR.

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. Further details of the terms of redemption, ranking for distributions and the Company's intentions in relation to the Preference Shares are outlined in paragraph 3 below.

On a winding up or liquidation, holders of Preference Shares will be entitled to receive (after the holders of the cumulative preference shares in respect of dividends) any arrears of dividend together with the amount paid up (including premium) in respect of the Preference Shares (being £5 billion). In these circumstances, the entitlement of holders of Preference Shares (along with holders of other securities that rank *pari passu* with the Preference Shares) will rank ahead of the entitlement of Ordinary Shareholders. Holders of Preference Shares are not entitled to attend, speak or vote at any general meeting of RBS unless the meeting is considering the winding-up of RBS or the variation or abrogation of the rights attaching to the Preference Shares in which case holders of Preference Shares will have the right to speak to and vote upon any such resolution. Holders of Preference Shares will also have the right to vote in respect of any matter when the dividend payable in respect of the Preference Shares has not been declared and paid.

3 Dividends and dividend policy

No dividend will be paid on the Ordinary Shares until the Preference Shares are no longer in issue unless otherwise agreed by HM Treasury. Accordingly, it is the Board's intention to repurchase the Preference Shares as soon as is prudent and practicable. Such repurchase would be subject to FSA approval and take account of the Group's capital position at the time of the proposed repurchase and prevailing market conditions. The Preference Shares can be repurchased using replacement Tier 1 capital, retained earnings, the proceeds of disposals (up to an amount equivalent to the core Tier 1 benefit arising from such disposals), gross reductions in risk-weighted assets or as otherwise permitted by the FSA. Repurchase within five years will also require approval of the holders of the Preference Shares. HM Treasury has indicated its encouragement that the Preference Shares be repurchased as soon as practicable, applying a repurchase price of 101 per cent. of their issue price for six months after the issue of the Preference Shares and, thereafter, a price reflecting prevailing market conditions (with no value to be attributed to the fact that upon repurchase by the Company it may become able to pay dividends), in each case subject to FSA approval. HM Treasury has also indicated that upon any sale by it of some or all of the Preference Shares, it would, at its discretion, either impose on any purchaser an obligation to allow the relevant Preference Shares to be repurchased or redeemed by RBS on the same terms (subject to maintaining the Preference Shares' Tier 1 treatment) or would lift the restrictions on the payment of dividends on Ordinary Shares. The Preference Shares will also be redeemable by the Company at their issue price at its option five years after issue (subject to one month's notice to the FSA). Dividends on the other preference shares issued by the Company will continue to be payable in accordance with their terms.

Once the Preference Shares have been repurchased or the dividend restriction otherwise amended, it is the Board's intention to return to a progressive dividend policy taking account of the Group's capital position, retained earnings and prospects at the time. The restriction on payment of dividends does not preclude the declaration of a capitalisation issue paid out of non-distributable reserves.

4 Capital

The Placing and Open Offer and Preference Share Issue are expected to raise approximately £20 billion, (approximately £19.7 billion net of expenses).

Assuming the capital raising had completed on 30 September 2008, the Group's capital ratios at that date would have been as follows:

	30 September 2008	
	Core Tier 1 capital ratio (%) ⁽¹⁾	Tier 1 capital ratio (%) ⁽¹⁾
Proportional consolidated basis	7.9	11.6

Note:

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

In light of the ongoing turbulence and uncertainty facing the financial markets, together with the deteriorating global economic outlook, the Board believes that it is sensible to maintain levels of capital that will ensure that RBS's capital position remains resilient in the face of yet further shocks to the financial system and to position the Group to remain competitive.

5 Business strategy

In light of the current market conditions, RBS is undertaking a strategic review that is expected to re-focus the Group on those of its businesses with clear competitive advantages and attractive market positions, primarily in stable, low-to-medium risk sectors. The review will be aimed towards achieving appropriate risk-adjusted returns, reduced reliance on wholesale funding and lower exposure to capital-intensive businesses. RBS expects that the measures will include a refocusing of RBS's Global Banking & Markets division on its core strengths in providing customer-focused trading, risk management and financing services, with a parallel reduction targeted in capital-intensive, illiquid portfolios.

The Group believes that its increased capital ratios following completion of the announced capital raising should allow it to 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. The Group intends to optimise future profitability and capital generation by placing a greater emphasis on risk-adjusted returns.

RBS expects to continue with selective disposals and is reviewing its portfolio to identify further non-core assets that do not meet its strategic objectives. RBS is continuing discussions with interested parties over the possible disposal in whole or in part of RBS Insurance, which may or may not conclude satisfactorily. RBS will take additional measures to reduce risk-weighted assets, although the sale of assets remains difficult in the current environment. RBS also intends to review its cost base to take advantage of opportunities for cost reductions.

RBS intends to remain a globally significant bank with a strong range of powerful customer-driven franchises in retail and wholesale businesses. It will pursue profitable growth opportunities within a disciplined risk framework, conservative capital and funding ratios and a business mix shifted more towards stable customer businesses.

At the Group's core is its leading position in personal, small business and corporate banking in the United Kingdom. RBS remains committed to serving its personal, small business, commercial and corporate customers in the current difficult economic conditions. The Board is determined that RBS will continue to support homeowners and small businesses by providing them with the financial services they require.

RBS is already the leading provider of financial services to small businesses, serving approximately 25 per cent. of the UK small business market and remains committed to providing its customers with support in the face of deteriorating economic conditions. In the UK mortgage market, RBS's mortgage balances were 13 per cent. higher at 30 September 2008 than a year earlier and the Group achieved an 18 per cent. market share of net new mortgage lending in the first eight months of 2008. In the small business and residential mortgage markets, RBS is committed to maintaining its lending availability to at least 2007 levels with the active marketing of competitively priced loan products. Furthermore, RBS will be increasing its support to shared equity projects, such as MyChoiceHomeBuy.

RBS is already one of the principal providers of support to the independent money advice sector. The Group will increase its investment in its Money Sense scheme, which provides free and impartial financial guidance to customers, by £4 million over the next 12 months and will participate fully in further industry initiatives to address both financial capability issues and the problems faced by those in financial difficulty.

6 Board and management

The Board has considered the implications of the current situation on the governance and management of the Group and plans to appoint, in consultation with HM Treasury, up to three new independent Non-Executive Directors who will bring relevant commercial experience and participate as appropriate in the principal committees of the Board.

The Board is appreciative of the contribution made by the Group Chief Executive, Sir Fred Goodwin, and his executive team. It recognises, however, that there should be a change of leadership in the Group. Stephen Hester, currently Chief Executive of The British Land Company PLC and a Non-Executive Director of the Group, will become Group Chief Executive and an Executive Director of the Group on 21 November 2008, at which point Sir Fred Goodwin will step down as Group Chief Executive and from the Board. Sir Fred Goodwin will remain with the Group until 31 January 2009 to ensure a smooth handover of responsibilities. Stephen Hester will resign as a Director of The British Land Company PLC with effect from 15 November 2008. In addition, Johnny Cameron, Chairman Global Markets, stepped down from the Board on 13 October 2008 and ceased to have responsibility for the Division at that date. John Hourican has been appointed Chief Executive Global Banking & Markets, reporting to the Group Chief Executive. Brian Stevenson, Chief Executive Global Transaction Services also reports to the Group Chief Executive.

Mark Fisher, an Executive Director who is currently seconded to ABN AMRO will be leaving the Group during 2009. The timing of his departure will be aligned with the progress of the integration of ABN AMRO into RBS, which remains on track for its scheduled completion in 2009. In addition, as part of the current restructuring of the Board, Mr Fisher will step down as a Director on 21 November 2008.

Lawrence Fish will retire as a Non-Executive Director on 31 December 2008, and Charles Koch will retire as a Non-Executive Director at the Group's next Annual General Meeting to be held in April 2009.

Sir Tom McKillop has agreed to continue in office following the Placing and Open Offer to complete the restructuring of the Board but will retire at the Group's Annual General Meeting in April 2009.

The Board expects to be fully engaged with peers and the authorities in developing its approach to compensation in the financial services industry whereby remuneration is linked to long-term value creation. No bonus will be awarded to any Board member for the 2008 financial year and any bonuses earned in 2009 will be paid in restricted shares. Any Board members who leave the Company will receive a severance package which is reasonable and perceived as fair.

7 Current trading and prospects

This trading update constitutes RBS's Interim Management Statement for the period from 1 July 2008 to 31 October 2008. Comments relate primarily to pro forma unaudited results for the Group including only the ABN AMRO businesses to be retained by RBS and cover results for the first nine months of 2008 unless otherwise stated. Comparisons are with the first nine months of 2007, unless otherwise stated.

Introduction

The Group's total income for the first nine months of the year, before credit market write-downs and movements in the fair value of own debt, held stable at the levels recorded in the same period in 2007. Costs were held flat while insurance claims declined, resulting in profit before impairment losses in the nine month period growing by 7 per cent.

Credit metrics show a deteriorating trend across all divisions. Non-performing and potential problem loans at 30 September 2008 represented 1.72 per cent. of loans and advances, compared with 1.47 per cent. at 30 June 2008. The annualised impairment charge in the nine months to 30 September 2008 represented 0.51 per cent. of loans and advances, compared with 0.46 per cent. in the first six months of 2008.

Consequently, operating profit, before credit market write-downs and gains on the fair value of own debt, was 8 per cent. lower in the first nine months of 2008 than in the same period in 2007.

Credit market write-downs of £206 million were charged against income in the third quarter, in addition to the £5.9 billion of write-downs recorded in the first half of 2008. Following amendments recently issued by the International Accounting Standards Board, a number of assets previously designated as held-for-trading have been reclassified. These reclassifications have had the effect of increasing operating profit by a net £1.2 billion in the third quarter. However, of this amount, £682 million was charged to equity through available-for-sale reserves. Further details of these reclassifications and of the write-downs are set out below in paragraph 8 of this Appendix under the heading "Credit market exposures".

Although loan growth slowed across a number of segments, RBS's risk-weighted assets increased to £543.1 billion at 30 September 2008, compared with £491.7 billion at 30 June 2008, principally as a result of foreign exchange movements and the expiry of a number of risk-mitigating transactions within GBM. As a result, RBS's core Tier 1 ratio at 30 September 2008 was 5.2 per cent. and its Tier 1 ratio was 7.9 per cent., on a proportional consolidated basis, compared with 5.7 per cent. and 8.6 per cent., respectively, at 30 June 2008, on the same basis.

Had the recommended capital raising been completed on 30 September 2008, it would have had the effect of increasing the Group's 30 September 2008 core Tier 1 capital ratio to 7.9 per cent. and its Tier 1 ratio to 11.6 per cent. each on a proportional consolidated basis. Actual capital ratios at 31 December 2008 will, however, depend on a number of other factors, including earnings retentions, movements in risk-weighted assets, further possible credit market write-downs and disposals.

RBS has continued to make good progress with the integration of the ABN AMRO businesses it acquired, with both cost savings and revenue synergies achieved in the first nine months of 2008 well ahead of budget.

UK Retail & Commercial Banking has continued to grow income net of bancassurance claims. However, in recent months growth has slowed, particularly in the consumer and small business segments, in line with general economic conditions.

RBS has taken advantage of opportunities to write good credit quality mortgages at attractive margins. Mortgage balances at 30 September 2008 were 13 per cent. higher than a year earlier, and the Group achieved an 18 per cent. share of net new mortgage lending in the first eight months of 2008. Unsecured loan balances remained flat during the quarter, credit card balances declined slightly and deposits remained stable. In the UK Wealth business, recent falls in stock markets have reduced income growth rates and assets under management.

RBS retained its number one position supporting small and medium-sized businesses in the UK, growing loan balances by 12 per cent. from a year earlier and maintaining a market share of over 25 per cent.

As anticipated in the interim results announcement, credit impairments have continued to rise from an historically low level in the SME and commercial segments, with weaker consumer credit metrics also now evident. Impairment losses in the first nine months of 2008 were 9 per cent. higher than in the same period of 2007, whereas impairments in the first half were 2 per cent. lower than in the same period of 2007. As previously indicated, leading indicators show some deterioration in the commercial property segment, whilst the housebuilder portfolio is experiencing some pressure given reduced demand. The Group's mortgage portfolio remains of high quality, with an average indexed mortgage loan-to-value ratio at 30 September 2008 of 51 per cent., compared with 49 per cent. at 30 June 2008, reflecting the decline in house prices. Mortgage arrears have risen slightly but remain below average industry levels.

US Retail & Commercial Banking has achieved modest growth in income in dollar terms in the first nine months of 2008, in spite of a significant decline in the overall levels of US economic activity and a tightening of credit underwriting standards that has constrained volumes and growth in most segments. Commercial banking volumes continue to see good growth. Total expenses increased somewhat more rapidly in the third quarter than in the first half, reflecting higher deposit insurance fees and the phasing of marketing expenditure. Impairments in the core retail and commercial portfolio have risen sharply during the third quarter, including an increase of \$258 million in provision balances. In the non-core Serviced by Others portfolio, provision balances totalled \$420 million at 30 September 2008, up \$7 million from 30 June 2008, providing a coverage ratio of 2.7 times non-performing loans.

Operating profit in the first nine months of the year was approximately 40 per cent. lower than in the same period of 2007.

Europe & Middle East Retail & Commercial Banking's performance has been impacted by deteriorating economic conditions in its major markets in Northern Ireland and the Republic of Ireland; income growth has slowed and credit costs are continuing to rise. Deposit pricing has remained competitive in the Irish market, and the increased cost of funds has fed through into net interest margin more quickly than the progressive re-pricing of loan assets. The number of commercial borrowers on watch list increased during the quarter, primarily within the commercial property sector. Ulster Bank's commercial portfolio remains well diversified, and the proportion of commercial property commitments secured on speculative developments remains modest.

Outside Ireland, E&ME Retail and Commercial has continued to make good progress with a strong performance in the United Arab Emirates.

Asia Retail & Commercial Banking has seen a moderation in its income growth rate, reflecting the more difficult economic and financial market conditions, but has continued to invest in the region, most notably in China and India. Overall results have been affected by a rise in credit impairments.

RBS Insurance continued to perform well, increasing policy numbers in its core motor and non-motor franchises while the decline in the less profitable partnership book has continued. Net claims experience has continued to improve, even excluding the effect of the 2007 floods in the United Kingdom.

Global Transaction Services continued to generate good growth in both income and contribution across a number of products. The trade business in particular achieved significant growth through a number of new mandates and improved margins. International cash management continues to deliver good growth, with deposit balances at 30 September 2008 significantly higher than a year earlier. Merchant services and commercial cards also maintained a steady growth trajectory driven by increased transaction volumes.

Global Banking & Markets has seen good performances during the third quarter in many of its customer and flow businesses, in particular rates and currencies, driven by high volumes of customer activity. However, a weaker economic and financial market environment has adversely affected equities

and credit markets, with low issuance volumes and weakness in asset valuations. In addition, other effects of market dislocation, including counterparty failures, reduced GBM income by approximately £700 million in September 2008, leaving the division's underlying operating profit in the first nine months of 2008, before impairments and credit market write-downs, 11 per cent. lower than in the same period of 2007.

The rise in impairments has accelerated, from a very low base, and in the third quarter losses were approximately 50 per cent. higher than the quarterly run-rate experienced in the first half. The increase partly reflects a rise in borrowers, including a number of property companies, transferred into the Group's corporate restructuring unit.

Risk-weighted assets have grown since 30 June 2008 as a result of foreign exchange movements and the expiry of a number of risk-mitigating transactions. GBM continues to target significant reductions in third party assets with a view to further de-leveraging and de-risking its balance sheet.

Since the end of September 2008, GBM has continued to generate good income growth in rates and currencies. However, specific events relating to the market dislocation, including counterparty and sovereign risk, have reduced income by approximately £1 billion. GBM is expected to record a loss in the fourth quarter, before credit market write-downs and movements in the fair value of own debt.

The sharp declines in a broad range of observable market benchmarks make it likely that further write-downs on the identified credit market exposures may be incurred during the fourth quarter, although these are difficult to forecast in current market conditions. Gains on the fair value of the Group's own debt recorded so far this year are likely to be reversed, given the tightening of the Group's credit spreads since the end of September 2008.

Group Manufacturing trends remained broadly in line with the first half, with the cost of business volume growth absorbed by productivity gains.

Outlook

The Group's customer franchises continue to produce attractive pre-impairment results and trends since the end of September 2008 remain broadly in line with the prior quarter. The effects of the severe market dislocation experienced in recent weeks are expected to have an adverse effect on the underlying profitability of the GBM division. Impairment losses are expected to rise in the fourth quarter as a result of the weakening economic climate.

Significant risks remain in both credit conditions and funding markets and it is not possible to forecast with precision the Group's results for the second half of the year. However, the Board expects that the acceleration of the economic slowdown, the impact of continuing market dislocation and volatility, measures to reduce risk on our balance sheet and the possibility of a reduction in the carrying value of goodwill will adversely affect the Group's fourth quarter and full year results.

The Board expects the inherent value of the Group's core banking franchises to reassert itself, as world financial conditions improve and the Board's actions take effect. In that regard, the resilience of the core business income, and the restructuring actions planned, provide a good measure of medium-term encouragement.

8 Credit market exposures

The Group's credit market exposures at 30 September 2008 were as follows:

	As at 30 September 2008		
	Net exposure ⁽¹⁾	Write-downs before tax ⁽²⁾	Average price
	(£ millions)		(%)
Asset-backed CDOs⁽³⁾	2,191	1,892	37
High grade	1,806	990	52
Mezzanine	385	902	16
Monoline exposures⁽⁴⁾	3,384	2,416	n/a
US residential mortgages⁽⁵⁾	1,085	1,214	63
Subprime	—	303	n/a
Alt-A	277	887	27
Other non-agency	808	24	76
US commercial mortgages⁽⁵⁾	1,739	96	87
Leveraged finance⁽⁶⁾	3,917	899	91
CLOs	777	182	80
		6,699	
CDS hedging		(568)	
Total net of CDS hedging		6,131	

Notes:

- (1) Current exposure net of hedges and write-downs.
- (2) Write-downs before tax for the nine months ended 30 September 2008.
- (3) The increase in net exposures reflects the effect of foreign currency translation. Underlying currency exposures have reduced due to amortisation and cancellations which have also affected weighted average prices and attachment points (set out in the table of RBS's exposures to super-senior tranches of asset-backed CDOs on page 44).
- (4) Monoline exposures relate to credit protection purchased on credit assets, including CDOs. As the value of the instruments underlying the hedges has fallen, the mark-to-market value of the hedges, and hence the Group's exposure has increased. Further information relating to exposures to monolines is set out below.
- (5) Comprises net held-for-trading exposures only. Net available-for-sale US exposures are: £545 million Alt-A, £1,411 million other non-agency residential, £996 million commercial mortgages and £1,380 million CDOs.
- (6) Comprises held-for-trading loan commitments. This excludes £5,523 million of loans classified as loans and receivables, including £3,660 million (average price of 90 per cent.) reclassified at 1 July 2008 (see "Amendments to IAS 39" below).

The following table sets out the trend in credit market exposures.

	30 September 2008	30 June 2008	31 December 2007
	(<i>£ millions</i>)		
Asset-backed CDOs	2,191	1,969	3,834
High grade	1,806	1,608	2,581
Mezzanine	385	361	1,253
Monoline exposures	3,384	2,398	2,547
US residential mortgages	1,085	1,903	4,319
Subprime	—	257	1,292
Alt-A	277	803	2,233
Other non-agency	808	843	794
US commercial mortgages	1,739	1,478	1,809
Leveraged finance	9,440	10,789	14,506
Held-for-trading	3,917	8,532	11,992
Loans and receivables	5,523	2,257	2,514
CLOs	777	1,051	1,386

The following table sets out RBS's exposures to super-senior tranches of asset-backed CDOs at 30 September 2008.

	High grade	Mezzanine	Total
Gross exposures (£ million)	7,140	3,046	10,186
Net exposures (£ million)	1,806	385	2,191
Original attachment point	29%	46%	35%
Attachment point post write-down	63%	90%	76%
% of underlying RMBS sub-prime assets	69%	91%	79%
Of which originated in:			
– 2005 and earlier	24%	23%	24%
– 2006	28%	69%	46%
– 2007	48%	8%	30%

The following table sets out certain information relating to RBS's exposures to monoline insurers by counterparty credit quality.

	As at 30 September 2008		
	Notional	Fair value of protected assets	Gross exposure
	(<i>£ millions</i>)		
AAA/AA	11,989	8,440	3,549
A/BBB	10,333	7,137	3,196
Sub-investment grade	1,814	1,265	549
Total	24,136	16,842	7,294
Hedges with other counterparties			(646)
Credit valuation adjustments			(3,264)
Net exposure to monolines			3,384

The following table sets out certain information relating to RBS's monoline exposures by collateral type.

As at 30 September 2008					
	Notional	Fair value of protected asset	Gross exposure	Split of underlying asset value	Protected asset value as % of notional
		<i>(£ millions)</i>		<i>(%)</i>	
RMBS and CDO of RMBS	5,592	1,632	3,960	9.7	29.2
CMBS	4,116	2,959	1,157	17.6	71.9
CLOs	10,637	9,417	1,220	55.9	88.5
Other ABS	3,104	2,417	687	14.3	77.9
Other	687	417	270	2.5	60.7
Total	24,136	16,842	7,294	100.0	69.8

Credit derivative product companies ("CDPCs") are specialist providers of credit protection principally on corporate exposures in the form of credit derivatives. The Group has purchased protection from CDPCs against a well diversified range of principally high quality investment grade corporate loan and debt obligations. The fair value of the Group's exposure to CDPCs at 30 September 2008 was £2.6 billion (notional value £19.9 billion). All of the Group's CDPC counterparties were rated AAA by Standard & Poor's as at 31 October 2008 with the exception of one which was rated AA+, which accounted for £0.1 billion of the fair value of the Group's exposure at 30 September 2008 (notional value £1.3 billion). A continuation of the rapid widening in corporate credit spreads observed during October may affect the creditworthiness of such companies and potentially result in ratings downgrades for some CDPCs. The Group is continuing to monitor its exposures to these counterparties.

The following table provides an overview of the leveraged loan portfolio which represents amounts retained from syndications where RBS was lead manager or underwriter:

	30 September 2008	30 June 2008
	<i>(£ millions)</i>	
North America	4,795	5,037
United Kingdom	2,620	3,211
Europe	1,949	2,337
Other	76	204
Total leveraged finance	9,440	10,789

RBS also sponsors and administers a number of multi-seller asset-backed commercial paper conduits. During the early part of 2008, RBS's asset-backed commercial papers saw improved market conditions with some liquidity returning to the market. However, following the bankruptcy filing by Lehman Brothers in September 2008, there was a significant deterioration in the term-liquidity for this paper, typically with only overnight issuance being possible, and with RBS needing to fund some of the assets. More recently there has again been a limited improvement in market conditions, to an extent supported by new facilities being provided by various central banks and governments. RBS's total liquidity exposure to conduits is £40.7 billion, of which own conduits which are consolidated in its balance sheet account for £39.6 billion. Total assets held by RBS's own conduits are £30.8 billion, comprising lending in the United States, the United Kingdom, Europe and Asia Pacific. The balance represents undrawn commitments.

Certain financial instruments have been valued using valuation techniques where at least one input (which could have a significant effect on the instrument's valuation) is not based on observable market data. At 30 September 2008, such financial assets amounted to £29.8 billion (30 June 2008: £28.3 billion; 31 December 2007: £32.7 billion) and financial liabilities amounted to £10.3 billion (30 June 2008: £6.1 billion; 31 December 2007: £15.3 billion). Using reasonably possible alternative assumptions for the valuation of these financial instruments could result in fair value losses of up to £1.1 billion or fair value gains of up to £1.0 billion.

Amendments to IAS 39

In October 2008, the International Accounting Standards Board issued, and the European Union endorsed, amendments to IAS 39 “Financial Instruments: Recognition and Measurement” to permit the reclassification of financial assets out of the held-for-trading and available-for-sale categories subject to certain restrictions. Transfers must be made at fair value and this fair value becomes the instruments’ new cost or amortised cost. The amendments are effective from 1 July 2008. Reclassifications made before 1 November 2008 can be backdated to 1 July 2008; subsequent reclassifications will be effective from the date the reclassification is made.

The Group is reviewing its portfolios of financial assets in the light of the amendments and has initially decided to reclassify certain loans and debt securities, for which no active market existed in 2008 and which management intends to hold for the foreseeable future, out of the held-for-trading category. The balance sheet values of these assets, the effect of the reclassification on the income statement for the three months ended 30 September 2008 and the write-downs relating to these assets recorded in the income statement for the six months ended 30 June 2008 were as follows:

	30 September 2008		1 July 2008	Three months ended 30 September 2008		First half 2008
	Carrying value	Fair value	Carrying value	Write-back of mark-to-market losses	Interest accretion	Write-downs
	(<i>£ millions</i>)					
Reclassified to loans and receivables:						
Loans						
Leveraged finance	3,677	3,444	3,660	216	17	(144)
Corporate and other loans	5,803	5,660	5,788	128	15	(93)
	<u>9,480</u>	<u>9,104</u>	<u>9,448</u>	<u>344</u>	<u>32</u>	<u>(237)</u>
Debt securities						
RMBS and CDO of RMBS	1,860	1,763	1,850	87	10	(80)
CMBS	499	476	492	16	7	(25)
CLOs	1,104	1,062	1,097	35	7	(6)
Other ABS	768	746	768	22	—	(32)
Other	353	340	353	13	—	(6)
	<u>4,584</u>	<u>4,387</u>	<u>4,560</u>	<u>173</u>	<u>24</u>	<u>(149)</u>
Total	<u>14,064</u>	<u>13,491</u>	<u>14,008</u>	<u>517</u>	<u>56</u>	<u>(386)</u>
Reclassified to available-for-sale debt securities:						
RMBS and CDO of RMBS	1,722	1,722	2,170	448	—	(1,195)
CMBS	587	587	730	143	—	(110)
CLOs	6,682	6,682	6,933	251	—	(511)
Other ABS	335	335	362	27	—	(35)
Total	<u>9,326</u>	<u>9,326</u>	<u>10,195</u>	<u>869</u>	<u>—</u>	<u>(1,851)</u>
Total reclassifications	<u>23,390</u>	<u>22,817</u>	<u>24,203</u>	<u>1,386</u>	<u>56</u>	<u>(2,237)</u>
Of which credit market exposures:						
Leverage finance	3,677	3,444	3,660	216	17	(144)
Debt securities with monoline protection	9,068	9,068	9,932	864	—	(1,851)
Total	<u>12,745</u>	<u>12,512</u>	<u>13,592</u>	<u>1,080</u>	<u>17</u>	<u>(1,995)</u>

As a result of the reclassification, total income for the three months to 30 September 2008 was £1,442 million higher; of this amount £682 million was charged to available-for-sale reserves. This was offset by impairment losses of £187 million on debt securities with monoline protection, reclassified as available-for-sale.

9 Further information

Your attention is drawn to the further information set out in Parts II to XIII 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 15 to 25 of this document.

10 General Meeting

Shareholders are being sent the Circular containing the General Meeting Notice. The General Meeting will be held on 20 November 2008 at 3.00 p.m. at The Assembly Hall, Mound Place, Edinburgh EH1 2LU. The General Meeting is being held for the purpose of considering and, if thought fit, passing two resolutions related to the Open Offer. The first resolution, Resolution 1, is to increase the Company's authorised ordinary share capital by 106 per cent. to £11,150,819,615 and to grant Directors authority to allot Ordinary Shares in connection with the Open Offer. The second resolution, the Rule 9 Dispensation Proposal, is to approve the disapplication by the Panel of the requirements of Rule 9 of the City Code in connection with the possibility of HM Treasury acquiring, as a result of the Placing and Open Offer, an interest in Ordinary Shares that carry 30 per cent. or more of the voting rights of the Company. 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 3.00 p.m. on 18 November 2008.

11 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.

12 UK and US taxation

Certain information about UK and US taxation in relation to the Open Offer is set out in Part X 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.

13 Action to be taken in respect of the Open Offer

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 paragraphs 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 pages 54 and 55), 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 25 November 2008**. 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 25 November 2008**.

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 24 November 2008**. Your Admitted Institution may set an earlier deadline for application 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 10 November 2008, 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 10 November 2008, 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 10 November 2008, 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 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.

This open offer (the "Open Offer") is an invitation to Qualifying Shareholders by RBS to apply to acquire 18 New Shares per 13 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 13 October 2008. The Issue Price of 65.5 pence per New Share represents an 8.6 per cent. discount to the closing middle-market price quotation as derived from the Daily Official List of 71.7 pence per Ordinary Share on 10 October 2008.

The Open Offer is on the basis of 18 New Shares for every 13 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 Placing and Open Offer Agreement, HM Treasury will itself acquire 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 10 November 2008 (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 31 October 2008 (the Record Date for Qualifying Non-CREST Shareholders for 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 (during normal business hours) 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 pages 54 and 55) to arrive by no later than 11.00 a.m. on 25 November 2008. 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 and will be set out in the Shareholder Guide which will accompany the Application Form.

(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 £0.655 (being 65.5 pence) giving you an amount of £16.37, in this example (being £16.375 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 pages 54 and 55) to be received by 11.00 a.m. on 25 November 2008. 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 £0.655 (being 65.5 pence) giving you an amount of £140.82 in this example (being 140.825 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 pages 54 and 55) to be received by 11.00 a.m. on 25 November 2008. 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 8.00 a.m. on 12 December 2008 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 which they are entitled to acquire 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 31 October 2008 and 7 November 2008 respectively and who have converted them to certificated form;
- Qualifying Non-CREST Shareholders who bought Existing Shares before 8.00 a.m. on 10 November 2008 but were not registered as the holders of those Shares at the close of business on 31 October 2008; 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 9.00 a.m. and 5.00 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 applications 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 22,909,776,276, 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 acquired 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.

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 £0.655 (being 65.5 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 £0.655, which comes to 152.68. You should round that down to 152 to give you the number of New Shares for which, in this example, you can apply without exceeding your chosen amount. Write 152 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 (152) by £0.655 (being 65.5 pence) and then fill in that amount (in this example £99.56) 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 £0.655 (being 65.5 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 £0.655, which comes to 305.34. You should round that down to 305 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 305) 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 (305) by £0.655 and then fill in that amount (in this example, £199.77, being £199.775 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 affect the future dividends RBS pays?

RBS will not be able to pay dividends on its Ordinary Shares until such time as the Preference Shares have been redeemed or repurchased. No dividend will be paid on the Ordinary Shares until the Preference Shares are no longer in issue. Repurchase of the Preference Shares within five years will also require the agreement of the holders of the Preference Shares. In addition, the Preference Shares will be redeemable by the Company at its option five years after issue. Dividends on the other preference shares issued by the Company will continue to be payable in accordance with their terms.

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 10 November 2008, 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 10 November 2008, 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 pages 54 and 55 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 UK Office (as detailed on pages 54 and 55 of this document).

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 25 November 2008.

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 5 December 2008.

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

Your ability to apply to acquire 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 UK 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 22 November 2008 and Sunday 23 November 2008). 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 25 November 2008. 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.

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 22,909,776,276 New Shares to raise approximately £15 billion (approximately £14.7 billion net of expenses), through the Placing and Open Offer. Subject to Shareholders passing both of the Resolutions at the General Meeting to be held on 20 November 2008 and Admission, 22,909,776,276 New Shares will be issued pursuant to the Placing and Open Offer, representing approximately 138 per cent. of the existing issued share capital of the Company and 58 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 receive dividends on the New Shares in the same manner as they receive their dividend on their Existing Shares. However, RBS will not be able to pay dividends on its Ordinary Shares until such time as the Preference Shares have been redeemed or repurchased.

Under the Placing, which may or may not take place, each of Merrill Lynch International, UBS and RBS Hoare Govett will 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, subject to the passing of both 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 Placing and Open Offer Agreement, any New Shares which are not so placed or taken up by Qualifying Shareholders will be acquired by HM Treasury at the Issue Price.

The Open Offer is an opportunity for Qualifying Shareholders to apply for, in aggregate, 22,909,776,276 New Shares at the Issue Price of 65.5 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 10 November 2008 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:

18 New Shares for every 13 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 22,909,776,276 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 10 November 2008 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 18/13 (approximately 1.3846). 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 22,909,776,276, 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 58 per cent. to their interests in the Company.

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 acquired by HM Treasury, with the proceeds retained for the benefit of the Company.

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 10 November 2008.

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 acquire the New Shares are conditional upon:

- (i) the passing, without amendment, of both 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 12 December 2008 (or such later time and date as HM Treasury may agree); and
- (iii) the 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 acquire 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 Placing and Open Offer Agreement, a summary of which is set out in paragraph 18.7 of Part XI 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 5 December 2008. 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 1 December 2008 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 1 December 2008, 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 1 December 2008.

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 22,909,776,276, 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 acquire 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 10 November 2008, 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 21 November 2008. 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 10 November 2008, should consult his broker or other professional adviser as soon as possible, as the invitation to acquire 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 10 November 2008 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 10 November 2008 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 acquire 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 22,909,776,276, 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 pages 54 and 55) (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 25 November 2008, 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. Computershare 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, Computershare, on behalf of the relevant shareholder in Newco, 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 cheques or banker's drafts are presented for payment before the conditions of the Placing and Open Offer are fulfilled, the application monies will be kept in a separate bank account with interest, if any, being retained for the Company until all conditions are met. If the Placing and Open Offer do 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 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 25 November 2008; or
- (ii) applications in respect of which remittances are received before 11.00 a.m. on 25 November 2008 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 post by or to 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, Computershare shall be authorised (in its absolute discretion as to manner, timing and terms) to make arrangements, on behalf of the relevant shareholder in Newco, for the sale of such Qualifying Non-CREST Shareholder's New Shares and to apply the proceeds of sale (which for these purposes shall be deemed to be payments in respect of successful applications) in acquiring the preference share capital referred to in paragraph 4.4 of this Part III. None of Computershare, 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 22,909,776,276 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 22,909,776,276 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);
- (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; and
- (xii) gives the instructions to Computershare set out in paragraph 4.4 below.

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 12 November 2008, 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 acquire 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 GB00B3DVNQ73;
- (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 3RA15;
- (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 25 November 2008; 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 25 November 2008.

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 25 November 2008 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 25 November 2008 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 25 November 2008. 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 22,909,776,276 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 21 November 2008.**

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 22,909,776,276 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 22,909,776,276 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 return 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 GB00B3F6NK43;
- (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 3RA15;
- (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 25 November 2008; 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 25 November 2008.

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 25 November 2008 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 Entitlement security.**

(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;

- (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; and
- (xiii) gives the instructions to Computershare set out in paragraph 4.4 below.

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

Subject to the provisions of the 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.

(l) *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 this Application Form 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 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 25 November 2008.

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 20 November 2008 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 18 November 2008, 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 25 November 2008.

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 12 December 2008 (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 10 November 2008. 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 10 November 2008. 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 18 New Shares for every 13 Existing Shares, each Euroclear Open Offer Entitlement will entitle a Qualifying Euroclear Shareholder to apply for New Shares in the ratio of 18/13 (being approximately 1.3846 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 24 November 2008. 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;

- (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; and
- (x) gives the instructions to Computershare set out in paragraph 4.4 below.

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 22,909,776,276, 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 Entitlements 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 24 November 2008. 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 8.00 a.m. on 12 December 2008 (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 22,909,776,276 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 8.00 a.m. on 12 December 2008 (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.

4.4 Payments

For technical reasons, at the conclusion of the Placing and Open Offer the Company will issue the New Shares in consideration for the transfer to it by UBS or Merrill Lynch International or a third party nominated by the Company (the “Newco Subscriber”) of certain issued ordinary and the entire issued redeemable preference share capital of a Jersey incorporated subsidiary of the Company (“Newco”), which will result in the Company owning the entire issued share capital of Newco the only assets of which will be its cash resources. These resources will represent the net proceeds of the Placing and Open Offer. The Company will be able to utilise this amount by redeeming the redeemable preference shares it will then hold in Newco. The structure of the Placing and Open Offer is expected to have the effect of creating distributable reserves equal to the net proceeds of the Placing and Open Offer less the par value of the New Shares. Accordingly, by applying for New Shares in the Open Offer and submitting a valid payment in respect thereof, a Qualifying Shareholder instructs Computershare to (i) hold such payments on the applicant’s behalf on a non-interest bearing basis until Admission and, if Admission does not take place, to return such payment, without interest to the applicant, (ii) following Admission and to the extent of a successful application under the Open Offer, to apply such payment (after deduction of certain agreed fees, costs and expenses) on behalf of the Newco Subscriber solely for the purposes of acquiring preference shares in Newco and (iii) to the extent of an unsuccessful application under the Open Offer to return the relevant payment without interest to the applicant.

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 32 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 24 November 2008, 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 acquire 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 acquires 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 from 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 acquire 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 and/or the Registrar 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 acquire 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 28 November 2008. 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 1 December 2008. It is expected that dealings of the New Shares on Euronext Amsterdam will commence at 9.00 a.m. (CET) on 1 December 2008.

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 25 November 2008 (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 1 December 2008, 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 1 December 2008). 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 5 December 2008. 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 X 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. Both RBS plc and NatWest are major UK clearing banks whose origins go back over 275 years. In the United States, the Group's subsidiary Citizens was ranked the tenth-largest commercial banking organisation by deposits at 30 June 2008. 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 £1,948.7 billion and owners' equity of £61.6 billion at 30 June 2008. The Group's capital ratios, which included the equity minority interest of Fortis Bank Nederland and Santander in ABN AMRO, were a total capital ratio of 13.2 per cent., a core Tier 1 capital ratio of 6.7 per cent. and a Tier 1 capital ratio of 9.1 per cent., as at 30 June 2008. Updated information on the Group's capital position is contained in paragraph 4 of the Appendix to the Letter from the Chairman of RBS contained in Part I of this document.

On 17 October 2007, RFS Holdings, a company jointly owned by the Consortium Banks and controlled by RBS, completed the acquisition of ABN AMRO. RFS Holdings is in the process of implementing an orderly separation of the business units of ABN AMRO, with RBS principally retaining ABN AMRO's global wholesale businesses and international retail businesses in Asia and the Middle East. Certain other assets will continue to be shared by the Consortium Banks. An explanation of the Consortium Agreement governing the relationship between the Consortium Banks can be found on pages 74 to 77 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.

Regional Markets

Regional Markets is organised around the provision of retail and commercial banking to customers in four regions: the United Kingdom, the United States, Europe and the Middle East and Asia. This includes the provision of wealth management services both in the United Kingdom and internationally.

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 plc 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 the largest network of branches and ATMs in the United Kingdom, and also through telephone and internet channels. Together, RBS plc and NatWest hold the joint number one position in 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 it is the market leader through the Lombard brand.

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 through the Citizens and Charter One brands as well as through Kroger Personal Finance, its credit card joint venture with the second-largest US supermarket group.

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 was ranked the tenth-largest commercial banking organisation in the United States based on deposits as at 30 June 2008.

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, including First Active, 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 offer services in Romania, Kazakhstan and the United Arab Emirates.

Asia Retail & Commercial Banking

Asia Retail & Commercial Banking holds prominent market positions in India, Pakistan, China and Taiwan, as well as presences in 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.

Global Markets

Global Markets is focused on the provision of debt and equity financing, risk management and transaction banking services to large businesses and financial institutions in the United Kingdom and around the world. Its activities have been organised into two divisions, GBM and Global Transaction Services, in order best to serve RBS's customers whose financial needs are global.

GBM is a leading banking partner to major corporations and financial institutions around the world, providing an extensive range of debt and equity financing, risk management and investment services to its customers. The expanded division is organised along the following four principal business lines:

- *Rate, Currencies and Commodities* provides risk management, sales and trading activities in G11 and non-G11 (Local Markets) currencies/jurisdictions across this broad set of asset classes. Key product offerings include spot FX, local markets trading, short-term markets and financing, inflation products, swaps and bonds (G11) and covered bonds, interest rate and currency options and hybrids and prime brokerage and futures. This business line also includes RBS Sempra Commodities LLP, the commodities-marketing joint venture between RBS and Sempra Energy formed on 1 April 2008. Under the joint venture, RBS Sempra Commodities LLP purchased Sempra Commodities. RBS's initial equity investment in the joint venture was US\$1.7 billion and RBS will continue to provide any additional funding required for the ongoing operating expenses of the businesses.
- *Equities* provides a full range of origination, trading and distribution of cash and derivative products. The business provides a multi-product approach operating through a wide range of channels with an emphasis on revenue diversification. Key product offerings include equity origination, corporate broking, core equities sales and trading, equity derivatives sales and trading, equity financing and collateral trading.
- *Credit Markets* offers a full range of origination, trading and distribution activities on a global basis for clients across all sectors. Key product offerings include corporate and structured debt capital markets, financial institutions debt capital markets, leveraged finance, real estate finance, project finance, financial structuring and credit trading.
- *Asset and Portfolio Management* manages the lending portfolio and other assets of GBM and some third parties, ensuring efficient management of capital, credit and liquidity via portfolio management and global markets treasury. Key fund product offerings include fund of funds structures, multi-manager strategies, private equity and credit funds, other core products are equity finance and asset finance (covering shipping and aviation).

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.

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.

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.

Integration of ABN AMRO

A discussion of the Group's plans for ABN AMRO can be found on pages 42 to 48 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, as supplemented by the information contained in Part XII of this document.

The benefits from the integration of the Group-acquired ABN AMRO businesses are proceeding ahead of schedule. RBS expects that the State of the Netherlands' purchase of Fortis Bank Nederland, including its interests in RFS Holdings, will not materially affect the integration benefits envisaged by the Group, nor will it affect the businesses to be retained by the Group. Fortis Bank Nederland has already paid in full in cash for its shares in RFS Holdings and, subject to the acceptance of certain conditions, RBS and Banco Santander have consented to the State of the Netherlands joining their consortium.

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 paragraph 7 of the Appendix to 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 2007 can be found on the following pages of its Annual Report and Accounts for 2007 and are incorporated by reference herein:

Pages 4-90, 94-115, 214-222 and 230-234

The key information that comprises the business 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

The key information that comprises the financial review of RBS for the year ended 31 December 2005 can be found on the following pages of its Annual Report and Accounts for 2005 and are incorporated by reference herein:

Pages 51-106

The key information that comprises the financial review of RBS for the six-month periods ended 30 June 2008 and 2007 can be found on the following pages of its unaudited interim condensed consolidated financial statements included in its Form 6-K dated 30 September 2008 and are incorporated by reference herein:

Pages 1-37, 52-63

See Part XII 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 the RBS Group's total capitalisation and indebtedness as at 30 June 2008. The total capitalisation and indebtedness information in this table has been extracted without material adjustment from RBS's unaudited interim condensed consolidated financial statements for the six-month period ended 30 June 2008. The detailed information has been extracted from underlying accounting records. Note 10 to the table below sets forth the RBS Group's total indebtedness as at 30 September 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 30 June 2008
	<i>(£ millions)</i>
Share capital – authorised	
Ordinary Shares of 25p each	5,423
Non-voting deferred shares of £0.01 each	323
Additional value shares of £0.01 each	27
Preference shares	529
	<u>6,302</u>
Share capital – allotted, called up and fully paid	
Ordinary Shares of 25p each	4,035
Non-voting deferred shares of £0.01 each	27
Preference shares	2
	<u>4,064</u>
Reserves	<u>57,573</u>
Total owners' equity	<u>61,637</u>
Group indebtedness	
Dated loan capital	24,577
Undated loan capital	9,918
Preference Shares	1,698
Trust preferred securities	3,468
	<u>39,661</u>
Total subordinated liabilities	<u>274,719</u>
Debt securities in issue	<u>314,380</u>
Total indebtedness	<u>376,017</u>
Total capitalisation and indebtedness	<u>376,017</u>

Notes:

- (1) The authorised preference share capital of the Group as at 30 June 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 30 June 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 0.75 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 30 June 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 30 June 2008, the Group had total liabilities and equity of £1,948.7 billion, including deposits by banks of £245.2 billion and customer accounts of £643.6 billion.
- (5) All of the indebtedness, except for £56.7 billion of debt securities in issue, is unsecured. None of the indebtedness described above or below is guaranteed.
- (6) As at 30 June 2008, the Group had contingent liabilities and guarantees arising in the normal course of business totalling £62,577 million, consisting of guarantees and assets pledged as collateral security of £45,579 million and other contingent liabilities of £16,998 million.
- (7) On 22 July 2008, RBS plc redeemed the €255 million 5.25 per cent. subordinated notes 2008.
- (8) On 15 September 2008, the Group issued 403,467,406 ordinary shares as a result of a capitalisation issue.
- (9) On 18 September 2008, ABN AMRO redeemed the US\$500 million floating rate Bermudan callable subordinated notes 2013.
- (10) At 30 September 2008, the Group's total indebtedness was £307,365 million (debt securities in issue: £265,775 million; subordinated liabilities: £41,590 million).
- (11) On 7 October 2008, RBS plc redeemed the €1,000 million floating rate subordinated notes 2013.
- (12) On 27 October 2008, RBS plc redeemed the €152 million 5.875 per cent. undated subordinated notes.
- (13) Save as disclosed above, there has been no material change in the total capitalisation and indebtedness of the Group since 30 June 2008.

3 Capital resources and liquidity management

RBS's policy continues to be to maintain a strong capital base, to expand 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). As at 30 September 2008, the Group's total RAR was 12.0 per cent. and the Tier 1 and core Tier 1 RARs were 7.9 per cent. and 5.2 per cent., respectively, on a proportional consolidated basis using the Basel II methodology.

The Board is convinced that further significant capital raising is required in order to shift the focus of the Group from capital rebuilding to capital strength, to provide confidence to the Group's customers and investors and to give the Group the financial capability to protect and deliver the value of its established and profitable customer franchises during these unprecedented economic and market conditions.

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. Between 30 June 2008 and the date of this document, the Group redeemed a total of €1,407 million and US\$500 million of subordinated notes. In addition, changes in shareholders' equity since 30 June 2008 reflect retentions, changes in the fair values of available for sale investments and cash flow hedges, and exchange differences on translation of foreign operations.

Upon completion of the Placing and Open Offer, RBS will issue, in accordance with the terms of the Placing and Open Offer Agreement, 22,909,776,276 New Shares, raising approximately £15 billion (approximately £14.7 billion net of expenses). The fair value of these New Shares is £15.5 billion based on the closing price of the Ordinary Shares of 67.5 pence per Ordinary Share set forth in the London Stock Exchange Daily Official List on 31 October 2008, the last practicable date prior to the date of this document. Under the Preference Share Subscription Agreement, RBS intends to issue five million Preference Shares with an aggregate liquidation preference of £5 billion to HM Treasury, raising £5 billion.

Had the capital raising completed on 30 September 2008, it would have had the effect of increasing the Group's 30 September 2008 core Tier 1 capital ratio to 7.9 per cent. and its Tier 1 ratio to 11.6 per cent., on a proportional consolidated basis. Actual capital ratios at 31 December 2008 will depend on a number of factors, including earnings retentions, movements in risk-weighted assets, further possible credit market write-downs and disposals, and therefore cannot be accurately predicted. However, the Board believes the new capital provides the resilience in the face of yet further shocks to the financial system which they believe is now required.

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 (gross and net of repurchase agreements). As part of its planning process, RBS reviews regularly the forecasted structure of its balance sheet over the planning period.

RBS reviews the level of large deposits taken from banks, corporate customers, non-bank financial institutions and other customers and also reviews the significant cash outflows therefrom to monitor concentration and trends.

As a result of the increasingly turbulent conditions in global financial markets in the second half of 2008, there has been a significant deterioration in the inter-bank and term funding markets with a reduction in the availability of longer-term funding. As a result, banks such as RBS have had to source more shorter-term and overnight funding with a consequent reduction in overall liquidity, and to increase their recourse to liquidity schemes provided by central banks.

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, 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. 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.

Specifically with reference to the liquidity and funding position of RBS, by virtue of operating in over 50 countries worldwide, it is able to access a number of schemes which have been and continue to be established by governments and central banks for the purpose of providing short and longer-term funding and/or liquidity.

There are currently over 20 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 these 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.

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 announced capital raising, should allow it to 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 69 and 80 to 83 in the Annual Report and Accounts for 2007, which is incorporated herein by reference.

As discussed above, the global markets for short and medium term sources of funding on which banks rely to support their business activities have undergone 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 government intervention, the United Kingdom 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.

PART VI

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 2007, 2006 and 2005 together with the audit reports thereon are incorporated by reference into this document. 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 2007, 2006 and 2005. 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. The audit opinion for the year ended 31 December 2005 is set out on pages 134 to 135 of the Annual Report and Accounts 2005.

The unaudited interim condensed consolidated financial statements of RBS and its subsidiaries for the six-month periods ended 30 June 2008 and 2007 included in RBS's Form 6-K dated 30 September 2008 are incorporated by reference into this document.

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

PART VII

OPERATING AND FINANCIAL REVIEW OF ABN AMRO

The key information that comprises the operating and financial review of ABN AMRO for the three years ended 31 December 2007, 2006 and 2005 can be found on the following pages of its Annual Report on Form 20-F for 2007 and are incorporated by reference herein:

Pages 12-76

The key information that comprises the operating and financial review for ABN AMRO for the six-month periods ended 30 June 2008 and 2007 can be found in its unaudited interim condensed consolidated financial statements included in its Form 6-K dated 30 September 2008 and are incorporated by reference herein:

Pages 1-7

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

PART VIII

FINANCIAL INFORMATION ON ABN AMRO

The consolidated financial statements of ABN AMRO and its subsidiaries included in the Annual Report on Form 20-F of ABN AMRO for the year ended 31 December 2007 together with the auditor's report thereon are incorporated by reference into this document. Ernst & Young Accountants LLP has issued an unqualified auditor's report on the consolidated financial statements of ABN AMRO and its subsidiaries as at 31 December 2007 and 2006 and for the three years ended 31 December 2007, 2006 and 2005.

The unaudited interim condensed consolidated financial statements for the six-month periods ended 30 June 2007 and 2008 included in ABN AMRO's Form 6-K dated 30 September 2008 are incorporated by reference into this document.

See Part XII of this document for further details about information that has been incorporated by reference in this document.

PART IX

UNAUDITED PRO FORMA FINANCIAL INFORMATION

1 Acquisition of ABN AMRO

On 17 October 2007, RFS Holdings, a company jointly owned by the Consortium Banks and controlled by RBS, completed the acquisition of ABN AMRO. RFS Holdings is in the process of implementing an orderly separation of the business units of ABN AMRO, with RBS retaining the following ABN AMRO business units, as set out in the CSA:

- continuing businesses of Business Unit (“BU”) North America;
- BU Global Clients (excluding Brazil);
- wholesale clients in the Netherlands (including former Dutch wholesale clients) and Latin America (excluding Brazil);
- BU Asia (excluding Saudi Hollandi); and
- BU Europe (excluding Antonveneta).

As established in the CSA, the following businesses have been or will be transferred to the other Consortium Banks:

- BU Netherlands (excluding wholesale clients);
- BU Private Clients (excluding in India and Indonesia);
- BU Asset Management (transferred to Fortis on 3 April 2008);
- BU Latin America (excluding wholesale and global clients businesses other than in Brazil) (transferred to Santander on 24 July 2008, excluding business in Paraguay and Uruguay); and
- Antonveneta (sold to Monte dei Paschi di Siena on 30 May 2008).

Certain other assets, BU Private Equity and Group Functions will continue to be shared by the Consortium Banks until disposal.

RFS Holdings is fully consolidated in RBS’s financial statements. The interests of Fortis Bank Nederland and Santander in RFS Holdings are included within minority interests in RBS Group’s financial statements.

On 3 October 2008, the State of the Netherlands acquired Fortis Bank Nederland, including its participation in RFS Holdings that represents the Fortis acquired activities of ABN AMRO.

2 Unaudited pro forma condensed combined financial information

Basis of preparation

The unaudited pro forma condensed combined financial information is being provided to give a better understanding of what the results of operations and financial position of RBS Group might have looked like had the acquisition by RFS Holdings of all of ABN AMRO’s ordinary shares, ADSs and preference shares as well as the transfers of businesses to the other Consortium Banks (but not shared assets) occurred in respect of the unaudited pro forma condensed combined income statement (the “pro forma income statement”) for the six months ended 30 June 2008 and for the year ended 31 December 2007, on 1 January 2008 and 1 January 2007, respectively. In respect of the unaudited pro forma condensed combined balance sheet (the “pro forma balance sheet”), it has been assumed that the Placing and Open Offer, the Preference Share Issue, the acquisition of minority interests in ABN AMRO shares (see below) and the transfers of businesses to the other Consortium Banks (but not shared assets) occurred on 30 June 2008 for the pro forma balance sheet at 30 June 2008 and, together with the Rights Issue, occurred on 31 December 2007 for the pro forma balance sheet at 31 December 2007.

The unaudited pro forma condensed combined financial information (the “pro forma financial information”) has been prepared solely for illustrative purposes. This information addresses a hypothetical situation and is not necessarily indicative of the combined results of operations or financial position of RBS Group that might have been achieved had the issues, acquisition of minority interests and transfers occurred on the dates indicated, nor is it necessarily indicative of the results of operations

or financial position that may, or may be expected to, be achieved in the future. The pro forma financial information has not been prepared in accordance with the requirements of Article 11 of Regulation S-X under the US Securities Act. No account has been taken within the pro forma financial information of any synergy or efficiency benefits that may or may not be expected to occur as a result of the acquisition of ABN AMRO other than those benefits that were included in the RBS Group's unaudited interim results for the six months ended 30 June 2008.

The pro forma financial information has been prepared using the purchase method of accounting, after giving effect to the pro forma adjustments described in the unaudited pro forma financial information, and also reflects the transfer of businesses (but not shared assets) to the other Consortium Banks, as established in the CSA. The pro forma financial information also incorporates the acquisition of minority interests – 0.965 per cent. ordinary shares and ADSs, 13.9 per cent. formerly convertible preference shares and 0.25 per cent. financing preference shares of ABN AMRO not already owned by RFS Holdings at 31 December 2007 and 30 June 2008 respectively – which was completed during September 2008 under the Dutch squeeze-out procedures following the ruling of the Dutch Enterprise Chamber on 15 May 2008. The information below should be read together with the financial statements of RBS.

**Unaudited pro forma condensed combined income statement for the six months ended
30 June 2008**

	RBS Group ⁽¹⁾	Adjustments		Pro forma RBS Group ⁽⁴⁾
		Acquisition of minority interests ⁽²⁾	Transfers to Fortis and Santander ⁽³⁾	
		(£ millions)		
Net interest income	8,582	(5)	(1,391)	7,186
Net fees and commissions	3,729	—	(515)	3,214
Income from trading activities	(3,373)	—	(71)	(3,444)
Insurance premium income (net)	3,156	—	(295)	2,861
Other operating income	1,635	—	(129)	1,506
Non-interest income	5,147	—	(1,010)	4,137
Total income	13,729	(5)	(2,401)	11,323
Operating expenses	(10,571)	—	1,596	(8,975)
Profit before other operating charges and impairment losses	3,158	(5)	(805)	2,348
Insurance claims (net)	(2,189)	—	262	(1,927)
Impairment losses	(1,661)	—	183	(1,478)
Operating loss before tax	(692)	(5)	(360)	(1,057)
Tax	333	1	88	422
Loss from continuing operations	<u>(359)</u>	<u>(4)</u>	<u>(272)</u>	<u>(635)</u>
Attributable to:				
Minority interests	177	—	(272)	(95)
Other owners	225	—	—	225
Ordinary shareholders	<u>(761)</u>	<u>(4)</u>	<u>—</u>	<u>(765)</u>
	<u>(359)</u>	<u>(4)</u>	<u>(272)</u>	<u>(635)</u>
Per 25p ordinary share (pence):				
Basic earnings (continuing operations) . .	(6.2)			(6.3)
Diluted earnings (continuing operations) .	(6.2)			(6.3)
Number of shares (million):				
Weighted average ordinary shares	12,197			12,197 ⁽⁵⁾
Weighted average diluted ordinary shares	12,197			12,197 ⁽⁵⁾

Notes:

- (1) The financial information for the RBS Group has been extracted from its unaudited interim results for the six months ended 30 June 2008 disclosed in its Report on Form 6-K dated 30 September 2008. Details of the acquisition of ABN AMRO are included in Note 35 of RBS Group's audited Annual Report and Accounts 2007.
- (2) Acquisition of minority interests reflects interest of £5 million for the period 1 January 2008 to 30 June 2008 on £206 million of its own resources used to fund its share of the purchase of ABN AMRO's outstanding ordinary and preference shares under the squeeze-out procedures described in "Basis of preparation" above less the related tax effect of £1 million.
- (3) Businesses transferred or to be transferred to Fortis and Santander, as set out in the CSA. This information has been extracted from unaudited management information as at 30 June 2008 without material adjustment.
- (4) RBS Group financial information including the effect of the ABN AMRO businesses to be retained by RBS Group, as set out in the CSA.
- (5) Excluding the effect of the one-for-40 capitalisation issue in September 2008.

Unaudited pro forma condensed combined balance sheet as at 30 June 2008

	RBS Group ⁽¹⁾	Adjustments			Pro forma RBS Group ⁽⁶⁾	
		Placing and Open Offer ⁽²⁾	Preference Share Issue ⁽³⁾	Acquisition of minority interests ⁽⁴⁾		Transfers to Fortis and Santander ⁽⁵⁾
				(£ millions)		
Assets						
Cash and balances at central banks	35,580	14,735	5,000	(206) ^(a)	(367)	54,742
Loans and advances to banks	152,292	—	—	—	(655)	151,637
Loans and advances to customers	807,867	—	—	—	(117,478)	690,389
Securities	295,428	—	—	—	(15,026)	280,402
Derivatives	483,281	—	—	—	(325)	482,956
Intangible assets	43,471	—	—	282 ^(b)	(15,790)	27,963
Property, plant and equipment	16,172	—	—	—	(1,511)	14,661
Other assets	51,117	—	—	—	(1,380)	49,737
Assets of disposal groups	63,537	—	—	—	(57,808)	5,729
Total assets	1,948,745	14,735	5,000	76	(210,340)	1,758,216
Liabilities						
Deposits by banks	245,184	—	—	—	5,783	250,967
Customer accounts	643,622	—	—	—	(107,956)	535,666
Debt securities in issue	274,719	—	—	—	(25,306)	249,413
Settlement balances and short positions	84,083	—	—	—	(10)	84,073
Derivatives	475,731	—	—	—	(83)	475,648
Subordinated liabilities	39,661	—	—	(2) ^(c)	(3,163)	36,496
Other liabilities	37,273	—	—	—	(2,036)	35,237
Liabilities of disposal groups	44,779	—	—	—	(41,204)	3,575
Total liabilities	1,845,052	—	—	(2)	(173,975)	1,671,075
Net assets	103,693	14,735	5,000	78	(36,365)	87,141
Minority interests	42,056	—	—	78 ^(d)	(36,365)	5,769
Equity owners	61,637	14,735	5,000	—	—	81,372
Total equity	103,693	14,735	5,000	78	(36,365)	87,141

Notes:

- (1) The financial information for the RBS Group has been extracted from its unaudited interim results for the six months ended 30 June 2008 disclosed in its Report on Form 6-K dated 30 September 2008. Details of the acquisition of ABN AMRO are included in Note 35 of RBS Group's audited Annual Report and Accounts 2007.
- (2) The net proceeds of the Placing and Open Offer are calculated on the basis that RBS issues 22,909,776,276 New Shares of 25p each at 65.5 pence per New Share, net of estimated expenses in connection with the Placing and Open Offer of £265 million (inclusive of VAT).
- (3) The net proceeds of the Preference Share Issue are calculated on the basis that RBS issues 5 million Preference Shares of £1 each at £1,000 per Preference Share.
- (4) Acquisition of minority interests reflects the purchase of ABN AMRO's outstanding ordinary and preference shares under the squeeze-out procedures described in "Basis of preparation" above and comprises:
 - (a) RBS Group's share of the cash consideration for the acquisition of minority interests (representing the acquisition of ABN AMRO ordinary shares and ABN AMRO preference shares of £205 million and £1 million, respectively) funded from its own resources;

- (b) goodwill of £282 million arising from the acquisition of 0.965 per cent. of ABN AMRO's ordinary shares, recorded as minority interests at 30 June 2008 (see 4(d) below), for a cash consideration of £535 million, based on a price of €37.88 for each ABN AMRO ordinary share, as stipulated by the Dutch Enterprise Chamber in its ruling of 15 May 2008;
 - (c) acquisition of ABN AMRO preference shares for a cash consideration of £2 million; and
 - (d) elimination of the minority interest in the outstanding shares of ABN AMRO, £253 million, offset by an increase in the minority interests of Fortis and Santander in RFS Holdings of £331 million.
- (5) Businesses transferred or to be transferred to Fortis and Santander, as set out in the CSA. The information has been extracted from unaudited management information as at 30 June 2008 without material adjustment.
- (6) RBS Group financial information including the effect of the Placing and Open Offer, Preference Share Issue, acquisition of minority interests and the ABN AMRO businesses to be retained by RBS Group, as set out in the CSA.

Unaudited pro forma condensed combined income statement for the year ended 31 December 2007

	RBS Group ⁽¹⁾	Adjustments			Pro forma RBS Group ⁽⁵⁾
		ABN AMRO ⁽²⁾	Pro forma funding and fair value adjustments ⁽³⁾	Transfers to Fortis and Santander ⁽⁴⁾	
			(£ millions)		
Net interest income	12,668	4,562	(157) ^(a)	(5,004)	12,069
Net fees and commissions . . .	6,154	2,353	—	(1,062)	7,445
Income from trading activities	1,327	765	—	(151)	1,941
Insurance premium income (net)	6,109	340	—	(229)	6,220
Other operating income	4,857	1,780	—	(740)	5,897
Non-interest income	18,447	5,238	—	(2,182)	21,503
Total income	31,115	9,800	(157)	(7,186)	33,572
Operating expenses	(14,435)	(7,537)	(491) ^(b)	4,354	(18,109)
Profit before other operating charges and impairment losses	16,680	2,263	(648)	(2,832)	15,463
Insurance claims (net)	(4,652)	(461)	—	274	(4,839)
Impairment losses	(2,128)	(892)	—	932	(2,088)
Operating profit before tax . . .	9,900	910	(648)	(1,626)	8,536
Tax	(2,052)	12	190 ^(c)	452	(1,398)
Profit from continuing operations	7,848	922	(458)	(1,174)	7,138
Attributable to:					
Minority interests	163	1,029	(146)	(1,174)	(128)
Other owners	246	—	295 ^(d)	—	541
Ordinary shareholders	7,439	(107)	(607)	—	6,725
	7,848	922	(458)	(1,174)	7,138
Per 25p ordinary share (pence):					
Basic earnings (continuing operations)	66.8				57.8
Diluted earnings (continuing operations)	66.2				57.4
Number of shares (million):					
Weighted average ordinary shares	11,135				11,628 ⁽⁶⁾
Weighted average diluted ordinary shares	11,328				11,821 ⁽⁶⁾

Notes:

- (1) The financial information for the RBS Group has been extracted from its audited Annual Report and Accounts 2007. Details of the acquisition of ABN AMRO are included in Note 35 of those accounts.
- (2) The financial information for ABN AMRO consists of the income statement for the period in 2007 prior to the acquisition by the Consortium Banks which was from 1 January 2007 to 16 October 2007. This information has been extracted from unaudited consolidation schedules underlying ABN AMRO's 2007 audited accounts without material adjustments. Changes have been made to such information to conform to the RBS Group's basis of presentation.
- (3) Pro forma funding and fair value adjustments comprise the following for the period from 1 January 2007 to 16 October 2007, unless otherwise stated, assuming the acquisition of ABN AMRO had occurred on 1 January 2007:
 - (a) interest payable of £484 million on €16,323 million of debt securities in various currencies at 5.48 per cent., the weighted average interest rate for the debt securities issued by RBS as part of the acquisition of ABN AMRO; and interest of £10 million on £191 million of its own resources, for the period from 1 January to 31 December 2007 used

to fund the acquisition of minority interests (see “Basis of preparation” above); partially offset by amortisation of provisional fair value adjustments, £337 million, on financial instruments;

- (b) operating expenses of £491 million reflecting amortisation expenses relating to intangible assets other than goodwill recognised separately as part of the acquisition of ABN AMRO, £549 million, partly offset by reduction in staff costs on recognition of the present value of net post-retirement benefit liabilities, £56 million, and other net expenses, £2 million;
- (c) tax effect of the provisional fair value adjustments at rates appropriate to the nature and jurisdiction of the adjustment; and
- (d) equity preference share and paid-in equity dividends of £295 million relating to €6,120 million of issues in various currencies, principally US\$, at 7.5 per cent., the weighted average coupon rate of instruments issued by RBS as part of the acquisition of ABN AMRO.

In the pro forma fair value adjustments referred to above, it has been assumed that the amounts of such adjustments at 1 January 2007 were the same as the actual provisional fair value adjustments at the date of acquisition recognised by RBS in its audited accounts for 2007.

- (4) Businesses transferred or to be transferred to Fortis and Santander as set out in the CSA. This information has been extracted from ABN AMRO’s unaudited management information for the year ended 31 December 2007 without material adjustment.
- (5) RBS Group financial information including the effect of the ABN AMRO businesses to be retained by RBS, as set out in the CSA.
- (6) The pro forma weighted average number of shares comprises the actual weighted average number of shares for 2007 and the number of Ordinary Shares issued in relation to the acquisition of ABN AMRO, assuming that they were issued on 1 January 2007, adjusted for the Rights Issue in June 2008. The number of shares do not reflect the one-for-40 capitalisation issue in September 2008.

Unaudited pro forma condensed combined balance sheet as at 31 December 2007

	Adjustments						Pro Forma RBS Group ⁽⁷⁾
	RBS Group ⁽¹⁾	Placing and Open Offer ⁽²⁾	Preference Share Issue ⁽³⁾	Rights Issue ⁽⁴⁾	Acquisition of minority interests ⁽⁵⁾	Transfers to Fortis and Santander ⁽⁶⁾	
	(£ millions)						
Assets							
Cash and balances							
at central banks . . .	17,866	14,735	5,000	12,000	(191) ^(a)	(3,625)	45,785
Loans and advances							
to banks	219,460	—	—	—	—	(5,966)	213,494
Loans and advances							
to customers	829,250	—	—	—	—	(124,721)	704,529
Securities	347,682	—	—	—	—	(11,369)	336,313
Derivatives	337,410	—	—	—	—	(741)	336,669
Intangible assets . . .	48,492	—	—	—	247 ^(b)	(21,448)	27,291
Property, plant and							
equipment	18,750	—	—	—	—	(1,819)	16,931
Other assets	35,655	—	—	—	—	(5,193)	30,462
Assets of disposal							
groups	45,954	—	—	—	—	(43,057)	2,897
Total assets	1,900,519	14,735	5,000	12,000	56	(217,939)	1,714,371
Liabilities							
Deposits by banks . .	312,633	—	—	—	—	(14,732)	297,901
Customer accounts .	682,365	—	—	—	—	(120,319)	562,046
Debt securities in							
issue	273,615	—	—	—	—	(12,912)	260,703
Settlement balances							
and short							
positions	91,021	—	—	—	—	(9)	91,012
Derivatives	332,060	—	—	—	—	(369)	331,691
Subordinated							
liabilities	37,979	—	—	—	(2) ^(c)	(526)	37,451
Other liabilities	50,192	—	—	—	—	(8,148)	42,044
Liabilities of disposal							
groups	29,228	—	—	—	—	(27,961)	1,267
Total liabilities	1,809,093	—	—	—	(2)	(184,976)	1,624,115
Net assets	91,426	14,735	5,000	12,000	58	(32,963)	90,256
Minority interests . . .	38,388	—	—	—	58 ^(d)	(32,963)	5,483
Equity owners	53,038	14,735	5,000	12,000	—	—	84,773
Total equity	91,426	14,735	5,000	12,000	58	(32,963)	90,256

Notes:

- (1) The financial information for the RBS Group has been extracted from its audited Annual Report and Accounts 2007. Details on the acquisition of ABN AMRO are included in Note 35 of those accounts.
- (2) The net proceeds of the Placing and Open Offer are calculated on the basis that RBS issues 22,909,776,276 New Shares of 25p each at 65.5 pence per New Share, net of estimated expenses in connection with the Placing and Open Offer of £265 million (inclusive of VAT).
- (3) The net proceeds of the Preference Share Issue are calculated on the basis that RBS issues 5 million Preference Shares of £1 each at £1,000 per Preference Share.
- (4) The net proceeds of the Rights Issue are calculated on the basis that RBS issued 6,123 million Ordinary Shares of 25p each at 200 pence per Ordinary Share on 9 June 2008, net of estimated expenses in connection with the Rights Issue of £246 million (inclusive of VAT).

- (5) Acquisition of minority interests reflects the purchase of ABN AMRO's outstanding ordinary and preference shares under the squeeze-out procedures described in "Basis of preparation" above and comprises:
- (a) RBS Group's share of the cash consideration for the acquisition of minority interests (representing the acquisition of ABN AMRO ordinary shares and ABN AMRO preference shares of £190 million and £1 million, respectively) funded from its own resources;
 - (b) goodwill of £247 million arising from the acquisition of 0.965 per cent. of ABN AMRO's ordinary shares, recorded as minority interests as at 31 December 2007 (see 5(d) below), for a cash consideration of £497 million, based on a price of €37.88 for each ABN AMRO ordinary share, as stipulated by the Dutch Enterprise Chamber in its ruling of 15 May 2008;
 - (c) acquisition of ABN AMRO preference shares for a cash consideration of £2 million; and
 - (d) elimination of the minority interest in the outstanding shares of ABN AMRO, £250 million, offset by an increase in the minority interests of Fortis and Santander in RFS Holdings of £308 million
- (6) Businesses transferred or to be transferred to Fortis and Santander, as set out in the CSA. The information has been extracted from ABN AMRO's unaudited management information as at 31 December 2007 without material adjustment.
- (7) RBS Group financial information including the effect of the Placing and Open Offer, Preference Share Issue, Rights Issue, acquisition of minority interests and the ABN AMRO businesses to be retained by RBS, as set out in the CSA.

3 Unaudited pro forma proportional regulatory capital ratios as at 30 September 2008

Basis of preparation

The unaudited pro forma regulatory capital ratios on a proportional consolidated basis below are being provided to give a better understanding of what the RBS Group's ratios would have looked like at 30 September 2008 on a proportional basis had the Placing and Open Offer and the Preference Share Issue been completed at that date. The pro forma regulatory capital ratios assume all proceeds received are held in cash and have a nil risk weighting.

	<u>RBS Group⁽¹⁾</u>	<u>Adjustments</u>		<u>Pro forma RBS Group⁽⁴⁾</u>
		<u>Placing and Open Offer⁽²⁾</u>	<u>Preference Share Issue⁽³⁾</u>	
Core Tier 1 capital ratio (%)	5.2	2.7	—	7.9
Tier 1 capital ratio (%)	7.9	2.7	1.0	11.6

Notes:

- (1) The proportional regulatory capital ratios of the RBS Group have been extracted from its unaudited management information as at 30 September 2008 without material adjustment.
- (2) Reflecting net proceeds of £14,735 million from the Placing and Open Offer calculated on the basis that RBS issues 22,909,776,276 New Shares of 25p each at 65.5 pence per New Share, net of estimated expenses in connection with the Placing and Open Offer of £265 million (inclusive of VAT).
- (3) Reflecting net proceeds of £5,000 million from the Preference Share Issue calculated on the basis that RBS issues 5 million Preference Shares of £1 each at £1,000 per Preference Share.
- (4) RBS Group regulatory capital ratios including the effect of the Placing and Open Offer, Preference Share Issue and the ABN AMRO businesses to be retained by the RBS Group, as set out in the CSA, including its share of shared assets.



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4 November 2008

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 financial information and pro forma proportional regulatory capital ratios (the “Pro Forma Financial Information”) set out in Part IX of the Prospectus dated 4 November 2008 (the “Prospectus”), which has been prepared on the basis described therein, for illustrative purposes only, to provide information about how the Transaction, the Preference Share Issue and the acquisition of ABN AMRO Holding N.V. by RFS Holdings B.V. (a company owned by the Group, Banco Santander SA and the State of the Netherlands through Fortis Bank Nederland (Holding) N.V.) might have affected the financial information of the Group presented on the basis of the accounting policies adopted by the Group in preparing its financial statements for the year ended 31 December 2007. 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

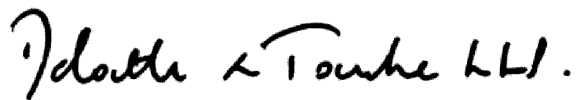
In our opinion:

- (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 that reads "Deloitte & Touche LLP." The signature is written in a cursive, flowing style.

Deloitte & Touche LLP
Chartered Accountants

PART X
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.

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 corporation tax will generally not be subject to corporation tax on dividends paid by the Company. Such Shareholders will not be able to claim repayment of tax credits attaching to dividends.

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.

* * * * *

1 General

The following is a summary of certain material US federal income tax consequences of the acquisition, 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 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 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 5 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 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 are 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.

3 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 2 above, and exceeds 10 per cent. of the US Holder's basis in its New Shares.

A US Holder's tax basis in a New Share will generally be its US dollar cost. 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 that 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.

4 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.

5 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.

6 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.

7 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 (including, for this purpose, the issuance of Preference Shares to HM Treasury) 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 XI

ADDITIONAL INFORMATION

1 Responsibility

The Company and the Directors, whose names are set out on page 31 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 31 October 2008 (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	21,693,502,184	£5,423,375,546	16,545,949,533	£4,136,487,383.25
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	750,000	£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⁽¹⁾ is expected to be as follows:

Authorised		Issued and fully paid	
Number	£	Number	£
44,603,278,460	11,150,819,615	39,455,725,809	9,863,931,452

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.

- 3.3 The authorised, issued and fully paid non-cumulative sterling preference share capital of the Company immediately following completion of the Preference Share Issue is expected to be as follows:

Authorised		Issued and fully paid	
Number	£	Number	£
300,000,000	300,000,000	5,750,000	5,750,000

- 3.4 Save as disclosed in paragraphs 3.6 and 3.7 below, since 1 January 2005, 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.

- 3.5 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 2007	5,079,375,406	3,152,844,335
31 December 2007	12,070,491,722	10,006,215,087

3.6 History of ordinary share capital

Authorised ordinary share capital

As at 1 January 2005, the first day covered by the historical financial information incorporated by reference into this document, the authorised ordinary share capital of the Company was £1,019,843,851.50, divided into 4,079,375,406 Ordinary Shares. Since 1 January 2005, the authorised ordinary share capital was increased by £250,000,000 on 20 April 2005, by a further £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 and by a further £1,780,752,615.50 on 14 May 2008.

Issued ordinary share capital

As at 1 January 2005, the first day covered by the historical financial information incorporated by reference into this document, 3,172,605,080 Ordinary Shares were in issue fully paid or credited as fully paid. Since 1 January 2005, there have been the following changes in the issued ordinary share capital of the Company:

Year	Ordinary Shares issued as a result of the exercise of Options granted under Sharesave Scheme	Ordinary Shares issued as a result of the exercise of Executive Share Option Scheme	Ordinary Shares issued as a result of the issue of Profit Sharing Shares	Ordinary Shares issued in connection with Scrip Dividends	Ordinary Shares issued in connection with Option 2000 Scheme	Ordinary Shares repurchased by RBS	Ordinary Shares issued in connection with MPP	Ordinary Shares allotted as a result of the Bonus Issue	Ordinary Shares allotted in respect of the acquisition of ABN AMRO	Ordinary Shares issued in connection with the Rights Issue	Ordinary Shares issued in connection with the Capitalisation Issue
2005	10,462,831	938,796	2,297,171	7,464,618	2,761,238	—	13,937	—	—	—	—
2006	1,248,450	2,566,736	2,190,017	—	3,981,772	(53,698,621)	12,310	—	—	—	—
2007	19,145,755	—	—	—	—	(695,000)	—	6,304,298,670	530,621,327	—	—
2008	1,124,296	794,244	11,338,038	—	—	—	—	—	—	6,123,010,462	403,467,406

At 31 December 2007, the authorised ordinary share capital of the Company was £3,017,622,930.50 divided into 12,070,491,722 Ordinary Shares, of which 10,006,215,087 were issued and fully paid up.

- 3.7** Subject to the passing of the Resolutions and Admission, pursuant to the Placing and Open Offer, 22,909,776,276 New Shares will be issued at a price of 65.5 pence per New Share. This will result in the issued ordinary share capital of the Company increasing by approximately 138 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 58 per cent. to their interests in the Company.

- 3.8** 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:

- 3.8.1 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;

- 3.8.2 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

- 3.8.3 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.

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

- 3.9.1 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;

- 3.9.2 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;

- 3.9.3 in addition to the increase in the authorised share capital referred to in paragraph 3.9.1 above, the authorised share capital of the Company was increased by the creation of an additional 1,000,000,000 Ordinary Shares;
- 3.9.4 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
- 3.9.5 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.

3.10 Resolution 1, if passed by the Shareholders at the General Meeting, will:

- 3.10.1 increase the authorised ordinary share capital of the Company to £11,150,819,615 by the creation of 22,909,776,276 Ordinary Shares; and
- 3.10.2 vary the general authority to allot relevant securities conferred by paragraph (1) of Article 13(B) of the Articles of Association for the period ending on the date of the Company’s annual general meeting in 2009, by increasing the Section 80 amount by £5,727,444,069 to £8,092,121,756.

The general authority to allot relevant securities for the prescribed period referred to in paragraph 3.9 above will, once increased as described in paragraph 3.10.2 above, authorise the Directors to allot relevant securities representing approximately 195 per cent. of the Ordinary Share capital of RBS as at the date of this document.

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 X 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

6.1 Directors

The Directors and their principal functions are as follows:

Sir Tom McKillop ⁽¹⁾	Chairman
Sir Fred Goodwin ⁽²⁾	Group Chief Executive
Guy Whittaker	Group Finance Director
Mark Fisher ⁽³⁾	Chairman, Managing Board, ABN AMRO
Gordon Pell	Chairman, Regional Markets
Colin Buchan ⁽⁴⁾	Non-Executive Director
Jim Currie ⁽⁴⁾	Non-Executive Director
Lawrence Fish ⁽⁵⁾	Non-Executive Director
Bill Friedrich ⁽⁴⁾	Non-Executive Director
Stephen Hester ⁽²⁾	Non-Executive Director
Archie Hunter ⁽⁴⁾	Non-Executive Director
Charles "Bud" Koch ⁽⁶⁾	Non-Executive Director
Janis Kong ⁽⁴⁾	Non-Executive Director
Joe MacHale ⁽⁴⁾	Non-Executive Director
John McFarlane ⁽⁴⁾	Non-Executive Director
Sir Steve Robson ⁽⁴⁾	Non-Executive Director
Arthur "Art" Ryan ⁽⁴⁾	Non-Executive Director
Bob Scott ⁽⁴⁾	Non-Executive Director
Peter Sutherland ⁽⁴⁾	Non-Executive Director

Notes:

- (1) Sir Tom McKillop will retire at the Group's next Annual General Meeting to be held in April 2009.
- (2) Sir Fred Goodwin will step down as Group Chief Executive and from the Board and be replaced by Stephen Hester on 21 November 2008.
- (3) Mr Fisher will step down as a Director on 21 November 2008.
- (4) Denotes Independent Non-Executive Director.
- (5) Mr Fish will retire as a Non-Executive Director on 31 December 2008.
- (6) Mr Koch will retire as a Non-Executive Director at the Group's next Annual General Meeting to be held in April 2009.

Brief biographical details of the Directors are as follows:

Sir Tom McKillop (age 65)

Chairman

Appointed to the Board as Deputy Chairman in September 2005, Sir Tom is a non-executive director of BP p.l.c. and president of the Science Council. He was formerly chief executive of AstraZeneca PLC, president of the European Federation of Pharmaceutical Industries and Associations and chairman of British Pharma Group Limited. He is a trustee of The Council for Industry and Higher Education.

Sir Tom McKillop will retire at the Group’s next Annual General Meeting to be held in April 2009.

In addition to his directorship of RBS and any directorships of RBS Group companies, Sir Tom McKillop 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>
BP p.l.c	Current
Foundation for Science and Technology	Current
The Council for Industry and Higher Education	Current
Laboratorios Almirall S.A.	Current
AstraZeneca PLC	Previous
AstraZeneca UK Limited	Previous
British Pharma Group Limited	Previous
Lloyds TSB Bank plc	Previous
Lloyds TSB Group plc	Previous

Sir Fred Goodwin (age 50)

Group Chief Executive

Appointed to the Board in August 1998, Sir Fred is a chartered accountant. He was formerly chief executive and director, Clydesdale Bank PLC and Yorkshire Bank PLC. He is chairman of The Prince’s Trust, a non-executive director of Bank of China Limited and a former president of the Chartered Institute of Bankers in Scotland.

Sir Fred Goodwin will step down as Group Chief Executive and from the Board and be replaced by Stephen Hester on 21 November 2008.

In addition to his directorship of RBS and any directorships of RBS Group companies, Sir Fred Goodwin 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>
Bank of China Limited	Current
The Scottish Business Achievement Award Trust 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

Mark Fisher (age 48)

Chairman, Managing Board, ABN AMRO

Appointed to the Board in March 2006, Mark Fisher is a career banker having joined National Westminster Bank Plc in 1981. In 2000, he was appointed Chief Executive, Manufacturing with various responsibilities including the integration of RBS and NatWest systems platforms. Mark Fisher is Chief Executive Officer of ABN AMRO and was appointed Chairman of the Managing Board of ABN AMRO in November 2007.

Mr Fisher will step down as a Director on 21 November 2008.

In addition to his directorship of RBS and any directorships of RBS Group companies, Mark Fisher 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>
APACS Administration Limited	Previous
Payments Council Limited	Previous

Gordon Pell (age 58)

Chairman, Regional Markets

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 vice 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 53)

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, member of the Group Management Board UBS AG and Chairman of UBS Securities Canada Inc. He is a director of Standard Life plc and Chairman of Standard Life Investments.

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

Jim Currie (age 66)

Appointed to the Board in November 2001, Jim Currie is a highly experienced senior international civil servant who spent many years working in Brussels and Washington. He was formerly director general at the European Commission with responsibility for the EU's environmental policy and director general for Customs and Excise and Indirect Taxation. He is also a director of Total Upstream UK Limited, The Met Office and Vimetco N.V., as well as an international adviser to Eversheds LLP.

In addition to his directorship of RBS and any directorships of RBS Group companies, Jim Currie 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>
54 Queensgate Terrace Residents Association Ltd	Current
Davaar Associates Limited	Current
Total Upstream UK Limited	Current
The Met Office	Current
Vimetco N.V.	Current
British Nuclear Fuels PLC	Previous
Sellafield Limited	Previous
Total Holdings UK Limited	Previous

Lawrence Fish (age 64)

Appointed to the Board in January 1993, Lawrence Fish is an American national. He is a career banker and was previously a director of the Federal Reserve Bank of Boston. He is an incorporator of the Massachusetts Institute of Technology (MIT), a trustee of The Brookings Institution, and a director of Textron Inc., Tiffany and Co and numerous community organisations in the United States. Mr Fish was appointed non-executive Chairman, RBS America and Citizens Financial Group, Inc. with effect from 1 January 2008. He was previously an Executive Director of RBS and became a Non-Executive Director on 1 May 2008. Mr Fish will retire as a Non-Executive Director on 31 December 2008.

In addition to his directorship of RBS and any directorships of RBS Group companies, Lawrence Fish 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>
Textron Inc	Current
Tiffany and Co	Current
Dimock Community Foundation Inc.	Current
Federal Reserve Bank of Boston	Previous

Bill Friedrich (age 59)

Appointed to the Board in March 2006, Bill Friedrich is the former deputy chief executive of BG Group plc. He previously served as general counsel for British Gas plc and is a former partner of Shearman & Sterling where he practised as a general corporate lawyer working for several of the world's leading financial institutions.

In addition to his directorship of RBS and any directorships of RBS Group companies, Bill Friedrich has held in the past five years the following directorships and is a partner in the partnership set out below.

<u>Company</u>	<u>Status (Current/ Previous)</u>
FCM Seed LLP	Current
BG Asia, Inc	Previous
BG Egypt SA	Previous
BG Energy Holdings Limited	Previous
BG Great Britain Limited	Previous
BG Group plc	Previous
BG Intellectual Property Limited	Previous
BG International Limited	Previous
BG Karachaganak Limited	Previous
BG LNG Services, LLC	Previous
BG North America, LLC	Previous
BG South East Asia Limited	Previous
BG Thailand Limited	Previous
BG Trinidad and Tobago Limited	Previous
BG Tunisia Limited	Previous
Hydrocarbons Offshore Services Limited	Previous

Stephen Hester (age 47)

Appointed to the Board on 1 October 2008, Stephen Hester is Chief Executive of The British Land Company PLC. He was previously Chief Operating Officer of Abbey National plc and before that he also held positions with Credit Suisse First Boston. 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 Royal Botanic Gardens, Kew Foundation. He will become Group Chief Executive and an Executive Director of RBS on 21 November 2008.

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 last past five years.

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

Charles "Bud" Koch (age 62)

Appointed to the Board in September 2004, Bud Koch is an American national. He has extensive professional experience in the United States and is the immediate past chairman of the board of John Carroll University and a trustee and chairman of the Board of Case Western Reserve University. He was chairman, president and chief executive officer of Charter One Financial, Inc. and its wholly-owned subsidiary, Charter One Bank, N.A., between 1973 and 2004. He is also a director of Assurant, Inc. and a public interest director of the Federal Home Loan Bank of Cincinnati.

Mr Koch will retire as a Non-Executive Director at the Company's next Annual General Meeting to be held in April 2009.

In addition to his directorship of RBS and any directorships of RBS Group companies, Bud Koch 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>
Assurant, Inc	Current
Federal Home Loan Bank of Cincinnati	Current
Case Western Reserve University	Current
John Carroll University	Current
Financial Services Roundtable	Previous

Janis Kong (age 57)

Appointed to the Board in January 2006, Janis Kong is currently a non-executive director of Kingfisher plc and Portmeirion Group public limited company. She is also chairman of The Forum for the Future and a member of the board of Visit Britain. She was previously executive chairman of Heathrow Airport Limited, chairman of Heathrow Express Limited and a director of BAA plc.

In addition to her directorship of RBS and any directorships of RBS Group companies, Janis Kong holds or has held in the past five years the following directorships. She has not been a partner in any partnerships during the past five years.

<u>Company</u>	<u>Status (Current/ Previous)</u>
Kingfisher plc	Current
Portmeirion Group Public Limited Company	Current
Forum for the Future	Current
BAA plc	Previous
Heathrow Airport Limited	Previous
Heathrow Express Operating Company Limited	Previous
London Airports 1993 Limited	Previous
London Airports Limited	Previous

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 of Macmillan Cancer Support. He held a number of senior executive positions with JPMorgan between 1979 and 2001 and was latterly chief executive of JPMorgan Europe, Middle East and Africa Region.

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, a director of Old Oak Holdings Limited and is a member of Consolidated Press Holdings Advisory Board. 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 Trust Limited	Current
Westfield America Management Limited	Current
ANZ National Bank Limited	Previous
Australian and New Zealand Banking Group Limited	Previous

Sir Steve Robson (age 65)

Appointed to the Board in July 2001, Sir Steve is a former senior UK civil servant, who had responsibility for a wide variety of Treasury matters. His early career included the post of private secretary to the Chancellor of the Exchequer and secondment to ICFC (now 3i). He was also a second permanent secretary of HM Treasury, where he was managing director of the Finance and Regulation Directorate. He is a non-executive director of JPMorgan Cazenove Holdings, Xstrata plc, The Financial Reporting Council Limited, and a member of the Chairman’s Advisory Committee of KPMG. He is a former director of Partnerships UK plc.

In addition to his directorship of RBS and any directorships of RBS Group companies, Sir Steve Robson 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>
JPMorgan Cazenove Holdings	Current
Xstrata plc	Current
The Financial Reporting Council Limited	Current
Partnerships UK plc	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

Bob Scott (age 66)

Appointed to the Board in January 2001, Bob Scott is an Australian national. He is the senior independent Director. He has many years’ experience in the international insurance business and played a leading role in the consolidation of the UK insurance industry. He is a former group chief executive of CGNU plc (now Aviva plc) and former chairman of the board of the Association of British Insurers. He is chairman of Yell Group plc and a non-executive director of Swiss

Reinsurance Company and Jardine Lloyd Thompson Group plc. He is also a trustee of the Crimestoppers Trust, an adviser to Duke Street Capital Private Equity and a board member of Pension Corporation LLP.

In addition to his directorship of RBS and any directorships of RBS Group companies, Bob Scott holds or has held in the past five years the following directorships. Since 1 January 2007, Bob Scott has also been a partner of Pension Corporation LLP.

<u>Company</u>	<u>Status (Current/ Previous)</u>
Crimestoppers Trust	Current
Jardine Lloyd Thompson Group plc	Current
Pension Insurance Corporation Limited	Current
Swiss Reinsurance Company	Current
Yell Group plc	Current
Duke Street Capital Private Equity	Current
Pension Corporation LLP	Current
Focus DIY Group Limited	Previous
Focus No. 1 Limited	Previous
Wise S C	Previous
FW No. 1 Limited	Previous

Peter Sutherland (age 62)

Appointed to the Board in January 2001, Peter Sutherland is an Irish national. He is a former attorney general of Ireland and from 1985 to 1989 was the European Commissioner responsible for competition policy. He is chairman of BP p.l.c. and Goldman Sachs International. He was formerly chairman of Allied Irish Banks and director general of GATT and its successor, the World Trade Organisation.

In addition to his directorship of RBS and any directorships of RBS Group companies, Peter Sutherland 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>
BP p.l.c.	Current
Goldman Sachs International	Current
L.O.W. Limited	Current
European Movement Ireland	Previous
Investor AB	Previous
Telefonaktiebolaget LM Ericsson (LME)	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 31 October 2008 (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 31 October

2008 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 31 October 2008		Immediately following completion of the Placing and Open Offer ⁽²⁾	
	Number of Existing Shares	Percentage of issued share capital	Number of New and Existing Shares	Percentage of issued share capital
Sir Fred Goodwin	1,146,873	0.007	2,734,851	0.007
Mr Fisher	32,514	—	77,533	—
Mr Pell	256,615	0.002	611,928	0.002
Mr Whittaker	550,686	0.003	1,313,174	0.003

Chairman

	As at 31 October 2008		Immediately following completion of the Placing and Open Offer ⁽²⁾	
	Number of Existing Shares	Percentage of issued share capital	Number of New and Existing Shares	Percentage of issued share capital
Sir Tom McKillop	343,488	0.002	819,086	0.002

	As at 31 October 2008		Immediately following completion of the Placing and Open Offer ⁽²⁾	
	Number of Existing Shares	Percentage of issued share capital	Number of New and Existing Shares	Percentage of issued share capital
Non-Executive Directors				
Mr Buchan	66,055	—	157,515	—
Dr Currie	4,405	—	10,504	—
Mr Fish	182,309	0.001	358,459	0.001
Mr Friedrich	182,436	0.001	435,039	0.001
Mr Hester	—	—	—	—
Mr Hunter	17,338	—	41,344	—
Mr Koch	148,625	0.001	354,413	0.001
Mrs Kong	42,935	—	102,383	—
Mr MacHale	119,230	0.001	284,317	0.001
Mr McFarlane	—	—	—	—
Sir Steve Robson	—	—	—	—
Mr Ryan	—	—	—	—
Mr Scott	38,547	—	91,919	—
Mr Sutherland	29,134	—	69,473	—

Preference shares

Mr Fish held 20,000 non-cumulative preference shares of US\$0.01 each at 31 October 2008 and Mr Koch held 20,000 non-cumulative preference shares of US\$0.01 each at 31 October 2008. No other Director had an interest in the preference shares during the year.

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 and that the New Shares which the Directors currently intend to take up under the Open Offer are taken up. Some of the Existing Shares held include interests under the Employee Share Ownership Plan under which it may not be possible for Directors to take up their rights in full.

7.2 Directors' options and awards

As at 31 October 2008 (being the latest practicable date prior to the publication of this document), the Directors (including Mr. Cameron who is no longer a Director with effect from 13 October 2008) 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	
				£	£			
Sir Fred Goodwin ⁽¹⁾	Executive Share Option Scheme	04-Mar-99	10,614	3.120640	—	Vested	04.03.02-03.03.09	
	Executive Share Option Scheme	03-Jun-99	97,826	3.341150	—	Vested	03.06.02-02.06.09	
	Executive Share Option Scheme	29-Mar-00	550,458	2.179981	—	Vested	29.03.03-28.03.10	
	Executive Share Option Scheme	14-Aug-01	156,559	4.795402	—	Vested	14.08.04-13.08.11	
	Executive Share Option Scheme	14-Mar-02	147,960	5.074529	—	Vested	14.03.05-13.03.12	
	Executive Share Option Scheme	13-Mar-03	260,812	3.452801	—	Vested	13.03.06-12.03.13	
	Executive Share Option Scheme	11-Mar-04	516,521	4.840062	—	Vested	11.03.07-10.03.14	
	Executive Share Option Scheme	10-Mar-05	569,814	4.826105	—	Vested	10.03.08-09.03.15	
	Executive Share Option Scheme	09-Mar-06	580,333	5.169432	—	Unvested	09.03.09-08.03.16	
	Executive Share Option Plan	16-Aug-07	830,192	4.697707	—	Unvested	16.08.10-15.08.17	
	Executive Share Option Plan	06-Mar-08	1,508,727	2.972702	—	Unvested	06.03.11-05.03.18	
	Sharesave Scheme	02-Sep-05	4,538	3.639817	—	Unvested	01.10.10-31.03.11*	
	Overall Total			5,234,354				

(1) The following arrangements will apply to Sir Fred Goodwin:

- (a) in respect of his vested options under The Royal Bank of Scotland Group plc 1999 Executive Share Option Scheme any options exercisable at 31 January 2009 remain exercisable subject to and in accordance with the rules of that plan for 12 months from that date, but not after the 10th anniversary of their grant; and
- (b) his unvested options under The Royal Bank of Scotland Group plc 1999 Executive Share Option Scheme and his options under The Royal Bank of Scotland Group plc 2007 Executive Share Option Plan will lapse on 31 January 2009.

Sir Fred Goodwin's options under The Royal Bank of Scotland Group plc 1997 Sharesave Scheme will vest on 31 January 2009 and remain exercisable in accordance with the rules of that scheme for six months from that date.

Name	Share plan	Date of grant	Number of Shares	Option price	Market price at date of award	Vested/Unvested	Exercise period	
				£	£			
Mr Cameron	Executive Share Option Scheme	04-Mar-99	68,764	3.120640	—	Vested	04.03.02-03.03.09	
	Executive Share Option Scheme	29-Mar-00	137,610	2.179981	—	Vested	29.03.03-28.03.10	
	Executive Share Option Scheme	14-Aug-01	93,863	4.795402	—	Vested	14.08.04-13.08.11	
	Executive Share Option Scheme	14-Mar-02	113,925	5.074529	—	Vested	14.03.05-13.03.12	
	Executive Share Option Scheme	13-Mar-03	188,444	3.452801	—	Vested	13.03.06-12.03.13	
	Executive Share Option Scheme	11-Mar-04	180,781	4.840062	—	Vested	11.03.07-10.03.14	
	Executive Share Option Scheme	10-Mar-05	290,089	4.826105	—	Vested	10.03.08-09.03.15	
	Executive Share Option Scheme	09-Mar-06	304,674	5.169432	—	Unvested	09.03.09-08.03.16	
	Executive Share Option Plan	16-Aug-07	447,026	4.697707	—	Unvested	16.08.10-15.08.17	
	Executive Share Option Plan	06-Mar-08	847,713	2.972702	—	Unvested	06.03.11-05.03.18	
	Medium-term Performance Plan	17-Jun-01	199,994	Nil	4.563727	Vested**		
	Medium-term Performance Plan	11-Apr-02	79,096	Nil	5.188972	Vested**		
	Medium-term Performance Plan	04-Apr-08	403,673	Nil	2.972702	Unvested***		
	Sharesave Plan	05-Sep-08	4,966	1.892683	—	Unvested	01.10.11-31.03.12*	
	Overall Total			3,360,618				

Name	Share plan	Date of grant	Number of Shares	Option price	Market price at date of award	Vested/Unvested	Exercise period
				£	£		
Mr Fish	Executive Share Option Scheme	10-Mar-05	134,715	4.826105	—	Vested	10.03.08-09.03.15
	Executive Share Option Scheme	09-Mar-06	398,130	5.169432	—	Unvested	09.03.09-08.03.16
	Executive Share Option Plan	16-Aug-07	625,329	4.697707	—	Unvested	16.08.10-15.08.17
	Overall Total			1,158,174			

Name	Share plan	Date of grant	Number of Shares	Option price	Market price at date of award	Vested/Unvested	Exercise period	
				£	£			
Mr Fisher	Executive Share Option Scheme	01-Apr-99	51,162	2.579134	—	Vested	01.04.02-31.03.09	
	Executive Share Option Scheme	29-Mar-00	119,267	2.179981	—	Vested	29.03.03-28.03.10	
	Executive Share Option Scheme	14-Aug-01	78,099	4.795402	—	Vested	14.08.04-13.08.11	
	Executive Share Option Scheme	14-Mar-02	81,324	5.074529	—	Vested	14.03.05-13.03.12	
	Executive Share Option Scheme	13-Mar-03	145,094	3.452801	—	Vested	13.03.06-12.03.13	
	Executive Share Option Scheme	11-Mar-04	142,041	4.840062	—	Vested	11.03.07-10.03.14	
	Executive Share Option Scheme	10-Mar-05	217,565	4.826105	—	Vested	10.03.08-09.03.15	
	Executive Share Option Scheme	09-Mar-06	220,042	5.169432	—	Unvested	09.03.09-08.03.16	
	Executive Share Option Plan	16-Aug-07	312,919	4.697707	—	Unvested	16.08.10-15.08.17	
	Executive Share Option Plan	06-Mar-08	593,399	2.972702	—	Unvested	06.03.11-05.03.18	
	Sharesave Scheme	02-Sep-05	518	3.639817	—	Vested	01.10.08-31.03.09*	
	Sharesave Plan	05-Sep-08	4,966	1.892683	—	Unvested	01.10.11-31.03.12*	
	Overall Total			1,966,396				

Name	Share plan	Date of grant	Number of Shares	Option price	Market price at date of award	Vested/Unvested	Exercise period	
				£	£			
Mr Pell	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 Scheme	09-Mar-06	223,428	5.169432	—	Unvested	09.03.09-08.03.16	
	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	
	Overall Total			1,906,668				

Name	Share plan	Date of grant	Number of Shares	Option price	Market price at date of award	Vested/Unvested	Exercise period
				£	£		
Mr Whittaker	Executive Share Option Scheme	09-Mar-06	203,113	5.169432	—	Unvested	09.03.09-08.03.16
	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	90,718	—	5.409481	Unvested	01.02.09
	Restricted Stock Award	28-Feb-06	44,500	—	5.409481	Unvested	01.02.10
	Sharesave Plan	05-Sep-08	9,218	1.892683		Unvested	01.10.15-31.03.16*
	Overall Total			1,543,146			

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

** Option-based awards under the Medium-term Performance Plan that have vested are exercisable up to 10 years from the date of grant.

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

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

Under the terms of the Placing and Open Offer Agreement, the Company agreed with HM Treasury that, in addition to complying with the ABI industry best practice code on remuneration and any FSA code on risk-based remuneration, remuneration would 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. In light of this commitment the Remuneration Committee is, in conjunction with its independent advisers, undertaking a comprehensive review of all aspects of its executive remuneration policy. Following completion of this review, the Remuneration Committee will, in respect of 2009 and subsequent financial years, seek to

implement any changes to its current remuneration policy which are deemed appropriate in the current economic climate and in line with the future strategy of the Group.

8.2 Remuneration of Directors

8.2.1 In the financial year ended 31 December 2007, 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 £20,885,000 as set out on page 211 of the Annual Report and Accounts for 2007. This figure includes the remuneration for Johnny Cameron in the year ended 31 December 2007 who is no longer a Director of RBS.

Under the terms of their service contracts and applicable incentive plans, in the year ending 31 December 2007, the Executive Directors were entitled to the remuneration and benefits set out below:

	Salary/ fees	Performance bonus ⁽¹⁾	Pension allowance	Benefits	2007 Total
	(£000)	(£000)	(£000)	(£000)	(£000)
Chairman					
Sir Tom McKillop	750	—	—	—	750
Executive Directors					
Sir Fred Goodwin	1,290	2,860	—	40	4,190
Mr Cameron ⁽²⁾	988	1,900	341	27	3,256
Mr Fish ⁽³⁾	999	200	—	54	1,253
Mr Fisher ⁽⁴⁾	726	1,428	178	26	2,358
Mr Pell	825	1,377	—	2	2,204
Mr Whittaker	760	1,425	262	3	2,450

Notes:

- (1) Includes 10 per cent. profit sharing.
- (2) Mr Cameron resigned as a Director of the Company with effect from 13 October 2008.
- (3) Mr Fish was an Executive Director of the Company throughout 2007. He became non-executive chairman of RBS Americas and Citizens Financial Group on 1 January 2008 and a Non-Executive Director of the Company with effect from 1 May 2008. Mr Fish is a non-executive director of Textron Inc. and retains the fees paid to him in this respect. For 2007, he received a remuneration package from Textron Inc. equivalent to approximately US\$87,565.
- (4) On his appointment as Chairman of the Managing Board of ABN AMRO on 1 November 2007, Mr Fisher transferred to the Netherlands. In line with the Group's international assignment policy, he was eligible for assistance in moving his home and family to the Netherlands and for ongoing tax equalisation, cost of living, housing and other secondment benefits, the value of which is £15,419 and is included under benefits above.

Non-Executive Directors	Board fees	Board committee fees	Total 2007
	(£000)	(£000)	(£000)
Mr Buchan	70	52	122
Dr Currie	70	15	85
Mr Friedrich	70	30	100
Mr Hunter	70	92	162
Mr Koch ⁽¹⁾	70	—	70
Mrs Kong	70	15	85
Mr MacHale	70	30	100
Sir Steve Robson	70	30	100
Mr Scott ⁽²⁾	—	—	160
Mr Sutherland	70	27	97

Notes:

- (1) In addition to his role as Non-Executive Director, Mr Koch had an agreement with Citizens Financial Group, Inc. to provide consulting services for a period of three years, which ended on 1 September 2007, following the acquisition by Citizens of Charter One Financial, Inc. For these services, Mr Koch received US\$268,333 in 2007.
- (2) Mr Scott's senior independent Director fee covers all Board and Board Committee work, including Chairmanship of the Remuneration Committee.
- (3) Stephen Hester, John McFarlane and Arthur Ryan were appointed to the Board on 1 October 2008 and therefore did not receive any fee income from RBS in 2007.

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 2007, 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 above is £3,751,000 plus US\$6,301,000 in respect of Mr Fish.

8.2.3 Under the terms of an agreement reached with Stephen Hester on 12 October 2008, Mr Hester will receive an annual basic salary of £1,200,000 and the usual executive allowance in lieu of pension and other benefits.

In addition to the salary and benefits described above, it is intended that certain share awards will be made to Mr Hester on joining the Group, which are primarily to replace share awards he will forfeit on leaving The British Land Company PLC. It is intended that Mr Hester will be granted conditional share awards over 10,407,081 shares. Subject to their terms, the majority of these awards will vest between March 2009 (immediately after announcement of the 2008 annual results) and the third anniversary of joining RBS, with some awards vesting as at the award date.

8.3 UK-based Directors

Benefits

Executive Directors are eligible to receive a choice of employee benefits or a cash equivalent on a similar basis to other employees.

Short-term annual incentives

Under the terms of the Placing and Open Offer Agreement, it has been agreed with HM Treasury that no payments will be made to the Directors under the short-term annual incentives for the financial year ending 31 December 2008. For the financial year ending 31 December 2009, any short-term incentive award will be paid in restricted stock and will be designed to reward long-term value creation, taking account of risk.

As described in paragraph 8.1 above, in the future the Group's policy for short-term annual incentives will comply with the ABI industry best practice code and any FSA code on risk-based remuneration.

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. Details of these long-term incentive plans are shown from page 131 of this document.

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 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. Normally awards are made at one times salary to Executive Directors, with one and a half times salary being granted in the case of the Group Chief Executive. No changes will be made to this policy without prior consultation with Shareholders. All awards under the plan are subject to three-year performance targets.

Awards made in 2007 and 2008 are subject to two performance measures: 50 per cent. of the award vests on a relative Total Shareholder Return ("TSR") measure and 50 per cent. vests on growth in adjusted earnings per share ("EPS") over the three-year performance period.

For the TSR element, vesting is based on the level of outperformance by the Group of the median of the comparator group TSR over the performance period. Awards made under the plan will not vest if the company's TSR is below the median of the comparator group. Achievement of median

TSR performance against comparator companies will result in vesting of 25 per cent. of the award. Outperformance of median TSR performance by up to 9 per cent. will result in vesting on a straight-line basis from 25 per cent. to 125 per cent., outperformance by 9 per cent. to 18 per cent. will result in vesting on a straight-line basis from 125 per cent. to 200 per cent. Vesting at 200 per cent. will occur if the Company outperforms the median TSR performance of the comparator group by at least 18 per cent. For awards made in 2007, the companies in the comparator group were ABN AMRO Holding N.V.; Banco Santander Central Hispano, S.A.; Barclays PLC; Citigroup Inc.; HBOS plc; HSBC Holdings plc; Lloyds TSB Group plc and Standard Chartered PLC. Following the acquisition of ABN AMRO by RBS, Fortis and Santander in October 2007, the Remuneration Committee agreed that Fortis would replace ABN AMRO in the comparator group for awards made in 2007 and 2008.

The EPS element ensures a clear line of sight for executives to improve long-term financial performance. For this element, the level of EPS growth over the three-year period will be calculated by comparing the adjusted EPS in the year prior to the year of grant with that in the final year of the performance period. Each year the vesting schedule for the EPS growth measure will be agreed by the remuneration committee at the time of grant, having regard to the business plan, performance relative to comparators and analysts' forecasts.

For the awards made in 2007, the awards will not vest if EPS growth is below 5 per cent. per annum (compound) over the three-year period. Where EPS growth is between 5 per cent. per annum and 10 per cent. per annum, vesting will occur on a straight-line basis from 25 per cent. to 100 per cent. Vesting at 100 per cent. will occur if EPS growth is at least 10 per cent. per annum (compound).

For the awards made in 2008, the relevant EPS growth figures are a threshold level of 5 per cent. per annum (compound) to a maximum level of 9 per cent. per annum (compound).

The following share or share equivalent awards were made under the Medium-term Performance Plan in 2007 and 2008. The number of share or share equivalents and the market price at date of 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
Continuing Directors						
			(£)		(£)	
Mr Pell	138,384	305,177	5.853294	2.972702	810,002.24	907,200.28
Mr Whittaker	128,134	277,525	5.853294	2.972702	750,005.97	824,999.12

Notes:

- (1) Sir Fred Goodwin received 333,145 and 754,364 awards under the Medium-term Performance Plan in 2007 and 2008 respectively, but has waived these awards.
- (2) Mr Fish will retire as a Non-Executive Director on 31 December 2008. Mr Fish received 102,587 awards under the Medium-term Performance Plan in 2007. At the date of award these were valued at £600,471. An indicative valuation of these awards, based on a share price of 65.5p is £67,194. Mr Cameron received 170,845 and 403,673 awards under the Medium-term Performance Plan in 2007 and 2008 respectively. These were valued at £1,000,006 and £1,199,999 at the respective dates of award. An indicative valuation of the awards, based on a share price of 65.5p is £376,309. Mr Fisher, an Executive Director who is currently seconded to ABN AMRO, will be leaving the Group during 2009. In addition, as part of the current restructuring of the Board, Mr Fisher will step down as a Director on 21 November 2008. Mr Fisher received 119,593 and 282,570 awards under the Medium-term Performance Plan in 2007 and 2008 respectively. These were valued at £700,012 and £839,996 at the respective dates of award. An indicative valuation of the awards, based on a share price of 65.5p is £263,417. In respect of these unvested awards under the Medium-term Performance Plan, the Board will use all reasonable endeavours either to ensure that these awards lapse or, where relevant, to have contractual entitlements to these unvested awards waived by the relevant Directors.

Entitlements in respect of awards under the Medium-term Performance Plan prior to 2007, but not exercised in that year, have not been included in this table and are disclosed on page 112 in the Annual Report and Accounts for 2007.

Options

A new executive share option plan was approved at the Company's annual general meeting in 2007. Grants to Executive Directors can be made over shares worth up to 300 per cent. of salary with an EPS performance condition. The performance condition is based on the average annual growth in the Group's adjusted EPS over the three-year performance period commencing with the year of grant. The calibration of the EPS growth measure will be agreed by the Remuneration Committee at the time of each grant having regard to the business plan, prevailing economic conditions and analysts' forecasts. In respect of the grant to Executive Directors in 2007, options will only be exercisable if, over the three-year period, the growth in the Company's adjusted EPS has been at least 6 per cent. per annum (the "threshold level"). The percentage of options that vest is then determined on a straight-line basis between 30 per cent. at the threshold level and 100 per cent. at the maximum level for growth in adjusted EPS of 12 per cent. per annum. In respect of the grant to Executive Directors in 2008, the relevant EPS growth figures are at a threshold level of 5 per cent. per annum to a maximum level of 9 per cent. per annum.

8.4 US-based Director – Lawrence Fish

Mr Fish was previously Chairman and Chief Executive Officer of Citizens Financial Group, Inc. From 23 March 2007, he was appointed Chairman, RBS America and Citizens Financial Group. With effect from 1 January 2008, he has undertaken that role in a non-executive capacity and is being paid a fixed fee of US\$600,000 per annum (inclusive of fees as a Non-Executive Director of the Company with effect from 1 May 2008).

He does not participate in any annual bonus plan nor is he eligible for further grants under any long-term incentive plans. Existing long-term incentive awards will vest to him, subject to achievement of all relevant service and performance conditions, at the completion of the appropriate performance period.

Accrual of pension entitlement ceased at 30 April 2008. He participated in the Citizens medical insurance plan to this date, after which he is eligible to join the Citizens retiree medical plan.

Mr Fish will retire as a Non-Executive Director of RBS on 31 December 2008.

8.5 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.

All UK-based Directors, with the exception of Guy Whittaker, are members of The RBS Group Pension Fund (the "RBS Fund") and are contractually entitled to receive all pension benefits in accordance with its terms which apply to all members. The RBS Fund rules allow all members who retire early at the request of their employer to receive a pension based on accrued service with no discount applied for early retirement.

Pursuant to an agreement reached with Sir Fred Goodwin on 13 October 2008 his employment will end on 31 January 2009. He has waived any payment in lieu of notice and his rights in respect of unvested executive share options and unvested awards under the Medium-term Performance Plan will lapse. After he steps down as Group Chief Executive on 21 November 2008, Sir Fred Goodwin will provide assistance in an orderly handover of his responsibilities to Stephen Hester until 31 January 2009. Along with the other Directors, he will not be entitled to a bonus for the financial year ending 31 December 2008.

In respect of share incentive awards held by Directors of the Company who cease to hold office in 2008, the Board will use all reasonable endeavours either to ensure that Directors' unvested share

incentive awards lapse or, where relevant, to have contractual entitlements to unvested share incentive awards waived by the relevant Directors.

If Stephen Hester's employment is terminated by reason of his personal underperformance or if he resigns, he will receive base salary in lieu of notice for the applicable notice period as set out in paragraph 8.6 below. In the event of the termination of his employment by the Company without reason, he will be entitled to the value of salary, bonus and benefits (including pension contribution) for the applicable notice period. In addition, any share awards which are awarded to him by way of replacement of bonus and share awards from his employment with The British Land Company PLC, will vest immediately on such termination.

8.6 Aggregate emoluments

The aggregate of the emoluments for the Directors for the financial year ended 31 December 2007 was approximately £27,569,660 (and includes the emoluments of Johnny Cameron, who is no longer a Director of RBS). In addition to the total remuneration, the aggregate emoluments figure includes cash-based awards granted under the Medium-term Performance Plan and an award granted to Mr Fish under the Citizens Long Term Incentive Plan in 2007 valued at approximately £874,125, based on a target value of 87.5 per cent. of salary. These awards are unvested and payment (if any) is therefore subject to the satisfaction of performance conditions. The aggregate emoluments figure also includes any sum received in 2007 by a Director on the exercise in that year of a phantom option granted under the Medium-term Performance Plan, or an award which has vested under the Citizens Long Term Incentive Plan. Entitlements in respect of awards granted prior to 2007, but not exercised in that year, have not been included and are disclosed on pages 112 and 113 of the Annual Report and Accounts for 2007.

For further information on the total amount set aside by the Group to provide pensions, retirement or similar benefits in respect of the Directors in the financial year ended 31 December 2007, please see page 114 in the Annual Report and Accounts for 2007.

Directors' service contracts and letters of appointment

Details of the Executive Directors' notice periods under their service contracts are set out below:

Name	Date of current contract/employing company	Notice period – from company	Notice period – from executive
Sir Fred Goodwin ⁽¹⁾	1 August 1998 RBS plc	12 months	6 months
Mr Hester ⁽²⁾	12 October 2008 RBS plc	12 months	12 months
Mr Fisher ⁽³⁾	27 February 2007 RBS plc	12 months	12 months
Mr Pell	20 February 2006 RBS plc	12 months	6 months
Mr Whittaker	19 December 2005 RBS plc	12 months	12 months

Notes:

- (1) Sir Fred Goodwin will step down as Group Chief Executive and from the Board and be replaced by Stephen Hester on 21 November 2008.
- (2) On joining, Mr Hester is entitled to 24 months' notice from the Company. This will reduce on a daily basis so that it will be 12 months by the first anniversary of the commencement of his employment.
- (3) Mr Fisher will step down as a Director on 21 November 2008.

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 retire by rotation and seek 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 the Chairman or to any Non-Executive Director in the event of early 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 next re-election</u>
Sir Tom McKillop ⁽¹⁾	1 September 2005	—
Mr Buchan	1 June 2002	2011
Dr Currie	28 November 2001	2011
Mr Fish ⁽²⁾	14 January 1993	—
Mr Friedrich	1 March 2006	2009
Mr Hester	1 October 2008	2009
Mr Hunter	1 September 2004	2010
Mr Koch ⁽³⁾	29 September 2004	—
Mrs Kong	1 January 2006	2011
Mr MacHale	1 September 2004	2010
Mr McFarlane	1 October 2008	2009
Sir Steve Robson	25 July 2001	2011
Mr Ryan	1 October 2008	2009
Mr Scott	31 January 2001	2009
Mr Sutherland	31 January 2001	2009

Notes:

- (1) Sir Tom McKillop will retire at the Group's next Annual General Meeting to be held in April 2009.
- (2) Mr Fish will retire as a Non-Executive Director on 31 December 2008.
- (3) Mr Koch will retire as a Non-Executive Director at the Group's next Annual General Meeting to be held in April 2009.

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 authority reserved to the Board to make the final determination of the remuneration of the Executive Directors.

Currently, the Board is composed of 19 members, consisting of the Chairman, 4 Executive Directors and 14 Non-Executive Directors, 11 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

Sir Tom McKillop (Chairman), Archie Hunter, Bob Scott and Peter Sutherland.

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. 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 or her own succession.

Remuneration Committee

Current members

Sir Tom McKillop, Colin Buchan, Jim Currie, Janis Kong, Bob Scott (Chairman) and Peter Sutherland.

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. The Board as a whole reserves the authority to make the final determination of the remuneration of 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 involved in discussion regarding his or her remuneration.

Audit Committee

Current members

Colin Buchan, Bill Friedrich, Archie Hunter (Chairman), Joe MacHale and Sir Steve Robson.

All members of the Audit Committee are independent Non-Executive Directors. The Audit Committee holds at least five 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 and has held nine meetings so far in 2008.

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 31 October 2008, the Company had been notified of or was otherwise aware of the following Shareholders who were directly or indirectly interested in 3 per cent. or more of the issued Ordinary Shares:

	<u>As at 31 October 2008</u>	
	<u>Ordinary Shares</u>	<u>Percentage of issued share capital</u>
Legal & General plc	720,074,654	4.35

10.2 Save as disclosed in this paragraph 10, RBS is not aware of any person who, as at 31 October 2008 (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 31 October 2008 (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 on pages 12 and 22 of this document.

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 Donegal Square East, Belfast BT1 5UB
ABN AMRO Bank N.V. ⁽¹⁾	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 2007, RBS had approximately 233,600 employees.

	As at 31 December 2007	As at 31 December 2006	As at 31 December 2005
Global Banking & Markets	21,700	7,700	6,900
Global Transaction Services	4,100	2,600	2,000
UK Retail & Commercial Banking	50,100	50,300	50,900
US Retail & Commercial Banking	19,400	20,200	21,200
Europe & Middle East Retail & Commercial Banking	8,000	5,600	5,200
Asia Retail & Commercial Banking	8,600	1,000	900
RBS Insurance	18,000	18,500	20,500
Group Manufacturing	43,100	33,300	33,600
Centre	4,400	2,600	2,300
	<u>177,400</u>	<u>141,800</u>	<u>143,500</u>
RBS share of shared assets	1,200	—	—
RFS minority interest	55,000	—	—
Group Total	<u><u>233,600</u></u>	<u><u>141,800</u></u>	<u><u>143,500</u></u>

13 RBS Employee Share Plans (“Plans”)

13.1 Option Plans

The Company operates the following option plans (“Option Plans”)⁽¹⁾:

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.

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.

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).

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.

13.2 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 plc (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 RBS 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"); and
- The Royal Bank of Scotland Group plc Restricted Share Plan ("RSP").

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.

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).

13.4 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. 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 2007. For information on the pension benefits paid by the Group, please see pages 141 and 142 in the Annual Report and Accounts, 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 RBS Group operates in a legal and regulatory environment that exposes it to potentially significant litigation risks. As a result, RBS and other members of the RBS 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 paragraph 16, 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) a 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 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 judgement on some of the preliminary issues was handed down on 24 April 2008. The April judgement 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 judgement 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 appealed against the ruling in the April judgement that the Current Terms are not exempt from assessment for fairness under the Regulations. The hearing of this appeal before the Court of Appeal commenced on 28 October 2008. RBS and the other banks have accepted that, subject to the appeal, this ruling in the April judgement applies also to 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”).

A High Court judgement on further preliminary issues was handed down on 8 October 2008. The October judgement primarily addressed the question of whether various Basic and Historic Terms were capable of being unenforceable penalty clauses. The judgement made no rulings in relation to any Basic and Historic Terms used by RBS plc or NatWest. The Judge did not accept all of the submissions made by RBS and is expected to hear further submissions by RBS at a hearing later this year.

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, all appeals against the April and October judgements 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 RBS’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 the Company.

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.

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.

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 repealing its cross-border MIF, pending the outcome of the appeal. RBS served notice of its intention to intervene in the appeal proceedings on 30 June 2008. 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 card charges 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. This inquiry could continue for up to two years. In June 2008, the CC published its provisional findings. In summary, these are that there is 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 is currently considering a range of potential remedies, including measures to increase transparency (in order to improve customers' ability to search and improve price competition), measures to address the point-of-sale advantage, measures to reduce switching costs and measures to address any consumer detriment resulting from high prices. The CC is due to publish its provisional decision on remedies shortly, with a final report scheduled for publication in January 2009.

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 early 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. The FSA and the FOS are understood to be discussing how best to handle these complaints.

In January 2006, the OFT commenced a review of the undertakings given following the conclusion of the CC inquiry in 2002 into the supply of banking services to SMEs. On 21 December 2007, the CC published its decision to lift the temporary price controls imposed in 2003 on the United Kingdom's four largest banks servicing SMEs (including RBS) and to retain certain behavioural undertakings.

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. The consultation period expires on 31 October 2008 after which the OFT will decide on next steps, which could include further discussions 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 has also acceded to the CSA. 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 Fortis Bank Nederland, RBS and Santander post-acquisition of ABN AMRO, further funding obligations of 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 is subject to regulatory approvals and completion is expected to take place before the end of November 2008.

18.7 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 has agreed to invite Qualifying Shareholders to apply to acquire New Shares at the Issue Price by way of the Open Offer, (ii) UBS and Merrill Lynch International have been appointed as joint sponsors, joint bookrunners and joint placing agents and have agreed to use reasonable endeavours to procure Placees to acquire the New Shares at not less than the Issue Price on such terms as may be agreed by HM Treasury 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 has 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 acquire such New Shares itself at the Issue Price.

In consideration of its services under the Placing and Open Offer Agreement, HM Treasury will be paid (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 Placing and Open Offer Agreement is 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 per New Share payable on Admission. RBS will pay 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 Placing and Open Offer and the Preference Share Issue.

RBS shall also bear all costs and expenses relating to the 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 Prospectus and all other documents connected with the 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.

The obligations of HM Treasury, UBS and Merrill Lynch International under the Placing and Open Offer Agreement are subject to certain conditions including, among others:

- (i) the passing of both 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 12 December 2008 (or such later time and date as HM Treasury may agree).

Certain of the conditions may be waived by HM Treasury at its discretion. HM Treasury may terminate the Placing and Open Offer Agreement in certain circumstances but only prior to Admission. On a termination event arising, UBS and Merrill Lynch International are not entitled to terminate the Placing and Open Offer Agreement but may resign their role as sponsor. HM Treasury is entitled to novate its rights under the Placing and Open Offer Agreement to any entity that is owned, directly or indirectly, by HM Treasury.

Each of UBS and Merrill Lynch International may terminate its obligations under the Placing and Open Offer Agreement in certain circumstances, but only prior to Admission. On termination by UBS or Merrill Lynch International, the Placing and Open Offer Agreement will continue to be in force as between the non-terminating parties.

RBS has given certain representations and warranties and indemnities to each of HM Treasury, UBS and Merrill Lynch International under the Placing and Open Offer Agreement. The liabilities of RBS are unlimited as to time and amount.

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 unless otherwise agreed by HM Treasury. Repurchase within five years will also require, among other things, agreement of the holders of the Preference Shares. In addition, the Preference Shares will be redeemable by the Company at their issue price at its option five years after issue (subject to one month's notice to the FSA). Dividends on the other preference shares issued by the Company will continue to be payable in accordance with their terms.

RBS has given certain undertakings to HM Treasury in relation to such matters as mortgage lending, lending to SMEs and Board remuneration. These undertakings are 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 is 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 has given to HM Treasury include 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.

In addition, RBS has 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 has 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.

The Placing and Open Offer Agreement provides that if HM Treasury acquires New Shares in the Open Offer, RBS will, on the date of Admission, enter into a registration rights agreement with HM Treasury on terms reasonably satisfactory to both parties to provide HM Treasury certain rights to register New Shares it acquires with the US Securities and Exchange Commission.

18.8 Preference Share Subscription Agreement

Pursuant to a preference share subscription agreement effective as of 13 October 2008 between RBS and HM Treasury, HM Treasury agreed to subscribe for, and RBS agreed to allot and issue to HM Treasury, the Preference Shares for a total consideration of £5 billion. RBS and HM Treasury have agreed that applications will 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 is 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 is conditional on the Placing and Open Offer Agreement becoming unconditional in accordance with its terms.

Further details of the Preference Shares are outlined in paragraph 2 of the Appendix to the Letter from the Chairman of RBS contained in Part I of this document.

18.9 Subscription and Transfer Agreements

As referred to in paragraph 4.4 of Part III of this document, in connection with the Placing and Open Offer, the Company, Merrill Lynch International, UBS, Computershare and Newco have 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 will 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 are exercisable if the Placing and Open Offer does not proceed;
- (b) Merrill Lynch International or UBS, as applicable, will 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 will 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 Placing and Open Offer the Company will own the entire issued ordinary and redeemable preference share capital of Newco whose only assets will be its cash reserves, which will represent an amount equivalent to the net proceeds of the Placing and Open Offer. The Company will be able to utilise this amount equivalent to the Placing and Open Offer net proceeds by exercising its right of redemption over the redeemable preference shares it will hold in Newco.

Qualifying Shareholders are not party to these arrangements and so will not acquire any direct right against Merrill Lynch International, UBS and Computershare pursuant to these arrangements. The Company will be responsible for enforcing the other parties' obligations thereunder.

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 set out below, or disclosed in the financial information incorporated by reference into this document for the financial years ended 31 December 2005, 2006 and 2007, 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 2005, 2006 and 2007 and during the period between 1 January 2008 and 31 October 2008 (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 2007, 31 December 2006 and 31 December 2005:

	Dividend per Share (pence per Ordinary Share)	
	Reported ⁽¹⁾	Adjusted ⁽²⁾
2007	32.2	27.2
2006	25.8	21.8
2005	20.2	17.0

Notes:

- (1) Adjusted to reflect the two-for-one bonus issue in May 2007.
- (2) The adjusted data have been adjusted to reflect the discount element of the Rights Issue and the estimated discount element of the Placing and Open Offer, based on the price of an Ordinary Share at the close of business on 31 October 2008 as derived from the Daily Official List.
- (3) The information above has not been updated for the one-for-40 capitalisation issue in September 2008.
- (4) Unless otherwise agreed by HM Treasury, no dividend may be paid or distribution made on the Ordinary Shares until the Preference Shares have been redeemed or purchased in full. For further details please see paragraph 3 of the Appendix to the Letter from the Chairman of RBS contained in Part I of this document.

22 No significant change

Save for the continued market deterioration, credit market write-downs and increase in risk weighted assets as outlined in the paragraph entitled "Introduction" and the increased market volatility, further

slowing of income growth and rising impairments (both recorded and yet to be determined) as outlined in the paragraph entitled “Outlook” of paragraph 7 and the credit market write-downs in paragraph 8, both contained in the Appendix to the Letter from the Chairman of RBS contained in Part I of this document, there has been no significant change in the trading or financial position of the RBS Group since 30 June 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 & Touche 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 IX 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 & Touche 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 2007 were reported on by 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 2007 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 £265 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 UK, 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 65.5 pence per share. This represents a premium of 40.5 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 and will also be available for inspection at the General Meeting for at least 15 minutes prior to and during the meeting:

- (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 2007, 2006 and 2005;
- (c) the Annual Report on Form 20-F of ABN AMRO for the financial year ended 31 December 2007;
- (d) the report on the unaudited pro forma financial information by Deloitte & Touche LLP set out in Part IX of this document;
- (e) the shareholder circular dated 20 July 2007 prepared by RBS in connection with the acquisition of ABN AMRO;
- (f) the listing particulars dated 20 July 2007 prepared by RBS in connection with the acquisition of ABN AMRO;
- (g) the Report on Form 6-K prepared by RBS for the six months ended 30 June 2008;
- (h) the Report on Form 6-K prepared by ABN AMRO for the six months ended 30 June 2008;
- (i) the consent letters referred to in paragraph 23 above;
- (j) the Circular;
- (k) the material contracts referred to in paragraph 18 above;
- (l) the Directors' service contracts; and
- (m) 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.

4 November 2008

PART XII

DOCUMENTATION INCORPORATED BY REFERENCE

The Annual Report and Accounts of RBS for each of the financial years ended 31 December 2007, 2006 and 2005 are available for inspection in accordance with paragraph 25 of Part XI 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.

The Form 6-K of RBS dated 30 September 2008, containing unaudited interim condensed consolidated financial statements for the six-month periods ended 30 June 2008 and 2007, is available for inspection in accordance with paragraph 25 of Part XI 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 and on the SEC's website at www.sec.gov.

The Annual Report on Form 20-F of ABN AMRO for the financial year ended 31 December 2007 has been filed with the SEC, is available for inspection in accordance with paragraph 25 of Part XI of this document and contains information which is relevant to the Placing and Open Offer. This document is also available on the SEC's website at www.sec.gov.

The Form 6-K of ABN AMRO dated 30 September 2008, containing unaudited interim condensed consolidated financial statements for the six-month periods ended 30 June 2008 and 2007, is available for inspection in accordance with paragraph 25 of Part XI of this document and contains information which is relevant to the Placing and Open Offer. This document is also available on the SEC's website at www.sec.gov.

The Circular is available for inspection in accordance with paragraph 25 of Part XI 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.

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 XI 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.

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>
RBS		
Report on Form 6-K dated 30 September 2008	Presentation of information	2
Report on Form 6-K dated 30 September 2008	Condensed consolidated income statement	3
Report on Form 6-K dated 30 September 2008	Financial review	4
Report on Form 6-K dated 30 September 2008	Condensed consolidated balance sheet	5
Report on Form 6-K dated 30 September 2008	Overview of condensed consolidated balance sheet	6-7
Report on Form 6-K dated 30 September 2008	Description of business	8-10

Document	Section	Page numbers in such document
Report on Form 6-K dated 30 September 2008	Divisional performance	11-33
Report on Form 6-K dated 30 September 2008	Credit market exposures	34-35
Report on Form 6-K dated 30 September 2008	Average balance sheet	36
Report on Form 6-K dated 30 September 2008	Average interest rates, yields, spreads and margins	37
Report on Form 6-K dated 30 September 2008	Condensed consolidated financial statements and the notes thereto	38-51
Report on Form 6-K dated 30 September 2008	Analysis of income, expenses and impairment losses	52
Report on Form 6-K dated 30 September 2008	Regulatory information	53-54
Report on Form 6-K dated 30 September 2008	Asset quality	55-57
Report on Form 6-K dated 30 September 2008	Derivatives	58
Report on Form 6-K dated 30 September 2008	Risk information	59
Report on Form 6-K dated 30 September 2008	Fair value – financial instruments	60
Report on Form 6-K dated 30 September 2008	Principal risks and uncertainties	61
Report on Form 6-K dated 30 September 2008	Other information	62-63
Report on Form 6-K dated 30 September 2008	Selected financial data	64-65
Report on Form 6-K dated 30 September 2008	Forward-looking statements	66
Annual Report and Accounts 2007	Independent auditors' report for year ended 31 December 2007	118-119
Annual Report and Accounts 2007	Consolidated income statement for year ended 31 December 2007	120
Annual Report and Accounts 2007	Balance sheet as at 31 December 2007	121
Annual Report and Accounts 2007	Statement of recognised income and expense for year ended 31 December 2007	122
Annual Report and Accounts 2007	Cash flow statement for year ended 31 December 2007	123
Annual Report and Accounts 2007	Accounting policies	124-139
Annual Report and Accounts 2007	Notes on the accounts for year ended 31 December 2007	140-212
Annual Report and Accounts 2007	Business review	4-90
Annual Report and Accounts 2007	Report of the Directors	94-98
Annual Report and Accounts 2007	Corporate governance	99-104

Document	Section	Page numbers in such document
Annual Report and Accounts 2007	Directors' remuneration report	105-114
Annual Report and Accounts 2007	Directors' interests in shares	115
Annual Report and Accounts 2007	Amounts in accordance with IFRS	214-222
Annual Report and Accounts 2007	Exchange rates	230
Annual Report and Accounts 2007	Economic and monetary environment	231
Annual Report and Accounts 2007	Supervision and regulation	231-233
Annual Report and Accounts 2007	Description of property and equipment	234
Annual Report and Accounts 2007	Major shareholders	234
Annual Report and Accounts 2007	Material contracts	234
Letter to Shareholders	Press release relating to the proposed rights issue, dated 22 April 2008 – Appendix IV and Appendix V	16-20
Listing Particulars dated 20 July 2007	Information on the Consortium and Shareholders' Agreement	74-77
Listing Particulars dated 20 July 2007	Plans and Proposals for ABN AMRO	42-48
Annual Report and Accounts 2006	Independent auditors' report for year ended 31 December 2006	128-129
Annual Report and Accounts 2006	Accounting policies	130-138
Annual Report and Accounts 2006	Consolidated income statement for year ended 31 December 2006	139
Annual Report and Accounts 2006	Balance sheet as at 31 December 2006	140
Annual Report and Accounts 2006	Statement of recognised income and expense for year ended 31 December 2006	141
Annual Report and Accounts 2006	Cash flow statement for year ended 31 December 2006	142
Annual Report and Accounts 2006	Notes on the accounts for year ended 31 December 2006	143-224
Annual Report and Accounts 2006	Operating and financial review for year ended 31 December 2006	43-100
Annual Report and Accounts 2005	Independent auditors' report for year ended 31 December 2005	134-135
Annual Report and Accounts 2005	Accounting policies	136-144
Annual Report and Accounts 2005	Consolidated income statement for year ended 31 December 2005	145
Annual Report and Accounts 2005	Balance sheet as at 31 December 2005	146
Annual Report and Accounts 2005	Statement of recognised income and expense for year ended 31 December 2005	147
Annual Report and Accounts 2005	Cash flow statement for year ended 31 December 2005	148
Annual Report and Accounts 2005	Notes to the accounts for year ended 31 December 2005	149-229
Annual Report and Accounts 2005	Operating and financial review for year ended 31 December 2005	51-106

<u>Document</u>	<u>Section</u>	<u>Page numbers in such document</u>
ABN AMRO		
Report on Form 6-K dated 30 September 2008	Chairman's Review	4
Report on Form 6-K dated 30 September 2008	Introduction	5
Report on Form 6-K dated 30 September 2008	Management Review	5-7
Report on Form 6-K dated 30 September 2008	Condensed Consolidated Income Statement	8
Report on Form 6-K dated 30 September 2008	Condensed Consolidated Balance Sheet	9
Report on Form 6-K dated 30 September 2008	Condensed Consolidated statement of changes in equity	10
Report on Form 6-K dated 30 September 2008	Condensed consolidated cash flow statement	11
Report on Form 6-K dated 30 September 2008	Notes to the Interim financial report	12-31
Report on Form 6-K dated 30 September 2008	Credit market and related exposures – additional information	32-34
Annual Report on Form 20-F – 2007	Report of independent registered public accounting firm for year ended 31 December 2007	233
Annual Report on Form 20-F – 2007	Accounting policies	98-115
Annual Report on Form 20-F – 2007	Consolidated income statement for year ended 31 December 2007	116
Annual Report on Form 20-F – 2007	Consolidated balance sheet as at 31 December 2007	117
Annual Report on Form 20-F – 2007	Consolidated statement of changes in equity for year ended 31 December 2007	118
Annual Report on Form 20-F – 2007	Consolidated cash flow statement for year ended 31 December 2007	119
Annual Report on Form 20-F – 2007	Notes to the consolidated financial statements for year ended 31 December 2007	120-224
Annual Report on Form 20-F – 2007	Operating and financial review and prospects for year ended 31 December 2007	12-29
Annual Report on Form 20-F – 2007	Results of operations by BU	30-51
Annual Report on Form 20-F – 2007	Risk and capital management	52-76

PART XIII

DEFINITIONS

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

ABI	the Association of British Insurers.
ABN AMRO	ABN AMRO Holding N.V. and its subsidiaries or any one of them, as the context so requires.
ABN AMRO Bank	ABN AMRO Bank N.V., a wholly-owned subsidiary of ABN AMRO.
ABS	asset-backed security.
Admission	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 NYSE Euronext Rule Books.
Admission and Disclosure Standards	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.
Admitted Institutions and each an Admitted Institution	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.
ADSs	American depository shares, each representing one ordinary share of ABN AMRO.
Application Form	the personalised application form on which Qualifying Non-CREST Shareholders may apply for New Shares under the Open Offer.
Articles of Association	the articles of association of the Company, details of which are set out in paragraph 4.2 of Part XI of this document.
Audit Committee	the audit committee established by the Board.
Basel Committee	the Basel Committee on Banking Supervision.
Basel I	the 1988 Basel Accord of the Basel Committee.
Basel II	the June 2004 Basel Accord of the Basel Committee.
Board	the board of Directors of RBS.
business day	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.
Capitalisation Issue	the issue in September 2008 of Ordinary Shares instead of the payment of the 2008 interim dividend.
CC	the UK Competition Commission.
CDO	collateralised debt obligation.
CDS	credit default swap.

certificated or in certificated form	where a share or other security is not in uncertificated form.
CET	Central European Time.
Circular	the circular to Shareholders dated 4 November 2008 issued by the Company in connection with the Placing and Open Offer and including the General Meeting Notice.
Citizens	Citizens Financial Group Inc., a wholly-owned subsidiary of RBS.
City Code	The City Code on Takeovers and Mergers.
Claims Processing Unit	has the meaning given in the CREST Manual.
CLO	collateralised loan obligation.
CMBS	commercial mortgage-backed security.
Combined Code	the UK Combined Code on Corporate Governance.
Companies Act	the UK Companies Act 1985, as amended, or the UK Companies Act 2006, as the context so requires.
Company or RBS	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.
Computershare UK Offices	the addresses at which the hand delivery of Application Forms may be made as outlined on pages 54 and 55 of this document.
Consortium Banks	RBS, Fortis Bank Nederland and Santander.
CREST	the relevant system, as defined in the CREST Regulations (in respect of which Euroclear UK is the operator as defined in the CREST Regulations).
CREST Courier and Sorting Service	the CREST Courier and Sorting Service established by Euroclear UK to facilitate, amongst other things, the deposit and withdrawal of securities.
CREST Manual	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).
CREST member	a person who has been admitted to Euroclear UK as a system-member (as defined in the CREST Regulations).
CREST participant	a person who is, in relation to CREST, a system-participant (as defined in the CREST Regulations).
CREST Regulations or Regulations	the Uncertificated Securities Regulations 2001 (SI 2001 No. 01/378), as amended.
CREST sponsor	a CREST participant admitted to CREST as a CREST sponsor.
CREST sponsored member	a CREST member admitted to CREST as a sponsored member.
CSA or Consortium Agreement	the Consortium and Shareholders' Agreement dated 28 May 2007, among RBS, Fortis, Fortis Bank Nederland, Santander and RFS Holdings, as amended.

Cumulative Preference Shares	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.
Daily Official List	the daily record setting out the prices of all trades in shares and other securities conducted on the London Stock Exchange.
Directors	the Executive Directors and Non-Executive Directors, whose names appear on page 31 of this document.
Disclosure and Transparency Rules	the rules relating to the disclosure of information made in accordance with Section 73A(3) of the FSMA.
Discretionary Option Plans	the Discretionary Option Plans adopted by the Company described in paragraph 13.1 of Part XI of this document.
Dutch Central Bank	De Nederlandsche Bank N.V.
Dutch Securities Giro Act	the Dutch <i>Wet giraal effectenverkeer</i> .
Dutch Subscription Agent	ABN AMRO Bank N.V.
Employee Share Ownership Plans	the Employee Share Ownership Plans adopted by the Company described in paragraph 13.2 of Part XI of this document.
EPS	earnings per share.
EU or European Union	the European Union.
Euroclear Nederland	Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V., the Dutch depository and settlement institute.
Euroclear Open Offer Entitlement	an entitlement to apply for New Shares, calculated on the pro rata basis of 18 New Shares for every 13 Existing Shares held, allocated to a Qualifying Euroclear Shareholder pursuant to, and subject to the terms of, the Open Offer.
Euroclear Share	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.
Euroclear UK	Euroclear UK & Ireland Limited, the operator of CREST.
Euronext	Euronext Amsterdam N.V.
Euronext Amsterdam	Euronext Amsterdam by NYSE Euronext, the regulated market of Euronext.
European Economic Area	the European Union, Iceland, Norway and Liechtenstein.
Excess Application Facility	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).
Excess CREST Open Offer Entitlements	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: GB00B3F6NK43.
Excluded Territories and each an Excluded Territory	Australia and South Africa.
Executive Directors	the executive directors of RBS.
Existing Shares	the Ordinary Shares in issue as at the date of this document.

Ex-Entitlement Date	the date on which the Ordinary Shares are marked “ex-entitlement”, being 10 November 2008.
Financial Services Authority or FSA	the Financial Services Authority of the United Kingdom.
Fortis	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.
Fortis Bank Nederland	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.
FSMA	the Financial Services and Markets Act 2000, as amended.
G-7	the group of seven industrialised nations constituted by Canada, France, Germany, Italy, Japan, the United Kingdom and the United States.
GBM	the Global Banking & Markets division of the Group.
General Meeting	the general meeting of RBS to be held at 3.00 p.m. on 20 November 2008, notice of which is set out in the Circular.
General Meeting Notice	the notice of the General Meeting set out in the Circular.
HMRC	HM Revenue & Customs.
HM Treasury	Her Majesty’s Treasury or, where the context requires, any person to whom the Placing and Open Offer Agreement is novated.
IAS	International Accounting Standard.
IASB	the International Accounting Standards Board.
ICAEW	the Institute of Chartered Accountants in England and Wales.
IFRS	International Financial Reporting Standards as issued by the International Accounting Standards Board.
Independent Shareholders	the Shareholders, excluding HM Treasury and any person acting in concert with HM Treasury.
IRS	the Internal Revenue Service of the United States.
Issue Price	65.5 pence per New Share.
Joint Brokers	Merrill Lynch International, UBS and RBS Hoare Govett.
Lehman Brothers	Lehman Brothers Inc. and, where the context permits, its subsidiaries and affiliates.
Listing Rules	the Listing Rules made by the FSA under Part VI of the FSMA.
London Stock Exchange member account ID	London Stock Exchange plc. the identification code or number attached to any member account in CREST.
Memorandum of Association	the memorandum of association of the Company, details of which are set out in paragraph 4.1 of Part XI of this document.
Merrill Lynch International	Merrill Lynch International of Merrill Lynch Financial Centre, 2 King Edward Street, London EC1A 1HQ.

Money Laundering Regulations monoline insurer	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.
NatWest	National Westminster Bank plc.
Newco	Encuentro Limited, a company incorporated in Jersey.
New Shares	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 Placing and Open Offer Agreement.
Nominations Committee	the nominations committee established by the Board.
Non-Executive Directors	the non-executive directors of RBS.
OFAC	the Office of Foreign Asset Control.
Official List	the Official List of the FSA pursuant to Part VI of the FSMA.
OFT	the Office of Fair Trading.
Open Offer	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, in the case of Qualifying Non-CREST Shareholders, in the Application Form.
Open Offer Entitlement	an entitlement to apply for New Shares, calculated on a pro rata basis of 18 New Shares for every 13 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: GB00B3DVNQ73.
Option Plans	the Discretionary Option Plans and the Sharesave Schemes.
Ordinary Shares or Shares	the ordinary shares of 25 pence each in the share capital of the Company (including, if the context requires, the New Shares).
Overseas Shareholders	Shareholders with registered addresses outside the United Kingdom or who are citizens or residents of, or located in, countries outside the United Kingdom.
Panel	The Panel on Takeovers and Mergers.
Part VI Rules	the rules made by the FSA in accordance with the FSMA.
participant ID	the identification code or membership number used in CREST to identify a particular CREST member or other CREST participant.
Performance Plans	the Medium-term Performance Plan and the Restricted Share Plan, as described in paragraph 13 of Part XI of this document.
Placees	placees of New Shares pursuant to the Placing.
Placing	the placing of New Shares with Placees as described herein.
Placing and Open Offer Agreement	the Placing and Open Offer Agreement effective as of 13 October 2008 between the Company, HM Treasury, Merrill Lynch International and UBS.
pounds sterling or £	the lawful currency of the United Kingdom.
PPI	payment protection insurance.

Preference Shares	the non-cumulative sterling preference shares to be issued to HM Treasury pursuant to the Preference Share Issue.
Preference Share Issue	the issue of the Preference Shares to HM Treasury (as described herein) pursuant to the Preference Share Subscription Agreement.
Preference Share Subscription Agreement	the preference share subscription agreement effective as of 13 October 2008 between the Company and HM Treasury in connection with the Preference Share Issue.
proportional consolidated basis	a level of consolidation which excludes those ABN AMRO businesses to be transferred to Fortis and Santander (including their proportional ownership of shared assets and shared liabilities).
Prospectus Rules	the Prospectus Rules published by the FSA under Section 73A of the FSMA.
Qualified Institutional Buyer or QIB	has the meaning given in Rule 144A under the US Securities Act.
Qualifying CREST Shareholders	Qualifying Shareholders holding Ordinary Shares in uncertificated form in CREST.
Qualifying Euroclear Shareholders	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.
Qualifying Non-CREST Shareholders	Qualifying Shareholders holding Ordinary Shares in certificated form.
Qualifying Shareholders	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.
RBS Group or the Group	the Company and each of its subsidiaries and subsidiary undertakings from time to time.
RBS Employee Share Plans	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 and the Performance Plans described in Part XI of this document.
RBS Hoare Govett	RBS Hoare Govett Limited of 250 Bishopsgate, London EC2M 4AA.
RBS Insurance or RBS Insurance Group Limited	those companies and operations comprising the RBS insurance division such as Direct Line, Churchill, Privilege, Green Flag and NIG.
RBS plc	The Royal Bank of Scotland plc of 36 St Andrew Square, Edinburgh EH2 2YB.
Record Date	in respect of Qualifying Euroclear Shareholders, close of business on 7 November 2008 and, in respect of Qualifying CREST Shareholders and Qualifying Non-CREST Shareholders, close of business on 31 October 2008.

Registrar or Computershare	Computershare Investor Services PLC.
Regulation M	Regulation M under the US Exchange Act.
Regulatory Information Service	one of the regulatory information services authorised by the UK Listing Authority to receive, process and disseminate regulatory information in respect of listed companies.
Remuneration Committee	the remuneration committee established by the Board.
Resolution 1	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.
Resolutions	Resolution 1 and the Rule 9 Dispensation Proposal.
RFS Holdings	RFS Holdings B.V., the investment vehicle through which RBS, Fortis and Santander acquired ABN AMRO.
Rights Issue	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.
RMBS	residential mortgage-backed security.
Rule 9 Dispensation	the procedure stipulated by the City Code, whereby a waiver granted by the Panel from the requirement under Rule 9 of the City Code to make a mandatory cash offer for the Company can be acted upon by the parties concerned, provided that the waiver has previously been approved by a vote of Independent Shareholders of the Company on a poll in a general meeting.
Rule 9 Dispensation Proposal	the proposal referred to in the Circular relating to the approval of the waiver granted by the Panel from the potential requirement for HM Treasury to make a mandatory cash offer for the Company under Rule 9 of the City Code.
Santander	Banco Santander, S.A.
SDRT	stamp duty reserve tax.
SEC or US Securities and Exchange Commission	the United States government agency having primary responsibility for enforcing the federal securities laws and regulating the securities industry/stock market.
Shareholder or RBS Shareholder	a holder of Ordinary Shares.
Shareholder Guide	the guide attached to the Application Forms containing instructions as to the completion of the Application Forms.
Sharesave Schemes	the Sharesave Schemes and Sharesave Plans adopted by the Company described in paragraph 13.1 of Part XI of this document.
SMEs	small and medium-sized entities.
Special Dealing Service	the dealing service offered by the Company and Computershare following the Capitalisation Issue.
stock account	an account within a member account in CREST to which a holding of a particular share or other security in CREST is credited.
subsidiary undertaking	as defined in section 258 of the Companies Act.
UBS or UBS Investment Bank or UBS Limited	UBS Limited of 1 Finsbury Avenue, London EC2M 2PP.

UK Listing Authority or UKLA	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.
uncertificated or in uncertificated form	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.
United Kingdom or UK	the United Kingdom of Great Britain and Northern Ireland.
United States or US	the United States of America, its territories and possessions, any state of the United States and the District of Columbia.
US Exchange Act	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 1933, as amended.
USE Instruction	has the meaning given in the CREST Manual.

