

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

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

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

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

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

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



The Royal Bank of Scotland Group plc

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

Placing and Open Offer of 22,909,776,276 New Shares at 65.5 pence per New Share and Notice of General Meeting

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

Notice of a General Meeting of RBS, to be held on 20 November 2008 at 3.00 p.m. at The Assembly Hall, Mound Place, Edinburgh EH1 2LU, is set out at the end of this document. A Form of Proxy for use at the General Meeting is enclosed. To be valid, Forms of Proxy should be completed, signed and returned in accordance with the notes to the Notice of General Meeting (at the end of this document) and the Form of Proxy itself.

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

FORWARD-LOOKING STATEMENTS

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

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

- the ability of RBS to access sufficient funding to meet its liquidity needs;
- developments in the current crisis in the global financial markets, and their impact on the financial industry in general and RBS in particular;
- the 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 the Prospectus that could cause actual results to differ materially from those in the forward-looking statements.

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

IMPORTANT NOTICE FOR CUSTODIANS AND NOMINEES HOLDING FOR US HOLDERS

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

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

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

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

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

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The Prospectus, from which certain information has been incorporated by reference into this document, can be obtained from the RBS website (which is at <http://www.rbs.com>) or free of charge from the Company's Registrar, Computershare Investor Services PLC (Telephone 0870 702 0135) provided that, subject to certain exceptions, the Prospectus will not be mailed or otherwise distributed into the United States or an Excluded Territory. Paragraph 4 in Part II of this document sets out the various sections of the Prospectus which are incorporated by reference into this document. Please note that information incorporated by reference into this document will not be provided in hard copy form unless requested as described above. If you wish to apply for New Shares in the Open Offer, you should read the Prospectus as a whole, including, in particular, the Risk Factors set out in the section headed "Risk Factors" in that document.

PLACING AND OPEN OFFER STATISTICS

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

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

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 notice of General Meeting at the end of this document.

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 8 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 in Part II of this document. In particular, paragraph 10 of the Appendix to this letter contains information on the Rule 9 Dispensation Proposal, being the proposal referred to in this document relating to the approval of the waiver granted by the Panel from the potential requirement for HM Treasury to make a mandatory offer for the Company under Rule 9 of the City Code.

Importance of the Resolutions

The Resolutions must be passed by Shareholders at the General Meeting (or, in the case of the Rule 9 Dispensation Proposal, the requirement for it to be passed must be waived) in order for the Placing and Open Offer to proceed. 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 which may not be available or successful. 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, there will be adverse consequences for the Company which may, in turn, cause its share price to decline substantially with negative implications for Shareholders. Further information is contained in paragraph 14 of the Appendix to this letter.

Directors' recommendation

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.

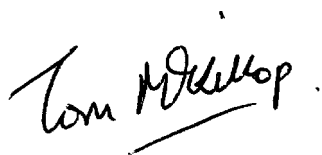
The Board, which has been so advised by Merrill Lynch International and UBS, considers that the Placing and Open Offer and the Rule 9 Dispensation Proposal are fair and reasonable and in the best interests of Shareholders taken as a whole. In providing their advice, Merrill Lynch International and UBS have taken into account the Board's commercial assessments.

The Board unanimously recommends that Shareholders vote in favour of the Resolutions to be put to the General Meeting as they intend to do, or procure, in respect of their own beneficial shareholdings, amounting to approximately 3,161,190 Ordinary Shares, representing approximately 0.02 per cent. of the Existing Shares.

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,



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.

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 (to the extent that these are in excess of the book value of assets disposed), 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 HM Treasury's Intentions

HM Treasury is not a permanent investor in UK banks. Its intention, over time, is to dispose of any Ordinary Shares it may acquire under the Placing and Open Offer in an orderly way. Subject to the following, HM Treasury currently has no intentions or strategic plans concerning the Group or its business or employees.

As part of its arrangements with HM Treasury, the Company has given certain undertakings, which are consistent with its existing focus in the relevant lines of business, 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. The constraints will cease to apply when, broadly, it is determined that RBS is no longer in receipt of state aid.

The principal undertakings are as follows:

- (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 be linked to long-term value creation and take account of risk and not short term indicators such as profit or revenues and Directors who leave the Company 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, provided that this will not require the Company to engage in uncommercial practices;
- (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 of New Shares, 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.

8 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 9 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.

9 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 16).
- (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 (£ millions)	Gross exposure	Split of underlying asset value (%)	Protected asset value as % of notional
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
	(£ millions)	
North America	4,795	5,037
United Kingdom	2,620	3,211
Europe	1,949	2,337
Other	76	204
Total leveraged finance	<u>9,440</u>	<u>10,789</u>

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		Write-back of mark-to- market losses	Interest accretion	
	<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	23,390	22,817	24,203	1,386	56	(2,237)
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.

10 Rule 9 Dispensation Proposal

On completion of the Placing and Open Offer, HM Treasury will potentially be interested in a maximum of 22,909,776,276 New Shares, representing a maximum of approximately 58.06 per cent. of the Company's enlarged issued ordinary share capital (on a fully diluted basis and assuming no applications under the Open Offer).

Rule 9 of the City Code ("Rule 9") is designed to prevent the acquisition of control of a company to which the City Code applies without a general cash offer being made to all shareholders of that company.

Under Rule 9, when any person, together with persons acting in concert with him, acquires, whether by a series of transactions over a period of time or not, an interest in shares (as defined in the City Code) which (together with shares in which he and persons acting in concert with him are already interested) carry 30 per cent. or more of the voting rights of a company which is subject to the City Code, that person, or persons acting in concert with him, is normally obliged to make a general cash offer to all the remaining shareholders to acquire their equity shares and transferable securities carrying voting rights in the company at not less than the highest price paid by him (or any person acting in concert with him), for shares of that class within the preceding 12 months.

Rule 9 also requires that when a person, together with persons acting in concert with him, is interested in shares which in the aggregate carry not less than 30 per cent. of the voting rights of a company but does not hold shares carrying more than 50 per cent. of such voting rights, and such person, or any person acting in concert with him, acquires an interest in any other shares which increases the percentage of shares carrying voting rights in which he is interested, that person is normally obliged to make a general cash offer to all the remaining shareholders to acquire their equity shares and transferable securities carrying voting rights in the company at not less than the highest price paid by him (or any person acting in concert with him) for shares of that class within the preceding 12 months.

The Panel has been consulted and has agreed, subject to the passing on a poll by the Independent Shareholders of Resolution 2 set out in the General Meeting Notice, to waive the obligation on HM Treasury to make a general offer to RBS Shareholders under Rule 9 which could otherwise arise upon completion of the Placing and Open Offer. **If Resolution 2 in the Notice of General Meeting is passed and the Placing and Open Offer proceeds, Shareholders should note that HM Treasury could potentially hold more than 50 per cent. of the Company's voting share capital and, accordingly, would be able to make further acquisitions of Ordinary Shares without incurring any obligation under Rule 9 to make a general offer to RBS Shareholders for the remaining Ordinary Shares in the Company.**

11 General Meeting

A notice convening a General Meeting of the Company to be held on 20 November 2008 at 3.00 p.m. at The Assembly Hall, Mound Place, Edinburgh EH1 2LU is set out at the end of this document and details of the Resolutions proposed to be passed at the General Meeting are set out in the notice. The General Meeting is being held for the purpose of considering and, if thought fit, passing 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. 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.

12 Risk factors to be considered by Shareholders

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

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

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

Risks related to RBS

- If RBS 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 placees will be taken up by HM Treasury, which could therefore acquire a significant shareholding in the Group. This may lead to adverse 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.

13 Action to be taken by Shareholders

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

Completed Forms of Proxy should be returned in the pre-paid envelope as soon as possible, but in any event no later than 3.00 p.m. on 18 November 2008. In addition, it is now possible to appoint and instruct your proxy electronically by following the instructions on the enclosed Form of Proxy. Completion of a Form of Proxy will not prevent you from attending and voting at the General Meeting if you so wish. To appoint more than one proxy (each of whom must be appointed to exercise rights attached to the different shares held by you), see Note 2 on the reverse of the Form of Proxy.

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

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

14 Importance of the Resolutions

The Resolutions must be passed by Shareholders at the General Meeting (or, in the case of the Rule 9 Dispensation Proposal, the requirement for it to be passed must be waived) in order for the Placing and Open Offer to proceed. As the Preference Share Issue is conditional on the Placing and Open Offer Agreement becoming unconditional, it is also conditional on the Resolutions being passed (or waived, as appropriate). 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, which 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.

PART II

INFORMATION REQUIRED BY THE CITY CODE

1 Responsibility

- (a) The Directors of RBS, whose names appear below, accept responsibility for all the information contained in this document other than the information for which responsibility is taken by others pursuant to paragraph 1(b) below. To the best of the knowledge and belief of the RBS Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document, other than the information for which responsibility is taken by others pursuant to paragraph 1(b) below, is in accordance with the facts and does not omit anything likely to affect the import of such information.
- (b) Nicholas Macpherson, acting in his capacity as Permanent Secretary to HM Treasury, (the “HM Treasury Responsible Person”) accepts responsibility for the information contained in this document relating to HM Treasury, including any statements of expectation or intention on the part of HM Treasury. To the best of the knowledge and belief of the HM Treasury Responsible Person (who has taken all reasonable care to ensure that such is the case), the information contained in this document for which he is responsible is in accordance with the facts and does not omit anything likely to affect the import of such information.

2 Directors

The Directors of RBS are:

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.

3 Registered Office

The Registered Office of RBS is 36 St Andrew Square, Edinburgh EH2 2YB.

4 Relevant Documentation

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

<u>Information</u>	<u>Sections of the Prospectus incorporated by reference into this Circular</u>
Financial Information on RBS	Part VI—Financial Information on RBS
Unaudited pro-forma proportional regulatory capital ratios as at 30 September 2008 and Deloitte & Touche LLP report	Part IX—Unaudited Pro Forma Financial Information
Details of the RBS Directors' interests in RBS Shares	Paragraph 7 of Part XI—Additional Information
Details of the RBS Directors' service contracts	Paragraph 8 of Part XI—Additional Information
Details of material contracts relating to the RBS Group	Paragraph 18 of Part XI—Additional Information
The no significant change statement of RBS	Paragraph 22 of Part XI—Additional Information

5 Market quotations

The following table shows the middle market quotations for RBS Shares, as derived from the London Stock Exchange Daily Official List, on (i) the first business day in each of the six months immediately before the date of this document and (ii) 31 October 2008, being the last practicable date before the publication of this document:

<u>Date</u>	<u>Price per RBS Share</u> <i>(pence)</i>
1 May 2008	346
2 June 2008	226
1 July 2008	204
1 August 2008	215.25
1 September 2008	235.75
1 October 2008	180
31 October 2008	67.50

6 Disclosure of interests in relevant securities

(a) Definitions

For the purposes of this paragraph 6:

- (i) “acting in concert” with a party means any person acting or deemed to be acting in concert with that party for the purposes of the City Code;
- (ii) “associate”, in relation to RBS, means:
 - (A) the subsidiaries and associated companies of RBS and companies of which RBS, its subsidiaries and associated companies are associated companies. For this purpose, ownership or control of 20 per cent. or more of the equity share capital of a company is the test of associated company status;
 - (B) any pension fund or employee benefit trust of RBS or of any company covered in (A) above; and/or
 - (C) any connected adviser and persons controlling, controlled by or under the same control as any such connected adviser (except for an exempt principal trader or an exempt fund manager);

- (iii) “connected adviser”, in relation to RBS, means an organisation which is advising RBS in relation to the Placing and Open Offer, its corporate broker, an organisation which is advising a person acting in concert with RBS in relation to the Placing and Open Offer or in relation to the matter which is the reason for that person being a member of the concert party, or an organisation which is advising an associate covered in paragraph 6(a)(ii)(A) in relation to the Placing and Open Offer;
- (iv) “control” means an interest, or interests, in shares or securities carrying in aggregate 30 per cent. or more of the voting rights attributable to the capital of a company which are currently exercisable at a general meeting, irrespective of whether such interest or interests give *de facto* control (and “controlling” and “controlled by” shall be construed accordingly);
- (v) “derivative” means any financial product whose value, in whole or in part, is determined directly or indirectly by reference to the price of an underlying security;
- (vi) a person having an “interest”, or being “interested”, in any securities includes where a person:
- (A) owns securities;
 - (B) has the right (whether conditional or absolute) to exercise or direct the exercise of the voting rights attaching to securities or has general control of them;
 - (C) by virtue of any agreement to purchase, option or derivative, has the right or option to acquire securities or call for their delivery or is under an obligation to take delivery of them, whether the right, option or obligation is conditional or absolute and whether it is in the money or otherwise;
 - (D) is party to any derivative whose value is determined by reference to the price of securities and which results, or may result, in his having a long position in them; or
 - (E) holds any short position (whether conditional or absolute and whether in the money or otherwise), including any short position under a derivative, any agreement to sell or any delivery obligation or right to require another person to purchase or take delivery;
- (vii) “relevant securities” means RBS Shares and any securities convertible into or carrying rights to subscribe for RBS Shares; and
- (viii) references to a “pension fund” of RBS or of any company covered in paragraph 6(a)(ii)(A) above do not include any such pension funds which are managed under an agreement or arrangement with an independent third party in the terms set out in Note 7 on the definition in the City Code of “acting in concert”.

(b) Interests in relevant securities

As at the close of business on 27 October 2008 (being the latest practicable date prior to the posting of this document) the following associates of RBS were interested, directly or indirectly, in relevant securities:

<u>Name</u>	<u>Number of relevant securities</u>
Bedell Trustees Limited as Trustee of The Royal Bank of Scotland Group 2001 Employee Share Trust	16,035,693
Bedell Trustees Limited as Trustee of The Royal Bank of Scotland Group 2007 US Employee Share Trust	8,455,545
Bedell Trustees Limited as Trustee of The Royal Bank of Scotland plc 1992 Employee Share Trust	1,028,914
Hoare Govett Trustees Limited as Trustee for the Hoare Govett Employee Trust	188,244
RBS Collective Investment Funds Limited	2,817,341
	Number of relevant securities
<u>Name</u>	
UBS Financial Services Inc.	109,099
Merrill Lynch International	17,522,294
Merrill Lynch, Pierce, Fenner & Smith	542,746

(c) General

- (i) HM Treasury has informed the Company that there is no agreement, arrangement or understanding whereby the beneficial ownership of any of the New Shares acquired by HM Treasury pursuant to the

Placing and Open Offer will be transferred to any other person. However, under the terms of the Placing and Open Offer Agreement, HM Treasury is entitled to novate its rights and obligations under that agreement to any entity which is wholly-owned, directly or indirectly, by HM Treasury (consistent with HM Treasury's announcement of 13 October 2008).

- (ii) Save as disclosed in this paragraph 6 and save as disclosed in the Prospectus, neither RBS nor the RBS Directors had an interest in or right to subscribe for any relevant securities of RBS as at the close of business on 27 October 2008 (being the last practicable date prior to the posting of this document).
- (iii) Save as disclosed in this paragraph 6, no associate of RBS had an interest in or any right to subscribe for any relevant securities of RBS as at the close of business on 27 October 2008 (being the last practicable date prior to the posting of this document).
- (iv) Save as disclosed in this paragraph 6, on 27 October 2008 (being the latest practicable date prior to the publication of this document), neither RBS nor any person acting in concert with RBS had borrowed or lent any RBS relevant securities, save for any borrowed shares which have been either on-lent or sold.

7 Sources of funding

HM Treasury will fund any acquisition of New Shares under the Placing and Open Offer through central government debt and cash management operations. HM Treasury has no financing arrangements relating to the Placing and Open Offer which are dependent on the business of the RBS Group.

8 General

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

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

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

9 Documents available for inspection

Copies of all the documents referred to in paragraph 25 of Part XI of the Prospectus—Additional Information—and the written consents referred to in paragraph 8 above will be available for inspection at the following addresses during normal business hours on each business day from the date of this document up to and including the date of Admission:

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

They will also be available for inspection at The Assembly Hall, Mound Place, Edinburgh EH1 2LU from at least 15 minutes prior to the General Meeting until the conclusion of that meeting.

Dated: 4 November 2008

DEFINITIONS

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

2006 Act	the UK Companies Act 2006.
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.
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 the Prospectus.
Banco Santander	Banco Santander, S.A.
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.
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.
City Code	The City Code on Takeovers and Mergers.
CLO	collateralised loan obligation.
CMBS	commercial mortgage-backed security.
Companies Act	the UK Companies Act 1985, as amended, or the 2006 Act, 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.
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 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 Regulations or Regulations	the Uncertificated Securities Regulations 2001 (SI 2001 No. 01/378), 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 22 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 the Prospectus.
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.
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 a 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.
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 the Prospectus.
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 this document.
General Meeting Notice	the notice of the General Meeting set out in this document.
HM Treasury	Her Majesty's Treasury or, where the context requires, any person to whom the Placing and Open Offer Agreement is novated by HM Treasury.
IAS	International Accounting Standard.
Independent Shareholders	the Shareholders, excluding HM Treasury and any person acting in concert with HM Treasury.
Issue Price	65.5 pence per New Share.
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	London Stock Exchange plc.
Merrill Lynch International	Merrill Lynch International of Merrill Lynch Financial Centre, 2 King Edward Street, London EC1A 1HQ.
monoline insurer	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.
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.
Non-Executive Directors	the non-executive directors of RBS.
Official List	the Official List of the FSA pursuant to Part VI of the FSMA.
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.
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).

Panel	The Panel on Takeovers and Mergers.
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.
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	the prospectus dated 4 November 2008 prepared in connection with the Placing and Open Offer.
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.
RMBS	residential mortgage-backed security.
RBS Group or the Group	the Company and each of its subsidiaries and subsidiary undertakings from time to time.
RBS Hoare Govett	RBS Hoare Govett Limited of 250 Bishopsgate, London EC2M 4AA.
RBS Insurance	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.
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 this document, increasing the Company's authorised share capital and granting the Directors authority to allot Ordinary Shares in connection with the Placing and Open Offer.
Resolutions	Resolution 1 and the Rule 9 Dispensation Proposal.
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.
RFS Holdings	RFS Holdings B.V., the investment vehicle through which RBS, Fortis and Banco Santander acquired ABN AMRO.
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 this document 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.
Sharesave Schemes	the Sharesave Schemes and Sharesave Plans adopted by the Company described in paragraph 13.1 of Part XI of the Prospectus.
Shareholder or RBS Shareholder	a holder of Ordinary Shares.
SMEs	small and medium-sized entities.
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.

NOTICE OF GENERAL MEETING

NOTICE IS HEREBY GIVEN that a **GENERAL MEETING** of The Royal Bank of Scotland Group plc (the "Company") will be held on 20 November 2008 at 3.00 p.m. at The Assembly Hall, Mound Place, Edinburgh EH1 2LU for the purposes of considering and, if thought fit, passing the following resolutions which will be proposed as ordinary resolutions:

Ordinary Resolutions

1 THAT:

- 1.1 the authorised share capital of the Company be increased by the creation of an additional 22,909,776,276 ordinary shares of 25 pence each in the capital of the Company, such shares forming one class with the existing ordinary shares and having attached thereto the respective rights and privileges and being subject to the limitations and restrictions set out in the Articles of Association of the Company (the "Articles of Association"); and
- 1.2 the authority to allot relevant securities conferred on the Directors of the Company by Article 13(B) of the Articles of Association for the prescribed period ending on the date of the Annual General Meeting in 2009 be varied by increasing the "Section 80 amount" (as defined in the Articles of Association) by £5,727,444,069 to £8,092,121,756.

- 2** THAT, subject to the Placing and Open Offer of 22,909,776,276 New Shares in the Company, as described in the Company's Circular to shareholders of which this notice forms part (the "Circular"), becoming unconditional (save for any conditions relating to Admission), the waiver by the Panel on Takeovers and Mergers of the obligation which might otherwise arise for HM Treasury to make a general cash offer to the remaining ordinary shareholders of the Company for all of the issued ordinary shares in the capital of the Company held by them pursuant to Rule 9 of the City Code on Takeovers and Mergers, following completion of the Placing and Open Offer as described in the Circular, be approved.

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

Date: 4 November 2008

Notes:

- (1) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company gives notice that only those shareholders entered on the register of members of the Company at close of business on Tuesday, 18 November 2008 or, if the General Meeting is adjourned, on the register of members of the Company 48 hours before the time of the adjourned meeting will be entitled to attend or vote at the General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register after close of business on Tuesday, 18 November 2008 will be disregarded in determining the rights of any person to attend or vote at the meeting.
- (2) Every member entitled to attend, speak and vote at the General Meeting is entitled to appoint a proxy or proxies to attend, speak and vote instead of the member. A proxy need not be a member of the Company. A member may appoint more than one proxy in relation to the General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by a member. A form appointing a proxy is enclosed with this notice and may be returned in the enclosed pre-paid envelope. To be effective, it must be completed and be received at the Company's transfer office at Computershare Investor Services PLC, Corporate Actions 1, The Pavilions, Bridgwater Road, Bristol BS99 6AF by 3.00 p.m. on Tuesday, 18 November 2008. The appointment of a proxy will not prevent a member from subsequently attending and voting at the meeting in person.
- (3) Any person to whom this General Meeting Notice has been sent, whose shares are held on their behalf by another person and who has been nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
- (4) The statement of the rights of shareholders in relation to the appointment of proxies in notes 2 above and 5 below do not apply to Nominated Persons. The rights described in these notes can only be exercised by shareholders.

- (5) CREST members who wish to appoint and/or give instructions to a proxy or proxies through the CREST electronic proxy appointment service may do so through the issuer's agent (ID 3RA50) by the latest time for receipt of proxy appointments specified above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
- (6) As at 31 October 2008 (being the latest practicable date prior to the printing of this document), the issued share capital of the Company conferring the right to vote at the General Meeting consisted of 16,545,949,533 ordinary shares of 25p each carrying one vote each, 400,000 5½ per cent. cumulative preference shares of £1 each carrying four votes each, and 500,000 11 per cent. cumulative preference shares of £1 each carrying four votes each. Therefore, the total number of voting rights in the Company as at 31 October 2008 was 16,549,549,533.
- (7) In order to facilitate voting by corporate representatives at the General Meeting, arrangements will be put in place at the meeting to follow the procedure set out in the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives. Please see www.icsa.org.uk for further details of this procedure or contact the Company's Registrar on 0870 702 0135 or, if calling from outside the UK, +44 870 702 0135.