



The Royal Bank of Scotland Group plc

*(Incorporated in Scotland with limited liability under the Companies Acts 1948 to 1980,
registered number SC045551)*

5,000,000 Non-cumulative Sterling Preference Shares of £1.00 each, Series 2

Issue price: £1,000 per Series 2 Sterling Preference Share

The Royal Bank of Scotland Group plc (the “Company”) is issuing 5,000,000 Non-cumulative Sterling Preference Shares, Series 2 (the “Preference Shares”). Dividends on the Preference Shares will accrue from the date of issue, expected to be on or about 1 December 2008 (the “Issue Date”) and will be paid on the relevant date of payment (subject as provided herein) in pounds sterling out of the Company’s distributable profits to the holders of record 15 days prior to the relevant date of payment.

In respect of the period from and including the Issue Date to but excluding the date one day after the fifth anniversary of the Issue Date (the “First Redemption Date”), expected to be on or about 2 December 2013, dividends will accrue at a rate of 12 per cent. per annum, payable semi-annually in arrear on 31 March and 30 September in each year, except that the first such payment will be made on 31 March 2009 (in respect of the period from and including the Issue Date to but excluding 31 March 2009) and the last such payment will be made on the First Redemption Date (in respect of the period from and including 30 September 2013 to but excluding the First Redemption Date) (each such payment date, a “Semi-Annual Dividend Payment Date”). The dividend payable on each Semi-Annual Dividend Payment Date will be £60.00 per Preference Share, save that the dividend payable on 31 March 2009 will be £39.46 per Preference Share and the dividend payable on the First Redemption Date will be £20.72 per Preference Share. From and including the First Redemption Date, dividends will accrue at a rate, reset quarterly, of 7 per cent. per annum above three month Sterling LIBOR (as defined in “Description of the Preference Shares”) and will be payable quarterly in arrear on 31 March, 30 June, 30 September and 31 December of each year, commencing on 31 December 2013 (in respect of the period from and including the First Redemption Date to but excluding 31 December 2013) (each a “Quarterly Dividend Payment Date” and, together with each Semi-Annual Dividend Payment Date, each a “Dividend Payment Date”).

Subject to giving one month’s notice to the United Kingdom (“UK”) Financial Services Authority (the “FSA”) (or such other period of notice as the FSA requires) and to certain other conditions referred to herein, the Company may redeem the Preference Shares in whole or in part on the First Redemption Date and on any Quarterly Dividend Payment Date thereafter at a redemption price of £1,000 per Preference Share plus accrued dividends otherwise payable for the then current dividend period. See “Description of the Preference Shares — Redemption”.

If the Company is liquidated, each holder of Preference Shares will be entitled to receive a liquidation preference of £1,000 per Preference Share plus accrued dividends for the then current dividend period, but only after the Company has paid all of its debts and other liabilities to its creditors and to holders of other securities that rank in priority to the Preference Shares.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the “FSMA”) (the “UK Listing Authority”) for the Preference Shares to be admitted to the official list of the UK Listing Authority (the “Official List”) and to the London Stock Exchange plc (the “London Stock Exchange”) for such Preference Shares to be admitted to trading on the London Stock Exchange’s Regulated Market (the “Market”). References in this Prospectus to the Preference Shares being “listed” (and all related references) shall mean that the Preference Shares have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

See “Risk Factors” beginning on page 14 for details of certain risks associated with the Preference Shares. Please note, without limitation, that the Preference Shares have no fixed date for repayment, being perpetual in nature.

There will be no offering of the Preference Shares, which are all to be purchased by the Commissioners of Her Majesty’s Treasury (“HM Treasury”) or an entity which is wholly-owned, directly or indirectly, by HM Treasury on the Issue Date.

The Preference Shares have not been and will not be registered under the United States Securities Act of 1933 (the “Securities Act”) and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, US persons (as defined in Regulation S under the Securities Act (“Regulation S”)).

The Preference Shares will be issued in registered form and may be held in either certificated or uncertificated form in CREST (as defined herein).

The Preference Shares are expected, on issue, to be rated “A1” by Moody’s Investors Service, Inc. (“Moody’s”), “A+” by Fitch Ratings Limited (“Fitch”) and “BBB+” by Standard & Poor’s Rating Services, a division of the McGraw-Hill Companies, Inc. (“Standard & Poor’s”). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

This document comprises a prospectus (the “Prospectus”) for the purposes of Directive 2003/71/EC (the “Prospectus Directive”) and for the purpose of giving information with regard to the Company, the Company and its subsidiaries taken as a whole (the “Group”) and the Preference Shares which, according to the particular nature of the Company and the Preference Shares, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Company.

The Company (whose registered office appears on the last page of this Prospectus) accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Company (which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Company to subscribe or purchase, any of the Preference Shares. The distribution of this Prospectus and any offering of the Preference Shares in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Company to inform themselves about, and to observe, any such restrictions.

For a description of further restrictions on offers and sales of Preference Shares and distribution of this Prospectus, see “Subscription and Sale” below.

No person has been authorised to give any information or to make any representation other than as contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorised by or on behalf of the Company. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Company since the date hereof or the date upon which this Prospectus has been most recently amended and supplemented or that the information contained in it or any other information supplied in connection with the Preference Shares is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Investors should satisfy themselves that they understand all the risks associated with making investments in the Preference Shares. If a prospective investor is in any doubt whatsoever as to the risks involved in investing in the Preference Shares, he or she should consult his or her professional advisers. See “Risk Factors” for further details of such risks.

Prospective investors should also inform themselves as to the legal requirements and tax consequences within the countries of their residence and domicile for the acquisition, holding or disposal of Preference Shares and any foreign exchange restrictions that might be relevant to them.

This Prospectus has been prepared on the basis that any offer of Preference Shares in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Preference Shares. Accordingly, any person making or intending to make an offer in that Relevant Member State of Preference Shares may only do so in circumstances in which no obligation arises for the Company to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. The Company has not authorised, nor does it authorise, the making of any offer of Preference Shares in circumstances in which an obligation arises for the Company to publish or supplement a prospectus for such offer.

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DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with:

- (i) the audited consolidated annual financial statements of the Company for the financial year ended 31 December 2006 together with the audit report thereon (as set out on pages 127 to 224 of the Company's Annual Report and Accounts 2006);
- (ii) the audited consolidated annual financial statements of the Company for the financial year ended 31 December 2007 together with the audit report thereon (as set out on pages 117 to 212 of the Company's Annual Report and Accounts 2007);
- (iii) the following parts of the unaudited consolidated interim results for the half year ended 30 June 2008 of the Company, which were published via the Regulatory News Service of the London Stock Exchange on 8 August 2008: (a) Presentation of Information (excluding the section entitled "Pro forma results") (page 4); (b) the statutory results of the Company in respect of the six months ended 30 June 2008 and the notes thereon, together with the related financial review and balance sheet overview, independent review report of Deloitte & Touche LLP, regulatory ratios and other additional disclosures, as well as the principal risks and uncertainties for the Group in the second half of 2008, all as set out on pages 63-80 and 86-92; and (c) Appendix 2 – Credit market and related exposures – additional information (items (a) to (c) above together referred to herein as the "RBSG Interim Information");
- (iv) the following sections of the prospectus dated 4 November 2008 issued by the Company in connection with the proposed placing and open offer of up to 22,909,776,276 new shares of the Company (the "Placing and Open Offer Prospectus") which comprises a prospectus prepared in accordance with the Prospectus Rules of the UK Listing Authority made under section 73A of the FSMA: (a) "Placing and Open Offer Statistics" on page 13; (b) "Expected Timetable of Principal Events" on page 14; (c) the following sections in "Risk Factors" on pages 15 to 25: the first two paragraphs, the section "Risks Related to RBS" and the risk factors in the section "Risks relating to the New Shares and the Placing and Open Offer" entitled "Subject to certain terms and conditions, any New Shares not subscribed for in the Placing and Open Offer by existing RBS Shareholders and new placees will be taken up by HM Treasury, which could therefore acquire a significant shareholding in the Group. This may lead to adverse tax consequences for RBS. HM Treasury may take actions that are not in the interests of minority shareholders" and "RBS has agreed to certain undertakings in relation to the operation of its business in the Placing and Open Offer Agreement"; (d) "Important Information" on pages 26 to 30; (e) "Directors, Company Secretary, Registered Office and Advisers" on pages 31 to 32; (f) Part I (Letter From the Chairman of RBS) on pages 33 to 35; (g) Appendix to the Letter From the Chairman of RBS on pages 36 to 48 excluding paragraph 11 (Overseas Shareholders) on page 47, paragraph 12 (UK and US Taxation) on page 47 and paragraph 13 (Action to be taken in respect of the Open Offer) on pages 47 to 48; (h) paragraphs 1 (Introduction), 2 (The Open Offer) and 3 (Conditions and further terms of the Open Offer) of Part III (Terms and Conditions of the Open Offer) on pages 56 to 58; (i) Part IV (Information on RBS) on pages 84 to 86; (j) Part V (Overview of Business Performance and Operating and Financial Review of RBS) on pages 87 to 90 excluding paragraph 1 (Business performance and operating and financial review) on page 87; (k) Part IX (Unaudited Pro Forma Financial Information)* on pages 94 to 105; (l) Part XI (Additional Information) on pages 112 to 160, excluding paragraphs 1 (Responsibility) on page 112; 4.2 (Articles of Association) on pages 115 to 121; 5 (Mandatory takeover bids, squeeze-out and sell-out rules) on page 121; 8 (Remuneration details, Directors' service contracts and letters of appointment) on pages 134 to 140; 10 (Significant

shareholdings) on page 142; 12 (Employees) on page 143; 13 (RBS Employee Share Plans) on pages 143 to 150; 15 (Environmental issues) on page 150; 19 (Other contingencies) on page 158; 20 (Related party transactions) on page 158; 23 (Consents) on page 159; and 24.2 to 24.6 inclusive on page 159; and (m) Part XIII (Definitions) on pages 165 to 172; and

- (v) the following section of the document dated 4 November 2008 which comprises a circular prepared for the purposes of the General Meeting of the Company to be held on 20 November 2008: paragraph 7 (HM Treasury's Intentions) of the Appendix to the Letter from the Chairman of RBS on page 12,

each of which have been previously published and which have been approved by the Financial Services Authority or filed with it. Such documents shall be incorporated in, and form part of this Prospectus, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

Any information or other documents themselves incorporated by reference, either expressly or implicitly, in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus, except where such information or other documents are specifically incorporated by reference into this Prospectus.

Copies of all documents incorporated by reference in the Prospectus can be obtained from the website of the Company at www.rbs.com and from the London Stock Exchange's website at www.londonstockexchange.com/en-gb/pricenews/marketnews/.

* The Unaudited Pro Forma Financial Information has been provided to give a better understanding of what the results of operations and financial position of the Group might have looked like had the acquisition by RFS Holdings of all of ABN AMRO's ordinary shares, American depositary shares and preference shares as well as the transfers of businesses to the other Consortium Banks (but not shared assets) occurred in respect of the unaudited pro forma condensed combined income statement for the six months ended 30 June 2008 and for the year ended 31 December 2007, on 1 January 2008 and 1 January 2007, respectively. In respect of the unaudited pro forma condensed combined balance sheet, it has been assumed that the Placing and Open Offer, the issue of Preference Shares, the acquisition of minority interests in ABN AMRO shares and the transfers of businesses to the other Consortium Banks (but not shared assets) occurred on 30 June 2008 for the pro forma balance sheet at 30 June 2008 and, together with the issue by way of rights of 6,123,010,462 Ordinary Shares at 200 pence per share in April 2008, occurred on 31 December 2007 for the pro forma balance sheet at 31 December 2007.

SUMMARY

This summary must be read as an introduction to this Prospectus and any decision to invest in the Preference Shares should be based on a consideration of this Prospectus as a whole, including the documents incorporated by reference. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the European Economic Area (an "EEA State"), no civil liability will attach to the Company in any such Member State solely on the basis of this summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court in an EEA State, the plaintiff may, under the national legislation of the EEA State where the claim is brought, be required to bear the costs of translating the Prospectus before the legal proceedings are initiated.

The Group

The Company is the holding company of a large global banking and financial services group. Headquartered in Edinburgh, the Group operates in the United Kingdom, the United States and internationally through its two principal subsidiaries, The Royal Bank of Scotland plc ("RBS plc") and National Westminster Bank Plc ("NatWest"). Both RBS plc and NatWest are major UK clearing banks whose origins go back over 275 years. In the United States, the Group's subsidiary Citizens was ranked the tenth-largest commercial banking organisation by deposits at 30 June 2008. The Group has a large and diversified customer base and provides a wide range of products and services to personal, commercial and large corporate and institutional customers in over 50 countries.

On 17 October 2007, RFS Holdings B.V. ("RFS Holdings"), a company jointly owned by the Company, Fortis N.V., Bank Nederland (Holding) and Banco Santander S.A. (the "Consortium Banks") and controlled by the Company, completed the acquisition of ABN AMRO Holding N.V. ("ABN AMRO"). RFS Holdings is in the process of implementing an orderly separation of the business units of ABN AMRO with RBSG principally retaining ABN AMRO's global wholesale businesses and international retail businesses in Asia and the Middle East. Certain other assets will continue to be shared by the Consortium Banks.

On 3 October 2008, the State of the Netherlands acquired Fortis Bank Nederland (Holding) N.V. including its participation in RFS Holdings that represents the acquired activities of ABN AMRO. The benefits from the integration of the Group-acquired ABN AMRO businesses are proceeding ahead of schedule. The Company expects that the State of the Netherlands' purchase of Fortis Bank Nederland (Holding) N.V., including its interests in RFS Holdings, will not materially affect the integration benefits envisaged by the Group, nor will it affect the businesses to be retained by the Group. Fortis Bank Nederland (Holding) N.V. has already paid in full in cash for its shares in RFS Holdings, and subject to the acceptance of certain conditions the Company and Santander have consented to the State of the Netherlands joining their consortium.

On 13 October 2008, the Group announced a £20 billion capital raising, comprising £15 billion of ordinary shares and £5 billion of Preference Shares.

The Issue

Company	The Royal Bank of Scotland Group plc.
Issue size	5,000,000 Non-cumulative Sterling Preference Shares, Series 2, with a nominal value of £1.00 each and a liquidation preference

	of £1,000 each.
Issue price	£1,000 per Preference Share, payable in cash.
Purchaser	All of the Preference Shares are to be purchased by HM Treasury or an entity wholly-owned, directly or indirectly, by HM Treasury on the Issue Date.
Gross proceeds	The gross proceeds of the offering are estimated to be £5,000,000,000.
Dividends	<p>Dividends on the Preference Shares will accrue from the Issue Date and will be paid on the relevant payment date (subject as provided herein) in pounds sterling out of the Company's distributable profits to the holders of record 15 days prior to the relevant date of payment. Such payments will be made by cheque or, upon request by a holder, by transfer to a sterling account maintained by the payee with a bank in London.</p> <p>From and including the Issue Date to but excluding the First Redemption Date, dividends will accrue at a rate of 12 per cent. per annum, payable semi-annually in arrear on 31 March and 30 September in each year, except that the first such payment will be made on 31 March 2009 (in respect of the period from and including the Issue Date to but excluding 31 March 2009) and the last such payment will be made on the First Redemption Date (in respect of the period from and including 30 September 2013 to but excluding the First Redemption Date). The dividend payable on each Semi-Annual Dividend Payment Date will be £60.00 per Preference Share, save that the dividend payable on 31 March 2009 will be £39.46 per Preference Share and the dividend payable on the First Redemption Date will be £20.72 per Preference Share.</p> <p>From and including the First Redemption Date, dividends will accrue at a rate, reset quarterly, of 7 per cent. per annum above three month Sterling LIBOR and will be payable quarterly in arrear on 31 March, 30 June, 30 September and 31 December of each year, commencing on 31 December 2013 (in respect of the period from and including the First Redemption Date to but excluding 31 December 2013).</p> <p>The effective yield per Preference Share is 12 per cent. per annum and applies in respect of the period until the First Redemption Date only. The yield is calculated as at the Issue Date on the basis of the issue price. It is not an indication of future yield.</p> <p>The Company's obligation to pay dividends is subject to (i) the sole and absolute discretion of the board of directors of the Company (the "Board of Directors") or an authorised committee thereof (the "Committee"); (ii) sufficiency of distributable profits; and (iii) payment of dividends not causing a breach of the UK Financial Services Authority's capital adequacy</p>

Ordinary share dividend restriction	<p>provisions.</p> <p>The Preference Shares will rank junior as to dividends to the Company's Cumulative Preference Shares and equally as to dividends with the Company's other non-cumulative preference shares.</p> <p>In order to facilitate payments of dividends on the Preference Shares, until the date on which the Preference Shares are redeemed or repurchased in full, the Company shall not:</p> <ul style="list-style-type: none"> (i) declare or pay any dividend or make any distribution (whether in cash or otherwise) on or in respect of the ordinary shares in the capital of the Company ("Ordinary Shares") or set aside any sum to provide for payment of any such dividend or distribution (save that the foregoing restriction shall not apply to a capitalisation issue pursuant to which newly issued bonus shares are paid up out of undistributable reserves); or (ii) redeem, purchase, cancel or otherwise acquire in any way any Ordinary Shares or effect a reduction of the Ordinary Share capital of the Company which involves a distribution to holders of Ordinary Shares.
Restrictions following non-payment of dividends	<p>If dividends are not paid on the Preference Shares as a consequence of the exercise by the Board of Directors or the Committee of their discretion not to pay the relevant dividend, or as a result of insufficiency of distributable funds or restrictions imposed by capital adequacy requirements, then the right of the holders of the Preference Shares to receive a dividend from the Company will be lost. In such a case, the Company may not:</p> <ul style="list-style-type: none"> (i) declare or pay dividends or other distributions upon any Parity Securities (other than, in the case of non-payment as a consequence of the exercise by the Board of Directors or the Committee of their discretion not to pay the relevant dividend, any Mandatory Securities) or Junior Securities, and the Company may not set aside any sum for the payment of these dividends or distributions, unless, on the date of declaration of any such dividends or distributions, the Company sets aside an amount equal to the dividend for the then-current dividend period payable on the Preference Shares to provide for the payment in full of such dividend on the Preference Shares on the next Dividend Payment Date; or (ii) redeem, purchase or otherwise acquire for any consideration any of its Parity Securities or Junior Securities, and the Company may not set aside any sum or establish any sinking fund for the redemption, purchase or other acquisition of such Parity Securities or Junior

Rights upon liquidation	<p>Securities, until such time as dividends on the Preference Shares in respect of successive dividend periods singly or together aggregating no less than 12 months shall thereafter have been declared and paid in full.</p> <p>The terms referred to above are part of the terms of issue of certain Parity Securities and accordingly those provisions will affect the Preference Shares in the event of non-payment of dividends on such Parity Securities.</p> <p>If the Company is wound up or liquidated, holders of the Preference Shares will be entitled to receive £1,000 per Preference Share, payable by the Company out of surplus assets available for distribution to its shareholders.</p> <p>The Preference Shares have liquidation rights which rank junior to the Company's Cumulative Preference Shares but equally with the Company's other non-cumulative preference shares as to entitlement to dividends due for payment after the date of commencement of liquidation and any other dividend payable in respect of the period from the preceding dividend payment date to the date of payment.</p> <p>Subject to the foregoing, the Preference Shares rank equally with the Company's Cumulative Preference Shares, as regards entitlement to a sum equal to the amount paid up or credited as paid up on the Preference Shares.</p>
Optional redemption	<p>Subject to giving one month's notice to the UK Financial Services Authority (or such other period of notice as the FSA requires) and to certain other conditions, the Company may redeem the Preference Shares, at its option, in whole or in part on the First Redemption Date and on any Quarterly Dividend Payment Date thereafter, provided that the Company gives not less than 14 days' notice. If the Company were to exercise such option, it would redeem each Preference Share at a redemption price of £1,000 plus the dividends accrued and payable for the then-current dividend period.</p> <p>Holders of the Preference Shares shall not have the option to redeem the Preference Shares in any circumstances.</p>
Voting rights	<p>Holders of Preference Shares will only be entitled to vote at general meetings of the Company's shareholders in certain limited circumstances.</p>
Form of the Preference Shares	<p>The Preference Shares will be issued in registered form and may be held in either certificated form or uncertificated form in CREST.</p>
Rating	<p>Expected ratings: Moody's: "A1" Fitch: "A+"</p>

Listing

Standard & Poor's: "BBB+".

Governing law

London Stock Exchange plc.

Risk Factors

Scots law.

Certain factors may affect the Company's ability to fulfil its obligations under the Preference Shares, including:

- (i) risk factors relating to the Company's business, including:
- if the Company does not raise sufficient capital through the Placing and Open Offer and the issue of the Preference Shares (including as a result of the 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 conditions, results of operations and share price will suffer;
 - the Company'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 the Company'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 the Company operates;
 - the actual or perceived failure or worsening credit of other financial institutions and counterparties could adversely affect the Company;
 - the Company'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 the Company 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 the Company 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 the Company's business;

- the Company's borrowing costs and its access to the debt capital markets depend significantly on its credit ratings;
- the Company'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;
- the Company operates in markets that are highly competitive and consolidating. If the Company 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;
- the Company 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;
- the Company is and may be subject to litigation and regulatory investigations that may impact its business;
- operational risks are inherent in the Company's operations;
- the Company is exposed to the risk of changes in tax legislation and its interpretation and to increases in the rate of corporate and other taxes in the jurisdictions in which it operates;
- the Company's insurance businesses are subject to inherent risks involving claims;
- the Company'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;
- the Company 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 the Company;

- the Company's operations have inherent reputational risk;
- in the United Kingdom and in other jurisdictions the Company 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;
- the Company's business and earnings may be affected by geopolitical conditions;
- subject to certain terms and conditions, any new shares not subscribed for in the Placing and Open Offer by existing shareholders and new places will be taken up by HM Treasury or an entity which is wholly-owned, directly or indirectly, by HM Treasury, which could therefore acquire a significant shareholding in the Group. This may lead to adverse tax consequences for the Company. HM Treasury may take actions that are not in the interests of minority shareholders; and
- the Company has agreed to certain undertakings in relation to the operation of its business in the placing and open offer agreement effective as of 13th October 2008 between the Company, HM Treasury, Merrill Lynch International and UBS Limited.

(ii) risk factors relating to the Preference Shares, including:

- dividends are discretionary and may not be paid in full or at all;
- dividends are non-cumulative and will not be declared and paid in full if certain requirements relating to the Company's capital levels and other conditions are not satisfied;
- the Preference Shares have no fixed date for repayment, being perpetual in nature;
- the Preference Shares are subject to optional repayment by the Company;
- there is no limitation on the Company issuing senior or *pari passu* securities;
- holders of Preference Shares have limited voting rights;
- the rights attached to the Preference Shares may be varied with the consent of less than 100 per cent. of the holders thereof;
- subsequent changes in market interest rates may

adversely affect the value of the Preference Shares;

- legal investment considerations may restrict certain investments;
- an active market for the Preference Shares may fail to develop or may not be sustainable;
- credit ratings may not reflect all risks associated with an investment in the Preference Shares; and
- if the Company is wound up, distributions to holders of the Preference Shares will be subordinated to the claims of creditors.

RISK FACTORS

The Company believes that the following factors may affect its ability to fulfil its obligations under the Preference Shares. All of these factors are contingencies which may or may not occur and the Company is not in a position to express a view on the likelihood of any such contingency occurring. Factors which the Company believes may be material for the purpose of assessing the market risks associated with the Preference Shares are also described below.

The Company believes that the factors described below represent the principal risks inherent in investing in the Preference Shares, but the inability of the Company to pay dividends or the liquidation preference on the Preference Shares may occur for other reasons and the Company does not represent that the statements below regarding the risks of holding the Preference Shares are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus (including the documents incorporated by reference herein) and reach their own views prior to making any investment decision.

Risks Related to the Group's Business

The sections of the Placing and Open Offer Prospectus incorporated by reference in the Prospectus by virtue of paragraph (iv)(c) of the section entitled "Documents Incorporated by Reference" on page 5 are deemed to be set out here, and any reference in such sections to factors which might affect the Ordinary Shares and holders thereof shall be deemed to also apply to the Preference Shares and holders thereof.

Risks Related to the Preference Shares

Dividends on the Preference Shares are discretionary and may not be declared and paid in full or at all if the Board of Directors or the Committee resolves not to pay dividends in respect of any Dividend Payment Date.

The Board of Directors or the Committee thereof (in either case referred to herein as the Board of Directors) may resolve, in its sole and absolute discretion, prior to the relevant Dividend Payment Date not to pay in full dividends on the Preference Shares on that Dividend Payment Date. To the extent that any dividend or part thereof is, on any occasion, not declared and paid by reason of the exercise of such discretion, holders of Preference Shares shall have no claim in respect of such non-payment.

Prospective investors are advised that the terms of issue of other series of the Company's non-cumulative preference shares, and the terms and conditions of certain of the other securities issued by it from time to time, may in certain circumstances (including following non-payment of any dividend or other distribution otherwise payable on such shares or securities) require the Company not to pay in full or at all, for the period or periods specified in the relevant terms of issue or terms and conditions, the dividends or other distributions otherwise stated to be payable on certain of the Company's other securities, including dividends on the Preference Shares.

Dividends on the Preference Shares are non-cumulative and will not be declared and paid in full or in part if certain requirements relating to the Company's capital levels and other conditions are not satisfied. If the Company's financial condition were to deteriorate, investors could lose all or a part of their investment.

In addition to the discretion not to declare a dividend for any reason as described above, the Board of Directors will not declare and pay in full the dividends on any series of preference shares or preferred securities if, in the opinion of the Board of Directors, payment of the dividend would cause a breach of

applicable capital adequacy requirements of the UK Financial Services Authority or if the Company does not have sufficient distributable profits.

If the Board of Directors does not pay a dividend or any part thereof payable on a Dividend Payment Date in respect of any Preference Shares for any reason, then holders of the Preference Shares will have no claim in respect of such non-payment and the Company will have no obligation to pay the dividend accrued for the dividend period or to pay any interest on the dividend, whether or not dividends on the Preference Shares are declared for any future dividend period. Holders of Preference Shares will have no right to participate in the Company's profits.

If the Company's financial condition were to deteriorate, investors might not receive dividends on the Preference Shares. If the Company is liquidated, dissolved or wound up, investors could lose all or part of their investment.

The Preference Shares have no fixed date for repayment, being perpetual in nature.

The Company is under no obligation to repay the Preference Shares at any time, and the holders of the Preference Shares have no right to call for their repayment.

The Preference Shares are subject to optional repayment by the Company.

The Preference Shares may be repaid by the Company at its option on or after the First Redemption Date, as more particularly described in "Description of the Preference Shares — Redemption". This optional repayment feature is likely to limit the market value of the Preference Shares. During any period when the Company may elect to repay the Preference Shares, the market value of the Preference Shares generally will not rise substantially above the price at which they can be repaid. This may also be true prior to any repayment period.

The Company may be expected to repay the Preference Shares when its cost of borrowing is lower than the rate at which dividends accrue on the Preference Shares. At those times, an investor generally would not be able to reinvest the proceeds of repayment at an effective interest/dividend rate as high as the dividend rate on the Preference Shares being redeemed and may only be able to do so at a significantly lower rate. The Company may also be incentivised to repay the Preference Shares as a result of the restriction they contain on paying dividends on the Company's ordinary shares. Potential investors should consider reinvestment risk in light of other investments available at that time.

There is no limitation on the Company issuing senior or pari passu securities.

There is no restriction on the amount of securities or other liabilities which the Company may issue or incur and which rank senior to, or *pari passu* with, the Preference Shares, and there is no restriction on the amount of preference share capital which the Company may issue and which ranks *pari passu* with the Preference Shares. The issue of any such securities or share capital or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by holders of the Preference Shares on a winding up of the Company and/or may increase the likelihood of non-payment of dividends on the Preference Shares. As at the date of this Prospectus, the Company's issued and outstanding non-cumulative preference shares, which rank equally with the Preference Shares as to any distribution of the Company's surplus assets in the event that it is wound up or liquidated, have a pounds sterling equivalent aggregate liquidation preference of approximately £10.8 billion as at 26 November 2008. See the section of the Placing and Open Offer entitled "Part V — Overview of Business Performance and Operating and Financial Review of RBS — 2 Capitalisation and indebtedness" incorporated by reference in the Prospectus for further details of the Group's indebtedness as at 30 June 2008.

Holders of Preference Shares have limited voting rights.

The holders of the Preference Shares will not be entitled to receive notice of, attend or vote at any general meeting of the Company's shareholders except in the limited circumstances described in "Description of the Preference Shares — Voting Rights".

The rights attached to the Preference Shares may be varied with the consent of less than 100 per cent. of the holders thereof.

The rights attached to the Preference Shares may be varied or abrogated with the written consent of the holders of 75 per cent. in nominal value of the outstanding Preference Shares or with the sanction of a special resolution passed at a separate class meeting of the holders of the outstanding Preference Shares. A special resolution will be adopted if passed by a majority of 75 per cent. of those holders voting in person or by proxy at the meeting.

It is therefore possible that the rights attached to Preference Shares held by a particular holder may be varied or abrogated notwithstanding that the relevant holder did not provide its written consent thereto and/or did not attend the relevant meeting at which the special resolution of holders is passed and/or did not vote in favour of the relevant resolution at such meeting. See "Description of the Preference Shares — Variation of Rights" for further details.

Subsequent changes in market interest rates may adversely affect the value of the Preference Shares.

Subject as described under "Description of the Preference Shares — Declaration of Dividends", dividends will accrue on the Preference Shares at a fixed rate until the First Redemption Date. An investment in securities with a fixed rate of dividends involves the risk that subsequent changes in market interest rates may adversely affect the value of the Preference Shares.

Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Preference Shares are legal investments for it, (2) the Preference Shares can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Preference Shares. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Preference Shares under any applicable risk-based capital or similar rules.

Even if HM Treasury sells some or all of the Preference Shares, an active market for the Preference Shares may fail to develop or may not be sustainable.

On issue, all of the Preference Shares will be purchased by HM Treasury or an entity wholly-owned, directly or indirectly, by HM Treasury. If HM Treasury or such wholly-owned entity sells some or all of the Preference Shares, the Company cannot assure investors that an active or liquid market will develop or be sustainable for the Preference Shares. Therefore, investors may not be able to sell their Preference Shares easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a material adverse effect on the market value of the Preference Shares.

Credit ratings may not reflect all risks associated with an investment in the Preference Shares.

The Preference Shares are expected, on issue, to be rated "A1" by Moody's, "A+" by Fitch and "BBB+" by Standard & Poor's. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Preference Shares. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

If the Company is wound up, distributions to holders of the Preference Shares will be subordinated to the claims of creditors.

On a return of capital or distribution of assets, whether or not on a winding-up (but other than a redemption or purchase by the Company of any of its share capital), holders of Preference Shares will be entitled to distributions in liquidation only after the claims of all creditors of the Company have been satisfied.

DESCRIPTION OF THE PREFERENCE SHARES

The terms of, and rights attaching to the Preference Shares are contained in the Company's Articles of Association (the "Articles") and in the resolutions of a Committee of the Board of Directors of the Company referred to in "General Information — Consents" and are as summarised below. In the event of any inconsistency, the provisions in the Articles and such resolutions prevail.

1 General

Each Preference Share will have a nominal value of £1 and will be issued fully paid for cash. The Preference Shares will be issued in registered form and may be held in either certificated form or uncertificated form in the system for the paperless settlement of trades in securities and the holding of uncertificated securities operated by Euroclear UK & Ireland Limited Co., the operator of CREST ("CREST"). For further provisions regarding form and denomination of the Preference Shares, see paragraph 9 below.

2 Pre-emptive Rights

Holders of the Preference Shares will have no pre-emptive rights.

3 Dividends

(A) *Dividend Payment Dates*

Non-cumulative preferential dividends on the Preference Shares will accrue from 1 December 2008 (the "Issue Date"). Subject to the limitations and on the terms set forth below, the Company will pay dividends (i) semi-annually in arrear on, and to the holders of record 15 days prior to, 31 March and 30 September of each year, except that the first such payment will be made on 31 March 2009 (in respect of the period from and including the Issue Date to but excluding 31 March 2009) and the last such payment will be made on the First Redemption Date (as defined in paragraph 7) (in respect of the period from and including 30 September 2013 to but excluding the First Redemption Date) (each such payment date, a "Semi-Annual Dividend Payment Date") and (ii) after the First Redemption Date, quarterly in arrear on, and to the holders of record 15 days prior to, 31 March, 30 June, 30 September and 31 December of each year, commencing on 31 December 2013 (in respect of the period from and including the First Redemption Date to but excluding 31 December 2013) (each a "Quarterly Dividend Payment Date" and, together with each Semi-Annual Dividend Payment Date, each a "Dividend Payment Date"). References to a "dividend period" shall be to each period beginning on (and including) a Dividend Payment Date (or, in the case of the first such period, the Issue Date) to (but excluding) the next following Dividend Payment Date.

(B) *Payments on Sterling Business Days*

The Company will pay dividends when, as and if declared by the Board of Directors or an authorised committee of the Board of Directors (the "Committee"). If any date on which dividends are payable on the Preference Shares is not a day on which banks in London are open for business, and on which foreign exchange dealings may be conducted in London (a "Sterling Business Day"), then payment of the dividend payable on such date will be made on the succeeding Sterling Business Day and without any interest or other payment in respect of such delay unless (in the case of any Quarterly Dividend

Payment Date only) such day shall fall within the next calendar month whereupon such payment will be made on the preceding Sterling Business Day.

(C) *Ordinary Share Dividend Restriction*

In order to facilitate payments of dividends on the Preference Shares, until the date on which the Preference Shares are redeemed or repurchased in full, the Company shall not:

- (i) declare or pay any dividend or make any distribution (whether in cash or otherwise) on or in respect of the ordinary shares in the capital of the Company (“Ordinary Shares”) or set aside any sum to provide for payment of any such dividend or distribution (save that the foregoing restriction shall not apply to a capitalisation issue pursuant to which newly issued bonus shares are paid up out of undistributable reserves); or
- (ii) redeem, purchase, cancel or otherwise acquire in any way any Ordinary Shares or effect a reduction of the Ordinary Share capital of the Company which involves a distribution to holders of Ordinary Shares.

4 Declaration of Dividends

(A) *Declaration of Dividends*

The Board of Directors or the Committee shall, in respect of any dividend payable on any Dividend Payment Date, declare and pay such dividend except to the extent that it resolves prior to such Dividend Payment Date in terms of one of the following:

- (i) in its sole and absolute discretion prior to that Dividend Payment Date that such dividend (or part thereof) shall not be declared and paid; or
- (ii) not to declare and/or pay any dividend on that Dividend Payment Date if to do so would breach or cause a breach of the capital adequacy requirements, regulations, guidelines or policies of the UK Financial Services Authority (or any person or body to whom the banking supervision functions of the UK Financial Services Authority are transferred) (referred to herein as the “FSA”) that apply at that time to the Company and/or any of the Company’s subsidiaries; or
- (iii) not to declare and/or pay any dividend on that Dividend Payment Date if, in the opinion of the Board of Directors or the Committee, the distributable profits of the Company are insufficient to cover the payment in full of dividends on the Preference Shares on such Dividend Payment Date and also the payment in full of all other dividends stated to be payable on such date on any other equally ranking (as regards participation in profits) preference shares, after payment in full, or the setting aside of a sum to cover the payment in full, of all dividends stated to be payable on or before such date on any of the Company’s Cumulative Preference Shares (and any arrears of dividends thereon). The Companies Act 1985, as amended (the “Act”) defines “distributable profits” as, in general terms, and subject to adjustment, accumulated realised profits less accumulated realised losses.

If, in the opinion of the Board of Directors or the Committee, the distributable profits of the Company are insufficient to cover the payment in full of dividends on the Preference Shares on such Dividend Payment Date and also the payment in full of all other dividends stated to be payable on such date on any other non-cumulative preference shares and any other share capital expressed to rank *pari passu* therewith as regards participation in profits, after payment in full, or the setting aside of a sum to cover the payment in full, of all dividends stated to be payable

on or before such date on any of the Company's Cumulative Preference Shares (and any arrears of dividends thereon), then dividends shall be declared by the Board of Directors or the Committee (subject always to paragraph 4(A)(i) and (ii) above) pro rata for the Preference Shares, such other non-cumulative preference shares and such other equally ranking share capital to the extent of the available distributable profits (if any) to the intent that (subject as aforesaid) the amount of dividend declared per share on each such Preference Share and such other share capital will bear to each other the same ratio as the dividends accrued per share on each such Preference Share and such other share capital bear to each other.

"Cumulative Preference Shares" means the 400,000 5½ per cent. Cumulative Preference Shares of £1 each in the capital of the Company and the 500,000 11 per cent. Cumulative Preference Shares of £1 each in the capital of the Company.

(B) *Reasons for Non-payment*

If any dividend otherwise payable on any Dividend Payment Date is not declared and/or paid in full by reason of a resolution referred to in one of paragraphs 4(A)(i), (ii) or (iii) above, the Company will notify the holders of the Preference Shares thereof in accordance with paragraph 11 below as soon as reasonably practicable after the date of such resolution and in any event not later than two Sterling Business Days prior to the relevant Dividend Payment Date. Each such notification shall specify the reasons why the relevant dividend has not been declared and/or paid in full.

(C) *Ranking of Dividends on the Cumulative Preference Shares*

Dividends on the Cumulative Preference Shares, including any arrears of dividends thereon, are payable in priority to any dividends on the Preference Shares, and as a result, the Company may not pay any dividend on the Preference Shares unless the Company has declared and paid in full dividends on such Cumulative Preference Shares, including any arrears of dividends thereon. Dividends on the Preference Shares will be payable in priority to the payment of any dividend to the holders of Ordinary Shares.

(D) *Ranking of the Preference Shares*

The Preference Shares shall not rank after any other series of preference shares with which they are expressed to rank *pari passu* as regards participation in profits, by reason only of the exercise of the Board of Directors' or the Committee's discretion referred to in paragraph 4(A) (i) above and/or the restrictions in paragraph 3(A) above in respect of the payment of dividends and distributions on, and redemptions, purchases, cancellations and acquisitions of, the Ordinary Shares being included in the terms of issue applicable to that series, or any dividend on the Preference Shares not being paid by virtue of the exercise of such discretion.

5 Payment of Dividends

(A) *Rate of Dividends*

Subject as provided in paragraph 4 above, the Company will pay dividends on the Preference Shares out of its distributable profits in sterling as follows:

- (i) (in respect of the period from (and including) the Issue Date to (but excluding) the First Redemption Date) at a rate per annum of 12 per cent. of the liquidation preference of £1,000 per Preference Share. The dividend on each Preference Share payable on each Semi-Annual Dividend Payment Date will therefore amount to £60 per Preference Share during this period,

except that the dividend in respect of the period from (and including) the Issue Date to (but excluding) the first Semi-Annual Dividend Payment Date will amount to £39.46 per Preference Share, and the dividend in respect of the period from (and including) 30 September 2013 to (but excluding) the First Redemption Date will amount to £20.72 per Preference Share;

- (ii) (from and including the First Redemption Date, to the extent that the Preference Shares are not repurchased or redeemed on or before such date) at a rate, reset quarterly, of 7 per cent. per annum above three-month Sterling LIBOR, payable on each Quarterly Dividend Payment Date; and
- (iii) for the purposes of the foregoing, “three-month Sterling LIBOR” means a rate determined by The Bank of New York in its capacity as calculation agent (the “Calculation Agent”) on the basis of the arithmetic mean (rounded if necessary to the fourth decimal place, with 0.00005 being rounded upwards) of the offered quotations (if there is more than one quotation on the relevant Reuters Page), or, if only one rate is available on the relevant Reuters Page, the offered quotation offered for three-month deposits in sterling commencing on the date that is the first day of the relevant dividend period (the “Determination Date”), which appears on the display page designated LIBOR01 on Reuter Monitor Money Rates Service (or such other Reuters Page as may in the future contain the rate for three-month Sterling LIBOR) at 11:00 a.m., London time.

If five or more offered quotations are available on the page designated LIBOR01 on Reuter Monitor Money Rates Service (or such other Reuters Page as may in the future contain the rate for three-month Sterling LIBOR) at the relevant time, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

If such quotations do not appear on the display page designated LIBOR01 on Reuter Monitor Money Rates Service (or such other Reuters Page as may in the future contain the rate for three-month Sterling LIBOR) at the relevant time, three-month Sterling LIBOR with respect to that Determination Date will be determined on the basis of the rates that three-month deposits in sterling, commencing on the Determination Date and in a principal amount that is representative for a single transaction in that market at that time, are offered to prime banks in the London interbank market by four major banks in the London interbank market selected by the Calculation Agent after consultation with the Company, at approximately 11:00 a.m., London time, on that Determination Date. The Calculation Agent will request the principal London office of each of such banks to provide a quotation of its rate.

If at least two such quotations are provided, three-month Sterling LIBOR with respect to that Determination Date will be the arithmetic mean (rounded as provided above) of such quotations.

If fewer than two quotations are provided, three-month Sterling LIBOR with respect to that Determination Date will be the arithmetic mean (rounded as provided above) of the rates quoted by major banks in the London selected by the Calculation Agent after consultation with the Company, at approximately 11:00 a.m., London time, on the relevant Determination Date for deposits in sterling with leading banks in London for a three-month period commencing on the first day of the relevant dividend period and in a principal amount that is representative for a single transaction in that market at that time. However, if the banks selected by the Calculation Agent to provide quotations are not quoting as described in this paragraph, three-month Sterling LIBOR for the applicable period will be the same as three-month Sterling LIBOR as determined in respect of the previous dividend period.

The Calculation Agent will, as soon as practicable after the Determination Date in relation to each dividend period, calculate the dividends payable in respect of each Preference Share for such dividend period. The Calculation Agent shall apply the applicable dividend rate for such dividend period to the liquidation preference of such Preference Share, multiply the product by the actual number of days from (and including) the date on which the dividend begins to accrue during the relevant dividend period to (but excluding) the date on which the dividend actually falls due divided by 365 (or 366 in the case of a leap year) and round the resulting figure to the nearest penny (half a penny being rounded upwards).

The Calculation Agent will cause the rate, the dividend payable in respect of each Preference Share for such dividend period and the relevant Quarterly Dividend Payment Date to be notified to each holder of Preference Shares, pursuant to the provisions of paragraph 11, as soon as possible after their determination.

(B) *Manner of Payment*

Dividends on the Preference Shares may be paid by cheque sent through the post to the registered address of the holder of the Preference Shares (or, if two or more persons are registered as joint holders of the Preference Shares or are entitled thereto in consequence of the death or bankruptcy of the holder or otherwise by operation of law, to any one of such persons), or to such person and such address as such holder may by writing direct. In addition, any such dividend may be paid, upon request by a holder, by transfer to a sterling account maintained by the payee with a bank in London and to or through such person as the holder or joint holders of the Preference Shares may, with at least one month's notice in writing, direct.

(C) *Non-Cumulative*

Dividends on the Preference Shares will be non-cumulative. If the Company does not pay a dividend otherwise payable on a Dividend Payment Date in respect of the Preference Shares by reason of a resolution referred to in paragraph 4(A)(i), (ii) or (iii), then holders of the Preference Shares will have no claim in respect of the non-payment. Except as described in this Prospectus, the holders of the Preference Shares will have no right to participate in the Company's profits.

(D) *Dividend and Capital Restrictions*

- (i) If any dividend or part of a dividend stated to be payable on the Preference Shares on the most recent Dividend Payment Date has not been declared and paid in full by reason of a resolution referred to in paragraph 4(A) (i), (ii) or (iii) above, and the Company has not set aside a sum to provide for payment in full of such dividend, then the Company may not:
 - (a) declare or pay dividends or other distributions upon any Parity Securities (other than, in the case of non-payment by reason of the resolution referred to in paragraph 4(A)(i) only, any Mandatory Securities) or Junior Securities, and the Company may not set aside any sum for the payment of these dividends or distributions, unless, on the date of declaration of any such dividends or distributions, the Company sets aside an amount equal to the dividend for the then-current dividend period payable on the Preference Shares to provide for the payment in full of such dividend on the Preference Shares on the next Dividend Payment Date; or
 - (b) redeem, purchase or otherwise acquire for any consideration any of its Parity Securities or Junior Securities, and the Company may not set aside any sum or establish any sinking fund for the redemption, purchase or other acquisition of such Parity Securities or Junior Securities, until such time as dividends on the Preference Shares in respect of

successive dividend periods singly or together aggregating no less than 12 months shall thereafter have been declared and paid in full.

The terms referred to above are part of the terms of issue of certain Parity Securities and accordingly those provisions will affect the Preference Shares in the event of non-payment of dividends on such Parity Securities.

(ii) The following definitions shall apply for purposes of this paragraph only:

“Act” means the Companies Act 2006, as amended.

“Group” means the Company and its subsidiaries (as such term is defined in the Act).

“Junior Securities” means any other securities of the Company (other than the Ordinary Shares, in respect of which restrictions are set out in paragraph 3(C) above) or any other member of the Group ranking or expressed to rank junior to the Preference Shares either issued directly by the Company or, where issued by a member of the Group, where the terms of the securities benefit from a guarantee or support agreement entered into by the Company which ranks or is expressed to rank junior to the Preference Shares.

“Mandatory Securities” means any Parity Securities the terms of which do not provide for the Board of Directors to be able to elect not to pay any dividend or other distribution in cash at its discretion.

“Parity Securities” means (i) the most senior ranking class or classes of non-cumulative preference shares in the capital of the Company from time to time and (ii) any other securities of the Company or any other member of the Group ranking or expressed to rank *pari passu* with the Preference Shares as regards participation in profits either issued directly by the Company or, where issued by a member of the Group, where the terms of the securities benefit from a guarantee or support agreement entered into by the Company which ranks or is expressed to rank *pari passu* with the Preference Shares and which in the case of (i) and (ii) above comply with the then current requirements of the FSA in relation to Tier 1 Capital or are otherwise treated by the FSA as Tier 1 Capital.

“Tier 1 Capital” has the meaning given to it by the FSA from time to time.

(E) *Broken Periods*

The amount of dividends payable for any period shorter than a full dividend period prior to the First Redemption Date will be calculated on the basis of the actual number of days in the period from (and including) the date on which dividends begin to accrue during the relevant dividend period to (but excluding) the date on which the dividend actually falls due, divided by the number of days in such dividend period (including the first day but excluding the last and on the basis of a 365-day year). The amount of dividends payable for any period shorter than a full dividend period after the First Redemption Date will be calculated on the basis of the actual number of days elapsed in such period and a 365-day year (or 366 in the case of a leap year). Payments of less than £0.01 will be rounded upwards.

(F) *Unclaimed Dividends*

Any dividend which has remained unclaimed for 12 years from the date when it was declared shall be forfeited and shall revert to the Company.

6 Rights upon Liquidation

If the Company is wound up or liquidated, whether or not voluntarily, the holders of the Preference Shares will be entitled to receive in sterling out of the Company's surplus assets available for distribution to shareholders, after payment of arrears (if any) of dividends on any Cumulative Preference Shares, up to the date of payment, (i) equally with any other series of non-cumulative preference shares then outstanding, and all of the Company's other shares ranking equally with the Preference Shares as regards participation in the Company's surplus assets, an amount equal to dividends for the then-current dividend period accrued to but excluding the date of payment (but only to the extent that any such amount was, or would have been, payable as a dividend in accordance with the terms of the Preference Shares) and (ii) subject thereto, equally with the Company's Cumulative Preference Shares, any other series of non-cumulative preference shares then outstanding, and all of the Company's other shares ranking equally with the Preference Shares as regards participation in the Company's surplus assets, a distribution of £1,000 per Preference Share. Any such amounts shall be payable before any distribution or payment may be made to holders of the Ordinary Shares or any other class of the Company's shares ranking after the Preference Shares.

If the assets available for distribution are insufficient to pay in full the amounts payable with respect to the Preference Shares and any of the Company's other preference shares ranking equally as to any such distribution with the Preference Shares, the holders of the Preference Shares and such other preference shares will share rateably in any distribution of the Company's surplus assets in proportion to the full respective preferential amounts to which they are entitled.

After payment of the full amount of the liquidation distribution to which they are entitled together with any accrued dividend for the then current dividend period, the holders of the Preference Shares will have no right or claim to any of the Company's surplus assets and will not be entitled to any further participation in surplus assets.

7 Redemption

The Company may, upon not less than 14 days' notice, redeem the Preference Shares, at its option, in whole or in part on 2 December 2013 (the "First Redemption Date") and on any Quarterly Dividend Payment Date thereafter at a redemption price of £1,000 per Preference Share together with dividends accrued for the then-current dividend period.

If any date on which redemption monies are payable on the Preference Shares is not a Sterling Business Day, then payment of such monies will be made on the succeeding Sterling Business Day and without any interest or other payment in respect of such delay unless such day shall fall within the next calendar month whereupon such payment will be made on the preceding Sterling Business Day.

The Articles provide that no defect in the notice of redemption or in the giving of the notice will affect the validity of the redemption proceedings.

If certain limitations contained in the Articles, the special rights of any of the Company's shares and the provisions of applicable law permit, the Company may, at any time or from time to time, purchase outstanding Preference Shares by tender, available alike to all holders of Preference Shares, in the open market or by private agreement, in each case upon the terms and conditions that the Board of Directors or the Committee shall determine. Any Preference Shares that the Company purchases for its own account will, pursuant to applicable law, be treated as cancelled and will no longer be issued and outstanding.

Under existing FSA requirements, the Company may not redeem or purchase any Preference Shares unless the Company gives prior notice to the FSA and, in certain circumstances, the FSA (i) consents in advance and

(ii) at the time when the notice of redemption or repurchase is given and immediately following such redemption or repurchase, the Company is or will be (as the case may be) in compliance with its capital adequacy requirements as provided in the regulations relating to capital adequacy then in effect of the FSA, unless at the time of such redemption or repurchase such requirement of the FSA no longer applies. The FSA may impose conditions on any redemption or purchase.

8 Voting Rights

The holders of the Preference Shares will not be entitled to receive notice of, attend or vote at any general meeting of the Company's shareholders except as described below.

If any resolution is proposed for adoption by the Company's shareholders varying or abrogating any of the rights attaching to the Preference Shares or proposing that the Company would be wound up, the holders of the Preference Shares or, in the case of the proposal of a resolution for a winding-up, the holders of the outstanding preference shares generally will be entitled to receive notice of and to attend the general meeting of the Company's shareholders at which the resolution is to be proposed and will be entitled to speak and vote on such resolution, but not on any other resolution.

In addition, if before any general meeting of the Company's shareholders the Company has failed to pay in full the dividend payable on the Preference Shares for the most recent dividend period, the holders of the Preference Shares shall be entitled to receive notice of, attend, speak and vote at such meeting on all matters. In these circumstances only, the right of the holders of Preference Shares to vote shall continue until such time as the Company has declared and paid in full dividends on the Preference Shares in respect of successive dividend periods singly or together aggregating no less than 12 months.

Whenever entitled to vote at a general meeting of the Company's shareholders on a show of hands, each holder of Preference Shares present in person or by proxy shall have one vote and, on a poll, each holder of Preference Shares present in person or by proxy will be entitled to one vote for each Preference Share held (subject to adjustment to reflect any capitalisation issue, consolidations, sub-divisions or any other re-classification of the Ordinary Shares as a result of any distribution to the holders of Ordinary Shares of the Company's assets and certain issues of Ordinary Shares or of rights or options to subscribe for Ordinary Shares at a market discount (subject to certain exceptions)).

The holders, including holders of Preference Shares at a time when they have voting rights as a result of the Company having failed to pay dividends as described above, of not less than 10 per cent. of its paid-up capital that at the relevant date carries the right to vote at the Company's general meetings, are entitled to require the Board of Directors to convene an extraordinary general meeting. In addition, the holders of the Preference Shares may have the right to vote separately as a class in certain circumstances as described below under paragraph 10.

9 Form and Denomination

The Preference Shares will, when issued, be fully paid and, as such, will not be subject to a call for any additional payment. For each Preference Share issued, an amount equal to its nominal value (being £1 per Preference Share) will be credited to the Company's issued share capital account and an amount of £999, being the difference between its issue price and its nominal value, will be credited to the Company's share premium account.

The Preference Shares will be issued in registered form and may be held in either certificated form or uncertificated form in CREST. Title to Preference Shares in certificated form will pass by transfer and

registration on the register for the Preference Shares in accordance with the Articles and applicable law. The Preference Shares will not be exchangeable, in whole or in part, for Preference Shares represented by a share warrant to bearer.

Each registration of transfer of Preference Shares in certificated form will be effected by entry on the register for the Preference Shares kept by the Company's registrar at its office in the UK. Any registration of transfer will be effected without charge to the person requesting registration, but the requesting person will be required to pay any related taxes, stamp duties or other governmental charges.

Transfers of Preference Shares in uncertificated form must be made using CREST and must comply with the Uncertificated Securities Regulations 2001 (SI 2001 No. 2001/3755) (the "Regulations").

10 Variation of Rights

The rights attached to the Preference Shares may be varied or abrogated only with the written consent of the holders of 75 per cent. in nominal value of the outstanding Preference Shares or with the sanction of a special resolution passed at a separate class meeting of the holders of the outstanding Preference Shares. A special resolution will be adopted if passed by a majority of 75 per cent. of those holders voting in person or by proxy at the meeting. The quorum required for any such class meeting will be two persons holding or representing by proxy at least one-third in nominal amount of the outstanding Preference Shares affected, except at any adjourned meeting, where any two holders present in person or by proxy will constitute a quorum.

The written consent of the holders of 75 per cent. in nominal value of the outstanding Preference Shares or the sanction of a special resolution passed at a separate class meeting of holders of the outstanding Preference Shares will be required if the Board of Directors propose to authorise, create or increase the amount of any shares of any class or any security convertible into shares of any class ranking as regards rights to participate in the Company's profits or assets, other than if the Company redeems or purchases such shares, in priority to the Preference Shares.

If the Company has paid the most recent dividend payable on the Preference Shares in full, the rights attached to the Preference Shares will not be deemed to be varied by the creation or issue of any further non-cumulative preference shares or of any other further shares ranking equally in some or all respects as regards participation in the Company's profits or assets with, or junior to, the Preference Shares, whether carrying identical rights or different rights in any respect, including as to dividend, premium on a return of capital, redemption or conversion or denominated in sterling or any other currency.

11 Notices

Any notice or document may be served on or delivered to holders of Preference Shares either personally or by sending it by post in a prepaid cover addressed to the holder at his registered address, or (if he has no registered address within the United Kingdom) to the address, if any, within the United Kingdom supplied by him to the Company as his address for the service of notices, or by delivering it to such address addressed as aforesaid.

The Company will cause a notice of any meeting at which holders of Preference Shares are entitled to attend and vote to be mailed to each holder of Preference Shares. Each such notice will state:

- (i) the date of the meeting;
- (ii) a description of any resolution to be proposed for adoption at the meeting on which those holders are entitled to vote; and

(iii) instructions for delivery of proxies.

A holder of Preference Shares who is not registered with an address in the UK and who has not supplied an address within the UK to the Company for the purpose of service of notices is not entitled to receive notices of meetings by mail. Notices given by the Company will be given by the Registrar on its behalf, unless the Company decides otherwise.

A notice may also be given by the Company (to the extent permitted by applicable law and the FSA (in its capacity as competent authority under the FSMA)) by electronic communication, if so requested or authorised by the holder, the holder having notified the Company of an e-mail address to which the Company may send electronic communications, and having agreed to receive notices and other documents from the Company by electronic communication. If a holder notifies the Company of an e-mail address, the Company may send the holder the notice or other document by publishing the notice or other document on a website and notifying the holder by e-mail that the notice or other document has been published on the website. The Company must also specify the address of the website on which it has been published, the place on the website where the notice may be accessed and how it may be accessed, and where the notice in question is a notice of a meeting, the notice must continue to be published on that website throughout the period beginning with the giving of that notification and ending with the conclusion of the meeting, save that if the notice is published for part only of that period then failure to publish the notice throughout that period shall not invalidate the proceedings of the meeting where such failure is wholly attributable to circumstances which it would not be reasonable to have expected the Company to prevent or avoid.

Notices to holders of the Preference Shares in uncertificated form, including notices for general meetings of holders of Preference Shares, will be published in accordance with the operating procedures for the time being of CREST and the Regulations.

In addition, for so long as any of the Preference Shares are listed on any stock exchange, such notices will be published in accordance with the requirements (if any) of such stock exchange.

12 Governing Law

The creation and issuance of the Preference Shares and the rights attached to them shall be governed by and construed in accordance with the laws of Scotland.

13 Registrar and Paying Agent

Computershare Investor Services PLC located at The Pavilions, Bridgwater Road, Bristol BS13 8AE, United Kingdom will maintain the register and will act as Registrar and Paying Agent.

The Company reserves the right at any time to appoint an additional or successor Registrar or Paying Agent. References above to the "Registrar" or "Paying Agent" shall be construed accordingly.

UNITED KINGDOM TAXATION

The comments set out below are intended only as a general guide to certain limited aspects of current UK tax law and HM Revenue and Customs (“HMRC”) practice that may be relevant to holders of Preference Shares. The comments do not apply to certain classes of holders, such as (i) dealers in securities, broker dealers, insurance companies and investment companies; (ii) investors who have (or are deemed to have) acquired Preference Shares by virtue of an office or employment; (iii) investors that do not hold the Preference Shares as capital assets; (iv) investors that own (or are deemed to own) 10 per cent. or more of the voting power of the Company; (v) investors that hold the Preference Shares as part of hedging transactions; or (vi) investors that hold the Preference Shares in connection with a trade, profession or vocation carried on in the UK (whether through a branch or agency, a permanent establishment or otherwise). Further, they do not constitute tax or legal advice. Any holders who are in doubt as to their personal tax position should consult their professional advisers.

General

The following summarises certain UK tax consequences of the acquisition, holding and disposition of Preference Shares by a beneficial owner of Preference Shares.

The statements regarding UK tax laws and HMRC practices set forth below are based on those laws and practices as in force and as applied in practice on the date of this Prospectus and are subject to changes to those laws and practices and any relevant judicial decision subsequent to the date of this Prospectus. This summary is not exhaustive of all possible tax considerations that may be relevant in the particular circumstances of each prospective investor. Each prospective investor should seek professional advice as to the tax consequences of the acquisition, ownership and disposition of Preference Shares.

Taxation of Dividends

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

Individual holders of Preference Shares who are resident in the UK for tax purposes and who receive a dividend from the Company will generally be entitled to a tax credit (the “Tax Credit”) (which may be set off against such holder’s total income tax liability on the dividend) equal to 1/9th of the amount of the cash dividend (or 1/10th of the aggregate of the cash dividend and the Tax Credit (the “Gross Dividend”). Certain holders of Preference Shares who are not resident in the UK for tax purposes may also be entitled to the Tax Credit. These holders include Commonwealth citizens, European Economic Area nationals and residents of the Isle of Man and the Channel Islands.

Individual holders of Preference Shares who are liable to UK income tax, other than at the higher rate, will be liable to tax on the Gross Dividend at the rate of 10 per cent. The Tax Credit will satisfy the whole of such holders’ income tax liability in respect of the dividend. Individual holders of Preference Shares who are not liable to income tax in the UK in respect of the Gross Dividend will not be entitled to any payment in respect of the Tax Credit.

Individual holders of Preference Shares who are liable to UK income tax at the higher rate will be liable to tax on the Gross Dividend at the rate of 32.5 per cent. After taking into account the Tax Credit, such individuals will be liable to pay additional UK income tax at the rate of 22.5 per cent. of the Gross Dividend. Individuals

who are higher rate taxpayers will therefore pay UK income tax at an effective tax rate of 25 per cent. of the cash dividend received.

Corporate holders of Preference Shares (other than share dealers) will not normally be liable to UK corporation tax on any dividend received from the Company.

Holders of Preference Shares who are resident outside the UK for tax purposes will not generally be able to claim any payment in respect of any part of the Tax Credit attaching to dividends paid by the Company, although this will depend on the existence and terms of any double tax treaty between the UK and the country in which the holder of Preference Shares is resident for tax purposes.

Taxation of Capital Gains

The sale, or other disposal, of Preference Shares may give rise to the realisation of a gain for the purposes of UK taxation of chargeable gains.

An individual holder of Preference Shares who is resident or ordinarily resident in the UK for tax purposes and who realises such a gain may be liable to UK capital gains tax, depending on the holder's circumstances and subject to any available exemption or relief.

A corporate holder of Preference Shares who is resident in the UK for tax purposes and who realises such a gain may be liable to UK corporation tax on chargeable gains, depending on the holder's circumstances and subject to any available exemption or relief.

A holder of Preference Shares who is not resident in the UK for tax purposes and who carries on a trade in the UK through a branch or agency, or, in the case of a company, a permanent establishment, may be subject to UK capital gains tax or corporation tax on a disposal of Preference Shares which are used, held or acquired for the purposes of the branch, agency or permanent establishment, subject to any available exemption or relief. Special rules apply to individuals who are temporarily not resident or ordinarily resident in the UK.

Different treatment may apply if Preference Shares are repurchased by the Company. Individual holders who are resident in the UK for tax purposes should generally be treated as receiving a distribution, taxable in the same way as set out above, to the extent that the amount received from the Company exceeds the amount originally subscribed for such Preference Shares. For corporate holders resident in the UK for tax purposes, any amount by which the amount received from the Company exceeds the amount originally subscribed for such Preference Shares should also be treated as a distribution. Such a shareholder should not generally be taxable on that distribution, but should be treated, for the purposes of the UK taxation of chargeable gains, as disposing of their Preference Shares for the amount received from the Company.

Stamp duty and stamp duty reserve tax ("SDRT")

Issue of the Preference Shares

Provided that the Preference Shares are not issued (a) to, or to a nominee or agent for, a person whose business is or includes the provision of clearing services or (b) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts, no stamp duty or SDRT should be payable on the issue of the Preference Shares.

Agreements to transfer, and transfers of, the Preference Shares

Any subsequent transfer on sale of a Preference Share will normally be subject to *ad valorem* stamp duty, generally at the rate of 0.5 per cent. (rounded up to the next multiple of £5.00) of the consideration paid. UK stamp duty is normally the responsibility of a purchaser or transferee of the Preference Shares.

An unconditional agreement to transfer a Preference Share will normally give rise to SDRT, at the rate of 0.5 per cent. of the amount or value of the consideration paid for such Preference Share, but the liability will be cancelled, or any SDRT paid refunded, if the agreement is completed by a duly stamped transfer within six years of the agreement to transfer having become unconditional. SDRT is normally the liability of the purchaser or transferee of the Preference Shares.

If the Preference Shares are transferred (a) to, or to a nominee or agent for, a person whose business is or includes the provision of clearing services or (b) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts, stamp duty or SDRT will be payable at a higher rate of 1.5 per cent. of the amount or value of the consideration payable, or in certain circumstances, the value of the Preference Shares so transferred.

SUBSCRIPTION AND SALE

The sections entitled “Part XI - Additional Information - 18.7 Placing and Open Offer Agreement” and “Part XI - Additional Information - 18.8 Preference Share Subscription Agreement” in the Placing and Open Offer Prospectus are deemed to be set out here and have been incorporated by reference into this Prospectus. See “Documents Incorporated by Reference” on page 5.

Selling Restrictions

United States

The Preference Shares have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Preference Shares are being issued and allotted outside of the United States to non-US persons in reliance on Regulation S.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) no offer of Preference Shares to the public in that Relevant Member State must be made other than:

- (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive); or
- (d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Preference Shares shall require the Company to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Preference Shares to the public” in relation to any Preference Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Preference Shares to be offered so as to enable an investor to decide to purchase or subscribe the Preference Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

An invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in connection with the issue or sale of the Preference Shares may only be communicated or be caused to be communicated in circumstances in which Section 21(1) of the FSMA does not apply to the Company.

All applicable provisions of the FSMA must be complied with in connection with anything done in relation to the Preference Shares in, from or otherwise involving the United Kingdom.

General

No action has been or will be taken in any jurisdiction by the Company that would permit a public offering of the Preference Shares, or the possession or distribution of this Prospectus, or any amendment or supplement hereto, or any other offering material relating to the Preference Shares, in any country or jurisdiction where action for that purpose is required. Accordingly, the Preference Shares may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material may be distributed or published, in or from any other country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

GENERAL INFORMATION

Consents

The issue of the Preference Shares has been authorised pursuant to resolutions passed at a meeting of the Board of Directors held on 13 October 2008. The terms of issue of the Preference Shares have been approved by a meeting of a Committee of the Board of Directors (the “Committee”) held on 26 November 2008, such Committee having been appointed by the Board of Directors on 13 October 2008.

Company’s Objects and Purposes

Clause 4 of the Company’s memorandum of association provides that its objects include the following: (i) carrying on the business of a holding company, (ii) to subscribe, enter into or tender for, purchase or otherwise acquire and to hold, dispose of and deal with the shares, stock, securities and evidence of indebtedness, (iii) to undertake on behalf of customers and others the investment, holdings and management, realisation and re-investment of moneys, securities, investments and property of every kind upon such terms as may be thought desirable and (iv) to do all such other things as may be deemed incidental or conducive to the attainment of the above objects or any of the objects of the Company.

Listing

Application has been made for the Preference Shares to be listed on the Official List of the UK Listing Authority and to be admitted to trading on the Market of the London Stock Exchange.

Ratings

The Preference Shares are expected, on issue, to be rated “A1” by Moody’s, “A+” by Fitch and “BBB+” by Standard & Poor’s. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. As defined by Moody’s, an “A1” rating means that there is a low credit risk that the Company will be unable to meet its financial commitments on the Preference Shares. As defined by Fitch, an “A+” rating indicates that the Company has a strong capacity for payment of its financial commitments on the Preference Shares. As defined by Standard & Poor’s, a “BBB+” rating means the Company exhibits adequate protection parameters to meet its financial commitments on the Preference Shares.

No Material Adverse Change

Save as regards (i) the continued market deterioration, credit market write-downs and increase in risk weighted assets as outlined in the paragraph entitled “Introduction” on page 40 of the Placing and Open Offer Prospectus which is incorporated by reference herein, the increased market volatility, further slowing of income growth and rising impairments (both recorded and yet to be determined) as outlined in the paragraph entitled “Outlook” on page 42 of the Placing and Open Offer Prospectus which is incorporated by reference herein and the credit market write-downs in “Credit Market Exposures” on pages 43 to 46 of the Placing and Open Offer Prospectus which is incorporated by reference herein; and (ii) the results of the Group in the first

six months of 2008 as disclosed on pages 63 to 80 of the RBSG Interim Information, which is incorporated by reference herein, and the results of the Group as set out in the pro forma financial information set out on pages 94 to 98 and 103 of the Placing and Open Offer Prospectus which is incorporated by reference herein there has been no material adverse change in the prospects of the Company and the Company and its subsidiaries taken as a whole since 31 December 2007 (the date to which the latest audited published financial information of the Group was prepared).

No Significant Change

Save for the continued market deterioration, credit market write-downs and increase in risk weighted assets as outlined in the paragraph entitled "Introduction" on page 40 of the Placing and Open Offer Prospectus which is incorporated by reference herein, the increased market volatility, further slowing of income growth and rising impairments (both recorded and yet to be determined) as outlined in the paragraph entitled "Outlook" on page 42 of the Placing and Open Offer Prospectus which is incorporated by reference herein and the credit market write-downs set out in "Credit Market Exposures" on pages 43 to 46 of the Placing and Open Offer Prospectus which is incorporated by reference herein, there has been no significant change in the trading or financial position of the Group since 30 June 2008 (the date to which the latest published financial information of the Group was prepared).

Litigation

As a participant in the financial services industry, the Group operates in a legal and regulatory environment that exposes it to potentially significant litigation risks. As a result, the Company and other members of the Group are involved in various disputes and legal proceedings in the United Kingdom, the United States and other jurisdictions, including litigation. Such cases are subject to many uncertainties, and their outcome is often difficult to predict, particularly in the earlier stages of a case. Currently, the Group is involved in litigation arising out of its operations.

Other than as set out in the paragraph entitled "Litigation" on pages 150 to 152 of the Placing and Open Offer Prospectus which is incorporated by reference herein, so far as the Company is aware, neither the Company nor any member of the Group is or has been engaged in nor has pending or threatened any governmental, legal or arbitration proceedings which may have or have had in the recent past (covering the 12 months immediately preceding the date of this Prospectus) a significant effect on the Group's financial position or profitability.

Auditors

The consolidated financial statements of the Company for the years ended 31 December 2007 and 31 December 2006 have been audited by Deloitte & Touche LLP, Chartered Accountants, a member firm of the Institute of Chartered Accountants in England and Wales.

Deloitte & Touche LLP has given and not withdrawn its written consent to the incorporation by reference in this Prospectus of its report set out in Part IX of the Placing and Open Offer Prospectus in the form and context in which it appears in the Placing and Open Offer Prospectus and has authorised the contents of the part of the Placing and Open Offer Prospectus which comprises its report for the purposes of Rule 5.5.4R(2)(f) of the Prospectus Rules.

Available documents

For so long as any Preference Share remains outstanding, copies of the following documents will, when available, be available during business hours on a weekday (public holidays excepted) for inspection at the principal office of the Company at RBS Gogarburn, PO Box 1000, Edinburgh EH12 1HQ, free of charge:

- the memorandum and articles of association of the Company;
- the audited consolidated annual financial statements of the Company for the financial years ended 31 December 2007 and 31 December 2006 together in each case with the audit report thereon;
- the unaudited consolidated interim financial statements of the Company for the six months ended 30 June 2008 together with the review report thereon;
- the Placing and Open Offer Prospectus and the Circular to Shareholders; and
- the written consents (if any) of the holders of the Preference Shares referred to under “Description of the Preference Shares — Variation of Rights” above.

Clearing and Settlement Systems

The Preference Shares will be issued in registered form and may be held in either certificated form or uncertificated form in CREST. The International Securities Identification Number (“ISIN”) for the Preference Shares is GB00B3F6NM66.

Information on the CREST settlement system

The Regulations provide for the transfer of shares in the UK without stock transfer forms, and the evidencing of title to shares without share certificates, through a computer-based system and procedures, defined in the Regulations as a “relevant system”. CREST is the relevant system and is operated by Euroclear UK & Ireland Limited.

The Articles contain specific provisions to enable shares to be dematerialised into a relevant system, including CREST. A copy of the Articles is available for inspection as described in “Available documents” above.

The Committee has resolved to enable any or all of the Preference Shares to join CREST and, accordingly, holders of the Preference Shares will be able to hold eligible shares in electronic form in an account on the CREST system or to hold them in the physical form of certificates. Each holder will be able to choose whether or not to hold his Preference Shares in uncertificated form and the Registrar will continue to register written instructions of transfer and issue share certificates in respect of Preference Shares held in certificated form.

It is currently anticipated that the Preference Shares will be eligible to join CREST with effect immediately upon admission to trading on the Market.

Notices

Any notice or document may be served on or delivered to holders of Preference Shares either personally or by sending it by post in a prepaid cover addressed to the holder at his registered address, or (if he has no registered address within the United Kingdom) to the address, if any, within the United Kingdom supplied by

him to the Company as his address for the service of notices, or by delivering it to such address addressed as aforesaid.

The Company will cause a notice of any meeting at which holders of Preference Shares are entitled to attend and vote to be mailed to each holder of Preference Shares. Each such notice will state:

- (i) the date of the meeting;
- (ii) a description of any resolution to be proposed for adoption at the meeting on which those holders are entitled to vote; and
- (iii) instructions for delivery of proxies.

A holder of Preference Shares who is not registered with an address in the UK and who has not supplied an address within the UK to the Company for the purpose of service of notices is not entitled to receive notices of meetings by mail. Notices given by the Company will be given by the Registrar on its behalf, unless the Company decides otherwise.

A notice may also be given by the Company (to the extent permitted by applicable law and the FSA (in its capacity as competent authority under the FSMA)) by electronic communication, if so requested or authorised by the holder, the holder having notified the Company of an e-mail address to which the Company may send electronic communications, and having agreed to receive notices and other documents from the Company by electronic communication. If a holder notifies the Company of an e-mail address, the Company may send the holder the notice or other document by publishing the notice or other document on a website and notifying the holder by e-mail that the notice or other document has been published on the website. The Company must also specify the address of the website on which it has been published, the place on the website where the notice may be accessed and how it may be accessed, and where the notice in question is a notice of a meeting, the notice must continue to be published on that website throughout the period beginning with the giving of that notification and ending with the conclusion of the meeting, save that if the notice is published for part only of that period then failure to publish the notice throughout that period shall not invalidate the proceedings of the meeting where such failure is wholly attributable to circumstances which it would not be reasonable to have expected the Company to prevent or avoid. In addition, for so long as any of the Preference Shares are listed on any stock exchange, such notices will be published in accordance with the requirements (if any) of such stock exchange.

THE COMPANY

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