Dated 19 November 2009

THE ROYAL BANK OF SCOTLAND GROUP PLC

REGISTRATION DOCUMENT

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INTRODUCTION

This document constitutes a registration document ("**Registration Document**") for the purposes of Article 5.3 of Directive 2003/71/EC (the "**Prospectus Directive**") and has been prepared for the purpose of giving information with respect to The Royal Bank of Scotland Group plc (the "**Issuer**" or "**RBSG**"), whose registered office address appears on the last page of this Registration Document, and its subsidiaries (RBSG, together with its subsidiaries, the "**Group**") which, according to the particular nature of the Issuer and the securities which it may offer to the public or apply to have admitted to trading on a regulated market, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer.

The Issuer accepts responsibility for the information contained in this Registration Document. To the best of the knowledge of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this Registration Document is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Registration Document has been filed with, and approved by, the Financial Services Authority (the "**FSA**") in its capacity as competent authority (the "**UK Listing Authority**") under the Financial Services and Markets Act 2000 (the "**FSMA**").

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("**Standard & Poor's**") is expected to rate: senior notes issued by RBSG with a maturity of one year or more "A"; senior notes issued by RBSG with a maturity of less than one year "A-1"; dated subordinated notes issued by RBSG "BBB-"; and both undated tier 2 and tier 1 notes issued by RBSG "B-". Fitch Ratings Limited ("**Fitch**") is expected to rate: senior notes issued by RBSG with a maturity of one year or more "AA-"; senior notes issued by RBSG with a maturity of less than one year "F1+"; dated subordinated notes issued by RBSG "A+"; undated tier 2 notes issued by RBSG "BB"; and tier 1 notes issued by RBSG "BB-". Moody's Investors Service Limited ("**Moody's**") is expected to rate: senior notes issued by RBSG with a maturity of one year or more "A1"; dated subordinated notes issued by RBSG "Ba1"; undated tier 2 notes issued by RBSG "Ba2"; tier 1 notes issued by RBSG "B3"; and senior notes issued by RBSG with a maturity of less than one year "P-1". Tier 3 notes issued by RBSG will be rated on a case-by-case basis.

As defined by Standard & Poor's, an "A" rating means that the ability of the Issuer to meet its financial commitment on the relevant notes issued by it is strong and an "A-1" rating means that the ability of the Issuer to meet its financial commitment on the relevant notes issued by it is extremely strong. A "BBB" rating means that the ability of the Issuer to meet its financial commitment on the relevant notes issued by it will likely be weakened by adverse economic conditions or changing circumstances. A "B" rating means that the ability of the Issuer to meet its financial commitment on the relevant notes issued by it will likely be impaired by exposure to adverse business, financial or economic conditions. As defined by Standard & Poor's, an addition of a plus (+) or minus (-) sign shows relative standing within the major rating categories.

As defined by Fitch, an "AA" rating indicates that the Issuer has a very strong capacity for payment of its financial commitments on the relevant notes issued by it and that this capacity is not significantly vulnerable to foreseeable events. An "A" rating indicates that the Issuer has a strong capacity for payment of its financial commitments on the relevant notes issued by it but that this capacity may be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings. A "BB" rating indicates that there is a possibility of credit risk developing, particularly as a result of adverse economic change over time; however business or financial alternatives may be available to allow financial commitments to be met. As defined by Fitch, an addition of a plus (+) or minus (-) sign denotes relative status within the major rating categories. As defined by Fitch, an “F1” rating indicates that the Issuer has the strongest capacity for timely payment of its financial commitments on the relevant notes issued by it. As defined by Fitch, an addition of a plus (+) to an “F1” rating denotes an exceptionally strong credit feature.

As defined by Moody’s, an “A” rating means the capacity of the Issuer to meet its obligations on the relevant notes issued by it is considered upper-medium grade and subject to low credit risk. A “Ba” rating means obligations are judged to have speculative elements and are subject to substantial credit risk. A “B” rating means the obligations are considered speculative and are subject to high credit risk. As defined by Moody’s the addition of a “1” indicates that the obligation ranks in the higher end of its rating category, a “2” indicates a mid-range ranking and a “3” indicates a ranking in the lower end of that rating category. As defined by Moody’s, a “P-1” rating means that the Issuer has a superior ability to repay its short term debt obligations on the relevant notes issued by it.

A rating is not a recommendation to buy, sell or hold securities and may be subject to change, suspension or withdrawal at any time by the assigning rating agency.

The Commissioners of Her Majesty’s Treasury (“**HM Treasury**”) have neither reviewed this Registration Document nor verified the information contained in it, and HM Treasury makes no representation with respect to, and does not accept any responsibility for, the contents of this Registration Document or any other statement made or purported to be made on its behalf in connection with the Issuer or the issue and offering of securities by the Issuer. HM Treasury accordingly disclaims all and any liability, whether arising in tort or contract or otherwise, which it might otherwise have in respect of this Registration Document or any such statement.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents, which have been (1) previously published and (2) approved by the FSA or filed with it shall be deemed to be incorporated in, and form part of, this Registration Document:

(a) the following sections of the 2008 annual report and accounts of RBSG, which were published via the Regulatory News Service of the London Stock Exchange plc on 9th March 2009: (i) Independent auditors' report for year ended 31st December 2008 on pages 172 to 173, (ii) Consolidated income statement for year ended 31st December 2008 (including restated comparative information for 2007) on page 174, (iii) Balance sheet as at 31st December 2008 (including restated comparative information for 2007) on page 175, (iv) Statement of recognised income and expense for year ended 31st December 2008 (including restated comparative information for 2007) on page 176, (v) Cash flow statement for year ended 31st December 2008 (including restated comparative information for 2007) on page 177, (vi) Accounting policies on pages 178 to 188, (vii) Notes on the accounts for year ended 31st December 2008 (including restated comparative information for 2007) on pages 189 to 266, (viii) Business review on pages 23 to 144, (ix) Report of the Directors on pages 148 to 152, (x) Corporate governance on pages 153 to 158, (xi) Letter from the Chairman of the Remuneration Committee on page 159, (xii) Directors' remuneration report on pages 160 to 168, (xiii) Directors' interests in shares on page 169, (xiv) Amounts in accordance with IFRS on pages 268 to 277, (xv) Exchange rates on page 277, (xvi) Economic and monetary environment on page 278, (xvii) Supervision on page 279 and Regulatory reviews and developments on pages 280 to 281, (xviii) Description of property and equipment on page 281, (xix) Major shareholders on page 281 and (xx) Material contracts on pages 281 to 284;

(b) the following sections of the 2007 annual report and accounts of RBSG, which were published via the Regulatory News Service of the London Stock Exchange plc on 18th March 2008: (i) Independent auditors' report for year ended 31st December 2007 on pages 118 to 119, (ii) Consolidated income statement for year ended 31st December 2007 on page 120, (iii) Balance sheet as at 31st December 2007 on page 121, (iv) Statement of recognised income and expense for year ended 31st December 2007 on page 122, (v) Cash flow statement for year ended 31st December 2007 on page 123, (vi) Accounting policies on pages 124 to 139, (vii) Notes on the accounts for year ended 31st December 2007 on pages 140 to 212, (viii) Business review on pages 27 to 90, (ix) Report of the Directors on pages 94 to 98, (x) Corporate governance on pages 99 to 104, (xi) Directors' remuneration report on pages 105 to 114, (xii) Directors' interests in shares on page 115, (xiii) Amounts in accordance with IFRS on pages 214 to 222, (xiv) Exchange rates on page 230, (xv) Economic and monetary environment on page 231, (xvi) Supervision and regulation on pages 231 to 233, (xvii) Description of property and equipment on page 234, (xviii) Major shareholders on page 234 and (xix) Material contracts on page 234;

(c) the unaudited consolidated interim results for the half year ended 30th June 2009 of RBSG (the "**RBSG Half Year 2009 Results**"), which were published via the Regulatory News Service of the London Stock Exchange plc on 7th August 2009, excluding: (i) Pro forma results - Description of the business on pages 27-28; (ii) Statutory results - Principal risks and uncertainties on pages 197-201; (iii) Statutory results - Statement of directors' responsibilities on page 202, (iv) Additional Information - Other Information on page 203; (v) Additional Information - Financial calendar on page 204 and (vi) Additional Information - Contacts on page 204 (the RBSG Half Year 2009 Results, excluding items (i) to (vi) above, the "**RBSG Half Year 2009 Information**");

(d) the amendment to the RBSG Half Year 2009 Results which was published via the Regulatory News Service of the London Stock Exchange plc on 14th August 2009;

(e) the interim management statement for the third quarter ended 30th September 2009 of RBSG, which was published via the Regulatory News Service of the London Stock Exchange plc on 6th November 2009 excluding Paragraph 4 headed "Pro forma capital ratios" of Appendix 3 headed "Asset Protection Scheme" (the "**RBSG Third Quarter 2009 Interim Management Statement**");

(f) the following sections of the prospectus published on 16th March 2009 (the "**March 2009 Placing and Open Offer Prospectus**") in connection with RBSG's placing and open offer of 16,909,716,385 ordinary shares, which comprises a prospectus prepared in accordance with the Prospectus Rules of the UK Listing Authority made under section 73A of the FSMA: (i) "Placing and Open Offer Statistics" on page 26; (ii) "Important Information" on pages 28 to 31; (iii) Part I (Letter From the Chairman of RBS) on pages 35 to 39 excluding the paragraphs under the heading "Trading and outlook" on pages 38 and 39; (iv) Appendix to the Letter From the Chairman of RBS on pages 40 to 50 excluding Part A paragraph 10 (Overseas Shareholders) on page 46, Part A paragraph 11 (UK and US Taxation) on page 46 and Part A paragraph 12 (Action to be taken in respect of the Open Offer) on pages 46 to 48; (v) Part V (Overview of Business Performance and Operating and Financial Review of RBS) on pages 90 to 94; (vi) paragraph A "Unaudited pro forma proportional Core Tier 1 capital ratio as at 31 December 2008" of Part VI (Unaudited Pro Forma Financial Information) on page 95; (vii) the following paragraphs of Part IX (Additional Information) on pages 106 to 151; 7 (Directors interests) on pages 119 to 122; 8 (Remuneration details, Directors' service contracts and letters of appointment) on pages 122 to 126; 9 (Board practices) on pages 126 to 128; 10 (Significant shareholdings) on page 128; 12 (Employees) on page 129; 13 (RBS Employee Share Plans) on pages 130 to 138; 14 (Pension benefits) on page 139; 18 (Material contracts) on pages 143 to 149; 20 (Related party transactions) on page 149; 24 (General) on pages 150 to 151; and 26 (Sources of information) on page 151; and (viii) Part XI (Definitions) on pages 154 to 162;

(g) the sections entitled "Plans and Proposals for ABN AMRO" on pages 42 to 48 and "Information on the Consortium and Shareholders' Agreement" on pages 60 to 63 of the listing particulars published by RBSG on 20th July 2007;

(h) the press release headed "The Royal Bank of Scotland Group plc - Results of Placing and Open Offer" dated 7th April 2009 issued by RBSG;

(i) the press release headed "RBS Group Announces Further Senior Executive Changes" dated 6th May 2009 issued by RBSG;

(j) the press release headed "RBS announces successful sale of part of Asian banking operations to ANZ" dated 4th August 2009 issued by RBSG;

(k) the press release headed "The Royal Bank of Scotland Group plc signs share sale agreement with MCB Bank Limited" dated 12th August 2009 issued by RBSG;

(l) the press release headed "Royal Bank of Scotland PLC – Subordinated Debt Instruments" dated 4th September 2009 issued by RBSG;

(m) the announcement headed "The Royal Bank of Scotland Group plc, The Royal Bank of Scotland plc and National Westminster Bank plc – Clarification of Contractual Position Relating to Payments Under Preference Shares and Subordinated Securities" published via the Regulatory News Service of the London Stock Exchange plc on 20th October 2009; and

(n) the press release headed "The Royal Bank of Scotland Group plc (RBS) – Announcement on the APS and State Aid Discussions" dated 3rd November 2009 issued by RBSG, excluding section 2 of Appendix 1 on page 11 of the press release (the "**APS Announcement**").

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

The Issuer will provide, without charge, to each person to whom a copy of this Registration Document has been delivered, upon the oral or written request of such person, a copy of any or all of the information which is incorporated herein by reference. Written or oral requests for such information should be directed to the Issuer at its principal office set out on the last page of this Registration Document.

RISK FACTORS

Prospective investors should consider carefully the risks set forth below and the other information set out elsewhere in this Registration Document (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision with respect to any securities of the Issuer.

Set out below are certain risk factors which could have a material adverse effect on the business, operations, financial condition or prospects of the Group and cause the Group's future results to be materially different from expected results. The Group's results could also be affected by competition and other factors. The factors discussed below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties the Group businesses face. The Issuer has described only those risks relating to its operations that it considers to be material. There may be additional risks that the Issuer currently considers not to be material or of which it is not currently aware, and any of these risks could have the effects set forth above. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. Investors should note that they bear the Issuer's solvency risk. Each of the risks highlighted below could have a material adverse effect on the amount of principal and interest which investors will receive in respect of securities issued by the Issuer. In addition, each of the risks highlighted below could adversely affect the trading price of such securities or the rights of investors under such securities and, as a result, investors could lose some or all of their investment.

RBSG and its United Kingdom bank subsidiaries may face the risk of full nationalisation or other resolution procedures under the Banking Act 2009.

Under the provisions of the Banking Act 2009 (the "**Banking Act**"), substantial powers have been granted to HM Treasury, the Bank of England and the FSA (the FSA, together with HM Treasury and the Bank of England, the "**Authorities**") as part of the special resolution regime to stabilise banks that are in financial difficulties (the "**SRR**"). The SRR gives the Authorities three stabilisation options: (i) private sector transfer of all or part of the business of a United Kingdom incorporated institution with permission to accept deposits pursuant to Part IV of the FSMA (a "**relevant entity**"); (ii) transfer of all or part of the business of the relevant entity to a "bridge bank" established by the Bank of England; and (iii) temporary public ownership (nationalisation) of the relevant entity or its United Kingdom incorporated holding company. The Banking Act also provides for two new insolvency and administration procedures for relevant entities.

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

The Authorities may exercise the stabilisation options by means of powers to transfer property, rights or liabilities of a relevant entity and shares and other securities issued by a relevant entity.

HM Treasury may also take the parent company of a relevant entity (such as RBSG) into temporary public ownership provided that certain conditions set out in Section 82 of the Banking Act are met. Temporary public ownership is effected by way of a share transfer order and can be actioned irrespective of the financial condition of the parent company.

If HM Treasury makes the decision to take RBSG into temporary public ownership, it may take various actions in relation to any securities issued by RBSG (the "**Securities**") without the consent of holders of the Securities, including (among other things):

(i) transferring the Securities free from any contractual or legislative restrictions on transfer;

(ii) transferring the Securities free from any trust, liability or encumbrance;

(iii) extinguishing any rights to acquire Securities;

(iv) delisting the Securities;

(v) converting the Securities into another form or class (including for example, into equity securities); or

(vi) disapplying any termination or acceleration rights or events of default under the terms of the Securities which would be triggered by the transfer.

Where HM Treasury has made a share transfer order in respect of securities issued by the holding company of a relevant entity, HM Treasury may make an order providing for the property, rights or liabilities of the holding company or of any relevant entity in the holding company group to be transferred and where such property is held on trust, removing or altering the terms of such trust.

Accordingly, there can be no assurance that the taking of any such actions would not adversely affect the rights of holders of the Securities and/or adversely affect the price or value of their investment or that the ability of the Issuer to satisfy its obligations under contracts related to the Securities would be unaffected. In such circumstances, such holders may have a claim for compensation under one of the compensation schemes currently existing under, or contemplated by, the Banking Act if any action is taken in respect of the Securities (for the purposes of determining an amount of compensation, an independent valuer must disregard actual or potential financial assistance provided by the Bank of England or HM Treasury). There can be no assurance that holders of the Securities would thereby recover compensation promptly and/or equal to any loss actually incurred.

If RBSG was taken into temporary public ownership and a partial transfer of its or any relevant entity's business was effected, or if a relevant entity were made subject to the SRR and a partial transfer of its business to another entity was effected, the transfer may directly affect RBSG and/or its Group companies by creating, modifying or cancelling their contractual arrangements with a view to ensuring the provision of such services and facilities as are required to enable the bridge bank or private sector purchaser to operate the transferred business (or any part of it) effectively. For example, the transfer may (among other things) (i) require the Issuer or Group companies to support and co-operate with the bridge bank or private sector purchaser; (ii) cancel or modify contracts or arrangements between RBSG or the transferred business and a Group company; or (iii) impose additional obligations on RBSG under new or existing contracts. There can be no assurance that the taking of any such actions would not adversely affect the ability of RBSG to satisfy its obligations under the issued Securities or related contracts.

If RBSG was taken into temporary public ownership and a partial transfer of its or any relevant entity's business was effected, or if a relevant entity were made subject to the SRR and a partial transfer of its business to another entity was effected, the nature and mix of the assets and liabilities not transferred may adversely affect RBSG's financial condition and increase the risk that

RBSG may eventually become subject to administration or insolvency proceedings pursuant to the Banking Act.

While it was in force, the United Kingdom Government took action under the Banking (Special Provisions) Act 2008 in respect of a number of United Kingdom financial institutions, including, in extreme circumstances, full and part nationalisation. There have been concerns in the market in the past year regarding the risks of such nationalisation in relation to RBSG and other United Kingdom banks. If economic conditions in the United Kingdom or globally continue to deteriorate, or the events described in the following risk factors occur to such an extent that they have a materially adverse impact on the financial condition, perceived or actual credit quality, results of operations or business of any of the relevant entities in the Group, the United Kingdom Government may decide to take similar action in relation to RBSG under the Banking Act. Given the extent of the Authorities' powers under the Banking Act, it is difficult to predict what effect such actions might have on the Group and any securities issued by RBSG or Group companies. However, potential impacts may include full nationalisation of RBSG, the total loss of value in Securities issued by RBSG and the inability of RBSG to perform its obligations under the Securities.

If a partial transfer of RBSG's business were effected, under the terms of which the liabilities under the Securities were not transferred, compensation may be assessed to be payable to holders of the Securities under one of the compensation schemes currently existing under, or contemplated by, the Banking Act (including pursuant to the Banking Act (Third Party Compensation Arrangements for Partial Property Transfers) Regulations 2009). However, there can be no assurance that compensation would be assessed to be payable or that holders of the Securities would recover any compensation promptly and/or equal to any loss actually incurred.

If the Group is unable to participate in the Asset Protection Scheme and issue the B Shares, the Dividend Access Share and, if required, the £8 billion Contingent Subscription B Shares, or the operation of the Asset Protection Scheme fails to have the desired effect on RBSG's financial and capital position, RBSG may face the increased risk of becoming subject to the SRR. If the costs of participation outweigh the benefits, this could have a negative impact on the Group's business, earnings and financial prospects.

On 26th February 2009, the Group announced its intention to participate in the asset protection scheme announced by HM Treasury on 19th January 2009 (the "**Asset Protection Scheme**" or the "**APS**"). A further announcement regarding the revised APS structure and the measures anticipated to be imposed by the European Commission was made on 3rd November 2009 (see the APS Announcement, which is incorporated by reference herein). However, its ability to participate in the APS is subject to the satisfaction of a number of conditions which may not be satisfied, including, among others, finalisation of documentation, the receipt of certain regulatory approvals (including the State aid clearance by the College of Commissioners (the "**College**")) and the approval of a majority of RBSG's independent shareholders. The failure to satisfy these conditions could result in the Group being unable to participate in the APS and therefore failing to obtain protection against stressed losses through the economic cycle as well as failing to improve its capital ratios. Without the combination of the protection of the entry into the Asset Protection Scheme and the proposed issue to HM Treasury of (i) £25.5 billion of B shares in the capital of RBSG which would, subject to certain terms and conditions, be convertible into ordinary shares in the share capital of RBSG (the "**B Shares**") and (ii) the associated series 1 dividend access share in the capital of RBSG (the "**Dividend Access Share**"), each to be issued at the time of entering into the APS, the Group would not pass the FSA - mandated stress framework and would be vulnerable to ratings downgrades and funding difficulties as a consequence. The result of this may mean intervention by the United Kingdom Government, which could include RBSG and its United

Kingdom bank subsidiaries becoming subject to the SRR, under which circumstances any compensation payable to holders of Securities would be subject to the provisions of the Banking Act (as described above).

Furthermore, even if the Group is able to participate in the APS, there can be no assurance that such participation will enable the Group to achieve all of the stated goals of the APS. While the APS is expected to limit losses associated with assets to be covered by the APS, the Group would remain fully exposed in respect of a specified "first loss" amount which, as announced on 3rd November 2009, has been increased to £60 billion, and exposed to 10 per cent. of losses exceeding that "first loss" amount. In addition, the Group would continue to be exposed to the risk of losses, impairments and write-downs with respect to assets not covered by the APS. Although, in the event that the Group's Core Tier 1 capital ratio declines to below 5 per cent., HM Treasury would be committed to subscribe (the "**Contingent Subscription**") for up to an additional £8 billion of B Shares and would receive further enhanced dividend rights under the Dividend Access Share (the "**Contingent Subscription B Shares**") if certain conditions are met, there can be no assurance that such additional capital, together with RBSG's strengthened capital position as a result of the placing and open offer undertaken by RBSG in December 2008 (the "**First Placing and Open Offer**"), the placing and open offer undertaken by RBSG in April 2009 (the "**Second Placing and Open Offer**") and the capital resulting from the proposed issue of the £25.5 billion of B Shares, will be sufficient to maintain RBSG's capital ratios in the event of further losses, which could cause RBSG's business, results of operations and financial condition to suffer, its credit rating to fall, its ability to lend and access funding to be further limited and its cost of funding to increase, any of which would increase the risk of RBSG and its United Kingdom bank subsidiaries becoming subject to the SRR.

In addition, there can be no assurance that the costs to the Group of its participation in the APS will not outweigh any benefits received. For example, the costs of the APS may be paid in cash or, subject to the consent of HM Treasury, either in the form of an issue of further B Shares or by way of a surrender by the Group of the right to certain tax reliefs which are treated as deferred tax assets. If the cost of the APS is paid by way of a surrender by the Group of the right to certain tax reliefs, this may affect the after-tax returns of the Group in future years. In addition, the APS contains extensive asset management, governance and reporting obligations and, in certain defined circumstances, HM Treasury's right to require the appointment of a manager to exercise certain step-in rights. Compliance with those obligations will require substantial investment by the Group in management systems and management time.

The aid given to the Group by HM Treasury is subject to State aid review by the European Commission. The outcome of this review is uncertain and may involve the imposition of conditions on the Group that may be materially adverse to its interests, the prohibition of some elements of the aid or the requirement for the Group to repay the aid. It is expected that there will be a prohibition on the making of discretionary dividend or coupon payments on existing hybrid capital instruments (including preference shares and B Shares) for a two-year period, which may impair the Group's ability to raise new Tier 1 capital through the issuance of ordinary shares and other Securities.

The aid given to the Group by HM Treasury as part of the First Placing and Open Offer, the proposed issuance of £25.5 billion of B Shares to HM Treasury, a commitment by HM Treasury to subscribe for up to an additional £8 billion of B Shares if certain conditions are met and the Group's participation in the APS, is subject to clearance under the European State aid rules.

As a result of the First Placing and Open Offer, the Group was required to cooperate with HM Treasury to submit a forward plan to the European Commission. This plan was submitted and there have been detailed discussions between HM Treasury, the Group and the European

Commission. The plan submitted not only had regard to the First Placing and Open Offer, but also the proposed issuance of B Shares to HM Treasury, the commitment by HM Treasury to subscribe for additional B Shares if certain conditions are met and the Group's participation in the APS. As part of its review, the European Commission is required to consider whether the plan demonstrates that the Group's long-term viability will be assured, that the Group makes a sufficient contribution to the costs of its restructuring and that measures are taken to limit distortions of competition arising from the aid provided to the Group by the United Kingdom Government. The Group, together with HM Treasury, has now agreed in principle with the European Commissioner for Competition the terms of this plan (the "**State aid restructuring plan**"), as announced in the APS Announcement, which is incorporated by reference herein. It is expected that the prohibition on the making of discretionary dividend (including preference shares and B Shares) or coupon payments on existing hybrid capital instruments for a two-year period will prevent RBSG from paying dividends on its ordinary and preference shares and coupons or other Tier 1 securities for the same duration, and it may impair the Group's ability to raise new Tier 1 capital through the issuance of ordinary shares and other Securities.

For a description of the Group's businesses impacted by the proposed restructuring measures and for a description of the behavioural measures agreed in principle with the European Commissioner for Competition, see pages 2, 6 and 7 of the APS Announcement.

Notwithstanding the above, as the ultimate State aid decision, including the terms of the final State aid restructuring plan, will be taken by the College, at this stage there can be no certainty as to the outcome of the State aid proceedings and the content of the final State aid restructuring plan.

If the College does not approve the State aid restructuring plan in substantially the form agreed in principle with the European Commissioner for Competition, then the European Commission would be likely instead to open a formal investigation into State aid given to the Group. At the conclusion of this investigation, the European Commission could require amendments to the terms of the proposed issue of £25.5 billion of B Shares to HM Treasury, the £8 billion Contingent Subscription B Shares or the APS, including the pricing of the APS, all of which could be more disadvantageous to the Group. The European Commission could also impose conditions that are more disadvantageous, potentially materially so, to the Group than those in the proposed State aid restructuring plan. In particular, the Group could be required to dispose of a significantly larger proportion of its assets and/or agree to a more stringent divestment timetable or more onerous behavioural restrictions than those contemplated in the State aid restructuring plan. Any more extensive remedies could have a materially more negative impact on the Group than would be the case if the Group implemented the proposed State aid restructuring plan. In addition, such divestments could be complicated by relevant assets and/or exposures that are covered by the APS ceasing to be covered, upon divestment.

In addition, the European Commission may, instead of imposing more disadvantageous conditions as described above, refuse to permit the proposed issue of the £25.5 billion of B Shares, the Contingent Subscription or the Group's participation in the APS or require HM Treasury to recover the State aid from the Group, all of which could have a materially adverse impact on the Group.

Further, it is possible that, even if the College does approve the State aid restructuring plan in substantially the form agreed in principle with the European Commissioner for Competition, a third party could challenge that decision in the European Courts. The Group does not believe that any such challenge would be likely to succeed but, if it were to succeed, the European Commission would need to reconsider its decision, which may result in any of the adverse outcomes described above.

The Group will also be subject to a variety of risks as a result of implementing the State aid restructuring plan in the form submitted by HM Treasury. There is no assurance that the price that the Group receives for any assets sold pursuant to the State aid restructuring plan will be at a level the Group considers adequate or which it could obtain in circumstances in which the Group was not required to sell such assets in order to implement the State aid restructuring plan or if such sale were not subject to the restrictions (including in relation to potential purchasers of the United Kingdom branch divestment) contained in the terms thereof. Further, should the Group fail to complete any of the required disposals within the agreed timeframes for such disposals, under the proposed terms of the State aid clearance, a divestiture trustee can be empowered to conduct the disposals, with the mandate to complete the disposal at no minimum price.

Furthermore, if the Group is unable to comply with the terms of the State aid approval it could constitute a misuse of aid. In circumstances where the European Commission doubts that the Group is complying with the terms of the State aid approval, it may open a formal investigation. At the conclusion of this investigation, if the European Commission decides that there has been misuse of aid, it can issue a decision requiring HM Treasury to recover the misused aid which could have a material adverse impact on the Group.

In implementing the State aid restructuring plan, the Group will lose existing customers, deposits and other assets (both directly through the sale and potentially through the impact on the rest of the Group's business arising from implementing the State aid restructuring plan) and the potential for realising additional associated revenues and margins that it otherwise might have achieved in the absence of such disposals. Further, the loss of such revenues and related income may extend the time period over which the Group may pay any amounts owed to HM Treasury under the APS or otherwise. The implementation of the State aid restructuring plan may also result in disruption to the retained business and give rise to significant strain on management, employee, operational and financial resources, impacting customers and giving rise to separation costs which could be substantial.

The implementation of the State aid restructuring plan agreed in principle with the European Commissioner for Competition may result in the emergence of one or more new viable competitors in the United Kingdom banking market or a material strengthening of one or more of the Group's competitors in that market. The effect of this on the Group's future competitive position, revenues and margins is uncertain and there could be an adverse effect on the Group's operations and financial condition and its business generally. If any or all of the risks described above, or any other currently unforeseen risks, materialise, there could be a materially negative impact on the Group's business, operations, financial condition, capital position and competitive position.

The Group's businesses, earnings and financial condition have been and will continue to be affected by the global economy and instability in the global financial markets.

The performance of the Group has been and will continue to be influenced by the economic conditions of the countries in which it operates, particularly the United Kingdom, the United States and other countries throughout Europe and Asia. The outlook for the global economy over the near to medium term remains challenging, particularly in the United Kingdom, the United States and other European economies. In addition, the global financial system has yet to fully overcome the difficulties which first manifested themselves in August 2007, and financial markets conditions have not yet fully normalised. These conditions led to severe dislocation of financial markets around the world and unprecedented levels of illiquidity in 2008 and 2009, resulting in the development of significant problems at a number of the world's largest corporate institutions operating across a wide range of industry sectors, many of whom are the Group's customers and counterparties in the ordinary course of its business. In response to this economic instability and illiquidity in the market, a number of governments, including the United Kingdom Government, the governments of the other EU member states and the United States Government, have intervened in order to inject liquidity and capital into the financial system, and, in some cases, to prevent the failure of these institutions.

Despite such measures, the volatility and disruption of the capital and credit markets have continued, and global economic conditions are expected to remain challenging in the near to medium term, with many forecasts predicting negative GDP growth in the United Kingdom for the remainder of 2009, and only modest levels of GDP growth over the course of 2010. Similar conditions are likely to exist in a number of the Group's key markets, including those in the United States and Europe, particularly Ireland. These conditions have exerted, and may continue to exert, downward pressure on asset prices and on availability and cost of credit for financial institutions, including RBSG, and will continue to impact the credit quality of the Group's customers and counterparties. Such conditions, alone or in combination with regulatory changes or actions of other market participants, may cause the Group to incur losses or to experience further reductions in business activity, increased funding costs and funding pressures, lower share prices, decreased asset values, additional write-downs and impairment charges and lower profitability.

In addition, the Group will continue to be exposed to the risk of loss if major corporate borrowers or counterparty financial institutions fail or are otherwise unable to meet their obligations. The Group currently experiences certain business sector and country concentration risk, primarily focused in the United Kingdom and the rest of Europe and relating to personal and banking and financial institution exposures. The Group's performance may also be affected by future recovery rates on assets and the historical assumptions underlying asset recovery rates, which (as has already occurred in certain instances) may no longer be accurate given the unprecedented market disruption and general economic instability. The precise nature of all the risks and uncertainties the Group faces as a result of current economic conditions cannot be predicted and many of these risks are outside the control of the Group.

The Group's ability to implement its strategic plan depends on the success of the Group's refocus on its core strengths and the balance sheet reduction programme arising out of its previously announced non-core restructuring plan and the State aid restructuring plan.

In light of the changed global economic outlook, the Group embarked on a financial and core business restructuring which is focused on achieving appropriate risk-adjusted returns under these changed circumstances, reducing reliance on wholesale funding and lowering exposure to capital intensive businesses. A key part of this restructuring is the Group's programme to run-down and sell the Group's non-core assets announced in February 2009, which targets a gross reduction in funded assets of £251 billion, and the continued review of the Group's portfolio to identify further disposals of certain non-core assets. This balance sheet reduction programme will continue alongside the disposals proposed under the State aid restructuring plan agreed in principle with the European Commissioner for Competition (but still subject to final approval by the College).

Because the ability to dispose of assets and the price achieved for such disposals will be dependent on prevailing economic and market conditions, which may remain challenging, there is no assurance that the Group will be able to sell or run-down (as applicable) those businesses it is seeking to exit either on favourable economic terms to the Group or at all. Furthermore, where transactions are entered into for the purpose of selling non-core assets and businesses, they may be subject to conditions precedent, including government and regulatory approvals and completion mechanics that in certain cases may entail consent from customers. There is no assurance that such conditions precedent will be satisfied, or consents and approvals obtained, in a timely manner or at all. There is consequently a risk that the Group may fail to complete such disposals by any agreed longstop date. Furthermore, in the context of implementing any agreed State aid restructuring plan, the Group is expected to be subject to certain timing and other restrictions which may result in the sale of assets at prices below those which the Group would have otherwise agreed had the Group not been required to sell such assets as part of the State aid restructuring plan or if such sale were not subject to the restrictions contained in the terms of the State aid conditions.

In addition, the Group may be liable for any deterioration in businesses being sold between the announcement of the disposal and its completion. In certain cases, the period between the announcement of a transaction and its completion may be lengthy and may span many months. Other risks that may arise out of the disposal of the Group's assets include ongoing liabilities up to completion of the relevant transaction in respect of the assets and businesses disposed of, commercial and other risks associated with meeting covenants to the buyer during the period up to completion, the risk of employee and customer attrition in the period up to completion, substantive indemnity obligations in favour of the buyer, the risk of liability for breach of warranty, the need to continue to provide transitional service arrangements for potentially lengthy periods following completion of the relevant transaction to the businesses being transferred and redundancy and other transaction costs. Further, the Group may be required to enter into covenants agreeing not to compete in certain markets for specific periods of time. In addition, as a result of the disposals, the Group will lose existing customers, deposits and other assets (both directly through the sale and potentially through the impact on the rest of the Group's business arising from implementing the State aid restructuring plan) and the potential for realising additional associated revenues and margins that it otherwise might have achieved in the absence of such disposals.

Any of the above factors, either in the context of State aid-related or non-core or other asset disposals, could affect the Group's ability to implement its strategic plan and have a material adverse effect on the Group's business, results of operations, financial condition, capital ratios or liquidity or could result in a loss of value in the Securities.

Lack of liquidity is a risk to the Group's business and its ability to access sources of liquidity has been, and will continue to be, constrained.

Liquidity risk is the risk that a bank will be unable to meet its obligations, including funding commitments, as they fall due. This risk is inherent in banking operations and can be heightened by a number of enterprise specific factors, including an over-reliance on a particular source of funding (including, for example, short-term and overnight funding), changes in credit ratings or market-wide phenomena such as market dislocation and major disasters. Since the second half of 2008, credit markets worldwide have experienced a severe reduction in liquidity and term-funding. During this time, perception of counterparty risk between banks also increased significantly. This increase in perceived counterparty risk also led to reductions in inter-bank lending, and hence, in common with many other banking groups, the Group's access to traditional sources of liquidity has been, and may continue to be, restricted.

The Group's liquidity management focuses on maintaining a diverse and appropriate funding strategy for its assets, controlling the mismatch of maturities and carefully monitoring its undrawn commitments and contingent liabilities. However, the Group's ability to access sources of liquidity (for example, through the issue or sale of financial and other instruments or through the use of term loans) during the recent period of liquidity stress has been constrained to the point where it, like other banks, has had to rely on shorter term and overnight funding with a consequent reduction in overall liquidity, and to increase its recourse to liquidity schemes provided by central banks. While in the first half of 2009 money market conditions have improved, with the Group seeing a material reduction of funding from central banks and the issuance of £9 billion of non-government guaranteed term debt, further tightening of credit markets could have a negative impact on the Group.

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

Like many banking groups, the Group relies on customer deposits to meet a considerable portion of its funding. Furthermore, as part of its ongoing strategy to improve its liquidity position, the Group is actively seeking to increase the proportion of its funding represented by customer deposits. However, such deposits are subject to fluctuation due to certain factors outside the Group's control, such as a loss of confidence, increasing competitive pressures or the encouraged or mandated repatriation of deposits by foreign wholesale or central bank depositors, which could result in a significant outflow of deposits within a short period of time. There is currently heavy competition among United Kingdom banks for retail customer deposits, which has increased the cost of procuring new deposits and impacted the Group's ability to grow its deposit base. An inability to grow, or any material decrease in, the Group's deposits could, particularly if accompanied by one of the other factors described above, have a negative impact on the Group's ability to satisfy its liquidity needs unless corresponding actions were taken to improve the liquidity profile of other deposits or to reduce assets. In particular, the liquidity position of the Group may be negatively impacted if it is unable to achieve the run-off and sale of non-core and other assets as expected. Any significant delay in those plans may require the Group to consider disposal of other assets not previously identified for disposal to achieve its balance sheet reduction targets.

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

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

Governmental support schemes may be subject to cancellation, change or withdrawal or may fail to be renewed, which may have a negative impact on the availability of funding in the markets in which the Group operates.

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

The financial performance of the Group has been and will be affected by borrower credit quality.

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of the Group's businesses. Whilst some economies have stabilised over the course of 2009, the Group may continue to see adverse changes in the credit quality of its borrowers and counterparties, for example, as a result of their inability to refinance their indebtedness, with increasing delinquencies, defaults and insolvencies across a range of sectors (such as the personal and banking and financial institution sectors) and in a number of geographies (such as the United Kingdom, the United States and the rest of Europe, particularly Ireland). This trend has led and may lead to further and accelerated impairment charges, higher costs, additional write-downs and losses for the Group or result in a loss of value in the Securities.

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

The Group's ability to engage in routine funding transactions has been and will continue to be adversely affected by the actual or perceived failure or worsening credit of its counterparties, including other financial institutions and corporate borrowers. The Group has exposure to many different industries and counterparties and routinely executes transactions with counterparties in the financial industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds and other institutional clients. As a result, defaults by, or even the perceived creditworthiness of or concerns about, one or more corporate borrowers, financial services institutions or the financial services industry generally, have led to market-wide liquidity problems, losses and defaults and could lead to further losses or defaults, by the Group or by other institutions. Many of these transactions expose the Group to credit risk in the event of default of the Group's counterparty or client and the Group does have significant exposures to certain individual counterparties (including counterparties in certain weakened sectors and markets). In addition, the Group's credit risk is exacerbated when the collateral it holds cannot be realised or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure that is due to the Group, which is most likely to occur during periods of illiquidity and depressed asset valuations, such as those recently experienced. Any such losses could have a material adverse effect on the Group's results of operations and financial condition or result in a loss of value in the Securities.

The Group's earnings and financial condition have been, and its future earnings and financial condition may continue to be, affected by depressed asset valuations resulting from poor market conditions.

Financial markets continue to be subject to significant stress conditions, where steep falls in perceived or actual asset values have been accompanied by a severe reduction in market liquidity, as exemplified by recent events affecting asset-backed collateralised debt obligations, residential mortgage-backed securities and the leveraged loan market. In dislocated markets, hedging and other risk management strategies have proven not to be as effective as they are in normal market conditions due in part to the decreasing credit quality of hedge counterparties, including monoline and other insurance companies and credit derivative product companies. Severe market events have resulted in the Group recording large write-downs on its credit market exposures in 2007, 2008 and during the first nine months of 2009. Any further deterioration in economic and financial market conditions could lead to further impairment charges and write-downs. Moreover, market volatility and illiquidity make it difficult to value certain of the Group's exposures. Valuations in future periods, reflecting, among other things, then-prevailing market conditions and changes in the credit ratings of certain of the Group's assets may result in significant changes in the fair values of the Group's exposures, even in respect of exposures, such as credit market exposures, for which the Group has previously recorded write-downs. In addition, the value ultimately realised by the Group may be materially different from the current or estimated fair value. Any of these factors could require the Group to recognise further significant write-downs or realise increased impairment charges, any of which may adversely affect its capital position, its financial condition and its results of operations or result in a loss of value in the Securities.

Further information about the write-downs which the Group has incurred and the assets it has reclassified (a) during the year ended 31st December 2008 is set out on pages 122 to 143 of the 2008 annual report and accounts of RBSG, (b) during the six months ended 30th June 2009 is set out in the RBSG Half Year 2009 Information and (c) during the nine months ended 30th September 2009 is set out in the RBSG Third Quarter 2009 Interim Management Statement, each of which is incorporated by reference herein.

The value or effectiveness of any credit protection that the Group 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 Group has credit exposure arising from over-the-counter derivative contracts, mainly credit default swaps ("**CDSs**"), which are carried at fair value. The fair value of these CDSs, as well as the Group's exposure to the risk of default by the underlying counterparties, depends on the valuation and the perceived credit risk of the instrument against which protection has been bought. Since 2007, monoline and other insurers and other market counterparties (including credit derivative product companies) have been adversely affected by their exposure to residential mortgage linked and corporate credit products, whether synthetic or otherwise, and their actual and perceived creditworthiness has deteriorated rapidly, which may continue. If the financial condition of these counterparties or their actual or perceived creditworthiness deteriorates further, the Group may record further credit valuation adjustments on the credit protection bought from these counterparties under the CDSs in addition to those already recorded and such adjustments may have a material adverse impact on the Group's financial condition and results of operations.

Changes in interest rates, foreign exchange rates, credit spreads, bond, equity and commodity prices and other market factors have significantly affected and will continue to affect the Group's business.

Some of the most significant market risks the Group faces are interest rate, foreign exchange, credit spread, bond, equity and commodity price risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between lending and borrowing costs, the effect of which may be heightened during periods of liquidity stress, such as those experienced in the past year. Changes in currency rates, particularly in the sterling-US dollar and sterling-euro exchange rates, affect the value of assets, liabilities, income and expenses denominated in foreign currencies and the reported earnings of RBSG's non-United Kingdom subsidiaries (principally Citizens Financial Group, Inc. ("**Citizens**") and RBS Securities Inc.) and may affect income from foreign exchange dealing. The performance of financial markets may affect bond, equity and commodity prices and, therefore, cause changes in the value of the Group's investment and trading portfolios. This has been the case during the period since August 2007, with market disruptions and volatility resulting in significant reductions in the value of such portfolios. While the Group has implemented risk management methods to mitigate and control these and other market risks to which it is exposed, it is difficult, particularly in the current environment, to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on the Group's financial performance and business operations.

The Group's borrowing costs and its access to the debt capital markets depend significantly on its and the United Kingdom Government's credit ratings.

RBSG and other Group members have been subject to a number of downgrades in the recent past. Any future reductions in the long-term or short-term credit ratings of RBSG or one of its principal subsidiaries (particularly RBS) would further increase its borrowing costs, require the Group to replace funding lost due to the downgrade, which may include the loss of customer deposits, and may also limit the Group's access to capital and money markets and trigger additional collateral requirements in derivatives contracts and other secured funding arrangements. Furthermore, given the extent of the United Kingdom Government ownership and support provided to the Group through HM Treasury's guarantee scheme (announced by the United Kingdom Government on 8th October 2008) (the "**Credit Guarantee Scheme**"), any downgrade in the United Kingdom Government's credit ratings could adversely affect the Group's own credit ratings and may have the effects noted above. All credit rating agencies have reaffirmed the United Kingdom Government's AAA rating, although S&P changed its outlook to "negative" on 21st May 2009. Fitch reaffirmed the United Kingdom Government's stable outlook on 31st July 2009 and Moody's reiterated the United Kingdom Government's stable outlook on 26th October 2009. Credit ratings of RBSG, RBS, ABN AMRO Holding N.V. ("**ABN AMRO**"), Ulster Bank and Citizens are also important to the Group when competing in certain markets, such as over-the-counter derivatives. As a result, any further reductions in RBSG's long-term or short-term credit ratings or those of its principal subsidiaries could adversely affect the Group's access to liquidity and competitive position, increase its funding costs and have a negative impact on the Group's earnings and financial condition or result in a loss of value in the Securities.

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

Effective management of the Group's capital is critical to its ability to operate its businesses, to grow organically and to pursue its strategy of returning to standalone strength. The Group is required by regulators in the United Kingdom, the United States and in other jurisdictions in which it undertakes regulated activities, to maintain adequate capital. The maintenance of adequate capital is also necessary for the Group's financial flexibility in the face of continuing turbulence and uncertainty in the global economy. Accordingly, the purpose of RBSG's First Placing and Open Offer and the issue of the RBSG preference shares in December 2008 was, and the proposed issuance of £25.5 billion of B shares is, to allow RBSG to strengthen its capital position. Recently, the FSA has indicated that it is considering raising capital adequacy standards generally and may require banks operating in the United Kingdom to increase the proportion of their capital held in the form of government securities, to ensure that these institutions have adequate liquidity in times of financial stress.

These and other future changes to capital adequacy and liquidity requirements in the jurisdictions in which it operates may require the Group to raise additional Tier 1 and Core Tier 1 capital by way of further issuances of securities, including in the form of RBSG ordinary shares or B Shares. The requirement to raise additional Core Tier 1 capital could have a number of negative consequences for RBSG. If the Group is unable to raise the requisite capital, it may be required to further reduce the amount of its risk-weighted assets and engage in the disposition of core and other non-core businesses, which may not occur on a timely basis or achieve prices which would otherwise be attractive to the Group. In addition, pursuant to the agreement in principle reached with the European Commissioner for Competition, should the Group's Core Tier 1 capital ratio decline to below 5 per cent. at any time before 31st December 2014, or should the Group fall short of its existing funded balance sheet reduction targets for 31st December 2013 by a specified amount, the Group will be required to reduce its risk-weighted assets by a further £60 billion in excess of its plan through further disposals of identifiable businesses and their associated assets.

As at 31st December 2008, the Group's Tier 1 and Core Tier 1 capital ratios were 9.9 per cent. and 5.9 per cent.[1], respectively (and 8.0 per cent. and 5.5 per cent., respectively, as at 30th September 2009), using the Basel II methodology. Any change that limits the Group's ability to manage effectively its balance sheet and capital resources going forward (including, for example, reductions in profits and retained earnings as a result of write-downs or otherwise, increases in risk-weighted assets, delays in the disposal of certain assets or the inability to syndicate loans as a result of market conditions or otherwise) or to access funding sources, could have a material adverse impact on its financial condition and regulatory capital position or result in a loss of value in the Securities.

The value of certain financial instruments recorded at fair value is determined using financial models incorporating assumptions, judgements and estimates that may change over time or may ultimately not turn out to be accurate.

Under IFRS, the Group recognises at fair value: (i) financial instruments classified as "held-for-trading" or "designated as at fair value through profit or loss"; (ii) financial assets classified as "available-for-sale"; and (iii) derivatives, each as further described in "Accounting Policies" on both page 182 of the 2008 annual report and accounts of RBSG, which are incorporated by reference herein. Generally, to establish the fair value of these instruments, the Group relies on quoted market prices or, where the market for a financial instrument is not sufficiently active, internal valuation models that utilise observable market data. In certain circumstances, the data for individual financial instruments or classes of financial instruments utilised by such valuation models may not be available or may become unavailable due to changes in market conditions, as has been the case during the current financial crisis. In such circumstances, the Group's internal valuation models require the Group to make assumptions, judgements and estimates to establish fair value. In common with other financial institutions, these internal valuation models are complex, and the assumptions, judgements and estimates the Group is required to make often relate to matters that are inherently uncertain, such as expected cash flows, the ability of borrowers to service debt, residential and commercial property price appreciation and depreciation, and relative levels of defaults and deficiencies. Such assumptions, judgements and estimates may need to be updated to reflect changing facts, trends and market conditions. The resulting change in the fair values of the financial instruments has had and could continue to have a material adverse effect on the Group's earnings and financial condition. Also, recent market volatility and illiquidity have challenged the factual bases of certain underlying assumptions and have made it difficult to value certain of the Group's financial instruments. Valuations in future periods, reflecting prevailing market conditions, may result in further significant changes in the fair values of these instruments, which could have a negative effect on the Group's results of operations and financial condition or result in a loss of value in the Securities.

The extensive organisational restructuring may adversely affect the Group's business, results of operations and financial condition.

As part of its refocus on core strengths and its disposal programme, RBSG has undertaken and continues to undertake extensive organisational restructuring involving the allocation of assets identified as non-core assets to a separate Non-Core Division, and the run-down and sale of those assets over a period of time. In addition, to comply with State aid clearance, RBSG has agreed in principle to undertake a series of measures to be implemented over a four-year period, which

[1] These figures have been extracted without material adjustment from the audited consolidated financial statements of RBSG for the financial year ended 31st December 2008.

include disposing of RBS Insurance (subject to potentially maintaining a minority interest until a specified date). RBSG will also divest by a specified date its interest in RBS Sempra Commodities LLP ("**RBS Sempra Commodities**") and a substantial part of Global Merchant Services, as well as divesting the RBS branch-based business in England and Wales and the NatWest branches in Scotland, along with the direct SME customers across the United Kingdom. In order to implement these restructurings, various businesses and divisions within the Group will be re-organised, transferred or sold, or potentially merged with other businesses and divisions within the Group. As part of this process, personnel may be reallocated, where permissible, across the Group, new technology may be implemented, and new policies and procedures may be established in order to accommodate the new shape of the Group. As a result, the Group may experience a high degree of business interruption, significant restructuring charges, delays in implementation, and significant strain on management, employee, operational and financial resources. Any of the above factors could affect the Group's ability to achieve its strategic objectives and have a material adverse effect on its business, results of operations and financial condition or could result in a loss of value in the Securities.

The Group operates in markets that are highly competitive and consolidating. If the Group is unable to perform effectively, its business and results of operations will be adversely affected.

Recent consolidation among banking institutions in the United Kingdom, the United States and throughout Europe is changing the competitive landscape for banks and other financial institutions. If financial markets continue to be volatile, more banks may be forced to consolidate. This consolidation, in combination with the introduction of new entrants into the United States and United Kingdom markets from other European and Asian countries, could increase competitive pressures on the Group.

In addition, certain competitors may have access to lower cost funding and be able to offer retail deposits on more favourable terms than the Group and may have stronger multi-channel and more efficient operations as a result of greater historical investments. Furthermore, the Group's competitors may be better able to attract and retain clients and talent, which may have a negative impact on the Group's relative performance and future prospects.

Furthermore, increased government ownership of, and involvement in, banks generally may have an impact on the competitive landscape in the major markets in which the Group operates. Although, at present, it is difficult to predict what the effects of this increased government ownership and involvement will be or how they will differ from jurisdiction to jurisdiction, such involvement may cause the Group to experience stronger competition for corporate, institutional and retail clients and greater pressure on profit margins. Future disposals and restructurings by the Group and the compensation structure and restrictions imposed on the Group may also have an impact on its ability to compete effectively. Since the markets in which the Group operates are expected to remain highly competitive in all areas, these and other changes to the competitive landscape could adversely affect the Group's business, margins, profitability and financial condition or result in a loss of value in the Securities.

RBSG has agreed (or in certain cases, agreed in principle) to certain undertakings which may serve to limit the Group's operations and it may be required to agree to further restrictions in the future.

Under the terms of the First Placing and Open Offer, RBSG provided certain undertakings aimed at ensuring that the subscription by HM Treasury of the relevant RBSG ordinary shares and preference shares and the Group's participation in the Credit Guarantee Scheme offered by HM Treasury as part of its support for the United Kingdom banking industry are compatible with the common market under EU law. These undertakings include (i) supporting certain initiatives in relation to mortgage lending and lending to small and medium-sized enterprises ("**SMEs**") until 2011, (ii) regulating management remuneration and (iii) regulating the rate of growth of the Group's balance sheet. Under the terms of the Second Placing and Open Offer, the Group's undertakings in relation to mortgage lending and lending to SMEs were extended to larger commercial and industrial companies in the United Kingdom. These undertakings may serve to limit the Group's operations. In addition, pursuant to certain arrangements entered into between RBSG and certain United Kingdom Government departments, RBSG is subject to further undertakings, which supersede the lending commitments made to HM Treasury in October 2008 and January 2009 by agreeing to lend to creditworthy borrowers on commercial terms, £16 billion above the amount RBSG had budgeted to lend to United Kingdom businesses and £9 billion above the amount RBSG had budgeted to lend to United Kingdom homeowners in the year commencing 1st March 2009. There is also a commitment to lend at similar levels in the year commencing 1st March 2010, although this is subject to adjustment of the commitments by agreement with United Kingdom Government to reflect circumstances at the start of the 2010 commitment period. Notwithstanding the Group's willingness to lend to creditworthy customers and its clarity that the requisite funds are available, thereby fulfilling its commitments, indications remain that it is unlikely that RBSG's net business lending will increase by the £16 billion that it is making available, in the light of the subdued demand that the Group is currently experiencing. Failure to comply with these lending commitments may result in the withdrawal or restriction of the Group's eligibility to extend its participation in the Credit Guarantee Scheme from three to five years, which could have a material adverse impact on the Group's business, financial condition, results of operations and prospects.

The Group has also agreed in principle to certain other commitments, which are material for the structure of the Group and its operations, under the State aid restructuring plan agreed in principle with the European Commissioner for Competition in relation to State aid, including but not limited to: (i) the requirement for GBM's ranking to be no higher than number five in the combined global all debt league tables for three years (this includes all bonds and syndicated loans globally measured by volume in US dollars but excludes self-funded, self-led, money markets, short term business and certain other debt), and (ii) that in the event that the Group's Core Tier 1 ratio declines to below 5 per cent. at any time before 31st December 2014 or should RBSG fall short of its existing funded balance sheet reduction targets for 31st December 2013 by a specified amount, RBSG will reduce risk-weighted assets by a further £60 billion through further disposals of identifiable businesses and their associated assets. See the APS Announcement for a further description of the State aid commitments agreed in principle with the with the European Commissioner for Competition.

In addition, the Group, together with HM Treasury, has now agreed in principle with the European Commissioner for Competition a prohibition on the making of discretionary dividend (including preference shares and B Shares) or coupon payments on existing hybrid capital instruments for a two-year period. It is possible that the Group may, in future, be subject to further restrictions on payments on such hybrid capital instruments, whether as a result of undertakings given to regulatory bodies or otherwise.

The Group could fail to attract or retain senior management, which may include members of the Board, or other key employees.

The Group's ability to implement its strategy depends on the ability and experience of its senior management, which may include directors, and other key employees. The loss of the services of certain key employees, particularly to competitors, could have a negative impact on the Group's business. The Group's future success will also depend on its ability to attract, retain and remunerate highly skilled and qualified personnel competitively with its peers. This cannot be guaranteed, particularly in light of heightened regulatory oversight of banks and heightened scrutiny of, and (in some cases) restrictions placed upon, management compensation arrangements, in particular those in receipt of Government funding (such as RBSG). The Group has made a commitment to comply with the FSA Remuneration Code. These rules come into force on 1st January 2010 and are in line with the agreement reached by the G-20, setting global standards for the implementation of the Financial Stability Board's remuneration principles. The Group agreed that it will be at the leading edge of implementing the G-20 principles and has granted UK Financial Investments Limited ("**UKFI**") consent rights over the shape and size of its aggregate bonus pool for the 2009 performance year. Depending on UKFI's approach to the recommendations made by the Board regarding the bonus pool, this may impair the ability of the Group to attract and retain suitably qualified personnel in various parts of the Group's businesses.

The Group is also consulting on proposals to alter certain of the pension benefits it offers to staff. In addition to the effects of such measures on the Group's ability to retain senior management and other key employees, the marketplace for skilled personnel is becoming more competitive, which means the cost of hiring, training and retaining skilled personnel may continue to increase. The failure to attract or retain a sufficient number of appropriately skilled personnel could place the Group at a significant competitive disadvantage and prevent the Group from successfully implementing its strategy, which could have a material adverse effect on the Group's financial condition and results of operations or result in a loss of value in the Securities.

Each of the Group's businesses is subject to substantial regulation and oversight. Any significant regulatory developments could have an effect on how the Group conducts its business and on its results of operations and financial condition.

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

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

- the monetary, interest rate, capital adequacy (including an increase in Core Tier 1 and/or Tier 1 requirements), liquidity, balance sheet leverage and other policies of central banks and regulatory authorities;
- general changes in government or regulatory policy or changes in regulatory regimes that may significantly influence investor decisions in particular markets in which the Group operates or may increase the costs of doing business in those markets;
- changes to financial reporting standards;

- other general changes in the regulatory requirements, such as prudential rules relating to the capital adequacy framework and the imposition of onerous compliance obligations, restrictions on business growth or pricing and requirements to operate in a way that prioritises objectives other than shareholder value creation;
- changes in competition and pricing environments;
- further developments in financial reporting, corporate governance, conduct of business and employee compensation;
- differentiation among financial institutions by governments with respect to the extension of guarantees to bank customer deposits and the terms attaching to such guarantees, including requirements for the entire Group to accept exposure to the insolvency risk of any individual member of the Group, or even third party participants in guarantee schemes;
- implementation of, or costs related to, local customer or depositor compensation or reimbursement schemes;
- transferability and convertibility of currency risk;
- expropriation, nationalisation and confiscation of assets;
- changes in legislation relating to foreign ownership; and
- other unfavourable political, military or diplomatic developments producing social instability or legal uncertainty which, in turn, may affect demand for the Group's products and services.

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

The Group capitalises goodwill, which is calculated as the excess of the cost of an acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Acquired goodwill is recognised initially at cost and subsequently at cost less any accumulated impairment losses. As required by IFRS, the Group tests goodwill for impairment annually or more frequently, at external reporting dates, when events or circumstances indicate that it might be impaired. An impairment test involves comparing the recoverable amount (the higher of value in use and fair value less cost to sell) of an individual cash generating unit with its carrying value. The value in use and fair value of the Group's cash generating units are affected by market conditions and the performance of the economies in which the Group operates. Where the Group is required to recognise a goodwill impairment, it is recorded in the Group's income statement, although it has no effect on the Group's regulatory capital position. For the year ended 31st December 2008, the Group recorded a £32.6 billion[2] accounting write-down of goodwill and other intangibles relating to prior year acquisitions (see page 71 of the 2008 annual report and accounts of RBSG) and for the nine months ended 30th September 2009, the Group recorded a £311 million accounting write-down of goodwill and other intangible assets (see page 102 of the RBSG Third Quarter 2009 Interim Management Statement).

The Group 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 Group maintains a number of defined benefit pension schemes for past and a number of current employees. Pensions risk is the risk that the liabilities of the Group's various defined

[2] This figure has been extracted without material adjustment from the audited consolidated financial statements of RBSG for the financial year ended 31st December 2008.

benefit pension schemes which are long term in nature will exceed the schemes' assets, as a result of which the Group is required or chooses to make additional contributions to the schemes. The schemes' assets comprise investment portfolios that are held to meet projected liabilities to the scheme members. Risk arises from the schemes because the value of these asset portfolios and returns from them may be less than expected and because there may be greater than expected increases in the estimated value of the schemes' liabilities. In these circumstances, the Group could be obliged, or may choose, to make additional contributions to the schemes, and during recent periods, the Group has voluntarily made such contributions. Given the current economic and financial market difficulties and the prospects that they may continue over the near and medium term, the Group may be required or elect to make further contributions to its pension schemes and such contributions could be significant and have a negative impact on the Group's capital position, results of operations or financial condition or result in a loss of value in the Securities. The next funding valuation of the Group's major defined benefit pension plan, The Royal Bank of Scotland Group Pension Fund, will take place with an effective date of 31st March 2010.

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

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

Operational risks are inherent in the Group's operations.

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

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

HM Treasury (or UKFI on its behalf) may be able to exercise a significant degree of influence over the Group.

The United Kingdom Government currently holds 70.3 per cent. of the issued ordinary share capital of RBSG. HM Treasury is expected to agree that it shall not exercise rights of conversion in respect of the B Shares if and to the extent that following any such conversion it would hold more than 75 per cent. of the total issued ordinary shares of RBSG. Furthermore, HM Treasury is expected to agree that it shall not be entitled to vote in respect of ordinary shares in the share capital of RBSG acquired by it as a result of the conversion of B Shares into ordinary shares to the extent that votes cast on such ordinary shares, together with any other votes which HM Treasury is entitled to cast in respect of any other ordinary shares, B Shares or the Dividend Access Share held by or on behalf of HM Treasury, would exceed 75 per cent. of the total votes eligible to be cast on a resolution proposed at a general meeting of RBSG.

The proposed issue of the £25.5 billion of B Shares to HM Treasury (which is subject to HM Treasury and RBSG entering the Acquisition and Contingent Capital Agreement and, once that agreement is entered into, the terms thereof) would increase HM Treasury's economic interest in RBSG to 84.4 per cent. If the £8 billion Contingent Subscription B Shares were issued to HM Treasury (which is subject to HM Treasury and RBSG entering the Acquisition and Contingent Capital Agreement and, once that agreement is entered into, the terms thereof), assuming no other dilutive issuances, HM Treasury's economic interest in RBSG would increase further to 86.4 per cent. In addition, HM Treasury's economic interest in RBSG would also increase if RBSG elects to issue B Shares to HM Treasury as a means of paying the annual fee due under the APS or the Contingent Subscription (both of which would require the consent of HM Treasury) or to fund dividend payments under the terms of the Dividend Access Share.

UKFI manages HM Treasury's shareholding with RBSG. Although HM Treasury has indicated that it intends to respect the commercial decisions of the Group and that the Group will continue to have its own independent board of directors and management team determining its own strategy, should its current intentions change, HM Treasury's position as majority shareholder (and UKFI's position as manager of this shareholding) means that HM Treasury or UKFI may be able to exercise a significant degree of influence over (among other things) the election of directors and the appointment of senior management. In addition, as the provider of the APS, HM Treasury has a range of rights that other shareholders do not have. These include rights under the terms of the APS over the Group's remuneration policy and practice, including the right (through UKFI) to consent to the shape and quantum of the bank's aggregate variable bonus pool for the 2009 performance year. The manner in which HM Treasury or UKFI exercises HM Treasury's rights as majority shareholder or in which HM Treasury exercises its rights under the APS could give rise to conflict between the interests of HM Treasury and the interests of other shareholders. The Board has a duty to promote the success of RBSG for the benefit of its members as a whole.

The Group's insurance businesses are subject to inherent risks involving claims.

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

The Group's operations have inherent reputational risk.

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

In the United Kingdom and in other jurisdictions, the Group is responsible for contributing to compensation schemes in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers.

In the United Kingdom, the Financial Services Compensation Scheme (the "**Compensation Scheme**") was established under the FSMA and is the United Kingdom's statutory fund of last resort for customers of authorised financial services firms. The Compensation Scheme can pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it and may be required to make payments either in connection with the exercise of a stabilisation power or in exercise of the bank insolvency procedures under the Banking Act. The Compensation Scheme is funded by levies on firms authorised by the FSA, including the Group. In the event that the Compensation Scheme raises funds from the authorised firms, raises those funds more frequently or significantly increases the levies to be paid by such firms, the associated costs to the Group may have a material impact on its results of operations and financial condition. During the financial year ended 31st December 2008, the Group made a provision of £150 million[3] related to a levy by the Compensation Scheme for the 2008/09 and 2009/10 Compensation Scheme years. An additional accrual of £113m in respect of the Compensation Scheme Levy was made in the nine months ended 30th September 2009.

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

The Group's business and earnings may be affected by geopolitical conditions.

[3] This figure has been extracted without material adjustment from the audited consolidated financial statements of RBSG for the financial year ended 31st December 2008.

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

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

The restructuring plan in place for the integration and separation of ABN AMRO Holding N.V. ("**ABN AMRO**") into and among the businesses and operations of the Consortium Members (as defined below) is complex, involving substantial reorganisation of ABN AMRO's operations and legal structure. The restructuring plan is being implemented and significant elements have been completed within the planned timescales and the integration of the Group's businesses continues. The Group may not realise the benefits of the acquisition or the restructuring when expected or to the extent projected. The occurrence of any of these events, including as a result of staff losses or performance issues, or as a result of further disposals or restructurings by the Group, may have a negative impact on the Group's financial condition and results of operations. It is not expected that the Dutch State's acquisition of Fortis Bank Nederland's shares in RFS Holdings B.V. ("**RFS Holdings**"), which was effected in December 2008, will materially affect the integration benefits envisaged by the Group.

The recoverability and regulatory capital treatment of certain deferred tax assets recognised by the Group depends on the Group's ability to generate sufficient future taxable profits and there being no adverse changes to tax legislation, regulatory requirements and accounting standards.

In accordance with IFRS, the Group has recognised deferred tax assets on losses available to relieve future profits from tax only to the extent that it is probable that they will be recovered. The deferred tax assets are quantified on the basis of current tax legislation and accounting standards and are subject to change in respect of the future rates of tax or the rules for computing taxable profits and allowable losses. Failure to generate sufficient future taxable profits or changes in tax legislation and accounting standards may reduce the recoverable amount of the recognised deferred tax assets.

There is currently no restriction in respect of deferred tax assets recognised by the Group for regulatory purposes. Changes in regulatory rules may restrict the amount of deferred tax assets that can be recognised and such changes could lead to a reduction in the Group's Core Tier 1 capital ratio.

Investors should be aware that the materialisation of any of the above risks may adversely affect the value of any Securities.

DESCRIPTION OF THE ROYAL BANK OF SCOTLAND GROUP PLC

The Group

RBSG is a public limited company incorporated in Scotland with registration number SC045551. RBSG was incorporated under Scots law on 25th March 1968. RBSG is the holding company of a large global banking and financial services group. Headquartered in Edinburgh, the Group operates in the United Kingdom, the United States and internationally through its two principal subsidiaries, RBS and NatWest. Both RBS and NatWest are major United Kingdom clearing banks whose origins go back over 275 years. In the United States, the Group's subsidiary Citizens is a large commercial banking organisation. The Group has a large and diversified customer base and provides a wide range of products and services to personal, commercial and large corporate and institutional customers.

The United Kingdom Government currently holds 70.3 per cent. of the issued ordinary share capital of RBSG. HM Treasury is expected to agree that it shall not exercise rights of conversion in respect of the B Shares if and to the extent that following any such conversion it would hold more than 75 per cent. of the total issued shares in RBSG. Furthermore, HM Treasury is expected to agree that it shall not be entitled to vote in respect of ordinary shares in the share capital of RBSG acquired by it as a result of the conversion of B Shares into ordinary shares to the extent that votes cast on such ordinary shares, together with any other votes which HM Treasury is entitled to cast in respect of any other ordinary shares, B Shares or the Dividend Access Share held by or on behalf of HM Treasury, would exceed 75 per cent. of the total votes eligible to be cast on a resolution proposed at a general meeting of RBSG.

The proposed issue of the £25.5 billion of B Shares to HM Treasury (which is subject to HM Treasury and RBSG entering the Acquisition and Contingent Capital Agreement and, once that agreement is entered into, the terms thereof) would increase HM Treasury's economic interest in RBSG to 84.4 per cent. If the £8 billion Contingent Subscription B Shares were issued to HM Treasury (which is subject to HM Treasury and RBSG entering the Acquisition and Contingent Capital Agreement and, once that agreement is entered into, the terms thereof), assuming no other dilutive issuances, HM Treasury's economic interest in RBSG would increase further to 86.4 per cent. In addition, HM Treasury's economic interest in RBSG would also increase if RBSG elects to issue B Shares to HM Treasury as a means of paying the annual fee due under the APS or the Contingent Subscription (both of which would require the consent of HM Treasury) or to fund dividend payments under the terms of the Dividend Access Share. The Group had total assets of £2,401.7 billion and owners' equity of £58.9 billion at 31st December 2008. The Group's capital ratios at that date, which included the equity minority interest of the State of the Netherlands and Banco Santander ("**Santander**") in ABN AMRO, were a total capital ratio of 14.1 per cent., a Core Tier 1 capital ratio of 6.6 per cent. and a Tier 1 capital ratio of 10.0 per cent. As at 30th June 2009, the Group had total assets of £1,818.9 billion and owners' equity of £55.7 billion. The Group's Tier 1 and Core Tier 1 capital ratios at that date were 9.3 per cent. and 7.0 per cent., respectively.

On 17th October 2007, RFS Holdings, which at the time was owned by RBSG, Fortis N.V., Fortis SA/NV, Fortis Bank Nederland (Holding) N.V. and Santander, completed the acquisition of ABN AMRO. RFS Holdings, which is now jointly owned by RBSG, the State of the Netherlands and Santander (the "**Consortium Members**"), is in the process of implementing an orderly separation of the business units of ABN AMRO, with ABN AMRO's global wholesale businesses and international retail businesses in Asia and the Middle East subject to the outcome of RBSG's strategic review. Certain other assets will continue to be shared by the Consortium Members.

On 3rd November 2009, the Group announced details of its participation in the APS and ongoing State aid discussions (see the APS Announcement, which is incorporated by reference herein). In order to comply with European State aid requirements, the Group has agreed, in principle and subject to the approval by the College, a series of restructuring measures to be implemented over a four-year period. This will supplement the measures in the strategic plan previously announced by the Group. These include disposing of RBS Insurance (subject to potentially maintaining a minority interest until a specified date). RBSG will also divest by a specified date its interest in RBS Sempra Commodities and a substantial part of Global Merchant Services, as well as divesting the RBS branch-based business in England and Wales and the NatWest branches in Scotland, along with the direct SME customers across the United Kingdom.

For a description of the Group's businesses impacted by the proposed restructuring measures, see the section headed "Businesses Impacted by State Aid Measures" on page 7 of the APS Announcement.

Following a comprehensive strategic review, the Group will focus on those businesses with clear competitive advantages and attractive marketing positions, primarily in stable, low-to-medium risk sectors. The Group's organisational structure currently comprises the following divisions:

UK Retail offers a comprehensive range of banking products and related financial services to the personal market. It serves customers through the RBS and NatWest networks of branches and ATMs in the United Kingdom, and also through telephone and internet channels.

UK Corporate is a provider of banking, finance, and risk management services to the corporate and SME sector in the United Kingdom. It offers a full range of banking products and related financial services through a nationwide network of relationship managers, and also through telephone and internet channels. The product range includes asset finance through the Lombard brand.

Wealth provides private banking and investment services in the United Kingdom through Coutts & Co and Adam & Company, offshore banking through RBS International, NatWest Offshore and Isle of Man Bank, and international private banking through RBS Coutts.

Global Banking & Markets ("**GBM**") is a leading banking partner to major corporations and financial institutions around the world, providing an extensive range of debt and equity financing, risk management and investment services to its customers. The division is currently organised along seven principal business lines: money markets; rates; flow trading; currencies; commodities (including RBS Sempra Commodities LLP the commodities-marketing joint venture between RBS and Sempra Energy); equities; credit markets portfolio management and origination.

Global Transaction Services ranks among the top five global transaction services providers, offering global payments, cash and liquidity management, and trade finance, United Kingdom and international merchant acquiring and commercial card products and services. It includes the Group's corporate money transmission activities in the United Kingdom and the United States.

Ulster Bank is the leading retail and commercial bank in Northern Ireland and the third largest banking group on the island of Ireland. It provides a comprehensive range of financial services through both its Retail Markets division which has a network of branches and operates in the personal and bancassurance sectors, while its Corporate Markets division provides services to SME business customers, corporates and institutional markets.

US Retail & Commercial provides financial services primarily through the Citizens and Charter One brands. US Retail is engaged in retail and corporate banking activities through its branch network in 12 states in the United States and through non-branch offices in other states. It ranks among the top five banks in New England and the Mid Atlantic regions.

RBS Insurance sells and underwrites retail and SME insurance over the telephone and internet, as well as through brokers and partnerships. Its brands include Direct Line, Churchill and Privilege, which sell general insurance products direct to the customer, as well as Green Flag and NIG. Through its international division, RBS Insurance sells general insurance, mainly motor, in Germany and Italy. The Intermediary and Broker division sells general insurance products through independent brokers.

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

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

Non-Core Division manages separately assets that the Group intends to run off or dispose of. The division contains a range of businesses and asset portfolios primarily from GBM, linked to proprietary trading, higher risk profile asset portfolios including excess risk concentrations, and other illiquid portfolios. It also includes a number of other portfolios and businesses including regional markets businesses that the Group has concluded are no longer strategic.

The Placing and Open Offers

Following the First Placing and Open Offer in December 2008, HM Treasury owned approximately 58 per cent. of the enlarged ordinary share capital of RBSG and £5 billion of non-cumulative sterling preference shares. In April 2009, RBSG issued new ordinary shares by way of the Second Placing and Open Offer, the proceeds from which were used in full to fund the redemption of the preference shares held by HM Treasury at 101 per cent. of their issue price together with the accrued dividend and the commissions payable to HM Treasury under the Second Placing and Open Offer Agreement. The Second Placing and Open Offer was underwritten by HM Treasury and as a result, HM Treasury currently holds 70.3 per cent. of the enlarged ordinary share capital of RBSG.

Relationship with major shareholder

The United Kingdom Government's shareholding in RBSG is currently held by the Solicitor for the Affairs of HM Treasury as nominee for HM Treasury and managed by UKFI, a company wholly-owned by HM Treasury. No formal relationship agreement has been concluded between RBSG and the United Kingdom Government, although the relationship falls within the scope of the framework document between HM Treasury and UKFI originally published on 2nd March 2009 and subsequently revised on 13th July 2009. This document states that UKFI will manage the United Kingdom financial institutions in which HM Treasury holds an interest "on a commercial basis and will not intervene in day-to-day management decisions of the Investee Companies (including with respect to individual lending or remuneration decisions)", which is designed to ensure that control of the relationship is not abused. This document also makes it clear that such United Kingdom financial institutions will continue to be separate economic units with independent powers of decision and "will continue to have their own independent boards and management teams, determining their own strategies and commercial policies (including business plans and budgets)".

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

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

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

In connection with its proposed accession to the APS, RBSG has undertaken to provide lending to creditworthy United Kingdom homeowners and businesses in a commercial manner. The United Kingdom Government monitors RBSG’s compliance with this commitment monthly. The lending commitment does not require RBSG to lend in excess of its single name or sectoral risk concentration limits or otherwise to engage in uncommercial practices. For further details, see the risk factor headed “RBSG has agreed (or in certain cases, agreed in principle) to certain undertakings which may serve to limit the Group’s operations and it may be required to agree to further restrictions in the future”.

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

Certain other consideration relating to RBSG’s relationship with HM Treasury and UKFI are set out in the risk factors headed “HM Treasury (or UKFI on its behalf) may be able to exercise a significant degree of influence over the Group” and “The Group could fail to attract or retain senior management, which may include members of the Board, or other key employees”.

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

United Kingdom Government Measures

On 8th October 2008, the United Kingdom Government announced measures intended, *inter alia*, to provide sufficient liquidity to the banking sector, to make available new capital to United Kingdom banks (including RBS) and to ensure that the banking system has the funds necessary to maintain lending in the medium term. In the context of liquidity provision, the United Kingdom Government stated that “the Bank of England will take all actions necessary to ensure that the banking system has access to sufficient liquidity. In its provision of short term liquidity, the Bank of England will extend and widen its facilities in whatever way is necessary to ensure the stability of the system. At least £200 billion will be made available to banks under the special liquidity scheme. Until markets stabilise, the Bank of England will continue to conduct auctions to lend sterling for three months, and also US dollars for one week, against extended collateral. It will review the size and frequency of those operations as necessary. Bank debt that is guaranteed under the Government's guarantee scheme will be eligible in all of the Bank of England's extended-collateral operations”.

Asset Protection Scheme

On 3rd November 2009, the Group confirmed its intended participation in the APS in respect of assets with a par value of £282 billion. Please refer to the APS Announcement for further information in respect of the Group's participation in the APS.

State aid

On 3rd November 2009, the Group announced that it, together with HM Treasury, has now agreed in principle with the European Commissioner for Competition the terms of the State aid restructuring plan, which is subject to approval by the College. Please refer to the APS Announcement for further information.

Principal subsidiary undertakings

RBSG's directly owned principal operating subsidiaries are RBS and RBS Insurance Group Limited. In addition, RFS Holdings is controlled by RBSG. Each of these companies is included in the consolidated financial statements of RBSG and has an accounting reference date of 31st December.

RBS is wholly-owned by RBSG and supervised by the Financial Services Authority as a bank.

The other principal subsidiary undertakings of RBSG are shown below. Their capital consists of ordinary and preference shares, which are unlisted with the exception of certain preference shares issued by NatWest.

All of the subsidiary undertakings are owned directly or indirectly through intermediate holding companies and are wholly-owned. All of these subsidiaries are included in the consolidated financial statements of RBSG and have an accounting reference date of 31st December.

Citizens Financial Group, Inc.
Coutts & Co
RBS Securities Inc.
National Westminster Bank Plc
Ulster Bank Limited

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, RBSG 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.

United Kingdom

In common with other banks in the United Kingdom, RBS and NatWest have received claims and complaints from a large number of customers challenging unarranged overdraft charges (the "**Charges**") as contravening the Unfair Terms in Consumer Contracts Regulations 1999 (the "**Regulations**") or being unenforceable penalties (or both).

On 27th July 2007, the Office of Fair Trading ("**OFT**") issued proceedings in a test case against the banks which was intended to determine certain preliminary issues concerning the legal status and enforceability of contractual terms relating to the Charges. Because of the test case, most existing and new claims in the County Courts are currently stayed, the FSA temporarily waived the customer complaints-handling process and there is a standstill of Financial Ombudsman Service decisions.

A High Court judgment in April 2008 addressed preliminary issues in respect of the banks' contractual terms relating to the Charges in force in early 2008 (the "**Current Terms**"). The judgment held that the Current Terms used by RBS and NatWest (i) are not unenforceable as penalties, but (ii) are not exempt from assessment for fairness under the Regulations.

RBSG (in common with the other banks) has accepted that the ruling in the April judgment that the Current Terms are not exempt from assessment for fairness applies also to a sample of the RBS and NatWest contractual terms relating to the Charges in force between 2001 and 2007 (the "**Historic Terms**"). The High Court made an order to this effect in October 2008.

RBSG and the other banks have appealed against the rulings in April 2008 and October 2008 that the Current Terms and Historic Terms are not exempt from assessment for fairness under the Regulations. The hearing of the appeal in relation to Current Terms took place before the Court of Appeal in October and November 2008. The Court of Appeal delivered its judgment on 26th February 2009 and rejected the appeals. The House of Lords granted RBSG and the other banks leave to appeal the Court of Appeal's decision. That further appeal took place on 23rd June 2009. The House of Lords' (now the Supreme Court) judgment is likely to be delivered later in 2009. The appeal in relation to the Historic Terms is stayed pending the resolution of the appeal in relation to the Current Terms.

High Court judgments on further preliminary issues were handed down in October 2008 and January 2009. These judgments primarily addressed the question of whether certain Historic Terms were capable of being unenforceable penalties. The Judge decided that all of RBS's and most of NatWest's Historic Terms were not penalties, but that a term contained in a set of NatWest 2001 terms and conditions was a contractual prohibition against using a card to obtain an unarranged overdraft. The Judge did not decide whether any charge payable upon a breach of this prohibition was a penalty. RBSG has not appealed that decision.

The issues relating to the legal status and enforceability of the Charges are complex. RBSG maintains that its Charges are fair and enforceable and believes that it has a number of substantive and credible defences. RBSG cannot at this stage predict with any certainty the final outcome of the customer claims and complaints, the appeals referred to above and any further stages of the test case. It is unable reliably to estimate the liability, if any, that may arise as a result of or in connection with these matters or its effect on the Group's consolidated net assets, operating results or cash flows in any particular period.

In relation to the subject matter of this section, RBSG will comply with its obligations as a company with securities admitted to the Official List of the United Kingdom Listing Authority or as a supervised firm regulated by the FSA.

United States

Proceedings, including consolidated class actions on behalf of former Enron securities holders, have been brought in the United States against a large number of defendants, including the Group, following the collapse of Enron. The claims against the Group could be significant; the class plaintiff's position is that each defendant is responsible for an entire aggregate damage amount less settlements; they have not quantified claimed damages against the Group in particular. The Group considers that it has substantial and credible legal and factual defences to these claims and will continue to defend them vigorously. Recent decisions by the US Supreme Court and the US Federal Court for the Fifth Circuit provide further support for the Group's position. In light of these developments, the Group does not expect that these claims will have a material impact on its consolidated net assets, operating results or cash flows in any particular period.

Group companies have been named as defendants in a number of purported class action and other lawsuits in the United States that relate to the sub-prime mortgage business. In general, the cases involve the issuance of sub-prime-related securities or the issuance of shares in companies with sub-prime-related exposure, where the plaintiffs have brought actions against the issuers and underwriters (including Group companies) of such securities, claiming that certain disclosures made in connection with the relevant offerings of such securities were false or misleading. The Group considers that it has substantial and credible legal and factual defences to these claims and will continue to defend them vigorously. The Group does not currently expect that these lawsuits, individually or in the aggregate, will have a material impact on its consolidated net assets, operating results or cash flows in any particular period.

RBSG and a number of its subsidiaries and certain individual officers and directors have been named as defendants in a class action filed in the United States District Court for the Southern District of New York. The consolidated amended complaint alleges certain false and misleading statements and omissions in public filings and other communications during the period 1st March 2007 to 19th January 2009, and variously asserts claims under Sections 11, 12 and 15 of the Securities Act 1933, Sections 10 and 20 of the Securities Exchange Act 1934 and SEC Rule 10b-5.

The putative class is composed of (1) all persons who purchased or otherwise acquired RBS Group securities between 1st March 2007 and 19th January 2009; and/or (2) all persons who purchased or otherwise acquired RBSG Series Q, R, S, T and/or U non-cumulative dollar preference shares issued pursuant or traceable to the 8th April 2005 Registration Statement, and were damaged thereby. Plaintiffs seek unquantified damages on behalf of the putative class. The Group considers that it has substantial and credible legal and factual defences to these claims and will defend them vigorously. The Group is unable reliably to estimate the liability, if any, that might arise or its effect on the Group's consolidated net assets, operating results or cash flows in any particular period.

Summary of other disputes, legal proceedings and litigation

Members of the Group are engaged in other litigation in the United Kingdom and a number of overseas jurisdictions, including the United States, involving claims by and against them arising in the ordinary course of business. The Group has reviewed these other actual, threatened and known potential claims and proceedings and, after consulting with its legal advisers, does not expect that the outcome of these other claims and proceedings will have a material adverse effect on its consolidated net assets, operating results or cash flows in any particular period.

Save as described in the preceding paragraphs in this section entitled "Litigation", neither the Issuer nor any of its subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months prior to the date hereof, which may have or have had in the recent past a significant effect on the financial position or profitability of the Issuer and its subsidiaries taken as a whole.

Investigations

The Group's businesses and financial condition can be affected by the fiscal or other policies and other actions of various governmental and regulatory authorities in the United Kingdom, the European Union, the United States and elsewhere. The Group has engaged, and will continue to engage, in discussions with relevant regulators, including in the United Kingdom and the United

States, on an ongoing and regular basis informing them of operational, systems and control evaluations and issues as deemed appropriate or required and it is possible that any matters discussed or identified may result in investigatory actions by the regulators, increased costs being incurred by the Group, remediation of systems and controls, public or private censure or fines. Any of these events or circumstances could have a material adverse impact on the Group, its business, reputation, results of operations or the price of securities issued by it.

There is continuing political and regulatory scrutiny of the operation of the retail banking and consumer credit industries in the United Kingdom and elsewhere. The nature and impact of future changes in policies and regulatory action are not predictable and are beyond the Group's control but could have an adverse impact on the Group's businesses and earnings.

European Union

In the European Union, regulatory actions included an inquiry into retail banking in all of the then 25 member states by the European Commission's Directorate General for Competition. The inquiry examined retail banking in Europe generally. On 31st January 2007, the European Commission announced that barriers to competition in certain areas of retail banking, payment cards and payment systems in the European Union had been identified. The European Commission indicated that it will consider using its powers to address these barriers and will encourage national competition authorities to enforce European and national competition laws where appropriate.

In 2007, the European Commission issued a decision that while interchange is not illegal per se, MasterCard's current multilateral interchange fee ("**MIF**") arrangement for cross-border payment card transactions with MasterCard and Maestro branded consumer credit and debit cards in the European Union are in breach of competition law. MasterCard was required by the decision to withdraw the relevant cross border MIFs by 21st June 2008. MasterCard lodged an appeal against the decision with the European Court of First Instance on 1st March 2008 and the Group has intervened in the appeal proceedings. In April 2009, MasterCard agreed a level of cross-border MIF with the European Commission and as a result the European Commission has advised it will no longer investigate this issue (although MasterCard is continuing with its appeal). Visa's MIFs were exempted in 2002 by the European Commission for a period of five years up to 31st December 2007 subject to certain conditions. On 26th March 2008, the European Commission opened a formal inquiry into Visa's current MIF arrangements for cross-border payment card transactions with Visa branded debit and consumer credit cards in the European Union, and on 6th April 2009 the European Commission announced that it had issued Visa with a formal Statement of Objections. There is no deadline for the closure of the inquiry.

United Kingdom

In the United Kingdom, in September 2005, the OFT received a super-complaint from the Citizens Advice Bureau relating to payment protection insurance ("**PPI**"). As a result, the OFT commenced a market study on PPI in April 2006. In October 2006, the OFT announced the outcome of the market study and, on 7th February 2007, following a period of consultation, the OFT referred the PPI market to the Competition Commission ("**CC**") for an in-depth inquiry. The CC published its final report on 29th January 2009. It found a lack of competition in the PPI market as a result of various factors, including a lack of transparency and barriers to entry for standalone providers. The CC therefore announced its intention to impose by order a range of remedies, including a prohibition on actively selling PPI at point of sale of the credit product (and for 7 days thereafter), a ban on single premium policies and other measures to increase transparency (in order to improve customers' ability to search and improve price competition). Barclays subsequently appealed certain CC findings to the Competition Appeal Tribunal (the "**CAT**"). On 16th October 2009, the

CAT handed down a judgment quashing the ban on selling PPI at the point of sale of credit products and remitted the matter back to the CC for review.

The FSA has been conducting a broad industry thematic review of PPI sales practices and in September 2008, the FSA announced that it intends to escalate its level of regulatory intervention. Substantial numbers of customer complaints alleging the mis-selling of PPI policies have been made to banks and to the Financial Ombudsman Service ("**FOS**") and many of these are being upheld by the FOS against the banks.

In September 2009, the FSA issued a consultation paper on guidance on the fair assessment of PPI mis-selling complaints and, where necessary, the provision of an appropriate level of redress. The consultation also covers rules requiring firms to re-assess (against the new guidance) all PPI mis-selling complaints received and rejected since 14th January 2005. A policy statement containing final guidance and rules is expected by the end of December 2009, for implementation in January 2010. The consultation currently indicates that the FSA will be requiring firms to have completed their review of past complaints within 12 months of the date that the new rules are implemented. Separately, discussions continue between the FSA and RBSG in respect of concerns expressed by the FSA over certain categories of historic PPI sales.

The OFT has carried out investigations into Visa and MasterCard domestic credit card interchange rates. The decision by the OFT in the MasterCard interchange case was set aside by the CAT in June 2006. The OFT's investigations in the Visa interchange case and a second MasterCard interchange case are ongoing. The outcome is not known, but these investigations may have an impact on the consumer credit industry in general and, therefore, on the Group's business in this sector. On 9th February 2007, the OFT announced that it was expanding its investigation into domestic interchange rates to include debit cards.

On 29th March 2007, the OFT announced that, following an initial review into bank current account charges, it had decided to conduct a market study into personal current accounts in the United Kingdom and a formal investigation into the fairness of bank current account charges.

On 16th July 2008, the OFT published the results of its market study into personal current accounts in the United Kingdom. The OFT found evidence of competition and several positive features in the personal current account market but believes that the market as a whole is not working well for consumers and that the ability of the market to function well has become distorted. The OFT then began a process of consultation with the banking industry, consumer groups and interested parties on its report.

On 7th October 2009, the OFT published a report summarising the initiatives agreed between the OFT and personal current account providers to address the OFT's concerns about transparency and switching, following its market study. Personal current account providers will take a number of steps to improve transparency, including providing customers with an annual summary of the cost of their account and making charges prominent on monthly statements. To improve the switching process, a number of steps are being introduced following work with BACS, the payment processor, including measures to reduce the impact on consumers of any problems with transferring direct debits.

The OFT's investigation into the fairness of bank current account charges is ongoing. On 12th August 2008, the OFT indicated to the Group and other banks that, although it had not concluded its investigation and had reached no final view, it had serious concerns that contractual terms relating to the Charges in personal current account agreements were unfair under the Regulations. The OFT is currently consulting with the Group and other banks on this issue. The OFT has advised that it will make further comments on the complexity of unarranged overdrafts after the judgment from the Supreme Court regarding the test case, referred to in the litigation section above, has been handed down.

Given the stage of the investigation, the Group cannot reliably estimate the impact of any adverse outcome of the OFT's market study or investigation upon it, if any. However, the Group is co-operating fully with the OFT to achieve resolution of the matters under investigation.

On 26th January 2007, the FSA issued a Statement of Good Practice relating to Mortgage Exit Administration Fees. On 1st March 2007, the Group adopted a policy of charging all customers the fee applicable at the time that the customers took out the mortgage or, if later, varied their mortgage. RBSG believes that it is currently in compliance with the Statement of Good Practice and will continue to monitor its performance against those standards.

In April 2009, the FSA notified the Group that it was commencing a supervisory review of the acquisition of ABN AMRO in 2007 and the 2008 capital raisings and an investigation into conduct, systems and controls within the GBM. The Group and its subsidiaries are cooperating fully with this review and investigation.

United States

In connection with a previously disclosed investigation of ABN AMRO's New York Branch by US regulatory authorities, ABN AMRO and members of ABN AMRO's management continue to provide information to law enforcement authorities relating to ABN AMRO's dollar clearing activities, United States Department of Treasury compliance procedures and other Bank Secrecy Act of 1970 compliance matters. Although no written agreement has yet been reached and negotiations are ongoing, ABN AMRO has reached an agreement in principle with the United States Department of Justice that would resolve all presently known aspects of the ongoing investigation. Under the terms of the agreement in principle, ABN AMRO and the United States would enter into a deferred prosecution agreement in which ABN AMRO would waive indictment and agree to the filing of information in the United States District Court charging it with certain violations of federal law based on information disclosed in an agreed factual statement. ABN AMRO would also agree to continue co-operating in the United States' ongoing investigation and to settle all known civil and criminal claims currently held by the United States for the sum of US$500 million. The precise terms of the deferred prosecution agreement are still under negotiation.

The New York State Attorney General has issued subpoenas to a wide array of participants in the sub-prime mortgage industry, focusing on the information underwriters obtained as part of the due diligence process from the independent due diligence firms. RBS Securities Inc. has produced documents requested by the New York State Attorney General principally related to sub-prime loans that were pooled into one securitisation transaction and will continue to cooperate with the investigation. More recently, the Massachusetts Attorney General has issued a subpoena to RBS Securities Inc. seeking information related to residential mortgage lending practices and sales and securitisation of residential mortgage loans. The investigation is in its very early stages and therefore it is difficult to predict the potential exposure from such an investigation. At this time RBS Securities Inc. is fully cooperating with the request.

In addition to the above, certain of the Group's subsidiaries have received requests for information from various United States governmental agencies, self-regulatory organisations, and state governmental agencies including in connection with sub-prime mortgages and securitisations, collateralised debt obligations and synthetic products related to sub-prime mortgages. In particular, during March 2008, the Group was advised by the Securities and Exchange Commission that it had commenced a non-public, formal investigation relating to the Group's United States sub-prime securities exposures and United States residential mortgage exposures. RBSG and its subsidiaries are co-operating with these various requests for information and investigations.

DIRECTORS

The directors and the secretary of RBSG, their functions within the Group and their principal outside activities (if any) of significance are:

Name	*Functions within the Group*	*Principal outside activity (if any) of significance to the Group*
Chairman		
Philip Hampton	Chairman	Formerly group finance director of Lloyds TSB Group plc, BT Group plc, BG Group plc, British Gas and British Steel plc, an executive director of Lazards and a non-executive director of RMC Group plc. He is the former chairman of UK Financial Investments Limited. Currently a non-executive director of Belgacom SA and Anglo American plc.
Executive Directors		
Stephen Hester	Group Chief Executive	Formerly chief executive of The British Land Company PLC. He was previously chief operating officer of Abbey National plc and prior to that he held positions with Credit Suisse First Boston. He was appointed non-executive deputy chairman of Northern Rock plc in February 2008, a position he relinquished in October 2008.
Gordon Pell	Deputy Chief Executive	Formerly group director of Lloyds TSB UK Retail Banking.
Bruce Van Saun	Chief Financial Officer	Formerly vice chairman and chief financial officer of Bank of New York Mellon. Since 2008 he worked as an advisor to US private equity companies. He previously held senior positions with Deutsche Bank, Wasserstein Perella Group and Kidder Peabody & Co.
Non-Executive Directors		
Colin Buchan	—	Formerly member of the group management board of UBS AG and Head of Equities, UBS

		Warburg and chairman of UBS Securities Canada Inc. Currently chairman of Standard Life Investments Limited, a director of Standard Life plc and Black Rock World Mining Trust Plc.
Sir Sandy Crombie	Senior Independent Director	Currently group chief executive of Standard Life plc and a director of the British Association of Insurers. Formerly chief executive of Standard Life Investments and deputy chief executive of Standard Life plc.
Archie Hunter	—	Currently chairman of Macfarlane Group plc and a director of Edinburgh US Tracker Trust plc.
Joe MacHale	—	Currently a non-executive director and chairman of the remuneration committee of Brit Insurance Holdings plc. Formerly chief executive of JP Morgan Europe, Middle East and Africa Region.
John McFarlane	—	Formerly chief executive officer of Australia and New Zealand Banking Group Limited, group executive director of Standard Chartered and head of Citicorp/Citibank in the United Kingdom and Ireland. He is currently a non-executive director of Westfield Holdings Limited and a director of Old Oak Holdings Limited.
Arthur "Art" Ryan	—	Former chairman, chief executive officer and president of Prudential Financial Inc. Previously held senior positions with Prudential Insurance and the former Chase Manhattan Bank NA. Currently a non-executive director of Regeneron Pharmaceuticals Inc.
Philip Scott	—	Currently chief financial officer of Aviva plc, stepping down at the end of 2009. Formerly group executive director of Aviva

		International and previously held a number of senior positions with Aviva. Currently a non-executive director of Diageo plc.
Company Secretary		
Miller McLean	Group General Counsel and Group Secretary	—

Penny Hughes has been appointed as a Non-Executive Director with effect from 1st January 2010.

There are no potential conflicts of interest between the duties to the Issuer of the directors of RBSG and their other principal activities as listed above or any of their private interests. The business address for all the directors and the secretary of RBSG is:

The Royal Bank of Scotland Group plc
RBS Gogarburn
PO Box 1000
Edinburgh
EH12 1HQ
United Kingdom

Audit Committee and Corporate Governance

The current members of the Audit Committee are Archie Hunter (Chairman), Colin Buchan and Joe MacHale. All served throughout 2008 as did former members of the committee, Bill Friedrich and Sir Steve Robson, until their retirement as directors on 6th February 2009. All members of the Audit Committee are independent non-executive directors. The Audit Committee holds at least five scheduled meetings each year, two of which are held immediately prior to submission of the interim and annual financial statements to RBSG's Board of Directors (the "**Board**"). This core programme is supplemented by additional meetings as required. A total of ten meetings were held in 2008. Audit Committee meetings are attended by relevant executive directors, the internal and external auditors and finance and risk management executives. At least twice per annum the Audit Committee meets privately with the external auditors. Since 2000, the Audit Committee has undertaken an annual programme of visits to the Group's business divisions and control functions. The object of the programme is to allow the Audit Committee to gain a better understanding of the Group and an invitation to attend is extended to all non-executive directors. The programme of future visits is considered annually and the norm is for two to three visits to be undertaken each year. The Audit Committee undertook three visits in 2008.

The Board is satisfied that all the Audit Committee members have recent and relevant financial experience. Although the Board has determined that each member of the Audit Committee is an 'Audit Committee Financial Expert' and is independent, each as defined in the SEC rules under the US Securities Exchange Act of 1934 and related guidance, the members of the Audit Committee are selected with a view to the expertise and experience of the Audit Committee as a whole, and the Audit Committee reports to the Board as a single entity. The designation of a director or directors as an 'Audit Committee Financial Expert' does not impose on any such director, any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such director as a member of the Audit Committee and Board in the absence of such a designation. Nor does the designation of a director as an 'Audit Committee Financial Expert' affect the duties, obligations or liability of any other member of the Board.

The Audit Committee is responsible for:

- assisting the Board in discharging its responsibilities and in making all relevant disclosures in relation to the financial affairs of the Group;
- reviewing accounting and financial reporting;
- reviewing the Group’s systems of internal control; and
- monitoring the Group’s processes for internal audit and external audit.

The terms of reference of the Audit Committee are considered annually by the Audit Committee and approved by the Board.

The Audit Committee has adopted a policy on the engagement of the external auditors to supply audit and non-audit services, which takes into account relevant legislation regarding the provision of such services by an external audit firm. The Audit Committee reviews the policy annually and prospectively approves the provision of audit services and certain non-audit services by the external auditors.

Annual audit services include all services detailed in the annual engagement letter including the annual audit and interim reviews (including United States reporting requirements), periodic profit verifications and reports to regulators including skilled persons reports commissioned by the FSA (e.g. Reporting Accountants Reports).

Annual audit services also include statutory or non-statutory audits required by any Group companies that are not incorporated in the United Kingdom. Terms of engagement for these audits are agreed separately with management, and are consistent with those set out in the audit engagement letter, insofar as local regulations permit.

The prospectively approved non-audit services include the following classes of service:

- capital raising, including consents, comfort letters and relevant reviews of registration statements;
- provision of accounting opinions relating to the financial statements of the Group;
- provision of reports that, according to law or regulation, must be rendered by the external auditors;
- tax compliance services;
- corporate finance services relative to companies that will remain outside the Group; and
- insolvency work relating to the Group’s customers.

For all other permitted non-audit services, Audit Committee approval must be sought, on a case-by-case basis before the provision of the service commences. In addition, the Audit Committee reviews and monitors the independence and objectivity of the external auditors when it approves non-audit work to be carried out by them, taking into consideration relevant legislation and ethical guidance.

The year 2008 saw considerable economic uncertainty and unprecedented upheaval in financial markets worldwide. These conditions severely affected the Group and it has recorded significant asset write-downs in its 2008 financial statements. In these circumstances, particular attention of the Audit Committee was focused on a number of salient judgments involved in the preparation of the accounts, including:

- the valuation of financial instruments carried at fair value including the Group’s credit market exposures;
- impairment losses in the Group’s portfolio of loans and advances; and
- impairment of goodwill and other intangibles.

In its consideration of each of these issues, the aims of the Audit Committee have been to:

- understand and challenge the valuation and other accounting judgments made by management;
- review the conclusions of the external auditors and, where applicable, other experts and to understand how they came to their conclusions; and
- satisfy itself that the disclosures in the financial statements about these estimates and valuations are transparent and appropriate.

An issue of key interest to the Audit Committee, given the current economic environment, was management's going concern assessment. In particular, the Committee's attention was directed to understanding the way in which management had satisfied itself that the Group has access to sufficient funding and capital over the next 12 months. The Committee reviewed and challenged the assumptions underlying management's analysis and discussed with the external auditors its review of management's analysis and conclusions.

As far as it can determine, the Audit Committee received all the information and material it required to allow it to meet its obligations in respect of the 2008 financial statements.

During 2008 and in the first nine months of 2009, the Audit Committee reviewed the work of the Group’s risk management and internal audit functions regularly. Four additional sessions of the Committee were held in 2008 that focused solely on risk issues; these sessions included contributions from independent advisors. With effect from 30th September 2009, the Group established a Board Risk Committee with responsibility for providing oversight and advice to the Group Board in relation to current and potential future risk exposures of the Group’s future risk strategy, including determination of risk appetite and tolerance.

The Audit Committee undertakes an annual evaluation to assess the independence and objectivity of the external auditors and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements. The outcomes of this evaluation are considered by the Board together with the Audit Committee’s recommendation on the re-appointment of the external auditor. In 2009 and subsequently, the annual evaluation will be carried out immediately following completion of the annual accounts and audit.

The Audit Committee is responsible for making recommendations to the Board, for it to submit the Audit Committee’s recommendations to shareholders for their approval at the Annual General Meeting in relation to the appointment, re-appointment and removal of the external auditors. Deloitte LLP was reappointed as external auditors at the Annual General Meeting in April 2009 on the Audit Committee’s recommendation, as endorsed by the Board.

The Audit Committee also fixes the remuneration of the external auditors as authorised by shareholders at the Annual General Meeting.

The Audit Committee approves the terms of engagement of the external auditors.

It is intended that there will be an external review of the effectiveness of Group Internal Audit every three to five years, in line with best practice, with internal reviews continuing in the intervening years. In 2007, KPMG conducted a review of the effectiveness of Group Internal Audit and concluded that the function operated effectively and the Board agreed with these findings. In 2008, the Audit Committee conducted an internal review of Group Internal Audit that involved participants throughout the Group as well as the external auditors. The Audit Committee concluded that the function operated effectively and the Board agreed with the Audit Committee's findings.

It is also intended that there will be an external review of the effectiveness of the Audit Committee every three to five years, with internal reviews by the Board continuing in the intervening years. PricewaterhouseCoopers conducted an external review of the effectiveness of the Audit Committee in 2005. An internal review of the Audit Committee's performance was undertaken in 2008 and a separate report on the outcome was considered and discussed by the Board.

Since 2005, divisional audit committees have been responsible for reviewing each division's business. During 2008 and 2009, the divisional audit committee structure was revised to take account of the acquisition of ABN AMRO, the significant international growth of RBSG's businesses, the restructuring of the Group and best practice requirements. The divisional audit committees report to the Audit Committee and the Audit Committee is satisfied that these committees continue to discharge their terms of reference.

RBSG complies with the laws and regulations of the United Kingdom regarding corporate governance.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION OF THE ROYAL BANK OF SCOTLAND GROUP PLC

Annual Financial Information Prepared in accordance with IFRS

The following tables summarise certain financial information of RBSG for its financial years ended 31st December 2008 and 31st December 2007 and have been extracted without material adjustment from the audited consolidated financial statements of RBSG for the financial year ended 31st December 2008, which were prepared in accordance with IFRS.

RBSG Share Capital

The amount of RBSG's issued share capital as at 31st December 2008 was £9,900 million, as derived from its audited consolidated financial statements for the year ended 31st December 2008.

	Allotted, called up and fully paid			*Authorised*
	1st January 2008 £m	*Issued during the year £m*	*31st December 2008 £m*	*31st December 2008 £m*
Ordinary shares of 25p	2,501	7,363	9,864	11,151
Non-voting deferred shares of £0.01	27	—	27	323
Additional Value Shares of £0.01	—	—	—	27
Non-cumulative preference shares of US$0.01	2	—	2	3
Non-cumulative convertible preference shares of US$0.01	—	—	—	—
Non-cumulative preference shares of €0.01	—	—	—	—
Non-cumulative convertible preference shares of €0.01	—	—	—	—
Non-cumulative convertible preference shares of £0.25	—	—	—	225
Non-cumulative convertible preference shares of £0.01	—	—	—	—
Cumulative preference shares of £1	1	—	1	1
Non-cumulative preference shares of £1	1	5	6	300
Total share capital	2,532	7,368	9,900	12,030

Numbers of shares - thousands	Allotted, called up and fully paid 31st December 2008	Authorised 31st December 2008
Ordinary shares of 25p	39,456,005	44,603,278
Non-voting deferred shares of £0.01	2,660,556	32,300,000
Additional Value Shares of £0.01	—	2,700,000
Non-cumulative preference shares of US$0.01	308,015	516,000
Non-cumulative convertible preference shares of US$0.01	1,000	3,900
Non-cumulative preference shares of €0.01	2,526	66,000
Non-cumulative convertible preference shares of €0.01	—	3,000
Non-cumulative convertible preference shares of £0.25	—	900,000
Non-cumulative convertible preference shares of £0.01	200	1,000
Cumulative preference shares of £1	900	900
Non-cumulative preference shares of £1	5,750	300,000

Under IFRS, certain preference shares included in the tables above are classified as debt and are included in subordinated liabilities in the balance sheet.

At the Annual General Meeting on 3rd April 2009, the authorised ordinary share capital of RBSG was increased by £7,500 million by the creation of an additional 30,000 million ordinary shares of 25p each.

At the General Meeting on 3rd April 2009, the authorised ordinary share capital of RBSG was increased by £4,227,429,096.25 by the creation of an additional 16,909,716,385 ordinary shares of 25p each.

On 14th April 2009, RBSG issued 16,909,716,385 new ordinary shares as a result of the Second Placing and Open Offer.

On 14th April 2009, RBSG redeemed all of the 5,000,000 Non-cumulative Sterling Preference Shares of £1.00 each, Series 2. In accordance with the Articles of Association of RBSG, the nominal amount of these shares was, upon redemption of the shares, divided into and reclassified as 20,000,000 new ordinary shares of 25p each.

Save as disclosed above, the information contained in the tables above has not changed materially since 31st December 2008.

Financial summary of RBSG for the year ended 31st December 2008 and for the year ended 31st December 2007

The financial information presented below for the year ended 31st December 2007 includes ABN AMRO (acquired by RFS Holdings) for the period from 17th October 2007 (the date of acquisition) to 31st December 2007.

	Year ended 31st December 2008 £m	*Year ended 31st December 2007 £m*
Operating (loss)/profit before tax	(40,667)	9,832
Tax (credit)/charge	(2,323)	2,044
(Loss)/profit from continuing operations	(38,344)	7,788
Profit/(loss) from discontinued operations, net of tax	3,971	(76)
(Loss)/profit for year	(34,373)	7,712

	31st December 2008 £m	*31st December 2007 £m*
Called up share capital	9,898	2,530
Reserves	48,981	50,508
Owners' equity	58,879	53,038
Minority interests	21,619	38,388
Subordinated liabilities	49,154	38,043
Capital resources	129,652	129,469

	£bn	*£bn*
Deposits by customers and banks	897.6	994.7
Loans and advances to customers and banks	1,012.9	1,048.0
Total assets	2,401.7	1,840.8

Dividend record of RBSG for the year ended 31st December 2008 and for the year ended 31st December 2007

	Year ended 31st December 2008 £m	*Year ended 31st December 2007 £m*
Amounts paid in respect of preference shares and other securities, classified as equity	596	246
Dividends on Ordinary Shares	2,312	3,044

In accordance with IAS 32, several of the Group's preference share issues are included in subordinated liabilities and the finance cost thereon is included in interest payable.

UNAUDITED PRO FORMA FINANCIAL INFORMATION

Unaudited pro forma regulatory capital ratios as at 30th September 2009

The unaudited pro forma regulatory capital ratios set out below (the "**Unaudited Pro Forma Capital Ratios**") are prepared on a proportional consolidated basis and are set out below for illustrative purposes only to give a better understanding of how the Group's regulatory capital ratios would have appeared at 30th September 2009 on a proportional basis had the capital resulting from the proposed issue of the £25.5 billion of B Shares (excluding the £8 billion Contingent Subscription B Shares) and the entry into the Asset Protection Scheme been completed as 30th September 2009. The Unaudited Pro Forma Capital Ratios do not represent the Group's actual capital ratios as at 30th September 2009.

	RWAs [1]	*Core tier 1 capital*	*Core tier 1 capital ratio*	*Tier 1 capital*	*Tier 1 capital ratio*	*Total capital*	*Total capital ratio*
	£ billion		*per cent.*	*£ billion*	*per cent.*	*£ billion*	*per cent.*
Group, as reported [2]	594.7	33.0	5.5	47.6	8.0	62.1	10.4
Pro forma effects:							
B share issuance [3]		25.5		25.5		25.5	
Less CDS value [4]		(2.5)		(2.5)		(2.5)	
Contingent capital fee deducted upfront [5]		(1.6)		(1.6)		(1.6)	
Capital requirement at 8 per cent.		(13.4)					
APS coverage benefit at 4 per cent.		6.7					
Net (BiPru 9) deduction [6]		(6.7)		(6.7)		(6.7)	
Tier 2 deduction [7]						(6.7)	
RWA relief [8]	(166.5)						
Total	428.2	47.7	11.1	62.3	14.5	70.1	16.4

Notes:

(1) The risk weighted asset component of regulatory capital ratios are derived from systems used for internal management reporting purposes and reflect an economic measure rather than an accounting measure of assets. Accordingly risk weighted assets are not subject to the Group's accounting policies.

(2) The "As reported" financial information included in the Unaudited Pro Forma Capital Ratios was extracted without material adjustment from the RBSG Third Quarter 2009 Interim Management Statement.

(3) This calculation assumes that the proceeds received by RBSG from the issue of the £25.5 billion of B Shares are held in cash and have a nil risk weighting.

(4) This figure represents the minimum exit fee payable under the APS.

(5) This figure represents the total premium for the £25.5 billion B Share subscription and the Contingent Subscription over the 5 year period. The annual cost is 4 per cent. of £8 billion.

(6) This deduction represents 50 per cent. of the capital requirements in respect of the Group's assets and exposures covered by the APS, with the balance deducted from Tier 2. The capital requirements are calculated as 8 per cent. of the risk weighted assets on the Group's assets and exposures covered by the APS on a pre-APS basis, plus the expected loss adjustment in respect of the Group's assets and exposures covered by the APS.

(7) This deduction represents the balance deducted from Tier 2.

(8) This relief relates to 100 per cent. of the risk weighted assets covered by the APS.

GENERAL INFORMATION

Issuer's Objects and Purposes

Clause 4 of RBSG's memorandum of association, now deemed to be incorporated into the RBSG's articles of association by virtue of the Companies Act 2006, provides that its objects include (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 RBSG.

Documents Available for Inspection

From the date hereof and throughout the life of the Registration Document, copies of the following documents will, when available, be available during usual business hours on a weekday (Saturdays, Sundays and public holidays excepted) for inspection at the registered office of RBSG:

(i) the constitutional documents of the Issuer;

(ii) all future consolidated financial statements of the Issuer;

(iii) this Registration Document; and

(iv) the documents incorporated by reference herein.

No Significant Change and No Material Adverse Change

Save as set out in (i) the "Interim management statement" on pages 1 to 5 of the RBSG Third Quarter 2009 Interim Management Statement, (ii) on pages 4 to 25 of the "Third quarter 2009 results" within the RBSG Third Quarter 2009 Interim Management Statement and (iii) the APS Announcement, in which the Group confirmed its plans to accede to the APS and announced its proposal to issue to HM Treasury £25.5 billion of B Shares and the agreements reached in principle with the European Commissioner for Competition relating to certain proposed State aid measures, each of which is incorporated by reference herein, there has been no significant change in the trading or financial position of the Issuer and its subsidiaries taken as a whole since 30th June 2009 (the last date on which the Group published audited or interim financial information).

Save as set out in (i) the "Chief Executive's letter to shareholders" on pages 8 to 14 of the RBSG Half Year 2009 Results, (ii) the "Business and strategic update" on pages 15 to 22 of the RBSG Half Year 2009 Results, (iii) the "Interim management statement" on pages 1 to 5 of the RBSG Third Quarter 2009 Interim Management Statement, (iv) on pages 4 to 25 of the "Third quarter 2009 results" within the RBSG Third Quarter 2009 Interim Management Statement and (v) the APS Announcement, in which the Group confirmed its plans to accede to the APS and announced its proposal to issue to HM Treasury £25.5 billion of B Shares and the agreements reached in principle with the European Commissioner for Competition relating to certain proposed State aid measures, each of which is incorporated by reference herein, there has been no material adverse change in the prospects of the Issuer and its subsidiaries taken as a whole since 31st December 2008 (the last date to which the latest audited published financial information of the Group was prepared).

Auditors

The consolidated financial statements of RBSG for the years ended 31st December 2008 and 31st December 2007 have been audited by Deloitte LLP (name changed from Deloitte & Touche LLP on 1st December 2008), Chartered Accountants (authorised and regulated by the Financial Services Authority for designated investment business).

The financial information contained in this Registration Document in relation to the Issuer does not constitute the Issuer's statutory accounts pursuant to section 434 of the Companies Act 2006. Statutory accounts for the years ended 31st December 2008 and 31st December 2007 to which the financial information in this Registration Document relates will shortly be delivered to the Registrar of Companies in Scotland.

Deloitte LLP has reported on such statutory accounts and such reports were unqualified and did not contain a statement under section 498 of the Companies Act 2006.

THE ISSUER

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