

Dated 5 August 2011

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 consolidated in accordance with International Financial Reporting Standards (RBSG, together with its subsidiaries consolidated in accordance with International Financial Reporting Standards, 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 Credit Market Services Europe Limited ("**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"; undated tier 2 notes issued by RBSG "BB"; and tier 1 notes issued by RBSG will be rated on a case-by-case basis. 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+"; and dated subordinated notes, undated tier 2 notes and tier 1 notes issued by RBSG will be rated on a case-by-case basis. 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"; senior notes issued by RBSG with a maturity of less than one year "P-1"; and dated subordinated notes, undated tier 2 notes and tier 1 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 strong. A "BBB" rating means that the financial commitment on the relevant notes exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the Issuer to meet its financial commitment on the relevant notes issued by it. A "BB" rating means that the ability of the Issuer to meet its financial commitment on the relevant notes issued by it faces major ongoing uncertainties or exposure to adverse business, financial or economic conditions which could lead to the Issuer's inadequate capacity to meet its financial commitment on the relevant notes issued by it. 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. 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. As defined by Moody’s, the addition of a “1” indicates that the obligation ranks in the higher end of its generic 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.

The rating definitions set out above constitute third-party information and were obtained in the English language from (i) the publication entitled “Standard & Poor’s Ratings Definitions — 27 April 2011” published by Standard & Poor’s (available at www.standardandpoors.com), (ii) the publication entitled “Rating Symbols and Definitions — May 2011” published by Moody’s (available at www.moody.com) and (iii) the publication entitled “Definitions of Ratings and Other Forms of Opinion — January 2011” published by Fitch (available at www.fitchratings.com). The information found at the websites referred to in the previous sentence does not form part of and is not incorporated by reference into this Registration Document. The rating definitions set out above have been accurately reproduced from the sources identified above and, so far as RBSG is aware and is able to ascertain from information published by the third parties referred to above, no facts have been omitted which would render the ratings definitions set out above inaccurate or misleading.

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 credit ratings included and referred to in this Registration Document have been issued by Standard & Poor’s Credit Market Services Europe Limited, Fitch Ratings Limited and Moody’s Investors Service Limited, each of which is established in the European Union and has applied to be registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, although the results of such applications have not yet been determined.

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.

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's 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 Banking Act 2009 (the "**Banking Act**"), substantial powers have been granted to HM Treasury, the Bank of England and the FSA (together, the "**Authorities**") as part of a special resolution regime (the "**SRR**"). These powers enable the Authorities to deal with and stabilise United Kingdom banks, building societies and other institutions with permission to accept deposits pursuant to Part IV of the FSMA (each, a "**relevant entity**") that are failing, or are likely to fail, to satisfy the threshold conditions (within the meaning of section 41 of the FSMA). The SRR consists of three stabilisation options: (i) transfer of all or part of the business of the relevant entity and/or the securities of the relevant entity to a private sector purchaser; (ii) transfer of all or part of the business of the relevant entity to a "bridge bank" wholly-owned by the Bank of England; and (iii) temporary public ownership (nationalisation) of the relevant entity. HM Treasury may also take a holding company of the relevant entity into temporary public ownership where certain conditions are met. The Banking Act also provides for two new insolvency and administration procedures for relevant entities. Certain ancillary powers include the power to modify (including imposing additional obligations) and cancel certain contractual arrangements in certain circumstances.

In general, the Banking Act requires the Authorities to have regard to specified objectives in exercising the powers provided for by the Banking Act. One of the objectives (which is required to be balanced as appropriate with the other specified objectives) refers to the protection and enhancement of the stability of the financial system of the United Kingdom. The Banking Act includes provisions related to compensation in respect of transfer instruments and orders made under it. However, there can be no assurance that compensation would be assessed to be payable or that any compensation would be recovered promptly and/or would equal any loss actually incurred. HM Treasury is also empowered by order to amend the law for the purpose of enabling the powers under the SRR to be used effectively. An order may make provision which has retrospective effect. In general, there is considerable uncertainty about the scope of the powers afforded to the Authorities under the Banking Act and how the Authorities may choose to exercise

them. 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.

Various actions may be taken under the Banking Act in relation to any securities issued by RBSG without the consent of the holders thereof

If HM Treasury decides to take RBSG into temporary public ownership pursuant to the powers granted under the Banking Act, 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, legislative or other restrictions on transfer;
- (ii) transferring the Securities free from any trust, liability or other encumbrance;
- (iii) extinguishing any rights to acquire Securities;
- (iv) delisting the Securities;
- (v) converting the Securities into another form or class (the scope of which power is unclear, although may include, for example, conversion of the Securities into equity securities);
- (vi) disapplying any termination or acceleration rights or events of default under the terms of the Securities which would be triggered by the transfer or certain related events; or
- (vii) where property is held on trust, removing or altering the terms of such trust.

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.

The taking of any such actions may adversely affect the rights of holders of the Securities, the price or value of their investment in the Securities and/or the ability of RBSG to satisfy its obligations under the Securities and/or contracts related to the Securities. Where the transfer powers are effected, HM Treasury is required to make certain compensation or resolution fund orders and holders of Securities may have a claim for compensation under one of the compensation schemes contemplated by the Banking Act if any action is taken in respect of the Securities (and if the relevant order provides for the amount of compensation payable to be determined by an independent valuer, then for the purposes of determining an amount of compensation, the independent valuer must disregard actual or potential financial assistance provided by the Bank of England or HM Treasury). 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.

The Independent Commission on Banking is reviewing competition in the UK banking industry and possible structural reforms. The outcomes of this review could have a material adverse effect on the interests of the Group.

The UK Government has appointed an Independent Commission on Banking (the “**ICB**”) to review possible structural measures to reform the banking system in order to promote, amongst other things, stability and competition. The ICB has confirmed it will publish its final report on 12 September 2011. The interim report published on 11 April 2011 (the “**Interim Report**”) sets out the ICB’s provisional views on possible reforms to improve stability and competition in UK banking and

sought responses to those views. Reform options for stability include additional capital and the ring-fencing of retail banking operations (on a basis yet to be defined). Reform options for competition include structural measures to improve competition, improved means of switching and transparency and a primary duty for the Financial Conduct Authority to promote effective competition. The Interim Report also supported the introduction of rules as to contingent capital, bail-in debt and depositor preferences. The Treasury Select Committee (the “TSC”) has also recently conducted an examination into competition and choice in the retail banking sector and issued a report on 2 April 2011. According to the UK Government’s response to the TSC’s report, published on 12 July 2011, the majority of the issues raised by the TSC will be addressed in the ICB’s final report. The Group will continue to participate in the debate and to consult with the ICB during the coming weeks and with the UK Government thereafter. However, there can be no assurance that the final report will not recommend that additional obligations be imposed upon the Group. The implementation of the recommendations set out in the Interim Report and any further obligations to be imposed upon the Group could materially adversely affect the Group’s structure, results of operations, financial condition and prospects.

The Group’s businesses and performance can be negatively affected by actual or perceived global economic and financial market conditions and by other geopolitical risks

The Group’s businesses and performance are influenced by local and global economic conditions and perceptions of those conditions and future economic prospects. 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, and many forecasts predict only modest levels of GDP growth across a number of the Group’s key markets over that period. Despite significant interventions by governments and other non-governmental bodies, capital and credit markets around the world continue to be volatile and be subject to intermittent and prolonged disruptions. In particular, during the last year, a heightened perceived risk of sovereign default relating to certain EU member states has had a negative impact on capital and credit markets. Such challenging economic and market conditions exert downward pressure on asset prices and on credit availability, and upward pressure on funding costs, and may continue to impact asset recovery rates and the credit quality of the Group’s businesses, customers and counterparties, including sovereigns. In particular, the Group has significant exposure to customers and counterparties within the European Union (including the United Kingdom and Ireland), which includes sovereign debt exposures that have been, and may in the future be, affected by restructuring of their terms, principal, interest and maturity. These exposures have resulted in the Group making significant provisions and recognising significant write-downs in prior periods, which may also occur in future periods. These conditions, alone or in combination with regulatory changes or actions of market participants, may also cause the Group to experience reduced activity levels, additional write-downs and impairment charges and lower profitability, and may restrict the ability of the Group to access funding and liquidity and have a negative impact on the value of the Securities. In particular, should the scope and severity of the adverse economic conditions currently experienced by some EU member states and elsewhere worsen, the risks faced by the Group would be exacerbated. For further information see “Appendix 3 – Additional risk management disclosures – country risk” of the RBSG Interim Results (as defined in “Documents Incorporated by Reference” below), which is incorporated by reference herein.

By virtue of the Group’s global presence, the Group is also exposed to risks arising out of geopolitical events, such as the existence of trade barriers, the implementation of exchange controls and other measures taken by sovereign governments that can hinder economic or financial activity levels. Furthermore, unfavourable political, military or diplomatic events, armed

conflict, pandemics and terrorist acts and threats, and the response to them by governments could also adversely affect levels of economic activity and have an adverse effect upon the Group's business, financial condition and results of operations.

The Group is subject to a variety of risks as a result of implementing the State Aid restructuring plan and is prohibited from making discretionary dividend or coupon payments on existing hybrid capital instruments (including preference shares and B Shares) which may impair the Group's ability to raise new Tier 1 capital

The Group was required to obtain State Aid approval for the aid given to the Group by HM Treasury as part of the placing and open offer undertaken by RBSG in December 2008 (the "**First Placing and Open Offer**"), the issuance of £25.5 billion of B shares in the capital of RBSG (the "**B Shares**") which are, subject to certain terms and conditions, convertible into ordinary shares in the share capital of RBSG ("**Ordinary Shares**") to HM Treasury, a contingent commitment by HM Treasury to subscribe (the "**Contingent Subscription**") for up to an additional £8 billion of B Shares (the "**Contingent B Shares**") if certain conditions are met and the Group's participation in the Asset Protection Scheme (the "**APS**") (together, the "**State Aid**").

In that context, as part of the terms of the State Aid approval, the Group, together with HM Treasury, agreed the terms of a restructuring plan (the "**State Aid restructuring plan**").

As part of the State Aid restructuring plan, there is 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 which commenced on 30 April 2010. These restrictions prevent RBSG, RBS (as defined below) and other Group companies (other than companies in the RBS Holdings N.V. group (which was renamed from ABN AMRO Holding N.V. on 1 April 2010), which are subject to different restrictions) from paying dividends on their preference shares and coupons on other Tier 1 securities, and RBSG from paying dividends on its Ordinary Shares, for the same duration, and it may impair the Group's ability to raise new capital through the issuance of Ordinary Shares and other securities issued by RBSG.

The Group is subject to a variety of risks as a result of implementing the State Aid restructuring plan, including required asset disposals. In particular, the Group agreed to undertake a series of measures to be implemented over a four-year period from December 2009, including the disposal of all or a controlling portion of RBS Insurance (with disposal of its entire interest in RBS Insurance required by 31 December 2014), Global Merchant Services ("**GMS**"), its interest in RBS Sempra Commodities LLP ("**RBS Sempra Commodities**"), and the RBS branch-based business in England and Wales and the NatWest branches in Scotland, along with the Direct and other small and medium-size enterprise ("**SME**") customers and certain mid-corporate customers across the United Kingdom. The Group has progressed with certain of these disposals over the course of 2010 and the first half of 2011. For further information, see "Description of The Royal Bank of Scotland Group plc — State Aid". There is no assurance that the price that the Group receives or has received for any assets sold pursuant to the State Aid restructuring plan will be or has been 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 contained in the terms thereof. Further, if the Group fails to complete any of the required disposals within the agreed timeframes for such disposals, under the terms of the State Aid approval, a divestiture trustee may 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 any such investigation, if the European Commission decided that there had been misuse of aid, it could 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 employees and giving rise to separation costs which could be substantial.

The implementation of the State Aid restructuring plan may result in the emergence of one or more new viable competitors or a material strengthening of one or more of the Group's existing competitors in the Group's markets. 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.

The occurrence of any of the risks described above could have a material adverse effect on the Group's business, results of operations, financial condition, capital position and competitive position.

For further details on the State Aid restructuring plan, including a description of the Group's undertakings and the restrictions imposed, see Part I, Appendix 4 of the Shareholder Circular, which is incorporated by reference herein.

The occurrence of a delay in the implementation of (or any failure to implement) the approved proposed transfers of a substantial part of the business activities of RBS N.V. to RBS may have a material adverse effect on the Group

As part of the restructuring of its businesses, operations and assets, on 19 April 2011, the boards of RBSG, RBS, RBS Holdings and RBS N.V. (as defined below) approved the proposed transfers of a substantial part of the business activities of RBS N.V. to RBS (the "**Proposed Transfers**"), subject, among other matters, to regulatory and other approvals, further tax and other analysis in respect of the assets and liabilities to be transferred and employee consultation procedures. It is expected that the Proposed Transfers will be implemented on a phased basis over a period ending on 31 December 2013. A large part of the Proposed Transfers is expected to have taken place by the end of 2012.

The process for implementing the Proposed Transfers is complex and any failure to satisfy any conditions or complete any preliminary steps to each Proposed Transfer may cause a delay in its completion (or result in its non-completion). If any of the Proposed Transfers are delayed (or are not completed) for any reason, such as a failure to secure required regulatory approvals, it is possible that the relevant regulatory authorities could impose sanctions which could adversely impact the minimum regulatory requirements for capital and liquidity of RBS N.V. and RBS. In addition, the FSA may impose additional requirements in relation to RBS to the extent that such a delay in implementation (or non-completion) of any of the Proposed Transfers has consequential financial implications for RBS (for example increased intra-group large exposures). A delay in implementation of (or any failure to implement) any of the Proposed Transfers may therefore

adversely impact RBS N.V.'s and RBS's capital and liquidity resources and requirements, with consequential adverse impacts on their funding resources and requirements.

The occurrence of a delay in the implementation of (or any failure to implement) any of the Proposed Transfers may therefore have a material adverse effect on the Group's business, results of operations, financial condition, and could result in a loss of value in the Securities.

The Group's ability to implement its strategic plan depends on the success of the Group's refocus on its core strengths and its balance sheet reduction programme

In light of the changed global economic outlook, the Group is engaged in 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 programme announced in February 2009 to run-down and sell the Group's non-core assets and businesses and the continued review of the Group's portfolio to identify further disposals of certain non-core assets and businesses. Assets identified for this purpose and allocated to the Group's Non-Core division totalled £258 billion, excluding derivatives, as at 31 December 2008. At 30 June 2011, this total had reduced to £112.6 billion, excluding derivatives, as further progress was made in business disposals and portfolio sales during the course of 2010 and the first half of 2011. This balance sheet reduction programme continues alongside the disposals under the State Aid restructuring plan approved by the European Commission.

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 remaining businesses it is seeking to exit either on favourable economic terms to the Group or at all. In addition, tax liabilities could arise on the disposal of assets. Furthermore, there is no assurance that any conditions precedent agreed will be satisfied, or consents and approvals required will be 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.

In addition, the Group may be liable for any deterioration in businesses being sold between the announcement of the disposal and its completion, which period may be lengthy and may span many months. In addition, the Group may be exposed to certain risks until completion, including risks arising out of ongoing liabilities and obligations, breaches of covenants, representations and warranties, indemnity claims, transitional services arrangements and redundancy or other transaction-related costs.

The occurrence of any of the risks described above could negatively 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 and liquidity and could result in a loss of value in the Securities.

Lack of liquidity is a risk to the Group's business and there is a risk that the Group's ability to access sources of liquidity and funding could become 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 factors, including an over-reliance on a particular source of wholesale funding (including, for example, short-term and overnight funding), changes in credit ratings or market-wide phenomena such as market dislocation and major disasters. Credit markets worldwide have

experienced severe reductions in liquidity and term-funding during prolonged periods in recent years. Consequently, the market perception of bank credit risk has changed significantly and banks that are deemed by the market to be riskier have issued debt at a premium to the cost of debt for banks that are perceived by the market as being safer. Any uncertainty regarding the perception of credit risk across financial institutions may lead to reductions in inter-bank lending and may restrict the Group's access to traditional sources of liquidity.

At certain times during periods of liquidity stress, the Group has been required 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 money market conditions have shown general improvement recently, further tightening of credit markets could have a materially adverse impact on the Group. There is also a risk that corporate and financial institution counterparties may seek to reduce their credit exposures to banks and other financial institutions, which may cause funding from these sources no longer to be available. Under such circumstances, the Group may need to seek funds from alternative sources and potentially at higher costs than has previously been the case or may be required to consider disposals of other assets not previously identified for disposal to reduce its funding commitments. In the context of its liquidity management efforts, the Group has sought to increase the average maturity of its wholesale funding, which has had the effect of increasing the Group's overall cost of funding.

Like many banking groups, the Group relies on customer deposits to meet a considerable portion of its funding and it 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 for retail customer deposits 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 materially adverse impact on the Group's ability to satisfy its liquidity needs.

The Group has participated in governmental support schemes including HM Treasury's guarantee scheme (announced by the United Kingdom Government on 8 October 2008) (the "**Credit Guarantee Scheme**") and a special liquidity scheme (launched on 21 April 2008) (the "**Special Liquidity Scheme**"). The Credit Guarantee Scheme closed for new issuance in February 2010 and the Special Liquidity Scheme closed for new transactions in January 2009. All of the Group's financing under the Credit Guarantee Scheme and the Special Liquidity Scheme matures during the course of 2011 and 2012. As at 31 December 2010, the total amount outstanding of debt instruments issued by RBS which benefit from the Credit Guarantee Scheme was £41,455 million. For further information, see the sections of the 2010 Annual Report and Accounts of RBSG (as defined in "Documents Incorporated by Reference" below) headed "Risk and balance sheet management — Balance sheet management: Funding and liquidity risk — Credit Guarantee Scheme" and "Risk and balance sheet management — Balance sheet management: Funding and liquidity risk — Special Liquidity Scheme", which are incorporated by reference herein. The Group expects to mitigate the impact of this refinancing concentration through a combination of seeking funds from alternative sources, the continuation of the Group's balance sheet reduction programme and other reductions in the Group's net wholesale funding requirement. However, there can be no assurance that such mitigation efforts will be successful.

The occurrence of any of the risks described above could have a material adverse impact on the Group's financial conditions and results of operations and/or result in a loss of value in the Securities.

The financial performance of the Group has been materially affected by deteriorations in borrower and counterparty credit quality and it may continue to be impacted by any further deteriorations, including as a result of prevailing economic and market conditions, and legal and regulatory developments

The Group has exposure to many different industries and counterparties, and risks arising from actual or perceived changes in credit quality and the recoverability of monies due from borrowers and counterparties are inherent in a wide range of the Group's businesses. In particular, the Group has significant exposure to certain individual counterparties in weakened business sectors and geographic markets and also has concentrated country exposure in the United States, the United Kingdom and across the rest of Europe and within certain business sectors, namely personal finance, financial institutions and commercial real estate.

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 debts, with increasing delinquencies, defaults and insolvencies across a range of sectors and in a number of geographic markets. Since the credit quality of the Group's borrowers and counterparties is impacted by prevailing economic and market conditions and by the legal and regulatory landscape in their respective markets, a significant deterioration in economic and market conditions or changes to legal or regulatory landscapes could worsen borrower and counterparty credit quality and also impact the Group's ability to enforce contractual security rights. 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 experienced in recent years. Any such losses could have an adverse effect on the Group's results of operations and financial condition or result in a loss of value in the Securities.

In the United States during recent years, there has been disruption in the ability of certain financial institutions to complete foreclosure proceedings in a timely manner (or at all), including as a result of interventions by certain states and local governments. This disruption has lengthened the time to complete foreclosures, increased the backlog of repossessed properties and, in certain cases, has resulted in the invalidation of purported foreclosures. In addition, a number of other financial institutions have experienced increased repurchase demands in respect of US mortgage loans or other related securities originated and sold. However, the Group has not experienced a significant volume of repurchase demands in respect of similar loans or related securities it originated or sold and has not ceased any of its US foreclosure activities.

The trends and risks affecting borrower and counterparty credit quality have caused, and in the future may cause, the Group to experience further and accelerated impairment charges, increased repurchase demands, higher costs, additional write-downs and losses for the Group and an inability to engage in routine funding transactions, and may 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, materially 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 losses arising out of asset-backed collateralised debt obligations, residential mortgage-backed securities and the leveraged loan market. In dislocated markets, hedging and other risk management strategies may not be as effective as they are in normal market conditions due in part to the decreasing credit quality of hedge counterparties. Severe market events have resulted in the Group recording large write-downs on its credit market exposures in recent years. Any deterioration in economic and financial market conditions could lead to further impairment charges and write-downs. Moreover, market volatility and illiquidity (and the assumptions, judgements and estimates in relation to such matters that may change over time and may ultimately not turn out to be accurate) 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 in addition to those already recorded or realised or realise increased impairment charges, which may have a material adverse effect on 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 during the year ended 31 December 2010 is set out in the 2010 Annual Report and Accounts of RBSG, which are incorporated by reference herein.

The value or effectiveness of any credit protection that the Group has purchased depends on the value of the underlying assets and the financial condition of the insurers and counterparties

The Group has credit exposure arising from over-the-counter derivative contracts, mainly credit default swaps ("CDSs"), and other credit derivatives, such as the APS, each of 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. Market counterparties 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 may deteriorate rapidly. If the financial condition of these counterparties or their actual or perceived creditworthiness deteriorates, the Group may record further credit valuation adjustments on the credit protection bought from these counterparties under the CDSs. The Group also recognises any fluctuations in the fair value of other credit derivatives, such as the APS. If market conditions improve and credit spreads for assets covered by the APS narrow, the value of the protection decreases and a loss is recognised. If credit spreads widen, the protection is more valuable, giving rise to a gain. Any such adjustments or fair value changes 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, basis, volatility and correlation risks and other market factors have significantly affected and will continue to affect the Group's business and results of operations

Some of the most significant market risks the Group faces are interest rate, foreign exchange, credit spread, bond, equity and commodity price and basis, volatility and correlation 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. 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 and may affect RBSG's reported consolidated financial condition or its income from foreign exchange dealing. For accounting purposes, the Group values some of its issued debt, such as debt securities, at the current market price. Factors affecting the current market price for such debt, such as the credit spreads of the Group, may result in a change to the fair value of such debt, which is recognised in the income statement as a profit or loss.

The performance of financial markets affects bond, equity and commodity prices, which has caused, and may in the future cause, changes in the value of the Group's investment and trading portfolios. As part of its ongoing derivatives operations, the Group also faces significant basis, volatility and correlation risks, the occurrence of which are also impacted by the factors noted above. 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, its access to the debt capital markets and its liquidity depend significantly on its and the United Kingdom Government's credit ratings

The credit ratings of RBSG, RBS and other Group members have been subject to change and may change in the future, which could impact their cost of, access to and sources of financing and liquidity. In particular, 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 of the Group, any downgrade in the United Kingdom Government's credit ratings could materially adversely affect the credit ratings of Group companies and may have the effects noted above. Credit ratings of RBSG, RBS, RBS N.V., Ulster Bank Limited ("**Ulster Bank**") and Citizens Financial Group Inc. ("**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 its competitive position, increase its funding costs and have a material adverse impact on the Group's earnings, cash flow and financial condition or result in a loss of value in the Securities. See "Introduction" above for information on the credit ratings referred to in this risk factor.

The Group's business performance could be adversely affected if its capital is not managed effectively or as a result of changes to capital adequacy and liquidity requirements

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 other jurisdictions in which it undertakes regulated activities to maintain adequate capital resources. 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 the issuance of the £25.5 billion of B Shares, the grant of the Contingent Subscription and the previous placing and open offers was to allow the Group to strengthen its capital position.

The package of reforms to the regulatory capital framework published by the Basel Committee on Banking Supervision (the “**Basel Committee**”) in December 2010 includes materially increasing the minimum common equity requirement and the total Tier 1 capital requirement. In addition, banks will be required to maintain, in the form of common equity (after the application of deductions), a capital conservation buffer to withstand future periods of stress, bringing the total common equity requirements to 7 per cent. If there is excess credit growth in any given country resulting in a system-wide build-up of risk, a countercyclical buffer within a range of 0 per cent. to 2.5 per cent. of common equity is to be applied as an extension of the conservation buffer. In addition, a leverage ratio will be introduced, together with a liquidity coverage ratio and a net stable funding ratio. The Basel Committee is conducting further work on systemically important financial institutions and contingent capital. Measures may include capital surcharges, contingent capital and bail-in debt (which could be introduced by statute, possibly impacting existing as well as future issues of debt and exposing them to the risk of conversion into equity and/or write-down of principal amount). Such measures would be in addition to proposals for the write-off of Tier 1 and Tier 2 debt (and its possible conversion into ordinary shares) if a bank becomes non-viable. On 20 July 2011, the Basel Committee proposed that global systemically important banks be subject to an additional common equity Tier 1 capital requirement ranging from 1 per cent. to 2.5 per cent, depending on a bank’s systemic importance. To provide a disincentive for banks facing the highest charge to increase materially their global systemic importance in the future, an additional 1 per cent. surcharge would be applied in such circumstances. Final recommendations will be submitted to the G20 summit on 3-4 November 2011.

The implementation of the Basel III reforms will begin on 1 January 2013; however, the requirements are subject to a series of transitional arrangements and will be phased in over a period of time, to be fully effective by 2019.

To the extent the Group has estimated the indicative impact that Basel III reforms may have on its risk-weighted assets and capital ratios, such estimates are preliminary and subject to uncertainties and may change. In particular, the estimates assume mitigating actions will be taken by the Group (such as deleveraging of legacy positions and securitisations, including non-core, as well as other actions being taken to derisk market and counterparty exposures), which may not occur as anticipated, in a timely manner, or at all.

The Basel Committee changes and other future changes to capital adequacy and liquidity requirements in the United Kingdom and in other jurisdictions in which the Group operates, including any application of increasingly stringent stress case scenarios by the regulators in the United Kingdom, the United States and other jurisdictions in which the Group undertakes regulated activities, may require the Group to raise additional Tier 1 (including Core Tier 1) and Tier 2 capital by way of further issuances of securities, and will result in existing Tier 1 and Tier 2 securities issued by the Group ceasing to count towards the Group’s regulatory capital, either at the same level as present or at all. The requirement to raise additional Core Tier 1 capital could have a number of negative consequences for RBSG and its shareholders, including impairing RBSG’s ability to pay dividends on or make other distributions in respect of Ordinary Shares and diluting the ownership of existing shareholders of RBSG. If the Group is unable to raise the requisite Tier 1 and Tier 2 capital, it may be required to further reduce the amount of its risk-weighted assets and engage in the disposal 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 State Aid approval, should the Group’s Core Tier 1 capital ratio decline to below 5 per cent. at any time before 31 December 2014, or should the Group fall short of its funded balance sheet target level (after adjustments) for 31 December 2013 by £30 billion or more, 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 provided in the Acquisition and Contingent Capital Agreement, as described in Part I, Appendix 3 of the Shareholder Circular, which is incorporated by reference herein, the Group will also be subject to restrictions on payments on its hybrid capital instruments should its Core Tier 1 ratio fall below 6 per cent. or if it would fall below 6 per cent. as a result of such payment. For further details of these restrictions, see “Appendix 3 to the Letter From the Chairman of RBS – Principal Terms of Issue of the B Shares and the Dividend Access Share – Undertakings” on pages 77 to 79 of the Shareholder Circular, which is incorporated by reference herein.

As at 30 June 2011, the Group’s Tier 1 and Core Tier 1 capital ratios were 13.5 per cent. and 11.1 per cent., respectively, calculated in accordance with FSA requirements. 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, a growth in unfunded pension exposures 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 International Financial Reporting Standards (“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. 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 prevailing market conditions. In such circumstances, the Group’s internal valuation models require the Group to make assumptions, judgements and estimates to establish fair value, which are complex and often relate to matters that are inherently uncertain. These assumptions, judgements and estimates will 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 or result in a loss of value in the Securities.

The Group operates in markets that are highly competitive and its business and results of operations may be adversely affected

The competitive landscape for banks and other financial institutions in the United Kingdom, the United States and throughout the rest of Europe is subject to rapid change and recent regulatory and legal changes are likely to result in new market participants and changed competitive dynamics in certain key areas, such as in retail banking in the United Kingdom. The competitive landscape in the United Kingdom will be particularly influenced by the recommendations of the ICB’s final report as discussed above. In order to compete effectively, certain financial institutions may seek to consolidate their businesses or assets with other parties. This consolidation, in combination with the introduction of new entrants into the markets in which the Group operates, is likely to increase competitive pressures on the Group.

In addition, certain competitors may have access to lower cost funding and/or be able to attract deposits on more favourable terms than the Group and may have stronger and more efficient

operations. Furthermore, the Group's competitors may be better able to attract and retain clients and key employees, which may have a negative impact on the Group's relative performance and future prospects. In addition, 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. These and other changes to the competitive landscape could adversely affect the Group's business, margins, profitability, financial condition and prospects or result in a loss of value in the Securities.

The Group could fail to attract or retain senior management, which may include members of the Board, or other key employees, and it may suffer if it does not maintain good employee relations

The Group's ability to implement its strategy and its future success depends on its ability to attract, retain and remunerate highly skilled and qualified personnel, including its senior management, which include directors and other key employees, 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 and employee compensation arrangements, in particular those in receipt of Government support (such as the Group).

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.

In addition, certain of the Group's employees in the United Kingdom, continental Europe and other jurisdictions in which the Group operates are represented by employee representative bodies, including trade unions. Engagement with its employees and such bodies is important to the Group and a breakdown of these relationships could adversely affect the Group's business, reputation and results. As the Group implements cost-saving initiatives and disposes of, or runs-down, certain assets or businesses (including as part of its restructuring plans), it faces increased risk in this regard and there can be no assurance that the Group will be able to maintain good relations with its employees or employee representative bodies in respect of all matters. As a result, the Group may experience strikes or other industrial action from time to time, which could have an adverse effect on its business and results of operations and could cause damage to its reputation.

Each of the Group's businesses is subject to substantial regulation and oversight. Significant regulatory developments, including changes in tax law, could have an adverse 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 jurisdiction in which it operates. All of these are subject to change, particularly in the current regulatory and market environment, where there have been unprecedented levels of government intervention, changes to the regulations governing financial institutions and reviews of the industry, including nationalisations or injections of government capital in the United States, the United Kingdom and other European countries. In recent years, there has also been increasing focus in the United Kingdom, United States and other jurisdictions

in which the Group operates on compliance with anti-bribery, anti-money laundering, anti-terrorism and other similar sanctions regimes.

As a result of the environment in which the Group operates, increasing regulatory focus in certain areas and ongoing and possible future changes in the financial services regulatory landscape (including requirements imposed by virtue of the Group's participation in government or regulator-led initiatives), the Group expects to face greater regulation and scrutiny in the United Kingdom, the United States and other countries in which it operates.

Although it is difficult to predict with certainty the effect that recent regulatory developments and heightened levels of public and regulatory scrutiny will have on the Group, the enactment of legislation and regulations in the United Kingdom, the other parts of Europe in which the Group operates and the United States (such as the bank levy in the United Kingdom or the Dodd-Frank Wall Street Reform and Consumer Protection Act in the United States) is likely to result in increased capital and liquidity requirements and changes in regulatory requirements relating to the calculation of capital and liquidity metrics or other prudential rules relating to capital adequacy frameworks, and may result in an increased number of regulatory investigations and actions. Any of these developments could have an adverse impact on how the Group conducts its business, applicable authorisations and licences, the products and services it offers, its reputation, the value of its assets, its funding costs and its results of operations and financial condition or result in a loss of value in the Securities.

Areas in which, and examples of where, governmental policies, regulatory changes and increased public and regulatory scrutiny could have an adverse impact on the Group include, but are not limited to:

- the monetary, fiscal, interest rate and other policies of central banks and other governmental or regulatory bodies;
- requirements to separate retail banking from investment banking, and restrictions on proprietary trading and similar activities within a commercial bank and/or a group which contains a commercial bank;
- the design and potential implementation of government-mandated resolution or insolvency regimes;
- the imposition of government-imposed requirements with respect to lending to the United Kingdom SME market and larger commercial and corporate entities and residential mortgage lending;
- requirements to operate in a way that prioritises objectives other than shareholder value creation;
- changes to financial reporting standards (including accounting standards), corporate governance requirements, corporate structures and conduct of business rules;
- the imposition of restrictions on the Group's ability to compensate its senior management and other employees;
- regulations relating to, and enforcement of, anti-bribery, anti-money laundering, anti-terrorism or other similar sanctions regimes;
- rules relating to foreign ownership, expropriation, nationalisation and confiscation of assets;

- other requirements or policies affecting the Group's profitability, such as the imposition of onerous compliance obligations, further restrictions on business growth or pricing; and
- the introduction of, and changes to, taxes, levies or fees applicable to the Group's operations (such as the imposition of financial activities taxes and changes in tax rates that reduce the value of deferred tax assets).

For information on the bank levy in the United Kingdom, see the section headed "Notes on the Accounts — 34. Memorandum Items — Bank levy" on page 368 of the 2010 Annual Report and Accounts of RBSG (which is incorporated by reference herein).

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, anti-money laundering charges and sanctions, compliance investigations and review by the European Commission under State Aid rules. Furthermore, the Group, like many other financial institutions, has come under greater regulatory scrutiny in recent years 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 early 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 have a significant 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 "Description of The Royal Bank of Scotland Group plc – Litigation" and "Description of The Royal Bank of Scotland Group plc – Investigations" below.

The Group's results have been and could be further materially 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 the 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. Any significant write-down of goodwill could have a material adverse impact on the Group's results of operations and the value of its Securities.

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 assets of the Group's various defined benefit pension schemes which are long term in nature do not fully match the timing and amount of the schemes' liabilities, as a result of which the Group is required or chooses to make additional contributions to the schemes. Pension scheme liabilities vary with changes to long-term interest rates, inflation, pensionable salaries and the longevity of scheme members as well as changes in applicable legislation. 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, returns from them and any additional future contributions to the schemes 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 to the schemes. Given the recent economic and financial market difficulties and the prospect that they may continue over the near and medium term, the Group may experience increasing pension deficits or be required or elect to make further contributions to its pension schemes and such deficits and contributions could be significant and have an adverse impact on the Group's results of operations or financial condition or result in a loss of value in the Securities. The Group and the trustees of The Royal Bank of Scotland Group Pension Fund (which is the main defined benefit scheme of the Group) have recently agreed the funding valuation of the main scheme as at 31 March 2010 which shows that the value of liabilities exceeded the value of assets by £3.5 billion as at 31 March 2010, a ratio of assets to liabilities of 84 per cent.

In order to eliminate this deficit, the Group will pay additional contributions each year over the period 2011 until 2018. These contributions will start at £375 million per annum in 2011, increase to £400 million per annum in 2013 and from 2016 onwards be further increased in line with price inflation. These contributions are in addition to the regular contributions of around £300 million for future accrual of benefits.

Operational risks are inherent in the Group's businesses

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-bribery, anti-money laundering and anti-terrorism legislation, as well as the provisions of applicable sanctions programmes), equipment failures, business continuity and data security system 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 such laws or regulations, could result in increased regulatory supervision, enforcement actions and other disciplinary action, and have an adverse impact on the Group's business, applicable authorisations and licences, reputation, results of operations and the price of

the 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 (the “**Official List**”) nor that it, or its relevant subsidiaries, will be unable to comply with its or their obligations as supervised firms regulated by the FSA.

HM Treasury (or UKFI on its behalf) may be able to exercise a significant degree of influence over the Group and any proposed offer or sale of its interests may affect the price of the Securities

The United Kingdom Government, through HM Treasury, currently holds approximately 66 per cent. of the issued ordinary share capital of RBSG. On 22 December 2009, RBSG issued £25.5 billion of B Shares to the United Kingdom Government. The B Shares are convertible, at the option of the holder at any time, into Ordinary Shares. The United Kingdom Government has agreed that it shall not exercise the 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. Any breach of this agreement could result in the delisting of RBSG from the Official List and potentially other exchanges where its Securities are currently listed and traded. HM Treasury (or the UK Financial Investments Limited (“**UKFI**”) on its behalf) may sell all or a part of the Ordinary Shares that it owns at any time. Any offers or sale of a substantial number of Ordinary Shares or securities convertible or exchangeable into Ordinary Shares by or on behalf of HM Treasury, or an expectation that it may undertake such an offer or sale, could negatively affect prevailing market prices for the Securities.

In addition, UKFI manages HM Treasury’s shareholder relationship with RBSG and, 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 a 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. 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 insurance 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 an adverse impact on its results of operations and financial condition. As at 31 December 2010, the Group had accrued £144.4 million for its share of Compensation Scheme management expenses levies for the 2010/2011 and 2011/2012 Compensation Scheme years (as set out in the 2010 Annual Report and Accounts of RBSG, which are incorporated by reference herein).

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 have an adverse impact on its financial condition and results of operations or result in a loss of value in the Securities.

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 or 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 or accounting standards may reduce the recoverable amount of the recognised deferred tax assets. In April 2011, the United Kingdom Government commenced a staged reduction in the rate of United Kingdom corporation tax from 28 per cent. to 23 per cent. over a four-year period. Such a change in the applicable tax rate will 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 capital 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. In particular, on 16 December 2010, the Basel Committee published the Basel III rules setting out certain changes to capital requirements which include provisions limiting the

ability of certain deferred tax assets to be recognised when calculating the common equity component of Tier 1 capital. The implementation of the Basel III restrictions on recognition of deferred tax assets within the common equity component of Tier 1 are subject to a phased-in deduction starting on 1 January 2014, to be fully effective by 1 January 2018.

The Group's participation in the APS is costly and may not produce the regulatory capital benefits expected and the occurrence of associated risks may have a material adverse impact on the Group's business, capital position, financial condition and results of operations

On 22 December 2009, the Group acceded to the APS with HM Treasury acting on behalf of the United Kingdom Government. Under the APS, the Group purchased credit protection over a portfolio of specified assets and exposures of RBS and certain members of the Group from HM Treasury in return for an annual fee. If losses on assets covered by the APS exceed £60 billion (net of recoveries), HM Treasury will bear 90 per cent. of further losses. The APS is a unique form of credit protection over a complex range of diversified assets and exposures (the "**Covered Assets**") in a number of jurisdictions. Owing to the complexity, scale and unique nature of the APS and the uncertainty resulting from the recent economic recession, there may be unforeseen issues and risks that are relevant in the context of the Group's participation in the APS and in the impact of the APS on the Group's business, operations and financial condition. Such risks may have a material adverse effect on the Group.

Moreover, the Group's choice of assets or exposures to be covered by the APS was based on certain predictions and assumptions at the time of its accession to the APS. There is therefore, a risk that the Covered Assets will not be those with the greatest future losses or with the greatest need for protection and the Group's financial condition, income from operations and the value of any Securities may still suffer due to further impairments and credit write-downs.

Notwithstanding the Group's participation in the APS, the Group remains exposed to a substantial first loss amount of £60 billion (net of recoveries) in respect of the Covered Assets and for 10 per cent. of Covered Assets losses after the first loss amount. There is therefore, no assurance that the Group's participation in the APS will achieve the Group's goals of improving and maintaining the Group's capital ratios in the event of further losses. Moreover, the Group continues to carry the risk of losses, impairments and write-downs with respect to assets not covered by the APS.

As a result of the significant volume, variety and complexity of assets and exposures and the resulting complexity of the APS documents, there is a risk that the Group may have included assets or exposures within the Covered Assets which are, or may later become, ineligible for protection under the APS, which would reduce the anticipated benefits to the Group of the APS. Further, there is no ability to nominate additional or alternative assets or exposures in place of any which may turn out not to be covered under the APS.

Protection under the APS may also be limited or may cease to be available in certain circumstances, including (among others) where (i) Covered Assets are not correctly or sufficiently logged or described, (ii) a Covered Asset is disposed of (in whole or in part) prior to a trigger event, (iii) certain of the extensive governance, asset management, audit and reporting obligations under the UK APS Terms and Conditions (the "**Scheme Conditions**") are not complied with, (iv) the Group does not comply with the instructions of a step-in manager appointed by HM Treasury or (v) HM Treasury seeks to appoint a step-in manager in respect of Covered Assets held within the RBS Holdings N.V. group (or in certain other jurisdictions) and it is not possible to obtain consent from the Dutch Central Bank (if required) to such step-in.

As a result of the foregoing, there can be no assurance that any regulatory capital benefits of the APS will be sufficient to maintain the Group's capital ratios at the requisite levels in the event of further losses. If the Group is unable to improve its capital ratios sufficiently or to maintain its capital ratios in the event of further losses, its business, results of operations and financial condition will suffer, its credit ratings may fall, its ability to lend and access funding will be further limited and its cost of funding may increase. The occurrence of any or all of such events may cause the price of the Securities to decline.

The extensive governance, asset management and information requirements under the Scheme Conditions and any changes or modifications to the Scheme Conditions may have a negative impact on the expected benefits of the APS and may have an adverse impact on the Group

There are extensive governance, asset management and information requirements under the Scheme Conditions in relation to the Covered Assets, other assets and the operations of the Group and HM Treasury also has the right to require the appointment of one or more step-in managers to exercise certain step-in rights in certain circumstances. The step-in rights are extensive and include certain oversight, investigation, approval and other rights, the right to require the modification or replacement of any of the systems, controls, processes and practices of the Group and extensive rights in relation to the direct management and administration of the Covered Assets.

If HM Treasury seeks to exercise its right to appoint one or more step-in managers in relation to the management and administration of Covered Assets held by RBS Holdings N.V. or its wholly-owned subsidiaries, RBS Holdings N.V. will, in certain circumstances, need to seek consent from the Dutch Central Bank to allow it to comply with such step-in. If this consent is not obtained by the date (which will be no less than 10 business days after the notice from HM Treasury) on which the step-in rights must be effective, and other options to effect compliance are not possible (at all or because the costs involved prove prohibitive), those assets would need to be withdrawn by the Group from the APS where permissible under the Scheme Conditions or, otherwise, with HM Treasury consent. If the Group cannot withdraw such Covered Assets from the APS, it would be likely to lose protection in respect of these assets under the APS and/or may be liable under its indemnity to HM Treasury.

Additionally pursuant to the accession agreement between HM Treasury and RBSG relating to the accession to the APS (the "**Accession Agreement**"), HM Treasury has the right to require RBS to appoint one or more Special Advisers ("**SOC Special Advisers**") to exercise oversight functions over certain assets in the APS. On 18 June 2010, the Asset Protection Agency required that RBS appoint SOC Special Advisers in relation to certain assets and business areas in order to provide additional support to the Senior Oversight Committee of RBS. There have been four such appointments to date granting certain oversight rights in relation to certain specified assets and the work of each of the SOC Special Advisers is now substantially completed.

The obligations of the Group and the rights of HM Treasury may, individually or in the aggregate, impact the way the Group runs its business and may serve to limit the Group's operations with the result that the Group's business, results of operations and financial condition will suffer. In addition, the market's reaction to such controls and limitations may have an adverse impact on the price of the Securities.

HM Treasury may, following consultation with the Group, modify or replace certain of the Scheme Conditions in such a manner as it considers necessary (acting reasonably) in certain circumstances. Such modifications or replacements may be retrospective and may result in (i) a

loss of or reduction in the protection expected by the Group under the APS, (ii) an increase in the risk weightings of the Covered Assets, (iii) a material increase in the continuing reporting obligations or asset management conditions applicable to the Group under the Scheme Conditions, (iv) a material increase in the costs of the APS and/or (v) restrictions or limitations on the Group's operations. The consequences of any such modifications by HM Treasury are impossible to quantify and are difficult to predict and may have a material adverse effect on the Group's financial condition and results of operations.

Any changes to the expected regulatory capital treatment of the APS, the B Shares and the Contingent B Shares may negatively impact the Group's capital position

One of the key objectives of the APS and the issuance of £25.5 billion of B Shares and, if required, the £8 billion Contingent B Shares was to improve capital ratios at a consolidated level for the Group and at an individual level for certain relevant Group members. The Group has entered and may in the future enter into further back-to-back arrangements with Group members holding assets or exposures to be covered by the APS in order to ensure the capital ratios of these entities are also improved by virtue of the APS. There is a risk that the interpretation of the relevant regulatory capital requirements by one or more of the relevant regulatory authorities may differ from that assumed by the Group, with the result that the improvement to the Group's capital ratios will not be fully maintained.

There is a further risk that, given that the current regulatory capital requirements and the regulatory bodies governing these requirements are subject to unprecedented levels of review and scrutiny both globally and locally, the regulatory capital treatment may differ from that assumed by the Group in respect of the APS, the treatment of the B Share issuance or the back-to-back arrangement may also occur. If participation in the APS and the issuance of £25.5 billion of B Shares and, if required, the £8 billion Contingent B Shares are not sufficient to maintain the Group's capital ratios, this could cause the Group's business, results of operations and financial condition to suffer, its credit ratings to drop, its ability to lend and access to funding to be further limited and its cost of funding to increase, and may result in intervention by the Authorities, which could include full nationalisation or other resolution procedures under the Banking Act as described above. The occurrence of any or all of such events may cause the price of the Securities to decline.

The costs of the APS may be greater than the benefits received by the Group and the fair value of the APS can impact the Group's results of operations

The costs of participating in the APS incurred by the Group to HM Treasury include, among others, a fee of £700 million per annum, payable in advance for each of the first three years of the APS and £500 million per annum thereafter until the earlier of (i) the date of termination of the APS and (ii) 31 December 2099. In order to terminate the Group's participation in the APS, the Group must have FSA approval and must pay an exit fee. The effect of the payment of the exit fee and potentially the refund of the net pay-outs it has received from HM Treasury under the APS may significantly reduce or even eliminate the anticipated further regulatory capital benefits to the Group of its participation in the APS and could have an adverse impact on the Group's results of operation or result in a loss of value in the Securities. Alternatively, if the Group is unable to repay to HM Treasury in full the exit fee and potentially the net pay-outs it has received under the APS and, therefore, is unable to terminate its participation in the APS, the Group will be required under the Scheme Conditions to continue to pay the annual fee to HM Treasury until 31 December 2099, which could have an adverse impact on the Group's results of operations and/or result in a loss of value in the Securities.

The amounts that may be received under the APS (which amounts are difficult to quantify precisely) may be less than the costs of participation, which are themselves also difficult to quantify. The aggregate effect of the joining, establishment, operational and exit costs and fees and expenses of, and associated with, the APS may significantly reduce or even eliminate the benefit to the Group of the APS.

In addition, the APS is a credit derivative accounted for at fair value, which exhibits counter-cyclical behaviour. As a result, improving market conditions result in a charge to the income statement, and vice versa. Therefore, changes in the fair value of the APS can have a significant adverse impact on the Group's results of operations.

Participation in the APS may result in greater tax liabilities for the Group and the loss of potential tax benefits

The Group can opt (with the consent of HM Treasury) to satisfy the annual fee in respect of both the APS and the Contingent Subscription and any APS exit fee by waiving certain United Kingdom tax reliefs that are treated as deferred tax assets. The Group has not opted to do so to date, but if the Group so opts in the future, it is difficult to value accurately the cost to the Group, which depends on unascertainable factors including the extent of future losses, the extent to which the Group regains profitability and any changes in tax law.

In addition to suffering greater tax liabilities in future years as a result of the waiver of the right to certain United Kingdom tax reliefs that are treated as deferred tax assets (the "Tax Loss Waiver"), the Group may also be subject to further tax liabilities in the United Kingdom and overseas in connection with the APS and the associated intra-group arrangements which would not otherwise have arisen. The Tax Loss Waiver provides that the Group will not be permitted to enter into arrangements which have a main purpose of reducing the net cost of the Tax Loss Waiver. It is unclear precisely how these restrictions will apply but it is possible that they may limit the operations and future post-tax profitability of the Group.

Participation in the APS may give rise to litigation and regulatory risk

In order to fulfil (or as a consequence of fulfilling) its disclosure obligations under the APS by disclosing certain information to HM Treasury (and, as a result of notices issued by it, the FSA), the Group may incur the risk of civil suits, criminal liability or regulatory actions. Adverse regulatory action or adverse judgments in litigation could have a significant effect on the Group's reputation or results of operations or result in a loss of value in the Securities. Alternatively, in order to avoid the risk of such civil suits or regulatory actions or to avoid the risk of criminal liability, the Group may choose to or be required to remove Covered Assets from the APS so as not to be required to disclose such information to HM Treasury, with the result that such assets will not be protected by the APS. The effect of the removal of such Covered Assets will impact the level of protection available to the Group and may materially reduce the protection anticipated by the Group for its stressed losses, in which case its business, results of operations and financial condition will suffer.

If the Group is unable to issue the Contingent B Shares to HM Treasury, it may have a material adverse impact on the Group's capital position, liquidity, operating results and future prospects

In the event that the Group's Core Tier 1 capital ratio declines to below 5 per cent., HM Treasury is committed to subscribe for up to an additional £8 billion of Contingent B Shares if certain conditions are met. If such conditions are not met and are not waived by HM Treasury, and RBSG is unable to issue the Contingent B Shares, the Group will be required to find alternative methods for achieving the requisite capital ratios. There can be no assurance that any of these alternative

methods will be available or would be successful in increasing the Group's capital ratios to the desired or requisite levels. If RBSG is unable to issue the Contingent B Shares, the Group's capital position, liquidity, operating results and future prospects will suffer, its credit ratings may drop, its ability to lend and access funding will be further limited and its cost of funding may increase. The occurrence of any or all of such events may cause the price of the Securities to decline.

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

Overview

RBSG is a public limited company incorporated in Scotland with registration number SC045551 and was incorporated under Scots law on 25 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 three principal subsidiaries, The Royal Bank of Scotland plc ("**RBS**"), National Westminster Bank plc ("**NatWest**") and The Royal Bank of Scotland N.V. ("**RBS N.V.**"). Both RBS and NatWest are major United Kingdom clearing banks. RBS N.V. is a bank regulated by the Dutch Central Bank. In the United States, the Group's subsidiary Citizens is a large commercial banking organisation. Globally, the Group has a diversified customer base and provides a wide range of products and services to personal, commercial and large corporate and institutional customers.

Acquisition and separation of ABN AMRO Holding N.V.

On 17 October 2007, RFS Holdings B.V., which at the time was owned by RBSG, Fortis N.V., Fortis S.A./N.V., Fortis Bank Nederland (Holding) N.V. and Banco Santander, S.A. ("**Santander**"), completed the acquisition of ABN AMRO Holding N.V., which was renamed RBS Holdings N.V. on 1 April 2010 when the shares in ABN AMRO Bank N.V. were transferred to ABN AMRO Group N.V., a holding company for the interests of the Dutch State. This marked the substantial completion of the restructuring of the activities of ABN AMRO Holding N.V. in accordance with the agreement between RBSG, the Dutch State and Santander (the "**Consortium Members**"). RBS Holdings N.V. has one direct subsidiary, RBS N.V., a fully operational bank within the Group, which is independently rated and regulated by the Dutch Central Bank.

On 31 December 2010, the share capital of RFS Holdings B.V. was amended, such that approximately 98 per cent. of RFS Holdings B.V.'s issued share capital is now held by RBSG, with the remainder being held by Santander and the Dutch State. Ultimately it is expected that RFS Holdings B.V. will become a wholly-owned subsidiary of RBSG.

Proposed transfers of a substantial part of the business activities of The Royal Bank of Scotland N.V. to The Royal Bank of Scotland plc

On 19 April 2011, the boards of RBSG, RBS, RBS Holdings N.V. and RBS N.V. approved the proposed transfers of a substantial part of the business activities of RBS N.V. to RBS (the "**Proposed Transfers**"), subject, among other matters, to regulatory and other approvals, further tax and other analysis in respect of the assets and liabilities to be transferred and employee consultation procedures. It is expected that the Proposed Transfers will be implemented on a phased basis over a period ending 31 December 2013. A large part of the Proposed Transfers (including the transfers of certain securities issued by RBS N.V.) is expected to have taken place by the end of 2012. For further information, see the press release entitled "Proposed transfers of a substantial part of the business activities of RBS N.V. to RBS plc" (excluding (i) the statement therein which reads "Certain unaudited pro forma condensed consolidated financial information relating to RBS Holdings N.V. is set out in the Appendix to this announcement" and (ii) the Appendix thereto) which was published by RBSG via the RNS on 19 April 2011 and which is incorporated by reference herein.

On 22 July 2011, RBS and RBS N.V. announced that they presented a petition to the Court of Session in Scotland (the "**Court**") on 21 July 2011 for an order under Part VII of the UK Financial Services and Markets Act 2000 to sanction a banking business transfer scheme in respect of eligible business carried on by RBS N.V. pursuant to Part VII of the UK Financial Services and

Markets Act 2000 (the “**Part VII Scheme**”). Subject to regulatory approval and provided the Court makes an order sanctioning the Part VII Scheme, it is expected that the Part VII Scheme will become effective on 17 October 2011 or such other date as RBS and RBS N.V. may agree in writing.

Assets, owners’ equity and capital ratios

The Group had total assets of £1,446.0 billion and owners’ equity of £74.7 billion as at 30 June 2011. As at 30 June 2011, the Group’s capital ratios were a total capital ratio of 14.4 per cent., a Core Tier 1 capital ratio of 11.1 per cent. and a Tier 1 capital ratio of 13.5 per cent.

Principal subsidiaries

RBSG’s directly owned principal subsidiaries are RBS and RBS Insurance Group Limited. In addition, RFS Holdings B.V. (the holding company of RBS Holdings N.V. and its subsidiary RBS N.V.) is approximately 98 per cent. owned, and is also controlled, by RBSG. Each of these companies is included in the consolidated financial statements of RBSG and has an accounting reference date of 31 December.

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

The principal subsidiaries of RBS 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 subsidiaries 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 31 December.

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

Large exposure regime

On 1 July 2011, RBS became subject to changes to the FSA’s large exposure regime. Under the changes to the large exposure regime, any company which is less than 100 per cent. owned by RBSG will be classified as a Connected Counterparty. RBS N.V., which is currently approximately 98 per cent. indirectly owned by RBSG, will therefore be classified as a Connected Counterparty, which will result in a breach by RBS of the amended rules under the FSA’s large exposure regime.

The Proposed Transfers announced on 19 April 2011 will also form the basis of a remediation plan which has been agreed with the FSA to enable RBS over time to become compliant with the changes to the large exposure regime.

The Group’s businesses

The Group’s activities are organised on a divisional basis as follows:

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 Retail launched the Retail Customer Charter in June 2010 and progress against the commitments made are formally reported as part of the year-end results.

UK Corporate is a leading 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 Transaction Services (“GTS”) ranks among the top five global transaction services providers, offering global payments, cash and liquidity management, and trade finance 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 business bank in Northern Ireland and the third-largest banking group on the island of Ireland. It provides a comprehensive range of financial services. The Retail Markets division, which has a network of 236 branches, operates in the personal and financial planning sectors. The 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 & Commercial 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.

The divisions discussed above are collectively referred to as Retail & Commercial.

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 organised along six principal business lines: money markets; rates flow trading; currencies and commodities; equities; credit and mortgage markets; and portfolio management & origination.

RBS Insurance provides a wide range of general insurance products to consumers through a number of well-known brands including: Direct Line; Churchill; and Privilege. It also provides insurance services for third-party brands, through its UKI Partnerships division. In the commercial sector, its NIG and Direct Line for Business operations provide insurance products for businesses via brokers or directly respectively. Through its international division, RBS Insurance sells general insurance, mainly motor, in Germany and Italy. In addition to insurance services, RBS Insurance continues to provide support and reinsurance to millions of UK motorists through its Green Flag breakdown recovery service and Tracker stolen vehicle recovery and telematics business.

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. The division contains a range of businesses and asset portfolios, primarily from the GBM division, 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. See “State Aid” below for further details on the sale of certain of the Group’s non-core assets and businesses.

Business Services 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. For reporting purposes, Business Services costs are allocated to the divisions above. It is not deemed a reportable segment.

State Aid

On 14 December 2009, the European Commission formally approved the Group's participation in the APS, the issuance of £25.5 billion of B Shares to HM Treasury, a contingent commitment by HM Treasury to subscribe for up to an additional £8 billion of B Shares and the State Aid restructuring plan.

To comply with State Aid approval, RBSG has agreed to undertake a series of measures to be implemented over a four-year period from December 2009, which include disposing of RBS Insurance, the Group's insurance division (subject to potentially maintaining a minority interest until the end of 2014). RBSG also agreed to divest GMS by the end of 2013, subject to RBSG retaining up to 20 per cent. of GMS if required by the purchaser, its interest in RBS Sempra Commodities and the RBS branch-based business in England and Wales and the NatWest branches in Scotland, along with the Direct SME customers and certain mid-corporate customers across the United Kingdom. In order to implement these restructurings, various businesses and divisions within the Group are being reorganised, transferred or sold, or potentially merged with other businesses and divisions within the Group.

Throughout 2010 and the first half of 2011, the Group made a number of announcements in relation to the sale of certain of its non-core assets and businesses in furtherance of the State Aid restructuring plan and, by the first quarter of 2011, the disposals of GMS and the RBS Sempra Commodities joint venture businesses had effectively been completed. These announcements included:

- On 1 July 2010, RBS Sempra Commodities, the Group's joint venture with Sempra Energy, completed the previously announced sale of its Metals, Oil and European Energy business lines to J.P. Morgan.
- On 4 August 2010, the Group announced that it has agreed to sell 318 branches in England and Wales and Scotland and associated assets and liabilities to Santander UK plc. The sale of the Group's RBS England & Wales and NatWest Scotland branch based business to Santander UK plc continues to make good progress. Due to the complex nature of the process required to separate the divesting branches and associated assets, and the desire to minimise customer disruption, the transaction is now expected to complete in the second half of 2012, subject to regulatory and other conditions.
- On 1 November 2010, RBS Sempra Commodities, the Group's joint venture with Sempra Energy, completed the sale of its Sempra Energy Solutions business to Noble Americas Gas & Power Corporation.
- On 30 November 2010, the Group completed the previously announced sale of a controlling 80.01 per cent. interest in GMS to a consortium of Advent International and Bain Capital. The Group retained a 19.99 per cent. shareholding in the new GMS group, to be

known as WorldPay, and the Group will continue to promote and refer the GMS product suite as a valuable part of its offering to customers.

- On 1 December 2010, the Group completed the previously announced sale by RBS Sempra Commodities, the Group's joint venture with Sempra Energy, of substantial assets of its commodities trading North American Power and Gas business lines to J.P. Morgan Ventures Energy Corporation. The Group continues to consider and execute various alternatives for the modest level of residual assets and liabilities of the RBS Sempra Commodities business, and announced on 11 January 2011 the sale of certain residual assets to Société Générale, including information technology and intellectual property assets, as well as exchange membership seats.

RBSG's major shareholder and the Asset Protection Scheme

The United Kingdom Government currently holds approximately 66 per cent. of the issued ordinary share capital of RBSG.

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.

On 22 December 2009, RBSG issued £25.5 billion of B Shares to HM Treasury. This increased HM Treasury's economic interest in RBSG to approximately 84 per cent. which was reduced to approximately 82 per cent. following completion of conversions of certain preference shares into Ordinary Shares on 31 March 2010 and 31 December 2010 and the issue of certain Ordinary Shares in satisfaction of awards granted under the Group's annual bonus deferral plan. The B Shares are convertible, at the option of the holder at any time, into Ordinary Shares. If the £8 billion Contingent B Shares were issued by RBSG to HM Treasury (which is subject to certain conditions being met), assuming no other dilutive issuances, HM Treasury's economic interest in RBSG would increase further to approximately 84 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 or the B Shares.

HM Treasury has agreed that it shall not exercise the 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. Furthermore, HM Treasury has agreed that it shall not be entitled to vote in respect of the B Shares or the Dividend Access Share held by it to the extent that votes cast on such shares, together with any other votes which HM Treasury is entitled to cast in respect of any other shares 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.

On 22 December 2009, the Group entered into the Asset Protection Scheme (the "**APS**") with HM Treasury acting on behalf of the UK Government. Under the APS, the Group purchased credit protection over a portfolio of specified assets and exposures ("**Covered Assets**") from HM Treasury. The portfolio of Covered Assets had a par value at 31 December 2008 of approximately £282 billion (this was subsequently revised to £286 billion following the restatement of certain structured finance assets) and the protection is subject to a first loss of £60 billion and covers 90

per cent. of subsequent losses net of recoveries. Once through the first loss, when a Covered Asset has experienced a trigger event, losses and recoveries in respect of that asset are included in the balance receivable under the APS. Receipts from HM Treasury will, over time, amount to 90 per cent. of cumulative losses (net of cumulative recoveries) on the portfolio of Covered Assets less the first loss amount.

The Group has the right to terminate the APS at any time provided that the FSA has confirmed in writing to HM Treasury that it has no objection. On termination, the Group is liable to pay HM Treasury a termination fee. The termination fee comprises the difference between £2.5 billion (or, if higher, a sum related to the economic benefit of regulatory capital relief obtained from the APS) and the aggregate fees paid. In addition, the Group would have to repay any amounts received from HM Treasury under the terms of the APS. In consideration for the protection provided by the APS, the Group paid an initial premium of £1.4 billion on 31 December 2009. A further premium of £700 million was paid on 31 December 2010. Quarterly premiums of £125 million are payable from 31 December 2011 and subsequently until the earlier of 31 December 2099 and the termination of the agreement.

Losses are recognised when a Covered Asset has experienced a trigger event which generally for assets within RBS's GBM Division (with the exception of the structured credit portfolio) and the Corporate and Commercial business within the Corporate Banking Division, are based (depending on the type of asset) on impairments, write-offs or classification as a defaulted asset in accordance with the Prudential sourcebook for Banks, Building Societies and Investment Firms ("**BIPRU**"). For assets not within these divisions, trigger events comprise failure to pay subject to grace periods, bankruptcy and restructuring.

APS assets are spread across the Group's main divisions. High volume commercial and retail exposures were selected on a portfolio basis where assets were high risk and in arrears at 31 December 2008. Large corporate and GBM exposures were selected at the counterparty/asset level based on individual risk reviews and defaulted assets in the workout/restructuring unit.

HM Treasury has the right to appoint step-in managers to carry out any oversight, management or additional functions on behalf of HM Treasury to ensure that the Covered Assets are managed and administered in compliance with the agreed terms and conditions. This right is exercisable if certain step-in triggers occur. These include:

- losses on Covered Assets comprising or forming part of a particular Covered Asset class exceed specified thresholds;
- a breach of specified obligations in the APS rules or the accession agreement;
- the Group has failed or is failing to comply with any of the conditions in the APS rules in relation to asset management, monitoring and reporting, and governance and oversight, and such failure is persistent and material or it is evidence of a systematic problem; and
- material or systematic data deficiencies in the information provided to HM Treasury in accordance with the terms of the APS.

HM Treasury may, at any time, elect to cease to exercise its step-in rights in whole or part when it is satisfied that the step-in triggers have been remedied.

For further details of the APS, see the section of the 2010 Annual Report and Accounts of RBSG headed "Business Review – Risk and balance sheet management – Asset Protection Scheme" which is incorporated by reference herein. For further details of the issuance of the £25.5 billion of B Shares and the Dividend Access Share and the £8 billion Contingent B Shares, see "Appendix 3 to the Letter From the Chairman of RBS – Principal Terms of Issue of the B Shares and the

Dividend Access Share” on pages 76 to 84 of the Shareholder Circular and “Annex 1 – Terms of Issue of the B Shares and the Dividend Access Share” on pages 134 to 170 of the Shareholder Circular, each of which is incorporated by reference herein.

Relationship with RBSG’s 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. The relationship between HM Treasury and UKFI, and between UKFI and Government investee banks is set out in the UKFI Framework Document and UKFI Investment Mandate, agreed between HM Treasury and UKFI.

The UKFI Framework Document sets out UKFI’s overarching objective, to “develop and execute an investment strategy for disposing of the investments 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 states that UKFI will operate “on a commercial basis and at arm’s length from Government” and 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”. HM Treasury expects UKFI to act in the same way as any other engaged institutional shareholder would. The UKFI Investment Mandate states that it will “follow best institutional shareholder practice. This includes compliance with the Institutional Shareholders’ Committee’s Statement of Principles together with any developments to best institutional shareholder practice arising from recommendations or guidance contained in the Walker Review or elsewhere”.

In connection with its accession to the APS, the Group agreed with HM Treasury that it will be at the leading edge of implementing the G-20 principles and to consult with UKFI in connection with the Group’s remuneration policy and the Group made a commitment to HM Treasury to comply with the FSA Remuneration Code which came into force on 1 January 2010. On 1 January 2011, a revised FSA Remuneration Code came into effect to implement the requirements of the Capital Requirements Directive III and the Group is fully compliant with the revised FSA Remuneration Code. In addition, as a result of its accession to the APS, the Group has also reached agreement with HM Treasury in relation to remuneration arrangements for certain employees involved in the APS, including approval rights for the Asset Protection Agency on related performance targets. Separate to the shareholding relationship, RBSG has a number of relationships with the United Kingdom Government arising out of the Government’s provision of support.

Certain other considerations 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 any proposed offer or sale of its interests may affect the price of the Securities” and “The Group could fail to attract or retain senior management, which may include members of the Board, or other key employees, and it may suffer if it does not maintain good employee relations”. Other than in relation to these areas, however, UKFI’s governance documents state that the United Kingdom Government’s intention is to allow the financial institutions in which it holds an interest to operate their business independently. No member of the Board represents or acts on the instructions of UKFI or HM Treasury. There is no further arrangement with UKFI in this regard, beyond usual shareholder rights, and no such arrangements with any other shareholder.

As a result of the United Kingdom Government’s holding, the United Kingdom Government and United Kingdom Government-controlled bodies became related parties of the Group. In the normal

course of business, the Group enters into transactions with many of these bodies on an arm's length basis.

The Group is not a party to any transaction with the United Kingdom Government or any United Kingdom Government-controlled body involving goods or services which is material to the Group, or any such transaction that is unusual in its nature or conditions. To the Group's knowledge, the Group is not a party to any transaction with the United Kingdom Government or any United Kingdom Government-controlled body involving goods or services which is material to the United Kingdom Government or any United Kingdom Government-controlled body. However, given the nature and extent of the United Kingdom Government-controlled bodies, the Group may not know whether a transaction is material for such a party.

Any outstanding loans made by the Group to or for the benefit of the United Kingdom Government or any United Kingdom Government-controlled body, were made on an arm's length basis and (A) such loans were made in the ordinary course of business, (B) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and (C) did not involve more than the normal risk of collectability or present other unfavourable features. The Group notes, however, that with respect to outstanding loans made by the Group to or for the benefit of the United Kingdom Government or any United Kingdom Government-controlled body, there may not exist any comparable transactions with other persons.

Gender equality in insurance contracts

On 1 March 2011, the European Court of Justice ("ECJ") upheld a ruling that insurers are no longer allowed to use gender as a rating factor across the insurance industry. This will have a significant impact on the insurance industry in calculating premiums and determining benefits. The Group is currently working through the findings, and any consequences arising will be rectified by December 2012 in line with the ruling from the ECJ. At this stage, it is not possible to estimate the impact which the ECJ's ruling may have on the Group's businesses, financial position or profitability.

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.

Other than as set out in the sections entitled "Litigation" and "Investigations" on pages 33 to 43 (excluding the sub-heading "Summary of other disputes, legal proceedings and litigation"), neither RBSG nor any member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which RBSG is aware) during the 12 months prior to the date of this Registration Document, which may have, or have had in the recent past, significant effects on the financial position or profitability of RBSG and/or the Group taken as a whole.

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.

Shareholder litigation

RBSG and certain of its subsidiaries, together with certain current and former individual officers and directors have been named as defendants in class actions filed in the United States District Court for the Southern District of New York. There are parallel proceedings involving holders of RBS preferred shares (the “**Preferred Shares Litigation**”) and holders of American Depositary Receipts (the “**ADR Claims**”).

In the Preferred Shares Litigation, the consolidated amended complaint alleges certain false and misleading statements and omissions in public filings and other communications during the period 1 March 2007 to 19 January 2009, and variously asserts claims under Sections 11, 12 and 15 of the US Securities Act of 1933, as amended.

The putative class is composed of all persons who purchased or otherwise acquired Group Series Q, R, S, T and/or U non-cumulative dollar preference shares issued pursuant or traceable to the 8 April 2005 US Securities and Exchange Commission (the “**SEC**”) registration statement and were damaged thereby. Plaintiffs seek unquantified damages on behalf of the putative class. The defendants have moved to dismiss the complaint. Briefing on this motion is expected to be completed by September 2011.

With respect to the ADR Claims, a complaint was filed in January 2011 and a further complaint was filed in February 2011 asserting claims under Sections 10 and 20 of the US Securities Exchange Act of 1934, as amended, on behalf of all persons who purchased or otherwise acquired Group US American Depositary Receipts between 1 March 2007 and 19 January 2009. There is a motion pending to consolidate these cases as well as various motions for appointment of lead plaintiff and counsel.

The Group has also received notification of similar prospective claims in the United Kingdom and elsewhere but no court proceedings have been commenced in relation to these claims.

The Group considers that it has substantial and credible legal and factual defences to the remaining and prospective claims and will defend them vigorously. The Group cannot predict the outcome of these claims at this stage and is unable to reliably 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.

Other securitisation and securities related litigation in the United States

Group companies have been named as defendants in their various roles as issuer, depositor and/or underwriter in a number of claims in the United States that relate to the securitisation and securities underwriting businesses. These cases include purported class action suits and actions by individual purchasers of securities. The cases involve the issuance of mortgage-backed securities and/or collateralised debt obligations for more than US\$35 billion of securities issued by over 100 securitisation trusts. Although the allegations vary by claim, in general, plaintiffs in these actions claim that certain disclosures made in connection with the relevant offerings of such securities contained materially false or misleading statements and/or omissions regarding the underwriting standards pursuant to which the mortgage loans underlying the securities were issued.

In many of these actions, the Group has contractual rights to indemnification from the issuers of the securities (where a Group company is underwriter) and/or the underlying mortgage originator (where a Group company is issuer), but certain of those indemnity rights may prove effectively unenforceable where the issuers or originators are defunct or otherwise unable to perform.

Certain other institutional investors have threatened to assert claims against the Group in connection with various mortgage-related offerings. The Group cannot predict with any certainty whether any of these individual investors will pursue these threatened claims.

With respect to all of the mortgage-backed securities related claims, 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 cannot predict the outcome of these claims at this stage and is unable reliably to estimate the liability, if any, that may arise, or its effect on the Group's consolidated net assets, operating results or cash flows in any particular period.

Madoff

In December 2010, Irving Picard, as trustee for the bankruptcy estates of Bernard L. Madoff and Bernard L. Madoff Investment Securities LLC filed a claim against RBS N.V. for US\$270 million. This is a clawback action similar to claims filed against six other institutions in December 2010. RBS N.V. (or its subsidiaries) invested in Madoff funds through feeder funds. The Trustee alleges that RBS N.V. received US\$71 million in redemptions from the feeder funds and US\$200 million from its swap counterparties while RBS N.V. "knew or should have known of Madoff's possible fraud". The Trustee alleges that those transfers were preferences or fraudulent conveyances under the United States bankruptcy code and New York law and he asserts the purported right to claw them back for the benefit of Madoff's estate. The Group considers that it has substantial and credible legal and factual defences to the claim and intends to defend it vigorously. The Group cannot predict the outcome of the claim at this stage and is unable reliably to estimate the liability, if any, that may arise, or its effect on the Group's consolidated net assets, operating results or cash flows in any particular period.

Unarranged overdraft charges

In the United States, Citizens, in common with other United States banks, has been named as a defendant in a class action asserting that Citizens charges excessive overdraft fees. The plaintiffs claim that overdraft fees resulting from point of sale and automated teller machine ("ATM") transactions violate the duty of good faith implied in Citizens' customer account agreement and constitute an unfair trade practice. The Group considers that it has substantial and credible legal and factual defences to these claims and will defend them vigorously. The Group cannot predict the outcome of these claims at this stage and 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.

London Interbank Offered Rate (LIBOR)

Certain members of the Group have been named as defendants in a number of class action claims filed in the US with respect to the setting of US dollar LIBOR. The complaints are substantially similar and allege, through various means, that certain members of the Group and other panel banks individually and collectively violated US commodities and antitrust laws and state common law by manipulating US dollar LIBOR and prices of US dollar LIBOR-based derivatives in various markets. The Group considers that it has substantial and credible legal and factual defences to these and prospective claims. The Group cannot predict the outcome of these claims at this stage and 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 any of these other claims and proceedings will have a significant effect on the Group's consolidated net assets, operating results or cash flows in any particular period.

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 regarding operational, systems and control evaluations and issues, including those related to compliance with applicable anti-bribery, anti-money laundering and sanctions regimes. It is possible that any matters discussed or identified may result in investigatory or other action being taken by the regulators, increased costs being incurred by the Group, remediation of systems and controls, public or private censure, restriction of the Group's business activities or fines. Any of these events or circumstances could have a significant effect on the Group, its business, authorisations and licences, reputation, results of operations or the price of securities issued by it.

Political and regulatory scrutiny of the operation of retail banking and consumer credit industries in the United Kingdom and elsewhere continues. 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 a significant effect on the Group's consolidated net assets, operating results or cash flows in any particular period.

Retail banking

In the European Union, regulatory actions included an inquiry into retail banking initiated on 13 June 2005 in all of the then 25 member states by the European Commission's Directorate General for Competition. The inquiry examined retail banking in Europe generally. On 31 January 2007, the European Commission ("EC") announced that barriers to competition in certain areas of retail banking, payment cards and payment systems in the European Union had been identified. The EC 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 addition, in late 2010, the EC launched an initiative pressing for increased transparency of bank fees. The Group cannot predict the outcome of these actions at this stage and is unable reliably to estimate the effect, if any, that these may have on the Group's consolidated net assets, operating results or cash flows in any particular period.

Multilateral interchange fees

In 2007, the EC issued a decision that while interchange is not illegal per se, MasterCard's current multilateral interchange fee ("MIF") arrangements 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 MIF (i.e. set these fees to zero) by 21 June 2008.

MasterCard appealed against the decision to the European Court of First Instance (subsequently re-named the General Court) on 1 March 2008, and the Group has intervened in the appeal proceedings. In addition, in summer 2008, MasterCard announced various changes to its scheme arrangements. The EC was concerned that these changes might be used as a means of circumventing the requirements of the infringement decision. In April 2009, MasterCard agreed an interim settlement on the level of cross-border MIF with the EC pending the outcome of the appeal

process and, as a result, the EC has advised it will no longer investigate the non-compliance issue (although MasterCard is continuing with its appeal). The appeal was heard on 8 July 2011 by the General Court and judgment is awaited.

Visa's cross-border MIFs were exempted in 2002 by the EC for a period of five years up to 31 December 2007 subject to certain conditions. On 26 March 2008, the EC 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 6 April 2009 the EC announced that it had issued Visa with a formal Statement of Objections. At the same time Visa announced changes to its interchange levels and introduced some changes to enhance transparency. There is no deadline for the closure of the inquiry. However on 26 April 2010 Visa announced it had reached an agreement with the EC as regards immediate cross border debit card MIF rates only and in December 2010 the commitments were finalised for a four year period commencing December 2010 under Article 9 of Regulation 1/2003. The EC is continuing its investigations into Visa's cross border MIF arrangements for deferred debit and credit transactions.

In the United Kingdom, the Office of Fair Trading ("**OFT**") has carried out investigations into Visa and MasterCard domestic credit card interchange rates. The decision by the OFT in the MasterCard interchange case was set aside by the Competition Appeal Tribunal (the "**CAT**") in June 2006. The OFT's investigations in the Visa interchange case and a second MasterCard interchange case are ongoing. On 9 February 2007, the OFT announced that it was expanding its investigation into domestic interchange rates to include debit cards. In January 2010 the OFT advised that it did not anticipate issuing a Statement of Objections prior to the European General Court's judgment, although it has reserved the right to do so if it considers it appropriate.

The outcome of these investigations is not known, but they may have a significant effect on the consumer credit industry in general and, therefore, on the Group's business in this sector. Accordingly, the Group is unable reliably to estimate the effect, if any, which these investigations may have on the Group's consolidated net assets, operating results or cash flows in any particular period.

Payment Protection Insurance

Having conducted a market study relating to Payment Protection Insurance ("**PPI**"), on 7 February 2007 the OFT referred the PPI market to the Competition Commission ("**CC**") for an in-depth inquiry. The CC published its final report on 29 January 2009 and announced its intention to 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 Bank PLC subsequently appealed certain CC findings to the CAT. On 16 October 2009, the CAT handed down a judgment remitting the matter back to the CC for review. Following further review, on 14 October 2010, the CC published its final decision on remedies following the remittal which confirmed the point of sale prohibition. On 24 March 2011, the CC made a final order with a commencement date of 6 April 2011. The key measures will come into force in October 2011 and April 2012.

The FSA conducted a broad industry thematic review of PPI sales practices and in September 2008, the FSA announced that it intended 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.

Following unsuccessful negotiations with the industry, the FSA issued consultation papers on PPI complaint handling and redress in September 2009 and again in March 2010. The FSA published its final policy statement on 10 August 2010 and instructed firms to implement the measures contained in it by 1 December 2010. The new rules impose significant changes with respect to the handling of mis-selling PPI complaints. On 8 October 2010, the British Bankers' Association (the "BBA") filed an application for judicial review of the FSA's policy statement and of related guidance issued by the FOS. The application was heard in January 2011. On 20 April 2011, the High Court issued judgment in favour of the FSA and the FOS. The BBA announced on 9 May 2011 that it would not appeal that judgment. The Group supports this position. The Group has recorded an additional provision of £850 million in the second quarter of 2011, supplementing its existing provision of approximately £100 million.

The Group has now reached agreement with the FSA on a process for implementation of the FSA's policy statement and for the future handling of PPI complaints to ensure that redress is offered to any customers identified as having suffered detriment.

Personal current accounts

On 16 July 2008, the OFT published the results of its market study into Personal Current Accounts ("PCAs") in the United Kingdom. The OFT found evidence of competition and several positive features in the personal current account market but believed that the market as a whole was not working well for consumers and that the ability of the market to function well had become distorted.

On 7 October 2009, the OFT published a follow-up 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 (formerly Bankers' Automated Clearing Services), the payment processor, including measures to reduce the impact on consumers of any problems with transferring direct debits.

On 22 December 2009, the OFT published a further report in which it stated that it continued to have significant concerns about the operation of the personal current account market in the United Kingdom, in particular in relation to unarranged overdrafts, and that it believed that fundamental changes are required for the market to work in the best interests of bank customers. The OFT stated that it would discuss these issues intensively with banks, consumer groups and other organisations, with the aim of reporting on progress by the end of March 2010. On 16 March 2010, the OFT announced that it had secured agreement from the banks on four industry-wide initiatives, namely minimum standards on the operation of opt-outs from unarranged overdrafts, new working groups on information sharing with customers, best practice for PCA customers in financial difficulties and incurring charges, and PCA providers to publish their policies on dealing with PCA customers in financial difficulties. The OFT also announced its plan to conduct six-monthly ongoing reviews, fully to review the market again in 2012 and to undertake a brief analysis on barriers to entry.

The first six-monthly ongoing review was completed in September 2010. The OFT noted progress in the areas of switching, transparency and unarranged overdrafts for the period March to September 2010, as well as highlighting further changes the OFT expects to see in the market. On 29 March 2011, the OFT published its update report in relation to personal current accounts. This noted further progress in improving consumer control over the use of unarranged overdrafts. In particular, the Lending Standards Board has led on producing standards and guidance to be included in a revised Lending Code published on 31 March 2011. The OFT will continue to monitor

the market and will consider the need for, and appropriate timing of, further update reports in light of other developments, in particular the work of the Independent Commission on Banking. The OFT intends to conduct a more comprehensive review of the market in 2012.

On 26 May 2010, the OFT announced its review of barriers to entry. The review concerns retail banking for individuals and small and medium size enterprises (up to £25 million turnover) and will look at products which require a banking licence to sell mortgages, loan products and, where appropriate, other products such as insurance or credit cards where cross-selling may facilitate entry or expansion. The OFT published its report in November 2010. It advised that it expected its review to be relevant to the Independent Commission on Banking, the FSA, HM Treasury and the Department for Business, Innovation and Skills and to the devolved governments in the United Kingdom. The OFT has not indicated whether it will undertake any further work. The report maintained that barriers to entry remain, in particular regarding switching, branch networks and brands.

At this stage, it is not possible to estimate the effect of the OFT's report and recommendations regarding barriers to entry upon the Group.

Equity underwriting

On 6 August 2010, the OFT launched a market study into equity underwriting and related services. The OFT looked at the way that the market works and in particular: (i) how underwriting services are purchased; (ii) how underwriting services are provided; and (iii) how the regulatory environment affects the provision of underwriting services. On 27 January 2011 the OFT published its market study report. The OFT decided not to refer the market to the CC (this decision was confirmed on 17 May 2011 following a public consultation) but identified certain concerns around the level of equity underwriting fees. The OFT therefore identified a number of options which would enable companies and institutional shareholders to address these concerns and allow them to drive greater competition in the market. It is not possible to estimate with any certainty what effect this development and any related developments may have on the Group's consolidated net assets, operating results or cash flows in any particular period.

Independent Commission on Banking

On 16 June 2010, HM Treasury published the terms of reference for the Government's Independent Commission on Banking ("**ICB**"). The ICB is considering the structure of the United Kingdom banking sector and is looking at structural and non-structural measures to reform the banking system and to promote competition. It is mandated to formulate policy recommendations with a view to: (i) reducing systemic risk in the banking sector, exploring the risk posed by banks of different size, scale and function; (ii) mitigating moral hazard in the banking system; (iii) reducing the likelihood and impact of a bank's failure; and (iv) promoting competition in retail and investment banking with a view to ensuring that the needs of banks' customers are served efficiently and considering the extent to which large banks can gain competitive advantage from being perceived as "too big to fail". The ICB reports to the Cabinet Committee on Banking Reform and will issue a final report on 12 September 2011. The interim report published on 11 April 2011 (the "**Interim Report**") sets out the ICB's provisional views on possible reforms and sought responses to those views. Reform options for stability include additional capital and the ring-fencing of retail banking operations (on a basis yet to be defined). Reform options for competition include structural measures to improve competition, improved means of switching and transparency and a primary duty for the Financial Conduct Authority to promote effective competition. The Interim Report also supported the introduction of rules as to contingent capital, bail-in debt and depositor preferences. The Group has responded to the Interim Report and set out its views on the reform options outlined in that report. The Group will continue to participate in the debate and to consult with the

ICB during the coming weeks and with the UK Government thereafter. Prior to the publication of a final report by the ICB, it is not possible to estimate the effect of the ICB's report and recommendations upon the Group, but they could have a negative impact on its consolidated net assets, operating results or cash flows in any particular period.

US dollar clearing activities

In May 2010, following a criminal investigation by the United States Department of Justice (the "DoJ") into its dollar clearing activities, Office of Foreign Assets Control compliance procedures and other US Bank Secrecy Act compliance matters, RBS N.V. formally entered into a Deferred Prosecution Agreement ("DPA") with the DoJ resolving the investigation. The investigation was in relation to activities before the Consortium Members acquired ABN AMRO Holding N.V. (now known as RBS Holdings N.V.). The agreement was signed by RBS N.V. and is binding on that entity and its subsidiaries. Pursuant to the DPA, RBS N.V. paid a penalty of US\$500 million and agreed that it will comply with the terms of the DPA and continue to co-operate fully with any further investigations. Payment of the penalty was made from a provision established in April 2007 when an agreement in principle to settle was first announced. At the joint request of the DoJ and RBS N.V. in order to allow RBS N.V. sufficient time to fulfil its obligations, the US District Court, on 6 April 2011, extended the duration of the DPA until 31 December 2011. Upon satisfaction of the conditions of the DPA within that period, the matter will be fully resolved. Failure to comply with the terms of the DPA during this period could result in the DoJ recommencing its investigations, the outcome of which would be uncertain and could result in public censure and fines or have an adverse effect on RBS Holdings N.V.'s operations, any of which could have a material adverse effect on its consolidated net assets, operating results or cash flows in any particular period.

Securitisation and collateralised debt obligation business

In September and October 2010, the SEC requested voluntary production of information concerning residential mortgage-backed securities underwritten by subsidiaries of RBSG during the period from September 2006 to July 2007 inclusive. In November 2010, the SEC commenced formal proceedings and requested testimony from Group employees. The investigation is in its preliminary stages and it is difficult to predict any potential exposure that may result.

Also, in October 2010, the SEC commenced an inquiry into document deficiencies and repurchase requests with respect to certain securitisations, and in January 2011, this was converted to a formal investigation. Among other matters, the investigation seeks information related to document deficiencies and remedial measures taken with respect to such deficiencies. The investigation also seeks information related to early payment defaults and loan repurchase requests. The Group is fully co-operating with this investigation.

In June 2009, in connection with an investigation into the role of investment banks in the origination and securitisation of sub-prime loans in Massachusetts, the Massachusetts Attorney General issued subpoenas to various banks, including an RBSG subsidiary, seeking information related to residential mortgage lending practices and sales and securitisation of residential mortgage loans. This investigation is ongoing and the Group is co-operating.

Previously, in 2008, the New York State Attorney General issued subpoenas to a wide array of participants in the securitisation and securities industry, focusing on the information underwriters obtained as part of the due diligence process from the independent due diligence firms. The Group completed its production of documents requested by the New York State Attorney General in 2009, principally producing documents related to loans that were pooled into one securitisation transaction. In May 2011, at the New York State Attorney General's request, representatives of the

Group attended an informal meeting to provide additional information about the Group's mortgage securitisation business. The investigation is ongoing and the Group is co-operating. It is difficult to predict the potential exposure from this investigation.

In September 2010, RBSG subsidiaries received a request from the Nevada State Attorney General requesting information related to securitisations of mortgages issued by three specific originators. The investigation by the Nevada State Attorney General is in the early stages and therefore it is difficult to predict the potential exposure from any such investigation. RBSG and its subsidiaries are co-operating with these various investigations and requests.

At this stage it is not possible to estimate the effect of the matters discussed in this section headed "Securitisation and collateralised debt obligation business" upon the Group, if any.

US mortgages

The Group's Global Banking & Markets N.A. ("**GBM N.A.**") has been a purchaser of non-agency US residential mortgages in the secondary market and an issuer and underwriter of non-agency residential mortgage-backed securities ("**RMBS**"). GBM N.A. did not originate or service any US residential mortgages and it was not a significant seller of mortgage loans to government sponsored enterprises ("**GSEs**") (e.g. the Federal National Mortgage Association and the Federal Home Loan Mortgage Association).

In issuing RMBS, GBM N.A. generally assigned certain representations and warranties regarding the characteristics of the underlying loans made by the originator of the residential mortgages; however, in some circumstances, GBM N.A. made such representations and warranties itself. Where GBM N.A. has given those or other representations and warranties (whether relating to underlying loans or otherwise), GBM N.A. may be contractually required to repurchase such loans or indemnify certain parties against losses for certain breaches of such representations and warranties. In certain instances where it is required to repurchase loans or related securities, GBM N.A. may be able to assert claims against third parties who provided representations or warranties to GBM N.A. when selling loans to it; although the ability to make recoveries against such parties and outcome of such claims would be uncertain. During the two and a half year period ended 30 June 2011, GBM N.A. has received approximately US\$48 million in repurchase demands in respect of loans made and related securities sold where obligations in respect of contractual representations or warranties were undertaken by GBM N.A. However, repurchase demands presented to GBM N.A. are subject to challenge and, to date, GBM N.A. has rebutted a significant percentage of these claims.

Citizens has not been an issuer or underwriter of non-agency RMBS. However, Citizens is an originator and servicer of residential mortgages and it routinely sells such mortgage loans in the secondary market and to GSEs. In the context of such sales, Citizens makes certain representations and warranties regarding the characteristics of the underlying loans and, as a result, may be contractually required to repurchase such loans or indemnify certain parties against losses for certain breaches of the representations and warranties concerning the underlying loans. During the two and a half year period ended 30 June 2011, Citizens has received approximately US\$28.7 million in repurchase demands in respect of loans originated. However, repurchase demands presented to Citizens are subject to challenge and, to date, Citizens has rebutted a significant percentage of these claims.

Although there has been disruption in the ability of certain financial institutions operating in the United States to complete foreclosure proceedings in respect of US mortgage loans in a timely manner (or at all) over the last year (including as a result of interventions by certain states and

local governments), to date, Citizens has not been materially impacted by such disruptions and the Group has not ceased making foreclosures.

The Group cannot estimate what the future level of repurchase demands or ultimate exposure of GBM N.A. or Citizens may be and cannot give any assurance that the historical experience will continue in the future. Furthermore, the Group is unable to estimate the extent to which the matters described above will impact it and future developments may have an adverse impact on the Group's consolidated net assets, operating results or cash flows in any particular period.

LIBOR

The Group has received requests from various regulators, including the US Commodity Futures Trading Commission, the US Department of Justice and the European Commission, seeking documents and communications related to the process and procedures for setting LIBOR and other interest rates, together with related trading information. The Group is co-operating with these investigations and is keeping relevant regulators informed. It is not possible to estimate with any certainty what effect these investigations and any related developments may have on the Group.

Other investigations

The Federal Reserve and state banking supervisors have been reviewing the Group's US operations and RBSG and its subsidiaries have been required to make improvements with respect to various matters, including enterprise-wide governance, US Bank Secrecy Act and anti-money laundering compliance, risk management and asset quality. The Group is in the process of implementing measures for matters identified to date. The Group may become subject to formal and informal supervisory actions and may be required by its US banking supervisors to take further actions and implement additional remedial measures with respect to these and additional matters. Any limitations or conditions placed on the Group's activities in the United States, as well as the terms of any supervisory action applicable to RBSG and its subsidiaries, could have a material adverse effect on the Group's consolidated net assets, operating results or cash flows in any particular period.

On 27 July 2011, the Group consented to the issuance of a Cease and Desist Order (the "**Order**") setting forth measures required to address deficiencies related to governance, risk management and compliance systems and controls identified by the Federal Reserve and state banking supervisors during examinations of RBS and RBS N.V. branches in the United States in 2010. The Order requires the Group to strengthen its US corporate governance structure, to develop an enterprise-wide risk management programme, and to develop and enhance its programmes to ensure compliance with US law, particularly the US Bank Secrecy Act and anti-money laundering laws, rules and regulations. The Group has established a strategic and remedial programme of change to address the identified concerns and is committed to working closely with the US bank regulators to implement the remedial measures required by the Order.

The Group's operations include businesses outside the United States that are responsible for processing US dollar payments. The Group is conducting a review of its policies, procedures and practices in respect of such payments and has initiated discussions with UK and US authorities to discuss its historical compliance with applicable laws and regulations, including US economic sanctions regulations. Although the Group cannot currently determine when the review of its operations will be completed or what the outcome of its discussions with UK and US authorities will be, the investigation costs, remediation required or liability incurred could have a material adverse impact on the Group's business, results of operations or value of the Securities.

In April 2009, the FSA notified the Group that it was commencing a supervisory review of the acquisition of ABN AMRO Holding N.V. in 2007 and the 2008 capital raisings and an investigation

into conduct, systems and controls within the Global Banking & Markets division of the Group. RBSG and its subsidiaries co-operated fully with this review and investigation. On 2 December 2010, the FSA confirmed that it had completed its investigation and had concluded that no enforcement action, either against the Group or against individuals, was warranted. The Group is engaging constructively with the FSA with regard to the publication of a report by the FSA relating to the supervisory review, subject to any necessary commercial constraints.

In July 2010, the FSA notified the Group that it was commencing an investigation into the sale by Coutts & Co of the ALICO (American Life Insurance Company) Premier Access Bond Enhanced Variable Rate Fund to customers between 2001 and 2008 as well as its subsequent review of those sales. On 11 January 2011, the FSA amended the date range on which their investigation is focused and the investigation start date is now December 2003. RBSG and its subsidiaries are co-operating fully with this investigation.

In the United States, RBSG and certain subsidiaries have received requests for information from various 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 SEC 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. In December 2010, the SEC contacted the Group and indicated that it would also examine valuations of various RBS N.V. structured products, including collateralised debt obligations.

At this stage, it is not possible to estimate the effect of the matters discussed in this section headed "Other investigations" upon the Group, if any.

DIRECTORS AND CORPORATE GOVERNANCE

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

<i>Name</i>	<i>Functions within the Group</i>	<i>Principal outside activity (if any) of significance to the Group</i>
Chairman		
Sir Philip Hampton	Chairman	Formerly the chairman of J. Sainsbury plc, group finance director of Lloyds TSB Group plc, BT Group plc, BG Group plc, British Gas plc and British Steel plc, an executive director of Lazard's 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.
Bruce Van Saun	Group Finance Director	Formerly vice chairman and chief financial officer of Bank of New York Mellon. Since 2008, he has worked as an adviser to US private equity companies. He previously held senior positions with Deutsche Bank, Wasserstein Perella Group and Kidder Peabody & Co.

Non-Executive Directors

Sir Sandy Crombie	Senior Independent Director	Former director of the Association of British Insurers. Formerly group chief executive of Standard Life plc and chief executive of Standard Life Investments Limited.
Alison Davis	—	Currently serves on the boards of City National Bank and Unisys Corporation and is a former director of First Data Corporation. Previously chaired the board of LECG Corporation. Former chief financial officer of Barclays Global Investors (now Blackrock) and managing partner of Belvedere Capital.
Tony Di Iorio**	—	Former chief financial officer of the Investment Bank of NationsBank (now Bank of America) and former chairman and chief executive of Pain Webber International. Former chief financial officer and member of the management board of Deutsche Bank and senior adviser to Ernst & Young.
Penny Hughes	—	Currently a non-executive director of Home Retail Group plc and Cable & Wireless Worldwide PLC and formerly a non-executive director of Gap Inc, Vodafone PLC and Reuters PLC. Currently chairperson of the Remuneration Committee of Home Retail Group and the Cable & Wireless Worldwide PLC Audit Committee. Former director and chairman of the Remuneration Committee of Skandinaviska Enskilda Banken AB. Former President of Coca-Cola Great Britain and Ireland. Currently a director of Wm Morrisons Supermarkets PLC.

Joe MacHale	—	<p>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. Currently chairman of Prytania Holdings LLP.</p>
John McFarlane*	—	<p>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.</p>
Brendan Nelson	—	<p>Formerly held various positions within KPMG, including global chairman, banking and global chairman, financial services. He is a board member of the Financial Services Skills Council and a director of BP plc. He was previously the chairman of the Audit Committee of the Institute of Chartered Accountants of Scotland.</p>
Baroness Noakes	—	<p>Currently serves on the boards of Severn Trent plc and Carpetright plc and is a trustee of the Thomson Reuters Founders Share Company Ltd. Formerly held non-executive roles on the Court of the Bank of England and at Hanson, ICI, John Laing and SThree. Former partner at KPMG. In 2000, she was appointed to the House of Lords and served on the Conservative front bench in various roles, including as Shadow Treasury Minister between 2003 and 2010.</p>
Arthur “Art” Ryan	—	<p>Former chairman, chief executive officer and president of Prudential Financial Inc.</p>

		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	—	Formerly group finance director of Aviva plc and 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

Aileen Taylor	Group Secretary	—
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* The Group has announced that John McFarlane will step down as a Non-Executive Director by 31 March 2012.

** The Group has announced that Tony Di Iorio's appointment will take effect from 1 September 2011.

There are no potential conflicts of interest between any duties to RBSG of the directors of RBSG and their private interests and/or other duties.

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

Membership

The current members of the Audit Committee are Brendan Nelson, who assumed the role of Chairman of the Audit Committee on 28 April 2010 following the retirement of Archie Hunter, Baroness Noakes and Philip Scott. Tony Di Iorio will become a member of the Audit Committee with effect from 1 September 2011. Joe MacHale stood down from the Audit Committee with effect from 30 April 2010 and is now a member of the Group's Board Risk Committee and Asset Protection Scheme (APS) Senior Oversight Committee.

All members of the Audit Committee are independent, non-executive directors. Philip Scott served throughout 2010, and Brendan Nelson and Baroness Noakes became members of the Audit Committee with effect from 1 April 2010 and 1 August 2011, respectively. Tony Di Iorio will become a member of the Audit Committee with effect from 1 September 2011.

The members of the Audit Committee, with the exception of Baroness Noakes, are also members of the Board Risk Committee. This substantial common membership ensures effective governance across all Finance and Risk issues, and that agendas are aligned and overlap is avoided. The

Audit Committee and Board Risk Committees also have strong links with the Remuneration Committee, with particular regard to ensuring that relevant Finance and Risk matters are factored in to the determination of appropriate levels of compensation.

The Board is satisfied that all Audit Committee members have recent and relevant financial experience, and 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. Brendan Nelson is a Chartered Accountant and a former Vice Chairman of KPMG in the UK; Philip Scott is a fellow of the Institute of Actuaries and a former Group Finance Director of Aviva plc; Baroness Noakes is a fellow of the Institute of Chartered Accountants of England and Wales, being its president from 1999 to 2000 and is a former Partner of KPMG; and Tony Di Iorio has qualified as an accountant and is a former Senior Adviser to Ernst & Young. 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.

Responsibilities

The Audit Committee's primary responsibilities are to:

- assist the Group, RBS and NatWest boards of directors in discharging their responsibilities and in making all relevant disclosures in relation to the financial affairs of the Group;
- review accounting and financial reporting and regulatory compliance;
- review the Group's systems of internal control; and
- monitor 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 is satisfied that it complied with the relevant provisions of the Combined Code issued in June 2008, and the UK Corporate Governance Code issued in May 2010.

Audit Committee Chairman

As Chairman of the Audit Committee, Brendan Nelson plays a leading role in the setting of the annual agenda planner for the Audit Committee and of the agenda for each Audit Committee meeting. Prior to every Audit Committee meeting, he holds meetings with each of the Head of Group Internal Audit, the external auditors, the Group Finance Director and the Group Chief Accountant. These meetings are instrumental in ensuring that he is fully briefed on all relevant issues and that these are brought to the attention of the Audit Committee.

Meetings and visits

The Audit Committee holds at least six scheduled meetings each year, including meetings held immediately prior to the submission of the interim and annual financial statements to the Boards and the quarterly Interim Management Statements. Audit Committee meetings are attended by relevant executive directors, the internal and external auditors and Finance and Risk management executives. Other executives, subject matter experts and external advisers are also invited to attend the Audit Committee, as required, to present and advise on reports commissioned by the Audit Committee. 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, and these are now also attended by the Board Risk

Committee. The object of the programme is to allow the Audit Committee and the Board Risk 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. The Audit Committee and the Board Risk Committee undertook six visits in 2010. These were to the Global Banking & Markets business; the Non-Core Division, Global Restructuring Group and the APS; Major Change Projects ongoing in the Group; the US Asset-backed Securities business in the US; Risk Management and the Global Banking & Markets, Global Transaction Services and Private Banking businesses in Asia.

Work in 2010 and the first half of 2011

During 2010 and the first half of 2011, the work of the Audit Committee focused on a number of key areas, including:

- accounting, financial reporting and regulatory compliance;
- impairments and fair values;
- standards of internal control, including the work of the internal and external auditors;
- provisioning and credit exposures; and
- the work and role of Divisional Risk & Audit Committees in so far as they relate to the work of the Audit Committee.

The Audit Committee received regular updates on Accounting Issues and Developments from both Group Chief Accountant's and from the external auditors, who presented for approval to the Audit Committee their audit plan, their audit fee proposal and engagement letter, as well as confirmation of their independence and a comprehensive report of all non-audit fees.

In addition, the external auditors provided the Audit Committee with reports summarising their main observations and conclusions arising from their year-end audit, their half-year review and their work in connection with the first and third quarters, *inter alia*, inclusive of their comments on the issues set out below; and their recommendations for enhancements to the Bank's reporting and controls.

The Audit Committee focused on a number of salient judgments involved in the preparation of the 2010 accounts, including:

- valuation methodologies and assumptions for financial instruments carried at fair value including the Group's credit market exposures and the disclosures provided;
- actuarial assumptions for the Group Pension Fund;
- impairment losses in the Group's portfolio of loans and advances and available-for-sale securities; and
- impairment of goodwill and other purchased intangible assets.

In 2010 and the first half of 2011, the Audit Committee also specifically considered a range of external reporting issues, including:

- the enhancement of disclosures on financial instruments;
- improvements in the approach to general insurance reserves by the Group;
- the Group's tax position, including the treatment of deferred tax assets;
- a substantial review of the Group's credit provisioning policy;

- APS matters, including APS assurance; and
- compliance with the requirements of the Sarbanes-Oxley Act 2002.

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 judgements 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.

The Audit Committee was regularly advised of whistleblowing events which occurred within the Group; of complaints raised with members of the Group's executive team; of significant internal investigations undertaken within the Group; and of internal regulatory reviews and investigations.

Group Internal Audit's role is to continuously assess how operating risks are being managed and controlled throughout the Group and report regularly to the Group Executive and Audit Committee on the results of these assessments; and to influence the continuous development of the risk management and control process through sharing best practice.

The Audit Committee oversees the work of Group Internal Audit, and receives a quarterly report from the Head of Group Internal Audit. This report rates the quality of the control environment of all the Group's Divisions and of Management's level of awareness on these matters. Group Internal Audit reports to the Audit Committee on areas where improvements are required to the control environment. The Audit Committee actively monitors these reports and ensures relevant matters raised are dealt with in a timely and appropriate manner. These reports offer the Audit Committee oversight of Group Internal Audit's work, and allow for the Audit Committee to monitor the level of internal control within the Group.

The Audit Committee oversees the Group's compliance with the rules of the APS, and reviews regular progress reports from RBS Risk Management.

Relevant management also presented on a number of specific reporting, compliance and internal control matters.

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 2010 financial statements.

External Auditors

Deloitte LLP has been the Group's auditors since March 2000. 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.

In assessing the effectiveness of the Group's external auditors, the Audit Committee has regard to:

- the experience and expertise of the senior members of the engagement team;
- the proposed scope of the audit work planned and executed;
- the quality of the dialogue between the external auditors, the Audit Committee and senior management;

- the clarity, quality and robustness of written reports presented to the Audit Committee setting out the external auditor's findings arising from the audit;
- the quality of the management letter provided to the Group on the external auditor's observations and related internal matters; and
- the views of management on the performance of the external auditors.

The outcomes of the evaluation are considered by the Board, together with the Audit Committee's recommendation on the reappointment of the external auditors or whether or not to commence an audit tender process. The annual evaluation is carried out following completion of the annual accounts and audit.

The external auditors are required to rotate the lead audit partner responsible for the audit every five years and, in 2010, a new audit partner was appointed to lead the audits for the year ending 31 December 2010. There are no contractual obligations restricting the Group's choice of external auditor.

The Audit Committee is responsible for making recommendations to the Board in relation to the appointment, reappointment and removal of the external auditors. The Board submits the Audit Committee's recommendations to shareholders for their approval at the Annual General Meeting. The Annual General Meeting in April 2011 reappointed Deloitte LLP as external auditors.

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

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

Audit and Non-Audit Services

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 US reporting requirements) and periodic profit verifications.

Annual audit services also include statutory or non-statutory audits required by any Group companies that are not incorporated in the UK. 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.

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;

- permissible services relating to companies that will remain outside the Group;
- restructuring services relating to the Group's customers; and
- reports providing assurance to third parties over certain of the Group's internal controls prepared under US Statement of Auditing Standards 70 or similar auditing standards in other jurisdictions.

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 August 2010, the Audit Committee approved changes to the existing non-audit services policy. The new streamlined process allows for the Chairman of the Audit Committee (or, in his absence, a designated delegate) to approve any non-audit services request with a value under £100,000. Any request with a value above this amount must be approved by the full Audit Committee. To ensure good governance all requests, regardless of financial limits, have to be approved by the Group Chief Accountant and Group Sourcing and Vendor Management. At each Audit Committee meeting, any non-audit services requests which have been approved since the previous meeting are considered for ratification.

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 the external auditors, taking into consideration relevant legislation, ethical guidance and the level of non-audit services relative to audit services. The approval process is rigorously applied to prevent the auditors from functioning in the role of management, auditing their own work, or serving in an advocacy role. Information on the audit and non-audit services carried out by the external auditors is detailed in Note 5 to the Group's accounts.

Reviews

An external review of the effectiveness of the Audit Committee takes place every three to five years, with internal reviews by the Board continuing in the intervening years. In 2010, an internal review of the effectiveness of the Audit Committee was conducted. The evaluation used detailed questionnaires and individual meetings were held with each member. Amongst the areas reviewed were the role of the Audit Committee, composition, meetings and processes, performance and reporting, policy and procedures, divisional committees, induction and continuing professional development and communication. The Audit Committee has considered and discussed the report on the outcomes of the evaluation and is satisfied with the way in which the evaluation has been conducted, the conclusions and the actions being progressed. The outcomes of the evaluation have been reported to the Board and the actions are being progressed.

An external review of the effectiveness of Group Internal Audit takes place every three to five years, in line with best practice, with internal reviews continuing in the intervening years. In 2010, an external review was conducted by Ernst & Young. In May 2010, the Audit Committee was presented with the final report by Ernst & Young. The report found that Group Internal Audit was compliant with all relevant professional standards.

Divisional Risk and Audit Committees

Since 2005, divisional audit committees have been responsible for reviewing each division's business. Following the creation of the Board Risk Committee in January 2010, the Group's Divisional Audit Committees became Divisional Risk and Audit Committees and their terms of reference were revised to ensure full alignment with the Audit Committee and Board Risk Committee. With input from the Audit Committee, Board Risk Committee, Group Finance and

Group Risk, a new framework was approved by the Audit Committee in December 2010 and implemented in January 2011.

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

Board Risk Committee

Membership

Philip Scott has been Chairman of the Board Risk Committee since its formation in January 2010, and the other members of the Board Risk Committee are Sandy Crombie, Brendan Nelson and Joe MacHale. Tony Di Iorio will become a member of the Board Risk Committee with effect from 1 September 2011. The members of the Board Risk Committee all served throughout 2010 with the exception of Brendan Nelson who became a member of the Board Risk Committee with effect from 1 April 2010. All members of the Board Risk Committee are independent non-executive directors.

Philip Scott and Brendan Nelson are also members of the Audit Committee and Tony Di Iorio will become a member of the Audit Committee with effect from 1 September 2011. This substantial common membership ensures effective governance across all Finance and Risk issues, and that agendas are aligned and overlap is avoided. The Board Risk Committee and Audit Committee also have strong links with the Remuneration Committee, with particular regard to ensuring that relevant Finance and Risk matters are factored in to the determination of appropriate levels of compensation.

The Board Risk Committee is responsible for:

- providing oversight and advice to the Group, RBS and NatWest boards of directors in relation to current and potential future risk exposures of the Group and risk strategy, including determination of risk appetite and tolerance;
- reviewing the performance of the Group relative to risk appetite;
- assisting on such other matters as may be referred to it by the Group, RBS or NatWest boards of directors;
- oversight of the effectiveness of key Group policies, referred to as the Group Policy Framework;
- promoting a risk-awareness culture within the Group; and
- reporting to the Board, identifying any matters within its remit in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

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

Qualitative and quantitative information regarding the risks arising from the Group's financial instruments required under International Financial Reporting Standard (IFRS) 7 are incorporated within the financial statements and business review.

Meetings and Visits

The Board Risk Committee holds at least six scheduled meetings each year. Meetings are held as soon as practicable prior to Audit Committee meetings to ensure that the work of the two Committees is co-ordinated and consistent. A meeting is held immediately prior to submission of the interim and annual financial statements to the Board and the quarterly Interim Management Statements. This core programme is supplemented by additional meetings as required. Board Risk Committee meetings are attended by relevant executive directors, risk management, finance

executives and the internal auditors. External advice may be sought by the Board Risk Committee where considered appropriate.

Since its formation, the Board Risk Committee has undertaken an annual programme of visits to the Group's business divisions and control functions, along with the Audit Committee. The object of the programme is to allow the Board Risk Committee and 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. The Board Risk Committee and the Audit Committee undertook six visits in 2010. These were to the Global Banking & Markets business; the Non-Core Division, Global Restructuring Group and the Asset Protection Scheme; Major Change Projects ongoing in the Group; the US Asset-backed Securities business; Risk Management and the Global Banking & Markets, Global Transaction Services and Private Banking businesses in Asia.

Work in 2010 and the first half of 2011

During 2010 and the first half of 2011, the work of the Board Risk Committee focused on a wide range of matters, including the following key areas:

- risk strategy and policy;
- risk profile;
- risk appetite, framework and limits;
- risk management operating model; and
- remuneration.

At each meeting of the Board Risk Committee, the Group Chief Risk Officer provided the Board Risk Committee with a presentation on the key risk issues faced by the Group. An update was also given on the key issues discussed at the Group's Executive Risk Forum. In 2010 and the first half of 2011, the Board Risk Committee considered a range of matters including:

- the Group's economic capital model;
- the structured credit portfolio;
- the output of stress testing and scenario planning;
- the operational plan for the Group's risk management function including organisation, resource and budget;
- treating customers fairly and customer complaints; and
- remuneration strategy and policy, including recommendations to the Remuneration Committee.

The Board Risk Committee played a key role in the review, design and implementation of risk management and measurement strategies and risk management policy across the Group.

The Board Risk Committee considered the Group's risk profile relative to current and future Group Strategy. The Board Risk Committee reported to the Board following each meeting on its consideration of the risk profile of the Group and any longer-term macro or perceived strategic threats to the Group and made recommendations as appropriate.

The Group Policy Framework introduced by the Board Risk Committee provides a basis for ongoing self-assessment of appropriate risk appetite. The Board Risk Committee received regular reports on the development of the Group Policy Framework during 2010 and the first half of 2011.

The Group risk appetite framework was developed significantly during 2010 and continues to be enhanced. Risk appetite was regularly reviewed by the Board Risk Committee, which makes recommendations to the Board on risk appetite and tolerance as part of this ongoing process. This includes the Risk Management Operating Model, including the frameworks for credit, operational, regulatory, market, insurance and business continuity risk.

The Board Risk Committee also considered the Group's exposure to country, single name and sector concentration risk and ensures rigorous stress and scenario testing of the Group's business is undertaken. The output of this testing was reviewed by the Board Risk Committee throughout 2010 with a view to ensuring appropriate actions were taken where necessary. It made recommendations to the Group Board regarding related authorities, limits and mandates.

In February 2010, the Board Risk Committee was presented with and approved the RBS Risk Management operational plan, considering the adequacy and effectiveness of resource and the scope and nature of the work undertaken by the function.

The Board Risk Committee considered the adequacy and effectiveness of the technology infrastructure supporting the finance and risk management framework.

The Board Risk Committee reviewed the risk input to divisional bonus pools and provided advice to the Remuneration Committee on risk weightings to be applied to performance objectives which are incorporated within the incentive structure for the Group's senior executives. The Board Risk Committee also reviewed clawback proposals made by Group Human Resources and made recommendations to the Remuneration Committee in this respect.

As required under the Walker Report, the Board Risk Committee will meet as required to review the due diligence of any proposed strategic transaction (involving a merger, acquisition or disposal) prior to the Group Board approval of the transaction. The Board Risk Committee did not meet in 2010 or the first half of 2011 for this reason.

Reviews

In 2010 an internal review of the effectiveness of the Board Risk Committee was conducted. The evaluation used detailed questionnaires and individual meetings were held with each member. Amongst the areas reviewed were the Role of the Board Risk Committee, Composition, Meetings and Processes, Performance and Reporting, Policy and Procedures, Divisional Committees, Induction and Continuing Professional Development and Communication. The Board Risk Committee considered and discussed the report on the outcomes of the evaluation and is satisfied with the way in which the evaluation was conducted, the conclusions and the actions being progressed. The outcomes of the evaluation have been reported to the Board on the outcome of the evaluation and the actions being progressed.

Divisional Risk and Audit Committees

Since 2005, divisional audit committees have been responsible for reviewing each division's business. Following the creation of the Board Risk Committee in January 2010, the Group's Divisional Audit Committees became Divisional Risk and Audit Committees and their terms of reference were revised to ensure full alignment with the Audit Committee and Board Risk Committee. With input from the Audit Committee, Board Risk Committee, Group Finance and Group Risk, a new framework was approved by the Audit Committee in December 2010 and implemented in January 2011.

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

Financial information prepared in accordance with IFRS

The following tables summarise certain financial information of RBSG for its financial years ended 31 December 2010 and 31 December 2009 and have been extracted without adjustment from the audited consolidated financial statements of RBSG for the financial year ended 31 December 2010, which were prepared in accordance with IFRS.

Legal separation of ABN AMRO Bank N.V. took place on 1 April 2010. As a result, the Group no longer consolidates the interests in ABN AMRO of the other Consortium Members in its results. The other Consortium Members' results for the financial year ended 31 December 2010 are classified as discontinued operations. As set out in the audited consolidated financial statements of RBSG for the financial year ended 31 December 2010, the audited consolidated financial statements of RBSG for the financial year ended 31 December 2009, which were prepared in accordance with IFRS, have been restated for the reclassification of the results attributable to other Consortium Members as discontinued operations.

RBSG Share Capital

The amount of RBSG's issued share capital as at 31 December 2010 was £15,126 million, as derived from the audited consolidated financial statements of RBSG for the financial year ended 31 December 2010.

	<i>Allotted, called up and fully paid</i>		
	<i>1 January 2010 £m (audited)</i>	<i>Issued/ (redeemed) during the year £m (audited)</i>	<i>31 December 2010 £m (audited)</i>
Ordinary shares of £0.25	14,091	523	14,614
B shares of £0.01	510	—	510
Dividend access share of £0.01	—	—	—
Non-voting deferred shares of £0.01	27	(27)	—
Non-cumulative preference shares of US\$0.01	2	(1)	1
Non-cumulative convertible preference shares of US\$0.01	—	—	—
Non-cumulative convertible preference shares of £0.01	—	—	—
Non-cumulative preference shares of £1	1	(1)	—
Cumulative preference shares of £1	1	—	1
Total share capital	14,632	494	15,126

Allotted, called up and fully paid

31 December 2010

*Number of shares
(audited)*

Numbers of shares - thousands

Ordinary shares of £0.25	58,458,131
B shares of £0.01	51,000,000
Dividend access share of £0.01	—
Non-voting deferred shares of £0.01	—
Non-cumulative preference shares of US\$0.01	209,609
Non-cumulative convertible preference shares of US\$0.01	65
Non-cumulative preference shares of €0.01	2,044
Non-cumulative convertible preference shares of £0.01	15
Non-cumulative preference shares of £1	54
Cumulative preference shares of £1	900

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

The information contained in the tables above has not changed materially since 31 December 2010.

Selected financial information of RBSG for the years ended 31 December 2010 and 2009

	<i>Year ended 31 December 2010 £m (audited)</i>	<i>Year ended 31 December 2009 £m (audited)¹</i>
Operating loss before tax.....	(399)	(2,647)
Tax (charge)/credit.....	(634)	429
Loss from continuing operations	(1,033)	(2,218)
Loss on distribution of ABN AMRO Bank N.V. to the State of the Netherlands and Santander	(963)	—
Other profit/(loss) from discontinued operations, net of tax	330	(105)
Loss for the year	(1,666)	(2,323)
	<i>31 December 2010 £m (audited)</i>	<i>31 December 2009 £m (audited)</i>
Called-up share capital	15,125	14,630
Reserves.....	60,007	63,106
Owners' equity	75,132	77,736
Minority interests	1,719	16,895
Subordinated liabilities	27,053	37,652
Capital resources	103,904	132,283
	<i>31 December 2010 £m (audited)</i>	<i>31 December 2009 £m (audited)</i>
Deposits by customers and banks	609,483	756,346
Loans and advances to customers and banks	655,778	820,146
Total assets	1,453,576	1,696,486
	<i>31 December 2010 per cent. (unaudited)</i>	<i>31 December 2009 per cent. (unaudited)</i>
Core Tier 1 ratio.....	10.7	11.0

¹ The Dutch retail and other banking businesses transferred to the Dutch State on 1 April 2010 are recognised as discontinued operations. Comparative information has been changed accordingly.

Tier 1 ratio.....	12.9	14.1
Total capital ratio.....	14.0	16.1

GENERAL INFORMATION

RBSG's Objects and Purposes

Article 161 of RBSG's articles of association, adopted by RBSG on 28 April 2010 and amended by special resolution on 19 April 2011, provides that nothing in the RBSG articles of association shall constitute a restriction on the objects of RBSG to do (or omit to do) any act and, in accordance with Section 31(1) of the Companies Act 2006, RBSG's objects are unrestricted.

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

There has been no significant change in the trading or financial position of the Group taken as a whole since 30 June 2011 (the end of the last financial period for which either audited financial information or interim financial information has been published).

Save in relation to matters referred to in the RBSG Interim Results, relating to (i) Payment Protection Insurance (see pages 109 and 110 of the RBSG Interim Results); and (ii) the Group's exposure to Greek sovereign debt (see page 16 of the RBSG Interim Results), both of which the Group has made provisions for therein, there has been no material adverse change in the prospects of the Group taken as a whole since 31 December 2010 (the last date to which the latest audited published financial information of the Group was prepared).

Auditors and Financial Statements

The consolidated financial statements of RBSG for the years ended 31 December 2010 and 2009 have been audited by Deloitte LLP (name changed from Deloitte & Touche LLP on 1 December 2008), Chartered Accountants (authorised and regulated by the Financial Services Authority for designated investment business), whose address is 2 New Street Square, London EC4A 3BZ. Deloitte LLP are affiliated to the Institute of Chartered Accountants of England and Wales (the "ICAEW") and all partners of Deloitte LLP have a practising certificate with the ICAEW.

The financial information contained in this Registration Document in relation to the Issuer does not constitute the Issuer's statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the years ended 31 December 2010 and 31 December 2009 to which the financial information in this Registration Document relates have been 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(2) or (3) of the Companies Act 2006.

RBSG does not produce unconsolidated financial statements.

Material Contracts

RBSG and its subsidiaries are party to various contracts in the ordinary course of business. Material contracts are described on pages 399 to 404 of the 2010 Annual Report and Accounts of RBSG.

FORWARD-LOOKING STATEMENTS

Certain sections in, or incorporated by reference in, this Registration Document contain 'forward-looking statements', such as statements that include the words 'expect', 'estimate', 'project', 'anticipate', 'believes', 'should', 'intend', 'plan', 'could', 'probability', 'risk', 'Value-at-Risk (VaR)', 'target', 'goal', 'objective', 'will', 'endeavour', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on such expressions.

In particular, this Registration Document includes forward-looking statements relating, but not limited to: the Group's restructuring plans, capitalisation, portfolios, net interest margin, capital ratios, liquidity, risk weighted assets, return on equity, cost: income ratios, leverage and loan: deposit ratios, funding and risk profile, the Group's future financial performance, the level and extent of future impairments and write-downs, the protection provided by the APS, and the Group's potential exposures to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity and equity price risk. These statements are based on current plans, estimates and projections, and are subject to inherent risks, uncertainties and other factors which could cause actual results to differ materially from the future results expressed or implied by such forward-looking statements. For example, certain of the market risk disclosures are dependent on choices about key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated.

Other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in, or incorporated by reference in, this Registration Document include, but are not limited to: the full nationalisation of the Group or other resolution procedures under the Banking Act 2009; the global economic and financial market conditions and other geopolitical risks, and their impact on the financial industry in general and on the Group in particular; the financial stability of other financial institutions, and the Group's counterparties and borrowers; the ability to complete restructurings on a timely basis, or at all, including the disposal of certain non-core assets and assets and businesses required as part of the State Aid restructuring plan; organisational restructuring, including any adverse consequences of a failure to transfer, or delay in transferring, certain business assets and liabilities from RBS N.V. to RBS; the ability to access sufficient funding to meet liquidity needs; the extent of future write-downs and impairment charges caused by depressed asset valuations; the inability to hedge certain risks economically; costs or exposures borne by the Group arising out of the origination or sale of mortgages or mortgage-backed securities in the United States; the value and effectiveness of any credit protection purchased by the Group; unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices and basis, volatility and correlation risks; changes in the credit ratings of the Group; ineffective management of capital or changes to capital adequacy or liquidity requirements; changes to the valuation of financial instruments recorded at fair value; competition and consolidation in the banking sector; HM Treasury exercising influence over the operations of the Group; the ability of the Group to attract or retain senior management or other key employees; regulatory or legal changes (including those requiring any restructuring of the Group's operations) in the United Kingdom, the United States and other countries in which the Group operates or a change in United Kingdom Government policy; changes to regulatory requirements relating to capital and liquidity; changes to the monetary and interest rate policies of central banks and other governmental and regulatory bodies; impairments of goodwill; pension fund shortfalls; litigation and regulatory investigations; general operational risks; insurance claims; reputational risk; changes in UK and foreign laws, regulations, accounting standards and taxes, including changes in regulatory capital regulations and liquidity requirements; the recommendations made by the ICB and their potential

implications; the participation of the Group in the APS and the effect of the APS on the Group's financial and capital position; the ability to access the contingent capital arrangements with HM Treasury; limitations on, or additional requirements imposed on, the Group's activities as a result of HM Treasury's investment in the Group; and the success of the Group in managing the risks involved in the foregoing.

The forward-looking statements contained in, or incorporated by reference in, this Registration Document speak only as of the date of this Registration Document, and the Group does not undertake to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

For a further discussion of certain risks faced by the Group, see "Risk Factors" on pages 3 to 25.

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 2010 Annual Report and Accounts of RBSG, which were published via the Regulatory News Service of the London Stock Exchange plc (the “RNS”) on 17 March 2011 (the “**2010 Annual Report and Accounts of RBSG**”):
- (i) Independent auditor’s report on page 267;
 - (ii) Consolidated income statement on page 268;
 - (iii) Consolidated statement of comprehensive income on page 269;
 - (iv) Balance sheets as at 31 December 2010 on page 270;
 - (v) Statements of changes in equity on pages 271 to 273;
 - (vi) Cash flow statements on page 274;
 - (vii) Accounting policies on pages 275 to 286;
 - (viii) Notes on the accounts on pages 287 to 385;
 - (ix) Essential reading – We have met, and in some cases exceeded, the targets for the second year of our Strategic Plan on page 1;
 - (x) Chairman’s statement on pages 2 to 3;
 - (xi) Group Chief Executive’s review on pages 4 to 5;
 - (xii) Our key targets on page 7;
 - (xiii) Our business and our strategy on pages 10 to 19;
 - (xiv) Divisional review on pages 21 to 41;
 - (xv) Business review on pages 50 to 224;
 - (xvi) Report of the Directors on pages 230 to 234;
 - (xvii) Corporate governance on pages 235 to 245;
 - (xviii) Letter from the Chair of the Remuneration Committee on pages 246 to 247;
 - (xix) Directors’ remuneration report on pages 248 to 263;
 - (xx) Directors’ interests in shares on page 264;
 - (xxi) Financial Summary on pages 387 to 395;
 - (xxii) Exchange rates on page 395;
 - (xxiii) Economic and monetary environment on page 396;
 - (xxiv) Supervision on page 397;
 - (xxv) Regulatory developments and reviews on pages 398 to 399;
 - (xxvi) Description of property and equipment on page 399;
 - (xxvii) Major shareholders on page 399;

- (xxviii) Material contracts on pages 399 to 404; and
 - (xxix) Glossary of terms on pages 434 to 439.
- (b) the following sections of the 2009 Annual Report and Accounts of RBSG, which were published via the RNS on 18 March 2010 (the “**2009 Annual Report and Accounts of RBSG**”):
- (i) Independent auditors’ report on page 240;
 - (ii) Consolidated income statement on page 241;
 - (iii) Consolidated statement of comprehensive income on page 242;
 - (iv) Balance sheets at 31 December 2009 on page 243;
 - (v) Statements of changes in equity on pages 244 to 246;
 - (vi) Cash flow statements on page 247;
 - (vii) Accounting policies on pages 248 to 258;
 - (viii) Notes on the accounts on pages 259 to 348;
 - (ix) What we have achieved on page 1 (excluding the financial information on that page which is indicated as being “pro forma”);
 - (x) Chairman’s statement on pages 2 to 3;
 - (xi) Group Chief Executive’s review on pages 4 to 6;
 - (xii) Our strategic plan and progress on pages 12 to 19;
 - (xiii) Divisional review on pages 20 to 41;
 - (xiv) Business review on pages 49 to 85 and pages 108 to 206 (excluding the financial information on pages 72 to 85 and pages 108 to 116 which is indicated as being “pro forma”);
 - (xv) Report of the Directors on pages 208 to 213;
 - (xvi) Corporate governance on pages 214 to 222;
 - (xvii) Letter from the Chairman of the Remuneration Committee on pages 223 to 224;
 - (xviii) Directors’ remuneration report on pages 225 to 236;
 - (xix) Directors’ interests in shares on page 237;
 - (xx) Impairment review on pages 302 to 303;
 - (xxi) Financial Summary on pages 350 to 359;
 - (xxii) Exchange rates on page 359;
 - (xxiii) Economic and monetary environment on page 360;
 - (xxiv) Supervision on page 361;
 - (xxv) Regulatory developments and reviews on pages 361 to 362;
 - (xxvi) Description of property and equipment on pages 362 to 363;
 - (xxvii) Major shareholders on page 363;

- (xxviii) Material contracts on pages 363 to 369; and
- (xxix) Glossary of terms on pages 383 to 387;
- (c) The Royal Bank of Scotland Group plc unaudited Interim Results for the half year ended 30 June 2011 published via the RNS on 5 August 2011 (the “**RBSG Interim Results**”);
- (d) the following sections of the Shareholder Circular published by RBSG on 27 November 2009 (the “**Shareholder Circular**”):
 - (i) “Financial Information” on page 5;
 - (ii) “Part I – Letter From the Chairman of RBS” on pages 10 to 20;
 - (iii) “Appendix 3 to the Letter From the Chairman of RBS – Principal Terms of Issue of the B Shares and the Dividend Access Share” on pages 76 to 84;
 - (iv) “Appendix 4 to the Letter From the Chairman of RBS – Key Terms of the State Aid Restructuring Plan” on pages 85 to 86;
 - (v) “Part VI – Definitions” on pages 121 to 133; and
 - (vi) “Annex 1 – Terms of Issue of the B Shares and the Dividend Access Share” on pages 134 to 170;
- (e) the press release 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 RNS on 20 October 2009;
- (f) the press release entitled “Proposed transfers of a substantial part of the business activities of RBS N.V. to RBS plc” (excluding (i) the statement therein which reads “Certain unaudited pro forma condensed consolidated financial information relating to RBS Holdings N.V. is set out in the Appendix to this announcement” and (ii) the Appendix thereto) which was published by RBSG via the RNS on 19 April 2011; and
- (g) the press release entitled “Details of Part VII Scheme – Securities issued by, and guarantees granted by, RBS N.V.”, which was published by RBSG via the RNS on 22 July 2011.

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.

It should be noted that, except as set forth above, no other portion of the above documents is incorporated by reference into this Registration Document. In addition, where sections of any of the above documents which are incorporated by reference into this Registration Document cross-reference other sections of the same document, such cross-referenced information shall not form part of this Registration Document, unless otherwise incorporated by reference herein. Those parts of the documents incorporated by reference which are not specifically incorporated by reference in this Registration Document are either not relevant for prospective investors in the Securities or the relevant information is included elsewhere in 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.

Unaudited Pro Forma Financial Information

The unaudited pro forma financial information contained in the 2010 Annual Report and Accounts of RBSG (the “**Unaudited Pro Forma Financial Information**”) which is incorporated by reference into this Registration Document has been prepared for illustrative purposes only and addresses a hypothetical situation. Therefore, the Unaudited Pro Forma Financial Information does not represent the Group’s actual financial position or results as at and for the periods in respect of which the Unaudited Pro Forma Financial Information has been prepared.

The Unaudited Pro Forma Financial Information shows the underlying performance of the Group including the results of the RBS Holdings N.V. businesses retained by the Group. The Unaudited Pro Forma Financial Information is prepared using the Group’s accounting policies and is being provided to give a better understanding of the Group’s operations excluding the results attributable to the other Consortium Members. The basis of preparation of the pro forma results is detailed under the heading “Basis of preparation of pro forma results” on page 113 of the 2010 Annual Report and Accounts of RBSG (which are incorporated by reference herein). In future periods, there will be no significant differences between pro forma and statutory results other than presentation aspects discussed under the heading “Pro forma results” on page 51 of the 2010 Annual Report and Accounts of RBSG.

THE ISSUER

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