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Shareholder information

Financial calendar

Annual General Meeting

25 April 2007 at 2.00 pm
Edinburgh International Conference Centre,
The Exchange, Morrison Street, Edinburgh

Interim results

3 August 2007

Dividends

Payment dates:

Ordinary shares (2006 Final)	8 June 2007
Ordinary shares (2007 Interim)	October 2007
Cumulative preference shares	31 May and 31 December 2007
Non-cumulative dollar preference shares	30 March, 29 June, 28 September and 31 December 2007

Ex-dividend dates:

Ordinary shares (2006 Final)	7 March 2007
Cumulative preference shares	2 May 2007

Record dates:

Ordinary shares (2006 Final)	9 March 2007
Cumulative preference shares	4 May 2007

Shareholder enquiries

Shareholdings in the company may be checked by visiting our website (www.rbs.com/shareholder). You will need the shareholder reference number printed on your share certificate or tax voucher to gain access to this information.

Braille and audio Annual Review and Summary Financial Statement

Shareholders requiring a Braille or audio version of the Annual Review and Summary Financial Statement should contact the Registrar on 0870 702 0135.

ShareGift

The company is aware that shareholders who hold a small number of shares may be retaining these shares because dealing costs make it uneconomical to dispose of them. ShareGift, the charity share donation scheme is a free service operated by The Orr Mackintosh Foundation (registered charity 1052686) to enable shareholders to donate shares to charity.

Should you wish to donate your shares to charity in this way you should contact ShareGift for further information:

ShareGift, The Orr Mackintosh Foundation,
46 Grosvenor Street, London W1K 3HN
Tel: 020 7337 0501
www.ShareGift.org

Donating your shares in this way will not give rise to either a gain or a loss for UK capital gains tax purposes and you may be able to reclaim UK income tax on gifted shares. Further information can be obtained from HM Revenue & Customs.

Capital gains tax

For shareholders who held RBS ordinary shares at 31 March 1982, the market value of one ordinary share held was 103p. After adjusting for the 1 March 1985 rights issue, the 1 September 1989 capitalisation issue and the bonus issue of Additional Value Shares on 12 July 2000, the adjusted 31 March 1982 base value of one ordinary share held currently is 46.1p.

For shareholders who held NatWest ordinary shares at 31 March 1982, the market value of one ordinary share held was 85.16p for shareholders who accepted the basic terms of the RBS offer. This takes account of the August 1984 and June 1986 rights issues and the June 1989 bonus issue of NatWest ordinary shares as well as the subsequent issue of Additional Value Shares.

When disposing of shares, shareholders are also entitled to indexation allowance (to April 1998 only in the case of individuals and non-corporate holders), which is calculated on the 31 March 1982 value, on the cost of subsequent purchases from the date of purchase and on the subscription for rights from the date of that payment. Further adjustments must be made where a shareholder has chosen to receive shares instead of cash for dividends. Individuals and non-corporate shareholders may also be entitled to some taper relief to reduce the amount of any chargeable gain on disposal of shares.

The information set out above is intended as a general guide only and is based on current United Kingdom legislation and HM Revenue & Customs practice as at this date. This information deals only with the position of individual shareholders who are resident in the United Kingdom for tax purposes, who are the beneficial owners of their shares and who hold their shares as an investment. It does not deal with the position of shareholders other than individual shareholders, shareholders who are resident outside the United Kingdom for tax purposes or certain types of shareholders, such as dealers in securities.

Analyses of ordinary shareholders at 31 December 2006

	shareholdings	Number of shares – millions	% of total
Individuals	163,039	227.4	7.2
Banks and nominee companies	21,125	2,851.2	90.4
Investment trusts	163	0.6	—
Insurance companies	337	1.7	0.1
Other companies	2,056	42.4	1.3
Pension trusts	46	11.2	0.4
Other corporate bodies	87	18.3	0.6
	186,853	3,152.8	100.0
Range of shareholdings:			
1–1,000	127,139	41.9	1.3
1,001–10,000	54,993	148.6	4.7
10,001–100,000	3,433	84.6	2.7
100,001–1,000,000	914	313.3	10.0
1,000,001–10,000,000	322	934.5	29.6
10,000,001 and over	52	1,629.9	51.7
	186,853	3,152.8	100.0

Trading market

On 16 October 1996, 26 March 1997, 12 February 1998, 8 February 1999, 12 June 2001, 30 September 2004, 26 August 2004, 19 May 2005, 9 November 2005, 25 May 2006 and 27 December 2006 the company issued the following American Depositary Shares ("ADSs") in the United States, which were outstanding at 31 December 2006:

8,000,000 Series E ("Series E ADSs") representing 8,000,000 non-cumulative dollar preference shares, Series E;
8,000,000 Series F ("Series F ADSs") representing 8,000,000 non-cumulative dollar preference shares, Series F;
10,000,000 Series G ("Series G ADSs") representing 10,000,000 non-cumulative dollar preference shares, Series G;
12,000,000 Series H ("Series H ADSs") representing 12,000,000 non-cumulative dollar preference shares, Series H;
16,000,000 Series K ("Series K ADSs") representing 16,000,000 non-cumulative dollar preference shares, Series K;
34,000,000 Series L ("Series L ADSs") representing 34,000,000 non-cumulative dollar preference shares, Series L;
37,000,000 Series M ("Series M ADSs") representing 37,000,000 non-cumulative dollar preference shares, Series M;
40,000,000 Series N ("Series N ADSs") representing 40,000,000 non-cumulative dollar preference shares, Series N;
22,000,000 Series P ("Series P ADSs") representing 22,000,000 non-cumulative dollar preference shares, Series P;
27,000,000 Series Q ("Series Q ADSs") representing 27,000,000 non-cumulative dollar preference shares, Series Q; and
26,000,000 Series R ("Series R ADSs") representing 26,000,000 non-cumulative dollar preference shares, Series R.

Each of the respective ADSs represents the right to receive one corresponding preference share, and is evidenced by an American Depositary Receipt ("ADR") and is listed on the New York Stock Exchange ("NYSE").

The ADRs evidencing the ADSs above were issued pursuant to Deposit Agreements, among the company, The Bank of New York, as depository, and all holders from time-to-time of ADRs issued thereunder. Currently, there is no non-United States trading market for any of the non-cumulative dollar preference shares. All of the non-cumulative dollar preference shares are held by the depository, as custodian, in bearer form.

In March 2006, the company redeemed the 7 million Series D non-cumulative preference shares of US\$0.01 each and the 12 million Series I non-cumulative preference shares of US\$0.01 each.

In January 2007, the company redeemed the 8 million Series E non-cumulative preference shares of US\$0.01 each, the 10 million Series G non-cumulative preference shares of US\$0.01 each and the 16 million Series K non-cumulative preference shares of US\$0.01 each.

At 31 December 2006, there were 99 registered shareholders of Series E ADSs, 112 registered shareholders of Series F ADSs, 74 registered shareholders of Series G ADSs, 73 registered shareholders of Series H ADSs, 55 registered shareholders of Series K ADSs, 26 registered shareholders of Series L ADSs, 1 registered shareholder of Series M ADSs, 49 registered shareholders of Series N ADSs, 54 registered shareholders of Series P ADSs, 20 registered shareholders of Series Q ADSs and 1 registered shareholder of Series R ADSs.

On 20 August 2001, the company issued US\$1.2 billion of perpetual regulatory tier one securities ("PROs") in connection with a public offering in the United States.

The ADSs and the PROs are listed on the NYSE.

The following table shows the high and low sales prices for each of the outstanding ADSs and PROs for the periods indicated, as reported on the NYSE composite tape:

Figures in US\$		Series E ADSs(1)	Series F ADSs	Series G ADSs(1)	Series H ADSs	Series K ADSs(1)	Series L ADSs	Series M ADSs	Series N ADSs	Series P ADSs	Series Q ADSs	Series R ADSs	PROs(2)
By month													
January 2007	High	25.09	25.70	25.08	25.77	25.08	24.75	25.86	25.75	25.83	26.77	25.50	119.09
	Low	25.00	25.26	24.98	25.21	24.97	24.02	25.50	25.40	25.25	26.17	24.79	116.00
December 2006	High	26.25	26.00	25.95	25.95	25.84	24.62	26.08	25.96	26.07	26.76	—	121.54
	Low	25.00	25.29	24.91	25.17	24.94	24.02	25.48	25.41	25.42	26.13	—	117.66
November 2006	High	26.25	26.08	25.92	25.80	25.85	24.50	25.88	25.84	25.70	26.60	—	121.22
	Low	25.81	25.75	25.68	25.55	25.63	23.99	25.42	25.38	25.18	26.20	—	117.80
October 2006	High	26.20	26.73	25.94	25.63	25.86	24.27	25.68	25.56	25.80	26.28	—	118.95
	Low	25.27	25.93	25.45	25.31	25.32	23.80	25.23	25.21	24.91	25.97	—	114.47
September 2006	High	25.92	26.91	25.81	25.75	25.91	24.01	25.42	25.30	25.33	26.24	—	117.81
	Low	25.26	26.25	25.50	25.30	25.29	23.17	25.03	24.82	24.80	25.65	—	112.29
August 2006	High	26.08	26.91	25.70	25.67	25.79	24.08	25.44	25.30	25.05	25.93	—	113.38
	Low	25.61	25.80	25.40	25.36	25.51	22.64	24.91	24.61	24.36	25.48	—	110.14
By quarter													
2006: Fourth quarter	High	26.25	26.73	25.95	25.95	25.86	24.62	26.08	25.96	26.07	26.76	—	121.54
	Low	25.00	25.29	24.91	25.17	24.94	23.80	25.23	25.21	24.91	25.97	—	114.47
2006: Third quarter	High	26.08	26.91	25.81	25.75	25.91	24.08	25.44	25.30	25.33	26.24	—	117.81
	Low	25.26	25.58	25.15	25.16	25.22	21.71	24.05	23.69	23.64	25.08	—	106.96
2006: Second quarter	High	25.95	26.07	25.60	25.49	25.48	23.39	25.03	25.04	24.70	25.55	—	114.90
	Low	25.46	25.45	25.03	25.01	25.08	21.15	23.58	23.32	22.76	24.67	—	106.06
2006: First quarter	High	26.38	27.25	25.90	25.78	25.86	24.50	25.62	25.60	25.35	—	—	122.23
	Low	25.55	25.72	25.35	25.25	25.22	23.09	25.08	25.10	24.72	—	—	114.75
2005: Fourth quarter	High	26.76	27.83	26.00	25.91	26.05	24.19	25.50	25.45	25.50	—	—	121.96
	Low	25.75	26.02	25.28	25.20	25.30	22.67	24.77	24.70	24.60	—	—	116.70
2005: Third quarter	High	27.00	27.45	26.00	25.96	26.37	24.90	26.30	26.23	—	—	—	127.58
	Low	26.10	26.50	25.51	25.36	25.59	23.95	25.37	25.33	—	—	—	121.31
2005: Second quarter	High	27.05	27.30	25.80	26.19	26.53	24.40	25.97	25.38	—	—	—	128.54
	Low	26.30	26.27	25.37	25.30	25.75	23.76	25.30	25.00	—	—	—	121.46
2005: First quarter	High	27.50	28.00	25.97	25.79	26.84	24.99	26.75	—	—	—	—	129.57
	Low	26.11	26.26	25.30	25.26	25.82	23.31	25.01	—	—	—	—	120.03
By year													
2006	High	26.38	27.25	25.95	25.95	25.91	24.62	26.08	25.96	26.07	26.76	—	122.23
	Low	25.00	25.29	24.91	25.01	24.94	21.15	23.58	23.32	22.76	24.67	—	106.06
2005	High	27.50	28.00	26.00	26.19	26.84	24.99	26.75	26.23	25.50	—	—	129.57
	Low	25.75	26.02	25.28	25.20	25.30	22.67	24.77	24.70	24.60	—	—	116.70
2004	High	29.00	28.45	25.92	25.87	28.00	24.68	26.16	—	—	—	—	125.14
	Low	25.90	25.65	24.20	24.45	25.70	23.51	25.13	—	—	—	—	110.58
2003	High	29.20	29.05	26.00	26.40	28.20	—	—	—	—	—	—	130.78
	Low	27.01	27.03	25.00	25.10	26.05	—	—	—	—	—	—	111.06
2002	High	28.20	28.00	25.73	26.05	27.30	—	—	—	—	—	—	116.36
	Low	25.53	25.15	24.46	24.27	24.79	—	—	—	—	—	—	100.07

Notes:

(1) Redeemed in January 2007.

(2) Price quoted as a % of US\$1,000 nominal.

Shareholder information continued

Dividend history

Preference and other non-equity dividends

Amount per share	2006				2005		2004	2003	2002
	Subordinated liabilities		Equity		Subordinated liabilities	Equity			
	\$	£	\$	£	£	£			
Non-cumulative preference shares of US\$0.01									
– Series B (redeemed January 2003)	—	—			—		0.13	1.65	
– Series C (redeemed January 2003)	—	—			—		0.11	1.40	
– Series D (redeemed March 2006)	0.37	0.21			1.13		1.11	1.23	1.34
– Series E ⁽¹⁾	2.03	1.10			1.12		1.10	1.21	1.32
– Series F	1.91	1.03			1.06		1.04	1.15	1.25
– Series G ⁽¹⁾	1.85	1.00			1.02		1.00	1.11	1.21
– Series H	1.81	0.98			1.00		0.98	1.09	1.18
– Series I (redeemed March 2006)	0.36	0.20			1.10		1.08	1.20	1.31
– Series J (redeemed November 2005)	—	—			1.06		1.15	1.27	1.39
– Series K ⁽¹⁾	1.97	1.06			1.09		1.07	1.18	1.29
– Series L	1.44	0.78			0.79		0.19	—	—
– Series M			1.60	0.87		0.88	0.30	—	—
– Series N			1.59	0.86		0.55	—	—	—
– Series P			1.56	0.85		0.13	—	—	—
– Series Q (issued May 2006)			1.01	0.53		—	—	—	—
– Series R (issued December 2006)			—	—		—	—	—	—
Non-cumulative convertible preference shares of US\$0.01									
– Series 1	91.18	50.26			50.33		49.05	54.89	59.15
– Series 2 (redeemed March 2005)	—	—			11.60		47.43	53.08	57.20
– Series 3 (redeemed December 2005)	—	—			43.03		41.74	45.57	49.81
Non-cumulative convertible preference shares of €0.01									
– Series 1 (redeemed March 2005)	—	—			11.54		44.19	49.58	44.45
Non-cumulative preference shares of €0.01									
– Series 1			73.07	37.18		41.14	3.45	—	—
– Series 2			71.18	36.22		—	—	—	—
Non-cumulative convertible preference shares of £0.01									
– Series 1	145.16	73.87			73.87		73.87	73.87	73.87
Additional Value Shares of £0.01	—	—			—		—	0.55	0.30

Ordinary dividends

Amount per share	2006		2005	2004	2003	2002
	cents	pence				
Interim	47.4	24.2	19.4	16.8	14.6	12.7
Final ⁽²⁾	130.0	66.4	53.1	41.2	35.7	31.0
Total dividends on equity shares	177.4	90.6	72.5	58.0	50.3	43.7

Notes:

(1) Redeemed in January 2007.

(2) 2006 final dividends are proposed.

For further information, see Notes 6 and 7 on the accounts.

Taxation for US Holders

The following discussion summarises certain US federal and UK tax consequences of the acquisition, ownership and disposition of non-cumulative dollar preference shares, ADSs or PROs by a beneficial owner that is a citizen or resident of the United States or that otherwise will be subject to US federal income tax on a net income basis in respect of the non-cumulative dollar preference shares, ADSs or PROs (a "US Holder"). This summary assumes that a US Holder is holding non-cumulative dollar preference shares, ADSs or PROs, as applicable, as capital assets. This summary does not address the tax consequences to a US Holder (i) that is resident (or, in the case of an individual, ordinarily resident) in the UK for UK tax purposes or (ii) generally, that is a corporation which alone or together with one or more associated companies, controls, directly or indirectly, 10% or more of the voting stock of the company.

The statements and practices set forth below regarding US and UK tax laws, including the US/UK double taxation convention relating to income and capital gains which entered into force on 31 March 2003 (the "Treaty"), and the US/UK double taxation convention relating to estate and gift taxes (the "Estate Tax Treaty"), are based on those laws and practices as in force and as applied in practice on the date of this Report. This summary is not exhaustive of all possible tax considerations and holders are advised to satisfy themselves as to the overall tax consequences, including specifically the consequences under US federal, state, local and other laws, and possible changes in taxation law, of the acquisition, ownership and disposition of non-cumulative dollar preference shares, ADSs or PROs by consulting their own tax advisers.

For the purposes of the Treaty, the Estate Tax Treaty and the US Internal Revenue Code of 1986, as amended (the "Code"), US Holders of ADSs will be treated as owners of the non-cumulative dollar preference shares underlying such ADSs.

Preference shares or ADSs

Taxation of dividends

The company is not required to withhold tax at source from dividend payments it makes or from any amount (including any amounts in respect of accrued dividends) distributed by the company.

Dividends paid by the company will constitute foreign source dividend income for US federal income tax purposes to the extent paid out of the current or accumulated earnings and profits of the company, as determined for US federal income tax purposes. Payments will not be eligible for the dividends-received deduction allowed to corporate US Holders.

Subject to applicable limitations that may vary depending upon a holder's individual circumstances, dividends paid to certain non-corporate US Holders in taxable years beginning before 1 January 2011 will be taxable at a maximum tax rate of 15%. Non-corporate US Holders should consult their own tax advisers to determine whether they are subject to any special rules that limit their ability to be taxed at this favourable rate.

Taxation of capital gains

A US Holder that is not resident (or, in the case of an individual, ordinarily resident) in the UK will not normally be liable for UK tax on capital gains realised on the disposition of such holder's non-cumulative dollar preference share or ADS unless at the time of the disposal, in the case of a corporate US Holder, such US Holder carries on a trade in the UK through a permanent establishment or, in the case of any other US Holder, such US Holder carries on a trade, profession or vocation in the UK through a UK branch or agency and such non-cumulative dollar preference share or ADS is or has been used, held or acquired by or for the purposes of such trade (or profession or vocation), permanent establishment, branch or agency. Special rules apply to individuals who are temporarily not resident or ordinarily resident in the UK.

A US Holder will, upon the sale, exchange or redemption of a non-cumulative dollar preference share or ADS, generally recognise capital gain or loss for US federal income tax purposes (assuming that in the case of a redemption, such US Holder does not own, and is not deemed to own, any ordinary shares of the company) in an amount equal to the difference between the amount realised (excluding in the case of a redemption any amount treated as a dividend for US federal income tax purposes, which will be taxed accordingly) and the US Holder's tax basis in the non-cumulative dollar preference share or ADS.

A US Holder who is liable for both UK and US tax on gain recognised on the disposal of a non-cumulative dollar preference share or ADS will generally be entitled, subject to certain limitations, to credit the UK tax against its US federal income tax liability in respect of such gain.

If a corporate US Holder is subject to UK corporation tax by reason of carrying on a trade in the UK through a permanent establishment and its non-cumulative dollar preference share or ADS is, or has been, used, held or acquired for the purposes of that permanent establishment, certain provisions introduced by the Finance (No. 2) Act 2005 will apply if the US Holder holds its non-cumulative dollar preference share or ADS for a "tax avoidance purpose". If these provisions apply, dividends on the non-cumulative dollar preference share or ADS, as well as certain fair value credits and debits arising in respect of such share or ADS, will be brought within the charge to UK corporation tax on income and the UK tax position outlined in the preceding paragraphs will not apply in relation to such US Holder.

Estate and gift tax

Subject to the discussion of the Estate Tax Treaty in the next paragraph, non-cumulative dollar preference shares or ADSs beneficially owned by an individual may be subject to UK inheritance tax (subject to exemptions and reliefs) on the death of the individual or in certain circumstances, if the non-cumulative dollar preference shares or ADSs are the subject of a gift (including a transfer at less than market value) by such individual. (Inheritance tax is not generally chargeable on gifts to individuals made more than seven years before the death of the donor). Non-cumulative dollar preference shares or ADSs held by the trustees of a settlement will also be subject to UK inheritance tax. Special rules apply to such settlements.

Taxation for US Holders (continued)

A non-cumulative dollar preference share or ADS beneficially owned by an individual, whose domicile is determined to be the United States for purposes of the Estate Tax Treaty and who is not a national of the UK, will not be subject to UK inheritance tax on the individual's death or on a lifetime transfer of the non-cumulative dollar preference share or ADS, except in certain cases where the non-cumulative dollar preference share or ADS (i) is comprised in a settlement (unless, at the time of the settlement, the settlor was domiciled in the United States and was not a national of the UK); (ii) is part of the business property of a UK permanent establishment of an enterprise; or (iii) pertains to a UK fixed base of an individual used for the performance of independent personal services. The Estate Tax Treaty generally provides a credit against US federal estate or gift tax liability for the amount of any tax paid in the UK in a case where the non-cumulative dollar preference share or ADS is subject to both UK inheritance tax and US federal estate or gift tax.

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

The following is a summary of the UK stamp duty and SDRT consequences of transferring an ADS or ADR in registered form (otherwise than to the custodian on cancellation of the ADS) or of transferring a non-cumulative dollar preference share. A transfer of a registered ADS or ADR executed and retained in the United States will not give rise to stamp duty and an agreement to transfer a registered ADS or ADR will not give rise to SDRT. Stamp duty or SDRT will normally be payable on or in respect of transfers of non-cumulative dollar preference shares and accordingly any holder who acquires or intends to acquire non-cumulative dollar preference shares is advised to consult its own tax advisers in relation to stamp duty and SDRT.

PROs

United States

Payments of interest on a PRO (including any UK withholding tax, as to which see below) will constitute foreign source dividend income for US federal income tax purposes to the extent paid out of the current or accumulated earnings and profits of the company, as determined for US federal income tax purposes. Payments will not be eligible for the dividends-received deduction allowed to corporate US Holders. A US Holder who is entitled under the Treaty to a refund of UK tax, if any, withheld on a payment will not be entitled to claim a foreign tax credit with respect to such tax.

Subject to applicable limitations that may vary depending upon a holder's individual circumstances, dividends paid to certain non-corporate US Holders in taxable years beginning before 1 January 2011 will be taxable at a maximum tax rate of 15%. Non-corporate US Holders should consult their own tax advisers to determine whether they are subject to any special rules that limit their ability to be taxed at this favourable rate.

A US Holder will, upon the sale, exchange or redemption of a PRO, generally recognise capital gain or loss for US federal income tax purposes (assuming that in the case of a redemption, such US Holder does not own, and is not deemed

to own, any ordinary shares of the company) in an amount equal to the difference between the amount realised (excluding any amount in respect of mandatory interest and any missed payments which are to be satisfied on a missed payment satisfaction date, which would be treated as ordinary income) and the US Holder's tax basis in the PRO.

A US Holder who is liable for both UK and US tax on gain recognised on the disposal of PROs will generally be entitled, subject to certain limitations, to credit the UK tax against its US federal income tax liability in respect of such gain.

United Kingdom

Taxation of payments on the PROs

Payments on the PROs will constitute interest rather than dividends for UK withholding tax purposes. However, the PROs will constitute 'quoted eurobonds' within the meaning of section 349 of the Income and Corporation Taxes Act 1988 and therefore payments of interest will not be subject to withholding or deduction for or on account of UK taxation as long as the PROs remain at all times listed on a 'recognised stock exchange' within the meaning of section 841 of the Income and Corporation Taxes Act 1988. In all other cases, an amount must be withheld on account of UK income tax at the lower rate (currently 20%) subject to any direction to the contrary by HM Revenue & Customs under the Treaty and except that the withholding obligation is disappplied in respect of payments to persons who the company reasonably believes are within the charge to corporation tax or fall within various categories enjoying a special tax status (including charities and pension funds), or are partnerships consisting of such persons (unless HM Revenue & Customs directs otherwise). Where interest has been paid under deduction of UK withholding tax, US Holders may be able to recover the tax deducted under the Treaty.

Any paying agent or other person by or through whom interest is paid to, or by whom interest is received on behalf of, an individual, may be required to provide information in relation to the payment and the individual concerned to HM Revenue & Customs. HM Revenue & Customs may communicate this information to the tax authorities of other jurisdictions.

HM Revenue & Customs confirmed at around the time of the issue of the PROs that interest payments would not be treated as distributions for UK tax purposes by reason of (i) the fact that interest may be deferred under the terms of issue; or (ii) the undated nature of the PROs, provided that at the time an interest payment is made, the PROs are not held by a company which is 'associated' with the company or by a 'funded company'. A company will be associated with the company if, broadly speaking, it is part of the same group as the company. A company will be a 'funded company' for these purposes if there are arrangements involving that company being put in funds (directly or indirectly) by the company, or an entity associated with the company. In this respect, HM Revenue & Customs has confirmed that a company holding an interest in the PROs which incidentally has banking facilities with any company associated with the company will not be a 'funded company' by virtue of such facilities.

Interest on the PROs constitutes UK source income for UK tax purposes and, as such, may be subject to income tax by direct assessment even where paid without withholding. However, interest with a UK source received without deduction or withholding on account of UK tax will not be chargeable to UK tax in the hands of a US Holder unless, in the case of a corporate US Holder, such US Holder carries on a trade in the UK through a UK permanent establishment or in the case of other US Holders, such persons carry on a trade, profession or vocation in the UK through a UK branch or agency in connection with which the interest is received or to which the PROs are attributable. There are exemptions for interest received by certain categories of agents (such as some brokers and investment managers).

EU Directive on taxation of savings income

The European Union has adopted a directive regarding the taxation of savings income. The Directive requires member states of the European Union to provide to the tax authorities of other member states details of payments of interest and other similar income paid by a person to an individual resident in another member state, except that Belgium, Luxembourg and Austria are instead imposing a withholding system for a transitional period unless during such period they elect otherwise.

Disposal (including redemption)

A disposal (including redemption) of PROs by a non-corporate US Holder will not give rise to any liability to UK taxation on capital gains unless the US Holder carries on a trade (which for this purpose includes a profession or a vocation) in the UK through a branch or agency and the PROs are, or have been, held or acquired for the purposes of that trade, branch or agency.

A transfer of PROs by a US Holder will not give rise to a charge to UK tax on accrued but unpaid interest payments, unless the US Holder is an individual or other non-corporate taxpayer and at any time in the relevant year of assessment or accounting period carries on a trade in the UK through a branch or agency to which the PROs are attributable.

Annual tax charges

Corporate US Holders of PROs may be subject to annual UK tax charges (or relief) by reference to fluctuations in exchange rates and in respect of profits, gains and losses arising from the PROs, but only if such corporate US Holders carry on a trade, profession or vocation in the UK through a UK permanent establishment to which the PROs are attributable.

Inheritance tax

In relation to PROs held through DTC (or any other clearing system), the UK inheritance tax position is not free from doubt in respect of a lifetime transfer, or death of, a US Holder who is not domiciled nor deemed to be domiciled in the UK for inheritance tax purposes; HM Revenue & Customs is known to consider that the situs of securities held in this manner is not necessarily determined by the place where the securities are registered. In appropriate circumstances, there may be a charge to UK inheritance tax as a result of a lifetime transfer at

less than market value by, or on the death of, such US Holder. Inheritance tax is not generally chargeable on gifts to individuals made more than seven years before the death of the donor. However, exemption from, or a reduction of, any such UK tax liability may be available under the Estate Tax Treaty (see below). US Holders should consult their professional advisers in relation to such potential liability.

PROs beneficially owned by an individual, whose domicile is determined to be the United States for the purposes of the Estate Tax Treaty and who is not a national of the UK, will not be subject to UK inheritance tax on the individual's death or on a lifetime transfer of the PRO, except in certain cases where the PRO (i) is comprised in a settlement (unless, at the time of the settlement, the settlor was domiciled in the United States and was not a national of the UK); (ii) is part of the business property of a UK permanent establishment of an enterprise; or (iii) pertains to a UK fixed base of an individual used for the performance of independent personal services. The Estate Tax Treaty generally provides a credit against US federal estate or gift tax liability for the amount of any tax paid in the UK in a case where the PRO is subject to both UK inheritance tax and US federal estate or gift tax.

Stamp duty and SDRT

No stamp duty, SDRT or similar tax is imposed in the UK on the issue, transfer or redemption of the PROs.

Exchange controls

The company has been advised that there are currently no UK laws, decrees or regulations which would prevent the import or export of capital, including the availability of cash or cash equivalents for use by the Group, or the remittance of dividends or other payments to non-UK resident holders of the company's non-cumulative dollar preference shares.

There are no restrictions under the articles of association of the company or under UK law, as currently in effect, which limit the right of non-UK resident owners to hold or, when entitled to vote, freely to vote the company's non-cumulative dollar preference shares.

Memorandum and articles of association

The company's Memorandum of Association and Articles of Association as in effect at the date of this annual report are registered with the Registrar of Companies of Scotland. The Articles of Association were last amended on 29 April 2004 and have been filed with the SEC.

Documents on display

Documents concerning the company may be inspected at 36 St Andrew Square, Edinburgh, EH2 2YB.

Executive directors' service contracts and copies of directors' indemnities granted by the company in terms of section 309C of the Companies Act 1985 may be inspected at the company's office at Gogarburn, Edinburgh, EH12 1HQ (telephone 0131 626 4114).

Important addresses

Shareholder enquiries

Registrar

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Group Secretariat

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Investor Relations

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Email: investor.relations@rbsir.com

Registered office

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Registered in Scotland No. 45551

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