

Supplementary
listing particulars

increased offer

for **National Westminster Bank Plc**

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser duly authorised under the Financial Services Act 1986 if you are resident in the United Kingdom, or, if not, from another appropriately authorised independent financial adviser.

If you have sold or otherwise transferred all your NatWest Ordinary Shares please forward this document, together with the accompanying documents, immediately to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. This document and the accompanying documents must not, however, be forwarded, distributed or transmitted in or into the United States, Canada, Australia, or Japan.

This document comprises Supplementary Listing Particulars which are supplementary to and should be read in conjunction with the Listing Particulars dated 16 December 1999. These Supplementary Listing Particulars must be read in conjunction with the Key Information Sheet which incorporates further listing particulars. Copies of the Listing Particulars and the Supplementary Listing Particulars which have been prepared in accordance with the Listing Rules made under section 142 of the Financial Services Act 1986, have been delivered to the Registrar of Companies in Scotland for registration in accordance with section 149 of that Act.

Your attention is specifically drawn to, and all statements relating to the business, financial position and prospects of each of The Royal Bank of Scotland Group plc and National Westminster Bank Plc should be viewed in the light of, the Year 2000 compliance issues which are set out in this document and Part 1 of the Listing Particulars.

The Royal Bank of Scotland Group plc
(incorporated in Scotland under the Companies Acts 1948 to 1980 with registered number SC 45551)

Supplementary Listing Particulars
relating to the issue of
new ordinary shares of 25p each
in connection with
the Increased Offer
for
National Westminster Bank Plc

The Increased Offer is not being made in or into and is not capable of acceptance in or from Canada, Australia or Japan. Accordingly, copies of this document and any other document relating to the Original Offer or the Increased Offer are not being, and must not be, mailed or otherwise distributed or sent in or into Canada, Australia or Japan. Custodians, nominees and trustees should observe these restrictions and should not send or distribute this document in or into Canada, Australia or Japan.

The Increased Offer is being made available in the United States pursuant to a prospectus meeting the requirements of the US securities laws and containing detailed information about The Royal Bank of Scotland Group plc and its management, as well as financial statements. This Prospectus and other appropriate documentation for use in the United States is available from The Royal Bank of Scotland Group plc and should be used in the United States in lieu of this document.

The relevant clearances in relation to the New RBS Ordinary Shares and the Loan Notes have not been, nor is it intended that they will be obtained from the securities commission or similar authority of any province or territory of Canada and no prospectus has been, nor is it intended that one will be, filed or registration made under any securities laws of any province or territory of Canada, nor has a prospectus in relation to the New RBS Ordinary Shares or the Loan Notes been lodged, nor is it intended that one will be lodged with, or registered by, the Australian Securities Commission, nor have any steps been taken, nor is it intended that any steps will be taken, to enable the New RBS Ordinary Shares or the Loan Notes to be offered in compliance with applicable securities laws of Japan. Accordingly, unless an exemption under applicable securities laws is available, or such steps are consequently taken, neither the New RBS Ordinary Shares nor the Loan Notes may be offered, sold, re-sold, transferred or delivered, directly or indirectly, in, or into or from, Canada, Australia or Japan or any other jurisdiction in which the offer of the New RBS Ordinary Shares or the Loan Notes would constitute a violation of relevant laws or require registration thereof.

TIMETABLE OF PRINCIPAL EVENTS

Closing Date of the Increased Offer	1.00 p.m. on 14 February 2000
Last time and date for lodging Forms of Proxy for the Extraordinary General Meeting	11.00 a.m. on 26 February 2000
Extraordinary General Meeting	11.00 a.m. on 28 February 2000
Last day for the Increased Offer to become unconditional in all respects (unless the Panel otherwise consents)	6 March 2000

The timetable for the Admission of the New RBS Ordinary Shares depends on the date on which the Increased Offer becomes or is declared unconditional in all respects. The Royal Bank of Scotland Group plc has applied to the London Stock Exchange for the New RBS Ordinary Shares to be admitted to the Official List. It is expected that Admission will become effective and dealings will commence on the first business day following the day on which the Increased Offer becomes or is declared unconditional in all respects (subject only to the condition relating to Admission). The New RBS Ordinary Shares will only be made available to NatWest Ordinary Shareholders and to Banco Santander Central Hispano, S.A. and otherwise pursuant to the Partial Cash Alternative and will not be generally made available or marketed to the public in the United Kingdom.

DOCUMENTS

A copy of the Listing Particulars can be obtained free of charge from Computershare Services PLC, PO Box 435, Owen House, 8 Bankhead Crossway North, Edinburgh EH11 4BR (telephone: 0131 523 6666).

Certain statements in this document are "forward looking statements." All forward looking statements involve risks and uncertainties and are based on current expectations regarding important risk factors. Statements contained herein regarding the consummation and benefits of the proposed transaction, as well as expectations with respect to future interest receivable, ability to sustain margins, and realisation of financial and operating synergies and efficiencies, are subject to known or unknown risks, uncertainties and contingencies, many of which are beyond the control of The Royal Bank of Scotland Group plc, which may cause actual results, performance, or achievements to differ materially from anticipated results, performance, or achievements. Factors that might cause forward looking statements to differ materially from actual results include, among other things, requirements imposed by regulatory authorities to permit the transaction to be consummated, competitive factors in the industries in which The Royal Bank of Scotland Group plc and National Westminster Bank Plc compete, changes in the monetary and interest rate policies of the Bank of England and other G-7 central banks, inflation, deflation, the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries, fluctuations in interest rates, equity prices and foreign currencies, the adequacy of loss reserves, the inability to hedge certain risks economically, changes in consumer spending and other habits, as well as the impact of tax and other legislation and other regulations in the jurisdictions in which The Royal Bank of Scotland Group plc and National Westminster Bank Plc and their respective affiliates operate.

Merrill Lynch International and Goldman Sachs International, each of which is regulated in the United Kingdom by The Securities and Futures Authority Limited, are acting for The Royal Bank of Scotland Group plc and no one else in connection with the Increased Offer and will not be responsible to anyone other than The Royal Bank of Scotland Group plc for providing the protections afforded to their customers nor for providing advice in relation to the Increased Offer or any other matter referred to in this document.

1. Increased Offer for NatWest

On 29 November 1999, the Directors announced the terms of an offer to be made jointly by Merrill Lynch and Goldman Sachs on behalf of RBS, to acquire all of the NatWest Ordinary Shares. On 31 January 2000, the Directors announced the terms of an increased offer which is to be made in place of the Original Offer.

The Increased Offer is subject to the conditions and terms set out below and in the Increased Offer Document, the blue Form of Acceptance and the Key Information Sheet. The principal terms of the Increased Offer are as follows:

For each NatWest Ordinary Share	New RBS Ordinary Shares and cash
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in the amounts set out in the Key Information Sheet.

These are the Basic Terms. The New RBS Ordinary Shares will be issued credited as fully paid and will rank *pari passu* in all respects with the existing RBS Ordinary Shares. The earliest date on which the New RBS Ordinary Shares may be issued is the first business day following the date on which the Increased Offer becomes, or is declared, unconditional in all respects (subject only to the condition relating to Admission). Application has been made to the London Stock Exchange for Admission of the New RBS Ordinary Shares. New RBS Ordinary Shares may be held in certificated and uncertificated form.

Fractions of New RBS Ordinary Shares will not be allotted or issued to accepting NatWest Ordinary Shareholders, but will be aggregated and sold in the UK market and the net proceeds of sale distributed *pro rata* to NatWest's Ordinary Shareholders entitled thereto, save that individual entitlements of less than £3 will be retained for the benefit of the Enlarged RBS Group.

The Partial Cash Alternative

NatWest Ordinary Shareholders who validly accept the Increased Offer may elect to receive cash instead of the Relevant Percentage (as specified in the Key Information Sheet) of the New RBS Ordinary Shares which they would otherwise be entitled to receive under the Basic Terms. The amount of cash such NatWest Ordinary Shareholders will receive for each NatWest Ordinary Share and, the number of New RBS Ordinary Shares such NatWest Ordinary shareholders will receive for each NatWest Ordinary Share, are also specified in the Key Information Sheet. Electing for the Partial Cash Alternative will enable NatWest Ordinary Shareholders to use the Mix and Match Election to increase, subject to availability, the proportion of cash they receive instead of New RBS Ordinary Shares.

NatWest Ordinary Shareholders must not elect for additional New RBS Ordinary Shares (i.e. make an Additional Share Election) under the Mix and Match Election if they elect for the Partial Cash Alternative.

The Partial Cash Alternative is conditional on the Increased Offer becoming or being declared unconditional in all respects. It will remain open for acceptances until 1.00 p.m. (London Time), on 14 February 2000 and will, if the Increased Offer is then unconditional as to acceptances, remain open until 3.00 p.m. on 28 February 2000 and will then close and cease to be available for acceptance. If the Partial Cash Alternative closes, RBS reserves the right to reintroduce a cash alternative, subject to the Code.

To the extent NatWest Ordinary Shareholders do not elect for the Partial Cash Alternative the cash available under the Partial Cash Alternative will be used to satisfy elections for additional cash under the Mix and Match Election.

The Mix and Match Election

NatWest Ordinary Shareholders who validly accept the Increased Offer may elect, subject to availability, to use the Mix and Match Election to vary the proportions in which they receive New RBS Ordinary Shares and cash in respect of their holdings of NatWest Ordinary Shares. However, the total number of New RBS Ordinary Shares and the total amount of cash to be issued under the Increased Offer will not be varied as a result of Mix and Match Elections. Accordingly, RBS's ability to satisfy Mix and Match Elections will be dependent upon the extent to which other NatWest Ordinary Shareholders

make offsetting elections (and, in the case of an election for additional cash, to the extent they do not make elections for the Partial Cash Alternative). To the extent that elections cannot be satisfied in full, they will be scaled down on a pro rata basis. To the extent that elections can be satisfied, NatWest Ordinary Shareholders will receive New RBS Ordinary Shares instead of cash and vice versa.

NatWest Ordinary Shareholders will only be able to use the Mix and Match Election to elect for additional cash under the Mix and Match Election if they also elect for more cash under the Partial Cash Alternative.

NatWest Ordinary Shareholders who make Mix and Match Elections will not necessarily know the exact number of New RBS Ordinary Shares, or the amount of cash they will be entitled to until settlement of the consideration under the Increased Offer, although an announcement will be made when the Increased Offer becomes or is declared unconditional in all respects (subject only to the condition relating to Admission), of the approximate extent to which Mix and Match Elections will be satisfied.

The Mix and Match Election is conditional on the Increased Offer becoming or being declared unconditional in all respects. It will remain open until 1.00 p.m. on 14 February 2000 and will, if the Increased Offer is then unconditional as to acceptances, remain open until 3.00 p.m. on 28 February 2000 and will then close and cease to be available for acceptance. If the Mix and Match Election closes, RBS reserves the right to reintroduce a mix and match facility, subject to the Code.

The Mix and Match Election will not affect the entitlement of those NatWest Ordinary Shareholders who do not make Mix and Match Elections.

The Loan Note Alternative

NatWest Ordinary Shareholders who validly accept the Increased Offer may elect to receive Loan Notes instead of the cash consideration to which they would otherwise be entitled under the Basic Terms and/or an election for additional cash under the Mix and Match Election (i.e. an Additional Cash Election). They will not be entitled to more Loan Notes instead of cash made available under the Partial Cash Alternative. Their entitlement to Loan Notes will be on the following basis:

For every £1 cash under the Basic Terms and/or the Additional Cash Election	£1 nominal of Loan Notes
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The Loan Notes to be issued under the Increased Offer will be issued in amounts and integral multiples of £1 nominal value.

The Loan Notes will bear interest, from the date of issue to the relevant holder of Loan Notes, at a rate of LIBOR for six month sterling deposits determined on the first business day of the relevant interest period. Interest will be payable (less any tax required by law to be deducted therefrom) in arrears on 30 June and 31 December in each year. The first interest payment date will be 30 June 2000 in respect of the period from and including the date(s) of issue of Loan Notes to relevant holder(s) up to (but excluding) 30 June 2000 on an accrued basis.

Holders of Loan Notes will have the right to require RBS to redeem at par all or some (being £100 in nominal amount or any integral multiple thereof) of their Loan Notes on 31 March 2001 and on subsequent interest payment dates. If at any time the aggregate amount of all the Loan Notes outstanding is less than £100 million, RBS shall have the right, on any interest payment date falling after 31 December 2000, to repay all the outstanding Loan Notes at par together with accrued interest. Unless previously redeemed or purchased, the Loan Notes will be redeemed at par together with all accrued interest on the fifth anniversary of the date upon which the Increased Offer becomes or is declared unconditional in all respects (subject only to the condition relating to Admission).

RBS's joint corporate brokers, Credit Lyonnais, Merrill Lynch, and Warburg Dillon Read, have advised RBS that, in their opinion, based on market conditions on 28 January 2000 (being the latest practicable date prior to the publication of this document), if the Loan Notes had been in issue, the estimated value of the Loan Notes would have been approximately 99.9 pence per £1 nominal value.

The Loan Notes will be issued in registered form in integral multiples of £1 nominal amount, will be transferable (subject to certain restrictions) and will constitute unsecured obligations of RBS. The Loan Notes will not contain any restriction on borrowings or charging or disposal of assets by RBS. No application will be made to any stock exchange for the Loan Notes to be listed.

The Loan Note Alternative is conditional on the Increased Offer becoming or being declared unconditional in all respects. It will remain open for as long as the Increased Offer remains open for acceptance.

2. RBS Profit Forecast

Subject to unforeseen circumstances and on the basis and assumptions set out below and in Part A of this document, the Directors forecast the following results for the six months to 31 March 2000.

Group profit before tax is forecast to increase by 31 per cent. to £695 million (1999 – £531 million). Profit before tax and exceptional items is forecast to increase by 23 per cent. to £651 million (1999 – £531 million).

Group total income is forecast to rise 19 per cent. to £2,325 million, while operating expenses, before exceptional items, increase by 12 per cent. to £1,133 million. The RBS Group's cost:income ratio is forecast to improve from 51.8 per cent. to 48.7 per cent.

Earnings per share is forecast to rise 28 per cent. from 37.9p to 48.4p. After adjusting for exceptional items, earnings per share is forecast to rise by 19 per cent., from 37.9p to 45.0p.

The profit forecast has been prepared using the accounting policies normally adopted by the RBS Group and is based upon the unaudited management accounts of the RBS Group for the three months to December 1999 and management estimates and forecasts for the three months ending 31 March 2000. The bases and assumptions underlying the profit forecast together with reporting letters from PricewaterhouseCoopers, Merrill Lynch and Goldman Sachs relating to the forecast are set out in Part A of this document.

3. NatWest Profit Estimate

In its circular to shareholders dated 24 January 2000, the directors of NatWest set out an estimate of NatWest's 1999 annual results. The estimate is subject to certain stated bases and assumptions and has been reported on by KPMG Audit Plc, J. P. Morgan and Dresdner Kleinwort Benson on behalf of NatWest. Neither RBS nor its advisers have formally reviewed or reported on the estimate which is the sole responsibility of NatWest. RBS and its advisers express no opinion in relation thereto.

The profit estimate, together with the bases and assumptions which underlie it are set out in Part B of this document.

4. Regulatory matters

On 16 December 1999 the Secretary of State for Trade and Industry accepted the recommendation of the Director General of Fair Trading not to refer the proposed acquisition of NatWest by RBS to the Competition Commission.

5. Responsibility statement

The Directors (whose names are set out in paragraph 7 of this document) accept responsibility for the information contained in this document, save that the only responsibility accepted by the Directors in respect of such information relating to NatWest, which has been compiled from published sources, is to ensure that such information has been correctly and fairly reproduced and presented. Subject to the aforesaid, to the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

6. Share capital of RBS

- 6.1 The RBS Ordinary Share capital as at the close of business on 27 January 2000 (the latest practicable date prior to the publication of this document) is, and, based on the assumptions set out below, the enlarged RBS Ordinary Share capital will be, as follows:

	Number	Authorised Amount(£)	Issued and fully paid Number	Issued and fully paid Amount(£)
Before completion of the Increased Offer ⁽¹⁾	1,040,000,000	260,000,000	893,918,675	223,479,668.75
After completion of the Increased Offer ⁽²⁾	4,079,375,406	1,019,843,851.50	(3)	(3)

Note:

- (1) At the Extraordinary General Meeting of RBS on 13 January 2000, the authorised RBS Ordinary Share capital was increased to the "After completion" numbers set out in the above table conditional on the Original Offer being or being declared unconditional in all respects. The resolution increasing the RBS Ordinary Share capital to the "After completion" numbers is being resubmitted to RBS shareholders for approval at the Extraordinary General Meeting on 28 February 2000, conditional on the Increased Offer being or being declared unconditional in all respects.
- (2) Assumes that (i) the Increased Offer involves the issue of New RBS Ordinary Shares in accordance with the Basic Terms, (ii) NatWest Ordinary Shareholders accept the Basic Terms, (iii) the Increased Offer becomes or is declared unconditional in all respects, (iv) the Increased Offer is accepted in respect of all the NatWest Ordinary Shares, (v) the shares issued under the BSCH Share Issue are issued at the closing middle-market price of 1,060 pence per RBS Ordinary Share as provided by the London Stock Exchange on 28 January 2000 (being the latest practicable date prior to the publication of this document) resulting in an issue of 113,207,547 New RBS Ordinary Shares pursuant to the terms of the BSCH Share Issue Agreement and (vi) otherwise no further NatWest Ordinary Shares or RBS Ordinary Shares are issued whether in connection with the exercise of options or otherwise. However, RBS expects to issue approximately 10,000 RBS Ordinary Shares on the exercise of options under the RBS Share Schemes prior to the Revised Offer becoming or being declared unconditional in all respects. The exercise of these options is in the normal course of the operation of the RBS Share Schemes.
- (3) These amounts are set out in the Key Information Sheet.

- 6.2 On 27 January 2000 (the latest practicable date prior to the publication of this document), the existing authorised and issued preference share capital of RBS was as follows:

	Number	Authorised Amount	Issued and fully paid Number	Issued and fully paid Amount
11% Cumulative Preference Shares	500,000	£500,000	500,000	£500,000
5½% Cumulative Preference Shares	400,000	£400,000	400,000	£400,000
Non-cumulative Sterling Preference Shares	300,000,000	£300,000,000	—	—
Non-cumulative Dollar Preference Shares	16,000,000	US\$160,000	8,000,000	US\$80,000
Category II Non-cumulative Dollar Preference Shares	225,500,000	US\$2,225,000	82,000,000	US\$820,000
Non-cumulative Euro Preference Shares	66,000,000	€666,000	—	—
Non-cumulative Convertible Sterling Preference Shares	500,000	£50,000	—	—
Non-cumulative Convertible Dollar Preference Shares	2,000,000	US\$200,000	—	—
Non-cumulative Convertible Euro Preference Shares	2,000,000	€200,000	—	—

- 6.3 During the period from 10 December 1999 (the latest practicable date prior to publication of the Listing Particulars) to 27 January 2000 (the latest practicable date prior to the publication of this document), the following changes occurred in the authorised and issued RBS Ordinary Share capital.

RBS Ordinary Shares

	Authorised	Issued	Issue Price (p)
As at 10 December 1999	1,040,000,000	891,999,448	
<i>Changes:</i>			
Issued under Share Ownership Scheme		1,703,728	1,061
Issued under Sharesave Scheme		45,499	320-1085
Issued under Executive Scheme		170,000	399-535
As at 27 January 2000	1,040,000,000 ⁽¹⁾	893,918,675	

Note:

⁽¹⁾ At the Extraordinary General Meeting of RBS on 13 January 1999 the authorised RBS Ordinary Share capital was increased to 4,079,375,406 conditional on the Original Offer being or being declared unconditional in all respects. The resolution increasing the RBS Ordinary Share capital as aforesaid is being resubmitted to RBS shareholders for approval at the Extraordinary General Meeting on 28 February 2000 conditional on the Increased Offer being or being declared unconditional in all respects.

6.4 At the Extraordinary General Meeting of RBS to be held on 28 February 2000 a resolution will be proposed to:

6.4.1 approve the Increased Offer;

6.4.2 increase the authorised RBS Ordinary Share capital by the creation of an additional 3,039,375,406 RBS Ordinary Shares subject to the Increased Offer becoming or being declared unconditional in all respects (save for the condition relating to the passing of this resolution and Admission), give the Directors authority to allot unissued RBS Ordinary Share capital with a nominal value of up to £671,851,084 and give the Directors the power to allot equity securities for cash up to an aggregate nominal amount of £33,556,645 as if section 89 of the Companies Act 1985 did not apply to such allotment, (such approval superseding that given by paragraph B of the resolution passed at the Extraordinary General Meeting held on 13 January 2000);

6.4.3 increase the authorised preference share capital of RBS by the creation of 900,000,000 Category II Non-cumulative Convertible Sterling Preference Shares ("Convertible Sterling Shares") and to authorise the directors pursuant to section 80 of the Act to allot all such capital thereby created during the period commencing on the date of the passing of that resolution and expiring on the fifth anniversary of the passing of that resolution;

6.4.4 give the directors the authority pursuant to section 80 of the Act to allot rights to convert into up to 180,000,000 RBS Ordinary Shares in connection with the issue of the Convertible Sterling Shares and the power to allot equity securities for cash pursuant thereto as if section 89 of the Act did not apply to such allotment up to an aggregate nominal amount of £45,000,000 during the period commencing on the passing of that resolution and ending at the conclusion of the Annual General Meeting in 2001 or 15 months after the passing of that resolution whichever is the earlier;

6.4.5 amend the Articles to set out the rights attaching to the Convertible Sterling Shares and to make changes to the terms of certain classes of RBS preference shares to provide additional flexibility in the types of preference shares which RBS is able to issue.

6.5 Rights attaching to the Category II Non-cumulative Convertible Sterling Preference Shares

The terms of the Convertible Sterling Shares are the same in all material respects as the terms of the existing Category II Non-cumulative Dollar Preference Shares, except that (i) the denomination of the Convertible Sterling Shares will be Sterling, (ii) the Convertible Sterling Shares will become redeemable by RBS 30 days after the date of issue, (iii) no redemption premium is payable, (iv) the notice period for redemption is shorter, (v) the Convertible Sterling Shares carry the right to a fixed non-cumulative preferential dividend of nine per cent. per annum, (vi) the directors have the discretion to refuse to register any transfers of the Convertible Sterling Shares occurring prior to 30 September 2000 (the Convertible Sterling Shares being freely transferable thereafter), (vii) the Convertible Sterling Shares also carry the right to convert into RBS Ordinary Shares on three conversion dates, being 30 September 2001, 31 March 2002 and 30 September 2002. If they have not been converted or redeemed prior to 31 March 2003, they will automatically convert into RBS Ordinary Shares on that date. The right to convert will

be exercisable by service of a conversion notice on RBS within a specified period. The number of RBS Ordinary Shares to be issued on conversion of a Convertible Preference Share will be calculated by dividing the nominal value of such Convertible Preference Share together with any premium at which it was issued by the higher of (a) the average price at which an RBS Ordinary Share trades over a specified period, and (b) £5.

7. Directors

The Directors and the positions that they hold are as follows:

Viscount Younger of Leckie	Chairman
Sir Iain David Thomas Vallance	Non-executive Vice-chairman
Sir Angus McFarlane McLeod Grossart	Non-executive Vice-chairman
Sir George Ross Mathewson	Group Chief Executive
Frederick Anderson Goodwin	Deputy Group Chief Executive
Iain Samuel Robertson	Chief Executive, UK Bank
Lawrence Kingsbaker Fish	Chairman, President and Chief Executive Officer, Citizens Financial Group, Inc.
Norman Cardie McLuskie	Deputy Chief Executive, UK Bank
Emilio Botín-Sanz de Sautuola y Garcia de los Rios	Non-executive Director
Ian Faulconer Heathcoat Grant	Non-executive Director
Juan Rodríguez Inciarte	Non-executive Director
Eileen Alison Mackay	Non-executive Director
Cameron McLatchie	Non-executive Director
Charles Murray Stuart	Non-executive Director
William Moore Wilson	Non-executive Director

The business address of each of the Directors is that of the head office of RBS at 42 St. Andrew Square, Edinburgh EH2 2YE.

8. Directors' interests

On 14 January 2000, Sir George Mathewson, Norman McLuskie and Iain Robertson each became interested in a further 754 RBS Ordinary Shares pursuant to an appropriation of RBS Ordinary Shares under The Royal Bank of Scotland Group plc Profit Sharing (Share Ownership) Scheme.

9. Taxation

The statements below summarise advice received by the Directors in relation to certain aspects of the UK tax treatment of the Increased Offer for NatWest Ordinary Shareholders. They are intended only as a general guide to current UK tax law and practice for NatWest Ordinary Shareholders who are resident or ordinarily resident in the UK for tax purposes, who are the beneficial owners of their NatWest Ordinary Shares and who hold them as investments. **Any person who is in any doubt as to his tax position or who may be subject to tax in any jurisdiction outside the UK should consult an appropriate professional adviser.**

9.1 UK taxation of chargeable gains ("CGT")

Liability to CGT will depend on the particular circumstances of NatWest Ordinary Shareholders and on the form of consideration received.

9.1.1 Cash

An accepting NatWest Ordinary Shareholder will generally, to the extent that he receives cash under the Increased Offer, be treated as effecting a disposal or part disposal of his NatWest Ordinary Shares for the purposes of CGT and may, depending on his individual circumstances incur a liability to CGT.

Special rules apply for the purposes of CGT where a holder of NatWest Ordinary Shares receives cash and New RBS Ordinary Shares and/or Loan Notes, and the amount of cash received is "small" compared with the value of his NatWest Ordinary Shares. For these purposes the receipt of an amount of cash of £3,000 or less, or (if more) of five per cent. or less of the market value of the NatWest Ordinary Shares will be treated as "small". If those rules apply there will be no disposal or part disposal of the holder's NatWest Ordinary Shares in respect of the receipt of cash.

9.1.2 Receipt of New RBS Ordinary Shares and Loan Notes

A NatWest Ordinary Shareholder not holding (either alone or together with persons connected with him) more than five per cent. of NatWest Ordinary Shares or any other class of shares in or debentures of NatWest should not, to the extent that he receives New RBS Ordinary Shares or Loan Notes under the Increased Offer, be treated as having made a disposal of NatWest Ordinary Shares for the purposes of United Kingdom taxation of chargeable gains. Any gain or loss which would otherwise have arisen on a disposal of his NatWest Ordinary Shares will, in the case of an individual or other non-corporate shareholder, be “rolled-over” into the New RBS Ordinary Shares and the Loan Notes, and the New RBS Ordinary Shares and the Loan Notes, as the case may be, will be treated as the same asset as his NatWest Ordinary Shares acquired at the same time and for the same consideration as he acquired his NatWest Ordinary Shares.

To the extent that a NatWest Ordinary Shareholder within the charge to corporation tax receives New RBS Ordinary Shares, any gain or loss which would otherwise have arisen on a disposal of his NatWest Ordinary Shares will be “rolled-over” into the New RBS Ordinary Shares and the New RBS Ordinary Shares will be treated as the same asset as his NatWest Ordinary Shares acquired at the same time and for the same consideration as he acquired his NatWest Ordinary Shares. To the extent that a NatWest Ordinary Shareholder within the charge to corporation tax receives Loan Notes, any gain or loss which would otherwise have arisen on a disposal of his NatWest Ordinary Shares for a consideration equal to market value at the time of the exchange of the NatWest Ordinary Shares for Loan Notes will be “held over” and deemed to accrue on a subsequent disposal (including on redemption or repayment) of the Loan Notes.

Any NatWest Ordinary Shareholder who holds (either alone or together with persons connected with him) more than five per cent. of NatWest Ordinary Shares or any other class of shares in, or debentures of, NatWest is advised that an application for clearance will be made to the Inland Revenue under Section 138 of the Taxation of Chargeable Gains Act 1992 in respect of the Increased Offer, although receipt of such clearance is not a condition of the Increased Offer. Provided such clearance is given, any such shareholder will be treated in the manner described in the preceding paragraphs.

9.1.3 Disposal of New RBS Ordinary Shares or Loan Notes

A subsequent disposal of New RBS Ordinary Shares or of Loan Notes (including on redemption or repayment) may result in a liability to UK taxation of chargeable gains.

For a NatWest Ordinary Shareholder who is an individual or other non-corporate shareholder, the Loan Notes should not constitute qualifying corporate bonds for the purposes of UK taxation of chargeable gains. Accordingly, any chargeable gain or allowable loss on disposal (including on redemption or repayment) of the Loan Notes and/or any chargeable gain or allowable loss on the disposal of New RBS Ordinary Shares should be calculated taking into account the allowable original cost to the holder of acquiring the relevant NatWest Ordinary Shares. Indexation allowance on that cost should be available (when calculating a chargeable gain but not an allowable loss) in respect of the period of ownership of the NatWest Ordinary Shares up to April 1998. Thereafter, some taper relief may be available to reduce the amount of chargeable gain realised on the subsequent disposal. In broad terms it is expected that the allowable original cost of the relevant NatWest Ordinary Shares will be apportioned to the New RBS Ordinary Shares and/or the Loan Notes and/or the cash received according to their respective market values at the time of the exchange of the NatWest Ordinary Shares.

For a NatWest Ordinary Shareholder within the charge to corporation tax, the Loan Notes will be qualifying corporate bonds for the purposes of UK taxation of chargeable gains. Accordingly, no indexation allowance will be available for the period of ownership of the Loan Notes and, except to the extent that any gain or loss which would otherwise have arisen on the disposal of its NatWest Ordinary Shares was “held over” and crystallises on the subsequent disposal as described above, no gain or allowable loss shall arise. For a NatWest Ordinary Shareholder within the charge to corporation tax, any chargeable gain or allowable loss on the subsequent disposal of New RBS Ordinary Shares should be calculated taking into account the original cost to the holder of acquiring the relevant NatWest Ordinary Shares and (when calculating a chargeable gain but not an allowable loss) indexation allowance on that cost. In broad terms it is expected that the allowable original cost of the relevant NatWest Ordinary Shares will be

apportioned to the New RBS Ordinary Shares and/or the Loan Notes and/or the cash received according to their respective market values at the time of the exchange of the NatWest Ordinary Shares.

9.2 Dividends payable in respect of the New RBS Ordinary Shares

RBS will not be required to account for advance corporation tax in respect of dividends. Furthermore, RBS will not be required to withhold tax at source when paying a dividend.

An individual holder of New RBS Ordinary Shares resident in the UK (for tax purposes) should generally be entitled to a tax credit in respect of any dividend paid by RBS which he can offset against his total income tax liability. The amount of the tax credit for dividends paid is equal to 10 per cent. of the aggregate of the dividend and the tax credit (the "gross dividend"), which is also equal to one-ninth of the amount of the net cash dividend. The gross dividend is included in computing the income of such an individual holder for UK tax purposes.

The rate of income tax on dividends will be 10 per cent. of the gross dividend for taxpayers liable to income tax at rates not exceeding the basic rate. The tax credit will discharge the income tax liability on the dividend of an individual holder of New RBS Ordinary Shares who is not liable to income tax at a rate higher than the basic rate. Higher rate taxpayers will be liable to tax on the dividend at the rate of 32.5 per cent. of the gross dividend; the tax credit will be set against but not fully match their tax liability on the dividend and they will have to account for additional tax equal to 22.5 per cent. of the gross dividend (which is also equal to 25 per cent. of the net cash dividend received) to the extent that the gross dividend, when treated as the top slice of their income, falls above the threshold for higher rate income tax.

UK resident taxpayers who are not liable to UK tax on the dividends, including individuals not liable to income tax, pension funds and charities, will generally not be entitled to claim repayment of the tax credit attaching to dividends paid by RBS although charities will generally be entitled to limited compensation in lieu of repayable tax credits until 5 April 2004. Tax credits on dividends paid by RBS in respect of New RBS Ordinary Shares held in personal equity plans or individual savings accounts will generally be repayable until 5 April 2004.

A UK resident corporate holder of New RBS Ordinary Shares will not normally be liable to corporation tax in respect of any dividend received. Such a holder will not be able to claim repayment of tax credits attaching to dividends.

A holder of New RBS Ordinary Shares who is not resident in the UK for tax purposes will generally not benefit from any entitlement to a refund of any part of the tax credit.

9.3 Interest on the Loan Notes

9.3.1 Withholding tax

Payments of interest on the Loan Notes will be made subject to the deduction of a sum representing United Kingdom income tax at the lower rate (currently 20 per cent.) unless RBS has been directed by the Inland Revenue, in respect of a particular holding of Loan Notes, to make the payment free of deduction or subject to a reduced rate of deduction pursuant to the terms of a double taxation treaty. RBS will not gross up payments of interest on the Loan Notes to compensate for any amount in respect of tax which it is required to deduct at source.

9.3.2 Taxation of Interest

The gross amount of the interest on the Loan Notes will form part of the recipient's income for the purposes of United Kingdom income tax or corporation tax, credit being allowed for the tax withheld. Holders of the Loan Notes who are individuals and are taxed at the lower or basic rate of income tax only will have no further tax to pay in respect of the interest. Individual holders of Loan Notes taxed at the higher rate of income tax and corporate holders of Loan Notes may have further tax to pay in respect of the interest. In certain cases, holders of Loan Notes may be able to recover from the Inland Revenue an amount in respect of the tax withheld.

On a transfer of Loan Notes by an individual, a charge to UK income tax may arise under the "accrued income scheme" in respect of the interest on the Loan Notes which has accrued since the preceding interest payment.

A holder of Loan Notes which is a company within the charge to UK corporation tax in respect of the Loan Notes will generally bring into the charge to tax as income, interest on, and any profits and gains arising from, the Loan Notes in each accounting period broadly in accordance with the holder's authorised accounting treatment for this purpose.

9.4 Stamp Duty and Stamp Duty Reserve Tax ("SDRT")

No stamp duty or SDRT will be payable by NatWest Ordinary Shareholders who accept the Increased Offer.

10. Material contracts

Between 10 December 1999 (the latest practicable date prior to publication of the Listing Particulars) and the date of this document, the following contracts (not being entered into in the ordinary course of business) were entered into by RBS which are, or may be, material.

10.1 BSCH Cash Underpinning Agreement

An agreement between RBS and BSCH dated 29 January 2000 pursuant to which BSCH has agreed to procure persons to accept the allotment and issue of, or, to the extent that it does not so procure such persons, to accept the allotment and issue of, New RBS Ordinary Shares at a price of £10.60 to which NatWest Ordinary Shareholders who validly elect for the Partial Cash Alternative would otherwise be entitled under the Basic Terms.

Pursuant to the terms of the agreement, BSCH's obligation also extends to New RBS Ordinary Shares to which NatWest Ordinary Shareholders who make valid Additional Cash Elections would otherwise be entitled under the Basic Terms, where sufficient cash is available because other NatWest Ordinary Shareholders do not elect for the Partial Cash Alternative.

The maximum number of New RBS Ordinary Shares which BSCH has agreed to (or to procure persons to) accept the allotment and issue of, whether in relation to the Partial Cash Alternative or Additional Cash Elections, is 47,169,811.

The Agreement is conditional upon issue of the press announcement announcing the Increased Offer, the Increased Offer becoming unconditional as to acceptances not later than 14 February 2000, Admission, and the Increased Offer becoming unconditional in all respects not later than 8.30 a.m. on the date falling 21 days after the Increased Offer becomes unconditional as to acceptances. RBS and BSCH may jointly waive, or extend the time for, the satisfaction of any condition.

RBS has agreed to (a) give certain usual warranties to BSCH in respect of title to shares and authorities; (b) give an indemnity to BSCH in connection with third party claims for certain liabilities arising out of, or in connection with, it carrying out any of its obligations under the agreement and/or out of or in connection with the Increased Offer, excluding BSCH's underwriting losses; and (c) pay certain commissions and expenses.

10.2 CGU Subscription Agreement.

An agreement between RBS and CGU dated 30 January 2000 pursuant to which CGU has agreed to subscribe for up to 900,000,000 of new Category II Non-cumulative Convertible Sterling Preference Shares of £0.25 each in the capital of RBS (the "Convertible Sterling Shares"). The subscription price is £1 per share. Cash raised pursuant to the issue will be used to fund part of the cash consideration for the Increased Offer.

The agreement is conditional on the Increased Offer becoming unconditional in all respects not later than 8:00 a.m. on the date falling 35 days after the Increased Offer document is posted, or such later time as the Panel shall agree. The agreement contains usual warranties as to the capacity of both parties to enter into it.

The Convertible Sterling Shares carry a coupon of nine per cent. They are redeemable at the option of RBS and with the FSA's consent at any time. CGU has a right, if they have not been redeemed prior to 30 September 2001, to convert them on such date and thereafter at six monthly intervals into the number of RBS Ordinary Shares whose aggregate market value at the time of conversion is equal to the nominal value of the Convertible Sterling Shares so converted

together with any premium at which they were issued. The Convertible Sterling Shares convert automatically on 31 March 2003 if they have not been redeemed or converted before such date. The Convertible Sterling Shares are not transferable, except within the CGU Group, prior to 30 September 2000. If they have not been redeemed as at such date, they become freely transferable.

10.3 Commitment Facility

A letter agreement dated 29 January 2000 pursuant to which Merrill Lynch, Goldman Sachs and Warburg Dillon Read confirmed to RBS (subject to certain conditions) that they would severally (i.e. as to one third each) make available to RBS in connection with the Increased Offer, at its request, a liquidity facility of £3,500,000,000. The liquidity facility will be in the form of the issue by RBS of floating rate notes having a maximum maturity of 9 months.

11. Investments

On 11 January 2000 Citizens completed the acquisition of UST Corp. of Boston, Massachusetts. Full details of the Agreement and Plan of Merger relating to the acquisition (including the consideration paid by Citizens) are set out in paragraph 10.1.3 of Part 4 of the Listing Particulars.

12. Cost savings and revenue benefits.

The Directors confirm that the statements of estimated cost savings and statement of estimated revenue benefits contained paragraph 6 of Part 1 of the Listing Particulars remain valid for the purposes of the Increased Offer. Deloitte & Touche, Goldman Sachs and Merrill Lynch have each confirmed that their respective reports in relation to those statements, which are set out in Appendices VI and VII of the Original Offer Document and are available for inspection as set out in paragraph 16 below, continue to apply for the purposes of the Increased Offer.

13. Year 2000

A review of RBS's and NatWest's Year 2000 procedures and compliance is contained in paragraph 5 of Part 2 of the Original Circular and paragraph 16 of Part 1 of the Listing Particulars.

No material Year 2000 problems arising on or following 1 January 2000 were evident to, or had been brought to the attention of, the Directors in respect of the RBS Group's IT business critical systems and business critical processes ("Systems") as at the date of this document and the Directors believe that the RBS Group's Systems are, and will remain, Year 2000 compliant. In forming this view, they have relied on the apparent absence of material Year 2000 problems arising on or following 1 January 2000 (to the date of this document), the measures undertaken and described in the Original Circular and the Listing Particulars, assurances given by third parties including hardware and software suppliers, experts and key third parties with which the RBS Group deals. However, there can be no assurance that the Systems of any company will continue to perform as expected or that measures taken or to be taken by the RBS Group or by third parties will successfully minimise or eliminate the effects of the Year 2000 problem. Any failure to do so could have a materially adverse impact on the financial condition and results of the RBS Group and may not be embraced by the RBS Group's contingency plans.

14. Significant change

Except as set out in this document and the Key Information Sheet there has been no significant change affecting any matter contained in the Listing Particulars and no other significant new matter has arisen since publication of the Listing Particulars the inclusion of information in respect of which would have been required to be mentioned in the Listing Particulars if it had arisen at the time of its preparation.

15. General

- 15.1 The costs, charges and expenses relating to the Increased Offer and the capital raising initiatives associated therewith (including the BSCH Share Issue, the preference share issues referred to in paragraph 13 of Part 1 of the Listing Particulars and the BSCH Underwriting (which include stamp duty and stamp duty reserve tax, the cost of the application for the New RBS Ordinary Shares to be admitted to the Official List, Panel fees, the fees of bank and other securities regulators, professional fees, commitment fees, commissions, printing and other

expenses) which are payable by RBS, are estimated to amount to approximately £264,500,000 (excluding VAT payable by RBS). This amount includes the estimated stamp duty and stamp duty reserve tax payable if the Increased Offer is successful. The estimated amount payable to financial intermediaries in respect of capital raising is £85,275,000.

- 15.2 Merrill Lynch and Goldman Sachs have given and not withdrawn their written consents to the inclusion in this document of their names in the form and context in which they appear and of their letter set out in Part A of this document and the references thereto.
- 15.3 PricewaterhouseCoopers has given and has not withdrawn its written consent to the inclusion in this document of its name in the form and context in which it appears nor the inclusion of its letter in Part A of this document and has authorised the contents of that letter for the purposes of section 152(1)(e) of the Financial Services Act 1986 set out in Part A of this document; and the references thereto.
- 15.4 Deloitte & Touche has given and has not withdrawn its written consent to the inclusion in this document of its name in the form and context in which it appears and the references thereto.
- 15.5 Credit Lyonnais has given and has not withdrawn its written consent to the inclusion in this document of its name in the form and context in which it appears and the references thereto.
- 15.6 Warburg Dillon Read has given and has not withdrawn its written consent to the inclusion in this document of its name in the form and context in which it appears and the references thereto.

16. Documents available for inspection

Copies of the following documents will be available for inspection at the offices of Freshfields at 65 Fleet Street, London, EC4Y 1HS, during normal business hours on any weekday (weekends and public holidays excepted) from the date of this document while the Increased Offer remains open for acceptance:

- 16.1 the memorandum and articles of association of RBS;
- 16.2 the audited consolidated accounts of the RBS Group for each of the three financial years ended September 1999;
- 16.3 the service contracts and letter agreements of the Directors;
- 16.4 the written consents referred to in paragraph 16 of Part 4 of the Listing Particulars, paragraph 3 of Part 2 of the Circular and paragraph 15 above;
- 16.5 the material contracts of the RBS Group referred to in paragraph 10.1 of Part 4 of the Listing Particulars and paragraph 10 above;
- 16.6 the letters from Deloitte & Touche and Merrill Lynch and Goldman Sachs relating to the estimated cost savings and estimated revenue benefits referred to in paragraph 18 of Part 4 of the Listing Particulars and paragraph 12 above;
- 16.7 a draft (subject to amendment) of the instrument constituting the Loan Notes;
- 16.8 a letter of valuation of the Loan Notes from Credit Lyonnais, Merrill Lynch and Warburg Dillon Read dated 28 January 2000;
- 16.9 the Original Offer Document and accompanying Form of Acceptance, the Listing Particulars, the Original Circular, the Circular, the Supplementary Listing Particulars, the Increased Offer Document, the blue Form of Acceptance and the Key Information Sheet;
- 16.10 the rules of the RBS Share Schemes;
- 16.11 the reports prepared by PricewaterhouseCoopers and IBM in respect of the approach to convert to a single technology platform referred to in paragraph 6.4 of Part 1 of the Listing Particulars;
- 16.12 the memorandum of understanding between RBS and CGU referred to in paragraph 4 of Part 1 of the Listing Particulars; and
- 16.13 the letters from PricewaterhouseCoopers, Merrill Lynch and Goldman Sachs in relation to the profit forecast.

DEFINITIONS

The definitions used in the Listing Particulars (save as varied herein) together with the following definitions apply throughout this document unless the context otherwise requires:

“Additional Cash Election”	the right of NatWest Ordinary Shareholders who validly accept the Increased Offer and validly elect for the Partial Cash Alternative to elect for additional cash under the Mix and Match Election in excess of their entitlement under the Basic Terms
“Additional Share Election”	the right of NatWest Ordinary Shareholders who validly accept the Increased Offer to elect for additional New RBS Ordinary Shares under the Mix and Match Election in excess of their entitlement under the Basic Terms.
“blue Form of Acceptance”	the blue form of acceptance, authority and election relating to the Increased Offer and accompanying the Increased Offer Document, and (except where the context requires otherwise) blue Forms of Acceptance shall be construed accordingly
“BSCH Cash Underpinning Agreement”	the agreement between RBS and BSCH described in paragraph 10.1 of this document
“BSCH Underwriting ”	the underwriting of New RBS Ordinary Shares by BSCH pursuant to the BSCH Cash Underpinning Agreement
“CGU Subscription Agreement”	the agreement between RBS and CGU described in paragraph 10.2 of this document
“Circular”	the Class 1 circular to RBS shareholders comprising supplementary listing particulars in respect of, amongst other things, the Increased Offer and convening the Extraordinary General Meeting to be held on 28 February 2000
“Commitment Facility”	the agreement between RBS, Merrill Lynch, Goldman Sachs and Warburg Dillon Read described in paragraph 10.3 of this document
“Increased Offer”	the increased offer made by Goldman Sachs and Merrill Lynch on behalf of RBS to acquire all of the NatWest Ordinary Shares on the terms and subject to the conditions set out or referred to in the Increased Offer Document, in the blue Form of Acceptance and the Key Information Sheet including, where the context requires, any subsequent revision, variation, extension or renewal of such offer
“Key Information Sheet”	the Key Information Sheet setting out certain information in relation to the Increased Offer and comprising further supplementary listing particulars
“Listing Particulars”	the listing particulars of RBS dated 16 December 1999
“NatWest Ordinary Shares”	the existing issued or unconditionally allotted and fully paid ordinary shares of £1 each in the capital of NatWest and any further such shares which are issued or unconditionally allotted and fully paid before the date on which the Increased Offer closes (or such earlier date, not (without the consent of the Panel) being earlier than the date on which the Increased Offer becomes or is declared unconditional as to acceptances or, if later, the first closing date of the Increased Offer, as RBS may decide)
“New RBS Ordinary Shares”	the RBS ordinary shares of 25 pence each proposed to be issued, credited as fully paid, pursuant to the Increased Offer (including shares to be issued pursuant to the BSCH Cash Underpinning Agreement and the BSCH Share Issue Agreement referred to in paragraph 10.1 in Part 4 of the Listing Particulars)

“Offer Period”	the period which commenced on 24 September 1999 until whichever of the following dates shall be the latest (i) 1.00 p.m. (London time), 8.00 a.m. (New York City time) on 14 February 2000 (ii) the time and date at which the Increased Offer lapses and (iii) the date on which the Increased Offer becomes or is declared unconditional as to acceptances
“Original Circular”	the Class 1 circular to RBS shareholders, dated 16 December 1999, in respect of, amongst other things, the Original Offer
“Original Offer”	the offer made by Goldman Sachs and Merrill Lynch on behalf of RBS to acquire all of the NatWest Ordinary Shares on the terms and subject to the conditions set out in the Original Offer Document
“Original Offer Document”	the document dated 16 December 1999 containing the Original Offer
“Partial Cash Alternative”	the right of NatWest Ordinary Shareholders who validly accept the Increased Offer to elect for cash instead of New RBS Ordinary Shares to which they would otherwise be entitled under the Basic Terms of the Increased Offer
“Supplementary Listing Particulars”	this document
31 January 2000	

PART A

RBS PROFIT FORECAST

FORECAST GROUP RESULTS FOR THE HALF YEAR TO 31 MARCH 2000

The Board of The Royal Bank of Scotland Group plc ("RBS") forecasts that, subject to unforeseen circumstances and on the basis and assumptions, including the notes to the Group profit forecast, which form an integral part of this forecast, the Group results for the half year to 31 March 2000 ("the forecast Group results") will be as follows:

	Forecast Half-year 2000 £m	Half-year 1999 £m	Forecast % increase	Full year 1999 £m
Profit before tax and exceptional items (not less than)	<u>651</u>	<u>531</u>	23	<u>1,211</u>
Profit before tax (not less than)	<u>695</u>	<u>531</u>	31	<u>1,211</u>
Profit attributable to ordinary shareholders (not less than)	<u>433</u>	<u>333</u>	30	<u>776</u>
Earnings per ordinary share (not less than)	<u>48.4p</u>	<u>37.9p</u>	28	<u>87.8p</u>

1. Basis

The profit forecast is based on:

- the unaudited management accounts of the RBS Group for the three months to 31 December 1999 presented to and approved by the Group Board; and
- management estimates and forecasts for the three months ending 31 March 2000. Such management forecasts are based on current operating experience and expected market and economic conditions.

The profit forecast excludes any anticipated post acquisition profits and losses of NatWest, related financing and capital raising transactions and costs, other direct costs of acquisition and post acquisition costs, such as integration costs. The anticipated costs of the Offer and associated capital raising total £264,500,000, further details of which are stated in paragraph 15.1 of this document. In the event the Offer is unsuccessful the anticipated costs payable by RBS will be significantly lower.

2. Group accounting policies

The profit forecast was prepared on the basis of the accounting policies adopted by the RBS Group in the audited accounts for the year ended 30 September 1999 and as amended for changes arising from the adoption of Financial Reporting Standard ("FRS") 15, Tangible Fixed Assets, and FRS 16, Current Tax. The adoption of these new accounting standards does not have a material impact on the RBS Group.

3. Assumptions

The principal assumptions on which the forecast is based and which are outside the directors' control are:

- There will be no material change in the present management or control of the RBS Group.
- There will be no material change to the RBS Group's customers' ability to meet their obligations to the RBS Group from that currently anticipated by the directors.
- There will be no material change in legislation or regulatory requirements impacting the RBS Group's operations or its accounting policies. Any further guidance issued by the Financial Services Authority in respect of providing for pensions mis-selling will not have a material adverse affect on the RBS Group.
- There will be no material change in interest rates or exchange rates from those currently prevailing.

- There will not be any material change in the rates or bases of taxation, both direct and indirect, affecting the RBS Group from those currently prevailing.
- There will not be any changes in general trading and economic conditions in the countries in which the RBS Group operates or trades which would materially affect the RBS Group's business.
- There will be no material changes in the market value of listed investments held by the RBS Group.
- There will be no natural disasters or other circumstances which would cause there to be a materially adverse change in the level of insurance claims in the forecast period than that which the RBS Group has historically experienced.
- There will be no changes in circumstances (credit, operational or otherwise) affecting the performance of the RBS Group's underwriters or other trading companies which would have a materially adverse effect on the RBS Group.
- There will be no major disruptions to the businesses of the RBS Group, its suppliers or its major customers by reason of industrial disruption, civil disturbance or government action.
- There will be no material losses arising in respect of the RBS Group's contingent liabilities.
- Any Year 2000 problems at RBS Group's key counterparties will not have a materially adverse financial impact on the RBS Group.
- Results of businesses giving rise to dealing profits in the second quarter have been assumed to follow trends of the first quarter.

4. Notes to the forecast Group results

(a) Forecast consolidated profit and loss account (unaudited)

	Forecast before exceptional items £m	Forecast exceptional items £m	Forecast Half- year 2000 £m	Half- year 1999 £m	(Audited) Full Year 1999 £m
NET INTEREST INCOME	1,033	—	1,033	865	1,756
NON-INTEREST INCOME	824	—	824	753	1,672
General insurance premiums (net of reinsurance)	468	—	468	335	710
TOTAL INCOME	2,325	—	2,325	1,953	4,138
OPERATING EXPENSES	1,133	55	1,188	1,011	2,048
PROFIT BEFORE OTHER OPERATING CHARGES	1,192	(55)	1,137	942	2,090
General insurance claims (net of reinsurance)	395	—	395	302	590
PROFIT BEFORE PROVISIONS FOR BAD AND DOUBTFUL DEBTS	797	(55)	742	640	1,500
Provisions for bad and doubtful debts	146	—	146	108	276
Amounts written off investments	—	—	—	1	13
GROUP OPERATING PROFIT	651	(55)	596	531	1,211
Profit on sale of business	—	99	99	—	—
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	651	44	695	531	1,211
Tax on Group profit on ordinary activities	(199)	(13)	(212)	(164)	(361)
PROFIT ON ORDINARY ACTIVITIES AFTER TAX	452	31	483	367	850
Minority interests—equity	7	—	7	2	6
PROFIT AFTER MINORITY INTERESTS	459	31	490	369	856
Preference dividends	57	—	57	36	80
PROFIT ATTRIBUTABLE TO ORDINARY SHAREHOLDERS	402	31	433	333	776
EARNINGS PER ORDINARY SHARE			48.4p	37.9p	87.8p
Adjustments to exclude exceptional items:					
Restructuring costs on acquisitions			4.3p	—	—
Profit on sale of business			(7.7p)	—	—
ADJUSTED EARNINGS PER ORDINARY SHARE			45.0p	37.9p	87.8p

4. Notes to the forecast Group results (continued)

Group profit before tax up 31%, from £531 million to £695 million. Profit before tax and exceptional items up by 23%, from £531 million to £651 million.

Net interest income up by 19% to £1,033 million.

Non-interest income, excluding general insurance, up by 9% to £824 million.

General insurance premium income, after reinsurance, up by 40% to £468 million.

Total income up by 19% to £2,325 million.

Operating expenses, before exceptional items, up by 12% to £1,133 million.

Group cost:income ratio improves from 51.8% to 48.7%.

General insurance claims, after reinsurance, up by 31% to £395 million.

Provisions for bad debts up by £38 million to £146 million.

Exceptional items of £99 million from the sale of the Group's main investor services businesses and exceptional restructuring costs of £55 million in relation to Citizens' acquisitions.

Tax charge of £212 million on profits before tax of £695 million, an effective rate of 30.5%.

Profit attributable to ordinary shareholders, after tax, minority interests and preference dividends, up by 30%, from £333 million to £433 million.

Earnings per share up by 28%, from 37.9p to 48.4p. After adjusting for the exceptional items, earnings per share up by 19%, from 37.9p to 45.0p.

(b) Segmental analysis of forecast Group operating profit before exceptional items is shown below.

	Forecast Half-year 2000 £m	Half- year 1999 £m	(Audited) Full Year 1999 £m
UK Bank	411	344	736
New Retail Financial Services Businesses	(1)	(17)	(26)
Angel Trains	33	24	53
RBS Cards	47	37	85
Direct Line Insurance Division	14	9	93
Citizens	135	119	242
The Royal Bank of Scotland International	44	34	70
Central Items	(32)	(26)	(56)
Investor Services—discontinued	—	7	14
Group operating profit before exceptional items	<u>651</u>	<u>531</u>	<u>1,211</u>

Privilege Insurance (previously included in the New Retail Financial Services Businesses) is now included with Direct Line Insurance and Green Flag as the Direct Line Insurance Division. The 1999 figures have been adjusted to reflect this.

LETTER BY REPORTING ACCOUNTANTS

The letter by the reporting accountants included in this Part A (the “letter”) is provided solely on the basis of and in accordance with standards and practices established in the United Kingdom. The letter is included to comply with the requirements and rules of the London Stock Exchange and the City Code on Takeovers and Mergers of the United Kingdom.

The form of the letter does not comply with generally accepted auditing standards in the United States of America (“US GAAS”) since US GAAS does not provide for an expression of an opinion on a review of a profit forecast, or the performance of agreed upon procedures on such information. In order to express an opinion in conformity with US GAAS, an examination greater in scope than that performed would be required. Although not prepared in accordance with professional reporting standards or practices in the United States of America (the “US”), the letter is being provided to the US shareholders in accordance with the requirements of the US Securities and Exchange Commission.

The Directors
The Royal Bank of Scotland Group plc
42 St Andrew Square
EDINBURGH
EH2 2YE

The Directors
Merrill Lynch International
Ropemaker Place
25 Ropemaker Street
LONDON
EC2Y 9LY

The Directors
Goldman Sachs International
Peterborough Court
133 Fleet Street
LONDON
EC4A 2BB

31 January 2000

Dear Sirs

We refer to the statement made by the Board of The Royal Bank of Scotland Group plc ("RBS") entitled "Forecast Group Results for the Half Year to 31 March 2000", set out in Part A of the Supplementary Listing Particulars dated 31 January 2000 issued by RBS, regarding the profit forecast of RBS and its subsidiary and associated undertakings ("the RBS Group"), together with note 4 "Notes to the Forecast Group Results" to the profit forecast, for the six months ending 31 March 2000 ("the forecast results").

We have reviewed the basis of compilation and the accounting policies for the forecast results. The forecast results, for which the directors of RBS are solely responsible, include the results shown by unaudited management accounts for the three months ended 31 December 1999 and a forecast for the three months ending 31 March 2000.

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board of the United Kingdom.

Our work has not been carried out in accordance with auditing standards generally accepted in the United States of America ("US") and accordingly should not be relied upon as if our work had been carried out in accordance with those standards. This letter has been prepared in accordance with standards and practices established in the United Kingdom for use solely in connection with the offer by Merrill Lynch International and Goldman Sachs International, on behalf of RBS, for the entire issued share capital of National Westminster Bank plc. This letter has not been prepared in connection with the filing of a registration statement with the US Securities and Exchange Commission and does not comply with United States generally accepted auditing standards. Accordingly, under United States auditing standards we are unable to express any opinion with respect to the forecast results of the RBS Group.

In our opinion the forecast results of the RBS Group have been properly compiled on the basis stated and the basis of accounting is consistent with the accounting policies of RBS.

Yours faithfully

PricewaterhouseCoopers
Chartered Accountants

Goldman Sachs International

Peterborough Court
133 Fleet Street
London EC4A 2BB

Merrill Lynch International

Ropemaker Place
25 Ropemaker Street
London EC2Y 9LY

The Directors
The Royal Bank of Scotland Group plc
42 St Andrew Square
Edinburgh EH2 2YE

31 January 2000

Dear Sirs

THE ROYAL BANK OF SCOTLAND GROUP plc PROFIT FORECAST

We refer to the profit forecast made by The Royal Bank of Scotland Group plc ("RBS") for the six months ending 31 March 2000, which is set out in Part A of the Supplementary Listing Particulars dated 31 January 2000.

We have discussed the profit forecast and the basis and assumptions on which it has been prepared with you as Directors of RBS. We have also discussed the accounting policies and calculations for the profit forecast with PricewaterhouseCoopers, RBS's auditors, and we have considered their letter of 31 January 2000 addressed to yourselves and ourselves on this matter. We have relied upon the accuracy and completeness of all of the financial and other information discussed with us and have assumed such accuracy and completeness for the purposes of rendering this letter.

This report is provided in compliance with Rules 28.3(b) and 28.4 of the City Code on Takeovers and Mergers and Paragraph 2.15 of the Listing Rules of the London Stock Exchange.

On the basis of the foregoing, we consider that the profit forecast referred to above, for which the Directors of RBS are solely responsible, has been made with due and careful enquiry.

Yours faithfully

for and on behalf of
Goldman Sachs International

for and on behalf of
Merrill Lynch International

Andrew Chisolm
Managing Director

Matthew Greenburgh
Managing Director

PART B

NATWEST PROFIT ESTIMATES

The financial information set out in this Part B comprises the estimates of results of the NatWest Group for the year ended 31 December 1999, prepared on the basis of both the current corporate structure and on a pro forma basis, (assuming the divestment of Greenwich NatWest, Ulster Bank, Gartmore and NatWest Equity Partners as set out below). Numerical footnotes have been added for the purposes of this document by way of cross-reference to the reproduced pages in this document.

“ESTIMATED 1999 RESULTS

- The Directors' estimate of results of the NatWest Group for the year ended 31 December 1999, which is on the basis and assumptions set out in Appendix II¹, is set out below:

	<u>1998</u>	<u>1999E</u>
Profit before taxation	£2,142m	£2,305m
Profit attributable to ordinary shareholders	£1,566m	£1,666m
Earnings per share	91.2p	98.9p
Headline earnings per share	78.1p	90.9p
Headline return on average equity	17.2%	18.4%
Headline return on average equity based on 7% tier 1 capital ratio	18.7%	22.1%

- Based on the estimated results, the underlying profit before taxation* was £2,268m in 1999, an increase of 17% over the 1998 figure of £1,944m.
- Group costs, excluding disposals, revenue investment, restructuring costs and higher performance related bonuses in Greenwich NatWest arising in respect of above plan income in the fourth quarter of 1999, are estimated to have been £3,955m in 1999 compared with £3,999m in 1998.
- Group revenue investment expenditure in 1999 is estimated to have been £532m compared with £484m in 1998.
- Group restructuring costs in 1999 are estimated to have been £142m compared with £122m in 1998.

* Excludes the results of businesses exited or sold, discontinued operations, finance lease adjustments, pensions mis-selling provisions and a restructuring charge in 1998 resulting from the disposal of Lombard businesses (see Appendix II, note 2(e))

¹ of the NatWest Circular dated 24 January 2000, reproduced on pages 24 and 25 of this document.

ESTIMATED NEW NATWEST 1999 RESULTS

- The Directors' estimate of pro forma results of the new NatWest, i.e. excluding the results of the businesses proposed to be divested, on the same basis and assumptions, is set out below:

	<u>1998</u>	<u>1999E</u>
Profit before taxation	£1,545m	£1,792m
Profit attributable to ordinary shareholders	£984m	£1,188m
Headline return on average equity based on 7% tier 1 capital ratio	23.8%	24.1%

- The estimated 1999 profit before taxation for the new NatWest of £1,792m was 16% higher than the 1998 figure of £1,545m.
- Based on the estimated results, the underlying profit before taxation* of the new NatWest was £1,832m in 1999, an increase of 9% over the 1998 figure of £1,675m.
- Further information relating to the estimated 1999 results is set out in Appendix II², which also includes letters relating to the estimated results from KPMG Audit Plc, J.P. Morgan Securities Ltd. and Kleinwort Benson Limited.

* Excludes the results of businesses exited or sold, discontinued operations, finance lease adjustments, pensions mis-selling provisions and a restructuring charge in 1998 resulting from the disposal of Lombard businesses

² of the NatWest Circular dated 24 January 2000, reproduced on pages 24 and 25 of this document.

APPENDIX II³

Estimated 1999 results

1. Directors' confirmation

The Directors confirm, subject to unforeseen circumstances and on the basis and assumptions set out below, the statements regarding the estimated results of the NatWest Group and estimated pro forma results of the new NatWest for the year ended 31 December 1999 set out on pages 7 and 8 of this document⁴ (the "Statements").

2. Basis and assumptions

(a) Basis of preparation

The Statements have been made using the same accounting policies as are set out in the NatWest Report and Accounts for the year ended 31 December 1998 and are based on the unaudited consolidated management accounts for the year ended 31 December 1999.

The Statements have been made on the basis of the Group's structure as at 31 December 1999. No account has been taken of NatWest's costs relating to the offers, which are estimated to amount to £65m.

(b) Assumptions

The principal assumptions on which the Statements are based are:

- (i) that no events will arise between 24 January 2000 and 29 February 2000 (being the date NatWest expects to announce its audited results for 1999) which will have to be reflected in the 1999 results in accordance with UK Generally Accepted Accounting Principles;
- (ii) that there will be no material retrospective change in the applicable laws and regulations affecting the Group's businesses;
- (iii) that there will be no retrospective change in the rate of indirect taxation, or other legislation or government action, which may adversely affect the Group; and
- (iv) save as already announced, there will be no material changes in the management, control and composition of the Group.

(c) Notes to the estimated 1999 results

- (i) Return on average equity is estimated to be 20.0% (1998 20.0%).
- (ii) Earnings per share are calculated by dividing the profit attributable to shareholders of £1,666m (1998 £1,566m) by the weighted average number of ordinary shares in issue of 1,684m (1998 1,717m).
- (iii) Headline earnings per share are as defined by the Institute of Investment Management and Research. These are calculated by adjusting the profit attributable to ordinary shareholders for the after-tax profits or losses on disposals and termination of businesses and tangible fixed assets, provisions for impairment of tangible fixed assets and goodwill amortisation.
- (iv) Headline post-tax return on average equity is based on headline earnings.
- (v) Average equity is attributable relative to weighted risk assets, adjusted for goodwill and other local regulatory/business needs.
- (vi) Headline post-tax return on average equity is calculated assuming a tier 1 capital ratio of 7.0%, including preference share capital, minority interests and after deducting goodwill. Attributable profits have been adjusted for the effect of the reduction in ordinary shareholders' funds assuming a gross interest rate of 6.50% per annum and corporation tax rates of 31% in 1998 and 30.25% in 1999.

³ of the NatWest Circular dated 24 January 2000.

⁴ i.e. pages 7 and 8 of the NatWest Circular dated 24 January 2000, reproduced on page 23 of this document.

(d) Pro forma new NatWest figures

The statement set out below shows the derivation of the estimated pro forma profit before taxation and profit attributable to shareholders for the new NatWest.

	1998		1999E	
	Profit before taxation	Profit attributable to shareholders	Profit before taxation	Profit attributable to shareholders
	£m	£m	£m	£m
Group (note 1)				
Businesses exited and sold	2,142	1,566	2,305	1,666
	(289)	(242)	33	(32)
Discontinued operations	(84)	(82)	(110)	(151)
Ongoing Group	1,769	1,242	2,228	1,483
Proposed divestments (note 2)	(261)	(295)	(474)	(333)
Goodwill on proposed divestments	37	37	38	38
	(224)	(258)	(436)	(295)
New NatWest	1,545	984	1,792	1,188

Notes to the pro forma statement

1. Based on NatWest Group's unaudited consolidated management accounts for the year ended 31 December 1999 and the consolidated accounts for the year ended 31 December 1998.
2. Proposed divestments comprise Greenwich NatWest, Ulster Bank, Gartmore and NatWest Equity Partners and their results are as incorporated in note 1 above. The 1998 figures have been adjusted, for the purposes of this pro forma statement only, to reflect the effects of the transfer that took place on 1 January 1999 of certain assets from Greenwich NatWest to Corporate Banking Services.

(e) Underlying profit

The statement set out below shows the derivation of the estimated underlying profit before taxation for the NatWest Group.

	1998 £m	1999E £m
Profit before taxation—Ongoing Group	1,769	2,228
Finance lease adjustment	55	—
Pensions mis-selling provision	100	40
Lombard restructuring costs	20	—
Underlying profit	1,944	2,268

The statement set out below shows the derivation of the estimated underlying profit before taxation for the new NatWest.

	1998 £m	1999E £m
Profit before taxation—new NatWest	1,545	1,792
Finance lease adjustment	10	—
Pensions mis-selling provision	100	40
Lombard restructuring costs	20	—
Underlying profit	1,675	1,832

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