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General Progress Report

We are aware that it is some time since we last issued an email newsletter and supporters may be concerned at the apparent slow pace of progress on the claim we are pursuing on behalf of shareholders. The purpose of this email is to reassure you that it is being moved forward and considerable work continues to be done on the matter. The main reason for the slight delay results from the need to get commitments to support the action from a number of large institutional shareholders. Although we now have over 5,000 registered individual shareholders who have contributed financially and have hence supported the work done to date, we need to have a number of institutional holders committed to the action so that the size of the claim is large enough. This is required so that we can obtain litigation funding from third parties which will be necessary because of the very large costs of the prospective action. It typically takes considerable time to get firm commitments from institutions because they need clear details of the basis of the case, on which they then consult their own legal advisors, and also it tends to require a number of people in their organisation to approve such support including main board decisions. These processes do take time.

It is necessary to point out that it is not practical to pursue such a claim solely based on the support of private shareholders, even though some of them have substantial holdings. Therefore we do need to sign up institutional holders and doing so requires us to identify such organisations and the people responsible (not always clear from the share register alone), to explain to them the basis of the claim, and provide reassurance on various matters. All of this takes considerable effort.

It is also worth emphasising that we have established a clear basis for a claim and a very large amount of work has been put in by the legal team working on this matter and the financial investigatory company that has been employed.

We will of course advise all of our supporters as soon as we can when we have reached the next stage in the process which will be when the formal claim letter has been submitted. If you have any questions on this matter, you are welcome to telephone me on the number below or send an email to info@rbosaction.org.

Financial Support Still Required

For those who have not yet registered with us and made a financial contribution, please do so because we still need further funds to enable us to maintain the effort on this campaign. You can register by printing out a form from our web site (from this web page: www.rbosaction.org/Membership.htm) or go to this page to pay online via a credit card: www.rbosaction.org/Payment.htm . If you have already registered as a member but wish to provide some further financial support for which we would be very grateful then please use this form instead: www.rbosaction.org/RBOS_Donation_Form.pdf

US Legal Action

As we have probably mentioned before, there is a US legal action that has been filed in the State of New York (a typical "class action" as they call it) concerning the affairs of RBS. This was filed some months ago. However a recent judgement by the US Supreme Court in relation to another case means that UK residents who subscribed for the UK prospectus for the rights issue in May 2008 are very unlikely to be able to benefit from any action in the US courts. Indeed it is questionable whether the US courts will grant any jurisdiction for any action in respect of the rights issue because RBS is registered in Scotland and the Prospectus contained a clear condition that any action in respect of the matter had to be brought in the English courts.

It would certainly have been preferable in some ways to launch an action in the USA, where shareholder rights regarding "fraud on the market" are more clearly established, and it is in some ways easier to finance legal actions. However, we have confidence that there are good grounds for an action in the English courts and suitable ways to finance such an action.

More Bad News for Banks

Although the share price of RBS reached as high as 58p in April, it has now fallen back to the low 40s. This is probably the impact of an accumulation of bad news for banks in general in the last few months, in addition to the market generally falling because of worries over the UK economy. The new UK Government is proposing a levy on banks balance sheets. The estimated impact on RBS is a payment of £635m in 2012 which will have a direct impact on profits. Overseas banks will not be affected so this may make RBS uncompetitive on the global scene.

Of course RBS is in the process of shrinking its balance sheet which might help and recently indicated that it was looking to offload a £3bn package of "non-core" property loans. In addition it is reviewing final bids for over 300 of its retail branches which it has to unload as a condition of state support, and is also reviewing bids for its Worldpay payment processing business. Politically everyone still seems to see banks and bankers as soft targets for more taxation as they have become the whipping boy of the corporate world.

Another negative is that investment banking is forecast to be not as profitable as it has been in recent months in the next quarter for all banks. In addition the UK Government is to appoint a commission which will consider the separation of the investment banking and retail banking operations of all banks, and that would certainly affect RBS also.

ABN-AMRO Acquisition

Stephen Hester, Chief Executive of RBS recently confirmed to the German newspaper Welt am Sonntag that the takeover of ABN-AMRO "*was clearly a big mistake*". More bad news on this front was the revelation that ABN-AMRO has agreed to pay US\$500m (£337m) in fines as settlement of a US legal action for sanction busting in respect of deals with Iran, Libya, Sudan and Cuba. However RBS indicated it already had a provision in its accounts for this liability. Stephen Hester also said in the same interview that the first steps towards privatisation (i.e. a sale of the Government stake) might take place next year.

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Note that all "Update" reports are posted on the News section of our web site (www.rbosaction.org) as soon as they are issued.