



RBS Environmental Strategy Index

An Index designed to capture the growth of companies operating in the environmental market sector

The RBS Environmental Strategy Index is one of a range of exclusive rules-based indices created by RBS plc and designed to provide access to a variety of investment themes.

What is an index?

An index is a tool for measuring the performance of a collection of financial assets. It may, for example, be composed of shares in companies from a specific industry sector or a particular country or it may contain a range of commodities such as oil, gold or wheat. An index is therefore often useful as a benchmark which can be used to represent the performance of a particular market sector. For example, the FTSE 100 Index is a measure of the share price performance of the largest 100 companies that are based in the UK and listed on the London Stock Exchange.

In order to determine which shares the index will measure, it uses a set of pre-defined rules. By utilising a clearly defined, rules-based measure of the market sector (e.g. in the case of the FTSE 100 Index, UK shares), financial institutions, such as banks, can create products linked to the performance of these indices.

Why use an index?

An index can offer a number of potential benefits:

- **Diversification** – investing in a wide range of financial assets, such as a collection of UK shares rather than just one individual UK share, reduces exposure to the specific risks associated with a particular company. Instead, exposure is to the performance of the market sector generally. A more diverse exposure to the market sector can help create more consistent returns over the medium to long-term.
- **Exposure to new market sectors or investment themes** – an index can provide exposure to market sectors or investment themes that may otherwise be too expensive or difficult to access.
- **Simplicity** – an index will use clearly defined rules to help determine which financial assets to track and when.
- **Low cost** – gaining exposure to entire market sectors or investment themes without having to buy each individual constituent of an index can save significant transaction costs.

The Royal Bank of Scotland plc ('RBS plc') has created its own range of custom indices which use rules-based techniques similar to traditional benchmark indices, yet aim to offer exposure to specific market sectors or investment themes that you may otherwise be unable to access. The RBS Environmental Strategy Index is one such custom index.

Introducing the RBS Environmental Strategy Index

The RBS Environmental Strategy Index (the 'Index') is designed to capture the growth of a global basket of companies that operate in the environmental market sector. It provides a broad exposure to the shares of companies operating in the areas of solar energy, wind energy, blue energy (energy generated by water) and waste management.

Additionally, the Index has an automatic feature, called a 'Volatility Control Overlay' (sometimes referred to as 'Dynamic Risk Management'), which is designed to protect against some of the inherent volatility exhibited by shares and cushion the effect of sudden market movements.

Official Index name

The official name of the Index is the RBS Environmental Strategy Index (GBP) ER 12%.

The significance of the terms used in the Index name will be explained throughout this guide.



What is the environmental market sector?

The term 'environmental' is used to represent companies that operate in industries that could play a significant role in the work to reduce global carbon emissions and combat climate change.

As the global population increases, the need to find sustainable ways to both meet increasing energy requirements and manage waste production is becoming progressively more important. As a result, clean energy sources such as solar energy, wind energy and blue energy (energy generated by water) as well as sustainable waste management are ever more important to meet this changing environment.

Investing in the environmental market sector

International efforts to significantly reduce carbon emissions in order to prevent irreversible climate change are likely to have a wide-ranging impact on economies and financial markets over the coming years.

The International Energy Agency has forecast that the use of renewable energy will triple between 2008 and 2035 with the renewable power sector increasing its global share of electricity supply from 19% to 32%¹ over the same period. This is predominately driven by the need for oil dependent economies to diversify their energy mix as well as increasing environmental and sustainability concerns.

With an increasing focus from international governments on the need to cut global carbon emissions, the potential for investment and subsequent growth in clean, renewable energy and efficient management of water and waste remains strong.

Despite this potential it can often be difficult for individual investors to access the global environmental market sector through traditional benchmark indices. Furthermore, with growing companies based in countries across the globe (including some emerging market countries), the share prices of these companies can be unpredictable. This can mean an investment in the environmental market sector is riskier than a traditional investment in, for example, developed market shares.

The RBS Environmental Strategy Index is designed to capture this potential positive performance whilst also aiming to limit some of the inherent risks involved in such an investment by reducing exposure to the underlying company shares in times of high volatility.

¹ Source: International Energy Agency, *World Energy Outlook 2010*, November 2010.

The RBS Environmental Strategy Index

The RBS Environmental Strategy Index is designed to measure the performance of shares of companies that operate in the global environmental market sector.

The RBS Environmental Strategy Index is linked to the performance of up to 10 of the largest companies operating in each of the four main environmental market sectors: solar energy, wind energy, blue energy (energy generated by water) and waste management.

Each of the four market sectors is given an equal weighting within the Index to try and ensure that the Index is representative of the broad environmental market sector. The Index is currently composed of 36 shares (as of 6 June 2011) and can have up to 40 shares (10 in each environmental market sector).

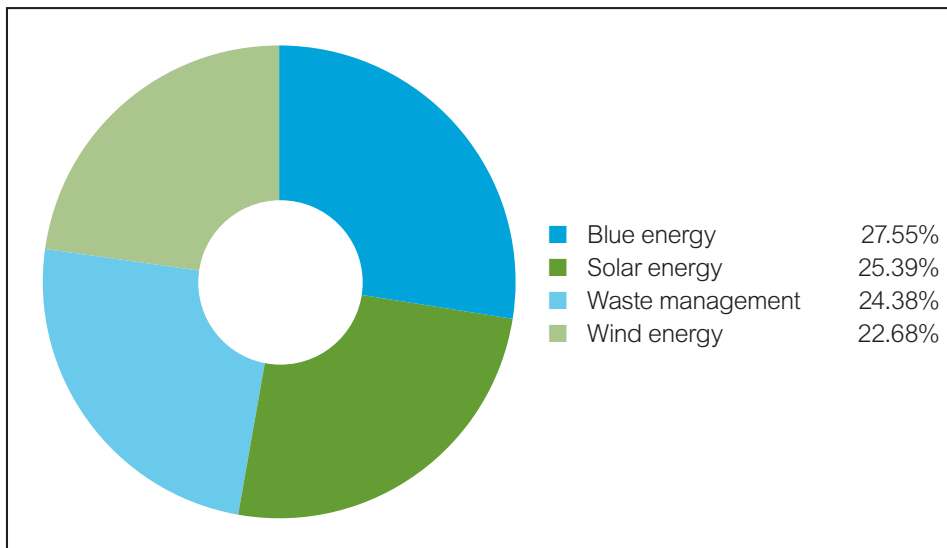
Within each environmental market sector, each constituent company is weighted by its market capitalisation. Market capitalisation is a measure of the size of a particular company and is calculated by multiplying the number of shares in that company by the current share price. By weighting the companies by their size, the largest companies have the greatest influence on the performance of the Index.

Over time, the weighting of each market sector within the Index will change as the prices of the underlying company shares change. As a result, every year the Index will re-set the weightings of the four market sectors back to the original limits, this is known as re-weighting.

What are the market sectors?

The RBS Environmental Strategy Index provides equal weightings to the following environmental market sectors on the annual re-weighting dates: solar energy, wind energy, blue energy (energy generated by water) and waste management.

Current market sector weightings²



² Source: RBS plc Global Banking and Markets and Bloomberg, 6 June 2011.

How are the companies in the RBS Environmental Strategy Index weighted?

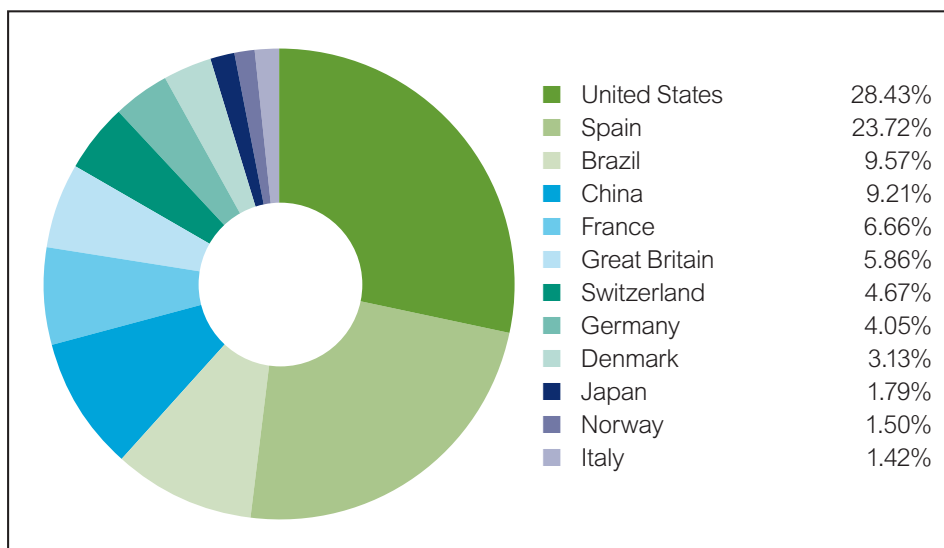
- Each of the four market sectors hold an equal weighting in the Index.
- Each market sector has a minimum of 3 and maximum of 10 of the largest companies within that market sector (by market capitalisation).
- Each company within each market sector is weighted by its market capitalisation.
- To be eligible for inclusion on the Index, each company must have at least GBP 1 billion market capitalisation and be incorporated and/or headquartered in Australia, Brazil, Canada, China, and each European Union member state, Hong Kong, India, Japan, Norway, Russia, Singapore, Switzerland, Taiwan or USA.
- Re-weighting of the underlying company shares within the Index occurs annually.

Where are the companies located?

The universe of company shares which are considered for inclusion within the Index are all shares of companies which are incorporated and/or headquartered in:

Australia, Brazil, Canada, China, EU member states, Hong Kong, India, Japan, Norway, Russia, Singapore, Switzerland, Taiwan and the USA.

Current country weightings³



Top 10 Index components³

Company	Market Sector	Country	Weighting In Index
Iberdrola Renovables	Wind	Spain	10.33%
First Solar Inc	Solar	United States	7.98%
GCL-Poly Energy Holdings Ltd	Solar	China	6.00%
Waste Management Inc	Waste	United States	4.85%
Geberit AG Reg	Blue	Switzerland	4.67%
Actividades Construc Y Serv	Waste	Spain	4.04%
Veolia Environnement	Waste	France	3.91%
Acciona SA	Wind	Spain	3.77%
CIA Energetica De Minas Gerais PRF ADR	Blue	Brazil	3.58%
EDP Renovaveis SA	Wind	Spain	3.23%

³ Source: RBS plc Global Banking and Markets and Bloomberg, 6 June 2011.

Volatility Control Overlay

On a short term basis, markets can behave unexpectedly and can experience large movements in their price.

Volatility is one measure of these price movements and is the amount by which the price level of a financial asset moves from its average price over a set period of time. As such, volatility is often used to describe the uncertainty in share price movements and so is often used as a measure of risk.

Historical trends have shown that generally, volatility and performance have an inverse relationship: market rises tend to be steady (i.e. with low volatility) while market falls tend to be short and sharp (i.e. with high volatility). The RBS Environmental Strategy Index has an automatic feature known as the Volatility Control Overlay that aims to provide some protection against volatility.

How does the Volatility Control Overlay work?

To determine how volatile the underlying company shares are, the RBS Environmental Strategy Index compares the daily level of the underlying company shares to the average level over the last 20 trading days. The amount of movement from this average level gives a specific volatility level.

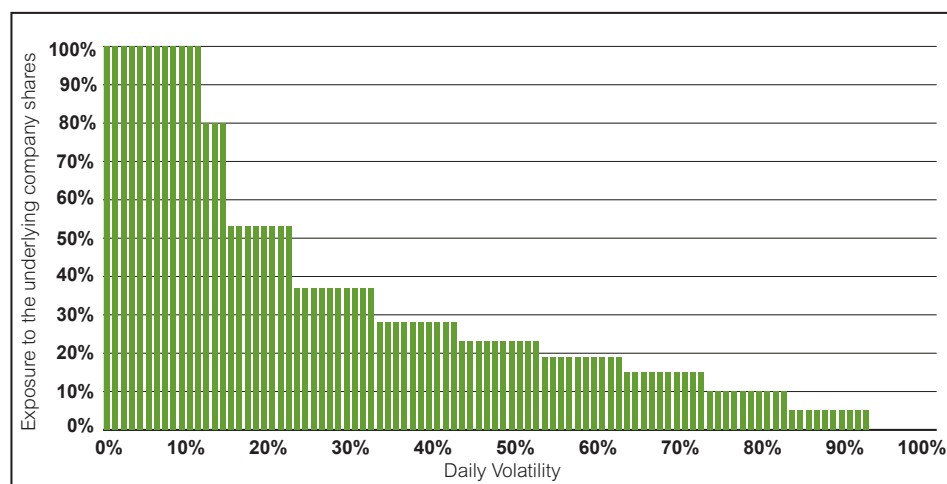
If the volatility of the underlying company shares on a particular day is at or above a pre-determined level (in this case 12%), the RBS Environmental Strategy Index will proportionally reduce exposure to the underlying company shares, down to a minimum exposure of 0%. In this case, the Index will not be exposed to the underlying company shares and so the Index will not grow in value.

If the volatility of the underlying company shares on a particular day is below the pre-determined level, the RBS Environmental Strategy Index will increase exposure up to a maximum exposure of 100% of the performance of the underlying company shares.

By reducing the exposure to the underlying company shares during periods of higher volatility and increasing exposure during periods of lower volatility, when markets are more stable, the RBS Environmental Strategy Index seeks to make the most of market rises and reduce exposure to market falls. Obviously though, if markets rise in a volatile manner then the Volatility Control Overlay may limit this rise.

The Volatility Control Overlay is based on the historical relationship between volatility and performance and this relationship may not continue in the future.

Application of the Volatility Control Overlay

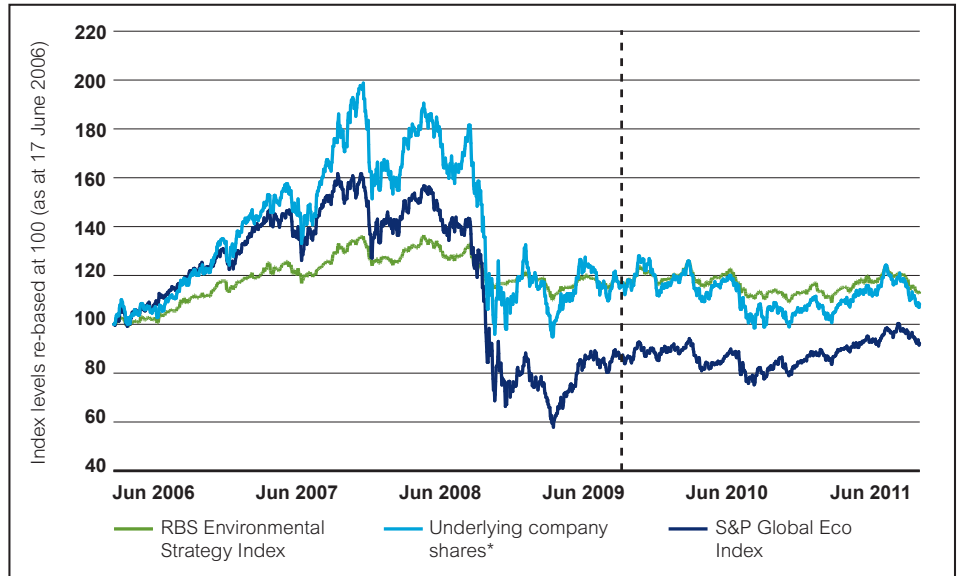


Source: RBS plc Global Banking and Markets, June 2011.

What has this meant for performance?

The below graph demonstrates the result of this exposure to the underlying company shares and how the RBS Environmental Strategy Index has performed.

Simulated and historical performance over the last five years



Source: Bloomberg, 17 June 2011.

*This illustrates how the underlying company shares that make up the RBS Environmental Strategy Index have performed without the application of the Volatility Control Overlay. The performance of the underlying company shares does not include any dividends.

Please note: This information refers to simulated past performance and actual performance, both of which should not be used as an indicator of future performance. The above performance is net of all costs, adjustments and fees. Actual performance of the RBS Environmental Strategy Index started on 3 August 2009. The Royal Bank of Scotland plc has retrospectively calculated the Index levels based on the Index rules and historical data from sources RBS plc deems reliable. The S&P Global Eco Index was first calculated on 7 January 2008, and S&P also calculated retrospective levels.

Treatment of dividends

The RBS Environmental Strategy Index will reinvest any dividends paid by the constituent companies in the Index. These dividend payments will be reflected in the level of the Index. It is important to note, however, that the RBS Environmental Strategy Index applies a dividend adjustment on the performance of the underlying company shares. It does this by deducting, on a daily basis, a rate of 3% per year from the level of the Index. The dividend adjustment represents the cost incurred by RBS plc to gain exposure to the Index. Prospective investors should understand that the dividend adjustment will have a material effect on the level of the Index. Such adjustments are not passed on to investors as a fee but will be deducted from the Index level. If actual dividends paid by the underlying company shares in the Index are greater than 3% per year, the re-invested dividends will be greater than the dividend adjustment and this will have a positive effect on the level of the Index. If actual dividends paid are less than 3% per year, the re-invested dividends will be less than the dividend adjustment and this will have a negative effect on the level of the Index.

Calculating the Index

The Index is the exclusive property of The Royal Bank of Scotland plc. Standard & Poor's maintains and calculates the level of the Index. Standard & Poor's shall have no liability for any errors or omissions in calculating the Index. Standard & Poor's is a trademark of The McGraw-Hill Companies, Inc.

Summary

The RBS Environmental Strategy Index has been designed by RBS plc to provide exposure to some of the largest companies in the global environmental market sector as well as seeking to cushion the level of the Index from the effect of sudden market movements.

Key considerations

You cannot invest in the RBS Environmental Strategy Index directly but can gain exposure to the Index through products that are linked to the performance of the Index. If such products are issued by RBS plc, you could lose some or all of your investment if RBS plc defaults or goes bankrupt.

Any product linked to the RBS Environmental Strategy Index will have its own risks. You will need to read all the relevant documentation before investing.

The Index is exposed to equity markets and investments in products relating to equity markets may be negatively affected by global economic financial and political developments.

The performance of the Index is dependent on the shares of companies involved in the environmental market sector. Global financial, economic and political developments may have a greater impact on companies related to the environmental sector than other sectors. In addition, the environmental sector may be positively or negatively impacted by the pace of global technological developments, government environmental/sustainability policies and changes in public opinion.

The Index is exposed to emerging markets. Investing in emerging markets involves certain risks and special considerations not typically associated with investing in other more established economies or securities markets. Such considerations include, but are not limited to: higher volatility and less liquidity in securities markets, political and economic uncertainty, different accounting and reporting standards and a higher degree of government involvement in the economy.

The Index operates on the basis of pre-determined rules set by RBS plc. No assurance can be given that the rules and therefore the Index will be successful, generate positive returns or perform better than any benchmark or other indices.



Further considerations

The Index does not invest directly in the underlying company shares that make up the Index. This means that you have no rights to these underlying company shares or any associated dividends.

RBS plc and/or Standard & Poor's ('S&P') have discretion in making certain decisions, calculations and corrections which may apply retrospectively or from the relevant date forward, for example, following the occurrence of market disruption events or index adjustment events. The exercise of this discretion may adversely affect the performance of the Index, though RBS plc must always act in good faith when making any decisions, calculations or corrections.

RBS plc is a multi-service financial institution, and occasions can arise where RBS plc, any of its respective affiliates or subsidiaries or their respective directors, officers, employees, representatives delegates or agents may have some form of conflict of interest in relation to the structure and operation of the Index. RBS plc maintains a Conflicts of Interest policy as required by the Financial Services Authority to manage any such conflict.

The Index rules may be amended by RBS plc and/or S&P acting in a commercially reasonable manner. Any such amendment may be made without the consent of, or notice to, investors in products linked to the Index and may have an adverse effect on the level of the Index, though RBS plc and/or S&P must always act in good faith when making any amendments.

The level of the Index may be postponed or terminated if the prices of the relevant underlying shares are not published, or where, for example, the relevant stock exchanges fail to open or suspend or stop trading.

The level of the Index may not be published or, in the event that it is not possible or practicable to continue, the Index may be terminated by RBS plc. Should the Index cease to exist, any product linked to this Index may be restructured or may terminate early. This may have a negative impact on the return on any investment in such a product.

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Investors should not subscribe for any securities or place any deposit referencing the RBS Environmental Strategy Index ("Index") without first having read and understood (i) the methodology and rules used to construct, calculate and maintain the Index ("Index Rules") and (ii) information contained in the prospectus relating to such securities or the terms and conditions of such deposit. Investors may obtain copies of (i) the Index Rules from RBS plc, (ii) the prospectus on the website of the London Stock Exchange and in hard copy at the offices of the issuer (in the case of securities) and (iii) the terms and conditions of the deposit at the offices of the deposit taker (in the case of deposits).

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