

ROYAL BANK OF SCOTLAND GROUP PLC
Form 424B5
August 08, 2016

The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities nor do they seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Filed pursuant to Rule 424(b)(5)

Registration No. 333-203157

Subject to Completion

Preliminary Prospectus Supplement dated August 8, 2016

PROSPECTUS SUPPLEMENT

(to prospectus dated March 31, 2015)

The Royal Bank of Scotland Group plc

\$ _____ % Perpetual Subordinated Contingent Convertible Additional Tier 1 Capital Notes (Callable _____, 2021 and Every Five Years Thereafter)

The \$ _____ % perpetual subordinated contingent convertible additional tier 1 capital notes (callable _____, 2021 and every five years thereafter) (the "Contingent Capital Notes") are perpetual securities with no maturity date. From and including _____ (the "Issue Date") to but excluding _____, 2021 (the "First Call Date") the Contingent Capital Notes will bear interest initially at a rate equal to _____ % per annum. From and including the First Call Date and each fifth anniversary thereafter (each a "Reset Date") to but excluding the next succeeding Reset Date, the applicable per annum interest rate will be equal to the sum of the then prevailing Mid-Market Swap Rate on the relevant Reset Determination Date and _____ %, converted to a quarterly rate in accordance with market convention (rounded to two decimal places, with 0.005 being rounded down). The interest rate following any Reset Date may be less than the initial interest rate and/or the interest rate that applies immediately prior to such Reset Date. Subject to the conditions as described further below, we will pay interest on the Contingent Capital Notes quarterly in arrear on March 31, June 30, September 30 and December 31 of each year (each an "Interest Payment Date"), commencing on September 30, 2016.

We may redeem the Contingent Capital Notes, in whole but not in part, at 100% of their principal amount plus accrued but unpaid interest to but excluding the date fixed for redemption, excluding any interest which has been cancelled or deemed cancelled in accordance with the terms of the Contingent Capital Notes (i) upon the occurrence of certain tax events or (ii) upon the occurrence of certain regulatory events, subject, in each case, to the conditions described in this prospectus supplement. The Contingent Capital Notes will also be redeemable in whole but not in part, at our option and in our sole discretion on the First Call Date or on any Reset Date thereafter at 100% of their principal amount, together with any accrued and unpaid interest on the Contingent Capital Notes, excluding any interest which has been cancelled or deemed to be cancelled in accordance with the terms of the Contingent Capital Notes, to but excluding the date fixed for redemption. Any such redemption shall, amongst other requirements, be subject to a requirement to give notice to the UK Prudential Regulation Authority (“PRA”) and/or such other body having primary supervisory authority with respect to the prudential regulation of our business to the extent required, as described in this prospectus supplement.

The Contingent Capital Notes will constitute our direct, unsecured and subordinated obligations, ranking *pari passu* without any preference among themselves. The rights and claims of the holders and beneficial owners in respect of, or arising from, the Contingent Capital Notes (including any damages, if payable) will be subordinated to the claims of our Senior Creditors.

The Contingent Capital Notes are not intended to be sold and should not be sold to retail clients in the EEA, as defined in the rules set out in the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015 (the “PI Instrument”), as amended or replaced from time to time, other than in circumstances that do not and will not give rise to a contravention of those rules by any person. Prospective investors are referred to the section headed “UK Financial Conduct Authority–Restrictions on Marketing and Sales to Retail Investors” on page S-4 of this prospectus supplement for further information.

As described in this prospectus supplement, upon the occurrence of a Conversion Trigger Event (as defined herein), an Automatic Trigger (as defined herein) will occur and all of our obligations under the Contingent Capital Notes shall be irrevocably and automatically released in consideration of our issuance and delivery of the Settlement Shares (as defined herein).

Notwithstanding any other agreements, arrangements, or understandings between us and any holder or beneficial owner of the Contingent Capital Notes, by its acquisition of the Contingent Capital Notes, each holder and beneficial owner of the Contingent Capital Notes acknowledges, accepts, agrees to be bound by and consents to the exercise of any UK bail-in power (as defined herein) by the relevant UK resolution authority that may result in (i) the reduction or cancellation of all, or a portion, of the principal amount of, or interest on, the Contingent Capital Notes; (ii) the conversion of all, or a portion, of the principal amount of, or interest on, the Contingent Capital Notes into ordinary shares or other securities or other obligations of RBSG or another person; and/or (iii) the amendment of the amount of interest due on the Contingent Capital Notes, or the dates on which interest becomes payable, including by suspending payment for a temporary period; which UK bail-in power may be exercised by means of variation of the terms of the Contingent Capital Notes solely to give effect to the exercise by the relevant UK resolution authority of such UK bail-in power. With respect to (i), (ii) and (iii) above, references to principal and interest shall include payments of principal and interest that have become due and payable but which have not been paid, prior to the exercise of any UK bail-in power. Each holder and beneficial owner of the Contingent Capital Notes further acknowledges and agrees that the rights of the holders and/or beneficial owners under the Contingent Capital Notes are subject to, and will be varied, if necessary, solely to give effect to, the exercise of any UK bail-in power by the relevant UK resolution authority.

Application has been made to The Irish Stock Exchange plc (the “Irish Stock Exchange”) for the Contingent Capital Notes to be admitted to the Official List and to trading on the Global Exchange Market, which is the exchange regulated market of the Irish Stock Exchange. Admission to the Official List and trading on the Global Exchange Market is expected to begin within 30 days of the initial delivery of the Contingent Capital Notes.

Investing in the Contingent Capital Notes involves risks. See “Risk Factors” beginning on page S-25 and as incorporated by reference herein.

Neither the US Securities and Exchange Commission (the “SEC”) nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offence.

	Price to Public	Underwriting Discount	Proceeds to us
Per Contingent Capital Note	%	%	%
Total Contingent Capital Notes	\$	\$	\$

The initial price to the public set forth above does not include accrued interest, if any. Interest on the Contingent Capital Notes will accrue from _____, 2016 and must be paid by the purchaser if the Contingent Capital Notes are delivered thereafter.

The Contingent Capital Notes will be issued in registered form in denominations of \$200,000 and integral multiples of \$1,000 in excess thereof. We expect that the Contingent Capital Notes will be ready for delivery through the book-entry facilities of DTC and its participants on or about _____, 2016.

Global Co-ordinator and Structuring Advisor, Joint Bookrunner and Joint Lead Manager

RBS

Joint Bookrunners and Joint Lead Managers

Citigroup Deutsche Bank Securities J.P. Morgan UBS Investment Bank

Prospectus Supplement dated August _____, 2016

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We have not authorised anyone to provide any information other than that contained or incorporated by reference in this prospectus supplement and the accompanying prospectus or in any free writing prospectus prepared by us or on our behalf or to which we have referred you. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. We are not making an offer to sell these securities in any state or jurisdiction where the offer or sale is not permitted. You should assume that the information contained in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein is accurate only as of their respective dates.

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NOTICE TO INVESTORS

Agreements and acknowledgments of investors, including holders and beneficial owners

Interest Cancellation and Automatic Conversion

As described in this prospectus supplement, the terms of the Contingent Capital Notes provide that interest on the Contingent Capital Notes will be due and payable only at our full discretion, and we will have sole and absolute discretion at all times and for any reason to cancel (in whole or in part) any interest payment that would otherwise be payable on any Interest Payment Date. As described herein, the terms of the Contingent Capital Notes also provide for circumstances under which we will be restricted from making an interest payment (in whole or in part) on the Contingent Capital Notes on an Interest Payment Date, and the interest payable in respect of any such Interest Payment Date shall be deemed cancelled (in whole or in part) and therefore not due and payable. Interest will only be due and payable on an Interest Payment Date to the extent it is not cancelled or deemed cancelled in accordance with the terms of the Contingent Capital Notes and as further described herein.

As the Contingent Capital Notes are perpetual and have no fixed maturity or fixed redemption date, a holder may not receive any payments with respect to the Contingent Capital Notes as we are not required to pay the principal amount of the Contingent Capital Notes at any time prior to a Winding-up or Administration Event (as defined herein) and we will have the sole and absolute discretion at all times and for any reason to cancel in whole any interest payment.

By its acquisition of the Contingent Capital Notes, each holder and beneficial owner acknowledges and agrees that (1) interest is payable solely at our discretion, and no amount of interest shall become due and payable in respect of the relevant interest period to the extent that it has been cancelled by us (in whole or in part) at our sole discretion and/or deemed cancelled (in whole or in part) as result of our having insufficient Distributable Items or failing to satisfy the Solvency Condition; and (2) a cancellation or deemed cancellation of interest (in each case, in whole or in part) in accordance with the terms of the Indenture and the Contingent Capital Notes shall not constitute a default in payment or otherwise under the terms of the Contingent Capital Notes or the Indenture (as defined below). Interest will only be due and payable on an Interest Payment Date to the extent it is not cancelled or deemed cancelled (in each case, in whole or in part) in accordance with the provisions described herein. Any interest cancelled or deemed cancelled (in each case, in whole or in part) in the circumstances described above shall not be due and shall not accumulate or be payable at any time thereafter, and holders and beneficial owners shall have no rights thereto or to receive any additional interest or compensation as a result of such cancellation or deemed cancellation of interest in respect of the Contingent Capital Notes.

If a Conversion Trigger Event occurs, then an Automatic Conversion will occur on the Conversion Date, at which point all of our obligations under the Contingent Capital Notes shall be irrevocably and automatically released in

consideration of our issuance and delivery of the Settlement Shares to the Settlement Share Depository (or other relevant recipient as described herein), and under no circumstances shall such released obligations be reinstated. The Settlement Shares shall initially be registered in the name of the Settlement Share Depository (which shall hold the Settlement Shares on behalf of the holders of the Contingent Capital Notes) or the relevant recipient in accordance with the terms of the Contingent Capital Notes. As more fully described herein, we may elect, in our sole and absolute discretion that a Settlement Shares Offer be made by the Settlement Share Depository to all or some of our existing shareholders. The realisable value of any Settlement Shares received by a holder of the Contingent Capital Notes following an Automatic Conversion may be significantly less than the sterling equivalent of the Conversion Price (as defined herein) of \$ initially and holders of the Contingent Capital Notes could lose all or part of their investment in the Contingent Capital Notes as a result of the Automatic Conversion.

By its acquisition of the Contingent Capital Notes, each holder and beneficial owner shall be deemed to have (i) agreed to all the terms and conditions of the Contingent Capital Notes, including, without limitation, those related to (x) Automatic Conversion following the Conversion Trigger Event and (y) the appointment of the Settlement Share Depository, the issuance of the Settlement Shares to the Settlement Share Depository (or to the relevant recipient in accordance with the terms of the Contingent Capital Notes) and the potential sale of the Settlement Shares pursuant to a Settlement Shares Offer, and acknowledged that such events in (x) and (y) may occur without any further action on the part of the holders or beneficial owners of the Contingent Capital Notes or the Trustee, (ii) agreed that effective upon, and following, the Automatic Conversion, no amount shall be due and payable to the holders or beneficial owners of the Contingent Capital Notes, and our liability to pay any such amounts (including the principal amount of, or any interest in respect of, the Contingent Capital Notes) shall be automatically released, and the holders and beneficial owners shall not have the right to give a direction to the Trustee with respect to the Conversion Trigger Event and any related Automatic Conversion, (iii) waived, to the extent permitted by the Trust Indenture Act, any claim against the Trustee arising out of its acceptance of its trusteeship under, and the performance of its duties, powers and rights in respect of, the Indenture and in connection with the Contingent Capital Notes, including, without limitation, claims related to or arising out of or in connection with the Conversion Trigger Event and/or any Automatic Conversion and (iv) authorised, directed and requested DTC (as defined below) and any direct participant in DTC or other intermediary through which it holds such Contingent Capital Notes to take any and all necessary action, if required, to implement the Automatic Conversion without any further action or direction on the part of such holder or beneficial owner or the Trustee.

UK bail-in power

Notwithstanding any other agreements, arrangements, or understandings between us and any holder or beneficial owner of the Contingent Capital Notes, by its acquisition of the Contingent Capital Notes, each holder and beneficial owner of the Contingent Capital Notes acknowledges, accepts, agrees to be bound by and consents to the exercise of any UK bail-in power (as defined below) by the relevant UK resolution authority that may result in (i) the reduction or cancellation of all, or a portion, of the principal amount of, or interest on, the Contingent Capital Notes; (ii) the conversion of all, or a portion, of the principal amount of, or interest on, the Contingent Capital Notes into ordinary shares or other securities or other obligations of RBSG or another person; and/or (iii) the amendment of the amount of interest due on the Contingent Capital Notes, or the dates on which interest becomes payable, including by suspending payment for a temporary period; which UK bail-in power may be exercised by means of variation of the terms of the Contingent Capital Notes solely to give effect to the exercise by the relevant UK resolution authority of such UK bail-in power. With respect to (i), (ii) and (iii) above, references to principal and interest shall include payments of principal and interest that have become due and payable but which have not been paid, prior to the exercise of any UK bail-in power. Each holder and beneficial owner of the Contingent Capital Notes further acknowledges and agrees that the rights of the holders and/or beneficial owners under the Contingent Capital Notes are subject to, and will be varied, if necessary, solely to give effect to, the exercise of any UK bail-in power by the relevant UK resolution authority.

For these purposes, a “UK bail-in power” is any write-down, conversion, transfer, modification or suspension power existing from time to time under any laws, regulations, rules or requirements relating to the resolution of banks, banking group companies, credit institutions and/or investment firms incorporated in the United Kingdom in effect and applicable in the United Kingdom to RBSG or other members of the Group (as defined herein), including but not limited to any such laws, regulations, rules or requirements which are implemented, adopted or enacted within the context of a European Union directive or regulation of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms and/or within the context of a UK resolution regime under the Banking Act 2009, as the same has been or may be amended from time to time (whether pursuant to the UK Financial Services (Banking Reform) Act 2013, secondary legislation or otherwise, the “Banking Act”), pursuant to which any obligations of a bank, banking group company, credit institution or investment firm or any of its affiliates can be reduced, cancelled, modified, transferred and/or converted into shares or other securities or obligations of the obligor or any other person (or suspended for a temporary period) or pursuant to which any right in a contract governing such obligation may be deemed to have been exercised. A reference to the “relevant UK resolution authority” is to any authority with the ability to exercise a UK bail-in power.

By its acquisition of the Contingent Capital Notes, each holder and beneficial owner of the Contingent Capital Notes, to the extent permitted by the Trust Indenture Act of 1939 as amended (the “Trust Indenture Act”), waives any and all claims against the Trustee for, agrees not to initiate a suit against the Trustee in respect of, and agrees that the Trustee shall not be liable for, any action that the Trustee takes, or abstains from taking, in either case in accordance with the exercise of the UK bail-in power by the relevant UK resolution authority with respect to the Contingent Capital Notes.

By its acquisition of the Contingent Capital Notes, each holder and beneficial owner shall also be deemed to have (i) consented to the exercise of any UK bail-in power as it may be imposed without any prior notice by the relevant UK resolution authority of its decision to exercise such power with respect to the Contingent Capital Notes and (ii) authorised, directed and requested The Depository Trust Company (“DTC”) and any direct participant in DTC or other intermediary through which it holds such Contingent Capital Notes to take any and all necessary action, if required, to implement the exercise of any UK bail-in power with respect to the Contingent Capital Notes as it may be imposed, without any further action or direction on the part of such holder or beneficial owner or the Trustee.

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UK Financial Conduct Authority—Restrictions on Marketing and Sales to Retail Investors

The Contingent Capital Notes discussed in this prospectus supplement are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Contingent Capital Notes to retail investors.

In particular, in June 2015, the UK Financial Conduct Authority (the “FCA”) published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015 (the “PI Instrument”), which took effect on October 1, 2015.

Under the rules set out in the PI Instrument (as amended or replaced from time to time, the “PI Rules”): (1) certain contingent write-down or convertible securities (including any beneficial interests therein), such as the Contingent Capital Notes, must not be sold to retail clients in the EEA; and (2) there must not be any communication or approval of an invitation or inducement to participate in, acquire or underwrite such securities (or the beneficial interest in such securities) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the EEA (in each case, within the meaning of the PI Rules), other than in accordance with the limited exemptions set out in the PI Rules.

The Issuer, the Underwriters and/or their respective affiliates are required to comply with the PI Rules, or, if not subject to the PI Rules, they will comply with them as if they were subject to the PI Rules. By purchasing, or making or accepting an offer to purchase, any Contingent Capital Notes (or a beneficial interest in such Contingent Capital Notes) from us and/or the Underwriters, you represent, warrant, agree with and undertake to us and each of the Underwriters and/or their respective affiliates that: (1) you are not a retail client in the EEA (as defined in the PI Rules); (2) whether or not you are subject to the PI Rules, you will not (a) sell or offer the Contingent Capital Notes (or any beneficial interest therein) to retail clients in the EEA; or (b) communicate (including the distribution of this document) or approve an invitation or inducement to participate in, acquire or underwrite the Contingent Capital Notes (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the EEA (within the meaning of the PI Rules), in any such case other than (i) in relation to any sale or offer to sell the Contingent Capital Notes (or any beneficial interests therein) to a retail client in or resident in the United Kingdom, in circumstances that do not and will not give rise to a contravention of the PI Rules by any person and/or (ii) in relation to any sale or offer to sell the Contingent Capital Notes (or any beneficial interests therein) to a retail client in any EEA member state other than the United Kingdom, where (A) you have conducted an assessment and concluded that the relevant retail client understands the risks of an investment in the Contingent Capital Notes (or such beneficial interests therein) and is able to bear the potential losses involved in an investment in the Contingent Capital Notes (or such beneficial interests therein) and (B) you have at all times acted in relation to such sale or offer in compliance with the Markets in Financial Instruments Directive (2004/39/EC) (as amended from time to time, “MiFID”) to the extent it applies to you or, to the extent MiFID does not apply to you, in a manner which would be in compliance with MiFID if it were to apply to you; and (3) you will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the

promotion, offering, distribution and/or sale of the Contingent Capital Notes (or any beneficial interests therein), including (without limitation) any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Contingent Capital Notes (or any beneficial interests therein) by investors in any relevant jurisdiction.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Contingent Capital Notes (or any beneficial interests therein) from us and/or the Underwriters and/or their respective affiliates the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

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ABOUT THIS PROSPECTUS SUPPLEMENT

In this prospectus supplement, we use the following terms:

“we”, “us”, “our”, “Issuer” and “RBSG” refer to The Royal Bank of Scotland Group plc;

“Group” refers to RBSG together with its subsidiaries consolidated in accordance with International Financial Reporting Standards;

“RBS plc” refers to The Royal Bank of Scotland plc;

“SEC” refers to the US Securities and Exchange Commission;

“pound sterling”, “pounds”, “sterling”, “pence”, “£” and “p” refer to the currency of the United Kingdom;

“US dollar”, “dollars” and “\$” refer to the currency of the United States; and

“euro” and “€” refer to the currency of the member states of the European Union (“EU”) that have adopted the single currency in accordance with the treaty establishing the European Community, as amended.

INCORPORATION OF INFORMATION BY REFERENCE

We are subject to the informational requirements of the US Securities Exchange Act of 1934, as amended (the “Exchange Act”), and in accordance therewith, we file reports and other information with the SEC. You may read and copy any document that we file with the SEC at the SEC’s Public Reference Room, 100 F Street, N.E., Washington, D.C. 20549. You can call the SEC on 1-800-SEC-0330 for further information about the Public Reference Room. The SEC’s website, at <http://www.sec.gov>, contains reports and other information in electronic form that we have filed. You may also request a copy of any filings referred to below (other than exhibits not specifically incorporated by reference) at no cost, by contacting us at RBS Gogarburn, P.O. Box 1000, Edinburgh EH12 1HQ, Scotland, telephone +44 131 626 0000.

The SEC allows us to incorporate by reference much of the information we file with them. This means:

- documents incorporated by reference are considered part of this prospectus supplement;
- we can disclose important information to you by referring you to these documents; and

information that we file with the SEC will automatically update and modify or supersede some of the information included or incorporated by reference into this prospectus supplement.

This means that you must look at all of the SEC filings that we incorporate by reference to determine if any of the statements in this prospectus supplement or in any document previously incorporated by reference have been modified or superseded. The accompanying prospectus lists documents that are incorporated by reference into this prospectus supplement. In addition to the documents listed in the accompanying prospectus, we incorporate by reference:

our annual report on form 20-F for the year ended December 31, 2015, filed with the SEC on March 24, 2016 (File No. 001-10306) (the “2015 Annual Report”);

our interim report on form 6-K containing our condensed consolidated financial statements for the six-months ended June 30, 2016, together with certain other information, filed with the SEC on August 8, 2016 (File No. 001-10306) (the “H1 2016 Interim Report”); and

our interim report on form 6-K containing an announcement relating to our results under the 2016 EBA Stress Tests, filed with the SEC on August 1, 2016 (File No. 001-1030).

We also incorporate by reference into this prospectus supplement and accompanying prospectus any future documents we may file with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act from the date of this prospectus supplement until the offering contemplated in this prospectus supplement is completed. Reports on

form 6-K we may furnish to the SEC after the date of this prospectus supplement (or portions thereof) are incorporated by reference in this prospectus supplement only to the extent that the report expressly states that it (or such portions) is incorporated by reference in this prospectus supplement.

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FORWARD-LOOKING STATEMENTS

From time to time, we may make statements, both written and oral, regarding our assumptions, projections, expectations, intentions or beliefs about future events. These statements constitute “forward-looking statements” for purposes of the Private Securities Litigation Reform Act of 1995. We caution that these statements may and often do vary materially from actual results. Accordingly, we cannot assure you that actual results will not differ materially from those expressed or implied by the forward-looking statements. You should read the sections entitled “*Risk Factors*” in this prospectus supplement, “*Cautionary Statement on Forward-Looking Statements*” in the accompanying prospectus and “*Forward-Looking Statements*” in each of our 2015 Annual Report and H1 2016 Interim Report, which are incorporated by reference herein.

Any forward-looking statements made herein or in the documents incorporated by reference herein speak only as of the date they are made. Except as required by the FCA, any applicable stock exchange or any applicable law, we expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained in this prospectus supplement or the documents incorporated by reference herein to reflect any changes in expectations with regard thereto or any new information or any changes in events, conditions or circumstances on which any such statement is based. The reader should, however, consult any additional disclosures that we have made or may make in documents we have filed or may file with the SEC.

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SUMMARY

The following is a summary of this prospectus supplement and should be read as an introduction to, and in conjunction with, the remainder of this prospectus supplement, the accompanying prospectus and any documents incorporated by reference herein and therein. You should base your investment decision on a consideration of this prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein and therein, as a whole. Words and expressions defined in “Description of the Contingent Capital Notes” below shall have the same meanings in this summary.

General

Issuer The Royal Bank of Scotland Group plc

\$ _____ % perpetual subordinated contingent convertible additional tier 1 capital notes (callable _____, 2021 and every five years thereafter) (the “Contingent Capital Notes”).

Issue The Contingent Capital Notes will be issued pursuant to a Contingent Convertible Securities Indenture dated August 10, 2015 (the “Original Indenture”), between us as Issuer and The Bank of New York Mellon acting through its London Branch as trustee (the “Trustee”), as supplemented by a third supplemental indenture which is expected to be dated as of the Issue Date (the “Third Supplemental Indenture”, and, together with the Original Indenture, the “Indenture”).

Issue Date _____, 2016.

Perpetual Securities The Contingent Capital Notes are perpetual securities and have no fixed maturity or fixed redemption date.

Interest Rates From and including the Issue Date to but excluding _____, 2021 (the “First Call Date”), interest will accrue on the Contingent Capital Notes at an initial rate equal to _____ % per annum. From and including each Reset Date (as defined below) to but excluding the next succeeding Reset Date, interest will accrue on the Contingent Capital Notes at a rate per annum equal to the sum of the then prevailing Mid-Market Swap Rate on the relevant Reset Determination Date (as defined below) and _____ %, converted to a quarterly rate in accordance with market convention (rounded to two decimal places, with 0.005 being rounded down).

Business Day Convention / Day Count Fraction Following unadjusted 30/360

Reset Date The First Call Date and every fifth anniversary thereafter.

ISIN

CUSIP

Common Code

Interest Payment Dates Subject to the provisions set out below, the Contingent Capital Notes will bear interest from and including the Issue Date at the rate per annum set forth above, payable quarterly in arrear on March 31, June 30, September 30 and December 31 of each year (each an “Interest Payment Date”), commencing on September 30, 2016.

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Reset

Determination Date The second Business Day (as defined below) immediately preceding each Reset Date.

Mid-Market Swap Rate

The mid-market US dollar swap rate Libor basis having a five-year maturity appearing on Bloomberg page “USISDA 05” (or such other page as may replace such page on Bloomberg, or such other page or service as may be nominated by the person providing or sponsoring the information appearing on such page for purposes of displaying comparable rates) as at approximately 11:00 a.m. (New York time) on the Reset Determination Date, as determined by the Calculation Agent. If such swap rate does not appear on such page (or such other page or service), the Mid-Market Swap Rate shall instead be determined by the Calculation Agent as being equal to the arithmetic mean expressed as a percentage and rounded, if necessary, to the nearest 0.001% (0.0005% being rounded upwards) of the quotations provided by the principal office of each of four major banks in the US dollar swap rate market (which banks shall be selected by the Calculation Agent with our prior agreement not less than 20 calendar days prior to the Reset Determination Date) (the “Reference Banks”) of the rates at which swaps in US dollars are offered by it at approximately 11.00 a.m. (New York time) (or thereafter on the Reset Determination Date, with the Calculation Agent acting on a best efforts basis) on the Reset Determination Date to participants in the US dollar swap rate market for a five-year period. If the Mid-Market Swap Rate is still not determined on the relevant Reset Determination Date in accordance with the foregoing procedures, the Mid-Market Swap Rate shall be the mid-market US dollar swap rate Libor basis having a five-year maturity that appeared on the most recent Bloomberg page “USISDA 05” (or such other page as may replace such page on Bloomberg, or such other page or service as may be nominated by the person providing or sponsoring the information appearing on such page for purposes of displaying comparable rates) that was last available prior to 11.00 a.m. (New York time) on the relevant Reset Determination Date, as determined by the Calculation Agent.

Regular Record Date

The regular record dates for the Contingent Capital Notes will be the 15th calendar day preceding each Interest Payment Date, whether or not such day is a Business Day (each, a “Record Date”). The term “Business Day” means any weekday, other than one on which banking institutions are authorised or obligated by law, regulation or executive order to close in London, England, or in New York City.

Interest Payments Discretionary

Interest on the Contingent Capital Notes will be due and payable only at our full discretion and we shall have sole and absolute discretion at all times and for any reason to cancel any interest payment in whole or in part that would otherwise be payable on any Interest Payment Date. If we do not make an interest payment on the relevant Interest Payment Date, or if we elect to make a payment of a portion, but not all, of such interest payment, such non-payment shall evidence our exercise of discretion to cancel such interest payment, or the portion of such interest payment not paid, and accordingly such interest payment, or portion thereof, shall not be or become due and payable.

Restrictions on Interest Payments

We shall cancel any interest, or such interest shall be deemed to be cancelled, on the Contingent Capital Notes (or, as appropriate, any part thereof) which is scheduled to be paid on an Interest Payment Date if (a) we have an amount of Distributable Items (as defined below) on such scheduled Interest Payment Date that is less than the sum of (i) all payments (other than redemption payments which do not reduce

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Distributable Items) made or declared by us since the end of our latest financial year and prior to such Interest Payment Date on or in respect of any Parity Securities, the Contingent Capital Notes and any Junior Securities and (ii) all payments (other than redemption payments which do not reduce Distributable Items) payable by us on such Interest Payment Date (x) on the Contingent Capital Notes and (y) on or in respect of any Parity Securities or any Junior Securities, in the case of each of (i) and (ii), excluding any payments already accounted for in determining the Distributable Items; or (b) the Solvency Condition (as described below) is not (or would not be) satisfied in respect of such amounts payable on such Interest Payment Date.

“Distributable Items” means subject as otherwise defined in, and/or interpreted in accordance with, the Capital Regulations applicable to us from time to time, the amount of our profits at the end of the latest financial year plus any profits brought forward and reserves available for that purpose before distributions to holders of the Contingent Capital Notes, any Parity Securities and Junior Securities, less any losses brought forward, profits which are non-distributable pursuant to the Companies Act 2006 (UK) (the “Companies Act”) or any other provisions of English law from time to time applicable to us or our Memorandum and Articles of Association from time to time (together, our “Articles of Association”) and sums placed to non-distributable reserves in accordance with the Companies Act or other provisions of English law from time to time applicable to us or our Articles of Association, those losses and reserves being determined on the basis of our individual accounts and not on the basis of our consolidated accounts.

“Junior Securities” means (i) our ordinary shares or other securities of ours ranking, or expressed to rank, junior to the Contingent Capital Notes in a Winding-up or Administration Event (as defined under “—*Ranking*” below) and/or (ii) any securities issued by any other member of the Group where the terms of such securities benefit from a guarantee or support agreement entered into by us which ranks, or is expressed to rank, junior to the Contingent Capital Notes in a Winding-up or Administration Event.

“Parity Securities” means (i) the most senior ranking class or classes of non-cumulative preference shares in our capital from time to time and any other of our securities ranking, or expressed to rank, *pari passu* with the Contingent Capital Notes and/or such preference shares following a Winding-up or Administration Event and/or (ii) any securities issued by any other member of the Group where the terms of the securities benefit from a guarantee or support agreement entered into by us which ranks or is expressed to rank *pari passu* with the Contingent Capital Notes and/or such preference shares following a Winding-up or Administration Event.

Solvency Condition Other than in the event of a Winding-up or Administration Event or in relation to the cash component of any Alternative Consideration in any Settlement Shares Offer (as such terms are defined herein), payments in respect of or arising from the Contingent Capital Notes (including any damages for breach of any obligations thereunder) are, in addition to our right to cancel payments of interest, conditional upon our being solvent at the time when the relevant payment is due to be made, and no principal,

interest or other amount shall be due and payable in respect of, or arising from, the Contingent Capital Notes, except to the extent that we could make

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such payment and still be solvent immediately thereafter (such condition is referred to herein as the “Solvency Condition”).

For the purposes of determining whether the Solvency Condition is met, we shall be considered to be solvent at a particular point in time if:

(1) we are able to pay our debts as they fall due; and

(2) our Assets are at least equal to our Liabilities.

“Assets” means our unconsolidated gross assets, as shown in our latest published audited balance sheet, adjusted for subsequent events in such manner as our directors may determine.

“Liabilities” means our unconsolidated gross liabilities, as shown in our latest published audited balance sheet, adjusted for contingent liabilities and prospective liabilities and for subsequent events in such manner as our directors may determine.

An officer’s certificate (which shall only be required if at the relevant time we have not satisfied the Solvency Condition and we are relying on that fact as the basis for not making an interest payment on the Contingent Capital Notes) as to our solvency shall, unless there is manifest error, be treated and accepted by us, the Trustee and any holder of the Contingent Capital Notes as correct and sufficient evidence that the Solvency Condition is not satisfied. If we fail to make a payment because the Solvency Condition is not satisfied, this payment shall not be or become due and payable and shall be deemed cancelled.

Any payment of interest not due by reason of the provisions described above shall be deemed cancelled. See “—*Agreement to Interest Cancellation*” and “—*Notice of Interest Cancellation*” below.

**Agreement to
Interest
Cancellation**

By acquiring the Contingent Capital Notes, the holders and beneficial owners acknowledge and agree that:

(a) interest is payable solely at our discretion, and no amount of interest shall become due and payable in respect of the relevant interest period to the extent that it has been cancelled (in whole or in part) by us at our sole discretion and/or deemed cancelled (in whole or in part) as result of our having insufficient Distributable Items or failing to satisfy the Solvency Condition; and

(b) a cancellation or deemed cancellation of interest (in each case, in whole or in part) in accordance with the terms of the Indenture and the Contingent Capital Notes shall not constitute a default in payment or otherwise under the terms of the Contingent Capital Notes or the Indenture.

Interest will only be due and payable on an Interest Payment Date to the extent it is not cancelled or deemed cancelled (in each case, in whole or in part) in accordance with the provisions described under “—*Interest Payments Discretionary*”, “—*Restrictions on Interest Payments*” and “—*Solvency Condition*” above. Any interest cancelled or deemed cancelled (in each case, in whole or in part) in the circumstances described above shall not be due and shall not accumulate or be payable at any time thereafter, and holders and beneficial owners shall have no rights thereto or to receive any additional interest or compensation as a result of such cancellation or deemed cancellation of interest in respect of the Contingent Capital Notes.

**Notice of
Interest
Cancellation**

If practicable, we will provide notice of any cancellation or deemed

cancellation of interest (in each case, in whole or in part) to the holders of the Contingent Capital Notes through the Depository Trust Company (“DTC”) (or, if the Contingent Capital Notes are held in definitive form, to the holders of the Contingent Capital Notes directly at their addresses shown on the register for the Contingent Capital Notes) and to the Trustee directly on or prior to the relevant Interest Payment Date. Failure to provide such notice will have no impact on the effectiveness of, or otherwise invalidate, any such cancellation or deemed cancellation of interest (and accordingly, such interest will not be due and payable), or give the holders and beneficial owners of the Contingent Capital Notes any rights as a result of such failure.

Ranking The Contingent Capital Notes will constitute our direct, unsecured and subordinated obligations, ranking *pari passu* without any preference among themselves.

The rights and claims of the holders and beneficial owners in respect of, or arising from, the Contingent Capital Notes (including any damages, if payable) will be subordinated to the claims of our Senior Creditors.

If:

(1) an order is made, or an effective resolution is passed, for our winding-up (excluding in any such case a solvent winding-up solely for the purpose of our reconstruction, amalgamation, reorganisation, merger or consolidation, or the substitution in our place of a successor in business, the terms of which have previously been approved by the Trustee or in writing by holders of not less than 2/3 (two thirds) in aggregate principal amount of the Contingent Capital Notes); or

(2) an administrator is appointed for us and such administrator gives notice that it intends to declare and distribute a dividend;

(each, respectively, or together, a “Winding-up or Administration Event”), then (a) if any such events specified in (1) or (2) above occurs before the date on which the Conversion Trigger Event occurs, there shall be payable by us in respect of each Contingent Capital Note (in lieu of any other payment by us) such amount, if any, as would have been payable to a holder or beneficial owner of Contingent Capital Notes if, on the day prior to the commencement of the Winding-up or Administration Event and thereafter, such holder or beneficial owner of Contingent Capital Notes were the holder of one of a class of Notional Preference Shares (as defined below) on the assumption that the amount that such holder or beneficial owner of Contingent Capital Notes was entitled to receive in respect of such Notional Preference Shares, on a return of assets in such Winding-up or Administration Event, was an amount equal to the principal amount of the relevant Contingent Capital Note, together with any Accrued Interest (as defined below) and any

damages (if payable), regardless of whether the Solvency Condition is satisfied on the date upon which the same would otherwise be due and payable and (b) if any such events specified in (1) or (2) above occurs on or after the date on which the Conversion Trigger Event occurs but the Settlement Shares to be issued and delivered to the Settlement Share Depository on the Conversion Date have not been so delivered, there shall be payable by us in respect of each Contingent Capital Note (in lieu of any other payment by us) such amount, if any, as would have been payable to the holder or beneficial owner of such Contingent Capital Note in a Winding-up or Administration Event if the Conversion

Date in respect of the Automatic Conversion had occurred immediately before the occurrence of a Winding-up or Administration Event (and, as a result, such holder or beneficial owner were the holder of such number of our ordinary shares as such holder or beneficial owner would have been entitled to receive on the Conversion Date, ignoring for this purpose our right to make an election for a Settlement Shares Offer to be effected), regardless of whether the Solvency Condition is satisfied on the date upon which the same would otherwise be due and payable.

“Senior Creditors” means our creditors (i) who are unsubordinated creditors, (ii) whose claims are, or are expressed to be, subordinated (whether only in the event of a Winding-up or Administration Event or otherwise) to the claims of our unsubordinated creditors but not further or otherwise, or (iii) who are our subordinated creditors (whether as aforesaid or otherwise), other than those whose claims rank, or are expressed to rank, *pari passu* with, or junior to, the claims of holders of the Contingent Capital Notes and/or *pari passu* with or junior to any claims ranking *pari passu* with the claims of holders of the Contingent Capital Notes, in each case in a Winding-up or Administration Event occurring prior to any Conversion Trigger Event.

“commencement” means, in relation to our winding-up, the date on which such winding-up commences, or is deemed to commence, determined in accordance with Section 86 or 129 of the Insolvency Act 1986.

“Notional Preference Shares” means an actual or notional class of preference shares in our capital having an equal right to return of assets in a Winding-up or Administration Event to, and so ranking *pari passu* with, the most senior class or classes of issued preference shares with non-cumulative dividends (if any) in our capital from time to time and which have a preferential right to a return of assets in the Winding-up or Administration Event over, and so rank ahead of, all other classes of issued shares for the time being in our capital but ranking junior to the claims of Senior Creditors and junior to any notional class of preference shares in our capital which is referenced in any of our instruments for the purposes of determining a claim in our winding-up or administration and, as so referenced, (i) is expressed to have a preferential right to a return of assets in our winding-up or administration over the holders of all other classes of shares for the time-being in our capital and (ii) is not expressed to rank junior to any other notional class of preference shares in our capital.

Waiver of Right to Set-Off By acquiring a Contingent Capital Note, each holder (and the Trustee acting on behalf of the holders) will be deemed to have waived any right of set-off, counterclaim or combination of accounts with respect to such Contingent Capital Note or the Indenture (or between our obligations under or in respect of any Contingent Capital Note and any liability owed by a holder) that they (or the Trustee acting on their behalf) might otherwise have against us, whether before or during any Winding-up or Administration Event. Notwithstanding the above, if any such rights and claims of any such holder (or the Trustee acting on behalf of such holders) against us are discharged by set-off, such holder (or the Trustee acting on behalf of such holders) will, immediately pay an amount equal to the amount of such discharge to us or, in the event of a Winding-Up or Administration Event, the liquidator or administrator (or other relevant insolvency

official), as the case may be, to be held on trust for Senior Creditors, and until such time as payment is made will hold a sum equal to such amount on trust for Senior Creditors, and accordingly such discharge shall be deemed not to have taken place.

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Conversion Trigger Event A “Conversion Trigger Event” shall occur at any point in time at which the CET1 Ratio (as defined below) is less than 7.00%.

Any interest in respect of an Interest Payment Date which falls on or after the date of the Conversion Trigger Event shall be deemed to have been cancelled upon the occurrence of such Conversion Trigger Event and shall not become due and payable.

“Capital Regulations” means, at any time, the laws, regulations, requirements, guidelines and policies relating to capital adequacy binding on credit institutions (including, without limitation, as to leverage) then in effect as applicable to us or the Regulatory Group (as defined below) including if and to the extent applicable to us or the Regulatory Group and, without limitation to the generality of the foregoing, any delegated or implementing acts (such as regulatory technical standards) adopted by the European Commission and any laws or regulations, as well as requirements, guidelines and policies adopted by the PRA from time to time (whether or not such laws, regulations, requirements, guidelines or policies are applied generally or specifically to us or to the Regulatory Group), in each case relating to capital adequacy.

“CET1 Capital” means the sum, expressed in pounds sterling, of all amounts that constitute Common Equity Tier 1 Capital of the Regulatory Group, less any deductions from Common Equity Tier 1 Capital of the Regulatory Group required to be made, in each case as calculated by us on a consolidated and fully loaded basis in accordance with the Capital Regulations applicable to the Regulatory Group as at that point in time (which calculation shall be binding on the Trustee and the holders of Contingent Capital Notes).

“CET1 Ratio” means the ratio of CET1 Capital to Risk Weighted Assets expressed as a percentage and on the basis that all measures used in such calculation shall be calculated on a fully loaded basis.

“Common Equity Tier 1 Capital” shall have the meaning ascribed to such term in CRD IV (as the same may be amended or replaced from time to time) as interpreted and applied in accordance with the Capital Regulations then applicable to the Regulatory Group.

“CRD IV” means (i) the CRD IV Directive and the CRD IV Regulation to the extent applicable to the Issuer or the Regulatory Group and (ii) the Capital Regulations.

“CRD IV Directive” means Directive 2013/36/EU of the European Parliament and of the Council of June 26, 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, and any successor or amending directive.

“CRD IV Regulation” means Regulation (EU) No. 575/2013 of the European Parliament and of the Council of June 26, 2013, on prudential requirements for credit institutions and investment firms amending Regulation (EU) No. 648/2012, and any successor or amending regulation.

“fully loaded” means, in relation to a measure that is presented or described as being on a “fully loaded basis” that such measure is calculated in accordance with the PRA Rulebook CRR Firms Instrument 2013 (as may

be amended from time to time).

“PRA” means the Prudential Regulation Authority or such other governmental authority having primary supervisory authority with respect to the prudential regulation of our business.

“Regulatory Group” means us, our subsidiary undertakings, participations, participating interests and any subsidiary undertakings, participations or participating interests held (directly or indirectly) by any of our subsidiary undertakings from time to time and any other undertakings from time to time consolidated with us for regulatory purposes, in each case in accordance with the rules and guidance of the PRA then in effect.

“Risk Weighted Assets” means the aggregate amount, expressed in pounds sterling, of the risk weighted assets of the Regulatory Group, as calculated by us on a consolidated and fully loaded basis in accordance with the Capital Regulations applicable to the Regulatory Group (which calculation shall be binding on the Trustee and holders of the Contingent Capital Notes) and where the term “risk weighted assets” means the risk weighted assets or total risk exposure amount, as calculated by us in accordance with the Capital Regulations applicable to the Regulatory Group as at that point in time.

Loss Absorption (Automatic Conversion) Upon the occurrence of the Conversion Trigger Event, each Contingent Capital Note shall, on the Conversion Date, be converted in whole but not in part into ordinary shares credited as fully paid (the “Settlement Shares”) at the Conversion Price and in accordance with the terms set forth herein. The Settlement Shares shall be issued and delivered to the Settlement Share Depository (as defined herein) (on behalf of the holders and beneficial owners) on the Conversion Date (the “Automatic Conversion”), in consideration for which all of our obligations under the Contingent Capital Notes shall be irrevocably and automatically released, and under no circumstances shall our released obligations be reinstated. The Contingent Capital Notes are not convertible at the option of the holders or beneficial owners at any time. Automatic Conversion shall not constitute a default under the Contingent Capital Notes or the Indenture.

On the Conversion Date, the Settlement Shares shall be issued and delivered by us to the Settlement Share Depository (except as otherwise provided in the supplemental Indenture and the Contingent Capital Notes) on terms permitting a Settlement Shares Offer and, provided the Settlement Shares are so issued and delivered, no holder of Contingent Capital Notes will have any rights against us with respect to the repayment of the principal amount of the Contingent Capital Notes or the payment of interest or any other amount on or in respect of such Contingent Capital Notes, which liabilities shall be automatically released. Accordingly, the principal amount of the Contingent Capital Notes shall equal zero at all times thereafter (although the Tradable Amount (as defined below) shall remain unchanged). Any interest in respect of an interest period ending on any Interest Payment Date falling

between the Conversion Trigger Event and the Conversion Date shall be deemed to have been cancelled upon the occurrence of such Conversion Trigger Event and shall not be due and payable.

Provided that we issue and deliver the Settlement Shares to the Settlement Share Depository in accordance with the terms of the Contingent Capital Notes as described herein, with effect from and on the Conversion Date,

holders and beneficial owners of the Contingent Capital Notes shall have recourse only to the Settlement Share Depository for the delivery to them of Settlement Shares, or, if they elect, American Depositary Shares represented by American Depositary Receipts (“ADSs”) or, if applicable, the Alternative Consideration (as defined herein). Subject to the occurrence of a Winding-up or Administration Event on or following the Conversion Trigger Event, if we fail to issue and deliver the Settlement Shares upon Automatic Conversion to the Settlement Share Depository on the Conversion Date, a holder’s or beneficial owner’s only right under the Contingent Capital Notes will be to claim to have such Settlement Shares so issued and delivered.

The Settlement Shares to be issued and delivered shall (except where we have been unable to appoint a Settlement Share Depository) initially be registered in the name of the Settlement Share Depository, which, subject to a Settlement Shares Offer, shall hold such Settlement Shares on behalf of the holders and beneficial owners of Contingent Capital Notes. By virtue of its holding of any Contingent Capital Note, each holder and beneficial owner of a Contingent Capital Note shall be deemed to have irrevocably directed us to issue and deliver the Settlement Shares corresponding to the conversion of its holding of the Contingent Capital Notes to the Settlement Share Depository.

Following the issuance and delivery of the Settlement Shares to the Settlement Share Depository on the Conversion Date, the Contingent Capital Notes shall remain in existence until the applicable Cancellation Date (as defined herein) for the sole purpose of evidencing the holder’s or beneficial owner’s right to receive Settlement Shares, or, if it elects, ADSs or the Alternative Consideration (as defined herein), as the case may be, from the Settlement Share Depository.

Subject to the conditions described under “*Description of the Contingent Capital Notes—Conversion—Conversion Procedures*”, the Settlement Shares, or, if a holder elects, ADSs or Alternative Consideration (as defined herein) will be delivered to holders of the Contingent Capital Notes on the Settlement Date and the Contingent Capital Notes shall be cancelled on the Cancellation Date.

“Conversion Date” shall be the date specified in the Conversion Trigger Notice and shall occur without delay upon, and in any event within one month of, the occurrence of the Conversion Trigger Event.

“Conversion Trigger Notice” means the delivery by us of notice to the Trustee and the holders of Contingent Capital Notes following the occurrence of the Conversion Trigger Event without delay after such Conversion Trigger Event (and in any event within such period as the PRA may require). The date on which the Conversion Trigger Notice shall be deemed to have been given shall be the date on which it is dispatched by us to DTC (or if the Contingent Capital Notes are held in definitive form, to the holders of the Contingent Capital Notes directly). The Conversion Trigger Notice shall specify (i) that the Conversion Trigger Event has occurred and the CET1 Ratio resulting in such Conversion Trigger Event, (ii) the Conversion Date, (iii) the then-prevailing Conversion Price (which Conversion

Price shall remain subject to any subsequent anti-dilution adjustment up to the Conversion Date), (iv) the contact details of any Settlement Share Depository, or, if we have been unable to appoint a Settlement Share Depository, such other arrangements for the issuance

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and/or delivery of the Settlement Shares, or, if the holder elects, ADSs or any Alternative Consideration to the holders of Contingent Capital Notes as we shall consider reasonable in the circumstances, (v) that we have the option, at our sole and absolute discretion, to elect that a Settlement Shares Offer be conducted and that, if we so elect, we will issue a Settlement Shares Offer Notice within ten (10) Business Days following the Conversion Date notifying the holders of the Contingent Capital Notes of our election; and (vi) the Suspension Date and that the Contingent Capital Notes shall remain in existence for the sole purpose of evidencing the holder's or beneficial owner's right to receive Settlement Shares, or, if the holder elects, ADSs or the Alternative Consideration, as applicable, from the Settlement Share Depository and that the Contingent Capital Notes may continue to be transferable until the Suspension Date.

"Tradable Amount" is the denomination of each book-entry interest.

Conversion Price

The conversion price per ordinary share in respect of the Contingent Capital Notes (the "Conversion Price") shall be \$ _____, subject to certain anti-dilution adjustments, as described under "*Description of the Contingent Capital Notes—Anti-Dilution Adjustment of the Conversion Price*". *The Conversion Price is expected to be fixed at approximately ninety per cent. of the price in pounds sterling of our ordinary shares on the date of pricing of the Contingent Capital Notes and translated into US dollars at an applicable exchange rate on the same date.*

**Agreement with
Respect to
Automatic
Conversion**

By its acquisition of the Contingent Capital Notes, each holder and beneficial owner shall be deemed to have (i) agreed to all the terms and conditions of the Contingent Capital Notes, including, without limitation, those related to (x) Automatic Conversion following the Conversion Trigger Event and (y) the appointment of the Settlement Share Depository, the issuance of the Settlement Shares to the Settlement Share Depository (or to the relevant recipient in accordance with the terms of the Contingent Capital Notes) and the potential sale of the Settlement Shares pursuant to a Settlement Shares Offer, and acknowledged that such events in (x) and (y) may occur without any further action on the part of the holders or beneficial owners of the Contingent Capital Notes or the Trustee, (ii) agreed that effective upon, and following, the Automatic Conversion, no amount shall be due and payable to the holders or beneficial owners of the Contingent Capital Notes, and our liability to pay any such amounts (including the principal amount of, or any interest in respect of, the Contingent Capital Notes) shall be automatically released, and the holders and beneficial owners shall not have the right to give a direction to the Trustee with respect to the Conversion Trigger Event and any related Automatic Conversion, (iii) waived, to the extent permitted by the Trust Indenture Act (as defined herein), any claim against the Trustee arising out of its acceptance of its trusteeship under, and the performance of its duties, powers and rights in respect of, the Indenture and in connection with the Contingent Capital Notes, including, without limitation, claims related to or arising out of or in connection with the Conversion Trigger Event and/or any Automatic Conversion and (iv) authorised, directed and requested DTC and any direct participant in DTC or other intermediary through which it holds such

Contingent Capital Notes to take any and all necessary action, if required, to implement the Automatic Conversion without any further action or direction on the part of such holder or beneficial owner or the Trustee.

**Settlement Shares
Offer**

In our sole and absolute discretion, within ten (10) Business Days following

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the Conversion Date, we may elect that the Settlement Share Depository (or an agent on its behalf) make an offer of all or some of the Settlement Shares to all or some of our ordinary shareholders upon Automatic Conversion, such offer to be at a cash price per Settlement Share that will be no less than the Conversion Price (translated from US dollars into pounds sterling at the then-prevailing rate as determined by us in our sole discretion) subject to certain anti-dilution adjustments, as described under “*Description of the Contingent Capital Notes—Anti-Dilution Adjustment of the Conversion Price*” (the “Settlement Shares Offer”). Such election shall be made through the delivery of a “Settlement Shares Offer Notice” to the Trustee directly and to the holders of the Contingent Capital Notes. If so elected, the Settlement Shares Offer Notice shall specify (i) the period of time for which the Settlement Shares Offer shall be made (the “Settlement Shares Offer Period”), which shall end no later than forty (40) Business Days after the delivery of the Settlement Shares Offer Notice, and (ii) the date on which DTC shall suspend all clearance and settlement of transactions in the Contingent Capital Notes in accordance with its rules and procedures (the “Suspension Date”), if the Suspension Date has not previously been specified in the Conversion Trigger Notice.

Upon expiry of the Settlement Shares Offer Period, the Settlement Share Depository will provide notice to the holders of Contingent Capital Notes of the composition of the Alternative Consideration (and of the deductions to the cash component, if any, of the Alternative Consideration (as set out in the definition of Alternative Consideration)) per \$1,000 Tradable Amount of the Contingent Capital Notes. The Alternative Consideration will be held by the Settlement Share Depository on behalf of the holders of Contingent Capital Notes and will be delivered to holders of Contingent Capital Notes pursuant to the procedures set forth under “*Description of the Contingent Capital Notes—Settlement Shares Offer*” below.

The cash component of any Alternative Consideration shall be payable by the Settlement Share Depository to the holders of Contingent Capital Notes whether or not the Solvency Condition is satisfied.

Agreement with Respect to Any Settlement Shares Offer By its acquisition of the Contingent Capital Notes, each holder and beneficial owner of the Contingent Capital Notes acknowledges and agrees that if we elect, in our sole and absolute discretion, that a Settlement Shares Offer be conducted by the Settlement Share Depository, such holder and beneficial owner shall be deemed to have: (i) irrevocably consented to any Settlement Shares Offer and, notwithstanding that such Settlement Shares are held by the Settlement Share Depository on behalf of the holders and beneficial owners of the Contingent Capital Notes, to the Settlement Share Depository using the Settlement Shares delivered to it to settle any Settlement Shares Offer; (ii) irrevocably consented to the transfer of the beneficial interest it holds in the Settlement Shares delivered upon Automatic Conversion to the Settlement Share Depository or to one or more purchasers identified by the Settlement Share Depository in connection with the Settlement Shares Offer; (iii) irrevocably agreed that we and the Settlement Share Depository may take any and all actions necessary to conduct the Settlement Shares Offer in accordance with the terms of the Contingent Capital Notes; and (iv) irrevocably agreed that none of us, the Trustee or the Settlement Share Depository shall, to the extent permitted by applicable law, incur any liability to the holders or beneficial owners of the Contingent

Capital Notes in respect of the Settlement Shares Offer (except for the obligations of the Settlement Share Depository in respect of the holders' and beneficial owners' entitlement to,

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and subsequent delivery of, any Alternative Consideration).

Notwithstanding any other agreements, arrangements, or understandings between us and any holder or beneficial owner of the Contingent Capital Notes, by its acquisition of the Contingent Capital Notes, each holder and beneficial owner of the Contingent Capital Notes acknowledges, accepts, agrees to be bound by and consents to the exercise of any UK bail-in power (as defined below) by the relevant UK resolution authority that may result in (i) the reduction or cancellation of all, or a portion, of the principal amount of, or interest on, the Contingent Capital Notes; (ii) the conversion of all, or a portion, of the principal amount of, or interest on, the Contingent Capital Notes into ordinary shares or other securities or other obligations of ours or another person; and/or (iii) the amendment of the amount of interest due on the Contingent Capital Notes, or the dates on which interest becomes payable, including by suspending payment for a temporary period; which UK bail-in power may be exercised by means of variation of the terms of the Contingent Capital Notes solely to give effect to the exercise by the relevant UK resolution authority of such UK bail-in power. With respect to (i), (ii) and (iii) above, references to principal and interest shall include payments of principal and interest that have become due and payable but which have not been paid, prior to the exercise of any UK bail-in power. Each holder and beneficial owner of the Contingent Capital Notes further acknowledges and agrees that the rights of the holders and/or beneficial owners under the Contingent Capital Notes are subject to, and will be varied, if necessary, solely to give effect to, the exercise of any UK bail-in power by the relevant UK resolution authority.

Agreement with Respect to the Exercise of UK Bail-in Power

For these purposes, a “UK bail-in power” is any write-down, conversion, transfer, modification or suspension power existing from time to time under any laws, regulations, rules or requirements relating to the resolution of banks, banking group companies, credit institutions and/or investment firms incorporated in the United Kingdom in effect and applicable in the United Kingdom to RBSG or other members of the Group, including but not limited to any such laws, regulations, rules or requirements which are implemented, adopted or enacted within the context of a European Union directive or regulation of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms and/or within the context of a UK resolution regime under the Banking Act 2009, as the same has been or may be amended from time to time (whether pursuant to the UK Financial Services (Banking Reform) Act 2013, secondary legislation or otherwise), pursuant to which any obligations of a bank, banking group company, credit institution or investment firm or any of its affiliates can be reduced, cancelled, modified, transferred and/or converted into shares or other securities or obligations of the obligor or any other person (or suspended for a temporary period) or pursuant to which any right in a contract governing such obligation may be deemed to have been exercised. A reference to the “relevant UK resolution authority” is to any authority with the ability to exercise a UK bail-in power.

Repayment of Principal and Payment of Interest After Exercise of UK Bail-in

No payment of principal following any proposed redemption of the Contingent Capital Notes or payment of interest on the Contingent Capital Notes shall become due and payable after the exercise of any UK bail-in power by the relevant UK resolution authority unless, at the time that such repayment or payment, respectively, is scheduled to become due, such repayment or payment would be permitted to be made by us under the laws

Power

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and regulations of the United Kingdom and the European Union applicable to us and the Group.

Optional Redemption

The Contingent Capital Notes will, subject to the satisfaction of the Solvency Condition and the conditions described under “—*Pre-conditions to Redemptions and Repurchases*” below, be redeemable in whole but not in part, at our option and in our sole discretion on the First Call Date or on any Reset Date thereafter at 100% of their principal amount, together with any accrued and unpaid interest on the Contingent Capital Notes, excluding any interest which has been cancelled or deemed to be cancelled in accordance with the terms of the Contingent Capital Notes (“Accrued Interest”), to but excluding the date fixed for redemption.

Tax Redemption

If at any time a Tax Event has occurred, we may, subject to the satisfaction of the Solvency Condition and the conditions described under “—*Pre-conditions to Redemptions and Repurchases*” below, at our option and in our sole discretion redeem the Contingent Capital Notes, in whole but not in part, at any time at 100% of their principal amount, together with any Accrued Interest to, but excluding, the date fixed for redemption. See “*Description of Contingent Capital Notes—Redemption and Repurchases—Tax Redemption*” in this prospectus supplement and “*Description of Contingent Convertible Securities*” in the accompanying prospectus.

If at any time a Capital Disqualification Event occurs, we may, subject to the satisfaction of the Solvency Condition and the conditions described under “—*Pre-conditions to Redemptions and Repurchases*” below, at our option and in our sole discretion, redeem the Contingent Capital Notes, in whole but not in part, at any time at 100% of their principal amount together with any Accrued Interest to, but excluding, the date fixed for redemption.

Redemption for a Capital Disqualification Event

A “Capital Disqualification Event” shall occur if we determine that, as a result of any amendment to, or change in the regulatory classification of the Contingent Capital Notes under, the Capital Regulations (or official interpretation thereof), in any such case becoming effective on or after the Issue Date, the whole or part of the Contingent Capital Notes are, or are likely to be, excluded from our and/or the Regulatory Group’s Tier 1 Capital (as defined in the Capital Regulations).

Repurchases of the Contingent Capital Notes

Subject to the satisfaction of the Solvency Condition and the conditions described under “—*Pre-conditions to Redemptions and Repurchases*” below, we may at any time and from time to time and to the extent not prohibited by CRD IV, repurchase beneficially or procure others to repurchase beneficially for our account the Contingent Capital Notes in the open market, by tender or by private agreement, in any manner and at any price or at differing prices.

Cancellation

Contingent Capital Notes purchased or otherwise acquired by us may be (i) held, (ii) resold or (iii) at our sole discretion, surrendered to the Trustee for cancellation (in which case all Contingent Capital Notes so surrendered will forthwith be cancelled in accordance with applicable law and thereafter may not be reissued or resold).

**Pre-conditions to
Redemption and
Repurchases**

Any redemption or repurchase of the Contingent Capital Notes by us is subject (except to the extent that the PRA no longer so requires) to our

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having met the following conditions:

(1) we having notified the PRA of our intention to do so at least one month (or such other, longer or shorter period, as the PRA may then require or accept) before we become committed to the proposed redemption or repurchase; and

(2) the PRA having granted us permission to make any such redemption or repurchase of the Contingent Capital Notes upon a satisfactory finding that either:

(i) on or before such redemption or repurchase of any of the Contingent Capital Notes, we replace such Contingent Capital Notes with own funds instruments (as defined by the Capital Regulations) of an equal or higher quality on terms that are sustainable for our income capacity; or

(ii) we have demonstrated to the satisfaction of the PRA that our Tier 1 Capital and Tier 2 Capital (as defined by the Capital Regulations) would, following such redemption or repurchase, exceed the capital ratios required under CRD IV and the combined buffer requirement defined in CRD IV by a margin that the PRA may consider necessary on the basis set out in CRD IV for it to determine the appropriate level of capital of an institution; and

(3) no Conversion Trigger Notice has been delivered; and

(4) we have complied with any alternative or additional pre-conditions as set out in the Capital Regulations and/or required by the PRA as a prerequisite to its permission for such redemptions or repurchases, at the time.

In addition, we may only redeem the Contingent Capital Notes before five years after the date of issuance of the Contingent Capital Notes, provided that (except to the extent that the PRA no longer so requires) the following conditions are met:

(a) the pre-conditions listed in (1), (2), (3) and (4) above are met; and

(b) in the case of redemption due to the occurrence of a Capital Disqualification Event, as described under “—*Redemption for a Capital Disqualification Event*” above (i) the PRA considers such change to be sufficiently certain and (ii) we demonstrate to the satisfaction of the PRA that the Capital Disqualification Event was not reasonably foreseeable at the time of the issuance of the Contingent Capital Notes; or

(c) in the case of redemption due to the occurrence of a Tax Event as described under “- *Tax Redemption*” above, we demonstrate to the satisfaction of the PRA that a Tax Event is material and was not reasonably foreseeable at the time of issuance of the Contingent Capital Notes.

**Payment of
Additional
Amounts**

We will pay additional amounts in respect of any withholding or deduction imposed in respect of payments of interest only (and not principal) on the Contingent Capital Notes subject to certain exceptions as described under “*Description of the Contingent Capital Notes—Additional Amounts*”.

**Additional
Issuances**

We may, from time to time, without the consent of the holders of the Contingent Capital Notes, issue additional Contingent Capital Notes under the Indenture, having the same ranking and same interest rate, interest cancellation terms, redemption terms, conversion price and other terms as the Contingent Capital Notes described in this prospectus supplement, other

than the price to the public and issue date of the Contingent Capital Notes offered hereby. Any such additional Contingent Capital Notes, together with the Contingent Capital Notes offered by this prospectus supplement, shall rank equally and rateably with the Contingent Capital Notes in all respects, so that such further Contingent Capital Notes shall be consolidated and form a single series with the Contingent Capital Notes. There is no limitation on the amount of Contingent Capital Notes or other debt securities that we may issue under the Indenture, and there is no restriction on our issuing securities that may have similar, or different conversion trigger event provisions to the Contingent Capital Notes or no conversion trigger events.

**Enforcement
Events and
Remedies**

There are no events of default under the Contingent Capital Notes. In addition, under the terms of the Indenture neither the Automatic Conversion, the exercise of the UK bail-in power by the relevant UK resolution authority nor a write-down of the Contingent Capital Notes upon the occurrence of a Conversion Trigger Event following a Non-Qualifying Takeover Event with respect to the Contingent Capital Notes will be an Enforcement Event.

Each of the following is an “Enforcement Event”:

(1) the occurrence of a Winding-up or Administration Event prior to the occurrence of a Conversion Trigger Event;

(2) non-payment of principal when due as further described below; or

(3) breach of a Performance Obligation

The occurrence of a Winding-up or Administration Event prior to the occurrence of a Conversion Trigger Event

If a Winding-up or Administration Event occurs prior to the occurrence of a Conversion Trigger Event, subject to the subordination provisions described herein, the principal amount of the Contingent Capital Notes will become immediately due and payable. For the avoidance of doubt, as the principal amount of the Contingent Capital Notes will become immediately due and payable upon such a Winding-up or Administration Event, neither the Trustee nor the holders of the Contingent Capital Notes are required to declare such principal amount to be due and payable.

Non-payment of principal when due

Subject to the satisfaction of any redemption conditions described herein, if we do not make payment of principal in respect of the Contingent Capital Notes for a period of fourteen (14) calendar days or more after the date on which such payment is due, then the Trustee, on behalf of the holders and beneficial owners of the Contingent Capital Notes, may, at its discretion, or shall at the direction of holders of 25% or more of the aggregate principal amount of outstanding Contingent Capital Notes, subject to any applicable laws, institute proceedings for our winding-up. In the event of a Winding-up or Administration Event or our liquidation, whether or not instituted by the Trustee, the Trustee may prove the claims of the holders and beneficial owners of the Contingent Capital Notes and the Trustee in the Winding-up or Administration Event and/or claim in our liquidation, such claims as set out under “—*Ranking*” above. For the avoidance of doubt, the Trustee may not declare the principal amount of any outstanding Contingent Capital Notes to be due and payable and may not pursue any other legal remedy, including a judicial proceeding for the collection of the sums due and

unpaid on the Contingent Capital Notes.

Breach of a Performance Obligation

In the event of a breach of any term, obligation or condition binding on us under the Contingent Capital Notes or the Indenture (other than any of our payment obligations under or arising from the Contingent Capital Notes or the Indenture, including payment of any principal or interest, including any damages awarded for breach of any obligations) (a “Performance Obligation”); the Trustee may without further notice institute such proceedings against us as it may think fit to enforce the Performance Obligation, provided that we shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums, in cash or otherwise (including any damages) earlier than the same would otherwise have been payable under the Contingent Capital Notes or the Indenture.

No other remedies

Other than the limited remedies specified above, no remedy against us shall be available to the Trustee (acting on behalf of the holders of the Contingent Capital Notes) or to the holders and beneficial owners of the Contingent Capital Notes, provided that (1) the Trustee shall have such powers as are required to be authorised to it under the Trust Indenture Act (as defined herein) in respect of the rights of the holders and beneficial owners under the provisions of the Indenture, and (2) nothing shall impair the rights of a holder or beneficial owner of the Contingent Capital Notes under the Trust Indenture Act, absent such holder’s or beneficial owner’s consent, to sue for any payment due but unpaid in respect of the Contingent Capital Notes, provided that, in the case of (1) and (2), any payments in respect of, or arising from, the Contingent Capital Notes including any payments or amounts resulting or arising from the enforcement of any rights under the Trust Indenture Act in respect of the Contingent Capital Notes shall be subject to the provisions of the Indenture. For the avoidance of doubt, such limitations shall not apply to our obligations to pay the fees and expenses of, and to indemnify, the Trustee, and the Trustee’s rights to apply money collected to first pay its fees and expenses shall not be subject to the subordination provisions set forth in this prospectus supplement.

**Book-Entry
Issuance,
Settlement and
Clearance**

The Contingent Capital Notes will be issued only in registered form in minimum denominations of \$200,000 and in integral multiples of \$1,000 in excess thereof.

The Contingent Capital Notes will be represented by one or more fully registered global notes registered in the name of a nominee of DTC. You will hold beneficial interests in the Contingent Capital Notes through DTC and its direct and indirect participants, including Euroclear SA/NV (“Euroclear”) and Clearstream Banking, *société anonyme* (“Clearstream Banking”) and DTC and its direct and indirect participants will record your beneficial interest on their books. We will not issue certificated notes except as described in the accompanying prospectus. Settlement of the Contingent Capital Notes will occur through DTC in same day funds. For information on DTC’s book-entry system, see “*Description of Debt Securities—Form of Debt Securities; Book-Entry System*” in the accompanying prospectus.

Minimum Denomination The Contingent Capital Notes will be issued only in registered form in minimum denominations of \$200,000 and in integral multiples of \$1,000 in excess thereof.

Listing	Application has been made to The Irish Stock Exchange plc (the “Irish Stock Exchange”) for the Contingent Capital Notes to be admitted to the Official List and to trading on the Global Exchange Market, which is the exchange regulated market of the Irish Stock Exchange.
Governing Law	The Contingent Capital Notes and the Indenture will be governed by, and construed in accordance with the laws of New York and the Trust Indenture Act, except that the subordination provisions and the waiver of the right to set-off by the holders of the Contingent Capital Notes and by the Trustee acting on behalf of the holders with respect to the Contingent Capital Notes will be governed by, and construed in accordance with the laws of Scotland.
Conflicts of Interest	RBS Securities Inc. (“RBSSI”), an affiliate of RBSG, is a Financial Industry Regulatory Authority (“FINRA”) member and an Underwriter in this offering and has a “conflict of interest” within the meaning of FINRA Rule 5121. Accordingly, this offering will be made in compliance with the applicable provisions of FINRA Rule 5121. That rule requires that a “Qualified Independent Underwriter” meeting specified requirements participate in the preparation of the prospectus supplement and exercise its usual standard of due diligence with respect thereto. UBS Securities LLC has agreed to act as the Qualified Independent Underwriter for this offering and has agreed in so acting to undertake the legal responsibilities and liabilities of an underwriter under the Securities Act, specifically those inherent in Section 11 thereof. UBS Securities LLC will not receive a fee for acting as a Qualified Independent Underwriter in this offering. We have agreed to indemnify UBS Securities LLC against certain liabilities incurred in connection with acting as a Qualified Independent Underwriter, including liabilities under the Securities Act. RBSSI is not permitted to sell Contingent Capital Notes in this offering to an account over which it exercises discretionary authority without the prior specific written approval of the account holder.
Trustee and Principal Paying Agent	The Bank of New York Mellon, acting through its London Branch, a banking corporation duly organised and existing under the laws of the State of New York, having its Corporate Trust Office at One Canada Square, London E14 5AL, United Kingdom, will act as the trustee and initial principal paying agent for the Contingent Capital Notes.
Timing of Delivery	We currently expect delivery of the Contingent Capital Notes to occur on _____, 2016.
Use of Proceeds	We intend to use the net proceeds of the offering for general corporate purposes. See “ <i>Use of Proceeds</i> ”.

RISK FACTORS

Prospective investors should consider carefully the risk factors incorporated by reference into this prospectus supplement and as set out below as well as the other information set out elsewhere in this prospectus supplement (including any other documents incorporated by reference herein, including the 2015 Annual Report and the H1 2016 Interim Report and the risk factors included therein, and reach their own views prior to making any investment decision with respect to the Contingent Capital Notes.

Set out below and incorporated by reference herein are certain risk factors that, if they were to materialise, could have a material adverse effect on the business, operations, financial condition or prospects of RBSG and cause RBSG's future results to be materially different from expected results. RBSG has described only those risks that it considers to be material. There may be additional risks that RBSG currently considers not to be material or of which it is not currently aware, and any of these risks could have the effects set forth above. All of these factors are contingencies which may or may not occur and RBSG is not in a position to express a view on the likelihood of any such contingency occurring.

We believe that the factors described below with respect to the Contingent Capital Notes represent the principal risks inherent in investing in the Contingent Capital Notes. Each of the risks highlighted could have a material adverse effect on the amount of principal and interest which investors will receive in respect of the Contingent Capital Notes. In addition, each of the highlighted risks could adversely affect the trading price of the Contingent Capital Notes or the rights of investors under the Contingent Capital Notes and, as a result, investors could lose some or all of their investment. You should consult your own financial, tax and legal advisers regarding the risks of an investment in the Contingent Capital Notes. As part of making an investment decision, investors should make sure to thoroughly understand the terms of the Contingent Capital Notes, such as the provisions governing the Automatic Conversion (including, in particular, the circumstances under which a Conversion Trigger Event may occur), the agreement by investors to be bound by the exercise of an UK bail-in power by the relevant UK resolution authority, that interest is due and payable only at our discretion (and in certain circumstances must be cancelled) and that there is no scheduled repayment date for the principal of the Contingent Capital Notes. Investors should note that they bear RBSG's solvency risk, and that the Group is subject to the resolution framework applicable to financial institutions in the UK. Prospective investors should also read the detailed information set out elsewhere in this prospectus supplement (including any documents deemed to be incorporated by reference herein) and reach their own views prior to making any investment decision.

Risks relating to RBSG and the Group

For an up to date description of the risks associated with RBSG and the Group, including certain risks associated with investments in RBSG's securities, please refer to the "Risk Factors" section in our 2015 Annual Report, as updated by the risk factors and other information included in our H1 2016 Interim Report, both of which are incorporated by reference herein.

Risks relating to the Contingent Capital Notes

The Contingent Capital Notes are complex financial instruments that involve a high degree of risk and may not be a suitable investment for all investors.

The Contingent Capital Notes are complex financial instruments that involve a high degree of risk. As a result, an investment in the Contingent Capital Notes and the Settlement Shares issuable following the Conversion Trigger Event will involve certain increased risks compared to other categories of securities. Each potential investor of the Contingent Capital Notes must determine the suitability (either alone or with the help of a financial adviser) of that investment in light of its own circumstances. In particular, each potential investor should:

have sufficient knowledge and experience to make a meaningful evaluation of the Contingent Capital Notes, the (i) merits and risks of investing in the Contingent Capital Notes and the information contained or incorporated by reference in this prospectus supplement or any applicable supplement to this prospectus supplement;

have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial (ii) situation, an investment in the Contingent Capital Notes and the impact such investment will have on its overall investment portfolio;

have sufficient financial resources and liquidity to bear all of the risks of an investment in the Contingent Capital Notes, including where the currency for principal or interest payments, i.e., US dollars, is different from the (iii) currency in which such potential investor's financial activities are principally denominated and the possibility that the entire principal amount of the Contingent Capital Notes could be lost, including following the exercise by the relevant UK resolution authority of any UK bail-in power;

understand thoroughly the terms of the Contingent Capital Notes, such as the provisions governing cancellation of interest, Automatic Conversion (including, in particular, the calculation of the CET1 Ratio, as well as under what (iv) circumstances a Conversion Trigger Event will occur), and be familiar with the behaviour of any relevant indices and financial markets and the resolution regime applicable to the Group, including the possibility that the Contingent Capital Notes may become subject to write down or conversion if the UK bail-in power is exercised; and

(v) be able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Sophisticated investors generally do not purchase complex financial instruments that bear a high degree of risk as stand-alone investments. They purchase such financial instruments as a way to enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Contingent Capital Notes unless it has the knowledge and expertise (either alone or with a financial advisor) to evaluate how the Contingent Capital Notes will perform under changing conditions, the resulting effects on the likelihood of the Automatic Conversion into Settlement Shares and the value of the Contingent Capital Notes, and the impact this investment will have on the potential investor's overall investment portfolio. Prior to making an investment decision, potential investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in this prospectus supplement and the base prospectus or incorporated by reference herein.

The Contingent Capital Notes have no scheduled maturity and no fixed redemption date and you do not have the right to cause the Contingent Capital Notes to be redeemed or otherwise accelerate the repayment of the principal amount of the Contingent Capital Notes except in very limited circumstances.

The Contingent Capital Notes are perpetual securities and have no fixed maturity date or fixed redemption date and holders and beneficial owners of the Contingent Capital Notes may not request any redemption of the Contingent Capital Notes at any time. Although under certain circumstances as described under "*Description of the Contingent Capital Notes—Redemption and Repurchases*" we may redeem the Contingent Capital Notes, we are under no obligation to do so and you have no right to call for their redemption. Therefore, you have no ability to cash in your investment except under limited circumstances.

There is no right of acceleration in the case of any non-payment of principal of, or interest on, the Contingent Capital Notes or in the case of a failure by us to perform any other covenant under the Contingent Capital Notes or under the

Indenture. Accordingly, we are not required to make any repayment of the principal amount of Notes at any time or under any circumstances other than in connection with a Winding-up or Administration Event. In a Winding-up or Administration Event you may receive some of any resulting liquidation proceeds but only following payment in full of all Senior Creditors.

Interest payments on the Contingent Capital Notes will be due and payable in our sole and absolute discretion and we may cancel interest payments, in whole or in part, at any time. We may also be prohibited from making interest payments on the Contingent Capital Notes by applicable laws and regulations. In each case, cancelled interest shall not be due and shall not accumulate or be payable at any time thereafter and you shall have no rights thereto.

The following risk factors highlight some of the circumstances in which (i) we may cancel interest payments, or (ii) we may be required to cancel interest payments, or (iii) interest payments shall be deemed to have been cancelled, with respect to the Contingent Capital Notes.

Interest payments are entirely discretionary and may be cancelled by us, in whole or in part, at any time.

Interest on the Contingent Capital Notes will be due and payable only at our sole discretion and we shall have absolute discretion at all times and for any reason to cancel any interest payment in whole or in part that would

otherwise be payable on any Interest Payment Date. Interest will only be due and payable on an Interest Payment Date to the extent it is not cancelled in accordance with the terms of the Contingent Capital Notes.

Following cancellation of any interest payment, we will not be in any way limited or restricted from making any distribution or equivalent payments in connection with any Parity Securities or Junior Securities, including any dividend payments on our ordinary shares or preference shares. We may therefore cancel (in whole or in part) any interest payment on the Contingent Capital Notes at our discretion and may pay dividends on our ordinary shares or preference shares or on other similar securities notwithstanding such cancellation. In addition, we may without restriction use funds that could have been applied to make such cancelled payments to meet our other obligations as they become due.

The Contingent Capital Notes rank senior to our ordinary shares. It is the current intention of our board of directors that, whenever exercising its discretion to declare ordinary share dividends, or its discretion to cancel interest on the Contingent Capital Notes, the board of directors will take into account the relative ranking of these instruments in our capital structure. However, our board of directors may depart from that current intention at any time in its sole discretion and will not be required to provide holders of the Contingent Capital Notes with prior notice of such departure.

The terms of the Contingent Capital Notes and the Indenture may restrict us from making interest payments on the Contingent Capital Notes in certain circumstances.

In addition to our right to cancel, in whole or in part, interest payments at any time as described above and, subject to the extent permitted in the following paragraphs in respect of partial interest payments, we shall not make an interest payment on the Contingent Capital Notes on any Interest Payment Date (and such interest payment shall therefore be deemed to have been cancelled and thus shall not be due and payable on such Interest Payment Date), if:

(a) we have an amount of Distributable Items on such scheduled Interest Payment Date that is less than the sum of (i) all payments (other than redemption payments which do not reduce Distributable Items) made or declared by us since the end of our latest financial year and prior to such Interest Payment Date on or in respect of any Parity Securities, the Contingent Capital Notes, and any Junior Securities and (ii) all payments (other than redemption payments which do not reduce Distributable Items) payable by us on such Interest Payment Date (x) on the Contingent Capital Notes and (y) on or in respect of any Parity Securities or any Junior Securities, in the case of each of (i) and (ii), excluding any payments already accounted for in determining the Distributable Items, or

(b) the Solvency Condition is not (or would not be) satisfied in respect of such interest payment.

Although we may, in our sole discretion, elect to make a partial interest payment on the Contingent Capital Notes on any Interest Payment Date, we may only do so to the extent that such partial interest payment may be made without breaching the restrictions in the preceding paragraphs. In addition, we may elect to make a full or partial interest payment with respect to a Parity Security and/or a Junior Security without making an interest payment on any or all of the Contingent Capital Notes on any Interest Payment Date.

We will be responsible for determining compliance with this restriction, and neither the Trustee nor any agent will be required to monitor such compliance or to perform any calculations in connection therewith.

As a holding company, the level of our Distributable Items is affected by a number of factors, and insufficient Distributable Items may restrict our ability to make interest payments on the Contingent Capital Notes.

As a holding company, the level of our Distributable Items is affected by a number of factors, principally our ability to receive funds, directly or indirectly, from our operating subsidiaries in a manner which creates Distributable Items. Consequently, our future Distributable Items, and therefore our ability to make interest payments, are a function of our existing Distributable Items, our future profitability and performance and the ability of our operating subsidiaries to distribute or dividend profits up the Group structure to us. In addition, our Distributable Items will also be reduced by the redemption of equity instruments and the servicing of other debt and equity instruments and there are no restrictions on our ability to make payments on, or redemptions of, Parity Securities or Junior Securities even if that results in our Distributable Items not being sufficient to make a scheduled interest payment on the Contingent Capital Notes.

The ability of our subsidiaries to pay dividends and our ability to receive distributions and other payments from our investments in other entities is subject to their performance and to applicable local laws and other restrictions, including their respective regulatory, capital and leverage requirements, statutory reserves, financial and operating performance and applicable tax laws, and any changes thereto. These restrictions include, amongst others, the net asset distribution test, which applies to RBS plc and our other subsidiaries which are public companies subject to the provisions of the Companies Act. These laws and restrictions could limit the payment of dividends, distributions and other payments to us by our subsidiaries, which could in time restrict our ability to fund other operations or to maintain or increase our Distributable Items. The level of our Distributable Items may be further affected by changes to regulations or the requirements and expectations of applicable regulatory authorities. In particular, local capital or ring-fencing requirements outside the United Kingdom could adversely affect our Distributable Items in the future.

Further, our Distributable Items may be adversely affected by the performance of our business in general, changes in our organisational structure, factors affecting our financial position (including capital and leverage), the economic environment in which we operate and other factors outside of our control. Our Distributable Items are sensitive to the accounting impact of factors including the redemption of preference shares, restructuring costs and impairment charges and the carrying value of our investments in subsidiaries which are carried at the lower of cost and their prevailing recoverable amount. Recoverable amounts depend on discounted future cash flows which can be affected by restructurings, such as the requirement to implement the UK ring-fencing regime or unforeseen events. Any of these factors, including restructuring costs, impairment charges and a reduction in the carrying value of our subsidiaries or a shortage of dividends from them could limit our ability to maintain sufficient Distributable Items to be able to make interest payments on the Contingent Capital Notes. We shall not make an interest payment on the Contingent Capital Notes on any Interest Payment Date (and such interest payment shall therefore be deemed to have been cancelled and thus shall not be due and payable on such Interest Payment Date) if the level of Distributable Items is insufficient to fund that payment.

Interest payments on the Contingent Capital Notes shall not be made, in whole or in part, to the extent maximum distributable amounts restrictions apply.

We shall not pay any interest otherwise scheduled to be paid on the Interest Payment Date if and to the extent that the payment of such interest would cause, when aggregated with other distributions of the kind referred to in Article 141(2) of Directive 2013/36/EU of the European Parliament and of the Council of June 26, 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, and any successor directive (the “CRD IV Directive”) as transposed in the United Kingdom, including through the rules adopted by the PRA from time to time, the Maximum Distributable Amount (as defined below) if any, then applicable to us, to be exceeded.

Under these rules, institutions that fail to meet the “combined buffer requirement” (as defined below) are subject to restricted “discretionary payments” (which are defined broadly as payments relating to CET1, variable remuneration and payments on additional tier 1 instruments, such as the Contingent Capital Notes). The restrictions will be scaled according to the extent of the breach of the combined buffer requirement and calculated as the amount of interim or year-end profits of the institution not yet incorporated in CET1 capital (and which have been generated since the most

recent decision on the distribution of profits), multiplied by a factor ranging from 0 to 0.6 depending on the size of the CET1 capital shortfall against the combined buffer requirement. Such calculation will result in a “maximum distributable amount” in each relevant period (a “Maximum Distributable Amount”). As an example, the scaling is such that in the bottom quartile of the combined buffer requirement, no discretionary distributions will be permitted to be paid. In the event of a breach of the combined buffer requirement, we will be required to calculate our Maximum Distributable Amount, and as a consequence it may be necessary for us to reduce discretionary payments to the extent of the breach, including by exercising our discretion to cancel (in whole or in part) interest payments in respect of the Contingent Capital Notes.

The interaction of such restrictions on distributions (including interest payments on the Contingent Capital Notes) with, and impact of, the capital requirements and buffers and leverage framework applicable to the Group as well as current proposals relating to loss-absorbing capital requirements, remains uncertain in many respects. Such uncertainty is expected to continue while the relevant authorities in the EU and the UK consult on and develop their proposals and provide guidance on the application of the rules and in light of the outcome of the referendum on the UK’s membership of the EU in favour of the UK leaving the EU. See also “—*Changes in law may adversely affect your rights under the Contingent Capital Notes or may adversely affect the Group’s business, financial performance*

and capital plans” and the risk factor in our H1 2016 Interim Report entitled “Risk Factors — Economic, regulatory and political uncertainty arising from the outcome of the recent referendum on the UK’s membership of the European Union could adversely impact the Group’s business, results of operations, financial condition and prospects.” In particular, how the Maximum Distributable Amount is calculated, and restrictions on “double counting” of CET1 capital to meet both loss-absorbing capital requirements and capital and leverage buffer requirements remain to be confirmed. Further changes to these rules could result in more CET1 capital required to be held by a financial institution in order to prevent the Maximum Distributable Amount restrictions from applying.

The introduction of new or additional capital or leverage requirements may restrict us from making interest payments on the Contingent Capital Notes to the extent they result in restrictions on distributions, in which case we will cancel such interest payments, and you may not be able to anticipate whether or when we will cancel such interest payments.

The capital and leverage framework to which we are subject requires us to hold certain levels of capital, including CET1 capital. A failure to hold sufficient levels of capital, including CET1 capital, as required by these rules, as may be amended from time to time, may result in restrictions on distributions being applied pursuant to which we may be required to cancel interest payments on the Contingent Capital Notes.

We are required, on a consolidated basis, to hold a minimum amount of regulatory capital of 8% of risk weighted assets of which at least 4.5% must be CET1 capital with the remainder comprising a maximum of 1.5% additional tier 1 instruments and a maximum of 2% tier 2 instruments (the “Pillar 1 requirements”). In addition, the PRA requires us to hold extra capital requirements to cover risks not covered or insufficiently covered by the Pillar 1 requirements (the “Pillar 2A requirements”). Our current Pillar 2A requirement is 5% of RWAs as at June 30, 2016, and at least 56% of our total Pillar 2A requirements must be met with CET1 capital. We are also required to meet a firm specific Pillar 2B buffer requirement set by the PRA (“PRA buffer”) which is based on various factors including firm-specific stress test results, credible recovery and resolution planning, leverage, systemic importance and weaknesses in the firms’ risk management and governance. The PRA buffer is set at a level which the PRA believes will ensure that a bank can continue to meet minimum Pillar 1 and Pillar 2A requirements during a stressed period. The PRA assesses the PRA buffer applicable to an institution annually (or more often if a firm’s circumstances change) and UK banks are required to meet the higher of the combined buffer requirement (as defined below) or PRA buffer. The PRA buffer must be met with 100% CET1 capital by 2019 (subject to transitional arrangements from 2016 starting with 25% of CET1 capital) which will be CET1 capital in addition to the CET1 capital used to meet the capital buffers or Pillar 1 and Pillar 2A capital requirements.

We are also required to meet capital buffer requirements that are in addition to the Pillar 1 requirements and Pillar 2 requirements and are required to be met with CET1 capital (the “CRD IV buffers”). The combination of the capital conservation buffer (which, subject to transitional provisions, will be set at 2.5% from 2019), the countercyclical capital buffer (which is currently set at 0% but may be set at up to 2.5% or higher in the future) and the higher of the systemic risk buffer and the global systemically important institutions buffer (“GSIB Buffer”) constitutes the “combined buffer requirement”. These rules entered into force on May 1, 2014, for the countercyclical capital buffer and on January 1, 2016, for the capital conservation buffer and the GSIB Buffer. The GSIB Buffer is currently set at 1.5% for the Group, but will reduce to 1.0% on January 1, 2017, and will be fully phased in by January 1, 2019. The systemic

risk buffer will be applicable from January 1, 2019. The Bank of England's Financial Policy Committee (the "FPC") is responsible for determining which institutions should hold the systemic risk buffer, and if so, how large the buffer should be (up to a maximum of 3%). The PRA, which is responsible for applying the framework set by the FPC and has indicated that it would keep the policy under review to assess whether any changes would be required due to changes in the UK regulatory framework, including those arising once any new arrangements with the European Union take effect.

Our capital requirements, including Pillar 2 requirements, are, by their nature, calculated by reference to a number of factors any one of which or combination of which may not be easily observable or capable of calculation by investors. Investors may not be able to predict accurately the proximity of the risk of discretionary payments on the Contingent Capital Notes being prohibited from time to time as a result of the operation of the Maximum Distributable Amounts restrictions. In addition, although the PRA has indicated that a breach of the PRA buffer, unlike a breach of the combined buffer requirement, will not lead to the automatic capital distribution restrictions resulting from the application of the Maximum Distributable Amount rules, if the PRA determines that a firm has insufficient capital to meet its PRA buffer, it will be subject to enhanced supervisory action and will be required to prepare a capital restoration plan. In addition, any increases in our PRA buffer requirements would require us to

hold additional CET1 capital and therefore may increase the risk that Maximum Distributable Amount restrictions may apply.

We are also subject to the leverage ratio framework in the UK, pursuant to which we are required to meet (i) a minimum leverage ratio requirement set at 3% (calculated by dividing a firm's tier 1 capital by its total exposure measure (as defined in the CRD IV Regulation)) applicable from January 1, 2016, (ii) an additional leverage ratio to be calibrated at 35% of our GSIB Buffer and which will be phased in from 2016 and (iii) a countercyclical leverage ratio buffer which will be calibrated at 35% of our countercyclical capital buffer and came into force at the same time as the minimum leverage ratio requirement. At least 75% of the minimum leverage ratio requirement is required to be met with CET1 capital and the additional GSIB leverage ratio and the countercyclical leverage ratio buffer should be met entirely with CET1 capital. The PRA has indicated that firms that do not hold an amount of CET1 capital equal to or greater than their applicable leverage ratio buffers will not face automatic restrictions on distributions. However, the Basel Committee is currently consulting on revisions to the leverage ratio framework which could lead to additional requirements for global systemically important banks ("GSIBs") either in the form of higher minimum requirements or buffer requirements.

Our ability to make payments on the Contingent Capital Notes may be further impacted by current regulatory proposals relating to loss-absorbing capital. In particular, the standards set by the Financial Stability Board (the "FSB") recommend the adoption of total loss absorbing capacity ("TLAC") requirements for GSIBs (including us) in addition to existing minimum regulatory capital requirements. The TLAC standards currently contemplate that only CET1 capital in excess of that required to satisfy minimum TLAC requirements may count towards regulatory capital buffers, including those described above. As a result of these proposals, our capital requirements, in particular requirements that we hold sufficient amounts of CET1 capital, may be effectively increased. The Bank Recovery and Resolution Directive 2014/59/EU of May 15, 2014 ("BRRD") introduces similar requirements to those set out in the TLAC standards, pursuant to which banks are required to maintain at all times a sufficient aggregate amount of own funds and "eligible liabilities" (that is, certain liabilities that may be bailed in using the bail-in tool and which do not contain certain features which are likely to make them more difficult to bail-in or otherwise exposed to loss in resolution), known as the minimum requirements for own funds and eligible liabilities ("MREL"). The Bank of England is due to publish its final rules on the transposition of these rules in the UK, including with respect to how they will interact with the TLAC standards for GSIBs. The MREL rules are also subject to further implementation and guidance at the European level, with a final report expected from the European Banking Authority ("EBA") by the end of October 2016 and a legislative proposal reviewing MREL and the implementation of the TLAC standards to be published by the European Commission by the end of 2016. The implementation of the BRRD's MREL requirements and TLAC requirements may result in an increased risk of a breach of our combined buffer requirement, triggering the restrictions relating to the Maximum Distributable Amount described above. As a consequence, it may be necessary to reduce discretionary payments (in whole or in part), including potentially exercising our discretion to cancel (in whole or in part) interest payments in respect of the Contingent Capital Notes. Such cancellation could affect the market value of the Contingent Capital Notes.

Any of the capital or leverage requirements or buffers applicable to us may be amended in the future (including as a result of developments relating to the outcome of the referendum on the UK's membership of the EU in favour of the UK leaving the EU) to include new and more onerous requirements, which, if they increase the levels of CET1 or other capital that we are required to hold, or how such requirements interact with the Maximum Distributable Amount

rules, may in turn affect our capacity to make payments of interest on the Contingent Capital Notes.

We may be restricted in making interest payments on the Contingent Capital Notes by the terms of certain of our other outstanding securities, provisions of our by-laws or the provisions of the Companies Act 2006.

We may be restricted by the terms of our Parity Securities from making interest payments on the Contingent Capital Notes if we do not make payments on such Parity Securities, including dividend payments on certain of our preference shares. In certain circumstances, we may have no choice but to cease payments on such Parity Securities. For example, the Companies Act 2006 (UK) (the “Companies Act”) imposes limitations on distributions by us to our members (including preference shareholders) if the amount of our net assets is less than the aggregate of our called-up share capital and undistributable reserves (the “net asset distribution test”). If we are not permitted to make payments on certain of our preference shares due to a failure of the net asset distribution test, or otherwise, we shall not pay any interest on the Contingent Capital Notes otherwise scheduled to be paid on an Interest Payment Date.

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No interest or other payments shall be made on the Contingent Capital Notes following the occurrence of a Conversion Trigger Event or of a Winding-up or Administration Event.

Any interest in respect of an interest period ending on any Interest Payment Date falling between the Conversion Trigger Event and the Conversion Date shall be deemed to have been cancelled upon the occurrence of such Conversion Trigger Event and shall not be due and payable.

In addition, following an Automatic Conversion, no amount shall be due and payable to the holders or beneficial owners of the Contingent Capital Notes, and our liability to pay any such amounts (including the principal amount of, or any interest in respect of, the Contingent Capital Notes) shall be automatically released, and the holders and beneficial owners shall not have the right to give a direction to the Trustee with respect to the Conversion Trigger Event and any related Automatic Conversion.

In the event of a Winding-up or Administration Event, any accrued but unpaid interest on the Contingent Capital Notes shall be deemed to have been cancelled upon the occurrence of such Winding-up or Administration Event and shall not become due and payable at any time.

We may be restricted in making interest payments on the Contingent Capital Notes by our regulators in certain circumstances.

The PRA has wide-ranging powers under section 55M of the Financial Services and Markets Act 2000 (implementing Article 104 of the CRD IV Directive) for the purpose of the supervisory review and evaluation process under that directive. These powers include, inter alia, a general power to restrict or prohibit interest payments to holders of additional tier 1 capital securities, such as the Contingent Capital Notes. There are no ex-ante limitations on the PRA's discretion to exercise this power. If the PRA exercises this power, we will exercise our discretion to cancel (in whole or in part, as required by the PRA) interest payments in respect of the Contingent Capital Notes.

In addition, pursuant to the rules transposing Article 63(j) of the BRRD, the PRA has the power to alter the amount of interest payable under debt instruments issued by banks subject to resolution proceedings and the date on which the interest becomes payable under the debt instrument (including the power to suspend payment for a temporary period).

Such powers may be amended or extended from time to time, or new powers restricting our ability to make interest payments on the Contingent Capital Notes may come into effect subsequent to the date of this prospectus as a result of changes in the applicable regulatory framework.

Interest or other payments on the Contingent Capital Notes may be cancelled in the event of the exercise of the UK bail-in power or the write-down and conversion power by the relevant UK resolution authority.

The relevant UK resolution authority may exercise the bail-in tool or the capital instrument write-down and conversion power with respect to the Contingent Capital Notes in certain circumstances prescribed under the Banking Act 2009, as the same has been or may be amended from time to time (whether pursuant to the UK Financial Services (Banking Reform) Act 2013 (the “Banking Reform Act 2013”), secondary legislation or otherwise, the “Banking Act”) as a result of which all or a portion of the principal amount or interest payable on the Contingent Capital Notes may be cancelled or the Contingent Capital Notes may be converted into other securities of RBSG or another entity. See “—*The Contingent Capital Notes may be subject to write-down, cancellation or conversion upon the occurrence of the exercise by the relevant UK regulatory authority of the UK bail-in power or capital instruments write-down and conversion power, which powers are in addition to the terms of the Contingent Capital Notes which provide for Automatic Conversion on the occurrence of a Conversion Trigger Event.*”

Cancelled interest shall not be due and shall not accumulate or be payable at any time thereafter or constitute an event of default and you shall have no rights thereto.

If we elect to cancel any scheduled interest payment or any such interest payment is deemed to be cancelled for any of the reasons described herein, such interest payment shall not be or become due and shall not accumulate or be payable at any time thereafter and you shall have no rights thereto or claim against us with respect to such interest amount or be able to accelerate the principal of the Contingent Capital Notes as a result of such interest cancellation. If we do not make an interest payment on the relevant Interest Payment Date (or if we elect to make a payment of a

portion of, but not all of such interest payment) such non-payment shall evidence our exercise of our discretion to cancel such interest payment, or the portion of such interest payment not paid. Furthermore, no cancellation of interest in accordance with the terms of the Indenture or the Contingent Capital Notes shall constitute a default in payment or otherwise under the terms of the Contingent Capital Notes or the Indenture.

If practicable, we will provide notice of any cancellation or deemed cancellation of interest (in each case, in whole or in part) to you through DTC (or, if you hold the Contingent Capital Notes in definitive form, directly to the address shown in the register for the Contingent Capital Notes) and to the trustee directly on or prior to the relevant Interest Payment Date. However, failure to provide such notice will not have any impact on the effectiveness of, or otherwise invalidate, any such cancellation of interest, or give you any rights as a result of such failure.

No cancellation of interest as described above shall constitute a default in payment or otherwise under the terms of the Contingent Capital Notes or the Indenture and holders and beneficial owners shall have no rights thereto or to receive any additional interest or compensation as a result of such cancellation or deemed cancellation. See also “—*The Contingent Capital Notes do not contain events of default and the remedies available to you under the Contingent Capital Notes are limited.*”

The Contingent Capital Notes may be traded with accrued interest, but under certain circumstances described above, such interest may be cancelled and not paid on the relevant Interest Payment Date.

The Contingent Capital Notes may trade, and/or the prices for the Contingent Capital Notes may appear, on the Global Exchange Market of the Irish Stock Exchange and in other trading systems with accrued interest. If this occurs, purchasers of Contingent Capital Notes in the secondary market will pay a price that reflects such accrued interest upon purchase of the Contingent Capital Notes. However, if a payment of interest on any Interest Payment Date is cancelled or deemed cancelled (in each case, in whole or in part) as described herein and thus is not due and payable, purchasers of such Contingent Capital Notes will not be entitled to that interest payment (or if we elect to make a payment of a portion, but not all, of such interest payment, the portion of such interest payment not paid) on the relevant Interest Payment Date. This may affect the value of your investment in the Contingent Capital Notes.

The interest rate on the Contingent Capital Notes will be reset on each Reset Date, which may affect the market value of the Contingent Capital Notes.

From the Issue Date, the Contingent Capital Notes will initially earn interest at a fixed rate of % per annum. From, and including, the First Call Date, however, and every Reset Date thereafter, the interest rate will be reset to a rate per annum which will equal the aggregate of the then prevailing Mid-Market Swap Rate (as defined under “*Description of the Contingent Capital Notes—Interest*”) and %. This reset rate following any Reset Date could be less than the initial interest rate and/or the interest rate that applies immediately prior to such Reset Date, which could

affect the amount of any interest payments under the Contingent Capital Notes and, by extension, could affect the market value of the Contingent Capital Notes.

The Contingent Capital Notes may be subject to Automatic Conversion following the occurrence of a Conversion Trigger Event, in which case the Contingent Capital Notes will be converted into Settlement Shares and, as a result, you could lose all or part of your investment in the Contingent Capital Notes.

The rules adopted by the PRA in PS7/13: “Strengthening capital standards: Implementing CRD IV”, provide that, in order to count in full as additional tier 1 capital of a financial institution, all non-common equity tier 1 instruments (such as the Contingent Capital Notes) must contain a contractual term allowing them to be written-down or converted into ordinary shares upon a trigger event, defined as the common equity tier 1 capital ratio of the financial institution falling below (i) 5.125% or (ii) a ratio higher than 5.125% as determined by the terms of the instrument.

With respect to the Contingent Capital Notes, a Conversion Trigger Event shall occur if at any point in time our CET1 Ratio (which will be calculated on a consolidated and fully loaded basis) is less than 7.00%. For a discussion of the risks associated with the calculation of our CET1 Ratio see “—*Changes to the calculation of CET1 capital and/or risk weighted assets may negatively affect our CET1 Ratio, thereby increasing the risk of a Conversion Trigger Event which would lead to the Automatic Conversion, as a result of which your Contingent Capital Notes will automatically be converted into Settlement Shares.*”

Upon the occurrence of the Automatic Conversion following the Conversion Trigger Event (each as defined under “*Description of the Contingent Capital Notes—Conversion—Automatic Conversion*”), the Contingent Capital Notes will be converted into Settlement Shares on the Conversion Date. Once the Settlement Shares have been issued and delivered to the Settlement Share Depository, all of our obligations under the Contingent Capital Notes shall be irrevocably and automatically released and under no circumstances shall such released obligations be reinstated. As a result, you could lose all or part of the value of your investment in the Contingent Capital Notes, as, following the Automatic Conversion, you will receive only (i) the Settlement Shares or, if you elect, American Depositary Shares represented by American Depositary receipts (“ADSs”) (if we do not elect that a Settlement Shares Offer be made), or (ii) the Alternative Consideration, which shall be composed of Settlement Shares, or, if you elect, ADSs and/or cash depending on the results of the Settlement Shares Offer (if we elect that a Settlement Shares Offer be made) and the value of any Settlement Shares or, if you elect, ADSs and/or cash received upon Automatic Conversion may have a market value significantly below the principal amount of the Contingent Capital Notes you hold.

The occurrence of an Automatic Conversion shall not constitute an event of default or an Enforcement Event under the terms of the Contingent Capital Notes or the Indenture.

The circumstances surrounding or triggering the Automatic Conversion are inherently unpredictable and may be caused by factors outside of our control. We have no obligation to operate our business in such a way, or take any mitigating actions, to maintain or restore our CET1 Ratio to avoid a Conversion Trigger Event and actions we take could result in our CET1 Ratio falling.

A Conversion Trigger Event will occur at any time if our fully loaded CET1 Ratio is less than 7.00%. The occurrence of a Conversion Trigger Event and therefore the Automatic Conversion, is inherently unpredictable and depends on a number of factors, some of which may be outside of our control. A Conversion Trigger Event could occur at any date, even though we currently publicly report our fully loaded CET1 Ratio only as of each quarterly period end. The PRA, as part of its supervisory activity, may instruct us to calculate such ratio as of any date, including if we are subject to recovery and resolution actions by the relevant UK resolution authority (as defined under “*Description of the Contingent Capital Notes—Agreement with respect to the Exercise of the UK bail-in power*”), or we might otherwise at any time calculate such ratio in our own discretion. As such, the Automatic Conversion could occur at any time. Moreover, it is likely that the relevant UK resolution authority would allow a Conversion Trigger Event to occur rather than to resort to the use of public funds. A decline or perceived decline in the CET1 Ratio may have a significant adverse effect on the trading price of the Contingent Capital Notes.

The calculation of our fully loaded CET1 Ratio could be affected by, among other things, the growth of our business and our future earnings, shock stress events that have a material negative impact on our capital, declared dividend payments, pension contributions, regulatory changes (including changes to definitions and calculations of regulatory capital, including CET1 Capital and Risk Weighted Assets (each of which shall be calculated by us on a fully loaded, consolidated basis and such calculation shall be binding on the Trustee and on the registered holders of the Contingent Capital Notes)), actions that we are required to take at the direction of the PRA, and our ability to manage Risk Weighted Assets in both our ongoing businesses and those which we may seek to exit. In addition, we have capital resources and Risk Weighted Assets denominated in foreign currencies, and changes in foreign exchange rates will

result in changes in the pound sterling equivalent value of foreign currency denominated capital resources and Risk Weighted Assets. Actions that we take, either pursuant to our strategic or restructuring plan or otherwise, could also affect our CET1 Ratio, including causing it to decline. We have no obligation to increase our CET1 Capital, reduce our Risk Weighted Assets or otherwise operate our business in such a way, or take mitigating actions in order to prevent our CET1 Ratio from falling below 7.00%, or to maintain or increase our CET1 Ratio or to otherwise consider the interests of the holders of the Contingent Capital Notes in connection with any of our business decisions that might affect our CET1 Ratio.

Because of the inherent uncertainty regarding whether a Conversion Trigger Event will occur and there being no affirmative obligation on our part to prevent its occurrence, it will be difficult to predict when, if at all, Automatic Conversion will occur. Accordingly, the trading behaviour of the Contingent Capital Notes may not necessarily follow the trading behaviour of other types of subordinated debt securities, including our other subordinated debt securities. Fluctuations in the CET1 Ratio may be caused by changes in the amount of CET1 Capital and Risk Weighted Assets as well as changes to their respective definitions under the capital adequacy standards and guidelines set by the PRA. Any indication that our CET1 Ratio is moving towards the level which would cause the occurrence of a Conversion Trigger Event may have an adverse effect on the market price and liquidity of the

Contingent Capital Notes. Therefore, you may not be able to sell your Contingent Capital Notes easily or at prices that will provide you with a yield comparable to other types of subordinated debt securities, including our other subordinated debt securities. In addition, the risk of Automatic Conversion could drive down the price of our ordinary shares and have a material adverse effect on the market value of any Settlement Shares received upon Automatic Conversion.

Changes to the calculation of CET1 capital and/or risk weighted assets may negatively affect our CET1 Ratio, thereby increasing the risk of a Conversion Trigger Event which would lead to the Automatic Conversion, as a result of which your Contingent Capital Notes will automatically be converted into Settlement Shares.

We calculate our capital resources for regulatory purposes on the basis of “common equity tier 1 capital” or “CET1 Capital” and calculate our “risk weighted assets”, which represent assets adjusted for their associated risks, on the basis set out under CRD IV, as transposed in the UK. Each of these definitions are calculated in accordance with the capital adequacy standards and guidelines of the PRA applicable to us on the relevant date.

CRD IV sets out a minimum pace of introduction of these enhanced capital requirements (the “Transitional Provisions”). The Transitional Provisions are designed to implement certain CRD IV requirements in stages over a prescribed period; however, each of the EU Member States has the discretion to accelerate that minimum pace of transition in certain respects. In the United Kingdom, the PRA accelerated the introduction of certain of the enhanced capital requirements under CRD IV. In accordance with the PRA’s rules and supervisory statements published on December 19, 2013, the PRA is requiring the Group to meet certain capital targets within certain prescribed time frames, without having regard to any Transitional Provisions in that respect. Therefore, for the purposes of the Contingent Capital Notes, we calculate our CET1 Capital and Risk Weighted Assets without applying the Transitional Provisions and instead calculate our CET1 Ratio on a “fully loaded” basis, which is a more stringent basis than under the CRD IV regime and will lead to the CET1 Ratio as defined for purposes of the Contingent Capital Notes being lower than it would be were we to calculate the common equity tier 1 ratio applying the Transitional Provisions to our calculation of common equity CET1 Capital and Risk Weighted Assets.

At June 30, 2016, our CET1 Ratio, giving full effect to CRD IV on a fully loaded basis, based on our interpretation of the current rules and assuming such rules were applied as of June 30, 2016, was determined to be 14.70%. Our fully loaded CET1 Ratio is a non-IFRS measure, and our interpretation of CRD IV and the PRA rules and the basis of our calculation of this financial measure may be different from those of other financial institutions. For further information, see the section titled “*Risk and Balance Sheet Management—Capital Management*” of our 2015 Annual Report and H1 2016 Interim Report. Our estimates are based on a number of assumptions.

The calculation of our CET1 Ratio may be impacted as a result of further changes to CRD IV, binding delegated or implementing acts (such as regulatory technical standards developed by the EBA) adopted by the European Commission, or changes to the PRA Rules or the way in which the PRA applies these requirements to UK banks, including through the adoption of supervisory and policy statements in the areas in which CRD IV provides that

national discretion shall be applied. In addition, the single rulebook Q&A tool introduced by the EBA, although having no binding force, may influence the interpretation and application of CRD IV, including the related delegated or implementing acts adopted by the European Commission. In addition, following the outcome of the referendum on the UK's membership of the EU in favour of leaving the EU, there is uncertainty as to how regulatory developments may impact the existing framework relating to capital requirements and the definition thereof. See also the risk factor in our H1 2016 Interim Report entitled "*Risk Factors- Economic, regulatory and political uncertainty arising from the outcome of the recent referendum on the UK's membership of the European Union could adversely impact the Group's business, results of operations, financial condition and prospects.*"

In addition, regulatory initiatives may impact the calculation of our Risk Weighted Assets, being the denominator of our CET1 Ratio. The Basel Committee and other agencies remain focused on changes that will increase, or recalibrate, measures of risk weighted assets. While they are at different stages of maturity, a number of initiatives across risk types and business lines are in progress that are expected to impact the calculation of risk weighted assets. The Basel Committee is currently consulting on revisions to the standardised approach for credit risk, with the main proposed changes being to (i) reduce reliance on external credit ratings for the purposes of assessing the credit profile of a financial institution's assets and (ii) require that in calculating risk-based capital ratios, banks use in the denominator of their ratios the higher of risk weighted assets as calculated under the standardised approach or, for banks that apply advanced approaches, advanced approaches. The consultation includes proposed revisions to the risk weighting of real estate exposures and other changes to risk weighting

calculations. These rules are expected to be finalised later in 2016 and come into force by 2019. In the UK, the PRA is also consulting on proposed changes to calculating risk weighted capital requirements for banks and building societies with respect to residential mortgages. The Basel Committee also published for consultation a revised standardised measurement approach for operational risk. The new approach would replace the three existing standardised approaches for calculating operational risk, as well as the internal model-based approach. The proposed new methodology combines a financial statement-based measure of operational risk, with an individual firm's past operational losses. While the quantum of impact of these reforms remains uncertain owing to lack of clarity of the proposed changes and the timing of their introduction, the implementation of such initiatives may impact the calculation of our Risk Weighted Assets and, consequently, our CET1 Ratio.

The calculation of the CET1 Ratio may also be affected by changes in applicable accounting rules, or by changes to regulatory adjustments which modify the regulatory capital impact of accounting rules. Moreover, even if changes in applicable accounting rules, or changes to regulatory adjustments which modify accounting rules, are not yet in force as of the relevant calculation date, the PRA could require us to reflect such changes in any particular calculation of our CET1 Ratio. Certain IFRS standards which are due to come into force in the short to medium term, including IFRS 9 (which will introduce a new loss impairment model for the accounting of financial assets), may adversely impact our regulatory capital, including CET1 capital, by requiring the recognition of additional provisions for loss on such assets. Accordingly, regulatory changes or accounting changes may have a material adverse impact on our calculations of regulatory capital, including CET1 Capital and Risk Weighted Assets, and our fully loaded CET1 Ratio.

Any changes that may occur in the application of the regulatory framework described above subsequent to the date of this prospectus supplement and/or any subsequent changes to such rules and other variables may individually and/or in the aggregate negatively affect the calculation of our fully loaded CET1 Ratio and thus increase the risk of a Conversion Trigger Event, which would lead to an Automatic Conversion, as a result of which you could lose all or part of the value of your investment in the Contingent Capital Notes.

You will have limited rights after the Automatic Conversion and the issuance of the Settlement Shares to the Settlement Share Depository (or to the relevant recipient in accordance with terms of the Contingent Capital Notes) will constitute an irrevocable and automatic release of all of our obligations in respect of the Contingent Capital Notes. We will have absolute discretion in determining whether and how a Settlement Shares Offer will be conducted or whether to procure that a share sale facility be established and as to the matters which will be considered when making such determination.

Following an Automatic Conversion, we will be obligated to issue the Settlement Shares to the Settlement Share Depository (or to the relevant recipient in accordance with the terms of the Contingent Capital Notes), which will hold the Settlement Shares on your behalf. Once the Settlement Shares are delivered to the Settlement Share Depository (or to the relevant recipient in accordance with the terms of the Contingent Capital Notes), all of our obligations under the Contingent Capital Notes will be irrevocably and automatically released in consideration of such issuance to the Settlement Share Depository (or to the relevant recipient in accordance with the terms of the Contingent Capital Notes), and under no circumstances will such released obligations be reinstated and you will not be entitled to any

form of compensation in the event of our potential recovery or change in our fully loaded CET1 Ratio after the Conversion Date. With effect from the Conversion Date, you will have recourse only to the Settlement Share Depository for the delivery to you of Settlement Shares or, if you elect, ADSs or if we elect that a Settlement Shares Offer be made, of any Alternative Consideration to which you are entitled.

If we do not deliver the Settlement Shares to the Settlement Share Depository following the Conversion Trigger Event, the only claim you will have against us will be for specific performance to have such Settlement Shares issued and delivered. Moreover, you will not have any rights against us with respect to repayment of the principal amount of the Contingent Capital Notes or payment of interest or any other amount on, or in respect of, the Contingent Capital Notes, in each case that is not due and payable, which liabilities will be automatically released. Accordingly, the principal amount of the Contingent Capital Notes will equal zero at all times from and after the Conversion Date and any interest will be cancelled or deemed to have been cancelled at all times thereafter and will not be due and payable, including any interest in respect of an interest period ending on any Interest Payment Date falling between the date of a Conversion Trigger Event and the Conversion Date.

In addition, we have not yet appointed a Settlement Share Depository and we may not be able to appoint a Settlement Share Depository if an Automatic Conversion occurs. In such case, we will effect, by means we deem reasonable under the circumstances (including, without limitation, issuance of the Settlement Shares to another nominee or to you directly), the issuance and/or delivery of the Settlement Shares or, if you elect, ADSs or, if we elect that a Settlement Shares offer be made, Alternative Consideration, as applicable, to you. Such arrangements may be disadvantageous to, and more restrictive on, you, such as involving a longer period of time before you receive your Settlement Shares, or, if you elect, ADSs or Alternative Consideration, as applicable, than would be the case under the arrangements expected to be entered into with a Settlement Share Depository. Nevertheless, such issuance also will irrevocably and automatically release all of our obligations under the Contingent Capital Notes as if the Settlement Shares had been issued to the Settlement Share Depository.

Any Settlement Shares Offer shall be made subject to applicable laws and regulations in effect at the relevant time and shall be conducted, if at all, only to the extent that we, in our sole and absolute discretion, determine that the Settlement Shares Offer is appropriate and practicable. We currently expect that in determining whether or not a Settlement Shares Offer will be conducted and, if one is to be conducted, how and to whom such Settlement Shares Offer will be made, our board of directors would, in accordance with their duties, have regard to a variety of matters, including without limitation, the interests of our existing shareholders, taken as a whole, and the potential impact of a Settlement Shares Offer on our financial stability. Further, neither the occurrence of a Conversion Trigger Event nor following the occurrence of a Conversion Trigger Event, the election (if any) by us to undertake a Settlement Shares Offer on the terms set out herein, will preclude us from undertaking a rights issue or other equity issuance at any time on such terms as we deem appropriate, at our sole discretion, including —for the avoidance of doubt —the offer of our ordinary shares at or below the Settlement Shares Offer Price. Moreover, there can be no assurance that the Settlement Shares Offer would be conducted on an SEC-registered basis. In addition to or as an alternative to any Settlement Shares Offer, we may (but are not obliged to) procure that a share sale facility is established by the Settlement Share Depository or another third party following the Conversion Trigger Event to enable holders of the Contingent Capital Notes (at their option) to sell any Settlement Shares that they are entitled to receive from the Settlement Share Depository. If such a share sale facility is established, we may provide a preferential allocation to existing shareholders, where in our sole discretion we consider it practicable to do so and subject to applicable laws and regulations.

Our obligations under the Contingent Capital Notes are unsecured and subordinated and will be further subordinated upon conversion into Settlement Shares.

Our obligations under the Contingent Capital Notes will be unsecured and subordinated and will rank junior in priority of payment to the current and future claims of all of our Senior Creditors. If a Winding-up or Administration Event occurs prior to the date on which the Conversion Trigger Event occurs, we will pay each holder or beneficial owner of the Contingent Capital Notes an amount that would have been payable if, on the day prior to the commencement of the Winding-up or Administration Event and thereafter, such holder or beneficial owner of the Contingent Capital Notes had been the holder of one of a class of Notional Preference Shares (which are an actual or notional class of preference shares in our capital, having an equal right to a return of assets in a Winding-up or Administration Event to, and so ranking *pari passu* with, the most senior class or classes of our issued preference shares with non-cumulative dividends, if any, in our capital from time to time and which have a preferential right to a return of assets in the Winding-up or Administration Event over, and so rank ahead of, all other classes of issued shares for the

time being in our capital but ranking junior to the claims of Senior Creditors (as defined herein) and junior to any notional class of preference shares in our capital which is referenced in any of our instruments for the purposes of determining a claim in our winding-up or administration and, as so referenced, (i) is expressed to have a preferential right to a return of assets in our winding-up or administration over the holders of all other classes of shares for the time-being in our capital and (ii) is not expressed to rank junior to any other notional class of preference shares in our capital). If a Winding-up or Administration Event occurs at any time on or after the date on which the Conversion Trigger Event occurs but the Settlement Shares to be issued and delivered to the Settlement Share Depository on the Conversion Date have not been so delivered, we will pay such amount, if any, as would have been payable to you in a Winding-up or Administration Event as if the Conversion Date in respect of the Automatic Conversion had occurred immediately before the occurrence of a Winding-up or Administration Event, regardless of whether the Solvency Condition (as described herein) had been satisfied on such date and ignoring for this purpose our right to make an election for a Settlement Shares Offer to be effected.

Subject to complying with applicable regulatory requirements, we expect from time to time to incur additional indebtedness or other obligations that will constitute senior and other subordinated indebtedness that will rank ahead

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of the Contingent Capital Notes, and the Contingent Capital Notes do not contain any provisions restricting our ability or our subsidiaries from incurring such senior or subordinated indebtedness. Although the Contingent Capital Notes may pay a higher rate of interest than other comparable securities which are not as deeply subordinated, there is a real risk that you will lose all or some of your investment should we become insolvent since our assets would be available to pay such amounts only after all of our Senior Creditors have been paid in full.

Therefore, if a Winding-up or Administration Event were to occur, our liquidator or administrator would first apply our assets to satisfy all rights and claims of Senior Creditors. For the avoidance of doubt, holders of any of our existing or future Tier 2 capital instruments (as described in the CRD IV Regulation) will be Senior Creditors. If we do not have sufficient assets to settle claims of such Senior Creditors in full, your claims under the Contingent Capital Notes will not be settled and, as a result, you will lose the entire amount of your investment in the Contingent Capital Notes. The Contingent Capital Notes will share equally in payment with claims under Parity Securities if we do not have sufficient funds to make full payments on all of them, as applicable. As at the date of this prospectus supplement, the claims of holders of existing series of Contingent Convertible Securities issued by us under the Original Indenture would rank equally with those of holders of the Contingent Capital Notes in a Winding-up or Administration Event and the claims of holders of future series of Contingent Convertible Securities issued by us under the Original Indenture may (subject to the terms thereof) also rank equally with those of holders of the Contingent Capital Notes. In such a situation, you could lose all or part of your investment.

In addition, you should be aware that following a Conversion Trigger Event, you will be, effectively, further subordinated as you will be treated as, and subsequently become, holders of ordinary shares, (or, if we elect that a Settlement Shares Offer be made, and only a portion of the Settlement Shares are sold, ordinary shares and cash) even if existing subordinated indebtedness and preference shares remain outstanding. There is a risk that you will lose the entire amount of your investment, regardless of whether or not we have sufficient assets available to settle what would have been your claims under the Contingent Capital Notes or of securities subordinated to the same or greater extent as the Contingent Capital Notes, in winding-up proceedings or otherwise.

You may receive Alternative Consideration instead of Settlement Shares or, if you elect, ADSs upon a Conversion Trigger Event and you will not know the composition of any Alternative Consideration until the end of the Settlement Shares Offer Period.

You may not ultimately receive Settlement Shares or, if you elect, ADSs upon a Conversion Trigger Event because we may elect, in our sole and absolute discretion, that a Settlement Shares Offer be conducted by the Settlement Share Depository.

If all of the Settlement Shares are sold in the Settlement Shares Offer, you shall be entitled to receive, in respect of each Contingent Capital Note and as determined by us, the *pro rata* share of the cash proceeds from the sale of the Settlement Shares attributable to such Contingent Capital Note translated from sterling into US dollars at a then-prevailing exchange rate as determined by the Settlement Share Depository (less the *pro rata* share of any

foreign exchange transaction costs and an amount equal to the *pro rata* share of any taxes and duties (including, without limitation, any stamp duty, stamp duty reserve tax, or any other capital, issue, transfer, registration, financial transaction or documentary tax or duty) that may arise or be paid in connection with the issue and delivery of Settlement Shares to the Settlement Share Depository pursuant to the Settlement Shares Offer). If some but not all of the Settlement Shares are sold in the Settlement Shares Offer, you shall be entitled to receive, in respect of each Contingent Capital Note, (a) the *pro rata* share of the cash proceeds from the sale of the Settlement Shares attributable to such Contingent Capital Note translated from sterling into US dollars at a then-prevailing exchange rate as determined by the Settlement Share Depository (less the *pro rata* share of any foreign exchange transaction costs and an amount equal to the *pro rata* share of any taxes and duties (including, without limitation, any stamp duty, stamp duty reserve tax, or any other capital, issue, transfer, registration, financial transaction or documentary tax or duty) that may arise or be paid in connection with the issue and delivery of Settlement Shares to the Settlement Share Depository pursuant to the Settlement Shares Offer) together with (b) the *pro rata* share of the Settlement Shares not sold pursuant to the Settlement Shares Offer attributable to such Contingent Capital Note rounded down to the nearest whole number of Settlement Shares which, if you elect, you may take delivery of in the form of ADSs. If no Settlement Shares are sold in a Settlement Shares Offer, you will be entitled to receive, in respect of each Contingent Capital Note, the relevant number of Settlement Shares attributable to such Contingent Capital Note rounded down to the nearest whole number of Settlement Shares which, if you elect, you may take delivery of in the form of ADSs.

No interest or other compensation is payable in respect of the period from the Conversion Date to the date of delivery of the cash proceeds from the sale of the Settlement Shares or the Settlement Shares in the circumstances described above.

Notice of the results of any Settlement Shares Offer will be provided to you only at the end of the Settlement Shares Offer Period. Accordingly, you will not know the composition of the Alternative Consideration to which they may be entitled until the end of the Settlement Shares Offer Period.

Following an Automatic Conversion, the Contingent Capital Notes will remain in existence until the applicable Cancellation Date for the sole purpose of evidencing your right to receive Settlement Shares or, if you elect, ADSs, or Alternative Consideration, as applicable, from the Settlement Share Depository (or the relevant recipient in accordance with the terms of the Contingent Capital Notes), and your rights will be limited accordingly.

Following an Automatic Conversion (and thus the issuance of the Settlement Shares to the Settlement Share Depository or relevant recipient on the Conversion Date), the Contingent Capital Notes will remain in existence until the applicable Cancellation Date (at which point the Contingent Capital Notes will be cancelled) for the sole purpose of evidencing your right to receive Settlement Shares, or, if you elect, ADSs or the Alternative Consideration, as applicable, from the Settlement Share Depository (or the relevant recipient in accordance with the terms of the Contingent Capital Notes). If we have been unable to appoint a Settlement Share Depository, we will effect, by means we deem reasonable under the circumstances (including, without limitation, issuance of the Settlement Shares to another nominee or to the holders of the Contingent Capital Notes directly), the issuance and/or delivery of the Settlement Shares, or, if you elect, ADSs or the Alternative Consideration, as applicable, to you. See also “—*You will have limited rights after the Automatic Conversion and the issue of the Settlement Shares to the Settlement Share Depository (or the relevant recipient in accordance with the terms of the Contingent Capital Notes) will constitute an irrevocable and automatic release of all of our obligations in respect of the Contingent Capital Notes*”.

Although we currently expect that beneficial interests in the Contingent Capital Notes will be transferable between the Conversion Date and the Suspension Date and that any trades in the Contingent Capital Notes would clear and settle through DTC in such period, there is no guarantee that this will be the case. Even if the Contingent Capital Notes are transferable following the Automatic Conversion, there is no guarantee that an active trading market will exist for the Contingent Capital Notes following the Automatic Conversion. Accordingly, the price received for the sale of any beneficial interest in any Contingent Capital Note during this period may not reflect the market price of such Contingent Capital Notes or the Settlement Shares. Furthermore, transfers of beneficial interests in the Contingent Capital Notes may be restricted following the Conversion Date. For example, if the clearance and settlement of transactions in the Contingent Capital Notes is suspended by DTC at an earlier time than currently expected, it may not be possible to transfer beneficial interests in the Contingent Capital Notes in DTC and trading in the Contingent Capital Notes may cease. The Contingent Capital Notes may also cease to be admitted to the Irish Stock Exchange's Official List and to be traded on the Global Exchange Market before or after the Suspension Date.

In addition, we have been advised by DTC that it will suspend all clearance and settlement of transactions in the Contingent Capital Notes on the Suspension Date. As a result, you will not be able to settle the transfer of any Contingent Capital Notes through DTC following the Suspension Date, and any sale or other transfer of the Contingent Capital Notes that you may have initiated prior to the Suspension Date that is scheduled to settle after the Suspension Date will be rejected by DTC and will not be settled through DTC.

The Contingent Capital Notes may cease to be admitted to trading on the Global Exchange Market of the Irish Stock Exchange or any other stock exchange on which the Contingent Capital Notes are then listed or admitted to trading after the Suspension Date.

Moreover, although you will become a beneficial owner of your *pro rata* share of Settlement Shares upon the issuance of such Settlement Shares to the Settlement Share Depository (or the relevant recipient in accordance with the terms of the Contingent Capital Notes) and the Settlement Shares will be registered in the name of the Settlement Share Depository (or the relevant recipient in accordance with the terms of the Contingent Capital Notes), you will not be able to sell or otherwise transfer any Settlement Shares until such time as they are delivered to you and registered in your name.

You must submit a Settlement Notice and may need an account with a clearing system in order to receive delivery of the Settlement Shares, or, if you elect, ADSs or the Alternative Consideration, as applicable, and you will be required to provide further documentation if such Settlement Notice is delivered after the Notice Cut-off Date.

In order to obtain delivery of the relevant Settlement Shares, or, if you elect, ADSs or any Alternative Consideration, as applicable, you (or your nominee, custodian or other representative) must deliver a Settlement Notice (and the relevant Contingent Capital Notes, if held in definitive form) to the Settlement Share Depository. The Settlement Notice must contain certain information, including information relating to you, the Contingent Capital Notes you hold, your CREST or other clearing system account details (assuming the Settlement Shares are a participating security in a clearing system) and any such other details as may be required by the Settlement Share Depository. Accordingly, in such cases, you (or your nominee, custodian or other representative) must have an account with the relevant clearing system in order to receive the Settlement Shares or *pro rata* Settlement Shares component, as applicable. Where the Contingent Capital Notes are held through DTC, the Settlement Notice must be given in accordance with the standard procedures of DTC (which may include notice being given to the Settlement Share Depository by electronic means) and in a form acceptable to DTC and the Settlement Share Depository. Moreover, each Settlement Notice shall be irrevocable and the Settlement Share Depository will determine, in its sole and absolute discretion, whether your Settlement Notice has been properly completed and delivered, and such determination will be conclusive and binding on you. If you fail to properly complete and deliver a Settlement Notice (and the relevant Contingent Capital Notes, if held in definitive form) the Settlement Share Depository will be entitled to treat such Settlement Notice as null and void.

Although the Settlement Share Depository will continue to hold the relevant Settlement Shares or Alternative Consideration, as applicable, if you fail to properly complete and deliver an Automatic Conversion Settlement Notice on or before the Notice Cut-off Date, the relevant Contingent Capital Notes will be cancelled on the Final Cancellation Date (which will be a date at most twelve (12) Business Days after the Notice Cut-off Date). Moreover, after the Notice Cut-off Date you will continue to be required to provide a Settlement Notice, as well as evidence of your entitlement to the relevant Settlement Shares or, if you elect, ADSs or the Alternative Consideration, as applicable. Such evidence must be satisfactory to the Settlement Share Depository in its sole and absolute discretion in order for you to receive delivery of such Settlement Shares or, if you elect, ADSs or Alternative Consideration, as applicable.

We will have no liability to you for any loss resulting from your failure to receive any Settlement Shares or Alternative Consideration, as applicable, or from any delay in the receipt thereof, in each case as a result of your (or your custodian, nominee, broker or other representative) failing to duly submit a Settlement Notice (and the relevant Contingent Capital Notes, if held in definitive form) on a timely basis or at all.

You will not be entitled to any rights with respect to the Settlement Shares prior to receipt of such Settlement Shares, but will be subject to all changes made with respect to the Settlement Shares.

The exercise of voting rights and rights related thereto with respect to any Settlement Shares is only possible after delivery of the Settlement Shares following the Conversion Date and the registration of the person entitled to the Settlement Shares in our share register as a shareholder with voting rights in accordance with the provisions of, and subject to the limitations provided in, our articles of association. For further information, see “*Description of the Contingent Capital Notes—Conversion—Conversion Procedures*”.

As the Conversion Price is fixed at the time of pricing of the issue of the Contingent Capital Notes, you will bear the risk of fluctuation in the value of ordinary shares. You will also bear the risk of changes in the US dollar and sterling exchange rate.

Upon the occurrence of a Conversion Trigger Event, the Contingent Capital Notes will be automatically converted into Settlement Shares. At the time the Settlement Shares are issued, the Conversion Price is not likely to reflect the then market price of our ordinary shares, which could be significantly lower than the Conversion Price. Because a Conversion Trigger Event will occur when our fully loaded CET1 Ratio will have deteriorated, the Conversion Trigger Event will likely be accompanied by a prior deterioration in the market price of the ordinary shares and/or ADSs, which may be expected to continue after the occurrence of the Conversion Trigger Event. Therefore, if a Conversion Trigger Event were to occur, investors would receive Settlement Shares or ADSs (as the

case may be) at a time when the market price of the ordinary shares or ADSs (as the case may be) is diminished. In addition, there may be a delay in receiving your Settlement Shares following the Conversion Trigger Event, during which time the market price of the ordinary shares and/or ADSs may further decline. As a result, the realisable value of the Settlement Shares and/or ADSs (as the case may be) may be well below the Conversion Price.

In addition, as our ordinary shares are denominated and trade in sterling, the market price of the Contingent Capital Notes may also be affected by fluctuations in the US dollar and sterling exchange rate due to the Contingent Capital Notes being denominated in US dollars. Upon Automatic Conversion, the Contingent Capital Notes will convert into Settlement Shares at the Conversion Price. Fluctuations in the US dollar and sterling exchange rate could therefore also affect the realisable value of the Settlement Shares and the cash component of any Alternative Consideration.

Furthermore, there may be a delay in you receiving your Settlement Shares following the Conversion Trigger Event (in particular if we elect that the Settlement Share Depository make a Settlement Shares Offer, as the Settlement Shares Offer Period may last up to forty (40) Business Days after the delivery of the Settlement Shares Offer Notice), during which time the market price of the ordinary shares and/or ADSs (as the case may be) or the exchange rate of sterling against the US dollar may further decline. No interest or other compensation is payable in the event of a loss by you due to foreign currency conversions.

You will have limited anti-dilution protection.

The number of Settlement Shares to be issued to the Settlement Share Depository upon an Automatic Conversion will be the aggregate principal amount of the Contingent Capital Notes outstanding immediately prior to the Automatic Conversion on the Conversion Date divided by the Conversion Price prevailing on the Conversion Date. Fractions of Settlement Shares will not be delivered to the Settlement Share Depository following the Automatic Conversion and no cash payment shall be made in lieu thereof.

The Conversion Price will be adjusted if there is a consolidation, reclassification, redesignation or subdivision of the ordinary shares, an issuance of ordinary shares in certain circumstances by way of capitalisation of profits or reserves, a rights issue, an Extraordinary Dividend or an issue of ordinary shares to shareholders as a class by way of rights or other securities allowing you to subscribe for or purchase, or carrying rights of conversion or exchange into, ordinary shares (but only in the situations and only to the extent provided in “*Description of the Contingent Capital Notes—Conversion—Anti-Dilution Adjustment of the Conversion Price*”). These may include any modifications as an Independent Financial Adviser (as defined herein) shall determine to be appropriate. Any New Conversion Price following a Qualifying Takeover Event (as defined herein) will be similarly adjusted, subject to any modifications by the Independent Financial Adviser. There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the ordinary shares. In particular, there will be no adjustment to the Conversion Price if a Non-Qualifying Takeover Event occurs, which may occur as a result of an acquisition of us by an entity that is not an Approved Entity (as defined herein) or as a result of the New Conversion Condition (as defined herein) not being satisfied. Furthermore, the adjustment events that are included are less extensive than those often

included in the terms of other types of convertible securities. Accordingly, the occurrence of events in respect of which no adjustment to the Conversion Price is made may adversely affect the value of the Contingent Capital Notes.

As a result of your receiving Settlement Shares, or, at your election, ADSs, upon a Conversion Trigger Event, you are particularly exposed to changes in the market price of the ordinary shares or ADSs.

Many investors in convertible or exchangeable securities seek to hedge their exposure in the underlying equity securities at the time of acquisition of the convertible or exchangeable securities, often through short selling of the underlying equity securities or through similar transactions. Prospective investors in the Contingent Capital Notes may look to sell ordinary shares or ADSs (as the case may be) in anticipation of taking a position in, or during the term of, the Contingent Capital Notes. This could drive down the price of the ordinary shares and/or ADSs. Since the Contingent Capital Notes will mandatorily convert into a fixed number of Settlement Shares upon a Conversion Trigger Event, the price of the ordinary shares and/or ADSs may be more volatile if we are trending toward a Conversion Trigger Event.

If a Takeover Event occurs, the Contingent Capital Notes may be convertible into shares in an entity other than us or may be fully written-down upon the occurrence of a Conversion Trigger Event following a Non-Qualifying Takeover Event.

If a Qualifying Takeover Event occurs, the Contingent Capital Notes shall become convertible into the Relevant Shares of the Approved Entity at the New Conversion Price as described under “*Terms and Conditions of the Contingent Capital Notes—Conversion—Conversion upon the Occurrence of a Qualifying Take over Event*”. There can be no assurance as to the nature of any such acquirer, or of the risks associated with becoming an actual or potential shareholder in such acquirer and, accordingly, a Qualifying Takeover Event may have an adverse effect on the value of the Contingent Capital Notes.

In addition, we and the Acquirer have certain discretion in determining whether a Qualifying Takeover Event has occurred. A Qualifying Takeover Event requires the New Conversion Condition to be satisfied. For the New Conversion Condition to be satisfied, we must, not later than seven calendar days following the occurrence of a Takeover Event where the Acquirer is an Approved Entity, enter into arrangements to our satisfaction with the Approved Entity pursuant to which the Approved Entity undertakes to deliver the Relevant Shares to the Settlement Share Depository upon Automatic Conversion of the Contingent Capital Notes. If we and the Approved Entity are unable to enter into such arrangements within this timeframe, the New Conversion Condition would not be satisfied.

In the case of a Non-Qualifying Takeover Event, the Contingent Capital Notes will not be subject to Conversion unless the Conversion Date occurs prior to the occurrence of the Non-Qualifying Takeover Event. If a Conversion Trigger Event occurs following the Non-Qualifying Takeover Event (or where the Conversion Date occurs on or after the date of the Non-Qualifying Takeover Event), the outstanding principal amount of each Contingent Capital Note will be automatically written down to zero and the Contingent Capital Notes will be automatically cancelled in their entirety. Holders and beneficial owners will be deemed to have irrevocably waived their right to receive repayment of the aggregate principal amount of the Contingent Capital Notes so written down and all accrued and unpaid interest and any other amounts payable on the Contingent Capital Notes will be cancelled, as described under “*Terms and Conditions of the Contingent Capital Notes—Conversion—Conversion upon the Occurrence of a Qualifying Takeover Event*”. There can be no assurance that a Takeover Event will not be a Non-Qualifying Takeover Event, in which case investors may lose their investment in the Contingent Capital Notes.

The Contingent Capital Notes may be subject to write-down, cancellation or conversion upon the occurrence of the exercise by the relevant UK regulatory authority of the bail-in or capital instruments write-down and conversion powers, which powers are in addition to the terms of the Contingent Capital Notes which provide for Automatic Conversion on the occurrence of a Conversion Trigger Event.

You should understand that the powers to convert, write-down or cancel the Contingent Capital Notes given to national regulators pursuant to the rules and regulations described below are in addition to the terms of the Contingent Capital Notes which provide for Automatic Conversion upon the occurrence of a Conversion Trigger Event.

As the parent company of a UK bank, we are subject to the Special Resolution Regime (“SRR”) under the UK Banking Act, that gives wide powers in respect of UK banks and their parent and other group companies to HM Treasury, the Bank of England, the PRA and the FCA in circumstances where a UK financial institution, including us or a member of the Group, has encountered or is likely to encounter financial difficulties.

As a result, the Contingent Capital Notes are subject to existing UK bail-in powers under the Banking Act (such as the capital instruments write-down and conversion power and the bail-in tool, each described below), as well as any future UK bail-in powers under existing or future legislative and regulatory proposals, including further measures implementing or amending the BRRD as may be applicable to UK financial institutions, including us or a member of the Group, from time to time.

The BRRD was adopted by the European Parliament on April 15, 2014 and the Council of the European Union on May 6, 2014. The stated aim of the BRRD is to provide a harmonised legal framework governing the tools and powers available to national supervisory authorities to address banking crises pre-emptively in order to safeguard financial stability and minimise taxpayers’ contributions to bank bail-outs and/or exposure to losses. On January 1, 2015, the Banking Act and other primary and secondary legislative instruments were amended to give effect to the BRRD in the United Kingdom. In particular, the Banking Act was amended to implement the power to write-down

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and convert capital instruments (the “capital instruments write-down and conversion power”) and to amend the existing “bail-in tool” introduced under the Banking Reform Act 2013 as further described below, both of which may be exercised by the Bank of England (as a relevant UK resolution authority) and form part of the “UK bail-in power”.

The capital instruments write-down and conversion power may be exercised independently of, or in combination with, the exercise of a resolution tool (other than the bail-in tool, which would be used instead of the capital instruments write-down and conversion power), and it allows resolution authorities to cancel all or a portion of the principal amount of capital instruments and/or convert such capital instruments (such as the Contingent Capital Notes) into common equity tier 1 instruments when an institution or a group is no longer viable. The point of non-viability for such purposes is the point at which the Bank of England or the PRA determines that the institution or the group meets the conditions for resolution or will no longer be viable unless the relevant capital instruments are written down or extraordinary public support is provided and without such support the appropriate authority determines that the institution or the group would no longer be viable.

On December 18, 2013, the Banking Reform Act 2013 became law in the United Kingdom. Among the changes introduced by the Banking Reform Act 2013, the Banking Act 2009 was amended to insert a bail-in tool as part of the powers available to the UK resolution authority. The bail-in tool was introduced as an additional power available to the Bank of England, to enable it to recapitalise a failed institution by allocating losses to its shareholders and unsecured creditors in a manner that seeks to respect the hierarchy of claims in liquidation. As noted above, the UK government amended the provisions of the Banking Reform Act 2013 to ensure the consistency of these provisions with the bail-in provisions under the BRRD, which amendments came into effect on January 1, 2015 (subject to certain provisions which came into effect in 2016). Where the conditions for resolution exist, the Bank of England may use the bail-in tool (in combination with other resolution tools under the Banking Act) to, among other things, cancel or reduce all or a portion of the principal amount of, or interest on, certain unsecured liabilities of a failing financial institution and/or convert certain debt claims into another security, including ordinary shares of the surviving entity. In addition, the Bank of England may use the bail-in tool to, among other things, replace or substitute the issuer as obligor in respect of debt instruments, modify the terms of debt instruments (including altering the maturity (if any) and/or the amount of interest payable and/or imposing a temporary suspension on payments) and discontinue the listing and admission to trading of financial instruments.

As a result, the Contingent Capital Notes are subject to the UK bail-in power and may be subject to a partial or full write-down or conversion to common equity Tier 1 instruments of us or one of our Group entities or another institution. Accordingly, and as described above, where there exists a threat that the UK resolution authority may exercise the UK bail-in power (including as a result of a threat that a Conversion Trigger Event may occur), the trading behaviour of the Contingent Capital Notes may be affected and, as a result, the Contingent Capital Notes are not necessarily expected to follow the trading behaviour associated with other types of securities. As a potential investor in the Contingent Capital Notes, you should consider the risk that you may lose all of your investment, including the principal amount plus any accrued interest if the UK bail-in power is acted upon or that such Contingent Capital Notes may be converted into ordinary shares which ordinary shares may be of little value at the time of conversion.

Although the above represents the risks associated with the UK bail-in power currently in force in the UK and applicable to our securities (including the Contingent Capital Notes), changes to the scope of, or conditions for the exercise of the UK bail-in power may be introduced as a result of further developments, including those resulting from the outcome of the referendum on the UK's membership of the EU in favour of the UK leaving the EU. In addition, further political, legal or strategic developments may lead to structural changes to the Group, including at the holding company level. Notwithstanding any such changes, we expect that our securities (including the Contingent Capital Notes) would remain subject to the exercise of a form of bail-in power, either pursuant to the provisions of the Banking Act, the BRRD or otherwise.

Under the terms of the Contingent Capital Notes, you have agreed to be bound by the exercise of any UK bail-in power by the relevant UK resolution authority.

Pursuant to Article 55 of the BRRD and the current rules in force in the UK adopted to transpose such requirements, subject to limited exceptions, unsecured liabilities of a financial institution governed by the laws of a country outside of the European Economic Area (which include the Contingent Capital Notes) must contain a

contractual acknowledgment whereby the holders recognise that such liability may be subject to the UK bail-in power and agree to be bound by the exercise of those powers by the relevant resolution authority.

Notwithstanding any other agreements, arrangements, or understandings between us and you (including each beneficial owner of the Contingent Capital Notes), by your acquisition of the Contingent Capital Notes, you (including each beneficial owner of the Contingent Capital Notes) will acknowledge, accept, agree to be bound by and consent to the exercise of any UK bail-in power by the relevant UK resolution authority that may result in (i) the reduction or cancellation of all, or a portion, of the principal amount of, or interest on, the Contingent Capital Notes, (ii) the conversion of all, or a portion, of the principal amount of, or interest on, the Contingent Capital Notes into ordinary shares or other securities or other obligations of ours or another person, and/or (iii) the amendment of the amount of interest due on the Contingent Capital Notes, or the date on which interest becomes payable, including by suspending payments for a temporary period, which UK bail-in power may be exercised by means of variation of the terms of the Contingent Capital Notes solely to give effect to the exercise by the relevant UK resolution authority of such UK bail-in power. With respect to (i), (ii) and (iii) above, references to principal and interest shall include payments of principal and interest that have become due and payable, but which have not been paid, prior to the exercise of any UK bail-in power. You (including each beneficial owner of the Contingent Capital Notes) will further acknowledge and agree that your rights under the Contingent Capital Notes are subject to, and will be varied, if necessary, solely to give effect to the exercise of any UK bail-in power by the relevant UK resolution authority.

For these purposes, a “UK bail-in power” is any write-down, conversion, transfer, modification or suspension power existing from time to time under any laws, regulations, rules or requirements relating to the resolution of banks, banking group companies, credit institutions and/or investment firms incorporated in the United Kingdom in effect and applicable in the United Kingdom to RBSG or other members of our Group, including but not limited to any such laws, regulations, rules or requirements which are implemented, adopted or enacted within the context of a European Union directive or regulation of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms and/or within the context of a UK resolution regime under the Banking Act, pursuant to which any obligations of a bank, banking group company, credit institution or investment firm or any of its affiliates can be reduced, cancelled, modified, transferred and/or converted into shares or other securities or obligations of the obligor or any other person (or suspended for a temporary period) or pursuant to which any right in a contract governing such obligation may be deemed to have been exercised. A reference to the “relevant UK resolution authority” is to any authority with the ability to exercise a UK bail-in power. The UK bail-in power includes the capital instruments write-down and conversion power as well as the bail-in tool as set out in the Banking Act, as amended.

Any UK bail-in power may be exercised in such a manner as to result in you and other holders of Contingent Capital Notes losing the value of all or a part of your investment in the Contingent Capital Notes or receiving a different security from the Contingent Capital Notes, which may be worth significantly less than the Contingent Capital Notes and which have significantly fewer protections than those typically afforded to debt securities. Moreover, the relevant UK resolution authority may exercise its authority to implement the UK bail-in power without providing any advance notice to the holders of the Contingent Capital Notes. Neither a reduction or cancellation, in part or in full, of the principal amount of or any interest on the Contingent Capital Notes, the conversion thereof into another security or obligation of RBSG or another person, as a result of the exercise of the UK bail-in power by the relevant UK resolution authority with respect of the Contingent Capital Notes will of itself constitute an a default or event of

default under the terms of the Contingent Capital Notes or the Indenture. For more information, see “*Description of the Contingent Capital Notes—Agreement with Respect to the Exercise of the UK bail-in power*”.

Your rights to challenge the exercise of the UK bail-in power by the relevant UK resolution authority are likely to be limited.

The BRRD, the Banking Act and the secondary legislation or guidance adopted to implement these rules, contain certain safeguards for creditors in respect of the application of the capital instruments write-down and conversion power and the bail-in tool. With respect to the capital instruments write-down and conversion power, the UK resolution authority will exercise such power in accordance with the priority of claims under normal insolvency proceedings such that common equity Tier 1 items will be written down before additional Tier 1 and Tier 2 instruments, successively, are written down or converted into common equity Tier 1 instruments. Other than respecting the creditor hierarchy as set out above, the capital instruments write-down and conversion power does not include an express safeguard designed to leave no creditor worse off than in the case of insolvency.

With respect to the bail-in tool, the UK resolution authority must apply the bail-in tool in accordance with a specified preference order. In particular, the Banking Act requires resolution authorities to write-down or convert debts in the following order: (i) additional Tier 1 instruments, (ii) Tier 2 instruments, (iii) other subordinated claims that do not qualify as additional Tier 1 or Tier 2 instruments and (iv) eligible senior claims. As a result, additional Tier 1 instruments (including the Contingent Capital Notes) will be written down or converted before Tier 2 instruments or subordinated debt that does not qualify as additional Tier 1 or Tier 2 instruments (and any such Tier 2 instruments or subordinated debt would only be written down or converted if the reduction of additional Tier 1 instruments does not sufficiently reduce the aggregate amount of liabilities that must be written down or converted). Unlike the capital instruments write-down and conversion power, the bail-in tool contains an express safeguard designed to leave no creditor worse off than in the case of insolvency. However, even in circumstances where a claim for compensation is established under the “no creditor worse off” safeguard in accordance with a valuation performed after the resolution action has been taken, it is unlikely that such compensation would be equivalent to the full losses incurred by the holders of the Contingent Capital Notes in the resolution and there can be no assurance that such holders would recover such compensation promptly. In addition, although we expect, that according to the principles of the Banking Act, the relevant UK resolution authority would respect creditor hierarchies when exercising its UK bail-in power in respect of the Contingent Capital Notes, the rules provide for some exceptions to these principles which the relevant UK resolution authority may choose to rely upon. Due to the discretion afforded to the Bank of England, the claims of some creditors whose claims would rank equally with yours may be excluded from being subject to the UK bail-in tool. The greater number of such excluded creditors there are, the greater the potential impact of the UK bail-in tool on other creditors who have not been excluded (which may include you). As the implementation of these provisions remains to be tested and may be further amended, there can be no certainty as to how these legal protections or remedies would be implemented by the relevant UK resolution authority.

Further, although the Bank of England’s resolution instrument with respect to the exercise of the bail-in tool must set out the provisions allowing for securities to be transferred, cancelled or modified (or any combination of these), the resolution instrument may make any provision that the Bank of England considers to be appropriate in exercising its specific powers. Such other provisions are expected to be specific and tailored to the circumstances that have led to the exercise of the bail-in tool under the Banking Act and there is uncertainty as to the extent to which usual processes and/or procedures under English law will be available to holders of securities (including the Contingent Capital Notes) or that the safeguards described above will be effective if such powers are exercised. Accordingly, you may have limited or circumscribed rights to challenge any decision of the Bank of England or other relevant UK resolution authority to exercise its UK bail-in power.

Other powers contained in the Special Resolution Regime under the Banking Act may affect your rights under, and the value of your investment in, the Contingent Capital Notes.

Under the Banking Act, substantial powers are granted to the Bank of England (or, in certain circumstances, HM Treasury), in consultation with the PRA, the FCA and HM Treasury, as appropriate as part of the SRR. These powers enable the relevant UK resolution authority to implement resolution measures with respect to a UK bank or investment firm and certain of its affiliates (including, for example, RBSG) (each a “**relevant entity**”) in circumstances in which the relevant UK resolution authority is satisfied that the resolution conditions are met. Under the applicable regulatory framework and pursuant to guidance issued by the Bank of England, governmental financial support, if any is provided, would only be used as a last resort measure where a serious threat to financial stability cannot be avoided

by other measures (such as the stabilisation options described below, including the UK bail-in power described above) and subject to the limitations set out in the Banking Act.

Several stabilisation options are available to the relevant UK resolution authority under the SRR, where a resolution has been triggered, including: (i) private sector transfer of all or part of the business of the relevant entity, which can include either its shares or its property; (ii) transfer of all or part of the business of the relevant entity to a bridge bank established by the Bank of England pending a future sale or share issuance; (iii) an asset separation tool which allows assets and liabilities of the firm to be transferred to and managed by an asset management vehicle; (iv) the UK bail-in tool (as described further below); and (v) temporary public ownership (nationalisation). In addition, the UK resolution authority may commence special administration or liquidation procedures applicable to financial institutions.

Further, the Banking Act grants broad powers to the UK resolution authority, the application of which may adversely affect contractual arrangements (including the Contingent Capital Notes) and which include the ability to

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(i) modify or cancel contractual arrangements to which an entity in resolution is party, in certain circumstances; (ii) suspend or override the enforcement provisions or termination rights that might be invoked by counterparties facing an entity in resolution, as a result of the exercise of the resolution powers; and (iii) disapply or modify laws in the UK (with possible retrospective effect) to enable the powers under the Banking Act to be used effectively.

The exercise of the stabilisation powers or other powers conferred on the UK resolution authority under the Banking Act, including the capital instruments write down and conversion powers and the bail-in tool with respect to us, or any suggestion of any such exercise, could materially adversely affect the value or trading liquidity of the Contingent Capital Notes or your rights under the Contingent Capital Notes and could lead to holders of the Contingent Capital Notes losing some or all of the value of their investment in the Contingent Capital Notes.

The SRR is designed to be triggered prior to our insolvency and holders of the Contingent Capital Notes may not be able to anticipate the exercise of any resolution power (including the UK bail-in power) by the relevant UK resolution authority.

The stabilisation options under the SRR are intended to be applied prior to the point at which any insolvency proceedings with respect to the relevant entity could have been initiated. Accordingly, the stabilisation options may be exercised if the relevant UK resolution authority: (i) is satisfied that a UK bank or investment firm is failing, or is likely to fail; (ii) determines that it is not reasonably likely that (ignoring the stabilisation powers) action will be taken by or in respect of a UK bank or investment firm that will result in condition (i) above ceasing to be met; (iii) considers the exercise of the stabilisation powers to be necessary, having regard to certain public interest considerations (such as the stability of the UK financial system, public confidence in the UK banking system and the protection of depositors, being some of the special resolution objectives) and (iv) considers that the special resolution objectives would not be met to the same extent by the winding-up of the UK bank or investment firm.

In the event that the relevant UK resolution authority seeks to exercise its powers in relation to a UK banking group company (such as RBSG), the relevant UK resolution authority has to be satisfied that (A) the conditions set out in (i) to (iv) above are met in respect of a UK bank or investment firm in the same banking group (or, in respect of an EEA or third country credit institution or investment firm in the same banking group, the relevant EEA or third country resolution authority is satisfied that the conditions for resolution applicable in its jurisdiction are met) and (B) certain criteria are met, such as the exercise of the powers in relation to such UK banking group company being necessary having regard to public interest considerations. The use of different stabilisation powers is also subject to further “specific conditions” that vary according to the relevant stabilisation power being used.

Although the SRR sets out the pre-conditions for the exercise of the stabilisations powers, it is uncertain how the Bank of England would assess such conditions in any particular pre-insolvency scenario affecting RBSG and/or other members of the Group and in deciding whether to exercise a resolution power. In addition, upon the United Kingdom formally terminating its membership of the European Union, the Bank of England may adopt new or different criteria for determining the conditions to the exercise of its resolution powers. Further regulatory developments, including

proposals by the FSB on cross-border recognition of resolution actions, could also influence the conditions for the exercise of the stabilisation powers. There has been no application of the SRR powers in the UK to a large financial institution, such as RBSG, to date, which could provide an indication of the relevant UK resolution authority's approach to the exercise of the resolution powers, and even if such examples existed, they may not be indicative of how such powers could be applied to RBSG. The relevant UK resolution authority is also not required to provide any advance notice to holders of the Contingent Capital Notes of its decision to exercise any resolution power. Therefore, holders of the Contingent Capital Notes may not be able to anticipate a potential exercise of any such powers nor the potential effect that the exercise of such powers could have on the RBSG, the Group and the Contingent Capital Notes. Uncertainty relating to the exercise of such powers may lead to increased volatility in the trading of the Contingent Capital Notes and may affect their market value.

With respect to UK bail-in powers specifically, there remains uncertainty as to how they may be exercised and how they would affect the Group and the Contingent Capital Notes. The determination that all or part of the principal amount of the Contingent Capital Notes will be subject to loss absorption is likely to depend on a number of factors which may be outside of our control. In particular, in determining whether an institution is failing or likely to fail, the relevant UK resolution authority shall consider a number of factors, including, but not limited to, an institution's capital and liquidity position, governance arrangements and any other elements affecting the institution's continuing authorisation. Moreover, as the final criteria that the relevant UK resolution authority would consider in exercising any bail-in power provide it with considerable discretion, holders of the Contingent Capital

Notes may not be able to refer to publicly available criteria in order to anticipate a potential exercise of any such power and consequently its potential effect on the Issuer, the Group and the Contingent Capital Notes.

Because of this inherent uncertainty, it will be difficult to predict when, if at all, the exercise of any resolution power, including the UK bail-in power, by the Bank of England, as UK resolution authority, may occur which would result in a principal write off or conversion to equity. The uncertainty may adversely affect the value of your investment in the Contingent Capital Notes.

Changes in law may adversely affect your rights under the Contingent Capital Notes or may adversely affect the Group's business, financial performance and capital plans.

Changes in law after the date hereof may affect your rights as a holder of Contingent Capital Notes as well as the market value of the Contingent Capital Notes. A number of regulators are currently proposing or considering legislation and rule making which may affect the Group's business, your rights as a holder of the Contingent Capital Notes and the market value of the Contingent Capital Notes. Such changes in law may include changes in statutory, tax and regulatory regimes during the life of the Contingent Capital Notes, or changes that could have a significant impact on the future legal entity structure, business mix (including a potential exit of certain business activities) and management of the Group, and use of capital and requirements for loss-absorbing capacity within the Group, which may have an adverse effect on an investment in the Contingent Capital Notes.

Moreover, any change in law or regulation becoming effective after the Issue Date that would cause whole or part of the Contingent Capital Notes to be excluded (or likely to be excluded) from Tier 1 Capital would trigger a Capital Disqualification Event, and any change in law or regulation that results in our having to pay additional amounts to you, or results in certain other tax consequences including (but not limited to) our not being entitled to claim a deduction for UK tax purposes in respect of interest payments (or the value of such deduction to us being materially reduced), could trigger a Tax Event, each of which may entitle us to redeem the Contingent Capital Notes, in whole (but not in part) as more particularly described under "*Description of the Contingent Capital Notes—Redemption and Repurchases—Tax Redemption*" and "*—Redemption Due to a Capital Disqualification Event*".

In particular, any developments resulting from the outcome of the referendum on the UK's membership of the EU in favour of the UK leaving the EU may lead to significant changes to the laws applicable in the UK as more particularly described in our H1 2016 Interim Report in the Section "*Risk Factors- Economic, regulatory and political uncertainty arising from the outcome of the recent referendum on the UK's membership of the European Union could adversely impact the Group's business, results of operations, financial condition and prospects.*" and may, among other developments, increase the risk of a Capital Disqualification Event occurring or otherwise adversely affect your rights under the Contingent Capital Notes.

Such legislative and regulatory uncertainty could also affect your ability to accurately value the Contingent Capital Notes and therefore affect the trading price of the Contingent Capital Notes given the extent and impact on the Contingent Capital Notes that one or more regulatory or legislative changes, including those described under “—*The circumstances under which the relevant UK Resolution Authority would exercise its proposed UK bail-in power are currently uncertain and you may have limited rights to challenge such exercise*”, could have on the Contingent Capital Notes.

Subject to certain conditions, including the Solvency Condition and regulatory approvals, we have the option to redeem the Contingent Capital Notes on certain dates.

Subject to the satisfaction of the Solvency Condition as described under “*Description of the Contingent Capital Notes—Solvency Condition*” on the relevant redemption date, our having satisfied certain pre-conditions which include, among others, having given any required notice to the PRA and the PRA granting permission to such redemption (to the extent and in the manner required by the CRD IV), the non-occurrence of a Conversion Trigger Event and compliance by us with any alternative or additional pre-conditions to redemption set out in the Capital Regulations and/or required by the PRA from time to time, we may opt to redeem all, but not some only, of the Contingent Capital Notes at their principal amount together with accrued but unpaid interest upon the occurrence of a Tax Event or a Capital Disqualification Event as described in “*Description of the Contingent Capital Notes—Redemption and Repurchases*”. If either of these events were to occur at any time after the Issue Date, it is therefore

possible that we would be able to redeem the Contingent Capital Notes at any time after the Issue Date (which could also be prior to the First Call Date).

In addition, subject to the satisfaction of the Solvency Condition as described under “*Description of the Contingent Capital Notes—Solvency Condition*” on the relevant redemption date, our having satisfied certain pre-conditions which include, among others, having given any required notice to the PRA and the PRA granting permission to such redemption (to the extent and in the manner required by the CRD IV), the non-occurrence of a Conversion Trigger Event and compliance by us with any alternative or additional pre-conditions to redemption set out in the Capital Regulations and/or required by the PRA from time to time, we may redeem the Contingent Capital Notes in whole (but not in part) on any Reset Date (which includes the First Call Date), as more particularly described under “*Description of the Contingent Capital Notes—Redemption and Repurchases—Optional Redemption*”. Our optional redemption on any Reset Date or the perception that the Contingent Capital Notes may be redeemed in the circumstances noted above, may limit the market value of the Contingent Capital Notes to the redemption price during the period shortly before the Reset Date. Moreover, if we redeem the Contingent Capital Notes in any of the circumstances mentioned above, you may not be able to reinvest the redemption proceeds in securities offering a comparable yield. In addition, any early redemption of the Contingent Capital Notes may be subject to additional conditions imposed by the PRA, regardless of whether such redemption would be favourable to you.

The Contingent Capital Notes do not contain events of default and the remedies available to you under the Contingent Capital Notes are limited.

The terms of the Contingent Capital Notes do not provide for any events of default. You may not at any time demand repayment or redemption of your Contingent Capital Notes, although in a Winding-up or Administration Event prior to a Conversion Trigger Event, you will have a claim for an amount equal to the principal amount of the Contingent Capital Notes plus any accrued interest that has not otherwise been cancelled subject to the subordination provisions of the Contingent Capital Notes. There is no right of acceleration in the case of non-payment of principal or interest on the Contingent Capital Notes or of our failure to perform any of our obligations under or in respect of the Contingent Capital Notes. See “*—Cancellation of interest in accordance with the terms of the Indenture or the Contingent Capital Notes shall not constitute a default in payment.*”

The sole remedy in the event of any non-payment of principal under the Contingent Capital Notes subject to certain conditions as described under “*Description of the Contingent Capital Notes—Enforcement Events and Remedies*” is that the Trustee, on your behalf may, at its discretion, or shall at the direction of the holders of 25% or more of the aggregate principal amount of the outstanding Contingent Capital Notes, subject to applicable laws, institute proceedings for our winding-up. In the event of a Winding-up or Administration Event or our liquidation, whether or not instituted by the Trustee, the Trustee may evidence any of our obligations arising under the Contingent Capital Notes in any such Winding-up or Administration Event or our liquidation.

Prior to the occurrence of any Winding-up or Administration Event, the Contingent Capital Notes will remain subject to (i) Automatic Conversion upon a Conversion Trigger Event, (ii) the exercise of the UK bail-in power and (iii) a write down of the Contingent Capital Notes upon the occurrence of a Conversion Trigger Event following a Non-Qualifying Takeover Event, none of which constitute an Enforcement Event or a Winding-up or Administration Event under the Indenture. In addition, we are entitled to cancel any interest payment as described under “*Description of the Contingent Capital Notes—Interest Cancellation*” and such cancellation or deemed cancellation (in each case, in whole or in part) will not constitute an Enforcement Event. If Settlement Shares are not issued and delivered to the Settlement Share Depository following the Conversion Trigger Event, your only claim will be a claim for specific performance to have such Settlement Shares issued, or claims to participate in our liquidation proceeds.

The remedies under the Contingent Capital Notes are more limited than those typically available to our unsubordinated creditors. For further detail regarding the limited remedies of the Trustee and the holders of the Contingent Capital Notes, see “*Description of the Contingent Capital Notes—Enforcement Events and Remedies*”.

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There is no limit on the amount or type of further securities or indebtedness that we may issue, incur or guarantee.

There is no restriction on the amount of securities or other liabilities that we may issue, incur or guarantee and which rank senior to, or *pari passu* with, the Contingent Capital Notes. The issue or guaranteeing of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by you during a Winding-up or Administration Event and may limit our ability to meet our obligations under the Contingent Capital Notes. In addition, the Contingent Capital Notes do not contain any restriction on our ability to issue securities that may have preferential rights to those of the Contingent Capital Notes or securities with similar, different or no Conversion Trigger Event provisions.

The Contingent Capital Notes are our exclusive obligations.

The Contingent Capital Notes are our exclusive obligations. We are a holding company and conduct substantially all of our operations through our subsidiaries. Our subsidiaries are separate and distinct legal entities, and have no obligations to pay any amounts due on the Contingent Capital Notes or to provide us with funds to meet any of our payment obligations. Our rights to participate in the assets of any subsidiary if it is liquidated will be subject to the prior claims of its creditors.

The market value of the Contingent Capital Notes may be influenced by unpredictable factors.

Certain factors, many of which are beyond our control, will influence the value of the Contingent Capital Notes and the price, if any, at which securities dealers may be willing to purchase or sell the Contingent Capital Notes in the secondary market, including:

- our creditworthiness from time to time;
- supply and demand for the Contingent Capital Notes and the liquidity of the market for AT1 securities generally;
- investors' perceptions of the risks relating to AT1 securities, such as the Contingent Capital Notes;
- economic, financial, political or regulatory events or judicial decisions that affect us or the financial markets generally, including the introduction of any financial transactions tax; and

the trading price of our ordinary shares and/or ADSs.

Accordingly, if you sell your Contingent Capital Notes in the secondary market, you may not be able to obtain a price equal to the principal amount of the Contingent Capital Notes or a price equal to the price that you paid for the Contingent Capital Notes.

There is no established trading market for the Contingent Capital Notes and one may not develop.

The Contingent Capital Notes will have no established trading market when issued, and although we expect to list the Contingent Capital Notes on the Global Exchange Market of the Irish Stock Exchange, one may never develop. If a market does develop, it may not be liquid and may be sensitive to changes or volatility in financial markets. Therefore, investors may not be able to sell their Contingent Capital Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for securities that are especially sensitive to interest rates, currency or market risks, are designed for specific investment objectives and strategies, have been structured to meet the investment requirements of limited categories of investors or include features such as the Automatic Conversion and UK bail-in power. These types of securities would generally have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a material adverse effect on the market value of the Contingent Capital Notes.

You may be subject to disclosure obligations and/or may need approval from our regulator under certain circumstances.

As you may receive Settlement Shares if a Conversion Trigger Event occurs, an investment in the Contingent Capital Notes may result in your having to comply with certain disclosure and/or regulatory approval requirements pursuant to applicable laws and regulations following an Automatic Conversion. For example, pursuant to Chapter 5 of the Disclosure Rules and Transparency Rules Sourcebook of the FCA Handbook, we (and the UK Financial Conduct Authority) must be notified by a person when the percentage of voting rights in us controlled by that person (together with its concert parties), by virtue of direct or indirect holdings of shares aggregated with direct or indirect holdings of certain financial instruments, reaches or crosses 3% and every percentage point thereafter.

Furthermore, as Settlement Shares represent voting securities of a parent undertaking of a number of regulated group entities, under the laws of the United Kingdom, the United States and other jurisdictions, ownership of the Contingent Capital Notes (or the Settlement Shares) above certain levels may require you to obtain regulatory approval or subject you to additional regulation.

Non-compliance with such disclosure and/or approval requirements may lead to the incurrence of substantial fines or other criminal and/or civil penalties and/or suspension of voting rights associated with the Contingent Capital Notes. Accordingly, each potential investor should consult its legal advisers as to the terms of the Contingent Capital Note, in respect of its existing shareholding and the level of holding it would have if it receives Settlement Shares following the Conversion Trigger Event.

The Contingent Capital Notes are not investment grade and are subject to the risks associated with non-investment grade securities.

The Contingent Capital Notes, upon issuance, will not be considered to be investment grade securities, and as such will be subject to a higher risk of price volatility than higher-rated securities. Furthermore, deteriorating outlooks for us or the Group, or volatile markets, could lead to a significant deterioration in market prices of below-investment grade rated securities such as the Contingent Capital Notes.

Credit ratings may not reflect all risks and a downgrade, suspension or withdrawal of the rating assigned by any rating agency to the Contingent Capital Notes could cause the liquidity or market value of the Contingent Capital Notes to decline.

One or more independent credit rating agencies may assign credit ratings to the Contingent Capital Notes. The ratings may not reflect the potential impact of all risks related to the structure, market, Automatic Conversion, UK bail-in power, additional factors discussed above and other factors that may affect the value of the Contingent Capital Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Moreover, the rating agencies that currently, or may in the future, publish a rating for the Contingent Capital Notes may change the methodologies that they use for analysing securities with features similar to the Contingent Capital Notes. For example, Standard & Poor's Financial Services LLC published revised criteria for determining credit ratings on bank hybrid capital instruments to reflect changes in the regulatory framework for such capital instruments, including the role of the UK bail-in power. Such changes in the methodology used by rating agencies may have a material adverse effect on the Contingent Capital Notes' ratings.

Upon issuance, the Contingent Capital Notes will be rated by nationally recognised statistical ratings organisations and may in the future be rated by additional rating agencies. However, we are under no obligation to ensure the Contingent Capital Notes are rated by any rating agency and any rating initially assigned to the Contingent Capital Notes may be lowered or withdrawn entirely by a rating agency if, in that rating agency's judgement, circumstances relating to the basis of the rating, such as adverse changes to our business, so warrant. If we determine to no longer maintain one or more ratings, or if any rating agency lowers or withdraws its rating, such event could reduce the liquidity or market value of the Contingent Capital Notes.

Real or expected downgrades, suspensions or withdrawals of, or changes in the methodology used to determine, credit ratings assigned to us or the Contingent Capital Notes could cause the liquidity or trading prices of the Contingent Capital Notes to decline significantly. Additionally, any uncertainty about the extent of any anticipated

changes to the credit ratings assigned to the Contingent Capital Notes may adversely affect the market value of the Contingent Capital Notes.

The credit risk of RBSG, its credit ratings, and its credit spreads may adversely affect the value of the Contingent Capital Notes.

Any actual or anticipated decline in our credit ratings, changes in the market's view of our creditworthiness or any increase in our credit spreads charged by the market for taking credit risk are likely to adversely affect the value of the Contingent Capital Notes and cause the liquidity of the Contingent Capital Notes to decline significantly.

Our credit ratings are an assessment, by each rating agency, of our ability to pay our obligations, including those under the Contingent Capital Notes. Any rating assigned to us may be withdrawn entirely by a credit rating agency, may be suspended or may be lowered, if, in that credit rating agency's judgement, circumstances relating to the basis of the rating so warrant. Ratings may be impacted by a number of factors which can change over time, including the credit rating agency's assessment of: our strategy and management's capability; our financial condition including in respect of capital, funding and liquidity; competitive and economic conditions in our key markets; the level of political support for the industries in which we operate; and the sovereign rating of the UK and legal and regulatory frameworks affecting our legal structure, business activities and the rights of our creditors. The credit rating agencies may also revise the ratings methodologies applicable to issuers within a particular industry, or political or economic region. In particular, following the outcome of the referendum on the UK's membership of the EU in favour of leaving the EU, rating agencies downgraded the UK's credit ratings and/or changed or maintained their outlook for the UK to negative. Credit agencies also changed their outlook for a number of UK banks (excluding the Group) to negative. If credit rating agencies perceive there to be adverse changes in the factors affecting our credit rating, including by virtue of changes to applicable ratings methodologies, the credit rating agencies may downgrade, suspend or withdraw the ratings assigned to us or other Group entities. An improvement in our credit ratings will not necessarily increase the value of the Contingent Capital Notes and will not reduce market risk and other investment risks related to the Contingent Capital Notes. Credit ratings (i) do not address the price, if any, at which the Contingent Capital Notes may be resold in the secondary market (which may be substantially less than the original offering price of the Contingent Capital Notes), and (iii) are not recommendations to buy, sell or hold the Contingent Capital Notes.

You may not be entitled to receive US dollars in a winding-up.

If you are entitled to any recovery with respect to the Contingent Capital Notes in any winding-up, you might not be entitled in those proceedings to a recovery in US dollars and might be entitled only to a recovery in pounds sterling or any other lawful currency of the United Kingdom or such other jurisdictions in which we may be organised. In addition, under current English law, our liability to you would have to be converted into pounds sterling or any other lawful currency of the United Kingdom or such other jurisdictions in which we may be organised at a date close to the commencement of proceedings against us and you would be exposed to currency fluctuations between that date and the date you receive proceeds pursuant to such proceedings, if any.

You will be responsible for any taxes following an Automatic Conversion.

Neither we nor any member of the Group will be liable for any taxes or duties (including, without limitation, any stamp duty, stamp duty reserve tax or any other capital, issue, transfer, registration, financial transaction or documentary tax or duty) arising on conversion or that may arise or be paid in connection with the issue and delivery of Settlement Shares and Alternative Consideration, if applicable, following an Automatic Conversion. You must pay any taxes and duties (including, without limitation, any stamp duty, stamp duty reserve tax or any other capital, issue, transfer, registration, financial transaction or documentary tax or duty) arising on conversion in connection with the issue and delivery of Settlement Shares to the Settlement Share Depository on your behalf.

Certain adjustments to the conversion price of convertible securities pursuant to anti-dilution provisions may cause holders thereof to be deemed to have received a distribution for US federal income tax purposes.

The conversion price in respect of the Contingent Capital Notes may be adjusted in certain circumstances pursuant to anti-dilution provisions. Under the US Internal Revenue Code of 1986, as amended (the “Code”) and applicable Treasury regulations, adjustments that have the effect of increasing the interests of holders of convertible securities in an issuer’s assets or earnings and profits may, in certain circumstances, result in a deemed distribution to such holders. Any deemed distribution will generally be taxable as a dividend as described in “*UK and US Federal Tax Consequences—United States—Taxation of the Contingent Capital Notes—Taxation of Distributions*”. US Holders should consult their tax advisers as to the tax consequences of any adjustments to the conversion price.

Potential FATCA Withholding After December 31, 2018

Under certain provisions of the Code and Treasury regulations promulgated thereunder commonly referred to as “FATCA” as well as certain intergovernmental agreements between the United States and certain other countries (including the United Kingdom) together with implementing legislation and regulations, certain payments in respect of the Contingent Capital Notes, Settlement Shares and ADSs made after December 31, 2018, may be subject to withholding (“FATCA withholding”) to the extent that such payments are “foreign passthru payments” to non-US financial institutions (including intermediaries) that have not entered into agreements with the US Treasury pursuant to FATCA or otherwise established an exemption from FATCA, or to other holders that fail to provide sufficient identifying information. Under current guidance it is not clear whether and to what extent payments on the Contingent Capital Notes, Settlement Shares and ADSs will be considered foreign passthru payments subject to FATCA withholding or the extent to which foreign passthru payment withholding will be required under intergovernmental agreements or implementing legislation or regulations. Holders of Contingent Capital Notes, Settlement Shares and ADSs should consult their tax advisers as to how these rules may apply to payments they receive under the Contingent Capital Notes, Settlement Shares and ADSs.

Limitation on gross-up obligation under the Contingent Capital Notes

Our obligation to pay additional amounts in respect of any withholding or deduction in respect of taxes under the terms of the Contingent Capital Notes applies only to payments of interest due and paid under the Contingent Capital Notes and not to payments of principal. As such, we would not be required to pay any additional amounts under the terms of the Contingent Capital Notes to the extent any withholding or deduction applied to payments of principal. Accordingly, if any such withholding or deduction were to apply to any payments of principal under the Contingent Capital Notes, you may receive less than the full amount due under the Contingent Capital Notes, and the market value of the Contingent Capital Notes may be adversely affected.

RECENT DEVELOPMENTS

H1 2016 Interim Report

Please refer to our H1 2016 Interim Report, which contains recent developments, including in relation to (i) the Group's strategic plan, (ii) the risk factors applicable to the Group and (iii) the Group's ongoing litigation, investigation and reviews, and which is incorporated by reference herein.

2016 EBA Stress Tests

Please refer to page 108 of our H1 2016 Interim Report for our results under the 2016 EBA Stress Tests.

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USE OF PROCEEDS

The net proceeds from the issue of the Contingent Capital Notes are expected to amount to \$ _____ after deduction of the underwriting commission and the other expenses incurred in connection with the issue of the Contingent Capital Notes. We intend to use the net proceeds of the offering for general corporate purposes.

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CAPITALISATION OF THE GROUP

The following table shows the Group's issued and fully paid share capital, owners' equity and indebtedness on an unaudited consolidated basis in accordance with International Financial Reporting Standards as at June 30, 2016.

	As at June 30, 2016	
	Actual	As Adjusted ⁽¹⁾
	£ million	£ million
Share capital – allotted, called up and fully paid		
Ordinary shares of £1.00	11,755	
Non-cumulative preference shares of \$ 0.01 ⁽²⁾	1	
Non-cumulative preference shares of €0.01 ⁽³⁾	-	
Non-cumulative preference shares of £1.00 ⁽⁴⁾	-	
	11,756	
Retained income and other reserves	41,151	
Owners' equity	52,907	
Group indebtedness		
Subordinated liabilities	20,113	
Debt securities in issue	27,148	
Total indebtedness	47,261	
Total capitalisation and indebtedness	100,168	

The 'As Adjusted' column reflects the effects of the issue of the Contingent Capital Notes offered hereby. Amounts shown have been converted from dollars to sterling at a rate of \$1.3263=£1.00, the rate used to translate assets and liabilities as at June 30, 2016. We make no representation that amounts have been or could have been or could in the future be converted into dollars at that rate or any other rate.

(2) As at June 30, 2016, there were 87,868,941 Non-cumulative preference shares of \$0.01 outstanding, representing \$878,689.

(3) As at June 30, 2016, there were 2,044,418 Non-cumulative preference shares of €0.01 outstanding, representing €20,444.

(4) As at June 30, 2016, there were 54,442 Non-cumulative preference shares of £1.00 outstanding, representing £54,442.

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

The information contained in the table above has not changed materially since June 30, 2016.

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RATIO OF EARNINGS TO FIXED CHARGES

	Six-months ended June 30, 2016 ⁽³⁾	Year Ended December 31, 2015	2014	2013	2012	2011
Ratio of earnings to combined fixed charges and preference share dividends ⁽¹⁾⁽²⁾						
– including interest on deposits	0.70	0.17	1.52	(0.51)	0.13	0.78
– excluding interest on deposits	0.34	(1.17)	2.61	(5.12)	(3.73)	(0.86)
Ratio of earnings to fixed charges only ⁽¹⁾⁽²⁾						
– including interest on deposits	0.81	0.19	1.67	(0.55)	0.13	0.78
– excluding interest on deposits	0.48	(1.60)	3.58	(6.95)	(4.80)	(0.86)

(1) For this purpose, earnings consist of income before tax and non-controlling interests, plus fixed charges less the unremitted income of associated undertakings (share of profits less dividends received). Fixed charges consist of total interest expense, including or excluding interest on deposits and debt securities in issue, as appropriate, and the proportion of rental expense deemed representative of the interest factor (one third of total rental expenses).

(2) The earnings for the years ended 31 December 2015, 2013, 2012, and 2011, were inadequate to cover total fixed charges and preference share dividends. The coverage deficiency for total fixed charges and preference share dividends for the years ended 31 December 2015, 2013, 2012 and 2011 was, £3,088 million (\$4,709 million), £9,247 million (\$14,493 million), £6,353 million (\$10,117 million) and £1,860 million (\$2,996 million), respectively. The coverage deficiency for fixed charges for the years ended 31 December 2015, 2013, 2012 and 2011 was, £2,703 million (\$4,122 million), £8,849 million (\$13,869 million), £6,052 million (\$9,637 million) and £1,860 million (\$2,996 million), respectively. Dollar amounts have been converted from sterling at the following rates which are the average of the Noon Buying Rates on the last US business day of each month during the relevant year: (i) \$1.5250 for the year ended December 31, 2015, (ii), \$1.5673 for the year ended December 31, 2013; (iii) £1 = \$1.5924 for the year ended December 31, 2012 and (iv) £1 = \$1.6105 for the year ended December 31, 2011.

(3)

Based on unaudited numbers.

As at June 30, 2016, RBSG had £14.6 billion of distributable reserves on a solo basis. See “Risk Factors” starting on page S-25 of this prospectus supplement.

DESCRIPTION OF THE CONTINGENT CAPITAL NOTES

The following is a summary of certain terms of the Contingent Capital Notes. It supplements the description of the general terms of the Contingent Convertible Securities and any series we may issue contained in the accompanying prospectus under the heading “Description of Contingent Convertible Securities” and “Description of Certain Provisions Relating to Debt Securities and Contingent Convertible Securities”. If there is any inconsistency between the following summary and the description in the accompanying prospectus, the following summary governs.

The summary set forth below does not purport to be complete and is subject to, and qualified in its entirety by reference to, the Contingent Convertible Securities Indenture dated August 10, 2015 (the “Original Indenture”), between us as Issuer and The Bank of New York Mellon acting through its London Branch as Trustee, which was filed as exhibit 4.1 to our report on form 6-K filed on August 10, 2015, as supplemented by a third supplemental indenture with respect to the Contingent Capital Notes which we expect to be dated as of the Issue Date (the “Third Supplemental Indenture”). References to the “Indenture” are to the Original Indenture, as supplemented by the Third Supplemental Indenture. The Third Supplemental Indenture will be filed as an exhibit to a report on form 6-K on or about 2016, which will be incorporated by reference in our registration statement on form F-3.

The Contingent Capital Notes constitute a series of Contingent Convertible Securities.

If you purchase the Contingent Capital Notes, your rights will be determined by the Indenture and the Trust Indenture Act of 1939, as amended (the “Trust Indenture Act”), unless your Contingent Capital Notes are converted to Settlement Shares after a Conversion Trigger Event as described under “—Conversion—Automatic Conversion” in which case your rights will be determined in accordance with the terms of our ordinary shares as described in the accompanying prospectus under “Description of Ordinary Shares”. You can read the Indenture and the form of Contingent Capital Notes at the location listed under “Where You Can Find More Information About Us”.

The Contingent Capital Notes and the Indenture will be governed by and construed in accordance with the laws of the State of New York and the Trust Indenture Act, except that, as the Indenture specifies, the subordination provisions and the waiver of the right to set-off by the holders of the Contingent Capital Notes and by the Trustee acting on behalf of the holders of the Contingent Capital Notes with respect to the Contingent Capital Notes will be governed by and construed in accordance with the laws of Scotland. The terms of the Contingent Capital Notes include those stated in the Indenture and any supplements or amendments thereto, and those terms made part of the Indenture by reference to the Trust Indenture Act.

The Bank of New York Mellon, acting through its London Branch, will serve as Trustee under the Indenture and will initially act as Paying Agent for the Contingent Capital Notes. RBS plc will initially act as Calculation Agent for the Contingent Capital Notes.

The Contingent Capital Notes will be issued in an aggregate principal amount of up to \$.

The Contingent Capital Notes are perpetual instruments with no fixed maturity or fixed redemption date.

General

We will issue the Contingent Capital Notes in fully registered form in denominations of \$200,000 and in integral multiples of \$1,000 thereafter (the denomination of each book-entry interest being the “Tradable Amount” of such book-entry interest). Prior to the Automatic Conversion (as defined below), the aggregate Tradable Amount of the book-entry interests in each Contingent Capital Note shall be equal to such Contingent Capital Note’s principal amount. Following the Automatic Conversion, the principal amount of each Contingent Capital Note shall be zero (as described below under “—*Conversion—Conversion Procedures*”) but the Tradable Amount of the book-entry interests in each Contingent Capital Note shall remain unchanged.

Upon issuance, the Contingent Capital Notes will be represented by one or more fully registered global notes (“Global Notes”). Each such Global Note will be deposited with, or on behalf of, The Depository Trust Company (“DTC”). You will hold a beneficial interest in the Contingent Capital Notes through DTC and its participants. We expect to deliver the Contingent Capital Notes through the facilities of DTC on the Issue Date. For a more detailed summary of the form of the Contingent Capital Notes and settlement and clearance arrangements, see “*Description*”

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of *Certain Provisions Relating to Debt Securities and Contingent Convertible Securities*” in the accompanying prospectus.

Payment of principal of and interest, if any, on the Contingent Capital Notes, so long as the Contingent Capital Notes are represented by Global Notes, will be made in immediately available funds. Beneficial interests in the Global Notes will trade in the same-day funds settlement system of DTC and pay in immediately available funds. Secondary market trading activity in such interests will therefore settle in same-day funds. Secondary market trading will occur in the ordinary way following the applicable rules and clearing system operating procedures of DTC, including those of its indirect participants, Euroclear and Clearstream, Luxembourg. We currently expect such trading and settlement to continue in the period between the Conversion Date and the Suspension Date (each as defined below). Definitive securities will only be issued in limited circumstances described under “*Description of Certain Provisions Relating to Debt Securities and Contingent Convertible Securities—Issuance of Definitive Securities*” in the accompanying prospectus.

Additional Issuances

We may from time to time, without the consent of the holders of the Contingent Capital Notes, issue additional Contingent Capital Notes under the Indenture, having the same ranking and same interest rate, interest cancellation terms, redemption terms, conversion price and other terms as the Contingent Capital Notes described in this prospectus supplement other than the price to the public and issue date as the Contingent Capital Notes offered hereby. Any such additional Contingent Capital Notes, together with the Contingent Capital Notes offered by this prospectus supplement, shall rank equally and rateably with such Contingent Capital Notes in all respects, so that any such further Contingent Capital Notes shall be consolidated and form a single series with the Contingent Capital Notes. There is no limitation on the amount of Contingent Capital Notes or other debt securities that we may issue under the Indenture, and there is no restriction on our issuing securities that may have similar or different conversion trigger event provisions to the Contingent Capital Notes or no conversion trigger events.

Interest

From and including the Issue Date to but excluding _____, 2021 (the “First Call Date”), interest will accrue on the Contingent Capital Notes at an initial rate equal to _____ % per annum. The First Call Date and every fifth anniversary thereafter shall each be a “Reset Date”. From and including each Reset Date to but excluding the next succeeding Reset Date, interest will accrue on the Contingent Capital Notes at a rate per annum equal to the sum of the then prevailing Mid-Market Swap Rate on the relevant Reset Determination Date and _____ %, converted to a quarterly rate in accordance with market convention (rounded to two decimal places, with 0.005 being rounded down).

The “Mid-Market Swap Rate” is the mid-market US dollar swap rate LIBOR basis having a five-year maturity appearing on Bloomberg page “USISDA 05” (or such other page as may replace such page on Bloomberg, or such other page or service as may be nominated by the person providing or sponsoring the information appearing on such page for purposes of displaying comparable rates) as at approximately 11:00 a.m. (New York time) on the Reset Determination Date, as determined by the Calculation Agent. If such swap rate does not appear on such page (or such other page or service), the Mid-Market Swap Rate shall instead be determined by the Calculation Agent as being equal to the arithmetic mean expressed as a percentage and rounded, if necessary, to the nearest 0.001% (0.0005% being rounded upwards) of the quotations provided by the principal office of each of four major banks in the US dollar swap rate market (which banks shall be selected by the Calculation Agent with our prior agreement not less than 20 calendar days prior to the Reset Determination Date) (the “Reference Banks”) of the rates at which swaps in US dollars are offered by it at approximately 11.00 a.m. (New York time) (or thereafter on the Reset Determination Date, with the Calculation Agent acting on a best efforts basis) on the Reset Determination Date to participants in the US dollar swap rate market for a five-year period. If the Mid-Market Swap Rate is still not determined on the relevant Reset Determination Date in accordance with the foregoing procedures, the Mid-Market Swap Rate shall be the mid-market US dollar swap rate LIBOR basis having a five-year maturity that appeared on the most recent Bloomberg page “USISDA 05” (or such other page as may replace such page on Bloomberg, or such other page or service as may be nominated by the person providing or sponsoring the information appearing on such page for purposes of displaying comparable rates) that was last available prior to 11:00 a.m. (New York time) on the relevant Reset Determination Date, as determined by the Calculation Agent.

The “Reset Determination Date” shall be the second Business Day immediately preceding each Reset Date.

Subject to the provisions under “—*Interest Cancellation*”, “—*Ranking and Liquidation Distribution*”, “—*Solvency Condition*”, “—*Conversion—Automatic Conversion*”, from and including 2016 (the “Issue Date”) interest on the Contingent Capital Notes, if any, will be payable quarterly in arrear on March 31, June 30, September 30 and December 31 of each year (each an “Interest Payment Date”), commencing on September 30, 2016. The regular record dates for the Contingent Capital Notes will be the 15th calendar day preceding each Interest Payment Date, whether or not such day is a Business Day (each, a “Record Date”). Payments of interest, if any, so payable, and paid or duly provided for, on any Interest Payment Date will, be paid to the person shown on the register for the Contingent Capital Notes at the close of business on the Record Date.

If any scheduled Interest Payment Date is not a Business Day, we will pay interest on the next Business Day, and no further interest or other payment shall be owed or made in respect of such delay. If any scheduled redemption date is not a Business Day, payment of interest, if any, and principal shall be postponed to the next Business Day, but interest on that payment will not accrue during the period from and after any scheduled redemption date. If any Reset Date is not a Business Day, the Reset Date shall occur on the next Business Day.

Subject as set out above, if any interest payment is to be made in respect of the Contingent Capital Notes on any date other than an Interest Payment Date, including on any scheduled redemption date, it shall be calculated by the Calculation Agent by applying the interest rate as described above and multiplying the product by 30/360 and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). For this purpose, “30/360” means, in respect of any period, the number of days in the relevant period, from and including the first day in such period to but excluding the last day in such period, such number of days being calculated on the basis of a 360-day year consisting of 12 months of 30 days each, divided by 360.

The term “Business Day” means any weekday, other than one on which banking institutions are authorised or obligated by law, regulation or executive order to close in London, England or in New York City.

Interest Cancellation

Interest Payments Discretionary

Subject to the solvency condition described under “—*Solvency Condition*” below, the availability of Distributable Items (as defined under “—*Restrictions on Interest Payments*” below), Automatic Conversion (as described under “—*Conversion—Automatic Conversion*”) and a Winding-up or Administration Event (as described under “—*Ranking and Liquidation Distribution*”), interest on the Contingent Capital Notes will be due and payable only at our sole discretion and we shall have sole and absolute discretion at all times and for any reason to cancel any interest payment in whole or in part that would otherwise be payable on any Interest Payment Date.

If we elect not to make an interest payment on the relevant Interest Payment Date, or if we elect to make a payment of a portion, but not all, of such interest payment, such non-payment shall evidence our exercise of discretion to cancel such interest payment, or the portion of such interest payment not paid, and accordingly such interest payment, or portion thereof, shall not be or become due and payable. Such cancelled interest shall not accumulate or be due and payable at any time thereafter and the holders and the beneficial owners of the Contingent Capital Notes shall not have any right to or claim against us with respect to such interest amount. Any such cancellation shall not constitute a default under the terms of the Contingent Capital Notes or the Indenture and the holders and beneficial owners of the Contingent Capital Notes shall have no rights thereto or to receive any additional interest or compensation as a result of such cancellation.

Because the Contingent Capital Notes are intended to qualify as Additional Tier 1 Capital under CRD IV (as defined therein), we may cancel, in whole or in part, any interest payment at our discretion and may pay dividends on our ordinary shares or preference shares notwithstanding such cancellation. In addition, we may use such cancelled payments without restriction to meet our other obligations as they become due.

In addition, the Contingent Capital Notes will cease to bear interest from, and including, the date of any redemption of the Contingent Capital Notes as described under “—*Redemption and Repurchases*” unless payment and performance of all amounts and obligations due by us in respect of the Contingent Capital Notes is not properly and duly made, in which event interest shall continue to accrue on the Contingent Capital Notes until payment and performance of all amounts and obligations has been properly and duly made.

Furthermore, in the event of the Automatic Conversion of the Contingent Capital Notes upon the occurrence of a Conversion Trigger Event, as described under “—*Conversion—Automatic Conversion*” below, or a Winding-up or Administration Event (as defined under “—*Ranking and Liquidation Distribution*” below) any accrued but unpaid interest on the Contingent Capital Notes shall be deemed to have been cancelled upon the occurrence of such Conversion Trigger Event, or a Winding-up or Administration Event, as the case may be, and shall not become due and payable at any time.

See also “—*Agreement to Interest Cancellation*” and “—*Notice of Interest Cancellation*” below.

Restrictions on Interest Payments

We shall cancel any interest, or such interest shall be deemed to be cancelled, on the Contingent Capital Notes (or, as appropriate, any part thereof) which is scheduled to be paid on an Interest Payment Date if:

- (a) we have an amount of Distributable Items on such scheduled Interest Payment Date that is less than the sum of (i) all payments (other than redemption payments which do not reduce Distributable Items) made or declared by us since the end of our latest financial year and prior to such Interest Payment Date on or in respect of any Parity Securities, the Contingent Capital Notes and any Junior Securities (as defined below) and (ii) all payments (other than redemption payments which do not reduce Distributable Items) payable by us on such Interest Payment Date (x) on the Contingent Capital Notes and (y) on or in respect of any Parity Securities or any Junior Securities, in the case of each of (i) and (ii), excluding any payments already accounted for in determining the Distributable Items; or
- (b) the Solvency Condition (as described under “—*Solvency Condition*” below) is not (or would not be) satisfied in respect of such amounts payable on such Interest Payment Date.

See also “—*Agreement to Interest Cancellation*” and “—*Notice of Interest Cancellation*” below.

“Distributable Items” means subject as otherwise defined in, and/or interpreted in accordance with, the Capital Regulations applicable to us from time to time, the amount of our profits at the end of the latest financial year plus any profits brought forward and reserves available for that purpose before distributions to holders of the Contingent Capital Notes, any Parity Securities and Junior Securities less any losses brought forward, profits which are non-distributable pursuant to the Companies Act 2006 (UK) (the “Companies Act”) or any other provisions of English law from time to time applicable to us or our Memorandum and Articles of Association from time to time (together, our “Articles of Association”) and sums placed to non-distributable reserves in accordance with the Companies Act or other provisions of English law from time to time applicable to us or our Articles of Association, those losses and reserves being determined on the basis of our individual accounts and not on the basis of our consolidated accounts.

“Capital Regulations” means, at any time, the laws, regulations, requirements, guidelines and policies relating to capital adequacy binding on credit institutions (including, without limitation, as to leverage) then in effect as applicable to us or the Regulatory Group (as defined below) including if and to the extent applicable to us or the Regulatory Group and, without limitation to the generality of the foregoing, any delegated or implementing acts (such as regulatory technical standards) adopted by the European Commission and any laws or regulations, as well as requirements, guidelines and policies adopted by the PRA from time to time (whether or not such laws, regulations, requirements, guidelines or policies are applied generally or specifically to us or to the Regulatory Group), in each case relating to capital adequacy.

“CRD IV” means (i) the CRD IV Directive and the CRD IV Regulation to the extent applicable to the Issuer or the Regulatory Group and (ii) the Capital Regulations.

“CRD IV Directive” means Directive 2013/36/EU of the European Parliament and of the Council of June 26, 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, and any successor or amending directive.

“CRD IV Regulation” means Regulation (EU) No. 575/2013 of the European Parliament and of the Council of June 26, 2013, on prudential requirements for credit institutions and investment firms amending Regulation (EU) No. 648/2012, and any successor or amending regulation.

“Junior Securities” means (i) our ordinary shares or other securities of ours ranking, or expressed to rank, junior to the Contingent Capital Notes in a Winding-up or Administration Event (as defined under “—*Ranking and Liquidation Distribution*” below) and/or (ii) any securities issued by any other member of our Group where the terms of such securities benefit from a guarantee or support agreement entered into by us which ranks, or is expressed to rank, junior to the Contingent Capital Notes in a Winding-up or Administration Event.

“Parity Securities” means (i) the most senior ranking class or classes of non-cumulative preference shares in our capital from time to time and any other of our securities ranking, or expressed to rank, *pari passu* with the Contingent Capital Notes and/or such preference shares following a Winding-up or Administration Event and/or (ii) any securities issued by any other member of our Group where the terms of the securities benefit from a guarantee or support agreement entered into by us which ranks or is expressed to rank *pari passu* with the Contingent Capital Notes and/or such preference shares following a Winding-up or Administration Event.

“PRA” means the Prudential Regulation Authority or such other governmental authority having primary supervisory authority with respect to the prudential regulation of our business.

“Regulatory Group” means us, our subsidiary undertakings, participations, participating interests and any subsidiary undertakings, participations or participating interests held (directly or indirectly) by any of our subsidiary undertakings from time to time and any other undertakings from time to time consolidated with us for regulatory purposes, in each case in accordance with the rules and guidance of the PRA then in effect.

Agreement to Interest Cancellation

By acquiring the Contingent Capital Notes, holders and beneficial owners of the Contingent Capital Notes acknowledge and agree that:

interest is payable solely at our discretion, and no amount of interest shall become due and payable in respect of the (a) relevant interest period to the extent that it has been cancelled by us at our sole discretion and/or deemed cancelled as a result of our having insufficient Distributable Items, or failing to satisfy the Solvency Condition; and

a cancellation or deemed cancellation of interest (in each case, in whole or in part) in accordance with the terms of (b) the Indenture and the Contingent Capital Notes shall not constitute a default in payment or otherwise under the terms of the Contingent Capital Notes or the Indenture.

Interest will only be due and payable on an Interest Payment Date to the extent it is not cancelled or deemed cancelled in accordance with the provisions described under “—*Interest Cancellation*”, “—*Solvency Condition*”, “—*Ranking and Liquidation Distribution*” and “—*Conversion—Automatic Conversion*”. Any interest cancelled or deemed cancelled (in each case, in whole or in part) in the circumstances described herein shall not be due and shall not accumulate or be payable at any time thereafter, and holders and beneficial owners of the Contingent Capital Notes shall have no rights thereto or to receive any additional interest or compensation as a result of such cancellation or deemed cancellation.

Notice of Interest Cancellation

If practicable, we will provide notice of any cancellation or deemed cancellation of interest (in each case, in whole or in part) to the holders of the Contingent Capital Notes through DTC (or, if the Contingent Capital Notes are held in definitive form, to the holders of the Contingent Capital Notes directly at their addresses shown on the register for the Contingent Capital Notes) and to the Trustee directly on or prior to the relevant Interest Payment Date. Failure to provide such notice will have no impact on the effectiveness of, or otherwise invalidate, any such cancellation or deemed cancellation of interest (and accordingly, such interest will not be due and payable), or give the holders and beneficial owners of the Contingent Capital Notes any rights as a result of such failure.

Ranking and Liquidation Distribution

The Contingent Capital Notes will constitute our direct, unsecured and subordinated obligations, ranking *pari passu* without any preference among themselves. The rights and claims of the holders and beneficial owners of the Contingent Capital Notes in respect of, or arising from, the Contingent Capital Notes (including any damages, if payable) will be subordinated to the claims of our Senior Creditors (as defined below).

If:

(i) an order is made, or an effective resolution is passed, for our winding-up (excluding in each such case, a solvent winding-up solely for the purposes of our reconstruction, amalgamation, reorganisation, merger or consolidation or the substitution in our place of a successor in business, the terms of which have previously been approved by the Trustee or in writing by holders of the Contingent Capital Notes of not less than $\frac{2}{3}$ (two-thirds) in aggregate principal amount of the Contingent Capital Notes); or

(ii) an administrator is appointed for us and such administrator gives notice that it intends to declare and distribute a dividend

(each, respectively, or together, a “Winding-up or Administration Event”), then (a) if any such events specified in (i) or (ii) above occurs before the date on which the Conversion Trigger Event occurs, there shall be payable by us in respect of each Contingent Capital Note (in lieu of any other payment by us) such amount, if any, as would have been payable to a holder or beneficial owner of Contingent Capital Notes if, on the day prior to the commencement of the Winding-up or Administration Event and thereafter, such holder or beneficial owner of Contingent Capital Notes were the holder of one of a class of Notional Preference Shares (as defined below) on the assumption that the amount that such holder or beneficial owner of Contingent Capital Notes was entitled to receive in respect of such Notional Preference Shares on a return of assets in such Winding-up or Administration Event was an amount equal to the principal amount of the relevant Contingent Capital Note, together with any Accrued Interest (as defined below) and any damages (if payable), regardless of whether the Solvency Condition is satisfied on the date upon which the same would otherwise be due and payable and (b) if any such events specified in (i) or (ii) above occurs on or after the date on which the Conversion Trigger Event occurs but the Settlement Shares to be issued and delivered to the Settlement Share Depository on the Conversion Date have not been so delivered, there shall be payable by us in respect of each Contingent Capital Note (in lieu of any other payment by us) such amount, if any, as would have been payable to the holder or beneficial owner of such Contingent Capital Note in a Winding-up or Administration Event if the Conversion Date in respect of the Automatic Conversion had occurred immediately before the occurrence of a Winding-up or Administration Event (and, as a result, such holder or beneficial owner were the holder of such number of our ordinary shares as such holder or beneficial owner would have been entitled to receive on the Conversion Date, ignoring for this purpose our right to make an election for a Settlement Shares Offer to be effected), regardless of whether the Solvency Condition is satisfied on the date upon which the same would otherwise be due and payable.

“commencement” means, in relation to our winding-up, the date on which such winding-up commences, or is deemed to commence, determined in accordance with Section 86 or 129 of the Insolvency Act 1986.

“Notional Preference Shares” means an actual or notional class of preference shares in our capital having an equal right to return of assets in a Winding-up or Administration Event to, and so ranking *pari passu* with, the most senior class or classes of issued preference shares with non-cumulative dividends (if any) in our capital from time to time and which have a preferential right to a return of assets in the Winding-up or Administration Event over, and so rank

ahead of, all other classes of issued shares for the time being in our capital but ranking junior to the claims of Senior Creditors and junior to any notional class of preference shares in our capital which is referenced in any of our instruments for the purposes of determining a claim in our winding-up or administration, and, as so referenced, (i) is expressed to have a preferential right to a return of assets in our winding-up or administration over the holders of all other classes of shares for the time-being in our capital and (ii) is not expressed to rank junior to any other notional class of preference shares in our capital.

“Senior Creditors” means our creditors (i) who are unsubordinated creditors, (ii) whose claims are, or are expressed to be, subordinated (whether only in the event of a Winding-up or Administration Event or otherwise) to the claims of our other unsubordinated creditors but not further or otherwise, or (iii) who are our subordinated creditors (whether as aforesaid or otherwise), other than those whose claims rank, or are expressed to rank, *pari passu* with, or junior to, the claims of holders of the Contingent Capital Notes and/or *pari passu* with or junior to any claims ranking *pari passu* with the claims of holders of the Contingent Capital Notes, in each case, in a Winding-up or Administration Event occurring prior to any Conversion Trigger Event.

As a consequence of these subordination provisions, if a Winding-up or Administration Event occurs, each holder of Contingent Capital Notes may recover less rateably than the holders of our unsubordinated liabilities and the holders of certain of our subordinated liabilities. If upon any Winding-up or Administration Event the amount

payable on the Contingent Capital Notes and any claims ranking equally with them are not paid in full, the Contingent Capital Notes and other claims ranking equally will share rateably in any distribution of our assets in proportion to the respective amounts to which they are entitled. If any holder is entitled to any recovery with respect to the Contingent Capital Notes, the holder might not be entitled in those proceedings to a recovery in US dollars and might be entitled only to a recovery in pounds sterling or any other lawful currency of the United Kingdom or such other jurisdictions in which we may be organised.

In addition, because we are a holding company, our rights to participate in the assets of any subsidiary if such subsidiary is liquidated will be subject to the prior claims of its creditors and in the case of bank subsidiaries, their depositors, except to the extent that we may be a creditor with recognised claims against the subsidiary.

Solvency Condition

Other than in the event of a Winding-up or Administration Event or in relation to the cash component of any Alternative Consideration in any Settlement Shares Offer (as such terms are defined below), payments in respect of or arising from the Contingent Capital Notes (including any damages for breach of any obligations thereunder) are, in addition to our right to cancel payments of interest as described under “—*Interest Cancellation*”, conditional upon our being solvent at the time when the relevant payment is due to be made, and no principal, interest or other amount shall be due and payable in respect of or arising from the Contingent Capital Notes, except to the extent that we could make such payment and still be solvent immediately thereafter (such condition is referred to herein as the “Solvency Condition”).

For the purposes of determining whether the Solvency Condition is met, we shall be considered to be solvent at a particular point in time if:

(i) we are able to pay our debts as they fall due; and

(ii) our Assets are at least equal to our Liabilities.

“Assets” means our unconsolidated gross assets, as shown in our latest published audited balance sheet, adjusted for subsequent events in such manner as our directors may determine.

“Liabilities” means our unconsolidated gross liabilities, as shown in the latest published audited balance sheet, adjusted for contingent liabilities and prospective liabilities and for subsequent events in such manner as our directors may determine.

An officer’s certificate (which shall only be required if, at the relevant time, we have not satisfied the Solvency Condition and we are relying on that fact as the basis for not making a payment on the Contingent Capital Notes) as to our solvency shall, unless there is manifest error, be treated and accepted by us, the Trustee and any holder of the Contingent Capital Notes as correct and sufficient evidence that the Solvency Condition is not satisfied. If we fail to make a payment because the Solvency Condition is not satisfied, this payment shall not be or become due and payable and shall be deemed cancelled.

Any payment of interest not due by reason of the provisions described above shall be deemed cancelled. See also “—*Agreement to Interest Cancellation*” and “—*Notice of Interest Cancellation*” above.

Waiver of Right to Set-Off

By acquiring a Contingent Capital Note, each holder (and the Trustee acting on behalf of the holders) will be deemed to have waived any right of set-off, counterclaim or combination of accounts with respect to such Contingent Capital Note or the Indenture (or between our obligations under or in respect of any Contingent Capital Note and any liability owed by a holder) that they (or the Trustee acting on their behalf) might otherwise have against us, whether before or during any Winding-up or Administration Event. Notwithstanding the above, if any such rights and claims of any such holder (or the Trustee acting on behalf of such holders) against us are discharged by set-off, such holder (or the Trustee acting on behalf of such holders) will immediately pay an amount equal to the amount of such discharge to us or, in the event of a Winding-up or Administration Event, our liquidator or administrator (or other relevant insolvency official), as the case may be, to be held on trust for Senior Creditors, and until such time as payment is made will hold a sum equal to such amount on trust for Senior Creditors, and accordingly such discharge shall be deemed not to have taken place.

Additional Amounts

All amounts of principal and interest, if any, on the Contingent Capital Notes will be paid by us without deduction or withholding for, or on account of, any and all present and future income, stamp and other taxes, levies, imposts, duties, charges, fees, deductions or withholdings now or hereafter imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or any political subdivision or any authority thereof or therein having the power to tax (the "Taxing Jurisdiction"), unless such deduction or withholding is required by law.

If deduction or withholding of any such taxes, levies, imposts, duties, charges, fees, deductions or withholdings shall at any time be required by the Taxing Jurisdiction, we will pay such additional amounts in respect of the payment of any interest on (but not, for the avoidance of doubt, in respect of the payment of the principal amount of) the Contingent Capital Notes ("Additional Amounts") as may be necessary in order that the net amounts in respect of any interest paid to the holders of Contingent Capital Notes, after such deduction or withholding, shall equal the amount of any interest which would have been payable in respect of such Contingent Capital Notes had no such deduction or withholding been required; provided, however, that the foregoing will not apply to any such tax, levy, impost, duty, charge, fee, deduction or withholding that would not have been payable or due but for the fact that:

(i) the holder or the beneficial owner of the Contingent Capital Note is a domiciliary, national or resident of, or engaging in business or maintaining a permanent establishment or physically present in, the Taxing Jurisdiction or otherwise has some connection with the Taxing Jurisdiction other than the mere holding or ownership of a Contingent Capital Note, or the collection of any payment of (or in respect of) any interest on the Contingent Capital Notes,

(ii) except in the case of a winding-up of us in the United Kingdom, the Contingent Capital Note is presented (where presentation is required) for payment in the United Kingdom,

(iii) the Contingent Capital Note is presented (where presentation is required) for payment more than 30 days after the date payment became due or was provided for, whichever is later, except to the extent that the holder would have been entitled to such Additional Amount on presenting (where presentation is required) the Contingent Capital Note for payment at the close of such 30 day period,

(iv) the holder or the beneficial owner of the Contingent Capital Note or the beneficial owner of any payment of (or in respect of) any interest on such Contingent Capital Note failed to comply with a request by us or our liquidator or other authorised person addressed to the holder (x) to provide information concerning the nationality, residence or identity of the holder or such beneficial owner or (y) to make any declaration or other similar claim, which in the case of (x) or (y), is required or imposed by a statute, treaty, regulation or administrative practice of the Taxing Jurisdiction as a precondition to exemption or relief from all or part of such deduction or withholding,

(v) the withholding or deduction is required to be made pursuant to Sections 1471 through 1474 of the US Internal Revenue Code of 1986, as amended, any agreement with the US Treasury entered into with respect thereto, any US Treasury regulation issued thereunder or any other official interpretations or guidance issued with respect thereto; any intergovernmental agreement entered into with respect thereto, or any law, regulation, or other official interpretation or guidance promulgated pursuant to such an intergovernmental agreement,

(vi) any combination of subclauses (i) through (v) above,

nor shall Additional Amounts be paid with respect to a payment of any interest on the Contingent Capital Note to any holder who is a fiduciary or partnership or person other than the sole beneficial owner of such payment to the

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extent such payment would be required by the laws of the Taxing Jurisdiction to be included in the income for tax purposes of a beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner who would not have been entitled to such Additional Amounts, had it been the holder.

Whenever in this prospectus supplement there is mentioned, in any context, the payment of any interest on, or in respect of, any Contingent Capital Note, such mention shall be deemed to include mention of the payment of Additional Amounts provided for in this “Additional Amounts” section to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof pursuant to the provisions of this section and as if express mention of the payment of Additional Amounts (if applicable) were made in any provisions hereof where such express mention is not made.

Redemption and Repurchases

The Contingent Capital Notes are perpetual securities in respect of which there is no fixed redemption date or maturity date. Holders may not request any redemption of the Contingent Capital Notes at any time.

Optional Redemption

The Contingent Capital Notes will, subject to the satisfaction of the Solvency Condition and the conditions described under “—*Pre-conditions to Redemptions and Repurchases*” below, be redeemable in whole, but not in part, at our option and in our sole discretion, on the First Call Date or on any Reset Date thereafter at 100% of their principal amount, together with any accrued and unpaid interest on the Contingent Capital Notes, excluding any interest which has been cancelled or deemed to be cancelled in accordance with the terms of the Contingent Capital Notes as described under “—*Interest Cancellation*” above (“Accrued Interest”) to, but excluding, the date fixed for redemption.

Notice of any optional redemption of the Contingent Capital Notes will be given to holders not less than 30 nor more than 60 calendar days in advance in accordance with “—*Pre-conditions to Redemptions and Repurchases*” and “—*Notice of Redemption*” below, and to the Trustee at least five (5) Business Days prior to such date, unless a shorter notice period shall be satisfactory to the Trustee. Except as otherwise provided herein, such notice shall be irrevocable.

Tax Redemption

If at any time a Tax Event has occurred, we may, subject to the satisfaction of the Solvency Condition and the conditions described under “—*Pre-conditions to Redemptions and Repurchases*” and “—*Notice of Redemption*” below, at our option and in our sole discretion redeem the Contingent Capital Notes in whole but not in part at any time at 100% of their principal amount, together with any Accrued Interest to, but excluding, the date fixed for redemption.

A “Tax Event” will be deemed to have occurred with respect to the Contingent Capital Notes if, at any time, we shall determine that, as a result of any change in, or amendment to, the laws or regulations of the UK or any political subdivision or any authority thereof or therein having power to tax (including any treaty to which the UK or any political subdivision or any authority thereof or therein is a party), or any change in the official application of such laws or regulations (including a decision of any court or tribunal or the application by any tax authority), which change or amendment becomes effective or applicable, or, in the case of a change in or amendment to law, where such change or amendment is enacted by a UK Act of Parliament or by a Statutory Instrument, if such UK Act of Parliament or Statutory Instruments is enacted, on or after the Issue Date:

(a) in making a payment under the Contingent Capital Notes in respect of interest, we have or will or would on the next Interest Payment Date become obligated to pay Additional Amounts;

(b) a payment of interest on the next Interest Payment Date in respect of any of the Contingent Capital Notes would be treated as a “distribution” within the meaning of Section 1000 of the UK Corporation Tax Act 2010 (or any statutory modification or re-enactment thereof for the time being);

(c) we would not be entitled to claim a deduction in respect of a payment of interest payable on the next Interest Payment Date in computing our UK taxation liabilities (or the value of such deduction to us would be materially reduced);

as a result of the Contingent Capital Notes being in issue, we would not be able to have losses or deductions (including in respect of a payment of interest on the Contingent Capital Notes) set against the profits or gains, or (d) profits or gains offset by losses or deductions, of companies with which it is or would otherwise be grouped for applicable UK tax purposes (whether under the group relief system current as at the date of issue of the Contingent Capital Notes or any similar system or systems having like effect as may exist from time to time);

a future write-down of the principal amount of the Contingent Capital Notes or conversion of the Contingent (e) Capital Notes into ordinary shares would result in a UK tax liability, or income, profit or gain being treated for UK tax purposes as accruing, arising or being received;

(f) the Contingent Capital Notes would no longer be treated as loan relationships for UK tax purposes; or

(g) the Contingent Capital Notes or any part thereof would be treated as a derivative or an embedded derivative for UK tax purposes,

in each case, the effect of which cannot be avoided by us taking reasonable steps available to us.

In any case where we determine that, as a result of a Tax Event, we are entitled to redeem the Contingent Capital Notes, we shall be required to deliver to the Trustee prior to the giving of any notice of redemption a written legal opinion of independent UK counsel of recognised standing (selected by us), in a form satisfactory to the Trustee, confirming that the relevant Tax Event has occurred.

Redemption Due to a Capital Disqualification Event

If at any time a Capital Disqualification Event occurs, we may, subject to the satisfaction of the Solvency Condition and the conditions described under “—*Pre-conditions to Redemptions and Repurchases*” and “—*Notice of Redemption*” below, at our option and in our sole discretion, redeem the Contingent Capital Notes in whole but not in part at any time at 100% of their principal amount, together with any Accrued Interest to, but excluding, the date fixed for redemption.

A “Capital Disqualification Event” shall occur if we determine that, as a result of any amendment to, or a change in the regulatory classification of the Contingent Capital Notes under the Capital Regulations (or official interpretation thereof), in any such case becoming effective on or after the Issue Date, the whole or part of the Contingent Capital Notes are, or are likely to be, excluded from our Tier 1 Capital (as defined in the Capital Regulations) or the Tier 1 Capital of the Regulatory Group.

Repurchases

We may at any time and from time to time and to the extent not prohibited by CRD IV repurchase beneficially, or procure others to repurchase beneficially for our account, the Contingent Capital Notes in the open market, by tender or by private agreement in any manner and at any price or at differing prices. Contingent Capital Notes purchased or otherwise acquired by us may be (i) held, (ii) resold or (iii) at our sole discretion, surrendered to the Trustee for cancellation (in which case all Contingent Capital Notes so surrendered will forthwith be cancelled in accordance with applicable law and thereafter may not be reissued or resold). Any such purchases will be subject to the satisfaction of the Solvency Condition and the conditions set forth under “—*Pre-conditions to Redemptions and Repurchases*”.

Pre-conditions to Redemptions and Repurchases

As of the date hereof we may only redeem or repurchase the Contingent Capital Notes as described above provided that (except to the extent that the PRA no longer so requires) we have met the following conditions:

(1) we have notified the PRA of our intention to do so at least one month (or such other, longer or shorter period, as the PRA may then require or accept) before we become committed to the proposed redemption or repurchase;

(2) the PRA having granted permission for us to make any such redemption or repurchase of the Contingent Capital Notes upon a satisfactory finding that either:

(i) on or before such redemption or repurchase of any of the Contingent Capital Notes, we replace such Contingent Capital Notes with own funds instruments (as defined by the Capital Regulations) of an equal or higher quality on terms that are sustainable for our income capacity; or

(ii) we have demonstrated to the satisfaction of the PRA that our Tier 1 Capital and Tier 2 Capital (as defined by the Capital Regulations) would, following such redemption or repurchase, exceed the capital ratios required under CRD IV and the combined buffer requirement defined in CRD IV by a margin that the PRA may consider necessary on the basis set out in CRD IV for it to determine the appropriate level of capital of an institution; and

(3) no Conversion Trigger Notice having been delivered; and

(4) we have complied with any additional or alternative pre-conditions as set out in the Capital Regulations and/or required by the PRA as a prerequisite to its permission for such redemptions or repurchases, at the time.

In addition, we may only redeem the Contingent Capital Notes before five years after the date of issuance of the Contingent Capital Notes, provided that (except to the extent that the PRA no longer so requires) the following conditions are met:

(1) the pre-conditions listed in (1), (2), (3) and (4) above are met; and

(2) in the case of redemption due to the occurrence of a Capital Disqualification Event, as described under “*Redemption Due to a Capital Disqualification Event*” above (i) the PRA considers such change to be sufficiently certain and (ii) we demonstrate to the satisfaction of the PRA that the Capital Disqualification Event was not reasonably foreseeable at the time of the issuance of the Contingent Capital Notes; or

(3) in the case of redemption due to the occurrence of a Tax Event as described under “*Tax Redemption*”, we demonstrate to the satisfaction of the PRA that the Tax Event relating to the Contingent Capital Notes is material and was not reasonably foreseeable at the time of issuance of the Contingent Capital Notes.

Notice of Redemption

If we elect to redeem the Contingent Capital Notes at our option or due to the occurrence of a Tax Event or a Capital Disqualification Event we will give holders not less than 30 nor more than 60 calendar days' notice in accordance with "*Notice*" below, and to the Trustee at least five (5) Business Days prior to such date, unless a shorter notice period shall be satisfactory to the Trustee. Except as otherwise provided herein, such notice shall be irrevocable.

Any redemption notice will state:

the redemption date;

that on the redemption date the redemption price will, subject to the satisfaction of the conditions set forth in the Indenture as described in this prospectus supplement, and as set forth above, become due and payable upon each Contingent Capital Note being redeemed and that, subject to certain exceptions, interest will cease to accrue on or after that date;

the place or places where the Contingent Capital Notes are to be surrendered for payment of the redemption price; and

the CUSIP, Common Code and/or ISIN number or numbers, if any, with respect to the Contingent Capital Notes being redeemed.

If we have elected to redeem the Contingent Capital Notes but the Solvency Condition is not (or would not be) satisfied in respect of the relevant redemption payment immediately prior to, and immediately following, the date specified for redemption in such notice, the relevant redemption notice shall be automatically rescinded and shall be of no force and effect and no payment of the redemption amount will be due and payable.

If we have elected to redeem the Contingent Capital Notes but prior to the payment of the redemption amount with respect to such redemption a Conversion Trigger Event occurs, the relevant redemption notice shall be automatically rescinded and shall be of no force and effect, no payment of the redemption amount will be due and payable and an Automatic Conversion shall occur as described under “—*Automatic Conversion*” below.

If we have elected to redeem the Contingent Capital Notes but prior to the payment of the redemption amount with respect to such redemption the relevant UK resolution authority exercises its UK bail-in power with respect to us, the relevant redemption notice shall be automatically rescinded and shall be of no force and effect, and no payment of the redemption amount will be due and payable.

If we have elected to redeem the Contingent Capital Notes, but prior to the date of any such redemption we have not given notice to the PRA and/or the PRA has objected to or refused to grant us permission, as applicable, to redeem the Contingent Capital Notes (in each case to the extent and in the manner required by the relevant Capital Regulations), the relevant redemption notice shall be automatically rescinded and shall be of no force and effect, and no payment of the redemption amount will be due and payable.

If we have elected to redeem the Contingent Capital Notes, but in respect of any redemption proposed to be made prior to the fifth anniversary of the Issue Date (if and to the extent then required under the Capital Regulations) (i) in the case of redemption due to the occurrence of a Capital Disqualification Event, the PRA does not consider such change to be sufficiently certain and/or we have not demonstrated to the satisfaction of the PRA that the relevant change was not reasonably foreseeable as at the Issue Date or (ii) in the case of redemption due to the occurrence of a Tax Event, we have not demonstrated to the satisfaction of the PRA that the Tax Event is material and was not reasonably foreseeable as at the Issue Date; the relevant redemption notice shall be automatically rescinded and shall be of no force and effect, and no payment of the redemption amount will be due and payable.

If we have elected to redeem the Contingent Capital Notes, but prior to the payment of the redemption amount with respect to such redemption, we are not in compliance with any alternative or additional pre-conditions required by the PRA as a pre-requisite to its permission for such redemption, the relevant redemption notice shall be automatically rescinded and shall be of no force and effect, and no payment of the redemption amount will be due and payable.

Conversion

Automatic Conversion

Upon the occurrence of the Conversion Trigger Event, each Contingent Capital Note shall, on the Conversion Date (as defined below), be converted in whole and not in part into ordinary shares credited as fully paid (the “Settlement Shares”) at the Conversion Price (as defined below under “—*Conversion Price*”) and in accordance with the terms set forth herein. The Settlement Shares shall be issued and delivered to the Settlement Share Depository (as defined below) (on behalf of the holders and beneficial owners) on the Conversion Date (the “Automatic Conversion”), in consideration for which all of our obligations under the Contingent Capital Notes shall be irrevocably and automatically released, and under no circumstances shall our released obligations be reinstated. Once a Contingent Capital Note has been converted into Settlement Shares, there is no provision for the reconversion of such Settlement Shares back into Contingent Capital Notes. The Contingent Capital Notes are not convertible at the option of the holders at any time. Automatic Conversion shall not constitute a default under the Contingent Capital Notes or the Indenture.

If we have been unable to appoint a Settlement Share Depository, we shall make such other arrangements for the issuance and delivery of the Settlement Shares or of the Alternative Consideration (as defined below under “—*Settlement Procedures*”), as applicable, to the holders of the Contingent Capital Notes as we shall consider reasonable in the circumstances, which may include issuing and delivering the Settlement Shares or any Alternative Consideration, as applicable, to another independent nominee or to the holders of the Contingent Capital Notes directly, which issuance and delivery of the Settlement Shares or any Alternative Consideration, as applicable, shall irrevocably and automatically release all of our obligations under the Contingent Capital Notes as if the Settlement Shares had been issued and delivered to the Settlement Share Depository, and, in which case, where the context so admits, references in the Contingent Capital Notes and the Indenture to the issue and delivery of Settlement Shares to the Settlement Share Depository shall be construed accordingly and apply *mutatis mutandis*. Where practicable,

we shall make such other arrangements to allow holders, if they so elect, to take delivery of their Settlement Shares in the form of ADSs.

“CET1 Capital” means the sum, expressed in pounds sterling, of all amounts that constitute Common Equity Tier 1 Capital of the Regulatory Group, less any deductions from Common Equity Tier 1 Capital of the Regulatory Group required to be made, in each case as calculated by us on a consolidated and fully loaded basis in accordance with the Capital Regulations applicable to the Regulatory Group as at that point in time (which calculation shall be binding on the Trustee and holders of the Contingent Capital Notes).

“CET1 Ratio” means the ratio of CET1 Capital to Risk Weighted Assets expressed as a percentage and on the basis that all measures used in such calculation shall be calculated on a fully loaded basis.

“Common Equity Tier 1 Capital” shall have the meaning ascribed to such term in CRD IV (as the same may be amended or replaced from time to time) as interpreted and applied in accordance with the Capital Regulations then applicable to the Regulatory Group.

The “Conversion Date” shall be the date specified in the Conversion Trigger Notice and shall occur without delay upon, and in any event within one month of, the occurrence of the Conversion Trigger Event.

A “Conversion Trigger Event” shall occur at any point in time at which the CET1 Ratio is less than 7.00%.

“fully loaded” means, in relation to a measure that is presented or described as being on a “fully loaded basis”, that such measure is calculated in accordance with the PRA Rulebook CRR Firms Instrument 2013 (as it may be amended from time to time).

“Risk Weighted Assets” means the aggregate amount, expressed in pounds sterling, of the risk weighted assets of the Regulatory Group, as calculated by us on a consolidated and fully loaded basis in accordance with the Capital Regulations applicable to the Regulatory Group (which calculation shall be binding on the Trustee and the holders of the Contingent Capital Notes) and where the term “risk weighted assets” means the risk weighted assets or total risk exposure amount, as calculated by us in accordance with the Capital Regulations applicable to the Regulatory Group as at that point in time.

“Settlement Share Depository” means a reputable financial institution, depository entity, trust company or similar entity (which in each such case is wholly independent of us) to be appointed by us on or prior to any date when a function ascribed to the Settlement Share Depository in the Indenture is required to be performed, to perform such functions and which will be required to undertake, for the benefit of the holders and beneficial owners of the Contingent Capital Notes, to hold the Settlement Shares (and the Alternative Consideration, if any) on behalf of such holders and beneficial owners of the Contingent Capital Notes in one or more segregated accounts, unless otherwise required to be transferred out of such accounts for the purposes of the Settlement Shares Offer on terms consistent with the Indenture.

Conversion Trigger Notice

Following the occurrence of the Conversion Trigger Event, we shall deliver notice thereof to the Trustee and the holders of the Contingent Capital Notes (the “Conversion Trigger Notice”) in accordance with “—*Notice*” below without delay after such a Conversion Trigger Event (and in any event within such period as the PRA may require). The date on which the Conversion Trigger Notice shall be deemed to have been given shall be the date on which it is dispatched by us to DTC (or if the Contingent Capital Notes are held in definitive form, to the holders of the Contingent Capital Notes directly).

Upon our determination that a Conversion Trigger Event has occurred, we shall immediately inform the PRA and shall, prior to giving a Conversion Trigger Notice, deliver to the Trustee a certificate stating that a Conversion Trigger Event has occurred, which the Trustee shall accept without any further enquiry as sufficient evidence of such matters, in which event such certificate will be conclusive and binding on the Trustee, the holders and beneficial owners of the Contingent Capital Notes.

The Conversion Trigger Notice shall specify (i) that the Conversion Trigger Event has occurred and the CET1 Ratio resulting in such Conversion Trigger Event, (ii) the Conversion Date, (iii) the then-prevailing Conversion Price (which Conversion Price shall remain subject to any subsequent adjustment as set forth under “—*Anti-dilution*”

Adjustment of the Conversion Price” below up to the Conversion Date), (iv) the contact details of any Settlement Share Depository, or, if we have been unable to appoint a Settlement Share Depository, such other arrangements for the issuance and/or delivery of the Settlement Shares, or, if the holder elects, ADSs or any Alternative Consideration to the holders of the Contingent Capital Notes as we shall consider reasonable in the circumstances, (v) that we have the option, at our sole and absolute discretion, to elect that a Settlement Shares Offer be conducted and that we will, if we so elect, issue a Settlement Shares Offer Notice within 10 Business Days following the Conversion Date notifying the Contingent Capital Notes holders of our election, and (vi) the Suspension Date and that the Contingent Capital Notes shall remain in existence for the sole purpose of evidencing the holder’s or beneficial owner’s right to receive Settlement Shares, or, if the holder elects, ADSs or the Alternative Consideration, as applicable, from the Settlement Share Depository and that the Contingent Capital Notes may continue to be transferable until the Suspension Date.

Promptly following its receipt of the Conversion Trigger Notice, pursuant to DTC’s procedures currently in effect, DTC will post the Conversion Trigger Notice to its Reorganisation Inquiry for Participants System and within two (2) Business Days of its receipt of the Conversion Trigger Notice, the Trustee shall transmit the Conversion Trigger Notice to the direct participants of DTC holding the Contingent Capital Notes at such time.

Notwithstanding anything to the contrary, once we have delivered a Conversion Trigger Notice following the occurrence of a Conversion Trigger Event, (i) subject to the right of holders and beneficial owners of the Contingent Capital Notes relating to a breach of Performance Obligation (as defined below) in the event of a failure by us to issue and deliver any Settlement Shares to the Settlement Share Depository on the Conversion Date, the Indenture shall impose no duties upon the Trustee whatsoever with regard to an Automatic Conversion upon a Conversion Trigger Event and the holders and beneficial owners of the Contingent Capital Notes shall have no rights whatsoever under the Indenture or the Contingent Capital Notes to instruct the Trustee to take any action whatsoever and (ii) as of the date of the Conversion Trigger Notice, except for any indemnity and/or security provided by any holders and beneficial owners of the Contingent Capital Notes in such direction or related to such direction, any direction previously given to the Trustee by any holders of the Contingent Capital Notes shall cease automatically and shall be null and void and of no further effect; except in each case of (i) and (ii) of this paragraph, with respect to any rights of holders or beneficial owners of the Contingent Capital Notes with respect to any payments under the Contingent Capital Notes that were unconditionally due and payable prior to the date of the Conversion Trigger Notice or unless the Trustee is instructed in writing by us to act otherwise.

Our obligations to indemnify the Trustee in accordance with Section 6.07 of the Original Indenture shall survive any Automatic Conversion.

Settlement Shares

The number of Settlement Shares to be issued to the Settlement Share Depository on the Conversion Date will be determined by dividing the aggregate principal amount of the Contingent Capital Notes outstanding immediately prior to the Automatic Conversion on the Conversion Date (the “Outstanding Amount”) by the Conversion Price prevailing

on the Conversion Date. The number of Settlement Shares to be delivered to each holder shall be rounded down, if necessary, to the nearest whole number of Settlement Shares. Fractions of Settlement Shares will not be delivered to the Settlement Share Depository following the Automatic Conversion, and no cash payment will be made in lieu thereof. The number of Settlement Shares to be held by the Settlement Share Depository for the benefit of each holder shall equal the number of Settlement Shares thus calculated multiplied by a fraction equal to (i) the Tradable Amount of the book-entry interests in the Contingent Capital Notes held by such holder on the Conversion Date divided by (ii) the Outstanding Amount rounded down, if necessary, to the nearest whole number of Settlement Shares.

The Settlement Shares issued upon Automatic Conversion will be fully paid and non-assessable and will in all respects rank *pari passu* with the ordinary shares in issue on the Conversion Date, except in any such case for any right excluded by mandatory provisions of applicable law, and provided that any Settlement Shares so issued will not rank for (or, as the case may be, the relevant holder or beneficial owner shall not be entitled to receive) any rights the Record Date for entitlement to which falls prior to the Conversion Date. For as long as the Settlement Shares are held by the Settlement Share Depository, each holder and beneficial owner of the Contingent Capital Notes shall be entitled to direct the Settlement Share Depository to exercise on its behalf all rights of an ordinary shareholder (including voting rights and rights to receive dividends) except that holders and beneficial owners shall

not be able to sell or otherwise transfer such Settlement Shares unless and until such time as they have been delivered to holders in accordance with “—*Settlement Procedures*” below.

Conversion Price

The conversion price per ordinary share in respect of the Contingent Capital Notes shall be \$ _____, subject to certain anti-dilution adjustments described under “—*Anti-dilution Adjustment of the Conversion Price*” below (the “Conversion Price”).

Anti-dilution Adjustment of the Conversion Price

References to the Conversion Price below shall be deemed to include the Settlement Shares Offer Price. References to the Conversion Price and ordinary shares below shall be deemed in connection with a Qualifying Takeover Event to include any New Conversion Price and any Relevant Shares, such that any New Conversion Price shall be subject to price adjustments upon the occurrence of the events below, subject to any modifications as an Independent Financial Adviser shall determine to be appropriate.

Upon the occurrence of any of the events described below, the Conversion Price shall be adjusted as follows:

- (i) If and whenever there shall be a consolidation, reclassification, redesignation or subdivision in relation to the ordinary shares which alters the number of ordinary shares in issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such consolidation, reclassification, redesignation or subdivision by the following fraction:

$\frac{A}{B}$
where:

A is the aggregate number of ordinary shares in issue immediately before such consolidation, reclassification, redesignation or subdivision, as the case may be; and

B is the aggregate number of ordinary shares in issue immediately after, and as a result of, such consolidation, reclassification, redesignation or subdivision, as the case may be.

Such adjustment shall become effective on the date that the consolidation, reclassification, redesignation or subdivision, as the case may be, takes effect.

If and whenever we shall issue any ordinary shares to our existing shareholders credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) other than (1) where any such ordinary shares are or are to be issued instead of the whole or part of a Cash Dividend which our shareholders would or could otherwise have elected to receive, (2) where our shareholders may elect to receive a Cash Dividend in lieu of such ordinary shares or (3) where any such ordinary shares are or are expressed to be issued in lieu of a dividend (whether or not a Cash Dividend equivalent or amount is announced or would otherwise be payable to our shareholders, whether at their election or otherwise), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$\frac{A}{B}$
where:

A is the aggregate number of ordinary shares in issue immediately before such issue; and

B is the aggregate number of ordinary shares in issue immediately after such issue.

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Such adjustment shall become effective on the date of issue of such ordinary shares.

If and whenever we shall pay any Extraordinary Dividend to our shareholders, the Conversion Price shall be (iii) adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one ordinary share on the Effective Date; and

B is the portion of the aggregate Extraordinary Dividend attributable to one ordinary share, with such portion being determined by dividing the aggregate Extraordinary Dividend by the number of ordinary shares entitled to receive the relevant Extraordinary Dividend. If the Extraordinary Dividend shall be expressed in a currency other than the Relevant Currency, it shall be converted into the Relevant Currency at the Prevailing Rate on the relevant Effective Date.

Such adjustment shall become effective on the Effective Date.

“Effective Date” means, in respect of this sub-paragraph (iii), the first date on which the ordinary shares are traded ex-the Extraordinary Dividend on the Relevant Stock Exchange.

“Extraordinary Dividend” means any Cash Dividend that is expressly declared by us to be a capital distribution, extraordinary dividend, extraordinary distribution, special dividend, special distribution or return of value to our shareholders as a class, or any analogous or similar term, in which case the Extraordinary Dividend shall be such Cash Dividend.

“Cash Dividend” means any dividend or distribution in respect of the ordinary shares which is to be paid or made to our shareholders as a class in cash (in whatever currency) and however described and whether payable out of share premium account, profits, retained earnings or any other capital or revenue reserve or account, and including a distribution or payment to our shareholders upon or in connection with a reduction of capital.

(iv) If and whenever we shall issue ordinary shares to our existing shareholders as a class by way of rights or we or any member of our Group or (at the direction or request or pursuant to arrangements with us or any member of our

Group) any other company, person or entity shall issue or grant to shareholders as a class by way of rights, any options, warrants or other rights to subscribe for or purchase our ordinary shares, or any Other Securities which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, any of our ordinary shares (or shall grant any such rights in respect of existing Other Securities so issued), in each case at a price per ordinary share which is less than 95% of the Current Market Price per ordinary share on the Effective Date, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$\frac{A + B}{A + C}$

where:

A is the number of ordinary shares in issue on the Effective Date;

B is the number of ordinary shares which the aggregate consideration (if any) receivable for the ordinary shares issued by way of rights, or for the Other Securities issued by way of rights, or for the options or warrants or other rights issued by way of rights and for the

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total number of ordinary shares deliverable on the exercise thereof, would purchase at such Current Market Price per ordinary share on the Effective Date; and

is the number of ordinary shares to be issued or, as the case may be, the maximum number of ordinary shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights or upon conversion or exchange or exercise of rights of subscription or purchase in respect thereof at the initial conversion, exchange, subscription or purchase price or rate.

provided that if, on the Effective Date, such number of ordinary shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time, then for the purposes of this sub-paragraph (iv), “C” shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Effective Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Effective Date.

Such adjustment shall become effective on the Effective Date.

“Effective Date” means, in respect of this sub-paragraph (iv), the first date on which the ordinary shares are traded ex-rights, ex-options or ex-warrants on the Relevant Stock Exchange.

For the purpose of any calculation of the consideration receivable or price pursuant to sub-paragraph (iv), the following provisions shall apply:

- (i) the aggregate consideration receivable or price for ordinary shares issued for cash shall be the amount of such cash;
- (ii)(x) the aggregate consideration receivable or price for ordinary shares to be issued or otherwise made available upon the conversion or exchange of any Other Securities shall be deemed to be the consideration or price received or receivable for any such securities and (y) the aggregate consideration receivable or price for ordinary shares to be issued or otherwise made available upon the exercise of rights of subscription attached to any Other Securities or upon the exercise of any options, warrants or rights shall be deemed to be that part (which may be the whole) of the consideration or price received or receivable for such Other Securities or, as the case may be, for such options, warrants or rights which are attributed by us to such rights of subscription or, as the case may be, such options, warrants or rights or, if no part of such consideration or price is so attributed, the Fair Market Value of such rights of subscription or, as the case may be, such options, warrants or rights as at the relevant Effective Date, plus in the case of each of (x) and (y) above, the additional minimum consideration receivable or price (if any) upon the conversion or exchange of such Other Securities, or upon the exercise of such rights of subscription attached thereto or, as the case may be, upon exercise of such options, warrants or rights and (z) the consideration receivable or price per ordinary share upon the conversion or exchange of, or upon the exercise of such rights of

subscription attached to, such Other Securities or, as the case may be, upon the exercise of such options, warrants or rights shall be the aggregate consideration or price referred to in (x) or (y) above (as the case may be) divided by the number of ordinary shares to be issued upon such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate;

if the consideration or price determined pursuant to (i) or (ii) above (or any component thereof) shall be expressed (iii) in a currency other than the Relevant Currency, it shall be converted into the Relevant Currency at the Prevailing Rate on the relevant Effective Date;

in determining the consideration or price pursuant to the above, no deduction shall be made for any commissions or fees (howsoever described) or any expenses paid or incurred for any underwriting, placing or management of (iv) the issue of the relevant ordinary shares or Other Securities or options, warrants or rights, or otherwise in connection therewith; and

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- (v) the consideration or price shall be determined as provided above