

ROYAL BANK OF SCOTLAND GROUP PLC
Form 424B5
March 30, 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 March 30, 2016

PROSPECTUS SUPPLEMENT

(to prospectus dated March 31, 2015)

The Royal Bank of Scotland Group plc

\$ _____ % Senior Notes due 2026

The _____ % Senior Notes due 2026 (the "Senior Notes") will bear interest at a rate of _____ % per annum from (and including) the date of issuance to (but excluding) the maturity of the Senior Notes on _____, 2026. Interest will be paid on the Senior Notes semi-annually in arrear on _____ and _____ of each year, beginning on _____, 2016.

The Senior Notes will constitute our direct, unconditional, unsecured and unsubordinated obligations ranking *pari passu* without any preference among themselves, and equally with all our other outstanding unsecured and unsubordinated obligations, present and future, except such obligations as are preferred by operation of law.

Notwithstanding any other agreements, arrangements, or understandings between us and any holder or beneficial owner of the Senior Notes, by its acquisition of the Senior Notes, each holder and beneficial owner of the Senior Notes acknowledges, accepts, agrees to be bound by and consents to the exercise of any UK bail-in power by the relevant UK resolution authority which may result in (i) the reduction or cancellation of all, or a portion, of the principal amount of, or interest on, the Senior Notes; (ii) the conversion of all, or a portion, of the principal amount of, or interest on, the Senior Notes into ordinary shares or other securities or other obligations of RBSG (as defined below) or another person; and/or (iii) the amendment or alteration of the maturity of the Senior Notes, or amendment of the amount of interest due on the Senior 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 Senior Notes solely to give effect to the exercise by the relevant UK resolution authority of such UK bail-in power. Each holder and beneficial owner of the Senior Notes further acknowledges and agrees that the rights of the holders and/or beneficial owners under the Senior 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 (the “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 obligations 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 Senior Notes, each holder (including each beneficial holder) of the Senior 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 Senior Notes.

We may redeem the Senior Notes, in whole but not in part, at any time at 100% of their principal amount plus accrued but unpaid interest to the date of redemption, upon the occurrence of certain tax events as described in this prospectus supplement and the accompanying prospectus.

We intend to apply to list the Senior Notes on the New York Stock Exchange in accordance with its rules.

Investing in the Senior Notes involves risks. See “Risk Factors” beginning on page S-4 and as incorporated by reference herein.

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

Neither the Securities and Exchange Commission 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 offense.

| | Per Senior Note | Total |
|----------------------------------|-----------------|-------|
| Price to the public | % | \$ |
| Underwriting discounts | % | \$ |
| Proceeds, before expenses, to us | % | \$ |

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

We expect that the Senior Notes will be ready for delivery through the book-entry facilities of DTC and its participants on or about , 2016.

Global Co-ordinator, Joint Bookrunner and Joint Lead Manager

RBS

Joint Bookrunners and Joint Lead Managers

**BofA Merrill Lynch Credit Suisse Morgan
Stanley**

Co-Managers

CIBC Capital Markets RBC Capital Markets Santander

Prospectus Supplement dated March , 2016

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We have not authorized 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 or on behalf of us 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.

ABOUT THIS PROSPECTUS SUPPLEMENT

In this prospectus supplement, we use the following terms:

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

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

“RBS plc” means The Royal Bank of Scotland plc;

“SEC” refers to the Securities and Exchange Commission;

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

“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 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:

incorporated documents 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.

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”);

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 our 2015 Annual 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 Financial Conduct Authority, 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.

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 any documents incorporated by reference herein and therein, as a whole. Words and expressions defined in “Description of the Senior Notes” below shall have the same meanings in this summary.

General

| | |
|--------------------------------|---|
| Issuer | The Royal Bank of Scotland Group plc |
| Senior Notes | \$ aggregate principal amount of % Senior Notes due 2026 (the “Senior Notes”). |
| Issue Date | , 2016 |
| Maturity | We will pay the Senior Notes at 100% of their principal amount plus accrued and unpaid interest on , 2026 . |
| Interest Rate | The Senior Notes will bear interest at a rate of % per annum. |
| Interest Payment Dates | Every and in each year, commencing on 2016. |
| Regular Record Dates | Every and in each year, commencing on 2016. |
| Business Day Convention | Following; unadjusted. |
| Day Count Fraction | 30/360 |
| Ranking | The Senior Notes will constitute our direct, unconditional, unsecured and unsubordinated obligations ranking <i>pari passu</i> without any preference among themselves, and equally with all our other outstanding unsecured and unsubordinated obligations, present and future, except such obligations as are preferred by operation of law |

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

Notwithstanding any other agreements, arrangements, or understandings between us and any holder or beneficial owner of the Senior Notes, by its acquisition of the Senior Notes, each holder and beneficial owner of the Senior Notes acknowledges, accepts, agrees to be bound by and consents to the exercise of any UK bail-in power by the relevant UK resolution authority which may result in (i) the reduction or cancellation of all, or a portion, of the principal amount of, or interest on, the Senior Notes; (ii) the conversion of all, or a portion, of the principal amount of, or interest on, the Senior Notes into ordinary shares or other securities or other obligations of RBSG or another person; and/or (iii) the amendment or alteration of the maturity of the Senior Notes, or amendment of the amount of interest due on the Senior 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 Senior Notes solely to give effect to the exercise by the relevant UK resolution authority of such UK bail-in power. Each holder and beneficial owner of the Senior Notes further acknowledges and agrees that the rights of the holders and/or beneficial owners under the Senior 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 (the “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 obligations 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 Power No repayment of the principal amount of the Senior Notes or payment of interest on the Senior 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 and regulations of the United Kingdom and the European Union applicable to us or other members of the Group.

Tax Redemption In the event of tax law changes that require us to pay additional amounts and other limited circumstances as described under “*Description of the Senior Notes—Tax Redemption*” in this prospectus supplement and “*Description of Debt Securities—Redemption*” in the accompanying prospectus we may redeem all, but not less than all, of the Senior Notes prior to maturity at 100% of their principal amount together with any accrued but unpaid interest and additional amounts to the date of redemption.

Book-Entry Issuance, Settlement and Clearance We will issue the Senior Notes in fully registered form in denominations of \$200,000 and integral multiples of \$1,000 in excess thereof. The Senior Notes will be represented by one or more global securities registered in the name of a nominee of DTC. You will hold beneficial interests in the Senior Notes through DTC and its direct and indirect participants, including Euroclear and Clearstream Luxembourg, 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 Senior Notes will occur through DTC in same day funds. For information on DTC’s book-entry system, see “*Description of Certain Provisions Relating*

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to Debt Securities and Contingent Convertible Securities—Form of Debt Securities; Book-Entry System” in the accompanying

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prospectus.

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. RBSSI is not permitted to sell Senior Notes in this offering to an account over which it exercises discretionary authority without the prior specific written approval of the account holder.

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Listing and Trading

We intend to apply to list the Senior Notes on the New York Stock Exchange in accordance with its rules.

Trustee and Principal Paying Agent

The Bank of New York Mellon, One Canada Square, London E14 5AL, United Kingdom, will act as the trustee and initial principal paying agent for the Senior Notes.

Timing and Delivery

We currently expect delivery of the Senior Notes to occur on _____, 2016.

Use of Proceeds

We intend to use the net proceeds of the offering for general corporate purposes.

Governing Law

The senior debt securities indenture and the Senior Notes are governed by, and construed in accordance with, the laws of the State of New York.

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) and reach their own views prior to making any investment decision with respect to the Senior Notes.

Set out below and incorporated by reference herein are certain risk factors which 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's results could also be affected by competition and other factors. RBSG has described only those risks relating to its operations 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. Investors should note that they bear RBSG's solvency risk. 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 Senior Notes. In addition, each of the highlighted risks could adversely affect the trading price of the Senior Notes or the rights of investors under the Senior 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 Senior Notes.

Risks relating to RBSG

For a description of risks associated with RBSG as well as certain risks associated with investments in RBSG's securities, see the section entitled "*Risk Factors*" in our 2015 Annual Report filed with the SEC on March 24, 2016, which is incorporated by reference herein.

Risks relating to the Senior Notes

Regulatory actions in the event a bank or investment firm in the Group is failing or likely to fail could materially adversely affect the value of the Senior Notes and your rights thereunder.

Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms (the "BRRD") provides an EU-wide framework for the recovery and resolution of credit institutions and investment firms, their subsidiaries and certain holding companies. The BRRD requires all European Economic Area

(“EEA”) member states to provide their relevant resolution authorities with a set of tools to intervene sufficiently early and quickly with respect to institution which is failing or likely to fail so as to ensure the continuity of the institution’s critical financial and economic functions, while minimizing the impact of an institution’s failure on the broader economy and financial system.

In the United Kingdom, the majority of the requirements of the BRRD have been implemented into national law in the Banking Act 2009, as amended by the Financial Services (Banking Reform) Act 2013 (the “Banking Act”) and other legislation. The UK implementation of the BRRD included the introduction of the UK bail-in tool as of January 1, 2015. For more information on the UK bail-in tool, see “—*The relevant UK resolution authority may exercise the UK bail-in tool in respect of RBSG and the Senior Notes, which may result in holders of the Senior Notes losing some or all of their investment*” and “—*Under the terms of the Senior Notes, you have agreed to be bound by the exercise of any UK bail-in power by the relevant UK resolution authority.*” below.

The Banking Act confers substantial powers on relevant UK authorities designed to enable them to take a range of actions in relation to UK banks or investment firms and certain of their affiliates in the event a bank or investment firm in the same group is considered to be failing or likely to fail. The exercise of any of these actions in relation to RBSG or any entity within the Group could materially adversely affect the value of the Senior Notes.

Under the Banking Act, substantial powers are granted to the Bank of England (or, in certain circumstances, HM Treasury), in consultation with the Prudential Regulation Authority (“PRA”), the Financial Conduct Authority (“FCA”) and HM Treasury, as appropriate as part of a special resolution regime (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 stabilization options described below, including the UK bail-in power) and subject to the limitations set out in the Banking Act.

Several stabilization 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 (nationalization). 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 Senior Notes) and which include the ability to (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 stabilization powers or other powers conferred on the UK resolution authority under the Banking Act with respect to us, or any suggestion of any such exercise, could materially adversely affect the value or trading liquidity of the Senior Notes or your rights under the Senior Notes and could lead to holders of the Senior Notes losing some or all of the value of their investment in the Senior Notes.

The SRR is designed to be triggered prior to our insolvency and holders of the Senior 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 stabilization options 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 stabilization 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 stabilization 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 stabilization 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 stabilization powers is also subject to further “specific conditions” that vary according to the relevant stabilization power being used.

Although the Banking Act provides for the above described conditions to the exercise of any resolution powers and guidelines adopted by the EBA set out the objective elements for determining whether an institution is failing or likely to fail, it is uncertain how the relevant UK resolution authority 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. 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. 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 Senior 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 Senior Notes. The relevant UK resolution authority is also not required to provide any advance notice to holders of the Senior Notes of its decision to exercise any resolution power.

Therefore, holders of the Senior 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 Senior Notes. Uncertainty relating to the exercise of such powers may lead to increased volatility in the trading of the Senior Notes and may affect their market value.

The relevant UK resolution authority may exercise the UK bail-in tool in respect of RBSG and the Senior Notes, which may result in holders of the Senior Notes losing some or all of their investment

The UK bail-in tool is one of the powers available to the UK resolution authority under the SRR and was introduced under the Banking Act. The UK government amended the provisions of the Banking Act to ensure the consistency of these provisions with the bail-in provisions under the BRRD, which amendments came into effect on January 1, 2015.

The UK bail-in tool was introduced as an additional power available to the Bank of England (as a relevant UK resolution authority), to enable it to recapitalize a failed institution by allocating losses to its shareholders and unsecured creditors (which would include holders of the Senior Notes) in a manner that (i) reflects the hierarchy of capital instruments and otherwise ought to respect the hierarchy of claims in an ordinary insolvency and (ii) is consistent with shareholders and creditors not receiving a less favorable treatment than they would have received in ordinary insolvency proceedings of the relevant entity (known as the “no creditor worse off” safeguard). Certain liabilities are excluded from the scope of the UK bail-in tool, such as insured deposits and liabilities that are secured. The Banking Act also grants the power for the relevant UK resolution authority to exclude any liability or class of liabilities on certain prescribed grounds (including financial stability grounds) and subject to specified conditions.

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 a liability or modify the terms of contracts for the purposes of reducing or deferring the liabilities of the relevant entity under resolution and the power to convert a liability from one form or class to another. The exercise of such powers may result in the cancellation of all, or a portion, of the principal amount of, interest on, or any other amounts payable on, the Senior Notes and/or the conversion of all or a portion of the principal amount of, interest on, or any other amounts payable on, the Senior Notes into ordinary shares or other securities or other obligations of RBSG or another person. In addition, the Bank of England may use the UK bail-in tool to, among other things, replace or substitute RBSG as obligor in respect of the Senior Notes, modify the terms of the Senior Notes (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 the Senior Notes.

Moreover, and as described above where there exists a threat that the UK resolution authority may exercise the UK bail-in power, the trading and market price of the Senior Notes may be affected and should therefore not necessarily be expected to follow the trading behavior associated with similar types of securities not subject to the UK bail-in power. Additionally, to the extent the UK bail-in power is exercised pursuant to the Banking Act or otherwise to convert the Senior Notes into securities, any securities you receive upon conversion of your Senior Notes (whether debt or equity) likely may not be listed for at least an extended period of time, if at all, or may be on the verge of being delisted by the relevant exchange, including, for example, our American depositary receipts listed on the New York Stock Exchange or our ordinary shares listed on the London Stock Exchange or otherwise. Moreover, the exercise of the UK bail-in power and/or other actions implementing the UK bail-in power may require interests in the Senior Notes to be held or taken, as the case may be, through clearing systems, intermediaries or persons other than DTC. Furthermore, the trustee may be unwilling to continue serving in its capacity as trustee for the Senior Notes, subject to the terms of the Indenture. As a result, there may not be an active market for any securities you may hold after the exercise of the UK bail-in power.

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As a potential investor in the Senior Notes, you should consider the risk that you may lose all of your investment, including the principal amount plus any accrued but unpaid interest if the UK bail-in power is acted upon or that such Senior Notes may be converted into ordinary shares or other instruments of us or a Group entity which may be of little value at the time of conversion and thereafter. In addition, trading behavior, including prices and volatility, may be affected by the threat of bail-in and as a result the Senior Notes may not follow the trading behavior associated with other types of securities.

Under the terms of the Senior 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, 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 Senior Notes, the terms of which are governed by New York Law) must contain a contractual acknowledgment whereby the holders recognize 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.

As a result, and notwithstanding any other agreements, arrangements, or understandings between us and any holder or beneficial owner of the Senior Notes, by its acquisition of the Senior Notes, each holder and beneficial owner of the Senior Notes acknowledges, accepts, agrees to be bound by and consents to the exercise of any UK bail-in power by the relevant UK resolution authority which may result in (i) the reduction or cancellation of all, or a portion, of the principal amount of, or interest on, the Senior Notes; (ii) the conversion of all, or a portion, of the principal amount of, or interest on, the Senior Notes into ordinary shares or other securities or other obligations of RBSG or another person; and/or (iii) the amendment or alteration of the maturity of the Senior Notes, or amendment of the amount of interest due on the Senior 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 Senior Notes solely to give effect to the exercise by the relevant UK resolution authority of such UK bail-in power. Each holder and beneficial owner of the Senior Notes further acknowledges and agrees that the rights of the holders and/or beneficial owners under the Senior 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, 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 obligations 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.

Neither a reduction or cancellation, in part or in full, of the principal amount of or any interest on the Senior 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 Senior Notes will of itself constitute an a default or event of default under the terms of the Senior Notes or the Indenture.

For more information, see “*Description of the Senior Notes—Agreement with Respect to the Exercise of UK Bail-in Power*”.

Holders’ rights may be limited in respect of the exercise of the UK bail-in power by the relevant UK resolution authority.

There may be limited protections, if any, that will be available to holders of securities subject to the UK bail-in power (including the Senior Notes) and to the broader resolution powers of the relevant UK resolution authority. Although we expect, according to the principles of the Banking Act and the BRRD, that the relevant UK resolution

authority would respect creditor hierarchies when exercising its UK bail-in power in respect of the Senior Notes and that the noteholders would be treated *pari passu* with the claims of holders of all our senior unsecured instruments which in each case by law rank, or by their terms are expressed to rank, *pari passu* with the Senior Notes at that time being subjected to the exercise of the UK bail-in power, the rules provide for some exceptions to these principles which the relevant resolution authority may choose to rely upon. In addition, holders of securities will have a right to be compensated in the event of the exercise of the UK bail-in power with respect to the Senior Notes, based on the principle that such investors should receive no less favourable treatment than they would have received had RBSG entered into insolvency immediately before the initial exercise of the resolution powers pursuant to the UK bail-in power. 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 Senior Notes in the resolution and there can be no assurance that such holders would recover such compensation promptly. In addition, 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, 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 UK 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 other 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 UK bail-in tool under the Banking Act and there is uncertainty as to the extent to which usual processes or procedures under English law will be available to holders of securities (including the Senior Notes). Accordingly, holders of the Senior Notes otherwise have limited rights to challenge any decision of the relevant UK resolution authority to exercise the UK bail-in power.

Other changes in law may adversely affect your rights as noteholders.

Changes in law after the date hereof may affect your rights as noteholder as well as the market value of the Senior Notes. Such changes in law may include changes in statutory, tax and regulatory regimes during the life of the Senior Notes, which may have an adverse effect on an investment in the Senior Notes.

If the UK were to vote to exit the EU following the referendum scheduled for June 23, 2016, there could be significant changes to the laws applicable in the UK. For example, the BRRD would cease to be applicable in the UK in the manner in which it currently does (subject to any transitional measures which may be agreed). Although an exit from the EU may not itself affect the validity of the Banking Act, it is possible that other changes to law affecting your rights could take place.

In addition, any change in tax law or regulation may entitle us to redeem the Senior Notes, in whole (but not in part), as more particularly described under “—*Risks Relating to the Senior Notes—We may redeem the Senior Notes for certain tax reasons.*” below and “*Description of the Senior Notes—Tax Redemption*”

Such legislative and regulatory uncertainty could also affect the value the Senior Notes and their trading liquidity given the extent and impact on the Senior Notes that one or more regulatory or legislative changes could have on the Notes.

The Senior Notes are effectively subordinated to our secured indebtedness.

The Senior Notes are unsecured and will be effectively subordinated to all of our existing and future secured indebtedness to the extent of the assets securing such indebtedness. The Senior Notes are our obligations exclusively and are not guaranteed by any person, including any of our subsidiaries. By reason of such subordination, in the event of our insolvency, bankruptcy, liquidation, reorganization, dissolution or winding up, our assets will be available to pay the amounts due on the Senior Notes only after all our then existing secured indebtedness has been paid in full.

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The Senior Notes are not bank deposits and are not insured or guaranteed by the Federal Deposit Insurance Corporation, the Deposit Insurance Fund, or any other government agency.

The Senior Notes are our obligations but are not bank deposits. In the event of our insolvency, the Senior Notes will rank equally with our other unsecured, unsubordinated obligations and will not have the benefit of any insurance or guarantee of the Federal Deposit insurance Corporation, The Deposit Insurance Fund, or any other government agency.

Our holding company structure may mean that our rights to participate in assets of any of our subsidiaries upon its liquidation may be subject to prior claims of some or all of its creditors, including when we have loaned or otherwise advanced the proceeds received from the issuance of the Senior Notes to such subsidiary.

We are a non-operating holding company and, as such, our principal source of income is derived from our operating subsidiaries that hold the principal assets of the Group. As a separate legal entity, we rely on, among other things, remittance of our subsidiaries' loan interest payments and dividends in order to be able to meet our obligations to you as they fall due. The ability of our subsidiaries and affiliates to pay dividends depends on the earnings and financial condition of our subsidiaries and various business considerations. Statutory, contractual or other restrictions may also limit our subsidiaries' ability to pay dividends or make distributions, loans or advances to us. For these reasons, we may not have access to any assets or cash flows of our subsidiaries to make payments on our Senior Notes.

In addition, the Senior Notes are structurally subordinated to all liabilities of our subsidiaries. This means that because we are a holding company, our rights to participate as a shareholder in the assets of any subsidiary if it is liquidated will be subject to the prior claims of its creditors and any preference shareholders, except to the extent that we may be a creditor with recognized claims ranking ahead of or *pari passu* with such prior claims against the subsidiary. If any of our subsidiaries were wound up, liquidated or dissolved (i) the noteholders would have no right to proceed against the assets of such subsidiary and (ii) the liquidator of such subsidiary would first apply the assets of such subsidiary to settle the claims of such subsidiary's creditors and/or preference shareholders (including holders of such subsidiary's senior debt and tier 2 and tier 1 capital instruments (if any)) before we would be entitled to receive any distributions.

The terms of the Senior Notes also do not constrain how we make our investments in, or advance funds to, our subsidiaries, including the proceeds of issuances of debt securities, such as the Senior Notes, and as to how we may restructure existing investments and funding in the future. The ranking of our claims in respect of such investments and funding in the event of the liquidation of a subsidiary, and their treatment in resolution, will depend in part on their form and structure and the types of claim that they give rise to. The purposes of such investments and funding, and any such restructuring, may include, among other things, the provision of different amounts or types of capital or funding to particular subsidiaries, including for the purposes of meeting regulatory requirements, such as the implementation of any minimum requirement for own funds and eligible liabilities ("MREL") (or any equivalent requirements imposed by the PRA), including as amended to transpose the terms of the Financial Stability Board (the

“FSB”) final standards for total loss absorbing capital (“TLAC”) requirements, in respect of such subsidiaries. The PRA’s current consultation on the implementation of MREL in the UK, would require instruments eligible for MREL issued by us to be structurally subordinated to our operating and excluded liabilities. The capital raised through issuances of MREL eligible liabilities by us would then be transferred downstream to our material operating subsidiaries in the form of capital or another form of subordinated claim. In this way, MREL eligible instruments issued by us will be structurally subordinated to senior liabilities of our operating companies, allowing losses from such operating companies to be transferred to us. The MREL requirements remain subject to consultation and implementation in the UK and could result in increased funding requirements for us and/or such subsidiaries.

In addition, the terms of some loans or investments in capital instruments issued by our subsidiaries may contain contractual mechanisms that, upon the occurrence of a trigger related to the prudential or financial condition of such subsidiary, would result in a write-down of the claim or a change in the ranking and type of claim that we have against such subsidiary. Any changes in the legal or regulatory form or ranking of a loan or investment could also affect its treatment in resolution.

We may issue securities pari passu with the Senior Notes and/or secured debt.

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There is no restriction under the Indenture on the amount of securities that we may issue that rank pari passu with the Senior Notes. In particular, the FSB final standards for TLAC requirements for global systemically important banks will apply to us once implemented in the United Kingdom, and we expect to issue between £3 to 5 billion principal amount of senior debt securities per annum between 2015 and 2019 in order to meet these TLAC requirements.

Furthermore, the terms of the Indenture permit us (and our subsidiaries) to incur additional debt, including secured debt. The Senior Notes will be effectively subordinated to any secured indebtedness or other liabilities.

We may redeem the Senior Notes for certain tax reasons.

We may redeem the Senior Notes at any time in whole (but not in part) upon the occurrence of certain tax events, as more particularly described under “*Description of The Senior Notes—Tax Redemption*” below. Certain of such events may occur at any time after the issue date and it is therefore possible that we would be able to redeem the Senior Notes at any time after the issue date.

If we redeem the Senior Notes in any of the circumstances mentioned above, you may not be able to reinvest the amounts received upon redemption at a rate that will provide the same rate of return as their investment in such Senior Notes.

The credit risk of RBSG, its credit ratings, and its credit spreads may adversely affect the value of the Senior Notes prior to maturity and its ability to pay all amounts due on the Senior Notes.

The Senior Notes are our senior unsecured debt securities. As a result, your receipt of all payments of interest and principal on the Senior Notes is dependent on our ability to repay our obligations on the applicable payment date. No assurance can be given as to what our financial condition will be at any time during the term or on the maturity date of the Senior Notes. Consequently, all payments on the Senior Notes will be subject to the credit risk of RBSG and not that of any of our subsidiaries, including RBS plc. Any actual or anticipated decline in RBSG’s credit ratings, changes in the market’s view of its creditworthiness or any increase in its credit spreads charged by the market for taking credit risk are likely to adversely affect the value of the Senior Notes prior to maturity and cause the liquidity of the Senior 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 Senior Notes. Any rating assigned to us or the Senior Notes may be withdrawn entirely by a credit rating agency, may be suspended or may be lowered, if, in that credit rating agency’s judgment, 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 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. 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 the Senior Notes. An improvement in our credit ratings will not necessarily increase the value of the Senior Notes and will not reduce market risk and other investment risks related to the Senior Notes. Credit ratings (i) do not reflect the risk that interest rates may rise, which may affect the values of the Senior Notes, which accrue interest at a fixed rate, (ii) do not address the price, if any, at which the Senior Notes may be resold prior to maturity (which may be substantially less than the original offering price of the Senior Notes), and (iii) are not recommendations to buy, sell or hold the Senior Notes.

An active trading market may not develop for the Senior Notes.

There is no existing trading market for the Senior Notes. We intend to apply for listing of the Senior Notes on the New York Stock Exchange. There is, however, no assurance that the Senior Notes will be accepted for listing or remain listed on the New York Stock Exchange and, if listed, that an active trading market will develop or, if developed, that it will continue. We have been advised by the Underwriters that the Underwriters intend to make a market in the Senior Notes, but they are not obligated to do so and may discontinue market-making at any time without notice. No assurance can be given as to the liquidity of the trading market for the Senior Notes. If an active trading market does not develop or is not maintained, the market price and liquidity of the Senior Notes may be adversely affected. In that case, holders of the Senior Notes may not be able to sell Senior Notes at a particular time

or may not be able to sell Senior Notes at a favorable price. The liquidity of any market for the Senior Notes will depend on a number of factors including:

- the number of holders of the Senior Notes;
- our ratings published by major credit rating agencies;
- our financial performance;
- the market for similar securities;
- the interest of securities dealers in making a market in the Senior Notes;
- prevailing interest rates; and
- the introduction of any financial transactions tax.

Investors should be aware that the materialization of any of the above risks may adversely affect the value of the Senior Notes.

RECENT DEVELOPMENTS

2015 Annual Results

Please refer to our 2015 Annual Report, which contain recent developments, including in relation to (i) the Group's strategic plan and (ii) the Group's ongoing litigation, investigation and reviews, and which is incorporated by reference herein.

Liability Management Exercise

On March 30, 2016, the Group announced the launch of separate tender offers in respect of certain US dollar, Euro and pounds sterling securities issued by RBSG and RBS plc.

The tender offers are being made as part of our ongoing liability management, with the intention of supporting the ongoing transition of the Group to a holding company capital and term funding model, in line with regulatory requirements.

The principal amounts outstanding of securities subject to the tender offers are \$2,950,988,000 for the US dollar denominated securities, €3,140,250,000 for the Euro denominated securities and £719,467,000 for the sterling denominated securities.

Such tenders offers are not conditioned upon any capital markets issuances, including the Senior Notes offered hereby.

Announcements will be made relating to the tender offers in accordance with applicable securities regulations.

USE OF PROCEEDS

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

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CAPITALIZATION 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 December 31, 2015.

| | As at December 31, 2015 | |
|---|----------------------------|---|
| | Actual £million | As Adjusted ⁽¹⁾ £million |
| Share capital – allotted, called up and fully paid | | |
| Ordinary shares of £1.00 | 11,625 | 11,625 |
| Dividend access share of £0.01 ⁽²⁾ | - | - |
| Non-cumulative preference shares of \$0.01 ⁽³⁾ | - | - |
| Non-cumulative preference shares of €0.01 ⁽⁴⁾ | - | - |