

**THIS DOCUMENT AND ANY ACCOMPANYING DOCUMENTS ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION.**

**If you are in any doubt as to the action you should take, you are recommended to seek immediately your own personal financial advice from your stockbroker, bank manager, solicitor, accountant, fund manager or other appropriate independent financial adviser, who is authorised under the Financial Services and Markets Act 2000 (the “FSMA”) if you are in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.**

If you sell or have sold or otherwise transferred all of your Ordinary Shares in The Royal Bank of Scotland Group plc please send this document, together with any accompanying Form of Proxy, as soon as possible, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee. If you have sold or transferred, or otherwise disposed of, only part of your holding of Ordinary Shares you should retain this circular and accompanying Form of Proxy and consult the stockbroker, bank or other agent through whom you made the sale, transfer or disposal.



## **The Royal Bank of Scotland Group plc**

*(incorporated under the Companies Acts 1948 to 1967 and registered with Registered No. SC45551)*

### **Circular and Notice of General Meeting**

**Your attention is drawn to the letter from your Chairman set out on page 3 of this document which includes the recommendation to vote in favour of the resolutions to be proposed at the General Meeting.**

Notice of the General Meeting to be held on 14 May 2013 is set out in Section 1 of this document. Forms of Proxy for use by shareholders are enclosed. To be valid, Forms of Proxy should be completed, signed and returned in accordance with the notes to the Notice of General Meeting and the Forms of Proxy.

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## DEFINITIONS

In this document, the following expressions have the following meaning unless the context otherwise requires:

“**B Shares**” means the series 1 Class B shares issued by the Company to HM Treasury in December 2009, which are convertible into Ordinary Shares.

“**Company**” means The Royal Bank of Scotland Group plc.

“**Directors**” means the directors of the Company from time to time.

“**Equity Convertible Notes**” or “**ECN**” means any securities to be issued by the Company or any member of the Group and which are intended on issue to form all or part of a type or class of securities the terms of which are eligible to meet any Regulatory Capital Requirements and which are (i) convertible into or exchangeable for Ordinary Shares in the Company or (ii) issued together with share warrants relating to Ordinary Shares in the Company, and in each case, which grant a right to, or require (as applicable), the holder of such security and/or its nominee to subscribe for such Ordinary Shares in the Company in prescribed circumstances and otherwise on such terms as may be determined by the Directors of the Company or a committee thereof upon issue.

“**Group**” means the Company, its subsidiaries and subsidiary undertakings from time to time.

“**Ordinary Shares**” means the ordinary shares of the Company.

“**PRA**” means the Prudential Regulatory Authority or such other authority having primary supervisory authority with respect to the Group from time to time.

“**Regulatory Capital Requirements**” means any applicable regulations, requirements, guidelines or policies of the PRA and/or the European Parliament and/or the Council of the European Union then in effect or expected to take effect in the United Kingdom in relation to the capital resources, capital adequacy, contingent capital or buffer capital of the Company, a member of the Group or the Group taken as a whole.

26 April 2013

Dear Shareholder,

### **Equity Convertible Notes**


I am writing to invite you to attend a General Meeting, to be held immediately after our Annual General Meeting on 14 May 2013, at which we will seek your approval for the share capital authorities required in connection with the possible issue of Equity Convertible Notes ("ECNs").

By way of background, the Board has determined that, in response to regulatory requirements and developments (including the recommendations of the Financial Policy Committee of the Bank of England regarding the capital resources of UK banks, published on 27 March 2013) and to allow the Group to manage its capital in the optimal way, the Group may wish to issue loss-absorbing capital instruments in the form of ECNs. As explained in the Q&A in Section 3 of this document, ECNs would convert into newly issued Ordinary Shares in the Company upon the occurrence of certain events (for example, the Group's capital ratios falling below a specified level), diluting existing holdings of Ordinary Shares. In order to provide the flexibility to issue ECNs if required, two resolutions will therefore be proposed at the General Meeting: one an Ordinary Resolution giving the Directors authority to allot Ordinary Shares or grant rights to subscribe for or to convert any security into Ordinary Shares and the other a Special Resolution empowering the Directors to allot equity securities on a non-pre-emptive basis, in each case in connection with the issue of ECNs. Information on each resolution is set out in Section 2 of this document.

The Notice of Meeting is set out in Section 1 of this document and important information regarding the ECNs is set out in the Q&A in Section 3 of this document.

The Board considers that the resolutions are in the best interests of the Company and its shareholders as a whole and recommends all shareholders vote in favour of the resolutions as the members of the Board intend to do, or procure, in respect of their own beneficial shareholdings.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Philip Hampton".

Philip Hampton  
Chairman

The Royal Bank of Scotland Group plc  
Registered in Scotland No SC45551  
Registered Office; 36 St Andrew Square  
Edinburgh EH2 2YB

## Section 1

### Notice of General Meeting

**NOTICE IS HEREBY GIVEN** that a **GENERAL MEETING** of The Royal Bank of Scotland Group plc (the "**Company**") will be held on 14 May 2013 at the RBS Conference Centre, RBS Gogarburn, Edinburgh EH12 1HQ at 3.00 p.m. (or as soon thereafter as the Annual General Meeting convened for 2.00 p.m. on the same day and at the same place shall have been completed or adjourned) for the purposes of considering and, if thought fit, passing the following resolutions:

#### 1. Ordinary Resolution

That, subject to the passing of resolution 2, the Directors be and are hereby generally and unconditionally authorised for the purpose of section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot Ordinary Shares in the Company or grant rights to subscribe for or to convert any security into Ordinary Shares in the Company up to an aggregate nominal amount of £1.5 billion in relation to one or more issues of Equity Convertible Notes, where the Directors consider that such an issuance of Equity Convertible Notes would be desirable, including in connection with, or for the purposes of, complying with or maintaining compliance with the regulatory requirements or targets applicable to the Group from time to time.

This authority shall expire at the end of the AGM of the Company to be held in 2014 (or, at the close of business on 30 June 2014 whichever is the earlier), save that the Company may before such expiry make any offer or agreement which would or might require Ordinary Shares in the Company to be allotted, or rights to subscribe for or to convert any security into Ordinary Shares in the Company to be granted, after such expiry and the Directors may allot Ordinary Shares in the Company or grant any such rights in pursuance of any such offer or agreement as if the authority so conferred had not expired.

This authority is in addition and without prejudice to any other subsisting unutilised authorities conferred upon the Directors under section 80 of the Companies Act 1985 or section 551 of the Companies Act 2006.

#### 2. Special Resolution

That, subject to the passing of resolution 1 and in addition and without prejudice to any subsisting authority, the Directors be and are hereby generally and unconditionally empowered to allot equity securities (as defined in section 560 of the Companies Act 2006) wholly for cash, pursuant to the authority conferred by resolution 1 up to an aggregate nominal amount of £1.5 billion in connection with the issue of Equity Convertible Notes as if section 561 of the Companies Act 2006 did not apply to any such allotment.

This power shall expire at the end of the AGM of the Company to be held in 2014 (or, at the close of business on 30 June 2014 whichever is the earlier), save that the Company may before such expiry make any offer or enter into any agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired.

By order of the Board of Directors of the Company.

Aileen Taylor  
Group Secretary

Date: 26 April 2013

The Royal Bank of Scotland Group plc  
Registered in Scotland No SC45551  
Registered Office; 36 St Andrew Square  
Edinburgh EH2 2YB

Notes:

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company gives notice that only those shareholders entered on the register of members of the Company at close of business on 10 May 2013 or, if the General Meeting is adjourned, on the register of members of the Company 48 hours before the time of the adjourned meeting, will be entitled to attend or vote at the General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register after close of business on 10 May 2013 will be disregarded in determining the rights of any person to attend or vote at the meeting.
2. Every member entitled to attend, speak and vote at the General Meeting is entitled to appoint a proxy or proxies to attend, speak and vote instead of the member. A proxy need not be a member of the Company. A member may appoint more than one proxy in relation to the General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by a member. A form appointing a proxy is enclosed with this notice and may be returned in the enclosed pre-paid envelope. To be effective, it must be completed and be received at the Company's transfer office at Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY by 3.00 p.m. on 10 May 2013. The appointment of a proxy will not prevent a member from subsequently attending and voting at the meeting in person.
3. Any person to whom this General Meeting Notice has been sent, whose shares are held on their behalf by another person and who has been nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
4. The statement of the rights of shareholders in relation to the appointment of proxies in notes 2 above and 5 below do not apply to Nominated Persons. The rights described in these notes can only be exercised by shareholders.
5. CREST members who wish to appoint and/or give instructions to a proxy or proxies through the CREST electronic proxy appointment service may do so through the issuer's agent (ID 3RA50) by the latest time for receipt of proxy appointments specified above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
6. As at 23 April 2013 (being the latest practicable date prior to the printing of this document), the issued share capital of the Company conferring the right to vote at the General Meeting consisted of 6,111,196,394 Ordinary Shares of £1 each carrying four votes each on a poll, 400,000 5.5 per cent. cumulative preference shares of £1 each carrying four votes each on a poll and 500,000 11 per cent. cumulative preference shares of £1 each carrying four votes each on a poll. Therefore, the total number of voting rights in the Company as at 23 April 2013 was 24,448,385,576.
7. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
8. Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or good order of the meeting that the question be answered.
9. A copy of this Notice and other information required by section 311A of the Companies Act 2006 can be found at [www.rbs.com](http://www.rbs.com).
10. You may not use any electronic address provided in either this Notice of General Meeting or any related documents (including the form of proxy) to communicate with the Company for any purposes other than those expressly stated.

## Section 2

### Information on the resolutions to be proposed at the General Meeting

Resolution 1, will, if approved, give the Directors authority to allot Ordinary Shares in the Company or grant rights to subscribe for or to convert any security into Ordinary Shares in the Company, in accordance with section 551 of the Companies Act 2006 up to an aggregate nominal amount of £1.5 billion in connection with the issue of Equity Convertible Notes which is, in aggregate, equivalent to approximately 13 per cent. of the issued Ordinary Share capital of the Company (assuming full conversion of the B Shares), or 25 per cent. of the issued Ordinary Share capital of the Company (excluding conversion of any B Shares) as at 23 April 2013, being the last practicable date before the printing of this document.

The Directors believe it is in the best interests of the Company to have the flexibility to issue Equity Convertible Notes from time to time and the authority sought in this resolution may be used if, in the opinion of the Directors at the relevant time such an issuance of Equity Convertible Notes would be desirable, including in connection with, or for the purposes of, complying with or maintaining compliance with, regulatory capital requirements or targets. However, the request for authority in this resolution should not be taken as an indication that the Group will or will not issue any, or any given amount of, Equity Convertible Notes.

This authority is in addition to the authority proposed in the Annual General Meeting resolution 16, which is the usual authority sought on an annual basis in line with the guidance issued by the Association of British Insurers (ABI). Although this authority is not contemplated by the guidance issued by ABI, it has been discussed with the ABI.

No shares are held in treasury. This authority will expire at the end of the Annual General Meeting of the Company to be held in 2014 (or, at the close of business on 30 June 2014, whichever is the earlier). However, the Directors may seek a similar authority in the future.

Resolution 2, which will be proposed as a special resolution and requires the approval of three-quarters of the votes cast at the meeting, proposes that, without prejudice to any existing power, the Directors be empowered to allot equity securities (as defined in section 560 of the Companies Act 2006) up to a nominal amount of £1.5 billion in relation to the issue of Equity Convertible Notes, wholly for cash, which is equivalent to 13 per cent. of the issued Ordinary Share capital of the Company (assuming full conversion of the B Shares), or 25 per cent. of the issued Ordinary Share capital of the Company (excluding conversion of any B Shares) as at 23 April 2013, being the last practicable date before the printing of this document, as if section 561 of the Companies Act 2006, to the extent applicable, did not apply to any such allotment.

This resolution would permit the Company the flexibility necessary to allot equity securities pursuant to any proposal to issue Equity Convertible Notes without the need to comply with the strict pre-emption requirements of the UK statutory regime. Together with resolution 1, resolution 2 is intended to provide the Directors with the flexibility to issue Equity Convertible Notes which may convert into Ordinary Shares. This will allow the Company to manage its capital in the optimal way. The Directors may at their discretion resolve to give shareholders the opportunity to purchase the Ordinary Shares created on conversion or exchange of any Equity Convertible Notes, where desirable and practicable, and subject to applicable laws and regulations.

This power will expire at the end of the Annual General Meeting of the Company to be held in 2014 (or, at the close of business on 30 June 2014, whichever is the earlier). However, the Directors may seek a similar authority in the future.

The resolutions are not intended to provide authority for the conversion or exchange of Equity Convertible Notes into equity securities pursuant to any UK statutory conversion mechanism pursuant to UK national law or European Union regulations, for which such authority would not be required. Furthermore, conditional upon the passing of resolutions 1 and 2, the Directors would not expect to make use of Annual General Meeting resolutions 16 and 17 to issue Equity Convertible Notes. Any exercise of the authorities in resolutions 16 and 17 (if passed) would be separate from and in addition to the exercise of any powers under these resolutions 1 and 2 and would also have a dilutive effect on existing shareholdings.

## **Section 3**

### **Questions and Answers on Equity Convertible Notes**

#### **What are ECNs?**

Equity Convertible Notes are debt instruments that will convert or exchange the holder's claim into Ordinary Shares if a defined trigger event occurs. This trigger event will be defined in the terms and conditions of any future issuance but usually references the relevant issuer's and/or the Group's capital ratios, namely core tier 1 or common equity tier 1. As such, if the relevant capital ratio falls below a specified level, the ECN will convert to ordinary equity. The relevant issuer's and/or the Group's non-viability may also lead to a conversion or exchange of the holder's claim into Ordinary Shares.

This conversion or exchange has the effect of increasing the relevant issuer's core tier 1 capital or common equity tier 1 capital level by removing the liability associated with the ECN. The ECNs are expected to help the relevant issuer and/or the Group to increase its or their capital base in the event of an adverse, stressed environment.

#### **Why are you seeking authority to issue ECNs?**

Given recent macro-prudential discussions with its regulators, the Company has determined that reaching its optimal capital composition may require issuance of ECNs alongside other loss absorbing capital instruments. This will create a buffer of capital that may help the Group if it encounters a stress which would otherwise cause its capital ratios to fall below the specified trigger level.

#### **What will happen if a trigger event occurs?**

If a trigger event were to occur, any ECNs would be converted into or exchanged for newly issued Ordinary Shares as set out in the terms and conditions of any issued security.

#### **How can the Group mitigate a potential trigger event?**

The Group's capital plan will provide for a significant buffer to exist between, on the one hand, the actual core tier 1 or common equity tier 1 capital ratio of the Group and any relevant issuer at any time and, on the other hand, the core tier 1 or common equity tier 1 capital ratio specified in a trigger event under the terms of any ECNs. In addition, ahead of any future trigger event, as defined within the terms and conditions of any future issuance, the Group would look to instigate its recovery plan in order to reduce the likelihood of the trigger event occurring. The Group has set out a recovery plan which has been shared with its regulators. Within this plan are a number of actions that the Group can take, including (but not limited to):

1. Liquidating assets such as trading inventory, subject to market conditions;
2. Selling subsidiaries or business lines to increase capital or reduce risk-weighted assets; and
3. Equity issuance, where possible.

#### **What form will the ECNs take?**

The ECNs will only be issued subject to market conditions. The form, structure, size and other attributes are still to be determined.

#### **At what price will the ECNs be converted or exchanged into Ordinary Shares?**

In the case of a trigger event that is defined by reference to the relevant issuer's and/or the Group's capital ratios, the terms and conditions of any future ECN issuance would specify the pricing mechanism which will determine how many Ordinary Shares the ECNs may be converted into/exchanged for if a trigger event set out in those terms and conditions were to occur. The conversion/exchange price in such circumstances would be set within the limits of the authorities granted by shareholders. Depending on the applicable conversion/exchange price, it is possible that an issue of ECNs could lead to an adjustment to the conversion price of the B Shares under their terms, although the Group will seek where practicable to structure any issue so as to avoid such an adjustment. In the case of any conversion or exchange resulting from the relevant issuer's and/or the Group's non-viability, the number of Ordinary Shares the ECNs may be converted into/exchanged for may be different.

Where desirable and practicable the Directors may at their discretion resolve to give shareholders the opportunity to purchase the Ordinary Shares created on conversion or exchange of any ECN, subject to applicable laws and regulations.

#### **How have you calculated the size of the authorities you are seeking?**

The size of the authorities have been determined by considering the potential requirement for future issuance of ECNs and allowing for future movements in the price of the Group's shares.

## **Section 4**

### **Action to be taken by Ordinary and Cumulative Preference Shareholders**

You will find enclosed with this document a Form of Proxy in respect of the resolutions to be proposed at the General Meeting and which is for use by the holders of Ordinary Shares and holders of cumulative preference shares. If you are a person nominated under section 146 of the Companies Act 2006 to enjoy information rights, please read Note 3 to the General Meeting Notice.

Whether or not you intend to be present at the meeting, the completed Form of Proxy should be returned in the pre-paid envelope as soon as possible. To be effective, Forms of Proxy must be completed and received at the Company's transfer office at Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY by 3.00 p.m. on 10 May 2013. In addition, it is possible to appoint and instruct your proxy electronically by following the instructions on the enclosed Form of Proxy. Completion of a Form of Proxy will not prevent you from attending and voting at the General Meeting if you so wish. To appoint more than one proxy (each of whom must be appointed to exercise rights attached to the different shares held by you), see Note 2 on the reverse of the Form of Proxy.

### **General**

At the General Meeting the Company will disclose, for each resolution, the total of the proxy votes received and any votes cast at the meeting, the proportion for and against each resolution, and the number of votes withheld. Votes withheld will not be counted in the calculation of the proportion of votes 'for' and 'against' a resolution.

Voting at the General Meeting in respect of each resolution will be conducted by way of a poll. Voting on a poll is more transparent and equitable, since it allows the votes of all shareholders who wish to vote to be taken into account, and it reflects evolving best practice. Shareholders who attend the General Meeting will still be able to ask questions relevant to the business of the meeting prior to voting on the resolutions.