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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 if you are in the UK or, if not, from another appropriately authorised independent financial adviser.

If you have sold or otherwise transferred all of your Ordinary Shares, please send this document, together with the accompanying Form of Proxy, at once to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission 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 with Registered No. SC045551)

Proposed changes to the Dividend Access Share

Circular and Notice of General Meeting

Your attention is drawn to the letter from your Chairman which is set out in Part I of this document and which recommends you vote in favour of the Resolution to be proposed at the General Meeting referred to below. Please read the whole of this document. You should not rely solely on any key or summarised information set out in this document.

Notice of a General Meeting of RBS to be held on 25 June 2014 at 3.00 p.m. at the RBS Conference Centre, RBS Gogarburn, Edinburgh EH12 1HQ (or as soon thereafter as the Annual General Meeting convened at 2.00 p.m. on the same day and at the same place shall have been completed or adjourned) is set out at the end of this document. A Form of Proxy for use at the General Meeting is enclosed. To be valid, Forms of Proxy should be completed, signed and returned in accordance with the notes to the Notice of General Meeting (at the end of this document) and the Form of Proxy itself. Completion and return of a Form of Proxy will not prevent members from attending and voting in person should they wish to do so.

A summary of the action to be taken by Shareholders is set out in Part I of this document and in the notice of General Meeting.

Morgan Stanley, which is authorised by the PRA and regulated by the FCA and the PRA, is acting exclusively for RBS and no-one else in connection with the DAS Retirement Agreement and will not regard any other person (whether or not a recipient of this document) as a client in relation to the DAS Retirement Agreement and will not be responsible to any other person other than RBS for providing the protections afforded to clients of Morgan Stanley nor for providing advice in relation to the DAS Retirement Agreement or any matters referred to in this document. In particular, the advice of Morgan Stanley referred to in Part I of this document has been delivered to the Directors for the purposes of their obligations under the Listing Rules. It has not been delivered for the benefit of anyone else, including Shareholders, and it is not to be relied on by anyone other than the Directors for any purpose whatsoever.

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Agreement, and nothing in this document is or shall be relied upon as a promise or representation in this respect, whether as to the past or future. Morgan Stanley accordingly disclaims to the fullest extent permitted by law all and any responsibility and liability whether arising in tort, contract or otherwise (save as referred to above) which it might otherwise have in respect of this document and any such statement.

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Forward-looking statements

This document contains 'forward-looking statements' as that term is defined in the United States Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that are not historical facts and can be identified by the use of forward-looking terminology such as statements that include the words 'expect', 'estimate', 'project', 'anticipate', 'believes', 'should', 'intend', 'plan', 'could', 'probability', 'risk', 'target', 'goal', 'objective', 'will', 'endeavour', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on such expressions or by the forward looking nature of discussions of strategy, plans, targets and intentions. These statements are based on current plans, estimates and projections, and are subject to inherent risks, uncertainties and other factors which could cause actual results to differ materially from the future results expressed or implied by such forward-looking statements. The forward-looking statements contained in this document speak only as of the date of this document, and the Group does not undertake to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events unless required to do so by applicable law and regulations. The information, statements and opinions contained in this document do not constitute a public offer under any applicable legislation or an offer to sell or solicitation of any offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments.

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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Each of the times and dates in the table below is indicative only and may be subject to change.

Latest time and date for receipt of Forms of Proxy	23 June 2014 at 3.00 p.m.
General Meeting	25 June 2014 at 3.00 p.m.*
Amendments to the DAS Terms in accordance with the DAS Retirement	25 June 2014
Agreement become effective (subject to obtaining Independent Shareholders' approval)	

* *or as soon thereafter as the Annual General Meeting convened at 2.00 p.m. on the same day and at the same place shall have been completed or adjourned*

General notes:

- (1) Any adjustment to the times and dates set out in the expected timetable of principal events above and mentioned throughout this document will be notified, where appropriate, to Shareholders.
- (2) References to times in this document are to London times unless otherwise stated.

DIRECTORS, SECRETARY, REGISTERED OFFICE AND ADVISERS

Directors

Philip Hampton	Chairman
Ross McEwan	Chief Executive Officer
Ewen Stevenson	Chief Financial Officer
Sandy Crombie(1)	Non-Executive Director
Alison Davies(1)	Non-Executive Director
Morten Friis(1)	Non-Executive Director
Robert Gillespie(1)	Non-Executive Director
Penny Hughes CBE(1)	Non-Executive Director
Brendan Nelson(1)	Non-Executive Director
Baroness Noakes DBE(1)	Non-Executive Director
Philip Scott(1)	Non-Executive Director

Note:

(1) Denotes Independent Non-Executive Director.

Each of the Directors' business address is RBS's registered office at 36 St Andrew Square, Edinburgh EH2 2YB.

Secretary

Aileen Taylor

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Legal Advisers to RBS as to Scottish law

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Legal Advisers to the Sponsor as to English law

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Registrar

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PART I
LETTER FROM THE CHAIRMAN OF RBS



Gogarburn
PO Box 1000
Edinburgh EH12 1HQ
2 June 2014

Dear Shareholder,

Proposed changes to the Dividend Access Share

1 Introduction

RBS has entered into an agreement (the “**DAS Retirement Agreement**”) with HM Treasury to provide for the future retirement of the Dividend Access Share, or DAS. The DAS was a key element of the Government’s 2009 capital injection into RBS and the European Commission’s State aid decision of 14 December 2009 (the “**State Aid Decision**”).

The DAS was created in 2009 when HM Treasury injected £25.5 billion of equity into RBS in the form of B Shares and RBS entered into the asset protection scheme announced by HM Treasury on 19 January 2009 (the “**APS**”) and the £8 billion Contingent Capital Facility with HM Treasury (the “**CCF**”). RBS exited the APS in October 2012 and was able to terminate the CCF in December 2013. The DAS, however, remains in existence.

The DAS was created with the intention of providing preferential dividend rights to HM Treasury. These preferential dividend rights would fall away if RBS’s Ordinary Share price traded at or above £6.50 for 20 or more dealing days in any period of 30 consecutive dealing days (the “**DAS Share Price Trigger**”).

It had originally been expected that a return to profitability for RBS would result both in the payment of preferential DAS dividends to HM Treasury and, in due course, the DAS Share Price Trigger being reached. RBS’s recovery has, however, been slower than was envisaged in 2009. Whilst some of RBS’s businesses have performed well, the returns in its wholesale activities declined sharply after 2010. At the same time, rising regulatory capital requirements, the capital demands of Ulster Bank and the very substantial charges for mis-selling, regulatory fines and litigation have impeded the rebuilding of RBS’s capital position to expected levels. As a result, no DAS dividend has been paid, while RBS’s share price remains well below the DAS Share Price Trigger.

The Directors believe the DAS is now complicating and delaying RBS’s return to a normal capital structure and a reduction in HM Treasury’s ownership in RBS, including by inhibiting the prospects of RBS returning to a position in which the Directors could reasonably consider declaring dividends in favour of all Shareholders. Therefore, over recent months, we have discussed with HM Treasury a reshaping of our capital structure and dealing with the DAS in a way that we believe will benefit all our Shareholders.

Following these discussions, RBS and HM Treasury have entered into the DAS Retirement Agreement, which provides that RBS will pay HM Treasury an initial dividend of £320 million (the “**First Dividend**”), subject to satisfaction of the conditions precedent described in section 1 of Part II of this document (the “**Conditions Precedent**”). In order to retire the DAS, RBS would be required to pay a further £1.18 billion to HM Treasury (subject to any increase on the balance of the DAS Retirement Dividend Amount as defined in section 2.2 below).

As a result of the early termination of the CCF, RBS did not incur the final £320 million CCF fee that would otherwise have been due in respect of 2014. The net impact of this and the First Dividend on RBS’s Common Equity Tier 1 capital is therefore neutral. Payment of any further dividends on the DAS would reduce RBS’s capital at the relevant time.

For these reasons, the DAS Retirement Agreement is a further important milestone on the road back to full private ownership for RBS, building on December 2013’s cancellation of the CCF.

HM Treasury is RBS's majority Shareholder, owning approximately 63 per cent. of its Ordinary Shares and approximately 80 per cent. of its combined Ordinary and B Share capital. As a result, the DAS Retirement Agreement is classified as a related party transaction under the Listing Rules and therefore the transaction requires the approval of a simple majority of the total voting rights of the Shareholders (excluding HM Treasury and any associate of HM Treasury) (the "**Independent Shareholders**") who vote at the General Meeting (in person or by proxy).

The purpose of this letter is to (i) explain the background to and reasons for the DAS Retirement Agreement and the consequential changes to the terms of the DAS (the "**DAS Amendments**"), (ii) provide you with information about the terms of the DAS Retirement Agreement and the potential risks relating to the DAS Retirement Agreement, (iii) explain why the Directors consider the DAS Retirement Agreement to be in the best interests of the Shareholders as a whole and (iv) recommend that you vote in favour of the Resolution to be proposed at the General Meeting.

2 Background to and reasons for the DAS Retirement Agreement

2.1 Characteristics of the DAS

Under the terms of the DAS, no dividend may be paid on Ordinary Shares unless equivalent dividends are paid on the B Shares and a dividend is also paid on the DAS. If declared, the DAS dividend is to be calculated as (i) the greater of:

- on an annual basis, 7 per cent. of the aggregate issue price of all B Shares issued to HM Treasury; and
- 25 per cent. of any cash dividend paid per Ordinary Share, multiplied by the number of B Shares issued to HM Treasury,

less (ii) the fair market value of the aggregate amount of any dividends or distributions paid or made on any B Shares and/or on any Ordinary Shares issued on conversion of the B Shares.

These preferential dividend rights would fall away if the DAS Share Price Trigger occurs. The removal of such preferential dividend rights is therefore currently not contingent on the payment of any agreed level of dividends on the DAS. As described in section 2.2 below, under the DAS Amended Terms, the DAS will lose its preferential dividend rights once dividends totalling the DAS Retirement Dividend Amount (as defined below) have been paid.

HM Treasury currently holds 51 billion B Shares, which it subscribed for in 2009 at an aggregate issue price of £25.5 billion. As a result, on an annual basis, RBS would need to pay a minimum dividend of £1.785 billion on the DAS and the B Shares to HM Treasury before it is able to pay any dividend on the Ordinary Shares.

RBS engaged in discussions with HM Treasury in 2013 and 2014 with a view to changing the terms of the DAS as set out below.

2.2 The DAS Retirement Agreement

The DAS Retirement Agreement involves the eventual retirement of the DAS and the consequent ending of HM Treasury's preferential dividend rights once RBS pays HM Treasury dividends totalling the DAS Retirement Dividend Amount (as defined below).

If the Independent Shareholders approve the DAS Retirement Agreement:

- Within 45 business days of such approval and subject to the satisfaction of certain other conditions, RBS will pay HM Treasury the First Dividend.
- A further £1.18 billion (subject to any increase) shall be payable to HM Treasury (together with the First Dividend, the "**DAS Retirement Dividend Amount**"), in the form of one or more further DAS dividends, at the discretion of the Directors including discretion as to timing for payment of such DAS dividends.
- Any unpaid portion of the dividends referred to above will be subject to an increase of 5 per cent. per annum, calculated on a daily accruals basis from 1 January 2016, if such portion has not been paid before 1 January 2016 and an increase of 10 per cent. per annum, calculated on a daily accruals basis from 1 January 2021, on any part of the balance that has not been paid before 1 January 2021.

- Once the DAS Retirement Dividend Amount has been paid, the DAS will lose its preferential dividend rights and will become a single B Share.
- The mechanism whereby the DAS preferential dividend rights fall away following a DAS Share Price Trigger will immediately be cancelled.
- The expectation that RBS would repurchase B Shares if it is “prudent and practicable” to do so will be removed.

Implementation of the DAS Amendments is conditional upon, amongst other things, Independent Shareholders’ approval being obtained at the General Meeting to be held on 25 June 2014. If Independent Shareholders do not approve the DAS Retirement Agreement, RBS has agreed that it shall use all reasonable endeavours to procure that a further resolution approving the DAS Retirement Agreement is passed by the Independent Shareholders at a further general meeting of RBS and that, subject to the remaining Conditions Precedent, the First Dividend is declared and paid as soon as reasonably practicable thereafter. If the further resolution is not approved by Independent Shareholders by 31 December 2014, the DAS Retirement Agreement shall terminate and cease to have effect (meaning that the First Dividend will not be paid and the DAS Amendments will not take effect) unless otherwise agreed by RBS and HM Treasury.

A summary of the DAS Retirement Agreement is set out in Part II of this document and the full DAS Amended Terms, showing the amendments that will be made to the DAS, are set out in Annex I to this document.

2.3 Benefits of the DAS Retirement Agreement

Currently, no dividend may be paid on the Ordinary Shares unless equivalent dividends are paid on the B Shares and a dividend is also paid on the DAS. As described above, under the terms of the DAS as at the date of the DAS Retirement Agreement (the “**DAS Terms**”), the dividend payable on the DAS varies depending on the size of any Ordinary Share dividend and the number of B Shares in issue.

If a dividend of up to 14 pence per Ordinary Share is paid, the minimum aggregate dividends payable on the DAS and B Shares is £1.785 billion. For any dividend per Ordinary Share greater than 14 pence per Ordinary Share, the fixed minimum aggregate dividends of £1.785 billion would no longer be applicable and the minimum aggregate dividends payable on the DAS and B shares would rise in proportion to the dividend per Ordinary Share.

In addition, the DAS Terms mean that the maximum share of any aggregate dividends which Independent Shareholders can receive is 12.1% (compared to their approximately 20% interest in the share capital of RBS) and this could only be achieved with aggregate dividends in excess of £2.6 billion.

The following table shows the dividends that would be payable (on an annual basis) on the B Shares and the DAS for a range of illustrative dividends per Ordinary Share assuming the current number of Ordinary Shares and B Shares in issue:

Dividend per Ordinary Share	1.0p	5.0p	10.0p	15.0p	20.0p
Total Dividends for Ordinary Shares (£ millions)	63	314	628	941	1,255
Total B Share Dividends (£ millions)	51	255	510	765	1,020
DAS Dividend (£ millions)	1,734	1,530	1,275	1,148	1,530
Percentage of total dividends payable to Independent Shareholders	1.3%	5.5%	9.6%	12.1%	12.1%

The large size of the aggregate dividend payable on the DAS and B Shares (greater than the DAS Retirement Dividend Amount, even for relatively modest dividends on the Ordinary Shares) acts as a disincentive to the declaration of any dividend to Ordinary Shareholders as a whole and limits the future ability of RBS to distribute earnings and any excess capital to Ordinary Shareholders through dividends. The DAS’s dividend entitlement continues until the DAS Share Price Trigger occurs as a result of the Ordinary Share price trading at or above £6.50 for 20 or more dealing days in any period of 30 consecutive dealing days. This would require RBS’s share price to nearly double from today’s levels; consequently the impediment to the declaration of Ordinary Share dividends stemming from the current terms of the DAS could potentially exist for an extended period of time.

Through reaching agreement on terms to retire the DAS, RBS hopes to bring forward the point at which the Directors may provide clarity to Shareholders about RBS's future dividend policy. Once the DAS Retirement Dividend Amount has been paid (the timing for which is uncertain as it will depend on a number of factors, including RBS's distributable profits and capital position at the time), the DAS will lose its preferential dividend rights and will become a single B Share. The existing disincentive to the declaration of any dividend to Ordinary Shareholders (which stems from the current DAS Terms) will be removed under the DAS Amended Terms and the Board will have increased flexibility to make any decisions on RBS's future dividend policy, having regard to, among other things, the distributable profits and capital position of RBS, rather than being unduly influenced by the Ordinary Share price. In addition, Shareholders will have increased confidence in RBS's ability to resume Ordinary Share dividend payments once its capital position is appropriately strengthened, allowing them to benefit from the implementation of RBS's new strategy sooner than might otherwise have been feasible.

Although there is currently no intention to effect the retirement of the DAS or to resume Ordinary Share dividend payments in the short term, the DAS Retirement Agreement provides RBS with significant flexibility as to when the subsequent dividend or dividends leading to the final retirement of the DAS may be paid. Such flexibility will allow RBS to retire the DAS at a time of the Board's choosing, which will include an assessment of the Group's distributable profits and capital position at the time.

As part of the Acquisition and Contingent Capital Agreement entered into on 26 November 2009 between HM Treasury and RBS (the "**ACCA**"), RBS acknowledged an expectation it would repurchase B Shares if prudent and practicable. HM Treasury agreed with the European Commission that it would not sell B Shares to RBS below 60p per B Share for 2014 (equivalent to £6.00 per Ordinary Share) and 65p per B Share thereafter (equivalent to £6.50 per Ordinary Share).

The DAS Retirement Agreement includes a provision removing the repurchase expectation originally set out in the ACCA that RBS would repurchase B Shares if prudent and practicable. The removal of this repurchase expectation will provide greater flexibility over the future use of any surplus capital in the best interest of all Shareholders.

The B Shares will remain freely convertible by HM Treasury into Ordinary Shares subject to a 75 per cent. upper limit imposed in order to ensure the continuing listing of the Ordinary Shares. The price restrictions on repurchasing B Shares that HM Treasury agreed with the European Commission referred to above do not apply to any repurchase of Ordinary Shares by RBS from HM Treasury.

The Directors believe that establishing a means of retiring the DAS, thereby providing a clearer route to resuming dividends and normalising RBS's capital structure will, over time, increase the appeal of the Ordinary Shares to a wider range of equity investors and may expedite the timeline for HM Treasury to start reducing its shareholding in RBS.

For these reasons, the DAS Retirement Agreement is a further important milestone on the road back to full private ownership for RBS, building on December 2013's cancellation of the CCF.

The Board has considered whether, as an alternative to entering into the DAS Retirement Agreement, RBS could avoid paying any dividend on the DAS by not declaring any Ordinary Share dividends until such time as the DAS Share Price Trigger occurs and the dividend rights of the DAS fall away. Given the required increase in the Ordinary Share price compared with today's level, this could take an extended period of time with the risk that it might extend significantly beyond the time when RBS might otherwise be generating surplus capital that it wished to pay in dividends to Shareholders. The Board believes that the potential for paying dividends from excess capital is likely to arise before the DAS Share Price Trigger occurs. It also believes that the combined effect of paying the DAS Retirement Dividend Amount and of the acceleration of the potential future dividend payments that will be enabled by retiring the DAS, as compared to waiting for the DAS Share Price Trigger to be reached, is in Shareholders' interests.

The DAS is an unusual capital instrument with no observable market price and few comparable securities against which its value may be assessed. In negotiating the terms of the DAS Retirement Agreement and the quantum of the DAS Retirement Dividend Amount the Board has considered a range of valuation methodologies and assessments of value to Shareholders including both cash flow and option model methods based on a range of assumptions and taking into account the ability to elect when to pay the balance of the DAS Retirement Dividend Amount. They have also taken into account the consequential benefits of providing a clear path to retiring the DAS described above.

The DAS Retirement Agreement allows RBS to secure a price now for any future retirement of the DAS. If RBS were instead to seek to agree a price for the DAS in the future, at a time when it might have a higher capital ratio and be in a better position than currently to resume Ordinary Share dividend payments, there is a risk any price negotiated at that time might be higher than the price secured under the DAS Retirement Agreement. In addition, if any price negotiated in the future was deemed by the European Commission to constitute additional state aid, RBS could face further state aid remedies under the more stringent rules that came into effect in 2013.

From the perspective of HM Treasury, the DAS Retirement Agreement provides it with the certainty of receiving the DAS Retirement Dividend Amount in return for the retirement of the DAS. Under the current DAS Terms, HM Treasury's entitlement to any dividends on the DAS is dependent on RBS paying a dividend on the Ordinary Shares and such entitlement lapses if the DAS Share Price Trigger occurs. The DAS Retirement Agreement therefore provides HM Treasury with certainty as to the value it will receive from its holding of the DAS, while RBS will lose the potential benefit of HM Treasury's preferential dividend rights on the DAS lapsing without having to pay any amounts to HM Treasury.

In addition and as mentioned above, the Directors believe that the DAS Retirement Agreement will provide a clearer route to resuming dividends (including to HM Treasury as a holder of Ordinary Shares and B Shares) and normalising RBS's capital structure and, over time, will increase the appeal of the Ordinary Shares to a wider range of equity investors. Therefore, as well as potentially bringing forward the prospect of HM Treasury receiving dividend payments on its Ordinary Shares and B Shares, approval of the DAS Retirement Agreement and implementation of the DAS Amendments may allow HM Treasury to expedite the timeline to start reducing its shareholding in RBS, thereby realising value from its holding of Ordinary Shares and B Shares.

RBS's management team is committed to delivering a stable and successful RBS that is capable of paying a dividend. With the DAS Retirement Agreement and the updated restructuring plan for RBS as approved by the decision of the European Commission dated 9 April 2014 (the "**State Aid Amendment Decision**") (see section 3 below), its ability to do so is enhanced.

3 State Aid Amendment Decision

In return for the rescue and restructuring support it received between 2008 and 2009, RBS was required to draw up a State aid restructuring plan in conjunction with HM Treasury to submit to the European Commission. In accordance with the State Aid Decision, RBS was required to make a series of divestments and behavioural commitments.

While RBS has implemented all of the other divestments and behavioural commitments agreed in 2009, it was unable to meet the 31 December 2013 deadline for the divestment of the Williams & Glyn Business, which includes a combination of a branch network, customers, staff and supporting infrastructure in the United Kingdom, following Santander UK's decision in October 2012 not to proceed with the purchase of the business which had originally been agreed in August 2010.

In addition, the DAS was an important factor in the European Commission's assessment of the State aid RBS received and was part of the basis for its approval of that support in 2009. It was therefore necessary for the proposal for the eventual retirement of the DAS to be notified to the European Commission by HM Treasury and this was done by HM Treasury at the same time as the request for the extension of the deadline for the divestment of the Williams & Glyn Business.

The European Commission concluded that the new arrangements for the eventual retirement of the DAS did not constitute new State aid and approved the changes to RBS's restructuring plan in the State Aid Amendment Decision. The key commitments made by HM Treasury to the European Commission in connection with this approval are as follows:

- RBS must divest the Williams & Glyn Business by IPO, whole business sale or tendering procedure for its entire interest. In the expected event of divestment by IPO, RBS must carry out this IPO before 31 December 2016 and complete the disposal of its entire interest in the Williams & Glyn Business by 31 December 2017.
- Citizens Financial Group, Inc. ("**Citizens**") will be disposed of by 31 December 2016, with an automatic 12 month extension if market metrics indicate that an IPO or subsequent tranches of disposal cannot be completed in an orderly fashion or at a fair value. On 1 November 2013, RBS announced that it would accelerate the divestment of Citizens with a partial IPO and that it

planned to fully divest the business by the end of 2016. The obligation under the State Aid Amendment Decision to dispose of Citizens is therefore in line with RBS's planned and publicly stated divestment timetable and already reflected in its capital and strategic planning.

The European Commission may require commitments from recipients of State aid in order to ensure the long-term viability of recipients of State aid, ensure adequate sharing of the burden of restructuring by recipients of State aid and their other investors and to remedy distortions to competition. While the disposal of Citizens is in itself a significant commitment, it is, as noted above, in line with RBS's existing timetable and capital plans.

RBS entered into a deed on 9 April 2014 in favour of HM Treasury in connection with the State Aid Amendment Decision (the "**Revised State Aid Commitment Deed**") under which it undertakes to do all acts and things necessary to ensure HM Treasury is able to comply with its obligations under the State Aid Amendment Decision. HM Treasury's obligations to the European Commission and RBS's commitments under the Revised State Aid Commitment Deed will remain in effect even if the DAS Retirement Agreement is not approved by Independent Shareholders and the DAS Amendments therefore do not take effect.

Please refer to Part III for further information on the State Aid Amendment Decision and Revised State Aid Commitment Deed.

4 Risks relating to the DAS Retirement Agreement

Set out below is a description of the material risks for RBS and Independent Shareholders relating to the DAS Retirement Agreement. The risks below are not the only risks that RBS will face in connection with the DAS Retirement Agreement. The Group will also be subject to a variety of risks as a consequence of the State Aid Amendment Decision, including its ability to execute the required disposals at acceptable prices within the required timeframes, failing which it could be subject to various consequences including the appointment of a divestiture trustee to implement the disposals without the recovery of acceptable value or at negative value. Some risks may not yet be known and some that are not currently deemed material could later turn out to be material. This summary does not address any risks in connection with RBS which do not relate directly to the DAS Retirement Agreement.

- A principal objective of the DAS Retirement Agreement is to give RBS greater flexibility to pay dividends to Ordinary Shareholders in the future. In order to achieve this, RBS will be required to pay HM Treasury dividends equal to the DAS Retirement Dividend Amount. However, there is no certainty that RBS will be in a position (by reference to the distributable profits position of RBS or otherwise) to resume dividend payments to Ordinary Shareholders at any time in the future. The resumption of the payment of dividends in this manner will also depend on the PRA's assessment at the time of RBS's Common Equity Tier 1 capital and total capital position and its general financial strength. If RBS does not pay the First Dividend and the remaining balance of £1.18 billion before 1 January 2016, any outstanding balance will increase as set out in section 2.2.
- The DAS Amendments are subject to the approval of the Resolution by the Independent Shareholders. Furthermore, the payment of the First Dividend is subject to the Conditions Precedent, which include the approval of the Resolution by Independent Shareholders, the consent of the PRA to the payment of the First Dividend not being revoked or materially amended and the State Aid Amendment Decision not being materially amended. If any of these conditions are not satisfied or waived, the DAS Amendments will not be implemented and, if the Independent Shareholders do not approve the Resolution, the current DAS Terms will remain in place.
- Under the terms of the DAS Retirement Agreement, subject to the Conditions Precedent, RBS is obliged to pay HM Treasury the First Dividend on the First Dividend Payment Date with no payment being made to Ordinary Shareholders. No such obligation exists under the current DAS Terms. If RBS elects not to retire the DAS or is not in a position to pay the remaining dividends required to retire the DAS in the future, the First Dividend and any other dividends on the DAS paid by RBS to HM Treasury prior to that time will not be repaid to RBS and the DAS will continue to exist despite any such dividend payments on the DAS having been made. In addition, RBS would remain subject to the existing provisions of the DAS which (for so long as the DAS continues to exist) require it to pay a dividend on the DAS whenever it pays a dividend on the Ordinary Shares. Under the DAS Amended Terms, any dividend on the DAS will equal any portion of the DAS

Retirement Dividend Amount which has not been paid at the time of such Ordinary Share dividend. The ability of RBS to pay the DAS Retirement Dividend Amount will depend on a number of factors, including its distributable profits and capital position at the relevant time.

- Under the current DAS Terms, HM Treasury's preferential dividend will lapse automatically if a DAS Share Price Trigger occurs. Following such an event, no amounts would be payable by RBS to HM Treasury under the DAS. Under the terms of the DAS Retirement Agreement, the DAS Share Price Trigger will be removed, thereby eliminating the possibility of HM Treasury's preferential dividend rights relating to the DAS lapsing without any amounts being paid to HM Treasury. Accordingly, there is a risk that, if the DAS Retirement Agreement is approved by Independent Shareholders and the DAS Amendments take effect, and if the Ordinary Share price reaches the (former) DAS Share Price Trigger before the Board has elected to pay the DAS Retirement Dividend Amount in full, then RBS will lose the benefit of HM Treasury's preferential DAS dividend rights lapsing without having to pay any amounts to HM Treasury. However, the Board currently believes that the risk of this is low as it could potentially be an extended period of time before the DAS Share Price Trigger might occur.

5 General Meeting

Implementation of the DAS Amendments is conditional, amongst other things, upon Independent Shareholders' approval being obtained at the General Meeting, to be held immediately after our Annual General Meeting. Accordingly, you will find set out at the end of this document a notice convening a General Meeting to be held at RBS Conference Centre, RBS Gogarburn, Edinburgh, EH12 1HQ at 3.00 p.m. on 25 June 2014 (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) at which the Resolution will be proposed to approve the DAS Retirement Agreement.

6 Voting at the General Meeting

In accordance with the Listing Rules, HM Treasury will not vote on the Resolution to be proposed at the General Meeting and HM Treasury has undertaken to take all reasonable steps to ensure that its associates, if any, will not vote on the Resolution.

7 Action to be Taken by Independent Shareholders

A Form of Proxy is enclosed which covers the Resolution to be proposed at the General Meeting and which is for use by the holders of Ordinary Shares and 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.

Completed Forms of Proxy should be returned in the pre-paid envelope as soon as possible, but in any event no later than 3.00 p.m. on 23 June 2014. 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.

At the General Meeting RBS will disclose, in relation to the Resolution, the total of the proxy votes received and any votes cast at the meeting, the proportion for and against the Resolution, and the number of votes withheld. Votes withheld will not be counted in the calculation of the proportion of votes 'for' and 'against' the Resolution.

Voting at the General Meeting in respect of the Resolution will be conducted by way of a poll. The Directors believe it is important that the intentions of all members who register a vote are fully taken into account. 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 meeting will still be able to ask questions relevant to the business of the meeting prior to voting on the Resolution.

8 Further information

Your attention is drawn to the further information contained in the rest of this document.

9 Recommendation

The Board, which has been so advised by Morgan Stanley, considers that the DAS Retirement Agreement is fair and reasonable so far as the Shareholders are concerned. In providing its advice, Morgan Stanley has taken into account the Board's commercial assessment of the DAS Retirement Agreement.

Further, the Board considers that the DAS Retirement Agreement and the Resolution are in the best interests of Shareholders taken as a whole. Accordingly, the Board unanimously recommends that Independent Shareholders vote in favour of the Resolution to be put to the General Meeting as they intend to do, or procure, in respect of their own beneficial shareholdings held at the time of the General Meeting.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Philip Hampton', with a stylized flourish at the end.

Philip Hampton
Chairman

PART II

SUMMARY OF THE DAS RETIREMENT AGREEMENT

The following is a summary of the principal terms of the DAS Retirement Agreement. The DAS Retirement Agreement is available for inspection as described in Part IV of this document.

RBS and HM Treasury have entered into the DAS Retirement Agreement pursuant to which, among other things, (1) RBS has agreed to declare in favour of, and pay to, HM Treasury (as holder of the DAS) the First Dividend, such payment being subject to the satisfaction of the Conditions Precedent and (2) the DAS Amendments will take effect, subject to Independent Shareholders' approval being obtained at the General Meeting. The provisions relating to the declaration and payment of the First Dividend and the other agreements of RBS and HM Treasury contained in the DAS Retirement Agreement are summarised in section 1 below. The DAS Amendments are summarised in section 2 below.

1 DAS Retirement Agreement

Conditions precedent to the First Dividend and termination of the DAS Retirement Agreement

The obligation of RBS to pay the First Dividend to HM Treasury is subject to the satisfaction of certain conditions which are summarised below (together, the “**Conditions Precedent**”):

- (a) no revocation of, or material amendment to, the terms of the consent from the PRA;
- (b) the approval of this document by the United Kingdom Listing Authority in accordance with the Listing Rules and FSMA;
- (c) the passing of the Resolution by the Independent Shareholders' and no amendment to or revocation of the Resolution prior to the First Dividend Payment Date;
- (d) the approval of HM Treasury (as sole holder of the DAS) to the DAS Amendments as a shareholder class consent (such approval was given on 9 April 2014);
- (e) no material amendment to the terms of the State Aid Amendment Decision;
- (f) all approvals, authorisations and consents which are required from any government, state or other regulatory body in connection with the DAS Retirement Agreement and the ultimate re-designation of the DAS into a B Share having been obtained; and
- (g) RBS having sufficient profits which are available for distribution and are permitted by law to be distributed for the purposes of the First Dividend.

RBS may, following consultation with HM Treasury, waive compliance with the Conditions Precedent set out in paragraphs (a), (e) and (f) above. If the Condition Precedent set out in paragraph (c) above is not satisfied, RBS has agreed that it shall use all reasonable endeavours to procure (subject to applicable law, including directors' fiduciary duties) that a resolution approving the entry into and performance by RBS of the DAS Retirement Agreement for the purposes of Chapter 11 of the Listing Rules, with such changes as may be agreed between RBS and HM Treasury, is passed by Independent Shareholders at a further general meeting of RBS (the “**Further Independent Shareholder Approval**”) and that, subject to satisfaction of the Conditions Precedent (other than that set out in paragraph (c)), the First Dividend is declared and paid as soon as reasonably practicable thereafter. Where RBS is unable to procure the Further Independent Shareholder Approval by 31 December 2014, the DAS Retirement Agreement shall terminate and cease to have effect (meaning that the First Dividend will not be paid and the DAS Amendments will not take effect) unless otherwise agreed by RBS and HM Treasury.

Undertakings of RBS and HM Treasury

RBS and HM Treasury have each agreed to a number of undertakings under the DAS Retirement Agreement, including those summarised below.

RBS has confirmed or (as the case may be) undertaken to HM Treasury that the Board (a) has authorised RBS to enter into and perform its obligations under the DAS Retirement Agreement and to take all necessary steps in connection therewith and (b) subject to satisfaction of the Conditions Precedent, will declare the First Dividend to be paid on the First Dividend Payment Date and authorise all necessary steps to be taken by RBS in connection therewith. RBS has further undertaken to HM Treasury that the meeting of the Board or a duly authorised committee thereof required to declare and pay the First

Dividend shall take place either before or as soon as reasonably practicable following the date of the General Meeting (provided that the Resolution is passed).

RBS and HM Treasury have undertaken to obtain all approvals, authorisations and consents and provide all notifications as may be required and/or agreed upon between RBS and HM Treasury in connection with the DAS Retirement Agreement and the ultimate re-designation of the DAS into a B Share from any government, state or other regulatory body and shall co-operate with each other in connection therewith. HM Treasury also undertook, as the sole holder of the DAS, to provide its shareholder class approval to the DAS Amendments on the date of the execution of the DAS Retirement Agreement, and such approval was given on 30 May 2014.

Removal of buy back expectation

In clause 8.13(A) of the ACCA, RBS and HM Treasury acknowledged that it was their expectation that in relevant circumstances, and acknowledging the conversion feature applicable to the B Shares set out in the terms of the B Shares, RBS would repurchase the B Shares if it was prudent and practicable. Such repurchase would be subject to approval of the FCA and take account of the Regulatory Group's (as defined in the ACCA) capital position at the time of the proposed repurchase and prevailing market conditions. Clause 8.13(A) of the ACCA will be removed pursuant to the terms of the DAS Retirement Agreement, subject to the passing of the Resolution by the Independent Shareholders.

Amendments to the announcements and communications provisions of the ACCA

In addition, minor amendments will be made to the announcements and communications provisions of the ACCA (subject to the passing of the Resolution by the Independent Shareholders) pursuant to the terms of the DAS Retirement Agreement. These amendments will have the effect of permitting RBS to refer to, amongst other things, the ACCA, the DAS and the B Shares in this Circular, in the DAS Retirement Agreement and in certain other announcements or public statements to be made by RBS without the need for RBS to seek the prior approval of, or provide prior notification to, HM Treasury.

2 Amendments to the DAS Terms

Flexibility as to timing and amount of dividend payments on the DAS

The current DAS Terms provide that non-cumulative dividends on the DAS (known as “**Dividend Access Share Dividends**”) are payable up to and including the Series 1 Class B Dividend Stop Date. The expected timing for payment of a Dividend Access Share Dividend is linked to the timing of annual and semi-annual dividends on Ordinary Shares and the Board does not have the ability to pay dividends on the DAS at a time of its choosing.

In addition, if a cash dividend or Ordinary Share Bonus Issue is paid or made on the Ordinary Shares, the amount of the Dividend Access Share Dividend shall be equal to (a) the greater of (i) 7 per cent. of the aggregate issue price of all B Shares issued to HM Treasury (currently £1,785 million on an annual basis) and (ii) 25 per cent. of such cash dividend or Ordinary Share Bonus Issue multiplied by the number of B Shares issued to HM Treasury less (b) the fair market value of the aggregate amount of any dividends or distributions paid or made on any B Shares and/or on any Ordinary Shares issued on conversion of the B Shares. The Board has limited flexibility as to the amount of any dividends paid on the DAS.

The DAS Amendments will expressly permit the Board at any time, in its sole and absolute discretion, to declare and pay a dividend on the DAS in such amount as the Board may determine. This flexibility is necessary to ensure that RBS can pay the First Dividend and subsequently have the flexibility to make the necessary payment(s) to retire the DAS at a time of the Board's choosing. In addition, the DAS Retirement Agreement which was originally entered into with HM Treasury on 9 April 2014 was subsequently amended and restated on 30 May 2014 to clarify the parties' intention that if RBS pays a dividend on the Ordinary Shares then, under the DAS Amended Terms, the dividend payable on the DAS will equal any portion of the DAS Retirement Dividend Amount which has not been paid at the time of such Ordinary Share dividend.

The right to dividends on the DAS will cease upon payment of the DAS Retirement Dividend Amount rather than following the current Series 1 Class B Dividend Stop Date

Under the current DAS Terms, the “Series 1 Class B Dividend Stop Date” is the date falling 20 days after the DAS Share Price Trigger. The current DAS Terms provide that the right of a holder of the DAS to any

Dividend Access Share Dividends ceases after the Series 1 Class B Dividend Stop Date. This means that no Dividend Access Share Dividend will be paid by RBS following the occurrence of the DAS Share Price Trigger even if a cash dividend or Ordinary Share Bonus Issue is paid or made on the Ordinary Shares by RBS after such time.

The DAS Amendments will remove the DAS Share Price Trigger and instead provide that the DAS holder's right to dividends (including any Dividend Access Share Dividends) under the DAS shall cease following the "Stop Date". Under the DAS Amended Terms, the "Stop Date" will be the date on which the aggregate amount of cash dividends on the DAS paid by RBS since the issue date of the DAS is equal to the DAS Retirement Dividend Amount (which, if paid on or before 31 December 2015, will be £1.5 billion).

Re-designation of DAS to B Share following the Stop Date

As described under the current DAS Terms, Dividend Access Share Dividends are payable in respect of the period up to and including the Series 1 Class B Dividend Stop Date (if any). After such date, the right of the holder of the DAS to Dividend Access Share Dividends in respect of any B Shares in issue during each of the 30 consecutive dealing days during which the DAS Share Price Trigger occurs shall cease, but without prejudice to Dividend Access Share Dividends in respect of any B Shares not in issue on each such day.

As mentioned in the preceding paragraphs, the DAS Amendments will remove the provision described above and provide that non-cumulative dividends on the DAS are payable in respect of the period up to and including the Stop Date (if any). Following the Stop Date (if any), the right of the holder of the DAS to any dividends shall cease and the DAS shall, without the need for any consent or approval from the holder of the DAS or any other action by RBS or the holder of the DAS, be re-designated as a single B Share on terms identical to all other B Shares in issue as at the Stop Date.

Purchase of Ordinary Shares and other Parity Securities (other than B Shares) by RBS

The current DAS Terms provide that, for as long as the DAS remains in issue and the Reference Amount is greater than zero, RBS may not purchase or otherwise acquire any of its Ordinary Shares or other Parity Securities (other than the B Shares) or any depositary or other receipts or certificates representing Ordinary Shares or Parity Securities (other than the B Shares) other than any such purchases or acquisitions which are made in connection with any Employee Share Scheme or which are made from HM Treasury or its nominees. The Reference Amount would only become zero if the DAS Share Price Trigger occurred. The DAS Amendments will amend this restriction so that it will cease to apply once the Stop Date has occurred, that is, once dividends on the DAS equal to the DAS Retirement Dividend Amount have been paid to HM Treasury.

PART III

SUMMARY OF THE STATE AID AMENDMENT DECISION

1 Revised restructuring plan

As outlined in the 2009 Shareholder Circular, in return for the rescue and restructuring support it received between 2008 and 2009, RBS was required to draw up a State aid restructuring plan in conjunction with HM Treasury to submit to the European Commission. In accordance with the State Aid Decision, RBS was required to make a series of divestments and behavioural commitments.

While RBS has implemented all of the other divestments and behavioural commitments agreed in 2009, it was unable to meet the 31 December 2013 deadline for the divestment of the Williams & Glyn Business, which includes a combination of a branch network, customers, staff and supporting infrastructure in the United Kingdom, following Santander UK's decision in October 2012 not to proceed with the purchase of the business which had originally been agreed in August 2010.

In addition, the DAS was an important factor in the European Commission's assessment of the State aid RBS received and was part of the basis for its approval of that support in 2009. It was therefore necessary for the proposal for the eventual retirement of the DAS to be notified to the European Commission by HM Treasury and this was done by HM Treasury at the same time as the request for the extension of the deadline for the divestment of the Williams & Glyn Business.

The European Commission concluded that the new arrangements for the eventual retirement of the DAS did not constitute new State aid and approved the changes to RBS's restructuring plan in the State Aid Amendment Decision. The key commitments made by HM Treasury to the European Commission in connection with this approval are as follows:

- RBS must divest the Williams & Glyn Business by IPO, whole business sale or tendering procedure for its entire interest. In the expected event of divestment by IPO, RBS must carry out this IPO before 31 December 2016 and complete the disposal of its entire interest in the Williams & Glyn Business by 31 December 2017.
- Citizens will be disposed of by 31 December 2016, either by means of initial public offering (if necessary, followed by subsequent disposal tranches), by private sale or through a tendering procedure. If RBS plans to dispose of Citizens through an initial public offering, there will be an automatic 12 month extension to this deadline if market metrics indicate that an IPO or subsequent tranches of disposal cannot be completed in an orderly fashion or at a fair value.

On 1 November 2013, RBS announced that it would accelerate the divestment of Citizens with a partial IPO and that it planned to fully divest the business by the end of 2016. The obligation under the State Aid Amendment Decision to dispose of Citizens is therefore in line with RBS's planned and publicly stated divestment timetable and already reflected in its capital and strategic planning.

The European Commission may require commitments from recipients of State aid in order to ensure the long-term viability of recipients of State aid, ensure adequate sharing of the burden of restructuring by recipients of State aid and their other investors and to remedy distortions to competition. While the disposal of Citizens is in itself a significant commitment, it is, as noted above, in line with RBS's existing timetable and capital plans.

As part of the revised restructuring plan, the commitment given under the 2009 State Aid Decision not to make certain types of acquisitions will continue to remain in effect subject to minor modifications. Under this commitment, RBS agrees not to acquire any financial institutions (or packages of assets and liabilities that constitute a business equivalent to a financial institution) and not to make any other acquisitions the purpose of which is to expand RBS's activities outside of its business model, until the date on which the last of the agreed divestments has been divested (save that RBS shall be permitted to make such acquisitions if the cumulative purchase price excluding the assumption of debt paid by RBS for all such acquisitions in this period is less than £500 million).

2 Revised State Aid Commitment Deed

In connection with the State Aid Decision in December 2009, RBS entered into a State Aid Commitment Deed with HM Treasury. Under the State Aid Commitment Deed, RBS agreed to do all acts and things necessary to ensure HM Treasury's compliance with its obligations under any European Commission decision approving State aid to RBS.

Following the agreement of the revised restructuring plan in the State Aid Amendment Decision, RBS has entered into a Revised State Aid Commitment Deed which provides that RBS will do all acts and things necessary to ensure HM Treasury's compliance with its obligations under the State Aid Amendment Decision.

The Revised State Aid Commitment Deed became effective on the date of the State Aid Amendment Decision. This means that RBS's commitment to comply with the revised restructuring plan set out in the State Aid Amendment Decision (including the disposal of Citizens) is effective even if the DAS Retirement Agreement is not approved by Independent Shareholders and the DAS Amendments therefore do not take effect.

Under the terms of the Revised State Aid Commitment Deed, if HM Treasury or the European Commission seeks to supplement, modify or replace any part of the commitments under the State Aid Amendment Decision, then RBS and HM Treasury will each co-operate in good faith with a view to agreeing an appropriate response to such proposals. However, HM Treasury will not, without the consent of RBS (acting reasonably), agree to any such supplement, modification or replacement that would have the general effect of making any of the commitments under the State Aid Amendment Decision significantly more onerous to RBS. A similar provision was included in the State Aid Commitment Deed.

PART IV
ADDITIONAL INFORMATION

1 RBS

RBS was incorporated and registered in Scotland on 25 March 1968 under the Companies Act 1948 to 1967 as a private company under the name National and Commercial Banking Group Limited. On 3 September 1979, it changed its name to The Royal Bank of Scotland Group Limited. On March 1982, it changed its name to its present name and was registered under the Companies Act 1948 to 1980 as a public company with limited liability. RBS is registered under company number SC045551.

RBS is domiciled in the United Kingdom. Its head office is at RBS Gogarburn, PO Box 1000, Edinburgh, EH12 1HQ and its registered office is at 36 St. Andrew Square, Edinburgh EH2 2YB (tel. no. 0131 556 8555 or, if dialling from outside the United Kingdom, +44 131 556 8555).

The principal laws and legislation under which RBS operates, and under which the Ordinary Shares have been created, are the Companies Act and regulations made thereunder.

2 Major Shareholders

As at 30 May 2014 (being the latest practicable date prior to the publication of this document) RBS had been notified of the following holdings in RBS's issued share capital pursuant to DTR 5 (each, a "Notifiable Interest"):

Shareholder	Number of shares	Number of voting rights	Percentage of voting rights attached to the issued share capital
Solicitor for Affairs of Her Majesty's Treasury as Nominee for HM Treasury	3,964,483,519 Ordinary Shares	15,857,934,076	63.16

Save as set out above, RBS is not aware of any other Notifiable Interests.

3 Material contracts

Of the contracts which (A) have been entered into by RBS or another member of the Group within the two years immediately preceding the date of this document and are or may be material or (B) have been entered into at any time by RBS or any member of the Group and contain provisions under which RBS or any member of the Group has an obligation or entitlement which is, or may be, material to RBS or any member of the Group as at the date of this document, the DAS Retirement Agreement (not being a contract entered into in the ordinary course of business) is the only contract which the Independent Shareholders would reasonably require in making a properly informed assessment of how to vote on the Resolution.

A summary of the DAS Retirement Agreement is set out in Part II of this document.

4 Significant changes

There has been no significant change in the financial or trading position of the Group since 31 March 2014, the date to which the last published interim financial information of the Group was prepared.

5 Consent

Morgan Stanley has given and not withdrawn its written consent to the inclusion of its name in this document in the form and context in which it is included.

6 Documents available for inspection

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the registered office of RBS and at the offices of Linklaters LLP, One Silk Street, London EC2Y 8HQ, from the date of the posting of this document up to and including the date of the General Meeting:

- (a) the Articles of Association;

- (b) the consent letter referred to in paragraph 5 above;
- (c) the DAS Retirement Agreement;
- (d) the Annual Report and the consolidated audited accounts of the Group for each of the two financial years ended 31 December 2013 and 2012; and
- (e) this document and the Form of Proxy.

DEFINITIONS

The following definitions apply throughout this document, unless stated otherwise:

2009 Shareholder Circular	the shareholder circular and notice of general meeting for the General Meeting held on 15 December 2009 at the RBS Gogarburn Conference Centre
ACCA	the Acquisition and Contingent Capital Agreement entered into on 26 November 2009 between HM Treasury and RBS
Annual General Meeting	the annual general meeting of RBS to be held at RBS Conference Centre, RBS Gogarburn, Edinburgh EH12 1HQ on 25 June 2014 at 2.00 p.m.
APS	the asset protection scheme announced by HM Treasury on 19 January 2009
Articles of Association	the articles of association of RBS
Board	the board comprising the Directors or any duly appointed committee thereof
B Shares	the 51,000,000,000 Series 1 Class B Shares of 1 penny each in the capital of RBS
Business Day	any day (other than a Saturday or a Sunday) on which clearing banks are open for a full range of banking transactions in London
CCF	the £8 billion Contingent Capital Facility between RBS and HM Treasury
Citizens	Citizens Financial Group, Inc., a commercial bank holding company headquartered in Providence, Rhode Island, United States and, currently, a wholly owned subsidiary of RBS
Companies Act	the UK Companies Act 2006, as amended from time to time
Conditions Precedent	has the meaning given to it in section 1 of Part II of this document
Cumulative Preference Shares	the 11 per cent. cumulative preference shares of £1 each and 5.5 per cent. cumulative preference shares of £1 each in the capital of RBS
DAS or Dividend Access Share	the Series 1 Dividend Access Share of 1 penny in the capital of RBS
DAS Amended Terms	the terms set out in Annex I to this document
DAS Amendments	the amendments to be made to the DAS Terms in accordance with the DAS Retirement Agreement

DAS Retirement Agreement	the amended and restated agreement dated 30 May 2014 between RBS and HM Treasury to provide for the future retirement of the DAS
DAS Retirement Dividend Amount	£1.5 billion subject to an increase of (a) 5 per cent. per annum, calculated on a daily accruals basis from 1 January 2016, on any part of the £1.5 billion that has not been paid before 1 January 2016 and (b) 10 per cent. per annum, calculated on a daily accruals basis from 1 January 2021, on any part of the balance that has not been paid before 1 January 2021
DAS Share Price Trigger	has the meaning given to it in section 1 of Part I of this document
DAS Terms	means the terms of the DAS at the date of the DAS Retirement Agreement
Directors	the directors of RBS
Dividend Access Share Dividend	has the meaning given to it in section 2 of Part II of this document
DTRs	the Disclosure and Transparency Rules made by the FCA pursuant to Part 6 of FSMA
Employee Share Scheme	has the meaning given to it in the DAS Terms
FCA	the UK Financial Conduct Authority
First Dividend	the declaration and payment of a £320 million dividend by RBS to HM Treasury on the terms and subject to the conditions set out in the DAS Retirement Agreement
First Dividend Payment Date	such date as is determined by the Board, such date to be as soon as reasonably practicable, and in any case no later than 45 Business Days after the date on which the Conditions Precedent have been satisfied
Form of Proxy	the form of proxy accompanying this document for use by Independent Shareholders in relation to the General Meeting
FSMA	Financial Services and Markets Act 2000
Further Independent Shareholder Approval . .	has the meaning given to it in section 1 of Part II of this document
General Meeting	the general meeting of RBS to be held at RBS Conference Centre, RBS Gogarburn, Edinburgh EH12 1HQ on 25 June 2014 at 3.00 p.m. (or as soon thereafter as the Annual General meeting convened at 2.00 p.m. on the same day and at the same place shall have been completed or adjourned) (or any adjournment thereof), notice of which is set out at the end of this document

Group	RBS and each of its subsidiaries and subsidiary undertakings from time to time
HM Treasury	The Commissioners of Her Majesty's Treasury of 1 Horse Guards Road, London SW1A 2HQ
Independent Shareholders	the Shareholders, excluding HM Treasury and any associate of HM Treasury
IPO	an initial public offering
Listing Rules	the Listing Rules issued and maintained by the FCA under Part VI of FSMA
Morgan Stanley	Morgan Stanley & Co. International plc of 25 Cabot Square, London, EC14 4QA
Ordinary Shareholder	a holder of an Ordinary Share and Ordinary Shareholders shall be interpreted accordingly
Ordinary Shares	the ordinary shares of £1 each in the share capital of RBS
Ordinary Share Bonus Issue	has the meaning given to it in Annex I to this document
Parity Securities	has the meaning given to it in Annex I to this document
PRA	the UK Prudential Regulation Authority
RBS	The Royal Bank of Scotland Group plc, a company incorporated under the laws of Scotland (registered under no. SC045551), with its registered office at 36 St Andrew Square, Edinburgh, EH2 2YB
Reference Amount	has the meaning given to it in Annex I to this document
Resolution	the ordinary resolution to approve the entry into, implementation of and giving effect to the DAS Retirement Agreement as set out in more detail in the notice of General Meeting at the end of this document
Revised State Aid Commitment Deed	the deed entered into by RBS on 9 April 2014 in favour of HM Treasury in connection with the State Aid Amendment Decision
Series 1 Class B Dividend Stop Date	has the meaning given to it in section 2 of Part II of this document
Shareholder	an Ordinary Shareholder and, where the context permits, a holder of Cumulative Preference Shares and Shareholders shall be interpreted accordingly
State Aid Amendment Decision	the decision by the European Commission dated 9 April 2014 pursuant to case State aid No SA.38304

State Aid Commitment Deed	the deed entered into by RBS on 26 November 2009 in favour of HM Treasury in connection with the State Aid Decision
State Aid Decision	the European Commission's State aid decision of 14 December 2009 under Cases No N422/2009 and N621/2009
Stop Date	has the meaning given to it in section 2 of Part II of this document
Williams & Glyn Business	the UK branch network, customers, staff and supporting infrastructure as described in section 1 of Part III of this document

ANNEX I
PROPOSED AMENDMENTS TO THE TERMS OF ISSUE OF THE DIVIDEND
ACCESS SHARE

DIVIDEND ACCESS SHARE TERMS

Terms of Issue of the RBSG Series 1 Dividend Access Share

1 General

The Series 1 Dividend Access Share will have a nominal value of £0.01 and will be fully paid up at issue. The Series 1 Dividend Access Share will be issued in registered form and will be held in certificated form. Temporary documents of title in relation to the Series 1 Dividend Access Share in certificated form will not be issued pending despatch by post of a definitive certificate. Capitalised terms used and not otherwise defined herein shall have the respective meanings ascribed thereto in paragraph 16 below.

2 Series 1 Dividend Access Share Dividends

- 2.1 Subject to the discretions, limitations and qualifications set out herein, non-cumulative dividends on the Series 1 Dividend Access Share will be payable from the date the Company issues the Series 1 Dividend Access Share in respect of the period up to and including the Series 1 Class B Dividend Stop Date (if any). ~~The No dividends will be payable on the Series 1 Dividend Access Share after the Stop Date (if any).~~ Up to and including the Stop Date, the Company will pay dividends when, as and if declared by the Board of Directors. ~~Subject Up to and including the Stop Date,~~ subject to the discretions, limitations and qualifications set out herein, the Series 1 Dividend Access Share shall entitle the holder thereof to receive out of the distributable profits of the Company a non-cumulative dividend (the “**Dividend Access Share Dividend**”), in priority to the payment of any dividend to the holders of any class of Ordinary Share or Class B Shares and *pari passu* in such regard with the holders of any other Dividend Access Shares then in issue.

The Board of Directors shall, by 31 October in each financial year of the Company, decide whether or not to pay an interim dividend on the Ordinary Shares or make an interim Ordinary Share Bonus Issue in that financial year. If it is decided that an interim dividend on the Ordinary Shares or an interim Ordinary Share Bonus Issue is to be paid or made in any financial year, the corresponding semi-annual (hereinafter referred to as “**first semi-annual**”) Dividend Access Share Dividend or Bonus Issue on the Series 1 Dividend Access Share in the same financial year will be paid or made at the time set out below. The record date for any first semi-annual Dividend Access Share Dividend or Bonus Issue on the Series 1 Dividend Access Share shall be the same as the record date for any interim dividend on the Ordinary Shares or interim Ordinary Share Bonus Issue in the relevant financial year or otherwise shall be three Business Days before 31 October in each year. If paid or made, the first semi-annual Dividend Access Share Dividend or Bonus Issue on the Series 1 Dividend Access Share in a financial year will be paid or made on the same date that the corresponding interim dividend on the Ordinary Shares is paid or interim Ordinary Share Bonus Issue is made. If it is decided that no such interim dividend on the Ordinary Shares or interim Ordinary Share Bonus Issue will be paid or made in a financial year, the first semi-annual Dividend Access Share Dividend or Bonus Issue on the Series 1 Dividend Access Share in such financial year will, if to be paid or made, be so paid or made on 31 October in such financial year (commencing in 2010). Any first semi-annual Dividend Access Share Dividend will only be paid if (to the extent legally required) profits are available for distribution and are permitted by law to be distributed.

The Board of Directors shall, by 31 May in each financial year of the Company, decide whether or not to recommend a dividend on the Ordinary Shares or make an Ordinary Share Bonus Issue which is expressed to be a final dividend for the immediately preceding financial year. If it is decided that such a dividend on the Ordinary Shares or Ordinary Share Bonus Issue is to be recommended and is subsequently approved by Shareholders, the corresponding semi-annual (hereinafter referred to as “**second semi-annual**”) Dividend Access Share Dividend or Bonus Issue on the Series 1 Dividend Access Share expressed to be for the corresponding period will be paid at the time set out below. The record date for any second semi-annual Dividend Access Share Dividend or Bonus Issue on the Series 1 Dividend Access Share shall be the same as the record date for any final dividend on the Ordinary Shares or final Ordinary Share Bonus Issue for the relevant financial year or otherwise shall be three Business Days before 31 May in each year. If paid or made, the second semi-annual Dividend Access Share Dividend or Bonus Issue on the Series 1 Dividend Access Share in a financial year will be paid or made on the same date that the corresponding final dividend on the Ordinary Shares is paid or final Ordinary Share Bonus Issue is made. If it is decided that no such final dividend on the Ordinary Shares or Ordinary Share

Bonus Issue will be paid or made in any year (the “**current year**”) for the immediately preceding financial year, any second semi-annual Dividend Access Share Dividend or Bonus Issue on the Series 1 Dividend Access Share expressed to be for the corresponding period will, if to be paid or made, be so paid or made on 31 May in the current year (commencing in 2010). Any second semi-annual Dividend Access Share Dividend will only be paid if (to the extent legally required) profits are available for distribution and are permitted by law to be distributed.

If paid or made, the first semi-annual Dividend Access Share Dividend on the Series 1 Dividend Access Share shall be equivalent to ~~(A) the greater of:~~ equal to an amount which, before taking account of any withholding or deduction required to be made on account of tax from such dividend and when added to any other cash dividends previously paid by the Company on the Series 1 Dividend Access Share since the Issue Date (before taking account of any withholding or deduction required to be made on account of tax from such cash dividends), equals the DAS Retirement Dividend Amount.

- ~~(1) 7 per cent. of the Reference Amount multiplied by the actual number of days in the period from (but excluding) the immediately preceding Relevant Date or, if none, the Issue Date to (and including) the current Relevant Date or, if there has occurred prior to such current Relevant Date a Series 1 Class B Dividend Stop Date in respect of any Series 1 Class B Shares, then in respect of those Series 1 Class B Shares, to (and including) such earlier Series 1 Class B Dividend Stop Date, divided by 365 (or 366 in a leap year) and~~
- ~~(2) if a cash dividend or cash dividends on the Ordinary Shares or Ordinary Share Bonus Issue(s) is/are paid or made in the period from (but excluding) the immediately preceding Relevant Date or, if none, the Issue Date to (and including) the current Relevant Date or, if there has occurred prior to such current Relevant Date a Series 1 Class B Dividend Stop Date in respect of any Series 1 Class B Shares, then in respect of those Series 1 Class B Shares, to (and including) such earlier Series 1 Class B Dividend Stop Date, 250 25 per cent. (as adjusted from time to time as provided below, the “**Participation Rate**”) of the aggregate Fair Market Value of such cash dividend(s) or Ordinary Share Bonus Issue(s) per Ordinary Share multiplied by the then Reference Series 1 Class B Shares Number. Where a dividend in cash is announced which may at the election of a Shareholder or Shareholders be satisfied by the issue or delivery of Ordinary Shares in an Ordinary Share Bonus Issue, or where an Ordinary Share Bonus Issue is announced which may at the election of a Shareholder or Shareholders be satisfied by the payment of cash, then the Fair Market Value of such dividend or Ordinary Share Bonus Issue shall be deemed to be the amount of the dividend in cash or of the payment in cash (as the case may be),~~

~~less (B) the Fair Market Value of the aggregate amount of any dividend or distribution paid or made on the Series 1 Class B Shares and/or on any Ordinary Shares issued on conversion of the Series 1 Class B Shares (regardless of who holds such Series 1 Class B Shares or Ordinary Shares at the relevant time) in the period from (but excluding) the immediately preceding Relevant Date or, if none, the Issue Date to (and including) the current Relevant Date (or, if there has occurred prior to such current Relevant Date a Series 1 Class B Dividend Stop Date in respect of any Series 1 Class B Shares, then in respect of those Series 1 Class B Shares to (and including) such earlier Series 1 Class B Dividend Stop Date), provided that the first semi-annual Dividend Access Share Dividend shall never be less than zero.~~

If paid or made, the second semi-annual Dividend Access Share Dividend on the Series 1 Dividend Access Share shall be equivalent to (A) the greater of:

- (1) 7 per cent. of the Reference Amount multiplied by the actual number of days in the period from (but excluding) the Relevant Date falling on (or nearest to) one year prior to the current Relevant Date or, if none, the Issue Date to (and including) the current Relevant Date or, if there has occurred prior to such current Relevant Date a Series 1 Class B Dividend Stop Date in respect of any Series 1 Class B Shares, then in respect of those Series 1 Class B Shares, to (and including) such earlier Series 1 Class B Dividend Stop Date, divided by 365 (or 366 in a leap year) and
- (2) if a cash dividend or cash dividends on the Ordinary Shares or Ordinary Share Bonus Issue(s) is/are paid or made in the period from (but excluding) the Relevant Date falling on

(or nearest to) one year prior to the current Relevant Date or, if none, the Issue Date to (and including) the current Relevant Date or, if there has occurred prior to such current Relevant Date a Series 1 Class B Dividend Stop Date in respect of any Series 1 Class B Shares, then in respect of those Series 1 Class B Shares, to (and including) such earlier Series 1 Class B Dividend Stop Date, the Participation Rate, 25 per cent. (as adjusted from time to time as provided below, the "**Participation Rate**") of the aggregate Fair Market Value of such cash dividend(s) or Ordinary Share Bonus Issue(s) per Ordinary Share multiplied by the then Reference Series 1 Class B Shares Number. Where a dividend in cash is announced which may at the election of a Shareholder or Shareholders be satisfied by the issue or delivery of Ordinary Shares in an Ordinary Share Bonus Issue, or where an Ordinary Share Bonus Issue is announced which may at the election of a Shareholder or Shareholders be satisfied by the payment of cash, then the Fair Market Value of such dividend or Ordinary Share Bonus Issue shall be deemed to be the amount of the dividend in cash or of the payment in cash (as the case may be),

less (B) the Fair Market Value of the aggregate amount of any dividend or distribution paid or made on the Series 1 Class B Shares and/or on any Ordinary Shares issued on conversion of the Series 1 Class B Shares (regardless of who holds such Series 1 Class B Shares or Ordinary Shares at the relevant time) in the period from (but excluding) the Relevant Date falling on (or nearest to) one year prior to the current Relevant Date or, if none, the Issue Date to (to including) the current Relevant Date ~~(or, if there has occurred prior to such current Relevant Date a Series 1 Class B Dividend Stop Date in respect of any Series 1 Class B Shares, then in respect of those Series 1 Class B Shares to (and including) such earlier Series 1 Class B Dividend Stop Date)~~ and less the Fair Market Value of the immediately preceding first semi-annual Dividend Access Share Dividend or Bonus Issue paid or made (if any),

~~provided that the second semi-annual Dividend Access Share Dividend shall never be less than zero~~ provided that the second semi-annual Dividend Access Share Dividend shall never be less than zero and provided that any second semi-annual Dividend Access Share Dividend on the Series 1 Dividend Access Share shall not in any event exceed a sum which, before taking account of any withholding or deduction required to be made on account of tax from such dividend and when added to any other cash dividends previously paid by the Company on the Series 1 Dividend Access Share since the Issue Date (before taking account of any withholding or deduction required to be made on account of tax from such cash dividends), would exceed the DAS Retirement Dividend Amount.

If the Participation Rate is adjusted during the course of a financial year, the amount of the semi-annual Dividend Access Share Dividend in such financial year, if determined by reference to the Participation Rate, shall itself be adjusted in such manner as the Independent Financial Adviser (acting as an expert) considers appropriate to take account of the date(s) on which the adjustment(s) to the Participation Rate become effective. A written opinion of the Independent Financial Adviser in respect thereof shall be conclusive and binding on all parties, save in the case of manifest error.

The ~~initial~~ Participation Rate ~~is 25~~ as at 25 June 2014 is 25 per cent. Upon the happening of any of the events in respect of which the Series 1 Class B Share Conversion Price or the Series 1 Class B Share Relevant Amount shall be adjusted as provided in:

- (i) sub-paragraphs 4(b)(i) to (x) (inclusive) of the Series 1 Class B Share Terms (subject to the provisions of the last paragraph of paragraph 4(a) of the Series 1 Class B Share Terms), the Participation Rate shall also be adjusted at the same time as follows:

$$NPR = OPR \times \frac{OCP}{NCP}$$

and

- (ii) paragraph 4(l) of the Series 1 Class B Share Terms (subject to paragraph 4(a) of the Series 1 Class B Share Terms), the Participation Rate shall also be adjusted at the same time as follows:

$$\text{NPR} = \text{OPR} \times \frac{\text{NRA}}{\text{ORA}}$$

where:

NPR means the new Participation Rate, following such adjustment;

OPR means the old Participation Rate, immediately prior to such adjustment;

NCP means the new Series 1 Class B Share Conversion Price following such adjustment;

OCP means the old Series 1 Class B Share Conversion Price, immediately prior to such adjustment;

NRA means the new Series 1 Class B Share Relevant Amount following such adjustment; and

ORA means the old Series 1 Class B Share Relevant Amount, immediately prior to such adjustment

In addition to the above, the Board of Directors may at any time in its sole and absolute discretion declare a dividend on the Series 1 Dividend Access Share. Any such dividend shall not be a "Dividend Access Share Dividend" for the purposes of these Terms of Issue. If the Board of Directors does so declare a dividend, it shall also determine the amount of such dividend, the record date for such dividend and the date on which such dividend is to be paid or made. Any such dividend will only be paid if (to the extent legally required) profits are available for distribution and are permitted by law to be distributed. The Board of Directors may exercise their discretion not to pay a dividend under this sub-paragraph notwithstanding the previous setting aside of a sum to provide for payment of that dividend. As soon as practicable after resolving that a dividend shall be paid under this sub-paragraph, the Board of Directors shall give notice thereof to the holder of the Series 1 Dividend Access Share in accordance with paragraph 11.

- 2.2 The Company shall, upon determining any dividend pursuant to this paragraph 2, cause the amount thereof to be notified to the holders of Series 1 Dividend Access Share in accordance with paragraph 11.

- 2.3 In the event of a change to the accounting reference date of the Company, the references in this paragraph 2 to (i) 31 May shall be deemed to be changed to such date as falls five months after the new accounting reference date and (ii) 31 October shall be deemed to be changed to such date as falls ten months after the new accounting reference date.

In the event of a change in accounting reference date ~~from 31 December~~ of the Company, the Company shall make such other changes to the dividend payment arrangements described above as, following consultation with an Independent Financial Adviser (acting as an expert), it determines are fair and reasonable to take account of any initial stub period(s) when the new accounting reference date is introduced.

In the event of a change in the frequency of dividend payments on the Ordinary Shares such that they are not paid semi-annually consistent with the payment of Dividend Access Share Dividends on the Series 1 Dividend Access Share, the Company shall make such changes to the Dividend Access Share Dividend payment arrangements described in this paragraph 2 as, following consultation with the Independent Financial Adviser (acting as an expert), it determines are fair and reasonable to take account of such changed frequency.

- 2.4 Non-cumulative dividends on the Series 1 Dividend Access Share are payable in respect of the period up to and including the ~~Series 1 Class B Dividend Stop Date (if any)~~. After the ~~Series 1 Class B Dividend Stop Date (if any)~~ the right of the holder of ~~this the Series 1 Dividend Access Share to any dividends (including any Dividend Access Share Dividends in respect of any)~~ hereunder shall cease and the Series 1 Dividend Access Share shall, without the need for any consent of or approval from the holder of the Series 1 Dividend Access Share or any other action by the Company or the holder of the Series 1 Dividend Access Share, be re-designated as a single Series 1 Class B Share on terms identical to all other Series 1 Class B Shares in issue

during each of the 30 consecutive dealing days during which the Series 1 Class B Dividend Trigger Event occurs shall cease, but this is without prejudice to the right to Dividend Access Share Dividends in respect of any Series 1 Class B Shares not in issue on each such day at the Stop Date.

2.5 If any doubt shall arise as to the appropriate amount of any Dividend Access Share Dividend, and then following consultation between the Company and an Independent Financial Adviser, a written opinion of such Independent Financial Adviser in respect thereof shall be conclusive and binding on all parties, save in the case of manifest or proven error.

2.6 (i) Until (and including) 31 December 2015, the DAS Retirement Dividend Amount will be £1,500,000,000. On or after 1 January 2016, the DAS Retirement Dividend Amount shall be subject to increase as set out below.

(ii) If aggregate cash dividends paid (before taking account of any withholding or deduction required to be made on account of tax from such cash dividends) on the Series 1 Dividend Access Share between the Issue Date and 31 December 2015 (both such dates inclusive) are less than £1,500,000,000, (a) the difference between £1,500,000,000 and the gross aggregate amount (if any) so paid between the Issue Date and 31 December 2015 (both such dates inclusive) shall be referred to as the “**Unpaid Amount**” and (b) the DAS Retirement Dividend Amount shall be increased such that the DAS Retirement Dividend Amount shall only be deemed to have been paid once the gross amount paid of cash dividends on the Series 1 Dividend Access Share (before taking account of any withholding or deduction required to be made on account of tax from such cash dividends) is equal to the Unpaid Amount (increased as described in this paragraph 2.6(ii)).

On any date on or after 1 January 2016 on which a dividend (the “**Relevant Dividend**”) is to be paid on the Series 1 Dividend Access Share (an “**Unpaid Amount Recalculation Date (First Period)**”), the Unpaid Amount shall, prior to such dividend being paid, be recalculated by increasing it to an amount equal to:

(x) the Unpaid Amount

plus

(y) $5\% \times \text{the Unpaid Amount} \times \text{Number of Completed Years (First Period)}$

plus (if the Unpaid Amount Recalculation Date (First Period) falls on a day other than a day which is an anniversary of the previous Unpaid Amount Recalculation Date (First Period) or, in the case of the first Unpaid Amount Recalculation Date (First Period), a day other than 1 January in any year)

(z) $5\% \times \text{the Unpaid Amount} \times [\text{Actual Number of Days in Incomplete Period (First Period)} \div 365 \text{ (or 366 if all or part of the Incomplete Period (First Period) falls in a leap year)}]$

The Relevant Dividend (before taking account of any withholding or deduction required to be made on account of tax from such dividend) shall then be deducted from the Unpaid Amount and the resulting figure will become the new Unpaid Amount going forward.

“**Number of Completed Years (First Period)**” means the number (if any) of completed periods of 365 (or, in the case of any period including all or part of a leap year, 366) days from (and including) the previous Unpaid Amount Recalculation Date (First Period) (or, in the case of the first Unpaid Amount Recalculation Date (First Period), from (and including) 1 January 2016) to but excluding the Unpaid Amount Recalculation Date (First Period).

“**Actual Number of Days in Incomplete Period (First Period)**” means the actual number of days in the relevant Incomplete Period (First Period).

“**Incomplete Period (First Period)**” means, in respect of any Unpaid Amount Recalculation Date (First Period), any period of time from (and including) the immediately preceding annual anniversary of the previous Unpaid Amount Recalculation Date (First Period) (or, in the case of the first Unpaid Amount Recalculation Date (First Period), from (and including) the immediately preceding 1 January) to (but excluding) the relevant Unpaid Amount Recalculation Date (First Period).

- (iii) If aggregate cash dividends paid (before taking account of any withholding or deduction required to be made on account of tax from such cash dividends) on the Series 1 Dividend Access Share between the Issue Date and 31 December 2020 (both such dates inclusive) are less than the DAS Retirement Dividend Amount, (a) the Unpaid Amount will be determined on 1 January 2021 in accordance with paragraph 2.6(ii) as if 1 January 2021 was an Unpaid Amount Recalculation Date (First Period) and (b) the DAS Retirement Dividend Amount shall be increased such that the DAS Retirement Dividend Amount shall only be deemed to have been paid once the gross amount paid of cash dividends on the Series 1 Dividend Access Share (before taking account of any withholding or deduction required to be made on account of tax from such cash dividends) is equal to the Unpaid Amount (increased as described in this paragraph 2.6(iii)).

On any date on or after 1 January 2021 on which a Relevant Dividend is to be paid on the Series 1 Dividend Access Share (an “**Unpaid Amount Recalculation Date (Second Period)**”), the Unpaid Amount shall, prior to such dividend being paid, be recalculated by increasing it to an amount equal to:

- (x) the Unpaid Amount

plus

- (y) $10\% \times \text{the Unpaid Amount} \times \text{Number of Completed Years (Second Period)}$

plus (if the Unpaid Amount Recalculation Date (Second Period) falls on a day other than a day which is an anniversary of the previous Unpaid Amount Recalculation Date (Second Period) or, in the case of the first Unpaid Amount Recalculation Date (Second Period), a day other than 1 January in any year)

- (z) $10\% \times \text{the Unpaid Amount} \times [\text{Actual Number of Days in Incomplete Period (Second Period)} \div 365 \text{ (or 366 if all or part of the Incomplete Period (Second Period) falls in a leap year)}]$

The Relevant Dividend (before taking account of any withholding or deduction required to be made on account of tax from such dividend) shall then be deducted from the Unpaid Amount and the resulting figure will become the new Unpaid Amount going forward.

“**Number of Completed Years (Second Period)**” means the number (if any) of completed periods of 365 (or, in the case of any period including all or part of a leap year, 366) days from (and including) the previous Unpaid Amount Recalculation Date (Second Period) or, in the case of the first Unpaid Amount Recalculation Date (Second Period), from (and including) 1 January 2021) to but excluding the Unpaid Amount Recalculation Date (Second Period).

“**Actual Number of Days in Incomplete Period (Second Period)**” means the actual number of days in the relevant Incomplete Period (Second Period).

“**Incomplete Period (Second Period)**” means, in respect of any Unpaid Amount Recalculation Date (Second Period), any period of time from (and including) the immediately preceding annual anniversary of the previous Unpaid Amount Recalculation Date (Second Period) (or, in the case of the first Unpaid Amount Recalculation Date (Second Period), from (and including) the immediately preceding 1 January) to (but excluding) the relevant Unpaid Amount Recalculation Date (Second Period).

- (iv) All determinations of the DAS Retirement Dividend Amount (including the Unpaid Amount) in accordance with this paragraph 2.6 shall be made by the Company in its sole and absolute discretion and shall be binding on the holder of the Series 1 Dividend Access Share.

3 Payment of Dividend Access Share Dividends Discretionary

If, in the opinion of the Board of Directors, the distributable profits of the Company are sufficient to cover the payment, in full, of the Dividend Access Share Dividend on the relevant Dividend Access Share Dividend payment date and also the payment in full of all other dividends and other

amounts stated to be payable on such date on any Parity Securities in issue (other than the Ordinary Shares and the Series 1 Class B Shares), the Board of Directors may:

- (a) pay in full the Dividend Access Share Dividend on the relevant Dividend Access Share Dividend payment date; or
- (b) in their sole and absolute discretion resolve at least 10 Business Days prior to the relevant Dividend Access Share Dividend payment date that no Dividend Access Share Dividend shall be paid or that a Dividend Access Share Dividend shall be paid only in part.

The Board of Directors shall not be bound to give their reasons for exercising their discretion under this sub-paragraph. The Board of Directors may exercise their discretion in respect of a dividend notwithstanding the previous setting aside of a sum to provide for payment of that dividend to the extent that, in the opinion of the Board of Directors (i) there are insufficient distributable profits to cover the payment, in full, of the Dividend Access Share Dividend on the relevant Dividend Access Share payment date and also the payment in full of all other dividends and other amounts stated to be payable on such date on any Parity Securities in issue (other than the Ordinary Shares and the Series 1 Class B Shares) or (ii) the payment of the Dividend Access Share Dividend would breach or cause a breach of the capital adequacy requirements applicable to the Company.

If, at least 10 Business Days prior to a Dividend Access Share Dividend payment date, the Board of Directors considers that the distributable profits of the Company are insufficient to cover the payment in full of the Dividend Access Share Dividend and also the payment in full of all other dividends or other amounts stated to be payable on such Dividend Access Share Dividend payment date on any Parity Securities (other than the Ordinary Shares and the Series 1 Class B Shares), then the Board of Directors may pay a reduced Dividend Access Share Dividend. This will be paid in proportion to the dividends and other amounts which would have been due on the Series 1 Dividend Access Share and any other shares and other instruments of the Company (other than the Ordinary Shares and the Series 1 Class B Shares) on such Dividend Access Share Dividend payment date which are expressed to rank equally with the Series 1 Dividend Access Share as regards participation in profits if there had been sufficient profit.

The Board of Directors may in its discretion decide that the Dividend Access Share Dividend in any financial year will not be paid at all or will be paid only in part even when distributable profits are available for distribution. If the Board of Directors decides not to pay the Dividend Access Share Dividend in respect of a period or determines that it shall be paid only in part, then the right of the holder of the Series 1 Dividend Access Share to receive the relevant Dividend Access Share Dividend in respect of that period will be lost either entirely or as to the part not paid, as applicable, and the Company will have no obligation in respect of the amount of Dividend Access Share Dividend not paid either to pay the relevant Dividend Access Share Dividend in respect of that period or to pay interest thereon, whether or not Dividend Access Share Dividends are paid in respect of any future financial period.

As soon as practicable after resolving that no Dividend Access Share Dividend shall be paid or that it shall be paid only in part, the Board of Directors shall give notice thereof to the holder of the Series 1 Dividend Access Share in accordance with paragraph 11.

4 ~~Payment of Dividend Access Share Dividends~~

Subject to these terms of issue, the Company will, if to be paid, pay any dividends on the Series 1 Dividend Access Share, including Dividend Access Share Dividends, out of its distributable profits in sterling. ~~Dividend Access Share Dividends~~ Such dividends may be paid by the Company by crediting any account which the holder of the Series 1 Dividend Access Share, or in the case of joint holders, the holder whose name stands first in the register in respect of the Series 1 Dividend Access Share, has with the Company, whether in the sole name of such holder or the joint names of such holder and another person or person, unless the Company has received not less than one month's notice in writing from such holder or joint holders directing that payment be made in another manner permitted by the Articles.

Any such ~~Dividend Access Share Dividend~~ dividend may be paid by any bank or other funds transfer system or, if agreed by the Company, such other means and to or through such person, in each case as the holder or joint holders may in writing direct.

If payment in respect of the Series 1 Dividend Access Share into any such bank account is to be made on a ~~Dividend Access Share Dividend~~ payment date which is not a Business Day, then payment of such amount will be made on the next succeeding Business Day, without any interest or payment in respect of such delay.

Payments in respect of amounts payable by way of ~~Dividend Access Share Dividend~~ dividend will be subject in all cases to any applicable fiscal or other laws and other regulations.

If the Board of Directors decides to pay a Dividend Access Share Dividend and either (i) no dividend has been paid on the Ordinary Shares and/or distribution made thereon in respect of the corresponding period or (ii) a dividend has been paid and/or a distribution has been made on the Ordinary Shares otherwise than in cash in respect of the corresponding period, the Board of Directors may in its discretion determine that such Dividend Access Share Dividend shall be paid in whole or in part by the Company issuing Series 1 Class B Shares, credited as fully paid, to the holder of the Series 1 Dividend Access Share. The number of such Series 1 Class B Shares to be issued to the holder shall be such number of Series 1 Class B Shares as shall be certified by the Independent Financial Adviser (acting as an expert) to be as nearly as possible equal to (but not greater than) the cash amount (disregarding any withholding or deduction required to be made on account of any tax and any associated tax credit) of such semi-annual Dividend Access Share Dividend or part thereof otherwise payable to such holder of the Series 1 Dividend Access Share, based on the Fair Market Value of a Series 1 Class B Share at the time of such determination. A written opinion of the Independent Financial Adviser in respect thereof shall be conclusive and binding on all parties, save in the case of manifest error.

The basis of allotment in accordance with the immediately preceding paragraph shall be such that the holder of the Series 1 Dividend Access Share may not receive a fraction of a Series 1 Class B Share (for this purpose calculating entitlements on the basis of a holder's entire holding of Series 1 Class B Shares). The Board of Directors may make such provisions as they think fit for any fractional entitlements, including provisions whereby, in whole or in part, fractional entitlements are disregarded or the benefit thereof accrues to the Company and/or under which fractional entitlements are accrued and/or retained.

The Series 1 Class B Shares so allotted shall rank *pari passu* in all respects with the fully paid Series 1 Class B Shares then in issue save only as regards participation in any dividend on the Series 1 Class B Shares payable by reference to a record date falling on or prior to the date of issue of the Series 1 Class B Shares so allotted.

The new Series 1 Class B Shares issued in respect of the whole (or some part) of the relevant dividend declared in respect of the Series 1 Dividend Access Share shall be in certificated form unless the Company and a holder agree otherwise.

The Board of Directors may undertake and do such acts and things as they may consider necessary or expedient for the purpose of giving effect to the provisions of this paragraph 4.

5 Restrictions on Dividends and Redemption

If any Dividend Access Share Dividend is not declared and paid in full in cash or otherwise, the Company:

- (i) may not, and shall procure that no member of the Group shall, declare or pay dividends or other distributions upon any Parity Securities (whether in cash or otherwise, and whether payable on the same date as the relevant Dividend Access Share Dividend or subsequently) or make any Ordinary Share Bonus Issue (whether to be made on the same date as the relevant Dividend Access Share Dividend or subsequently), and the Company may not, and shall procure that no member of the Group shall, set aside any sum for the payment of these dividends or distributions; or
- (ii) may not, and shall procure that no member of the Group shall, redeem, purchase or otherwise acquire (whether on the same date as the relevant Dividend Access Share Dividend is payable or subsequently) for any consideration any of its Parity Securities or any depository or other receipts or certificates representing Parity Securities (other than any such purchases or acquisitions which are made in connection with any Employee Share Scheme), and (save as aforesaid) the Company may not, and shall procure that no

member of the Group shall, set aside any sum or establish any sinking fund (whether on the same date as the relevant Dividend Access Share Dividend is payable or subsequently) for the redemption, purchase or other acquisition of Parity Securities or any depository or other receipts or certificates representing Parity Securities,

in each case until such time as Dividend Access Share Dividends are no longer payable (including as a result of the Stop Date occurring) or payment of Dividend Access Share Dividends in cash or otherwise has resumed in full, as the case may be.

6 Rights upon Liquidation

On a winding-up or liquidation, voluntary or otherwise, the holder of the Series 1 Dividend Access Share will rank in the application of the assets of the Company available to shareholders: (1) equally in all respects with holders of Ordinary Shares and Series 1 Class B Shares and any other class of shares or securities of the Company in issue or which may be issued by the Company which rank or are expressed to rank equally with the Series 1 Dividend Access Share, the Ordinary Shares or the Series 1 Class B Shares on a winding-up or liquidation and (2) junior to all other shareholders and all creditors of the Company.

In such event the holder of the Series 1 Dividend Access Share will be deemed to hold one-tenth (as adjusted from time to time as provided below, the “**Winding Up Ratio**”) of one Ordinary Share and will be entitled to receive out of the surplus assets of the Company remaining after payment of all prior-ranking claims, a sum equal to that payable to a holder of one-tenth (as adjusted) of one Ordinary Share in such event.

The initial Winding Up Ratio is one-tenth. Upon each adjustment of the Series 1 Class B Share Winding Up Ratio in accordance with the Series 1 Class B Share Terms (or, if there are no Series 1 Class B Shares outstanding at the relevant time, upon any event that would have led to such an adjustment if there had been Series 1 Class B Shares outstanding at such time), the Winding Up Ratio shall also be adjusted at the same time and to the same extent.

7 Voting

The holder of the Series 1 Dividend Access Share will only be entitled to receive notice of and to attend any general meeting of shareholders and to speak to or vote upon any resolution proposed at such meeting if a resolution is proposed which either varies or abrogates any of the rights and restrictions attached to the Series 1 Dividend Access Share or proposes the winding up of the Company (and then in each such case only to speak and vote upon any such resolution).

If the holder of the Series 1 Dividend Access Share is entitled to vote upon a resolution proposed at a general meeting of shareholders, on a show of hands the holder of the Series 1 Dividend Access Share or any proxy or a corporate representative for the holder, in each case who is present in person, will have one vote. On a poll, the holder of the Series 1 Dividend Access Share who is entitled to vote and who is present in person, by proxy or by corporate representative, will have one vote.

Other provisions in the Articles relating to voting procedures also apply to the Series 1 Dividend Access Share.

8 Purchase of own shares

~~For as long as the Dividend Access Share remains in issue and the Reference Amount is greater than zero~~ Until and including the Stop Date, the Company may not purchase or otherwise acquire any of its Ordinary Shares or other Parity Securities (other than the Series 1 Class B Shares) or any depository or other receipts or certificates representing Ordinary Shares or Parity Securities (other than the Series 1 Class B Shares) other than any such purchases or acquisitions which are made in connection with any Employee Share Scheme or which are made from HM Treasury or its nominees.

9 Form and Denomination

The Series 1 Dividend Access Share will, when issued, be fully paid and, as such, will not be subject to a call for any additional payment. An amount equal to the nominal value of £0.01 of the Series 1 Dividend Access Share will be credited to the Company's issued share capital account.

The Series 1 Dividend Access Share will be issued in registered form to HM Treasury or its nominee. The Series 1 Dividend Access Share shall not be transferable.

Title to the Series 1 Dividend Access Share will be evidenced by registration on the register of members of the Company in accordance with the Articles.

See “Registrar” below.

10 Variation of Rights

The rights, preferences and privileges attached to the Series 1 Dividend Access Share may be varied or abrogated in accordance with the Articles (including Article 6). In addition, the Company may make such changes to the terms of issue of the Series 1 Dividend Access Share as it, in its sole discretion, deems necessary in order to ensure that the Series 1 Dividend Access Share continues to count as core common equity tier 1 capital for the purposes of regulatory requirements applicable to it, and such changes may be made without the consent of the holder of the Series 1 Dividend Access Share. The Company will notify the holder of the Series 1 Dividend Access Share in accordance with paragraph 11 if it makes any such changes.

Subject as provided in paragraph 15, the rights attached to the Series 1 Dividend Access Share will not be deemed to be varied by the creation or issue of (a) any further Dividend Access Shares or any other Parity Securities or any other share capital ranking equally with or junior to the Series 1 Dividend Access Share or (b) any preference shares, in each case whether carrying identical rights or different rights in any respect, including as to dividend, premium or entitlement on a return of capital, redemption or conversion and whether denominated in sterling or any other currency. Any further Dividend Access Shares, any other Parity Securities or any other share capital ranking equal with or junior to the Dividend Access Share may either carry identical rights in all respects with the Series 1 Dividend Access Share or carry different rights.

11 Notices

Notices given by the Company will be given by the Registrar on its behalf unless the Company decides otherwise.

A notice may be given by the Company to the holder of the Series 1 Dividend Access Share in certificated form by sending it by post to the holder's registered address. Service of the notice shall be deemed to be effected by properly addressing, prepaying and posting a letter by first class post containing the notice, and to have been effected on the day after the letter containing the same is posted. Where the holder's registered address is outside the United Kingdom, all notices shall be sent to him by air mail post.

A notice may be given by the Company to the joint holders of the Series 1 Dividend Access Share by giving the notice to the joint holder first named in the register. A notice may be given by the Company to the extent permitted by the Companies Act by electronic communication, if so requested or authorised by the holder, the holder having notified the Company of an e-mail address to which the Company may send electronic communications, and having agreed to receive notices and other documents from the Company by electronic communication. If the holder notifies the Company of an e-mail address, the Company may send the holder the notice or other document by publishing the notice or other document on a website and notifying the holder by e-mail that the notice or other document has been published on the website. The Company must also specify the address of the website on which it has been published, the place on the website where the notice may be accessed and how it may be accessed, and where the notice in question is a notice of a meeting, the notice must continue to be published on that website throughout the period beginning with the giving of that notification and ending with the conclusion of the meeting, save that if the notice is published for part only of that period then failure to publish the notice throughout that period shall not invalidate the proceedings of the meeting where such failure is wholly attributable to circumstances which it would not be reasonable to have expected the Company to prevent or avoid.

12 Additional Amounts

If at any time the Company is required by a tax authority to deduct or withhold taxes from payments made by the Company with respect to the Series 1 Dividend Access Share, the Company will not pay additional amounts. As a result, the net amount received from the Company by the holder of the Series 1

Dividend Access Share, after the deduction or withholding, will be less than the amount the holder would have received in the absence of the deduction or withholding.

13 Governing Law

The creation and issuance of the Series 1 Dividend Access Share and the rights attached to it shall be governed by and construed in accordance with the laws of Scotland.

14 Registrar

Computershare Investor Services PLC located at The Pavilions, Bridgwater Road, Bristol BS99 6ZZ will maintain the register and will act as Registrar.

The Company reserves the right at any time to appoint an additional or successor registrar. Notice of any change of registrar will be given to the holder of the Series 1 Dividend Access Share.

15 Further Issues

The Company may, at any time and from time to time, and with the consent of HM Treasury, create or issue further Dividend Access Shares.

16 Definitions

“Actual Number of Days in Incomplete Period (First Period)” has the meaning provided in paragraph 2.6;

“Actual Number of Days in Incomplete Period (Second Period)” has the meaning provided in paragraph 2.6;

“Articles” means the articles of association of the Company;

“Board of Directors” means the Board of Directors of the Company or a duly authorised committee of such Board of Directors;

“Bonus Issue” means, in relation to the Series 1 Dividend Access Share, an issue of Series 1 Class B Shares to the holder of the Series 1 Dividend Access Share by way of capitalisation of profits or reserves;

“Business Day” means a day on which banks are open for business in London;

“Class B Shares” means Class B Shares (of whatever series) in the capital of the Company;

“Companies Act” means the Companies Act 2006 (as amended from time to time);

“Company” means The Royal Bank of Scotland Group plc;

“current year” has the meaning provided in paragraph 2.1;

“DAS Retirement Dividend Amount” means £1,500,000,000 subject to increase as described in paragraph 2.6;

“dealing day” means a day on which the Relevant Stock Exchange or relevant market is open for business and on which Ordinary Shares, Securities or Spin-Off Securities (as the case may be) may be dealt in (other than a day on which the Relevant Stock Exchange or relevant market is scheduled to or does close prior to its regular weekday closing time);

“Directors” means the executive and non-executive directors of the Company who make up its board of directors;

“Dividend” shall have the meaning given in paragraph 14 of the Series 1 Class B Share Terms;

“Dividend Access Share Dividend” has the meaning provided in paragraph 2.1;

“Dividend Access Shares” means Dividend Access Shares (of whatever series) in the capital of the Company;

“Employee Share Scheme” means a scheme for encouraging or facilitating the holding of shares in or debentures of the Company or any Subsidiary by or for the benefit of: (a) the bona fide employees or former employees of the Company or any other member of the Group (including ABN-AMRO Holding RBS Holdings N.V. and its subsidiaries from time to time) or (b) the spouses, civil partners, surviving

spouses, surviving civil partners, or minor children or step-children of such employees or former employees;

“Fair Market Value” means, with respect to any property on any date, the fair market value of that property as determined in good faith by an Independent Financial Adviser (acting as an expert) provided that (i) the Fair Market Value of a dividend in cash shall be the amount of such cash; (ii) the Fair Market Value of any other cash amount shall be the amount of such cash; (iii) where Securities, Spin-Off Securities, options, warrants or other rights are publicly traded in a market of adequate liquidity (as determined by an Independent Financial Adviser, acting as an expert), the Fair Market Value (a) of such Securities or Spin-Off Securities shall equal the arithmetic mean of the daily Volume Weighted Average Prices of such Securities or Spin-Off Securities and (b) of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights, in the case of both (a) and (b) during the period of five dealing days on the relevant market commencing on such date (or, if later, the first such dealing day such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded) or such shorter period as such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded; (iv) where Securities, Spin-Off Securities, options, warrants or other rights are not publicly traded (as aforesaid) or if the fair market value Fair Market Value of such publicly traded securities cannot be determined as provided in (iii) after a period of 15 calendar days following the relevant date, the Fair Market Value of such Securities, Spin-Off Securities, options, warrants or other rights shall be determined in good faith by an Independent Financial Adviser (acting as an expert), on the basis of a commonly accepted market valuation method and taking account of such factors as it considers appropriate, including the market price per Ordinary Share, the dividend yield of an Ordinary Share, the volatility of such market price, prevailing interest rates and the terms of such Securities, Spin-Off Securities, options, warrants or other rights, including as to the expiry date and exercise price (if any) thereof. Such amounts shall, in the case of (i) above, be translated into the Relevant Currency (if declared or paid or payable in a currency other than the Relevant Currency) at the rate of exchange used to determine the amount payable to Shareholders who were paid or are to be paid or are entitled to be paid the dividend in cash in the Relevant Currency; and in any other case, shall be translated into the Relevant Currency (if expressed in a currency other than the Relevant Currency) at the Prevailing Rate on that date. In addition, in the case of (i) and (ii) above, the Fair Market Value shall be determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit;

“first semi-annual” has the meaning provided in paragraph 2.1;

~~**“FSA”** means the Financial Services Authority or such other governmental authority in the United Kingdom (or if the Company becomes domiciled in a jurisdiction other than the United Kingdom, in such other jurisdiction) having supervisory authority over the Group in respect of any banking business carried on;~~

“Further Series 1 Class B Shares” means any further Series 1 Class B Shares issued from time to time and consolidated and forming a single series with the then Series 1 Class B Shares in issue;

“Group” means the Company and its subsidiary undertakings;

“HM Treasury” means The Commissioners of Her Majesty’s Treasury of, as at the Issue Date, 1 Horse Guards Road, London SW1A 2HQ;

“in certificated form” means a share or other security which is not in uncertificated form;

“Incomplete Period (First Period)” has the meaning provided in paragraph 2.6;

“Incomplete Period (Second Period)” has the meaning provided in paragraph 2.6;

“Independent Financial Adviser” means an independent financial institution of international repute appointed at its own expense by the Company and approved in writing by HM Treasury (such approval not to be unreasonably withheld or delayed);

“Issue Date” means ~~{●}~~ 22 December 2009;

“London Stock Exchange” means the London Stock Exchange plc;

“Number of Completed Years (First Period)” has the meaning provided in paragraph 2.6;

“Number of Completed Years (Second Period)” has the meaning provided in paragraph 2.6;

“Ordinary Share Bonus Issue” means, in relation to the Ordinary Shares, an issue of Ordinary Shares credited as fully paid to the relevant Shareholders by way of capitalisation of profits or reserves and where such Ordinary Shares are, or are expressed to be, issued in lieu of a dividend (whether a cash dividend equivalent or other amount is announced or would otherwise be payable to Shareholders, whether at their election or otherwise);

“Ordinary Shares” means the ordinary shares of the Company of 25 pence nominal each as at the Issue Date;

“Parity Securities” means (i) the Ordinary Shares and the Series 1 Class B Shares of the Company and (ii) any other securities of the Company or any other member of the Group ranking or expressed to rank *pari passu* with the Ordinary Shares and/or the Series 1 Class B Shares and/or the Series 1 Dividend Access Share on a return of capital or distribution of assets on a winding-up, either issued by the Company or, where issued by another member of the Group, where the terms of the securities benefit from a guarantee or support agreement entered into by the Company which ranks or is expressed to rank *pari passu* with the Ordinary Shares and/or the Series 1 Class B Shares and/or the Series 1 Dividend Access Share on a return of capital or distribution of assets on a winding-up;

“Parity Value” means, in respect of any dealing day, the sterling amount calculated as follows:

$$PV = N \times VWAP$$

where:

PV = the Parity Value

N = the number of Ordinary Shares determined by dividing £0.50 by the Series 1 Class B Share Conversion Price in effect on such dealing day rounded down, if necessary, to the nearest whole number of Ordinary Shares

VWAP = the Volume Weighted Average Price of an Ordinary Share on such dealing day, provided that if on any such dealing day the Ordinary Shares shall have been quoted cum Dividend or cum any other entitlement (including, for the avoidance of doubt, any Ordinary Share Bonus Issue), the Volume Weighted Average Price of an Ordinary Share on such dealing day shall be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement (including, for the avoidance of doubt, any Ordinary Share Bonus Issue) per Ordinary Share as at the date of first public announcement of such Dividend or entitlement (or, if that is not a dealing day, the immediately preceding dealing day);

“Participation Rate” has the meaning provided in paragraph 2.1;

“Prevailing Rate” means, in respect of any currencies on any day, the spot rate of exchange between the relevant currencies prevailing as at or about 12 noon (London time) on that date as appearing on or derived from the Relevant Page or, if such a rate cannot be determined at such time, the rate prevailing as at or about 12 noon (London time) on the immediately preceding day on which such rate can be so determined;

“record date” means, in respect of any entitlement to receive a dividend or other distribution declared, paid or made, or any rights granted, the record date or other due date for the establishment of the relevant entitlement;

“Reference Amount” means £25,500,000,000 plus the aggregate Series 1 Class B Share Relevant Amount of any Further Series 1 Class B Shares issued by the Company to HM Treasury after the Issue Date and before the record date for the relevant Dividend Access Share Dividend, less the aggregate Series 1 Class B Relevant Amount of any Series 1 Class B Shares which were in issue during the 30 consecutive dealing days during which a Series 1 Class B Dividend Trigger Event occurred;

“Reference Series 1 Class B Shares Number” means the Reference Amount divided by the Series 1 Class B Share Relevant Amount;

“Regulations” has the meaning specified in the Series 1 Class B Share Terms;

“Relevant Currency” means sterling or, if at the relevant time or for the purposes of the relevant calculation or determination, the London Stock Exchange is not the Relevant Stock Exchange, the

currency in which the Ordinary Shares are quoted or dealt in on the Relevant Stock Exchange at such time;

“Relevant Date” means, in respect of any semi-annual Dividend Access Share Dividend or Bonus Issue, the date on which the Company pays or makes the same or, subject to paragraph 2.3, if the same is not paid or made, means 31 October of the relevant year in the case of a first semi-annual Dividend Access Share Dividend or Bonus Issue, and 31 May of the relevant year in the case of a second semi-annual Dividend Access Share Dividend or Bonus Issue;

“Relevant Dividend” has the meaning provided in paragraph 2.6;

“Relevant Page” means the relevant page on Bloomberg or such other information service provider selected by the Company that displays the relevant information;

“Relevant Stock Exchange” means the London Stock Exchange or, if at the relevant time the Ordinary Shares are not at that time listed and admitted to trading on the London Stock Exchange, the principal stock exchange or securities market on which the Ordinary Shares are then listed, admitted to trading or quoted or dealt in;

“second semi-annual” has the meaning provided in paragraph 2.1;

“Securities” means any securities including, without limitation, Ordinary Shares, or options, warrants or other rights to subscribe for or purchase or acquire Ordinary Shares;

“Series 1 Class B Dividend Trigger Event” means, in relation to any Series 1 Class B Shares in issue at any time, the payment by the Company of total cash dividends on the Series 1 Dividend Access Share since the Issue Date in an aggregate amount (before taking account of any withholding or deduction required to be made on account of tax from such cash dividends) equal to the DAS Retirement Dividend Amount;

“Series 1 Class B Share Conversion Price” means the Conversion Price as defined in paragraph 4(a) of the Series 1 Class B Share Terms;

~~**“Series 1 Class B Dividend Stop Date”** means the date falling 20 days after the Series 1 Class B Dividend Trigger Event;~~

~~**“Series 1 Class B Dividend Trigger Event”** means in relation to Series 1 Class B Shares in issue at the relevant time, the Parity Value for 20 or more dealing days in any period of 30 consecutive dealing days equals or exceeds £0.65 and, for the avoidance of doubt, there can be more than one such event based on the time of issue of the relevant Series 1 Class B Shares;~~

~~**“Series 1 Class B Share Relevant Amount”**~~ **“Series 1 Class B Share Relevant Amount”** means £0.50 per Series 1 Class B Share, subject to adjustment as provided in paragraph 4(l) of the Series 1 Class B Share Terms;

“Series 1 Class B Shares” means the 51,000,000,000 Series 1 Class B Shares of £0.01 each in the capital of the Company issued on the Issue Date, together with any Further Series 1 Class B Shares (as such term is defined in the Series 1 Class B Share Terms) issued by the Company from time to time;

“Series 1 Class B Share Terms” means the terms of the Series 1 Class B Shares approved by the Board of Directors on [●] 23 November 2009;

“Series 1 Class B Share Winding Up Ratio” means the Winding Up Ratio as defined in paragraph 3 of the Series 1 Class B Share Terms;

“Series 1 Dividend Access Share” means the Series 1 Dividend Access Share of the Company with a nominal value of £0.01 issued by the Company on the Issue Date;

“Shareholders” means the person(s) in whose name(s) Ordinary Shares are for the time being registered in the register of Ordinary Share ownership maintained by or on behalf of the Company;

~~**“Specified Date”** has, for the purpose of any paragraph in which such expression is used, the meaning given in the relevant paragraph;~~

“Spin-Off Securities” means equity share capital of an entity other than the Company or options, warrants or other rights to subscribe for or purchase equity share capital of an entity other than the Company;

“sterling” means the lawful currency of the United Kingdom from time to time;

“Stop Date” means the date on which the Series 1 Class B Dividend Trigger Event occurs;

“Subsidiary” has the meaning provided in Section 1159 of the Companies Act 2006;

“subsidiary undertaking” has the meaning provided in Section 1162 of the Companies Act 2006;

“Unpaid Amount” has the meaning provided in paragraph 2.6;

“Unpaid Amount Recalculation Date (First Period)” has the meaning provided in paragraph 2.6;

“Unpaid Amount Recalculation Date (Second Period)” has the meaning provided in paragraph 2.6;

“Volume Weighted Average Price” means, in respect of an Ordinary Share, Security or, as the case may be, a Spin-Off Security on any dealing day, the order book volume-weighted average price of an Ordinary Share, Security or, as the case may be, a Spin-Off Security published by or derived (in the case of an Ordinary Share) from Bloomberg page RBS LN EQUITY VAP or (in the case of a Security (other than Ordinary Shares) or Spin-Off Security) from the principal stock exchange or securities market on which such Securities or Spin-Off Securities are then listed or quoted or dealt in, if any, or, in any such case, such other source as shall be determined to be appropriate by an Independent Financial Adviser (acting as an expert) on such dealing day, provided that, if on any such dealing day such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of an Ordinary Share, Security or a Spin-Off Security, as the case may be, in respect of such dealing day shall be the Volume Weighted Average Price, determined in good faith by an Independent Financial Adviser (acting as an expert); and

“Winding Up Ratio” has the meaning provided in paragraph 6.

References to any issue or offer or grant to Shareholders **“as a class”** or **“by way of rights”** shall be taken to be references to an issue or offer or grant to all or substantially all Shareholders, other than Shareholders to whom, by reason of the laws of any territory or requirements of any recognised regulatory body or any other stock exchange or securities market in any territory or in connection with fractional entitlements, it is determined not to make such issue or offer or grant.

In making any calculation or determination of Volume Weighted Average Price, such adjustments (if any) shall be made as an Independent Financial Adviser considers appropriate to reflect any consolidation or sub-division of the Ordinary Shares or any issue of Ordinary Shares by way of capitalisation of profits or reserves, or any like or similar event.

The Royal Bank of Scotland Group plc
Incorporated under the Companies Acts 1948 to 1967 with Registered No. SC045551

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 at the RBS Conference Centre, RBS Gogarburn, Edinburgh EH12 1HQ on 25 June 2014 at 3.00 p.m. (or as soon thereafter as the Annual General Meeting convened at 2.00 p.m. on the same day and at the same place shall have been completed or adjourned) to consider and, if thought fit, pass the following resolution, which will be proposed as an ordinary resolution.

Ordinary resolution

THAT the entry into, implementation of and giving effect to the DAS Retirement Agreement (as defined in the circular to shareholders dated 2 June 2014 (the "Circular")), including making the DAS Amendments (as defined in the Circular) and declaring and paying the First Dividend (as defined in the Circular) and any other dividends on the DAS, being a related party transaction for the purposes of the Listing Rules of the United Kingdom Listing Authority (the "Listing Rules"), be and are hereby approved and the Directors (or a committee of the Directors) be and are hereby authorised (subject always to the provisions of the Listing Rules) to waive, amend, vary or extend any of the terms of the DAS Retirement Agreement (provided that any such waivers, amendments, variations or extensions are not of a material nature) and to do all things as they may in their absolute discretion consider to be necessary or desirable to implement and give effect to, or otherwise in connection with, the DAS Retirement Agreement and any matters incidental to the DAS Retirement Agreement.

By order of the Board of Directors of the Company

Aileen Taylor
Secretary

Date: 2 June 2014

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 23 June 2014, 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 and 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 23 June 2014 will be disregarded in determining the rights of any person to attend and 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. To appoint a proxy, (a) the form of proxy, and any power of attorney or other authority under which it is executed (or a duly certified copy of any such power or authority), must be completed and sent to the company's transfer office at Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY, or (b) the proxy appointment must be lodged using the CREST Proxy Voting Service in accordance with Note 5 below, or (c) the proxy appointment must be registered electronically on the website at www.rbs.com/e-proxy, in each case so as to be received no later than 3.00 p.m. on 23 June 2014. 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 Company'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 Company'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. Please refer to the Crest manual at www.euroclear.com/CREST
6. As at 30 May 2014 (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 6,275,874,722 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 30 May 2014 was 25,107,098,888.
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.
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 purpose other than those expressly stated.

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