

ROYAL BANK OF SCOTLAND GROUP PLC
Form 424B5
June 04, 2013

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities Offered	Maximum Aggregate Offering Price	Amount of Registration Fee(1)
6.100% Subordinated Tier 2 Notes due 2023	\$1,000,000,000	\$136,400
Total	\$1,000,000,000	\$136,400

(1) Calculated in accordance with Rule 457(r) of the Securities Act of 1933, as amended

Filed pursuant to Rule 424(b)(5)
Registration No. 333-184147

PROSPECTUS SUPPLEMENT

(to prospectus dated September 28, 2012)

The Royal Bank of Scotland Group plc

\$1,000,000,000

6.100% Subordinated Tier 2 Notes due 2023

The 6.100% Subordinated Tier 2 Notes due 2023 will be due on June 10, 2023 (the “Subordinated Notes”) and will bear interest at a rate of 6.100% per year from (and including) the date of issuance to (but excluding) the maturity of the Subordinated Notes on June 10, 2023. Interest will be paid on the Subordinated Notes on June 10 and December 10 of each year, commencing on December 10, 2013.

The Subordinated Notes will constitute our direct, unconditional, unsecured and subordinated obligations ranking pari passu without any preference among themselves and ranking junior in right of payment to the claims of any existing and future unsecured and unsubordinated indebtedness. In a winding up or in the event that an administrator has been appointed in respect of us and notice has been given that it intends to declare and distribute a dividend, all payments on the Subordinated Notes will be subordinated to, and subject in right of payment to the prior payment in full of, all claims of all of our creditors other than claims in respect of any liability that is, or is expressed to be, subordinated to the claims of all or any of our creditors, whether only in the event of a winding up or otherwise. The ranking of our obligations shall be set out in the manner provided in the subordinated indenture between The Royal Bank of Scotland Group plc and The Bank of New York Mellon, acting through its London Branch, as trustee (the “Trustee”), dated December 4, 2012 (the “Base Subordinated Indenture”), as supplemented by a first supplemental indenture dated December 4, 2012 (the “First Supplemental Subordinated Indenture”) and a second supplemental indenture to be dated June 10, 2013 (the “Second Supplemental Subordinated Indenture” and, together with the First Supplemental Subordinated Indenture and the Base Subordinated Indenture, the “Subordinated Indenture”).

In addition, by purchasing the Subordinated Notes, each holder (including each beneficial holder) of the Subordinated Notes acknowledges, agrees to be bound by and consents to the exercise of any U.K. bail-in power (as defined below) by the relevant U.K. resolution authority that may result in (i) the cancellation of all, or a portion, of the principal amount of, or interest on, the Subordinated Notes and/or (ii) the conversion of all, or a portion, of the principal amount of, or interest on, the Subordinated Notes into shares or other securities or other obligations of RBSG or another person, which U.K. bail-in power may be exercised by means of variation of the terms of the Subordinated Notes solely to give effect to the above. With respect to (i) and (ii) above, references to principal and interest shall include payments of principal and interest that have become due and payable (including principal that has become due and payable at the Maturity Date), but which have not been paid, prior to the exercise of any U.K. bail-in power. The

rights of the holders under the Subordinated Notes are subject to, and will be varied, if necessary, solely to give effect to, the provisions of any U.K. bail-in power which are expressed to implement such a cancellation or conversion.

For these purposes, a “U.K. bail-in power” is any write-down and/or conversion power existing from time to time under any laws, regulations, rules or requirements relating to the resolution of credit institutions and investment firms incorporated in the United Kingdom in effect and applicable in the United Kingdom to RBSG or other members of the Group (as defined herein), including but not limited to any such laws, regulations, rules or requirements which are implemented, adopted or enacted within the context of a European Union directive or regulation of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms, pursuant to which obligations of a credit institution or investment firm or any of its affiliates can be cancelled and/or converted into shares or other securities or obligations of the obligor or any other person (and a reference to the “relevant U.K. resolution authority” is to any authority with the ability to exercise a U.K. bail-in power).

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

We may redeem the Subordinated Notes, in whole but not in part, at 100% of their principal amount plus accrued but unpaid interest (i) upon the occurrence of certain tax events or (ii) upon the occurrence of certain regulatory events, provided that, in each case, in our opinion, the circumstance that entitles us to exercise such right of redemption was not reasonably foreseeable to us at the date of issuance and provided that upon CRD IV taking effect in the United Kingdom, such right of redemption shall only apply if, when and to the extent not prohibited by CRD IV, as described in this prospectus supplement or the accompanying prospectus. Any such redemption shall be subject to a requirement to give notice to or obtain the consent of the U.K. Prudential Regulation Authority (“PRA”) and/or such other body having supervisory authority with respect to us to the extent required, as described in this prospectus supplement.

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

Investing in the Subordinated Notes involves risks. See “Risk Factors” beginning on page S-8 and as incorporated by reference herein.

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

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

	Per Subordinated Note	Total
Price to the public	99.859%	\$ 998,590,000
Underwriting discounts	0.450 %	\$ 4,500,000
Proceeds, before expenses, to us	99.409 %	\$ 994,090,000

The initial price to public set forth above does not include accrued interest, if any. Interest on the Subordinated Notes will accrue from June 10, 2013 and must be paid by the purchaser if the Subordinated Notes are delivered thereafter.

We expect that the Subordinated Notes will be ready for delivery through the book-entry facilities of The Depository Trust Company and its participants on or about June 10, 2013.

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

RBS

Joint Bookrunners and Joint Lead Managers

Citigroup

Deutsche Bank Securities

BofA Merrill Lynch

Joint Lead Managers
ING

RBC Capital Markets

ABN AMRO
BNY Mellon Capital Markets, LLC
HSBC
TD Securities

Co-Managers
Banca IMI
CIBC
Lloyds Securities

BMO Capital Markets
Danske Markets Inc.
nabSecurities, LLC
Unicredit Bank

Prospectus Supplement dated June 3, 2013

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

ABOUT THIS PROSPECTUS SUPPLEMENT

In this prospectus supplement, we use the following terms:

- “we”, “us”, “our”, “Issuer” and “RBSG” mean The Royal Bank of Scotland Group plc;
- “Group” means RBSG together with its subsidiaries consolidated in accordance with International Financial Reporting Standards;
 - “RBS plc” means The Royal Bank of Scotland plc;
 - “SEC” refers to the Securities and Exchange Commission;
 - “pounds”, “sterling”, “pence”, “£” and “p” refer to the currency of the United Kingdom;
 - “dollars” and “\$” refer to the currency of the United States; and
- “euro” and “€” refer to the currency of the member states of the European Union (“EU”) that have adopted the single currency in accordance with the treaty establishing the European Community, as amended.

INCORPORATION OF INFORMATION BY REFERENCE

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

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

- incorporated documents are considered part of this prospectus supplement;
- we can disclose important information to you by referring you to these documents; and
- information that we file with the SEC will automatically update and modify or supersede some of the information included or incorporated by reference into this prospectus supplement.

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

- our Annual Report on Form 20-F for the year ended December 31, 2012 filed with the SEC on March 27, 2013 (File No. 001-10306) (the “2012 Annual Report”); and
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our Interim Report on Form 6-K for the three months ended March 31, 2013 (the “Q1 2013 Interim Report”) filed with the SEC on May 10, 2013.

We also incorporate by reference into this prospectus supplement and accompanying prospectus any future documents we may file with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act from the date of this prospectus supplement until the offering contemplated in this prospectus supplement is completed. Reports on Form 6-K we may furnish to the SEC after the date of this prospectus supplement (or portions thereof) are incorporated by reference in this prospectus supplement only to the extent that the report expressly states that it (or such portions) is incorporated by reference in this prospectus supplement.

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FORWARD-LOOKING STATEMENTS

From time to time, we may make statements, both written and oral, regarding our assumptions, projections, expectations, intentions or beliefs about future events. These statements constitute “forward-looking statements” for purposes of the Private Securities Litigation Reform Act of 1995. We caution that these statements may and often do vary materially from actual results. Accordingly, we cannot assure you that actual results will not differ materially from those expressed or implied by the forward-looking statements. You should read the sections entitled “Risk Factors” in this prospectus supplement, “Cautionary Statement on Forward-Looking Statements” in the accompanying prospectus and “Forward-Looking Statements” in our 2012 Annual Report and our Q1 2013 Interim Report, which are incorporated by reference herein.

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

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SUMMARY

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

General

Issuer	The Royal Bank of Scotland Group plc
Subordinated Notes	\$1,000,000,000 aggregate principal amount of the 6.100% subordinated Tier 2 notes due 2023 (the “Subordinated Notes”).
Issue Date	June 10, 2013
Maturity Date	We will pay the Subordinated Notes at 100% of their principal amount plus accrued and unpaid interest on June 10, 2023, subject to any early redemption as described in “Description of the Subordinated Notes—Redemption”.
Interest Rate	The Subordinated Notes will bear interest from (and including) the Issue Date at a rate of 6.100% per annum.
Interest Payment Dates	June 10 and December 10 in each year, commencing on December 10, 2013.
Regular Record Dates	May 26 and November 26 of each year, commencing on November 26, 2013.
Ranking	The Subordinated Notes will constitute our direct, unconditional, unsecured and subordinated obligations ranking pari passu, without any preference among themselves and ranking junior in right of payment to the claims of any existing and future unsecured and unsubordinated indebtedness. In a winding up or in the event that an administrator has been appointed in respect of us and notice has been given that it intends to declare and distribute a dividend, all payments on the Subordinated Notes will be subordinated to, and subject in right of payment to the prior payment in full of, all claims of all of our creditors other than claims in respect of any liability that is, or is expressed to be, subordinated to the claims of all or any of our creditors, whether only in the event of a winding up or otherwise. The ranking of our obligations shall be set out in the manner provided in the Subordinated Indenture.
Agreement with Respect to the Exercise of U.K. Bail-in Power	By purchasing the Subordinated Notes, each holder (including each beneficial holder) of the Subordinated Notes acknowledges, agrees to be bound by and consents to the exercise of any U.K. bail-in power (as defined below) by the relevant U.K. resolution authority that may result in (i) the cancellation of all, or a portion, of the principal amount of, or interest on, the Subordinated Notes and/or (ii) the conversion of all, or a portion, of the principal amount of, or interest on, the Subordinated Notes into shares or other securities or other

obligations of RBSG or another person, which U.K. bail-in power may be exercised by means of variation of the terms of the Subordinated Notes solely to give effect to the above. With respect to (i) and (ii) above, references to principal and interest shall include payments of

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principal and interest that have become due and payable (including principal that has become due and payable at the Maturity Date), but which have not been paid, prior to the exercise of any U.K. bail-in power. The rights of the holders under the Subordinated Notes are subject to, and will be varied, if necessary, solely to give effect to, the provisions of any U.K. bail-in power which are expressed to implement such a cancellation or conversion.

For these purposes, a “U.K. bail-in power” is any write-down and/or conversion power existing from time to time under any laws, regulations, rules or requirements relating to the resolution of credit institutions and investment firms incorporated in the United Kingdom in effect and applicable in the United Kingdom to us or other members of the Group, including but not limited to any such laws, regulations, rules or requirements which are implemented, adopted or enacted within the context of a European Union directive or regulation of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms, pursuant to which obligations of a credit institution or investment firm or any of its affiliates can be cancelled and/or converted into shares or other securities or obligations of the obligor or any other person (and a reference to the “relevant U.K. resolution authority” is to any authority with the ability to exercise a U.K. bail-in power).

Repayment of Principal and Payment of Interest After Exercise of U.K. Bail-in Power

No repayment of the principal amount of the Subordinated Notes or payment of interest on the Subordinated Notes shall become due and payable after the exercise of any U.K. bail-in power by the relevant U.K. resolution authority unless, at the time that such repayment or payment, respectively, is scheduled to become due, such repayment or payment would be permitted to be made by us under the laws and regulations of the United Kingdom and the European Union applicable to us or other members of the Group.

Purchases of the Subordinated Notes

We may at any time purchase beneficially or procure others to purchase beneficially for our account the Subordinated Notes in the open market, by tender or by private agreement, provided that, upon CRD IV taking effect in the United Kingdom, purchases are only permitted if, when and to the extent not prohibited by CRD IV. Any such purchase will be subject to a requirement to give notice to or obtain the consent of the PRA, as set forth below under “Description of the Subordinated Notes—Redemption —Prudential Regulation Authority” in this prospectus supplement.

Cancellation

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

Additional Issuances

We may, from time to time, without the consent of the holders of the Subordinated Notes, issue additional notes under the Subordinated Indenture, having the same ranking and same interest rate, maturity date, redemption terms and other terms, except for the price to the public and issue date. Any such additional notes, together with the Subordinated Notes offered by this prospectus supplement, may constitute a single series of Subordinated Notes under the Subordinated Indenture,

provided that if such additional notes have the same CUSIP, ISIN or other identifying number as the outstanding Subordinated Notes, such additional notes must be fungible

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with the Subordinated Notes for U.S. federal income tax purposes.

Tax Redemption

We may redeem the Subordinated Notes at any time, in whole but not in part, at 100% of their principal amount plus accrued but unpaid interest, in the event of certain changes in the tax laws of the United Kingdom and in other limited circumstances as described under “Description of the Subordinated Notes—Redemption—Tax Redemption” in this prospectus supplement and “Description of Debt Securities—Redemption” in the accompanying prospectus, provided that, in our opinion, the circumstance that entitles us to exercise such right of redemption was not reasonably foreseeable to us at the Issue Date and provided that upon CRD IV (as defined herein) taking effect in the United Kingdom, such right of redemption shall only apply if, when and to the extent not prohibited by CRD IV. For this purpose, any changes to the draft tax legislation contained in Clause 42 of the Finance Bill ordered to be printed on May 9, 2013 (and intended to have effect from October 26, 2012) relating to tier 2 issuances shall be regarded as a change in tax law, including where the Finance Bill does not receive Royal Assent. Any such redemption will be subject to a requirement to give notice to or obtain the consent of the PRA, as set forth below under “Description of the Subordinated Notes—Redemption—Prudential Regulation Authority” in this prospectus supplement.

Regulatory Redemption

We may redeem the Subordinated Notes at any time, in whole but not in part, at 100% of their principal amount plus accrued and unpaid interest, in the event of certain regulatory changes that result in the principal amount of the Subordinated Notes being fully excluded from inclusion in our Tier 2 capital, as described under “Description of the Subordinated Notes—Redemption—Redemption due to a Capital Disqualification Event” in this prospectus supplement, provided that, in our opinion, the circumstance that entitles us to exercise such right of redemption was not reasonably foreseeable to us at the Issue Date and provided that upon CRD IV taking effect in the United Kingdom, such right of redemption shall only apply if, when and to the extent not prohibited by CRD IV. Any such redemption will be subject to a requirement to give notice to or obtain the consent of the PRA, as set forth below under “Description of the Subordinated Notes—Redemption—Prudential Regulation Authority” in this prospectus supplement.

Book-Entry Issuance,
Settlement and Clearance

We will issue the Subordinated Notes in fully registered form in denominations of \$2,000 and integral multiples of \$1,000 in excess thereof. The Subordinated Notes will be represented by one or more global securities registered in the name of a nominee of The Depository Trust Company (“DTC”). You will hold beneficial interests in the Subordinated Notes through DTC and its direct and indirect participants, including Euroclear S.A./NV (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream Banking”) and DTC and its direct and indirect participants will record your beneficial interest on their books. We will not issue certificated notes except as described in the accompanying prospectus. Settlement of the Subordinated Notes will occur through DTC in same day funds. For information on DTC’s book-entry system, see “Description of Debt Securities—Form of Debt Securities; Book-Entry System” in the accompanying prospectus.

Business Day Convention

Following unadjusted.

Day Count Fraction 30/360

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ISIN	US780097AY76
CUSIP	780097AY7
Conflicts of Interest	RBS Securities Inc. (“RBSSI”), an affiliate of RBSG, is a Financial Industry Regulatory Authority (“FINRA”) member and an Underwriter in this offering and has a “conflict of interest” within the meaning of FINRA Rule 5121. Accordingly, this offering will be made in compliance with the applicable provisions of FINRA Rule 5121. RBSSI is not permitted to sell Subordinated Notes in this offering to an account over which it exercises discretionary authority without the prior specific written approval of the account holder.
Listing and Trading	We intend to apply to list the Subordinated Notes on the New York Stock Exchange in accordance with its rules.
Trustee and Principal Paying Agent	The Bank of New York Mellon, acting through its London Branch, a banking corporation duly organized and existing under the laws of the State of New York, as trustee (the “Trustee”), having its Corporate Trust Office at One Canada Square, London E14 5AL, United Kingdom, will act as the trustee and initial principal paying agent for the Subordinated Notes.
Timing and Delivery	We currently expect delivery of the Subordinated Notes to occur on June 10, 2013.
Use of Proceeds	We intend to use a portion of the net proceeds of the offering to fund the purchase by The Royal Bank of Scotland N.V. (“RBS N.V.”) of a certain aggregate amount of subordinated debt securities pursuant to a concurrent cash tender offer. The remaining net proceeds will be used for general corporate purposes. See “Recent Developments —Concurrent Cash Tender Offers” and “Use of Proceeds”.
Governing Law	The Subordinated Indenture and the Subordinated Notes will be governed by, and construed in accordance with, the laws of the State of New York except that, as the Subordinated Indenture specifies, the subordination provisions and the waiver of the right to set-off by the holders and by the Trustee acting on behalf of the holders with respect to the Subordinated Notes will be governed by and construed in accordance with the laws of Scotland.

RISK FACTORS

Prospective investors should consider carefully the risk factors incorporated by reference into this prospectus supplement and as set out below as well as the other information set out elsewhere in this prospectus supplement (including any other documents incorporated by reference herein) and reach their own views prior to making any investment decision with respect to the Subordinated Notes.

Set out below and incorporated by reference herein are certain risk factors that could have a material adverse effect on the business, operations, financial condition or prospects of RBSG and cause RBSG's future results to be materially different from expected results. RBSG's results could also be affected by competition and other factors. These factors should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties RBSG faces. RBSG has described only those risks relating to its operations that it considers to be material. There may be additional risks that RBSG currently considers not to be material or of which it is not currently aware, and any of these risks could have the effects set forth above. All of these factors are contingencies which may or may not occur and RBSG is not in a position to express a view on the likelihood of any such contingency occurring. Investors should note that they bear RBSG's solvency risk. Each of the risks highlighted could have a material adverse effect on the amount of principal and interest which investors will receive in respect of the Subordinated Notes. In addition, each of the highlighted risks could adversely affect the trading price of the Subordinated Notes or the rights of investors under the Subordinated Notes and, as a result, investors could lose some or all of their investment. You should consult your own financial, tax and legal advisers regarding the risks of an investment in the Subordinated Notes.

We believe that the factors described below with respect to the Subordinated Notes represent the principal risks inherent in investing in Subordinated Notes, but we may be unable to pay interest, principal or other amounts on or in connection with the Subordinated Notes for other reasons, including as a result of the exercise of any U.K. bail-in power, and we do not represent that the statements below regarding the risks of holding the Subordinated Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this prospectus supplement (including any documents deemed to be incorporated by reference herein) and reach their own views prior to making any investment decision.

Risks relating to RBSG

For a description of risks associated with RBSG as well as certain risks associated with investments in RBSG's securities, see the section entitled "Risk Factors" in our 2012 Annual Report, which is incorporated by reference herein.

Risks relating to the Subordinated Notes

RBSG's obligations under the Subordinated Notes are subordinated

The obligations of RBSG under the Subordinated Notes will be unsecured and subordinated and will rank junior in priority of payment to the current and future claims of RBSG's creditors, other than claims in respect of any liability that is, or is expressed to be, subordinated. We expect from time to time to incur additional indebtedness or other obligations that will constitute senior indebtedness, and the Subordinated Indenture does not contain any provisions restricting our ability to incur senior indebtedness. Although the Subordinated Notes may pay a higher rate of interest than comparable notes which are not so subordinated, there is a real risk that an investor in such Subordinated Notes will lose all or some of its investment should RBSG become insolvent since the assets of RBSG would be available to pay such amounts only after all the senior creditors of RBSG have been paid in full.

The Subordinated Notes are obligations exclusively of RBSG

The Subordinated Notes are obligations exclusively of RBSG. RBSG is a holding company and conducts substantially all of its operations through its subsidiaries. RBSG's subsidiaries are separate and distinct legal entities, and have no obligation to pay any amounts due or to provide RBSG with funds to meet any of its payment obligations. RBSG's rights to participate in the assets of any subsidiary if it is liquidated will be subject to the prior claims of its creditors.

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The Subordinated Notes are the subject of the U.K. bail-in power which may result in your Subordinated Notes being written down to zero or converted into other securities, including equity securities

The Basel Committee on Banking Supervision (the “Basel Committee”) proposed a number of fundamental reforms to the regulatory capital framework for internationally active banks which are designed, in part, to ensure that capital instruments issued by such banks fully absorb losses before tax payers are exposed to loss (the “Basel III Reforms”). The Basel III Reforms provide that all non-common equity Tier 1 instruments and Tier 2 instruments, such as the Subordinated Notes, which do not contain any contractual terms providing for their writing off or conversion into ordinary shares, at the option of the relevant authority, upon the occurrence of a Non-Viability Event (as defined below), will cease to be eligible to count in full as Additional Tier 1 or Tier 2 capital (as the case may be) from January 1, 2013 unless, among other things, the jurisdiction of the relevant bank has in place laws that (i) require such instruments to be written off upon the occurrence of a Non-Viability Event or (ii) otherwise require such instruments fully to absorb losses before tax payers are exposed to loss.

The principal elements of the Basel III Reforms will be implemented in the European Union under CRD IV and such reforms are now expected to become effective on January 1, 2014 and are subject to a series of transitional arrangements and are expected to be fully effective by 2019.

As used above, “Non-Viability Event” means the earlier of (a) a decision that a write off, without which the relevant bank would become non-viable, is necessary as determined by the relevant authority; and (b) the decision to make a public sector injection of capital, or equivalent support, without which the relevant bank would have become non-viable, as determined by the relevant authority.

On June 6, 2012, the European Commission published a legislative proposal for a directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms, known as the Recovery and Resolution Directive (the “RRD”) which has been subsequently subject to amendment but has not yet been adopted. The stated aim of the draft RRD is to provide supervisory authorities with common tools and powers to address banking crises pre-emptively in order to safeguard financial stability and minimize taxpayers’ exposure to losses. The powers proposed to be granted to supervisory authorities under the draft RRD include a “bail-in” tool, which would give such authorities the power to write down or write off the claims (potentially including the Subordinated Notes) of certain unsecured creditors of a failing institution and/or to convert certain debt claims to equity. Except for the general bail-in tool, which is expected to be implemented by January 1, 2018, it is currently contemplated that the measures set out in the draft RRD (including the power of authorities to write off Additional Tier 1 and Tier 2 instruments) will be implemented with effect from January 1, 2015. As the RRD is not in final form changes may be made to it in the course of the legislative process.

The Subordinated Notes include a provision in which holders agree to be bound by the exercise of any U.K. bail-in power. In addition to the RRD described above, it is possible that the powers which either currently exist under the Banking Act 2009 or which may result from any future change to the Banking Act 2009 or the application of relevant laws, the Basel III Reforms (including the EU’s implementation of the Basel III Reforms) or other similar regulatory proposals, could be used in such a way as to result in the Subordinated Notes absorbing losses in the manner described above. The determination that all or part of the principal amount of the Subordinated Notes will be subject to loss absorption is likely to be inherently unpredictable and may depend on a number of factors which may be outside of RBSG’s control. This determination will also be made by RBSG’s regulator and there may be many factors, including factors not directly related to RBSG, which could result in such a determination. Because of this inherent uncertainty, it will be difficult to predict when, if at all, the exercise of any U.K. bail-in power may occur which would result in a principal write off or conversion to equity. Accordingly, trading behavior may be affected by the threat of bail-in and, as a result, the Subordinated Notes are not necessarily expected to follow the trading behavior associated with other types of securities. Potential investors in the Subordinated Notes should consider the risk that a holder may lose all of

its investment, including the principal amount plus any accrued interest, if the U.K. bail-in power is acted upon or that such Subordinated Notes may be converted into ordinary shares which ordinary shares may be of little value at the time of conversion.

Furthermore, there can be no assurance that, prior to their proposed implementation, the Basel Committee will not amend the Basel III Reforms. Further, the European Union and/or relevant authorities in the United Kingdom may implement the Basel III Reforms, including the provisions relating to terms which capital instruments are required to have, in a manner that is different from that which is currently envisaged or may impose more onerous requirements on U.K.-incorporated banks. Until fully implemented, RBSG cannot predict the precise effects of the

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changes that will result from the implementation of the Basel III Reforms on the pricing or the market value of the Subordinated Notes. In addition, further changes in law after the date hereof may affect the rights of holders of the Subordinated Notes as well as the market value of the Subordinated Notes.

Under the terms of the Subordinated Notes, you have agreed to be bound by the exercise of any U.K. bail-in power by the relevant U.K. resolution authority

By purchasing the Subordinated Notes, each holder (including each beneficial holder) of the Subordinated Notes acknowledges, agrees to be bound by and consents to the exercise of any U.K. bail-in power by the relevant U.K. resolution authority that may result in (i) the cancellation of all, or a portion, of the principal amount of, or interest on, the Subordinated Notes and/or (ii) the conversion of all, or a portion, of the principal amount of, or interest on, the Subordinated Notes into shares or other securities or other obligations of RBSG or another person, which U.K. bail-in power may be exercised by means of variation of the terms of the Subordinated Notes solely to give effect to the above. With respect to (i) and (ii) above, references to principal and interest shall include payments of principal and interest that have become due and payable (including principal that has become due and payable at the Maturity Date), but which have not been paid, prior to the exercise of the U.K. bail-in power. The rights of the holders under the Subordinated Notes are subject to, and will be varied, if necessary, solely to give effect to, the provisions of any U.K. bail-in power which are expressed to implement such a cancellation or conversion.

Any U.K. bail-in power may be exercised in such a manner as to result in you and other holders of Subordinated Notes losing the value of all or a part of your investment in the Subordinated Notes or receiving a different security from the Subordinated Notes, which may be worth significantly less than the Subordinated Notes and which have significantly fewer protections than those typically afforded to debt securities. Moreover, the relevant U.K. resolution authority may exercise its authority to implement the U.K. bail-in power without providing any advance notice to the holders of the Subordinated Notes. For more information, see “Description of the Subordinated Notes—Agreement with Respect to the Exercise of U.K. Bail-in Power”.

The circumstances under which the relevant U.K. resolution authority would exercise its proposed U.K. bail-in power are currently uncertain

The stated aim of the RRD is to provide supervisory authorities, including the relevant U.K. resolution authority, with common tools and powers to address banking crises pre-emptively in order to safeguard financial stability and minimize taxpayers’ exposure to losses. However, as the RRD is still in draft form and will be subject to implementing measures in the United Kingdom, there is considerable uncertainty regarding the specific factors beyond the goals of addressing banking crises pre-emptively and minimizing taxpayers’ exposure to losses (for example, by writing down relevant capital instruments before the injection of public funds into a financial institution) which the relevant U.K. resolution authority would consider in deciding whether to exercise the U.K. bail-in power with respect to the relevant financial institution and/or securities, such as the Subordinated Notes, issued by that institution.

Moreover, as the final criteria that the relevant U.K. resolution authority would consider in exercising any U.K. bail-in power may provide it with discretion, holders of the Subordinated Notes may not be able to refer to publicly available criteria in order to anticipate a potential exercise of any such U.K. bail-in power.

Because the RRD is currently in draft form, there is considerable uncertainty regarding the rights that holders of the Subordinated Notes may have to challenge the exercise of any U.K. bail-in power by the relevant U.K. resolution authority, and, when the final RRD rules are implemented in the United Kingdom, your rights may be limited

As the draft RRD is subject to change, there is considerable uncertainty as to the extent, if any, that due process rights or procedures will be provided to holders of securities (including the Subordinated Notes) subject to the U.K. bail-in

power and to the broader resolution powers of the relevant U.K. resolution authority when the final RRD rules are implemented in the United Kingdom. As a result, holders of the Subordinated Notes may have limited rights to challenge any decision of the relevant U.K. resolution authority to exercise its U.K. bail-in power or to have that decision reviewed by a judicial or administrative process or otherwise.

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The Subordinated Notes may be redeemed prior to maturity if certain adverse tax or regulatory disqualification events occur

RBSG may, subject to certain conditions, opt to redeem all, but not some only, of the Subordinated Notes at their principal amount together with accrued but unpaid interest:

- (i) in the event that it is obliged to pay additional amounts in respect of United Kingdom withholding tax, or
- (ii) upon the occurrence of certain other changes in the treatment of the relevant Notes for tax purposes as described in “Description of the Subordinated Notes—Redemption—Tax Redemption”.

If at any time a Capital Disqualification Event (as defined below) occurs and is continuing in relation to any of the Subordinated Notes, RBSG may, subject to certain conditions, redeem all, but not some only, of the Subordinated Notes at their principal amount together with accrued but unpaid interest.

A “Capital Disqualification Event” shall be deemed to have occurred if, as a result of any amendment to, or change in, the Capital Regulations (or official interpretation thereof) which are in effect at the Issue Date, the Subordinated Notes are fully excluded from Tier 2 capital (as defined in the Capital Regulations) of RBSG and/or the Regulatory Group.

“Capital Regulations” mean, at any time, the regulations, requirements, guidelines and policies relating to capital adequacy of the PRA or of the European Parliament or of the Council of the European Union then in effect in the United Kingdom.

If the Subordinated Notes are to be so redeemed, there can be no assurance that holders of the Subordinated Notes will be able to reinvest the amounts received upon redemption at a rate that will provide the same rate of return as their investment in the Subordinated Notes.

The Subordinated Notes contain limited Defaults and Events of Default, and the remedies available thereunder are limited

In addition to Events of Default, the Subordinated Notes contain “Defaults”, being the failure to pay principal or interest on the Subordinated Notes when it otherwise becomes due and payable (following the expiration of a specified grace period). If a Default occurs and is continuing with respect to the Subordinated Notes, the Trustee may commence a proceeding in Scotland (but not elsewhere) for our winding up and/or prove in our winding up, provided that the Trustee may not, upon the occurrence of a Default, declare the principal amount of any outstanding Subordinated Notes due and payable. While holders of the Subordinated Notes will similarly not be able to accelerate a repayment of the principal amount of the Subordinated Notes upon the occurrence of a Default, such holders shall have the right to sue for any payments that are due but unpaid.

As described in “Description of the Subordinated Notes—Events of Default and Defaults; Limitation of Remedies”, the Subordinated Notes contain limited Events of Default and remedies. If an order is made for our winding up which is not successfully appealed within 30 days or upon a valid adoption by our shareholders of an effective resolution for our winding up (in each case other than under or in connection with a scheme of amalgamation or reconstruction not involving bankruptcy or insolvency), an Event of Default will occur, but on the occurrence of such an Event of Default holders of the Subordinated Notes have only limited enforcement remedies. If such an Event of Default with respect to the Subordinated Notes occurs and is continuing, the Trustee or the holders of at least 25% in aggregate principal amount of the outstanding Subordinated Notes may declare the principal amount of, and any accrued but unpaid interest on, the Subordinated Notes to be due and payable immediately.

Prior to the occurrence of an Event of Default, the Subordinated Notes are subject to bail-in in the event the U.K. bail-in power is exercised. As a result, during such time as the Trustee is seeking to cause our winding up, your claims in such winding up could still be reduced to zero.

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

There is no restriction on the amount of securities or other liabilities that RBSG may issue, incur or guarantee and which rank senior to, or pari passu with, the Subordinated Notes. The issue or guaranteeing of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by holders of the Subordinated Notes on a winding up of RBSG and may limit RBSG's ability to meet its obligations under the Subordinated Notes. In addition, the Subordinated Notes do not contain any restriction on RBSG's ability to issue securities that may have preferential rights to the Subordinated Notes or securities with similar or different provisions.

The Subordinated Notes may not be a suitable investment for all investors

Each potential investor of the Subordinated Notes must determine the suitability (either alone or with the help of a financial adviser) of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Subordinated Notes, the merits and risks of investing in the Subordinated Notes and the information contained or incorporated by reference in this prospectus supplement or any applicable supplement to this prospectus supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Subordinated Notes and the impact such investment will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Subordinated Notes, including where the currency for principal or interest payments, i.e., U.S. dollars, is different from the currency in which such potential investor's financial activities are principally denominated;
- (iv) understand thoroughly the terms of the Subordinated Notes, such as the provisions regarding the U.K. bail-in power, and be familiar with the behavior of any relevant indices and financial markets, including the possibility that the Subordinated Notes may become subject to write down or conversion if the U.K. bail-in power is exercised; and
- (v) be able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

A potential investor should not invest in the Subordinated Notes unless they have the knowledge and expertise (either alone or with a financial advisor) to evaluate how the Subordinated Notes will perform under changing conditions, the resulting effects on the likelihood of and the value of the Subordinated Notes, and the impact this investment will have on the potential investor's overall investment portfolio. Prior to making an investment decision, potential investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in this prospectus supplement and the base prospectus and incorporated by reference herein and therein.

There is no established trading market for the Subordinated Notes and one may not develop

The Subordinated Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Subordinated Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for notes that are especially sensitive to interest rates, currency or market risks, are designed for specific investment objectives or strategies, are subject to bail-in, or have been structured to meet the investment requirements of limited categories of investors. These types of notes would generally have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a material adverse

effect on the market value of the Subordinated Notes.

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A downgrade, suspension or withdrawal of the rating assigned by any rating agency to the Subordinated Notes could cause the liquidity or market value of the Subordinated Notes to decline

Upon issuance, the Subordinated Notes will be rated by U.S. nationally recognized statistical ratings organizations and may in the future be rated by additional rating agencies. Any rating initially assigned to the Subordinated Notes may be lowered or withdrawn entirely by a rating agency if, in that rating agency's judgment, circumstances relating to the basis of the rating, such as adverse changes to our business, so warrant. Any lowering or withdrawal of a rating by a rating agency could reduce the liquidity or market value of the Subordinated Notes.

The market value of the Subordinated Notes may be influenced by unpredictable factors

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

- the creditworthiness of RBSG from time to time;
- supply and demand for the Subordinated Notes;
- economic, financial, political or regulatory events or judicial decisions that affect RBSG or the financial markets generally, including the introduction of any financial transactions tax; and
- the trading price of our Ordinary Shares and/or ADSs.

Accordingly, if a holder sells its Subordinated Notes in the secondary market, it may not be able to obtain a price equal to the principal amount of the Subordinated Notes or a price equal to the price that it paid for the Subordinated Notes.

RECENT DEVELOPMENTS

Q1 2013 Interim Report

Please refer to our Q1 2013 Interim Report, which contains recent developments, including in relation to the Group's ongoing litigation, investigation and reviews, and which is incorporated by reference herein.

Update on Capital Position

The Group announced on May 22, 2013 that it had been informed as to the outcome of the PRA's consideration of its capital position. The Group confirmed that it expects to further improve its Core Tier 1 capital ratio and meet its capital requirement through continued delivery against its business plan.

The key elements of the plan were provided to shareholders as part of the Group's Year End 2012 and Q1 2013 Results announcements. It contains management actions relating to reductions in the size of its Markets business and Non-Core assets, as well as the plans for a partial IPO of Citizens. It makes assumptions as to the Group's profitability and regulatory capital model developments ahead of CRD IV becoming effective. Some of these actions extend beyond year end 2013. The plan contains provision for lending expansion in the Group's Core UK Divisions. The plan does not call for issuance of contingent capital instruments, though this remains an option open to the Group.

The Group remains committed to a prudent approach to capital and to support for economic growth in the UK real economy.

Concurrent Cash Tender Offers

On June 3, 2013, RBS N.V. launched cash tenders (the "Offers") for certain U.S. dollar, Euro, Australian dollar, and Deutsche mark denominated subordinated debt securities issued by RBS N.V (the "Offer Securities"). The Offers are part of the Group's ongoing active management and optimization of its capital structure and will provide liquidity to the holders of such securities. The Offers are conditional on the successful completion of this offering. The results of the Offers are expected to be announced on or around July 1, 2013.

USE OF PROCEEDS

The net proceeds from the issue of the Subordinated Notes are expected to amount to U.S.\$993,690,000 after deduction of the underwriting commission and the other expenses incurred in connection with the issue of the Subordinated Notes. We intend to use a portion of the net proceeds to fund the purchase by RBS N.V. of a certain aggregate amount of some or all of the Offer Securities pursuant to, and in accordance with the acceptance priority set forth in, the Offers, and the payment of the fees and expenses of the Offers. The remaining net proceeds will be used for general corporate purposes. The Offer Securities bear interest at various floating and fixed rates, the latter ranging from 4.65% to 6.50% per year, and have maturities ranging from 2015 to 2020.

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CAPITALIZATION OF THE GROUP

The following table shows the Group's issued and fully paid share capital, owners' equity and indebtedness on an unaudited consolidated basis in accordance with International Financial Reporting Standards as at March 31, 2013.

	As at March 31, 2013	
	Actual £ million	As Adjusted(1) £ million
Share capital – allotted, called up and fully paid		
Ordinary shares of £1.00	6,108	6,108
B shares of £0.01	510	510
Dividend access share of £0.01(2)	–	–
Non-cumulative preference shares of U.S.\$0.01	1	1
Non-cumulative preference shares of €0.01(3)	–	–
Non-cumulative preference shares of £1.00(4)	–	–
	6,619	6,619
Retained income and other reserves	64,014	64,014
Owners' equity	70,633	70,633
Group indebtedness		
Subordinated liabilities	27,788	27,788
Debt securities in issue	92,740	92,740
Total indebtedness	120,528	120,528
Total capitalization and indebtedness	191,161	191,161

(1) The 'As adjusted' column reflects the effects of (i) the issue of the Subordinated Notes offered hereby, (ii) the tender and acceptance for purchase by RBS N.V. of \$1.0 billion aggregate amount of Offer Securities, which is equal to the applicable maximum tender cap announced on June 3, 2013, but which may be increased or decreased before the expiry of the Offers and (iii) an equivalent portion of the proceeds from this offering being applied to the settlement of such Offers. We are unable to determine the amount of funds that will be required by RBS N.V. to settle the Offers until such Offers expire on June 26, 2013. Amounts shown have been converted from dollars to sterling at a rate of \$1.5165 = £1.00, the rate used to translate assets and liabilities as at March 31, 2013. We make no representation that amounts have been or could have been or could in the future be converted into dollars at that rate or any other rate.

(2) As at March 31, 2013, there was one Dividend access share of £0.01 outstanding.

(3) As at March 31, 2013, there were 2,044,418 Non-cumulative preference shares of €0.01 outstanding, representing €20,444 (£14,052, converted from euros to sterling at a rate of £1.4549, the rate used to translate assets and liabilities as at the date of issue). We make no representation that amounts have been or could have been or could in the future be converted into sterling at that rate or any other rate.

(4) As at March 31, 2013, there were 54,442 Non-cumulative preference shares of £1.00 outstanding, representing £54,442.

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

Since March 31, 2013, issuances of debt securities totaled £0.2 billion (gross). Buybacks and maturities were £1.4 billion since March 31, 2013, thereby exceeding issuance by £1.2 billion.

Other than as disclosed above, the information contained in the table above has not changed materially since March 31, 2013.

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RATIO OF EARNINGS TO FIXED CHARGES

	Quarter	Year Ended December 31,				
	Ended March 31, 2013(3)	2012	2011	2010	2009	2008
Ratio of earnings to combined fixed charges and preference share dividends(1)(2)						
– including interest on deposits	1.42	0.29	0.87	0.97	0.73	0.02
– excluding interest on deposits	2.97	(2.94)	(0.17)	0.67	(0.44)	(8.06)
Ratio of earnings to fixed charges only(1)(2)						
– including interest on deposits	1.49	0.30	0.87	0.98	0.78	0.02
– excluding interest on deposits	3.79	(3.71)	(0.17)	0.78	(0.66)	(10.06)

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

(2) The earnings for the years ended December 31, 2012, 2011, 2010, 2009 and 2008 were inadequate to cover total fixed charges and preference share dividends. The coverage deficiency for total fixed charges and preference share dividends for the years ended December 31, 2012, 2011, 2010, 2009 and 2008 were £5,453 million (\$8,683 million), £1,190 million (\$1,916 million), £278 million (\$429 million), £3,951 million (\$6,206 million) and £27,051 million (\$49,839 million), respectively. The coverage deficiency for fixed charges only for the years ended December 31, 2012, 2011, 2010, 2009 and 2008 were £5,165 million (\$8,225 million), £1,190 million (\$1,916 million), £154 million (\$237 million), £3,016 million (\$4,737 million) and £26,455 million (\$48,741 million), respectively. Dollar amounts have been converted from sterling at the following rates which are the average of the Noon Buying Rates on the last U.S. business day of each month during the relevant year: (i) £1 = \$1.5924 for the year ended December 31, 2012; (ii) £1 = \$1.6105 for the year ended December 31, 2011; (iii) £1 = \$1.5415 for the year ended December 31, 2010; (iv) £1 = \$1.5707 for the year ended December 31, 2009; and (v) £1 = \$1.8424 for the year ended December 31, 2008.

(3) Based on unaudited numbers.

DESCRIPTION OF THE SUBORDINATED NOTES

The following is a summary of certain terms of the Subordinated Notes. It supplements the description of the general terms of the debt securities of any series we may issue contained in the accompanying prospectus under the heading “Description of Debt Securities”. If there is any inconsistency between the following summary and the description in the accompanying prospectus, the following summary governs.

The Subordinated Notes will be issued in an aggregate principal amount of \$1,000,000,000 and will mature on June 10, 2023. The Subordinated Notes will bear interest from (and including) the Issue Date at a rate of 6.100% per annum. Interest will be payable semi-annually in arrears on June 10 and December 10 of each year, commencing on December 10, 2013. The regular record dates for the Subordinated Notes will be May 26 and November 26 of each year immediately preceding the Interest Payment Dates on June 10 and December 10, respectively.

If any scheduled Interest Payment Date is not a Business Day, we will pay interest on the next Business Day, but interest on that payment will not accrue during the period from and after the scheduled In