



DIVISION OF
TRADING AND MARKETS

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

August 3, 2015

Ms. Connie Milonakis
Davis Polk & Wardwell London LLP
5 Aldermanbury Square
London EC2V 7HR
England

**Re: The Royal Bank of Scotland Group plc
File No. TP 15-12**

Dear Ms. Milonakis:

In your letter dated August 3, 2015, as supplemented by conversations with the staff, you request on behalf of The Royal Bank of Scotland Group plc, a public limited company organized under the laws of the United Kingdom and registered in Scotland (“RBSG”), an exemption from Rule 102 of Regulation M under the Securities Exchange Act of 1934, as amended (“Exchange Act”), in connection with the issue by RBSG (the “Offering”) of certain Contingent Convertible Securities as defined in your letter.¹

You seek an exemption to permit RBSG and RBSG Affiliates to conduct specified transactions outside the United States in RBSG Ordinary Shares during the Offering. Specifically, you request that: (i) RBSG CIB be permitted to continue to engage in derivatives and investor product market-making and hedging activities as described in your letter; (ii) the RBSG Asset Manager and RBSG Investment Managers be permitted to continue to engage in investment management activities as described in your letter; (iii) the RBSG Trustees and Personal Representatives be permitted to continue to engage in trustee and personal representative-related activities as described in your letter; (iv) the RBSG Banking Units be permitted to continue to engage in banking-related activities as described in your letter; and (v) the RBSG Stock Borrowing and Lending Units be permitted to continue to engage in stock borrowing and lending activities as described in your letter.

You also seek an exemption to permit certain RBSG Affiliates to conduct specified transactions in the United States in RBSG Ordinary Shares and RBSG ADSs during the Offering. Specifically, you request that Citizens and certain of its subsidiaries be permitted to continue to engage in unsolicited brokerage activities and trustee and personal representative-related activities as described in your letter.

¹ We have attached a copy of your letter. Each defined term in our response has the same meaning as defined, directly or by reference, in your attached letter, unless we note otherwise.

Response:

Based on the facts and representations that you have made in your letter, but without necessarily concurring in your analysis, the Securities and Exchange Commission (“Commission”) finds that it is necessary or appropriate in the public interest, and is consistent with the protection of investors, to grant, and hereby grants, RBSG an exemption from Rule 102 of Regulation M to permit RBSG CIG, the RBSG Asset Manager, the RBSG Investment Managers, the RBSG Trustees and Personal Representatives, Citizens and certain of its subsidiaries, the RBSG Banking Units, and the RBSG Stock Borrowing and Lending Units (collectively, the “Companies”) to continue to engage in the transactions (or Market Activities) described in your letter during the Offering.

The exemption is subject to the following conditions:

1. None of the transactions of the Companies described in your letter shall occur in the United States, with the exception of the unsolicited brokerage activities and the trustee and personal representative-related activities by Citizens and certain of its subsidiaries as described in your letter;
2. All of the transactions described in your letter shall be effected in the ordinary course of business and not for the purpose of facilitating the Offering;
3. The offer document distributed to U.S. holders will disclose the possibility of, or the intention to engage in, the transactions described in your letter;
4. RBSG and each of the Companies will provide to the Commission’s Division of Trading and Markets’ staff (“Division”), upon request, a time-sequenced schedule of all such transactions made during the Restricted Period. Such schedule will include:
 - (a) size, broker (if any), time of execution, and price of the transactions;
 - (b) the exchange, quotation system, or other facility through which the transactions occurred; and
 - (c) whether the transactions were made for a customer account or a proprietary account;
5. Upon request of the Division, RBSG and each of the Companies will transmit the information requested in item 4 (above) to the Division at its offices in Washington, DC, within 30 days of its request;
6. RBSG and each of the Companies shall retain all documents and other information required to be maintained pursuant to this exemption for at least two years following the completion of the Offering;

7. Representatives of RBSG and each of the Companies shall be made available (in person at the offices of the Commission in Washington, DC, or by telephone) to respond to inquiries of the Division relating to their records; and
8. Except as otherwise exempted by this letter, RBGS and each of the Companies will comply with Regulation M.

This exemption is based solely on the facts presented and the representations made in your letter. Any different facts or circumstances may require a different response. In the event that any material change occurs with respect to any of those facts or representations, transactions in the RBSG Shares must be discontinued, pending presentation of the facts for our consideration.

In addition, your attention is directed to the antifraud and anti-manipulation provisions of the Exchange Act, including Sections 9(a) and 10(b), and Rule 10b-5 thereunder. Responsibility for compliance with these and any other applicable provisions of the federal securities laws must rest with the participants in the various transactions. We express no view with respect to any other questions that the proposed transactions may raise, including, but not limited to, the adequacy of disclosure concerning, and the applicability of any other federal or state laws to, the proposed transactions.

For the Commission,
by the Division of Trading and Markets,
pursuant to delegated authority,²



Josephine J. Tao
Assistant Director

Attachment

² 17 CFR 200.30-3(a)(6).



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August 3, 2015

Re: **The Royal Bank of Scotland Group plc: Request for Exemptive Relief from Rule 102 of Regulation M**

Josephine J. Tao
Assistant Director
Office of Trading Practices
Division of Trading and Markets
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549
United States of America

Dear Ms Tao:

We are writing on behalf of our client The Royal Bank of Scotland Group plc, a public limited company organized under the laws of the United Kingdom and registered in Scotland ("**RBSG**"), about the application of Regulation M under the Securities Exchange Act of 1934, as amended (the "**Exchange Act**") to transactions by affiliates of RBSG (the "**RBSG Affiliates**", and each an "**RBSG Affiliate**") in the ordinary shares of RBSG ("**RBSG Shares**"), and the American Depositary Shares each representing the right to receive two RBSG Shares ("**RBSG ADSs**"), in connection with the issue by RBSG of the Contingent Convertible Securities (as defined below).

Background to the Contingent Convertible Securities Offering

In February 2015, RBSG announced a number of initiatives which will lead to significant transformations within its businesses and operations, including the implementation of the ring-fence of its retail activities in the United Kingdom, the restructuring of its Corporate and Institutional Banking Business and the continuing implementation of the capital plan announced in November 2013. RBSG targets a 13% Common Equity Tier 1 ("**CET1**") ratio on a fully loaded Basel III basis during the implementation of its restructuring plan. In addition, European banks, including RBSG, are subject to the capital and liquidity requirements of the Capital Requirements Regulation IV and Capital Requirements Directive IV (together, "**CRD IV**") which implement the Basel III framework in Europe and became effective on January 1, 2014. CRD IV will require financial institutions to have a CET1 capital ratio of 4.5% by 2019 (4% between 2014 and 2019). In addition, the UK Prudential Regulation Authority ("**PRA**"), RBSG's primary regulator, has required that major UK banks and building societies (including RBSG), hold a minimum 7% CET1 capital ratio and a 3% leverage ratio requirement applicable from 1 January 2014. In addition to the requirements imposed by CRD IV, RBSG and its subsidiaries are and may in the future be, subject to additional firm-specific capital and liquidity requirements imposed by the PRA as part of its Pillar 2 framework. Proposals currently under consideration in Europe relating

to minimum requirements for own funds and eligible liabilities under the Bank Recovery and Resolution Directive as well as the Financial Stability Board's proposals relating to total loss absorbency capacity for globally systemically important banks, are likely to result in increased capital and other requirements for institutions such as RBSG. Following the publication of the stress tests conducted by the EBA and by the Bank of England in 2014, and as part of its capital plan, RBSG announced that in addition to other capital management and balance sheet strengthening actions, it would continue to run-down certain assets and sell-down its interest in Citizens Financial Group, Inc. ("**Citizens**"). It also announced that it would issue around £2 billion of CRD IV compliant Additional Tier 1 ("**AT1**") capital instruments with an expected trigger of 7% in 2015. In light of these developments, RBSG intends to offer perpetual subordinated contingent convertible capital notes ("**Contingent Convertible Securities**") with no fixed maturity date intended to qualify as AT1 Capital (the "**Offering**") in August 2015 as further described in Section III below).

Requested Relief

Specifically, on behalf of RBSG and RBSG Affiliates, we ask the staff (the "**Staff**") of the Securities and Exchange Commission (the "**Commission**") to grant RBSG exemptive relief from Rule 102 of Regulation M to permit RBSG and RBSG Affiliates to continue, in the ordinary course of their respective businesses as described below and in accordance with applicable local law, to engage in the activities described below during the Restricted Period (as defined below) in connection with the Offering by RBSG of the Contingent Convertible Securities. RBSG is seeking exemptive relief in the event that the RBSG Shares and RBSG ADSs could be considered "reference securities" in relation to the Contingent Convertible Securities for the purposes of Regulation M.

This letter sets forth data concerning the trading activity of RBSG and RBSG Affiliates for the twelve-month period ended June 30, 2015. RBSG and RBSG Affiliates have represented to us that they are not aware of any material changes in the nature or volume of these activities since June 30, 2015.

In Section I of this letter we provide an overview of the activities in relation to which RBSG and RBSG Affiliates are seeking relief. In Section II of this letter we provide an overview of the market for RBSG Shares and RBSG ADSs. In Section III we describe the market activities of RBSG and RBSG Affiliates. In Section IV and Section V we describe the Offering and the application of Regulation M to the market activities described under Section III. In Section VI we describe the market regulatory regime in the United Kingdom and the anti-market abuse and other laws under which the activities with respect to which RBSG and RBSG Affiliates are seeking relief hereunder are required to comply. Finally, in Section VII, we set out the relief requested and provide that the availability of the exemption requested would be conditioned on certain disclosure and record-keeping undertakings.

Davis Polk & Wardwell London LLP is acting as US counsel to RBSG. RBSG has provided and authorized Davis Polk & Wardwell London LLP to make on its behalf the factual representations set forth in this letter. The statements contained in this letter with respect to UK regulation have been reviewed by Davis Polk & Wardwell London LLP.

I. **Summary of Activities Covered by the Request for Relief Under Rule 102 of Regulation M¹**

The activities in relation to which RBSG and RBSG Affiliates are seeking relief are as follows:

- **RBSG Derivatives Market-Making and Hedging:** As a derivatives market maker, RBSG has issued, and buys and sells derivatives and investor products² which reference the value of RBSG Shares for the accounts of its customers and for its own account on the London Stock Exchange (the “LSE”), Euronext Liffe, other offshore exchanges and in the global over-the-counter market. These derivatives and investor product market-making activities are conducted through RBSG’s Corporate & Institutional Banking business (“RBSG CIB”) ³. These derivatives and investor products may include listed and over-the-counter swaps, options, warrants, convertible securities and other structured products that may relate to RBSG Shares or to baskets or indices including RBSG Shares, as well as futures on the foregoing. RBSG CIB engages in exchange-traded derivatives activities on a solicited basis in order to facilitate customers’ orders. In addition, RBSG CIB may solicit and effect trades in RBSG Shares for its own account and for the account of its customers for the purpose of hedging positions (or adjusting or liquidating existing hedge positions) that are established in connection with the derivatives and investor product market-making activities described above. These hedging transactions are effected on the LSE and in the over-the-counter market in the United Kingdom (and, in some cases, elsewhere outside the United States). These derivatives market-making activities and hedging purchases and sales of RBSG Shares amounted to less than 1% of the average daily trading volume (the “ADTV”) on all exchanges in RBSG Shares during the twelve-month period ended June 30, 2015.⁴

- **Trading in RBSG Shares by the RBSG Asset Manager:** RBS Asset Management Limited, a limited company organized under the laws of England (the “RBSG Asset Manager”), an RBSG Affiliate, manages the assets of certain mutual funds, pension funds, unregulated collective investment schemes (being fund of hedge funds, fund of private equity funds, fund of property funds and private equity funds) and investor portfolios (such funds and investor portfolios, the “RBSG Managed Funds”). As part of its ordinary investment management activities on behalf of the RBSG Managed Funds, the RBSG Asset Manager may buy and sell RBSG Shares for the RBSG Managed Funds’ accounts, although will not typically engage in such transactions. The RBSG Asset Manager also selects non-group investment managers (each an “RBSG Investment Manager”) to undertake the management of portfolios either through investment in non-group collective investment schemes or by appointing an RBSG Investment Manager under a segregated portfolio mandate. These appointed RBSG Investment Managers and collective investment schemes may buy and sell RBSG Shares, although will not typically engage in such transactions. Trading in

¹ In this letter, pounds sterling rates as of a specified date have been translated to dollars at the rate of 1.5727 dollar per pound sterling, the rate certified by the Federal Reserve Board for June 30, 2015.

² “Investor Products” include listed and unlisted securities and deposit accounts issued by The Royal Bank of Scotland plc (“RBS”) and The Royal Bank of Scotland N.V. (“RBS N.V”), with returns that are linked to the performance of derivatives or indices which in turn may be linked to the performance of RBSG Shares.

³ The derivatives and investor product market-making and hedging activities relating to RBSG Shares are carried out by RBSG CIB operating through RBS and RBS N.V. RBSG CIB, and the vast majority of the derivatives market-making and hedging activities described herein are conducted in or from the United Kingdom.

⁴ Derivatives which reference indices over which RBSG has no control have been excluded from the calculation.

RBSG Shares by the RBSG Asset Manager and RBSG Investment Managers has historically represented a *de minimis* percentage of the worldwide ADTV in RBSG Shares.

- **Trading in RBSG Shares by Trustees and Personal Representatives of Estates.** Certain RBSG Affiliates (the “**RBSG Trustees and Personal Representatives**”) act as trustees, executors and/or personal representatives of testamentary, inter vivos and charitable trusts, as well as estates (the “**RBSG Trusts and Estates**”). As part of their responsibilities, the RBSG Trustees and Personal Representatives purchase and sell RBSG Shares for the accounts of the RBSG Trusts and Estates. The market activities of the RBSG Trustees and Personal Representatives for which relief are conducted within and outside of the United Kingdom through the facilities of the LSE and over-the-counter transactions. Citizens and certain of its subsidiaries based in the United States, acting as trustees, executors and/or personal representatives of testamentary, inter vivos and charitable trusts, as well as estates, purchase and sell RBSG Shares and RBSG ADSs for the accounts of such trusts and estates in the United States. Trading in RBSG Shares by RBSG Trustees and Personal Representatives amounted to less than 1% of the worldwide ADTV in RBSG Shares during the twelve-month period ended June 30, 2015.
- **RBSG Unsolicited Brokerage Activities:** RBSG conducts a securities business through Citizens and certain of its subsidiaries based in the United States that engage in unsolicited transactions in RBSG Shares and RBSG ADSs with their customers in the United States. The unsolicited brokerage activities of Citizens and certain of its subsidiaries as a percentage of the worldwide ADTV in RBSG Shares have historically been *de minimis*. No unsolicited brokerage activities relating to RBSG Shares are carried out by RBSG Affiliates or business units of RBSG other than Citizens and certain of its subsidiaries.⁵
- **RBSG Banking-Related Activities.** In connection with their retail and commercial banking services, certain RBSG Affiliates (the “**RBSG Banking Units**”) engage in the marketing and sale of investment products, including funds which may include RBSG Shares, to banking customers. In addition, the RBSG Banking Units provide investment advice and financial planning guidance to banking customers, and this advice and guidance may include information which would assist customers in determining whether to purchase or sell RBSG Shares or investment products that may include RBSG Shares or baskets or indices including RBSG Shares. Trading in RBSG Shares by RBSG Banking Units has historically represented a *de minimis* percentage of the worldwide ADTV in RBSG Shares.
- **RBSG Stock Borrowing and Lending Activities.** Certain RBSG Affiliates (the “**RBSG Stock Borrowing and Lending Units**”) engage in stock borrowing/lending transactions with their customers (including RBSG Affiliates), which includes repurchases and reverse repurchases across fixed income and equity instruments. These stock borrowing/lending transactions may (but would not typically) include RBSG Shares or RBSG ADSs. Trading in RBSG Shares by RBSG Stock Borrowing and Lending Units has historically represented a *de minimis* percentage of the worldwide ADTV in RBSG Shares.

⁵ Prior to July 2014, RBSG also effected unsolicited brokerage transactions in RBSG Shares through its brokerage unit, NatWest Stockbrokers Limited. NatWest Stockbrokers Limited was sold in July 2014 and accordingly RBSG no longer conducts unsolicited brokerage activities through this brokerage unit.

We refer to these activities collectively as the “**Market Activities**”.⁶

The availability of the exemptions RBSG is requesting would be conditioned on the disclosure and record-keeping undertakings outlined below.

II. The Market for RBSG Shares

The principal trading market for the RBSG Shares is the United Kingdom. The RBSG Shares are listed on the main market of the LSE. The RBSG Shares are also listed on Euronext Amsterdam N.V.’s Euronext Amsterdam by NYSE Euronext (“**Euronext Amsterdam**”) and on the New York Stock Exchange (the “**NYSE**”) in the form of RBSG ADSs. Each RBSG ADS represents two RBSG Shares and is evidenced by an American Depositary Receipt issued by the Bank of New York Mellon, as depository. RBSG is a foreign private issuer as defined in Rule 3b-4(c) under the Exchange Act.

As of June 30, 2015, 6,740 million RBSG Shares were outstanding, held by 202,437 record holders. Approximately 61.3% of outstanding RBSG Shares were held by Her Majesty’s Treasury (“**HMT**”), approximately 99.7% were held of record by residents of the United Kingdom, and approximately 0.3% were held of record by non-residents of the United Kingdom. HMT’s total holding in RBSG (including through its holding of the Dividend Access Share and B shares)⁷ represented a total economic interest of 78.3% at June 30, 2015. RBSG’s market capitalization at June 30, 2015 was £40.6 billion (approximately \$63.8 billion). During the twelve-month period ended June 30, 2015, the worldwide ADTV of RBSG Shares was approximately 35.7 million shares, with a value of £128.8 million (approximately \$202.5 million).

⁶ RBSG regularly issues RBSG Shares to provide funding for its employee share ownership and incentive share programs. The issuance of RBSG Shares is aimed to facilitate the vesting of awards or the exercise of options pursuant to the terms of the employee share ownership and incentive arrangements. These issuances of RBSG Shares historically have represented a small portion of all trading in RBSG Shares. Alternatively, RBSG may instruct the trustee of one of the employee benefit trusts established in connection with the employee share ownership and incentive arrangements to purchase RBSG Shares in the market to be transferred to employees (or former employees). Such activities are typically conducted through the trading facilities of the LSE or through other regulated markets, including multilateral trading facilities. The RBSG Shares issued by RBSG or purchased by the trustee are then delivered to employees (or former employees) of the RBS Group, in and outside of the United Kingdom, including in the United States, either directly to such employees (or former employees) or through third party nominees or trustees appointed under the employee benefit trusts established in connection with such share ownership and incentive programs. When RBSG Shares become vested under a particular employee incentive plan RBSG may instruct a broker on behalf of the employees (or former employees) to whom the RBSG Shares will be issued, to sell a fraction of such shares in order to satisfy the tax liabilities of employees (or former employees) arising upon the vesting of the share awards. Such transactions may represent up to 20% of average daily tradable volume in RBSG Shares on the LSE for a limited number of days following the vesting of the RBSG Shares under the employee incentive arrangement. However, such transactions are conducted in the ordinary course of business and are not made in contemplation of, or as a result of, the issuance of securities by RBSG, including the issuance of the Contingent Convertible Securities described in this letter. To the extent the purchases of or bids for RBSG Shares may be deemed to result from these market activities, we ask that the requested exemptive relief also cover such activities.

⁷ On December 22, 2009, RBSG issued B shares and a Dividend Access Share to HMT. The B shares do not generally carry voting rights at general meetings of ordinary shareholders but are convertible into ordinary shares and qualify as CET1 capital. On April 9, 2014, RBSG announced that it had entered into an agreement with HMT to provide for the future retirement of the Dividend Access Share which does not generally carry voting rights at general meetings of ordinary shareholders and is not convertible into ordinary shares.

The overwhelmingly dominant trading market for RBSG Shares is the United Kingdom, which accounted for approximately 90.1% of the worldwide ADTV of RBSG Shares for the twelve-month period ended June 30, 2015. During the twelve-month period ended June 30, 2015, the ADTV of RBSG Shares on the LSE was approximately 11.3 million shares, with a value of £40.7 million (approximately \$64.0 million). This represents approximately 32% of the worldwide ADTV in the RBSG Shares during such period. During the twelve-month period ended June 30, 2015, the ADTV of RBSG Shares on the LSE over-the-counter market was approximately 10.3 million of RBSG Shares, or approximately £37.4 million (approximately \$58.8 million), representing 29% of the ADTV of RBSG Shares.

RBSG Shares are also traded on a number of alternative markets in the United Kingdom. During the twelve-month period ended June 30, 2015, the ADTV of RBSG Shares reported on the BOAT platform, a London-based reporting service used by investment firms and multilateral trading facilities, was approximately 1.8 million RBSG Shares, or approximately £6.6 million (approximately \$10.4 million), representing 5.1% of the ADTV of RBSG Shares. During the same period, the worldwide ADTV of RBSG Shares on the BATS Chi-X Europe, a London based multilateral trading facility regulated by the UK Financial Conduct Authority (the "FCA"), was approximately 3.7 million RBSG Shares, or approximately £13.2 million (approximately \$20.7 million), representing 10.2% of the ADTV of RBSG Shares. During the twelve-month period ended June 30, 2015, the ADTV of RBSG Shares on the Turquoise trading platform, a London-based multilateral trading facility regulated by the FCA, was approximately £2.4 million RBSG Shares, or approximately 8.5 million (approximately \$13.4 million) representing 6.6% of the ADTV of RBSG Shares.

RBSG ADSs were first listed on the NYSE in October 2007. During the twelve-month period ended June 30, 2015, the ADTV of RBSG ADSs on the NYSE was approximately 735,746 RBSG ADSs, which represented 1,329,261 RBSG Shares, with a value of approximately £4.7 million (approximately \$7.4 million). This represents approximately 4% of worldwide ADTV in the RBSG Shares (including RBSG Shares represented by RBSG ADSs) during such period (compared to 32% of the worldwide ADTV in the RBSG Shares being transacted through the LSE during the same period).

The LSE is the principal London exchange for equity and bond trading. The listing of securities on the main market of the LSE is subject to the European Prospectus Rules and the UK Listing Rules and the LSE's own Admission and Disclosure Standards. The LSE provides for trading in equities and bonds principally through three main trading platforms: (i) the Stock Exchange Electronic Trading System ("SETS"), (ii) SETS Market Maker ("SETSm") and (iii) the Stock Exchange Automated Quotation ("SEAQ"). SETS is the central limit order book that directly matches willing buyers and sellers on a price/time priority basis, creating efficiencies in the markets by eliminating the need for a wholesaler. As an electronic order book, SETS can execute hundreds of trades in one second. Securities traded on SETS include the FTSE 100 and the most liquid FTSE UK AIM50 securities. SETSm is the LSE's trading service for Mid Cap, Small Cap and FTSE UK AIM50 securities. SEAQ is the LSE's service for less liquid securities and most AIM securities.

As of June 30, 2015, the market capitalization of UK and international companies on the LSE's markets amounted to £4.2 trillion (approximately \$6.6 trillion). As of June 30, 2015, there were 2,406 listed companies on the LSE. The primary market index is the FTSE 100, which is comprised of 100 of the largest companies with primary listings on the LSE, including RBSG. The

RBSG Shares are a component of the FTSE 100. The RBSG Shares comprised 0.55% of the FTSE 100 as of June 30, 2015.

III. The Market Activities for Which Relief is Sought

A. RBSG's Market Activities

RBSG is a UK-based banking and financial services company. Headquartered in Edinburgh, RBSG operates in over 45 countries through a network of branches, local banks and non-bank subsidiaries and these activities are subject to supervision in most cases by a local regulator or central bank. RBSG provides a wide range of products and services to personal, commercial and large corporate and institutional customers through its two main subsidiaries, The Royal Bank of Scotland and NatWest. In early 2014, RBSG reorganised its seven existing operating divisions into three main businesses: Personal & Business Banking which focuses on personal and affluent customers and small businesses in the United Kingdom and also includes the activities of Ulster Bank; Commercial & Private Banking which focuses on commercial and mid-corporate customers and high net worth individuals and Corporate and Institutional Banking which serves corporate and institutional clients primarily in the United Kingdom but also in the United States and Asia. RBSG currently reports, and will continue to report, the activities of Citizens separately until the full divestment of RBSG's interests in Citizens targeted for 2016.

RBSG is subject to the supervision of the PRA in the United Kingdom. As at December 31, 2014, 16 entities of the banking group of which RBSG is the holding company (the "**Group**"), spanning a range of financial services sectors, were authorised to conduct financial activities in the United Kingdom. The banks in the Group authorized in the United Kingdom include The Royal Bank of Scotland plc, National Westminster Bank Plc, Coutts & Co and Ulster Bank Limited. Wholesale activities, other than Treasury activities, are concentrated in the Corporate and Institutional Banking business and undertaken under the names of The Royal Bank of Scotland plc and National Westminster Bank Plc. UK retail banking activities are managed by the Personal and Business Banking business, and by Ulster Bank Limited in Northern Ireland. The banking service in the Republic of Ireland is provided by Ulster Bank Ireland Limited, which is supervised by the Central Bank of Ireland and the European Central Bank under the Single Supervisory Mechanism. Investment management business is principally undertaken by companies in the Commercial and Private Banking businesses including Coutts & Co, Adam & Company Investment Management Limited, RBS Asset Management (Dublin) Limited and RBS Asset Management ACD Limited; and in the Corporate and Institutional business, through RBS Asset Management Limited and The Royal Bank of Scotland plc; and in the Personal and Business Banking business through RBS Collective Investment Funds Limited. The Group is subject to extensive regulations that impose obligations on financial institutions to maintain appropriate policies, procedures and controls to ensure compliance with the rules and regulations to which they are subject.

RBSG is both a bank holding company and a financial holding company within the meaning of the US Bank Holding Company Act of 1956. As such, it is subject to the regulation and supervision of the Board of Governors of the Federal Reserve System (the "**Federal Reserve**"). Among other things, the Group's direct and indirect activities and investments in the United States are limited to those that are 'financial in nature' or 'incidental' or 'complementary' to a financial activity, as determined by the Federal Reserve. The Group's US bank and non-bank subsidiaries and RBSG's US branches are also subject to supervision and regulation by a variety

of other US regulatory agencies. As a bank holding company, Citizens is under the supervision of the Federal Reserve. Citizens' two principal subsidiaries are Citizens Bank, N.A., which is supervised by the Office of the Comptroller of the Currency, and Citizens Bank of Pennsylvania, which is subject to the regulation and supervision of the Pennsylvania Department of Banking. Both banks are subject to supervision and regulation by US Federal Deposit Insurance Corporation and the Consumer Financial Protection Bureau ("CFPB"). Citizens Bank N.A. owns CCO Investment Services Corp., a US broker dealer subject to regulation and supervision by the Commission and the Financial Industry Regulatory Authority ("FINRA") with respect to its securities activities. RBSG's New York branch is supervised by the New York State Department of Financial Services, and its Connecticut branch is supervised by the Connecticut Department of Banking. Both branches are also subject to supervisory oversight by the Federal Reserve. The Group's primary US broker dealer, RBS Securities Inc. ("RBSSI"), formerly known as Greenwich Capital Markets, Inc., is also subject to regulation and supervision by the Commission and FINRA with respect to its securities activities. The futures activities of RBSSI are subject to regulation and oversight by the US Commodity Futures Trading Commission, National Futures Association and the Chicago Mercantile Exchange Group-owned exchanges. RBSSI is also supervised by the Federal Reserve Bank of Boston. The Royal Bank of Scotland plc is a provisionally registered swap dealer; it too is subject to oversight by the US Commodity Futures Trading Commission and National Futures Association.

Each of RBSG CIB, the RBSG Asset Manager, the RBSG Investment Managers, the RBSG Trustees and Personal Representatives, Citizens and certain of its subsidiaries, the RBSG Banking Units and the RBSG Stock Borrowing and Lending Units have confirmed that the activities for which relief is being requested in relation to the Offering will be conducted in the ordinary course of its business and, where applicable in accordance with the applicable laws of the United Kingdom and other non-US laws.

RBSG Derivatives Market-Making and Hedging. As a derivatives market maker, RBSG has issued, and buys and sells derivatives and investor products which reference the value of RBSG Shares for the accounts of its customers and for its own account on the LSE, Euronext Liffe, other offshore exchanges and in the global over-the-counter market. These derivatives and investor product market-making activities are conducted through RBSG CIB. These derivatives and investor products may include listed and over-the-counter swaps, options, warrants, convertible securities, and other structured products that may relate to RBSG Shares or to baskets or indices including RBSG Shares as well as futures on the foregoing. RBSG CIB engages in exchange-traded derivatives activities on a solicited basis in order to facilitate customers' orders.

In addition, RBSG CIB may solicit and effect trades in RBSG Shares for its account and for the accounts of its customers for the purpose of hedging positions (or adjusting or liquidating existing hedge positions) that are established in connection with the derivatives and investor product market-making activities described above. These hedging transactions are effected on the LSE and in the over-the-counter market in the United Kingdom (and, in some cases, elsewhere outside the United States).

These derivatives market-making activities and hedging purchases and sales of RBSG Shares amounted to less than 1% of the ADTV on all exchanges in RBSG Shares during the twelve-

month period ended June 30, 2015.⁸ RBSG and RBSG Affiliates engage in the derivatives market-making and hedging activities described above solely in the ordinary course of business and not in contemplation of the Offering.

Trading in RBSG Shares by the RBSG Asset Manager. As part of its investment management activities, the RBSG Asset Manager may buy and sell RBSG Shares for the RBSG Managed Funds of RBSG's Managed Funds' accounts, although will not typically engage in such transactions. Under English law, and subject to the terms of any contractual arrangements as in effect from time to time between the RBSG Asset Manager and the relevant RBSG Managed Fund, the RBSG Asset Manager has a fiduciary duty to oversee the RBSG Managed Funds in a manner that is in the best interests of the investors of those funds. The RBSG Asset Manager is prohibited by law from taking into account any factors other than the interests of the RBSG Managed Funds' beneficiaries in making investment decisions. Accordingly, the RBSG Asset Manager would be prohibited by law from following a directive by RBSG to cease trading RBSG Shares during the Regulation M Restricted Period (as defined below), unless the RBSG Asset Manager believed that cessation of such trading was in the best interests of the RBSG Managed Funds of RBS's beneficiaries. Similarly, the RBSG Asset Manager would be prohibited by law from following an RBSG directive to bid for or purchase RBSG Shares unless the RBSG Asset Manager independently concluded that such bids or purchases were in the best interests of the RBSG Managed Funds of RBSG's beneficiaries.

Additionally, as discussed above, non-group RBSG Investment Managers undertake to manage portfolios either through investment in non-group collective investment schemes or by appointing an RBSG Investment Manager under a segregated portfolio mandate. These appointed RBSG Investment Managers and collective investment schemes may buy and sell RBSG Shares and it would not be appropriate for RBSG to restrict their trading in RBSG Shares during the Regulation M Restricted Period, unless the RBSG Investment Managers believed that cessation of such trading was in the best interests of the relevant portfolios.

Trading in RBSG Shares by the RBSG Asset Manager and RBSG Investment Managers has historically represented a *de minimis* percentage of the worldwide ADTV in RBSG Shares. The RBSG Asset Manager and RBSG Investment Managers engage in the Market Activities described above solely in the ordinary course of business and not in contemplation of the Offering.

Trading in RBSG Shares by RBSG Trustees and Personal Representatives. The RBSG Trustees and Personal Representatives administer the RBSG Trusts and Estates, including through the investment of their assets. The RBSG Trustees and Personal Representatives generally have broad investment discretion over the assets, similar to the discretion of the RBSG Asset Manager with respect to the RBSG Managed Funds, and as with the RBSG Asset Manager, they have fiduciary or similar duties under applicable local laws to oversee the RBSG Trusts and Estates in a manner that is in the best interests of their beneficiaries.

As noted above, Citizens and certain of its subsidiaries based in the United States, acting as trustees, executors and/or personal representatives of testamentary, inter vivos and charitable trusts, as well as estates, may purchase and sell RBSG Shares and RBSG ADSs for the accounts of such trusts and estates.

⁸ Derivatives which reference indices over which RBSG has no control have been excluded from the calculation.

Trading in RBSG Shares by RBSG Trustees and Personal Representatives amounted to less than 1% of the worldwide ADTV in RBSG Shares during the twelve-month period ended June 30, 2015. The RBSG Trustees and Personal Representatives engage in the Market Activities described above solely in the ordinary course of business and not in contemplation of the Offering.

RBSG Unsolicited Brokerage. As noted above, Citizens and certain of its subsidiaries may engage in unsolicited brokerage transactions in the RBSG Shares and RBSG ADSs with its customers in the United States. The unsolicited brokerage activities of Citizens and certain of its subsidiaries as a percentage of the worldwide ADTV in RBSG Shares have historically been *de minimis*. Trading in RBSG Shares by Citizens and certain of its subsidiaries is undertaken solely in the ordinary course of business and not in contemplation of the Offering.

RBSG Banking-Related Activities. The RBSG Banking Units provide a number of banking services to retail and commercial customers. These services include the marketing and sale of certain investment products, including funds which may contain RBSG Shares or investment products that may include RBSG Shares or baskets or indices including RBSG Shares, to banking customers. Some of these funds are managed by the RBSG Asset Manager, while others are managed by third-party fund managers. Most funds marketed and sold by the RBSG Banking Units comply with the requirements set forth in the European Union's Council Directive 2009/65/EC (the "**UCITS Directive**"). The UCITS Directive provides, among other things, that no security included in a fund may represent more than 5% of the fund's assets (although Member States may raise this limit to 10%, provided that securities which represent more than 5% of the fund's assets do not in aggregate represent more than 40% of the fund's assets). A limited number of funds are non-UCITS funds as defined within the European Union's Council Directive 2011/61/EU (the "**Alternative Investment Fund Managers Directive**"). As the Alternative Investment Fund Managers Directive itself does not impose any investment restrictions on such non-UCITS funds, they are subject to the rules and regulations adopted by the member states of the European Union, some of which are similar to the restrictions described above in connection with UCITS funds.

In addition, the RBSG Banking Units provide investment advice and financial planning guidance to banking customers. This advice and guidance may include providing information which would assist customers in determining whether to purchase or sell RBSG Shares. Unlike the RBSG Asset Manager, the RBSG Banking Units are not necessarily bound by fiduciary duties or specific contractual obligations in giving this advice and guidance. However, RBSG's wealth management and financial advisory divisions have enacted internal policies and procedures which prohibit them from making a recommendation to customers as to whether they should purchase or sell RBSG Shares and the units provide only objective information about RBSG Shares and/or a summary of the views of a fixed group of research analysts who publish information about RBSG.

Trading in RBSG Shares by RBSG Banking Units has historically represented a *de minimis* percentage of the worldwide ADTV in RBSG Shares. Trading in RBSG Shares by the RBSG Banking Units is undertaken solely in the ordinary course of business and not in contemplation of the Offering.

RBSG Stock Borrowing and Lending Activities. The RBSG Stock Borrowing and Lending Units engage in stock borrowing/lending transactions with their customers (including RBSG

Affiliates), which includes repurchases and reverse repurchases across fixed income and equity instruments. These stock borrowing/lending transactions may (but would not typically) include RBSG Shares or RBSG ADSs. Trading in RBSG Shares by RBSG Stock Borrowing and Lending Units has historically represented a *de minimis* percentage of the worldwide ADTV in RBSG Shares.

Other affiliates of RBSG conduct certain market activities in RBSG Shares in the ordinary course of their business. In connection with the Offering, these other affiliates will comply with Regulation M, either by suspending such market activities during the Restricted Period or by conducting those activities in accordance with an available exception from Regulation M. These exceptions might include those available for "affiliated purchasers". Accordingly, RBSG is not seeking relief from the Staff for these activities.

B. Trading Policies and Chinese Walls

RBSG maintains and enforces written "Chinese Wall" policies and procedures to prevent material non-public information from passing between the sales/trading areas and the advisory areas of RBSG. Accordingly, during restricted periods prior to announcements of earnings results or other material developments that have not yet become public, all ordinary course Market Activities of RBSG are permitted to continue. Under these policies and procedures, RBSG's traders and sales force who conduct these Market Activities will generally be able to continue doing so during and outside these restricted periods, although senior management may restrict such activities in extraordinary circumstances. RBSG will continue to maintain and enforce these policies and procedures during the Offering.

In addition, RBSG has adopted a Group-wide personal account dealing policy and procedures (the "**Employee Dealing Policy**"). Pursuant to the Employee Dealing Policy, certain employees of RBSG and RBSG Affiliates are subject to certain disclosure obligations and required to obtain pre-clearance when dealing in certain securities, including RBSG Shares and RBSG ADSs. Dealing in securities covered by the Employee Dealing Policy is also restricted during certain periods or when in possession of publicly sensitive information.

IV. The Contingent Convertible Securities Offering

As part of RBSG's strategy to meet its capital targets and improve its capital structure, and following the entry in force of CRD IV on January 1, 2014, RBSG announced on December 16, 2014 its intention to raise up to £2 billion of Contingent Convertible Securities in 2015. RBSG expects that the Offering will be launched on or around July 31, 2015.

The Contingent Convertible Securities issued pursuant to the Offering will be a form of deeply subordinated perpetual securities structured to qualify as additional tier 1 capital for UK regulatory purposes. The Contingent Convertible Securities issued pursuant to the Offering are expected to have a 7% capital adequacy trigger mechanism (the "**Conversion Trigger Event**"), pursuant to which, upon the occurrence of the Conversion Trigger Event, the Contingent Convertible Securities would automatically and mandatorily be converted into RBSG Shares. The Contingent Convertible Securities will be perpetual and may not be redeemed at the option of holders. Interest will be payable on scheduled interest payment dates, subject to, among other things, RBSG being solvent at the time when the relevant payment is due and made and to the availability of distributable items, as defined under CRD IV and applicable regulations. In

addition, RBSG will be entitled, in its sole discretion, to cancel any scheduled interest payment in whole or in part, and any interest so cancelled would cease to be due and payable. RBSG expects that the Contingent Convertible Securities will be marketed primarily to institutional investors, especially those focused on subordinated regulatory bank capital and similar fixed income products.

For the purpose of the being able to offer and sell the Contingent Convertible Securities, RBSG filed on April 1, 2015 a shelf registration statement on Form F-3 registering the Contingent Convertible Securities, as well as RBSG Shares and RBSG ADSs which became effective upon filing with the Commission.

V. Application of Regulation M

In connection with the Offering, RBSG, directly or through the underwriters participating in the Offering, will offer the Contingent Convertible Securities which, under limited circumstances, could automatically and mandatorily convert into RBSG Shares. As a result, the RBSG Shares and RBSG ADSs may be deemed "reference securities" in relation to the Contingent Convertible Securities pursuant to Rule 100 of Regulation M. As a result, the RBSG Shares and RBSG ADSs may be deemed "covered securities" in connection with the Offering.

Subject to enumerated exceptions, Rule 102 of Regulation M makes it unlawful for an issuer or affiliated purchaser, directly or indirectly, to bid for, purchase, or attempt to induce any person to bid for or purchase a covered security during the applicable restricted period. RBSG believes that, under Regulation M, the Restricted Period for the distribution (the "**Restricted Period**") may be deemed to begin, with respect to the Offering, one business day prior to the determination of the issue price of the Contingent Convertible Securities, and will end upon the completion of the Offering in the United States. Accordingly, it is expected that the Restricted Period for RBSG and RBSG Affiliates will last several days.

As subsidiaries of RBSG that regularly purchase securities for their own accounts and/or the accounts of others, RBSG Affiliates may be deemed to be "affiliated purchasers" of the issuer, as defined in Rule 100 of Regulation M⁹. Accordingly, the Market Activities of RBSG and RBSG Affiliates may be subject to Rule 102 throughout the Restricted Period and we therefore request relief for the Market Activities of RBSG and RBSG Affiliates described in this letter under Rule 102 of Regulation M.

Under Rule Rule 102 of Regulation M, without the requested exemptive relief, RBSG and RBSG Affiliates would not be permitted to bid for or purchase, or attempt to induce any person to bid for or purchase, RBSG Shares or RBSG ADSs during the Restricted Period, except to the extent that one of the specified exceptions in the rule is available. There are no exceptions available under Rule 102 that would permit RBSG and RBSG Affiliates to engage in the Market Activities described in this letter. Therefore, without the requested exemptive relief, RBSG Affiliates would not be permitted to engage in such activities during the Restricted Period.

⁹ Certain RBSG Affiliates may qualify for the exception to the definition of "affiliated purchaser" set forth in paragraphs (3)(i)-(iii) thereof, but insofar as at least some RBSG Affiliates have officers and employees in common with RBSG that direct, effect or recommend transactions in securities, the exception will not be available to all RBSG Affiliates.

Regulation M would normally interfere with market-making and other market activities in actively traded securities, such as the ADRs representing RBSG Shares. However, because the RBSG Affiliates are affiliated purchasers of the issuer, they cannot rely on the actively traded securities exception to do what market makers for large U.S. issuers are normally allowed to do during distributions by those issuers.

As RBSG is a market maker in equity derivatives¹⁰ on RBSG Shares, if RBSG is precluded from conducting market-making activities in the derivatives or from effecting hedging transactions in RBSG Shares relating to the derivatives, the application of Regulation M could have adverse effects on RBSG's ability to manage hedge positions maintained by it and its customers previously established in connection with this activity. These hedging purchases and sales of RBSG Shares amounted to less than 1% of the ADTV on all exchanges in RBSG Shares during the twelve-month period ended June 30, 2015 and RBSG believes that these activities will not have a significant effect on the market price of RBSG Shares or RBSG ADSs.

Citizens and certain of its subsidiaries may also be unable to execute unsolicited brokerage orders submitted by its customers in the normal course, thereby forcing its customers to take their orders elsewhere or to refrain from trading. The unsolicited brokerage activities of Citizens and certain of its subsidiaries have historically been *de minimis* and RBSG believes that these activities will not have a significant effect on the market price of RBSG Shares or RBSG ADSs.

Under English law, and subject to the terms of any contractual arrangements as in effect between the RBSG Asset Manager and the relevant RBSG Managed Fund, the RBSG Asset Manager has a fiduciary duty to oversee the RBSG Managed Funds in a manner that is in the best interests of the investors of those funds. Accordingly, the RBSG Asset Manager would be prohibited by law from following a directive by RBSG to cease trading RBSG Shares during the Regulation M Restricted Period, unless the RBSG Asset Manager believed that cessation of such trading was in the best interests of the RBSG Managed Funds of RBS's beneficiaries. Similarly, the RBSG Asset Manager would be prohibited by law from following an RBSG directive to bid for or purchase RBSG Shares unless the RBSG Asset Manager independently concluded that such bids or purchases were in the best interests of the RBSG Managed Funds of RBSG's beneficiaries. Additionally, as discussed above, non-group RBSG Investment Managers undertake to manage portfolios either through investment in non-group collective investment schemes or by appointing an RBSG Investment Manager under a segregated portfolio. These appointed RBSG Investment Managers and collective investment schemes may buy and sell RBSG Shares and it would not be appropriate for RBSG to restrict their trading in RBSG Shares during the Regulation M Restricted Period, unless the RBSG Investment Managers believed that cessation of such trading was in the best interests of the relevant portfolios. These asset management activities have historically represented a *de minimis* percentage of the worldwide ADTV in RBSG Shares and RBSG believes that these activities will not have a significant effect on the market price of RBSG Shares or RBSG ADSs.

Additionally, the RBSG Trustees and Personal Representatives have fiduciary or similar duties under applicable local law to invest the assets of the RBSG Trusts and Estates in the best

¹⁰ Derivatives on RBSG Shares generally would not be "covered securities" under Rule 100 of Regulation M. See, e.g., Release 34-38067 (Dec. 20, 1996), 62 FR 520, 524. Derivative market making by RBSG Affiliates, however, might, in some cases, be regarded as involving inducements to purchase RBSG Shares. To avoid uncertainty, the activities covered by this request for exemption include the derivatives market-making and hedging and other activities in RBSG Shares described in this letter.

interests of their beneficiaries. Accordingly, the RBSG Trustees and Personal Representatives would be prohibited by law from trading in RBSG Shares unless the RBSG Trustees and Personal Representatives believed that such trading was in the best interests of the beneficiaries of the RBSG Trusts and Estates. Trading in RBSG Shares by RBSG Trustees and Personal Representatives amounted to less than 1% of the worldwide ADTV in RBSG Shares during the twelve-month period ended June 30, 2015 and RBSG believes that these activities will not have a significant effect on the market price of RBSG Shares or RBSG ADSs.

The services provided by the RBSG Banking Units include the marketing and sale of certain investment products, including funds which may contain RBSG Shares or investment products that may include RBSG Shares or baskets or indices including RBSG Shares, to banking customers. RBSG believes that the normal course marketing and sale by the RBSG Banking Units of such funds is unlikely to have a significant effect on the market price of RBSG Shares or RBSG ADSs. In addition, although the RBSG Banking Units are not necessarily bound by fiduciary duties or specific contractual obligations in providing investment advice and financial planning guidance to banking customers, RBSG's wealth management and financial advisory divisions have enacted internal policies and procedures which prohibit them from making a recommendation to customers as to whether they should purchase or sell RBSG Shares and the units provide only objective information about RBSG Shares and/or a summary of the views of a fixed group of research analysts who publish information about RBSG. Trading in RBSG Shares by RBSG Banking Units has historically represented a *de minimis* percentage of the worldwide ADTV in RBSG Shares and RBSG believes that these activities will not have a significant effect on the market price of RBSG Shares or RBSG ADSs.

The activities of the RBSG Stock Borrowing and Lending Units do not constitute bids for, purchases of or inducements to make bids for or purchases of RBSG Shares or RBSG ADSs (or reference securities with respect thereto) in the traditional sense. RBSG seeks exemptive relief in order to continue to conduct these activities during the Restricted Period. The activities of the RBSG Stock Borrowing and Lending Units have historically represented a *de minimis* percentage of the worldwide ADTV in RBSG Shares and RBSG believes that these activities will not have a significant effect on the market price of RBSG Shares or RBSG ADSs.

All of the foregoing activities historically have together represented a limited proportion of all trading in RBSG Shares during the twelve-month period ended June 30, 2015. RBSG believes that the continuation of the Market Activities will not have a significant effect on the market price of the Contingent Convertibles Securities, the RBSG Shares or the RBSG ADSs. The withdrawal from the market of the RBSG Shares and RBSG ADSs which are actively traded in the United Kingdom would have a harmful effect on the customers of RBSG and the ordinary business of RBSG and its affiliates. The Market Activities of RBSG described in this letter are also important aspects of RBSG's business as a major global financial institution in the United Kingdom and, therefore, interrupting those activities during the Restricted Period could also have an adverse impact on RBSG's business, including its ability to properly manage its risks.

RBSG also notes that it has established information barriers to prevent price-sensitive information from passing between any area in which Market Activities are conducted and any other area of RBSG in which price-sensitive information relating to RBSG Shares, including information relating to the Offering, would be available. Accordingly, during restricted periods prior to announcements of earnings results or other material developments that have not yet become public, the RBSG Affiliates are generally able to continue their respective Market

Activities. RBSG will continue to maintain these information barriers during the distribution of RBSG Shares and RBSG ADSs in connection with the Offering. Furthermore, the RBSG Affiliates will continue to conduct their Market Activities in the ordinary course of business, and any involvement in those activities by senior management will take place in the ordinary course of business and will not be intended to influence the Market Activities in light of the Offering.

RBSG Shares and RBSG ADSs would easily qualify as actively traded securities that are exempt under Rule 101(c)(1) of Regulation M and therefore “distribution participants” (as defined in Rule 100 of Regulation M), subject to Rule 101 rather than Rule 102, would be able to avail themselves of the exception for actively-traded securities. The worldwide ADTV value for RBSG Shares for the twelve-month period ended June 30, 2015 was approximately £128.8 million (or approximately \$202.2 million). However, because the RBSG Affiliates are affiliated purchasers of the issuer, they may not rely on the actively traded securities exception to do what market makers and brokers for large U.S. issuers are normally allowed to do during distributions by those issuers.

RBSG believes that the risk of market manipulation by RBSG Affiliates is limited by: (1) the information barrier policies and procedures that they have in place; (2) the fiduciary duties to which many RBSG Affiliates are subject; (3) the fact that the Market Activities that are the subject of this request for exemptive relief are the ordinary course market activities of the RBSG Affiliates rather than activities commenced or managed in contemplation of the Offering of Contingent Convertible Securities by RBSG; (4) the fact that the Offering would be conducted and trading by RBSG Affiliates in Contingent Convertible Securities would be subject to and conducted in accordance with applicable UK and other laws; and (5) as discussed in greater detail below, applicable UK law provides important safeguards against the type of risk of abuse that Regulation M was designed to prevent.

For the foregoing reasons, RBSG asks the Staff to provide an exemption from Regulation M that would allow RBSG and RBSG Affiliates, to continue to engage in the Market Activities described in this letter with respect to RBSG Shares and RBSG ADSs in the ordinary course of their respective businesses described above during the Restricted Period, as permitted under market practice and applicable law in their respective home countries. As described above, the vast majority of the Market Activities in RBSG Shares and RBSG ADSs for which relief is sought in this letter are conducted on the LSE and in the over-the-counter market in the United Kingdom.

Although some of the Market Activities are carried out by the RBSG Affiliates described in this letter outside of the United Kingdom, including in the United States, the volume of such activities has historically been low compared to the volume of such activities in the United Kingdom. We ask that the requested relief covers Market Activities carried out outside of the United Kingdom, including in the United States, conducted in the ordinary course and in accordance with applicable local law.

VI. The United Kingdom Market Regulatory Regime

The key legislation and regulation governing market activities and market conduct in the United Kingdom is the Financial Services and Markets Act 2000 (the “**FSMA**”), the Criminal Justice Act 1993, the Code of Market Conduct of the FCA, as well as the EU Market Abuse Directive (2003/6/EC) (the “**Directive**”) and the EU Buyback and Stabilisation Regulation (EC No. 2273/2003 of 22 December 2003). In addition, companies listed on the Official List of the UKLA,

such as RBSG, must comply with the relevant continuing obligations under the UK Listing Rules, and companies admitted to trading on a regulated market in the United Kingdom (which includes the main market of the LSE) must comply with the Disclosure and Transparency Rules of the FCA in order to meet the transparency and disclosure obligations required under the United Kingdom regulatory regime.

The PRA and FCA are independent bodies that regulate the financial services industry in the United Kingdom. The FCA is responsible for market supervision and has a powerful enforcement armory, including powers to investigate, publish information, censure, suspend the marketing of securities and, above all, impose civil penalties, in the form of unlimited fines on both companies and individuals who have engaged in market abuse or required or encouraged another person to do so.

Part V of the Criminal Justice Act 1993 sets out the UK criminal regime prohibiting insider dealing. There are three offenses: (i) dealing, (ii) encouraging another person to deal and (iii) disclosing information. These offenses can only be committed by individuals. However, any act on the part of a corporate body will almost inevitably be taken on its behalf by a director, officer or employee. In addition, the offense of encouraging can be committed if the recipient of the encouragement is a corporate body. There are also some general defenses to these offenses including a reasonable belief that the information had been disclosed widely enough to ensure that none of those taking part in the dealing would be prejudiced by not having the information or evidence that the individual would have acted in the same manner even without the information.

However, the principal source of law relating to market abuse in the United Kingdom is the Directive, as implemented by the FSMA. Section 118 of the FSMA specifies five types of behavior derived from the Directive, that are considered to be market abuse:

- (i) insider dealing - where an "insider" (as defined below) deals or attempts to deal in securities on the basis of "inside information" (as defined below);
- (ii) improper disclosure - where an insider discloses inside information to someone else other than in the proper performance of their employment, profession or duties;
- (iii) manipulating transactions - where a transaction gives a false or misleading impression to the market of the supply, demand, price or value of a security or secures the price of a security at an artificial level (unless the transaction is carried out for a legitimate reason and in conformity with an "accepted market practice");
- (iv) manipulating devices - effecting transactions which employ a fictitious device or other form of deception or contrivance; and
- (v) misleading dissemination - where false or misleading information is knowingly or negligently disseminated to the market.

In addition, the UK regime retains an additional type of behaviour which predates the implementation of the Directive, being misleading behavior or market distortion (not falling within the previous behaviours) where the relevant test is whether a "regular user" of the market would be given a false impression or would regard the behaviour as market distortion.

In relation to qualifying investments, "inside information" is defined in FSMA as information of a precise nature which is not generally available but which relates, directly or indirectly, to one or more issuers of the qualifying investments or to one or more of the qualifying investments and would, if generally available, be likely to have a significant effect on the price of, inter alia, the qualifying investments. Information is deemed likely to have a significant effect on price "if and only if it is information of a kind which a reasonable investor would use as part of the basis for his investment decisions".

For the purposes of the civil market abuse regime an "insider" is, inter alia, a person who has inside information as a result of: (i) membership of the administrative, management or supervisory board of a company that has securities admitted to trading; (ii) holding securities in such a company; (iii) his employment, profession or duties; (iv) any criminal activities; or (v) other means, but where he knows, or could reasonably be expected to know, that he holds inside information.

Two safe harbors are expressly provided under the Directive for: (i) price-stabilizing activities and (ii) repurchases of one's own shares.

In addition, the Code of Market Conduct published by the FCA sets out conclusive descriptions of types of behavior that will not amount to market abuse. These include:

- (i) dealing with the benefit of trading information, for example, where the inside information one holds is the knowledge that one is planning to deal;
- (ii) dealing in pursuit of the legitimate business of market makers on their own account;
- (iii) the dutiful carrying out of an order on behalf of another;
- (iv) takeover activity, including stake-building, the seeking of irrevocable undertakings and the making of arrangements to issue securities or offer cash as part of a takeover offer;
- (v) disclosure of inside information if, inter alia, it is made to a government department, the Bank of England, the Takeover Panel or any other regulatory authority for the purpose of fulfilling a legal or regulatory objection or otherwise in connection with the functions of that body; and
- (vi) behavior conforming with certain express provisions of the City Code on Takeovers and Mergers (the "Code"), provided that, the behavior also conforms with the General Principles under the Code.

On June 12, 2014, Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (the "**Market Abuse Regulation**") repealing Directive 2003/6/EC was published in the Official Journal of the European Union. The Market Abuse Regulation will, as a regulation, will be directly applicable in the United Kingdom and will introduce a number of amendments to the existing market abuse regime currently in force in the United Kingdom, including, but not limited to, in respect of insider dealing and market manipulation. The substantive amendments to the market abuse regime introduced by the

Market Abuse Regulation will apply from July 3, 2016. As such, the current regime, outlined above, will continue to apply until July 2, 2016.

VII. Relief Requested

As discussed above, RBSG is seeking exemptive relief from the application of Rule 102 of Regulation M to permit RBSG and RBSG Affiliates to continue to engage in the Market Activities described in Section III of this letter during the Restricted Period in connection with the Offering.

The market activities would be conducted in accordance with applicable local law and in the ordinary course of business in the United Kingdom and elsewhere outside of the United Kingdom, including in the United States.

As a condition to the relief being requested, RBSG would undertake to include disclosure in the prospectus supplement that will be distributed to investors located in the United States and worldwide in connection with the Offering. The disclosure would be substantially similar to the following:

- *RBSG Affiliates will continue to engage, including during the Contingent Convertible Securities Offering, in one or more market activities including RBSG Shares and RBSG ADSs, including derivatives and investor product market-making and hedging, trading by asset managers, trading by trustees and personal representatives, unsolicited brokerage, and banking-related activities and stock borrowing and lending activities. These market activities have occurred and are expected to continue to occur both outside and inside the United States, solely in the ordinary course of business and not in contemplation of the Contingent Convertible Securities Offering. Citizens and certain of its subsidiaries have also engaged and may continue to engage in unsolicited brokerage transactions in RBSG Shares and RBSG ADSs and purchases of RBSG Shares and RBSG ADSs in their capacity as trustees, executors and/or personal representatives of certain trusts and estates. In addition, certain RBSG Affiliates may, under certain circumstances, participate in the Offering.*

As a further condition to the relief being requested, RBSG will undertake to keep records (the "Records") of the date and time when any RBSG Shares are purchased or sold, the market in which the purchase or sale is effected, the amount of RBSG Shares purchased or sold and the price of the purchase or sale, for each purchase or sale of RBSG Shares made during the Restricted Period. RBSG will maintain Records for a period of two years following the completion of the Offering. Upon the request of the Director of the Division of Trading and Markets of the Commission, RBSG will make a copy of the relevant Records available at the Commission's offices in Washington, D.C.

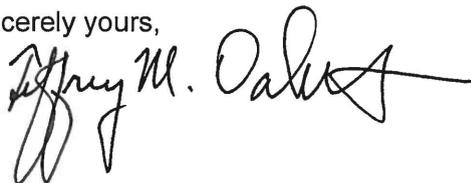
In connection with the relief requested by RBSG in this letter, please note that the Commission has granted substantially similar exemption relief from Rule 101 and 102 of Regulation M to RBSG and ABN AMRO Holding N.V. under the exemptive letters dated February 18, 2009, October 17, 2008 and April 21, 2008 in connection with a proposed placing and open offer and rights offerings by RBSG of RBSG Shares and to RBSG under the exemptive relief letter dated July 23, 2007, in connection with an exchange offer being conducted by RBSG, Banco Santander Central Hispano, S.A., Fortis SA/NV and Fortis N.V. to acquire all of the outstanding shares of ABN AMRO Holding N.V. Please note as well that the Commission has previously granted substantially similar relief to other issuers, including UBS AG under the exemptive letters

dated October 7, 2014, May 16, 2008, April 22, 2008 and September 22, 2000; to Banco Santander, S.A. under the exemptive letters dated January 6, 2014, September 18, 2014, December 22, 2008, November 7, 2008 and August 18, 2008; to Banco Santander Central Hispano, S.A., under the exemptive letters dated July 23, 2007 and September 10, 2004; to Deutsche Bank Aktiengesellschaft under the exemptive letters dated June 4, 2014 and September 16, 2010; to Barclays plc, under the exemptive letters dated May 14, 2014, November 7, 2013 and July 31, 2014; to Lloyds Banking Group plc (formerly Lloyds TSB Group plc) under the exemptive letters dated March 25, 2014, March 6, 2014, September 16, 2013, November 2, 2009, April 20, 2009, and October 21, 2008; to The Governor and Company of the Bank of Ireland under the exemptive letters dated June 7, 2011, and April 22, 2010; to Banco Bilbao Vizcaya Argentaria S.A. under the exemptive letters dated October 28, 2010 and June 25, 2007; to ING under the exemptive letters dated April 7, 2015 and November 19, 2009; to ABN AMRO Holding N.V. under the exemptive letter dated August 7, 2007; to Allianz SE under the exemptive letters dated March 23, 2007 and April 10, 2003; to Banco Intesa S.p.A. under the exemptive letter dated November 1, 2006; and to Sanpaolo IMI S.p.A. under the exemptive letter dated November 1, 2006.

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If you have any questions or require any additional information about this request, please contact Jeffrey Oakes in London at 011-44-20-7418-1386 or Connie Milonakis in London at 011-44-20-7418-1327.

Sincerely yours,

 Jeffrey M. Oakes