

**The Royal Bank of Scotland Group plc**

*(Incorporated in Scotland with limited liability under the Companies Acts 1948 to 1980, registered number SC045551)*

**as Issuer and Guarantor**

**The Royal Bank of Scotland plc**

*(Incorporated in Scotland with limited liability under the Companies Acts 1948 to 1980, registered number SC090312)*

**as Issuer**

**\$35,000,000,000 Medium-Term Note Program****Due Six Months or More From Date of Issue**

The Medium-Term Notes (the "Notes") may be issued at various times and are being offered on a continuous basis by The Royal Bank of Scotland Group plc ("RBSG" or the "Company" or the "Guarantor") and The Royal Bank of Scotland plc ("Royal Bank" or "RBS") (each, an "Issuer", and, collectively, the "Issuers"). The terms of each particular issue of Notes will be established by the Issuer of the Notes and specified in the applicable Final Terms. RBSG will unconditionally and irrevocably guarantee the Notes issued by RBS.

The Notes are being offered from time to time through one or more of the agents specified below or otherwise appointed by an Issuer from time to time for the purpose of soliciting offers to purchase the Notes from such Issuer (for so long as each shall so remain, an "Agent" and, collectively, the "Agents"). The Agents have agreed to solicit offers to purchase the Notes. Each Issuer has also reserved the right to sell, and may solicit and accept offers to purchase, Notes directly on its own behalf. The Notes and, where relevant, the guarantees in respect thereof, have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "Securities Act"), or any state securities law, and are being offered and sold (A) in the United States, only to qualified institutional buyers within the meaning of and in reliance on Rule 144A under the Securities Act ("Rule 144A") and (B) outside the United States in reliance upon Regulation S under the Securities Act ("Regulation S") and, in each case, in compliance with applicable securities laws. Each Issuer reserves the right to withdraw, cancel or modify the offer made hereby without notice. Each Issuer or the Agents may reject in whole or in part any offer to purchase Notes. See "Plan of Distribution".

Application has been made to the United Kingdom Financial Services Authority (the "U.K. Financial Services Authority"), in its capacity as competent authority under the United Kingdom Financial Services and Markets Act 2000 (the "FSMA") (the "UKLA" or the "U.K. Listing Authority") for Notes issued under the program (the "Program") during the period of twelve months from the date hereof to be admitted to the Official List (the "Official List") maintained by the U.K. Listing Authority and to the London Stock Exchange plc (the "London Stock Exchange") for such Notes to be admitted to trading on the London Stock Exchange's regulated market (the "London Stock Market"). Notice of the aggregate principal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each issue of Notes will be set forth in the final terms (the "Final Terms") which, with regard to Notes listed on the London Stock Exchange, will be delivered to the UKLA and the London Stock Exchange on or before the date of issuance of such Notes. Admission to the Official List together with admission to the London Stock Market constitute official listing on the London Stock Exchange. The London Stock Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on Markets in Financial Instruments (the "Markets in Financial Instruments Directive"). The Notes may also be listed or traded on or quoted on any other or further stock exchange, listing authority or quotation system, or may be unlisted, as may be agreed between the relevant Issuer and the relevant Agent(s). The relevant Final Terms in respect of any issue of Notes will specify whether or not such Notes will be listed on the Official List and admitted to trading on the London Stock Market (or any other stock exchange).

The Notes may be rated or unrated. For a summary of the ratings expected to be given to particular issues of Notes, see "Overview of Terms" and see the Registration Documents which are incorporated by reference herein for a description of such ratings. Any differences from the expected ratings for any particular issue of Notes, as set out in the "Overview of Terms" and the Registration Documents, will be described in the Final Terms applicable to such Notes. Whether or not each credit rating applied for in relation to a series of Notes will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009 (the "CRA Regulation") will be disclosed in the applicable Final Terms. The credit ratings included and referred to in this Offering Memorandum have been issued by Standard & Poor's Credit Market Services Europe Limited, Fitch Ratings Limited and Moody's Investors Service Limited, each of which is established in the European Union and has applied to be registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of September 16, 2009 on credit rating agencies, although the results of such applications have not yet been determined.

**Prospective investors should consider carefully the risks set forth herein under "Risk Factors" beginning on page 15 as well as the risks described in the sections entitled "Risk Factors" provided in the Registration Documents incorporated by reference herein prior to making investment decisions with respect to the Notes.**

EACH INITIAL AND SUBSEQUENT PURCHASER OF NOTES OFFERED HEREBY IN MAKING ITS PURCHASE WILL BE DEEMED TO HAVE MADE CERTAIN ACKNOWLEDGMENTS, REPRESENTATIONS AND AGREEMENTS INTENDED TO RESTRICT THE RESALE OR OTHER TRANSFER OF SUCH NOTES AND MAY IN CERTAIN CASES BE REQUIRED TO PROVIDE CONFIRMATION OF COMPLIANCE WITH SUCH RESALE OR OTHER TRANSFER RESTRICTIONS. SEE THE INFORMATION SET FORTH IN THIS OFFERING MEMORANDUM UNDER "TRANSFER RESTRICTIONS".

**Agents**

**RBS  
Barclays Capital  
BofA Merrill Lynch  
Citi  
Deutsche Bank Securities**  
June 7, 2011

**Goldman, Sachs & Co.  
J.P.Morgan  
Morgan Stanley  
UBS Investment Bank  
Wells Fargo Securities**

**TABLE OF CONTENTS**

	<u>Page</u>
Important Information .....	1
Notice to New Hampshire Residents .....	3
Documents Incorporated by Reference.....	3
Available Information.....	5
Forward-Looking Statements .....	5
Enforcement of Liabilities, Service of Process.....	6
Supplemental Offering Memorandum .....	6
Overview of Terms .....	7
Risk Factors .....	15
Use of Proceeds .....	23
Description of the Notes and the Guarantees.....	24
Transfer Restrictions.....	57
Special Provisions Relating to Foreign Currency Notes.....	59
Taxation.....	61
Benefit Plan Investor Considerations .....	70
Plan of Distribution .....	72
Legal Matters.....	75
Independent Auditors .....	75
General Information and Recent Developments.....	76
Glossary.....	79
Appendix I — Form of Final Terms.....	82

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## IMPORTANT INFORMATION

NEITHER OF THE ISSUERS NOR THE GUARANTOR HAS REGISTERED THE NOTES OR THE GUARANTEES OFFERED HEREBY NOR DOES EITHER ISSUER OR THE GUARANTOR INTEND, OR HAVE ANY OBLIGATION, TO REGISTER THE NOTES OR THE GUARANTEES PURSUANT TO THE SECURITIES ACT OR UNDER THE SECURITIES LAWS OF ANY STATE, AND THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE "COMMISSION") OR ANY STATE SECURITIES AUTHORITY. NEITHER THE COMMISSION NOR ANY STATE SECURITIES AUTHORITY HAS PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. THE NOTES AND THE GUARANTEES ARE BEING OFFERED AND SOLD IN THE UNITED STATES ONLY TO QUALIFIED INSTITUTIONAL BUYERS ("QIBs") WITHIN THE MEANING OF AND IN RELIANCE UPON RULE 144A UNDER THE SECURITIES ACT AND OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATIONS PROMULGATED UNDER THE SECURITIES ACT.

Each person receiving this Offering Memorandum acknowledges that (i) such person has been afforded an opportunity to request from either Issuer or the Guarantor and to review, and has received, all additional information considered by it to be necessary to verify the accuracy and completeness of the information contained herein, (ii) it has not relied on any Agent or any person affiliated with any Agent in connection with its investigation of the accuracy and completeness of such information or its investment decision and (iii) no person has been authorized to give any information or to make any representation concerning either Issuer, the Guarantor or the Notes offered hereby other than those contained herein and, if given or made, such other information or representation should not be relied upon as having been authorized by such Issuer, the Guarantor or any Agent.

This Offering Memorandum and any Final Terms do not constitute, and may not be used for the purposes of, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation, and no action is being taken to permit an offering of the Notes or the distribution of this Offering Memorandum in any jurisdiction where such action is required.

The Notes are subject to restrictions on transferability and resale. Investors may not transfer or resell the Notes except as described in this Offering Memorandum under "Transfer Restrictions" and as permitted under the Securities Act and other applicable securities laws. Investors may be required to bear the financial risks of an investment in the Notes for an indefinite period of time.

This Offering Memorandum, save for the documents set out in paragraphs (d), (l) and (m) of the "Documents Incorporated by Reference" section comprises a base prospectus (the "Base Prospectus") for the purpose of Article 5.4 of Directive 2003/71/EC (the "Prospectus Directive") in respect of Notes to be issued by RBSG and RBS and for the purpose of giving information with regard to the Issuers, the Guarantor and their subsidiaries, which, according to the particular nature of each Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the relevant Issuer.

Each of the Issuers and the Guarantor (the "Responsible Persons") accepts responsibility for the information contained in this Offering Memorandum. To the best of the knowledge and belief of each of the Issuers and the Guarantor (each having taken all reasonable care to ensure that such is the case) the information contained in this Offering Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.

THIS OFFERING MEMORANDUM SHOULD BE READ AND CONSTRUED WITH ANY AMENDMENT OR SUPPLEMENT THERETO AND, IN RELATION TO ANY PARTICULAR ISSUANCE OF THE NOTES, SHOULD BE READ AND CONSTRUED TOGETHER WITH THE RELEVANT FINAL TERMS. IN ADDITION, THE ISSUERS AND THE AGENTS MAY, IN CONNECTION WITH ANY PARTICULAR ISSUANCE OF NOTES, PREPARE AND SEND TO INVESTORS A PRICING TERM SHEET OR SIMILAR COMMUNICATION AT THE TIME SALES OF SUCH NOTES ARE CONFIRMED AND, WHENEVER THE DEFINED TERM "FINAL TERMS" IS USED IN THIS OFFERING MEMORANDUM SUCH TERM SHALL BE

DEEMED TO INCLUDE ANY SUCH PRICING TERM SHEET, UNLESS THE CONTEXT OTHERWISE REQUIRES.

AN INVESTOR INTENDING TO ACQUIRE OR ACQUIRING ANY NOTES FROM AN OFFEROR WILL DO SO, AND OFFERS AND SALES OF THE NOTES TO AN INVESTOR BY AN OFFEROR WILL BE MADE, IN ACCORDANCE WITH ANY TERMS AND OTHER ARRANGEMENTS IN PLACE BETWEEN SUCH OFFEROR AND SUCH INVESTOR INCLUDING AS TO PRICE, ALLOCATIONS AND SETTLEMENT ARRANGEMENTS. NEITHER THE ISSUERS NOR THE GUARANTOR WILL BE A PARTY TO ANY SUCH ARRANGEMENTS WITH INVESTORS (OTHER THAN THE DEALERS) IN CONNECTION WITH THE OFFER OR SALE OF THE NOTES AND, ACCORDINGLY, THIS OFFERING MEMORANDUM AND ANY FINAL TERMS WILL NOT CONTAIN SUCH INFORMATION. THE INVESTOR MUST LOOK TO THE OFFEROR AT THE TIME OF SUCH OFFER FOR THE PROVISION OF SUCH INFORMATION. NEITHER THE ISSUERS NOR THE GUARANTOR HAVE ANY RESPONSIBILITY TO AN INVESTOR IN RESPECT OF SUCH INFORMATION.

The Issuers and/or the Guarantor will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Offering Memorandum which is capable of affecting the assessment of any Notes or Guarantees, prepare an amendment or supplement to this Offering Memorandum or prepare a new prospectus in accordance with the Prospectus Directive for use in connection with any subsequent issue of Notes. See “Supplemental Offering Memorandum”.

The distribution of this Offering Memorandum and any Final Terms and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Memorandum or any Final Terms comes are required by the Issuers, the Guarantor and the Agents to inform themselves about and to observe any such restrictions.

Neither this Offering Memorandum nor any Final Terms constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by either Issuer, the Guarantor or any Agent that any recipient of the Offering Memorandum or any Final Terms should subscribe for or purchase any Notes. Each recipient shall be taken to have made its own investigation and appraisal of the financial condition of the relevant Issuer and, where applicable, the Guarantor.

In connection with the issue of any series of Notes, the Agent or Agents (if any) named as the Stabilizing Manager(s) (or any person acting on behalf of any Stabilizing Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of such Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Manager(s) (or any person acting on behalf of any Stabilizing Manager(s)) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant series of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant series of Notes and 60 days after the date of the allotment of the relevant series of Notes. Any stabilization action or over-allotment must be conducted by the relevant Stabilizing Manager(s) (or any person acting on behalf of any Stabilizing Manager(s)) in accordance with all applicable laws and rules.

Notwithstanding anything to the contrary contained herein, each prospective purchaser (and each employee, representative, or other agent of each prospective purchaser) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transactions described in this Offering Memorandum and all materials of any kind that are provided to the prospective purchaser relating to such tax treatment and tax structure (as such terms are defined in Treasury Regulation Section 1.6011-4). This authorization of tax disclosure is retroactively effective to the commencement of discussions between any of the Issuers, the Agents or their respective representatives and each prospective purchaser regarding the transactions contemplated herein.

In this Offering Memorandum, references to “\$” or “U.S. dollars” are to United States dollars, references to “€”, “Euro” or “euro” are to the single currency of the European Economic and Monetary Union and references to “£” or “Sterling” are to United Kingdom pounds sterling. References to a “Holder” are to a person in whose name a Note is registered in the Notes register kept by each of the Issuers.

## NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

## DOCUMENTS INCORPORATED BY REFERENCE

This Offering Memorandum should be read in conjunction with the following information, which has been previously published and has been filed with the U.K. Financial Services Authority and/or, in certain cases, the Commission:

- (a) the annual report on Form 20-F of RBSG for the year ended December 31, 2010 filed with the Commission on March 31, 2011 (the “2010 Form 20-F”) pursuant to the United States Securities Exchange Act of 1934, as amended (the “Exchange Act”), which includes the consolidated balance sheets of RBSG as of December 31, 2010, 2009 and 2008 and the related consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements for each of the three years in the period ended December 31, 2010, the related Notes 1 to 45 and the information identified as “audited” in the Risk and balance sheet management section of the Business review, prepared in accordance with International Financial Reporting Standards (“IFRS”), save for the section “Risk factors” in the Additional Information on pages 352-369. Such financial statements have been audited by Deloitte LLP, independent registered public auditors, as stated in their report thereon, which report is included in the 2010 Form 20-F and incorporated by reference herein. The financial statements together with the audit report thereon are set out on pages 209 to 331 and 208, respectively, of the 2010 Form 20-F;
- (b) the audited consolidated annual financial statements of RBS for the year ended December 31, 2010 prepared in accordance with IFRS, which comprise the accounting policies, the balance sheets as at December 31, 2010, the consolidated income statement, the consolidated statement of comprehensive income, the statements of changes in equity and the cash flow statements for the year ended December 31, 2010, the related Notes 1 to 42 and the information identified as “audited” in the Risk and balance sheet management section of the Financial review. Such financial statements have been audited by Deloitte LLP, independent auditors, as stated in their report thereon, which report is also incorporated by reference herein. The financial statements together with the audit report thereon are set out on pages 126 to 235 and 125, respectively, of RBS’s Annual Report and Accounts 2010.
- (c) the audited consolidated annual financial statements of RBS for the year ended December 31, 2009 prepared in accordance with IFRS, which comprise the accounting policies, the balance sheets as at December 31, 2009, the consolidated income statement, the cash flow statement, the consolidated statement of comprehensive income, the statements of changes in equity and the cash flow statements for the year ended December 31, 2009, the related Notes 1 to 40 and the information identified as “audited” in the Risk, capital and liquidity management section of the Financial review. The consolidated financial statements for the year ended December 31, 2008 included therein were restated for the matters disclosed in Note 1 to the Accounting Policies. Such financial statements have been audited by Deloitte LLP, independent auditors, as stated in their report thereon, which report is also incorporated by reference herein. The financial statements together with the audit report thereon are set out on pages 98 to 194 and 97, respectively, of RBS’s Annual Report and Accounts 2009;
- (d) the unaudited pro forma financial information of RBSG on Form 6-K filed on March 31, 2011;

- (e) the first quarter results of RBSG on Form 6-K filed on May 16, 2011 (the “Q1 2011 Results”);
- (f) the registration document dated February 25, 2011 of RBSG, approved by the U.K. Listing Authority and published via the Regulatory News Service of the London Stock Exchange (the “RNS”) (the “RBSG Registration Document”) excluding (i) the fourth paragraph on page 1 which discusses ratings, (ii) the risk factor set out on pages 17 and 18 headed “As a condition to HM Treasury support, RBSG has agreed to certain undertakings which may serve to limit the Group’s operations”, (iii) the section headed “Payment Protection Insurance” on pages 41 and 42; (iv) each of the paragraphs under the heading “No Significant Change and No Material Adverse Change” on page 62; and (v) the paragraphs on pages 63 and 64 headed “Material Contracts”;
- (g) the registration document dated February 25, 2011 of RBS, approved by the U.K. Listing Authority and published via the RNS (the “RBS Registration Document” and, together with the RBSG Registration Document, the “Registration Documents”) excluding (i) the fourth paragraph on page 1 which discusses ratings, (ii) the risk factor set out on pages 17 and 18 headed “As a condition to HM Treasury support, RBSG has agreed to certain undertakings which may serve to limit the Group’s operations”, (iii) the section headed “Payment Protection Insurance” on pages 41 and 42; (iv) each of the paragraphs under the heading “No Significant Change and No Material Adverse Change” on page 61, (v) the paragraphs on pages 61 to 63 headed “Material Contracts”;
- (h) the following sections of the Shareholder Circular published by RBSG on November 27, 2009 (the “Shareholder Circular”): (i) “Financial Information” on page 5; (ii) “Part I – Letter From the Chairman of RBS” on pages 10 to 20; (iii) “Appendix 2 to the Letter From the Chairman of RBS – Principal Terms and Conditions of the APS” on pages 46 to 75; (iv) “Appendix 3 to the Letter From the Chairman of RBS – Principal Terms of Issue of the B Shares and the Dividend Access Share” on pages 76 to 84; (v) “Appendix 4 to the Letter From the Chairman of RBS – Key Terms of the State Aid Restructuring Plan” on pages 85 to 86; (vi) “Part VI – Definitions” on pages 121 to 133; (vii) “Annex 1 – Terms of Issue of the B Shares and the Dividend Access Share” on pages 134 to 170; and (viii) “Annex 3 – Scheme Principles” on pages 177 to 181;
- (i) the press release headed “The Royal Bank of Scotland Group plc, The Royal Bank of Scotland plc and National Westminster Bank Plc Clarification of Contractual Position Relating to Payments Under Preference Shares and Subordinated Securities” published via the RNS on October 20, 2009;
- (j) the press release headed “Proposed transfers of a substantial part of the business activities of RBS N.V. to RBS plc” (excluding (i) the statement therein which reads “Certain unaudited pro forma condensed consolidated financial information relating to RBS Holdings N.V. is set out in the Appendix to this announcement” and (ii) the Appendix thereto) on Form 6-K filed on April 19, 2011;
- (k) the press release headed “RBS NV-DPA Deferral Period” on Form 6-K filed on April 1, 2011;

each of which shall be deemed to be incorporated in, and form part of, this Offering Memorandum and the Base Prospectus (except that the document described in paragraph (d) above does not form part of the Base Prospectus).

In addition, the following documents, shall be deemed to be incorporated in, and to form part of, this Offering Memorandum, upon publication (except that all such documents shall not be deemed to be incorporated in and will not form part of the Base Prospectus):

- (l) the most recent annual report on Form 20-F of RBSG filed with the Commission pursuant to the Exchange Act and the most recent annual report and accounts of RBS furnished to the Commission on a Form 6-K of RBSG; and
- (m) any interim report on Form 6-K that is specifically incorporated by reference in RBSG’s then current registration statement on Form F-3 providing for the offering of securities on a delayed or continuous basis pursuant to Rule 415 under the Securities Act.

The Q1 2011 Results incorporated by reference herein are not intended to comply with all disclosure requirements required by IAS 34 and the reporting requirements of the Commission. Compliance with such

requirements would require the inclusion of a statement of cash flows and certain other disclosures in the Q1 2011 Results.

All supplements to this Offering Memorandum will amend this Offering Memorandum and may also incorporate by reference other documents as specified therein. Any statement contained herein or in a document which is incorporated in whole or in part by reference herein shall be deemed to be modified or superseded for the purpose of the supplemental Offering Memorandum to the extent that a statement contained in any document which is incorporated in whole or in part by reference therein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise)

Any information or other documents themselves incorporated by reference, either expressly or implicitly, in the documents incorporated by reference in this Offering Memorandum shall not form part of this Offering Memorandum, except where such information or other documents are specifically incorporated by reference into this Offering Memorandum.

The Issuers will provide, without charge, to each person to whom a copy of this Offering Memorandum has been delivered, upon the oral or written request of such person, a copy of any or all of the information which is incorporated in whole or in part herein by reference. Written or oral requests for such information should be directed to the Issuers at their principal offices set out at the end of this Offering Memorandum.

#### **AVAILABLE INFORMATION**

RBSG files annual, quarterly, and special reports and other information with the Commission. Investors may read and copy any document so filed at the Commission's Public Reference Room, 100 F Street, N.E., Room 1580, Washington, D.C. 20549, USA. Investors can call the Commission on 1-800-SEC-0330 for further information on the Public Reference Room. The Commission's website, at <http://www.sec.gov>, contains reports and other information in electronic form that RBSG has filed.

While any Notes remain outstanding, the relevant Issuer shall, during any period in which RBSG is not subject to Section 13 or 15(d) of the Exchange Act or exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, make available to any qualified institutional buyer (as defined in Rule 144A) who is a Holder and any prospective purchaser of a Note who is a QIB designated by such Holder, upon the request of such Holder or prospective purchaser, the information concerning RBSG required to be provided to such Holder or prospective purchaser by Rule 144A(d)(4).

By requesting copies of any of the documents referred to herein, each potential purchaser agrees to keep confidential the various documents and all written information clearly labeled "Confidential" which from time to time have been or will be disclosed to it concerning RBSG or any of its affiliates, and agrees not to disclose any portion of the same to any person.

#### **FORWARD-LOOKING STATEMENTS**

This Offering Memorandum and the documents incorporated by reference herein contain various forward-looking statements regarding events and trends that are subject to risks and uncertainties that could cause the actual results and financial position of the Company or the Company and its subsidiaries consolidated in accordance with International Financial Reporting Standards (collectively, the "Group") to differ materially from the information presented. When used in such documents, the words "estimate", "project", "intend", "anticipate", "believe", "expect", "should" and similar expressions, as they relate to the Group and its management, are intended to identify such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements. Such statements constitute "forward-looking statements" for purposes of the Private Securities Litigation Reform Act of 1995. The Group does not undertake any obligation to publicly release the result of any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.



## **ENFORCEMENT OF LIABILITIES, SERVICE OF PROCESS**

Each of RBSG and Royal Bank is a public limited company incorporated and registered in Scotland. Most of their respective directors and executive officers reside outside the United States. All or a substantial portion of the assets of RBSG, Royal Bank and/or those non-resident persons are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon RBSG, Royal Bank or those persons or to enforce against them judgments obtained in U.S. courts predicated upon civil liability provisions of the federal securities laws of the United States. RBSG has been advised by its Scottish solicitors, Dundas & Wilson CS LLP (as to Scots law) that, both in original actions and in actions for the enforcement of judgments of U.S. courts, there is doubt as to whether civil liabilities predicated solely upon the U.S. federal securities laws are enforceable in Scotland.

## **SUPPLEMENTAL OFFERING MEMORANDUM**

The Issuers and/or RBSG (in its capacity as Guarantor of Notes issued by RBS) will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Offering Memorandum which is capable of affecting the assessment of any Notes or Guarantees, prepare a supplement to this Offering Memorandum or publish a new offering memorandum in accordance with the Prospectus Directive for use in connection with any subsequent issue of Notes. The Issuers and the Guarantor have undertaken to the Agents in the Distribution Agreement entered into by the Issuers, the Guarantor and the Agents on or about the date of this Offering Memorandum that they will comply with section 87G of the FSMA.

## OVERVIEW OF TERMS

*This overview does not purport to be complete and is qualified in its entirety by reference to the detailed information appearing elsewhere in this Offering Memorandum. Terms not defined in this overview are defined elsewhere herein.*

### **The Issuers** .....

The Royal Bank of Scotland Group plc; The Royal Bank of Scotland plc.

RBS is a wholly-owned subsidiary of RBSG. RBSG and RBS are public limited companies incorporated in Scotland. RBSG is the holding company of a large global banking and financial services group headquartered in Edinburgh. RBSG and its subsidiaries consolidated in accordance with International Financial Reporting Standards, operate in the United Kingdom, the United States and internationally through RBSG's three principal subsidiaries, RBS, NatWest and The Royal Bank of Scotland N.V. ("RBS N.V.").

Both RBS and NatWest are major United Kingdom clearing banks. RBS N.V. is a bank regulated by the Dutch Central Bank. In the United States, the Group's subsidiary, Citizens, is a large commercial banking organization. Globally, the Group has a diversified customer base and provides a wide range of products and services to personal, commercial and large corporate and institutional customers.

Her Majesty's Treasury ("HM Treasury") currently holds 68.4 per cent. of the issued ordinary share capital of RBSG. On December 22, 2009, RBSG issued £25.5 billion of B Shares to HM Treasury. The issue of the £25.5 billion of B Shares to HM Treasury on December 22, 2009 increased HM Treasury's economic interest in RBSG to approximately 84 per cent. but this was reduced to approximately 83 per cent. following completion of a conversion of a series of preference shares into ordinary shares on March 31, 2010.

The Group had total assets of £1,453.6 billion and owners' equity of £75.1 billion at December 31, 2010. As at December 31, 2010, the Group's capital ratios were a total capital ratio of 14.0 per cent., a Core Tier 1 capital ratio of 10.7 per cent. and a Tier 1 capital ratio of 12.9 per cent.

RBS and its subsidiaries consolidated in accordance with International Financial Reporting Standards (the "RBS Group") had total assets of £1,307.3 billion and

owners' equity of £57.0 billion as at December 31, 2010. As at December 31, 2010, the RBS Group's capital ratios were a total capital ratio of 13.6 per cent., a Core Tier 1 capital ratio of 8.4 per cent. and a Tier 1 capital ratio of 10.1 per cent.

**Terms of the Notes and the Guarantees**.....

The Notes, which may be issued at their principal amount or at a premium to or (if issued on an unsubordinated basis) discount from their principal amount, on a subordinated or unsubordinated basis, may bear interest at a fixed or floating rate or be issued on a fully discounted basis and not bear interest. The interest rate or interest rate formulae, if any, issue price, currency, terms of redemption or repayment, if any, maturity and other terms not otherwise provided in this Offering Memorandum will be established for each Note by the Issuer thereof at the issuance of such Note and will be indicated in the applicable Final Terms or in a supplement hereto. Senior Notes issued by Royal Bank will be guaranteed on a senior basis by the Company as described in "Description of the Notes and the Guarantees". Subordinated Notes issued by Royal Bank will be guaranteed on a subordinated basis by the Company as described in "Description of the Notes and the Guarantees".

**Method of Distribution**.....

The Notes are being offered on a continuous basis by the Issuers through the Agents. The Issuers may also sell Notes to the Agents acting as principals for resale to investors or other purchasers and may sell Notes directly on their own behalf. See "Plan of Distribution".

**Program Amount**.....

The aggregate principal amount (or, in the case of Notes issued at a discount from the principal amount or Indexed Notes, the aggregate initial offering price) of Notes outstanding at any time shall not exceed \$35,000,000,000 or the approximate equivalent thereof in another currency calculated as at the issue date of the relevant Notes. Application has accordingly been made to the U.K. Listing Authority for Notes issued under the Program up to a limit of \$35,000,000,000 during the period of the twelve months from the date hereof to be admitted to the Official List of the U.K. Listing Authority and to trading on the London Stock Market. The Issuers may increase the amount of the Program at any time.

**Status of the Senior Notes and the Senior Guarantee**.....

The Senior Notes will be direct, unsecured and unsubordinated obligations of the relevant Issuer and any Senior Guarantee will be the direct, unsecured and unsubordinated obligation of the Company, as the case may be, and rank *pari passu* among themselves and with all other unsecured and unsubordinated obligations of such Issuer or the Company, as the case may be, other than any obligations preferred by statute or by operation of law, all as described in “Description of the Notes and the Guarantees”.

**Status of the Subordinated Notes and the Subordinated Guarantee**.....

The Subordinated Notes will be unsecured subordinated obligations of the relevant Issuer and any Subordinated Guarantee will be the unsecured subordinated obligation of the Company. The Dated Subordinated Notes, the Undated Subordinated Notes and any Subordinated Guarantees in respect thereof will in each case rank *pari passu* among themselves, all as described in “Description of the Notes and the Guarantees”.

Unless otherwise stated in the applicable Final Terms, Undated Subordinated Notes are intended to constitute Upper Tier 2 Capital (“Upper Tier 2 Capital”) and Dated Subordinated Notes are intended to constitute Lower Tier 2 Capital (“Lower Tier 2 Capital” and, together, “Tier 2 Capital”) in accordance with the requirements of the U.K. Financial Services Authority.

**Maturities**.....

The Notes will mature on a date six months or more from their Original Issue Date, as agreed between the initial purchaser and the Issuer thereof and as reflected in the applicable Final Terms. Unless otherwise provided in the applicable Final Terms, Dated Subordinated Notes shall, under the requirements of the U.K. Financial Services Authority at the date of this Offering Memorandum, have a minimum maturity of five years from the Original Issue Date. Undated Subordinated Notes shall, under the requirements of the U.K. Financial Services Authority as at the date of this Offering Memorandum, have no Stated Maturity and be perpetual.

**Currency**.....

The Notes will be denominated in U.S. dollars unless otherwise specified in the applicable Final Terms. The Issuers may also issue Notes denominated in another currency, as set forth in the applicable Final Terms. See “Description of the Notes and the Guarantees” and “Special Provisions Relating to Foreign Currency Notes”.

**Form and Denomination** .....

The Notes will be issued in fully registered form in minimum denominations of \$200,000 (or, in the case of Notes not denominated in U.S. dollars, the equivalent thereof in such foreign currency, rounded down to the nearest unit of such foreign currency but so that in no event will the minimum denomination of any Notes (whether denominated in U.S. dollars or otherwise) be lower than €100,000 or its equivalent at the date of issue of the relevant Notes) and integral multiples of \$1,000 in excess thereof. Unless otherwise permitted by applicable law, Senior Notes issued by the Company with a maturity of less than one year must (a) have a minimum denomination of the higher of \$250,000 or its equivalent and the then equivalent of £100,000 and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or (b) be issued in other circumstances which do not constitute a contravention of Section 19 of the U.K. Financial Services and Markets Act 2000 by the Company.

Notes sold to QIBs in reliance on Rule 144A will be represented by one or more global Notes (each, a “Rule 144A Global Note”), registered in the name of a nominee of DTC. Notes sold outside of the United States to persons other than U.S. Persons (as defined in Regulation S) in offshore transactions in reliance on Regulation S will be represented by one or more global Notes (each, a “Regulation S Global Note” and, together with the Rule 144A Global Notes, the “Global Notes”), registered in the name of a nominee of DTC. See “Description of the Notes and the Guarantees — Book Entry, Delivery and Form”.

**Interest Rates** .....

Interest bearing Notes may be issued either as Fixed Rate Notes and/or Floating Rate Notes. Interest on Floating Rate Notes will be determined with reference to one or more of the Commercial Paper Rate, the Prime Rate, the CD Rate, the Federal Funds Rate, EURIBOR, LIBOR, the Treasury Rate, the CMT Rate or another interest rate basis, each as adjusted by the Spread and/or Spread Multiplier, if any, as set forth in the applicable Final Terms. Any Floating Rate Note may also have a maximum and/or minimum interest rate limitation. See “Description of the Notes and the Guarantees”.

**Interest Payment Dates** .....

Interest on Fixed Rate Notes will be payable on the dates specified in the applicable Final Terms and at

**Redemption and Repurchase**.....

Maturity. Interest on Floating Rate Notes will be payable on the dates set forth in the applicable Final Terms and at Maturity.

The applicable Final Terms will indicate either that Senior Notes cannot be redeemed prior to Maturity other than for taxation reasons, or will indicate the terms on which the Notes will be redeemable at the option of the Issuer thereof or repayable at the option of the Holder thereof or both.

There is no fixed redemption date for Undated Subordinated Notes. Subordinated Notes may only be redeemed (in the case of Undated Subordinated Notes) or may only be redeemed prior to Maturity (in the case of Dated Subordinated Notes) for taxation reasons or if a Capital Disqualification Event (as defined under “Description of the Notes and the Guarantees — Subordinated Notes — Definitions”) has occurred, or if specified in the relevant Final Terms, at the option of the Issuer, in each case subject to certain conditions including prior notification to and no objection having been raised by, and/or if required, the prior consent of, the U.K. Financial Services Authority. Subordinated Notes may not be redeemed at the option of the Holder thereof.

The Company and/or Royal Bank may at any time purchase Senior Notes in the open market. Purchases of Subordinated Notes are subject to the prior consent of, or prior notification to and no objection having been raised by, the U.K. Financial Services Authority. For additional restrictions on redemption see “Description of the Notes and the Guarantees — Optional Redemption”.

**Discount Notes** .....

Senior Notes may be issued that have an Issue Price that is less than 100% of the principal amount thereof. See “Description of the Notes and the Guarantees— Discount Notes”.

**Indexed Notes**.....

Notes may be issued with the amount of principal thereof or interest thereon (or both) payable to be determined with reference to the price or prices of specified commodities, to equity indices, to the exchange rate of one or more designated currencies relative to an indexed currency, or to other items. See “Description of the Notes and the Guarantees— Indexed Notes”.

**Amortizing Notes**.....

Senior Notes which are Fixed Rate Notes may be issued as Amortizing Notes under which payments combining principal and interest are made in

installments over the life of the Note. Payments with respect to Amortizing Notes will be applied first to interest due and payable thereon and then to the reduction of the unpaid principal amount thereof. See “Description of the Notes and the Guarantees—Amortizing Notes”

**Taxation**.....

Payments of principal of and interest on the Notes will be made without deduction for or on account of withholding with respect to U.K. income taxes, unless such deduction or withholding is required by law. In the event that any such deduction or withholding is required by law to be made, the relevant Issuer (or the Guarantor, as the case may be) will, save in certain circumstances as further described in “Description of the Notes and the Guarantees—Payments of Additional Amounts”, be required to pay such additional amounts as are necessary in order that the net amounts paid to the Holders of the relevant Notes, after the deduction or withholding, shall equal the amount of such payments if the deduction or withholding had not been required. For a discussion of certain other U.K. and U.S. tax considerations, see “Taxation”.

**Trustee**.....

The Senior Notes offered hereby will be issued pursuant to an Indenture dated as of November 2, 2004, as amended and supplemented from time to time and, as most recently amended and restated on June 7, 2011, among the Company, Royal Bank and The Bank of New York Mellon (previously named The Bank of New York), as Trustee (the “Trustee”). The Subordinated Notes offered hereby will be issued pursuant to an Indenture dated as of November 2, 2004, as amended and supplemented from time to time and, as most recently amended and restated on June 7, 2011, among the Company, Royal Bank and the Trustee.

**Paying Agent, Registrar, Authenticating Agent,  
Calculation Agent and Exchange Rate Agent**...

The Bank of New York Mellon, through offices in New York and London (as successor to JPMorgan Chase Bank, N.A.).

**Governing Law** .....

The Notes, the Guarantees and the Indentures (as defined under “Description of the Notes and the Guarantees — General”) will be governed by New York law, except that the subordination provisions and the waiver of set-off provisions of the Subordinated Indenture, the Subordinated Notes and the Subordinated Guarantees will be governed by Scots law.

**Rating** .....

The Notes may be rated or unrated. For a description

of such ratings, see the Registration Documents which are incorporated by reference herein.

In relation to RBSG, where Notes are rated by Standard & Poor's Credit Market Services Europe Limited ("Standard & Poor's"), they are expected to be rated "A" for Senior Notes with a maturity of one year or more, "A-1" for Senior Notes with a maturity of less than one year, "BBB" for Dated Subordinated Notes and "BB" for Undated Subordinated Notes. In relation to RBSG, where Notes are rated by Fitch Ratings Limited, they are expected to be rated "AA-" for Senior Notes with a maturity of one year or more, "F1+" for Senior Notes with a maturity of less than one year and both Dated Subordinated Notes and Undated Subordinated Notes will be rated on a case-by-case basis. In relation to RBSG, where Notes are rated by Moody's Investors Service Limited ("Moody's"), they are expected to be rated "A1" for Senior Notes with a maturity of one year or more, "P-1" for Senior Notes with a maturity of less than one year and both Dated Subordinated Notes and Undated Subordinated Notes will be rated on a case-by-case basis.

In relation to RBS, where Notes are rated by Standard & Poor's, they are expected to be rated "A+" for Senior Notes with a maturity of one year or more, "A-1" for Senior Notes with a maturity of less than one year, "BBB+" for Dated Subordinated Notes and "BB+" for Undated Subordinated Notes. In relation to RBS, where Notes are rated by Fitch Ratings Limited, they are expected to be rated "AA-" for Senior Notes with a maturity of one year or more, "F1+" for Senior Notes with a maturity of less than one year and both Dated Subordinated Notes and Undated Subordinated Notes will be rated on a case-by-case basis. In relation to RBS, where Notes are rated by Moody's they are expected to be rated "Aa3" for Senior Notes with a maturity of one year or more, and "P-1" for Senior Notes with a maturity of less than one year and both Dated Subordinated Notes and Undated Subordinated Notes will be rated on a case-by-case basis. In each case, the rating for a specific tranche of Notes (if applicable) will be set out in the relevant Final Terms.

Any differences from the expected ratings for any particular issue of Notes, as set out above, will be described in the Final Terms applicable to such Notes.

Whether or not each credit rating applied for in relation to a series of Notes will be issued by a credit rating agency established in the European Union and



registered under Regulation (EC) No. 1060/2009 will be disclosed in the applicable Final Terms.

A rating is not a recommendation to buy, sell or hold securities and may be subject to change, suspension or withdrawal at any time by the assigning rating agency. Neither the rating agency nor the relevant Issuer is obligated to provide the Holder with any notice of any suspension, change or withdrawal of any rating.

**Listing** .....

Application has been made to admit Notes to be issued under the Program to the Official List and to admit them to trading on the London Stock Market. The London Stock Market is a regulated market for the purposes of the Markets in Financial Instruments Directive. The Notes may also be listed or traded on or quoted by any other or further stock exchange, listing authority or quotation system as may be agreed between the relevant Issuer and the relevant Agents in relation to each issue and as set forth in the relevant Final Terms. Unlisted Notes may also be issued.

## **RISK FACTORS**

*Prospective investors should consider carefully the risks set forth below, the other information contained in this Offering Memorandum and the risk factors described in the sections entitled “Risk Factors” provided in the Registration Documents incorporated by reference herein prior to making any investment decision with respect to the Notes. Prospective investors should note that the risks described below and in the Registration Documents are not the only risks which the Issuers face. The Issuers have described only those risks relating to their operations that they consider to be material. There may be additional risks that the Issuers currently consider not to be material or of which they are not currently aware, and any of these risks could have the effect set forth below.*

*Each of the risks highlighted below or in the Registration Documents could have a material adverse effect on the business, operations, financial condition or prospects of each Issuer, which, in turn, could have a material adverse effect on the amount of principal and interest which investors will receive in respect of the Notes. In addition, each of the risks highlighted below or in the Registration Documents could adversely affect the trading price of the Notes or the rights of investors under the Notes and, as a result, investors could lose some or all of their investment.*

*The Issuers believe that the factors described below represent the principal risks inherent in investing in Notes issued under the Program, but the Issuers may be unable to pay interest, principal or other amounts on or in connection with any Notes for other reasons and the Issuers do not represent that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Memorandum (including any documents deemed to be incorporated by reference herein) and reach their own views prior to making any investment decision.*

### **Risk Factors Relating to the Issuers**

Prospective investors should consider the sections entitled “Risk Factors” provided in the Registration Documents which are incorporated by reference herein.

### **Risk Factors Relating to the Notes**

*Factors which the Issuers and the Guarantor believe may be material for the purpose of assessing the market risks associated with Notes issued under the Program are described below.*

*Prospective investors should note that the risks described below are not the only risks relating to the Notes. The Issuers have described only those risks relating to the Notes that they consider to be material. There may be additional risks that the Issuers currently consider not to be material or of which they are not currently aware, and any of these risks could have the effect set forth below.*

#### ***Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Program.***

*Notes may not be a suitable investment for all investors*

Each potential investor in any Notes must determine the suitability 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 relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Offering Memorandum or any applicable 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 relevant Notes and the impact such investment will have on its overall investment portfolio;

- (iii) have sufficient financial resources to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the relevant Notes and be familiar with the behavior of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. Instead, they generally purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

***Risks related to the structure of a particular issue of Notes.***

A wide range of Notes may be issued under the Program. A number of these Notes may be structured in such a way that they have features which contain particular risks for potential investors. Set out below is a description of certain such features.

*Notes subject to optional redemption by the Issuer*

An optional redemption feature is likely to limit the market value of Notes. During any period when the relevant Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period.

The relevant Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

*Indexed Notes and Dual Currency Notes*

The Issuers may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities indices or commodities, to movements in currency exchange rates, interest rates or inflation rates or other factors (each, a "Relevant Factor"). In addition, the Issuers may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated ("Dual Currency Notes"). Potential investors should be aware that, with respect to Notes with principal or interest determined by reference to a Relevant Factor and Dual Currency Notes:

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected or not at all;
- (iv) the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

- (vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical performance of an index or other Relevant Factor should not be viewed as an indication of the future performance of such index or other Relevant Factor during the term of any Notes with principal or interest determined by reference to such Relevant Factor. Accordingly, prospective investors should consult their own financial and legal advisers about the risk entailed by an investment in any such Notes and the suitability of such Notes in light of their particular circumstances.

#### *Variable Rate Notes with a multiplier or other leverage factor*

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

#### *Inverse Floating Rate Notes*

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of such Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

#### *Fixed/Floating Rate Notes*

Fixed/Floating Rate Notes may bear interest at a rate that the relevant Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The relevant Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the relevant Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the relevant Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favorable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the relevant Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

#### *Notes issued at a substantial discount or premium*

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

#### *Perpetual Notes*

The relevant Issuer is under no obligation to redeem Undated Subordinated Notes at any time and may elect not to pay interest on any given interest payment date. Furthermore, the Holders of Undated Subordinated Notes have no right to call for their redemption.

#### *Foreign Currency Notes*

*Exchange Rates and Exchange Controls.* An investment in Foreign Currency Notes entails significant risks that are not associated with a similar investment in a security denominated in U.S. dollars. Such risks include, without

limitation, the possibility of significant changes in the rate of exchange between the U.S. dollar and the Specified Currency and the possibility of the imposition or modification of foreign exchange controls by either the United States or foreign governments. Such risks generally depend on economic and political events and the supply of and demand for the relevant currencies over which an Issuer has no control. In recent years, rates of exchange between the U.S. dollar and certain foreign currencies have been highly volatile and such volatility may be expected in the future. Fluctuations in any particular exchange rate that have occurred in the past are not necessarily indicative, however, of fluctuations in the rate that may occur during the term of any Foreign Currency Note. Depreciation of the Specified Currency applicable to a Foreign Currency Note against the U.S. dollar would result in a decrease in the U.S. dollar-equivalent yield of such Note, in the U.S. dollar-equivalent value of the principal repayable at Maturity of such Note and, generally, in the U.S. dollar-equivalent market value of such Note.

Governments have imposed from time to time exchange controls and may in the future impose or revise exchange controls at or prior to the Maturity of a Foreign Currency Note. Such exchange controls could affect exchange rates as well as the availability of a specified foreign currency at the time of payment of principal of and any premium and interest on a Foreign Currency Note. Even if there are no exchange controls, it is possible that the Specified Currency for any particular Foreign Currency Note would not be available at the Maturity of such Note due to circumstances beyond the control of an Issuer.

*Judgments.* In the event an action based on Foreign Currency Notes is commenced in a court of the United States, it is likely that such court would grant judgment relating to such Notes only in U.S. dollars. It is not clear, however, whether, in granting such a judgment, the rate of conversion into U.S. dollars would be determined with reference to the date of default, the date that judgment is rendered or some other date. Holders of Foreign Currency Notes would bear the risk of exchange rate fluctuations between the time the judgment is calculated and the time the Paying Agent converts the Specified Currency to U.S. dollars for payment of the judgment.

#### *Subordinated Notes—Basel III and related reforms*

The Basel Committee on Banking Supervision (the “Basel Committee”) has proposed a number of fundamental reforms to the regulatory capital framework for internationally active banks which are designed to ensure that capital instruments issued by such banks fully absorb losses before tax payers are exposed to loss (the “Basel III Reforms”), the principal elements of which are set out in its papers dated December 16, 2010 and its press release dated January 13, 2011. The implementation of the Basel III Reforms by relevant authorities will begin on January 1, 2013 and, following a series of transitional arrangements will be fully effective by 2019.

The Basel III Reforms provide that all non-common equity Tier 1 and Tier 2 instruments, such as the Subordinated Notes, which do not contain any contractual terms providing for 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 1 January 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.

It is possible that the powers that either currently exist under the U.K. Banking Act 2009 or that may result from any future change in the relevant law could be used in such a way as to result in the Subordinated Notes absorbing losses in the manner described in (i) or (ii) above. Accordingly, the operation of any such current or future legislation may lead to losses for holders of Subordinated Notes.

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 become non-viable, as determined by the relevant authority.

Furthermore, there can be no assurance that, prior to their proposed implementation in 2013, 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 that 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 UK incorporated banks.

#### *Deferral of Payments on Undated Subordinated Notes*

Payments in respect of the principal of, and interest on, Undated Subordinated Notes will be conditional upon the relevant Issuer being solvent at the time of payment as provided and as more particularly described under “Description of the Notes and the Guarantees – Undated Subordinated Notes – Subordination” and the relevant Issuer shall have no liability to pay any such amount to the extent that it is insolvent or would become insolvent as a result of making such payment.

Payments by the Guarantor in respect of the principal of, and interest on, Undated Subordinated Notes will be conditional upon the Guarantor being solvent at the time of payment as provided and as more particularly described under “Description of the Notes and the Guarantees – Subordination of the Subordinated Guarantee of Undated Subordinated Notes issued by Royal Bank” and the Guarantor shall have no liability to pay any such amount to the extent that it is insolvent or would become insolvent as a result of making such payment.

The relevant Issuer may elect to defer any interest payment subject as provided and as more particularly described under “Description of the Notes and the Guarantees – Undated Subordinated Notes – Subordination”. Where a payment of interest is so deferred, no interest shall accrue on such Arrears of Interest but it may be paid at any time at the option of the relevant Issuer and shall, subject to the solvency condition described above, become due in full on the earlier of (i) the date fixed for any redemption in accordance with the terms of the Undated Subordinated Note and the Subordinated Indenture or (ii) the commencement of a Winding Up (as defined under “Description of the Notes and the Guarantees — Subordinated Notes — Definitions”) or a Qualifying Administration (as defined under “Description of the Notes and the Guarantees — Subordinated Notes — Definitions”) of the relevant Issuer. Although the Issuers may only opt to defer, and not to cancel, payment of such Arrears of Interest, investors should be aware that they may not receive amounts in respect of interest in respect of the Undated Subordinated Notes on the scheduled payment date and, if so deferred, it is uncertain when or whether the payment of such amounts will be satisfied.

#### *Remedies for Non-Payment on the Subordinated Notes*

The sole remedy against the relevant Issuer and/or the Guarantor available to the Trustee or any holder of Subordinated Notes for recovery of amounts owing in respect of any payment of principal or interest in respect of any Subordinated Notes will be the institution of proceedings for the winding up of the relevant Issuer or the Guarantor and/or proving in any winding up of the relevant Issuer and/or the Guarantor.

#### *No limitation on issuing senior or pari passu securities*

There is no restriction on the amount of securities or other liabilities which the relevant Issuer or the Guarantor may issue or incur and which rank senior to, or *pari passu* with, any other issue of Subordinated Notes of the relevant Issuer. The issue of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by Holders on a winding up of the relevant Issuer and/or the Guarantor and/or may increase the likelihood of a deferral of interest on any issue of Undated Subordinated Notes of such Issuer as described above.

#### *The Issuers’ and the Guarantor’s obligations in respect of the Subordinated Notes are subordinated*

The obligations of the relevant Issuer and the Guarantor in respect of the Dated Subordinated Notes and Undated Subordinated Notes will be unsecured and subordinated and will rank junior in priority of payment to, in respect of the Dated Subordinated Notes, the claims of Dated Senior Creditors (as defined under “Description of the Notes and the Guarantees – Dated Subordinated Notes – Subordination”) and, in respect of Undated Subordinated Notes, the claims of Undated Senior Creditors (as defined under “Description of the Notes and the Guarantees – Undated Subordinated Notes – Subordination”).

Although Dated Subordinated Notes and Undated 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 his investment should the relevant Issuer become insolvent.

*Optional Redemption in respect of Subordinated Notes*

The relevant Issuer may, subject as provided under “Description of the Notes and the Guarantees – Redemption of Subordinated Notes”, opt to redeem all, but not some only, of the Subordinated Notes of any series at the price set out in the applicable Final Terms together with any outstanding interest:

(i) in the event that it is obliged to pay additional amounts in respect of United Kingdom withholding taxation, or

(ii) upon the occurrence of certain other changes in the treatment of the relevant Notes for taxation purposes,

in each case as a result of a change in, or amendment to, the laws or regulations of a U.K. Taxing Jurisdiction or a change in the application or official interpretation of such laws or regulations as described further under “Description of the Notes and the Guarantees – Optional Tax Redemption”, and in each case provided that the relevant Issuer cannot avoid the foregoing by taking measures reasonably available to it and, in the case of the Undated Subordinated Notes, subject to the Undated Solvency Condition set out under “Description of the Notes and the Guarantees – Undated Subordinated Notes – Subordination”.

If at any time a Capital Disqualification Event occurs and is continuing in relation to any Subordinated Notes, the relevant Issuer may, subject as provided under “Description of the Notes and the Guarantees – Redemption of Subordinated Notes”, redeem all, but not some only, of the Subordinated Notes of any series at the price set out in the applicable Final Terms together with any outstanding interest, as described further under “Description of the Notes and the Guarantees – Capital Disqualification Event” and, in the case of Undated Subordinated Notes, subject to the Undated Solvency Condition set out under “Description of the Notes and the Guarantees – Undated Notes – Subordination”.

If the Subordinated Notes are to be so redeemed, there can be no assurance that holders of 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.

*Optional Redemption in respect of Senior Notes*

The relevant Issuer may opt to redeem all, but not some only, of the Senior Notes of any series at the price set out in the applicable Final Terms together with any outstanding interest:

(i) in the event that it is obliged to pay additional amounts in respect of United Kingdom withholding taxation, or

(ii) upon the occurrence of certain other changes in the treatment of the relevant Notes for taxation purposes,

in each case as a result of a change in, or amendment to, the laws or regulations of a U.K. Taxing Jurisdiction or a change in the application or official interpretation of such laws or regulations described further under “Description of the Notes and the Guarantees – Optional Tax Redemption”, and in each case provided that the relevant Issuer cannot avoid the foregoing by taking measures reasonably available to it.

If the Senior Notes are to be so redeemed, there can be no assurance that holders of Senior 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 Senior Notes.

***Risks related to Notes generally***

Set out below is a brief description of certain risks relating to the Notes generally:

### *Modification, waivers and substitution*

The Subordinated Indenture and the Senior Indenture contain provisions for calling meetings of Holders to consider matters affecting their interests generally. Subject to certain exceptions, these provisions permit defined majorities to bind all Holders including Holders who did not attend and vote at the relevant meeting and Holders who voted in a manner contrary to the majority.

### *Change of law*

The Notes and the Indentures will be governed by the laws of the State of New York, except that the subordination provisions and the waiver of set-off provisions of the Subordinated Indenture, the Subordinated Notes and the Subordinated Guarantees will be governed by the laws of Scotland as at the date of issue of such Notes. No assurance can be given as to the impact of any possible judicial decision or change to New York or Scots law or administrative practice after the date of issue of the relevant Notes.

### *European Union Savings Directive*

Under measures implemented in order to comply with EU Council Directive 2003/48/EC on the taxation of savings income (the “Savings Directive”), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual or to certain other persons in that other Member State. However, for a transitional period, Luxembourg and Austria may instead (unless during that period they elect otherwise) operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other territories) subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld. A number of non-EU countries and territories have agreed to adopt similar measures to the Savings Directive.

The European Commission has proposed certain amendments to the Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State that has opted for a withholding system and an amount were to be withheld from that payment pursuant to the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of saving income or any law implementing or complying with, or introduced in order to conform to, such directive, neither the relevant Issuer, nor the Guarantor, nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding.

### ***Risks related to the market generally***

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk, which may be relevant to an investment in any Notes:

#### *The secondary market generally*

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 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 rate, currency or market risks, are designed for specific investment objectives or strategies 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 Notes.

#### *Exchange rate risks and exchange controls*

The Issuers will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor’s financial activities are denominated principally in a currency or



currency unit (the “Investor’s Currency”) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor’s Currency) and the risk that authorities with jurisdiction over the Investor’s Currency may impose or modify exchange controls. An appreciation in the value of the Investor’s Currency relative to the Specified Currency would decrease (1) the Investor’s Currency-equivalent yield on the Notes, (2) the Investor’s Currency-equivalent value of the principal payable on the Notes and (3) the Investor’s Currency-equivalent market value of the Notes. Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

*Interest rate risks*

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of Fixed Rate Notes.

*Credit ratings may not reflect all risks*

One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, in the Registration Documents or in any other documents incorporated by reference herein and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

*Legal investment considerations may restrict certain investments*

The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

## **USE OF PROCEEDS**

The net proceeds from each issue of Notes will be used by the relevant Issuer to fund its general banking and insurance business. If there will be a particular, identified use of proceeds in respect of any particular issue of Notes, it will be stated in the applicable Final Terms.

## DESCRIPTION OF THE NOTES AND THE GUARANTEES

### General

The particular terms of any Notes sold will be described in the applicable Final Terms. The terms and conditions set forth below will apply to each Note unless otherwise specified in the applicable Final Terms and in such Note.

A copy of each Final Terms will be available for inspection during normal business hours at the principal office for the time being of the Paying Agent and at the specified office of the Paying Agent. A copy of each Final Terms will, in the case of a series of Notes in relation to which application has been made for admission to the Official List of the U.K. Listing Authority, be delivered to the Listing Applications Department of the U.K. Listing Authority and the London Stock Exchange on or before the date of issuance of the listed Notes.

The senior Notes (the “Senior Notes”) will be issued as separate series under an Indenture dated as of November 2, 2004 (as amended, supplemented or otherwise modified and in effect from time to time, and as most recently amended and restated on June 7, 2011, the “Senior Indenture”) among the Company, Royal Bank and The Bank of New York Mellon (previously named The Bank of New York), as Trustee. The subordinated Notes (the “Subordinated Notes”) will be issued as separate series under an Indenture dated as of November 2, 2004 (as amended, supplemented or otherwise modified and in effect from time to time, and as most recently amended and restated on June 7, 2011, the “Subordinated Indenture” and, together with the Senior Indenture, collectively, the “Indentures”) among the Company, Royal Bank and The Bank of New York Mellon, as Trustee. The following summaries of certain provisions of the Indentures do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all the provisions of the Indentures, including the definitions therein of certain terms. Wherever particular Sections or defined terms of an Indenture are referred to, such Sections or defined terms shall be deemed to be incorporated herein by reference.

Each Indenture provides that, in addition to the Notes, securities of other series may be issued thereunder without limitation as to aggregate principal amount. (Senior Indenture § 3.01, Subordinated Indenture § 3.01). All Notes of one series need not be issued at the same time and, unless otherwise provided, a series may be reopened under the applicable Indenture, without the consent of any Holder, for issuances of additional Notes which will be consolidated and form one series with Notes previously issued; provided that additional Notes with the same CUSIP, ISIN or other identifying number as previously issued Notes must be fungible with the Notes previously issued for U.S. federal income tax purposes. (Senior Indenture § 3.01, Subordinated Indenture § 3.01).

The Notes offered hereby are limited to an aggregate principal amount (or, in the case of Senior Notes issued at a discount from their principal amount or Indexed Notes, the aggregate initial offering price) at any time outstanding of up to \$35,000,000,000 or, in the case of Notes denominated in a currency or currency unit other than the U.S. dollar (“Foreign Currency Notes”), the approximate equivalent thereof at the Program Exchange Rate of such foreign currencies on the date an Issuer agreed to issue such Notes.

Unless otherwise specified in the applicable Final Terms, each Note (other than an Undated Subordinated Note, which will be perpetual) will mature on a date six months or more from its date of original issuance (the “Original Issue Date”), as agreed between the initial purchaser and the Issuer of such Note. Unless otherwise provided in the applicable Final Terms, Dated Subordinated Notes shall, under the requirements of the U.K. Financial Services Authority at the date of this Offering Memorandum, have a minimum maturity of five years from the Original Issue Date.

The Notes will be issuable only in fully registered form and in minimum denominations of \$200,000 (or, in the case of Notes not denominated in U.S. dollars, the equivalent thereof in such foreign currency, rounded down to the nearest unit of such foreign currency, but so that in no event will the minimum denomination of any Notes (whether denominated in U.S. dollars or otherwise) be lower than €100,000 or its equivalent at the date of Issue of the relevant Notes) and integral multiples of \$1,000 in excess thereof, except that unless otherwise permitted by applicable law, Senior Notes issued by the Company with a maturity of less than one year must (a) have a minimum denomination of the higher of \$250,000 or its equivalent and the then equivalent of £100,000 and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as

principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or (b) be issued in other circumstances which do not constitute a contravention of Section 19 of the U.K. Financial Services and Markets Act 2000 by the Company. See “Special Provisions Relating to Foreign Currency Notes” for additional information regarding Foreign Currency Notes.

Unless otherwise indicated in the applicable Final Terms, the Notes will be denominated in U.S. dollars and payments of the principal of and any premium or interest on the Notes will be made in U.S. dollars. If any of the Notes are to be denominated or payable in a currency other than or in addition to U.S. dollars, additional information pertaining to the terms of such Notes and other matters relevant to the holders thereof will be described in the applicable Final Terms. See “Special Provisions Relating to Foreign Currency Notes”.

The Senior Notes may be issued as Discount Notes. See “—Discount Notes” for a description of the Discount Notes.

The Notes will be redeemable prior to their Stated Maturity, at the option of the relevant Issuer, in the event that such Issuer or, where applicable, the Guarantor is obliged to pay any of the additional amounts described in “—Payments of Additional Amounts” or upon the occurrence of certain changes in the treatment of the relevant Notes for tax purposes (see “—Optional Tax Redemption”) in each case, as a result of a change in, or amendment to, the laws or regulations of a U.K. Taxing Jurisdiction or a change in the application or official interpretation of such laws or regulations, and in the case of the Subordinated Notes, only if a Capital Disqualification Event occurs (see “—Capital Disqualification Event”); *provided, however* that the Subordinated Notes may not be redeemed without the consent of the U.K. Financial Services Authority. See “—Subordinated Notes — General”. The applicable Final Terms will indicate whether a Note shall have a Stated Maturity or be perpetual. The applicable Final Terms will also indicate either that a Note cannot otherwise be redeemed prior to its Stated Maturity or that a Note will be redeemable at the option of the relevant Issuer on or after a specified date prior to its Stated Maturity at a specified price or prices (which may include a premium), together with accrued interest to the date of redemption. The applicable Final Terms will also indicate either that an Issuer will not be obligated to redeem a Note at the option of the Holder thereof or that an Issuer will be so obligated. If the Issuer will be so obligated, the applicable Final Terms will indicate the period or periods within which (or, if applicable, the event or events upon the occurrence of which) and the price or prices at which the applicable Notes will be redeemed, in whole or in part, pursuant to such obligation and the other detailed terms and provisions of such obligation. Subordinated Notes may not be issued on terms that they are repayable at the option of the Holder thereof.

Unless otherwise specified in the applicable Final Terms, the Senior Notes will not be subject to any sinking fund or analogous provisions. Subordinated Notes may in no event be subject to any sinking fund or any analogous provision.

### **Payment of Principal and Interest**

Payments of principal of and any premium or interest on Global Notes, other than Foreign Currency Notes with respect to which a Specified Currency payment election has been made, will be made through the Trustee or the Paying Agent to DTC or its nominee. See “—Book-Entry, Delivery and Form.”

Payment of the principal of and any premium or interest on Definitive Notes, other than Foreign Currency Notes with respect to which a Specified Currency payment election has been made, will be made to the registered holders thereof at the office of the Paying Agent, or such other office or agency of the relevant Issuer maintained by it for that purpose in the Borough of Manhattan, The City of New York, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts; *provided, however*, that payment of the principal of and any premium and interest on such Notes due at Maturity will be made to the registered holders thereof in immediately available funds at such office or such other offices or agencies if such Notes are presented to the Paying Agent or any other paying agent in time for the Paying Agent or such other paying agent to make such payments in accordance with its normal procedures; and, *provided, further*, that at the option of the relevant Issuer, payment of interest, other than interest payable at Maturity, may be made by check mailed to the address of the person entitled thereto as such address shall appear in the Security Register; and, *provided, further*, that, notwithstanding the foregoing, a registered holder of \$10,000,000 or more in aggregate

principal amount of such Notes having the same Interest Payment Date will be entitled to receive payments of interest, other than interest due at Maturity, by wire transfer of immediately available funds to an account at a bank located in The City of New York (or other location consented to by such Issuer) if appropriate wire transfer instructions have been received by the Paying Agent or any other paying agent in writing not less than 15 calendar days prior to the applicable Interest Payment Date. With respect to payments on Foreign Currency Notes with respect to which a Specified Currency payment election has been made, see “Special Provisions Relating to Foreign Currency Notes”.

Subject to the restrictions on resale set forth in “Transfer Restrictions”, Notes may be presented for registration of transfer or exchange at the office of the Paying Agent. No service charge will be made for any transfer or exchange of such Notes, but an Issuer may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. (Senior Indenture §§ 3.01, 3.02 and 3.05, Subordinated Indenture §§ 3.01, 3.02 and 3.05).

The Issuers have appointed JPMorgan Chase Bank, N.A., which transferred its corporate trust business to The Bank of New York Mellon (previously named The Bank of New York) effective October 1, 2006, as their agent for the payment, transfer and exchange of the Notes, for certain foreign exchange transactions and for the calculation of certain interest rates (the “Paying Agent”, “Authenticating Agent”, “Registrar”, “Exchange Rate Agent” and “Calculation Agent”, respectively). For so long as any Notes are listed on the Official List of the U.K. Listing Authority and/or admitted to trading on the London Stock Market, the Issuers will maintain a paying agent with an office in the United Kingdom. See “General Information” for further details regarding The Bank of New York Mellon, as successor to JPMorgan Chase Bank.

#### **Senior Notes — General**

The Senior Notes are direct, unsecured and unsubordinated obligations of the Company or Royal Bank and, in the case of Royal Bank, will be unconditionally and irrevocably guaranteed by the Company. The Senior Notes will rank *pari passu* among themselves and at least *pari passu* with all other unsecured and unsubordinated obligations of the Company or Royal Bank, as the case may be, other than with respect to obligations preferred by statute or operation of law. As at December 31, 2010, the amount of outstanding unsubordinated debt securities of the Group (reported as debt securities in issue by the Group) was approximately £218.3 billion and the amount of outstanding unsubordinated debt securities of Royal Bank (reported as debt securities in issue by Royal Bank) was approximately £164.6 billion.

#### **Senior Notes — Senior Guarantee**

Pursuant to the Senior Indenture and the applicable Final Terms, the Company will unconditionally and irrevocably guarantee (each such guarantee, a “Senior Guarantee”) the due and punctual payment of the principal of (and premium, if any) and interest, if any, on and any sinking fund payments (and any payments of additional amounts, if any, described under “—Payments of Additional Amounts”) provided for by the terms of the Senior Notes issued by Royal Bank, when and as the same shall become due and payable, whether at Stated Maturity, upon acceleration or by call for redemption.

#### **Senior Notes — Events of Default**

The Senior Indenture provides that, if any Event of Default (other than an Event of Default specified in paragraphs (e) and (f) below) with respect to Senior Notes of any series at the time outstanding occurs and is continuing, either the Trustee or the Holders of not less than 25% in principal amount of the outstanding Senior Notes of that series may, by notice as provided in the Senior Indenture, declare the principal amount (or, if the Senior Notes of that series are Original Issue Discount Notes, such portion of the principal amount as may be specified in the applicable Final Terms) of all of the Senior Notes of that series to be due and payable immediately and upon such declaration such principal amount (or specified amount) shall become immediately due and payable. (Senior Indenture § 5.02). If an Event of Default specified in paragraphs (e) and (f) below with respect to Senior Notes of any series at the time outstanding occurs, then the principal amount (or, if the Senior Notes of that series are Original Issue Discount Notes, such portion of the principal amount as may be specified in the applicable Final Terms) of all of the Senior Notes of that series shall, without any act by the Trustee or the Holders of such Senior

Notes, become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived. Upon certain conditions such acceleration or declaration may be annulled and past defaults may be waived by the Holders of a majority in principal amount of the outstanding Senior Notes of that series on behalf of the Holders of all Senior Notes of that series as described in “—Events of Default — General”. Unless otherwise provided in the applicable Final Terms, the following shall be an Event of Default with respect to the Senior Notes of any series (Senior Indenture §§ 5.01):

(a) failure by the Issuer of such Senior Notes or, if such Senior Notes are guaranteed, the Guarantor to pay any interest on any Senior Note when due, and such failure continues for 30 days; or

(b) failure by the Issuer of such Senior Notes or, if such Senior Notes are guaranteed, the Guarantor to pay principal of (and premium, if any, on) or the Redemption Price of, any Senior Note when due, and such failure continues for seven days; or

(c) failure by the Issuer of such Senior Notes or, if such Senior Notes are guaranteed, the Guarantor to make any sinking fund payment in respect of any Senior Note when due or beyond any period of grace provided with respect thereto; or

(d) failure by the Issuer of such Senior Notes or, if such Senior Notes are guaranteed, the Guarantor to perform any other covenant or warranty of such Issuer (other than a covenant expressly included in the Senior Indenture solely for the benefit of one or more series of Senior Notes other than such series of Senior Notes), and such failure continues for 30 days after written notice by the Trustee or the Holders of at least 25% in principal amount of the outstanding Senior Notes of that series; or

(e) (i) the entry by a court having jurisdiction in the premises of a decree or order for relief in respect of the Company or Royal Bank in any voluntary case or proceeding under any applicable bankruptcy, insolvency, reorganization, winding up (other than a winding up under or in connection with a scheme of amalgamation or reconstruction not involving bankruptcy or insolvency), sequestration or other similar law or (ii) the entry by a court having jurisdiction in the premises of a decree or order adjudging the Company or Royal Bank a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Company or Royal Bank under any applicable law (other than any reorganization, arrangement, adjustment or composition for the purposes of amalgamation or reconstruction while solvent) or appointing an administrator, custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or Royal Bank or ordering the winding up or liquidation of the affairs of the Company or Royal Bank, and any such decree or order for relief or any such other decree or order shall continue unstayed and in effect for a period of 60 consecutive days; or

(f) commencement by the Company or Royal Bank of a voluntary case or proceeding under any applicable bankruptcy, insolvency, reorganization or other similar law or any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by the Company or Royal Bank to the entry of a decree or order for relief in respect of the Company or Royal Bank in an involuntary case or proceeding under any applicable bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against the Company or Royal Bank or the filing by the Company or Royal Bank of a petition or answer or consent seeking reorganization or relief under any such applicable law, or the consent by the Company or Royal Bank to the filing of such petition or to the appointment or the taking possession by an administrator, custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or Royal Bank, or the making by the Company or Royal Bank of an assignment for the benefit of creditors, or the taking of action by the Company or Royal Bank in furtherance of any such action or the appointment of an administrator of the Company or Royal Bank by the holder of a qualifying floating charge within the meaning of paragraph 14 of Schedule B1 of the United Kingdom Insolvency Act 1986; or

(g) any other Event of Default provided for with respect to Senior Notes of such series.

#### **Subordinated Notes — General**

The Subordinated Notes are unsecured subordinated obligations of the Company or Royal Bank and, in the case of Royal Bank, will be unconditionally and irrevocably guaranteed on a subordinated basis by the Company. As at

December 31, 2010, the amount of outstanding subordinated liabilities of the Group was approximately £27.1 billion and the amount of outstanding subordinated liabilities of Royal Bank was approximately £32.0 billion (including a £15.0 billion issue to the Company).

References to “Undated Subordinated Notes” are to Subordinated Notes that are specified in the relevant Final Terms as having no fixed Stated Maturity and no fixed date for redemption, and that consequently are perpetual. References to “Dated Subordinated Notes” are to Subordinated Notes other than Undated Subordinated Notes. References to “Subordinated Notes” include both Undated Subordinated Notes and Dated Subordinated Notes.

Unless otherwise stated in the applicable Final Terms, Subordinated Notes issued under the Program by either Issuer are intended to constitute Tier 2 Capital in accordance with the requirements of the U.K. Financial Services Authority. The Dated Subordinated Notes will have a Stated Maturity of at least five years from the Original Issue Date, and the Undated Subordinated Notes will be perpetual. The requirements of the U.K. Financial Services Authority at the date of this Offering Memorandum restrict the redemption, repayment and purchase of the Subordinated Notes. For restrictions on redemption, see “—Optional Redemption” and “—Optional Tax Redemption.” For restrictions on repayment of the Subordinated Notes at the Holder’s option, and on purchase by the Company or Royal Bank, see “—Repayment at Holders’ Option, Repurchase.”

### **Subordinated Guarantee — General**

Pursuant to the Subordinated Indenture and the applicable Final Terms, the Company will unconditionally and irrevocably guarantee (each such guarantee, a “Subordinated Guarantee”, and together with the Senior Guarantee, the “Guarantees”) on a subordinated basis the due and punctual payment, subject in the case of Undated Subordinated Notes to the Undated Solvency Condition, of the principal of, (and premium, if any) and interest, and in the case of Undated Subordinated Notes, the Arrears of Interest, if any, (and payments of additional amounts, if any, described under “—Payments of Additional Amounts”) provided for by the terms of the Subordinated Notes issued by Royal Bank when and as the same shall become due and payable, whether at Stated Maturity, by call for redemption or otherwise; *provided, however*, that payments under the Subordinated Guarantees of Undated Subordinated Notes are subject to the Guarantor satisfying the Undated Solvency Condition (as defined below). (Subordinated Indenture §§ 2.05 and 12.01).

For the purposes of the Subordinated Guarantee, all amounts of principal, interest (including Arrears of Interest, if any, in the case of Undated Subordinated Notes) and additional amounts payable under the Subordinated Notes shall be deemed to be immediately due and payable upon the occurrence of a Winding Up of the Guarantor, notwithstanding that the Subordinated Notes may not themselves have become immediately due and payable in those circumstances.

### **Subordinated Notes — Definitions**

Set forth below are definitions of certain terms used to describe the terms of the Subordinated Notes.

A “*Capital Disqualification Event*” shall be deemed to have occurred if the U.K. Financial Services Authority has confirmed to the Issuer that the Notes are no longer of a type capable of comprising the class of Eligible Capital which they comprised on the issue date of the first tranche of Notes of that series.

“*Capital Regulations*” means, at any time, the regulations, requirements, guidelines and policies relating to capital adequacy then in effect of the U.K. Financial Services Authority.

“*Dated Senior Creditors*” means, with respect to the Company or Royal Bank, as applicable, creditors whose claims are admitted to proof in a winding up, administration or other insolvency proceeding and who are unsubordinated creditors.

“*Eligible Capital*” means that the relevant Notes are treated on issue by the U.K. Financial Services Authority as eligible for inclusion in the Upper Tier 2 Capital or Lower Tier 2 Capital (as each such term, or the equivalent thereto from time to time, has the meaning given to it in the Capital Regulations), as the case may be, of the Issuer on a solo and/or consolidated basis.

“*Qualifying Administration*” means that an administrator has been appointed in respect of the Issuer or the Guarantor, as the case may be, and has given notice that he/she intends to declare and distribute a dividend.

“*Undated Assets*” means the total amount of the non-consolidated gross assets of the Company or Royal Bank, as the case may be, as shown by the latest published audited balance sheet of the Company or Royal Bank, as the case may be, but adjusted for contingencies and for subsequent events in such manner and to such extent as may be determined by the persons referred to, and in the manner described, in the second paragraph under “—Undated Subordinated Notes — Subordination” below.

“*Undated Liabilities*” means the total amount of the non-consolidated gross liabilities of the Company or Royal Bank, as applicable, as shown by the latest published audited balance sheet of the Company or Royal Bank, as the case may be, but adjusted for contingencies and for subsequent events in such manner and to such extent as may be determined by the persons referred to, and in the manner described, in the second paragraph under “—Undated Subordinated Notes — Subordination” below.

“*Undated Senior Creditors*” means, with respect to the Company or Royal Bank, as applicable, creditors (other than the Trustee and the Holders of any Undated Subordinated Notes in respect of the principal and interest thereon) (i) who are depositors or other unsubordinated creditors, or (ii) whose claims are, or are expressed to be, subordinated to the claims of depositors and/or other unsubordinated creditors (whether only in the event of a winding up or administration or otherwise) but not further or otherwise (including, without limitation, the Holders of Dated Subordinated Notes), or (iii) who are subordinated creditors (whether as aforesaid or otherwise), other than (in each case) those whose claims rank, or are expressed to rank, *pari passu* with or junior to the claims of the Trustee and Holders of Undated Subordinated Notes in respect of the principal of and interest on the Undated Subordinated Notes and/or *pari passu* with or junior to any claims ranking *pari passu* with the claims of the Trustee and Holders of Undated Subordinated Notes in respect of the principal of and interest on the Undated Subordinated Notes. (Subordinated Indenture § 10.06).

“*Undated Solvency Condition*” means that the Company or Royal Bank, as the case may be, (i) is able to pay its debts as they fall due, and (ii) has Undated Assets that exceed its Undated Liabilities (each as defined above) to its Undated Senior Creditors. (Subordinated Indenture § 10.06).

“*Winding Up*” means any winding up of the Issuer or the Guarantor, as the case may be, excluding a solvent winding up solely for the purposes of a reconstruction, amalgamation, reorganization, merger or consolidation on terms previously approved by the Trustee or by the Holders of the Notes of the relevant series.

#### **Dated Subordinated Notes — Subordination**

In the event of the Winding Up or Qualifying Administration of the Issuer, the rights and claims of the Trustee and the Holders of the Dated Subordinated Notes in respect of or arising under the Dated Subordinated Notes and the Subordinated Indenture will be subordinated to the claims of all Dated Senior Creditors but shall rank at least *pari passu* with the claims of holders of all other subordinated obligations (including guarantee obligations) of the Issuer and shall rank in priority to the claims of holders of all undated or perpetual subordinated obligations (including guarantee obligations) of the Issuer and to the claims of holders of all classes of share capital of the Issuer. (Subordinated Indenture § 10.06).

If an Event of Default occurs and (in the case of a non-payment Event of Default only) the Issuer fails to make any payments payable under the Subordinated Indenture or any Dated Subordinated Notes issued by the Company or Royal Bank upon demand of the Trustee (other than, in respect of Dated Subordinated Notes issued by Royal Bank, any remedies that may be available under the Subordinated Guarantees) all amounts of principal, premium (if any), interest and additional amounts payable under the Dated Subordinated Notes shall be deemed to become due and payable immediately without any act by the Trustee or the Holder and the Trustee may petition for the Winding Up of the Issuer exclusively in Scotland and prove in such Winding Up for all such due and payable amounts; and if the Guarantor fails to make any payments payable under any Subordinated Guarantee all amounts of principal, premium (if any), interest and additional amounts payable under the Subordinated Guarantee shall be deemed to become due and payable immediately and the Trustee may petition for the Winding Up of the Guarantor and prove



in such Winding Up for all such due and payable amounts but no other remedy shall be available to the Trustee. Holders shall not have any remedies in addition to those granted to the Trustee.

### **Undated Subordinated Notes — Subordination**

The rights of the Trustee and the Holders of Undated Subordinated Notes against an Issuer are subordinated to the claims of the Issuer's Undated Senior Creditors, in that payments by the Issuer under the Subordinated Indenture and any Undated Subordinated Note are, in addition to the right of the Issuer to make a Deferral Election (as defined below), conditional upon the Issuer being in compliance with the Undated Solvency Condition at the time of such payment and immediately after such payment and, subject to the penultimate paragraph of this subsection "Undated Subordinated Notes — Subordination," the Issuer shall have no liability to pay any amount under any Undated Subordinated Note to the extent that the Issuer has ceased, or would cease as a result of making such payment, to comply with the Undated Solvency Condition.

A report in writing as to an Issuer's compliance with the Undated Solvency Condition (i) by two Executive Officers (as defined in the Subordinated Indenture) of the Issuer or, if the report indicates the Issuer may not be in compliance with the Undated Solvency Condition, the auditors of the Issuer, or (ii) by the Issuer's liquidator, administrator or other relevant insolvency official, if the Issuer is in winding up, administration or other relevant insolvency proceeding shall in the absence of manifest error be treated and accepted by the Company, Royal Bank, the Trustee and the Holders of Undated Subordinated Notes as correct and sufficient evidence thereof. (Subordinated Indenture § 10.06).

An Issuer of Undated Subordinated Notes may elect (the "Deferral Election") without notice to defer payment of the interest accrued in respect of any period (an "Accrual Period") on the date on which interest would otherwise be paid on the Undated Subordinated Notes in respect of such Accrual Period (the "Payment Date"), and any failure so to pay shall not constitute an Event of Default or default by the relevant Issuer for any purpose. Any interest in respect of any Undated Subordinated Notes not paid on any Payment Date due to exercise of the Deferral Election or to a failure to comply with the Undated Solvency Condition, or for any other reason, shall, so long as it remains unpaid, constitute "Arrears of Interest". Arrears of Interest may, at the option of the relevant Issuer but subject to the Undated Solvency Condition, be paid in whole or in part at any time upon the expiration of not less than 14 days' notice given to the Trustee and to the relevant Holders of the Undated Subordinated Notes in accordance with the terms of the Subordinated Indenture, but all Arrears of Interest in respect of each Undated Subordinated Note shall (subject to the Undated Solvency Condition) become due on the earlier of (i) the date of the redemption of the relevant Undated Subordinated Note in accordance with the terms of the Undated Subordinated Notes and the Subordinated Indenture, including the restrictions on redemption described in "—Optional Redemption" and "—Optional Tax Redemption,"; or (ii) the commencement of a Winding Up or a Qualifying Administration of the Issuer. If notice is given by the Issuer of its intention to pay the whole or part of Arrears of Interest, then, subject to the Undated Solvency Condition, such Issuer shall pay such Arrears of Interest upon the payment date specified in such notice. Arrears of Interest in respect of Undated Subordinated Notes shall not bear interest. (Subordinated Indenture § 10.06).

If, on any Payment Date, interest in respect of any series of Undated Subordinated Notes shall not have been paid either as a result of the exercise by the Issuer of its Deferral Election or the operation of the Undated Solvency Condition, then from the date of such Payment Date until such time as the full amount of such Arrears of Interest has been received by the Paying Agent or the Trustee and no other Arrears of Interest remains unsatisfied, the Issuer shall not and shall procure that no member of the Group shall declare or pay a distribution or dividend on any class of share capital (other than any Mandatory Preference Shares) of (1) RBSG (if at the relevant time RBSG is the Holding Company (as defined below)), or (2) the Holding Company (if at the relevant time the Holding Company is a company other than RBSG), or (3) the Issuer to any person who is not a member of the Group (as defined below), or (4) RBSG (if at the relevant time the Holding Company is a company other than RBSG) to any person who is not a member of the Group (in each case other than a final dividend declared, made or paid by the relevant company before the Issuer gives notice of its option to defer payment of the interest as described above).

As used in this paragraph:

“*Group*” means the Holding Company and its subsidiaries (as such term is defined in the U.K. Companies Act 1985, as amended or re-enacted from time to time);

“*Holding Company*” means RBSG or otherwise the ultimate holding company for the time being of the Issuer and RBSG or, if at any relevant time there shall be no such Holding Company, then “Holding Company” shall mean the Issuer itself;

“*Interest Period*” means the period from and including one Payment Date (or, in the case of the first Interest Period, the interest commencement date of the relevant Undated Subordinated Notes) up to but excluding the next (or first) Payment Date; and

“*Mandatory Preference Shares*” means any class of preference shares the terms of which do not provide for the relevant issuer’s board of directors to be able to cancel, defer, pass or eliminate any distribution or dividend payment at its discretion.

If, at any time, the Issuer is (i) in Winding Up or (ii) in a Qualifying Administration, there shall be payable such amounts (if any) in respect of each Undated Subordinated Note (in lieu of any other payment) as would have been payable if on the day immediately prior to the commencement of the Winding Up of the Issuer or the giving of such notice by an administrator, as the case may be, and thereafter, the Holders of such Undated Subordinated Notes and/or the Trustee were holders of a class of preference shares (or preference shares forming part of a class of preference shares) in the capital of the Issuer having a preferential right to a return of assets in the Winding Up or Qualifying Administration over the holders of all other classes of shares for the time being in the capital of the Issuer, on the assumption that holders of such preference shares were entitled (to the exclusion of any other rights or privileges) to receive on a return of capital in such Winding Up or Qualifying Administration an amount equal to the principal amount of such Undated Subordinated Notes, together with any interest accrued up to the Payment Date immediately preceding the commencement of such Winding Up or Qualifying Administration and all Arrears of Interest in respect of such Undated Subordinated Notes. (Subordinated Indenture § 10.06).

If an Event of Default occurs and (in the case of a non-payment Event of Default only) the Issuer fails to make any payments payable under the Subordinated Indenture or any Undated Subordinated Notes issued by the Company or Royal Bank upon demand of the Trustee (other than, in respect of Undated Subordinated Notes issued by Royal Bank, any remedies that may be available under the Subordinated Guarantees) all amounts of principal, premium (if any), interest and additional amounts payable under the Undated Subordinated Notes shall be deemed to become due and payable immediately without any act by the Trustee or the Holder and the Trustee may petition for the Winding Up of the Issuer exclusively in Scotland and prove in such Winding Up for all such due and payable amounts; and if the Guarantor fails to make any payments payable under any Subordinated Guarantee all amounts of principal, premium (if any), interest and additional amounts payable under the Subordinated Guarantee shall be deemed to become due and payable immediately and the Trustee may petition for the Winding Up of the Guarantor and prove in such Winding Up for all such due and payable amounts but no other remedy shall be available to the Trustee. Holders shall not have any remedies in addition to those granted to the Trustee. In a Winding Up or Qualifying Administration of the Issuer or the Guarantor, Holders of Undated Subordinated Notes will be treated as preference shareholders for purposes of priority.

#### **Subordinated Notes — Certain Additional Limitations**

Neither any Holder of Subordinated Notes nor the Trustee may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer under a Subordinated Note, and each Holder of Subordinated Notes shall, by virtue of acquiring or holding any Subordinated Note, be deemed to have waived all such rights of set-off. To the extent that any set-off takes place, whether by operation of law or otherwise, between (i) any amount owed by the Issuer to a Holder of Dated Subordinated Notes or Undated Subordinated Notes, and (ii) any amount owed by such Holder to the Issuer, such Holder will immediately transfer such amount which is set-off to the Issuer or, in the event of its winding up or administration (as the case may be), to the liquidator or the administrator (or other relevant insolvency official) of the Issuer to be held on trust for the Issuer’s Dated Senior Creditors or Undated Senior Creditors, as the case may be. (Subordinated Indenture § 10.06).

### **Subordination of the Subordinated Guarantee of Dated Subordinated Notes issued by Royal Bank**

In the event of the Winding Up or Qualifying Administration of the Guarantor, the rights and claims of the Trustee and the Holders of the Dated Subordinated Notes in respect of or arising under the Guarantee will be subordinated to the claims of the Guarantor's Dated Senior Creditors but shall rank at least *pari passu* with the claims of holders of all other subordinated obligations (including guarantee obligations) of the Guarantor and shall rank in priority to the claims of holders of all undated or perpetual subordinated obligations (including guarantee obligations) of the Guarantor and to the claims of holders of all classes of share capital of the Guarantor. (Subordinated Indenture § 12.04).

### **Subordination of the Subordinated Guarantee of Undated Subordinated Notes issued by Royal Bank**

The rights of the Trustee and the Holders under the Subordinated Guarantee of Undated Subordinated Notes issued by Royal Bank against the Guarantor are subordinated to the claims of the Guarantor's Undated Senior Creditors, in that payments by the Guarantor under the Subordinated Indenture and any such Subordinated Guarantee are conditional upon the Guarantor being in compliance with the Undated Solvency Condition at the time of such payment and immediately after such payment. Accordingly, the Guarantor shall have no liability to pay any amount under any Subordinated Guarantee of an Undated Subordinated Note to the extent that the Guarantor has ceased, or would cease if such payment were made, to comply with the Undated Solvency Condition.

A report in writing as to the Guarantor's compliance with the Undated Solvency Condition (i) by two Executive Officers (as defined in the Subordinated Indenture) of the Guarantor or, if the report indicates the Guarantor may not be in compliance with the Undated Solvency Condition, the auditors of the Guarantor, or (ii) by the Guarantor's liquidator or administrator (or other relevant insolvency official), if the Guarantor is in winding up, administration or other relevant insolvency proceeding, shall in the absence of manifest error be treated and accepted by the Company, Royal Bank, the Trustee and the Holders of Undated Subordinated Notes as correct and sufficient evidence thereof. (Subordinated Indenture § 12.04).

If, at any time, the Guarantor is (i) in Winding Up, or (ii) in a Qualifying Administration, there shall be payable such amounts (if any) under the Subordinated Guarantees (in lieu of any other payment) as would have been payable if on the day immediately prior to the commencement of such Winding Up of the Guarantor or the giving of such notice by an administrator, as the case may be, and thereafter, the Holders of the Undated Subordinated Notes and/or the Trustee were holders of a class of preference shares (or preference shares forming part of a class of preference shares) in the capital of the Guarantor having a preferential right to a return of assets in the Winding Up or Qualifying Administration over the holders of all other classes of shares for the time being in the capital of the Guarantor, on the assumption that holders of such preference shares were entitled (to the exclusion of any other rights or privileges) to receive on a return of capital in such Winding Up or Qualifying Administration an amount equal to the principal amount of the Undated Subordinated Notes, together with any interest accrued up to the Payment Date immediately preceding or on the commencement of such Winding Up or Qualifying Administration and all Arrears of Interest in respect of the Undated Subordinated Notes.

### **Subordinated Notes — Subordinated Guarantee — Certain Additional Limitations**

Neither any Holder of Subordinated Notes nor the Trustee may exercise or claim any right of set-off in respect of any amount in respect of the Subordinated Notes owed to it under any Subordinated Guarantee by the Guarantor, and each Holder of Subordinated Notes shall, by virtue of acquiring or holding any Subordinated Note, be deemed to have waived all such rights of set-off. To the extent that any set-off takes place, whether by operation of law or otherwise, between (i) any amount owed by the Guarantor to a Holder of Dated Subordinated Notes or Undated Subordinated Notes under a Subordinated Guarantee, and (ii) any amount owed by such Holder to the Guarantor, such Holder will immediately transfer such amount which is set-off to the Guarantor or, in the event of its winding up or administration (as the case may be), the liquidator or the administrator (or other relevant insolvency official) of the Guarantor to be held on trust for the Guarantor's Dated Senior Creditors or Undated Senior Creditors, as the case may be. (Subordinated Indenture § 12.04).

## **Subordinated Notes and Subordinated Guarantees — Other Provisions**

Nothing contained in the subordination provisions of the Subordinated Indenture in any way restricts the right of either Issuer or the Guarantor to issue debt obligations, or to give any guarantee or indemnity of any nature, ranking in priority to or *pari passu* with or junior to the obligations of such Issuer or Guarantor in respect of the Subordinated Notes or the Subordinated Guarantees (Subordinated Indenture §§ 10.06(f) and 12.04).

## **Subordinated Notes and Subordinated Guarantees — Events of Default**

The following shall each be an Event of Default with respect to the Subordinated Notes of the relevant series (Subordinated Indenture § 5.01):

- (a) failure by the Issuer of the relevant Subordinated Note to pay any interest on the relevant Subordinated Note when due, and such failure continues for 30 days; or
- (b) failure by the Issuer of the relevant Subordinated Note to pay principal of (or premium, if any, on) or the redemption price of the relevant Subordinated Note when due, and such failure continues for seven days; or
- (c) if an order is made or an effective resolution is passed for the Winding Up of the Issuer.

The following shall each be a Guarantor Event of Default with respect to the Subordinated Guarantees of the Subordinated Notes of the relevant series (Subordinated Indenture § 12.04):

- (x) failure by the Guarantor to pay any interest on the relevant Subordinated Note when due or deemed to be due, and such failure continues for 30 days; or
- (y) failure by the Guarantor to pay principal of (or premium, if any, on) or the redemption price of the relevant Subordinated Note when due or deemed to be due, and such failure continues for seven days; or
- (z) if an order is made or an effective resolution is passed for the Winding Up of the Guarantor.

The exercise by such Issuer of the Deferral Election and any failure to pay interest because the Issuer is not in compliance with the Undated Solvency Condition shall not constitute a failure to pay interest when due for purposes of clause (a) above. If an Event of Default specified in clause (a) or (b) occurs and the Issuer fails to pay the amounts described therein upon the demand of the Trustee for the benefit of the Holders of the Subordinated Notes, then all amounts of principal, premium (if any), interest and additional amounts in respect of such Subordinated Notes shall, without any act by the Trustee or any Holder, become due and payable immediately and the Trustee may petition for the Winding Up of the Issuer exclusively in Scotland and prove in such Winding Up for all such due and payable amounts, but no other remedy shall be available to the Trustee. If an Event of Default specified in clause (c) occurs, then all amounts of principal, premium interest and additional amounts such Subordinated Note shall, without any act by the Trustee or any Holder, become due and payable immediately and the Trustee may prove in such Winding Up for all such due and payable amounts, but no other remedy shall be available to the Trustee.

If the Guarantor fails to pay any amount of principal, premium or interest in respect of the Subordinated Notes upon the demand of the Trustee for the benefit of the Holders of the Subordinated Notes under the Subordinated Guarantee (and such failure continues for seven days in the case of principal and/or premium or 30 days in the case of interest), then all amounts of principal, premium interest and additional amounts in respect of such Subordinated Notes shall, without any act by the Trustee or any Holder, be deemed (for the purposes of the Subordinated Guarantee only) to become due and payable immediately and the Trustee may petition for the Winding Up of the Guarantor exclusively in Scotland and prove in such Winding Up for all such amounts which have been so deemed to be due and payable but no other remedy shall be available to the Trustee. If a Winding Up of the Guarantor shall have occurred, then all amounts of principal, premium (if any), interest and additional amounts in respect of such Subordinated Note shall, without any act by the Trustee or any Holder, be deemed (for the purposes of the Guarantee only) to become due and payable immediately and the Trustee may prove in such Winding Up for all such amounts which have been so deemed to be due and payable, but no other remedy shall be available to the Trustee.

Upon the occurrence of an Event of Default with respect to Subordinated Notes of the relevant series, neither any Holder of such Subordinated Notes nor the Trustee shall at any time be entitled to exercise or claim any right of set-off or counterclaim in respect of any amount in respect of such Subordinated Notes, owed to it by the Issuer or the Guarantor and each Holder of Subordinated Notes shall, by virtue of acquiring or holding any Subordinated Note, be deemed to have waived all such rights of set-off. To the extent that any set-off takes place, whether by operation of law or otherwise, between (i) any amount owed by the Issuer or the Guarantor to a Holder of Subordinated Notes, and (ii) any amount owed by such Holder of Subordinated Notes to the Issuer or the Guarantor, such Holder will immediately transfer such amount which is set-off to the Issuer or the Guarantor (as the case may be) or, in the event of the winding up or administration of the Issuer or the Guarantor (as the case may be), the liquidator or the administrator (or other relevant insolvency official) of the Issuer or the Guarantor (as the case may be) to be held on trust for the Dated Senior Creditors or the Undated Senior Creditors, as the case may be, of the Issuer or the Guarantor. (Subordinated Indenture §§ 5.03 and 5.07).

### **Payments of Additional Amounts**

Except as otherwise provided in the relevant Final Terms, each Issuer and, if applicable, the Guarantor will pay any amounts to be paid by it on any series of Notes or under any relevant Guarantee without deduction or withholding for, or on account of, any and all present and future income, stamp and other taxes, levies, imposts, duties, charges, fees, deductions or withholdings imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or any United Kingdom political subdivision or authority that has the power to tax (a “U.K. Taxing Jurisdiction”), unless such deduction or withholding is required by law. If at any time a U.K. Taxing Jurisdiction requires an Issuer or the Guarantor, as the case may be, to make such deduction or withholding, the Issuer or the Guarantor will pay, subject in the case of Undated Subordinated Notes to the Undated Solvency Condition, additional amounts with respect to the principal, premium, interest or, in the case of Senior Notes only, sinking fund payment of the relevant Notes or the payment under the relevant Guarantee that are necessary in order that the net amounts paid to the Holders of the relevant Notes, after the deduction or withholding, shall equal the amounts of such payments which would have been payable on the Notes if the deduction or withholding had not been required. However, no such additional amounts shall be payable in respect of any tax that would not have been payable or due but for the fact that:

- the Holder or the beneficial owner of the relevant Notes is a domiciliary, national or resident of, or engaging in business (whether through a branch, agency or otherwise) or maintaining a permanent establishment or is physically present in, a U.K. Taxing Jurisdiction or otherwise has some connection with a U.K. Taxing Jurisdiction other than the holding or ownership of the relevant Note, or receiving payments therefrom; or
- the relevant Note or Guarantee is presented (where presentation is required) for payment more than 30 days after the date payment became due or was provided for, whichever is later, except to the extent that the Holder would have been entitled to the additional amounts on presenting the Note or Guarantee for payment at the close of that 30 day period; or
- the Holder or the beneficial owner of the relevant Note or the beneficial owner of any payment of principal, premium or interest of the Note failed to comply with a request by an Issuer or the Guarantor addressed to the Holder to provide information concerning the nationality, residence or identity of the Holder or the beneficial owner or to make any declaration or other similar claim to satisfy any information requirement, which is required or imposed by a statute, treaty, regulation or administrative practice of a U.K. Taxing Jurisdiction as a precondition to exemption from all or part of the tax, levy, impost or other government charge; or
- the withholding or deduction is imposed on a payment to or for the benefit of an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such directive; or

- the relevant Note or Guarantee is presented (where presentation is required) for payment by or on behalf of a Holder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another paying agent; or
- there is any combination of the above items;

nor shall additional amounts be paid (a) with respect to any capital gains, estate, inheritance, gift, transfer, personal property, or similar tax, levy, impost or other governmental charges, or (b) to any Holder who is a fiduciary or partnership or settlor with respect to such fiduciary or a member of such partnership or other than the sole beneficial owner of such payment to the extent such payment would be required by the laws of any U.K. Taxing Jurisdiction to be included in the income for tax purposes of a beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner who would not have been entitled to such additional amounts, had it been the Holder.

Whenever reference is made in this Offering Memorandum, any Final Terms or under any relevant Guarantee, in any context, to the payment of principal, premium, interest or, in the case of Senior Notes only, sinking fund payment of Notes of any series, such references include the payment of additional amounts to the extent that, in the context, additional amounts are, were or would be payable.

### **Interest**

Unless otherwise indicated in the applicable Final Terms, interest-bearing Notes will bear interest at either (a) a fixed rate (a “Fixed Rate Note”) or (b) a floating rate determined by reference to an interest rate formula, which may be adjusted by adding or subtracting the Spread and/or multiplying by the Spread Multiplier (a “Floating Rate Note”). Each interest-bearing Note will bear interest from and including its Original Issue Date or from and including the most recent Interest Payment Date with respect to which interest on such Note (or any predecessor Note) has been paid or duly provided for at the fixed rate per annum, or at the rate per annum determined pursuant to the interest rate formula, stated therein and in the applicable Final Terms until the principal thereof is paid or made available for payment. Interest will be payable on each Interest Payment Date and at Maturity. Interest will be payable generally to the person in whose name an interest-bearing Note (or any predecessor Note) is registered at the close of business on the Regular Record Date next preceding each Interest Payment Date; *provided, however*, that interest payable at Maturity will be payable to the person to whom principal shall be payable as described under “—Payment of Principal and Interest”. Unless otherwise indicated in the applicable Final Terms, the first payment of interest on any interest-bearing Note originally issued between a Regular Record Date and an Interest Payment Date will be made on the second Interest Payment Date following the Original Issue Date of such Note to the registered owner on the Regular Record Date immediately preceding such second Interest Payment Date.

Interest rates, or interest rate formulae, are subject to change by an Issuer from time to time, but no such change will affect any Note already issued or as to which an offer to purchase has been accepted by such Issuer. The Issuer may elect to defer payment of interest on Undated Subordinated Notes until redemption (on which there are restrictions, as described in “—Optional Redemption” and “—Optional Tax Redemption”), winding up or administration.

In the case of Notes listed, traded and/or quoted on a listing authority, stock exchange and/or quotation system, if such listing authority, stock exchange and/or quotation system requires to be notified of any interest rate, Interest Payment Date or any other item determined or calculated by the Calculation Agent in accordance with the terms of the applicable Final Terms, then the Calculation Agent shall provide the information required by the listing authority, stock exchange and/or quotation system by such time as is required by the relevant listing authority, stock exchange and/or quotation system.

### **Fixed Rate Notes**

The applicable Final Terms relating to a Fixed Rate Note will designate a fixed rate of interest per annum payable on such Note and the Interest Payment Date(s) with respect thereto. Unless otherwise indicated in the applicable Final Terms, interest payments for Fixed Rate Notes shall be the amount of interest accrued from and including (i) the Original Issue Date or (ii) the most recent Interest Payment Date to which interest has been paid or duly provided for, as the case may be, to but excluding the relevant Interest Payment Date and interest on such

Notes will be computed on the basis of a 360-day year of twelve 30-day months and, in the case of an incomplete month, the actual number of days elapsed. The Regular Record Date, unless otherwise indicated in the applicable Final Terms, is specified in “Glossary”.

In any case where any Interest Payment Date, redemption date or Stated Maturity of any Fixed Rate Note is not a Business Day at any place of payment, then payment of principal of or any premium or interest on such Note need not be made at such place of payment on such date, but may be made on the next succeeding Business Day at such place of payment with the same force and effect as if made on the Interest Payment Date, redemption date or at the Stated Maturity, provided that no interest shall accrue for the period from and after such Interest Payment Date, redemption date or Stated Maturity, as the case may be.

### **Floating Rate Notes**

The applicable Final Terms relating to a Floating Rate Note will designate an Interest Rate Basis or Interest Rate Bases for such Floating Rate Note. Such Interest Rate Basis or Interest Rate Bases may include: (a) the Commercial Paper Rate, in which case such Note will be a Commercial Paper Rate Note, (b) the Prime Rate, in which case such Note will be a Prime Rate Note, (c) the CD Rate, in which case such Note will be a CD Rate Note, (d) EURIBOR, in which case such Note will be a EURIBOR Note, (e) the Federal Funds Rate, in which case such Note will be a Federal Funds Rate Note, (f) LIBOR, in which case such Note will be a LIBOR Note, (g) the Treasury Rate, in which case such Note will be a Treasury Rate Note, (h) the CMT Rate, in which case such Note will be a CMT Rate Note or (i) such other Interest Rate Basis or interest rate formula as is set forth in such Final Terms.

The applicable Final Terms will specify certain terms of the Floating Rate Notes being offered thereby, including:

- whether the Floating Rate Note is:
  - a “Regular Floating Rate Note,”
  - a “Floating Rate/Fixed Rate Note” or
  - an “Inverse Floating Rate Note,”
- Interest Rate Basis or Bases,
- Index Maturity,
- if one or more of the applicable Interest Rate Bases is LIBOR, the LIBOR Currency and LIBOR Page Initial Interest Rate, if any,
- Spread and/or Spread Multiplier,
- Maximum Interest Rate and/or Minimum Interest Rate, if any,
- Initial Interest Rate,
- Interest Reset Dates,
- Interest Payment Dates,
- Interest Determination Dates,
- the Fixed Rate Commencement Date, if applicable, and
- Fixed Interest Rate, if applicable.

The rate derived from the applicable Interest Rate Basis will be determined in accordance with the related provisions below. The interest rate in effect on each day will be based on:

- if that day is an Interest Reset Date, the rate determined as of the Interest Determination Date (as defined below) immediately preceding that Interest Reset Date, or
- if that day is not an Interest Reset Date, the rate determined as of the Interest Determination Date immediately preceding the most recent Interest Reset Date.

The “Spread” is the number of basis points to be added to or subtracted from the related Interest Rate Basis or Bases applicable to a Floating Rate Note as specified in the applicable Final Terms. The “Spread Multiplier” is the percentage of the related Interest Rate Basis or Bases applicable to a Floating Rate Note by which the Interest Rate Basis or Bases will be multiplied to determine the applicable interest rate, as specified in the applicable Final Terms. The “Index Maturity” is the period to maturity of the instrument or obligation with respect to which the related Interest Rate Basis or Bases will be calculated, as specified in the applicable Final Terms. “Fixed Rate Commencement Date” is, with respect to Floating Rate/Fixed Rate Notes, the date upon which interest thereon begins to accrue on a fixed rate basis. “Interest Rate Basis” means one of either the CD Rate, Commercial Paper Rate, Prime Rate, Federal Funds Rate, LIBOR, EURIBOR, Treasury Rate or CMT Rate, as specified in the applicable Final Terms.

*Regular Floating Rate Notes.* Unless a Floating Rate Note is designated as a Floating Rate/Fixed Rate Note or an Inverse Floating Rate Note, or as having an Addendum attached or having Other/Additional Provisions apply, in each case relating to a different interest rate formula, the particular Floating Rate Note will be a “Regular Floating Rate Note” and will bear interest at the rate determined by reference to the applicable Interest Rate Basis or Bases:

- plus or minus the applicable Spread, if any, and/or
- multiplied by the applicable Spread Multiplier, if any.

Commencing on the first Interest Reset Date, the rate at which interest on a Regular Floating Rate Note is payable will be reset as of each Interest Reset Date; *provided, however*, that the interest rate in effect for the period, if any, from the date of issue to the first Interest Reset Date will be the Initial Interest Rate.

*Floating Rate/Fixed Rate Notes.* If a Floating Rate Note is designated as a “Floating Rate/Fixed Rate Note”, the particular Floating Rate Note will bear interest at the rate determined by reference to the applicable Interest Rate Basis or Bases:

- plus or minus the applicable Spread, if any, and/or
- multiplied by the applicable Spread Multiplier, if any.

Commencing on the first Interest Reset Date, the rate at which interest on a Floating Rate/Fixed Rate Note is payable will be reset as of each Interest Reset Date; *provided, however*, that:

- the interest rate in effect for the period, if any, from the date of issue to, but excluding, the first Interest Reset Date will be the Initial Interest Rate; and
- the interest rate in effect commencing on, and including, the Fixed Rate Commencement Date will be the Fixed Interest Rate, if specified in the applicable Final Terms, or, if not so specified, the interest rate in effect on the day immediately preceding the Fixed Rate Commencement Date.

*Interest Reset Dates.* The applicable Final Terms will specify the dates on which the rate of interest on a Floating Rate Note will be reset (each, an “Interest Reset Date”), and the period between Interest Reset Dates will be the “Interest Reset Period”. The Interest Reset Dates will be, in the case of Floating Rate Notes the interest rate of which resets:

- daily, on each Market Day;



- weekly, on the Wednesday of each week, with the exception of weekly reset Floating Rate Notes as to which the Treasury Rate is an applicable Interest Rate Basis, which will reset the Tuesday of each week;
- monthly, in each month on the day specified in the applicable Final Terms, or, if not so specified, on the third Wednesday of each month;
- quarterly, in each year on the day of the months specified in the applicable Final Terms, or, if not so specified, on the third Wednesday of March, June, September and December of each year;
- semiannually, in each year on the day of the two months specified in the applicable Final Terms, or, if not so specified, in each year on the third Wednesday of the two months specified in the applicable Final Terms; and
- annually, in each year on the day specified in the applicable Final Terms or, if not so specified, in each year on the third Wednesday of the month specified in the applicable Final Terms,

*provided, however*, that, with respect to Floating Rate/Fixed Rate Notes, the rate of interest thereon will not reset after the particular Fixed Rate Commencement Date.

If any Interest Reset Date for any Floating Rate Note would otherwise be a day that is not a Market Day, the particular Interest Reset Date will be postponed to the next succeeding Market Day, except that in the case of a Floating Rate Note as to which LIBOR or EURIBOR is an applicable Interest Rate Basis and that Market Day falls in the next succeeding calendar month, the particular Interest Reset Date will be the immediately preceding Market Day.

*Interest Determination Dates.* The interest rate applicable to an Interest Reset Period commencing on the related Interest Reset Date will be determined by reference to the applicable Interest Rate Basis as of the particular “Interest Determination Date”, which will be:

- with respect to the CD Rate and Commercial Paper Rate, on the second Market Day immediately preceding the related Interest Reset Date;
- with respect to the Federal Funds Rate, on the Market Day immediately preceding the related Interest Reset Date;
- with respect to the CMT Rate, on the second U.S. Government Securities Business Day preceding the related Interest Reset Date;
- with respect to the Prime Rate, on the Market Day immediately preceding the related Interest Reset Date;
- with respect to LIBOR, on the second London Market Day preceding the related Interest Reset Date, unless the LIBOR Currency is Sterling, in which case the “Interest Determination Date” will be the related Interest Reset Date;
- with respect to EURIBOR, on the second TARGET Settlement Day preceding the related Interest Reset Date; and
- with respect to the Treasury Rate, in the week in which the related Interest Reset Date falls on, the day on which Treasury Bills are normally auctioned (i.e., Treasury Bills are normally sold at an auction held on Monday of each week, unless that day is a legal holiday, in which case the auction is normally held on the following Tuesday, except that the auction may be held on the preceding Friday); *provided, however*, that if an auction is held on the Friday of the week preceding the related Interest Reset Date, the Interest Determination Date will be the preceding Friday; *provided further*, that if the Interest Determination Date would otherwise fall on an Interest Reset Date, then such Interest Reset Date will be postponed to the next succeeding Business Day.

“TARGET Settlement Day” means, with respect to Foreign Currency Notes denominated in Euro, any Business Day in The City of New York that is also a Business Day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer 2 (TARGET2) System, or any successor thereto, is operating.

The Interest Determination Date pertaining to a Floating Rate Note the interest rate of which is determined with reference to two or more Interest Rate Bases will be the latest Market Day which is at least two Market Days before the related Interest Reset Date for the applicable Floating Rate Note on which each Interest Reset Basis is determinable. Each Interest Rate Basis will be determined as of such date, and the applicable interest rate will take effect on the applicable Interest Reset Date.

*Calculation Dates.* The interest rate applicable to each Interest Reset Period will be determined by the Calculation Agent on or prior to the Calculation Date (as defined below), except with respect to LIBOR and EURIBOR, which will be determined on the particular Interest Determination Date. Upon request of the registered Holder of a Floating Rate Note, the Calculation Agent will disclose the interest rate then in effect and, if determined, the interest rate that will become effective as a result of a determination made for the next succeeding Interest Reset Date with respect to the particular Floating Rate Note. The “Calculation Date,” if applicable, pertaining to any Interest Determination Date will be the earlier of:

- the tenth calendar day after the particular Interest Determination Date or, if such day is not a Market Day, the next succeeding Market Day; or
- the Market Day immediately preceding the applicable Interest Payment Date or the Maturity Date, as the case may be.

*Maximum and Minimum Interest Rates.* A Floating Rate Note may also have either or both of the following:

- a maximum numerical limitation, or ceiling, on the rate at which interest may accrue during any Interest Reset Period (a “Maximum Interest Rate”); and
- a minimum numerical limitation, or floor, on the rate at which interest may accrue during any Interest Reset Period (a “Minimum Interest Rate”).

In addition to any Maximum Interest Rate that may apply to a Floating Rate Note, the interest rate on Floating Rate Notes will in no event be higher than the maximum rate permitted by New York law, as the same may be modified by United States law of general application.

*Interest Payments.* The applicable Final Terms will specify the dates on which interest on Floating Rate Notes is payable (each, an “Interest Payment Date” with respect to Floating Rate Notes). The Interest Payment Dates will be, in the case of Floating Rate Notes the interest rate of which resets:

- daily, weekly or monthly, in each year on the day(s) of each month specified in the applicable Final Terms or, if not so specified, on the third Wednesday of each month or on the third Wednesday of March, June, September and December of each year, as specified in the applicable Final Terms;
- quarterly, in each year on the day of the months specified in the applicable Final Terms or, if not so specified, on the third Wednesday of March, June, September and December of each year;
- semiannually, in each year on the day of the two months specified in the applicable Final Terms or, if not so specified, in each year on the third Wednesday of the two months specified in the applicable Final Terms; and
- annually, in each year on the day specified in the applicable Final Terms or, if not so specified, in each year on the third Wednesday of the month specified in the applicable Final Terms.

The Maturity Date will also be an Interest Payment Date.

If any Interest Payment Date other than the Maturity Date for any Floating Rate Note would otherwise be a day that is not a Market Day, such Interest Payment Date will be postponed to the next succeeding Market Day, except

that in the case of a Floating Rate Note as to which LIBOR or EURIBOR is an applicable Interest Rate Basis and that Market Day falls in the next succeeding calendar month, the particular Interest Payment Date will be the immediately preceding Market Day. If the Maturity Date of a Floating Rate Note falls on a day that is not a Market Day, the required payment of principal, premium, if any, and interest will be made on the next succeeding Market Day, and no additional interest will accrue in respect of the payment made on that next succeeding Market Day.

All percentages resulting from any calculation on Floating Rate Notes will be rounded to the nearest one hundred-thousandth of a percentage point, with five-one millionths of a percentage point rounded upwards. For example, 9.876545% (or .09876545) would be rounded to 9.87655% (or .0987655). All dollar amounts used in or resulting from any calculation on Floating Rate Notes will be rounded, in the case of U.S. dollars, to the nearest cent or, in the case of a foreign currency, to the nearest unit (with one-half cent or unit being rounded upwards).

With respect to each Floating Rate Note, accrued interest is calculated by multiplying its principal amount by an accrued interest factor. The accrued interest factor is computed by adding the interest factor calculated for each day in the particular Interest Period and will be computed by dividing the interest rate applicable to such day by 360, in the case of Floating Rate Notes as to which the CD Rate, the Commercial Paper Rate, the Federal Funds Rate, LIBOR, EURIBOR or the Prime Rate is an applicable Interest Rate Basis, or by the actual number of days in the year, in the case of Floating Rate Notes as to which the CMT Rate or the Treasury Rate is an applicable Interest Rate Basis.

The Calculation Agent shall determine the rate derived from each Interest Rate Basis in accordance with the following provisions, unless otherwise indicated in the applicable Final Terms. Unless otherwise specified in the applicable Final Terms, the Paying Agent will act as Calculation Agent with respect to the Floating Rate Notes.

*Commercial Paper Rate*

“Commercial Paper Rate” means:

- (1) the Money Market Yield (as defined below) on the particular Interest Determination Date of the rate for commercial paper having the Index Maturity specified in the applicable Final Terms, as published in H.15(519) under the caption “Commercial Paper-Nonfinancial”, or
- (2) if the rate referred to in clause (1) is not so published by 5:00 P.M., New York City time, on the day that is one New York City Banking Day following the Interest Reset Date pertaining to such Commercial Paper Rate Interest Determination Date, the Money Market Yield of the rate on the particular Interest Determination Date for commercial paper having the particular Index Maturity as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying the applicable rate, under the caption “Commercial Paper- Nonfinancial”, or
- (3) if the rate referred to in clause (2) is not so published by 5:00 P.M., New York City time, on the day that is one New York City Banking Day following the Interest Reset Date pertaining to such Commercial Paper Rate Interest Determination Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent on the Calculation Date as the Money Market Yield of the arithmetic mean of the offered rates as of 11:00 A.M., New York City time, on that Interest Determination Date of three leading dealers of U.S. dollar commercial paper in The City of New York (which may include the Agents or their affiliates) selected by the Calculation Agent for U.S. dollar commercial paper having the particular Index Maturity placed for industrial issuers whose bond rating is “Aa”, or the equivalent, from a nationally recognized statistical rating organization, or
- (4) if the dealers so selected by the Calculation Agent are not quoting as mentioned in clause (3), the Commercial Paper Rate in effect on the particular Interest Determination Date, or
- (5) if no such rate was in effect on the particular Interest Determination Date, the rate for the following Interest Reset Period shall be the Initial Interest Rate.

“Money Market Yield” means a yield (expressed as a percentage rounded upwards, if necessary, to the next higher one-hundred thousandth of a percentage point) calculated in accordance with the following formula:

$$\text{Money Market Yield} = \frac{D \times 360}{360 - (D \times M)} \times 100$$

where “D” refers to the applicable per annum rate for commercial paper quoted on a bank discount basis and expressed as a decimal, and “M” refers to the actual number of days in the applicable Interest Reset Period for which interest is being calculated.

“H.15(519)” means the weekly statistical release designated as H.15(519), or any successor publication, published by the Board of Governors of the Federal Reserve System or its successor (the “Board of Governors”) available through the website of the Board of Governors at <http://www.federalreserve.gov/releases/h15/update/h15upd.htm>.

“H.15 Daily Update” means the daily update of H.15(519), available through the website of the Board of Governors at <http://www.federalreserve.gov/releases/h15/update/h15upd.htm>, or any successor site or publication.

#### *Prime Rate*

“Prime Rate” means:

- (1) the rate on the particular Interest Determination Date as published in H.15(519) opposite the caption “Bank Prime Loan”, or
- (2) if the rate referred to in clause (1) is not so published by 5:00 P.M., New York City time, on the day that is one New York City Banking Day following the applicable Interest Reset Date, the rate on the particular Interest Determination Date as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying the applicable rate, opposite the caption “Bank Prime Loan”, or
- (3) if the rate referred to in clause (2) is not so published by 5:00 P.M., New York City time, on the day that is one New York City Banking Day following the applicable Interest Reset Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the rates of interest publicly announced by three major banks (which may include affiliates of the Agents) in New York City selected by the Calculation Agent as the U.S. dollar prime rate or base lending rate in effect for such Interest Determination Date (each change in the prime rate or base lending rate of any bank so announced by such bank will be effective as of the effective date of the announcement or, if no effective date is specified, as of the date of the announcement), or
- (4) if fewer than three major banks (which may include the Agents or their affiliates) in New York City have publicly announced the U.S. dollar prime rate or base rate lending rate for such Interest Determination Date as referred to in clause (3), the Prime Rate with respect to such Interest Determination Date shall be the rate in effect on the particular Interest Determination Date, or
- (5) if no such rate was in effect on the particular Interest Determination Date, the rate for the following Interest Reset Period shall be the Initial Interest Rate.

#### *CD Rate*

“CD Rate” means:

- (1) the rate on the particular Interest Determination Date for negotiable U.S. dollar certificates of deposit having the Index Maturity specified in the applicable Final Terms, as published in H.15(519) under the caption “CDs (secondary market)”, or
- (2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date for negotiable U.S. dollar certificates of deposit of the particular Index Maturity as published in H.15 Daily Update, or other recognized electronic source used for the purpose of displaying the applicable rate, under the caption “CDs (secondary market)”, or

- (3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the secondary market offered rates as of 10:00 A.M., New York City time, on that Interest Determination Date, of three leading non-bank dealers in negotiable U.S. dollar certificates of deposit in The City of New York (which may include the Agents or their affiliates) selected by the Calculation Agent for negotiable U.S. dollar certificates of deposit of major United States money market banks with a remaining maturity closest to the particular Index Maturity in an amount that is representative for a single transaction in that market at that time, or
- (4) if the dealers so selected by the Calculation Agent are not quoting as mentioned in clause (3), the CD Rate with respect to such Interest Determination Date will remain the CD Rate then in effect on the particular Interest Determination Date, or
- (5) if no such rate was in effect on the particular Interest Determination Date, the rate for the following Interest Reset Period shall be the Initial Interest Rate.

#### *Federal Funds Rate*

“Federal Funds Rate” means:

- (1) the rate with respect to the particular Interest Determination Date for U.S. dollar federal funds as published in H. 15(519) opposite the caption “Federal Funds (Effective)” and that appears on Reuters (or any successor service) on Reuters Page FEDFUNDS 1 (or any other page as may replace such page on such service), or
- (2) if the rate referred to in clause (1) does not so appear on Reuters Page FEDFUNDS 1 or is not so published by 5:00 P.M., New York City time, on the related Calculation Date, the rate with respect to the particular Interest Determination Date for U.S. dollar federal funds as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying the applicable rate, opposite the caption “Federal Funds (Effective)”, or
- (3) if the rate referred to in clause (2) is not so published in Reuters Page FEDFUNDS 1, H.15(519) or H.15 Daily Update by 5:00 P.M., New York City time, on the related Calculation Date, the rate with respect to the particular Interest Determination Date calculated by the Calculation Agent as the arithmetic mean of the rates for the last transaction in overnight U.S. dollar federal funds arranged by three leading brokers of U.S. dollar federal funds transactions in The City of New York (which may include the Agents or their affiliates), selected by the Calculation Agent prior to 9:00 A.M., New York City time, on such Interest Determination Date, or
- (4) if the brokers so selected by the Calculation Agent are not quoting as mentioned in clause (3), the Federal Funds Rate with respect to such Interest Determination Date shall be the Federal Funds Rate then in effect on the particular Interest Determination Date, or
- (5) if no such rate was in effect on the particular Interest Determination Date, the rate for the following Interest Reset Period shall be the Initial Interest Rate.

#### *LIBOR*

“LIBOR” means:

- (1) the rate for deposits in the LIBOR Currency for a period of the Index Maturity specified in the applicable Final Terms, commencing on the related Interest Reset Date, that appears on the LIBOR Page as of 11:00 A.M., London time, on the particular Interest Determination Date, or
- (2) if no rate appears on the particular Interest Determination Date on the LIBOR Page as specified in clause (1), the rate calculated by the Calculation Agent as the arithmetic mean of at least two offered quotations obtained by the Calculation Agent after requesting the principal London offices of each of four major

reference banks (which may include the Agents or their affiliates) in the London interbank market, as selected by the Calculation Agent, to provide the Calculation Agent with its offered quotation for deposits in the LIBOR Currency for the period of the particular Index Maturity, commencing on the relevant Interest Reset Date, to prime banks in the London interbank market at approximately 11:00 A.M., London time, on that Interest Determination Date and in a principal amount that is representative for a single transaction in the LIBOR Currency in such market at such time, or

- (3) if fewer than two such offered quotations referred to in clause (2) are provided as requested, the rate calculated by the Calculation Agent as the arithmetic mean of the rates quoted at approximately 11:00 A.M., in the applicable Principal Financial Center, on the particular Interest Determination Date by three major banks (which may include the Agents or their affiliates), in that Principal Financial Center selected by the Calculation Agent for loans in the LIBOR Currency to leading European banks, having the Index Maturity specified in the applicable Final Terms commencing on that Interest Reset Date and in a principal amount that is representative for a single transaction in the LIBOR Currency in such market at such time, or
- (4) if the banks so selected by the Calculation Agent are not quoting as mentioned in clause (3), LIBOR will be the LIBOR in effect on the particular Interest Determination Date, or
- (5) if no such rate was in effect on the particular Interest Determination Date, the rate shall be the Initial Interest Rate.

“LIBOR Currency” means the currency specified in the applicable Final Terms as to which LIBOR shall be calculated or, if no currency is specified in the applicable Final Terms, U.S. dollars.

“LIBOR Page” means the display on the page specified in the applicable Final Terms for the purpose of displaying the London interbank rates of major banks for the LIBOR Currency, *provided, however*, if no such page is specified in the applicable Final Terms, the display on Reuters (or any successor service) on the LIBOR 01 page (or any other page as may replace such page on such service) shall be used for the purpose of displaying the London interbank rates of major banks for the LIBOR Currency.

#### *EURIBOR*

“EURIBOR” means for any Interest Determination Date, the rate for deposits in euro for a period of the Index Maturity specified in the applicable Final Terms, commencing on the applicable Interest Reset Date, that appears on the EURIBOR Page as of 11:00 A.M., Brussels time, on the relevant Interest Determination Date. The following procedures will be followed if the rate cannot be determined as described above:

- (1) if the above rate does not appear, the Calculation Agent will request the principal Euro-zone office of each of four major reference banks (which may include the Agents or their affiliates) in the Euro-zone interbank market, as selected by the Calculation Agent, after consultation with the Company, to provide the Calculation Agent with its offered rate for deposits in euros, at approximately 11:00 a.m., Brussels time, on the interest Determination Date, to prime banks in the Euro-zone interbank market for the Index Maturity specified in the applicable Final Terms commencing on the applicable Interest Reset Date, and in a principal amount that is representative of a single transaction in euro in that market at that time. If at least two quotations are provided, EURIBOR will be the arithmetic mean of those quotations, or
- (2) if fewer than two quotations are provided, EURIBOR will be the arithmetic mean of the rates quoted by three major banks (which may include the dealers or their affiliates) in the Euro-zone interbank market, as selected by the Calculation Agent, after consultation with the Company, at approximately 11:00 a.m., Brussels time, on the applicable Interest Reset Date for loans in euro to leading European banks for a period of time equivalent to the Index Maturity specified in the applicable Final Terms commencing on that Interest Reset Date in a principal amount that is representative for a single transaction in such market at such time, or
- (3) if the banks so selected by the Calculation Agent are not quoting as specified in clause (1) or (2) above, EURIBOR will be the EURIBOR in effect on the particular Interest Determination Date, or

- (4) if no such rate was in effect on such Interest Determination Date, the rate for the following Interest Reset Period shall be the Initial Interest Rate.

“EURIBOR Page” means the display on the page specified in the applicable Final Terms for the purpose of displaying the Euro-zone interbank rates of major banks for the euro; *provided, however*, if no such page is specified in the applicable Final Terms, the display on Reuters (or any successor service) on the EURIBOR 01 page (or any other page as may replace such page on such service) shall be used.

“Euro-zone” means the region comprising member states of the European Union that have adopted the single currency in accordance with the relevant treaty of the European Union, as amended.

#### *Treasury Rate*

“Treasury Rate” means:

- (1) the rate from the auction held on the applicable Interest Determination Date (the “Auction”) of direct obligations of the United States (“Treasury Bills”) having the Index Maturity specified in the applicable Final Terms under the caption “INVEST RATE” on the display on Reuters (or any successor service) on page USAUCTION 10 (or any other page as may replace that page on that service) (“Reuters Page USAUCTION 10”) or page USAUCTION 11 (or any other page as may replace that page on that service) (“Reuters Page USAUCTION 11”), or
- (2) if the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the Bond Equivalent Yield (as defined below) of the rate for the applicable Treasury Bills as published in H.15 Daily Update, or another recognized electronic source used for the purpose of displaying the applicable rate, under the caption “U.S. Government Securities/Treasury Bills/Auction High”, or
- (3) if the rate referred to in clause (2) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the Bond Equivalent Yield of the auction rate of the applicable Treasury Bills as announced by the United States Department of the Treasury, or
- (4) if the rate referred to in clause (3) is not so announced by the United States Department of the Treasury, or if the Auction is not held, the Bond Equivalent Yield of the rate on the particular Interest Determination Date of the applicable Treasury Bills as published in H.15(519) under the caption “U.S. Government Securities/Treasury Bills/Secondary Market”, or
- (5) if the rate referred to in clause (4) not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date of the applicable Treasury Bills as published in H.15 Daily Update, or another recognized electronic source used for the purpose of displaying the applicable rate, under the caption “U.S. Government Securities/Treasury Bills/Secondary Market”, or
- (6) if the rate referred to in clause (5) is not so published by 3:00 P.M., New York City time, on the related Calculation Date, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the Bond Equivalent Yield of the arithmetic mean of the secondary market bid rates, as of approximately 3:30 P.M., New York City time, on that Interest Determination Date, of three primary United States government securities dealers (which may include the Agents or their affiliates) selected by the Calculation Agent, for the issue of Treasury Bills with a remaining maturity closest to the Index Maturity specified in the applicable Final Terms, or
- (7) if the dealers so selected by the Calculation Agent are not quoting as mentioned in clause (6), the Treasury Rate in effect on the particular Interest Determination Date, or
- (8) if no such rate was in effect on the particular Interest Determination Date, the rate for the following Interest Reset Period shall be the Initial Interest Rate.

“Bond Equivalent Yield” means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Bond Equivalent Yield} = \frac{D \times N \times 100}{360 - (D \times M)}$$

where “D” refers to the applicable per annum rate for Treasury Bills quoted on a bank discount basis and expressed as a decimal, “N” refers to 365 or 366, as the case may be, and “M” refers to the actual number of days in the applicable Interest Reset Period.

*CMT Rate*

- (1) if Reuters T7051 Page is specified in the applicable Final Terms:
  - (a) the percentage equal to the yield for United States Treasury securities at “constant maturity” having the Index Maturity specified in the applicable Final Terms, as published in H.15(519) under the caption “Treasury Constant Maturities”, as such yield is displayed on Reuters (or any successor service) on page FRBCMT (or any other page as may replace the specified page on that service) (“T7051 Page”), on the particular Interest Determination Date, or
  - (b) if the rate referred to in clause (a) does not so appear on T7051 Page, the percentage equal to the yield for United States Treasury securities at “constant maturity” having the particular Index Maturity and for the particular Interest Determination Date as published in H.15(519) under the caption “Treasury Constant Maturities”, or
  - (c) if the rate referred to in clause (b) does not so appear in H.15(519), the rate on the particular Interest Determination Date for the period of the particular Index Maturity as may then be published by either the Federal Reserve System Board of Governors or the United States Department of the Treasury that the Calculation Agent determines to be comparable to the rate which would otherwise have been published in H.15(519), or
  - (d) if the rate referred to in clause (c) is not so published, the rate on the particular Interest Determination Date calculated by the Calculation Agent as a yield to maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 P.M., New York City time, on that Interest Determination Date of three leading primary United States government securities dealers in The City of New York (which may include the Agents or their affiliates) (each, a “Reference Dealer”), selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation, or, in the event of equality, one of the highest, and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity equal to the particular Index Maturity, a remaining term to maturity no more than one (1) year shorter than that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time, or
  - (e) if fewer than five but more than two of the prices referred to in clause (d) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations shall be eliminated, or
  - (f) if fewer than three prices referred to in clause (d) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the yield to maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the particular



Index Maturity, a remaining term to maturity closest to that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time, or

- (g) if fewer than five but more than two prices referred to in clause (f) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations will be eliminated, or
  - (h) if fewer than three prices referred to in clause (f) are provided as requested, the CMT Rate in effect on the particular Interest Determination Date, or
  - (i) if no such rate was in effect on the Particular Interest Determination Date, the rate for the following Interest Reset Period shall be the Initial Interest Rate.
- (2) if Reuters T7052 Page is specified in the applicable Final Terms:
- (a) the percentage equal to the one-week average yield for United States Treasury securities at “constant maturity” having the Index Maturity specified in the applicable Final Terms as published in H.15(519) under the caption “Week Ending” and opposite the caption “Treasury Constant Maturities”, as such yield is displayed on Reuters (or any successor service) on page FEDCMT (or any other page as may replace the specified page on that service) (“T7502 Page”), for the week preceding the week in which particular Interest Determination Date falls, or
  - (b) if the rate referred to in clause (a) does not so appear on the T7052 Page, the percentage equal to the one-week average yield for United States Treasury securities at “constant maturity” having the particular Index Maturity and for the week preceding the particular Interest Determination Date as published in H.15(519) under the caption “Week Ending” and opposite the caption “Treasury Constant Maturities,” or
  - (c) if the rate referred to in clause (b) does not so appear in H. 15(519), the one-week average yield for United States Treasury securities at “constant maturity” having the particular Index Maturity as otherwise announced by the Federal Reserve Bank of New York for the week preceding the week in which the particular Interest Determination Date falls, or
  - (d) if the rate referred to in clause (c) is not so published, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the yield to maturity based on the arithmetic mean of the secondary market bid prices at approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers so selected by the Calculation Agent and eliminating the highest quotation, or, in the event of equality, one of the highest, and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity equal to the particular Index Maturity, a remaining term to maturity no more than 1 year shorter than that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at that time, or
  - (e) if fewer than five but more than two of the prices referred to in clause (d) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest nor the lowest of the quotations shall be eliminated, or
  - (f) if fewer than three prices referred to in clause (d) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent as the yield to maturity based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 P.M., New York City time, on that Interest Determination Date of three Reference Dealers selected by the Calculation Agent from five Reference Dealers selected by the Calculation Agent and eliminating the highest quotation or, in the event of equality, one of the highest and the lowest quotation or, in the event of equality, one of the lowest, for United States Treasury securities with an original maturity greater than the particular

Index Maturity, a remaining term to maturity closest to that Index Maturity and in a principal amount that is representative for a single transaction in the securities in that market at the time, or

- (g) if fewer than five but more than two prices referred to in clause (f) are provided as requested, the rate on the particular Interest Determination Date calculated by the Calculation Agent based on the arithmetic mean of the bid prices obtained and neither the highest or the lowest of the quotations will be eliminated, or
- (h) if fewer than three prices referred to in clause (f) are provided as requested, the CMT Rate in effect on that Interest Determination Date, or
- (i) if no such rate was in effect on such Interest Determination Date, the rate for the following Interest Reset Period shall be the Initial Interest Rate.

If two United States Treasury securities with an original maturity greater than the Index Maturity specified in the applicable Final Terms have remaining terms to maturity equally close to the particular Index Maturity, the quotes for the United States Treasury security with the shorter original remaining term to maturity will be used.

“Index Maturity” means, in relation to the CMT Rate, the original period to maturity of the U.S. Treasury securities (either 1, 2, 3, 5, 7, 10, 20 or 30 years) specified in the applicable Final Terms with respect to which the CMT Rate will be calculated.

#### **Discount Notes**

Either Issuer may from time to time offer Notes (“Discount Notes”) that have an Issue Price (as specified in the applicable Final Terms) that is less than 100% of the principal amount thereof (i.e., par), *provided however* that all Discount Notes shall be Senior Notes. Discount Notes may not bear interest on a current basis or may bear interest at a rate that is below market rates at the time of issuance. The difference between the Issue Price of a Discount Note and par is referred to as the “Discount”. In the event of redemption, repayment or acceleration of maturity of a Discount Note, the amount payable to the Holder of a Discount Note will be equal to the sum of:

- the Issue Price (increased by any accrued Discount) and, in the event of any redemption of the applicable Discount Note, if applicable, multiplied by the initial redemption percentage, if any, specified in the applicable Final Terms (as adjusted by the annual redemption percentage reduction, if applicable, specified in the applicable Final Terms); and
- any unpaid interest accrued on the Discount Notes to the date of the redemption, repayment or acceleration of maturity, as the case may be.

For purposes of determining the amount of Discount that has accrued as of any date on which a redemption, repayment or acceleration of maturity occurs for a Discount Note, a Discount will be accrued using a constant yield method. The constant yield will be calculated using a 30-day month, 360-day year convention, a compounding period that, except for the Initial Period (as defined below), corresponds to the shortest period between Interest Payment Dates for the applicable Discount Note (with principal accreting in an equal amount on each day within a compounding period), a coupon rate equal to the initial coupon rate applicable to the Discount Note and an assumption that the maturity of a Discount Note will not be accelerated. If the period from the date of issue to the first Interest Payment Date for a Discount Note (the “Initial Period”) is shorter than the compounding period for the Discount Note, a proportionate amount of the yield for an entire compounding period will be accrued. If the Initial Period is longer than the compounding period, then the period will be divided into a regular compounding period and a short period with the short period being treated as provided in the preceding sentence. The accrual of the applicable Discount may differ from the accrual of original issue discount for purposes of the Internal Revenue Code of 1986, as amended (the “Code”); certain Discount Notes may not be treated as having original issue discount within the meaning of the Code; and Notes other than Discount Notes may be treated as issued with original issue discount for federal income tax purposes. See “Taxation—United States Federal Income Tax—Original Issue Discount and Variable Rate Notes”.

## **Indexed Notes**

Either Issuer may from time to time offer Notes (“Indexed Notes”) with the amount of principal, premium and/or interest payable in respect thereof to be determined with reference to the price or prices of specified commodities or stocks, to the exchange rate of one or more designated currencies relative to an indexed currency or to other items, in each case as specified in the applicable Final Terms. In certain cases, Holders of Indexed Notes may receive a principal payment on the Maturity Date that is greater than or less than the principal amount of such Indexed Notes depending upon the relative value on the Maturity Date of the specified indexed item. Information as to the method for determining the amount of principal, premium, if any, and/or interest, if any, payable in respect of Indexed Notes, certain historical information with respect to the specified indexed item and any material tax considerations associated with an investment in Indexed Notes will be specified in the applicable Final Terms.

## **Amortizing Notes**

Amortizing Notes are Fixed Rate Notes for which payments combining principal and interest are made in installments over the life of the Note (“Amortizing Notes”). Unless otherwise specified in the applicable Final Terms, interest on each Amortizing Note will be computed on the basis of a 360-day year of twelve 30-day months. Payments with respect to Amortizing Notes will be applied first to interest due and payable thereon and then to the reduction of the unpaid principal amount thereof. Further information concerning additional terms and conditions of any issue of Amortizing Notes, as well as the tax consequences of that issue, will be provided in the applicable Final Terms. A table setting forth repayment information in respect of each Amortizing Note will be included in the applicable Final Terms and set forth on such Notes.

## **Optional Redemption**

Unless otherwise specified in the applicable Final Terms with respect to a series of Notes, the Notes will not be redeemable at the option of the Issuer thereof, except as provided for, and subject to the conditions there specified, in the case of Senior Notes in “Optional Tax Redemption” and in the case of Subordinated Notes, in “Optional Tax Redemption”, “Capital Disqualification Event” and “Redemption of Subordinated Notes” and subsequent paragraphs, in each case, set out below. In the event that Notes are to be redeemed, notice of redemption will be provided by delivering by hand or mailing a notice of such redemption to each Holder of such Notes by first class mail, postage prepaid, not less than 30 days and not more than 60 days prior to the date fixed for redemption to the respective address of each such Holder as that address appears upon the books maintained by the Paying Agent or, as to any global Note registered in the name of DTC or its nominee, as agreed by the Company, the Trustee and DTC. (Senior Indenture §§ 3.01(f) and 11.04, Subordinated Indenture §§ 3.01 (f) and 11.04). Unless otherwise specified in the applicable Final Terms, the Notes will not be subject to any sinking fund. The Subordinated Notes may, in no event, be subject to sinking funds or any analogous provisions.

In the case of Subordinated Notes, if the Subordinated Notes are redeemable at the option of the Issuer, such redemption is subject to certain conditions described under “—Redemption of Subordinated Notes” below, and also, in the case of Undated Subordinated Notes, the Undated Solvency Condition as described under “—Undated Subordinated Notes — Subordination” and subsequent paragraphs.

## **Repayment at Holders’ Option, Repurchase**

Procedures, if any, relating to repayment of Notes at the option of the Holder thereof will be described in the applicable Final Terms. (Senior Indenture § 3.01 (g)). Under the requirements of the U.K. Financial Services Authority at the date of this Offering Memorandum relating to Tier 2 Capital, Subordinated Notes intended to constitute Tier 2 Capital may not at any time be repaid at the option of the Holder thereof and may not be issued on terms that they are repayable at the option of the Holder thereof.

The Company or Royal Bank may purchase Notes at any price in the open market or otherwise. Notes so purchased may be held or resold or, surrendered to the Paying Agent for cancellation.

The purchase or acquisition of Subordinated Notes by the Company or Royal Bank is subject to the prior consent of, or notification to and no objection being raised by, the U.K. Financial Services Authority.

## Optional Tax Redemption

Unless the relevant Final Terms provide otherwise, the Issuer and, if applicable, the Guarantor (but only in the case of Senior Notes guaranteed by the Company) will have the option (conditional on, in the case of Subordinated Notes, certain conditions described under “—Redemption of Subordinated Notes” below, and also, in the case of Undated Subordinated Notes, the Undated Solvency Condition, as described above under “Undated Subordinated Notes — Subordination” and subsequent paragraphs), to redeem the Notes of any series in whole, but not in part, at any time (in the case of a Note other than a Floating Rate Note or an Indexed Note) or only on an Interest Payment Date (in the case of a Floating Rate Note or an Indexed Note) on giving not less than 30 nor more than 60 days’ notice to the Trustee and the Paying Agent and the Holders (which notice shall be irrevocable and shall specify the date fixed for redemption), at the redemption price specified in the relevant Final Terms together with any accrued but unpaid payments of interest (and additional amounts, if any) to the date of redemption and in the case of Undated Subordinated Notes, all Arrears of Interest, if:

- (i) the Issuer or the Guarantor, as applicable, has or will or would (or there is a substantial probability that it would), but for redemption, become obliged to pay additional amounts as referred to under “—Payments of Additional Amounts” in respect of any of the Notes or the Guarantee of such series;
- (ii) the payment of interest in respect of any of the Notes or the Guarantee of such series would (or there is a substantial probability that it would) be a “distribution” for U.K. tax purposes; or
- (iii) in respect of the payment of interest in respect of any of the Notes of such series, the Issuer or the Guarantor, as applicable, would not (or there is a substantial probability that it would not) to any material extent be entitled to have any attributable loss or non-trading deficit set against the profits of companies with which it is grouped for applicable U.K. tax purposes (whether under the group relief system current as at the date on which agreement is reached to issue the first tranche of Notes of such series or any similar system or systems having like effect as may from time to time exist),

in each such case, as a result of any change in, or amendment to, the laws or regulations of a U.K. Taxing Jurisdiction (including any treaty to which the United Kingdom is a party) or any change in the application or official interpretation of such laws or regulations (including a decision of any court or tribunal), which change or amendment becomes effective on or after the date on which agreement is reached to issue the first tranche of Notes of that series and cannot be avoided by the Issuer or the Guarantor, as applicable, taking reasonable steps available to it, *provided that* not such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts as referred to in paragraph (i) above, would be treated as making distributions as referred to in paragraph (ii) above or would not be entitled to have the loss or non-trading deficit set against the profits as referred to in paragraph (iii) above were a payment in respect of the Notes of that series then due. Upon the expiration of such notice the Issuer shall be bound to redeem such Notes at the redemption price specified in the relevant Final Terms together with, in the case of Undated Subordinated Notes, all Arrears of Interest (and additional amounts, if any).

In the event that the Issuer or the Guarantor, as applicable, elects to redeem the Notes of any series pursuant to the provisions set forth in the preceding paragraph, it will deliver to the Trustee (i) an officer’s certificate, evidencing compliance with such provisions and stating that it is entitled to redeem the Notes of any such series pursuant to the terms of such Notes and the relevant Indenture or (ii) a written opinion of its external legal advisors or accountants to the effect that the conditions for redeeming the Notes have been satisfied.

## Capital Disqualification Event

The Issuer may redeem Subordinated Notes of any series, subject to certain conditions described under “—Redemption of Subordinated Notes” below, and also, in the case of Undated Subordinated Notes, the Undated Solvency Condition, in whole, but not in part, upon not less than 30 nor more than 60 days’ notice, at any time (in the case of a Note other than a Floating Rate Note or an Indexed Note) or only on any payment date in the case of a Floating Rate Note or an Indexed Note, at the redemption price specified in the relevant Final Terms together with any accrued but unpaid payments of interest (and additional amounts, if any) to the date of redemption, and in the case of Undated Subordinated Notes, all Arrears of Interest, if the Issuer or the Guarantor, as applicable, satisfies the

Trustee immediately prior to the giving of such notice that a Capital Disqualification Event has occurred and is continuing.

### **Redemption of Subordinated Notes**

Undated Subordinated Notes and (in the case only of redemption prior to their Stated Maturity) Dated Subordinated Notes may only be redeemed by the Issuer pursuant to the provisions set out above provided that:

- (i) the Issuer has notified the U.K. Financial Services Authority at least one month (or such other period, longer or shorter, as the U.K. Financial Services Authority may then require or accept) before it becomes committed to such a redemption and no objection thereto has been raised by the U.K. Financial Services Authority or (if required) the U.K. Financial Services Authority has provided its consent thereto; and
- (ii) when giving notice pursuant to (i) above, the Issuer has provided details, satisfactory to the Trustee, in order to demonstrate that following such redemption, the Issuer will (a) be in compliance with its capital resources requirements and (b) have sufficient financial resources to meet the overall financial adequacy rule, each as provided in the Capital Regulations (except to the extent that the U.K. Financial Services Authority no longer so requires).

There is no fixed redemption date for Undated Subordinated Notes and the Issuer shall (subject to the provisions set out above) only have the right to repay them in accordance with such provisions as may be specified in the applicable Final Terms.

### **Modification and Amendment**

Modification and amendments of an Indenture may be made by the Company, Royal Bank and the Trustee, with the consent of the holders of not less than 66 $\frac{2}{3}$ % in aggregate principal amount of the Notes of each series outstanding under such Indenture affected by such modification or amendment, provided that no such modification or amendment may, without the consent of each of the holders of the Notes affected thereby, among other things: (a) change the Stated Maturity of principal of or any installment of principal of or interest, if any, on, or, in the case of Senior Notes only, any sinking fund payment under, any such Note (but in the case of Dated Subordinated Notes, in no event will the Stated Maturity be changed to less than the minimum period required by the U.K. Financial Services Authority); (b) reduce the principal amount of, or any interest on, any such Note or any premium payable upon the redemption thereof or the amount of the principal of a Discount Note that would be due and payable upon the acceleration of the maturity thereof or, in the case of Senior Notes only, any sinking fund payment with respect thereto; (c) change the currency of payment of principal of, premium, if any, or interest, if any, on any such Note; (d) impair the right to institute suit for the enforcement of any such payment on any such Note; (e) modify the provisions of the Subordinated Indenture with respect to the subordination of any Subordinated Notes or the Subordinated Guarantee in a manner adverse to Holders of such Subordinated Notes; (f) reduce the above-stated percentage of holders of Notes of any series necessary to modify or amend such Indenture; (g) reduce the percentage of principal amount of outstanding Notes of any series necessary to waive any past default to less than a majority; (h) modify the foregoing requirements; or (i) change in any manner adverse to the interests of the holders of outstanding Notes issued under such Indenture the terms and provisions of any Guarantee in respect of the due and punctual payment of the principal of and premium, if any, and interest, if any, on such Notes or, in the case of Senior Notes only, the sinking fund payments, if any, provided for in respect of such Notes (including, in each case, additional amounts payable under any Guarantee). (Senior Indenture § 9.02, Subordinated Indenture § 9.02).

No modification of the terms and conditions of any series of Subordinated Notes shall be effected without the prior consent of, or notification to (and no objection being raised by), the U.K. Financial Services Authority.

Subject to any modification being effected in accordance with the provisions set forth herein and in the Indentures, such modification will be binding on all Holders of Notes of the same series (whether or not a Holder has consented to such modification).

## **Events of Default — General**

The Holders of a majority in aggregate principal amount of outstanding Notes of a series may waive any past default with respect to such Notes, except a default in the payment of principal, premium or interest or in respect of other covenants or provisions requiring the consent of the Holder of each Note of such series. (Senior Indenture § 5.13, Subordinated Indenture § 5.13).

Subject to the provisions of the relevant Indenture relating to the duties of the Trustee, if an Event of Default shall occur and be continuing with respect to the Notes of a series, the Holders of a majority in aggregate principal amount of the outstanding Notes of such series shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee (Senior Indenture § 5.12, Subordinated Indenture § 5.12), subject to certain limitations specified in the relevant Indenture providing that such Holders shall have offered to the Trustee reasonable indemnity and/or security. (Senior Indenture § 6.03, Subordinated Indenture § 6.03).

Each Indenture provides that the Trustee will, within 90 days after the occurrence of any default with respect to the Notes of any series, give to the Holders of Notes of such series notice of such default known to it, unless such default shall have been cured or waived; *provided that*, except in the case of a default in the payment of principal of or premium or interest on or, in the case of Senior Notes only, any sinking fund installment with respect to the Notes of such series, the Trustee shall be protected in withholding such notice if it determines in good faith that the withholding of such notice is in the interest of such Holders. (Senior Indenture § 6.02, Subordinated Indenture § 6.02).

The Company and Royal Bank are each required to furnish to the Trustee annually a statement as to fulfillment of their obligations under each Indenture and as to the absence of default or specifying any such default. (Senior Indenture § 10.05, Subordinated Indenture § 10.05).

See also “—Subordinated Notes and Subordinated Guarantees — Events of Default”.

## **Consolidation, Merger and Sale of Assets**

Each of the Company and Royal Bank may, without the consent of any of the Holders of Notes, consolidate with, merge or amalgamate into or transfer their respective assets substantially as an entirety to, any corporation organized under the laws of the United Kingdom, or, any political subdivision thereof, *provided that* the successor corporation assumes the Company’s or Royal Bank’s rights and obligations on the Notes, the Guarantees and under the Indentures, as the case may be, and that certain other conditions are met. (Senior Indenture § 8.01, Subordinated Indenture § 8.01).

Upon any consolidation by the Company or the Royal Bank with or merger or amalgamation by the Company or the Royal Bank into any other corporation or any transfer of the assets of any Issuer or the Guarantor substantially as an entirety in accordance with the preceding paragraph, the successor corporation formed by such consolidation or into which the Company or the Royal Bank is merged or amalgamated or to which such transfer is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company or the Royal Bank, as the case may be, and thereafter the Company or the Royal Bank, as the case may be, shall be relieved of all obligations and covenants under the Indentures and the Notes. (Senior Indenture § 8.02, Subordinated Indenture § 8.02).

## **Defeasance, Satisfaction and Discharge**

The Senior Indenture provides that, the Company and Royal Bank (a) will be discharged from any and all obligations in respect of the Senior Notes issued thereunder and the Guarantees contained therein (except for certain obligations to register the transfer of or exchange Notes, replace stolen, lost or mutilated Notes, and to hold certain moneys deposited in trust for payment) or (b) need not comply with certain provisions of such Indenture if, in each case, the Company or Royal Bank irrevocably deposits with the Trustee under such Indenture, in trust, U.S. money or U.S. Government Obligations or both, which, with respect to U.S. Government Obligations through the payment of interest, if any, thereon and principal thereof in accordance with their terms will provide money in an amount in cash sufficient to pay all the principal (including sinking fund payments for Senior Notes only) of and premium and

interest on such Notes on the dates such principal, premium and interest is due in accordance with the terms of such Notes. The Company or Royal Bank is required to deliver to the Trustee under such Indenture prior to such defeasance or discharge either an Opinion of Counsel (which opinion in the case of (a) above must be based on a change in law) to the effect that beneficial owners of Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit and related discharge or defeasance and will be subject to U.S. federal income tax on the same amount, in the same manner and at the same times as would have been the case if such deposits and related discharge or defeasance had not been exercised or a ruling to such effect received from or published by the U.S. Internal Revenue Service. (Senior Indenture § 14.01).

The Senior Indenture further provides that it will cease to be of further effect with respect to the Senior Notes (except for any surviving rights of registration of transfer or exchange of Senior Notes as expressly provided for in the Senior Indenture), and the Trustee, at the expense of the Issuer, shall execute proper instruments acknowledging satisfaction and discharge of the Senior Indenture with respect to the Senior Notes, when: either (i) all Senior Notes issued thereunder (other than Senior Notes which have been destroyed, lost or stolen and which have been replaced or paid as provided for in the Senior Indenture and Senior Notes for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Issuer and thereafter repaid to the Issuer or discharged from such trust) have been delivered to the Trustee for cancellation or, (ii) if not delivered to the Trustee for cancellation, have become due and payable or will become due and payable at their Stated Maturity within one year, or are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Issuer, and in the case of (ii) the Company or the Royal Bank, as appropriate, has deposited or caused to be deposited with the Trustee as trust funds in trust for the purpose an amount sufficient to pay and discharge the entire indebtedness on such Senior Notes for principal (and premium, if any) and interest, if any, to the date of such deposit (in the case of Senior Notes which have become due and payable) or to the Stated Maturity or Redemption Date, as the case may be. (Senior Indenture § 4.01).

Neither the Company nor Royal Bank shall discharge their obligations in respect of any Subordinated Notes in the manner set out above.

### **Prescription**

The Indentures contain no time limits affecting the validity of claims to interest and repayment of principal under the Notes or the Guarantees.

### **Governing Law**

The Notes, the Guarantees and the Indentures will be governed by the laws of the State of New York, except that the subordination provisions and the waiver of set-off provisions of the Subordinated Indenture, the Subordinated Notes and the Subordinated Guarantees will be governed by the laws of Scotland. (Senior Indenture § 1.11, Subordinated Indenture § 1.11).

### **Concerning the Trustee**

The Bank of New York Mellon (previously named The Bank of New York) is Trustee under each Indenture. The Company and Royal Bank conduct banking transactions with the Trustee in the ordinary course of business.

### **Consent to Service of Process**

Each Indenture provides that the Company and Royal Bank will irrevocably appoint the CT Corporation System, as its authorized agent for service of process in any legal action or proceeding arising out of or relating to such Indenture, the Notes issued thereunder or the Guarantees contained therein instituted in any Federal or State court in the Borough of Manhattan in The City of New York, New York, will irrevocably submit to the jurisdiction of such courts and waive, to the extent they may do so, any objection they may have to the laying of the venue of any such suit or proceeding. (Senior Indenture § 1.13, Subordinated Indenture § 1.13).

## **Book-Entry, Delivery and Form**

Rule 144A Notes initially will be represented by one or more Notes in registered, global form without interest coupons (collectively, the “Rule 144A Global Notes”). Regulation S Notes initially will be represented by one or more Notes in registered, global form without interest coupons (collectively, the “Regulation S Global Notes”). Upon issuance, the Global Notes will be deposited with the Trustee or the Paying Agent as custodian for DTC, in New York, New York, and registered in the name of DTC or its nominee, in each case for credit to an account of a direct or indirect participant in DTC as described below. Beneficial interests in the Rule 144A Global Notes may not be exchanged for beneficial interests in the Regulation S Global Notes at any time except in the limited circumstances described below. See “Transfer Restrictions”.

Except as set forth below, the Global Notes may be transferred, in whole and not in part, only to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the Global Notes may not be exchanged for Notes in definitive form except in the limited circumstances described below. See “—Depository Procedures — Exchange of Global Notes for Definitive Notes”.

Notes sold to QIBs in reliance on Rule 144A (including beneficial interests in the Rule 144A Global Notes) will be subject to certain restrictions on transfer and will bear a restrictive legend as described under “Transfer Restrictions”. In addition, transfers of beneficial interests in the Global Notes will be subject to the applicable rules and procedures of DTC and its direct or indirect participants (including, if applicable, those of Euroclear Bank S.A./N.V. (“Euroclear”), and Clearstream Banking, *société anonyme* (“Clearstream, Luxembourg”), which may change from time to time.

## **Depository Procedures**

The following description of the operations and procedures of DTC, Euroclear and Clearstream, Luxembourg is provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to changes by them from time to time. The Company and Royal Bank take no responsibility for these operations and procedures and urge investors to contact the system of their participants directly to discuss these matters.

DTC has advised the Issuers that DTC is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a “banking organization” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provision of Section 17A of the Exchange Act. DTC was created to hold securities for its participating organizations (collectively, the “Participants”) and to facilitate the clearance and settlement of transactions in those securities between Participants through electronic book-entry changes in the accounts of its Participants. The Participants include securities brokers and dealers (including the Agents, banks, trust companies, clearing corporations and certain other organizations). Access to DTC’s system is also available to other entities such as banks, brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a Participant either directly or indirectly (collectively, the “Indirect Participants”). Persons who are not Participants may beneficially own securities held by or on behalf of DTC only through the Participant or the Indirect Participants. The ownership interests in, and transfers of ownership interests in, each security held by or on behalf of DTC are recorded on the records of the Participant and Indirect Participants.

DTC has also advised the Issuers that, pursuant to procedures established by it, (i) upon deposit of Global Notes, DTC will credit the accounts of Participants designated by the Initial Purchasers with portions of the principal amount of the Global Notes and (ii) ownership of such interest in the Global Notes will be shown on, and the transfer of ownership thereof will be affected only through, records maintained by DTC (with respect to the Participants) or by the Participants and the Indirect Participants (with respect to other owners of beneficial interests in the Global Notes).

Investors in the Global Notes may hold their interest therein directly through DTC, if they are Participants in such system, or indirectly through organizations (including Euroclear and Clearstream, Luxembourg) which are Participants in such system. Euroclear and Clearstream, Luxembourg will hold interests in the Regulation S Global Notes on behalf of their participants through customers’ securities accounts in their respective names on the books



of their respective depositories. All interests in a Global Note, including those held through Euroclear or Clearstream, Luxembourg, may be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream, Luxembourg may also be subject to the procedures and requirements of such systems. The laws of some states require that certain persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer beneficial interests in a Global Notes to such persons will be limited to that extent. Because DTC can act only on behalf of Participants, which in turn act on behalf of Indirect Participants and certain banks, the ability of a person having a beneficial interest in a Global Note to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate evidencing such interest.

Except as described below or indicated otherwise in the relevant Indenture, owners of interests in the Global Notes registered in the name of DTC or its nominee will not be considered the registered owners or “Holders” thereof under the Indenture for any purpose.

Payments in respect of the principal of, premium, if any and interest on a Global Note registered in the name of DTC or its nominee and will be payable to DTC in its capacity as the registered Holder under the relevant Indenture. Under the terms of the relevant Indenture, the Issuers and the Indenture Trustee will treat the persons in whose names the Notes, including the Global Notes, are registered as the owners thereof for the purpose of receiving such payments and for any and all other purposes whatsoever. Consequently, neither the Issuers, the Guarantor, the Agents, or the Trustee nor any agent of the Issuers, the Guarantor, the Agents, or the Trustee has or will have any responsibility or liability for (i) any aspect of DTC’s records or any Participant’s or Indirect Participant’s records relating to or payments made on account of beneficial ownership interest in the Global Notes, or for maintaining supervising or reviewing any of DTC’s records or any Participant’s or Indirect Participant’s records relating to or payments made on account of beneficial ownership interests in the Global Notes or (ii) any other matter relating to the actions and practices of DTC or any of its Participants or Indirect Participants. DTC has advised the Issuers that its current practice, upon receipt of any payment in respect of securities such as the Notes (including principal and interest), is to credit the accounts of the relevant Participants with the payment on the interest payment date, in amount proportionate to their respective holdings in the principal amount of beneficial interest in the relevant security as shown on the records of DTC unless DTC has reason to believe it will not receive payment on such interest payment date. Payments by the Participants and the Indirect Participants to the beneficial owners of Notes will be governed by standing instructions and customary practices and will be the responsibility of the Participants or the Indirect Participants and will not be the responsibility of DTC, the Indenture Trustee or the Issuers. Neither the Issuers nor the Trustee nor the Paying Agent will be liable for any delay by DTC or any of its Participants in identifying the beneficial owners of the Notes, and the Issuers and the Trustee and the Paying Agent may conclusively rely on and will be protected in relying on instructions from DTC or its nominee for all purposes.

Except for trades involving only Euroclear and Clearstream, Luxembourg participants, interests in the Global Notes are expected to be eligible to trade in DTC’s Same Day Funds Settlement System and secondary market trading activity in such interests will, therefore, settle in immediately available funds, subject in all cases to the rules and procedures of DTC and its Participants. See “—Same Day Settlement and Payment”.

Subject to the transfer restrictions set forth under “Transfer Restrictions”, transfers between Participants in DTC will be effected in accordance with DTC’s procedures, and will be settled in same day funds, and transfers between participants in Euroclear and Clearstream, Luxembourg will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the Notes described herein, cross-market transfers between the Participants in DTC, on the one hand, and Euroclear or Clearstream, Luxembourg participants, on the other hand, will be effected through DTC in accordance with DTC’s rules on behalf of Euroclear or Clearstream, Luxembourg, as the case may be, by its respective depository; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, Luxembourg, as the case may be, by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream, Luxembourg, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlements on its behalf by delivering or receiving interests in the relevant Global Note in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC.

Euroclear participants and Clearstream, Luxembourg participants may not deliver instructions directly to the depositories for Euroclear or Clearstream, Luxembourg.

DTC has advised the Issuers that it will take any action permitted to be taken by a Holder of Notes only at the direction of one or more Participants to whose account DTC has credited the interest in the Global Notes and only in respect of such portion of the aggregate principal amount of the Notes as to which such Participant or Participants has or have given such direction. However, if there is an Event of Default under the Notes, DTC reserves the right to exchange the Global Notes for Notes in definitive form, and to distribute such Notes to its Participants (as described below).

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures to facilitate transfers of interest in the Global Notes among Participants in DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or to continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Issuers, the Guarantor nor the Trustee nor any of their respective agents will have any responsibility for the performance by DTC, Euroclear or Clearstream, Luxembourg or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

#### ***Exchange of Global Notes for Definitive Notes***

A Global Note is exchangeable for definitive Notes in registered definitive form (“Definitive Notes”) if (i) DTC notifies the Issuers that it is unwilling or unable to continue as depository for the Global Notes or has ceased to be a clearing agency registered under the Exchange Act and, in either case, the Issuers thereupon fail to appoint a successor depository within 120 days after the date of such notice or (ii) the Issuers, at their option, notify the Trustee and the Paying Agent in writing that they elect to cause the issuance of the Definitive Notes or (iii) DTC so requests after there shall have occurred and be continuing an Event of Default with respect to the Notes of such series. In all cases, Definitive Notes delivered in exchange for any Global Note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by or on behalf of the depository in accordance with its customary procedures and will bear the restrictive legend referred to in “Transfer Restrictions”, unless the Issuers determine otherwise in compliance with applicable law.

#### ***Exchange of Definitive Notes for Global Notes***

Definitive Notes that are Restricted Notes may not be transferred for beneficial interests in any Global Note unless the transferor first delivers to the Trustee and the Paying Agent a written certificate to the effect that such transfer will comply with the appropriate transfer restrictions applicable to such Notes.

#### ***Exchange or Transfer of Definitive Notes***

Definitive Notes may be exchanged or transferred by presenting or surrendering such Definitive Notes at the office of the registrar with a written instruction of transfer in form satisfactory to the registrar, duly executed by such Holder or his attorney, duly authorized in writing. If the Definitive Notes being exchanged or transferred are Restricted Notes, such Holder shall also provide a written certificate to the effect that such transfer will comply with the appropriate transfer restriction applicable to such Notes.

#### ***Exchange Among Regulation S Global Note and Rule 144A Global Note***

Until a date that is one year after the later of the initial issuance and the last date on which the Issuer, the Guarantor or any of their affiliates was the owner of such Notes, interests in a Regulation S Global Note may be transferred to a person who wishes to hold an interest in a Rule 144A Global Note only upon receipt by the Trustee and the Paying Agent of a written certification from the transferor (in the form set out in the relevant Indenture) to the effect that such transfer is being made to a person whom the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A purchasing for its own account or for the account of a qualified institutional buyer, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States.

Interests in a Rule 144A Global Note may also be transferred to a person who wishes to hold an interest through a Regulation S Global Note, but only upon receipt by the Trustee and the Paying Agent of a written certification from the transferor, if such transfer takes place on or prior to the date that is 40 days after the date of issuance of the Notes represented by the Global Note.

Any interest in either a Rule 144A Global Note or a Regulation S Global Note that is transferred to a person who takes delivery in the form of an interest in the other Global Note will, upon transfer, cease to be an interest in such Global Note and become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to an interest in such other Global Note.

***Same Day Settlement and Payment***

The Notes represented by the Global Notes will be eligible to trade in DTC's Same Day Funds Settlement System, and any permitted secondary market trading activity in such Notes will, therefore, be required by DTC to be settled in immediately available funds. The Issuers expect that secondary trading in any definitive Notes will also be settled in immediately available funds.

Because of time zone differences, the securities account of a Euroclear or Clearstream, Luxembourg participant purchasing an interest in a Global Note from a Participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream, Luxembourg participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream, Luxembourg) immediately following the settlement date of DTC. DTC has advised the Issuers that cash received in Euroclear or Clearstream, Luxembourg as a result of sales of interest in a Global Note by or through a Clearstream, Luxembourg participant to a Participant in DTC will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream, Luxembourg cash account only as of the business day for Euroclear or Clearstream, Luxembourg following DTC's settlement date.

## TRANSFER RESTRICTIONS

The Notes and any Guarantees have not been, and will not be, registered under the Securities Act or any other applicable securities laws and are being offered and sold only (i) within the United States to “qualified institutional buyers” in accordance with Rule 144A, (ii) outside the United States in reliance on Regulation S to persons other than U.S. Persons (within the meaning of Regulation S), and (iii) in each case in compliance with any other applicable securities laws.

Each purchaser or transferee of a Note or Notes or a beneficial interest therein offered hereby in making its purchase will be deemed to have acknowledged, represented and agreed as follows (terms used in the following paragraphs that are defined in Rule 144A or Regulation S of the Securities Act have the respective meanings there provided):

- (a) The purchaser understands that the Notes and the Guarantees have not been, and will not be, registered under the Securities Act or any other applicable securities laws and may not be offered, sold, transferred, pledged, encumbered or otherwise disposed of except in transactions exempt from the registration requirements of the Securities Act and in accordance with such other applicable securities laws.
- (b) If such purchaser is acquiring the Notes from a person other than the Issuer thereof and the seller is relying on Rule 144A under the Securities Act, it (i) is a qualified institutional buyer, (ii) is acquiring the Notes for its own account or for the account of a qualified institutional buyer and (iii) is aware that the sale of the Notes to it is being made in reliance on Rule 144A or (B) it is a purchaser acquiring such Notes in an offshore transaction occurring outside the United States within the meaning of Regulation S that is not a “U.S. Person” (and is not acquiring such Notes for the account or benefit of a U.S. Person) within the meaning of Regulation S.
- (c) The purchaser understands that the Rule 144A Global Note Certificate, the Regulation S Global Note Certificate and any Definitive Notes which may be issued in exchange therefor will bear a legend to the following effect and may not be reoffered, resold, pledged or otherwise transferred except in accordance with such legend, unless the legend is removed as set forth in the relevant Indenture in accordance with applicable law:

THE NOTES REPRESENTED HEREBY [AND THE GUARANTEE IN RESPECT THEREOF] HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”) OR ANY OTHER APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING THE NOTES REPRESENTED HEREBY OR ANY BENEFICIAL INTEREST THEREIN, AGREES FOR THE BENEFIT OF THE ISSUER [AND THE GUARANTOR] THAT (A) THE NOTES REPRESENTED HEREBY [AND THE GUARANTEE IN RESPECT THEREOF] MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND, PRIOR TO THE DATE THAT IS THE LATER OF (X) [IN THE CASE OF RULE 144A NOTES: ONE YEAR] [IN THE CASE OF REGULATION S NOTES: 40 DAYS] AFTER THE INITIAL ISSUANCE HEREOF OR ANY SUBSEQUENT REOPENING AND (Y) SUCH LATER DATE, IF ANY, AS MAY BE REQUIRED BY APPLICABLE LAW, ONLY (1) WITHIN THE UNITED STATES PURSUANT TO RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”) TO A PERSON THAT THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE REOFFER, RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO ANY OTHER EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT (IF AVAILABLE) OR (4) TO THE ISSUER [, THE GUARANTOR] OR [ITS/THEIR RESPECTIVE] AFFILIATES AND (B) EITHER (X) IT IS NOT AND IS NOT PURCHASING OR HOLDING THE NOTES ON BEHALF OF OR WITH THE ASSETS OF ANY PLAN SUBJECT TO TITLE I OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“ERISA”), ANY PLAN, SUCH AS AN INDIVIDUAL RETIREMENT ACCOUNT, KEOGH PLAN OR OTHER ARRANGEMENT

SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE “CODE”), ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE “PLAN ASSETS” WITHIN THE MEANING OF ERISA BY REASON OF SUCH PLAN’S, ACCOUNT’S OR ARRANGEMENT’S INVESTMENT THEREIN OR ANY PLAN OR ARRANGEMENT THAT IS SUBJECT TO ANY FEDERAL, STATE, LOCAL OR NON-U.S. LAW SIMILAR TO ERISA OR SECTION 4975 OF THE CODE (“SIMILAR LAW”) OR (Y) ITS PURCHASE AND HOLDING OF THE NOTES WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR A VIOLATION OF ANY SIMILAR LAW;

- (d) The purchaser acknowledges that the Registrar referred to herein will register the transfer of any Note resold or otherwise transferred by such purchaser pursuant to clauses (1), (2) or (3) of the foregoing legend only; and in the case of a sale or other transfer between holders of a beneficial interest in a Rule 144A Global Note and holders of a beneficial interest in a Regulation S Global Note, upon receipt from the transferor of a certificate in a form satisfactory to the Paying Agent with a copy to the Trustee.
- (e) The purchaser or holder of the Notes either (i) is not an employee benefit plan subject to Title I of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), individual retirement account, Keogh plan or other arrangement subject to Section 4975 of the Internal Revenue Code of 1986, as amended (the “Code”), entity whose underlying assets include “plan assets” within the meaning of ERISA by reason of any such plan’s, account’s or arrangement’s investment therein (each of the foregoing, a “Plan”), or a governmental, church or non-U.S. plan (each, a “Non-ERISA Arrangement”) that is not subject to Section 406 of ERISA or Section 4975 of the Code but is subject to other laws that are similar to those provisions (each, a “Similar Law”), and it is not purchasing or holding the Notes on behalf of or with the assets of any Plan or Non-ERISA Arrangement; or (ii) acknowledges that its purchase and holding of such Notes shall not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation of any provision of Similar Law.
- (f) The purchaser acknowledges that the Issuers, the Company, the Agents and each of their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and it agrees that, if any of the acknowledgments, representations or agreements deemed to have been made by it in connection with its purchase of Notes is no longer accurate, it shall promptly notify the Issuer of such Notes, the Company and the Agent through which it purchased any Notes. If it is acquiring any Notes as a fiduciary or agent for the account of one or more qualified institutional buyers, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

## **SPECIAL PROVISIONS RELATING TO FOREIGN CURRENCY NOTES**

### **General**

Unless otherwise indicated in the applicable Final Terms, the Notes will be denominated in U.S. dollars and payments of principal of and any premium and interest on the Notes will be made in U.S. dollars in the manner indicated in this Offering Memorandum and the applicable Final Terms. If any of the Notes are to be denominated in a currency other than U.S. dollars (a “Specified Currency”), the following special provisions shall apply which supplement, and to the extent inconsistent therewith replace, the description of general terms and conditions of the Notes set forth above under the heading “Description of the Notes and the Guarantees”.

THIS OFFERING MEMORANDUM DOES NOT DESCRIBE ALL RISKS OF AN INVESTMENT IN FOREIGN CURRENCY NOTES THAT RESULT FROM SUCH NOTES BEING DENOMINATED IN, OR THE PAYMENTS WITH RESPECT TO SUCH NOTES BEING RELATED TO THE VALUE OF, A FOREIGN CURRENCY EITHER AS SUCH RISKS EXIST AT THE DATE OF THIS OFFERING MEMORANDUM OR AS SUCH RISKS MAY CHANGE FROM TIME TO TIME. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR OWN FINANCIAL AND LEGAL ADVISERS AS TO THE RISKS ENTAILED IN AN INVESTMENT IN FOREIGN CURRENCY NOTES AND AS TO ANY MATTERS THAT MAY AFFECT THE PURCHASE OR HOLDING OF A FOREIGN CURRENCY NOTE OR THE RECEIPT OF PAYMENTS OF PRINCIPAL OF AND ANY PREMIUM AND INTEREST ON A FOREIGN CURRENCY NOTE IN A SPECIFIED CURRENCY. FOREIGN CURRENCY NOTES ARE NOT AN APPROPRIATE INVESTMENT FOR INVESTORS WHO ARE UNSOPHISTICATED WITH RESPECT TO FOREIGN CURRENCY TRANSACTIONS.

Unless otherwise indicated in the applicable Final Terms, a Foreign Currency Note will not be sold in, or to a resident of, the country of the Specified Currency in which such Note is denominated. The information set forth in this Offering Memorandum is directed to prospective purchasers who are United States residents, and each Issuer and Agent disclaims any responsibility to advise prospective purchasers who are residents of countries other than the United States with respect to any matters that may affect the purchase, holding or receipt of payments of principal of and any premium and interest on Foreign Currency Notes. Such persons should consult their own legal advisers with regard to such matters.

Foreign Currency Notes are issuable only in fully registered form, without coupons. The authorized denominations of Foreign Currency Notes will be indicated in the applicable Final Terms.

### **Purchase**

Unless otherwise indicated in the applicable Final Terms, purchasers are required to pay for Foreign Currency Notes in the Specified Currency. At the present time there are limited facilities in the United States for the conversion of U.S. dollars into foreign currencies or currency units and vice versa, and banks do not generally offer non-U.S. dollar checking or savings account facilities in the United States. If requested on or prior to the fifth Market Day preceding the date of delivery of the Notes, or by such other day as determined by the Agent who presented such offer to purchase Notes to the Issuer thereof, such Agent is prepared to arrange for the conversion of U.S. dollars into the Specified Currency to enable the purchaser to pay for such Notes. Each such conversion will be made by such Agent on such terms and subject to such conditions, limitations and charges as such Agent may from time to time establish in accordance with its regular foreign exchange practices. All costs of exchange will be borne by the purchasers of the Foreign Currency Notes.

### **Payment of Principal and any Premium and Interest**

Unless otherwise specified in the applicable Final Terms, payments of principal of and any premium and interest on Foreign Currency Notes will be made in U.S. dollars unless the Holder thereof elects to receive such payments in the Specified Currency as described below.

Any U.S. dollar amount to be received by a Holder of a Foreign Currency Note will be based on the highest bid quotation in The City of New York received by the Exchange Rate Agent at approximately 11:00 A.M., New York City time, on the second Market Day with respect to such Note preceding the applicable payment date from three recognized foreign exchange dealers (one of which may be the Exchange Rate Agent) for the purchase by the

quoting dealer of the Specified Currency for U.S. dollars for settlement on such payment date in the aggregate amount of the Specified Currency payable to all holders of Foreign Currency Notes scheduled to receive U.S. dollar payments and at which the applicable dealer commits to execute a contract. If such bid quotations are not available, payments will be made in the Specified Currency. All currency exchange costs will be borne by the Holder of the Foreign Currency Note by deductions from such payments.

Unless otherwise specified in the applicable Final Terms, a Holder of a Foreign Currency Note may elect to receive payment of the principal of and any premium and interest on such Note in the Specified Currency by transmitting a written request for such payment to the Paying Agent at its office in London on or prior to the relevant Regular Record Date or at least sixteen days prior to Maturity, as the case may be. Such request, which must include the wire transfer instructions referred to below, may be in writing (mailed or hand delivered) or by cable, telex or other form of facsimile transmission. A Holder of a Foreign Currency Note may elect to receive payment in the Specified Currency for all principal and any premium and interest payments and need not file a separate election for each payment. Such election will remain in effect until revoked by written notice to the Paying Agent, but written notice of any such revocation must be received by the Paying Agent on or prior to the relevant Regular Record Date or at least sixteen days prior to Maturity, as the case may be. Holders of Foreign Currency Notes whose Notes are to be held in the name of a broker or nominee should contact such broker or nominee to determine whether and how an election to receive payments in the Specified Currency may be made.

The payment of principal of and any premium or interest on Foreign Currency Notes paid in the Specified Currency other than at Maturity will be made by check drawn upon a bank office located outside the United States, and any such payments due at Maturity will be made by wire transfer of immediately available funds to an account maintained by the Holder with a bank office located in the country which issued the Specified Currency upon presentation of such Notes to the Paying Agent or any other paying agent in time for such wire transfer to be made by the Paying Agent or such other paying agent in accordance with its normal procedures.

### **Payment Currency**

If a Specified Currency is not available for the payment of principal or any premium or interest with respect to a Foreign Currency Note due to the imposition of exchange controls or other circumstances beyond the control of an Issuer, such Issuer will be entitled to satisfy its obligations to holders of Foreign Currency Notes by making such payment in U.S. dollars on the basis of the Market Exchange Rate on the second Market Day prior to the date of such payment, or if such Market Exchange Rate is not then available, on the basis of the most recently available Market Exchange Rate.

### **Foreign Currency Risks**

See “Risk Factors – Risk Factors Relating to the Notes – Risks related to the structure of a particular issue of Notes – Foreign Currency Notes”.

## TAXATION

The following discussion is a summary of certain tax consequences of the acquisition, ownership and disposition of the Notes under the law and practice in the United Kingdom and the United States. The discussion reflects laws, regulations, rulings and decisions as of the date hereof, which may be subject to retroactive changes. The discussion is only a summary for general information purposes. It is not intended as tax advice and it does not purport to describe all of the tax considerations that may be relevant to a prospective purchaser. PROSPECTIVE PURCHASERS ARE URGED TO SATISFY THEMSELVES AS TO THE OVERALL TAX CONSEQUENCES OF PURCHASING, HOLDING AND/OR SELLING THE NOTES.

### United Kingdom Taxation

The following is a summary of certain aspects of the U.K. taxation law as applied in England and Wales and HM Revenue & Customs practice which applies at the date hereof in relation to the Notes. The comments do not deal with all of the U.K. tax aspects of acquiring, holding or disposing of the Notes but concentrate on those which are most likely to be relevant to Holders of Notes who are resident for tax purposes in the United States and are not taxpayers in the U.K. The comments relate only to the position of persons who are the absolute beneficial owners of their Notes and may not apply to certain classes of persons such as dealers or persons connected to an Issuer, where special rules may apply. Prospective Holders should be aware that the particular terms of issue of any series of Notes as specified in the relevant Final Terms may affect the tax treatment of that and other series of Notes. The following is a general guide and should be treated with appropriate caution. Holders who are in any doubt as to their tax position should consult their professional advisers.

#### *Withholding from U.K. Source Interest*

Notes which carry a right to interest will constitute “quoted Eurobonds” provided they are and continue to be listed on a recognised stock exchange, within the meaning of Section 1005 of the Income Tax Act 2007 (the “Act”). The London Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the London Stock Exchange if they are admitted to trading on the London Stock Exchange and are included in the Official List of the United Kingdom Listing Authority. Securities will be treated as listed on another recognised stock exchange if they are admitted to trading on that exchange and are officially listed in a qualifying country outside the U.K. in accordance with provisions corresponding to those generally applicable in states within the European Economic Area. Whilst such Notes are and continue to be quoted Eurobonds, payments of interest on those Notes by the Issuer may be made without withholding or deduction for or on account of U.K. income tax.

Additionally, RBS is entitled to make payments of interest without deduction or withholding for or on account of United Kingdom income tax provided that it continues to be a bank within the meaning of Section 991 of the Act and the interest on the Notes is paid in the ordinary course of its business within the meaning of Section 878 of the Act. According to H.M. Revenue & Customs’ published practice, interest on such Notes should be treated as paid in the ordinary course of a bank’s business unless (*inter alia*) the issue of such Notes is regarded as relating to the capital structure of the bank. Therefore, interest paid on Subordinated Notes where the Issuer is a bank will not be regarded as paid in the ordinary course of that bank’s business where the borrowing represented by such Notes conforms to any of the Tier 1, Tier 2 or Tier 3 definitions adopted by the U.K. Financial Services Authority, whether or not the borrowing actually counts towards Tier 1, Tier 2 or Tier 3 capital for regulatory purposes. Additionally, interest will not be regarded as paid in the ordinary course of business where the characteristics of the transaction giving rise to the interest are primarily attributable to an intention to avoid U.K. tax.

Where a Holder is resident in the United States for the purposes of the U.S./U.K. double taxation convention with respect to income and capital gains (the “U.S./U.K. Treaty”) and is entitled to the benefit of that treaty, does not have a permanent establishment in the U.K. to which the interest is attributable and is the beneficial owner of the interest payments in question, and provided that certain other conditions are satisfied, interest payments on the Notes held by the Holder may be made without withholding or deduction for or on account of U.K. income tax where (following an application by the Holder) H.M. Revenue & Customs have issued (and not withdrawn) an authorization for the interest to be so paid. U.S./U.K. Treaty relief may be relevant in the case of any Notes falling outside the scope of the exemptions referred to in the preceding two paragraphs under this sub-heading. Where such authorization has not been obtained and U.K. tax is actually withheld from payments under a Note but the Holder is



entitled to exemption under the U.S./U.K. Treaty the Holder may be able to claim from H.M. Revenue and Customs a repayment of the tax so withheld.

Interest on the Notes may also be paid by the Issuer without withholding or deduction on account of United Kingdom tax where the Notes are issued for a term of less than 365 days (and where such Notes are not issued under arrangements the effect of which is to render such Notes part of a borrowing with a total term of 365 days or more).

In all cases other than those falling within the preceding three paragraphs under this sub-heading, interest payable on any Notes by the Issuer will generally be payable to Holders of Notes who are not U.K. corporation tax payers subject to deduction of U.K. income tax at the basic rate (currently 20%), subject to the availability of other reliefs or to any direction to the contrary from H.M. Revenue and Customs in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty (other than the U.S./U.K. Treaty, which is discussed above).

#### ***Withholding on Payments Under the Guarantee***

Subject to any available reliefs, if the Guarantor makes a payment in respect of interest on the Notes (or other amounts due under the Notes other than the repayment of amounts subscribed for the Notes) under the Guarantee, that payment may be subject to withholding on account of U.K. tax (currently at the basic rate of 20%). Such payments may not be eligible for the exemptions described under “—Withholding from U.K. Source Interest” above although relief may be available under the provisions of the U.S./U.K. Treaty or under any other applicable double taxation treaty.

#### ***Withholding from Discount and Premium***

Notes may be issued at an issue price of less than 100% of their principal amount. Any discount element (“Discount”) on any such Note should not constitute interest for U.K. withholding tax purposes and therefore should not be subject to any withholding on account of U.K. tax (as applicable to interest) pursuant to the provisions outlined in “Withholding from U.K. Source Interest” above, but may be subject to reporting requirements as outlined in “—Reporting Requirements” below.

Where Notes may be redeemed at a premium, as opposed to being issued at a discount, then payment of any such premium or part thereof may constitute a payment of interest subject to the provisions regarding U.K. withholding tax as outlined in “Withholding from U.K. Source Interest” above.

#### ***U.K. Tax — Direct Assessment***

U.K. tax on interest payable to a person who is not resident or, in the case of an individual, ordinarily resident in the United Kingdom is limited to any tax deducted at source, provided that, if an individual, the person does not carry on a trade, profession or vocation through a branch or agency in the U.K. and, if a company, the person does not carry on a trade through a permanent establishment in the U.K., in each case in connection with which interest is received or to which the Notes are attributable. If the Holder has such a United Kingdom branch, agency or permanent establishment, then (subject to exemptions for interest received by certain categories of agent) tax may be levied on such United Kingdom branch, agency or permanent establishment.

Holders should note that the provisions set out in this Offering Memorandum relating to the payment of additional amounts in respect of withholdings required to be made for taxes would not apply if H.M. Revenue & Customs sought to assess directly the person entitled to the relevant interest or Discount to U.K. tax. Exemption from or reduction of such U.K. tax liability might be available under the terms of an applicable double taxation treaty.

#### ***U.K. Stamp Duty (“Stamp Duty”) and Stamp Duty Reserve Tax (“SDRT”)***

There is a wide-ranging exemption from Stamp Duty and SDRT in relation to certain types of “loan capital”. Where that exemption applies, no Stamp Duty or SDRT is payable on the issue of any relevant Note or any transfer of, or on an agreement to transfer full legal and beneficial ownership of, any such Note. However, the terms of certain Notes, as specified in the applicable Final Terms, may prevent them from qualifying for that exemption. This

may occur, in particular (although subject to certain exceptions), if (a) the Notes bear interest the amount of which exceeds a reasonable commercial return on the nominal amount of the capital of such Notes, (b) a premium is payable on redemption of the Notes, (c) the amount of interest payable on the Notes depends to any extent on the results of any business or the value of any property, or (d) the Notes carry a right of conversion into shares or other securities, or to the acquisition of shares or other securities, including “loan capital” of the same description. Where the exemption does not apply there may be a charge to Stamp Duty and/or SDRT in respect of transfers or agreements to transfer such Notes and SDRT in respect of the issue of such Notes to certain persons. Persons who are in any doubt regarding the application of the “loan capital” exemption to any Notes should seek appropriate professional advice.

### ***Reporting Requirements***

Persons in the United Kingdom: (i) paying interest to or receiving interest on behalf of another person who is an individual or (ii) paying amounts due on redemption of any Notes which constitute deeply discounted securities as defined in Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 to or receiving such amounts on behalf of another person who is an individual, may be required to provide certain information to H.M. Revenue & Customs regarding the identity of the payee or the persons entitled to interest and, in certain circumstances, such information may be exchanged with tax authorities in other countries. However, in relation to amounts payable on the redemption of such Notes, H.M. Revenue & Customs’ published practice indicates that H.M. Revenue & Customs will not exercise its power to obtain information where such amounts are paid or received on or before April 5, 2012.

### ***European Union Directive on the Taxation of Savings Income***

Under the Savings Directive, each Member State is required to provide to the tax authorities of another Member State details of payments of interest and other similar income paid by a person within its jurisdiction to an individual or certain other persons in that other Member State, except that Austria and Luxembourg are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) for a transitional period, the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other territories. A number of non-EU countries and territories have adopted measures similar to the Savings Directive.

The European Commission has proposed certain amendments to the Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

### **United States Federal Income Taxation**

**This disclosure is limited to the U.S. federal tax issues addressed herein. Additional issues may exist that are not addressed in this disclosure and that could affect the U.S. federal tax treatment of the Notes. This tax disclosure was written in connection with the promotion or marketing of the Notes by the Issuers, and it cannot be used by any holder for the purpose of avoiding penalties that may be asserted against the holder under the Internal Revenue Code. Holders should seek their own advice based on their particular circumstances from an independent tax adviser.**

The following is a discussion of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of Notes. This discussion only applies to Notes that are purchased by a U.S. Holder described below who purchases Notes at the “issue price,” which will equal the first price to the public (not including bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of the Notes is sold for money, and holds the Notes as capital assets.

This discussion does not describe all of the tax consequences that may be relevant to a U.S. Holder in light of its particular circumstances or to U.S. Holders subject to special rules, such as:

- certain financial institutions;
- regulated investment companies;

- insurance companies;
- real estate investment trusts;
- dealers in securities or foreign currencies;
- traders in securities that elect to use a mark-to-market method of tax accounting;
- persons holding Notes as part of a hedging transaction, straddle, conversion or other integrated transaction;
- persons whose functional currency is not the U.S. dollar;
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes;
- persons subject to the alternative minimum tax;
- persons that own, or are deemed to own, ten percent or more of any class of the Issuer's stock; or
- persons holding the Notes in connection with a trade or business conducted outside the United States.

If a partnership holds the Notes, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Partnerships holding Notes and partners in a partnership holding Notes should consult their tax advisors.

This discussion is based on the Internal Revenue Code of 1986, as amended to the date hereof, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, changes to any of which subsequent to the date of this Offering Memorandum may affect the tax consequences described herein, possibly with retroactive effect. Persons considering the purchase of Notes are urged to consult their tax advisers with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

This discussion applies only to Notes that are classified as indebtedness for U.S. federal income tax purposes and does not apply to Undated Subordinated Notes or any other Notes that are subject to different U.S. federal income tax consequences than those described below, including certain Indexed Notes and Floating Rate Notes. Additional material U.S. federal income tax consequences of such Notes may be addressed in the applicable Final Terms.

As used herein, the term "U.S. Holder" means a beneficial owner of a Note that is, for U.S. federal income tax purposes:

- a citizen or resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States or of any political subdivision thereof; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

#### *Payments of Interest*

Interest paid on a Note will be taxable to a U.S. Holder as ordinary interest income at the time it accrues or is received in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes, provided that the interest is qualified stated interest (as defined below). Interest income earned by a U.S. Holder with respect to a Note will constitute foreign source income for U.S. federal income tax purposes, which may be relevant to a U.S. Holder in calculating the U.S. Holder's foreign tax credit limitation. Special rules governing the treatment of interest paid with respect to OID Notes, certain Variable Rate Notes and Foreign Currency Notes (each as defined below), are described under "—Original Issue Discount and Variable Rate Notes" and " — Foreign Currency Notes" below.

Any amounts withheld with respect to interest paid on the Notes and any additional amounts paid with respect to interest pursuant to the Notes would be treated as ordinary interest income.

#### *Original Issue Discount and Variable Rate Notes*

A Note that is issued at an issue price less than its “stated redemption price at maturity” will be considered to have been issued at an original issue discount for U.S. federal income tax purposes (and will be referred to in this section as an “OID Note”) unless the Note satisfies a *de minimis* threshold (as described below) or is a Short-Term Note (as defined below). The “stated redemption price at maturity” of a Note will equal the sum of all payments required under the Note other than payments of “qualified stated interest”. “Qualified stated interest” is stated interest unconditionally payable as a series of payments in cash or property (other than in debt instruments of the Issuer) at least annually during the entire term of the Note and equal to the outstanding principal balance of the Note multiplied by a single fixed rate of interest or, subject to certain conditions, based on one or more floating rates or indices.

All stated interest on a Variable Rate Note (as defined below) will constitute qualified stated interest if it provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof that is unconditionally payable in cash or property (other than debt instruments of the Issuer) at least annually. Therefore, such a Variable Rate Note will not be treated as having been issued with original issue discount unless it is issued at a “true” discount (i.e., at a price below the Note’s stated principal amount in excess of a specified *de minimis* amount). In general, a “Variable Rate Note” is a Note that provides for one or more qualified floating rates of interest, a single fixed rate and one or more qualified floating rates, a single objective rate, or a single fixed rate and a single objective rate that is a qualified inverse floating rate, as such terms are defined in applicable Treasury regulations, provided that the issue price of the Note does not exceed the total noncontingent principal payments due under the Note by more than an amount equal to the lesser of (x) 0.015 multiplied by the product of the total noncontingent principal payments and the number of complete years to maturity from the issue date or (y) 15% of the total noncontingent principal payments.

In general, a “qualified floating rate” is any variable rate where variations in the value of such rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Variable Rate Note is denominated. An interest rate that is based on the product of a qualified floating rate and a fixed multiple, or that subjects a qualified floating rate to a cap, floor, governor or similar restriction, may also be treated as a qualified floating rate if certain conditions are satisfied. An “objective rate” is generally a rate that is determined using a single fixed formula and that is based on objective financial or economic information. If a Variable Rate Note provides for two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Note, the qualified floating rates together constitute a single qualified floating rate. If interest on a debt instrument is stated at a fixed rate for an initial period of one year or less followed by a variable rate that is either a qualified floating rate or an objective rate for a subsequent period, and the value of the variable rate on the issue date is intended to approximate the fixed rate, the fixed rate and the variable rate together constitute a single qualified floating rate or objective rate. Two or more qualified floating rates or a fixed rate and a variable rate will be conclusively presumed to meet the requirements of the preceding sentences if the values of the applicable rates on the issue date are within  $\frac{1}{4}$  of one percentage point of each other. If a Variable Rate Note is issued at a “true” discount (i.e., at a price below the Note’s stated principal amount) in excess of a specified *de minimis* amount, such discount must be allocated to a holder’s accrual periods using the constant-yield method described below by assuming that the variable rate is a fixed rate equal to (i) in the case of a qualified floating rate or qualified inverse floating rate, the value, as of the issue date, of the qualified floating rate or qualified inverse floating rate, or (ii) in the case of an objective rate (other than a qualified inverse floating rate), a fixed rate that reflects the yield that is reasonably expected for the Variable Rate Note.

In general, a Variable Rate Note that provides for (i) multiple floating rates or (ii) one or more floating rates in addition to a single fixed rate (in circumstances such that the Note is not treated as having a single qualified floating rate or objective rate as described in the preceding paragraph) will be converted into an “equivalent” fixed rate debt instrument for purposes of determining the amount and accrual of original issue discount and qualified stated interest on the Variable Rate Note. A Variable Rate Note must be converted into an “equivalent” fixed rate debt instrument by substituting any qualified floating rate or qualified inverse floating rate provided for under the terms of the Variable Rate Note with a fixed rate equal to the value of the qualified floating rate or qualified inverse

floating rate, as the case may be, as of the Variable Rate Note's issue date. Any objective rate (other than a qualified inverse floating rate) provided for under the terms of the Variable Rate Note is converted into a fixed rate that reflects the yield that is reasonably expected for the Variable Rate Note. In the case of a Variable Rate Note that provides for stated interest at a fixed rate in addition to either one or more qualified floating rates or a qualified inverse floating rate, the fixed rate is initially converted into a qualified floating rate (or a qualified inverse floating rate, if the Variable Rate Note provides for a qualified inverse floating rate). Under such circumstances, the qualified floating rate or qualified inverse floating rate that replaces the fixed rate must be such that the fair market value of the Variable Rate Note as of the Variable Rate Note's issue date is approximately the same as the fair market value of an otherwise identical debt instrument that provides for either the replaced qualified floating rate or qualified inverse floating rate rather than the fixed rate. Subsequent to converting the fixed rate into either a qualified floating rate or a qualified inverse floating rate, the Variable Rate Note is then converted into an "equivalent" fixed rate debt instrument in the manner described above.

Once the Variable Rate Note is converted into an "equivalent" fixed rate debt instrument pursuant to the foregoing rules, the amount of original issue discount and qualified stated interest, if any, are determined for the "equivalent" fixed rate debt instrument by applying the general original issue discount rules to the "equivalent" fixed rate debt instrument and a U.S. Holder of the Variable Rate Note will account for such original issue discount and qualified stated interest as if the U.S. Holder held the "equivalent" fixed rate debt instrument. In each accrual period, appropriate adjustments will be made to the amount of qualified stated interest (or, in certain circumstances, original issue discount) assumed to have been accrued or paid with respect to the "equivalent" fixed rate debt instrument in the event that such amounts differ from the actual amount of interest accrued or paid on the Variable Rate Note during the accrual period.

If the difference between a Note's stated redemption price at maturity and its issue price is less than a *de minimis* amount, *i.e.*,  $\frac{1}{4}$  of one percent of the stated redemption price at maturity multiplied by the number of complete years to maturity, then the Note will not be considered to have original issue discount.

A U.S. Holder of OID Notes will be required to include any qualified stated interest payments in income in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes, as described under "—Payments of Interest". U.S. Holders of OID Notes will be required to include original issue discount in income for U.S. federal income tax purposes as it accrues, in accordance with a constant-yield method based on a compounding of interest. Under this method, U.S. Holders of OID Notes generally will be required to include in income increasingly greater amounts of original issue discount in successive accrual periods.

A U.S. Holder may make an election to include in gross income all interest that accrues on any Note (including stated interest, original issue discount or *de minimis* original issue discount, and unstated interest as adjusted by any amortizable bond premium) in accordance with a constant-yield method based on the compounding of interest (a "constant-yield election").

A Note that matures one year or less from its date of issuance (a "Short-Term Note") will be treated as being issued at a discount and none of the interest paid on the Note will be treated as qualified stated interest. In general, a cash-method U.S. Holder of a Short-Term Note is not required to accrue the discount for U.S. federal income tax purposes unless it elects to do so. U.S. Holders who so elect and certain other U.S. Holders, including those who report income on the accrual method of accounting for U.S. federal income tax purposes, are required to include the discount in income as it accrues on a straight-line basis, unless another election is made to accrue the discount according to a constant-yield method based on daily compounding. In the case of a U.S. Holder who is not required and who does not elect to include the discount in income currently, any gain realized on the sale, exchange or retirement of the Short-Term Note will be ordinary income to the extent of the discount accrued on a straight-line basis (or, if elected, according to a constant-yield method based on daily compounding) through the date of sale, exchange or retirement. In addition, such U.S. Holders will be required to defer deductions for any interest paid on indebtedness incurred to purchase or carry Short-Term Notes in an amount not exceeding the accrued discount until the accrued discount is included in income.

Under applicable Treasury regulations, if the Issuer or the U.S. Holder has an unconditional option to redeem a Note prior to its Stated Maturity, this option will be presumed to be exercised if, by utilizing any date on which the Note may be redeemed as the maturity date and the amount payable on that date in accordance with the terms of the

Note as the stated redemption price at maturity, in the case of the Issuer's option, the yield on the Note would be lower than its yield to Stated Maturity or, in the case of the U.S. Holder's option, the yield on the Note would be higher than its yield to Stated Maturity. If this option is not in fact exercised, the Note would be treated solely for purposes of calculating original issue discount as if it were redeemed, and a new note were issued, on the presumed exercise date for an amount equal to the Note's adjusted issue price on that date.

#### *Contingent Debt Obligations*

Special rules govern the tax treatment of debt obligations that are treated under applicable Treasury regulations as providing for contingent payments ("Contingent Debt Obligations"). These rules generally require accrual of interest income on a constant-yield basis at an assumed yield determined at the time of issuance of the obligation. Adjustments will be required to these accruals when any contingent payments are made that differ from the payments calculated based on the assumed yield. Any gain on the sale, exchange, retirement or other disposition of a Contingent Debt Obligation will be ordinary income. The U.S. federal income tax treatment of any Notes that are treated as Contingent Debt Obligations will be more fully described in an applicable Final Terms.

#### *Amortizable Bond Premium*

If a U.S. Holder purchases a Note for an amount that is greater than the sum of all amounts payable on the Note other than qualified stated interest, the U.S. Holder will be considered to have purchased the Note with amortizable bond premium. In general, amortizable bond premium with respect to any Note will be equal in amount to the excess of the purchase price over the sum of all amounts payable on the Note other than qualified stated interest and the U.S. Holder may elect to amortize this premium, using a constant-yield method, over the remaining term of the Note. Special rules may apply in the case of Notes that are subject to optional redemption. A U.S. Holder may generally use the amortizable bond premium allocable to an accrual period to offset qualified stated interest required to be included in the U.S. Holder's income with respect to the Note in that accrual period. A U.S. Holder who elects to amortize bond premium must reduce the U.S. Holder's tax basis in the Note by the amount of the premium amortized in any year. An election to amortize bond premium applies to all taxable debt obligations then owned and thereafter acquired by the U.S. Holder and may be revoked only with the consent of the Internal Revenue Service.

If a U.S. Holder makes a constant-yield election (as described under "—Original Issue Discount and Variable Rate Notes" above) for a Note with amortizable bond premium, such election will result in a deemed election to amortize bond premium for all of the U.S. Holder's debt instruments with amortizable bond premium and may be revoked only with the permission of the Internal Revenue Service with respect to debt instruments held or acquired after the election.

#### *Sale, Exchange or Retirement of the Notes*

Upon the sale, exchange or retirement of a Note, a U.S. Holder will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange or retirement and the U.S. Holder's adjusted tax basis in the Note. Gain or loss, if any, will generally be U.S.-source for purposes of computing a U.S. Holder's foreign tax credit limitation. For these purposes, the amount realized does not include any amount attributable to accrued qualified stated interest. Amounts attributable to accrued qualified stated interest are treated as interest as described under "—Payments of Interest" above. A U.S. Holder's adjusted tax basis in a Note generally will equal such U.S. Holder's initial investment in the Note increased by any original issue discount included in income and decreased by any bond premium previously amortized and principal payments or payments other than qualified stated interest previously received.

Except as described below, gain or loss realized on the sale, exchange or retirement of a Note will generally be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange or retirement the Note has been held for more than one year. Exceptions to this general rule apply in the case of a Short-Term Note, to the extent of any accrued discount not previously included in the U.S. Holder's taxable income. See "Original Issue Discount and Variable Rate Notes" above. In addition, other exceptions to this general rule apply in the case of certain Foreign Currency Notes and Contingent Debt Obligations. See "—Foreign Currency Notes" below and "—Contingent Debt Obligations" above.

### *Foreign Currency Notes*

The rules applicable to Notes denominated in (or the payments on which are determined by reference to) a single Specified Currency other than U.S. dollars (referred to in this section as “Foreign Currency Notes”) could require some or all of the gain or loss on the sale, exchange or retirement of a Foreign Currency Note to be recharacterized as ordinary income or loss. The rules applicable to Foreign Currency Notes are complex and their application may depend on the U.S. Holder’s particular U.S. federal income tax situation. For example, various elections are available under these rules, and whether a U.S. Holder should make any of these elections may depend on the U.S. Holder’s particular U.S. federal income tax situation. U.S. Holders are urged to consult their own tax advisers regarding the U.S. federal income tax consequences of the acquisition, ownership and disposition of Foreign Currency Notes.

A U.S. Holder who uses the cash method of tax accounting and who receives a payment of qualified stated interest (or who receives proceeds from a sale, exchange or other disposition attributable to accrued qualified stated interest) in a foreign currency with respect to a Foreign Currency Note will be required to include in income the U.S. dollar value of the foreign currency payment (determined based on a spot rate on the date the payment is received) regardless of whether the payment is in fact converted into U.S. dollars at that time, and this U.S. dollar value will be the U.S. Holder’s tax basis in the foreign currency received.

An accrual-method U.S. Holder will be required to include in income the U.S. dollar value of the amount of interest income (including original issue discount, but reduced by amortizable bond premium to the extent applicable) that has accrued and is otherwise required to be taken into account with respect to a Foreign Currency Note during an accrual period. The U.S. dollar value of the accrued income will be determined by translating the income at the average rate of exchange for the accrual period or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the taxable year. The U.S. Holder may recognize ordinary income or loss (which generally will not be treated as interest income or expense, but will be treated as U.S. source income or loss) with respect to accrued interest income on the date the interest payment or proceeds from the sale, exchange or other disposition attributable to accrued interest is actually received. The amount of ordinary income or loss recognized will equal the difference between the U.S. dollar value of the foreign currency payment received (determined based on a spot rate on the date the payment is received) in respect of the accrual period and the U.S. dollar value of interest income that has accrued during the accrual period (as determined above). Rules similar to these rules apply in the case of cash-method U.S. Holders who are required to currently accrue original issue discount on a Foreign Currency Note. An accrual-method U.S. Holder may elect to translate interest income (including original issue discount) into U.S. dollars at the spot rate on the last day of the interest accrual period (or, in the case of a partial accrual period, the spot rate on the last day of the taxable year) or, if the date of receipt is within five business days of the last day of the interest accrual period, the spot rate on the date of receipt. A U.S. Holder that makes this election must apply it consistently to all debt instruments from year to year and cannot change the election without the consent of the Internal Revenue Service.

Original issue discount and amortizable bond premium on a Foreign Currency Note are to be determined in the relevant foreign currency.

If an election to amortize bond premium is made, amortizable bond premium taken into account on a current basis will reduce interest income in units of the relevant foreign currency. Gain or loss attributable to fluctuations in currency exchange rates will be realized on amortized bond premium with respect to any period by treating the bond premium amortized in the period in the same manner as it would have been treated on the sale, exchange or retirement of the Foreign Currency Note. Any exchange gain or loss will be ordinary income or loss as described below. If the election is not made, any bond premium will be taken into account in determining the overall gain or loss on the Notes and any loss realized on the sale, exchange or retirement of a Foreign Currency Note with amortizable bond premium by a U.S. Holder who has not elected to amortize the premium will be a capital loss to the extent of the bond premium.

A U.S. Holder’s tax basis in a Foreign Currency Note, and the amount of any subsequent adjustment to the U.S. Holder’s tax basis (including adjustments for original issue discount included as income and any bond premium previously amortized or principal payments received), will be the U.S. dollar value of the foreign currency amount paid for such Foreign Currency Note, as discussed below, or of the foreign currency amount of the adjustment,

determined on the date of the purchase or adjustment. A U.S. Holder who purchases a Foreign Currency Note with previously owned foreign currency will recognize ordinary income or loss in an amount equal to the difference, if any, between the U.S. Holder's tax basis in the foreign currency and the U.S. dollar fair market value of the Foreign Currency Note on the date of purchase.

Gain or loss realized upon the sale, exchange or retirement of a Foreign Currency Note that is attributable to fluctuations in currency exchange rates will be ordinary income or loss which will not be treated as interest income or expense. Gain or loss attributable to fluctuations in exchange rates will equal the difference between (i) the U.S. dollar value of the foreign currency principal amount of the Note, determined on the date the payment is received or the Note is disposed of (or if the Note is traded on an established securities market, on the settlement date if the holder is a cash basis U.S. Holder or an electing accrual basis U.S. Holder); and (ii) the U.S. dollar value of the foreign currency principal amount of the Note, determined on the date the U.S. Holder acquired the Note. Payments received attributable to accrued interest will be treated in accordance with the rules applicable to payments of interest on Foreign Currency Notes described above. The foreign currency gain or loss will be recognized only to the extent of the total gain or loss realized by a U.S. Holder on the sale, exchange or retirement of the Foreign Currency Note. The foreign currency gain or loss for U.S. Holders will be U.S.-source. Any gain or loss realized by a U.S. Holder in excess of the foreign currency gain or loss will be capital gain or loss (except in the case of a Short-Term Note, to the extent of any discount not previously included in the U.S. Holder's income).

A U.S. Holder will have a tax basis in any foreign currency received on the sale, exchange or retirement of a Foreign Currency Note equal to the U.S. dollar value of the foreign currency, determined at the time of sale, exchange or retirement. Provided the Foreign Currency Notes are traded on an established securities market, a cash-method U.S. Holder who buys or sells a Foreign Currency Note is required to translate units of foreign currency paid or received into U.S. dollars at the spot rate on the settlement date of the purchase or sale. An accrual-method U.S. Holder may elect the same treatment for all purchases and sales of Foreign Currency Notes, provided the Foreign Currency Notes are traded on an established securities market. This election cannot be changed without the consent of the Internal Revenue Service. Any gain or loss realized by a U.S. Holder on a sale or other disposition of foreign currency (including its exchange for U.S. dollars or its use to purchase Foreign Currency Notes) will be ordinary income or loss.

A U.S. Holder may be required to file a reportable transaction disclosure statement with the U.S. Holder's U.S. federal income tax return, if such U.S. Holder realizes a loss on the sale or other disposition of a Foreign Currency Note and such loss is greater than applicable threshold amounts, which differ depending on the status of the U.S. Holder. A U.S. Holder that claims a deduction with respect to a Foreign Currency Note should consult its own tax adviser regarding the need to file a reportable transaction disclosure statement.

#### *Legislation Enacted in 2010*

Legislation enacted in 2010 would require certain individual U.S. Holders to report information about their Notes on their U.S. federal income tax returns unless (i) the Notes are "regularly traded on an established securities market" or (ii) a regulatory exemption is provided. Individual U.S. Holders should consult their tax advisers regarding this legislation.

#### *Backup Withholding and Information Reporting*

Information returns may be filed with the Internal Revenue Service in connection with payments on the Notes and the proceeds from a sale or other disposition of the Notes. A U.S. Holder may be subject to U.S. backup withholding on these payments if the U.S. Holder fails to provide its taxpayer identification number to the paying agent and comply with certain certification procedures or otherwise establish an exemption from backup withholding. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that the required information is timely furnished to the Internal Revenue Service.



## **BENEFIT PLAN INVESTOR CONSIDERATIONS**

Fiduciaries of (i) pension, profit-sharing or other employee benefit plans subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”), (ii) individual retirement accounts, Keogh plans or other arrangements subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”) and (iii) entities whose underlying assets include “plan assets” by reason of any such plan’s, account’s or arrangement’s investment therein (collectively, “plans”) should consider the fiduciary standards of ERISA in the context of the plan’s particular circumstances before authorizing an investment in the Notes. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the plan, and whether the investment would involve a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code.

Section 406 of ERISA and Section 4975 of the Code prohibit plans from engaging in certain transactions involving “plan assets” with persons who are “parties in interest” under ERISA or “disqualified persons” under the Code with respect to the plan or account. A violation of these prohibited transaction rules may result in civil penalties or other liabilities under ERISA and/or an excise tax under Section 4975 of the Code for those persons party to a prohibited transaction, unless exemptive relief is available under an applicable statutory, regulatory or administrative exemption. Certain plans and arrangements including those that are governmental plans (as defined in section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and non-U.S. plans (as described in Section 4(b)(4) of ERISA) (“non-ERISA arrangements”) are not subject to the requirements of ERISA or Section 4975 of the Code but may be subject to similar provisions under applicable federal, state, local, non-U.S. or other regulations, rules or laws (“similar laws”).

The acquisition of the Notes by a plan with respect to which the Issuers, the Agents, the Trustee, the Paying Agent, Registrar, Authenticating Agent, Calculation Agent and Exchange Rate Agent or certain of their affiliates is or becomes a “party in interest” as defined in ERISA or a “disqualified person” as defined in Section 4975 of the Code (each, a “party in interest”) may constitute or result in a prohibited transaction under ERISA or Section 4975 of the Code, unless those Notes are acquired pursuant to and in accordance with an applicable exemption. The U.S. Department of Labor has issued five prohibited transaction class exemptions, or “PTCEs”, that may provide exemptive relief if required for direct or indirect prohibited transactions that may arise from the purchase or holding of the Notes. These exemptions are: (1) PTCE 84-14, an exemption for certain transactions determined or effected by independent qualified professional asset managers; (2) PTCE 90-1, an exemption for certain transactions involving insurance company pooled separate accounts; (3) PTCE 91-38, an exemption for certain transactions involving bank collective investment funds; (4) PTCE 95-60, an exemption for transactions involving certain insurance company general accounts; and (5) PTCE 96-23, an exemption for plan asset transactions managed by in-house asset managers. In addition, ERISA Section 408(b)(17) and Section 4975(d)(20) of the Code may provide a limited exemption for certain transactions, provided that neither the party in interest nor any of its affiliates has or exercises any discretionary authority or control or renders any investment advice with respect to the assets of any plan involved in the transaction and provided further that the plan pays no more, and receives no less, than adequate consideration in connection with the transaction (the so-called “service provider exemption”). There can be no assurance that any of these class or statutory exemptions will be available with respect to transactions involving the Notes.

Accordingly, the Notes may not be purchased or held by any plan or any person investing “plan assets” of any plan, unless in each case the purchaser or holder is eligible for exemptive relief. Any purchaser or holder of the Notes or any interest in the Notes, and each fiduciary who causes an entity to purchase or hold the Notes, will be deemed to have represented by its purchase and holding of the Notes that it either (1) is not a plan or non-ERISA arrangement and is not purchasing or holding those Notes on behalf of or with “plan assets” of any plan or non-ERISA arrangement or (2) its purchase and holding of such Notes will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation of any similar law.

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is important that fiduciaries or other persons considering purchasing the Notes on behalf of or with “plan assets” of any plan or non-ERISA arrangement consult with their counsel regarding the

availability of exemptive relief under any of the PTCEs listed above or any other applicable exemption, or the potential consequences of any purchase or holding under similar laws, as applicable.

Each purchaser and holder of the Notes has exclusive responsibility for ensuring that its purchase and holding of the Notes does not violate the prohibited transaction rules of ERISA, the Code or any similar laws. The sale of any Notes to a plan or non-ERISA arrangement is in no respect a representation by the Issuers, the Guarantor or any of their affiliates or representatives that such an investment meets all relevant requirements with respect to plans, plan asset entities or non-ERISA arrangements generally or any particular plan or non-ERISA arrangement, or that such an investment is appropriate for plans or non-ERISA arrangements generally or any particular plan or non-ERISA arrangement.

## PLAN OF DISTRIBUTION

The Notes are being offered on a continuous basis for sale by the Issuers thereof to or through RBS Securities Inc., Barclays Capital Inc., Citigroup Global Markets Inc., Deutsche Bank Securities Inc., Goldman, Sachs & Co., J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. LLC, UBS Securities LLC and Wells Fargo Securities, LLC, together with such other Agent as may be appointed by the applicable Issuer with respect to a particular issuance of Notes (the “Agents”), each of which has agreed to solicit offers to purchase the Notes. An Issuer will pay the applicable Agent a commission which, depending on the maturity of the related Notes, will range from 0.125% to 0.75% of the principal amount of any such Note sold through such Agent. Commissions with respect to Notes with maturities in excess of 30 years which are sold through an Agent will be negotiated between the relevant Issuer and such Agent at the time of such sale. An Issuer may also sell Notes to an Agent, as principal, at a discount from the principal amount thereof, and such Agent may later resell such Notes to investors and other purchasers at varying prices related to prevailing market prices at the time of sale as determined by such Agent. An Issuer may also sell Notes directly to, and may solicit and accept offers to purchase directly from, investors on its own behalf in those jurisdictions where it is authorized to do so.

In addition, the Agents may offer the Notes they have purchased as principal to other Agents. The Agents may sell Notes to any Agent at a discount. Unless otherwise indicated in the applicable Final Terms, any Note sold to an Agent as principal will be purchased by such Agent at a price equal to 100% of the principal amount thereof less a percentage equal to the commission applicable to any agency sale of a Note of identical maturity, and may be resold by such Agent to investors and other purchasers from time to time in one or more transactions, including negotiated transactions, at a fixed offering price or at varying prices determined at the time of sale or may be resold to certain dealers as described above. After the initial offering of Notes to be resold to investors and other purchasers on a fixed offering price basis, the offering price, concession and discount may be changed.

Each Issuer reserves the right to withdraw, cancel or modify the offer made hereby without notice and may reject orders in whole or in part whether placed directly with such Issuer or through an Agent. Each Agent will have the right, in its sole discretion, to reject, in whole or in part, any offer to purchase Notes received by it.

In connection with the issue of any series of Notes, the Agent or Agents (if any) named as the Stabilizing Manager(s) (or persons acting on behalf of any Stabilizing Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of such Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Manager(s) (or persons acting on behalf of a Stabilizing Manager) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant series of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant series of Notes and 60 days after the date of the allotment of the relevant series of Notes. Any stabilization action or overallotment must be conducted by the relevant Stabilizing Manager(s) (or persons acting on behalf of any Stabilizing Manager(s)) in accordance with all applicable laws and rules.

None of the Issuers or Agents makes any representation or prediction as to the direction or magnitude of any effect that the transactions described in the immediately preceding paragraph may have on the price of Notes. In addition, none of the Issuers or Agents makes any representation that the Agents will engage in any such transactions or that such transactions, once commenced, will not be discontinued without notice.

The Notes and the Guarantees have not been, and will not be, registered under the Securities Act or any other applicable securities laws and may not be offered or sold except in transactions exempt from the registration requirements of the Securities Act and such other securities laws. The Notes and the Guarantees are being offered and sold only (i) within the United States to “qualified institutional buyers” in accordance with Rule 144A in transactions not subject to the registration requirements of the Securities Act, (ii) outside the United States in offshore transactions to persons other than U.S. persons in reliance on Regulation S, and (iii) in each case in compliance with any other applicable securities laws.

In addition, until 40 days after the commencement of the offering of a series of Notes, an offer or sale of the Notes within the United States by any dealer (whether or not participating in the offering of the Notes) may violate

the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act or pursuant to another exemption from registration under the Securities Act.

Each Agent has represented and agreed, and each further Agent under the Program will be required to represent and agree that:

- (1) (i) in relation to any Notes issued by the Company which have a maturity of less than one year from the date of their issue, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons:
    - (1) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
    - (2) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Company as Issuer;
  - (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA (a) does not apply to the Company as Issuer or as Guarantor and (b) would not, if Royal Bank was not an authorized person, apply to Royal Bank as Issuer; and
  - (iii) it has complied and will comply with all applicable provisions of the FSMA (and all rules and regulations made pursuant to the FSMA) with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.
- (2) (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes (except for Notes which are a “structured product” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) other than (a) to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
  - (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.
- (3) the securities have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended, the “FIEL”) and each Agent has agreed that it will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and any other applicable laws, regulations and ministerial guidelines of Japan.

Prior to any issuance, offer or sale of Notes in reliance on Regulation S, each relevant Agent will be deemed to represent and agree that it will not offer or sell the Notes of any tranche offered and sold outside the United States

(a) as part of their distribution at any time and (b) otherwise until 40 days after the completion of the distribution (as determined by the relevant Agent or other purchaser) of all Notes of such tranche within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S (or Rule 144A, if available), and, with respect to offers and sales outside the United States, it will have sent to each distributor, dealer or person receiving a selling commission, fee or other remuneration to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

No action has been or will be taken in any jurisdiction by the Issuers, the Guarantor or any Agent that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Memorandum or any other offering material, in any country or jurisdiction where action for that purpose is required. Accordingly, each Agent has agreed and each further Agent appointed and each other purchaser will be required to agree that it will comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells Notes or possesses or distributes the Offering Memorandum or any other offering material and will obtain any consent, approval or permission required by it for the purchase, offer or sale by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales.

With regard to each series of Notes, the relevant purchaser will be required to comply with such other additional restrictions as the relevant Issuer and purchaser shall agree and as shall be set out in the applicable Final Terms.

The Company and Royal Bank have, jointly and severally, agreed to indemnify the Agents against and to make contributions relating to certain liabilities, including liabilities under the Securities Act. The Agents may engage in transactions with, or perform services for, the Company or Royal Bank in the ordinary course of business.

The Agents may from time to time purchase and sell Notes in the secondary market, but they are not obligated to do so, and there can be no assurance that there will be a secondary market for the Notes or liquidity in the secondary market if one develops. From time to time, the Agents may make a market in the Notes but are not obligated to do so.

The Agents and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities.

Some of the Agents or their respective affiliates have, directly or indirectly, performed investment and/or commercial banking or financial advisory services for the Company and its affiliates, for which they may have received customary fees and commissions, and they expect to provide these services to the Company and its affiliates in the future, for which they may also receive customary fees and commissions.

In the ordinary course of their various business activities, the Agents and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the issuer. The Agents and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

RBS Securities Inc. is an indirect, wholly-owned subsidiary of RBSG and RBS.

There is no undertaking to register the Notes hereafter and they cannot be resold except pursuant to an effective registration statement or an exemption from the registration requirements of the Securities Act.

## **LEGAL MATTERS**

The validity of the Notes and the Guarantees have been passed upon for the Company and Royal Bank by their United States counsel, Davis Polk & Wardwell LLP and by their Scottish solicitors, Dundas & Wilson CS LLP. Certain legal matters relating to the issue and sale of the Notes have been passed upon for the Company and Royal Bank by their English counsel, Linklaters LLP. The Company's and the Royal Bank's Scottish solicitors, Dundas & Wilson CS LLP, will pass upon certain matters of Scots law relating to the subordination provisions of the Notes and the Guarantees. Certain legal matters relating to the Notes have been passed upon for the Agents by their United States counsel, Shearman & Sterling LLP.

## **INDEPENDENT AUDITORS**

The consolidated financial statements of the Group included in the 2010 Form 20-F and the audited consolidated annual financial statements of RBS incorporated by reference in this Offering Memorandum as well as the Group's internal control over financial reporting as of December 31, 2010, have been audited by Deloitte LLP, chartered accountants and registered auditors (authorized and regulated by the U.K. Financial Services Authority for designated investment business) and independent registered public accounting firm, as stated in their reports thereon, which are incorporated herein by reference.

## GENERAL INFORMATION AND RECENT DEVELOPMENTS

### GENERAL INFORMATION

This Offering Memorandum was published on June 7, 2011. The listing of the Program is expected to be effective on or around June 10, 2011.

The consolidated financial statements of RBSG for the years ended December 31, 2010 and December 31, 2009 and for the Royal Bank for the years ended December 31, 2010 and December 31, 2009 have been audited by Deloitte LLP, Chartered Accountants (authorized and regulated by the U.K. Financial Services Authority for designated investment business).

Deloitte LLP has also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group's internal control over financial reporting as of December 31, 2010 based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Deloitte LLP's report dated February 23, 2011 expressed an unqualified opinion on the Group's internal control over financial reporting

The financial information incorporated by reference in this Offering Memorandum in relation to the Issuers does not constitute the Issuers' statutory accounts. Statutory accounts for the year ended December 31, 2010, December 31, 2009 and December 31, 2008 which have been approved by the directors of each of the Issuers will be delivered to the Registrar of Companies in Scotland.

Deloitte LLP have reported on such statutory accounts and such report was unqualified and did not contain a statement under Section 498 of the Companies Act 2006.

Throughout the life of the Program, copies of the following documents may be inspected during normal business hours on a weekday at the specified office of the Paying Agent in London, at the RBS and RBSG headquarters in Edinburgh (RBS Gogarburn, P.O. Box 1000, Edinburgh EH12 1HQ, Scotland) and from the London office of Royal Bank for the time being in London:

- this Offering Memorandum and any Supplemental Offering Memorandum issued in connection with Notes issued hereunder and each of the documents incorporated by reference into this Offering Memorandum and any Supplemental Offering Memorandum;
- the Senior Indenture between the Company, Royal Bank and the Trustee, the Subordinated Indenture between the Company, Royal Bank and the Trustee, the form of Global Note, the Distribution Agreement between the Company, Royal Bank and the Agents for the Program, and the Paying Agent and Registrar Agreement between, among others, JPMorgan Chase Bank, N.A. (or its successor), as agent, the Company and Royal Bank; and
- any Final Terms relating to Notes which are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system.

The establishment of the Program and/or updates of the Program and/or the issuance of Notes thereunder (and, in the case of the Company, the giving of guarantees in respect of Notes issued by Royal Bank) have been duly authorized pursuant to resolutions of the board of directors of each of the Group and Royal Bank dated October 27, 2004, March 29, 2006, March 28, 2007, April 23, 2008, April 29, 2009, December 15, 2009 and, in respect of the Group only, January 20, 2010, and by resolutions of an authorized committee of the board of directors of each of the Company and Royal Bank, dated October 27, 2004, August 3, 2007, June 26, 2008 and June 15, 2009. On December 15, 2009, the board of directors of the Group and the board of directors of the Royal Bank approved in principle the delegation of the approval of the establishment of, and/or updates to, and/or issuance of, notes under debt issuance programs of the Group and the Royal Bank, to the Group Asset and Liability Management Committee ("GALCO"). On January 20, 2010, the board of directors of the Group subsequently approved revised terms of reference of GALCO to reflect its new authority to establish a sub-committee for each of the debt issuance programmes of the Group and the Royal Bank. On February 8, 2010 GALCO approved the appointment of a sub-committee of GALCO with the full authority to take all actions necessary or desirable (including the power to sub-delegate) in

connection with inter alia, the establishment of various Royal Bank debt issuance programmes including the Program. Under the terms of the delegated authority, a sub-committee of GALCO was convened on June 6, 2011 that authorized the update of the Program.

The listing of any Series of Notes on the Official List of the U.K. Listing Authority will be expressed as a percentage of their principal amount (excluding accrued interest). It is expected that each Series of Notes which is to be admitted to the Official List and to trading on the London Stock Market or any other listing authority, stock exchange and/or quotation system will be admitted separately as and when issued, subject only to the issue of a Global Note representing the Notes of such Series. The listing of the Program is expected to be effective on or around June 10, 2011.

The issue price and the amount of Notes in each series will be determined before issuing the relevant Final Terms, based on prevailing market conditions.

The relevant Issuer does not intend to provide post-issuance information in connection with any issue of Notes.

Settlement arrangements for the Notes are set forth in greater detail under “Description of the Notes and the Guarantees — Book-Entry, Delivery and Form and Description of the Notes and the Guarantees — Depository Procedures”.

The Issuers have appointed JPMorgan Chase Bank, N.A., which transferred its corporate trust business to The Bank of New York Mellon (previously named The Bank of New York) effective October 1, 2006, as their agent for the payment, authentication, transfer and exchange of the Notes pursuant to the Paying Agent and Registrar Agreement dated November 2, 2004, between, among others, JPMorgan Chase Bank, N.A., as agent, the Company and Royal Bank. The Bank of New York Mellon’s address for these purposes is The Bank of New York Mellon, 101 Barclay Street, 4E, New York, NY 10286 (as New York agent) and The Bank of New York Mellon, One Canada Square, London, E14 5AL (as London agent).

## **RECENT DEVELOPMENTS**

### **Investigations: Payment Protection Insurance**

Having conducted a market study relating to Payment Protection Insurance (“PPI”), on February 7, 2007 the OFT referred the PPI market to the Competition Commission (“CC”) for an in-depth inquiry. The CC published its final report on January 29, 2009 and announced its intention to order a range of remedies, including a prohibition on actively selling PPI at point of sale of the credit product (and for 7 days thereafter), a ban on single premium policies and other measures to increase transparency (in order to improve customers’ ability to search and improve price competition). Barclays Bank PLC subsequently appealed certain CC findings to the Competition Appeal Tribunal. On October 16, 2009, the CAT handed down a judgment quashing the ban on selling PPI at the point of sale of credit products and remitted the matter back to the CC for review. On May 14, 2010, the CC published its Provisional Decision following its review of remedies in the PPI market indicating that the CC still intends to impose a prohibition on selling PPI at point of sale of the credit product. On October 14, 2010, the CC published its final decision on remedies following the remittal, which confirmed the point of sale prohibition. The CC intends to make the final order in the first quarter of 2011, with the key measures coming into force in October 2011 and April 2012.

The FSA has been conducting a broad industry thematic review of PPI sales practices and in September 2008, the FSA announced that it intended to escalate its level of regulatory intervention. Substantial numbers of customer complaints alleging the misselling of PPI policies have been made to banks and to the Financial Ombudsman Service (“FOS”) and many of these are being upheld by the FOS against the banks.

Following unsuccessful negotiations with the industry, the U.K. Financial Services Authority issued consultation papers on payment protection insurance (“PPI”) complaint handling and redress in September 2009 and again in March 2010. The U.K. Financial Services Authority published its final policy statement on August 10, 2010 and instructed firms to implement the measures contained in it by December 1, 2010. The new rules impose significant changes with respect to the handling of complaints related to misselling PPI. On October 8, 2010, the British Bankers’ Association (the “BBA”) filed an application for judicial review of the U.K. Financial Services



Authority's policy statement and of related guidance issued by the Financial Ombudsman Service (the "FOS"). The application was heard in January 2011. On April 20, 2011, the High Court issued a judgment in favor of the U.K. Financial Services Authority and the FOS. The BBA announced on May 9, 2011 that it would not appeal that judgment and the Group supports this position. On May 9, 2011, the Group announced that, although the costs of PPI redress and its administration are subject to a degree of uncertainty, the Group will record an additional provision of £850 million in the three months ended June 30, 2011. To date, the Group has paid compensation to customers of approximately £100 million and the Group has an existing provision of approximately £100 million.

The Group is currently discussing the implementation of the FSA's policy statement and its requirements with the FSA. As part of these discussions, the Group will review its PPI complaint handling processes to ensure that redress is offered to any customers identified as having suffered detriment.

### **Significant Change and Material Adverse Change**

Save in relation to the matters referred to in the section headed "Investigations: Payment Protection Insurance" above, which relates to past sales of Payment Protection Insurance:

(a) there has been no significant change in the trading or financial position of the Group taken as a whole since March 31, 2011 (the end of the last financial period for which either audited financial information or interim financial information of the Group has been published);

(b) there has been no material adverse change in the prospects of the Group taken as a whole since December 31, 2010 (the date to which the latest audited published financial information of the Group was prepared);

(c) there has been no significant change in the trading or financial position of RBS Group taken as a whole since December 31, 2010 (the end of the last financial period for which either audited financial information or interim financial information of the RBS Group has been published); and

(d) there has been no material adverse change in the prospects of the RBS Group taken as a whole since December 31, 2010 (the date to which the latest audited published financial information of the RBS Group was prepared).

### **Proposed transfers of a substantial part of the business activities of The Royal Bank of Scotland N.V. to The Royal Bank of Scotland plc**

On April 19, 2011, the boards of RBSG, RBS, RBS Holdings N.V. and RBS N.V. approved the proposed transfers of a substantial part of the business activities of RBS N.V. to RBS (the "Proposed Transfers"), subject, among other matters, to regulatory and other approvals, further tax and other analysis in respect of the assets and liabilities to be transferred and employee consultation procedures. It is expected that the Proposed Transfers will be implemented on a phased basis over a period ending December 31, 2013. A large portion of the Proposed Transfers (including the transfers of certain securities issued by RBS N.V.) is expected to have taken place by the end of 2012. For further information see the press release entitled "Proposed transfers of a substantial part of the business activities of RBS N.V. to RBS plc" (excluding (i) the statement therein which reads "Certain unaudited pro forma condensed consolidated financial information relating to RBS Holdings N.V. is set out in the Appendix to this announcement" and (ii) the Appendix thereto) on Form 6-K filed on April 19, 2011, which is incorporated by reference into this Offering Memorandum.

### **Material contracts**

RBSG and members of the Group, and RBS and member of the RBS Group, are party to various contracts in the ordinary course of business. Material contracts are described on pages 345 to 350 of the 2010 Form 20-F.

## GLOSSARY

Set forth below are definitions, or the locations elsewhere of definitions, of some of the terms used in this Offering Memorandum.

“**Business Day**” when used with respect to any place of payment or any other particular location means any day which is not a Saturday or Sunday or a day on which banking institutions in that place of payment or in that other location are authorized or obligated by law to remain closed.

“**Calculation Agent**” means the agent appointed by an Issuer to calculate interest rates for Floating Rate Notes. Unless otherwise provided in a Final Terms, the Calculation Agent will be the Paying Agent.

“**Calculation Date**” means the date on which the Calculation Agent is to calculate an interest rate with respect to a Floating Rate Note as specified in the fourth paragraph under the heading “Description of the Notes and the Guarantees — Floating Rate Notes”.

“**CD Rate**” means the rate calculated as set forth under the heading “Description of the Notes and the Guarantees — Floating Rate Notes — CD Rate”, unless otherwise indicated in the applicable Final Terms.

“**CMT Rate**” means the rate calculated as set forth under the heading “Description of the Notes and the Guarantees — Floating Rate Notes — CMT Rate”, unless otherwise indicated in the applicable Final Terms.

“**Commercial Paper Rate**” means the rate calculated as set forth under the heading “Description of the Notes and the Guarantees — Floating Rate Notes — Commercial Paper Rate”, unless otherwise indicated in the applicable Final Terms.

“**EURIBOR**” means the rate calculated as set forth under the heading of “Description of the Notes and the Guarantees — Floating Rate Notes — EURIBOR”, unless otherwise indicated in the applicable Final Terms.

“**Exchange Rate Agent**” means the agent appointed by an Issuer to convert principal and any premium and interest payments in respect of Foreign Currency Notes into U.S. dollars. Unless otherwise provided in a Final Terms, the Exchange Rate Agent will be the Paying Agent.

“**Federal Funds Rate**” means the rate calculated as set forth under the heading “Description of the Notes and the Guarantees — Floating Rate Notes — Federal Funds Rate”, unless otherwise indicated in the applicable Final Terms.

“**Fixed Rate Commencement Date**” shall have the meaning set forth under the heading “Description of the Notes and the Guarantees — Floating Rate Notes”.

“**Fixed Rate Note**” shall have the meaning set forth under the heading “Description of the Notes and the Guarantees — Interest”.

“**Floating Rate Note**” shall have the meaning set forth under the heading “Description of the Notes and the Guarantees — Interest”.

“**H.15 (519)**” shall have the meaning set forth under the heading “Description of the Notes and the Guarantees — Floating Rate Notes — Commercial Paper Rate”.

“**H.15 Daily Update**” shall have the meaning set forth under the heading “Description of the Notes and the Guarantees — Floating Rate Notes — Commercial Paper Rate”.

“**Index Maturity**” shall have the meaning set forth under the heading “Description of the Notes and the Guarantees — Floating Rate Notes”.

“**Initial Interest Rate**” means the rate at which a Floating Rate Note will bear interest from its date of issue to the first Interest Reset Date, as indicated in the applicable Final Terms.

“**Interest Determination Date**” means the date as of which the interest rate for a Floating Rate Note is to be calculated, to be effective as of the following Interest Reset Date and calculated on the related Calculation Date (except in the case of LIBOR, which is calculated on the related LIBOR Interest Determination Date). See the third paragraph under the heading “Description of the Notes and the Guarantees — Floating Rate Notes” for the Interest Determination Dates for Floating Rate Notes. The Interest Determination Dates for any Floating Rate Note will also be indicated in the applicable Final Terms.

“**Interest Reset Date**” means a date upon which the rate of interest on a Floating Rate Note will be reset. Unless otherwise specified in the applicable Final Terms, the Interest Reset Date for a Floating Rate Note will be as specified in the second paragraph under the heading “Description of the Notes and the Guarantees — Floating Rate Notes”.

“**LIBOR**” means the rate calculated as set forth under the heading of “Description of the Notes and the Guarantees — Floating Rate Notes — LIBOR” unless otherwise indicated in the applicable Final Terms.

“**London Market Day**” means any day on which deposits in U.S. dollars are transacted in the London interbank market.

“**Market Day**” means (a) with respect to any Note other than a Foreign Currency Note or a Note the Interest Rate Basis of which is LIBOR, any Business Day in The City of New York, (b) with respect to Notes the Interest Rate Basis of which is LIBOR only, any Business Day in The City of New York that is also a Business Day in London, England on which dealings in deposits in U.S. dollars, are transacted in the London interbank market, (c) with respect to Foreign Currency Notes only, any Business Day in The City of New York that is also a Business Day in the financial center of the country of the Specified Currency or, with respect to Foreign Currency Notes denominated in euro and on which the Trans-European Automated Real Time Gross Settlement Express Transfer System 2 (TARGET2) System is operating, and (d) any other Business Day specified in the applicable Final Terms.

“**Market Exchange Rate**” for any Specified Currency means the noon buying rate in The City of New York for cable transfers for such Specified Currency as certified for customs purposes by (or, if not so certified, as otherwise determined by) the Federal Reserve Bank of New York.

“**Maturity**” when used with respect to any Note means the date on which the principal of such Note or an installment of principal becomes due and payable, whether at the Stated Maturity or by declaration of acceleration, call for redemption, exercise of option to require repayment or otherwise.

“**New York City Banking Day**” means any day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in The City of New York.

“**Original Issue Date**” shall have the meaning set forth in the sixth paragraph under the heading “Description of the Notes and the Guarantees — General”.

“**Prime Rate**” means the rate calculated as set forth under the heading “Description of Notes and the Guarantees — Floating Rate Notes — Prime Rate”, unless otherwise indicated in the applicable Final Terms.

“**Principal Financial Center**” means, as applicable: (i) the capital city of the country issuing the Specified Currency; or (ii) the capital city of the country to which the LIBOR Currency relates; *provided, however*, that with respect to United States dollars, Australian dollars, Canadian dollars, Euro, South African rand and Swiss francs, the “Principal Financial Center” shall be The City of New York, Sydney, Toronto, London (solely in the case of the LIBOR Currency), Johannesburg and Zurich, respectively.

“**Program Exchange Rate**” for any Specified Currency means the Paying Agent’s London office’s spot rate of exchange for the sale in London of U.S. dollars for such Specified Currency on the date the relevant Issuer agreed to issue the relevant Notes or such other amount as the Company (on behalf of itself and the relevant Issuer) and the Agents may agree.

“**Redemption Price**” when used with respect to any Note to be redeemed, means the price at which it is to be redeemed pursuant to the applicable Indenture and the applicable Final Terms, exclusive of accrued and unpaid interest, if any.

“**Regular Record Date**” means, in respect of any Interest Payment Date, the fifteenth day next preceding such Interest Payment Date, unless otherwise indicated in the applicable Final Terms.

“**Specified Currency**” shall have the meaning set forth in the first paragraph under the heading “Special Provisions Relating to Foreign Currency Notes — General”.

“**Spread**” shall have the meaning set forth under the heading “Description of the Notes and the Guarantees — Floating Rate Notes”.

“**Spread Multiplier**” shall have the meaning set forth under the heading “Description of the Notes and the Guarantees — Floating Rate Notes”.

“**Stated Maturity**” when used with respect to any Note or any installment of principal thereof or interest thereon, means the date specified in such Note as the fixed date on which the principal of such Note or such installment of principal or interest is due and payable.

“**TARGET Settlement Day**” means the day as set forth under the heading of “Description of the Notes and the Guarantees — Floating Rate Notes — Interest Determination Dates”, unless otherwise indicated in the applicable Final Terms.

“**Treasury Rate**” means the rate calculated as set forth under the heading “Description of the Notes and the Guarantees — Floating Rate Notes — Treasury Rate”, unless otherwise indicated in the applicable Final Terms.

“**U.K. Taxing Jurisdiction**” means the United Kingdom or any United Kingdom political subdivision or authority that has the power to tax.

“**U.S. Government Securities Business Day**” means any day except for a Saturday, Sunday or a day on which The Bond Market Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

## Appendix I — Form of Final Terms

THE ROYAL BANK OF SCOTLAND GROUP PLC  
Issue of [Aggregate Principal Amount] [Title of Notes] under the \$35,000,000,000  
Medium-Term Note Program Due Six Months or More from Date of Issue

### FORM OF FINAL TERMS (Number [ ])

Dated [ ]

To Offering Memorandum dated June 7, 2011 (the “Offering Memorandum”), [as  
supplemented by Supplementary Offering Memorandum dated [ ]]

This document constitutes the Final Terms relating to the issue of Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71 /EC, the “Prospectus Directive”).

These Final Terms contain the final terms of the Notes and must be read in conjunction with the Offering Memorandum, which (save as described therein) constitutes a base prospectus for the purposes of the Prospectus Directive. Terms used but not defined herein have the meanings given in the Offering Memorandum.

Issuer: The Royal Bank of Scotland Group plc

Status:

Senior/Subordinated:

Tier 2 Capital (No/Lower/Upper):

Principal Amount:

Original Issue Date:

Maturity Date (if any):

Issue Price:

Specified Currency:

Listing:

Option to Receive Payment in Specified Currency:

Denominations:

Interest:

Computation Period:

Amortizing:

If a Fixed Rate Note:

- (a) Interest Rate (which shall be zero in the case of a zero coupon note):
- (b) Alternate Interest Payment Date(s) if applicable:
- (c) Indication of Yield:

If a Floating Rate Note:

- (a) Interest Rate Bas(is) (es):
- (b) Initial Interest Rate:
- (c) Spread (plus or minus), if applicable:
- (d) Spread Multiplier, if applicable:
- (e) LIBOR Currency:
- (f) LIBOR Page Initial Interest Rate, if applicable:
- (g) Alternate Spread (plus or minus), if applicable:
- (h) Alternate Spread Multiplier; if applicable:
- (i) Maximum Interest Rate, if applicable:
- (j) Minimum Interest Rate, if applicable:
- (k) Index Maturity, if applicable:
- (l) Interest Payment Period:
- (m) Interest Reset Period:

- (n) Initial Interest Reset Date:
- (o) Interest Rate Reset Date(s)/Month(s):
- (p) Interest Payment Date(s)/Month(s):
- (q) Interest Determination Date(s):
- (r) Calculation Agent:
- (s) Calculation Date(s):

If an OID Note:

- (a) Original Issue Discount:
- (b) Stated Yield:
- (c) Yield to Maturity:
- (d) OID as a Percentage of Principal Amount:
- (e) Short Accrual Period OID:
- (f) Method to Determine Yield to Maturity  
Applicable to Short Accrual Period  
(Approximate or Exact):

If Redeemable (other than Optional Tax Redemption):

- (a) Redemption Date(s):
- (b) Redemption Prices, if applicable:
- (c) Redemption Periods, if applicable:
- (d) Redemption Percentage(s), if applicable:
- (e) Initial Redemption Price, if applicable:
- (f) Annual Premium Reduction Amount, if applicable:
- (g) Redemption at Option of Holder or Issuer:

Rating

[Standard & Poor's Credit Market Services Europe Limited: [ ]]

[Moody's Investors Service Limited: [ ]]

[Fitch Ratings Limited: [ ]]

[[*Insert credit rating agency*] is established in the European Union and has applied for registration under Regulation (EC) No. 1060/2009, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.]

[[*Insert credit rating agency*] is established in the European Union and is registered under Regulation (EC) No. 1060/2009.]

[[*Insert credit rating agency*] is not established in the European Union and is not registered in accordance with Regulation (EC) No. 1060/2009.]

[[*Insert credit rating agency*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009. However, the application for registration under Regulation (EC) No. 1060/2009 of [*insert the name of the relevant EU CRA affiliate that applied for registration*], which is established in the European Union, disclosed the intention to endorse credit ratings of [*insert credit rating agency*].]

[[*Insert credit rating agency*] is not established in the

European Union and has not applied for registration under Regulation (EC) No. 1060/2009. The ratings [[have been]/[are expected to be]] endorsed by [*insert the name of the relevant EU-registered credit rating agency*] in accordance with Regulation (EC) No. 1060/2009. [*Insert the name of the relevant EU-registered credit rating agency*] is established in the European Union and registered under Regulation (EC) No. 1060/2009.]

[[*Insert credit rating agency*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009, but it is certified in accordance with such Regulation.]

Estimate of total expenses related to admission to trading:

Purchase Price (price to Agents): [ ]% of Principal Amount

Lead Agent(s)/Bookrunning Agent(s), if applicable, and purchase commitments:

Stabilization Manager(s):

Day Count Fraction:

Settlement Date and Time: [*include a description of the settlement procedure of the derivative securities*]

Form: Registered/Global

CUSIP For 144A Notes:

For Regulation S Notes:

ISIN For 144A Notes:

For Regulation S Notes:

The Notes are being purchased pursuant to the Amended and Restated Distribution Agreement dated June 7, 2011 among The Royal Bank of Scotland Group plc, The Royal Bank of Scotland plc and the agents named therein. [Add name of any additional agents not previously named and appointed for relevant transaction].

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[*Include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:*

“Save as discussed in the “Plan of Distribution” section of the Offering Memorandum, so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.”]

[*Include for listed Notes only:*

These Final Terms comprise the final terms required for issue and admission to trading on the [*specify relevant regulated market*] of the Notes described herein pursuant to the Medium Term Note Program of The Royal Bank of Scotland Group plc and The Royal Bank of Scotland plc for the issuance of Medium-Term Notes due six months or more from date of issuance pursuant to the Offering Memorandum dated June 7, 2011.]

[*Include any other information concerning the underlying as required by Annex 12.4.2 of the Prospectus Directive Regulation of April 29, 2004, including:*

Index/formula/other variable: [*give or annex details*]

Provisions for determining coupon where calculated by reference to index and/or formula and/or other variable: [ ]

Provision for determining coupon where calculation by reference to index and/or formula and/or other variable is [*need to include a description of market disruption or settlement disruption events and adjustment*]

impossible or impracticable or otherwise disrupted: *provisions]*

Final redemption amount: [            ]

In cases where the final redemption amount is index-linked or other variable-linked:

(i) index/formula/variable: *[give or annex details]*

(ii) Provisions for determining final redemption amount where calculated by reference to index and/or formula and/or other variable: [            ]

(iii) Provisions for determining final redemption amount where calculation by reference to index and/or formula and/or other variable is impossible or impracticable or otherwise disrupted: [            ]

*Include for index-linked or other variable-linked Notes only:*

**PERFORMANCE OF INDEX/FORMULA/OTHER VARIABLE, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING<sup>1</sup>**

*Include details of where past and future performance and volatility of the index/formula/other variable can be obtained and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident. Where the underlying is an index, include the name of the index and a description if composed by the Issuer, and if the index is not composed by the Issuer, include details of where the information about the index can be obtained. Where the underlying is not an index, include equivalent information.]*

**Responsibility**

The Royal Bank of Scotland Group plc accepts responsibility for the information contained in these Final Terms. *[[Information on underlying assets]* has been extracted from *[source]*. The Royal Bank of Scotland Group plc confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [    ], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of The Royal Bank of Scotland Group plc:

By: \_\_\_\_\_  
Duly authorized]

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<sup>1</sup> Required for derivative securities to which Annex XII to the Prospectus Directive Regulation applies.



THE ROYAL BANK OF SCOTLAND PLC

Issue of [Aggregate Principal Amount] [Title of Notes] under the \$35,000,000,000  
Medium-Term Note Program Due Six Months or More from Date of Issue

FORM OF FINAL TERMS

(Number [ ])

Dated [ ]

To Offering Memorandum dated June 7, 2011 (the “Offering Memorandum”), [as  
supplemented by Supplementary Offering Memorandum dated [ ]]

This document constitutes the Final Terms relating to the issue of Notes described herein, for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71 /EC, the “Prospectus Directive”).

These Final Terms contain the final terms of the Notes and must be read in conjunction with the Offering Memorandum, which (save as described therein) constitutes a base prospectus for the purposes of the Prospectus Directive. Terms used but not defined herein have the meanings given in the Offering Memorandum.

Issuer: The Royal Bank of Scotland plc  
Guarantor: The Royal Bank of Scotland Group plc  
Status:  
Senior/Subordinated:  
Guaranteed:  
Tier 2 Capital (No/Lower/Upper):  
Principal Amount:  
Original Issue Date:  
Maturity Date (if any):  
Issue Price:  
Specified Currency:  
Listing:  
Option to Receive Payment in Specified Currency:  
Denominations:  
Interest:  
Computation Period:  
Amortizing:  
If a Fixed Rate Note:  
(a) Interest Rate (which shall be zero in the case of a zero coupon note):  
(b) Alternate Interest Payment Date(s) if applicable:  
(c) Indication of Yield:  
If a Floating Rate Note:  
(a) Interest Rate Bas(is) (es):  
(b) Initial Interest Rate:  
(c) Spread (plus or minus), if applicable:  
(d) Spread Multiplier, if applicable:  
(e) LIBOR Currency:  
(f) LIBOR Page Initial Interest Rate, if applicable:  
(g) Alternate Spread (plus or minus), if applicable;  
(h) Alternate Spread Multiplier, if applicable:  
(i) Maximum Interest Rate, if applicable:  
(j) Minimum Interest Rate, if applicable:  
(k) Index Maturity, if applicable:  
(l) Interest Payment Period:  
(m) Interest Reset Period:

- (n) Initial Interest Reset Date:
- (o) Interest Rate Reset Date(s)/Month(s):
- (p) Interest Payment Date(s)/Month(s):
- (q) Interest Determination Date(s):
- (r) Calculation Agent:
- (s) Calculation Date(s):

If an OID Note:

- (a) Original Issue Discount:
- (b) Stated Yield:
- (c) Yield to Maturity:
- (d) OID as a Percentage of Principal Amount:
- (e) Short Accrual Period OID:
- (f) Method to Determine Yield to Maturity  
Applicable to Short Accrual Period  
(Approximate or Exact):

If Redeemable (other than Optional Tax Redemption):

- (a) Redemption Date(s):
- (b) Redemption Prices, if applicable:
- (c) Redemption Periods, if applicable:
- (d) Redemption Percentage(s), if applicable:
- (e) Initial Redemption Price, if applicable:
- (f) Annual Premium Reduction Amount, if applicable:
- (g) Redemption at Option of Holder or Issuer:

Rating

[Standard & Poor's Credit Market Services Europe Limited: [ ]]

[Moody's Investors Service Limited: [ ]]

[Fitch Ratings Limited: [ ]]

[[*Insert credit rating agency*] is established in the European Union and has applied for registration under Regulation (EC) No. 1060/2009, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.]

[[*Insert credit rating agency*] is established in the European Union and is registered under Regulation (EC) No. 1060/2009.]

[[*Insert credit rating agency*] is not established in the European Union and is not registered in accordance with Regulation (EC) No. 1060/2009.]

[[*Insert credit rating agency*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009. However, the application for registration under Regulation (EC) No. 1060/2009 of [*insert the name of the relevant EU CRA affiliate that applied for registration*], which is established in the European Union, disclosed the intention to endorse credit ratings of [*insert credit rating agency*].]

[[*Insert credit rating agency*] is not established in the

European Union and has not applied for registration under Regulation (EC) No. 1060/2009. The ratings [[have been]/[are expected to be]] endorsed by [*insert the name of the relevant EU-registered credit rating agency*] in accordance with Regulation (EC) No. 1060/2009. [*Insert the name of the relevant EU-registered credit rating agency*] is established in the European Union and registered under Regulation (EC) No. 1060/2009.]

[[*Insert credit rating agency*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009, but it is certified in accordance with such Regulation.]

Estimate of total expenses related to admission to trading:

Purchase Price (price to Agents): [ ]% of Principal Amount

Lead Agent (s) /Bookrunning Agent(s), if applicable, and purchase commitments:

Stabilization Manager(s):

Day Count Fraction:

Settlement Date and Time:

[*include a description of the settlement procedure of the derivative securities*]

Form:  
CUSIP

Registered/Global  
For 144A Notes:  
For Regulation S Notes:  
For 144A Notes:  
For Regulation S Notes:

ISIN

The Notes are being purchased pursuant to the Amended and Restated Distribution Agreement dated June 7, 2011, among The Royal Bank of Scotland Group plc, The Royal Bank of Scotland plc and the agents named therein. [Add name of any additional agents not previously named and appointed for relevant transaction].

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[*Include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:*

“Save as discussed in the “Plan of Distribution” section of the Offering Memorandum, so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.”]

[*Include for listed Notes only:*

These Final Terms comprise the final terms required for issue and admission to trading on the [*specify relevant regulated market*] of the Notes described herein pursuant to the Medium Term Note Program of The Royal Bank of Scotland Group plc and The Royal Bank of Scotland plc for the issuance of Medium-Term Notes due six months or more from date of issuance pursuant to the Offering Memorandum dated June 7, 2011.

[*Include any other information concerning the underlying as required by Annex 12.4.2 of the Prospectus Directive Regulation of April 29, 2004, including:*

Index/formula/other variable: [give or annex details]

Provisions for determining coupon where calculated by reference to index and/or formula and/or other variable: [ ]

Provision for determining coupon where calculation by reference to index and/or formula and/or other variable is impossible or impracticable or otherwise disrupted:

[need to include a description of market disruption or settlement disruption events and adjustment provisions]

Final redemption amount:

[ ]

In cases where the final redemption amount is index-linked or other variable-linked:

- (i) Index/formula/variable: [give or annex details]
- (ii) Provisions for determining final redemption amount where calculated by reference to index and/or formula and/or other variable: [ ]
- (iii) Provisions for determining final redemption amount where calculation by reference to index and/or formula and/or other variable is impossible or impracticable or otherwise disrupted: [ ]

*Include for index-linked or other variable-linked Notes only:*

#### PERFORMANCE OF INDEX/FORMULA/OTHER VARIABLE, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING<sup>2</sup>

*Include details of where past and future performance and volatility of the index/formula/other variable can be obtained and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident. Where the underlying is an index, include the name of the index and a description if composed by the Issuer, and if the index is not composed by the Issuer, include details of where the information about the index can be obtained. Where the underlying is not an index, include equivalent information.]*

#### **Responsibility**

The Royal Bank of Scotland plc (as Issuer) and The Royal Bank of Scotland Group plc (as Guarantor) accept responsibility for the information contained in these Final Terms. [[Information on underlying assets] has been extracted from [source]. Each of The Royal Bank of Scotland plc (as Issuer) and The Royal Bank of Scotland Group plc (as Guarantor) confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [ ], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of The Royal Bank of Scotland plc (as Issuer):

By: \_\_\_\_\_  
Duly authorized

Signed on behalf of The Royal Bank of Scotland Group plc (as Guarantor):

By: \_\_\_\_\_  
Duly authorized

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<sup>2</sup> Required for derivative securities to which Annex XII to the Prospectus Directive Regulation applies.

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## ISSUERS

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*To the Trustee*

*as to United States law*

**Emmet, Marvin & Martin, LLP**

120 Broadway 32<sup>nd</sup> Floor  
New York, NY 10271

## PAYING AGENT

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**The Bank of New York Mellon**

101 Barclay Street, 4E  
New York, NY 10286

*U.K.*

**The Bank of New York Mellon**

One Canada Square  
London E14 5AL

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as to English law*

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*To the Agents  
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*To the Issuers  
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**Davis Polk & Wardwell LLP**

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London EC2V 7NG

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Stamford, CT 06901

**Deutsche Bank Securities Inc.**

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New York, NY 10005

**Merrill Lynch, Pierce, Fenner & Smith**

**Incorporated**  
One Bryant Park  
New York, NY 10036

**Barclays Capital Inc.**

745 Seventh Avenue  
New York, NY 10019

**Goldman, Sachs & Co.**

200 West Street  
New York, NY 10282

**Morgan Stanley & Co. LLC**

1585 Broadway  
New York, NY 10036

**Citigroup Global Markets Inc.**

388 Greenwich Street  
New York, NY 10013

**J.P. Morgan Securities LLC**

383 Madison Avenue  
New York, NY 10179

**UBS Securities LLC**

677 Washington Boulevard  
Stamford, CT 06901

**Wells Fargo Securities, LLC**

301 S. College Street  
Charlotte, NC 28288

## INDEPENDENT PUBLIC ACCOUNTANTS

*To the Issuers*

**Deloitte LLP**

Chartered Accountants  
2 New Street Square  
London EC4A 3B2