

## SUPPLEMENTARY OFFERING MEMORANDUM DATED 18 NOVEMBER 2013



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

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

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

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

**£90,000,000,000**

### **Euro Medium Term Note Programme**

Pages 1 to 120 inclusive of the offering memorandum dated 22 March 2013 (the “**Offering Memorandum**”) comprise a base prospectus for the purpose of Directive 2003/71/EC, as amended (the “**Prospectus Directive**”) (the “**Prospectus**”) in respect of notes to be admitted to the Official List of the UK Listing Authority and to be admitted to trading on the London Stock Exchange’s regulated market (“**Notes**” or “**PD Notes**”). Pages 121 to 195 inclusive of the Offering Memorandum comprise an offering circular (the “**Offering Circular**”). The Offering Circular has been prepared by the Issuers (as defined below) in connection with the issuance of notes other than PD Notes (“**Non PD Notes**” and, together with the PD Notes, the “**Programme Notes**”). The Offering Circular has not been reviewed or approved by the UK Listing Authority and does not constitute a prospectus for the purpose of the Prospectus Directive.

### **Supplementary Prospectus**

Pages 1 to 6 inclusive of this supplement (the “**7<sup>th</sup> Supplementary Prospectus**”) constitute a supplementary prospectus for the purposes of the Section 87G of the Financial Services and Markets Act 2000 (the “**FSMA**”) and have been prepared in connection with the £90,000,000,000 Euro Medium Term Note Programme (the “**Programme**”) established by The Royal Bank of Scotland Group plc (“**RBSG**”) and The Royal Bank of Scotland plc (“**RBS**”) (each, an “**Issuer**” and together, the “**Issuers**”). Terms defined in the Prospectus have the same meaning when used in this 7<sup>th</sup> Supplementary Prospectus.

This 7<sup>th</sup> Supplementary Prospectus is supplemental to, and should be read in conjunction with, the Prospectus and the documents incorporated by reference therein. This 7<sup>th</sup> Supplementary Prospectus should also be read and construed in conjunction with the supplementary prospectuses dated 25 April 2013, 16 May 2013, 2 July 2013, 9 August 2013, 5 September 2013 and 7 October 2013 (the “**Previous Supplementary Prospectuses**”) and the documents incorporated by reference therein which have been previously published and have been approved by the Financial Conduct Authority (the “**FCA**”) and filed with it and which form part of the Prospectus.

Each Issuer accepts responsibility for the information contained in this 7<sup>th</sup> Supplementary Prospectus. To the best of the knowledge of each Issuer (each having taken all reasonable care to ensure that such is the case) such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

## Purpose of the Supplementary Prospectus

The purpose of the 7<sup>th</sup> Supplementary Prospectus is to:

- (a) incorporate by reference into the Prospectus:
  - (i) the RBSG Interim Management Statement (as defined below); and
  - (ii) the 7 November RMBS RNS (as defined below); and
- (b) update:
  - (i) the expected ratings by Standard & Poor's Credit Market Services Europe Limited ("**Standard & Poor's**") of Notes issued by RBSG and RBS. This update is necessary following an announcement by Standard & Poor's on 7 November 2013 of revisions to those ratings to reflect the fact that a transitional notch, called a 'positive transition notch', that was built into the Group's ratings in late 2011 in recognition of the progress the Group had made in its restructuring has now been removed.  
The Group's recent announcement to create an internal bad bank, coupled with Standard & Poor's concerns on execution risk, litigation risk and the potential for conduct related fines has resulted in the removal of this transition notch;
  - (ii) risks relating to the Group and the Issuer Group;
  - (iii) risks relating to the Notes; and
  - (iv) certain information relating to litigation and investigations.

## Incorporation of Information by Reference

By virtue of this 7<sup>th</sup> Supplementary Prospectus:

- (i) the unaudited Interim Management Statement Q3 2013 of RBSG (the "**RBSG Interim Management Statement**"), which was published via the Regulatory News Service of the London Stock Exchange plc (the "**RNS**") on 1 November 2013; and
- (ii) the press release entitled "RBS reaches settlement with SEC on RMBS securitisation" which was published via the RNS on 7 November 2013 (the "**7 November RMBS RNS**"),

each of which has been (1) previously published and (2) filed with the FCA, shall be incorporated in, and form part of, the Prospectus.

A copy of any or all of the information which is incorporated by reference in the Prospectus can be obtained from the website of RBSG at <http://www.rbs.com> and from the London Stock Exchange plc's website at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

If the document which is incorporated by reference in the Prospectus by virtue of this 7<sup>th</sup> Supplementary Prospectus itself incorporates any information or other documents therein, either expressly or implicitly, such information or other documents will not form part of the Prospectus except where such information or other documents are specifically incorporated by reference in, or attached to, the Prospectus by virtue of this 7<sup>th</sup> Supplementary Prospectus.

## Ratings Information

Standard & Poor's is expected to rate Notes issued by RBSG as follows:

	Previous	Current
Senior Notes – Maturity of one year or more	A-	BBB+

Standard & Poor's is expected to rate Notes issued by RBS as follows:

	Previous	Current
Senior Notes – Maturity of one year or more	A	A-
Senior Notes – Maturity of less than one year	A-1	A-2

As defined by Standard & Poor's, a "BBB+" rating means that the ability of the Issuer to meet its financial commitment on the relevant notes issued by it is adequate, an "A-" rating means that the ability of the Issuer to meet its financial commitment on the relevant notes issued by it is strong and an "A-2" rating means that the ability of the Issuer to meet its financial commitment on the relevant notes issued by it is satisfactory. As defined by Standard & Poor's, an addition of a plus (+) or minus (-) sign shows relative standing within the major rating categories.

The rating definitions set out above constitute third-party information and were obtained in the English language from the publication entitled "Standard & Poor's Ratings Definitions — 24 October 2013" published by Standard & Poor's (available at [www.standardandpoors.com](http://www.standardandpoors.com)).

The information found at the website referred to in the previous sentence does not form part of and is not incorporated by reference into this 7<sup>th</sup> Supplementary Prospectus. The rating definitions set out above have been accurately reproduced from the source identified above and, so far as RBSG and RBS are aware and are able to ascertain from information published by Standard & Poor's referred to above, no facts have been omitted which would render the ratings definitions set out above inaccurate or misleading.

#### **Risk Factors relating to the Group and the Issuer Group**

The Group and the Issuer Group are subject to the following updated risk factor relating to the Group's ability to implement its strategic plan and achieve its capital goals as a result of recent developments:

**The Group's ability to implement its new strategic plan and achieve its capital goals depends on the success of the Group's refocus on its core strengths and its plans to further strengthen its balance sheet and capital position.**

Since the global economic and financial crisis that began in 2008 and the changed global economic outlook, the Group has been engaged in a financial and core business restructuring which focused on achieving appropriate risk-adjusted returns under these changed circumstances, reducing reliance on wholesale funding and lowering exposure to capital-intensive businesses. A key part of the restructuring programme announced in February 2009 was to run-down and sell the Group's non-core assets and businesses and the continued review of the Group's portfolio to identify further disposals of certain non-core assets and businesses. Assets identified for this purpose and allocated to the Group's Non-Core division totalled £258 billion, excluding derivatives, at 31 December 2008. By 30 September 2013, this total had reduced to £37.3 billion (31 December 2012 - £57.4 billion), excluding derivatives, as further progress was made in business

disposals and portfolio sales during the course of 2013. This balance sheet reduction programme continues alongside the disposals under the State Aid restructuring plan approved by the European Commission. During 2012 the Group implemented changes to its wholesale banking operations, including the reorganisation of its wholesale businesses and the exit and downsizing of selected existing activities (including cash equities, corporate banking, equity capital markets, and mergers and acquisitions).

During Q3 2013, the Group has worked with HM Treasury as part of its assessment of the merits of creating an external “bad bank” to hold certain assets of the Group. Although the review concluded that the establishment of an external “bad bank” was not in the best interests of all stakeholders, the Group has committed to take a series of actions to further de-risk its business and strengthen its capital position. These actions include:

- the creation of an internal “bad bank” to manage the run-down of problem assets projected to be £38 billion by the end of 2013, with the goal of removing 55-70% of these assets over the next two years with a clear aspiration to remove all these assets from the balance sheet in three years; and
- lifting capital targets including by:
  - accelerating the divestment of Citizens, the Group’s US banking subsidiary, with a partial initial public offering now planned for 2014, and full divestment of the business intended by the end of 2016;
  - intensifying management actions to reduce risk weighted assets.

In addition to the actions above, the Group has also announced that it is undertaking a full review of the Group’s Customer-facing businesses, IT and operations and its organisational and decision-making structures to develop detailed plans on how the Group can realign its cost base with a target of reducing its cost:income percentage into the mid 50s, down from 65 per cent. currently. The outcome of this review will be announced at the time of the Group’s 2013 year-end results in February 2014. The outcome of such review could result in additional actions to those identified above, including asset sales, restructuring of businesses and other similar actions.

Because the ability to dispose of businesses and assets and the price achieved for such disposals will be dependent on prevailing economic and market conditions, which remain volatile, there is no assurance that the Group will be able to sell or run-down (as applicable) the businesses it has planned to sell or exit or asset portfolios it is seeking to sell either on favourable economic terms to the Group or at all. Material tax or other contingent liabilities could arise on the disposal or run-down of assets or businesses and there is no assurance that any conditions precedent agreed will be satisfied, or consents and approvals required will be obtained in a timely manner, or at all. There is consequently a risk that the Group may fail to complete such disposals within time frames envisaged by the Group.

The Group may be exposed to deteriorations in businesses or portfolios being sold between the announcement of the disposal and its completion, which period may be lengthy and may span many months. In addition, the Group may be exposed to certain risks, including risks arising out of ongoing liabilities and obligations, breaches of covenants, representations and warranties, indemnity claims, transitional services arrangements and redundancy or other transaction related costs.

The occurrence of any of the risks described above could negatively affect the Group’s ability to implement its new strategic plan and achieve its capital targets and could have a material adverse effect on the Group’s business, results of operations, financial condition and cash flows.

## **Risk Factors relating to the Notes**

The Issuers believe that the following additional risk factor may be material for the purpose of assessing the market risks associated with Notes issued under the Programme.

### *Bail-in option in the Banking Act 2009*

On 1 October 2013, the U.K. Government published amendments to the Financial Services (Banking Reform) Bill, amended further on 24 October 2013 (the “**Banking Reform Bill**”), which include amendments to the Banking Act 2009 to insert a bail-in option among the powers of the U.K. resolution authority.

The bail-in option will be introduced as an additional power available to the Bank of England, to enable it to recapitalise a failed institution by allocating losses to its shareholders and unsecured creditors in a manner that seeks to respect the hierarchy of claims in liquidation. The bail-in option includes the power to cancel a liability, to modify the form of a liability (including the power to convert a liability from one form to another) or to provide that a contract under which the institution has a liability is to have effect as if a specified right had been exercised under it, each for the purposes of reducing, deferring or cancelling the liabilities of the bank under resolution, as well as to transfer a liability. The conditions for use of the bail-in option are, in summary, that (i) the regulator determines that the bank is failing or likely to fail, (ii) it is not reasonably likely that any other action can be taken to avoid the bank's failure and (iii) the U.K. resolution authority determines that the exercise of such power is necessary having regard to the public interest.

It is expected that the Banking Reform Bill will be passed by the U.K. Parliament in early 2014 and, thereafter, the U.K. Treasury will stipulate the date on which the majority of the provisions will enter into force.

The Banking Reform Bill is still in draft form and may be subject to change. In announcing the introduction of the bail-in option, the U.K. Government expressed that it was confident that such powers could be introduced without the risk of having to adapt to a radically different regime when the Recovery and Resolution Directive (the “**RRD**”) is implemented, given the legislative progress of the RRD. However, the RRD is still in draft form and changes may be made to it, which may require amendments to the bail-in option proposed to be inserted in the Banking Act 2009.

Although the terms and conditions of the Notes do not contain a provision which requires them to be converted into equity or written off, the Bank of England could use the powers described above in such a way as to result in the Notes absorbing losses in the manner described herein. The determination that all or part of the principal amount of the Notes will be subject to loss absorption is likely to be inherently unpredictable and may depend on a number of factors which may be outside of the Issuers' control. Because of this inherent uncertainty, it will be difficult to predict when, if at all, a principal write off or conversion to equity will occur. Accordingly, trading behaviour in respect of the Notes is not necessarily expected to follow the trading behaviour associated with other types of securities. The ratings assigned to the Notes may also be affected. Potential investors in the Notes should consider the risk that a holder may lose all of its investment, including the principal amount plus any accrued interest, if such statutory loss absorption measures are acted upon.

## **Litigation and Investigations**

Save as set out (i) in the sections entitled “Litigation” and “Investigations and reviews” on pages 30 to 40 of the RBSG Registration Document and pages 31 to 41 of the RBS Registration Document; (ii) in the sections entitled “Litigation” and “Investigations and reviews” on pages 3 to 5 of the supplementary prospectus dated 9 August 2013; (iii) in the section entitled “Litigation,

investigations and reviews” on pages 86 to 87 of the RBSG Interim Management Statement; and (iv) the 7 November RMBS RNS, no member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which RBSG or RBS is aware) during the 12 months prior to the date of this 7<sup>th</sup> Supplementary Prospectus, which may have or have had in the recent past, significant effects on the financial position or profitability of RBSG, RBS, the Issuer Group and/or the Group taken as a whole.

### **Other Information**

To the extent that there is any inconsistency between any statement in or incorporated by reference in the Prospectus by virtue of this 7<sup>th</sup> Supplementary Prospectus and any other statement in or incorporated by reference in the Prospectus or the Previous Supplementary Prospectuses, the statements in or incorporated by reference in the Prospectus by virtue of this 7<sup>th</sup> Supplementary Prospectus will prevail.

Save as disclosed in the Previous Supplementary Prospectuses and this 7<sup>th</sup> Supplementary Prospectus or in any document incorporated by reference in the Prospectus by virtue of the Previous Supplementary Prospectuses or this 7<sup>th</sup> Supplementary Prospectus, no other significant new factor, material mistake or inaccuracy relating to information included in the Prospectus has arisen or been noted, as the case may be, since the publication of the Prospectus.

The hyperlinks included in this 7<sup>th</sup> Supplementary Prospectus are included for information purposes only and the websites and their content are not incorporated into, and do not form part of, the 7<sup>th</sup> Supplementary Prospectus or the Prospectus.

In accordance with Sections 87Q(4) –(6) of the FSMA, investors who have agreed to purchase or subscribe for Notes before this 7<sup>th</sup> Supplementary Prospectus is published have the right, exercisable before the end of the period of two working days beginning with the working day after the date on which this 7<sup>th</sup> Supplementary Prospectus was published, to withdraw their acceptances, which right shall therefore expire at the close of business on 20 November 2013. Investors wishing to withdraw their acceptances should contact their brokers for details of how to exercise this right.

## Supplementary Offering Circular

Pages 7 to 8 of this supplement (the “7<sup>th</sup> Supplementary Offering Circular”) constitutes a supplement to the Offering Circular and has been prepared in connection with the Programme established by RBSG and RBS. Terms defined in the Offering Circular have the same meaning when used in this 7<sup>th</sup> Supplementary Offering Circular.

**NEITHER THE OFFERING CIRCULAR NOR THIS SUPPLEMENTARY OFFERING CIRCULAR HAVE BEEN REVIEWED OR APPROVED BY THE UK LISTING AUTHORITY AND THE OFFERING CIRCULAR DOES NOT CONSTITUTE A PROSPECTUS FOR THE PURPOSES OF DIRECTIVE 2003/71/EC, AS AMENDED (THE “PROSPECTUS DIRECTIVE”).**

This 7<sup>th</sup> Supplementary Offering Circular is supplemental to, and should be read in conjunction with, the Offering Circular and the documents incorporated by reference therein. This 7<sup>th</sup> Supplementary Offering Circular should also be read in conjunction with the supplementary offering circulars dated 25 April 2013, 16 May 2013, 2 July 2013, 9 August 2013, 5 September 2013 and 7 October 2013 (the “Previous Supplementary Offering Circulars”) and the documents incorporated by reference therein. This 7<sup>th</sup> Supplementary Offering Circular is to be read in conjunction with the following section of the 7<sup>th</sup> Supplementary Prospectus (as amended herein):

- Incorporation of Information by Reference;
- Ratings Information;
- Risk Factors relating to the Group and the Issuer Group;
- Risk Factors relating to the Notes; and
- Litigation and investigations,

which will be deemed to be incorporated by reference herein, save that references to “Prospectus” shall be deemed to be to the “Offering Circular” and references to “Supplementary Prospectus” shall be deemed to be to the “Supplementary Offering Circular”.

Application has been made to the Singapore Exchange Securities Trading Limited (the “SGX-ST”) for permission to deal in and quotation for any Non PD Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Non PD Notes have been admitted to the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this 7<sup>th</sup> Supplementary Offering Circular. There is no assurance that the application to the SGX-ST for the listing of the Non PD Notes will be approved. Admission to the Official List of the SGX-ST and quotation of any Non PD Notes on the SGX-ST are not to be taken as an indication of the merits of the Issuers, their respective subsidiaries, the Programme or the Non PD Notes.

Each Issuer accepts responsibility for the information contained in this 7<sup>th</sup> Supplementary Offering Circular. To the best of the knowledge of each Issuer (each having taken all reasonable care to ensure that such is the case) such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

To the extent that there is any inconsistency between any statement in or incorporated by reference in the Offering Circular by virtue of this 7<sup>th</sup> Supplementary Offering Circular and any other statement in or incorporated by reference in the Offering Circular or the Previous

Supplementary Offering Circulars, the statements in or incorporated by reference in the Offering Circular by virtue of this 7<sup>th</sup> Supplementary Offering Circular will prevail.

Save as disclosed in the Previous Supplementary Offering Circulars and this 7<sup>th</sup> Supplementary Offering Circular or in any document incorporated by reference in the Offering Circular by virtue of the Previous Supplementary Offering Circulars or this 7<sup>th</sup> Supplementary Offering Circular, no other significant new factor, material mistake or inaccuracy relating to information included in the Offering Circular has arisen or been noted, as the case may be, since the publication of the Offering Circular.

The hyperlinks included in this 7<sup>th</sup> Supplementary Offering Circular are included for information purposes only and the websites and their content are not incorporated into, and do not form part of, the 7<sup>th</sup> Supplementary Offering Circular or the Offering Circular.