SUPPLEMENTARY PROSPECTUS DATED 7 JUNE 2016

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

This Supplement (the "**1st Supplementary Prospectus**") to the Prospectus dated 7 March 2016 (the "**Prospectus**"), which comprises a base prospectus for the purpose of Directive 2003/71/EC (as amended), constitutes a supplementary prospectus for the purposes of Section 87G of the Financial Services and Markets Act 2000 (the "**FSMA**") and has 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 1st Supplementary Prospectus.

This 1st Supplementary Prospectus is supplemental to, and should be read in conjunction with, the Prospectus and the documents incorporated by reference therein.

Each Issuer accepts responsibility for the information contained in this 1st 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 this 1st Supplementary Prospectus is to:

(a) incorporate by reference into the Prospectus:

- (i) the 22 March RNS (as defined below);
- (ii) certain sections of the 2015 Annual Report and Accounts of RBS (as defined below);
- (iii) the 28 April RNS (as defined below);
- (iv) the RBSG Q1 Interim Management Statement (as defined below); and
- (v) the 16 May RNS (as defined below);

(b) following publication of the 2015 Annual Report and Accounts of RBS and the 28 April RNS, update the statement of no significant change and no material adverse change for RBS;

(c) following publication of the 28 April RNS and the RBSG Q1 Interim Management Statement, update the statement of no significant change and no material adverse change for RBSG;

(d) update the risk factors set out in the Base Prospectus with information in relation to: (i) the divestment of Williams & Glyn, (ii) the Group's Pillar 2A and Pillar 2B capital requirements, (iii) the potential impact of the Basel Committee's consultation of operational risk on calculations of risk-weighted assets, (iv) the Group's valuation, capital and stress test models and (v) the potential impact of proposed changes to UK tax legislation in relation to the use of tax losses; and

(e) update certain information relating to litigation and investigations.

Incorporation of Information by Reference

By virtue of this 1st Supplementary Prospectus:

(a) the press release entitled "RBS and HMT to retire the DAS", which was published via the Regulatory News Service of the London Stock Exchange plc (the "**RNS**") on 22 March 2016 (the "**22 March RNS**");

(b) the press release entitled "Update on the disposal of Williams & Glyn", which was published via the RNS on 28 April 2016 (the "**28 April RNS**");

(c) the unaudited Interim Management Statement Q1 2016 of RBSG (the "**RBSG Q1 Interim Management Statement**"), which was published via the RNS on 29 April 2016; and

(d) the press release entitled "Appointment of a Non-Executive Director", which was published via the RNS on 16 May 2016 (the "**16 May RNS**"),

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

By virtue of this 1st Supplementary Prospectus, the annual report and accounts of RBS (including the audited consolidated annual financial statements of RBS, together with the audit report thereon) for the financial year ended 31 December 2015 (excluding the sections headed "Top and emerging risks" on pages 4 to 5 and "Additional information – Risk factors" on pages 268 to 293), which were published via the RNS on 26 April 2016 and which have been (1) previously published and (2) filed with the FCA (the "**2015 Annual Report and Accounts of RBS**"), shall be incorporated in, and form part of, the Prospectus. The 2015 Annual Report and Accounts of RBS shall be included within the definition of "RBS Information" on page 2 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/prices-and-news/news/market-news/market-news-home.html.

If a document which is incorporated by reference in the Prospectus by virtue of this 1st 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 1st Supplementary Prospectus.

It should be noted that, except as set forth above, no other portion of the above documents is incorporated by reference into the Prospectus. In addition, where sections of any of the above documents which are incorporated by reference into the Prospectus cross-reference other sections of the same document, such cross-referenced information shall not form part of the Prospectus, unless otherwise incorporated by reference herein. Those parts of the documents incorporated by reference which are not specifically incorporated by reference in this 1st Supplementary Prospectus are either not relevant for prospective investors or the information is included elsewhere in the Prospectus.

Statement of No Significant Change and No Material Adverse Change – RBSG

There has been no significant change in the trading or financial position of the Group taken as a whole since 31 March 2016 (the end of the last financial period for which the latest unaudited interim financial information of the Group has been published).

Save in relation to the matters disclosed in the 28 April RNS, there has been no material adverse change in the prospects of RBSG since 31 December 2015 (the last date to which the latest audited published financial information of the Group was prepared).

Statement of No Significant Change and No Material Adverse Change – RBS

There has been no significant change in the financial position of the Issuer Group taken as a whole since 31 December 2015 (the end of the last financial period for which audited financial information of the Issuer Group has been published).

Save in relation to the matters disclosed in the 28 April RNS, there has been no material adverse change in the prospects of RBS since 31 December 2015 (the last date to which the latest audited published financial information of the Issuer Group was prepared).

Updating the risk factors set out in the Base Prospectus

(a) The heading and the first paragraph under the heading *"Pursuant to the State Aid Commitment Deed and its strategic programme, the Group is in the process of separating Williams & Glyn with a view to fully divesting the business by the end of 2017. The scale and complexity of this process, and the diversion of Group resources required to support it, or delays in meeting the divestment deadline, could have a material adverse effect on the Group's operations, operating results, financial position and reputation."* in the section headed "Risk Factors" on page 391 of the 2015 Annual Report and Accounts of RBSG, which has been incorporated by reference into the Base Prospectus, shall be replaced by the following paragraph:

> "*Pursuant to the State Aid Commitment Deed and its strategic programme, the Group is in the process of separating Williams & Glyn. The scale and complexity of this process, and the diversion of Group resources required to support it, or delays in meeting, or a failure to meet, the divestment deadline, could have a material adverse effect on the Group's operations, operating results, financial position and reputation.*
>
> The Group has met all of the divestment commitments contained within the set of conditions upon which state aid approval was received from the European Commission for the financial assistance provided to the Group by the UK Government in December 2008, save for the divestment of the Group's RBS branches in England and Wales, NatWest branches in Scotland, Direct SME banking and certain mid-corporate customers as a separate business under the Williams & Glyn brand ("Williams & Glyn"). In connection with the receipt of such

aid, the Group entered into a state aid commitment deed with HM Treasury (as amended from time to time, the "State Aid Commitment Deed"). In light of its obligations under the State Aid Commitment Deed to fully divest Williams & Glyn by the end of 2017, the Group has been actively seeking to fully divest Williams & Glyn in accordance with this timetable. Due to significant execution challenges, there is a significant risk that the separation and divestment will not be achieved by 31 December 2017. The Group continues to face significant challenges and risks in separating the Williams & Glyn business, some of which may only emerge as various separation process phases are progressed. The complexities or delays in separation may continue to impact the Group's ability to meet the divestment deadline and could result in the Group adopting an alternative divestment structure to either of the current plans for separation and divestment."

(b) The fourth paragraph under the heading *"Pursuant to the State Aid Commitment Deed and its strategic programme, the Group is in the process of separating Williams & Glyn with a view to fully divesting the business by the end of 2017. The scale and complexity of this process, and the diversion of Group resources required to support it, or delays in meeting the divestment deadline, could have a material adverse effect on the Group's operations, operating results, financial position and reputation."* in the section headed "Risk Factors" on page 391 of the 2015 Annual Report and Accounts of RBSG, which has been incorporated by reference into the Base Prospectus, shall be replaced by the following paragraph:

"The divestment of the Williams & Glyn business from the Group requires significant structural, governance and IT changes, which are complex to implement and will impact the Group's customers, operations and controls. In particular, a key component of the current separation plan is the successful migration of the Williams & Glyn business to a stand-alone and operational technology platform. Given the current interconnectedness of the Williams & Glyn business and other parts of the Group, this process will necessarily divert management and personnel resources from the effective conduct of the Group's operations and jeopardise the delivery and implementation of a number of other significant change projects resulting from mandatory regulatory developments or as part of its strategic programme. In addition, the execution of the separation and divestment will result in significant costs. There are currently approximately 6,000 employees (FTE) engaged on the project and total costs incurred to 31 December 2015 relating to the separation and divestment of Williams & Glyn were £1.2 billion and are expected to increase through to completion."

(c) The third paragraph under the heading *"Failure by the Group to comply with regulatory capital and leverage requirements may result in intervention by its regulators and loss of investor confidence, and may have a material adverse effect on its results of operations, financial condition and reputation and may result in distribution restrictions and adversely impact existing shareholders."* in the section headed "Risk Factors" on page 397 of the 2015 Annual Report and Accounts of RBSG, which has been incorporated by reference into the Base Prospectus, shall be replaced by the following paragraph:

"The Group's current Pillar 2A requirement set by the PRA is set at an equivalent of 5.0% of risk-weighted assets. The PRA has also introduced a firm specific Pillar 2B buffer ("PRA buffer") which is a forward-looking requirement set annually and based on various factors including firm-specific stress test results and credible recovery and resolution planning and is to be met with CET1 capital (in addition to any CET1 Capital used to meet any Pillar 1 or Pillar 2A requirements). Where appropriate, the PRA may require an increase in an institution's PRA buffer to reflect additional capital required to be held to mitigate the risk of additional losses that could be incurred as a result of a weak risk management and governance, including with respect to the effectiveness of the internal stress testing framework and contrast environment. UK banks are required to meet the higher of the combined buffer requirement or PRA buffer requirement. The Pillar 2A requirements and the PRA buffer will result in the setting of a fixed amount of CET1 capital which must be held by the Group and which may charge during the period of restructuring of the Group, while risk-weighted assets are expected to continue to reduce during the same period, which will in turn put pressure on the Group's ability to maintain its capital ratio targets and implement its distribution strategy."

(d) The seventh paragraph under the heading *"Failure by the Group to comply with regulatory capital and leverage requirements may result in intervention by its regulators and loss of investor confidence, and may have a material adverse effect on its results of operations, financial condition and reputation and may result in distribution restrictions and adversely impact existing shareholders."* in the section headed "Risk Factors" on page 398 of the 2015 Annual Report and Accounts of RBSG, which has been incorporated by reference into the Base Prospectus, shall be replaced by the following paragraph:

"The Basel Committee and other agencies remain focussed on changes that will increase, or recalibrate, measures of risk-weighted assets as the key measure of the different categories of risk in the denominator of the risk-based capital ratio. While they are at different stages of maturity, a number of initiatives across risk types and business lines are in progress that are expected to impact the calculation of risk-weighted assets. The Basel Committee is currently consulting on new rules relating to the risk weighting of real estate exposures and other changes to risk-weighting calculations. These rules are expected to be finalised later in 2016 and come into force by 2019. In the UK, the PRA is also considering ways of reducing the sensitivity of UK mortgage risk weights to economic conditions. The 2014 UK stress test demonstrated that the risk weights on some banks' residential mortgage portfolios can increase significantly in stressed conditions. The Basel Committee also recently published for consultation a revised standardised measurement approach for operational risk. The new approach would replace the three existing standardised approaches for calculating operational risk, as well as the internal model-based approach. The proposed new methodology combines a financial statement-based measure of operational risk, with an individual firm's past operational losses. While the quantum of impact of these reforms remains uncertain owing to lack of clarity of the proposed changes and the timing of their introduction, the implementation of such initiatives could result in higher levels of risk-weighted assets and therefore higher levels of capital, and in particular CET1 capital, required to be held by the Group, under Pillar 1 requirements. Such requirements would be separate from any further capital overlays required to be held as part of the PRA's determination of the RBS Group's Pillar 2A or PRA buffer requirements with respect to such exposures."

(e) The first paragraph under the heading *"The Group relies on valuation, capital and stress test models to conduct its business, assess its risk exposure and anticipate capital and funding requirements. Failure of these models to provide accurate results or accurately* *reflect changes in the micro- and macroeconomic environment in which the Group operates could have a material adverse effect on the Group's business, capital and results."* in the section headed "Risk Factors" on page 411 of the 2015 Annual Report and Accounts of RBSG, which has been incorporated by reference into the Base Prospectus, shall be replaced by the following paragraph:

> "Given the complexity of the Group's business, strategy and capital requirements, the Group relies on analytical models to manage its business, assess the value of its assets and its risk exposure and anticipate capital and funding requirements, including with stress testing. The Group's valuation, capital and stress test models and the parameters and assumptions on which they are based, need to be constantly updated to ensure their accuracy. Failure of these models to accurately reflect changes in the environment in which the Group operates or to be updated in line with the Group's business model or operations, or the failure to properly input any such changes could have an adverse impact on the modelled results or could fail to accurately capture the Group's risk exposure or the risk profile of the Group's financial instruments or result in the Group being required to hold additional capital as a function of the PRA buffer. In addition, a number of internal models used by Group subsidiaries are designed, managed and analysed by the Group and may not appropriately capture risks and exposures at subsidiary level. The Group's internal models are subject to periodic review by its regulators and, if found deficient, the Group may be required to make changes to such models or may be precluded from using any such models, which could result in an additional capital requirement which could have a material impact on the Group's capital position. Some of the analytical models used by the Group are predictive in nature. The use of predictive models has inherent risks and may incorrectly forecast future behaviour, leading to flawed decision making and potential losses."

(f) The second paragraph under the heading *"Recent changes in the tax legislation in the UK are likely to result in increased tax payments by the Group and may impact the recoverability of certain deferred tax assets recognised by the Group."* in the section headed "Risk Factors" on page 414 of the 2015 Annual Report and Accounts of RBSG, which has been incorporated by reference into the Base Prospectus, shall be replaced by the following paragraph:

> "The Finance Act 2015 included new restrictions on the use of certain brought forward tax losses of banking companies to 50% of relevant profits from 1 April 2015, which has impacted the extent to which the Group is able to recognise deferred tax assets and has been reflected in its year-end accounts. At 31 December 2015, the Group recognised a net deferred tax asset (taking account of the Finance Act 2015 changes) of £2.6 billion. On 16 March, the UK Government announced their intention to further restrict the use of tax losses carried forward by UK banks. If these measures are enacted by the UK Parliament during the course of 2016, a longer recovery period of the deferred tax assets associated with UK tax losses will therefore arise. Failure to generate sufficient future taxable profits or further changes in tax legislation (including rates of tax) or accounting standards may reduce the recoverable amount of the recognised deferred tax assets. Further changes to the treatment of deferred tax assets may impact the Group's capital, for example by reducing further the Group's ability to recognise deferred tax assets. Further, the new 8% tax surcharge which applies to banking companies from 1 January 2016 cannot be offset by brought forward tax losses arising before this

time, or by any tax losses arising in non-banking companies within the Group. In addition, the implementation of the rules relating to the UK ringfencing regime and the resulting restructuring of the Group may further restrict the Group's ability to recognise tax deferred tax assets in respect of brought forward losses."

Litigation and Investigations

Save as (i) incorporated by reference into the section entitled "Description of the Issuers – Legal Proceedings" on page 67 of the Prospectus, (ii) set out in the section entitled "Litigation, investigations and reviews" on pages 33 to 35 of the RBSG Q1 Interim Management Statement, and (iii) set out below, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which RBSG or RBS is aware), which may have or have had during the 12 months preceding the date of this Supplementary Prospectus, a significant effect on the financial position or profitability of RBSG, RBS, the Group and/or, as the case may be, the Issuer Group.

Conclusion of Crown Office investigation into RBSG

On 12 May 2016, the Crown Office and Procurator Fiscal Service in Scotland announced that it has concluded its investigation into RBSG's 2008 rights issue and that it had found insufficient evidence of criminal conduct either in relation to RBSG as an institution or any directors or other senior management involved in the right issue.

UK retail banking

On 17 May 2016, the Competition and Markets Authority ("**CMA**") published its provisional decision on remedies. The CMA has provisionally decided upon remedies which are broadly similar to those set out in its October 2015 notice of possible remedies, and its March 2016 supplemental notice of possible remedies. Responses to the provisional decision on remedies are due by 7 June 2016. Following this the CMA is scheduled to publish its final report in early August 2016, ahead of the statutory deadline.

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 1st Supplementary Prospectus and any other statement in or incorporated by reference in the Prospectus, the statements in or incorporated by reference in the Prospectus by virtue of this 1st Supplementary Prospectus will prevail.

Save as disclosed in this 1st Supplementary Prospectus or in any document incorporated by reference in the Prospectus by virtue of this 1st 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 1st 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 1st Supplementary Prospectus or the Prospectus.