

## SUPPLEMENTARY PROSPECTUS DATED 9 MAY 2017



### **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 "**3<sup>rd</sup> Supplementary Prospectus**") to the Prospectus dated 16 December 2016, as supplemented by the 1<sup>st</sup> supplementary prospectus dated 24 February 2017 and the 2<sup>nd</sup> supplementary prospectus dated 28 April 2017 (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 3<sup>rd</sup> Supplementary Prospectus.

This 3<sup>rd</sup> 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 3<sup>rd</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 this 3<sup>rd</sup> Supplementary Prospectus is to update the risk factors set out in the Base Prospectus relating to UK ring-fencing requirements.

The section entitled "Risk Factors relating to the Issuers" on pages 6 – 10 of the Base Prospectus shall be amended by the insertion of the following additional paragraphs at the end of the section:

### ***Loss of RBS's investment grade credit rating***

As at the date of this 3<sup>rd</sup> Supplementary Prospectus, both RBS's long-term senior obligations and short-term obligations have an investment grade credit rating from each of S&P, Moody's and Fitch. Implementation of the ring-fencing regime in the UK, which must be completed before 1 January 2019, as well as the implementation of the Group's strategic programme will result in material structural changes to RBS, the RBS Group and the wider Group's businesses.

In particular, RBS is to become the Group's non ring-fenced bank under the Group's target organisational structure (which comprises part of a preliminary plan submitted to the Prudential Regulation Authority (the "**PRA**") in January 2016) in respect of ring-fencing implementation and is subject, amongst other matters, to (i) further analysis and possible amendment following discussions with the PRA and finalisation of the ring-fencing legislation and the PRA ring-fencing rules, (ii) all applicable regulatory and other approvals and (iii) employee consultation procedures.

There can be no assurance that the business model defined for RBS will result in a viable, competitive, sustainable or profitable business, with the result that RBS may not be able to sustain an investment grade rating from each of S&P, Moody's and Fitch. If RBS does not maintain an investment grade rating from S&P, Moody's and Fitch, this may have a material adverse impact on the pricing and liquidity of Notes issued by RBS, as well as on RBS's financial condition and prospects.

***RBS may issue Notes which mature after implementation of the UK ring-fencing requirements***

Following implementation of the Group's target organisational structure, which is expected to occur mid-2018, RBS will be re-named NatWest Markets Plc ("**NatWest Markets**"), and will be permitted to carry out broader trading and investment activities than the ring-fenced bank, including lending to other financial institutions and maintaining branches outside the EEA. These activities may expose NatWest Markets to risks to which ring-fenced banks are not exposed. NatWest Markets will be a separate legal entity to the ring-fenced bank and will not have recourse to the assets of the ring-fenced bank. Any Notes issued by RBS after the date of this supplement with a maturity on or after the implementation of the Group's target organisational structure will be liabilities of an entity which is outside the ring-fence.

The scope of the business activities and assets and liabilities which will remain with NatWest Markets following implementation of the ring-fencing regime remains uncertain, and may be affected by other regulatory considerations including the structural requirements that will apply to non-EU institutions providing financial services within the EU following UK withdrawal. As a result of these uncertainties, the financial position or profits and losses of NatWest Markets following implementation of ring-fencing will be materially different to the position presented in the financial statements of RBS for the years ended 31 December 2016 and 31 December 2015.

In addition to the restructuring costs which will be incurred in order to implement the operational requirements associated with ring-fencing, NatWest Markets will have a significantly reduced balance sheet, including a reduction in risk-weighted assets, and a reduced and potentially more volatile revenue stream. NatWest Markets may also have reduced access to funding, or experience higher costs of funding, as a result of no longer accepting retail deposits. NatWest Markets may also be subject to different regulatory obligations to the ring-fenced bank, including different liquidity requirements and capital buffers.

Investors in Notes issued by RBS will therefore be subject to material risks and uncertainties that will not apply to investors in the ring-fenced bank, and no assurance can be given as to the financial position or profits and losses of RBS following implementation of the final ring-fenced structure.

**Other Information**

To the extent that there is any inconsistency between any statement in this 3<sup>rd</sup> Supplementary Prospectus and any other statement in or incorporated by reference in the Prospectus, the statements in this 3<sup>rd</sup> Supplementary Prospectus will prevail.

Save as disclosed in this 3<sup>rd</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.