

SUPPLEMENTARY PROSPECTUS DATED 31 DECEMBER 2010



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 “**Supplement**”) to the Prospectus (the “**Prospectus**”) dated 10 June 2010, which comprises, except as set out therein in relation to Guaranteed Notes, a base prospectus for the purposes of the Prospectus Directive, constitutes a supplementary prospectus for the purposes of Section 87G of the Financial Services and Markets Act 2000 (the “**FSMA**”) and is 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 Supplement.

This Supplement is supplemental to, and should be read in conjunction with, the Prospectus and the documents incorporated by reference therein. This Supplement should also be read and construed in conjunction with the supplementary prospectuses dated 9 August 2010, 27 August 2010 and 5 November 2010 (the “**5 November 2010 Supplementary Prospectus**”) and the documents incorporated by reference therein which have been previously published and have been approved by the Financial Services Authority (the “**FSA**”) and filed with it and which form part of the Prospectus.

Each Issuer accepts responsibility for the information contained in this Supplement. 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.

The purpose of this Supplement is to amend certain risk factors incorporated by reference into the Prospectus.

Registration Documents: Risk Factors

By virtue of this Supplement, the risk factor headed “*The Group’s businesses, earnings and financial condition have been and will continue to be affected by the global economy and instability in the global financial markets*” on pages 6 and 7 of the RBSG Registration Document dated 9 August 2010 and pages 6 and 7 of the RBS Registration Document dated 9 August 2010, shall, for the purposes of being incorporated by reference into the Prospectus, be deemed to be deleted and replaced with the relevant risk factor as set out in the Schedule to this Supplement.

By virtue of this Supplement, the risk factor headed “*The Group’s business performance could be adversely affected if its capital is not managed effectively or as a result of changes to capital adequacy and liquidity requirements*” on pages 6 and 7 of the 5 November 2010 Supplementary

Prospectus shall, for the purposes of being incorporated by reference into the Prospectus, be deemed to be deleted and replaced with the relevant risk factor as set out in the Schedule to this Supplement.

Defined Terms Used in the Prospectus

Page 32 of the Prospectus contains a definition of “*Disclosure relating to the Issuers*”. As set out therein, the Disclosure relating to the Issuers is not incorporated by reference into the Prospectus for the purposes of issues of Guaranteed Notes. By virtue of this Supplement all the information contained in this Supplement and incorporated by reference into the Prospectus by virtue of this Supplement shall be deemed to be included within the definition of “*Disclosure relating to the Issuers*”.

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 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 documents which are incorporated by reference in the Prospectus by virtue of this Supplement themselves incorporate any information or other documents therein, either expressly or implicitly, such information or other documents will not form part of the Prospectus for the purposes of the Prospectus Directive except where such information or other documents are specifically incorporated by reference in, or attached to, the Prospectus by virtue of this Supplement.

To the extent that there is any inconsistency between any statement in or incorporated by reference in the Prospectus by virtue of this Supplement 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 Supplement will prevail.

Save as disclosed in this Supplement or in any document incorporated by reference in the Prospectus by virtue of this Supplement, 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.

Investors should be aware of their rights under Section 87Q(4) of the FSMA.

SCHEDULE

The Group's businesses, earnings and financial condition have been and will continue to be affected by the global economy and instability in the global financial markets

The performance of the Group has been and will continue to be influenced by the economic conditions of the countries in which it operates, particularly the United Kingdom, the United States and other countries throughout Europe and Asia. The outlook for the global economy over the near to medium term remains challenging, particularly in the United Kingdom, the United States and other European economies. In addition, the global financial system has yet to fully overcome the difficulties which first manifested themselves in August 2007 and financial markets conditions have not yet fully normalised. These conditions led to severe dislocation of financial markets around the world and unprecedented levels of illiquidity in 2008 and 2009, resulting in the development of significant problems at a number of the world's largest corporate institutions operating across a wide range of industry sectors, many of which are the Group's customers and counterparties in the ordinary course of its business. In response to this economic instability and market illiquidity, a number of governments, including the United Kingdom Government, the governments of the other EU member states and the United States Government, have intervened in order to inject liquidity and capital into the financial system, and in some cases, to prevent the failure of these institutions.

Despite such measures, the volatility and disruption of the capital and credit markets have continued, with many forecasts predicting only modest levels of GDP growth in the near to medium term. Similar conditions are likely to exist in a number of the Group's key markets, including those in the United States and Europe, particularly Ireland. These conditions have exerted, and may continue to exert, downward pressure on asset prices and on availability of credit for financial institutions and upward pressure on the cost of credit for financial institutions, including RBSG and RBS, and will continue to impact the credit quality of the Group's customers and counterparties. Such conditions, alone or in combination with regulatory changes or actions of other market participants, may cause the Group to incur losses or to experience further reductions in business activity, increased funding costs and funding pressures, lower share prices, decreased asset values, additional write-downs and impairment charges and lower profitability.

In particular, the performance of the Group may be affected by economic conditions impacting EU member states. For example, the financial problems recently experienced by the governments of certain EU member states may lead to the issuance of significant volumes of debt by these member states, including Greece and Ireland, which may in turn reduce demand for debt issued by financial institutions and corporate borrowers. This, as well as credit rating downgrades experienced by such member states, could adversely affect the Group's access to the debt capital markets and may increase the Group's funding costs, having a negative impact on the Group's earnings and financial condition. In addition, EU member states in which the Group operates have agreed to provide financial assistance to certain member states, currently Greece and Ireland, which may in turn have a negative impact on the financial condition of those EU member states providing the assistance. The Group's exposure to the economies of such member states, in particular Ireland, has resulted in the Group making significant provisions. Should the adverse economic conditions currently faced by such member states be replicated in other EU member states, the risks discussed above would be exacerbated.

In addition, the Group will continue to be exposed to the risk of loss if major corporate borrowers or counterparty financial institutions fail or are otherwise unable to meet their obligations. The Group is currently exposed to country concentration risk in the United States, the United Kingdom and the rest of Europe and certain business sector concentration risk relating to personal and banking and financial institution exposures. The Group's performance may also be affected by future recovery

rates on assets and the historical assumptions underlying asset recovery rates, which (as has already occurred in certain instances) may no longer be accurate given the unprecedented market disruption and general economic instability. The precise nature of all the risks and uncertainties the Group faces as a result of current economic conditions cannot be predicted and many of these risks are outside the control of the Group.

The Group's business performance could be adversely affected if its capital is not managed effectively or as a result of changes to capital adequacy and liquidity requirements

Effective management of the Group's capital is critical to its ability to operate its businesses, to grow organically and to pursue its strategy of returning to standalone strength. The Group is required by regulators in the United Kingdom, the United States and in other jurisdictions in which it undertakes regulated activities, to maintain adequate capital resources. The maintenance of adequate capital is also necessary for the Group's financial flexibility in the face of continuing turbulence and uncertainty in the global economy. Accordingly, the purpose of the issuance of the £25.5 billion of B Shares, the grant of the Contingent Subscription (as defined below) and the previous placing and open offers was to allow the Group to strengthen its capital position. The FSA's liquidity policy statement issued in October 2009 states that firms must hold sufficient eligible securities to survive a liquidity stress and this will result in banks holding a greater amount of government securities, to ensure that these institutions have adequate liquidity in times of financial stress.

On 17 December 2009, the Basel Committee on Banking Supervision (the "**Basel Committee**") proposed a number of fundamental reforms to the regulatory capital framework in its consultative document entitled "Strengthening the resilience of the banking sector". On 12 September 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, announced further details of the proposed substantial strengthening of existing capital requirements, and the reforms were endorsed by the G20 leaders after the G20 Summit in Seoul in November 2010. On 16 December 2010, the Basel Committee published the Basel III rules in documents entitled "Basel III: A global regulatory framework for more resilient banks and banking systems" (containing the reforms relating to capital) and "Basel III: International framework for liquidity risk measurement, standards and monitoring" (containing the reforms relating to liquidity).

The Basel Committee's package of reforms includes increasing the minimum common equity requirement from 2% (before the application of regulatory adjustments) to 4.5% (after the application of stricter regulatory adjustments). The total Tier 1 capital requirement, which includes common equity and other qualifying financial instruments, will increase from 4% to 6%. The total capital requirement (which comprises Tier 1 capital and Tier 2 capital) remains at 8%. In addition, banks will be required to maintain, in the form of common equity (after the application of deductions), a capital conservation buffer of 2.5% to withstand future periods of stress, bringing the total common equity requirements to 7%. If there is excess credit growth in any given country resulting in a system-wide build up of risk, a countercyclical buffer within a range of 0% to 2.5% of common equity (or possibly other fully loss absorbing capital) is to be applied as an extension of the conservation buffer. In addition, a leverage ratio will be introduced, together with a liquidity coverage ratio and a net stable funding ratio. The liquidity coverage ratio is intended to promote resilience to potential liquidity stress scenarios lasting for a 30-day period. The net stable funding ratio is intended to limit over reliance on short-term wholesale funding and has been developed to provide a sustainable maturity structure of assets and liabilities. The Basel Committee is conducting further work on systemically important financial institutions and contingent capital in close coordination with the Financial Stability Board. The Basel Committee has stated that measures may include capital surcharges, contingent capital and bail-in debt (which could be introduced by statute, possibly impacting existing as well as future issues of debt and exposing them to the risk of

conversion into equity and/or write-down of principal amount). Such measures would be in addition to proposals for the write-off of Tier 1 and Tier 2 debt (and its possible conversion into ordinary shares) if a bank becomes non-viable. The Basel Committee has committed to complete by early 2011 a methodology for identifying global systemically important financial institutions with a view to the Financial Stability Board and national authorities determining by mid-2011 those institutions to which the recommendations for global systemically important financial institutions will initially apply. In addition, by mid-2011, the Basel Committee is to complete a study of how much additional loss absorbency capacity global systemically important financial institutions should have and how much of such capacity could be provided by the various proposed instruments (which include contingent capital securities and bail-in debt).

The implementation of the Basel III reforms will begin on 1 January 2013, however the requirements are subject to a series of transitional arrangements and will be phased in over a period of time, to be fully effective by 2019.

These and other future changes to capital adequacy and liquidity requirements in the jurisdictions in which it operates, including the European Commission's public consultation on further possible changes to the Capital Requirements Directive launched in February 2010, may require the Group to raise additional Tier 1 (including Core Tier 1) and Tier 2 capital by way of further issuances of securities, including in the form of Ordinary Shares or B Shares and will result in existing Tier 1 and Tier 2 securities issued by the Group ceasing to count towards the Group's regulatory capital, either at the same level as present or at all. The requirement to raise additional Core Tier 1 capital could have a number of negative consequences for RBSG and its shareholders, including impairing RBSG's ability to pay dividends on or make other distributions in respect of Ordinary Shares and diluting the ownership of existing shareholders of RBSG. If the Group is unable to raise the requisite Tier 1 and Tier 2 capital, it may be required to further reduce the amount of its risk-weighted assets and engage in the disposal of core and other non-core businesses, which may not occur on a timely basis or achieve prices which would otherwise be attractive to the Group. In addition, pursuant to the State Aid approval, should the Group's Core Tier 1 capital ratio decline to below 5 per cent. at any time before 31 December 2014, or should the Group fall short of its funded balance sheet target level (after adjustments) for 31 December 2013 by £30 billion or more, the Group will be required to reduce its risk-weighted assets by a further £60 billion in excess of its plan through further disposals of identifiable businesses and their associated assets. As provided in the Acquisition and Contingent Capital Agreement (as defined below), the Group will also be subject to restrictions on payments on its hybrid capital instruments should its Core Tier 1 ratio fall below 6 per cent. or if it would fall below 6 per cent. as a result of such payment. For further details of these restrictions, see "Appendix 3 to the Letter From the Chairman of RBS – Principal Terms of Issue of the B Shares and the Dividend Access Share – Undertakings" on pages 77 to 79 of the Shareholder Circular, which is incorporated by reference herein.

As at 30 September 2010, the Group's Tier 1 and Core Tier 1 capital ratios were 12.5 per cent. and 10.2 per cent., respectively, calculated in accordance with FSA definitions (as set out in Interim Management Statement Q3 2010). Any change that limits the Group's ability to manage effectively its balance sheet and capital resources going forward (including, for example, reductions in profits and retained earnings as a result of write-downs or otherwise, increases in risk-weighted assets, delays in the disposal of certain assets or the inability to syndicate loans as a result of market conditions, a growth in unfunded pension exposures or otherwise) or to access funding sources, could have a material adverse impact on its financial condition and regulatory capital position or result in a loss of value in the Securities.