

**SUPPLEMENTARY OFFERING MEMORANDUM DATED DECEMBER 31, 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)*

**U.S.\$35,000,000,000**

**Medium-Term Note Program**

**Due Six Months or More From Date of Issue**

This Supplement (the “**Supplement**”) to the Offering Memorandum (the “**Offering Memorandum**”) dated June 10, 2010, which comprises, except as set out therein under the heading “Documents Incorporated by Reference” on pages 3 to 5 of the Offering Memorandum and except for the purposes of the issuance of HM Treasury Guaranteed Notes (as defined in the Offering Memorandum), a base prospectus, constitutes a supplementary prospectus for the purposes of Section 87G of the Financial Services and Markets Act 2000 (the “**FSMA**”). This Supplement is prepared in connection with the U.S.\$35,000,000,000 Medium-Term Note Program (the “**Program**”) established by The Royal Bank of Scotland Group plc (“**RBSG**” and, in its capacity as guarantor, the “**Guarantor**”) and The Royal Bank of Scotland plc (“**RBS**”) (each, an “**Issuer**” and together, the “**Issuers**”). Terms defined in the Offering Memorandum have the same meaning when used in this Supplement.

This Supplement is supplemental to, and should be read in conjunction with, the Offering Memorandum, the supplemental Offering Memorandum dated August 18, 2010, the supplemental Offering Memorandum dated September 24, 2010 and the documents incorporated by reference therein.

Each of the Issuers and the Guarantor accepts responsibility for the information contained in this Supplement. To the best of the knowledge of each of the Issuers and the Guarantor (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.

***Incorporation of Information by Reference into the Offering Memorandum***

The interim report on the Form 6-K filed with the United States Securities and Exchange Commission on December 15, 2010 pursuant to the United States Securities Exchange Act of 1934, as amended, which includes the third quarter 2010 results of RBSG ([http://www.sec.gov/Archives/edgar/data/844150/000095010310003745/dp19924\\_6k.htm](http://www.sec.gov/Archives/edgar/data/844150/000095010310003745/dp19924_6k.htm)) (the “**Form 6-K**”), which has been (1) previously or simultaneously published and (2) approved by the Financial Services Authority (the “**FSA**”) or filed with it, shall be deemed to be incorporated in, and form part of, the Offering Memorandum (and, for the avoidance of doubt, the Base Prospectus).

The documents set out in this section headed *“Incorporation of Information by Reference into the Offering Memorandum”* shall not be incorporated into the Offering Memorandum for the purposes of the issuance of HM Treasury Guaranteed Notes.

The hyperlink included in this Supplement is included for information purposes only. For the avoidance of doubt, the contents of the website referred to above, other than the Form 6-K, shall not be incorporated by reference into the Offering Memorandum.

#### **Registration Documents: Risk Factors**

By virtue of this Supplement, the risk factors headed:

- (a) *“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 and pages 6 and 7 of the RBS Registration Document;
- (b) *“Changes in interest rates, foreign exchange rates, credit spreads, bond, equity and commodity prices and other market factors have significantly affected and will continue to affect the Group’s business”* on page 14 of the RBSG Registration Document and pages 14 and 15 of the RBS Registration Document; and
- (c) *“The Group’s business performance could be adversely affected if its capital is not managed effectively or if there are changes to capital adequacy and liquidity requirements”* on pages 15 and 16 of the RBSG Registration Document and pages 15 to 17 of the RBS Registration Document,

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

By virtue of this Supplement, the risk factor headed *“The Group’s borrowing costs and its access to the debt capital markets depend significantly on its and the United Kingdom Government’s credit ratings”* on pages 14 and 15 of the RBSG Registration Document and page 15 of the RBS Registration Document shall, for the purposes of being incorporated by reference into the Offering Memorandum, be amended by deleting the words *“Standard & Poor’s reaffirmed the United Kingdom Government’s AAA rating with negative outlook on July 12, 2010”* and replacing them with the words *“Standard & Poor’s reaffirmed the United Kingdom Government’s AAA rating with stable outlook on October 26, 2010”*.

#### **No Significant Change and No Material Adverse Change**

The statements in this section headed *“No Significant Change and No Material Adverse Change”* shall, for the purpose of being incorporated by reference into the Offering Memorandum, replace the statements under the corresponding headings on page 62 of the RBSG Registration Document and on page 61 of the RBS Registration Document, each of which statements were previously incorporated by reference into the Offering Memorandum.

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

There has been no significant change in the trading or financial position of RBSG and its subsidiaries consolidated in accordance with International Financial Reporting Standards (the **“Group”**) taken as a whole since 30 September 2010 (the end of the last financial period for which either audited financial information or interim financial information has been published).

There has been no material adverse change in the prospects of the Group taken as a whole since 31 December 2009 (the last date to which the latest audited published financial information of the Group was prepared).

*The Royal Bank of Scotland plc*

There has been no significant change in the trading or financial position of RBS and its subsidiaries consolidated in accordance with International Financial Reporting Standards (the “**Issuer Group**”) taken as a whole since 30 June 2010 (the end of the last financial period for which either audited financial information or interim financial information has been published).

There has been no material adverse change in the prospects of the Issuer Group taken as a whole since 31 December 2009 (the last date to which the latest audited published financial information of the Issuer Group was prepared).

***Litigation and Investigations***

*The Royal Bank of Scotland Group plc*

The statements in this section headed “*Litigation and Investigations — The Royal Bank of Scotland Group plc*” shall, for the purpose of being incorporated by reference into the Offering Memorandum, replace the second and third paragraphs under the heading “*Litigation*” on page 43 of the RBSG Registration Document, which were previously incorporated by reference into the Offering Memorandum.

Other than as set out in the section headed “*Litigation*” on pages 43 to 49 of the RBSG Registration Document (excluding the sub headings “*World Online International N.V.*” and “*Summary of other disputes, legal proceedings and litigation*”) and on page 87 of the Form 6-K, neither RBSG nor any 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 is aware) during the 12 months prior to the date of this Supplement, which may have, or have had in the recent past, a significant effect on the Group taken as a whole.

In relation to the subject matter of this section headed “*Litigation and Investigations*”, RBSG will comply with its obligations as a company with securities admitted to the Official List of the United Kingdom Listing Authority or as a supervised firm regulated by the FSA.

*The Royal Bank of Scotland plc*

The statements in this section headed “*Litigation and Investigations — The Royal Bank of Scotland plc*” shall, for the purpose of being incorporated by reference into the Offering Memorandum, replace the second and third paragraphs under the heading “*Litigation*” on page 43 of the RBS Registration Document, which were previously incorporated by reference into the Offering Memorandum.

Other than as set out in the section headed "*Litigation*" on pages 43 to 49 of the RBS Registration Document (excluding the sub headings "*World Online International N.V.*" and "*Summary of other disputes, legal proceedings and litigation*") and on page 87 of the Form 6-K, neither RBS nor any member of the Issuer Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which RBS is aware) during the 12 months prior to the date of this Supplement, which may have, or have had in the recent past, a significant effect on the Issuer Group taken as a whole.

In relation to the subject matter of this section headed "*Litigation and Investigations*", RBS will comply with its obligations as a company with securities admitted to the Official List of the United Kingdom Listing Authority or as a supervised firm regulated by the FSA.

#### ***Defined Terms Used in the Offering Memorandum***

Page 5 of the Offering Memorandum contains a definition of "*Disclosure relating to the Issuers and the Guarantor.*" By virtue of this Supplement, the information contained in this Supplement and incorporated by reference into the Offering Memorandum pursuant to this Supplement, as set out under the heading "*Incorporation of Information by Reference into the Offering Memorandum*" in this Supplement, shall be deemed to be included within the definition of "*Disclosure relating to the Issuers and the Guarantor*" in the Offering Memorandum.

If the documents which are incorporated by reference in the Offering Memorandum 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 Offering Memorandum for the purposes of the Prospectus Directive except where such information or other documents are specifically incorporated by reference in, or attached to, the Offering Memorandum by virtue of this Supplement.

To the extent that there is any inconsistency between any statement in or incorporated by reference in the Offering Memorandum by virtue of this Supplement and any other statement in or incorporated by reference in the Offering Memorandum, 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 Offering Memorandum by virtue of this Supplement, no other significant new factor, material mistake or inaccuracy relating to information included in the Offering Memorandum has arisen or been noted, as the case may be, since the publication of the Offering Memorandum.

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.

**Changes in interest rates, foreign exchange rates, credit spreads, bond, equity and commodity prices, basis, volatility and correlation risks and other market factors have significantly affected and will continue to affect the Group's business**

Some of the most significant market risks the Group faces are interest rate, foreign exchange, credit spread, bond, equity and commodity price, basis, volatility and correlation risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between lending and borrowing costs, the effect of which may be heightened during periods of liquidity stress, such as those experienced in recent years. Changes in currency rates, particularly in the sterling-US dollar and sterling-euro exchange rates, affect the value of assets, liabilities, income and expenses denominated in foreign currencies and the reported earnings of RBSG's non-United Kingdom subsidiaries (principally Citizens Financial Group, Inc. ("**Citizens**"), The Royal Bank of Scotland N.V. ("**RBS N.V.**") and RBS Securities Inc.) and may affect income from foreign exchange dealing. The performance of financial markets may affect bond, equity and commodity prices and, therefore, cause changes in the value of the Group's investment and trading portfolios. This has been the case during the period since August 2007, with market disruptions and volatility resulting in significant variations in the value of such portfolios. As part of its ongoing derivatives operations, the Group also faces significant basis, volatility and correlation risks for which materialisation is highly dependent on relative changes in the aforementioned first order risks. While the Group has implemented risk management methods to mitigate and control these and other market risks to which it is exposed, it is difficult, particularly in the current environment, to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on the Group's financial performance and business operations.

**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 December 17, 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 September 12, 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 December 16, 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 January 1, 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 December 31, 2014, or should the Group fall short of its funded balance sheet target level (after adjustments) for December 31, 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 in the Offering Memorandum.

As at September 30, 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 the interim report on the Form 6-K filed with the United States Securities and Exchange Commission on December 15, 2010 pursuant to the United States Securities Exchange Act of 1934, as amended, which includes the third quarter 2010 results of RBSG). 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.