

## SUPPLEMENTARY PROSPECTUS DATED 19 AUGUST 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 “**2<sup>nd</sup> 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 2<sup>nd</sup> Supplementary Prospectus.

This 2<sup>nd</sup> Supplementary Prospectus is supplemental to, and should be read in conjunction with, the Prospectus and the documents incorporated by reference therein. This 2<sup>nd</sup> Supplementary Prospectus should also be read and construed in conjunction with the supplementary prospectus dated 7 June 2016 (the “**Previous Supplementary Prospectus**”) and the documents incorporated by reference therein.

Each Issuer accepts responsibility for the information contained in this 2<sup>nd</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 2<sup>nd</sup> Supplementary Prospectus is to:

- (a) incorporate by reference into the Prospectus:
  - (i) certain sections of the RBSG Interim Results 2016 (as defined below),
  - (ii) the RBS Interim Results 2016 (as defined below), and
  - (iii) the 11 August RNS (as defined below);
- (b) following publication of the RBSG Interim Results 2016, update the statement of no significant change and no material adverse change for RBSG;
- (c) following publication of the RBS Interim Results 2016, update the statement of no significant change and no material adverse change for RBS;

- (d) update the risk factors set out in the Base Prospectus with information in relation to: (i) economic, regulatory and political uncertainty arising from the outcome of the recent referendum on the UK's membership of the European Union ("**EU Referendum**"), (ii) political uncertainty regarding Scottish independence resulting in additional risks to the Group as a result of the EU Referendum, (iii) the divestment of the business previously described as Williams & Glyn and (iv) the ability of RBSG to maintain sufficient distributable profits; and
- (e) update certain information relating to litigation and investigations.

### **Incorporation of Information by Reference**

By virtue of this 2<sup>nd</sup> Supplementary Prospectus:

- (a) the unaudited Interim Results 2016 of RBSG (excluding the section headed "Appendix 2 Williams & Glyn") (the "**RBSG Interim Results 2016**"), which were published via the Regulatory News Service of the London Stock Exchange plc (the "**RNS**") on 5 August 2016;
- (b) the unaudited Interim Results 2016 of RBS (the "**RBS Interim Results 2016**"), which were published via the RNS on 5 August 2016; and
- (c) the pricing announcement entitled "The Royal Bank of Scotland Group plc successfully priced \$2.65 billion Additional Tier 1 Capital Notes", which was published via the RNS on 11 August 2016 (the "**11 August 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. The RBS Interim Results 2016 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/news/market-news/market-news-home.html>.

If a document which is incorporated by reference in the Prospectus by virtue of this 2<sup>nd</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 2<sup>nd</sup> 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 2<sup>nd</sup> 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 30 June 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 RBSG Interim Results 2016 in relation to: (i) the business previously described as Williams & Glyn (page 12); and (ii) the considerable uncertainty in the Group's core market created by the outcome of the UK's EU Referendum which, with the current low interest rate and low growth environment, has made achieving the Group's previously announced cost:income ratio and return targets by 2019 likely to be more challenging (pages 12, 111 and 112), 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 30 June 2016 (the end of the last financial period for which the latest unaudited interim financial information of the Issuer Group has been published).

Save in relation to the matters disclosed in the RBSG Interim Results 2016 in relation to: (i) the business previously described as Williams & Glyn (page 12); and (ii) the considerable uncertainty in the Group's core market created by the outcome of the UK's EU Referendum which, with the current low interest rate and low growth environment, has made achieving the Group's previously announced cost:income ratio and return targets by 2019 likely to be more challenging (pages 12, 111 and 112), 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**

For risk factors relating to the Issuers, prospective investors should consider (i) the section entitled "Risk Factors" at pages 390 – 414 in the 2015 Annual Report and Accounts of RBSG as referred to in, and incorporated by reference into, the Prospectus as set out in, "Documents Incorporated by Reference" on page 21 of the Prospectus (excluding the heading and the two paragraphs under the heading "*The Group is subject to political risks*" on page 391 of the 2015 Annual Report and Accounts of RBSG), as supplemented by (A) the Previous Supplementary Prospectus and (B) the information below, and (ii) the risk factors under the headings "*Economic, regulatory and political uncertainty arising from the outcome of the recent referendum on the UK's membership of the European Union ("EU Referendum") could adversely impact the Group's business, results of operations, financial conditions and prospects.*" and "*The result of the EU Referendum has revived political uncertainty regarding Scottish independence resulting in additional risks to the Group.*" on pages 111 to 113 of the RBSG Interim Results 2016, which is incorporated by reference into this Second Supplementary Prospectus.

The risk factor 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 pages 391 to 392 of the 2015 Annual Report

and Accounts of RBSG (as supplemented by the Previous Supplementary Prospectus) shall be supplemented by the following paragraphs:

*“On 28 April 2016, the Group announced that there was a significant risk that the separation and divestment of Williams & Glyn would not be achieved by 31 December 2017. The Board has determined that it would not be prudent to continue with the current plan of record for separating and divesting Williams & Glyn and is actively exploring various alternative divestment structures including asset or business sales to third parties. However, there is no certainty any will be viable and each entails significant structural, execution, regulatory and cost risks.*

*While the Group remains committed to meeting the deadline for achieving a divestment, there is a significant risk it will be unable to do so. Challenging market conditions, Williams & Glyn’s high cost base and the complexity of the business previously known as Williams & Glyn (and attendant integration/transfer challenges for any potential counterparty), transfer costs and accounting impacts may inhibit interest in its assets or business and/or result in the Group only being able to achieve a price materially below the book value of those assets, which may result in a significant loss on any divestment transaction and have an adverse effect on the Group’s capital position.”*

The risk factor under the heading *“Failure by the Group to comply with its capital requirements or to maintain sufficient distributable profits may result in the application of restrictions on its ability to make discretionary distributions, including the payment of dividends to its ordinary shareholders and coupons on certain capital instruments.”* in the section headed “Risk Factors” on pages 398 to 399 of the 2015 Annual Report and Accounts of RBSG shall be supplemented by the following paragraph:

*“Failure by the Group to comply with its capital requirements or to maintain sufficient distributable profits in RBSG may restrict its ability to make discretionary distributions, including the payment of coupons on certain capital instruments and dividends to its ordinary shareholders. RBSG distributable profits are sensitive to the accounting impact of factors including the redemption of preference shares, restructuring costs and impairment charges and the carrying value of its investments in subsidiaries which are carried at the lower of cost and their prevailing recoverable amount. Recoverable amounts depend on discounted future cash flows which can be affected by restructurings, such as the requirement to create a ring fenced and non ring-fenced bank or banks, or unforeseen events. The RBSG distributable reserves also depend on the receipt of income from subsidiaries, principally as dividends. The ability of subsidiaries to pay dividends is subject to their performance and applicable local laws and other restrictions, including their respective regulatory requirements. Any of these factors, including restructuring costs, impairment charges and a reduction in the carrying value of RBSG subsidiaries or a shortage of dividends from them could limit the Group’s ability to maintain sufficient distributable profits to be able to the pay coupons on certain capital instruments and dividends to its ordinary shareholders.”*

### **Litigation and Investigations**

Save as set out (i) in the section entitled “Litigation, investigations and reviews” on pages 85 to 105 of the RBSG Interim Results 2016 and (ii) 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 2<sup>nd</sup> 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.

*CMA Final Report*

As anticipated, on 9 August 2016, the Competition Markets Authority (“**CMA**”) published its final report following a marketing investigation reference into retail banking. The CMA concluded that there are a number of competition concerns in the provision of personal current accounts (“**PCA**”), business current accounts and SME lending, particularly around low levels of customers searching and switching, resulting in banks not being put under enough competitive pressure, and new products and new banks not attracting customers quickly enough. The final report sets out measures to address these concerns, which are largely consistent with those included in its preliminary report. These include measures to make it easier for customers to compare products, ensure customers benefit from technological advantages around open banking, improve the current account switching service and provide PCA overdraft customers with greater control over their charges, along with additional measures targeted at SME customers. The Group is continuing to assess the impact of the report.

### **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 2<sup>nd</sup> Supplementary Prospectus and any other statement in or incorporated by reference in the Prospectus or the Previous Supplementary Prospectus, the statements in or incorporated by reference in the Prospectus by virtue of this 2<sup>nd</sup> Supplementary Prospectus will prevail.

Save as disclosed in the Previous Supplementary Prospectus and this 2<sup>nd</sup> Supplementary Prospectus or in any document incorporated by reference in the Prospectus by virtue of the Previous Supplementary Prospectus or this 2<sup>nd</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 2<sup>nd</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 2<sup>nd</sup> Supplementary Prospectus or the Prospectus.