LaunchPAD programme

Supplementary Prospectus dated 8 December 2010

THIRD SUPPLEMENT TO THE BASE PROSPECTUS IN RESPECT OF THE LAUNCHPAD PROGRAMME FOR THE ISSUANCE OF WARRANTS

The Royal Bank of Scotland plc
(incorporated under the laws of Scotland with limited liability under the Companies Act 1948 to 1980, with registered number SC090312))
(the **Issuer**)

The Royal Bank of Scotland plc LaunchPAD Programme

1. This Supplement dated 8 December 2010 (the **Supplement**) constitutes the third supplement to the base prospectus dated 28 May 2010 in relation to the Issuer's LaunchPAD Programme for the Issuance of Warrants (the **Base Prospectus**) approved by the Netherlands Authority for the Financial Markets (*Stichting Autoriteit Financiële Markten*, the **AFM**) on 28 May 2010, as supplemented on 21 July 2010 and 29 September 2010.

2. The Base Prospectus was approved as a base prospectus pursuant to Directive 2003/71/EC by the AFM. This Supplement constitutes a supplemental prospectus to the Base Prospectus for the purposes of Article 5:23 of the Financial Supervision Act (*Wet op het financieel toezicht*).

3. This Supplement is supplemental to, and should be read in conjunction with, the Base Prospectus and any other supplements thereto issued by the Issuer.

4. The Issuer accepts responsibility for the information contained in this Supplement. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case), the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

5. On 9 August 2010, the Issuer published via the Regulatory News Service of the London Stock Exchange plc (**RNS**) a registration document dated 9 August 2010 (the **Registration Document**).

6. On 5 November 2010, The Royal Bank of Scotland Group plc (the **Group**) published (via RNS) its Interim Management Statement for the third quarter ended 30 September 2010 (the **RBSG Interim Management Statement**) which has previously been filed with the AFM and it shall be deemed to

be incorporated into, and form part of, the Base Prospectus.

Registration Document

7. By virtue of this Supplement:

7.1 the following words which are i ncluded in the first paragraph under the heading "Introduction" on page 1 of the Registration Document:

> "and its subsidiary and associated undertakings (RBS, together with its subsidiary and associated undertakings, the "**Issuer Group**")"

shall, for the purposes of being incorporated by reference into the Base Prospectus, be deemed to be deleted and replaced with the following words:

> "and its subsidiaries consolidated in accordance with International Financial Reporting Standards (RBS, together with its subsidiaries consolidated in accordance with International Financial Reporting Standards, the "**Issuer Group**")"; and

7.2 the risk factors headed (i) "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 15 of the RBS Registration Document; and (ii) "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 to 17 of the Registration Document; shall, for the purposes of being incorporated by reference into the Base Prospectus, be deemed to be deleted and replaced with the risk factors as set out in the Schedule to this Supplement.

8. By virtue of this Supplement, the last two paragraphs of page 43 of the Registration Document shall, for the purposes of being incorporated by reference into the Base Prospectus, be deemed to be deleted and replaced with the following paragraphs:

> Other than as set out in the section headed "Litigation" on pages 43 to 49 of the Registration Document (excluding the sub headings "World Online International N.V." and "Summary of other disputes, legal proceedings and litigation") and on page 142 of the RBSG Interim Management Statement, 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.
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> In relation to the subject matter of this paragraph 8, RBS will comply with its obligations as a supervised firm regulated by the FSA.

9. By virtue of this Supplement, the second sentence of the last paragraph of the section headed "Payment Protection Insurance" on page 47 of the Registration Document shall, for the purposes of being incorporated by reference into the Base Prospectus, be deemed to be deleted and replaced with the following wording:

> "The FSA published its final policy statement on 10 August 2010 and instructed firms to implement the measures contained in it by 1 December 2010. The new rules impose

significant changes with respect to the handling of mis-selling PPI complaints. On 8 October 2010, the British Bankers' Association filed an application for judicial review of the FSA's policy statement and of related guidance issued by the Financial Ombudsman Service."

10. 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 page 15 of the RBS Registration Document shall, for the purposes of being incorporated by reference into the Prospectus, be amended by deleting the words "Standard & Poor's reaffirmed the United Kingdom Government's AAA rating with negative outlook on 12 July 2010" and replacing them with the words "Standard & Poor's reaffirmed the United Kingdom Government's AAA rating with stable outlook on 26 October 2010".

Base Prospectus

11. By virtue of this Supplement:

11.1 the following sentence which is set out on page 5 of the Base Prospectus:

"The Issuer (together with its subsidiaries, the "**Issuer Group**") is a wholly owned subsidiary of The Royal Bank of Scotland Group plc ("**RBSG**" (RBSG together with its subsidiaries, the "**Group**"))."

shall be deleted and replaced with the following sentence:

"The Issuer (together with its subsidiaries, the "**Issuer Group**") is a wholly owned subsidiary of The Royal Bank of Scotland Group plc ("**RBSG**" (RBSG together with its subsidiaries consolidated in accordance with International Financial Reporting Standards, the "**Group**"))."; and

11.2 the following paragraphs which are set out on page 9 of the Base Prospectus:

- *"*● 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" and
- "● 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*"*

shall be deleted and replaced with the following paragraphs:

- "● 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"; and
- "● 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".

12. The unaudited pro forma financial information contained in the RBSG Interim Management Statement (the **Unaudited Pro Forma Financial Information**), which is incorporated by reference in the Base Prospectus by virtue of this Supplement, has been prepared for illustrative purposes only and addresses a hypothetical situation. Therefore, the Unaudited Pro Forma Financial Information does not represent the Group's actual financial position or results as at and for the periods in respect

of which the Unaudited Pro Forma Financial Information has been prepared.

13. Copies of all documents incorporated by reference in the Base Prospectus are accessible on www.investors.rbs.com, on the London Stock Exchange plc's website at www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html and can be obtained from the registered office of the Issuer at 36 St. Andrew Square, Edinburgh EH2 2YB, United Kingdom, telephone +44 131 523 3636.

14. If the documents which are incorporated by reference in the Base 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 Base 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 Base Prospectus by virtue of this Supplement.

15. To the extent that there is any inconsistency between (a) any statement in this Supplement or any statement incorporated by reference into the Base Prospectus by this Supplement and (b) any other statement in or incorporated by reference in the Base Prospectus, the statements in (a) above will prevail.

16. Save as disclosed in this Supplement, there has been no other significant new factor, material mistake or inaccuracy relating to information included in the Base Prospectus since the publication of the Base Prospectus.

The Royal Bank of Scotland plc

SCHEDULE

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. Basis risk is the risk that offsetting investments in a hedging strategy will not experience price changes in entirely opposite directions from each other. This imperfect correlation between the two investments creates the potential for excess gains or losses in a hedging strategy, thus adding risk to the position. Volatility risk is the likelihood of fluctuations in the price or rate of an underlying asset. It is a probability measure of the threat that an underlying movement in price of rate poses to a portfolio. It is also the risk that the buyer or seller of an option is exposed to based on the potential for the volatility of the underlying asset or the market's perception of that volatility to change. Correlation risk is the risk of loss from changes in or from a disparity between the estimated and actual correlation between two or more assets, currencies, derivatives, instruments or markets. 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 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". The Basel Committee published its economic impact assessment on 18 August 2010 and 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. The Basel Committee's package of reforms include 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%. 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 other fully loss absorbing capital) is to be applied as an extension of the conservation buffer. The capital requirements are to be supplemented by a leverage ratio, and a liquidity coverage ratio and a net stable funding ratio will also be introduced. The Basel Committee has confirmed that work continues to ensure that systemically important banks have loss absorbing capacities beyond the above standards. The Basel Committee has stated that measures may include capital surcharges, contingent capital and bail-in debt. 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 proposed reforms are expected to be implemented by the end of 2012, 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 could 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.