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Morgan Stanley Finance LLC

Structured Investments

Opportunities in U.S. Equities

Contingent Income Auto-Callable Securities due November 15, 2021

Based on the Performance of the Common Stock of Apple Inc.

Fully and Unconditionally Guaranteed by Morgan Stanley

Principal at Risk Securities

Contingent Income Auto-Callable Securities do not guarantee the payment of interest or the repayment of principal. Instead, the securities offer the opportunity for investors to earn a contingent quarterly coupon at an annual rate of 9.65%, but only with respect to each determination date on which the determination closing price of the underlying stock is greater than or equal to 75% of the initial share price, which we refer to as the downside threshold price. In addition, if the determination closing price of the underlying stock is greater than or equal to the initial share price on any determination date, the securities will be automatically redeemed for an amount per security equal to the stated principal amount and the contingent quarterly coupon. However, if the securities are not automatically redeemed prior to maturity, the payment at maturity due on the securities will be as follows: (i) if the final share price is greater than or equal to the downside threshold price, the stated principal amount and the contingent quarterly coupon with respect to the final determination date, or (ii) if the final share price is less than the downside threshold price, investors will be exposed to the decline in the underlying stock on a 1-to-1 basis and will receive a payment at maturity that is less than 75% of the principal amount of the securities and could be zero. Moreover, if on any determination date the determination closing price of the underlying stock is less than the downside threshold price, you will not receive any contingent quarterly coupon for that quarterly period. As a result, investors must be willing to accept the risk of not receiving any contingent quarterly coupons and also the risk of receiving a payment at maturity that is significantly less than the stated principal amount of the securities and could be zero. **Accordingly, investors could lose their entire initial investment in the securities.** The securities are for investors who are willing to risk their principal and seek an opportunity to earn interest at a potentially above-market rate in exchange for the risk of receiving few or no contingent quarterly coupons over the 3-year term of the securities. Investors will not participate in any appreciation of the underlying stock. The securities are unsecured obligations of Morgan Stanley Finance LLC ("MSFL") and are fully and unconditionally guaranteed by Morgan Stanley. The securities are issued as part of MSFL's Series A Global Medium-Term Notes program.

All payments are subject to our credit risk. If we default on our obligations, you could lose some or all of your investment. These securities are not secured obligations and you will not have any security interest in, or otherwise have any access to, any underlying reference asset or assets.

Summary Terms

Issuer:	Morgan Stanley Finance LLC
Guarantor:	Morgan Stanley
Underlying stock:	Apple Inc. common stock
Aggregate principal amount:	$
Stated principal amount:	$10 per security
Issue price:	$10 per security
Pricing date:	November 9, 2018
Original issue date:	November 15, 2018 (3 business days after the pricing date)
Maturity date:	November 15, 2021
Early redemption:	If, on any of the first eleven determination dates, the determination closing price of the underlying stock is <u>greater than or equal to</u> the initial share price, the securities will be automatically redeemed for an early redemption payment on the third business day following the related determination date. No further payments will be made on the securities once they have been redeemed.
Early redemption payment:	The early redemption payment will be an amount equal to (i) the stated principal amount *plus* (ii) the contingent quarterly coupon with respect to the related determination date.
Determination closing price:	The closing price of the underlying stock on any determination date other than the final determination date *times* the adjustment factor on such determination date.
Contingent quarterly coupon:	· If, on any determination date, the determination closing price or the final share price, as applicable, is greater than or equal to the downside threshold price, we will pay a contingent quarterly coupon at an annual rate of 9.65% (corresponding to approximately $0.24125 per quarter per security) on the related contingent payment date. · If, on any determination date, the determination closing price or the final share price, as applicable, is less than the downside threshold price, no contingent quarterly coupon will be paid with respect to that determination date.
Determination dates:	February 11, 2019, May 9, 2019, August 9, 2019, November 11, 2019, February 10, 2020, May 11, 2020, August 10, 2020, November 9, 2020, February 9, 2021, May 10, 2021, August 9, 2021 and November 9, 2021, subject to postponement for non-trading days and certain market disruption events. We also refer to November 9, 2021 as the final determination date.
Contingent payment dates:	With respect to each determination date other than the final determination date, the third business day after the related determination date. The payment of the contingent quarterly coupon, if any, with respect to the final determination date will be made on the maturity date.

Payment at maturity:	· If the final share price is **greater than or equal to** the downside threshold price:	(i) the stated principal amount *plus* (ii) the contingent quarterly coupon with respect to the final determination date
	· If the final share price is **less than** the downside threshold price:	(i) the stated principal amount *multiplied by* (ii) the share performance factor

Share performance factor:	Final share price divided by the initial share price
Adjustment factor:	1.0, subject to adjustment in the event of certain corporate events affecting the underlying stock

Downside threshold price:	$, which is equal to 75% of the initial share price
Initial share price:	$, which is equal to the closing price of the underlying stock on the pricing date
Final share price:	The closing price of the underlying stock on the final determination date *times* the adjustment factor on such date
CUSIP:	61768T738
ISIN:	US61768T7384
Listing:	The securities will not be listed on any securities exchange.
Agent:	Morgan Stanley & Co. LLC ("MS & Co."), an affiliate of MSFL and a wholly owned subsidiary of Morgan Stanley. See "Supplemental information regarding plan of distribution; conflicts of interest."
Estimated value on the pricing date:	Approximately $9.683 per security, or within $0.15 of that estimate. See "Investment Summary" beginning on page 2.

Commissions and issue price:	Price to public	Agent's commissions and fees	Proceeds to us[3]
Per security	$10	$0.20[1]	
		$0.05[2]	$9.75
Total	$	$	$

(1) Selected dealers, including Morgan Stanley Wealth Management (an affiliate of the agent), and their financial advisors will collectively receive from the agent, MS & Co., a fixed sales commission of $0.20 for each security they sell. See "Supplemental information regarding plan of distribution; conflicts of interest." For additional information, see "Plan of Distribution (Conflicts of Interest)" in the accompanying product supplement.

(2) Reflects a structuring fee payable to Morgan Stanley Wealth Management by the agent or its affiliates of $0.05 for each security.

(3) See "Use of proceeds and hedging" on page 19.

The securities involve risks not associated with an investment in ordinary debt securities. See "Risk Factors" beginning on page 7.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this document or the accompanying product supplement and prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The securities are not deposits or savings accounts and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency or instrumentality, nor are they obligations of, or guaranteed by, a bank.

You should read this document together with the related product supplement and prospectus, each of which can be accessed via the hyperlinks below. Please also see "Additional Information About the Securities" at the end of this document.

As used in this document, "we," "us" and "our" refer to Morgan Stanley or MSFL, or Morgan Stanley and MSFL collectively, as the context requires.

Product Supplement for Auto-Callable Securities dated November 16, 2017

Prospectus dated November 16, 2017

Morgan Stanley Finance LLC
Contingent Income Auto-Callable Securities due November 15, 2021

Based on the Performance of the Common Stock of Apple Inc.

Principal at Risk Securities
Investment Summary

Contingent Income Auto-Callable Securities

Principal at Risk Securities

The Contingent Income Auto-Callable Securities due November 15, 2021 Based on the Performance of the Common Stock of Apple Inc., which we refer to as the securities, provide an opportunity for investors to earn a contingent quarterly coupon at an annual rate of 9.65% with respect to each quarterly determination date on which the determination closing price or the final share price, as applicable, is greater than or equal to 75% of the initial share price, which we refer to as the downside threshold price. It is possible that the closing price of the underlying stock could remain below the downside threshold price for extended periods of time or even throughout the term of the securities so that you may receive few or no contingent quarterly coupons. If the determination closing price is greater than or equal to the initial share price on any of the first eleven determination dates, the securities will be automatically redeemed for an early redemption payment equal to the stated principal amount *plus* the contingent quarterly coupon with respect to the related determination date. If the securities have not previously been redeemed and the final share price is greater than or equal to the downside threshold price, the payment at maturity will also be the sum of the stated principal amount and the contingent quarterly coupon with respect to the related determination date. However, if the securities have not previously been redeemed and the final share price is less than the downside threshold price, investors will be exposed to the decline in the closing price of the underlying stock, as compared to the initial share price, on a 1-to-1 basis. In this case, the payment at maturity will be less than 75% of the stated principal amount of the securities and could be zero. Investors in the securities must be willing to accept the risk of losing their entire principal and also the risk of not receiving any contingent quarterly coupon. In addition, investors will not participate in any appreciation of the underlying stock.

The original issue price of each security is $10. This price includes costs associated with issuing, selling, structuring and hedging the securities, which are borne by you, and, consequently, the estimated value of the securities on the pricing date will be less than $10. We estimate that the value of each security on the pricing date will be approximately $9.683, or within $0.15 of that estimate. Our estimate of the value of the securities as determined on the pricing date will be set forth in the final pricing supplement.

What goes into the estimated value on the pricing date?

In valuing the securities on the pricing date, we take into account that the securities comprise both a debt component and a performance-based component linked to the underlying stock. The estimated value of the securities is determined using our own pricing and valuation models, market inputs and assumptions relating to the underlying stock, instruments based on the underlying stock, volatility and other factors including current and expected interest rates, as well as an interest rate related to our secondary market credit spread, which is the implied interest rate at which our conventional fixed rate debt trades in the secondary market.

What determines the economic terms of the securities?

In determining the economic terms of the securities, including the contingent quarterly coupon rate and the downside threshold price, we use an internal funding rate, which is likely to be lower than our secondary market credit spreads and therefore advantageous to us. If the issuing, selling, structuring and hedging costs borne by you were lower or if the internal funding rate were higher, one or more of the economic terms of the securities would be more favorable to you.

What is the relationship between the estimated value on the pricing date and the secondary market price of the securities?

The price at which MS & Co. purchases the securities in the secondary market, absent changes in market conditions, including those related to the underlying stock, may vary from, and be lower than, the estimated value on the pricing date, because the secondary market price takes into account our secondary market credit spread as well as the bid-offer spread that MS & Co. would charge in a secondary market transaction of this type and other factors. However, because the costs associated with issuing, selling, structuring and hedging the securities are not fully deducted upon issuance, for a period of up to 6 months following the issue date, to the extent that MS & Co. may buy or sell the securities in the secondary market, absent changes in market conditions, including those related to the underlying stock, and to our secondary market credit spreads, it would do so based on values higher than the estimated value. We expect that those higher values will also be reflected in your brokerage account statements.

MS & Co. may, but is not obligated to, make a market in the securities, and, if it once chooses to make a market, may cease doing so at any time.

Morgan Stanley Finance LLC
Contingent Income Auto-Callable Securities due November 15, 2021

Based on the Performance of the Common Stock of Apple Inc.

Principal at Risk Securities
Key Investment Rationale

The securities offer investors an opportunity to earn a contingent quarterly coupon at an annual rate of 9.65% with respect to each determination date on which the determination closing price or the final share price, as applicable, is greater than or equal to 75% of the initial share price, which we refer to as the downside threshold price. The securities may be redeemed prior to maturity for the stated principal amount per security *plus* the applicable contingent quarterly coupon, and the payment at maturity will vary depending on the final share price, as follows:

	On any of the first eleven determination dates, the determination closing price is *greater than or equal to* the initial share price.
Scenario 1	§ The securities will be automatically redeemed for (i) the stated principal amount plus (ii) the contingent quarterly coupon with respect to the related determination date. § Investors will not participate in any appreciation of the underlying stock from the initial share price.
	The securities are not automatically redeemed prior to maturity, and the final share price is *greater than or equal to* the downside threshold price.
Scenario 2	§ The payment due at maturity will be (i) the stated principal amount plus (ii) the contingent quarterly coupon with respect to the final determination date. § Investors will not participate in any appreciation of the underlying stock from the initial share price.
	The securities are not automatically redeemed prior to maturity, and the final share price is *less than* the downside threshold price.
Scenario 3	§ The payment due at maturity will be equal to (i) the stated principal amount multiplied by (ii) the share performance factor. **Investors will lose a significant portion, and may lose all, of their principal in this scenario.**

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Based on the Performance of the Common Stock of Apple Inc.

Principal at Risk Securities
How the Securities Work

The following diagrams illustrate the potential outcomes for the securities depending on (1) the determination closing price and (2) the final share price.

Diagram #1: First Eleven Determination Dates

Diagram #2: Payment at Maturity if No Automatic Early Redemption Occurs

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Principal at Risk Securities
Hypothetical Examples

The below examples are based on the following terms:

Hypothetical Initial Share Price:	$220.00
Hypothetical Downside Threshold Price:	$165.00, which is 75% of the hypothetical initial share price
Hypothetical Adjustment Factor:	1.0
Contingent Quarterly Coupon:	9.65% per annum (corresponding to approximately $0.24125 per quarter per security)[1]
Stated Principal Amount:	$10 per security

1 The actual contingent quarterly coupon will be an amount determined by the calculation agent based on the number of days in the applicable payment period, calculated on a 30/360 day count basis. The hypothetical contingent quarterly coupon of $0.24125 is used in these examples for ease of analysis.

In Examples 1 and 2, the closing price of the underlying stock fluctuates over the term of the securities and the determination closing price of the underlying stock is greater than or equal to the hypothetical initial share price of $220.00 on one of the first eleven determination dates. Because the determination closing price is greater than or equal to the initial share price on one of the first eleven determination dates, the securities are automatically redeemed following the relevant determination date. In Examples 3 and 4, the determination closing price on the first eleven determination dates is less than the initial share price, and, consequently, the securities are not automatically redeemed prior to, and remain outstanding until, maturity.

Determination Dates	Example 1 Hypothetical Determination Closing Price	Contingent Quarterly Coupon	Early Redemption Amount*	Example 2 Hypothetical Determination Closing Price	Contingent Quarterly Coupon	Early Redemption Amount
#1	$140.80	$0	N/A	$183.75	$0.24125	N/A
#2	$220.00	—*	$10.24125	$125.75	$0	N/A
#3	N/A	N/A	N/A	$213.60	$0.24125	N/A
#4	N/A	N/A	N/A	$148.90	$0	N/A
#5	N/A	N/A	N/A	$181.70	$0.24125	N/A
#6	N/A	N/A	N/A	$199.55	$0.24125	N/A
#7	N/A	N/A	N/A	$113.50	$0	N/A
#8	N/A	N/A	N/A	$213.10	$0.24125	N/A
#9	N/A	N/A	N/A	$203.45	$0.24125	N/A
#10	N/A	N/A	N/A	$264.00	—*	$10.24125

#11	N/A	N/A	N/A	N/A	N/A	N/A
Final Determination Date	N/A	N/A	N/A	N/A	N/A	N/A

* The Early Redemption Amount includes the unpaid contingent quarterly coupon with respect to the determination date on which the determination closing price is greater than or equal to the initial share price and the securities are redeemed as a result.

§ In **Example 1**, the securities are automatically redeemed following the second determination date, as the determination closing price on the second determination date is equal to the initial share price. You receive the early redemption payment, calculated as follows:

stated principal amount + contingent quarterly coupon = $10.00 + $0.24125 = $10.24125

In this example, the early redemption feature limits the term of your investment to approximately 6 months, and you may not be able to reinvest at comparable terms or returns. If the securities are redeemed early, you will stop receiving contingent coupons.

§ In **Example 2**, the securities are automatically redeemed following the tenth determination date, as the determination closing price on the tenth determination date is greater than the initial share price. As the determination closing prices on the first, third, fifth, sixth, eighth, ninth and tenth determination dates are greater than or equal to the downside threshold price, you receive the contingent

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coupon of $0.24125 with respect to each such determination date. Following the tenth determination date, you receive an early redemption amount of $10.24125, which includes the contingent quarterly coupon with respect to the tenth determination date.

In this example, the early redemption feature limits the term of your investment to approximately 30 months, and you may not be able to reinvest at comparable terms or returns. If the securities are redeemed early, you will stop receiving contingent coupons. Further, although the underlying stock has appreciated by 20% from its initial share price as of the tenth determination date, you receive only $10.24125 per security and do not benefit from such appreciation.

Determination Dates	Example 3 Hypothetical Determination Closing Price / Final Share Price	Contingent Quarterly Coupon	Early Redemption Amount*	Example 4 Hypothetical Determination Closing Price / Final Share Price	Contingent Quarterly Coupon	Early Redemption Amount
#1	$140.80	$0	N/A	$161.75	$0	N/A
#2	$125.75	$0	N/A	$147.60	$0	N/A
#3	$148.90	$0	N/A	$137.70	$0	N/A
#4	$155.55	$0	N/A	$113.50	$0	N/A
#5	$147.10	$0	N/A	$115.45	$0	N/A
#6	$147.75	$0	N/A	$149.75	$0	N/A
#7	$133.85	$0	N/A	$122.00	$0	N/A
#8	$157.35	$0	N/A	$126.15	$0	N/A
#9	$164.00	$0	N/A	$122.40	$0	N/A
#10	$158.15	$0	N/A	$134.95	$0	N/A
#11	$163.00	$0	N/A	$157.15	$0	N/A
Final Determination Date	$132.00	$0	N/A	$198.00	—*	N/A
Payment at Maturity	**$6.00**			**$10.24125**		

*The final contingent quarterly coupon, if any, will be paid at maturity.

Examples 3 and 4 illustrate the payment at maturity per security based on the final share price.

§ In **Example 3**, the closing price of the underlying stock remains below the downside threshold price on every determination date. As a result, you do not receive any contingent coupons during the term of the securities and, at maturity, you are fully exposed to the decline in the closing price of the underlying stock. As the final share price is less than the downside threshold price, investors will receive a payment at maturity equal to the stated principal amount multiplied by the share performance factor, calculated as follows:

stated principal amount x share performance factor = $10.00 x ($132.00 / $220.00) = $6.00

In this example, the payment at maturity is significantly less than the stated principal amount.

§ In **Example 4**, the closing price of the underlying stock decreases to a final share price of $198.00. Although the final share price is less than the initial share price, because the final share price is still not less than the downside threshold price, you receive the stated principal amount plus a contingent quarterly coupon with respect to the final determination date. Your payment at maturity is calculated as follows:

$10.00 + $0.24125 = $10.24125

In this example, although the final share price represents a 10% decline from the initial share price, you receive the stated principal amount per security plus the final contingent quarterly coupon, equal to a total payment of $10.24125 per security at maturity, because the final share price is not less than the downside threshold price.

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Principal at Risk Securities
Risk Factors

The following is a non-exhaustive list of certain key risk factors for investors in the securities. For further discussion of these and other risks, you should read the section entitled "Risk Factors" in the accompanying product supplement and prospectus. You should also consult your investment, legal, tax, accounting and other advisers in connection with your investment in the securities.

§ **The securities do not guarantee the return of any principal.** The terms of the securities differ from those of ordinary debt securities in that the securities do not guarantee the payment of regular interest or the return of any of the principal amount at maturity. Instead, if the securities have not been automatically redeemed prior to maturity and if the final share price is less than the downside threshold price, you will be exposed to the decline in the closing price of the underlying stock, as compared to the initial share price, on a 1-to-1 basis and you will receive a payment that will be less than 75% of the stated principal amount and could be zero.

§ **You will not receive any contingent quarterly coupon for any quarterly period where the determination closing price is less than the downside threshold price.** A contingent quarterly coupon will be paid with respect to a quarterly period only if the determination closing price is greater than or equal to the downside threshold price. If the determination closing price remains below the downside threshold price on each determination date over the term of the securities, you will not receive any contingent quarterly coupons.

§ **The contingent quarterly coupon, if any, is based solely on the determination closing price or the final share price, as applicable.** Whether the contingent quarterly coupon will be paid with respect to a determination date will be based on the determination closing price or the final share price, as applicable. As a result, you will not know whether you will receive the contingent quarterly coupon until the related determination date. Moreover, because the contingent quarterly coupon is based solely on the determination closing price on a specific determination date or the final share price, as applicable, if such determination closing price or final share price is less than the downside threshold price, you will not receive any contingent quarterly coupon with respect to such determination date, even if the closing price of the underlying stock was higher on other days during the term of the securities.

§ **Investors will not participate in any appreciation in the price of the underlying stock.** Investors will not participate in any appreciation in the price of the underlying stock from the initial share price, and the return on the securities will be limited to the contingent quarterly coupon, if any, that is paid with respect to each determination date on which the determination closing price or the final share price, as applicable, is greater than or equal to the downside threshold price. It is possible that the closing price of the underlying stock could be below the downside threshold price on most or all of the determination dates so that you will receive few or no contingent quarterly coupons. If you do not earn sufficient contingent quarterly coupons over the term of the securities, the overall return on the securities may be less than the amount that would be paid on a conventional debt security of ours of comparable maturity.

§ **The automatic early redemption feature may limit the term of your investment to approximately three months. If the securities are redeemed early, you may not be able to reinvest at comparable terms or returns.** The term of your investment in the securities may be limited to as short as approximately three months by the automatic early redemption feature of the securities. If the securities are redeemed prior to maturity, you will receive no more contingent quarterly coupons and may be forced to invest in a lower interest rate environment and may not be able to reinvest at comparable terms or returns.

§ **The market price will be influenced by many unpredictable factors.** Several factors will influence the value of the securities in the secondary market and the price at which MS & Co. may be willing to purchase or sell the securities in the secondary market. Although we expect that generally the closing price of the underlying stock on any day will affect the value of the securities more than any other single factor, other factors that may influence the value of the securities include:

o the trading price and volatility (frequency and magnitude of changes in value) of the underlying stock,

o whether the determination closing price has been below the downside threshold price on any determination date,

o dividend rates on the underlying stock,

o interest and yield rates in the market,

o time remaining until the securities mature,

o geopolitical conditions and economic, financial, political, regulatory or judicial events that affect the underlying stock and which may affect the final share price of the underlying stock,

o the occurrence of certain events affecting the underlying stock that may or may not require an adjustment to the adjustment factor, and

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Principal at Risk Securities

o any actual or anticipated changes in our credit ratings or credit spreads.

The price of the underlying stock may be, and has recently been, volatile, and we can give you no assurance that the volatility will lessen. See "Apple Inc. Overview" below. You may receive less, and possibly significantly less, than the stated principal amount per security if you try to sell your securities prior to maturity.

§ **The securities are subject to our credit risk, and any actual or anticipated changes to our credit ratings or credit spreads may adversely affect the market value of the securities.** You are dependent on our ability to pay all amounts due on the securities on each contingent payment date, upon automatic redemption or at maturity, and therefore you are subject to our credit risk. If we default on our obligations under the securities, your investment would be at risk and you could lose some or all of your investment. As a result, the market value of the securities prior to maturity will be affected by changes in the market's view of our creditworthiness. Any actual or anticipated decline in our credit ratings or increase in the credit spreads charged by the market for taking our credit risk is likely to adversely affect the market value of the securities.

§ **As a finance subsidiary, MSFL has no independent operations and will have no independent assets.** As a finance subsidiary, MSFL has no independent operations beyond the issuance and administration of its securities and will have no independent assets available for distributions to holders of MSFL securities if they make claims in respect of such securities in a bankruptcy, resolution or similar proceeding. Accordingly, any recoveries by such holders will be limited to those available under the related guarantee by Morgan Stanley and that guarantee will rank *pari passu* with all other unsecured, unsubordinated obligations of Morgan Stanley. Holders will have recourse only to a single claim against Morgan Stanley and its assets under the guarantee. Holders of securities issued by MSFL should accordingly assume that in any such proceedings they would not have any priority over and should be treated *pari passu* with the claims of other unsecured, unsubordinated creditors of Morgan Stanley, including holders of Morgan Stanley-issued securities.

§ **Investing in the securities is not equivalent to investing in the common stock of Apple Inc.** Investors in the securities will not have voting rights or rights to receive dividends or other distributions or any other rights with respect to the underlying stock.

§ **No affiliation with Apple Inc.** Apple Inc. is not an affiliate of ours, is not involved with this offering in any way, and has no obligation to consider your interests in taking any corporate actions that might affect the value of the securities. We have not made any due diligence inquiry with respect to Apple Inc. in connection with this offering.

§ **We may engage in business with or involving Apple Inc. without regard to your interests.** We or our affiliates may presently or from time to time engage in business with Apple Inc. without regard to your interests and thus may acquire non-public information about Apple Inc. Neither we nor any of our affiliates undertakes to disclose any such information to you. In addition, we or our affiliates from time to time have published and in the future may publish research reports with respect to Apple Inc., which may or may not recommend that investors buy or hold the underlying stock.

§ **The antidilution adjustments the calculation agent is required to make do not cover every corporate event that could affect the underlying stock.** MS & Co., as calculation agent, will adjust the adjustment factor for certain corporate events affecting the underlying stock, such as stock splits and stock dividends, and certain other corporate actions involving the issuer of the underlying stock, such as mergers. However, the calculation agent will not make an adjustment for every corporate event that can affect the underlying stock. For example, the calculation agent is not required to make any adjustments if the issuer of the underlying stock or anyone else makes a partial tender or partial exchange offer for the underlying stock, nor will adjustments be made following the final determination date. If an event occurs that does not require the calculation agent to adjust the adjustment factor, the market price of the securities may be materially and adversely affected.

§ **The securities will not be listed on any securities exchange and secondary trading may be limited.** The securities will not be listed on any securities exchange. Therefore, there may be little or no secondary market for the securities. MS & Co. may, but is not obligated to, make a market in the securities and, if it once chooses to make a market, may cease doing so at any time. When it does make a market, it will generally do so for transactions of routine secondary market size at prices based on its estimate of the current value of the securities, taking into account its bid/offer spread, our credit spreads, market volatility, the notional size of the proposed sale, the cost of unwinding any related hedging positions, the time remaining to maturity and the likelihood that it will be able to resell the securities. Even if there is a secondary market, it may not provide enough liquidity to allow you to trade or sell the securities easily. Since other broker-dealers may not participate significantly in the secondary market for the securities, the price at which you may be able to trade your securities is likely to depend on the price, if any, at which MS & Co. is willing to transact. If, at any time, MS & Co. were to cease making a market in the securities, it is likely that there would be no secondary market for the securities. Accordingly, you should be willing to hold your securities to maturity.

§ **The rate we are willing to pay for securities of this type, maturity and issuance size is likely to be lower than the rate implied by our secondary market credit spreads and advantageous to us. Both the lower rate and the inclusion of costs associated with issuing, selling, structuring and hedging the securities in the original issue price reduce the economic terms of the securities, cause the estimated value of the securities to be less than the original issue price and will adversely affect secondary market prices.** Assuming no change in market conditions or any other relevant factors, the prices, if any, at which dealers, including MS & Co., may be willing to purchase the securities in secondary market transactions will likely be significantly lower than the original issue price, because secondary market prices will exclude the issuing, selling, structuring and hedging-related costs that are included in the original issue price and borne by you and because the secondary market prices will reflect our secondary market credit spreads and the bid-offer spread that any dealer would charge in a secondary market transaction of this type as well as other factors.

The inclusion of the costs of issuing, selling, structuring and hedging the securities in the original issue price and the lower rate we are willing to pay as issuer make the economic terms of the securities less favorable to you than they otherwise would be.

However, because the costs associated with issuing, selling, structuring and hedging the securities are not fully deducted upon issuance, for a period of up to 6 months following the issue date, to the extent that MS & Co. may buy or sell the securities in the secondary market, absent changes in market conditions, including those related to the underlying stock, and to our secondary market credit spreads, it would do so based on values higher than the estimated value, and we expect that those higher values will also be reflected in your brokerage account statements.

§ **The estimated value of the securities is determined by reference to our pricing and valuation models, which may differ from those of other dealers and is not a maximum or minimum secondary market price.** These pricing and valuation models are proprietary and rely in part on subjective views of certain market inputs and certain assumptions about future events, which may prove to be incorrect. As a result, because there is no market-standard way to value these types of securities, our models may yield a higher estimated value of the securities than those generated by others, including other dealers in the market, if they attempted to value the securities. In addition, the estimated value on the pricing date does not represent a minimum or maximum price at which dealers, including MS & Co., would be willing to purchase your securities in the secondary market (if any exists) at any time. The value of your securities at any time after the date of this document will vary based on many factors that cannot be predicted with accuracy, including our creditworthiness and changes in market conditions. See also “The market price will be influenced by many unpredictable factors” above.

§ **Hedging and trading activity by our affiliates could potentially adversely affect the value of the securities.** One or more of our affiliates and/or third-party dealers expect to carry out hedging activities related to the securities (and to other instruments linked to the underlying stock), including trading in the underlying stock. As a result, these entities may be unwinding or adjusting hedge positions during the term of the securities, and the hedging strategy may involve greater and more frequent dynamic adjustments to the hedge as the final determination date approaches. Some of our affiliates also trade the underlying stock and other financial instruments related to the underlying stock on a regular basis as part of their general broker-dealer and other businesses. Any of these hedging or trading activities on or prior to the pricing date could potentially increase the initial share price, and, as a result, could potentially increase the downside threshold price, which is the price at or above which the underlying stock must close on each determination date in order for you to earn a contingent quarterly coupon, and, if the securities are not called prior to maturity, in order for you to avoid being exposed to the negative price performance of the underlying stock at maturity. Additionally, such hedging or trading activities during the term of the securities could potentially affect the price of the underlying stock on the determination dates, and, accordingly, whether the securities are automatically called prior to maturity, and, if the securities are not called prior to maturity, the payout to you at maturity, if any.

§ **The calculation agent, which is a subsidiary of Morgan Stanley and an affiliate of MSFL, will make determinations with respect to the securities.** As calculation agent, MS & Co. will determine the initial share price, the downside threshold price, the final share price, whether the contingent quarterly coupon will be paid on each contingent payment date, whether the securities will be redeemed following any determination date, whether a market disruption event has occurred, whether to make any adjustments to the adjustment factor and the payment that you will receive upon an automatic early redemption or at maturity, if any. Moreover, certain determinations made by MS & Co., in its capacity as calculation agent, may require it to exercise discretion and make subjective judgments, such as with respect to the occurrence or nonoccurrence of market disruption events and certain adjustments to the adjustment factor. These potentially subjective determinations may affect the payout to you upon an automatic early redemption or at maturity, if any. For further information regarding these types of determinations, see "Description of Auto-Callable Securities—Auto-Callable Securities Linked to Underlying Shares" and "—Calculation Agent and Calculations" in the accompanying product supplement. In addition, MS & Co. has determined the estimated value of the securities on the pricing date.

§ **The U.S. federal income tax consequences of an investment in the securities are uncertain.** There is no direct legal authority as to the proper treatment of the securities for U.S. federal income tax purposes, and, therefore, significant aspects of the tax treatment of the securities are uncertain.

Please read the discussion under "Additional Provisions—Tax considerations" in this document concerning the U.S. federal income tax consequences of an investment in the securities. We intend to treat a security for U.S. federal income tax purposes as a single financial contract that provides for a coupon that will be treated as gross income to you at the time received or accrued, in accordance with your regular method of tax accounting. Under this treatment, the ordinary income treatment of the coupon payments, in conjunction with the capital loss treatment of any loss recognized upon the sale, exchange or settlement of the securities, could result in adverse tax consequences to holders of the securities because the deductibility of capital losses is subject to limitations. We do not plan to request a ruling from the Internal Revenue Service (the "IRS") regarding the tax treatment of the securities, and the IRS or a court may not agree with the tax treatment described herein. If the IRS were successful in asserting an alternative treatment for the securities, the timing and character of income or loss on the securities might differ significantly from the tax treatment described herein. For example, under one possible treatment, the IRS could seek to recharacterize the securities as debt instruments. In that event, U.S. Holders (as defined below) would be required to accrue into income original issue discount on the securities every year at a "comparable yield" determined at the time of issuance (as adjusted based on the difference, if any, between the actual and the projected amount of any contingent payments on the securities) and recognize all income and gain in respect of the securities as ordinary income. The risk that financial instruments providing for buffers, triggers or similar downside protection features, such as the securities, would be recharacterized as debt is greater than the risk of recharacterization for comparable financial instruments that do not have such features.

Non-U.S. Holders (as defined below) should note that we currently intend to withhold on any coupon paid to Non-U.S. Holders generally at a rate of 30%, or at a reduced rate specified by an applicable income tax treaty under an "other income" or similar provision, and will not be required to pay any additional amounts with respect to amounts withheld.

In 2007, the U.S. Treasury Department and the IRS released a notice requesting comments on the U.S. federal income tax treatment of "prepaid forward contracts" and similar instruments. While it is not clear whether the securities would be viewed as similar to the prepaid forward contracts described in the notice, it is possible that any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the securities, possibly with retroactive effect. The notice focuses on a number of issues, the most relevant of which for holders of the securities are the character and timing of income or loss and the degree, if any, to which income realized by non-U.S. investors should be subject to withholding tax. Both U.S. and Non-U.S. Holders should consult their tax advisers regarding the U.S. federal income tax consequences of an investment in the securities, including possible alternative treatments, the issues presented by this notice and any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

Morgan Stanley Finance LLC
Contingent Income Auto-Callable Securities due November 15, 2021

Based on the Performance of the Common Stock of Apple Inc.

Principal at Risk Securities
Apple Inc. Overview

Apple Inc. designs, manufactures and markets mobile communication and media devices, personal computers and portable digital music players, and sells a variety of related software, services, peripherals, networking solutionsalign="top" width="15%">

$950.00
-5.00%
656.82
-50.00%
$700.00
$150.00
$850.00
-15.00%
525.46
-60.00%
$600.00
$150.00
$750.00
-25.00%
394.09
-70.00%
$500.00
$150.00
$650.00
-35.00%

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(1) The total Coupon Payments per security will depend on the Annual Return for each Observation Period over the 5-year term of the securities. The total Coupon Payments per security can range from a minimum of $150.00 (if the Annual Return is less than 0% for each Observation Period) to a maximum of $320.00 (if the Annual Return is greater than or equal to 0% for each Observation Period). For purposes of illustration, the above table shows a few examples of hypothetical total Coupon Payments over the 5-year term of the securities, assuming a range of Annual Return scenarios. The actual Coupon Payments payable on the securities will depend on the actual Annual Return for each Observation Period.

(2) We have assumed for purposes of this illustration that the Annual Return is greater than or equal to 0% for three Observation Periods, and less than 0% for two Observation Periods, resulting in total Coupon Payments per security over the 5-year term of the securities of $252.00. See Example 6 on page PS-7.

(3) We have assumed for purposes of this illustration that the Annual Return is greater than or equal to 0% for two Observation Periods, and less than 0% for three Observation Periods, resulting in total Coupon Payments per security over the 5-year term of the securities of $218.00. See Example 5 on page PS-7.

(4) We have assumed for purposes of this illustration that the Annual Return is greater than or equal to 0% for one Observation Period, and less than 0% for all other Observation Periods, resulting in total Coupon Payments per security over the 5-year term of the securities of $184.00. See Example 3 on page PS-6 and Example 4 on page PS-7.

(5) If the hypothetical Final Value is less than the Initial Value, we have assumed for purposes of illustration that the Annual Return is less than 0% for each of the five Observation Periods, resulting in total Coupon Payments per security over the 5-year term of the securities of $150.00. See Example 1 and Example 2 on page PS-6.

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Examples of Coupon Payment and Payment at Maturity Calculations

For each of the examples below:

- If the Annual Return is less than 0% for an Observation Period (i.e., the Ending Annual Value is less than the Starting Annual Value for such Observation Period), the Coupon Rate for such Observation Period will be equal to the Minimum Annual Coupon of 3.00% per annum, and the Coupon Payment for such Observation Period will equal $30.00 per security; and

- If the Annual Return is greater than or equal to 0% for an Observation Period (i.e., the Ending Annual Value is greater than or equal to the Starting Annual Value for such Observation Period), the Coupon Rate for such Observation Period will be equal to the Maximum Annual Coupon of 6.40% per annum, and the Coupon Payment for such Observation Period will equal $64.00 per security.

EXAMPLE 1 — The hypothetical Annual Return is less than 0% for each Observation Period. In addition, the hypothetical Final Value is 788.18 (which is 40% below the Initial Value), representing a decrease in the level of the Underlying Equity Index from the Initial Value by more than the Buffer Amount:

Total Coupon Payments over the term of the security:

$30.00 + $30.00 + $30.00 + $30.00 + $30.00 = $150.00

$$\text{Reference Return} = \frac{788.18 - 1313.64}{1313.64} = -40\%$$

Payment at Maturity (per security) = $1,000 + [$1,000 x (-40% + 20%)] = $800

Total payments over the term of the securities:

Total Coupon Payments + Payment at Maturity	=	$150.00 + $800.00
	=	$950.00 per security (i.e., a 5.00% loss over the 5-year term of the securi

If the level of the Underlying Equity Index has decreased from the Initial Value to the Final Value by a percentage that is greater than the Buffer Amount (i.e., if the Final Value is less than the Buffer Value), your investment will be fully exposed to any decline of the Underlying Equity Index beyond the Buffer Amount, and you could lose some or a significant portion (up to 80% of the Original Offering Price) of your investment. The annual Coupon Payments may not be sufficient to offset such loss.

EXAMPLE 2 — The hypothetical Annual Return is less than 0% for each Observation Period. In addition, the hypothetical Final Value is 1050.91 (which is 20% below the Initial Value), representing a decrease in the level of the Underlying Equity Index from the Initial Value by a percentage that is not greater than the Buffer Amount:

Total Coupon Payments over the term of the security:

$30.00 + $30.00 + $30.00 + $30.00 + $30.00 = $150.00

Payment at Maturity (per security) = $1,000

Total payments over the term of the securities:

Total Coupon Payments + Payment at Maturity	=	$150.00 + $1,000.00
	=	$1,150.00 per security (i.e., a 15.00% return over the 5-year term of the s

If the level of the Underlying Equity Index has decreased from the Initial Value to the Final Value by a percentage that is not greater than the Buffer Amount (i.e., if the Final Value is less than the Initial Value, but is equal to or greater than the Buffer Value), the Payment at Maturity will equal the $1,000 Original Offering Price and your return on the securities will be limited to the Coupon Payments.

EXAMPLE 3 — The hypothetical Annual Return is greater than or equal to 0% for one Observation Period and less than 0% for all other Observation Periods. In addition, the hypothetical Final Value is 1445.00 (which is 10% above the Initial Value):

Total Coupon Payments over the term of the security:

$64.00 + $30.00 + $30.00 + $30.00 + $30.00 = $184.00

Payment at Maturity (per security) = $1,000

Total payments over the term of the securities:

Total Coupon Payments + Payment at Maturity	=	$184.00 + $1,000.00
	=	$1,184.00 per security (i.e., an 18.40% return over the 5-year term of the

If the level of the Underlying Equity Index has increased from the Initial Value to the Final Value, the Payment at Maturity will equal the $1,000 Original Offering Price. In no event will the Payment at Maturity exceed the Original Offering Price regardless of how well the Underlying Equity Index performs. Your return on the securities, if any, will depend solely on the Coupon Payments.

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EXAMPLE 4 — The hypothetical Annual Return is greater than or equal to 0% for one Observation Period and less than 0% for all other Observation Periods. In addition, the hypothetical Final Value is 1576.37 (which is 20% above the Initial Value):

Total Coupon Payments over the term of the security:

$64.00 + $30.00 + $30.00 + $30.00 + $30.00 = $184.00

Payment at Maturity (per security) = $1,000

Total payments over the term of the securities:

Total Coupon Payments + Payment at Maturity	=	$184.00 + $1,000.00
	=	$1,184.00 per security (i.e., an 18.40% return over the 5-year term of the

If the level of the Underlying Equity Index has increased from the Initial Value to the Final Value, the Payment at Maturity will equal the $1,000 Original Offering Price. In no event will the Payment at Maturity exceed the Original Offering Price regardless of how well the Underlying Equity Index performs. Your return on the securities, if any, will depend solely on the Coupon Payments.

EXAMPLE 5 — The hypothetical Annual Return is greater than or equal to 0% for two Observation Periods and less than 0% for all other Observation Periods. In addition, the hypothetical Final Value is 1839.10 (which is 40% above the Initial Value):

Total Coupon Payments over the term of the security:

$64.00 + $64.00 + $30.00 + $30.00 + $30.00 = $218.00

Payment at Maturity (per security) = $1,000

Total payments over the term of the securities:

Total Coupon Payments + Payment at Maturity	=	$218.00 + $1,000.00
	=	$1,218.00 per security (i.e., a 21.80% return over the 5-year term of the s

If the level of the Underlying Equity Index has increased from the Initial Value to the Final Value, the Payment at Maturity will equal the $1,000 Original Offering Price. In no event will the Payment at Maturity exceed the Original Offering Price regardless of how well the Underlying Equity Index performs. Your return on the securities, if any, will depend solely on the Coupon Payments.

EXAMPLE 6 — The hypothetical Annual Return is greater than or equal to 0% for three Observation Period and less than 0% for all other Observation Periods. In addition, the hypothetical Final Value is 1970.46 (which is 50% above the Initial Value):

Total Coupon Payments over the term of the security:

$64.00 + $64.00 + $64.00 + $30.00 + $30.00 = $252.00

Payment at Maturity (per security) = $1,000

Total payments over the term of the securities:

Total Coupon Payments + Payment at Maturity	=	$252.00 + $1,000.00
	=	$1,252.00 per security (i.e., a 25.20% return over the 5-year term of the s

If the level of the Underlying Equity Index has increased from the Initial Value to the Final Value, the Payment at Maturity will equal the $1,000 Original Offering Price. In no event will the Payment at Maturity exceed the Original Offering Price regardless of how well the Underlying Equity Index performs. Your return on the securities, if any, will depend solely on the Coupon Payments.

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Risk Factors

There are important differences between the securities and a conventional debt security. An investment in the securities involves significant risks, including those listed below. You should carefully review the more detailed explanation of risks relating to the securities in the "Risk Factors" sections beginning on page S-15 of the product supplement. We also urge you to consult with your investment, legal, accounting, tax, and other advisors before you invest in the securities.

- The securities are not conventional debt securities. You may lose some or a significant portion of your investment in the securities.
- The credit risk of The Royal Bank of Scotland plc and The Royal Bank of Scotland Group plc, and their credit ratings and credit spreads may adversely affect the value of the securities.
- Your return on the securities is entirely dependent on the performance of the Underlying Equity Index during each Observation Period.
- You may receive below-market Coupon Payments in respect of one or more Observation Periods.
- You may receive only a limited amount of Coupon Payments in respect of one or more Observation Periods.
- The return on your initial investment is limited to the annual Coupon Payments, which will never exceed the Maximum Annual Coupon.
- The Payment at Maturity will not exceed the Original Offering Price regardless of how well the Underlying Equity Index performs from the Initial Value to the Final Value.
- The Payment at Maturity will depend on the Final Value, which is determined only on a valuation date shortly before the maturity date, and will not depend on the performance of the Underlying Equity Index during any one or more individual Observation Periods.
- The securities may not be a suitable investment for you.
- Although we are a bank, the securities are not bank deposits and are not insured or guaranteed by the Federal Deposit Insurance Corporation, the Deposit Insurance Fund or any other government agency.
- The securities will not be listed on any securities exchange and there may be little or no secondary market for the securities.
- The value of the securities prior to maturity will be influenced by many unpredictable factors, and may be less than the Original Offering Price.
- In the event that we or RBSG, as guarantor, exercise our option to redeem the securities, as described in the section

of the product supplement entitled “Description of the Securities—Optional Tax Redemption,” the amount of cash you will be entitled to receive upon redemption of the securities is uncertain.

- An increase in the level of the Underlying Equity Index may not increase the value of your securities.
- The value of your securities on the pricing date is less than the Original Offering Price due to the underwriting discount and our cost of hedging, both of which can be expected to be reflected in secondary market prices.
- Hedging and trading activities by us or our affiliates may adversely affect your return on the securities and the value of the securities.
- The holding of securities by our affiliates and future sales by our affiliates could be in conflict with your interests.
- There may be potential conflicts of interest between security holders and the calculation agent or other of our affiliates.
- RBSSI and its affiliates may publish reports, express opinions or provide recommendations that are inconsistent with investing in or holding the securities. Any such reports, opinions or recommendations could affect the value of the Underlying Equity Index and therefore the value of the securities.
- The U.S. federal income tax consequences of an investment in the securities are unclear.
- An investment in the securities is not the same as a direct investment in the Underlying Equity Index or in the securities that comprise the Underlying Equity Index.
- Adjustments to the Underlying Equity Index could adversely affect the securities.
- We may engage in business with or involving one or more of the issuers of the securities comprising the Underlying Equity Index without regard to your interests.
- We do not control any issuer whose securities comprise the Underlying Equity Index and we are not responsible for any of their disclosure.

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Investor Considerations

You may wish to consider an investment in the securities if:

- You anticipate that the level of the Underlying Equity Index will increase moderately from the Starting Annual Value to the Ending Annual Value during the Observation Periods.

- You accept that your investment may result in a loss, which could be significant, if the Final Value of the Underlying Equity Index is less than the Initial Value by an amount that exceeds the Buffer Amount.

- You accept that the return on the securities will not exceed the Maximum Annual Coupon during the term of the securities and that the Payment at Maturity will not exceed the Original Offering Price.

- You are willing to forgo market rates of interest on the securities such as fixed or floating rate interest paid on conventional interest bearing debt securities.

- You seek exposure to the performance of the Underlying Equity Index with no expectation of dividends or other benefits of owning the securities comprising the Underlying Equity Index.

- You are willing to accept that a trading market is not expected to develop for the securities and you understand that secondary market prices for the securities, if any, will be affected by various factors, including our actual and perceived creditworthiness.

- You are able to and willing to hold the securities until maturity.

- You are willing to make an investment, the payments on which depend on the creditworthiness of RBS, as the issuer of the securities, and RBSG, as the guarantor of the issuer's obligations under the securities.

The securities may not be an appropriate investment for you if:

- You are not willing to be exposed to the performance of the Underlying Equity Index.

- You seek full principal protection or preservation of capital invested.

- You believe the level of the Underlying Equity Index will decrease from the Initial Value by an amount that exceeds the Buffer Amount, or that the level of the Underlying Equity Index will not increase sufficiently over the term of the securities to provide you with your desired return.

- You seek a return on your investment that will not be capped at the Maximum Annual Coupon and a Payment at Maturity that will not be limited to the Original Offering Price.

- You want to receive dividends or other distributions paid on the securities included in the Underlying Equity Index.

- You seek assurances that there will be a liquid market if and when you want to sell the securities prior to maturity.

- You are unwilling or are unable to assume the credit risk associated with RBS, as the issuer, and RBSG, as the guarantor of the issuer's obligations under the securities.

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The Underlying Equity Index

We have derived all information contained in this pricing supplement regarding the S&P 500® Index, including, without limitation, its make-up, method of calculation and changes in its components, from publicly available information. Such information reflects the policies of, and is subject to change by, Standard & Poor's Financial Services, LLC ("S&P"). We make no representation or warranty as to the accuracy or completeness of such information. The S&P 500® Index was developed by S&P and is calculated, maintained and published by S&P. S&P has no obligation to continue to publish, and may discontinue the publication of, the S&P 500® Index.

The S&P 500® Index is reported by Bloomberg L.P. under the ticker symbol "SPX."

The S&P 500® Index is intended to provide a performance benchmark for the U.S. equity markets. The calculation of the level of the S&P 500® Index (discussed below in further detail) is based on the relative value of the aggregate Market Value (as defined below) of the common stocks of 500 companies (the "S&P Component Stocks") as of a particular time as compared to the aggregate average Market Value of the common stocks of 500 similar companies during the base period of the years 1941 through 1943. Historically, the "Market Value" of any S&P Component Stock was calculated as the product of the market price per share and the number of the then-outstanding shares of such S&P Component Stock. As discussed below, on March 21, 2005, S&P began to use a new methodology to calculate the Market Value of the S&P Component Stocks and on September 16, 2005, S&P completed its transition to the new calculation methodology. The 500 companies are not the 500 largest companies listed on the New York Stock Exchange (the "NYSE") and not all 500 companies are listed on such exchange. S&P chooses companies for inclusion in the S&P 500® Index with the objective of achieving a distribution by broad industry groupings that approximates the distribution of these groupings in the common stock population of the U.S. equity market. S&P may from time to time, in its sole discretion, add companies to, or delete companies from, the S&P 500® Index to achieve the objectives stated above. Relevant criteria employed by S&P include the viability of the particular company, the extent to which that company represents the industry group to which it is assigned, the extent to which the company's common stock is widely-held and the Market Value and trading activity of the common stock of that company.

On March 21, 2005, S&P began to calculate the S&P 500® Index based on a half float-adjusted formula, and on September 16, 2005, the S&P 500® Index became fully float-adjusted. S&P's criteria for selecting stocks for the S&P 500® Index was not changed by the shift to float adjustment. However, the adjustment affects each company's weight in the S&P 500® Index (i.e., its Market Value).

Under float adjustment, the share counts used in calculating the S&P 500® Index reflect only those shares that are available to investors, not all of a company's outstanding shares. S&P defines three groups of shareholders whose holdings are subject to float adjustment:

- holdings by other publicly traded corporations, venture capital firms, private equity firms, strategic partners, or leveraged buyout groups;
- holdings by government entities, including all levels of government in the United States or foreign countries; and
- holdings by current or former officers and directors of the company, founders of the company or family trusts of

officers, directors or founders, as well as holdings of trusts, foundations, pension funds, employee stock ownership plans, or other investment vehicles associated with and controlled by the company.

However, treasury stock, stock options, equity participation units, warrants, preferred stock, convertible stock and rights are not part of the float. In cases where holdings in a group exceed 10% of the outstanding shares of a company, the holdings of that group will be excluded from the float-adjusted count of shares to be used in the S&P 500® Index calculation. Mutual funds, investment advisory firms, pension funds or foundations not associated with the company and investment funds in insurance companies, shares that trust beneficiaries may buy or sell without difficulty or significant additional expense beyond typical brokerage fees, and, if a company has multiple classes of stock outstanding, shares in an unlisted or non-traded class if such shares are convertible by shareholders without undue delay and cost, are also part of the float. Shares held in a trust to allow investors in countries outside the country of domicile (e.g., ADRs, CDIs and Canadian exchangeable shares) are normally part of the float.

For each stock, an investable weight factor ("IWF") is calculated by dividing the available float shares, defined as the total shares outstanding less shares held in one or more of the three groups listed above where the group holdings exceed 10% of the outstanding shares, by the total shares outstanding. (On March 21, 2005, the S&P 500® Index moved halfway to float adjustment, meaning that if a stock has an IWF of 0.80, the IWF used to calculate the S&P 500® Index between March 21, 2005 and September 16, 2005 was 0.90. On September 16, 2005, S&P began to calculate the S&P 500® Index on a fully float-adjusted basis, meaning that if a stock has an IWF of 0.80, the IWF used to calculate the S&P 500® Index on and after September 16, 2005 is 0.80). The float-adjusted Index is calculated by dividing the sum of the IWF multiplied by both the price and the total shares outstanding for each stock by the Index Divisor. For companies with multiple classes of stock, S&P calculates the weighted average IWF for each stock using the proportion of the total company market capitalization of each share class as weights.

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As of the date of this pricing supplement, the S&P 500® Index is calculated using a base-weighted aggregate methodology: the level of the S&P 500® Index reflects the total Market Value of all 500 S&P Component Stocks relative to the S&P 500® Index's base period of 1941–43 (the "Base Period").

An indexed number is used to represent the results of this calculation in order to make the value easier to work with and track over time.

The actual total Market Value of the S&P Component Stocks during the Base Period has been set equal to an indexed value of 10. This is often indicated by the notation 1941–43=10. In practice, the daily calculation of the S&P 500® Index is computed by dividing the total Market Value of the S&P Component Stocks by a number called the Index Divisor. By itself, the Index Divisor is an arbitrary number. However, in the context of the calculation of the S&P 500® Index, it is the only link to the original Base Period level of the S&P 500® Index. The Index Divisor keeps the S&P 500® Index comparable over time and is the manipulation point for all adjustments to the S&P 500® Index ("Index Maintenance").

Index Maintenance includes monitoring and completing the adjustments for company additions and deletions, share changes, stock splits, stock dividends and stock price adjustments due to company restructurings or spin-offs.

To prevent the level of the S&P 500® Index from changing due to corporate actions, all corporate actions which affect the total Market Value of the S&P 500® Index require an Index Divisor adjustment. By adjusting the Index Divisor for the change in total Market Value, the level of the S&P 500® Index remains constant. This helps maintain the level of the S&P 500® Index as an accurate barometer of stock market performance and ensures that the movement of the S&P 500® Index does not reflect the corporate actions of individual companies in the S&P 500® Index. All Index Divisor adjustments are made after the close of trading and after the calculation of the closing level of the S&P 500® Index. Some corporate actions, such as stock splits and stock dividends, require simple changes in the common shares outstanding and the stock prices of the companies in the S&P 500® Index and do not require Index Divisor adjustments.

The table below summarizes the types of Index Maintenance adjustments and indicates whether or not an Index Divisor adjustment is required.

Type of Corporate Action	Comments	Divisor Adjustment
Company added/ deleted	Net change in market value determines divisor adjustment.	Yes
Change in shares outstanding	Any combination of secondary issuance, share repurchase or buy back – share counts revised to reflect change.	Yes
Stock split	Share count revised to reflect new count. Divisor adjustment is not required since the share count and price changes are offsetting.	No
Spin-off	If the spun-off company is not being added to the index, the divisor adjustment reflects the decline in index market value (i.e., the value of the spun-off unit).	Yes
Spin-off	Spun-off company added to the index, no company removed from index.	No
Spin-off	Spun-off company added to the index, another company removed to keep	Yes

	number of names fixed. Divisor adjustment reflects deletion.	
Change in IWF due to a corporate action or a purchase or sale by an inside holder.	Increasing (decreasing) the IWF increases (decreases) the total market value of the index. The divisor change reflects the change in market value caused by the change to an IWF.	Yes
Special dividend	When a company pays a special dividend the share price is assumed to drop by the amount of the dividend; the divisor adjustment reflects this drop in index market value.	Yes
Rights offering	Each shareholder receives the right to buy a proportional number of additional shares at a set (often discounted) price. The calculation assumes that the offering is fully subscribed. Divisor adjustment reflects increase in market cap measured as the shares issued multiplied by the price paid.	Yes

Stock splits and stock dividends do not affect the Index Divisor, because following a split or dividend, both the stock price and number of shares outstanding are adjusted by S&P so that there is no change in the Market Value of the S&P Component Stock. All stock split and dividend adjustments are made after the close of trading on the day before the ex-date.

Each of the corporate events exemplified in the table requiring an adjustment to the Index Divisor has the effect of altering the Market Value of the S&P Component Stock and consequently of altering the aggregate Market Value of the S&P Component Stocks (the "Post-Event Aggregate Market Value"). In order that the level of the S&P 500® Index (the "Pre-Event Index Value") not be affected by the altered Market Value (whether increase or decrease) of the affected Component Stock, a new Index Divisor ("New Divisor") is derived as follows:

$$\frac{\text{Post-Event Aggregate Market Value}}{\text{New Divisor}} = \text{Pre-Event Index Value}$$

$$\text{New Divisor} = \frac{\text{Post-Event Aggregate Market Value}}{\text{Pre-Event Index Value}}$$

A large part of the Index Maintenance process involves tracking the changes in the number of shares outstanding of each of the S&P 500® Index companies. Four times a year, on a Friday close to the end of each calendar quarter, the share totals of companies in the S&P 500® Index are updated as required by any changes in the number of shares outstanding. After the totals are updated, the Index Divisor is adjusted to compensate for the net change in the total Market Value of the S&P 500® Index. In addition, any changes over 5% in the current common shares outstanding for the S&P 500® Index companies are carefully reviewed on a weekly basis, and when appropriate, an immediate adjustment is made to the Index Divisor.

License Agreement

S&P has entered into a non-transferable, non-exclusive license agreement granting us and certain of our affiliated or subsidiary companies, in exchange for a fee, the right to use the S&P 500® Index, which is owned and published by S&P, in connection with certain securities, including the securities.

The license agreement between S&P and us provides that the following language must be set forth in this pricing supplement:

The securities are not sponsored, endorsed, sold or promoted by Standard & Poor's Financial Services, LLC. S&P makes no representation or warranty, express or implied, to the owners of the securities or any member of the public regarding the advisability of investing in securities generally or in the securities particularly or the ability of the S&P 500® Index to track general stock market performance. S&P's only relationship to us is the licensing of certain trademarks and trade names of S&P and of the S&P 500® Index which is determined, composed and calculated by S&P without regard to us or the securities. S&P has no obligation to take our needs or the needs of the owners of the securities into consideration in determining, composing or calculating the S&P 500® Index. S&P is not responsible for and has not participated in the determination of the prices and amount of the securities or the timing of the issuance or sale of the securities or in the determination or calculation of the equation by which the securities are to be converted into cash. S&P has no obligation or liability in connection with the administration, marketing or trading of the securities.

NEITHER S&P NOR ITS AFFILIATES GUARANTEE THE ADEQUACY, ACCURACY, TIMELINESS OR COMPLETENESS OF THE S&P 500® INDEX OR ANY DATA INCLUDED THEREIN OR ANY COMMUNICATIONS, INCLUDING BUT NOT LIMITED TO, ORAL OR WRITTEN COMMUNICATIONS (INCLUDING ELECTRONIC COMMUNICATIONS) WITH RESPECT THERETO. S&P AND ITS AFFILIATES SHALL NOT BE SUBJECT TO ANY DAMAGES OR LIABILITY FOR ANY ERRORS, OMISSIONS OR DELAYS THEREIN. S&P MAKES NO EXPRESS OR IMPLIED WARRANTIES, AND EXPRESSLY DISCLAIMS ALL WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE WITH RESPECT TO THE MARKS, THE S&P 500® INDEX OR ANY DATA INCLUDED THEREIN. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT WHATSOEVER SHALL S&P OR ITS AFFILIATES BE LIABLE FOR ANY INDIRECT, SPECIAL, INCIDENTAL, PUNITIVE OR CONSEQUENTIAL DAMAGES, INCLUDING BUT NOT LIMITED TO, LOSS OF PROFITS, TRADING LOSSES, LOST TIME OR GOODWILL, EVEN IF THEY HAVE BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES, WHETHER IN CONTRACT, TORT, STRICT LIABILITY OR OTHERWISE.

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HISTORICAL INFORMATION

The following chart sets forth the daily historical performance of the S&P 500® Index in the period from July 12, 2006 through July 12, 2011. The closing level of the S&P 500® Index on July 12, 2011 was 1313.64. We obtained the closing levels below from Bloomberg, without independent verification. We make no representation or warranty as to the accuracy or completeness of the information obtained from Bloomberg.

These historical values for the S&P 500® Index are not indicative of the future performance of the S&P 500® Index or what the value of the securities will be. Any historical upward or downward trend in the value of the S&P 500® Index during any period set forth below is not an indication that the S&P 500® Index is more or less likely to increase or decrease at any time during the term of the securities. You cannot predict the future performance of the securities or the S&P 500® Index based on the historical performance of the S&P 500® Index. Neither we nor RBSG can guarantee that the value of the S&P 500® Index will increase.

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Summary Tax Consequences

You should review carefully the section in the accompanying product supplement entitled "U.S. Federal Income Tax Consequences." Although the tax consequences of an investment in the securities are uncertain, we believe it is reasonable to treat the securities for U.S. federal income tax purposes as prepaid financial contracts, with associated Coupon Payments by us to you. Under this treatment:

- we will treat Coupon Payments as ordinary income to you when received or accrued, in accordance with your method of accounting for U.S. federal income tax purposes;
- we will treat Coupon Payments to non-U.S. holders as subject to withholding tax; and
- upon a sale, exchange or retirement of the securities, your gain or loss generally should be capital gain or loss (although the treatment of any sales proceeds attributable to any accrued but unpaid Coupon Payment is unclear) and should be long-term capital gain or loss if you have held the securities for more than one year.

If, however, the Internal Revenue Service (the "IRS") were successful in asserting an alternative treatment for the securities, the tax consequences of ownership and disposition of the securities might be affected materially and adversely. We do not plan to request a ruling from the IRS, and the IRS or a court might not agree with the tax treatment described in this pricing supplement and the accompanying product supplement.

In 2007, Treasury and the IRS released a notice requesting comments on various issues regarding the U.S. federal income tax treatment of "prepaid forward contracts" and similar instruments, which may include the securities. The notice focuses in particular on whether to require holders of these instruments to accrue income over the term of their investment. It also asks for comments on a number of related topics, including the character of income or loss with respect to these instruments; the relevance of factors such as the nature of the underlying property to which the instruments are linked; the degree, if any, to which income (including any mandated accruals) realized by non-U.S. persons should be subject to withholding tax; and whether these instruments are or should be subject to the "constructive ownership" regime, which very generally can operate to recharacterize certain long-term capital gain as ordinary income and impose an interest charge. While the notice requests comments on appropriate transition rules and effective dates, any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the securities, possibly with retroactive effect.

For a discussion of U.K. tax considerations relating to the securities, you should refer to the section in the accompanying product supplement entitled "Taxation in the United Kingdom."

We do not provide any advice on tax matters. You should consult your tax adviser regarding the U.S. federal tax consequences of an investment in the securities (including possible alternative treatments and the issues presented by the 2007 notice), as well as tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

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Supplemental Plan of Distribution (Conflicts of Interest)

We have appointed RBS Securities Inc. ("RBSSI") as our selling agent for this offering. RBSSI will purchase these securities as principal for its own account at the discount set forth on the cover of this pricing supplement. RBSSI has informed us that, as part of its distribution of the securities, it intends to reoffer the securities to other dealers who will sell the securities. Each such dealer engaged by RBSSI, or further engaged by a dealer to whom RBSSI reoffers the securities, will purchase the securities at an agreed concession, not in excess of the discount that RBSSI will receive from us. RBSSI has informed us that such concessions may vary from dealer to dealer and that not all dealers will purchase or repurchase the securities at the same concession. You can find a general description of the commission rates payable to the selling agents under "Plan of Distribution (Conflicts of Interest)" in the accompanying product supplement.

RBSSI is an affiliate of ours and RBSG. RBSSI will conduct this offering in compliance with the requirements of Rule 5121 of the Financial Industry Regulatory Authority, Inc., which is commonly referred to as FINRA, regarding a FINRA member firm's distribution of the securities of an affiliate. Following the initial distribution of any of these securities, RBSSI may offer and sell those securities in the course of its business as a broker-dealer. RBSSI may act as principal or selling agent in those transactions and will make any sales at varying prices related to prevailing market prices at the time of sale or otherwise. RBSSI may use this pricing supplement and the accompanying prospectus and product supplement, in connection with any of those transactions. RBSSI is not obligated to make a market in any of these securities and may discontinue any market-making activities at any time without notice.

We and our affiliates, including RBSSI, may enter into one or more hedging transactions in connection with this offering of securities. See "Use of Proceeds; Hedging" in the accompanying product supplement.

To the extent the total aggregate amount of the securities being offered by this pricing supplement is not purchased by investors in the offering, one or more of our affiliates has agreed to purchase the unsold portion, which may constitute up to 15% of the total aggregate amount of the securities, and to hold such securities initially for its own investment purposes. See "The holding of securities by our affiliates and future sales by our affiliates could be in conflict with your interests" under the heading "Risk Factors" and "Plan of Distribution (Conflicts of Interest)" in the accompanying product supplement.

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Where You Can Find More Information

RBS has filed a registration statement (including a prospectus) with the Securities and Exchange Commission, or SEC, for the offering to which this pricing supplement relates. Before you invest, you should read the prospectus in that registration statement and other documents, including the applicable product supplement, related to this offering that RBS has filed with the SEC for more complete information about RBS and the offering of the securities.

You may get these documents without cost by visiting EDGAR on the SEC website at www.sec.gov. Alternatively, RBS, any underwriter or any dealer participating in this offering will arrange to send you the prospectus and product supplement if you request by calling toll free (866) 747-4332.

You should read this pricing supplement together with the prospectus dated May 18, 2010, and the more detailed information contained in the product supplement dated June 8, 2011. This pricing supplement, together with the documents listed below, contains the terms of the securities and supersedes all other prior or contemporaneous oral statements as well as any other written materials including preliminary or indicative pricing terms, correspondence, trade ideas, structures for implementation, sample structures, fact sheets, brochures or other educational materials of ours. You should carefully consider, among other things, the matters set forth in "Risk Factors" in the accompanying product supplement, as the securities involve risks not associated with conventional debt securities. We urge you to consult your investment, legal, tax, accounting and other advisors before you invest in the securities.

You may access these documents on the SEC website at www.sec.gov as follows (or if such address has changed, by reviewing our filings for the relevant date on the SEC website):

- Product Prospectus Supplement No. PRCN-1 dated June 8, 2011:
http://www.sec.gov/Archives/edgar/data/729153/000095010311002240/dp22972_424b5.htm

- Prospectus dated May 18, 2010:
http://www.sec.gov/Archives/edgar/data/729153/000095010310001492/dp17682_424b2.htm

Our Central Index Key, or CIK, on the SEC website is 729153. Unless otherwise indicated or unless the context requires otherwise, all references in this document to "we," "us" and "our" or similar references are to The Royal Bank of Scotland plc.

The securities are our unsecured and unsubordinated obligations issued as part of our RBS NotesSM program and guaranteed by RBSG. RBS NotesSM is a service mark of The Royal Bank of Scotland N.V., one of our affiliates.

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Four Categories of RBS Investor Products

RBS Investor Products is the brand name for RBS's securities offerings that provide market-driven investment solutions across different asset classes and investor risk profiles to help meet your portfolio needs. RBS Investor Products are divided into four broad categories depending on the level of risk to your principal invested at maturity: Protection, Fixed Buffer, Contingent Buffer and Full Exposure. These broad categories are intended to help you to first understand the degree of your principal at risk at maturity, before you consider the upside potential of RBS Investor Products. The following description is only an overview of the four categories of RBS Investor Products, and does not represent any particular security nor guarantee performance. All payments due on RBS Investor Products are subject to the credit risk of RBS, as the issuer, and RBSG, as the guarantor of the issuer's obligations under the securities.

Protection investments provide for full or partial protection on your invested principal at maturity against downside market movements, subject to the creditworthiness of the issuer and the guarantor. These securities are designed for investors who place a priority on the preservation of principal at maturity, while potentially offering better returns than traditional fixed income investments. These securities tend to have a longer term than securities that do not offer protection, and principal invested is not protected prior to maturity.

Fixed Buffer investments provide a modest buffer at maturity against downside market movements. These securities are designed for investors who seek potential growth or income, and who also seek some cushion against modest market declines up to a specified buffer. You are exposed to the full market decline in the underlying asset beyond the specified buffer, and you can lose some or a substantial portion of your investment.

Contingent Buffer investments provide some protection against downside market movements only if the underlying asset does not fall to or below a specified level during the term of the securities. If the underlying asset falls to or below this specified level, you are exposed to the full market decline in the underlying asset at maturity without any cushion against downside market movements. These investments are for more aggressive investors who can tolerate full downside risk but find the contingent buffer to be an appealing form of tactical cushion. You can lose some or all of your investment.

Full Exposure investments expose investors to full downside risk to any decline in the underlying asset. These investments are meant for investors who are willing to take full market risk in return for either enhanced appreciation or access to a unique underlying asset or strategy. You can lose some or all of your investment.

RBS Investor Products can provide access to a range of asset classes and risk and potential return profiles. These investments can play an important role as a portion of a diversified investment portfolio. In assessing the potential return of any RBS Investor Product, you should understand that these securities involve significant investment risks, and you should carefully review the applicable pricing supplement, product supplement and prospectus before investing.

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