

Report of the skilled person on the proposed ring-fencing transfer scheme to transfer business from The Royal Bank of Scotland plc (“RBS plc”) to Adam & Company PLC (“Adam & Company”) and National Westminster Bank Plc (“NatWest Plc”)

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Important – Your attention is drawn to the limitations under which this Scheme Report has been prepared as set out in Section 1.6

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1 Introduction

1.1 The skilled person

In order to aid banking groups which are restructuring their businesses to comply with the ring-fencing requirements, a new type of statutory transfer scheme called a ring-fencing transfer scheme ("RFTS") has been introduced under Part VII of the Financial Services and Markets Act 2000.

When an RFTS is submitted to the Court for approval, it has to be accompanied by a report (the "Scheme Report") from an independent skilled person. This is a requirement of Section 109A of the Financial Services and Markets Act 2000 ("FSMA") and the Scheme Report must be made in a form approved by the Prudential Regulation Authority ("PRA") having consulted the Financial Conduct Authority ("FCA"), together with the PRA, the "Regulators".

I have been appointed as the skilled person to provide the required report on the ring-fencing transfer scheme for The Royal Bank of Scotland Group plc ("RBSG plc") and its subsidiaries (together "RBS" or "RBS Group") for the transfer of the personal and corporate banking business of The Royal Bank of Scotland plc ("RBS plc") to Adam & Company PLC ("Adam & Company"), the transfer of a Covered Bonds Business to National Westminster Bank Plc ("NatWest Plc"), and the transfer of property from RBS plc to both Adam & Company and NatWest Plc (the "Scheme"). All of the companies involved in this ring-fencing transfer scheme proposed by the RBS Group (the "Scheme Companies") are entities within the RBS Group.

I have been appointed jointly by RBSG plc, RBS plc, Adam & Company and NatWest Plc (together, the "Companies") and my costs have been borne by RBS. My appointment has been approved by the PRA, having consulted with the FCA.

I am a Fellow of The Institute of Chartered Accountants in England and Wales ("ICAEW"), having qualified in 1985. I have been an audit partner for 25 years at Deloitte LLP ("Deloitte"), and was the Partner in Charge of the UK Banking & Securities Audit Group of Deloitte for ten years. I have carried out a wide range of advisory work and have been appointed as an expert under Section 166 of FSMA and as a Reporting Accountant to predecessor regulatory bodies. I am a member of the Council of the ICAEW (appointed 2015) and also sit on the ICAEW Risk and Regulation Committee (appointed 2015). Previous appointments also include being a member of the ICAEW Appeal Committee (2013 to 2015) and the ICAEW Disciplinary Committee and Tribunal Chairman (2007 to 2013).

1.2 Independence

Neither I, nor my immediate family hold any deposits, credit or loan agreements, mortgages, shareholdings or any other financial interests with RBS plc or any member of the RBS Group. I have not advised the RBS Group on any significant project in the past which I believe would affect the subject matter of the Scheme Report.

From 2000 to 2015, Deloitte has acted as auditor to the RBS Group. Ernst & Young LLP have been the auditor for the RBS Group for the year end 31 December 2016.

Deloitte does, and will continue to, provide a range of advisory and consulting services to the RBS Group. In respect of potential services and business relationships, Deloitte has well established firm-wide systems and controls for identifying those that may fall within, or close to, the perimeter of the subject matter of my review of the Scheme as the skilled person. Such potential services and relationships are and have been notified to me to consider; this will include assessing whether effective safeguards exist to mitigate any actual or perceived threat to an acceptable level. Where

threats cannot be mitigated to an acceptable level, or no effective safeguard exists, the service or relationship has not and will not proceed.

I do not believe that any of these assignments compromise my independence, create a conflict of interest, or compromise my ability to report on the proposed Scheme.

Deloitte has not acted for the RBS Group in developing any aspects of the Scheme, and has not carried out any of the calculations or the development of any of the underlying financial models connected with the Scheme.

1.3 Regulatory and professional guidance

The ICAEW has issued technical releases which apply to work undertaken by skilled persons. I have prepared this Scheme Report, with the intention that it should meet the requirements of ICAEW Technical Release for Section 166 FSMA Skilled Person's Reports – TECH 15/14 FSF, specifically in relation to 'Review and Recommend' types of report. I believe that it does so in all material respects and I have applied all of the principles outlined in ICAEW TECH 15/14 in reaching the opinions stated in this Scheme Report.

In preparing this Scheme Report, I have also considered the PRA Statement of Policy "The implementation of ring-fencing: the PRA's approach to ring-fencing transfer schemes" published in March 2016" (the "PRA Statement of Policy") and the FCA Finalised Guidance 16/1 "Guidance on the FCA's approach to the implementation of ring-fencing and ring-fencing transfer schemes" published in March 2016 (the "FCA Guidance").

1.4 The Scope of my Scheme Report

Overview

The Scheme will be submitted to the Court of Session, the supreme civil court of Scotland (the "Court"), for sanction under Section 111 of FSMA. If approved, it is expected that the Scheme will become operative and take effect on 30 April 2018 (the "Effective Date"). This Scheme Report and any supplementary report (my "Supplementary Report" and, together with my Scheme Report, my "Scheme Reports") will be presented to the Court and the Court will consider the contents of these Scheme Reports in deciding whether to sanction the Scheme. This Scheme Report will be presented to the Court at the First Hearing and any supplementary report will be presented to the Court at the Final Hearing.

The Statutory Question

The legislation requires that the Scheme Report addresses the statutory question (the "Statutory Question") of:

(a) whether persons other than the transferor concerned are likely to be adversely affected by the scheme, and (b) if so, whether the adverse effect is likely to be greater than is reasonably necessary in order to achieve whichever of the purposes mentioned in Section 106B(3) of FSMA is relevant. The relevant purposes in Section 106B(3) of FSMA are:

- (a) enabling a UK authorised person to carry on core activities as a ring-fenced body in compliance with the ring-fencing provisions;
- (b) enabling the transferee to carry on core activities as a ring-fenced body in compliance with the ring-fencing provisions;
- (c) making provision in connection with the implementation of the proposals that would involve a body corporate whose group includes the body corporate to whose business the scheme relates becoming a ring-fenced body while one or more other members of its group are not ring-fenced bodies; and

- (d) making provision in connection with the implementation of proposals that would involve a body corporate whose group includes the transferee becoming a ring-fenced body while one or more members of the transferee's group are not ring-fenced bodies.

In relation to this Scheme, the transferor is RBS plc, the transferees are Adam & Company and NatWest Plc and the relevant purpose is Section 106B(3)(b) of FSMA i.e. enabling the transferee to carry on core activities as a ring-fenced body in compliance with the ring-fencing provisions.

My approach to answering the Statutory Question

I have answered the Statutory Question by considering effects of the Scheme on depositors, customers, counterparties and other affected persons (together the "Stakeholders"). Effects of the Scheme can be both positive and negative. Although I have considered all effects identified, I have only considered part (b) of the Statutory Question where I believe a negative effect is "material" having taken into account the size and nature of the effect, the likelihood of occurrence and whether there are any mitigating actions being taken to reduce the negative effect. My assessment of effects is qualitative in nature and dependent on particular circumstances although my conclusions have been based on consideration of these factors:

- **Factor A – the size and nature of effect.** Effects of the Scheme can vary in size and nature and I have considered whether each negative effect will be material to any group of Stakeholders affected. What is "material" depends on the matter being considered and the particular circumstances. I have made my assessment from the perspective of any group of Stakeholders affected and the ability of the various types of Stakeholders to bear or mitigate negative effects. For example, if a negative effect of the Scheme is that certain counterparties each have to perform a straightforward additional administrative task, I may regard this as simply an inconvenience rather than an adverse effect in relation to the Statutory Question. If however, the Scheme results in a negative effect such as a financial penalty for a Stakeholder group, I may consider this to be an adverse effect in relation to the Statutory Question. As my assessment is made from the perspective of the Stakeholder, my conclusion may be different depending on the composition of the Stakeholder group. Therefore my conclusion may be dependent on whether those affected are, for example, private individuals, where I may conclude that a negative effect is material as opposed to a situation where the only group of Stakeholders are large financial institutions where, depending on facts and circumstances, I may conclude that a negative effect is not material.
- **Factor B – likelihood of occurrence.** Where an effect is material from a size and nature perspective, as in Factor A, I have then considered the likelihood of occurrence. For example, if an effect is potentially material in size and nature, but is highly unlikely to occur, I may not consider this to be an adverse effect in relation to the Statutory Question. If however an effect is potentially material in size and nature and is more probable than not to occur, I would consider this to be an adverse effect in relation to the Statutory Question and hence consider Factor C below.
- **Factor C – mitigating activities.** Where having considered the size, nature and likelihood, I believe that there may remain an adverse effect in relation to the Statutory Question, I have then considered whether there are any mitigating activities or measures that the Bank proposes to take to reduce the adverse nature of the effect.

Whilst I have not considered the effects of wider activities that will occur to ensure compliance with ring-fencing requirements, I have considered the effects of activities that are undertaken because of the Scheme. For example I consider mitigating activities undertaken to minimise the effect of the Scheme to themselves be effects of the Scheme. For example, I consider that the communication with customers is itself an effect of the Scheme. Similarly the transfers of assets and liabilities that occur as a result of the Scheme may create different risk exposures in the entities following the transfers and as a result a number of transactions may be entered into immediately after the Effective Date in order to bring the risk exposures of each entity

within risk appetite. I consider the entering of these transactions an effect of the Scheme as they are entered into because of the Scheme.

Where, having considered these factors, I believe that an effect remains which is likely adversely to affect Stakeholders (an "Adverse Effect"), I have answered part (b) of the Statutory Question. I have therefore made use of a "materiality concept". My approach to the consideration of adverse effects is in line with the PRA Statement of Policy and the FCA Guidance in respect of skilled persons reports on ring-fencing transfer schemes which refer to consideration of material effects.

In answering part (b) of the Statutory Question, I have assessed whether I believe that the Adverse Effect is greater than reasonably necessary in order to achieve the relevant ring-fencing purpose. This is set out in Section 106B(3) of FSMA, which for the purposes of the Scheme is "enabling the transferee to carry on core activities as a ring-fenced body in compliance with the ring-fencing provisions". In making my assessment I have considered whether alternative arrangements or specific mitigating measures could reasonably have been put in place to reduce the Adverse Effect and still achieve the relevant ring-fencing purpose. In making my assessment of what is reasonable, I have considered a number of factors, depending on particular facts and circumstances. Some key principles in my assessment are set out below:

- In respect of each Adverse Effect, I have considered whether it would be reasonable to undertake an activity or put a measure in place to mitigate the Adverse Effect. For example, if I believe that a mitigating action is relatively simple to put in place, such as the waiving of additional rights that any one or more of the Scheme Companies may gain which it previously did not have, I may consider that it would be unreasonable not to put such a mitigation in place. Similarly I would expect a bank to have certain standards in respect of processes and controls and hence if the Scheme, for example, created greater complexity in risk management processes, I would expect this additional risk to be mitigated by the implementation of appropriate additional procedures. I note that the Scheme Document reflects RBS's final decisions on the design of the Scheme and in a number of cases, negative outcomes have been mitigated and hence I have not had to conclude on part (b) of the Statutory Question in respect of these cases as a result of the mitigating arrangements that have been put in place.
- In respect of each Adverse Effect, I have considered whether alternative arrangements could have reasonably been put in place to reduce the Adverse Effect. Alternative arrangements may have different effects on different groups of Stakeholders and in making my assessment, I have considered whether the alternative arrangements may result in an Adverse Effect for one group of Stakeholders being reduced only for other negative outcomes being created for other Stakeholders. For example, if the Adverse Effect is relatively small and an alternative arrangement would create larger negative outcomes for other Stakeholders, I may conclude that the planned course of action is reasonable.

This Scheme Report considers the effects of the Scheme for the Stakeholders of the Companies, and sets out my findings. I am not required to, and do not, consider the position of each Stakeholder, but I have reviewed the consequences for each group of Stakeholders at the level I regard necessary to satisfy the requirements of the PRA Statement of Policy and FCA Guidance.

To the best of my knowledge, I have taken account of all important facts in assessing the effect of the Scheme on Stakeholders and in preparing this Scheme Report. In order to reflect any updated financial information or circumstances nearer to the date of the Final Hearing, I may be asked to provide a Supplementary Report setting out my updated opinions in respect of the Scheme.

Effects of the Scheme

The Scheme is only one of the activities that the RBS Group is undertaking in order to ensure compliance with all ring-fencing requirements by 31 December 2018.

My Scheme Report only covers the effects of the Scheme itself. I note that there may be other effects for Stakeholders, including those which may be adverse, which are the result of the other activities being undertaken by RBS to ensure ring-fencing compliance. I have not commented on whether other adverse effects may be caused by these other activities as these are outside of the scope of my work.

Whilst my Scheme Report only covers the effects of the Scheme, for information purposes I have summarised in Section 3 my understanding of the other key activities that are occurring related to achieving compliance with the ring-fencing requirements. These other activities include reorganisation of the legal entity structure, transfers of contracts by novation, transfers of systems and other operational infrastructure and changes to RBS employer companies. In addition RBS intend to implement a second ring-fencing transfer scheme which, if approved, will transfer certain derivative contracts in NatWest Plc to RBS plc. I understand that this will be separate to the Scheme being considered in this Scheme Report and will be subject to a separate skilled person's scheme report and Court process.

My consideration of the effects of the Scheme covers both existing contractual relationships that Stakeholders may have, together with the Scheme Companies' "invitations to treat," being offers to enter into a contract with the Scheme Companies, such as mortgage offers. I note that RBS has the ability to make changes post the Scheme which may affect matters such as the setting of rates and charges and products offered. Such decisions are driven by a wide variety of factors and management of RBS can decide to change its strategy in the future. My Scheme Report only covers the effects of the Scheme and I cannot comment on future strategic decisions that may be made. For example in respect of deposits, I have considered whether the Scheme results in the customer earning a different rate when the Scheme takes effect and I have considered whether there are any plans which indicate any changes as a result of the Scheme. However a bank may decide to change its strategy in the future and this may affect rates on deposits and this is not something I can comment on in this Scheme Report. Similarly an entity may decide in the future not to offer a product once existing contractual arrangements mature and, again, this is not something I can comment on in this Scheme Report.

My duties

In reporting on the Scheme as the skilled person, I recognise that I owe a duty to the Court to assist on matters within my expertise. This duty overrides any obligation to the Companies. I believe that I have complied, and confirm that I will continue to comply, with this duty.

Readers of my Scheme Report may find it helpful to read some of the other related Scheme documents (see Appendix 5 for details on these documents, which can be obtained online or will be mailed on request). I have reviewed the Scheme related documents to ensure they are consistent with my own findings and I note in Appendix 5 where I have relied specifically upon a document or opinion.

1.5 Sources of information

In performing my review and preparing this Scheme Report, I have relied on the accuracy and completeness of data and information provided to me, both written and oral, by management of the RBS Group. A description of the categories of data and information provided is included in Appendix 5.

Although I have not verified the data and information provided to me, I have reviewed it for reasonableness and consistency using my experience of the banking industry. In doing this, I have:

- Considered the source of the data and information provided and RBS's governance process in respect of the data and information provided;

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- Corroborated the data and information provided, as appropriate, through interviews with individuals within the RBS Group with knowledge of the issues under consideration; and
- Reviewed the results of the legal due diligence exercise performed by the RBS Group in respect of the ability to transfer the business, assets and liabilities and the legal effects of the Scheme. This work has been undertaken by legal professionals, including third party legal firms, under the supervision of the RBS Group legal department. I have reviewed the results of the work undertaken and considered the results in my Scheme Report. Although I did not check the underlying work performed, I asked the RBS Group to explain the approach undertaken, including the scope of the Stakeholders covered by the work, and to explain or clarify the results as appropriate. This included holding discussions with members of the RBS Group legal department and third party legal firms engaged by them.

In performing the procedures above, I can confirm that all my queries have been answered to my satisfaction.

Due to a combination of legal, regulatory and commercial sensitivities, some of the information I have relied upon to reach my conclusions cannot be disclosed in a publicly available report such as this. However I can confirm that appropriate detailed information has been provided to me to enable me to form the opinions I express to the Court in this Scheme Report.

Further details are provided below:

Financial position

My analysis of the financial position of RBS plc, Adam & Company and NatWest Plc (together the "Scheme Companies") is based on profitability projections and capital and liquidity calculations, the capital and liquidity requirements being set out in UK regulations. The estimates have been prepared by the RBS Group and are referred to in later sections of this Scheme Report. I have not checked these estimates or the processes used to calculate them and have relied on them in carrying out my analysis. I believe this is reasonable since the models, processes, and data used to estimate the pre-Scheme position of RBS plc, Adam & Company and NatWest Plc are well established and where processes have been amended in order to update estimates for the purpose of the Scheme, these have been subject to additional governance procedures within the RBS Group.

Although I did not check the figures or the underlying processes:

- RBS have confirmed to me that the underlying forecast financial data had been estimated using established RBS forecasting processes and models;
- I reviewed how RBS have estimated the effects of the Scheme on the underlying financial data and the effects on individual legal entity projections. This has included for example, understanding the key assumptions, consideration of the transfers of assets and liabilities as a result of the Scheme and associated financial effects such as revenue allocations, cost allocations, funding implications and the proposed allocation of specific one-off items; and
- I have reviewed the results of the stress testing performed by RBS in respect of the financial projections. RBS have confirmed that this has been subject to RBS governance processes.

I asked the RBS Group to explain, check and/or clarify any results that seemed to me unreasonable or inconsistent with other data and information. All such queries have been answered to my satisfaction.

As part of my analysis, I have considered financial projections provided by the RBS Group of the expected capital and liquidity position of the Scheme Companies at the proposed Effective Date. I note that the financial position at the Effective Date cannot be predicted with certainty. The capital position of RBS plc, Adam & Company and NatWest Plc at the Effective Date will therefore likely differ from the projections I have considered to some degree. For that reason I will continue to

keep the position under review in the period leading up to the Final Hearing, and will prepare further information in a Supplementary Report as appropriate.

Legal advice

The RBS Group has undertaken legal due diligence in respect of the ability to transfer business and customers and the legal effects of the Scheme. As stated above, I have reviewed the results of the work undertaken and considered the results in my Scheme Report. As I am not a qualified legal professional, where I believe that the effects of the Scheme are dependent on the operation of a matter that involves legal judgement, I have been provided with legal advice on the matter. I note that this has been provided by Linklaters LLP, a legal adviser retained by the RBS Group to provide advice in respect of the Scheme. Linklaters LLP is a large legal firm and it is my view that they have the relevant and appropriate qualifications and knowledge of the laws and regulations governing banking transfers in the UK in order to provide such advice. I am therefore satisfied that it is appropriate for me to rely on the conclusions of Linklaters LLP on the relevant matters.

Future plans

As my Scheme Report is written before the Effective Date, in reaching my conclusions, I have relied on data and information provided by the RBS Group in respect of activities that are planned to occur in the future. As these plans have been approved through the RBS Group's internal governance process, I believe that it is appropriate for me to reach my conclusions on the basis that these plans will be delivered by the RBS Group.

Although the future plans remain the responsibility of the RBS Group, I asked the RBS Group to explain the process by which the plans had been drawn up, how plans were put in place to cover Scheme changes, the governance process over the plans and how the delivery and implementation of plans will be monitored. All such queries have been answered to my satisfaction.

There are certain approvals from regulatory and other bodies such as tax authorities that will need to be obtained prior to the Effective Date. RBS believes that all required approvals should be given. The conclusions in this Scheme Report are based on the assumption that such approvals will be obtained.

I note that future plans can change. I will continue to keep the position under review in the period leading up to the Final Hearing, and will update my conclusions in a Supplementary Report as appropriate.

Communication plans

As my Scheme Report is written before the Effective Date, in reaching my conclusions, I have taken into account planned communications to Stakeholders. Where already drafted, I have reviewed the planned communications. Where communications will be finalised in the future, I have reviewed the high level content of the communication and the governance structure in place to ensure that the communication is made as planned.

In a number of cases, customers that are deemed to be affected by a certain issue will receive tailored communications. Where this is the case, I have relied on the exercise performed by the RBS Group to identify such customers. I have enquired into this process and have asked the RBS Group to explain, check and/or clarify any results that seemed to me unreasonable or inconsistent with other data and information. All such queries have been answered to my satisfaction.

I note that future plans can change. I will continue to keep the position under review in the period leading up to the Final Hearing, and will update my conclusions in a Supplementary Report as appropriate.

1.6 Limitations

This Scheme Report has been prepared solely for the use of the Companies and the Court, and solely for the purpose of assisting in determining whether the Scheme should be permitted.

This Scheme Report is subject to the terms and limitations, including limitations of liability set out in my engagement letter dated 30 August 2016.

For the avoidance of doubt neither I nor Deloitte, its partners and staff owe or accept any duty to any other party and shall not be liable for any loss, damage or expense (including interest) of whatever nature which is caused by any other party's reliance on representations in this Scheme Report.

Both Deloitte and I have excluded liability to avoid having potential liability to an unlimited number of people. Without this exclusion, neither Deloitte nor I would be able to do this work. If any readers are concerned with the content of this Scheme Report or any part of my analysis they should take advice and raise the matter with the Court. If any reader thinks that they would be adversely affected by the carrying out of the Scheme, they have two alternative ways of making sure the Court considers their views: lodging formal objections with the Court or making informal objections in writing or in person.

If a person wishes to lodge formal written objections (known as "Answers") with the Court, they should seek independent legal advice. Answers are a formal Court document which must comply with the rules of the Court and are normally prepared by Scottish legal counsel. Answers must be lodged with the Court at Parliament House, Parliament Square, Edinburgh EH1 1RQ, within 42 days of the publication of the last of the notices relating to the Scheme, which is expected to be on or around 27 November 2017. The deadline for lodging Answers is 8 January 2018. In addition, Answers must also be accompanied by a fee to the Court.

The Court will also consider any other informal objections to the Scheme which are made in writing or in person at the Final Hearing. If a person wishes to object in writing or in person at that hearing, they need to send a written statement of their views to all of the following:

- the Court at the above address;
- RBS plc at 36 St Andrew Square, Edinburgh EH2 2YB; and
- the Prudential Regulation Authority, either:
 - i) by post to The Royal Bank of Scotland, Prudential Regulation Authority, Bank of England, Threadneedle Street, London EC2R 8AH; or
 - ii) by submitting it online at <http://www.bankofengland.co.uk/pru/Pages/authorisations/structuralreform/representations.aspx>

They need to do this by 23 February 2018 in order to ensure the Court will consider their objection. No fee is payable to the Court for objecting in this way.

The Court may consider any objections made in person at the Final Hearing, although it may not do so if the process described above has not been followed.

This Scheme Report should be considered in its entirety, as parts taken in isolation may be confusing. A copy of my Scheme Report is being provided to the following parties:

- The Court, to assist in determining whether the Scheme Report should be approved;
- The Regulators, for the purposes of the performance of their statutory obligations under FSMA; and
- Legal advisers of RBS plc, Adam & Company and NatWest Plc in connection with the Scheme Report provided that RBS plc, Adam & Company and NatWest Plc inform them that neither

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Deloitte nor I accept any responsibility or liability to them in respect of any use they may make of the Scheme Report.

A copy of this Scheme Report is to be published on the websites of the Companies and made available for inspection at the following offices of the Companies and two offices of the Companies' Scottish legal advisers, CMS Cameron McKenna Nabarro Olswang LLP.

- RBS plc: 36 St. Andrew Square, Edinburgh EH2 2YB
- Adam & Company: 25 St. Andrew Square, Edinburgh EH2 1AF
- NatWest Plc: 250 Bishopsgate, London EC2M 4AA
- CMS Cameron McKenna Nabarro Olswang LLP: Saltire Court, 20 Castle Terrace, Edinburgh EH1 2EN and Cannon Place, 78 Cannon Street, London EC4N 6AF

A copy of this Scheme Report will be provided by RBS upon request to any person who considers they may be affected by the Scheme. Otherwise, this Scheme Report (or any extract from it) should not be published without the prior written consent of Deloitte. My summary of the Scheme Report will be made available by the Companies to the customers of the Scheme Companies with an interest in the Scheme. No other summary of this Scheme Report may be made without the prior written consent of Deloitte.

2 Conclusion

For the reasons set out in the remainder of this Scheme Report, I have concluded that, save in respect of one matter, (a) persons other than the transferor are not likely to be adversely affected by the Scheme and, in relation to the one matter where I have identified an Adverse Effect, (b) if they are likely to be adversely affected, the Adverse Effect is not likely to be greater than is reasonably necessary in order to achieve the specific purpose of enabling the transferee to carry on core activities as a ring-fenced body in compliance with the ring-fencing provisions (Section 106B(3)(b) of FSMA).

I have set out in this Scheme Report the basis of my conclusions in respect of different groups of Stakeholders, communications with them and a range of cross-Stakeholder matters:

- In Section 5 I have considered the effects of the Scheme on Stakeholders transferring from RBS plc to Adam & Company. These include depositors, personal mortgage holders, personal unsecured borrowers, personal credit card holders, business and commercial borrowers and trade finance customers, and I have concluded that there is no Adverse Effect;
- In Section 6 I have considered the effects of the Scheme in relation to the Covered Bonds Business and Mentor Business moving from RBS plc to NatWest Plc, and I have concluded that there is no Adverse Effect;
- In Section 7 I have considered the effects of the Scheme on customers and counterparties that are remaining with RBS plc after the Scheme. With the exception of one matter that is addressed in Section 7.5, I have concluded that there is no Adverse Effect. For the one matter in relation to which I have identified an Adverse Effect, and hence considered part (b) of the Statutory Question, I have concluded that the Adverse Effect is not likely to be greater than is reasonably necessary to achieve the specific purpose of Section 106B(3)(b) of FSMA;
- In Section 8 I have considered the effects of the Scheme on the existing customers of Adam & Company and NatWest Plc, and I have concluded that there is no Adverse Effect;
- In Section 9 I have considered the effects of the Scheme on a range of other Stakeholders, and I have concluded that there is no Adverse Effect; and
- In Sections 10 to 15 I have considered a range of cross-Stakeholder matters such as financial considerations, tax, governance and communications.

In setting out my opinions in this Scheme Report, I confirm that I understand my duty to the Court and that I must help the Court on matters within my expertise. I believe that I have complied, and will continue to comply, with this duty. I confirm that I have made clear which facts and matters referred to in this Scheme Report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.

This conclusion should be read in conjunction with the limitations I have set out in Section 1.6 of this Scheme Report.

3 Overview and purpose of the Scheme

In response to the financial crisis, the UK government established the Independent Commission on Banking ("ICB") to investigate how the UK banking system could be reformed to improve financial stability and increase competition. In its final report published in September 2011, the ICB proposed, amongst other measures, the 'ring-fencing' of core retail banking services from risks unrelated to the provision of that service.

The Financial Services and Markets Act 2000 (Ring-fenced Bodies and Core Activities) Order 2014 requires that from 1 January 2019, banks which have over a period of three years average Core Deposits¹ of more than £25 billion, will be subject to ring-fencing requirements. These requirements require that the provision of the core activity of accepting deposits from individuals and small businesses is placed into ring-fenced bodies ("RFBs").

Associated with Core Deposits are the core services of: (i) facilities for the accepting of deposits or other payments into an account which are provided in the course of carrying on the core activity of providing deposits; (ii) facilities for withdrawing money or making payments from such an account; and (iii) overdraft facilities in connection with such an account.

The ring-fencing requirements also prohibit RFBs from undertaking "excluded" activities, and specify that these include dealing in investments as principal. The RBS Group is required to comply with the ring-fencing legislation given the size of its Core Deposits has been greater than £25 billion over the applicable period.

3.1 Background and purpose of the Scheme

The Financial Services (Banking Reform) Act 2013 created an additional form of court sanctioned banking business transfer scheme known as a ring-fencing transfer scheme under Part VII of FSMA ("RFTS"). It is designed to aid banking groups which are implementing ring-fencing to restructure their businesses to comply with the ring-fencing requirements.

To take effect, the PRA, in consultation with the FCA, must give consent to RBS's application to Court, and is required to issue a certificate of approval 'certifying its approval of the application' before the Court may make an order to sanction the Scheme. To aid the Court in its decision as to whether to sanction the Scheme, the Court must be provided with a report on the Scheme prepared by an independent skilled person. I am the skilled person for the Scheme and this is my Scheme Report.

The Scheme Report must specifically address:

- (a) whether persons other than the transferor concerned are likely to be adversely affected by the scheme; and
- (b) if so whether the adverse effect is likely to be greater than is reasonably necessary in order to achieve whichever of the purposes mentioned in Section 106B(3) of FSMA is relevant.

¹ Broadly deposits with a UK bank held in an account within the European Economic Area ("EEA") from individuals and small businesses

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The purposes outlined in Section 106B(3) of FSMA are as follows:

- a) enabling a UK authorised person to carry on core activities as a ring-fenced body in compliance with the ring-fencing provisions;
- b) enabling the transferee to carry on core activities as a ring-fenced body in compliance with the ring-fencing provisions;
- c) making provision in connection with the implementation of the proposals that would involve a body corporate whose group includes the body corporate to whose business the scheme relates becoming a ring-fenced body while one or more other members of its group are not ring-fencing bodies;
- d) making provision in connection with the implementation of proposals that would involve a body corporate whose group includes the transferee becoming a ring-fenced body while one or more members of the transferee's group are not ring-fenced bodies.

This is referred to as the Statutory Question and, in relation to the Scheme, the transferor is RBS plc, the transferees are Adam & Company and NatWest Plc and the relevant purpose is section 106B(3)(b) of FSMA i.e. enabling the transferee to carry on core activities as a ring-fenced body in compliance with the ring-fencing provisions.

3.2 Summary of proposed transfers under the Scheme

If the Scheme is approved by the Court, it will transfer the retail and commercial banking business of RBS plc to Adam & Company, transfer the Covered Bonds Business and Mentor Business of RBS plc to NatWest Plc and transfer property from RBS plc to both Adam & Company and NatWest Plc. The Scheme Document sets out full details of the businesses, assets and liabilities that are transferring as part of the Scheme. For the purposes of my Scheme Report, I have categorised the transfers into key activities and products, as set out in Figure 3-1.

Appendix 3 provides a reconciliation between the activities and product categories used in this Scheme Report and the definitions set out in the Scheme Document.

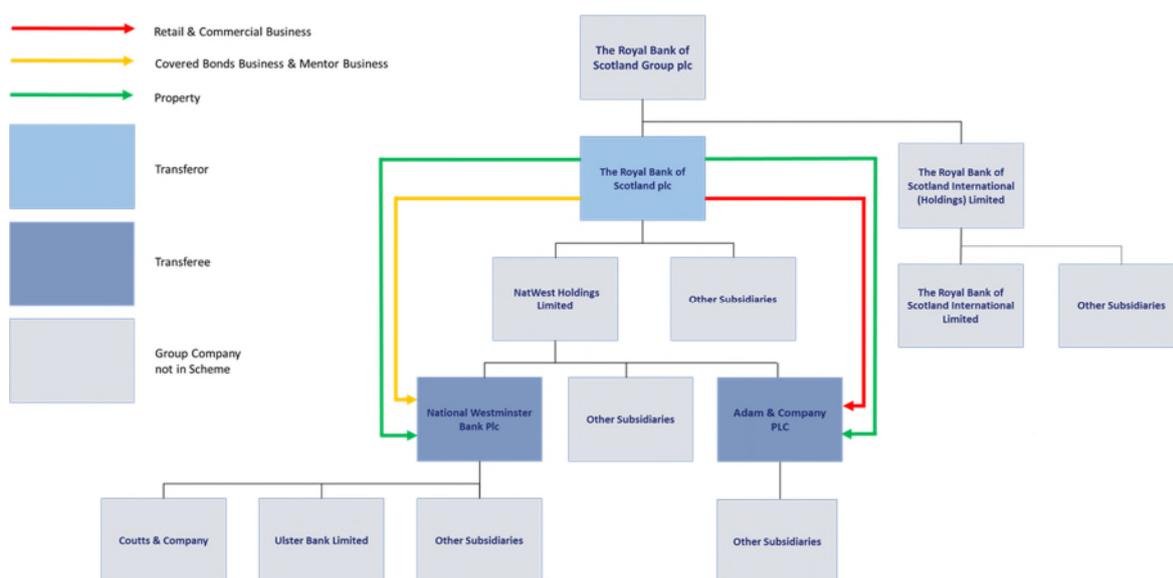


Figure 3-1: Legal Entity Structure

Source: Management information provided by RBS

The RBS Group proposes the following key transfers through the Scheme.

Transfers from RBS plc to Adam & Company are outlined in Table 3-1 below.

Activities Proposed to be Transferred	Description
Core Deposits	<p>Core Deposits are deposits with a UK bank held in a bank account located in the EEA principally held by individuals and small businesses that under the ring-fencing regulations are required to be provided by the RFB. They include multiple related products such as current accounts, instant access savings accounts, fixed term savings, children's savings accounts, junior ISAs, and instant access and fixed term ISAs.</p> <p>Services supporting and supplementing deposit taking involve facilities for:</p> <ul style="list-style-type: none"> • accepting of deposits or other payments into a bank account; • withdrawing money or making payments from such an account; • providing an overdraft in connection with such an account; • managing ISAs; • arranging insurance or investment services; and • wills, trustee and executor services.
Other Deposits	<p>Other Deposits are any deposits other than Core Deposits (as defined above) within the CPB and PBB franchises, typically those held by a relevant financial institution ("RFI"), a large company or a large partnership, or individuals with declared holdings of liquid assets not less than £250,000 on average.</p> <p>Services supporting deposit taking involve facilities for:</p> <ul style="list-style-type: none"> • accepting of deposits or other payments into a bank account; • withdrawing money or making payments from such an account; and • providing an overdraft in connection with such an account (other than those relating to RFIs which are non-RFB compliant). <p>Note: this does not include any deposits within the NatWest Markets franchise, such as money market deposits.</p>
Personal Mortgages	<p>Personal mortgages include residential and buy-to-let mortgages.</p>
Personal Unsecured Loans	<p>Personal Unsecured Loans include a range of loans offered to customers on an unsecured basis. These include car loans, debt consolidation loans, home improvement loans and partnership injection loans.</p>
Personal Credit Cards	<p>There are four main types of Personal Credit Card offered by RBS plc:</p> <ul style="list-style-type: none"> • Reward card • Reward black card • Clear rate platinum card • Student credit card
Business and Commercial Loans	<p>There are various types of Business and Commercial Loans. The products vary based on the term of the lending, the type of interest rate used such as fixed or variable, whether the loan is secured or unsecured and the nature of the asset (e.g. vehicle, land, boats, etc.).</p> <p>The most frequently sold products include:</p> <ul style="list-style-type: none"> • Revolving Credit Facilities: a flexible, committed credit facility which allows customers to draw, repay and re-draw funds repaid during the product term.

Activities Proposed to be Transferred	Description
	<ul style="list-style-type: none"> • Term Loans: fixed rate; base rate or LIBOR • Asset Finance Loans • Liquidity Facilities: standby revolving loans providing liquidity to the issuer and credit support to the capital structure of a securitisation • Mezzanine debt: a form of subordinated debt used by customers to bridge the gap between senior debt and equity • Commercial mortgages and commercial credit cards <p>Loans can be on a bilateral or syndicated basis. Syndicated loans are debts issued by a consortium of lenders to a sole borrower or a group of borrowers.</p>
Business and Commercial Payments and Related Services	<p>Business and Commercial Payments and Related Services comprises a range of banking services for business and commercial customers.</p> <p>Included in this product group are payment services (through systems such as BACS, CHAPS, Faster Payments, SWIFT, SEPA, etc.), sterling and multi-currency clearing and settlement services, agency banking products and some data matching services (for order-invoice-payment matching).</p> <p>It also includes charge cards, pre-loaded, cash and corporate cards, bankers' drafts, collection and lodging accounts as well as cheque processing and verification services. Some products also cover foreign currency and transfers to overseas customer accounts.</p> <p>This category also includes Digital Services. The CPB Digital Services products include a range of internet and software based banking services for business and commercial customers. Services including the enabling of bulk BACs transactions, secure 'smart card' payment verification, automated global payments and report services and digital trade and supply chain services (such as internet based electronic invoicing and end-to-end automated process for letters of credit, purchase orders and invoices).</p>
Trade Finance	<p>A range of trade finance products are offered to business and commercial customers. These include various working capital funding and credit facilities some of which are tailored to particular trading needs for example import and export loans, as well as bank guarantees, standby and export letters of credit and bills-of-exchange.</p> <p>This also includes the Interminable Indemnities Business which indemnifies beneficiaries against losses suffered due to the loss of certain documents such as share certificates or bills of lading.</p>
Property	<p>All RBS branches located in Scotland, England and Wales. These properties are a combination of both freehold and leasehold.</p> <p>All corporate offices in Scotland. These properties are a combination of both freehold and leasehold.</p> <p>All Holt's, Child & Co and Drummonds branches located in England. These properties are all leasehold.</p>

Table 3-1: Outline of activities to be transferred from RBS plc to Adam & Company

Source: Management information provided by RBS

As part of their account arrangements, certain customers (mainly of the PBB franchise) currently receive insurance or investment services or products from third parties such as payment protection insurance and packaged account products such as car insurance, mobile phone insurance and other services. These products or services are provided under a separate agreement between the customer and the third party, and as a result are not affected by the Scheme.

Transfers from RBS plc to NatWest Plc are outlined in Table 3-2 below.

Covered Bonds Business	Debt security instruments that are secured on an underlying pool of assets, typically mortgage loans or public-sector debt, and associated transferring roles such as lender, cash manager and seller.
Advisory Services	The CPB Mentor Business comprises a range of services for business and commercial customers including consultancy, advice, training and protection on matters such as employment law, tax, health and safety as well as access to a payroll system and an employee identity and eligibility to work verification service.
Property	All NatWest branches located in England and Wales owned by RBS plc. These properties are a combination of both freehold and leasehold properties. All shared services buildings located in Scotland, England and Wales. These properties are a combination of both freehold and leasehold. All corporate offices in England and Wales. These properties are all leasehold.

Table 3-2: Outline of activities to be transferred from RBS plc to NatWest Plc

Source: Management information provided by RBS

On the Effective Date, RBS plc will be renamed "NatWest Markets plc" and Adam & Company will be renamed "The Royal Bank of Scotland plc".

For the purposes of this Scheme Report, I have referred to the Scheme Companies by their current names rather than the names by which they will be known after the Scheme has taken effect.

3.3 Other activities to achieve ring-fencing

The Scheme is only one of the activities that the RBS Group is undertaking in order to ensure compliance by 31 December 2018 with all ring-fencing requirements. Whilst my Scheme Report covers the Scheme, for information purposes I have summarised my understanding of the other key activities that are occurring related to achieving compliance with the ring-fencing requirements. These descriptions are only included for information purposes as my Scheme Report only considers adverse effects caused by the Scheme. Whilst these other activities are not the subject of this Scheme Report, I believe that it is important that the Stakeholders are aware of the wider reorganisation so that the effect of the Scheme can be considered in the context of these wider activities.

I have not commented on whether other adverse effects may be caused by these wider activities.

Key other activities outside the Scheme include:

Introduction of new intermediate holding company - NatWest Holdings Limited

In April 2016 RBSG plc introduced an intermediate holding company named NatWest Holdings Limited ("NatWest Holdings") as a direct subsidiary of RBS plc. On 1 January 2017 NatWest Plc and Adam & Company were transferred to become subsidiaries of NatWest Holdings. NatWest Holdings and its subsidiaries will form the Ring-Fenced Body Subgroup ("RFB Subgroup") and it is expected that during 2018 this subgroup will be "separated" from current RBS plc (renamed as "NatWest Markets plc"). RBS plc will become a Non Ring-Fenced Body ("NRFB") and will reside outside the ring-fence along with other entities such as The Royal Bank of Scotland International (Holdings) Limited which was transferred on 1 January 2017 so that it became a subsidiary of RBSG plc.

This separation is expected to happen by a dividend in specie of NatWest Holdings from RBS plc to RBSG plc. A dividend in specie is a dividend paid in the form of some other asset rather than cash, in this case the asset being certain subsidiaries of RBS plc. In order to make that dividend in specie, RBS plc must first have distributable reserves on its balance sheet at least equal to the value of the dividend it proposes to make. RBS plc proposes to create these distributable reserves through a reorganisation of its capital, specifically by implementing a reduction of capital under Section 641 of the Companies Act 2006. Such a reduction of capital will require the approval of the Court and RBS plc will make a separate application to the Court for this approval (separate, that is, from the application for the Court's approval of the Scheme).

In deciding whether to approve RBS plc's application, the Court will consider the interests of RBS plc's creditors, the effect the reduction of capital will have on their position as creditors, and RBS plc's ability to continue to be able to settle its liabilities to those creditors. As that Court process is separate from the Scheme, it is not within the scope of this Scheme Report, although I do refer to it further in Section 7 of this Scheme Report.

Following this, NatWest Holdings will become a direct subsidiary of RBSG plc, as shown in Figure 3-2 below.

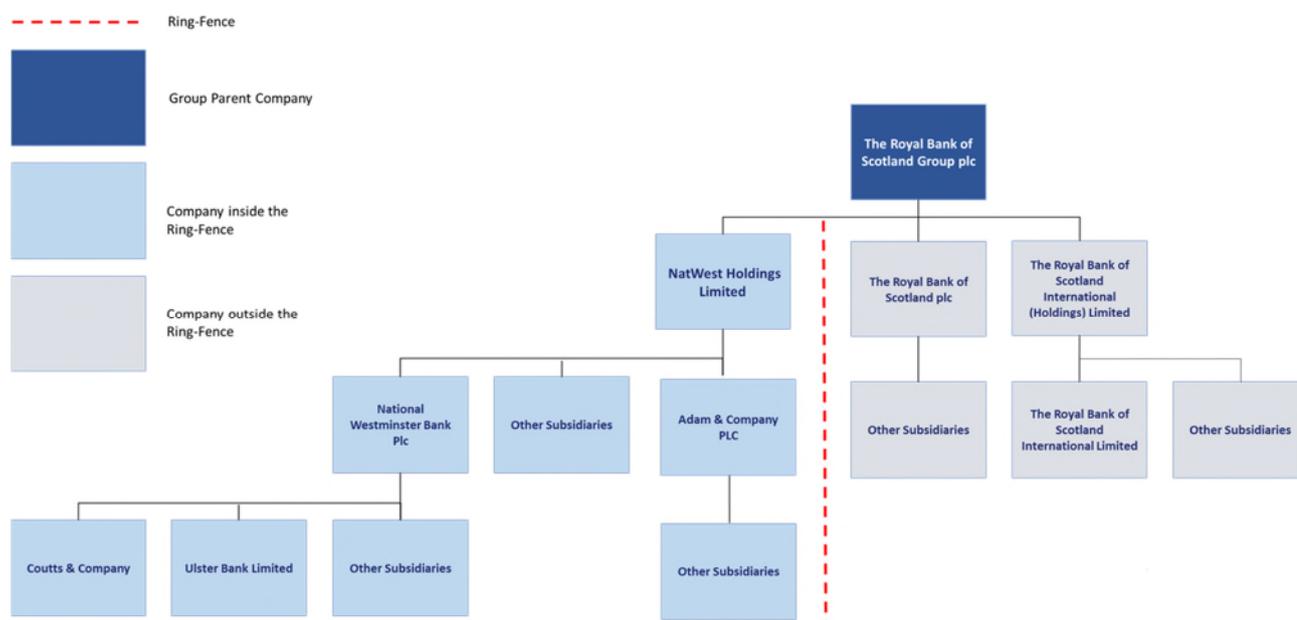


Figure 3-2: Diagram illustrating the legal entity structure post the dividend in specie process

Source: Management information from RBS

Second ring-fencing transfer scheme

RBS intends to implement a second ring-fencing transfer scheme which, if approved, will transfer certain contracts in NatWest Plc to RBS plc. This will be separate to the Scheme being considered in this Scheme Report and will be subject to a separate skilled person's scheme report. I have been appointed as skilled person for this second scheme, for which I will prepare a separate report for that Court process.

Other business transfers

There are a number of other business transfers that are planned to occur prior to 31 December 2018 in order to ensure compliance with ring-fencing requirements. These include the migration of certain customers from NatWest Plc to The Royal Bank of Scotland International Limited ("RBSI") and the migration of certain customers and activities from other entities which will form part of the RFB Subgroup (e.g. Ulster Bank Limited ("Ulster Bank"), Coutts & Company ("Coutts")) to either RBS plc or RBSI. These are in relation to activities that will not be permitted in RFB entities post the implementation of ring-fencing requirements. These transfers are occurring by client consent and are not within the scope of the Scheme.

One of these transfers constitutes a transfer of products held by customers who are RFIs from RBS plc to RBSI. Although this transfer is on track to complete prior to the Effective Date, there is a possibility that some RFI customers may still remain in RBS plc as at the Effective Date. If this is the case, these products will be migrated across to Adam & Company under the Scheme, and will then be moved from Adam & Company to RBSI prior to the 1 January 2019 ring-fencing deadline. As there is a small chance of certain RFI customers being transferred as part of the Scheme, I have decided that it would be prudent to consider them as part of my analysis in Section 5.

Operations, systems and infrastructure

In order to comply with ring-fencing requirements, certain central functions and other support services will be reorganised so that they are all provided by NatWest Plc, both to itself and to the rest of the RBS Group, including the NRFB. Current service arrangements will be replaced by a new servicing structure, underpinned by a series of intra-group service agreements entered into by the RBS Group entities.

As a result, certain infrastructure such as systems and contracts will be moved to NatWest Plc. This will occur outside the scope of the Scheme.

Employees

At present most of the RBS Group entities outsource their staffing requirements in Great Britain to RBS plc which provides employees to them. The majority of the RBS Group employees are therefore currently employed by RBS plc with a relatively small number of employees employed by other entities of the RBS Group. At the same time as the Effective Date, the majority of employees destined for the RFB Subgroup are expected to transfer to NatWest Plc which will become the main employing entity for the RFB Subgroup (for itself, and as the provider of shared services to the RFB Subgroup and the entities outside the ring-fence).

This transfer will occur on the basis of a "service provision change" under the Transfer of Undertakings (Protection of Employment) Regulations 2006 ("TUPE Regulations"). There will be a termination of any existing service provider arrangements between RBS plc and other relevant group companies, and NatWest Plc will be appointed the new employment services provider for the relevant entities within the RFB Subgroup, including shared services staff.

This change in service provision is planned to occur at the same time as the Effective Date. However, whilst the timing will be the same, the Scheme itself does not cause the change in employment entities and therefore does not have any direct effect on the employment of RBS staff. All staff transfers will occur separately and are outside the scope of the Scheme. Individuals will continue to support the business units and functions that they supported prior to the Scheme

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despite the fact that the Scheme (and other ring-fencing related reorganisations) will move those business units and functions into the RFB Subgroup.

The TUPE Regulations preserve employees' terms and conditions with employees becoming employees of NatWest Plc on the same terms and conditions. RBS is informing and, as required, consulting with Unions and other employee-representative bodies about the proposed transfers of employees in Great Britain to NatWest Plc.

Banknote issuance

RBS plc is currently authorised to issue banknotes in Scotland, in the name of The Royal Bank of Scotland plc. On the Effective Date, Adam & Company will be renamed "The Royal Bank of Scotland plc" and at the same time, RBS plc's authorisation to issue banknotes in Scotland will be transferred to Adam & Company. From that date, Adam & Company will issue banknotes in Scotland under its new name.

The transfer to Adam & Company of the authorisation to issue banknotes in Scotland requires a number of steps to be followed:

- The Bank of England ("BoE") must first provide consent to The Treasury for Adam & Company to be a designated bank authorised to issue banknotes in Scotland. This consent has already been provided by the BoE;
- Legislation in the form of a new statutory instrument specific to the authorisation of Adam & Company must be passed by each House of the UK Parliament; and
- After the new statutory instrument takes effect, the statutory instrument, in accordance with Section 214A(4)(b) of the Banking Act 2009 (as amended by the Bank of England and Financial Services Act 2016) will provide that before the "Designation Date", which is the date when the right to issue Scottish bank notes is transferred to Adam & Company, the Treasury will publish in the London Gazette and the Edinburgh Gazette notice of the Designation Date. The Designation Date will be the same day as the Effective Date of the Scheme and the date upon which Adam & Company will change its name to "The Royal Bank of Scotland plc".

4 My role as the skilled person

As set out in Section 1, my role is to produce a Scheme Report to address the Statutory Question of (a) whether persons other than the transferor concerned are likely to be adversely affected by the scheme, and (b) if so, whether the adverse effect is likely to be greater than is reasonably necessary in order to achieve whichever of the purposes mentioned in Section 106B(3) of FSMA is relevant. This Scheme Report provides my independent assessment of the effect of the Scheme to assist the Court in deciding whether to sanction the Scheme. I am independent of RBS, and my appointment has been approved by the PRA, one of the bodies that regulates the UK banking industry. The PRA consulted with the FCA as part of the process to approve my appointment.

In making this judgement, I have considered whether the Scheme results in an Adverse Effect in:

- Services to Stakeholders and operational continuity for Stakeholders: being the effect of the Scheme on the services provided to the Stakeholder, the quality of the operational continuity arrangements of the entities to which Stakeholders are exposed or connected and the ability of the entities to continue to provide these services to those Stakeholders;
- Financial Considerations: being the effect of the Scheme from a financial perspective on Stakeholders. This will include for example consideration of the effect of the Scheme on: i) terms and conditions and other financial effects on fees, charges, penalties, set-off rights and levels of protections under the Financial Services Compensation Scheme ("FSCS"); ii) the capital position of the entities to which Stakeholders are exposed or connected on a risk weighted and leveraged basis; iii) the liquidity and funding position of the entities to which Stakeholders are exposed or connected; iv) the effect on the business-model viability and sustainability of the entities to which Stakeholders are exposed or connected; and v) the position of persons other than the transferor in the creditor hierarchy;
- Risk management and governance: being the effect of the Scheme on the quality of governance arrangements and the quality of risk management and the systems and controls of the entities to which Stakeholders are exposed or connected; and
- Recovery and Resolution: being the effect of the Scheme on recovery planning, and the ability of the RBS Group to be resolved.

I can confirm that my assessment in respect of parts (a) and (b) of the Statutory Question includes consideration of:

- changes to customers' position, and how a negative effect is addressed, in the following areas: ability to transfer deposits, investments or products; ability to switch to other providers; penalties or other impediments, if any, connected to the proposed transfer; exercisable rights to set-off loans against deposits; customers and counterparties other contractual rights;
- the continuity and levels of service, including payment services, provided to customers and the continuity of, or changes to, levels of protection under the FSCS;
- whether rights in relation to complaints, legal or other proceedings against the transferor (in relation to those already commenced or threatened, or proceedings in the future, including those not yet anticipated) are preserved or otherwise;
- whether rights to financial redress for legacy liabilities of the transferor for mis-selling of financial products are affected;
- whether product terms and conditions, including product benefits and outcomes for customers, will be affected by the Scheme;

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- whether product administration, including fees and other costs, may be affected on transfer;
- the amount of client money transferred and the terms of the transfer to ensure protections under the FCA's client money rules are preserved;
- in relation to customers being transferred to another entity, any adverse change to the level of consumer protection afforded by the availability of adequate resources of the Transferees; and
- the likely effects of the scheme on IT systems, operating models and matters such as governance, management, business strategy and financial positions, in so far as they may be likely to affect customers adversely and are a direct consequence of the scheme rather than other factors for example, legacy issues or ongoing change programmes.

I have considered the effect that the Scheme will have on individual Stakeholder groups in the following sections of my Scheme Report.

- Section 5: Customers and counterparties transferring from RBS plc to Adam & Company under the Scheme (Effect on Transferring Customers – RBS plc to Adam & Company);
- Section 6: Customers and counterparties transferring from RBS plc to NatWest Plc under the Scheme (Effect on Transferring Customers – RBS plc to NatWest Plc);
- Section 7: Customers and counterparties of RBS plc who will remain as customers and counterparties of RBS plc after the Scheme takes effect (Effect on Remaining Customers - RBS plc); and
- Section 8: Existing customers and counterparties of Adam & Company and NatWest Plc that will remain as customers and counterparties of Adam & Company and NatWest Plc after the Scheme takes effect (Effect on Existing Customers – Adam & Company and NatWest Plc).

Within each of these broad groups, I have considered separately the interests of different sub-groups, since the factors influencing them are different. Some issues affect Stakeholders who may have multiple connections and hence be part of multiple Stakeholder groups - I have considered these in Section 9 (Cross-Stakeholder Considerations) along with other relevant Stakeholders that I considered who are not customers or counterparties to the Transferees or Transferor.

Some considerations effect multiple groups of Stakeholders. As such I have set out my key considerations and conclusions in Sections 10 to 15:

- Section 10: Financial considerations
- Section 11: Governance and risk management considerations
- Section 12: Operational considerations
- Section 13: Resolvability considerations
- Section 14: Tax considerations
- Section 15: Communications

5 Effect on Transferring Customers – RBS plc to Adam & Company

5.1 Introduction

In this section I have considered the likely effect of the Scheme on those customers transferring to Adam & Company from RBS plc ("Transferring Customers – Adam & Company"). Within this broad group, I have performed my analysis by product and the basis for my conclusions is set out below.

In Section 4, I set out the key areas of focus in my assessment of the effect of the Scheme. In respect of these areas, in this Section 5, I have considered the effects on:

- Services to Stakeholders and operational continuity for Stakeholders: being the effect of the Scheme on the services provided to the Stakeholder; and
- Financial considerations: being the effect of the Scheme from a financial perspective on Stakeholders.

Issues that affect multiple Stakeholder groups (such as set-off and shared security) are considered in Section 9 of this Scheme Report.

Other considerations are set out in Sections 10 to 15.

5.2 Approach

I have considered how the Scheme affects the provision of services to Stakeholders and the operational continuity of such services. The factors I have considered vary by product but include the effect on:

- Access to banking channels (e.g. branch, internet, telephone, ATM, cheque books, safe custody);
- Access to relationship managers;
- Operation of account/connection (e.g. sort codes, account numbers, login details, passwords, direct debits, standing orders, access to historic information); and
- Interaction with other products.

Similarly I have considered the effect of the Scheme from a financial perspective. Factors I have considered include:

- Changes to contracted terms & conditions;
- Changes to contracted rates/fees;
- Changes to security of exposures (e.g. security/collateral arrangements, financial strength of the entity providing the service, protections under the FSCS);
- Changes to other rights such as set-off rights and reward programmes; and
- Tax considerations.

In performing my review and preparing this Scheme Report, I have relied on the accuracy and completeness of data and information provided to me, both written and oral, by the RBS Group. Although I have not verified the data and information provided to me, I have reviewed it for reasonableness and consistency using my experience of the banking industry. In doing this, I have:

- Considered the source of the data and the information provided and RBS's governance process in respect of the data and information provided;
- Corroborated the data and information provided, for example, through interviews with individuals within the RBS Group with knowledge of the issue under consideration; and
- Reviewed the results of the legal due diligence exercise performed by the RBS Group in respect of the ability to transfer the business, assets and liabilities and the legal effects of the Scheme. This work has been undertaken by legal professionals, including third party legal firms, under the supervision of the RBS Group legal department. I have reviewed the results of the work undertaken, discussed it with RBS's legal advisers and considered the results in my Scheme Report. Although I did not check the underlying work performed, I asked the RBS Group to explain the approach undertaken, including the scope of the Stakeholders covered by the work, and to explain or clarify the results as appropriate.

Although I have not verified the data and information, in performing the procedures above, I can confirm that all my queries have been answered to my satisfaction.

As my Scheme Report is written before the Effective Date, in reaching my conclusions, I have relied on data and information provided by the RBS Group in respect of activities that are planned to occur in the future. As the future plans have been agreed by the RBS Group's internal governance process, I believe that it is appropriate for me to reach my conclusions on the basis that these plans will be delivered by the RBS Group.

Although the future plans remain the responsibility of the RBS Group, I asked the RBS Group to explain the process by which the plans had been drawn up, how plans were put in place to cover Scheme changes, the governance process over the plans and how the delivery and implementation of plans will be monitored. All such queries have been answered to my satisfaction.

I note that RBS's future plans can change. I will continue to keep the position under review in the period leading up to the Final Hearing, and will prepare further information in my Supplementary Report should plans change significantly.

5.3 Effect analysis – Core Deposits

Core Deposits are deposits with a UK bank held in a bank account located in the EEA principally held by individuals and small businesses that under the ring-fencing regulations are required to be provided by the RFB. They include multiple related products such as current accounts, instant access savings accounts, fixed term savings, children's savings accounts, junior ISAs and instant access and fixed term ISAs.

Services supporting and supplementing deposit taking involve facilities for:

- accepting of deposits or other payments into a bank account;
- withdrawing money or making payments from such an account;
- providing an overdraft in connection with such an account;
- managing ISAs;
- arranging insurance or investment services; and
- wills, trustee and executor services.

Other Deposits are deposits other than Core Deposits, which are considered in Section 5.4.

5.3.1 Service to customers and operational continuity

I have concluded that the Scheme has no Adverse Effect on Core Deposit services received by customers. I have considered several factors in my analysis, in particular my opinion is driven from the plans that as a result of the Scheme:

- On the Effective Date, Core Deposits will transfer from RBS plc to Adam & Company, being all account details, funds held in accounts at that date and all payment instructions such as direct debits and standing orders;
- Although these customers of RBS plc will change legal entity, there will at the same time be a change in the legal entity name. The company that these customers are being transferred to, Adam & Company, will be renamed "The Royal Bank of Scotland plc". The customers will therefore continue to deal with an entity named RBS plc even though it will be a different company. The visible effect will be limited to the change to the company number customers see on documentation and electronic information;
- Customers will face no changes to sort codes and account numbers. There will therefore be no need to change direct debits and standing orders;
- Customers will be able to continue using their payment collateral, such as debit cards, credit cards and chequebooks, and ATM access will not change following the Scheme. No significant change is expected to any customer's access to domestic or international payment schemes, facilities or systems or related digital payment services currently provided by RBS plc (see Section 12);
- Access to branches will remain unchanged. RBS plc customers will not have access to Adam & Company brand branch facilities either before or after the transfer, and there will be no change to the branding;
- Similarly, access to accounts through other banking channels will remain unchanged. Customers will continue to have telephony, online and mobile access and there will be no changes to passwords and other security details as a result of the Scheme; and
- There will be no customer relationship changes as a result of the Scheme.

I note that, notwithstanding the points made above, the bank has the ability to make changes post the Scheme which may affect how a bank operates. Such decisions are driven by a wide variety of other factors and management of the bank can decide to change its strategy in the future. Whilst I have not seen any plans which indicate planned changes as a result of the Scheme, the bank may decide to change its strategy in the future and this is not something that I can comment on in this Scheme Report.

5.3.2 Financial considerations

I am satisfied that the Scheme has no Adverse Effect on customers with Core Deposits from a financial perspective. My conclusion is driven by the following key factors:

- There will be no changes to account terms and conditions as a result of the Scheme;
- Customers will therefore continue to be on the same financial terms before and after the Scheme. For example the interest rates that customers earn and the fees that customers pay will not change immediately after the implementation of the Scheme;
- I note that RBS has the ability to make changes after the Scheme which may affect how the bank operates including the setting of interest rates and charges. Such decisions are driven by a wide variety of other factors and management of the bank can decide to change its strategy in the future. Whilst the implementation of the Scheme will not result in a customer earning a different interest rate or being subject to different charges when the transfer takes place, and I have not seen any plans which indicate planned changes as a result of the Scheme, the bank may decide to change its strategy in the future and this is not something that I can comment on in this Scheme Report;
- Similarly I note that RBS has the ability to make changes after the Scheme which may affect for example the products it offers. Where a customer is contracted to a product such as a fixed rate deposit, these contractual terms are unchanged by the Scheme. The bank may decide in

the future not to offer this product when existing contracts have matured and such a decision could be driven by a wide variety of other factors. Whilst I have not seen any plans which indicate planned changes as a result of the Scheme, the bank may decide to change its strategy in the future and this is not something that I can comment on in this Scheme Report; and

- I have considered that core depositors will have a debt owing from a different entity following the Scheme. In making my assessment I have split core depositors into the following categories:
 - Balances covered by FSCS protection; and
 - Balances above the level of FSCS protection.

Balances covered by FSCS protection

FSCS provides protection for balances up to £85,000 in the event of default of a bank. FSCS protection is limited to a maximum of £85,000 per individual/company for each bank at which deposits are held.

For RBS plc customers who do not have an account at Adam & Company and have balances below £85,000 which are covered by the FSCS protection, I am satisfied that there is no financial detriment as even if Adam & Company were to default, which I have considered below, the deposits of these customers would be protected by the FSCS provisions.

Customers with deposits held at both RBS plc and Adam & Company currently benefit from FSCS protection on both accounts. Following the Scheme, those customers will now only have one set of FSCS protection available as their deposits at RBS plc will move to Adam & Company. Based on financial information as at 31 July 2017, RBS believes there are approximately 330 customers who have deposits (Core and Other) at both banks which when combined are above the FSCS protection of £85,000 and hence would be affected by some loss of FSCS protection.

These customers are being transferred to a regulated and licensed bank and I have concluded below that there is no Adverse Effect from the Scheme to RBS plc customers with balances above the £85,000 level of FSCS protection. Whilst this is an important consideration, I consider the loss of one set of FSCS protection to be an effect which I need to consider separately given some customers may view the FSCS protection as eliminating all risk of default related to the deposits.

I have, therefore, considered the mitigating steps that RBS will undertake to the Court to carry out. RBS will, upon request from an affected customer, transfer any balance to a new account with a separate bank outside of the RBS Group or elsewhere within the RBS Group, such as NatWest Plc. RBS will communicate to all potentially affected customers notifying them of the potential loss of FSCS protection. This communication will state that RBS will offer the customer a period of three months from the Effective Date to move money, including longer term contracts such as fixed term deposits, without any charge or loss of interest. Whilst any new account will have a new sort code, I note that existing accounts can continue to operate and hence depositors should be able to make payments as normal from these accounts.

Having considered the financial strength of Adam & Company and the mitigating steps, in particular the fact that potentially affected customers will be offered the opportunity to maintain their FSCS protection should they wish, I do not consider that the Scheme results in an Adverse Effect in this respect.

Balances above the level of FSCS protection

In relation to balances above £85,000, I am satisfied that there is no Adverse Effect from a financial perspective as a result of being owed a debt from Adam & Company rather than RBS plc. A full description of my considerations is set out in Section 10. In summary, I have reached this conclusion based on the following key considerations:

- Adam & Company is a regulated entity and licensed bank and hence subject to regulatory capital and liquidity requirements. RBS's financial projections indicate that a surplus above regulatory requirements exists as at the Effective Date of the Scheme and in the future period considered by RBS management; and

- Following the Scheme, Adam & Company will remain a subsidiary of RBS plc and will continue to benefit from a Capital Support Deed ("CSD") with other members of the RBS Group, whereby capital support will be provided by fellow entities of the RBS Group if required and available. As set out in Section 10 below, later in 2018 after the Effective Date, a separate group restructuring is planned. Should this occur as planned, Adam & Company will then benefit from a replacement capital support arrangement with other members of the RFB Subgroup, including NatWest Plc, providing capital support if required and available. RBS's financial projections indicate that there will be a surplus above regulatory requirements at the RFB subgroup level.

I have also considered the effect of the Scheme on the creditor hierarchy, by comparing the position of depositors as creditors of RBS plc before the Scheme is implemented and the position as creditors of Adam & Company after the Scheme is implemented. There will be a lower level of unsecured non-preferred senior liabilities to absorb losses in a bail-in resolution in Adam & Company relative to RBS plc. However, as additional Minimum Requirement For Own Funds and Eligible Liabilities ("MREL") will be introduced into Adam & Company prior to the Scheme, I do not consider there to be an Adverse Effect from this perspective in a bail-in scenario, which itself is not considered probable.

In addition to the analysis above, I have also considered the fact that preliminary/expected credit ratings have been obtained for Adam & Company, an entity which previously was not rated. Two credit rating agencies have published such ratings and these ratings are either as good or one notch higher than the current rating for RBS plc². This also supports my conclusion that there is no Adverse Effect from a financial perspective in the transfer to Adam & Company.

Set-off is considered separately in Section 9.

5.3.3 Conclusion - Core Deposits

For the reasons set out above, I am satisfied that there is no Adverse Effect as a result of the Scheme in respect of Core Deposits.

5.4 Effect analysis – Other Deposits

Other Deposits are any deposits other than Core Deposits within the CPB and PBB franchises, typically those held by RFIs, a large company or a large partnership³, or individuals with declared holdings of liquid assets not less than £250,000 on average.

Services supporting deposit-taking involve facilities for:

- accepting of deposits or other payments into a bank account;
- withdrawing money or making payments from such an account; and
- providing an overdraft in connection with such an account (note that overdraft facilities currently provided by RFIs are not permissible within the ring-fence).

Whilst there is no requirement under ring-fencing legislation for customers with Other Deposits to have their accounts held with a RFB, many of my conclusions are the same and driven by the same considerations as for Core Deposits.

5.4.1 Service to customers and operational continuity

I have concluded that the Scheme has no Adverse Effect on Other Deposit services received by customers. I have considered several factors in my analysis; in particular my opinion is driven from the plans that as a result of the Scheme:

² <http://investors.rbs.com/fixed-income-investors/credit-ratings.aspx>

³ A large company and a large partnership are those which over a financial year meet one or more of the following criteria: (i) turnover at least £6.5million; (ii) total assets recorded in the balance sheet at least £3.26million; (iii) at least 50 employees

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- On the Effective Date, Other Deposits will transfer from RBS plc to Adam & Company, being all account details, funds held in accounts at that date and all payment instructions such as direct debits and standing orders;
- Although these customers of RBS plc will change legal entity, there will at the same time be a change in the legal entity name. The company that these customers are being transferred to, Adam & Company, will be renamed "The Royal Bank of Scotland plc". The customers will therefore continue to deal with an entity named RBS plc even though it will be a different company;
- Terms and conditions are unchanged with the exception of certain administrative amendments necessary to give effect to the Scheme;
- Customers will face no changes to sort codes and account numbers. There will therefore be no need to change direct debits and standing orders;
- Customers will be able to continue using their payment collateral such as debit cards and chequebooks, and ATM access will not change following the Scheme;
- Access to branches will remain unchanged and there will be no change to the branding;
- Similarly access to accounts through other banking channels will remain unchanged. Customers will continue to have telephony, online and mobile access and there will be no changes to passwords and other security details as a result of the Scheme; and
- There will be no customer relationship changes as a result of the Scheme.

I note that, notwithstanding the points made above, RBS has the ability to make changes post the Scheme which may affect how a bank operates. Such decisions are driven by a wide variety of other factors and management of the bank can decide to change its strategy in the future. Whilst I have not seen any plans which indicate planned changes as a result of the Scheme, RBS may decide to change its strategy in the future and this is not something that I can comment on in this Scheme Report.

5.4.2 Financial considerations

I am satisfied that the Scheme has no Adverse Effect on customers with Other Deposits from a financial perspective. My conclusion is driven by the following key factors:

- The changes to terms and conditions are administrative in nature;
- Customers will therefore continue to be on the same financial terms pre and post the Scheme. For example the interest rates that customers earn and the fees that customers pay will not change immediately after the implementation of the Scheme;
- I note that the bank has the ability to make changes post the Scheme which may affect how a bank operates including the setting of interest rates and charges. Such decisions are driven by a wide variety of other factors and management of the bank can decide to change its strategy in the future. Whilst the implementation of the Scheme will not result in a customer earning a different interest rate or being subject to different charges when the transfer takes place, and I have not seen any plans which indicate changes as a result of the Scheme, the bank may decide to change its strategy in the future and this is not something that I can comment on in this Scheme Report;
- Similarly I note that the bank has the ability to make changes post the Scheme which may affect for example the products it offers. Where a customer is contracted to a product such as a fixed rate deposit, these contractual terms are unchanged by the Scheme. The bank may decide in the future not to offer this product when existing contracts have matured and such a decision could be driven by a wide variety of other factors; and
- I am satisfied that there is no Adverse Effect from a financial perspective as a result of being owed a debt from Adam & Company rather than RBS plc. A full description of my considerations is set out in Section 10. In particular:

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- I have considered that other depositors will have a debt owing from a different entity following the Scheme. In making my assessment I have split other depositors into the following categories:
 - Balances covered by FSCS protection
 - Balances above the level of FSCS protection

Balances covered by FSCS protection

FSCS provides protection for balances up to £85,000 in the event of the default of a bank. FSCS protection is limited to a maximum of £85,000 per individual/company for each bank at which deposits are held.

For RBS plc customers who do not have an account at Adam & Company and have balances below £85,000 which are covered by the FSCS protection, I am satisfied that there is no Adverse Effect as even if Adam & Company were to default, which I have considered below, the deposits of these customers would be protected by the FSCS provisions.

Customers with deposits held at both RBS plc and Adam & Company currently benefit from FSCS protection on both accounts. Following the Scheme, those customers will now only have one set of FSCS protection available as their deposits at RBS plc will move to Adam & Company. Based on financial information as at 31 July 2017, RBS believe there are approximately 330 customers who have deposits (Core and Other) at both RBS plc and Adam & Company which, when combined, are above the FSCS protection of £85,000 and hence would be affected by some loss of FSCS protection.

These customers are being transferred to a regulated and licensed bank and I have concluded below that there is no Adverse Effect from the Scheme to RBS plc customers with balances above the £85,000 level of FSCS protection. Whilst this is an important consideration, I consider the loss of one set of FSCS protection to be an effect which I need to consider separately, given some customers may view the FSCS protection as eliminating all risk of default related to the deposits.

I have, therefore, considered the mitigating steps that RBS will undertake to the Court to carry out. RBS will, upon request from an affected customer, transfer any balance to a new account with a separate bank outside of the RBS Group or elsewhere within the RBS Group, such as NatWest Plc. RBS will communicate to all potentially affected customers notifying them of the potential loss of FSCS protection. This communication will state that RBS will offer the customer a period of three months from the Effective Date to move money, including longer term contracts such as fixed term deposits, without any charge or loss of interest. Whilst any new account will have a new sort code, I note that existing accounts can continue to operate and hence depositors should be able to make payments as normal from these accounts.

Having considered the financial strength of Adam & Company and the planned mitigating steps (in particular the fact that potentially affected customers will be offered the opportunity to maintain their FSCS protection should they wish) I do not consider that the Scheme results in an Adverse Effect in this respect.

Balances above the level of FSCS protection

In relation to balances above £85,000, I am satisfied that there is no Adverse Effect from a financial perspective as a result of being owed a debt from Adam & Company rather than RBS plc. A full description of my considerations is set out in Section 10. In summary, I have reached this conclusion based on the following key considerations:

- Adam & Company is a regulated entity and licenced bank and hence subject to regulatory capital and liquidity requirements. On both these measures, RBS's financial projections indicate that a surplus above regulatory requirements exists as at the Effective Date and in the future period considered by RBS management; and

- Following the Scheme, Adam & Company will remain a subsidiary of RBS plc and will continue to benefit from a CSD with other members of the RBS Group, whereby capital support will be provided by fellow entities of the RBS Group if required and available. As set out in Section 10 below, later in 2018 after the Scheme takes effect, a separate group restructuring is planned. Should this occur as planned, Adam & Company will then benefit from a replacement capital support arrangement with other members of the RFB Subgroup, including NatWest Plc, providing capital support if required. RBS's financial projections indicate that there will be a surplus above regulatory requirements at the RFB subgroup level.

I have also considered the effect of the Scheme on the creditor hierarchy by comparing the position of depositors as creditors of RBS plc before the Scheme is implemented and as creditors of Adam & Company after the Scheme is implemented. There will be a lower level of unsecured non-preferred senior liabilities to absorb losses in a bail-in resolution in Adam & Company relative to RBS plc. However, as additional MREL will be introduced into Adam & Company prior to the Scheme, I do not consider that there is an Adverse Effect from this perspective even in a bail-in scenario, which itself is not considered probable.

Certain customers holding Other Deposits at RBS may have a requirement to place deposits with a bank with a certain minimum credit rating. Preliminary or expected credit ratings for Adam & Company have been obtained. As these ratings are at least equal to those of RBS plc, I do not consider that there is an Adverse Effect for customers in this respect.

Set-off is considered separately in Section 9.

5.4.3 Conclusion - Other Deposits

For the reasons set out above, I am satisfied that there is no Adverse Effect as a result of the Scheme in respect of Other Deposits.

5.5 Effect analysis - personal mortgages

Personal mortgages range from those aimed at first time buyers such as a 95% loan-to-value ("LTV") mortgage for properties worth less than £600,000, to a number of fixed rate and tracker mortgage with varying initial rate terms and interest rates, minimum LTVs, and product fees. Other specific mortgage offerings such as Right to Buy, shared equity, and interest only mortgages are also available. A number of legacy mortgages no longer on sale are held by some customers.

In this section I summarise my conclusions relevant to personal mortgages.

5.5.1 Service to customers and operational continuity

I am satisfied that there is no Adverse Effect to mortgage holders as a result of the Scheme. My opinion is driven by the following key factors:

- Customers will maintain their current mortgages under current terms and conditions;
- RBS plans to transfer legal title over security under the mortgage from RBS plc to Adam & Company under the Scheme at no cost to customers. RBS plc will also amend the security interest on the Land Register (excluding the Scottish Land Register) to recognise Adam & Company's legal interest at no cost to the customer. Customer authorisations will not be required for this change to be made;
- In respect of the Scottish Land Register, changes will not be made to individual records, as the security provided by the customer will not change. RBS has received legal advice that confirms that Adam & Company will continue to benefit from the security provided without the need to make amendments at an individual level. In addition, RBS has the ability to update the register

at a later date ahead of any necessary enforcement of security. Therefore I do not consider that there is any Adverse Effect in this respect;

- Balances and payment instructions as at the Effective Date will transfer from RBS plc to Adam & Company without further action required by borrowers;
- The operation of offset mortgages will apply automatically to deposit accounts which are transferring to Adam & Company under the Scheme;
- There will be no changes to sort codes, account numbers or access to customer channels such as branches, telephony and internet as a result of the Scheme. These customer channels will operate as previously and hence there will be no change to the service provided, for example the provision of transaction or balance information, the administration of complaint procedures, the provision of payment services or access to these services, for example passwords and other security details;
- There are no plans for existing mortgage products and/or services to be withdrawn as a result of the Scheme; and
- The products and services available and the underwriting methodology will not change as a result of the Scheme.

I note that RBS has the ability to make changes post the Scheme which may affect how the Bank operates. Such decisions are driven by a wide variety of other factors and management of the Bank can decide to change its strategy in the future. Whilst I have not seen any plans which indicate changes as a result of the Scheme, the Bank may decide to change its strategy in the future and this is not something that I can comment on in this Scheme Report.

5.5.2 Financial considerations

While considering the effect to mortgage holders as a result of the Scheme, I have considered the following key factors from a financial perspective:

- There are no changes to terms and conditions and hence no financial effect in respect of the mortgages that customers have in place; and
- As mortgage customers owe a debt to RBS plc, this debt would continue to exist even if the RBS entity were to default and hence I do not consider there to be a negative effect in this respect.

Cross-stakeholder issues such as set-off are considered separately in Section 9 below.

The implementation of the Scheme will not result in the customer being charged different interest rates or being subject to different charges when the transfer is implemented. Whilst I have not seen any plans which indicate changes as a result of the Scheme, RBS may decide to change its strategy in the future and this is not something that I can comment on in this Scheme Report.

5.5.3 Conclusion - personal mortgages

For the reasons set out above, I am satisfied that there is no Adverse Effect as a result of the Scheme in respect of personal mortgages.

5.6 Effect analysis - personal unsecured loans

Personal unsecured loans are aimed at various customer groups and include car loans, debt consolidation loans, home improvement loans and partnership injection loans.

In this section I summarise my conclusions relevant to personal unsecured loans.

5.6.1 Service to customers and operational continuity

While considering the effect of the Scheme to personal unsecured loan holders, I have considered the following key factors:

- Customers will maintain their current loans under existing terms and conditions;
- Balances and payment instructions as at the Effective Date will transfer from RBS plc to Adam & Company without further action required by borrowers;
- There will be no changes to sort codes, account numbers or access to customer channels such as branches, telephony and internet as a result of the Scheme. These customer channels will operate as previously and hence there will be no change to the service provided or access to these services;
- There are no plans for existing personal unsecured loan products and/or services to be withdrawn as a result of the Scheme; and
- The products and services available and the underwriting methodology will not change immediately after the Scheme.

I note that RBS has the ability to make changes post the Scheme which may affect how the bank operates. Such decisions are driven by a wide variety of other factors and management of the bank can decide to change its strategy in the future. Whilst I have not seen any plans which indicate changes as a result of the Scheme, the bank may decide to change its strategy in the future and this is not something that I can comment on in this Scheme Report.

5.6.2 Financial considerations

While considering the effect on customers with personal unsecured loans as a result of the Scheme, I have considered the following key factors from a financial perspective:

- There are no changes to terms and conditions and hence no financial effect in respect of the personal unsecured loans that customers have in place;
- As customers with personal unsecured loans owe a debt to RBS plc, this debt would continue to exist even if the RBS entity were to default and hence I do not consider that there is a negative effect in this respect;
- The Scheme does not have an effect on customers' ability to draw upon previously agreed facilities, which may not yet have been drawn down; and
- Cross-Stakeholder issues such as set-off are considered separately in Section 9 below.

The implementation of the Scheme will not result in the customer being charged different rates or being subject to different charges when the transfer is implemented. Whilst I have not seen any plans which indicate changes as a result of the Scheme, RBS may decide to change its strategy in the future and this is not something that I can comment on in this Scheme Report.

5.6.3 Conclusion - personal unsecured loans

For the reasons set out above, I am satisfied that there is no Adverse Effect as a result of the Scheme in respect of personal unsecured loans.

5.7 Effect analysis - personal credit cards

Four personal credit card types are available: the Reward card, the Clear rate platinum card, the Reward black card, and the student credit card. All of these are subject to an annual fee except the student credit card.

In this section I summarise my conclusions relevant to personal credit cards.

5.7.1 Service to customers and operational continuity

While considering the effect of the Scheme to customers who hold credit cards, I have considered the following key factors:

- Customers will maintain their credit cards loans and credit limits under existing terms and conditions;
- Balances and payment instructions as at the Effective Date will transfer from RBS plc to Adam & Company without further action required by credit card holders;
- There will be no need for new credit cards to be issued and existing PIN and other security details will not be affected;
- There will be no changes to sort codes, account numbers or access to customer channels such as branches, telephony and internet as a result of the Scheme. These customer channels will operate as previously and hence there will be no change to the service provided or access to these services; and
- There are no plans for existing personal credit card products and/or services to be withdrawn as a result of the Scheme.

The products and services available and the underwriting methodology will not change as a result of the Scheme. I note that RBS has the ability to make changes post the Scheme which may affect how the bank operates. Such decisions are driven by a wide variety of other factors and management of the bank can decide to change its strategy in the future. Whilst I have not seen any plans which indicate planned changes as a result of the Scheme, the bank may decide to change its strategy in the future, and this is not something that I can comment on in this Scheme Report.

5.7.2 Financial considerations

While considering the effect on customers with personal credit cards as a result of the Scheme, I have considered the following key factors from a financial perspective:

- There are no changes to terms and conditions and hence no financial effect in respect of the personal credit cards that customers have in place;
- As customers with personal credit cards owe a debt to RBS plc, this debt would continue to exist even if the RBS entity were to default and hence I do not consider there is a negative effect in this respect; and
- The Scheme does not have an effect on customers' ability to draw upon previously agreed credit card limits, which may not yet have been drawn down.

Set-off is considered separately in Section 9.

The implementation of the Scheme will not result in the customer being charged different rates or being subject to different charges when the transfer is implemented. Whilst I have not seen any plans which indicate changes as a result of the Scheme, RBS may decide to change its strategy in the future and this is not something that I can comment on in this Scheme Report.

5.7.3 Conclusion - personal credit cards

For the reasons set out above, I am satisfied that there is no Adverse Effect as a result of the Scheme in respect of personal credit cards.

5.8 Effect Analysis - business and commercial loans

There are various types of business and commercial loans. The products vary based on the term of the lending, the type of interest rate used such as fixed or variable, whether the loan is secured or unsecured and the nature of the asset such as vehicle, land, boats, etc.

These loans include:

- Revolving credit facilities: flexible, committed credit facilities which allow customers to draw, repay and re-draw funds repaid during the product term;
- Term loans: fixed rate, base rate or LIBOR;
- Asset finance loans;
- Liquidity facilities: standby revolving loans providing liquidity to an issuer and credit support to the capital structure of a securitisation;
- Listed debt securities: marketable debt securities issued by bank customers;
- Mezzanine debt: subordinated debt used by customers to bridge the gap between senior debt and equity; and
- Commercial mortgages and commercial credit cards.

In this section I summarise my conclusions relevant to business and commercial loans.

5.8.1 Service to customers and operational continuity

While considering the effect of the Scheme to business and commercial customers who have business or commercial loans on a bilateral or syndicated basis, I have considered the following key factors:

- Balances (including RBS plc's share of any syndicated debt facility) and payment instructions as at the Effective Date will transfer from RBS plc to Adam & Company without further action required by borrowers;
- There will be no changes to sort codes, account numbers or access to customer channels (for example branches, telephony and internet) as a result of the Scheme;
- There will be no customer relationship changes as a result of the Scheme, and no change to any existing agency role undertaken by RBS plc except as noted in Section 5.10 below. Adam & Company will have appropriate access to all personnel, processes and systems needed to provide any existing service or activity currently provided by RBS plc in relation to the provision of any structured debt facility or agency role;
- RBS plans to transfer legal title over security under secured loans from RBS plc to Adam & Company under the Scheme at no cost to customers. RBS plc will also amend the security interest on the Land Register (excluding the Scottish Land Register) to recognise Adam & Company's legal interest at no cost to the customer. Customer authorisations are not required for this change to be made. In respect of the Scottish Land Register, changes will not be made to individual records, as the security provided by the customer will not change. RBS has received legal advice that confirms that Adam & Company will continue to benefit from the security provided without the need to make amendments at an individual security level. In addition, RBS has the ability to update the register at a later date ahead of any necessary enforcement of security. Therefore I do not consider that there is any Adverse Effect in this respect;
- There are no plans for existing business and commercial loan products and/or services to be withdrawn as a result of the Scheme;
- Terms and conditions are unchanged with the exception of certain administrative amendments necessary to give effect to the Scheme; and

- The products and services available and the underwriting methodology will not change as a result of the Scheme.

I note that RBS has the ability to make changes post the Scheme which may affect how the bank operates. Such decisions are driven by a wide variety of other factors and management of the bank can decide to change its strategy in the future. Whilst I have not seen any plans which indicate changes as a result of the Scheme, the bank may decide to change its strategy in the future and this is not something that I can comment on in this Scheme Report.

5.8.2 Financial considerations

I am satisfied that there is no Adverse Effect for customers with business and commercial loans from a financial perspective as a result of the Scheme;

- As the changes to terms and conditions are administrative in nature, there is no financial effect in respect of the business and commercial loans that customers have in place;
- As customers with business and commercial loans owe a debt to RBS plc, this debt would continue to exist even if the RBS entity were to default and hence I do not consider there is a negative effect in this respect; and
- The Scheme does not have an effect on customers' ability to draw upon previously agreed facilities.

Set-off and shared security is considered separately in Section 9.

The implementation of the Scheme will not result in the customer being charged different rates or being subject to different charges when the transfer is implemented. Whilst I have not seen any plans which indicate changes as a result of the Scheme, RBS may decide to change its strategy in the future and this is not something that I can comment on in this Scheme Report.

5.8.3 Conclusion - business and commercial loans

For the reasons set out above, I am satisfied that there is no Adverse Effect as a result of the Scheme in respect of business and commercial loans.

5.9 Effect Analysis - Trade Finance

Various Trade Finance products are offered to business and commercial customers. These include a range of working capital funding and credit facilities, some of which are tailored to particular trading needs such as import and export loans, as well as bank guarantees, standby and export letters of credit and bills-of-exchange.

In this section I summarise my conclusions relevant to Trade Finance.

5.9.1 Service to customers and operational continuity

I am satisfied that there is no Adverse Effect as a result of the Scheme to business and corporate customers who have Trade Finance products. My opinion is driven by the following key factors:

- Facility balances and payment instructions as at the Effective Date will transfer from RBS plc to Adam & Company without further action required by customers;
- There will be no customer relationship changes as a result of the Scheme;
- There are no plans for existing Trade Finance products and/or services to be withdrawn as a result of the Scheme;
- Terms and conditions are unchanged with the exception of certain administrative amendments necessary to give effect to the Scheme; and

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- The products and services available and the underwriting methodology will not change as a result of the Scheme.

I note that RBS has the ability to make changes post the Scheme which may affect how the bank operates. Such decisions are driven by a wide variety of other factors and management of the bank can decide to change its strategy in the future. Whilst I have not seen any plans which indicate changes as a result of the Scheme, the bank may decide to change its strategy in the future, and this is not something that I can comment on in this Scheme Report.

5.9.2 Financial considerations

I am satisfied that there is no Adverse Effect for customers with Trade Finance products from a financial perspective as a result of the Scheme. While considering the effect on customers with Trade Finance products as a result of the Scheme, I have considered the following key factors from a financial perspective:

- As the changes to terms and conditions are administrative in nature there is no financial effect in respect of the Trade Finance products that customers have in place;
- As customers with Trade Finance products owe a debt to RBS plc, this debt would continue to exist even if the RBS entity were to default and hence I do not consider there is a negative effect in this respect; and
- The Scheme does not have an effect on customers' ability to draw upon previously agreed facilities, including guarantees.

Set-off is considered separately in Section 9.

5.9.3 Conclusion - Trade Finance

For the reasons set out above, I am satisfied that there is no Adverse Effect as a result of the Scheme in respect of Trade Finance.

5.10 Cross Stakeholder considerations: contractual matters

If approved, the Scheme will provide that all references to "RBS plc" will, following the Effective Date, be read as being references to the legal entity currently known as Adam & Company in the case of business transferring to Adam & Company. It is intended that Adam & Company will be named "The Royal Bank of Scotland plc" with effect from the Effective Date, and therefore the administrative changes required to allow the transferred business to operate from Adam & Company following the Effective Date include the following changes as set out in the Scheme Document:

- any reference to RBS plc's company registration number, banking license number, address or other contact details shall be read as reference to Adam & Company's company registration number, banking license number, address or other contact details;
- any reference to RBS plc and all or any of its affiliates shall be construed as a reference to Adam & Company and such affiliates of Adam & Company;
- any reference to any director, officer, representative or employee of RBS plc shall be construed as a reference to the directors, officers, representatives or employees of Adam & Company; and

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- any reference to a rate, charge, tariff or scale of fees or to terms or conditions of RBS plc, or the ability to set or publish such rates, shall be read as references to the same for Adam & Company.

RBS has undertaken a legal due diligence exercise in order to:

- identify any potential breaches of agreements or contractual rights triggered by the Scheme which, subject to any jurisdictional issues, the Scheme, subject to Court sanction, will override;
- identify the terms of any agreements which the Scheme, subject to Court sanction, will amend to make the relevant agreement work when transferred to Adam & Company; and
- identify any issues which might form the basis of an objection to the Scheme or which may constitute an Adverse Effect on a customer or Stakeholder.

Legal due diligence has also been conducted on agreements which will remain with RBS plc following the Effective Date and are therefore not in the scope of the transfer as part of the Scheme. This has been performed in order to:

- identify any potential breaches of agreements or contractual rights triggered by the transfer such as termination rights, which, subject to any jurisdictional issues, the Scheme, subject to Court sanction, will override; and
- identify any issues which might form the basis of an objection to the Scheme or which may constitute an Adverse Effect on a customer or Stakeholder.

I have considered the results of the legal due diligence undertaken and overall I have concluded that there is no Adverse Effect. Key issues that I have considered are set out below:

Non-UK law

The Scheme operates on the basis of transferring identified business lines, such that all assets and liabilities in each transferring business line will transfer pursuant to the Scheme, unless they are expressly carved out as set out in the Scheme Document.

The transferring business lines include certain transactions which are wholly or partly governed by a non-UK law. Where these transactions (or any part of them) are governed by a non-UK law which does not recognise the effect of the Scheme, it is intended that the affected non-UK law governed parts of these transactions will be transferred only once any necessary manual transfer and perfection steps have been completed outside the Scheme (referred to in the Scheme Document as a "Subsequent Transfer Date").

For example, there are certain transactions where the primary debt document is governed by a UK law but the transaction includes some documents governed by a non-UK law, notably foreign law security. In relation to these transactions, the UK law elements will transfer on the Effective Date with the foreign law elements being classified as a "Residual Asset" or a "Residual Liability" to the extent that the relevant foreign law does not recognise the effect of the Scheme. In this way, an English law governed loan will transfer to Adam & Company at the Effective Date but may become "de-linked" from the supporting security, guarantees or other transaction elements which are governed by a non-UK law which will become Residual Assets or Residual Liabilities. Where both the loan and the security are governed by a non-UK law, they may transfer at separate times if the necessary manual transfer and perfection steps are completed at different points. These Residual Assets will be held on trust for the benefit of Adam & Company (or, where such trust is not recognised in the relevant non-UK jurisdiction, RBS plc will agree to be subject to a duty to account to Adam & Company for the Residual Assets or Residual Liabilities). As the security provided by the customer does not change, I do not consider that there is an Adverse Effect from this arrangement. From an RBS perspective, this arrangement does result in an additional capital

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charge for Adam & Company but given the size of the effect in the context of the financial performance of Adam & Company, I do not consider this to represent an Adverse Effect.

Shared security

As a result of the Scheme, security interests granted by a customer over secured property or other assets may be split across the different entities. This is considered further in Section 9 (Cross-Stakeholder considerations).

Security and quasi security

RBS has a number of existing charges on its assets. RBS has performed analysis to determine whether these charges relate to transferring or remaining assets. Where a charge relates to a transferring asset, the charge will be transferred under the Scheme from RBS plc to Adam & Company, and where it relates to a remaining asset, the charge will stay in RBS plc.

If it is subsequently found that a transferred charge should have remained in RBS plc (or vice versa), the entities participating in the Scheme will take steps to ensure the necessary changes are made. This will be documented in a framework agreement between RBS plc, Adam & Company and NatWest Plc.

As charges are being transferred along with transferring assets and because the framework agreement is expected to deal with the situation described above, I do not consider that there is an Adverse Effect from the Scheme in this respect.

Enhanced rights

Where, prior to the Scheme, a customer or counterparty has products with both RBS plc and Adam & Company, there is scope for RBS to gain certain enhanced or "windfall" rights in relation to those customers or counterparties. These include set-off rights, "all monies" rights, consolidation rights and cross-default rights. These are discussed further in Section 9.

Restrictions on transfer

The legal due diligence has identified a number of contractual provisions which will be overridden through the Scheme's transfer process. These include:

- Restriction on transfers: there are certain contracts where transfers are prohibited;
- Consent to transfer from counterparty: there are certain contracts where consent to transfer is required from the counterparty; and
- Prior consultation with counterparty: there are certain contracts where RBS plc is required to consult with the counterparty prior to any transfer.

Whilst these contractual provisions would be overridden if the Scheme were approved, I do not consider there to be any Adverse Effect for these particular customers. This is because I do not consider that there is any Adverse Effect for transferring customers who do not have any of these particular provisions in their contracts.

I also note that certain contracts contain either a requirement to give notice of transfer to the counterparty, or a requirement for consent from either the counterparty or a third party (such as in agency arrangements). Although these rights are being overridden by the Scheme, I do not consider there to be any Adverse Effect for these particular customers because I do not consider that there is any Adverse Effect for transferring customers who do not have any of these particular provisions in their contracts. I also note that all customers will be given notice of the Scheme through the general communications that RBS will send out.

Credit rating effects

The legal due diligence has identified:

- requirements within certain general lending and structured debt transactions for a transferee to meet certain minimum credit rating requirements (often by reference to the credit rating of RBS plc); and
- certain agreements which allow a counterparty to terminate an agreement if the agreement is transferred to a transferee with a lower credit rating.

Preliminary or expected credit ratings for Adam & Company have been obtained and published. As these ratings are at least equal to those of RBS plc, I do not consider that there is an Adverse Effect for customers in this respect.

Replacement of RBS plc as facility agent and account bank

Where RBS plc acts as a facility agent or as account bank, the resignation of RBS plc from, and the appointment of Adam & Company to that role would commonly be subject to certain prior requirements. These include the delivery of a notice to the other finance parties and the obligor(s) and the involvement of other finance parties in the appointment of a successor. The Scheme is capable of transferring the benefit of these agency and similar roles under any lending arrangements without these requirements having to be satisfied. Whilst these contractual provisions would be overridden if the Scheme were approved, I do not consider that there is any Adverse Effect for these particular customers as I do not consider that there is any Adverse Effect for transferring customers which do not have any of these particular provisions in their contracts. I also note that notice will be given to these customers as part of the Scheme communications which acts as further mitigation.

I note in particular that security agency roles, the transfer of which would be more complex and may require amendments, perfection steps or other formalities in order to maintain the effectiveness of the security granted (and the transfer of which might therefore have an adverse impact on customers or other finance parties), are not transferring.

Fees payable on transfer

In a large number of syndicated loan documents, transfer fees are required to be paid to the agent for its own account upon a transfer taking place. The legal effect of the Scheme means that these transfer fees would not need to be paid. RBS is of the view that there is no negative effect in this case on the basis that the fees are intended to constitute a reimbursement of likely administrative costs (e.g. for review of the transfer certificate) and such costs should generally not be incurred by the agents given the transfer is to take place by way of statutory transfer and not in accordance with the documentation. Given the reasons set out and the amounts involved, I do not consider that this would represent an Adverse Effect for the agents.

Know Your Customer ("KYC")

Customers and counterparties may need to perform KYC checks on Adam & Company following the Scheme. As Adam & Company is a UK regulated firm on the Financial Services Register, it is expected that customers and counterparties should be able to satisfy UK anti-money laundering and KYC obligations through publicly available information such as Companies House and the Financial Services Register. Whilst certain additional procedures will need to be performed by customers and counterparties, I consider these to be administrative in nature and do not represent an Adverse Effect of the Scheme.

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5.10.1 Conclusion - contractual matters

For the reasons set out above, I am satisfied that there is no Adverse Effect as a result of the Scheme in respect of contractual matters.

5.11 Conclusion

For the reasons set out above I am satisfied that there are no Adverse Effects as a result of the Scheme in respect of customers transferring from RBS plc to Adam & Company.

6 Effect on Transferring Customers – RBS plc to NatWest Plc

6.1 Introduction

In this section, I will set out my conclusions in respect of the effect of the Scheme on the transferees and transferring business Stakeholders to NatWest Plc. In particular, I focus on the transfer of a Covered Bonds Business from RBS plc to NatWest Plc which is part of the Scheme. The portfolio of Covered Bonds is approximately £5.9 billion as at 30 June 2017. In this section I also consider the transfer of the Mentor Business from RBS plc to NatWest Plc.

6.2 Approach

I have considered how the Scheme affects the provision of services to Stakeholders and the operational continuity of such services. The factors I have considered include:

- The continuity of the administration of the Covered Bonds Business currently performed by RBS plc;
- Changes to the nature of, access to or output of the services offered as a result of the Scheme; and
- Interaction with other products.

I have also considered the effect of the Scheme from a financial perspective. Factors I have considered include:

- Changes to contracted terms & conditions;
- Changes to contracted rates/fees;
- Changes to the creditworthiness of the bonds, for example, changes in issuer risk caused by the transfer from RBS plc to NatWest Plc and any effect on the rights and access to the cover security pool underlying the bonds; and
- Changes to other rights such as set-off rights.

6.3 Effect analysis – Covered Bonds Business

Covered Bonds are debt security instruments that are secured on an underlying pool of assets, typically mortgage loans or public-sector debt. They differ to traditional asset backed securities as the bond holder primarily has recourse to the issuer in this case, RBS plc, with the cover pool a secondary source of collateral. This means in performing my analysis, I have considered both the relative creditworthiness of NatWest Plc to RBS plc as well as any effect on the credit protection provided by the underlying security.

6.3.1 Programme overview

The RBS plc Covered Bonds Business was established in 2010 to provide an additional source of funding for the RBS Group. RBS plc is regulated by the FCA as the Covered Bond issuer of the RBS

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Group. The loans and related security in the cover pool are all currently provided by NatWest Plc and are held by a Limited Liability Partnership, RBS Covered Bonds Limited Liability Partnership ("LLP") to which bond investors have recourse in the event of default and the failure of the issuer to pay. The LLP funds the purchase of the loans through an intercompany loan provided by RBS plc. RBS plc also act as cash manager, interest rate swap provider and Covered Bond swap provider to the programme.

6.3.2 Credit risk

Following the transfer, the Covered Bondholders will be exposed to the issuer risk of NatWest Plc as opposed to RBS plc. As discussed in Section 10 NatWest Plc is capitalised to meet regulatory requirements. Furthermore, I note that the credit rating of NatWest Plc, is in line with the current credit rating of RBS plc.

Additionally the Covered Bonds are collateralised and there is no change in this collateral. No transfer of collateral will take place as part of the Covered Bonds transfer and there will be no change to the underlying security of the Covered Bonds as a result of the Scheme.

I therefore do not consider that there is an Adverse Effect for Covered Bondholders from a credit risk perspective as a result of the Scheme.

6.3.3 Tax implications

One area of potential Adverse Effect is related to whether the transfer of these securities potentially triggers a taxable gain for certain bondholders. This would depend on whether the assets had increased in value since acquisition, the tax rules in the jurisdiction in which the beneficial owner is resident and the beneficial owner's tax status. For the reasons discussed in Section 14.7.2, I am satisfied that there is no Adverse Effect as a result of the Scheme in respect of this matter.

6.3.4 Other roles

RBS plc currently perform a number of other roles associated with the programme including: cash manager, lender of the intercompany loan, interest rate swap provider and Covered Bond swap provider. RBS plc also acts as seller and servicer for loans it provides to the programme, though it currently has no such loans outstanding. These roles will all be transferred to NatWest Plc under the Scheme. I do not consider that there is an Adverse Effect in respect of these roles as a result of the Scheme.

6.3.5 Regulatory approval for the Covered Bonds Business

The Covered Bonds Business is regulated by the FCA. NatWest Plc has received approval from the regulator to run the programme.

6.3.6 Conclusion - Covered Bonds Business

For the reasons set out above, I am satisfied that there is no Adverse Effect as a result of the Scheme in respect of the Covered Bonds Business.

6.4 Effect analysis – Mentor Business

The Mentor Business comprises a range of services for business and commercial customers including consultancy, advice, training and protection on matters such as employment law, tax, health and safety as well as access to a payroll system and an employee identity and eligibility to work verification service.

6.4.1 Service to customers and operational continuity

In considering the effect on customers of the Mentor Business, I have considered several factors, in making my determination. In particular my opinion is driven from the proposal that as a result of the Scheme:

- Mentor service contracts will transfer from RBS plc to NatWest Plc on the Effective Date. Although these customers of RBS plc will change legal entity, the effect will be limited to the change to the company name and number customers see on documentation;
- Customers will experience no changes to the nature of, access to and output from the services offered as a result of the Scheme. Any services offered via third parties will continue to be available. Access to systems and related digital interfaces will be unaffected; and
- There will be no changes to the advisers and relationship managers delivering these services.

6.4.2 Financial considerations

While considering the effect on customers of the Mentor Business, I have considered the following key factors from a financial perspective:

- There will be no changes to contract terms and conditions as a result of the Scheme; and
- Customers will therefore continue to be on the same financial terms before and after the Scheme. Service fees and billing arrangements will be unaffected by the Scheme.

6.4.3 Conclusion - Mentor Business

For the reasons set out above, I am satisfied that there is no Adverse Effect as a result of the Scheme in respect of the Mentor Business.

6.5 Conclusion

For the reasons set out above I am satisfied that there are no Adverse Effects as a result of the Scheme in respect of customers transferring from RBS plc to NatWest Plc.

7 Effect on Remaining Customers – RBS plc

In this section I have considered the likely effect of the Scheme on the customers of, and counterparties to, RBS plc that will not be transferred as part of the Scheme. I have also considered the effects on services to Stakeholders and operational continuity and financial considerations. I have not identified any Adverse Effects for any customers or counterparties of RBS plc caused by the Scheme which are not set out below.

7.1 Approach

I have considered how the Scheme affects the provision of services to customers and the operational continuity of such services. The factors I have considered vary by product but include the effect on the customer journey (i.e. how a customer experiences its relationship with the bank over time, particularly during periods of change), access to relationship managers and interaction with other products.

I have also considered the effect of the Scheme from a financial perspective. Factors I have considered include:

- Changes to the creditworthiness of RBS plc;
- Changes to contracted terms & conditions;
- Changes to contracted interest rates and fees;
- Changes to security of exposures for example through security and collateral arrangements and the financial strength of the entity providing a service; and
- Changes to other rights such as set-off rights and reward programmes.

7.2 Overview

In performing my analysis for customers and counterparties that are remaining in RBS plc as opposed to being transferred to a different entity, the considerations are different.

With only a small number of exceptions, there will be no change to non-transferring products and activities that are offered by RBS plc to their customers, both with respect to the terms and conditions of the products offered and the customer journey.

The first exception I highlight is the approach to shared security, which I have addressed in Section 9.2. The second is in respect of the need to change Standard Settlement Instructions. As part of their ring-fencing plans, RBS will require a number of Stakeholders to change the Standard Settlement Instructions they use when dealing with RBS. As this is happening outside of the Scheme and is actually part of RBS's wider ring-fencing activities, I do not consider this to be within the scope of this Scheme Report. However, I would note that I consider this to be an operational matter which is administrative in nature and an activity which is routine for Stakeholders to perform.

My primary consideration has therefore been the potential effect on customers of the Scheme from a financial perspective. The transfer of the retail and commercial banking elements leaves RBS plc with a different business model and risk profile. I have considered the effect on different Stakeholder groups taking into account factors such as the level of security that Stakeholders

have, the length of time that Stakeholders are exposed to RBS plc through their existing contracts and the position of the Stakeholder in the creditor hierarchy in Resolution. My analysis has focused on where Stakeholders are owed a debt from RBS plc or otherwise have a credit exposure to RBS plc. This is on the basis that where RBS plc is owed a debt from or otherwise has a credit exposure to a Stakeholder, there is limited effect from the Scheme with the exception of set-off issues which are considered together in Section 9.

As set out in Section 3, there are a number of changes that are occurring within the RBS Group in order to ensure compliance with the ring-fencing requirements. Each of these may affect Stakeholders and in my assessment, whilst I have sought to understand the wider changes, I have not sought to comment on whether these as a whole cause detriment to the Stakeholders. Rather, in making my assessment, I have focused on the effect of the Scheme itself.

7.3 Effect analysis – repurchase agreement ("Repo") and reverse repurchase agreement ("Reverse Repo")

A repurchase agreement is a contractual arrangement economically equivalent to borrowing whereby a bank such as RBS plc sells a security such as a government bond, and agrees to buy it or an equivalent security back at a point in the future. Its broad effect is that the counterparty to the transaction acts as a lender of cash, whereas the bank (in this case RBS plc) is acting as a borrower of cash using the security as collateral. The majority of Repo transactions are short term in nature and mature within six months.

The most common type of Repo is a tri-party Repo whereby the tri-party agent, normally a custodian or clearing organisation such as Euroclear or Clearstream, is responsible for the administration of the transaction including substitution of collateral. As part of the tri-party agreement, the counterparty providing the cash, the entity borrowing the cash, in this case RBS plc, and the tri-party agent agree to the type of collateral that can be held against the cash. Through this mechanism the administrative burden of a bilateral Repo agreement is avoided. Bilateral agreements can exist as can other forms of Repo such as due-bill/hold in custody Repos (whereby the collateral pledged by the borrower is held in a custody account) and specified date Repos. The majority of contracts mature within six months.

From the lender's perspective, the loan is collateralised on the securities. The level of collateralisation protection is determined in the contract. Repo contracts involve a 'haircut' whereby the amount of money lent against a security may be discounted to reflect the credit or liquidity risk of the security. High quality securities such as government bonds may have little or no haircut whereas securities of a lower quality, such as sub-investment grade bonds, would be subject to a greater discount. Whilst there is some credit risk to the borrower, for example, if the borrower were to default and the collateral were also to drop significantly in value, the credit risk is largely covered by the security in place.

7.3.1 Conclusion – Repos and Reverse Repos

As there are no changes to the terms and conditions in respect of Repo transactions and given the fact that the borrowings are collateralised, I have concluded that there is no Adverse Effect as a result of the Scheme.

In reverse repo transactions, a counterparty borrows from a bank such as RBS plc. Where RBS plc has lent to a customer, there is no Adverse Effect as there is no credit exposure to RBS plc.

7.4 Effect analysis – securities lending

Securities lending involves a transfer of securities such as shares or bonds to a third party (the borrower), who will give the lender collateral in the form of shares, bonds or cash. The borrower pays the lender of the securities a fee and is contractually obliged to return the securities or

equivalent securities on demand within a standard settlement period. The borrower will also pass over to the lender any dividends/interest payments and corporate actions that may arise. In essence, the lender of the securities will retain the key rights they would have had if they had not lent the securities, except they will need to make special arrangements if they want to vote on the shares. The contractual arrangements for securities lending are similar to those for Repos.

7.4.1 Conclusion – securities lending

As with Repos, there is some credit risk to RBS plc where RBS plc is the borrower of securities. However as the counterparty holds collateral and there is a regular comparison of collateral values, I have concluded that there is no Adverse Effect as a result of the Scheme.

7.5 Effect analysis – debt securities issued, Money Market loans and deposits, derivative contracts and prime brokerage customers

7.5.1 Debt securities issued

RBS plc issues a range of debt securities to customers which effectively represent borrowings by the bank. As with Money Market deposits, these are on an unsecured basis but the maturity of these exposures can be longer dated.

I have considered the effects of the Scheme on these customers in their position as unsecured creditors of RBS plc. However, it is also important to put this in the context of the wider ring-fencing changes outside of the Scheme.

Wider ring-fencing changes

I note that there are a number of changes that are being made in order to achieve compliance with ring-fencing requirements. Whilst I have sought to understand these changes, I have considered in my Scheme Report the effect of the Scheme itself rather than whether other actions that are planned to be taken will cause detriment. In particular, I note there is a significant group restructuring planned in the third quarter of 2018 which will change the ownership of Adam & Company and the capital levels in RBS plc. As part of that restructuring, NatWest Holdings and its subsidiaries (including NatWest Plc and Adam & Company), will be transferred from RBS plc to RBSG plc. This is planned to occur through a dividend in specie of NatWest Holdings and its subsidiaries, following a reduction of capital process in RBS plc in order to create distributable reserves.

In order to make that dividend in specie of NatWest Holdings and its subsidiaries, RBS plc must first have distributable reserves on its balance sheet at least equal to the value of the dividend it proposes to make. RBS plc proposes to create these distributable reserves through a reorganisation of its capital, specifically by implementing a reduction of capital under Section 641 of the Companies Act 2006. Such a reduction of capital will require the approval of the Court and RBS plc will make a separate application to the Court for this approval (separate, that is, from the application for the Court's approval of the Scheme).

In deciding whether to approve RBS plc's application, the Court will consider the interests of RBS plc's creditors, the effect the reduction of capital will have on their position as creditors, and RBS plc's ability to continue to be able to settle its liabilities to those creditors. As that Court process is separate from the Scheme, it is not within the scope of this Scheme Report.

Consideration of the effects of the Scheme

In respect of the Scheme itself, the transfer of the retail and commercial banking elements leaves RBS plc with a different business model on an ongoing basis and hence different risks and capital requirements as well as profitability expectations. As a result I have considered whether this results in an Adverse Effect from a financial perspective as a result of the Scheme. In making my assessment, I have taken a number of factors into consideration:

- Whilst the retail and commercial business is being transferred from RBS plc, Adam & Company remains a wholly owned subsidiary of RBS plc as at the Effective Date and so RBS plc will continue to have access to cash and profits from this business although this would have to be through, for example, the payment of dividends by Adam & Company. I have considered the fact there will be some "structural subordination" for creditors of RBS plc as, following the Scheme, the creditors of Adam & Company will have access to surplus cash flows from the business transferring from RBS plc to Adam & Company ahead of the creditors of RBS plc. In this respect:
 - The transferring business has historically been profitable and is projected to continue to be so. I note that before the Scheme, there is a relatively low level of existing creditors within Adam & Company relative both to the level in RBS plc and the level of business being transferred. As a result surplus cash flows and profits from the transferring business should be available for distribution by way of dividend to RBS plc. This would require approval by the Board of Adam & Company but I note that Adam & Company will still be a wholly-owned subsidiary of RBS plc at the Effective Date; and
 - If, however, significant losses were to arise from the business being transferred, the creditors that remain in RBS plc would have a level of protection from the subsidiary that would not have previously existed as the losses would be borne first by the creditors of Adam & Company. As a result, I do not believe that there is a detriment to the creditors of RBS plc that remain in the bank as, without the transfer, these losses would have been borne by the RBS plc creditors. I have set out in Section 5 my conclusions in respect of the creditors that are being transferred to Adam & Company as part of the Scheme and in section 8 my conclusions in respect of the existing creditors of Adam & Company.
- I have also considered the capital and liquidity position of RBS plc. Capital represents a bank's ability to absorb losses and the regulatory capital requirements represent the level of capital expected to be held by the bank given the risk associated with its business. As set out in more detail in Section 10, there is a limited change in the capital position of RBS plc following the transfer at the Effective Date and the level of regulatory capital requirement of RBS plc is expected to decrease as a result of the transfer of business under the Scheme. As such the capital will remain above the minimum regulatory requirement.

RBS plc is a regulated entity and licensed bank and hence subject to regulatory capital and liquidity requirements. On both these measures, RBS plc's financial projections after the Scheme indicate that a surplus above regulatory requirements will exist as at the Effective Date and for the future period considered by RBS management;

- Additionally I note that RBS plc will continue to be party to a CSD with certain other companies of the RBS Group immediately after the Scheme and remains part of the same liquidity group immediately after the Scheme. The Scheme has no effect in this respect. I note that this will change following the implementation of ring-fencing in totality to comply with ring-fencing requirements, described more fully in Section 10; and
- During the performance of my analysis, I enquired into the fact that consideration for the business being transferred to Adam & Company is the aggregate carrying value of the net assets recorded by RBS plc immediately prior to their transfer, rather than fair value. In particular, I enquired into the position from a RBS plc perspective if fair value were greater than the current carrying value. RBS have performed an analysis that illustrates there would be little difference in the regulatory capital position of RBS plc if the value of the business

transferred at fair value rather than book value. If fair value of the business was greater than book value, RBS plc would need to inject further capital into Adam & Company so that Adam & Company could afford the purchase value. Having reviewed this analysis, I have concluded that there are limited consequences of transferring the business at book value rather than at fair value in this set of circumstances.

Based on my consideration of the facts above, I have concluded that the Scheme itself does not result in RBS plc being unable to meet its obligations in respect of the debt instruments issued. However, I also expect creditors to consider the credit rating that credit agencies assign to RBS plc. Different credit rating agencies have different methodologies and the effect of ring-fencing may result in different outcomes under these methodologies. There are many factors that credit rating agencies may take into account. Some are a result of ring-fencing generally and not the Scheme itself (for example the loss of access to cross-group liquidity support, the possibility of sovereign support) and some are linked to expectations of the roles of companies within the RBS Group. As at the date of this Scheme Report, public announcements⁴ have been made by three credit rating agencies in respect of the future outlook of the ratings of RBS plc and reflect these differing views and approaches:

- One credit rating agency has stated that the long term rating (Issuer Default Rating) of RBS plc is stable;
- One credit rating agency has stated that the implementation of the ring-fencing regulations will be likely to lead to downgrades in short and long term debt ratings of RBS plc. This credit rating agency has referenced that ring-fencing will come into effect on 1 January 2019 and that RBS is expected to complete material restructuring by the end of 2018; and
- One credit rating agency has stated that its outlook for RBS plc is stable. However, it has also stated that it expects to rate RBS plc one notch lower than Adam & Company and NatWest Plc.

Based on my consideration of the facts, I have concluded that the Scheme itself does not result in RBS plc being unable to meet its obligations in respect of the debt instruments issued. However, the Scheme does cause a change in the business mix of RBS plc and there is an element of structural subordination for creditors. There may be effects on certain Stakeholders during the term of the instrument. For example, Stakeholders that value the debt instruments at a fair value basis in their own accounts may be affected by fair value movements.

As a result, I have concluded that the Scheme may result in an Adverse Effect and I have therefore decided to consider part (b) of the Statutory Question. This requires me to consider whether the Scheme will result in an adverse effect that is greater than reasonably necessary to achieve the relevant purpose of ring-fencing for RBS under Section 106B(3) of FSMA.

Consideration of potential Adverse Effect

The management of the RBS Group have designed the Scheme which is described in Section 3. I have sought to understand the decisions made in designing the Scheme and assess whether there are alternative arrangements that could reasonably have been followed that would have had materially lesser adverse effects on Stakeholders whilst still meeting the relevant purpose of ring-fencing. RBS has stated that the relevant purpose of the Scheme is Section 106B(3)(b) of FSMA, i.e. to enable the Transferees (Adam & Company and NatWest Plc) to carry on core activities as a ring-fenced body in compliance with the ring-fencing provisions.

In making my assessment I have considered if the alternative arrangements may result in the adverse effect for one group of Stakeholders being reduced only for other adverse effects to be created for other Stakeholders. I have not considered alternative scenarios that result in the relevant purpose not being met.

⁴ <http://investors.rbs.com/fixed-income-investors/credit-ratings.aspx>

In considering whether the adverse effect is greater than reasonably necessary for achieving the purpose of ring-fencing I note that the Scheme will not in isolation ensure compliance with ring-fencing requirements and a number of other events and changes are planned by RBS in order to ensure this. Their successful completion and whether the RBS Group achieves compliance with the ring-fencing rules falls outside the scope of my Scheme Report. However, I do assess whether I believe that the transfer of business as part of the Scheme is driven by a purpose which is aimed at achieving compliance with ring-fencing requirements, and whether the transfer is reasonable.

The retail and commercial business being transferred includes the transfer of activities that are permitted to remain in RBS plc as a NRFB. In respect of the current existing business of RBS plc, only Core Deposits are required to be transferred to meet ring-fencing requirements. The transfer of much of the business under the Scheme such as Other Deposits and retail and commercial banking assets such as loans and mortgages is not directly required as a result of the ring-fencing legislation and is, therefore, a choice that the directors of RBS have made (taking into consideration other matters). I have challenged RBS on these decisions with reference to the "minimum" ring-fencing requirements.

I have not set out full details of the alternative arrangements considered. However key considerations include:

- If only Core Deposits were transferred, this would leave a significant asset surplus in RBS plc which would require funding. RBS have provided analysis which shows that there would be significant costs to RBS plc in obtaining this funding in the post ring-fencing environment which would result in a significantly negative overall result compared to the current Scheme proposals. This supports the transfer of assets as well as deposits to reduce the funding gap.
- RBS have highlighted significant technological difficulties in splitting Core Deposits from Other Deposits and this is one of the reasons that RBS has chosen to move all deposits in PBB and CPB. Any split of current RBS plc deposits between two different entities would also result in one set of depositors being required to change sort codes and bank account numbers resulting in significant disruption for the affected depositors.

Therefore the movement of all deposits, Core and Other, appears reasonable as does the movement of assets, retail and commercial, to reduce any funding gap in RBS plc following the implementation of the Scheme.

These overall considerations drive the decision to move all of the retail and commercial business and I have concluded that this is reasonable as other alternative approaches would have resulted in other adverse effects greater in my view than the adverse effect caused by the proposed Scheme.

I note that my considerations above of the effect of the Scheme and my assessment of alternative arrangements apply to other Stakeholders such as certain derivative counterparties and Money Market depositors who may also be similarly affected by the Scheme. In respect of these, as stated above, whilst the Scheme itself only has a limited effect on the ability of RBS plc to settle its obligations in respect of the debt instruments issued, there may be effects on certain Stakeholders during the term of the instrument. For example, Stakeholders that value derivatives and Money Market deposits at a fair value basis in their own accounts may be affected by fair value movements.

As stated above I have not set out details of all alternative arrangements considered but I can confirm that I have assessed alternative arrangements from the perspective of affected Stakeholders including derivative counterparties or Money Market depositors.

7.5.1.1 Conclusion – debt securities issued

For the reasons set out above, whilst I have concluded that there may be an Adverse Effect, I do not believe that this is likely to be greater than is reasonably necessary in order to achieve the relevant purpose of Section 106B(3)(b) of FSMA.

7.5.2 Money Market loans and deposits

Money Market instruments are loans and deposits that RBS plc lends and receives to facilitate short-term financing requirements. Instruments include certificates of deposit, commercial paper and other loans. They are typically short-term in nature with a duration of less than 12 months. They are unsecured instruments which means that RBS plc and the depositor have exposure to the creditworthiness of the entity that has borrowed the money.

7.5.2.1 Conclusion – Money Market loans and deposits

Where RBS plc has lent to a customer, there is no Adverse Effect as there is no credit exposure to RBS plc. Where RBS plc has borrowed from a customer, except for the matter considered in Section 7.5.1 above, I conclude that there is no Adverse Effect.

7.5.3 Derivative contracts

Derivatives are specific types of instruments that derive their value over time from the performance of an underlying asset, index or interest rate. A derivative is traded between two parties ("counterparties") who are subject to a pre-agreed set of terms and conditions that determine their rights and obligations.

In broad terms there are two groups of derivative contracts:

- Exchange-Traded Derivatives ("ETDs"). These are standardised contracts traded on a recognised exchange with the counterparties in due course being the holder and a Central Clearing counterparty ("CCP") nominated by the exchange; and
- Over-the-Counter Derivatives ("OTCs"). These are bespoke contracts traded off exchange (although often on a trading venue that is not an exchange) with specific terms and conditions determined and agreed by the buyer and seller counterparties. The parties to the OTCs will either be the original counterparties or the derivative may be given up to a CCP so that the derivative will be separated into two equivalent derivatives, each between one of the original counterparties and the CCP.

Central Clearing Counterparty (CCP)

A CCP is an organisation that provides clearing and settlement services and usually stands between counterparties to a derivative trade where both counterparties are member firms of that CCP. For example where RBS plc and counterparty X enter into a cleared derivative transaction between themselves, the CCP can step in and assume the legal counterparty risk for the trade. As a result the trade between RBS plc and Counterparty X becomes a trade between RBS plc and the CCP and another trade between the CCP and Counterparty X.

The contracts between RBS plc and CCPs are margined in that open positions are revalued and collateral is posted as required in order to reduce credit risk.

There are many types of derivative contracts including options, futures, forwards, swaps and swaptions. There are a number of underlying asset classes including interest rate, credit, foreign exchange, commodity and equity. A key feature of derivatives and also of Repos and securities lending is that they do not create the same sort of creditor/debtor relationship as, say, a loan. Rather, as rates and market prices vary over time, each of the parties may move in- or out-of-the-money, so that a counterparty against whom RBS has an exposure one day, equivalent to a debtor of RBS may become a counterparty that has an exposure to RBS the next day, equivalent to a creditor of RBS.

As there are no changes to the terms and conditions associated with these different types of contracts as a result of the Scheme, my primary focus has been to consider effects where counterparties have (or may have) an overall exposure to RBS plc through the derivative contract.

As such, I have split my analysis and conclusions with respect to the level of security that counterparties have against RBS in respect of such exposures:

Exchange traded

These contracts are traded by RBS plc on an exchange and cleared at a CCP so that they are between RBS and the CCP. These contracts are "margined" in that open positions are revalued on a regular basis and collateral is posted as required. Whilst there is some credit risk for the counterparty to RBS plc, as the CCP holds collateral and there is a regular margining process, I have concluded that there is no Adverse Effect as a result of the Scheme.

OTC – CCP cleared

Where an OTC is cleared at a CCP, whilst there is some credit risk for the CCP to RBS plc, as the CCP holds collateral and there is a regular margining process, I have concluded that there is no Adverse Effect as a result of the Scheme.

OTC – Collateralised Counterparties

Certain counterparties manage their counterparty credit risk through the use of collateralisation as agreed in credit support annexes ("CSAs") and other credit support documentation under International Swap and Derivative Association Master Agreements ("ISDAs") and other contractual arrangements having a similar effect. The level of collateralisation can vary by counterparty with some counterparties being strongly collateralised with daily postings of collateral to ensure that the full value of the derivative is covered. Some counterparties are more weakly collateralised whereby collateral is only posted above a certain threshold amount as agreed between the counterparties.

Whilst there is some credit risk for the counterparty to RBS plc where counterparties are fully collateralised, as collateralised counterparties hold collateral and there is a regular margining process, I have concluded that there is no Adverse Effect as a result of the Scheme. I do recognise that counterparties that are more weakly collateralised have less protection through the collateralisation process and as a result I consider the effect of the Scheme as similar to the effect on uncollateralised counterparties as considered below.

OTC – Uncollateralised Counterparties

Certain counterparties have no collateral arrangements. These counterparties can be exposed to the credit risk of RBS. I consider the effect of the Scheme as similar to the effect on holders of debt securities issued by RBS plc as considered in Section 7.5.1.

7.5.3.1 Conclusion – derivative contracts

As set out above, there are certain counterparties where I believe that there may be an Adverse Effect and for these counterparties my conclusion is set out in Section 7.5.1 above. Except for this matter, I have concluded that there is no Adverse Effect as a result of the Scheme.

7.5.4 Prime brokerage customers

Prime brokerage customers are typically RFIs who require a broad range of trading facilities provided by banks in order to facilitate their activities, such as borrowing money and securities and trading in derivatives. Whilst the agreement with the prime brokerage customer may be different to customers who have engaged with the bank directly in respect of any specific activity, the overall risks associated with these products are consistent with those I have discussed previously and therefore my conclusions in respect of the effect of the Scheme is consistent.

7.5.4.1 Conclusion – prime brokerage customers

Except for the matter set out in Section 7.5.1 above, I have concluded that there is no Adverse Effect as a result of the Scheme.

7.6 Effect analysis – infrastructure counterparties

In order to facilitate their market activities, RBS plc has relationships with a number of market infrastructure bodies, such as CCPs, exchanges, securities depositories, settlement systems, payment systems, correspondent banks and clearing brokers. I am satisfied that there will be no operational effect on these entities as a result of the Scheme as there will be no change to the nature of the relationship.

I have also considered whether there may be a detrimental effect as a result of a decline in the potential creditworthiness of RBS plc. The terms of RBS plc's relationship with these entities typically provide the counterparty with the ability to vary their terms, such as by imposing additional margin or other deposit requirements, in order to mitigate this. I am therefore satisfied that there is no Adverse Effect as a result of the Scheme. I note that there may be changes to these relationships as a result of other ring-fencing activities. However, as this is outside the scope of my Scheme Report, I have not considered whether this may result in an Adverse Effect.

7.6.1 Conclusion – infrastructure counterparties

As set out above, I have concluded that there is no Adverse Effect as a result of the Scheme.

7.7 Cross-stakeholder considerations – contractual matters

7.7.1 Effects of changes in credit rating

The legal due diligence has identified that there are certain agreements which allow a counterparty to terminate an agreement if the agreement is not transferred but RBS plc's credit rating falls below a certain level. These are designed as a contractually predetermined mitigant for counterparties.

The legal due diligence has also identified instances in certain agreements where a downgrade below a certain ratings threshold gives rise to ongoing obligations on RBS plc to take particular action (or a range of possible actions), for example the posting of collateral.

As stated above, there are many factors that credit rating agencies may take into account and as at the date of my Scheme Report I do not know what the future credit ratings of RBS plc will be and how and if the rating agencies will quantify the effect of the Scheme itself, as opposed to ring-fencing in totality.

However even if there was a credit rating downgrade of RBS plc and this was deemed to be caused by the Scheme rather than by activities designed to ensure compliance with ring-fencing requirements, I do not believe that the Scheme has an Adverse Effect in this respect as RBS has elected to preserve the rights (e.g. termination and other enforceable actions) that were contractually predetermined. Therefore the counterparty is not losing such rights as a result of the Scheme.

7.7.2 ISDA Master Agreement provisions

ISDA Master Agreements generally contain a number of termination provisions, including those which give counterparties the right to terminate contracts when certain creditworthiness or other related events occur. If these provisions would otherwise be triggered by the circumstances arising from the Scheme, the rights would not be enforceable as a matter of law.

RBS have concluded that there are no such ISDA termination events triggered as a result of transfers that will be effected through the Scheme. I have reviewed RBS's reasons for reaching this conclusion, including consideration of the legal advice received by RBS in respect of these matters. Based on this review I have concluded there is no Adverse Effect in this respect.

I have also considered the consistency of this conclusion with Section 7.5.1 where I have identified that there is some limited credit related effect for certain counterparties, for example those that hold RBS plc financial instruments at fair value.

However, the triggering of such ISDA provisions in respect of creditworthiness related events would require that RBS plc had become "materially weaker". I therefore believe that the effect of the Scheme which I have identified in Section 7.5.1 is consistent with RBS's determination that there are no such ISDA termination events.

As a result, I have concluded that there is no Adverse Effect in this respect.

7.7.3 Conclusion – cross-stakeholder contractual matters

For the reasons set out above, I am satisfied that there is no Adverse Effect as a result of the Scheme in respect of cross-stakeholder contractual matters.

7.8 Conclusion

Other than the matter set out in Section 7.5.1, I am satisfied that there are no Adverse Effects as a result of the Scheme in respect of customers remaining in RBS plc. In respect of the matter in Section 7.5.1, I am satisfied that the Adverse Effect is not likely to be greater than is reasonably necessary in order to achieve the specific purpose of enabling the transferee to carry on core activities as a ring-fenced body in compliance with the ring-fencing provisions (Section 106B(3)(b) of FSMA).

8 Effect on Existing Customers – Adam & Company and NatWest Plc

In this section I have considered the likely effect of the Scheme on the existing customers of Adam & Company and NatWest Plc that will not be transferred as part of the Scheme. I have considered the effects on services to customers and operational continuity and financial considerations. I have not set out my conclusions for all Stakeholders given the wide variety which are not being transferred. I have not identified any Adverse Effects for any Stakeholders which are not set out below.

8.1 Approach

I have considered how the Scheme affects the provision of services to customers and the operational continuity of such services. The factors I have considered include the effect on:

- Access to banking channels such as branch, internet, telephone, ATM, cheque books, safe custody;
- Access to relationship managers;
- Product or service operations: covering aspects such as sort codes, account numbers, login details, passwords, direct debits, standing orders and access to historic information; and
- Interaction with other products.

I have also considered the effect of the Scheme from a financial perspective. Factors I have considered include:

- Changes to contracted terms & conditions;
- Changes to contracted rates and fees;
- Changes to security of exposures such as security/collateral arrangements, financial strength of the entity providing a service; and
- Changes to other rights such as set-off rights and reward programmes.

8.2 Overview

In performing an analysis for customers that are remaining in an entity as opposed to those being transferred, my considerations are different.

There will be no change to the products that are offered to the customers of Adam & Company (which is a private bank), both with respect to the terms and conditions of the products offered and the customer journey. The Adam & Company PLC legal entity name will change to "The Royal Bank of Scotland plc" on the Effective Date. However as noted in Section 8.3.1 below, the Adam & Company brand will continue for existing Adam & Company customers and therefore I do not consider that this is an Adverse Effect. Overall I foresee no Adverse Effects of the Scheme on customers in respect of their customer journey and access to products.

My primary consideration has therefore been the potential effect of the Scheme on customers from a financial perspective. The transfer of the Covered Bonds Business, the Mentor Business and the property portfolio under the Scheme does not significantly change the business of NatWest Plc, however, the transfer of the retail and commercial banking elements results in a significantly different business model for Adam & Company. I have considered the effect of these moves on

different groups of customers. My analysis has focused on situations where Stakeholders are owed a debt from Adam & Company or NatWest Plc on the basis that where either of these banks is owed a debt from a Stakeholder, there is limited effect from the Scheme with the exception of set-off issues and other "windfall" rights acquired by RBS which are considered together in Section 9.

I note that NatWest Plc is rated, and recent ratings announcements have suggested that the rating will be either unchanged or one notch higher as a result of ring-fencing. RBS has also requested credit ratings for Adam & Company, which was previously unrated, taking into account the effects of both the Scheme and other ring-fencing changes. Two agencies have given Adam & Company a preliminary or expected rating on a par with NatWest Plc.

8.3 Effect analysis – Adam & Company - lending

Adam & Company offer a number of different lending products both secured and unsecured, such as mortgages, loans and credit cards.

In this section I summarise my conclusions relevant to lending products.

8.3.1 Service to customers and operational continuity

While considering the effect of the Scheme to lending customers, I have considered the following key factors:

- In a letter dated 4 October 2016 RBS management assured existing customers of Adam & Company that there will be no change to the brand, service levels, channels or customer facing relationship contacts within banking, financial planning or investment teams. Investment and financial planning will continue to be provided by Adam & Company Investment Management Limited which will reside within the RFB Subgroup;
- There are no plans for existing products and/or services to be withdrawn as a result of the Scheme. No change in levels of access to existing lending products is anticipated and the underwriting methodology will not change as a result of the Scheme;
- As no transfer of Existing Customers is taking place there will be no effect on funds held in accounts at the date of the Scheme. There are no planned changes to account details including sort codes and account numbers. Existing Customers will not need to change payment instructions such as direct debits and standing orders;
- Although Existing Customers will deal with an entity renamed as "The Royal Bank of Scotland plc", it will be the same legal entity as before the Scheme with the same company number. There will be no requirement for changes in contractual terms or related legal agreements such as legal title over security relating to mortgages and other lending products, with no requirement for updates to the England and Wales Land Registry and the Scottish Land Register;
- The Adam & Company brand will remain unchanged and will be included on all stationery, correspondence and payment collateral. The effect will be limited to the change to the company name that customers will see on documentation and electronic information;
- Customers will be able to continue using their payment collateral such as credit cards, and ATM access will not change following the Scheme;
- There will be no significant change to transaction recording or other IT systems;
- There will be no customer relationship changes as a result of the Scheme;
- Exclusivity of access to Adam & Company brand branches will remain unchanged. Transferring RBS brand customers⁵ will not have access to the Adam & Company branch facilities either before or after the Scheme and there will be no change to the branding or levels of branch service; and
- There will be no changes in access to customer channels such as branches, telephony, online and mobile access as a result of the Scheme. These customer channels will operate as previously and hence there will be no change to the service provided for example the provision

⁵ Customers of the brands "RBS", "Child & Co", "Holts" and "Drummonds".

of transaction or balance information, the administration of complaint procedures, the provision of payment services or access to these services for example passwords and other security details.

I note that RBS has the ability to make changes after the Scheme which may affect how the bank operates. Such decisions are driven by a wide variety of other factors and management of the bank can decide to change its strategy in the future. Whilst I have not seen any plans which indicate changes as a result of the Scheme, the bank may decide to change its strategy in the future and this is not something that I can comment on in my Scheme Report.

8.3.2 Financial considerations

While considering the effect on lending customers as a result of the Scheme, I have considered the following key factors from a financial perspective:

- There are no changes to terms and conditions and hence no financial effect in respect of the lending arrangements that customers have in place;
- As customers with lending arrangements owe a debt to Adam & Company, this debt would continue to exist even if Adam & Company were to default, and hence I do not consider that there is an Adverse Effect; and
- The Scheme does not have an Adverse Effect on customers' ability to draw upon previously agreed facilities.

Set-off issues and other "windfall" rights acquired by RBS across Stakeholder groups are considered in Section 9.

Whilst the implementation of the Scheme will not result in the customer being subject to different rates or charges when the transfer takes place and I have not seen any plans which indicate changes as a result of the Scheme, the bank may decide to change its strategy in the future and this is not something that I can comment on in this Scheme Report.

8.3.3 Conclusion

For the reasons set out above, I am satisfied that there is no Adverse Effect as a result of the Scheme in respect of existing customers of Adam & Company with lending products.

8.4 Effect analysis – Adam & Company – depositors

As noted earlier Core Deposits are deposits with a UK bank account in an account located in the EEA principally held by individuals and small businesses that, under the ring-fencing regulations are required to be provided by the RFB. They include multiple related products such as current accounts, instant access savings accounts, fixed term savings, and fixed term ISAs.

Services supporting deposit-taking involve facilities for:

- accepting of deposits or other payments into a bank account;
- withdrawing money or making payments from such an account; and
- providing an overdraft in connection with such an account.

8.4.1 Service to customers and operational continuity

I am satisfied that there is no Adverse Effect for customers with Core Deposits as a result of the Scheme.

My opinion is driven by the following key factors:

- There are no plans for existing products and/or services to be withdrawn as a result of the Scheme;
- As no transfer of Existing Customers is taking place there will be no effect on funds held in accounts at the date of the Scheme. There are no planned changes to account details including

sort codes and account numbers. Existing Customers will not need to change payment instructions such as direct debits and standing orders;

- Although Existing Customers will deal with an entity renamed as "The Royal Bank of Scotland plc", it will be the same legal entity as before the Scheme with the same company number. There will be no requirement for changes in contractual terms or related legal agreements;
- The Adam & Company brand will remain unchanged and will be included on all stationery, correspondence and payment collateral. The visible effect will be limited to the change to the company name that customers will see on documentation and electronic information;
- Customers will be able to continue using their payment collateral such as debit cards and chequebooks, and ATM access will not change following the Scheme;
- There will be no significant change to transaction recording or other IT systems;
- There will be no customer relationship changes as a result of the Scheme;
- Exclusivity of access to Adam & Company brand branches will remain unchanged. Transferring RBS brand customers⁶ will not have access to the Adam & Company branch facilities either before or after the Scheme and there will be no change to the branding or levels of branch service; and
- There will be no changes in access to customer channels such as branches, telephony, online and mobile access as a result of the Scheme. These customer channels will operate as previously and hence there will be no change to the service provided, for example the provision of transaction or balance information, the administration of complaint procedures, or the provision of payment services or access to these services for example passwords and other security details.
- Shared services will continue to be provided through a consistent shared operating model. Although NatWest Plc will become the provider of shared services rather than RBS plc, this represents a change in intra-group contracts. I do not consider that this will have an Adverse Effect on the delivery of services to Existing Customers of Adam & Company.

I note that RBS has the ability to make changes after the Scheme which may affect how the bank operates. Such decisions are driven by a wide variety of other factors and management of RBS can decide to change its strategy in the future. Whilst I have not seen any plans which indicate changes as a result of the Scheme, RBS may decide to change its strategy in the future and this is not something that I can comment on in my Scheme Report.

8.4.2 Financial considerations

I am satisfied that there is no Adverse Effect for customers with Core Deposits from a financial perspective as a result of the Scheme.

My opinion is driven by the following key factors:

- There will be no changes to account terms and conditions as a result of the Scheme;
- Customers will therefore continue to be on the same financial terms both before and after the Scheme. For example the interest rates that customers earn and the fees that customers pay will not change immediately after the implementation of the Scheme;
- I note that RBS has the ability to make changes after the Scheme which may affect how the bank operates including the setting of rates and charges. Such decisions are driven by a wide variety of factors and management of the bank can decide to change its strategy in the future. Whilst the implementation of the Scheme will not result in the customer being subject to different rates or charges when the transfer takes place and I have not seen any plans which indicate changes as a result of the Scheme, RBS may decide to change its strategy in the future and this is not something that I can comment on in my Scheme Report; and
- Similarly I note that the bank has the ability to make changes after the Scheme which may affect for example the products it offers. Where an Existing Customer is contracted to a

⁶ Customers of the brands "RBS", "Child & Co", "Holts" and "Drummonds".

product, for example a fixed rate deposit, these contractual terms are unchanged by the Scheme. RBS may decide in the future not to offer this product when existing contracts have matured and such a decision could be driven by a wide variety of other factors.

In making my assessment I have split customers into the following categories:

- Balances covered by FSCS protection; and
- Balances above the level of FSCS protection.

Balances covered by FSCS protection

For existing Adam & Company customers who do not have an account at RBS plc and have balances below £85,000 which are covered by the FSCS protection, I am satisfied that there is no financial detriment as, even if Adam & Company were to default, which I have considered below, the deposits of these customers would be protected by the FSCS provisions.

My conclusions in respect of Existing Customers with deposits held at both RBS plc and Adam & Company who currently benefit from FSCS protection on both accounts are set out in Section 5.3.2. Having considered the financial strength of Adam & Company and the fact that potentially affected customers will be offered the opportunity to maintain their FSCS protection should they wish, I do not consider that the Scheme results in an Adverse Effect in this respect.

Balances above FSCS protection levels

In relation to balances above £85,000, I am satisfied that there is no Adverse Effect from a financial perspective. Financial effects are discussed further in Section 10. In summary, I have reached this conclusion based on the following key considerations:

- Adam & Company is a regulated entity and licensed bank and hence subject to regulatory capital and liquidity requirements. On both these measures, RBS's financial projections after the Scheme indicate that a surplus above regulatory requirements exists as at the date of the Scheme and in the future period considered by RBS management; and
- Following the Scheme, Adam & Company will remain a subsidiary of RBS plc and will continue to benefit from a CSD with other members of the RBS Group, whereby capital support will be provided to fellow entities of the RBS Group if required and available. As set out in Section 10 below, later in 2018 after the Scheme takes effect, a separate group restructuring is planned. Should this occur as planned, Adam & Company will then benefit from a replacement capital support arrangement with other members of the RFB Subgroup, including NatWest Plc, providing capital support if required and available. RBS's financial projections indicate that there will be a surplus above regulatory requirements at the RFB Subgroup level.

I have also considered the effect of the Scheme on the creditor hierarchy. Due to the fact that there are new capital instruments being introduced as set out in Section 10 and the fact that there will be a greater level of other creditors in Adam & Company following the Scheme, I do not consider there to be an Adverse Effect from the Scheme in this regard.

Set-off issues across Stakeholder groups including Existing Customers of Adam & Company are considered in Section 9 of this Scheme Report.

8.4.3 Conclusion – Adam & Company

For the reasons set out above, I am satisfied that there is no Adverse Effect as a result of the Scheme in respect of existing customers of Adam & Company with Core Deposits or Other Deposits.

8.5 Effect analysis – NatWest Plc – all products

8.5.1 Service to customers and operational continuity

I am satisfied that there is no Adverse Effect for NatWest Plc customers as a result of the Scheme.

My opinion is driven by the following key factors:

- As no transfer of Existing Customers is taking place there will be no effect on funds held in accounts at the date of the Scheme. There are no planned changes to account details including sort codes and account numbers and no need to change payment instructions such as direct debits and standing orders;
- There is no change in legal entity, name or branding. As such there will be no requirement for any change in contractual terms including related legal agreements, stationery or payment collateral;
- Operationally NatWest Plc will not be significantly affected by the Scheme. With the exception of counterparty relationships in relation to the Covered Bond Business and customers of the Mentor Business, all Transferring Customers are transferring to Adam & Company and so there will be no significant change in the volume of customer transactions or the level of shared services consumed by NatWest Plc, and no change in the IT system population or architecture; and
- Shared services will continue to be provided through a consistent shared operating model. Although NatWest Plc will become the provider of shared services rather than RBS plc, this represents a change in intra-group contracts. I do not consider that this will have an Adverse Effect on the delivery of services to Existing Customers of NatWest Plc.

8.5.2 Financial considerations

I am satisfied that there is no Adverse Effect for NatWest Plc customers from a financial perspective as a result of the Scheme.

My opinion is driven by the following key factors:

- NatWest Plc is a regulated entity and licensed bank and hence subject to regulatory capital and liquidity requirements. On both these measures, RBS's financial projections indicate that a surplus above regulatory requirements exists as at the Effective Date and in the future period thereafter considered by RBS management; and
- Following the Scheme, NatWest Plc will remain a subsidiary of RBS plc and will continue to benefit from a CSD with other members of the RBS Group, whereby capital support will be provided to fellow entities of the RBS Group if required and available. As set out in Section 10 below, later in 2018 after the Scheme takes effect, a separate group restructuring is planned. Should this occur as planned, NatWest Plc will then benefit from a replacement capital support arrangement with certain other members of the RFB Subgroup, providing capital support if required and available. RBS's financial projections indicate that a surplus above regulatory requirements at the RFB Subgroup level.

8.5.3 Conclusion – NatWest Plc

For the reasons set out above, I am satisfied that there is no Adverse Effect as a result of the Scheme in respect of existing NatWest Plc customers.

8.6 Conclusion

For the reasons set out above I am satisfied that there are no Adverse Effects as a result of the Scheme in respect of existing customers of Adam & Company and NatWest Plc.

9 Cross-Stakeholder considerations

In this section, I consider the effect of the Scheme on other Stakeholders and in situations where Stakeholders may have multiple connections across products and legal entities.

9.1 Set-Off

Stakeholders may have multiple connections with the RBS Group. The Scheme will potentially change the profile of the exposures that a customer or counterparty has to different legal entities. As such, I have considered the effect of these changes:

- If the customer or counterparty is unable to pay a debt; or
- If RBS plc, Adam & Company or NatWest Plc becomes insolvent.

9.1.1 Customer/ counterparty set-off – additional set-off rights for RBS

A bank set-off right is the right of a bank, in certain circumstances, to apply a liability owed by it to a customer for instance an obligation to repay money deposited with it, such as in a deposit account, against a debt the same customer owes that becomes repayable, such as under a loan.

There could be situations where following the Scheme additional set-off rights are created for the RBS Group companies. For example this could occur where before the Scheme, Adam & Company was owed a debt from a customer and RBS plc owed a debt to the customer. Before the Scheme no set-off would generally be available under many statutory insolvency set-off regimes owing to a lack of mutuality. However following the Effective Date and the implementation of the Scheme, the requisite mutuality would be created whereby set-off of the two claims could often be possible in an insolvency of the customer. This could leave the RBS Group with a set-off right in insolvency which it otherwise would not have had.

As the RBS Group has decided to waive these additional rights for a period, I have concluded that there is no Adverse Effect to the customer as a result of the Scheme. The Scheme Document states that after the Effective Date, for a period of three months, Adam & Company will not be able to exercise these additional rights, for example to apply money deposited in savings or current accounts transferred to it from RBS plc as a consequence of the Scheme to pay debts on existing Adam & Company mortgages or loans, or use money deposited in existing Adam & Company savings or current accounts to pay debts of mortgages or loans transferred to it from RBS plc as a consequence of the Scheme. I note that the Scheme Document will not restrict set off rights where, immediately before the Effective Date, a customer has accounts with RBS plc only or where the agreement permits set-off between accounts held with RBS plc and accounts held with Adam & Company.

The decision to waive these additional rights for three months is in line with precedent in certain other banking business transfer schemes under Part VII of FSMA. On the basis that such a period of time should allow customers to rearrange banking arrangements, and that RBS will permit customers affected by this additional set-off right to withdraw their deposits, including terminating fixed term deposits at no charge in this period, I have concluded that there is no Adverse Effect in this respect.

9.1.2 Customer/ counterparty insolvency – loss of set-off rights for RBS Group

There could be situations where, following the Scheme, the RBS Group has reduced set-off rights in the event of the customer becoming insolvent. For example this could occur in a scenario where RBS plc had a debt owed from the customer such as a derivative, and owed a debt to the customer such as a deposit. If through the Scheme the debt owed to the customer is transferred to Adam & Company, then in the event of insolvency of the customer RBS plc would generally not have the direct benefit of this amount which would previously have been set-off against the debt owed to RBS plc.

RBS has performed analysis of customers in difficulties which also have a derivative position where the mark-to-market valuation is in favour of the customer. This analysis shows that the impact of this loss of set-off would be de minimis, and as a result I do not consider that there is an Adverse Effect for Stakeholders in this respect.

9.1.3 Insolvency or resolution of RBS Group companies – loss of customer set-off rights

There could be situations where following the Scheme, customers lose set-off rights in the event of insolvency or resolution of companies in the RBS Group. For example, pre-Scheme, a customer could have a debt owed by RBS plc and a debt owed to RBS plc. As a result of the Scheme, a debt owed to RBS plc, such as a loan could be transferred to Adam & Company whilst the debt owed by RBS plc such as a derivative is not. If the event of insolvency or resolution of RBS plc, the customer would still owe the debt to Adam & Company but may not be able to offset the amount owed from RBS plc.

I have assessed below situations where customers have contracted for set-off rights and situations where no contractual set-off exists.

Contractual set-off

In respect of situations where customers have contracted for set-off rights, I do not consider that the Scheme would lead to an Adverse Effect. RBS has performed an analysis and have identified that there is a small number of such customers. I have discussed this with the RBS's management and have been informed that they intend to contact each of these customers as the mitigation, if required, will be tailored to the particular circumstances (see Section 15). I also note that contractual set-off would only be exercisable in the event of the default of the relevant legal entities, which I do not consider to be probable.

Non-contractual set-off

Where a customer has no contractual rights of set-off, the general insolvency law of England & Wales will still in some circumstances allow (and indeed require) set-off of reciprocal claims between a customer and an entity. There are equivalent statutory set-off rules in the modified forms of insolvency/resolution proceedings which can also apply to banks under the Banking Act 2009. English statutory insolvency set-off rules rely on the concept of "mutuality". This requires that there have been "mutual credits, mutual debts or other mutual dealings between the company and any creditor of the company proving or claiming to prove for a debt" in liquidation or administration. Therefore if the Scheme results in a debt owed by a customer to an entity to be separated from the debt owed from that entity, mutuality would no longer exist.

For there to be a financial detriment to customers in this respect:

- the RBS entity would have to be put into insolvency or resolution;
- the Stakeholder would itself still be solvent at the time that the RBS entity defaulted; and

- at the time of the RBS entity default, there would have to be debts owed to that entity from the customer which could have been offset against debts owed from the entity which could have been offset if the Scheme had not occurred.

I do not consider that these events are more probable than not to occur. In particular I note that I do not consider that it is more probable than not that the RBS entity will be put into insolvency, and in any event since the introduction of the Banking Act 2009, it is likely that other methods (such as the bail-in of liabilities) may be used rather than a traditional insolvency or administration proceeding. In addition I note that many Stakeholders would be considered more likely to default than a regulated bank and the fact that often set-off issues are linked to derivative positions that Stakeholders have with RBS plc. At the date of this Scheme Report, in many instances there is no such set-off position as the current value of outstanding derivative positions is more often in favour of RBS. I note that this could change in the future.

As well as the above situation being unlikely, I have considered the fact customers did not originally negotiate such express contractual arrangements.

Having taken all these factors into account, I do not consider there to be an Adverse Effect for customers in this respect.

9.1.4 Disapplication of netting and set-off rights

Under ring-fencing legislation, from 1 January 2019 a bank is prohibited from being party to arrangements where a counterparty has a right of set-off between liabilities owed to a ring-fenced bank and a claim on a non-ring-fenced bank.

In order to address this restriction, the Scheme will amend any set-off or netting provision that would allow a counterparty to agreements transferring under the Scheme or agreements remaining with RBS plc to set off amounts due to it from RBS plc (or any other entity outside the RFB Subgroup) against amounts that it owes to Adam & Company, NatWest Plc or any other member of the RFB Subgroup such that, from 1 January 2019, any such set-off arrangement or netting provision will no longer apply.

If such rights were to exist at 1 January 2019, RBS would be in breach of the ring-fencing legislation. The Scheme is being used to ensure that any such counterparty rights will no longer apply from 1 January 2019. RBS have identified four such contractual arrangements to which this amendment would apply, however none hold positions to which this would be applicable. Notwithstanding this, RBS have detailed this matter in their Scheme communications and have invited any potentially affected counterparties to contact RBS in order to discuss this.

9.2 Shared security

Certain customers have granted security to RBS plc which covers more than one exposure for example as both security for loans from RBS plc and derivatives with RBS plc. In the event of default or insolvency of the customer, this security would be enforceable by RBS plc with respect to the total amount of the secured exposure.

Following the Scheme, the total secured exposure of certain customers will be split between Adam & Company and RBS plc with, for example, the loan transferring to Adam & Company and the derivative remaining in RBS plc. However there will be an amendment, under the Scheme, to ensure that such security secures the total exposure for the RBS Group, even if owed to multiple companies after the Scheme and there will be an inter-creditor agreement which will set out the treatment to be followed between RBS plc and Adam & Company or other relevant RBS Group creditors. As a result I have concluded that there is no Adverse Effect on the relevant Stakeholders:

- From a customer perspective, neither the total amount of the security nor the amount owed will change, although it will be owed to a greater number of companies. Whilst there may be now two parties with differing objectives who may exercise these rights, the total amount of the security will not change;

- No significant additional obligations will be imposed on the customer under either the security agreement or the inter-creditor agreement; and
- From the perspective of RBS plc and Adam & Company, their aggregate commercial position will be unchanged before and after the Scheme as they will, between them, have the benefit of the same security for the same exposures. As between each other, the benefit of such security will be shared proportionately by reference to each entity's secured exposures, and so their proportionate recovery on the security will be unchanged before and after the Scheme, although the inter-creditor agreement will contain some new inter-creditor provisions on arm's length terms as required under ring-fencing legislation.

I have relied upon legal advice provided to RBS in relation to the proposed shared security mechanism.

9.3 All monies

An "all monies" clause allows a mortgage or charge to be used as security for all debts owed to the lender, not just the specific loan or mortgage. A provision has been made in the Scheme Document for such arrangements as, after the Effective Date, all monies clauses in existing Adam & Company agreements will not apply to debts transferred from RBS plc and all monies clauses in agreements transferred from RBS plc will not apply to existing debts owed to Adam & Company or new Adam & Company unsecured debts incurred after the Effective Date under existing Adam & Company agreements (unless the terms on which debts are contracted specifically state that they are so secured). I have therefore concluded that there is no Adverse Effect of the Scheme in this respect.

9.4 Consolidation rights

A "consolidation clause" permits a lender to retain the security until all debts owed to the lender have been repaid. A provision has been made in the Scheme Document for such arrangements as, after the Effective Date, consolidation clauses in existing Adam & Company agreements will not apply to prevent the release of the security until all obligations have been satisfied under any loan or other obligation transferred from RBS plc. Equally consolidation clauses in agreements transferred from RBS plc will not apply to prevent the release of the security until all obligations have been satisfied under any existing lending provided by Adam & Company, unless the terms of the agreement permits consolidation between agreements with RBS plc and agreements with Adam & Company. I have therefore concluded that there is no Adverse Effect of the Scheme in this respect.

9.5 Cross-default

A "cross-default" clause provides for a customer to be automatically in breach of the borrowing or account terms and conditions if in breach of certain other agreements. This may give rise to a right of early termination or a right to demand early repayment of any sum due to the bank. The Scheme Document states that, after the Effective Date, where a customer has products with both RBS plc and Adam & Company, one of which contains a cross-default right, unless it would have done so prior to the Effective Date, a breach of an existing Adam & Company agreement will not give rise to a breach of any transferred RBS plc agreement; and unless it would have done so prior to the Effective Date, a breach of a transferred RBS plc agreement will not give rise to a breach of any existing Adam & Company agreement. I note that the Scheme Document will not restrict cross-default rights where, immediately before the Effective Date, the relevant agreement would treat a breach of an agreement with the other bank as being a breach of that agreement. I have therefore concluded that there is no Adverse Effect of the Scheme in this respect.

9.6 RBS pension schemes

9.6.1 Introduction

I have considered whether RBS's pension schemes are likely to be adversely affected by the Scheme. For this purpose, I have considered the Stakeholders to be:

- the beneficiaries of the RBS pension schemes – that is anyone who is entitled to, or who might receive, a benefit from the scheme, now or in the future. The benefits that the beneficiaries receive will ultimately rely on funding from the sponsoring companies; and
- the pension trustees – in line with their fiduciary duties, the trustees are responsible for governing the scheme in line with the trust deed and rules and acting in the best interest of scheme beneficiaries. The trustees' responsibilities include the investment of scheme assets and ensuring that contributions are paid on time, and are sufficient for the requirements of the scheme.

RBS operates a number of defined benefit ("DB") and defined contribution ("DC") pension arrangements:

9.6.1.1 DB pension arrangements

Under a DB pension scheme, the member receives a specific retirement benefit amount which is usually based on salary and years of service. Employee members generally pay a specified contribution whilst the sponsoring companies meets the balance of the cost, and therefore bears the funding risks of ensuring benefits are able to be paid to the beneficiaries.

RBS operates a number of DB pension arrangements. These include:

- The Royal Bank of Scotland Group Pension Fund ("RBSG Pension Fund"), a UK pension scheme which has two sections: "the Main Section" and the "AA Section". As at April 2017, the RBSG Pension Fund had c 213,800 members, of whom around 20,500 were active members. NatWest Plc is Principal Employer of both sections (by virtue of being Principal Employer of the overall Group Fund trust) and there are various sponsoring companies to the RBSG Pension Fund, including NatWest Plc, RBS plc and Adam & Company in the Main Section and RBS plc in the AA Section (noting that NatWest Plc is not a sponsoring company to the AA Section).
- The Ulster Bank Pension Scheme ("UBPS"), a UK pension scheme with c 4,600 members as at April 2017, of whom around 1,200 were active members. The Principal Employer and main Participating Employer is Ulster Bank.
- The Royal Bank of Scotland International Pension Trust ("RBSIPT"), a Jersey pension scheme, with c 3,100 members as at April 2017, of whom around 450 were active members. The Principal Employer is RBS plc and the only Participating Employer is RBS International Limited.
- The Ulster Bank Pension Scheme RoI ("UBRoI"), a pension scheme in RoI with c 5,700 members as at April 2017, of whom around 1,750 were active members. The Principal Employer and main Participating Employer is Ulster Bank Ireland DAC. Other Participating Employers include Ulster Bank Commercial Services Limited, Ulster Bank Wealth and Lombard & Ulster Banking Limited.
- Pensionskasse der Coutts & Co AG ("Coutts Switzerland Pension Fund"), where Coutts is the primary entity involved in the scheme. RBS plc also participates in the scheme, although to a lesser degree. Once these entities cease to have any employees that participate in the fund, expected to be before the end of 2017, the entities will no longer have any legal obligation to the fund.
- other global schemes, notably in the USA. Most of RBS's overseas employees are employed by branches of RBS plc.

Previously, RBS operated DB pension arrangements in the Netherlands. However, in Q1 2017, RBS entered into an agreement with an insurer to settle these arrangements. The liability for these plans is due to be extinguished by Q4 2017.

To the extent that these DB pension schemes rely on the various sponsoring companies to fund any shortfall now and in the future, Stakeholders would be concerned if the Scheme adversely affected the ability of the sponsoring companies to fund these pension schemes.

Table 9-1 shows the last triennial actuarial valuation of the DB pension schemes and their surpluses or deficits:

Funding £m	Main Section Dec 15	AA Section Dec 15	UBPS Dec 15	RBSIPT Mar 15
Assets	30,793	897	912	499
Liabilities	(36,654)	(892)	(921)	(584)
Surplus/ (deficit)	(5,861)	5	(9)	(85)

Table 9-1: Summary of RBS DB pension scheme funding position

Source: Management information provided by RBS

In January 2016, RBS entered into a Memorandum of Understanding ("MoU") with the trustee of the RBS Pension Fund ("RBS Pension Trustee") by which it was agreed, among other things, for:

- RBS plc to pay £4.2 billion into the Main Section of the RBS Pension Fund; and
- the RBS Pension Trustee to act 'reasonably and in good faith' when considering any proposal (including any apportionment proposal) relating to RBS's banking reform requirements.

9.6.1.2 DC pension arrangements

Under a DC pension scheme, contributions from the employee member and sponsoring company are paid in to an investment account which is used to provide benefits to the member on retirement. Since there is no funding risk to the sponsoring company in relation to DC pension arrangements, I do not consider that the Scheme has an Adverse Effect on the DC Stakeholders. Accordingly, in my view, it is only the DB Stakeholders that should be considered for the purposes of this Scheme Report.

9.6.2 Approach to assessment of the effect of the scheme

In assessing whether RBS's DB pension schemes are likely to be affected by the Scheme, I have considered whether the Scheme is expected to significantly weaken the financial ability of the sponsoring employers to honour their obligations to the pension schemes.

I have addressed this by analysing separately for each of the main DB pension schemes:

- the effect of the transfer of business from RBS plc to Adam & Company under the Scheme; and
- the effect of the transfer of business from RBS plc to NatWest Plc under the Scheme.

My analysis assumes that the businesses continue to operate as a "going concern". In performing my analysis, I have taken into account the effect of the Scheme by reference to the following factors:

- the legal entities to which the pension schemes have access, through the contractual obligations of these entities as Participating Employers;
- the standalone financial position of the Participating Employers, and accordingly the level of assets and associated earnings available to support the pension schemes; and
- the consolidated financial position of the Participating Employers, reflecting that it is reasonable in a "going concern" to assume that Participating Employers can access the assets and earnings generated in its subsidiaries.

I have not considered the effect of the Scheme on the theoretical return to the pension schemes in an insolvency. I would view this as an event that is not probable, noting that were the Participating

Employers to encounter severe distress, the most likely initial remedy would be a bail-in of unsecured creditors. Under legislation, obligations to pension schemes are excluded from bail-in.

9.6.3 Effect of the Scheme on the RBSG Pension Fund

9.6.3.1 Transfer of business from RBS plc to Adam & Company

The proposed transfer of business is between the two Participating Employers of the Main Section of the RBSG Pension Fund: RBS plc and Adam & Company. RBS plc is a parent company of Adam & Company, and this ownership will not change under the Scheme. Consequently, the Main Section of the RBSG Pension Fund continues to have direct access to the combined assets and earnings of both RBS plc and Adam & Company in respect of their obligations to the RBSG Pension Fund.

Accordingly, whilst the individual financial position of RBS plc and Adam & Company is affected as a result of the Scheme, the overall asset base and earnings potential supporting the Main Section of the RBSG Pension Fund do not, in my view, suffer an Adverse Effect, with the RBSG Pension Fund retaining access to the transferred assets.

Based on these factors and my assessment of the effect of the Scheme on the combined financial position of both RBS plc and Adam & Company set out in detail in Section 10 (Financial Considerations), I am satisfied that the Scheme will not cause an Adverse Effect on the Main Section of the RBSG Pension Fund.

In respect of the AA Section of the RBSG Pension Fund, the transfer of business and assets to Adam & Company results in this section losing direct access to the transferred assets. This is because Adam & Company is not a Participating Employer to the AA Section. However, it is reasonable to assume that the AA Section will retain indirect access to these transferred assets (and associated earnings) in a going concern because Adam & Company is a subsidiary of RBS plc, which is a Participating Employer. The consolidated financial position of RBS plc does not suffer an Adverse Effect.

Accordingly, I am therefore satisfied that the Scheme will not cause an Adverse Effect on the AA Section of the RBSG Pension Fund.

9.6.3.2 Transfer of business from RBS plc to NatWest Plc

The proposed transfer of business is between two Participating Employers of the Main Section of the RBSG Pension Fund: RBS plc and NatWest Plc. RBS plc is a parent company of NatWest Plc, and this will not change under the Scheme. Consequently, the Main Section of the RBSG Pension Fund continues to have direct access to the combined assets and earnings of both RBS plc and NatWest Plc in respect of their obligations to the RBSG Pension Fund.

In respect of the AA Section of the RBSG Pension Fund, the transfer of business and assets to NatWest Plc results in this section losing direct access to the transferred assets. This is because NatWest Plc is not a Participating Employer to the AA Section. However, it is reasonable to assume that the AA Section will retain indirect access to these transferred assets and associated earnings in a going concern because NatWest Plc is a subsidiary of RBS plc, which is a Participating Employer. The consolidated financial position of RBS plc does not suffer an Adverse Effect.

Accordingly, whilst the individual financial position of RBS plc and NatWest Plc is affected as a result of the Scheme, the overall asset base and earnings potential supporting the Main Section and AA Section of the Fund does not, in my view, suffer an Adverse Effect, with the Fund retaining access to the transferred assets.

Based on these factors and my assessment of the effect of the Scheme on the combined financial position of both RBS plc and NatWest Plc set out in detail in Section 10 (Financial Considerations), I am satisfied that the Scheme will not cause an Adverse Effect on the Main Section or the AA Section of the RBSG Pension Fund.

9.6.4 Effect of the Scheme on the UBPS

I have considered the effect of the Scheme on the ongoing ability of Ulster Bank to honour its obligations as the main Participating Employer to the UBPS. I do not expect the financial position of Ulster Bank to suffer an Adverse Effect as a result of the Scheme.

Accordingly, I am satisfied that the Scheme will not cause an Adverse Effect on the UBPS.

9.6.5 Effect of the Scheme on the RBSIPT

I have considered the effect of the Scheme on the ongoing ability of RBS International Limited to honour its obligations as the sole Participating Employer to the RBSIPT. RBS have confirmed that RBS plc has no statutory liability to the RBSIPT, despite being named as the Principal Employer. In addition, I do not expect the financial position of RBS International Limited to suffer an Adverse Effect as a result of the Scheme.

Accordingly, I am satisfied that the Scheme will not cause an Adverse Effect on the RBSIPT.

9.6.6 Effect of the Scheme on the UBRoI

I have considered the effect of the Scheme on the ongoing ability of Ulster Bank Ireland DAC to honour its obligations as the main Participating Employer to the UBRoI and on the various other Participating Employers.

I do not expect the financial position of Ulster Bank Ireland DAC or the various other Participating Employers to suffer an Adverse Effect as a result of the Scheme. Accordingly, I am satisfied that the Scheme will not cause an Adverse Effect on the UBRoI.

9.6.7 Effect of the Scheme on the other global DB pension schemes

9.6.7.1 Coutts Switzerland Pension fund

I have considered the effect of the Scheme on the ongoing ability of Coutts & Company to honour its obligations as the primary entity supporting the Coutts Switzerland Pension Fund. I do not expect the financial position of Coutts to suffer an Adverse Effect as a result of the Scheme.

RBS plc also participates in the fund (although to a lesser degree compared to Coutts). Whilst the pension scheme would lose direct access to the assets transferred from RBS plc, it is not unreasonable to assume that they will retain indirect access to these assets and associated earnings in a going concern because the consolidated financial position of RBS plc does not suffer an Adverse Effect as a result of the Scheme.

Accordingly, I am satisfied that the Scheme will not cause an Adverse Effect on the Coutts Switzerland Pension Fund.

9.6.7.2 Other overseas pension schemes

Other overseas pension schemes are supported by RBS plc, although the nature of RBS plc's obligation varies according to the jurisdiction. In any event, whilst the pension schemes would lose direct access to the assets transferred from RBS plc, it is not unreasonable to assume that they will retain indirect access to these assets and associated earnings in a going concern because the consolidated financial position of RBS plc does not suffer an Adverse Effect as a result of the Scheme.

Accordingly, I am satisfied that the Scheme will not cause an Adverse Effect on these other overseas pension schemes.

9.6.8 Events subsequent to the Scheme

Subsequent to the Scheme, there are a number of group restructuring events planned including the reduction of capital of RBS plc and dividend in specie of a number of its subsidiaries, including NatWest Plc and Adam & Company, that I have summarised in Section 3.3.

I also note that it is envisaged that RBS will need to comply with its obligations under the Financial Services and Markets Act 2000 (Banking Reform) (Pensions) Regulations 2015 (the "Banking Reform Pensions Regulations") whereby a bank's pension scheme, or section of a scheme, cannot sit across the RFB and NRFB.

RBS envisages that this will ultimately be achieved by NatWest Plc and Ulster Bank becoming the only Participating Employers of the Main Section of the RBSG Pension Fund and RBS plc becoming the sole Participating Employer in the AA Section of the RBSG Pension Fund from a date to be determined between 1 January 2019 and 1 January 2026.

The Scheme does not directly affect the future events outlined above. Within this section of the Scheme Report, I have only commented on the effect of the Scheme and I have not commented in detail on any potential effect of these future events.

9.6.9 Conclusion - pensions

I am satisfied that RBS's pension schemes will not suffer an Adverse Effect as a result of the Scheme.

9.7 Employees of RBS plc, NatWest Plc & Adam & Company

I have considered whether employees of RBS plc are likely to be adversely affected by the Scheme.

At present most entities in the RBS Group outsource their staffing requirements in Great Britain to RBS plc which provides employees to them. The majority of the RBS Group employees are therefore currently employed by RBS plc with a relatively small number of employees employed by other entities of the RBS Group. At the same time as the Effective Date, the majority of the employees destined for the RFB Subgroup are expected to transfer to NatWest Plc which will become the main employing entity for the RFB Subgroup (for itself and as the provider of shared services to the RFB Subgroup and the entities outside the ring-fence).

This transfer will occur on the basis of a "service provision change" under the Transfer of Undertakings (Protection of Employment) Regulations 1981 ("TUPE Regulations"). There will be a termination of existing service provider arrangements between RBS plc and other relevant group companies, and NatWest Plc will be appointed the new employment services provider for the relevant entities within the RFB Subgroup, including shared service staff.

This change in service provision is planned to occur at the same time as the Effective Date. However, whilst the timing will be the same, the Scheme itself does not cause the change in employment entities and therefore does not have any direct effect on the employment of RBS staff. All staff transfers will occur separately and are outside the scope of the Scheme. Individuals will continue to support the business units and functions that they supported prior to the Scheme despite the fact that the Scheme (and other ring-fencing related reorganisation) will move those business units and functions into the RFB Subgroup.

The TUPE Regulations preserve employees' terms and conditions with employees becoming employees of NatWest Plc on the same terms and conditions. RBS is informing, and, as required, consulting with Unions and other employee-representative bodies about the proposed transfers of employees in Great Britain to NatWest Plc.

Based on my assessment of the effect of the Scheme on the financial position of RBS plc, NatWest Plc and Adam & Company as set out in more detail in Section 10 (Financial considerations), I am satisfied that the Scheme will not cause an Adverse Effect for employees.

I have assumed for the purposes of this Scheme Report that the employment changes proceed as planned following the required consultations.

I have relied upon legal advice provided to RBS in relation to the legal analysis of the employee TUPE transfers.

9.8 Suppliers

Under the proposed ring-fenced structure, a new operating model is being established which complies with ring-fencing regulatory requirements that take effect at the beginning of 2019. From this time the central service vehicle for the RBS Group will be NatWest Plc, which will contract with the vast majority of external suppliers and service providers. RBS is implementing these changes by direct agreement with each supplier or service provider, separate from and outside of the scope of the Scheme. This exercise began in 2017 and is expected to continue during 2018.

The Scheme therefore does not have any direct effect on supplier contracts. Based on my assessment of the effect of the Scheme on the financial position of RBS plc, NatWest Plc and Adam & Company as set out in more detail in Section 10 (Financial Considerations), I do not consider that the Scheme results in an Adverse Effect on suppliers.

9.9 RBSG plc shareholders

Numerous factors influence the share price of an entity and share prices take into account expectations in respect of future performance and events. The ring-fencing requirements which come into effect at the end of 2018 have been a matter of public knowledge for some time, as are some of the expected costs of ring-fencing which as set out in the Independent Commission on Banking ("ICB") Final Report Recommendations of September 2011 include increased funding costs for banking groups and the cost of implementation itself. Therefore it is my expectation that the share price will have taken some account of these events.

The Scheme itself is only one part of ensuring compliance with the ring-fencing legislation and due to the forward looking nature of a share price, I do not consider it possible to separate and quantify any effect that the Scheme would have although I note that by itself, it largely results in a transfer of assets and liabilities between RBS Group companies. Therefore I do not consider that the Scheme has an Adverse Effect on RBSG plc shareholders.

9.10 RBSG plc bondholders

As the Scheme itself is only transferring businesses between underlying RBS Group companies, I do not consider that the Scheme itself has an Adverse Effect on RBSG plc bondholders.

9.11 Litigants and other claimants against RBS

Under the Scheme any litigation or claim that is associated with a transferring business, asset or liability will transfer from RBS plc with the business, assets or liabilities to the relevant recipient entity (either Adam & Company or NatWest Plc). Any claim relating to a non-transferring business, asset or liability will remain in RBS plc. This approach is set out in the Scheme Document and will also be explained to Stakeholders in the Scheme communications (as covered in Section 15 - Communications).

Based on my assessment of the effect of the Scheme on the financial position of RBS plc, NatWest Plc and Adam & Company as set out in more detail in Section 10 (Financial Considerations), I do not consider that the Scheme results in an Adverse Effect on litigants that are being transferred to Adam & Company or those that remain in RBS plc or NatWest Plc.

9.12 Transferring property

There are approximately 700 properties that RBS intends to transfer to Adam & Company and NatWest Plc as part of the Scheme. These properties are a combination of both freehold and leasehold, and predominantly constitute branches, office buildings and shared service centres.

As a result of the Scheme, Adam & Company will receive the following from RBS plc:

- All RBS branches in Scotland, England and Wales. These properties are a combination of both freehold and leasehold;
- All corporate offices in Scotland. These properties are a combination of both freehold and leasehold; and
- All Holt's, Child & Co and Drummonds branches in England. These properties are all leasehold.

As a result of the Scheme, NatWest Plc will receive the following from RBS plc:

- All NatWest branches in England and Wales. These properties are a combination of both freehold and leasehold;
- All corporate offices in England and Wales. These properties are all leasehold; and
- All shared services buildings in Scotland, England and Wales. These properties are a combination of both freehold and leasehold.

9.12.1 Transfer of leasehold property

In most property leases the lessor has a right to consent to any proposed reassignment. For any of the transferring leases where consent is required, the Scheme will legally transfer the leases to either Adam & Company or NatWest Plc without the need for consent from the lessor.

Although overriding of the need for consent could potentially deprive a lessor of an opportunity to renegotiate the terms of the lease or request a fee or higher rent in return for their consent, I do not consider the lessor to be suffering an Adverse Effect. Following the Scheme the lessor is no worse off: the terms of the lease agreement are unchanged both in terms of value and duration, and the new lessee is an entity with a sound financial position and credit rating at least equal to that of the original lessee.

9.12.2 Transfer of freehold property – Adam & Company

The properties transferring to Adam & Company are considered to be part of the transferring business, and as a result, as with other assets and liabilities that are being transferred, the transfers will occur at book value. A key element of the decision to transfer the properties at book value is RBS's interpretation of accounting guidance on intergroup transfers. I have considered the effect of the movement at book value rather than fair value in Section 7.5.1. In addition I note that RBS have performed analysis which indicates that there is limited difference between the book and fair value of these freehold properties. As a result I have concluded that there is no Adverse Effect from the transfers of the freehold properties to Adam & Company at book value.

9.12.3 Transfer of freehold property – NatWest Plc

As the transfer of properties to NatWest Plc is not considered part of a transfer of business under the Scheme (as the transferring properties are not directly attributable to either the Covered Bonds Business or the Mentor Business) these properties will be moved at fair value where it is significantly different to book value. I believe that the Scheme causes no detriment for either the Transferor or Transferee and hence I have concluded that there is no Adverse Effect from the transfers of property.

I note that I have not seen support for the fair valuation values as these will be calculated as at the Effective Date.

Report of the skilled person on the proposed ring-fencing transfer scheme to transfer business from The Royal Bank of Scotland plc ("RBS plc") to Adam & Company PLC ("Adam & Company") and National Westminster Bank Plc ("NatWest Plc")

9.12.4 Conclusion – transferring property

I am satisfied that there is no Adverse Effect as a result of the Scheme in respect of property transfers.

9.13 Conclusion

For the reasons set out above, I am satisfied that there is no Adverse Effect as a result of the Scheme in respect of Cross-Stakeholder considerations.

10 Financial considerations

10.1 Introduction

In Sections 5 to 9 of this Scheme Report I have set out my conclusions in respect of the effect of the Scheme on Transferor and Transferee Stakeholders. This includes my conclusions in respect of the financial effect on these Stakeholders. These conclusions are based on a number of factors including consideration of the effect of the Scheme on the financial position of the Scheme Companies. In this section I have set out some key financial information that I have reviewed in reaching my conclusions. As some of this information is not publicly available, I have not set out in this Scheme Report all of the financial information I have considered.

10.1.1 Overview of regulatory capital requirements

A key part of bank regulation is to make sure that firms operating in the industry are prudently managed. Regulatory rules set out the level of capital that banks need to hold with the objective of ensuring continuation of a safe and efficient service.

Banks' minimum capital requirements are determined by Risk Weighted Assets (RWA) which assigns "weights" to the bank's assets and other exposures to reflect the probability of incurring losses due to different types of risks such as credit risk, counterparty credit risk, market risk and operational risk.

Not all forms of capital are equal. There are various measures of a bank's capital resources depending on their capacity to absorb losses.

The highest quality of capital is known as Common Equity Tier 1 (CET1), although there are several other measures of regulatory capital. While I have seen and considered the details of the other measures for the purposes of this Scheme Report I have focussed on CET1. This is comprised of ordinary shares and reserves less certain regulatory adjustments and deductions.

Banks need to meet certain minimum capital requirements at all times, referred to as Pillar 1 requirements. In terms of CET1 capital, the CET1 capital ratio (CET1 to RWA) needs to be at least 4.5%.

Banks are subject to an additional minimum requirement referred to as Pillar 2A which is aimed at addressing risks not fully captured in Pillar 1. Pillar 2A requirements are firm-specific and are calibrated by the regulator.

Capital Buffers

The amount of capital that a bank needs to hold at all times to meet minimum capital requirements is increased by holding buffers of such capital so that the bank can absorb losses and meet the minimum requirements under most circumstances. These include:

- The Capital Conservation Buffer (CCB) under which banks need to hold additional CET1 capital equivalent to 1.25% of RWA, increasing to 1.875% from January 2018, i.e. before the Effective Date. This CCB will increase to 2.5% of RWA by January 2019, i.e. the date by which ring-fencing must be implemented.
- The Countercyclical Capital Buffer (CCyB) which is intended to protect banks from the build-up of system-wide risks through excess credit growth. It is set by the Financial Policy Committee (FPC) of the BoE. The overall amount of CET1 capital that banks need to hold as a percentage of RWA varies over time, both up and down, and is currently set at 0. The CCyB will increase to 0.5% from 27 June 2018.
- The PRA buffer refers to the additional amount of CET1 capital set using supervisory judgement to increase a bank's resilience under a stress scenario so that banks can meet their minimum capital requirements during a stress period. The PRA buffer is firm-specific and a

larger buffer applies to banks with poor risk management and governance or above-average sensitivity to the business cycle.

- An additional capital buffer applies to the RBS Group due to its systemic importance and global presence. The Global Systemic Importance Buffer (G-SIB) range is being phased in between 2016 and 2019 and requires additional CET1 between 1% and 2.5%. The level of application of this requirement is at the RBS Group level.
- A capital buffer called the Domestic Systemic Risk Buffer (D-SRB) will apply from 2019 to the RFB sub-group. It will not apply to the NRFB. This buffer will complement the G-SIB by focusing on the effect of the potential distress or failure of the RFB on the UK economy as opposed to the global economy. Banks will need to hold additional CET1 in a range between 0% and 3% of RWAs according to their relative importance to the UK economy.

In practice, banks hold capital resources at or above their internally set risk appetite levels. These levels are set above the level required to meet minimum capital requirements and holdings of capital buffers in order to avoid regulatory breaches.

Leverage ratio requirement

The leverage ratio is used to measure how much capital a bank has relative to its overall assets. It is a non-risk based metric since it is not measured relative to RWA. A lower leverage ratio would point to a higher level of debt. This is therefore an important measure to supervisors because banks use the money they have borrowed from depositors and bondholders to lend to other customers.

Banks are required to meet a minimum leverage requirement calculated as a ratio of capital to a Total Exposure Measure (TEM). It captures the value of the bank's total assets with some additional adjustments to account, for example, for certain exposures that are not accounted for in the balance sheet.

The minimum leverage ratio applies in the UK to PRA regulated Banks with retail deposits equal or greater than £50 billion on a consolidated or individual basis. Such banks are required to hold sufficient capital to meet a 3% minimum leverage ratio of which at least 75% needs to be met with CET1.

A supplementary Leverage Buffer (LB) will apply once the D-SRB has been implemented in 2019.

In addition to minimum regulatory capital requirements and holding of capital buffers, banks also face requirements in relation to the amount of liabilities that are able to withstand losses once a bank has entered into resolution or liquidation. These are known as Minimum Requirement for Own Funds and Eligible Liabilities ("MREL") and are considered in Section 10.7.

10.1.2 Overview of Regulatory Liquidity Requirements

In addition to capital, banks have to maintain appropriate levels of liquidity. Liquidity is a measure of how easily a bank can turn its assets to cash in order to meet its obligations, a simple example being to meet the needs of customers who wish to withdraw cash on a day-to-day basis.

Banks are subject to two sets of requirements in relation to liquidity risk, referred to as Pillar 1 and Pillar 2.

Pillar 1 liquidity requirements

Pillar 1 requires firms to meet a Liquidity Coverage Ratio (LCR) requirement. The LCR is a measure of the ability of a bank to cover the net cash outflows that would be experienced under a stress scenario over the next thirty calendar days with a pool of defined High Quality Liquid Assets (HQLA). HQLA are securities that are deemed to be easily and immediately converted into cash, and include government bonds and other securities.

Currently all banks need to have an LCR equal to or greater than 90%; that is, a bank would have a pool of HQLA sufficient to cover 90% of its stressed net cash outflows over the next thirty days. From January 2018 this requirement will increase to 100%.

In the future, a further requirement known as Net Stable Funding Ratio (NSFR) will apply to banks. The NSFR will require banks to hold sufficient funding considered to be 'stable' in times of stress, known as Available Stable Funding ('ASF'), to finance any funding requirements arising from its assets. This is known as Required Stable Funding ("RSF"). The NSFR is calculated as the ratio of ASF to RSF. A minimum NSFR will apply at a level of 100%. The actual date of implementation is still unknown but the NSFR will not be in place at the time of the Scheme.

Pillar 2 liquidity requirements

Banks are subject to additional minimum liquidity requirements referred to as Pillar 2 to reflect risks not fully captured in Pillar 1 such as the risk that a bank is not able to meet payment and settlement obligations on a timely basis throughout the course of a day, known as intraday liquidity risk. Pillar 2 requirements are met with additional HQLA, are firm-specific and are set by the regulator.

Level of application of liquidity requirements

For a number of firms which form part of the same bank group, the supervisor may, at the firms' request, apply liquidity requirements as a single sub-group, known as a Domestic Liquidity Sub-group ("DoLSub"). For this to apply, the supervisor would need to confirm that specific conditions relating to the free transferability of HQLA among such legal entities are met. At the Effective Date, the entities will all be members of an existing DoLSub consisting of RBS plc, Adam & Company, NatWest Plc, Coutts and Ulster Bank. Future changes to the DoLSub are discussed further below in Section 10.4.

10.2 Approach

In making my assessment, I have considered the following:

- **Effect of Transfers.** The Effective Date is expected to be 30 April 2018. At close of business on 29 April 2018, certain assets and liabilities of RBS plc will be transferred to Adam & Company, RBS plc's Covered Bond Business and Mentor Business will be transferred to NatWest Plc, and property will be transferred from RBS plc to both Adam & Company and NatWest Plc. I have therefore analysed the forecast position of the affected entities as at 29 April 2018, being the expected last day preceding the Scheme, and 30 April 2018, being the expected first day of the implementation of the Scheme.
- **Financial Viability.** As well as assessing the effect of the Scheme from a capital and liquidity perspective both before and immediately after the Effective Date, I have considered the effect of the transfers on the business-model viability and sustainability of the entities. I have made this assessment by considering whether the planned financial performance of the entities indicates concerns that they would not be able to meet regulatory requirements following the Scheme.

As noted above, banks hold capital resources at or above their internally set risk appetite levels. These levels are set above the level required to meet minimum capital requirements and holdings of capital buffers in order to avoid regulatory breaches. In making my assessment, where there are capital resources in excess of the risk appetite of any company, I placed limited weight on it as it could potentially be removed at any future point, for example by the payment of dividends. However I do expect that capital resources should meet the levels required by the risk appetite of a company (where set) and I expect that these levels should be above the minimum capital ratio requirements including buffers so that a capital surplus is maintained.

For example, if Stakeholders are transferred from a company with higher capital ratios to another company with lower capital ratios but these are still well in excess of minimum regulatory requirements, I would not immediately consider this to be an Adverse Effect for Stakeholders as the capital resources required by the transferee's risk appetite may provide an acceptable minimum ongoing level of financial strength and cannot be weakened arbitrarily in future. If however Stakeholders are transferred to a company where the capital ratio is marginally above the minimum capital requirements, I may consider this to be an Adverse Effect. My assessment of Adverse Effects is made by groups of Stakeholders and effects on capital resources may have different consequences for different Stakeholder groups. For example, a change in capital resources may affect the fair value of a financial instrument without having a significant effect on whether the obligations on a financial instrument (e.g. interest and principal repayments) can be met.

My analysis of the financial position of the RBS plc, Adam & Company and NatWest Plc is based on profitability projections and capital and liquidity calculations. The estimates have been produced by the RBS Group and I have relied on them in carrying out my analysis. They have been prepared on the assumption that the Scheme and all other ring-fencing plans have been implemented, I believe it is reasonable to use the profitability projections and the capital and liquidity calculations since:

- The models, processes, and data used to estimate the pre-Scheme position of RBS plc, Adam & Company and NatWest Plc by the RBS Group are well established and where processes have been amended in order to update estimates for the purpose of the Scheme, these have been subject to additional governance procedures within the RBS Group;
- I asked the RBS Group to explain, check and/or clarify any results that seemed to me unreasonable or inconsistent with other data and information. I can confirm that all my queries have been answered to my satisfaction;
- I have reviewed how RBS have estimated the effects of the Scheme on the underlying financial data and the effects on individual legal entity projections. This has included for example consideration of the transfers of assets and liabilities including claims and litigation provisions as a result of the Scheme and associated financial effects such as revenue allocations, cost allocations, funding implications and the proposed allocation of specific one-off items;
- I am satisfied that the forecasts have been prepared using assumptions which are consistent to those adopted by RBS in their annual planning cycle and in the capital plans presented to regulators; and
- I have reviewed the results of the stress testing performed by RBS in respect of the financial projections. RBS have confirmed that this has been subject to RBS governance processes.

As part of my analysis, I have considered projections provided by the RBS Group of the expected capital and liquidity position of the Scheme Companies at the Effective Date. I note that the financial position at the Effective Date cannot be predicted with certainty. The capital position of the Scheme Companies at the Effective Date will therefore differ from the projections I have considered. As the information from these projections is not public, it has not been reproduced here.

For the purpose of disclosures in this Scheme Report, RBS has provided me with pre- and post-transfer capital and liquidity figures as if the transfer was taking place on 30 June 2017. The basis of this information is the publicly available 2017 half year financial results adjusted to reflect the effect of the Scheme as if it was taking place on 30 June 2017. RBS have confirmed that this has been subject to their governance processes.

Table 10-1 below sets out the CET1 capital ratio and Leverage ratio for each of the three entities as if the transfer was taking place as at 30 June 2017.

I am satisfied that any conclusions in respect of the effect of the Scheme as at 30 June 2017 are consistent with my conclusions in respect of the effect of the Scheme as at the Effective Date as set out in Sections 10.3 and 10.4 below.

	NatWest Plc*		Adam & Company*		RBS plc*	
	Pre	Post	Pre	Post**	Pre	Post
CET 1 capital ratio	21.6%	21.2%	18.7%	10.9%	14.5%	21.8%
CET1 capital requirement	4.5%					
Leverage ratio	7.2%	6.9%	10.6%	5.6%	5.3%	7.0%
Leverage ratio requirement	3%					

Table 10-1: Illustrative Effect of the Scheme - Capital position and requirements for the solo entities as at 30 June 2017

Source: Financial information provided by RBS

* The financial information presented is on a solo basis for all entities

** The post transfer position includes the effect of a capital injection calculated on the basis of pro-forma 30 June 2017 transfer values. In respect of the actual Scheme, this injection will be made prior to the Effective Date

10.3 Effect of Transfer – Capital Adequacy

This section sets out my considerations in relation to the immediate effect of the Scheme on the capital resources of the Scheme Companies as at the Effective Date. I have been provided and considered the effect of the Scheme on all relevant capital ratios.

10.3.1 RBS plc

The balance sheet and RWAs of RBS plc will be reduced as a result of the Scheme, due to assets being transferred to Adam & Company and NatWest Plc.

Since the capital ratios remain above the current risk appetite and the minimum capital requirements including capital buffers following the Scheme, I do not consider that there is an Adverse Effect from the Scheme. As described below in Section 10.5, a CSD continues to be in place following the Scheme and I have also taken this into account in reaching my conclusion.

10.3.2 Adam & Company

The transfer from RBS plc to Adam & Company at the Effective Date includes a significant amount of RWAs. In contemplation of the Scheme, the level of capital resources in Adam & Company will be increased prior to the Effective Date. While the capital ratios following the Scheme are lower than the ratios Adam & Company has pre-transfer, the ratios remain in excess of the minimum capital requirements and capital buffers.

Therefore I do not consider that the Scheme will have an Adverse Effect in terms of capital adequacy on the existing Stakeholders in Adam & Company and the Stakeholders transferring to Adam & Company from RBS plc. As described below, a CSD continues to be in place following the Scheme and I have taken this into account in reaching my conclusion.

10.3.3 NatWest Plc

The Scheme has very limited effect on the capital ratios of NatWest Plc. Therefore I do not consider that the Scheme will have an Adverse Effect to the entity in terms of capital adequacy.

10.4 Effect of Transfer – Liquidity

At the Effective Date, RBS plc, Adam & Company and NatWest Plc will all be members of the existing liquidity sub-group ("DoLSub"). As a result, the overall liquidity position of the DoLSub, including its LCR and Pillar 2 requirements will remain unchanged. There is therefore no Adverse Effect as at the Effective Date.

For information purposes, table 10-2 shows the liquidity position of the DoLSub as at 30 June 2017. The minimum LCR requirement excludes Pillar 2 liquidity requirements since these cannot be disclosed, however I have reviewed these.

	Total HQLA (£bn)	Stressed Net Cash Outflows (£bn)	Minimum LCR Requirement (%)	LCR (%)
DoLSub	117	81	90%	144%

Table 10-2: Pillar 1 liquidity position and requirements as at 30 June 2017

Source: Financial information provided by the RBS

Changes to the DoLSub will occur at a later stage. It is expected that RBS plc will be leaving the DoLSub in the second half of 2018. After this event, separate minimum Pillar 1 and Pillar 2 liquidity requirements will apply to RBS plc and the DoLSub. I have considered future projections and minimum liquidity requirements in reaching my conclusion that there is no Adverse Effect from the Scheme.

10.5 The Capital Support Deed

RBS plc, Adam & Company and NatWest Plc are parties to a CSD, whose overall purpose is to ensure that these banks can easily move capital amongst themselves if that is required for any reason. Under its terms, each entity may be required to make distributions on, or repurchase or redeem, its ordinary shares. The amount of this obligation is limited to amounts in excess of those needed to meet capital requirements.

Additionally, each entity taking part in the CSD may also be required to make onward distribution to its ordinary shareholders of dividends or other capital distributions received from subsidiaries that are party to the CSD.

The arrangement also provides that, in certain circumstances, any funding received by an entity from other entities which are also parties to the arrangement would become immediately repayable, with the repayment obligation limited to the available resources of the receiving entity.

The continuation of the CSD immediately after the Scheme is another reason that I do not consider that the Scheme creates an Adverse Effect in respect of how the entities meet their regulatory requirements.

Changes to the CSD later in 2018 are considered below.

10.6 Effect of Scheme on business viability and sustainability

As stated above, I have considered the effect of the Scheme on the business viability and sustainability of the entities involved.

The future business performance of any entity and ability to meet regulatory requirements will be affected by a number of other changes both internal and external. For example:

- There is a reduction of capital planned in RBS plc followed by a dividend in specie of underlying subsidiaries. This is separate to the Scheme and not caused by the Scheme. However if approved by the Court, actual capital levels in RBS plc will change;
- The ring-fencing regulations that come into effect at the end of 2018 will significantly restrict the RFB Subgroup from funding entities outside the ring-fence. Therefore even if immediately following the Scheme RBS plc can continue to be funded by other RBS Group companies, the implementation of the ring-fencing legislation in the future will cause funding arrangements to change. The current DoLSub structure will change in 2018 and RBS plc will no longer have access to funding from the RFB Subgroup. In order to deal with this, RBS plans to fund through MREL downstreaming (see Section 10.7) from RBSG plc level and issuance of debt instruments directly from RBS plc. In addition, alternative and contingent funding options have been considered by RBS plc which have been outlined in the funding plans that I have reviewed;
- During the second half of 2018, the existing CSD will cease to exist. Adam & Company and NatWest Plc will become party to a new CSD. RBS plc will, however, not be a party to the new CSD; and
- Capital requirements change over time such as the changes to the capital conservation buffer that will increase in 2019.

Therefore it is not possible to quantify the changes to business performance that are purely the result of the Scheme as there are many other factors that will affect future financial performance.

My assessment of the effect of the Scheme is therefore qualitative. I have concluded that the Scheme does not affect the assessment of the viability and sustainability of the entities as RBS's financial projections indicate that the regulatory capital and liquidity requirements will be met by the entities in the future period considered by RBS and there will be surpluses above these minimum requirements. The financial projections show that the entities remain above the relevant hurdle rates in a range of internally prepared stress testing scenarios. I note that these are the RBS's internal projections and internal stress testing processes. I have not set out details of the financial projections in this Scheme Report as these projections are not published information.

Whilst RBS's financial projections indicate that the entities continue to be viable, and I believe that the effect of the Scheme itself on financial performance is relatively limited compared to the effect of the wider changes caused as a result of compliance with ring-fencing requirements, I note that the Scheme does have some effect on the business model. I have considered this further throughout this Scheme Report when assessing the effect of the Scheme on individual Stakeholders, in particular in Section 7.5 above. My assessment of Adverse Effects is made by groups of Stakeholders as changes may have different consequences for different Stakeholder groups.

I also note that financial projections have inherent limitations and as such can be affected by unforeseen events, consequently resulting in significantly different outcomes.

10.7 MREL/ TLAC

10.7.1 Overview of Regulatory Requirements

In addition to the regulatory capital requirements, banks also have requirements in respect of their Gone Concern Loss-absorbing Resources. The EU Banking Recovery and Resolution Directive ("BRRD") took effect on 1 January 2016 with the policy intention of avoiding the need for public sector funds being used to support failing banks. It was implemented into UK law through a

combination of secondary legislation, rules made by the PRA and policy made by the BoE. The BoE is the UK's Resolution Authority with a range of powers to intervene to manage the failure of a bank.

These resolution powers include the power to impose a 'bail-in' of certain liabilities of a bank. In a bail-in, a central bank is able to write down and/or convert to equity the claims of shareholders and unsecured creditors (subject to various exclusions and with a mechanism to assess compensation after the bail-in). The bail-in is intended to re-capitalise the bank, avoid insolvency and buy time to restructure the bank and address its underlying problems. As a Global Systemically Important Institution (G-SII) the RBS Group would be subject to a bail-in strategy by the BoE if it was to go into resolution.

In order to ensure that the bail-in can be used, banks are required to adopt a funding structure with a certain proportion of liabilities that can be written off or converted into equity in the event of failure. Those liabilities, in combination with the bank's equity, are known as MREL ("Minimum Requirement for Own Funds and Eligible Liabilities"). MREL is the term used in the BRRD and applies to all EU banks.

As of 1 January 2019 RBS will be subject to a global standard called Total Loss Absorbing Capacity (TLAC). TLAC is broadly similar to MREL but applies only to G-SIIs such as RBS and expresses the minimum required amount of bail-in liabilities in a different way.

10.7.2 RBS Approach

The BoE has a published policy for how it will set TLAC/MREL requirements on a consolidated group level, i.e. the quantum that will be required for the RBS Group as a whole, with a transitional period from 2019 to 2022. The first transitional date applicable to the RBS Group is 1 January 2019, by when it must meet the TLAC standard of having eligible bail-in liabilities equivalent to the higher of 16% of RWAs or 6% of leverage exposures. The BoE has not yet specified what requirements will apply to the individual entities.

The RBS Group has in place a programme to issue eligible liabilities from RBSG plc in order to build up the required amount on a consolidated group basis.

As noted above, the BoE has not yet issued a policy on how MREL/TLAC should be downstreamed from RBSG plc to the Scheme Companies. However, the RBS Group has made a working assumption that the same approach to calculating the group-level requirements will apply at the company level.

I note the following in respect of MREL levels which I have factored into my conclusions above in respect of the effect of the Scheme:

- There are no specific regulatory requirements as at the Effective Date. The levels in each of the entities as at the Effective Date are in line with the minimum requirements of 16% that will apply at the group level as at 1 January 2019.
- RBS intends to downstream the proceeds of bail-in liabilities from RBSG to Adam & Company in advance of the Effective Date even though there is no regulatory requirement to do so. I believe this is important as even though this would only be crystallised in a gone scenario, that is if the capital has been utilised to absorb losses, the MREL that RBS plans to introduce into Adam & Company provides a loss absorbing layer before depositors that are being transferred from RBS plc. Given the fact that capital requirements are designed to ensure that banks hold enough capital to absorb unexpected losses, I consider the use of MREL to be unlikely but a matter that I have taken into consideration when reaching my conclusions in Section 5 in respect of the effect of the Scheme on the depositors transferring to Adam & Company as part of the Scheme.
- I have considered RBS's future MREL projections in reaching my conclusion that I have concluded that there is no Adverse Effect from the Scheme.

10.8 Conclusion

In this section I have set out considerations in respect of the effect of the Scheme on the financial position of RBS plc, Adam & Company and NatWest Plc. My assessment of Adverse Effects is made by groups of Stakeholders and this includes consideration of the financial position of the Scheme Companies. My conclusions in respect of these groups of Stakeholders are set out in Sections 5 to 9 of this Scheme Report.

11 Governance and risk management considerations

11.1 Governance

Governance standards are set at group level and applied to subsidiaries in line with their size, nature, complexity and importance to the RBS Group. Each of the principal entities involved in the Scheme, namely RBS plc, Adam & Company and NatWest Plc has, at present, its own board, committee and senior management structures. Similarly, there is a risk management framework applicable to all of the RBS Group companies and a policy framework that is required to be adhered by all companies. In undertaking this review I have sought to establish whether the proposed governance arrangements under the Scheme may result in detriment to this current state.

I note that the governance changes proposed by RBS are subject to regulatory consideration and approval.

11.1.1 Governance of NatWest Plc and Adam & Company

NatWest Plc currently has an established board and governance structure that will not change as a result of the Scheme. I believe this existing structure will continue to be appropriate, given the limited level of business (and other assets and liabilities) transferring to this entity as a result of the Scheme. Board membership will be amended in line with the RFB structure being implemented under the PRA rules on ring-fencing described in Section 11.1.3 below, including the addition of three 'double-independent'⁷ non-executive directors.

Current Adam & Company directors will step down *prior* to the Scheme, thereby ensuring that individuals with long term responsibility for the entity will be charged with implementing the changes under the Scheme. RBS plans to ensure that all future-state Board directors will be in place at the Effective Date of the Scheme (subject to regulatory approvals and successful completion of recruitment plans), and that the individuals who will be appointed as directors will have appropriate skills, knowledge and expertise in relation to the business activities that are being transferred, which are significantly different from the current activities of Adam & Company. It is expected that the Adam & Company Board will have the same members as NatWest Plc and these individuals will also form the overall Board of NatWest Holdings which will form the overall governance structure of the RFB Subgroup.

I note that directors of NatWest Plc and Adam & Company will be supported in fulfilling their statutory duties by appropriate resource and related guidance from the Corporate Governance & Regulatory Affairs function within the RBS Group. I understand this resource will include a qualified and appropriately senior Company Secretary and allocated supporting headcount. In the case of the RFBs, the Company Secretary and their resource will be the same as that supporting the RBS Group. RBS plc will have its own dedicated Company Secretary and resource. I consider this to be in line with established industry practice in situations where such alignments of board membership and management structures are agreed to be practicable and appropriate.

⁷ Independent non-executive directors of NatWest Plc / RFB Board who are not also members of the RBS Group Board.

RBS Group and RFB-specific considerations will be facilitated by dedicated Senior Manager Function (SMF) designations in line with the requirements of the Senior Managers Regime⁸ and dedicated board and Executive Committee meetings, agendas and minutes. A draft Responsibilities Map and Statements of Responsibility are in place to come into force at the time of the transfer in line with the new structure and the SMF population includes the RFB Chief Risk Officer ('CRO') as well as the 'double-independent' non-executive directors as Group Entity Senior Manager functions (or "SMF7s").

I understand that RFB risk governance arrangements have been a key area of focus in the development of the overall governance structure. It is intended for the RBS Group and RFB Chief Risk Officer ("CRO") roles to be performed by two separate individuals and the recruitment process for the latter role is underway. In order to mitigate any conflicts of interest, RBS has incorporated a number of safeguards into the proposed structure which include, but are not limited to, specific Risk & Conduct plans and budgets for the RFB Subgroup, NatWest Markets and RBS International; and clear documented roles, responsibilities and reporting lines in relation to each role. The reporting lines for the RFB Subgroup CRO include routes of escalation to the RFB Subgroup Board Risk Committee Chair.

The risk governance safeguards are further strengthened by the creation of a Deputy Chair for the RFB Subgroup Board Risk Committee, a role that is to be held by a 'double independent' non-executive director, and will provide a further, independent point of escalation for the RFB Subgroup CRO. The Deputy Chair's approval will be required in order to dismiss or appoint the replacement of the RFB Subgroup CRO. Additionally, the Chair of the RFB Subgroup Board Risk Committee will be required to consult with the Deputy Chair in determining the course of action in the event of any notifications of potential conflicts.

In support of the maintenance of appropriate entity-specific responsibilities, I also understand that the RBS Group and RFB Subgroup Executive Committees' members are undergoing scenario-based training in order to support them in the identification and management of conflicts of interest that may arise between entities.

A Supervisory Committee has been created as a subcommittee of the RBS Group Executive Committee in order to further support appropriate oversight of the individual RFB entities, specifically matters of standalone financial and prudential significance for each. Its establishment is intended to counter any risk that the interests of these entities are not given due regard by executive leadership under the consolidated and franchise-led governance structure. In order to further this goal, a 'capabilities forum' has been created subordinate to the Supervisory Committee with a remit to ensure appropriate and effective entity reporting.

Overall, having taken into account the changes planned, I do not consider that there will be any Adverse Effect as a result of the Scheme. I consider these new bodies to represent an enhancement of the entity governance arrangements within the RBS Group; with a design that should support effective oversight and management of entities under the ring-fence.

As at the date of this Scheme Report, the names of the individuals who will form the boards and fulfil the role of RFB Subgroup CRO have not been finalised, including the independent members that will be appointed. Therefore I note that I am not able to comment on the effectiveness of the individuals although I understand that these will be subject to regulatory challenge and the identification and fulfilment of board member and executive vacancies under the Scheme are subject to recruitment and on-boarding arrangements applied consistently across the RBS Group entities. These include the due, formal consideration on a case-by-case basis of the required and desired knowledge, skills and expertise for individual appointments; and a formal appointment process which, for board appointments, allows for the consideration of desired replacement skills

⁸ The Senior Managers Regime came into force on 7 March 2016. It replaced the Approved Persons regime as part of implementing the recommendations in the final report of the Parliamentary Commission on Banking Standards (PCBS) to support a change in culture at all levels in banks, building societies, credit unions and PRA-designated investment firms (collectively referred to as Relevant Authorised Persons or RAPs). Under section 59 of the Financial Services and Markets Act 2000 (FSMA), authorised firms are required to ensure that individuals seeking to perform one or more "SMFs" seek regulatory approval prior to taking up their position (with the exception of those non-executive directors who do not perform roles described in the Regime).

on a case-by-case basis; and gives due consideration in line with the policy on board member diversity.

I am satisfied that this approach is broadly in line with my expectations in relation to peer entities and subject to ongoing review and enhancement. If applied consistently and fully, would not represent any deterioration in governance standards when considered in isolation.

11.1.2 Governance of RBS plc

RBS plc is currently the main operating entity of the RBS Group and therefore already has an established board and governance structure. I understand that the established governance standards will remain after the Scheme, although certain changes are planned with regards to the executive personnel and the skills, knowledge, expertise and number of Board members consistent with the changes to the entity's activities. I consider these changes to be in line with appropriate and established practice.

As the Scheme is transferring business out of RBS plc, I do not consider that there is any Adverse Effect on governance as a result of the Scheme. Recruitment activities for the entity's Board are in progress and a working group is in operation, which comprises representation from current and future executive and non-executive directors. I understand it is intended to give due consideration to the future interests and activities of the entity and to ensure that individuals with long term responsibility for the entity have an understanding of decisions made. As stated above, I note that I am not able to comment on the effectiveness of the individuals although I understand that these will be subject to approval under the Senior Managers Regime, and that the identification and fulfilment of board member vacancies under the Scheme are subject to recruitment and completion of on-boarding arrangements which are applied consistently across the RBS Group entities.

11.1.3 Governance of the RBS Group

I have commented above on the effect of the Scheme on the governance arrangements in respect of Adam & Company, NatWest Plc and RBS plc. I do not consider that the Scheme has an Adverse Effect in respect of the appropriateness of the governance structures in place with regards to those entities.

The governance structure of the RBS Group is being changed with reference to the wider ring-fencing requirements which have to be adhered to by 1 January 2019. There are a number of changes that are being made as a result which are currently being discussed with the regulatory authorities. Whilst I have not commented on the compliance with future regulatory requirements, I do not consider that the Scheme has an Adverse Effect on the RBS Group's ability to comply with these future ring-fencing requirements.

11.2 Risk Management - overview

The Scheme will result in the transfer of exposures between legal entities. As such it will be important to ensure that these exposures can be managed on an ongoing basis from the date of transfer. I have considered plans at the legal entity level including the setting of risk appetite, how the changed risk exposures will be managed immediately after the implementation of the Scheme as well as the plans for required changes to ongoing risk management procedures, including the ability to produce the reporting required to manage risks at a legal entity level following the Scheme.

RBS currently has an established risk framework in place to identify, manage and mitigate risks to both its customers and businesses. The RBS Group utilises the three lines of defence model, and this provides a set of principles which all businesses and functions must adopt, implement and comply with. The first line of defence is comprised of the frontline business staff, the second line comprised of oversight functions such as compliance and risk management and the third line comprised of internal audit and the directors. These principles and the associated framework will

not change after the implementation of ring-fencing. There is no new risk being introduced into the RBS Group, rather the risk profile of certain entities are changing.

In Sections 11.2.1 and 11.2.2, I have considered the immediate effect of the Scheme on risk management processes. In Section 11.2.3, I have considered broader risk management matters.

11.2.1 Risk Management – changes in risk profile

The change in risk profiles as a result of the Scheme will be managed by adjusting the current risk appetite and limits (used to monitor compliance with risk appetite) on a legal entity basis, to reflect the new risk profiles.

An overarching risk appetite will continue to be established at RBSG plc level, and allocated to functions, franchises and legal entities. Legal entity risk appetite statements will be set for all key regulated entities, and these will be aligned to the entities' business plans. Risk appetite statements are refreshed annually to reflect any changes to the risk profiles of the entities, and all risk appetite statements will have been re-calibrated by the date of the transfer to reflect the new risk profiles of the individual entities.

Compliance with the risk appetite will be monitored through the use of strategic risk limits such as capital adequacy, liquidity and funding, and material risk limits such as credit, operational and conduct. Strategic limits will be set and monitored at the legal entity level, whereas material risks will be monitored at the sub group level, split between the entities in the RFB Subgroup and the entities in the non ring-fenced group.

RBS is planning to use the existing internal board and committee reports going forward, these reports will be adjusted as required, to meet specific legal entity requirements. RBS plans to have all reporting changes implemented by April 2018.

In order for this to occur, the risk department has identified that there will need to be changes to the IT infrastructure, to support new and amended regulatory and internal reports, to support internal legal entity portfolio views, risk appetite setting and reporting across legal entities, in order to identify and report RFB and NRFB portfolios and process internal legal entity data, to enable reporting views to support a post ICB reporting environment. The required system change are being made across a series of implementations through 2017 covering changes to the key capital and risk reporting systems.

RBS plc has a range of models where regulatory permissions will need to be transferred to Adam & Company. RBS has engaged with the PRA and it is expected that the relevant permissions will have to be re-papered after the Effective Date. RBS has explained to me that they have no indications that this process will not proceed as planned. I will update my Scheme Report in relation to this matter if required.

11.2.2 Risk management – hedging

The transfer of business through the Scheme will result in different risk profiles in each of the legal entities immediately before and after transfer.

The RBS Group seeks to swap its interest bearing assets and liabilities to a benchmark floating rate of interest to minimise earnings volatility that arises from market interest rate movements. At present RBS plc executes the majority of the interest rate swaps used to hedge RBS Group's banking book interest rate risk. Much of the volume of the derivatives relate to RBS Group's structural hedging whereby receive fixed interest rate swaps are aligned with the Group's interest-insensitive stable deposit funding balance.

RBS plc currently has in place certain hedges in relation to the exposures that will be transferred to Adam & Company as part of the Scheme. As NatWest Plc will be the derivatives market-facing entity for the RFB Subgroup, RBS plans to novate existing hedging derivatives related to these exposures to NatWest Plc. Internal hedges will then be put in place between NatWest Plc and Adam & Company as required to manage the interest rate risk at each legal entity level based on

interest rate limits, and risk reporting will be maintained for each legal entity. RBS plc will remain the market-facing entity for entities outside the ring-fence.

Having taken into account the plans to address the hedging of risk post-implementation of the Scheme, I do not consider that there will be an Adverse Effect as a result of the Scheme from a hedging perspective.

11.2.3 Risk management – overall structure

The risk management structure of the RBS Group is being changed with reference to the wider ring-fencing requirements which have to be adhered to by 1 January 2019. There are a number of changes that are being made as a result which are currently being discussed with the regulatory authorities. These include:

- RBS plans to continue to use a functional approach to managing risk and conduct for entities within the ring-fence. There will be dedicated teams for each risk type: credit, market, operational, financial crime, enterprise-wide and assurance. As noted in Section 11.1.1 there will be franchise-aligned Directors of Risk and Conduct for PBB and CPB.
- Outside the ring-fence, NatWest Markets will have a separate risk and conduct function with a dedicated CRO and risk activities that are fully aligned to each licensed bank, including staff in non-EEA locations. Some supporting risk services will be provided by the RFB to the entities outside the ring-fence under arm's-length intra group agreements.
- There will be risk governance in place at the legal entity level and the franchise level, with each group being responsible for different elements of risk management. The roles and responsibilities will be clearly defined and set out in the terms of reference of the relevant boards, committees and forums.
- As noted in Section 11.1.1, because the RBS Group will continue to operate its PBB and CPB franchises across multiple legal entities and brands within the RFB Subgroup, a dedicated Supervisory Committee has been established to oversee matters of standalone financial and prudential significance to the Adam & Company and NatWest Plc legal entities. The committee will consider on a quarterly basis, matters of liquidity, funding, capital and risk from a legal entity perspective. The Supervisory Committee is an advisory body, and will escalate any matters of concern to the Executive Committee of the relevant legal entity for discussion and if required, thereafter to the Boards of the relevant legal entity.
- The day-to-day management of risk specific to the business will be supported by the franchise risk teams within the RFB Subgroup. The franchise teams will have the delegated responsibility to manage risk on behalf of the legal entity. The franchise approach means that product managers manage the risk inherent in a particular product across all entities. Where customers cross the ring-fence each legal entity will manage its own risk and the RFB Subgroup will manage the total risk.
- As part of the process of designing the new business operating models for both the RFB Subgroup and entities outside the ring-fence, the risk framework and all relevant policies will be reviewed to enable the business operating models to achieve the same standards of risk and control as at present, including additional policies to manage risks to customers arising from crossing the ring-fence.
- Business services and functions will continue to be provided through a consistent shared operating model, minimising duplication and demonstrating where appropriate business independence. The majority of risk staff will work for the RFB and be employed by NatWest Plc, with some providing services across the ring-fence, via intra group agreements. This includes staff within the shared services operated from within the RFB Subgroup.

Overall, having taken into account the changes planned, I do not consider there to be an Adverse Effect as a result of the Scheme from a risk management perspective.

Report of the skilled person on the proposed ring-fencing transfer scheme to transfer business from The Royal Bank of Scotland plc ("RBS plc") to Adam & Company PLC ("Adam & Company") and National Westminster Bank Plc ("NatWest Plc")

11.3 Conclusion

For the reasons set out above, I am satisfied that there is no Adverse Effect as a result of the Scheme in respect of governance and risk management considerations.

12 Operational considerations

12.1 IT change

In this section, I consider the effect of the Scheme on the operation and support of RBS's IT systems and the changes being made to support the migration of customers from RBS plc to Adam & Company. In doing so I have assessed the potential effect on customers and the potential for customer or other Stakeholder detriment from the changes to IT services being implemented.

I have reviewed RBS plans in relation to IT changes arising from the Scheme to understand any significant changes to customer banking or other arrangements in order to assess potential customer detriment as a result of these changes. This was performed through review of planning and design documentation and meetings with RBS staff.

My review of IT change activity focused in particular on the following areas:

- Review of plans to determine whether significant technological effects exist that may result in customer detriment, including consideration of data confidentiality, maintenance of service levels, and the availability and resiliency of service in the context of the Scheme;
- The approach taken to derive and document requirements, and transition through to system development lifecycle implementation activity;
- Review of the governance of the RFTS IT programme to determine whether it adequately supports the ability to identify relevant IT effects, and to execute against and deliver against the plan; and
- Coordination with the assessment of the other franchise and function effects of my review to challenge and assess the coverage of changes identified and captured in the IT plans.

Based on the above, I am satisfied that there is no Adverse Effect on IT services, arising from IT changes planned as a result of the Scheme. However, I note that as two of the three RFTS IT dress rehearsals and the Effective Date are scheduled after the date of this Scheme Report, the scope of my work is limited to the review of planning, design build, state of preparedness and governance in relation to the IT change required to support the transfer of customers and products from RBS plc to Adam & Company and NatWest Plc.

The IT programme of work has been strategically designed to minimise the extent and effect of IT change required, and to leverage pre-existing data structure and legal entity separations as far as possible, including existing data access and reporting restrictions between the primary RBS franchises. This approach aims to reduce the overall complexity of the IT design, which is commonly the largest driver of IT execution failure risk. In respect of the IT programme, I note that:

- Only limited data migration is due to occur, affecting a small number of systems. The majority of customer migrations are being performed through existing business processes rather than through substantial technical system changes. The business processes being leveraged to support migrations are established, understood and reliable and involve less risk and complexity than technical migrations.
- The majority of IT changes identified take the form of small updates to reference data and configuration to reflect new legal entity structures. These changes, while large in volume, are in general non-complex with limited effect and can be characterised as routine business-as-usual type changes.
- Changes required to support the transfer of the Covered Bonds Business to NatWest Plc are non-complex and limited in nature, and subject to the same governance as other changes within the scope of the Scheme.
- Changes to customer facing franchise systems are in general limited, with the exception of a set of moderate changes being made to the primary loan management platform. Few

significant changes to IT systems are being undertaken, with the majority of changes affecting the back office Risk, Finance and Treasury functions.

- RBS's IT function will not be restructured as part of the Scheme, and will maintain a continuity of service to all parts of the Group as it did prior to implementation of the Scheme. No effects are therefore expected to IT operations, level of service, resourcing or staffing as a direct consequence of the Scheme.
- The IT programme of work is being managed in accordance with RBS's standard programme and project management methodologies and governance processes which provide comprehensive control over the full systems development lifecycle. This includes expected governance controls such as RAID (Risks, Assumptions, Issues and Dependencies) management. The Scheme programme is supplemented by an additional governance forum, the Technical Design Authority control to ensure cross franchise and function effect assessment and requirement propagation. This is in addition to RBS's standard programme governance structures.
- I noted through my review that the programme plan has been phased to design, build, test and implement a substantial portion of the IT change ahead of the 'go-live weekend' to minimise implementation risk inherent in a 'big bang' approach. In addition to the testing of individual changes, a series of large-scale Dress Rehearsal tests designed to prove the programme-wide implementation activity and the go-live weekend schedule of events, are planned.

These factors support my assessment that the planned changes have limited potential effect for customers. Additionally, no specific risks to resilience, continuity or security of systems have been identified arising as a consequence of the Scheme.

I note finally that whilst focus of my work has been limited to IT changes being made to support the migration of customers from RBS plc to Adam & Company, other significant IT change is taking place to support the wider ICB programme. There is also significant non-ICB change being undertaken for other strategic and business-as-usual ("BAU") purposes. This is inherent in any large bank's risk profile. Although my review has not identified any Adverse Effects for customers and other key Stakeholders, there will always be some risk associated with the execution of IT change. I have not commented on the IT risks in respect of the wider ring-fencing programme and BAU change activities.

12.2 Payments

In this section, I consider the effect of the Scheme on RBS's payments services. In doing so I have assessed the potential effect on customers and the potential for customer or other Stakeholder detriment from the changes to payment services being implemented.

I have reviewed RBS's plans in relation to payments changes arising from the Scheme to understand any significant changes to customer banking and payment arrangements in order to assess potential customer detriment as a result of these changes. This review was performed through review of planning and design documentation, meetings with RBS staff, and supported by an assessment of payment operations and customer access to payments across the primary stages of the payment lifecycle: instruction, processing, screening, clearing and settlement, and reconciliation and reporting.

I am satisfied that there is no Adverse Effect on payment services as a result of the Scheme. In this respect:

- I note that limited changes are being made to RBS's payment operations and arrangements, all of which are being made outside the Scheme. The most significant of these changes are related to certain changes to RBS entities' membership of domestic and international payment schemes, and changes to Business Identifier Codes and 'nostro' accounts held with correspondent banks which are used for addressing and settlement of 'international' payments. Nostro accounts are accounts banks hold with each other for the purposes of settling transactions between themselves.

The proposed changes do not affect customer access to payment services, the types of payments that can be made or received, or the methods through which payments can be made.

- No changes are being made to customer account numbers and sort codes as a result of the Scheme. This fact greatly limits the potential for disruption to customer services or customer detriment as changes to customer payment instructions will be minimal.
- I have concluded that the planned changes have limited effect for customers, and are necessary to comply with the ring-fencing rules. Where changes with a potential customer effect are being implemented actions have been taken to mitigate and minimise their potential effect, including through prior customer communication and through redirection of payments either internally or at a payment scheme level.
- I further note that the changes being made are comparatively non-complex and similar in nature to changes made in the context of BAU operations, and do not represent an overly complex or significant programme of work. The changes are well understood and supported by RBS's standard programme and project management disciplines and governance. As far as possible these are planned to be implemented ahead of the Effective Date to minimise the potential for disruption.
- RBS's internal central payments service function will not be restructured as part of the Scheme, and will maintain a continuity of service to all parts of the RBS Group as it did prior to implementation of the Scheme. These factors support my assessment that the planned changes have limited potential effect for customers.

I finally note that whilst focus of my work has been limited to activity supporting the migration of customers from RBS plc to Adam & Company, other payment related change is taking place to support the wider ring-fencing programme. There is also significant non ring-fencing change being undertaken for other strategic and BAU purposes. This is inherent any large bank's risk profile. Although my review has not identified any Adverse Effects for customers and other key Stakeholders, there will always be some risk associated with the execution of change. I have not commented on the IT risks in respect of the wider ring-fencing programme and BAU change activities.

12.3 Conclusion

For the reasons set out above, I am satisfied that there is no Adverse Effect as a result of the Scheme in respect of operational considerations.

13 Resolvability considerations

13.1 Overview

This section considers whether any detriment to Stakeholders arises in relation to the resolvability of the Companies. Resolvability refers to the ability to deal with a failing bank in an orderly manner that does not use public funds and ensures that critical functions provided by a bank to the economy are not interrupted. Resolution is the process by which the authorities intervene to manage the failure of a bank; in the case of the RBS Group the BoE is the Resolution Authority. Planning for the resolution of all banks, including the RBS Group, is a key part of the post-financial crisis regulatory framework. Specific resolution decisions and actions are planned for and are only taken at the time of a crisis. These actions would determine the effect on the RBS Group, the Companies and Stakeholders.

I have considered whether the Scheme may result in detriment if Stakeholders are moved to a company which is (or will be) less resolvable, or the RBS Group as a whole is made less resolvable as a result of the Scheme. If Stakeholders are exposed to a less resolvable entity, they may face greater financial loss and/or operational disruption in the event of resolution than they would do were it not for the Scheme.

This section also considers whether any effect arises in relation to the ability to recover the Scheme Companies from a severe stress.

13.2 Recovery plan

A recovery plan is a regulatory requirement that is prepared by the RBS Group. It sets out how RBS Group monitors whether it is facing a severe stress, how it escalates and manages such a severe stress and the menu of actions it might take to try to return to business as usual. The RBS Group is required to assess the strength of the recovery plan against a number of hypothetical severe stresses.

The RBS Group currently produces a Group recovery plan. In addition there are two separate subsidiary recovery plans produced for local regulators in respect of Ulster Bank Ireland DAC and RBS Securities Inc. The Group recovery plan is reviewed by the PRA, which provides feedback for improvements in future iterations.

I have considered whether, overall, the effect of the ring-fencing changes and the Scheme will lead to a significant deterioration in the robustness of recovery planning.

The RBS Group proposes to maintain a Group recovery plan with realigned governance, indicators and options. There will be four sub-plans covering UBIL and RBSI as at present, plus the RFB Subgroup and NatWest Markets, the NRFB. Each plan will be developed by staff of the entity and/or sub-group and subject to their own Board approvals. A consolidated Group-wide plan will be collated to ensure that the four plans are consistent and to address any conflicts. The RBSG plc Board will be asked to approve the consolidated plan.

RBS does not expect any significant impact on the ability to execute recovery options under the current Group recovery plan as a result of ring-fencing. Recovery will continue to be managed on a Group-wide basis. This is because most of the existing recovery options will sit either in the RFB Subgroup or in entities outside the ring-fence. Plans are being developed and implemented by RBS to manage the ability to move capital and liquidity across the RBS Group once ring-fencing legislation is in force; the same considerations that apply to day-to-day management of financial resources will apply in a recovery scenario. The PRA's latest proposed group recovery plan

requirements (still subject to consultation) will not require RBS to prepare independent recovery plans for each subgroup.

On the basis that RBS's development of recovery planning is effective in facilitating movement of capital and liquidity across the RBS Group in compliance with ring-fencing requirements, I am satisfied that the Scheme does not cause an Adverse Effect on the ability of the Scheme Companies to recover from a severe stress.

13.3 Resolvability

As the skilled person, one of my considerations is the effect of the Scheme on the impact that would be felt by Stakeholders in the event that the RBS Group or any or all of the Companies were to go into resolution. Resolution – and the related concept of resolvability – refer to the powers and process by which the resolution authorities deal with a bank that has been assessed by the resolution authorities as failing or likely to fail, in the absence of credible recovery actions. Resolution is intended as an alternative to normal corporate insolvency.

Since the financial crisis regulators and banks globally have been working to put in place the legal powers and approaches that would enable even the largest banks to be put into resolution.

The BRRD took effect on 1 January 2016 with the policy intention of avoiding the need for public sector funds being used to support failing banks. It was implemented into UK law through a combination of secondary legislation, rules made by the PRA and policy made by the BoE. As the BoE UK's Resolution Authority, the BoE has a range of powers to intervene to manage the failure of a firm.

These resolution powers include the power to impose a 'bail-in' of certain liabilities of a bank. The BoE is able to write down and/or convert to equity the claims of shareholders and unsecured creditors, subject to various exclusions and with a mechanism to assess compensation after the bail-in. The bail-in is intended to re-capitalise the bank, avoid insolvency and buy time to restructure the bank and address its underlying problems.

As a G-SII, the RBS Group would be subject to a bail-in strategy by the BoE if it was to go into resolution.

I have not sought to assess whether the RBS Group is or will be resolvable from a regulatory perspective. That is a complex judgement that sits outside the scope of my role as the skilled person and is properly the responsibility of the BoE as Resolution Authority. My focus is on whether the RBS Group or any of the Scheme Companies will become any less resolvable, such that by transferring (or not transferring) businesses between them, a Stakeholder may be exposed to an increased risk of a disorderly resolution that is a greater monetary loss given default, or operational discontinuity that affects their ability to transact.

The overall strategy for the resolution of the RBS Group is not anticipated to change as a result of the implementation of the Scheme, though this is ultimately the decision of the BoE. It will remain a so-called 'Single Point of Entry' resolution that is undertaken Group-wide from RBSG plc downwards.

The first stage of the resolution would be to undertake a 'bail-in' that absorbs the losses that have pushed the bank into resolution. This is explained in more detail in Section 10.7. This is a crucial first step in stabilising the bank and recapitalising it. As concluded in Section 10, I am satisfied that no Adverse Effect arises as a result of the Scheme in that regard.

Once RBS has been stabilised, the BoE would appoint a Bail-In Administrator to lead the restructuring of the RBS Group. The BoE would be aiming to ensure as far as possible that there is Operational Continuity in Resolution ("OCIR") for customers and counterparties as far as possible, to avoid disruption to the real economy.

The RBS Group has an OCIR workstream underway, to comply with specific OCIR rules that come into effect on 1 January 2019. This is an ongoing programme that has a project plan for the period out to 2019. I have considered the overall approach being adopted by the RBS Group and have concluded that there is no Adverse Effect as a result of the Scheme.

The result of the OCIR programme is planned to be:

- A service catalogue: a detailed record of all the critical services provided within the RBS Group that are required operationally to run RBS's business.
- Service mapping: building on the service catalogue, RBS will have mapped the providers and recipients of those services. Mapping is being undertaken by legal entity and by 'Critical Economic Function,' that is the critical products and services provided to third parties).
- Legal agreements: RBS is putting in place a series of contractual arrangements to support the service catalogue and mapping. These are being drafted to ensure that services should continue uninterrupted in a resolution, subject to payment for services continuing to be made and set on an arm's-length basis.
- Financial resilience: the RBS Group is developing its ability to calculate the segregated funds amount for operational continuity funding required by the PRA from 1 January 2019, and is identifying the intra-group and third party arrangements in which the funds will be held.
- Governance: as part of the RBS Group's operating model design for the Shared Services Model there will be a framework for managing internal services across the RBS Group. This will include Intra-Group Agreements ("IGA") governing the supply of central services being signed by a senior executive or 'head of' function as Service Owner, who will be accountable for ensuring that the service is provided in line with the IGA.

The OCIR programme above is in process to ensure that RBS meet ring-fencing requirements included those that are linked towards resolvability. The Scheme results in businesses moving to different entities and RBS is including these changes in its overall mapping and linked activities that are occurring.

Although this overall programme will not be completed until the end of 2018, I do not consider that the Scheme has an Adverse Effect on the arrangements that do exist in the RBS Group as at the date of the Scheme.

13.4 Conclusion

For the reasons set out above, I am satisfied that there is no Adverse Effect as a result of the Scheme in respect of resolvability considerations.

14 Tax considerations

14.1 Introduction

In this section, I consider the effect of the Scheme on the tax borne by RBS plc and potential tax costs for customers, and other key Stakeholders and whether they may suffer an Adverse Effect as a result of the Scheme.

I have based my conclusions on information received from RBS, which I have reviewed and challenged. Overall I have concluded that, from a tax perspective, there are no Adverse Effects on customers or creditors of each of Adam & Company, NatWest Plc and RBS plc as a result of the Scheme.

As a large corporate group, RBS has regular ongoing dialogue with HM Revenue & Customs ("HMRC"). There are a number of tax treatments that RBS plans to adopt in relation to the Scheme. RBS has explained to me that these positions have been discussed with HMRC and no objections have been raised to date. On the basis that no such objections have been raised and the approach is in line with my understanding of the current industry approach, I have assumed that HMRC will accept the proposed treatments in due course and I have reached my conclusions on that basis.

Although my review has not identified any Adverse Effects for customers and creditors, there will always be some risk of an adverse tax effect due to changes to tax legislation between now and the Effective Date, or in relation to execution risks (for example, the obtaining of tax clearances and notification requirements). I am not aware of any proposed legislative or tax changes that would have an Adverse Effect at the present time.

14.2 Corporation tax

I have considered whether the corporation tax position of RBS plc, Adam & Company and NatWest Plc could be adversely affected by the Scheme, for example, as a result of the transfer of assets and liabilities between the companies; the potential transfer of tax losses; the availability of tax relief for payments under relevant indebtedness; and, transfer pricing compliance obligations for the RBS Group.

RBS does not expect a UK corporation tax effect as a result of the Scheme. Based on the work performed set out below, I am satisfied that the Scheme is not expected to cause any Adverse Effects for customers or creditors of RBS plc, Adam & Company or NatWest Plc from a corporation tax perspective.

14.2.1 Grouping

The Scheme involves the transfer of certain assets and liabilities within a group under common ownership of RBSG plc for relevant corporation tax purposes. On the basis of the UK tax grouping rules, which provide exemption from tax for transfers of assets and liabilities between subsidiaries of RBSG plc, the Scheme is not expected to give rise to a corporation tax charge for RBS plc, Adam & Company or NatWest Plc.

I note that the intra-group transfer creates a latent tax charge for Adam & Company and NatWest Plc that would be triggered if, within six years of the Scheme, the relevant transferee company ceases to be a member of the RBSG plc tax group. In such circumstances, the transferee would be deemed to have disposed of the relevant asset and liabilities at its fair value at the time immediately before ceasing to be a member of the group (and immediately reacquired it for the same consideration). Provided that Adam & Company and/or NatWest Plc are not de-grouped in this way, the latent tax charge should not arise.

14.2.2 Tax losses

RBS plc has significant carried-forward tax losses arising on its historic trading activities, including losses incurred during the 2007 financial crisis. These tax losses can be offset against taxable trading profits of RBS plc in future periods.

As a result of the Scheme, under specific tax legislation, a proportion of the tax losses may transfer from RBS plc to NatWest Plc and Adam & Company provided the relevant conditions are satisfied. RBS is in ongoing discussions with HMRC regarding the loss transfer rules and the basis for apportioning losses.

If no accumulated tax losses are transferred with the business moving from RBS plc to NatWest Plc and Adam & Company respectively, then taxable profits in NatWest Plc and Adam & Company would be higher as they would not be reduced by accumulated tax losses relating to the transferred business. However, I do not consider that this causes an Adverse Effect for the creditors and customers of Adam & Company – Adam & Company meets the regulatory capital requirements as at the date of the Scheme and if it continues to generate profits in the future I believe that this is positive for customers and creditors of Adam & Company and the obligations that the company has to them. Therefore I do not consider that there is an Adverse Effect.

If tax losses are retained by RBS plc, it is likely to take longer for the company to utilise its tax losses to offset against future profits following the transfer of a significant proportion of its business under the Scheme. This could cause a further decrease in RBS plc's deferred tax asset from an accounting perspective (the deferred tax asset having already been substantially written down by RBS plc). If no accumulated tax losses are transferred, from an overall RBS Group perspective, it may take longer to utilise its tax losses and hence higher tax rates in the shorter term. However, no accumulated tax losses are lost.

14.2.3 Tax relief for financing costs

RBS considers that finance payments currently made by RBS plc such as interest on customer deposits and RBS plc's own borrowings will continue to be deductible expenses for tax purposes after the Scheme when these payments are made by NatWest Plc or Adam & Company.

I have reviewed the basis on which RBS has reached this conclusion and I am satisfied that the tax deduction for such finance payments will continue to apply.

14.2.4 Transfer pricing

The RBS Group will need to ensure that its new operating model with central functions and other support services provided by NatWest Plc to the rest of the RBS Group complies with UK transfer pricing rules. This requires that NatWest Plc will be remunerated for intra-group services it provides on an arm's length basis and that new transfer pricing documentation is put in place to support this.

Ring-fencing requirements also require that central services provided to RFBs and NRFBs are charged on an arm's length basis, which is consistent with transfer pricing tax rules.

I note that RBS has used a professional firm to conduct analysis to assist in establishing the arm's length range applicable to inter-company pricing. The effect of this intercompany pricing has been included in the financial forecasts I have considered in Section 10.

14.2.5 Conclusion – corporation tax

On the basis of the above, I am satisfied the Scheme is not expected to cause any Adverse Effects from a corporation tax perspective.

14.3 VAT

14.3.1 VAT group

Given the nature of the activities performed by businesses in the banking sector, VAT incurred can represent an absolute irrecoverable cost to them. However, where entities are members of the same UK VAT group, transactions between them are disregarded for UK VAT purposes: no VAT is charged by the group member performing a service to the group member receiving the service. VAT grouping is commonly used by organisations in the banking sector for both administrative ease and to ensure that irrecoverable VAT is mitigated where possible on transactions between entities in the same UK corporate group.

The RBS UK corporate group operates in a UK VAT group, which currently includes RBS plc, Adam & Company, NatWest Plc and NatWest Holdings. Consequently, RBS expects the transfers of business from RBS plc to NatWest Plc and Adam & Company under the Scheme will be disregarded for UK VAT purposes. I am satisfied that this is a reasonable position to adopt.

14.3.2 Joint and several liability

One of the key principles of VAT grouping is that all members of VAT groups are "jointly and severally liable" for all VAT assets and liabilities generated during the time in which those entities are members of the same VAT group. This means that Adam & Company, NatWest Plc and RBS plc as members of the same VAT group are jointly and severally liable to HMRC for each other's VAT obligations.

The ICB indicated that the principle of "joint and several liability" within UK VAT grouping could create a tax exposure that could undermine the ability of ring-fenced banks to be resolved in a crisis. This is because a ring-fenced bank could be involuntarily obliged to bear costs incurred by entities in the corporate group located outside the ring-fence. The ICB proposed that either: (i) ring-fenced banks are removed from VAT groups; or (ii) the effect of their obligations to meet the VAT liabilities of their fellow VAT group members is removed somehow.

RBS plans to operate on the basis that VAT grouping will continue to be available for ring-fenced banks. This is in line with the current industry-wide view.

This has been raised by the industry with HMRC and HM Treasury in the context that VAT groups should not need to be disturbed for banks going through ring-fencing.

RBS has informed me that the PRA has been involved in discussions and is aware of the joint and several liability exposure. The potential exposure is not expected to be significant as affected VAT groups will submit monthly or quarterly VAT returns and thus any VAT that would need to be retained would only relate to the VAT on transactions not already reported on a prior VAT return. In addition: (i) the only taxable activities are likely to involve commodities trading, leasing and investment management and, apart from the latter, these activities are performed on a monthly or short term basis; and (ii) RBS has confirmed that whilst it expects the RFB Subgroup to be in a net VAT payable position, the group of companies outside the ring-fence are expected to be in a net VAT repayable position and thus it is unlikely that the RFB Subgroup would be in a position where it is liable for VAT liabilities arising outside the ring-fence.

RBS has informed me that the PRA has requested that banks report the respective VAT positions of the ring-fenced bank and remaining non ring-fenced corporate group as part of their ongoing monitoring of joint and several liability exposures. This will allow the PRA to determine whether VAT is a significant exposure in the situation where VAT grouping is in place and joint and several liability remains. This is expected to take the form of an additional VAT return to be submitted at the financial year end of the relevant corporate group. This approach conforms to an industry-wide understanding and expectation of how the PRA will be satisfied that joint and several liability under VAT grouping should not harm ring-fencing.

14.3.3 VAT recovery

I do not expect the splitting of the business between the RBS RFBs and NRFBs as a result of the Scheme to have an Adverse Effect on the level of VAT recovered by the VAT group, on the assumption that RBS plc, Adam & Company and NatWest Plc will remain in the same VAT group after the Scheme takes effect and the nature of the activities undertaken do not change significantly.

If it is not possible for RBS plc, Adam & Company and NatWest Plc to remain members of the same VAT group, it is expected that the level of VAT which cannot be recovered by the entities will increase.

14.3.4 Conclusion - VAT

On the basis of the above, and the expectation that HMRC and HM Treasury confirm that RBS plc, Adam & Company and NatWest Plc can remain members of the same VAT group, I am satisfied the Scheme is not expected to cause any Adverse Effects from a VAT perspective.

14.4 Bank Levy

The UK bank levy is an annual levy that applies to large banking groups operating in the UK. For a UK banking group, the levy is based on the group's consolidated balance sheet.

Responsibility for payment of the bank levy rests with the nominated responsible member within the banking group. However, all members of the relevant group are jointly and severally liable for the bank levy liability of the responsible member.

Similar to the VAT grouping rules described above, the principle of joint and several liability within a bank levy group could create obligations on ring-fenced banks to pay bank levy debts of other group entities located outside the ring-fence.

This has been raised by the banks subject to ring-fencing with HMRC and HM Treasury. RBS has informed me that the PRA has also been involved in discussions, and has requested that banks report the respective bank levy positions of the ring-fenced bank and remaining non ring-fenced corporate group as part of their ongoing monitoring of joint and several liability exposures. This will allow the PRA to determine whether bank levy is a significant exposure in the situation where bank levy grouping is in place and to the extent that joint and several liability remains.

HMRC published draft legislation setting out proposed changes to the scope and administration of UK bank levy. This includes proposed changes to the rules governing the shared liability of group members in order to be consistent with ring-fencing principles. The new rules on joint and several liability are expected to have effect from 1 January 2018 and limit the joint and several liability of a ring-fenced entity to the bank levy liability that is attributable to the ring-fenced subgroup. Accordingly, ring-fenced entities would not be liable for bank levy amounts arising in respect of non ring-fenced entities within the group.

On the assumption that the draft legislation described above is enacted into UK law in 2018 (as expected by the industry), I am satisfied there will be no Adverse Effect from a UK bank levy perspective.

14.5 Stamp duty and other transfer taxes

On the basis that the RBS plc, Adam & Company and NatWest Plc are under common ownership under RBSG plc, I am satisfied that there will be no UK stamp duty or related costs arising as a result of the Scheme.

Similarly, on the basis of information provided by RBS, I am satisfied that the Scheme is not expected to cause any Adverse Effects from the perspective of stamp duty and other transfer taxes.

14.6 Property transfers

The Scheme involves the transfer of approximately 700 properties from RBS plc to NatWest Plc and/or Adam & Company. These companies are within a group under common ownership of RBSG plc for relevant corporation tax on chargeable gains and stamp duty land tax ("SDLT") purposes. On the basis of the UK tax grouping rules, which provide for tax neutral transfers of real estate between subsidiaries of RBSG plc, the Scheme is not expected to give rise to a corporation tax on chargeable gain or SDLT charge for RBS plc, Adam & Company or NatWest Plc.

In the case of SDLT, the intra-group relief must be claimed through an application to HMRC. RBS has instructed an external law firm to undertake the administrative requirements on behalf of RBS.

As I have noted above under "Grouping", the intra-group transfer creates a latent tax charge for Adam & Company and NatWest Plc that would be triggered if, within six years (three years in the case of SDLT) of the Scheme, the relevant transferee company ceases to be a member of the RBSG plc group. In such circumstances, the transferee would be deemed to have disposed of the relevant asset and liabilities at its fair market value at the time immediately after the intra-group transfer (and immediately reacquired it for the same consideration). Provided that Adam & Company and/or NatWest Plc are not de-grouped in this way, the latent tax charge should not arise.

RBS expects the vast majority of transfers to be carried out within the RBS UK VAT group. Such transfers will therefore be disregarded for UK VAT purposes.

As a result of the above, I do not expect the Scheme to cause any Adverse Effects from a tax perspective with regard to the property transfers.

14.7 Customer taxation

14.7.1 Customer products

RBS does not anticipate any changes to the taxation of customers involved in the Scheme for any products - including deposit accounts, personal mortgages, personal unsecured loans and credit cards, business and commercial loans, payment services, digital services and trade finance products. This is subject to the comments in Section 14.7.2 regarding Covered Bonds. In particular:

RBS has confirmed that the eligibility to favourable tax treatment of savings from relevant ISA products transferring under the Scheme should not be affected.

RBS has confirmed that, other than ISAs, no products that are subject to a special tax regime are transferring under the Scheme.

14.7.2 Covered Bond investors

One area of potential Adverse Effect is whether the transfer of Covered Bonds under the Scheme could involve an investor being deemed to have disposed of their existing bond for tax purposes in consideration for new Covered Bond securities issued by NatWest Plc ('a realisation event'). Such a deemed disposal could potentially trigger a taxable gain for certain bondholders, giving rise to a "dry" tax charge without the corresponding gain being realised in cash. However, this will depend on the particular circumstances of the investor - namely, the tax rules in the jurisdiction in which the investor (beneficial owner) is resident and the beneficial owner's tax status.

RBS has obtained tax advice which states that the Scheme should not involve a realisation event for UK resident investors or customers. A realisation event may occur for some categories of US investor; however, RBS has informed me that the primary offering of the Covered Bonds was never marketed or sold into the US. In the case of other non-UK resident investors or customers, tax advice obtained by RBS in a number of jurisdictions indicates that it is generally unlikely that a realisation event may be triggered by a scheme of this type. There are a few jurisdictions where the risk identified is considered more than an immaterial risk due to a lack of tax authority

guidance on the matter, albeit the advice obtained states that there are still good arguments that the Scheme should not give rise to a realisation event for an investor in these jurisdictions.

Even if a realisation event was deemed to arise in a particular non-UK jurisdiction, there are a number of other factors which would be needed for a potential Adverse Effect to arise. Firstly, the bond must have appreciated in value since it was acquired by the investor for there to be a taxable gain. The investor needs to be a taxpayer and not a tax-exempt entity. The investor also needs to pay tax on a realisation basis (i.e. upon realised disposals of investments) and not on a fair value basis (i.e. where the investor is taxed on the inherent gain in value of an investment irrespective of whether a realisation event arises). RBS has confirmed that the Covered Bond's institutional investor base is likely to be unaffected as such institutions generally tax securities on a fair value basis or are tax-exempt entities (e.g. pension funds) and also that it is unlikely there are retail investors as the bonds are sold in wholesale denominations. Furthermore, for an Adverse Effect to arise, an investor's own tax position and their local jurisdiction's tax rules would need to be such that the investor could not offset the deemed taxable gain arising on a realisation event with certain losses for tax purposes.

Based on the above, RBS considers the risk of any Adverse Effect to Covered Bond investors under the Scheme to be unlikely. Since it is not possible to identify all the holders of Covered Bonds as the securities are held through clearing services, it cannot be guaranteed that there is no risk of a dry tax charge arising to an investor as a result of the Scheme. RBS has informed me that the planned communication will alert investors to the fact that if they are in any doubt as to whether there is any tax or other impact on them as a result of the Scheme, they should discuss such matters with their advisers and can also contact the Bank.

I am satisfied that the approach RBS has taken and intends to take is a reasonable one. As a result, I do not expect the Scheme to cause any Adverse Effects from a tax perspective with regard to the Covered Bond transfers.

14.7.3 Conclusion – customer taxation

On the basis of the above, I am satisfied the Scheme is not expected to cause any Adverse Effects from a customer taxation perspective.

14.8 Conclusion - taxation

For the reasons set out above, I am satisfied that there is no Adverse Effect as a result of the Scheme in respect of tax considerations.

15 Communications

15.1 Introduction

RBS must satisfy the Court as to the adequacy of its communications plan. In addition, RBS must comply with specific notice requirements issued by the Court concerning the Scheme, which will be determined at the First Hearing. RBS will follow the approach to communications set out in the PRA Statement of Policy and the FCA Guidance and the present practice of the Court in relation to transfers under Part VII of FSMA, in so far as it will be applied in the order to be made at the First Hearing.

I outline below RBS's proposed communication plan and, in my view, whether persons likely to suffer an Adverse Effect (as identified earlier in my Scheme Report) are properly identified in RBS's communication plan and will receive information on the proposed Scheme which is clear, fair and not misleading (in line with Principle 7 of the FCA Handbook).

My review of Scheme communications is based on RBS plans and draft notifications prepared as at the date of this Scheme Report.

The planned Scheme communications which I have reviewed are separate to other RBS communications on wider ring-fencing activities, such as employee moves and changes to supplier and funding arrangements. I have also reviewed references to the Scheme in communications made by RBS on wider ring-fencing implementation and also announcements already published on RBS websites.

15.2 Court requirements

In order to satisfy the Court, RBS's communications plan must encompass any person or party who may consider themselves to be adversely affected by the Scheme. In relation to the Scheme, RBS has received some initial guidance from the Court on its proposed notification of the Scheme. The Court has suggested that, in relation to the Scheme, it will be minded to direct RBS to issue advertisements of the application to the Court in a broader range of newspapers than those in which the Court would ordinarily order advertisement.

The period for raising formal objections to the Scheme, in accordance with the ordinary procedure of the Court, will be within 42 calendar days after the date on which the last Gazette notice is published. The final deadline for objections which the Court is obliged to consider is expected to be at least 27 calendar days before the Final Hearing. The advertisements for the Scheme are to be approved by the Court at the First Hearing.

15.3 Regulatory requirements

The PRA Statement of Policy notes that a key concern for the PRA will be to satisfy itself that persons other than the Transferor have adequate information and a reasonable time within which to determine whether or not they are adversely affected and, if adversely affected, whether to make representations to Court.

An important focus for RBS is the FCA's Principle 7, "*Communications with Clients: A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading.*"

The FCA Guidance requires that customers and counterparties of RBS likely to be affected by the Scheme are notified of the Scheme. Such notifications should summarise the changes proposed under the Scheme, how the Scheme is likely to affect them, how further information on the Scheme can be obtained and the process for making written representations regarding the Scheme (including raising objections).

The FCA Guidance further states that a firm should consider giving notice of the application for a RFTS in one or more of the following ways: publication in the official Gazettes and at least two national newspapers in the United Kingdom (normally two newspapers, but wider publication may be appropriate in some circumstances) and individually sent notices to all consumers who are likely to be adversely affected by the Scheme. In addition, the FCA notes that it is normally appropriate for the following documents to be made available, free of charge to anyone requesting them: a statement setting out the terms of the Scheme, a summary of this Scheme Report and a copy of the full Scheme Report.

The PRA and the FCA are engaging closely on their requirements for communications on the Scheme and RBS has been consulting with the PRA and FCA on the Regulators' views about what communication might be appropriate.

15.4 Notification of the Scheme

15.4.1 Overview

Since the RFTS process was established, RBS has been engaged in a number of activities setting out its plans for implementation of ring-fencing and the Scheme. This has included internal communications and briefings with staff, market announcements and information provided on its websites and other materials. RBS has also been in discussions with a number of key stakeholders, who are not directly involved in the Scheme but are affected by wider ring-fencing activities. This includes such persons as suppliers and the RBS Pension Trustee.

The rest of this section deals with the formal notification of the Scheme.

RBS's plan is to give notice individually, either by letter or email, to each customer or counterparty who may consider themselves to be adversely affected by the Scheme. Other persons who are likely to be affected, such as investors in Covered Bonds or bondholders of RBS plc, will be notified via the Regulatory News Service (RNS) through which subscribers will receive email alerts of new announcements. In addition, counterparties of RBS may also be contacted via SWIFT. Information about the Scheme will also be included on the RBS website, as set out below.

Notices of the proposed Scheme and the Final Hearing to consider the Scheme will be published in all three official Gazettes and widely circulating newspapers. These notices will include details of the date of the Final Hearing, how to obtain further information on the Scheme and the process for raising objections to the Scheme. The Scheme Document, a summary of the terms of the Scheme, the Petition, the legal notices, the undertaking to the Court regarding FSCS, a summary of this Scheme Report and a copy of this full Scheme Report and any Supplementary Report will be also be available to download from the RBS website.

RBS plans for the customer mailing process to be phased over a two week period for operational reasons, to limit the effect on customer-facing teams who are responding to customer queries following the mailing.

All these communications will tell the reader how to find out more information on the Scheme, when the Court will hear the Scheme application at the Final Hearing and how to submit any objections to the Scheme. If the Scheme is approved by the Court, separate notification will be given explaining when the Scheme will take effect.

The proposed Scheme notifications have been through RBS review and governance processes.

15.4.2 Communication plan

Notice of the Scheme application will be published in the London, Edinburgh and Belfast Gazettes. Notice will also be published in The Scotsman, the Daily Record, the Daily Mail (Scottish and English editions), The Sun (Scottish and English editions) and the Financial Times (UK and international editions).

RBS will notify all customers and counterparties of RBS plc and Adam & Company providing information on:

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- Why RBS is undertaking the Scheme and what the Scheme entails;
- How the Scheme affects them and the immediate impact of the Scheme on them;
- What documents relating to the Scheme are available and how to obtain them online or in hard copy;
- How to find out more information on the proposed Scheme or raise any questions;
- Key dates for the Scheme, including the date of the Final Hearing and proposed Effective Date; and
- The process and timeline for raising objections to the Scheme.

RBS does not plan to individually notify customers and counterparties of NatWest Plc. This is because only a very small, discrete part of RBS plc's business will be moving to NatWest Plc and the Scheme will not affect services provided by NatWest Plc to its existing customers and counterparties. RBS considers that notification to NatWest Plc customers may create unnecessary concern and confusion. This follows consideration within RBS of the analysis of focus group results and previous communications campaign experience. I am satisfied that individual notice of the Scheme to customers and counterparties of NatWest Plc is not required as these are persons not likely to be affected by the Scheme.

RBS will include on its main website at www.rbs.com/ring-fencing the following documents relating to the Scheme:

- the Scheme Document and a summary of the principal terms of the Scheme;
- the advertisement giving notice of the Scheme;
- the petition to the Court in relation to the Scheme;
- the undertaking to the Court regarding FSCS;
- this Scheme Report and my Summary Scheme Report; and
- any Supplementary Reports that I may produce.

RBS will provide a hard copy of all of these documents upon request, free of charge.

General information on RBS ring-fencing plans is already available at this website and contains links to previous RBS announcements on its implementation of ring-fencing and to the FCA website. Further information for customers of Adam & Company and NatWest Markets will be available at www.adambank.com/ring-fencing and www.natwestmarkets.com.

For more information, customers can visit their local branch. Commercial and corporate customers can also contact their relationship managers, and RBS intends to establish a dedicated helpline for personal and business banking customers without dedicated relationship managers. RBS has briefed its customer-facing staff to deal with all queries concerning the Scheme.

RBS will use other forms of communication including but not limited to market announcements and SWIFT messaging.

15.4.3 Communication volumes

The Scheme involves the transfer of a significant volume of business, directly affecting approximately five million customers and counterparties. RBS plans to individually notify all those affected customers and counterparties i.e. those of RBS plc and Adam & Company for whom it has an up-to-date name and address on its computer records.

RBS maintains databases on which customer information is held, from which it is able to identify persons to be included in the Scheme notification.

I have enquired into RBS's approach to the categorisation of customers who should receive notification, such as customers transferring to Adam & Company and customers not transferring. Having reviewed the RBS customer and product due diligence processes, I am satisfied that this categorisation is adequate.

15.4.4 Targeted communications

Changes in circumstances

In addition to general announcements made on ring-fencing implementation and the proposed Scheme, RBS's draft communications include information applicable to specific situations where the Scheme causes a change in customer circumstances. Where possible, this information will only be included in communications to customers potentially affected by the specific circumstances, rather than in communications to all customers. These circumstances include changes in protection available to customers such as FSCS deposit protection and rights of set-off, and required amendments to contractual rights to give full effect to the Scheme. In particular, the communications will include information relating to:

- Any potential loss of FSCS protection, where detailed information will be provided in the notification correspondence, including details of the mitigation options proposed by RBS (see Sections 5.3.2, 5.4.2 and 8.4.2).
- Administrative changes to documentation and the delivery of certain services introduced by the Scheme, affecting customers or counterparties, (see Section 5.10).
- Where contractual set-off rights are affected or removed by the Scheme, including details of any mitigation proposed by RBS (see Section 9.1.3).
- The creation of new or enhanced set-off rights for RBS together with details of the mitigation proposed by RBS (see Section 9.1.1).
- Where existing set-off rights are being restricted by the Scheme, including details of any mitigation proposed by RBS (see Section 9.1.4).
- Claims or legal proceedings against RBS plc (see Section 9.11).

New customers

RBS has put into place a process to notify customers who open a new account between the First Hearing and the Final Hearing. All customers will receive a communication about the Scheme as part of the account opening process and will also be included in the population to receive subsequent communications on the Scheme.

Vulnerable customers

For customers whose personal circumstances require communications to be undertaken in a different way, for example if they are going through a temporary or permanent specific life event such as having a disability, dealing with bereavement or working through debt, RBS will implement its Customers in Vulnerable Situations policy and ensure staff are properly trained and understand their roles and responsibilities in dealing with vulnerable customers. Provision will also be made for customers with special needs or in vulnerable situations when using electronic communications.

I have relied on the exercise performed by the RBS Group to identify customers affected by specific issues. I have enquired into this process and have asked the RBS Group to explain, check and/or clarify any results that seemed to me unreasonable or inconsistent with other data and information. All such queries have been answered to my satisfaction.

I am satisfied that the planned notifications and support to persons affected by the Scheme are reasonable.

15.4.5 Uncontactable customers and counterparties

RBS has advised me that there will be a number of customers and counterparties which it will be unable to notify individually. RBS has provided me with an estimate of the number of customers who may fall into this category, which is a small percentage of the overall population receiving individual communication.

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RBS will rely on extensive advertising and the use of the RBS website as described in Section 15.4.2 to give notice to customers and counterparties RBS is unable to reach by individual communication.

To the extent any customers and counterparties have been omitted from the individual notification, I am satisfied that the other forms of communication proposed provide such customers and counterparties with sufficient and clear notification and information on the Scheme.

15.4.6 Review of draft communications

I have reviewed drafts of RBS's proposed communication materials available at the date of this Scheme Report.

As part of the drafting process I understand that these materials underwent testing with customer focus groups, to assess customer knowledge of RBS's ring-fencing and their understanding of any implications for them, to determine whether the correspondence is clear and easy to understand, how customers will likely react to the communications and to identify recommendations for improvement.

- I am satisfied that the proposed communication materials provide sufficient information to enable customers and counterparties to understand what is changing under the Scheme, the implications of the Scheme and the effect on their accounts, products, services and relationship with RBS, and the objections process to follow should they consider themselves adversely affected.
- I am satisfied that the Scheme notifications are not too long or too technical in nature, and are easy for readers to understand.
- I am satisfied that the process to obtain additional information on the Scheme, if required, is simple and clearly communicated. Information on the Scheme will be predominantly internet-based, and it will be clear to the customer how to access or download information on the Scheme. I have also reviewed and am satisfied that there are appropriate provisions for customers and counterparties who do not wish to or do not have access to email or the internet. Such customers and counterparties can contact RBS regarding the Scheme by phone, put their request in writing or visit their branch to ask questions or obtain further information.
- I have been provided with a draft of the proposed advertisement to be placed in a number of newspapers that have wide circulation in Scotland and the rest of the UK. It provides sufficient notice of the Scheme, the date of the Final Hearing and the Effective Date, where to obtain further information and the process and timeline for raising objections.

15.5 Responding to questions on the Scheme

RBS is preparing internal communications to inform and equip staff with information about the Scheme and the process for objection should customers and counterparties raise questions or queries. Guidance is also being prepared by RBS on the process for handling objections and complaints, and how these will be logged.

RBS is preparing internal guidance for customer-facing staff supporting dual banked customers which will cover queries on FSCS protection and changes to set-off rights. This will also include support on the process for enabling dual banked customers to move their deposits if requested.

15.6 Objections

15.6.1 Process

If any person thinks that they would be adversely affected by the carrying out of the Scheme, they have two alternative ways of making sure the Court considers their views.

Lodging formal objections with the Court

They have the right to lodge formal written objections (known as "Answers") with the Court. If they wish to lodge Answers, they should seek independent legal advice. Answers are a formal Court document which must comply with the rules of the Court and are normally prepared by Scottish legal counsel. Answers must be lodged with the Court at Parliament House, Parliament Square, Edinburgh EH1 1RQ, within 42 days of the publication of the last of the notices relating to the Scheme, which is expected to be on or around 27 November 2017. The deadline for lodging Answers is 8 January 2018. In addition, Answers must also be accompanied by a fee to the Court.

In writing or in person

The Court will also consider any other informal objections to the Scheme which are made in writing or in person at the Final Hearing. If a person wishes to object in writing or in person at that hearing, they need to send a written statement of their views to all of the following:

- the Court at Parliament House, Parliament Square, Edinburgh EH1 1RQ;
- RBS plc at 36 St Andrew Square, Edinburgh EH2 2YB; and
- the Prudential Regulation Authority, either:
 - i) by post to The Royal Bank of Scotland, Prudential Regulation Authority, Bank of England, Threadneedle Street, London EC2R 8AH; or
 - ii) by submitting it online at <http://www.bankofengland.co.uk/pru/Pages/authorisations/structuralreform/representations.aspx>

They need to do this by 23 February 2018 in order to ensure the Court will consider their objection. No fee is payable to the Court for objecting in this way.

The Court may also consider any objections made in person at the Final Hearing, although it may not do so if the process described above has not been followed.

15.6.2 Consideration of objections by the skilled person

I will consider the objections that have been made in writing sufficiently in advance of the date of the Final Hearing in coming to my final view on the effect of the Scheme, and will address them if required in my Supplementary Report.

15.7 Fraud awareness and prevention

There is a risk that attempts to defraud customers and counterparties may increase during the period of significant change presented by the ring-fencing of the RBS Group. RBS is enhancing fraud awareness in its communications generally as part of an industry wide initiative.

15.8 Conclusion

I am satisfied that persons likely to be affected by the Scheme have been properly included in RBS's planned notification of the Scheme.

Subject to review of any changes to the proposed notification plans or communication materials, I am satisfied that the proposed notifications and communication of the Scheme are reasonable and are set out in a way that is clear, fair and not misleading.

I am satisfied that RBS's planned communications will be provided in a timely manner to inform persons likely to be affected by the Scheme of the process to make representations or object to the Scheme.

Appendix 1 - Glossary

Term	Means
Adam & Company	Adam & Company PLC, which is a licensed bank registered in Scotland with registration number SC083026. Adam & Company will be renamed The Royal Bank of Scotland plc on the Effective Date
Adverse Effect	Has the meaning as described in Section 1.4 of this Scheme Report
BACS	A payment system in the UK, operated and managed by Bacs Payment Schemes Limited. BACS provides the services for clearing and settlement of important UK automated payment methods, Direct Debits, typically used by consumers and businesses to make and collect bill payments, and Direct Credits, typically used by businesses to pay salaries and payroll.
Bail-in	In a bail-in, the claims of shareholders and unsecured creditors of the failed firm are written down and/or converted into equity in order to absorb the losses and recapitalise the firm or its successor.
Bail-in Administrator	A bail-in administrator may be appointed by the Bank of England to manage the process of bail-in and manage the bank which is under resolution
Banking Reform Act 2013	The Financial Services (Banking Reform) Act 2013
Board	The board of directors of the relevant entity from time to time
BoE	Bank of England
BRRD	EU Banking Recovery and Resolution Directive 2014/59/EU
Capital Support Deed or CSD	A capital support deed is an agreement, under which the participating entities may be required to provide capital support to each other by means of distributions on, or repurchase or redeem, their ordinary shares. This obligation is limited to amounts in excess of a participant's required regulatory capital requirements.
CCP	A Central Clearing Counterparty which is a financial institution that provides clearing and settlement services to banks. It generally acts as an intermediary between counterparties to a derivative trade transaction.
CET1	Common Equity Tier 1 is the highest quality of capital. This is comprised of ordinary shares and reserves, less certain regulatory adjustments and deductions.
CHAPS	A payment system in the UK, operated and managed by CHAPS Co. CHAPS is the UK's same day high value payment system, and is typically used for high value corporate payments, and by consumers for significant purchases such as the purchase of homes.

Term	Means
Collateralised Counterparty	A transaction between counterparties to a derivative transaction where one or more counterparties has agreed to provide security to cover the credit risk of its default
Companies	RBSG plc, RBS plc, Adam & Company and NatWest Plc
Core Deposit	Deposits as defined under Article 2(2) The Financial Services and Markets Act 2000 (Ring-fenced Bodies and Core Activities) Order 2014, which under the ring-fencing regulations are required to be provided by a ring-fenced body within a UK banking group in scope of the legislation. These are deposits within a bank account located in the EEA principally held by individuals and small businesses. Deposits comprise products such as current accounts, instant access savings accounts, fixed term savings, children's savings accounts, junior ISAs, and instant access and fixed term ISAs
Court	The Court of Session in Scotland
Coutts	Coutts & Company, a company incorporated in England and Wales with company number 36695
Coutts Switzerland Pension Fund	Pensionskasse der Coutts & Co AG
Covered Bonds	Debt security instruments that are secured on an underlying pool of assets, typically mortgage loans or public-sector debt
Covered Bonds Business	The business carried out in connection with issuing and holding Covered Bonds, and performing various associated roles.
CPB	Commercial & Private Banking franchise of the RBS Group
Deloitte	Deloitte LLP
DoLSub	A group of two or more banks, including their subsidiaries, within the same banking group regulated and supervised as a single subgroup for liquidity purposes rather than on an individual basis.
D-SRB	Domestic Systemic Risk Buffer
Effective Date	Expected to be 00:01 on 30 April 2018
EEA	European Economic Area
Employer	The person or body with whom the member of a pension scheme has a contract of employment relevant to that pension scheme.
Existing Customers - Adam & Company and NatWest Plc	Existing customers and counterparties of Adam & Company and NatWest Plc

Term	Means
Faster Payments	Faster Payments is a payments scheme in the UK, operated and managed by Faster Payments Scheme Limited. Faster Payments provides the services for the clearing and settlement of single payments through internet, mobile and telephone banking and standing order payments within two hours. Faster Payments is typically used by both consumers and businesses to make individual payments and standing orders.
FCA	The Financial Conduct Authority or such successor governmental department, regulatory authority or other official body from time to time exercising supervisory powers in relation to financial services in the UK
FCA Guidance	FCA Finalised Guidance 16/1 "Guidance on the FCA's approach to the implementation of ring-fencing and ring-fencing transfer schemes" published in March 2016
Final Hearing	The hearing of the Court at which the final decision whether or not to approve the Scheme is made
First Hearing	The preliminary hearing at the Court of the application relating to the Scheme
FMI	Key elements of financial market infrastructure, comprising payment systems, central securities depositories, securities settlement systems, central counterparties and trade Repositories
Franchise	A business line of the RBS Group
FSCS	The Financial Services Compensation Scheme, which is the UK's statutory fund of last resort for customers of financial services firms. The FSCS can pay compensation to consumers if a financial services firm is unable, or likely to be unable, to pay claims against it. In relation to bank deposits held by individuals and small companies, the FSCS will pay up to a maximum of £85,000 per person per bank.
FSMA	The Financial Services and Markets Act 2000
G-SIB	Global Systemic Importance Buffer
G-SII	Global Systemic Important Institution
HMRC	HM Revenue and Customs, the government department responsible for collecting and administering taxes
HNWI	High net worth individual with average liquid assets in excess of £250,000
HQLA	High Quality Liquid Assets are securities that are deemed to be easily and immediately converted into cash in private markets, and include government bonds and other securities.
ICAEW	The Institute of Chartered Accountants in England and Wales

Term	Means
ICB	The Independent Commission on Banking inquiry of the UK government which looked at structural and related non-structural reforms to the UK banking sector to promote financial stability and competition in the wake of the 2007-2008 financial crisis. One of the ICB's key recommendations was that British banks should 'ring-fence' their retail banking divisions from their investment banking arms to safeguard against riskier banking activities.
IPED	Investor Products and Equity Derivatives, being a business of RBS plc offering customers structured deposits.
ISA	An Individual Savings Account is a class of retail investment arrangements available to residents of the UK. An ISA is exempt from income tax and capital gains tax on the investment returns, and no tax is payable on money withdrawn.
ISDA	The International Swaps and Derivatives Association which is a trade organization of participants in the market for over-the-counter derivatives.
ISDA Master Agreement	The ISDA Master Agreement is a commonly used master service agreement for over-the-counter (OTC) derivatives transactions internationally. It is part of a framework of documents, designed to enable OTC derivatives to be documented fully and flexibly. The ISDA Master Agreement is published by the International Swaps and Derivatives Association.
LCR	Liquidity Coverage Ratio is a measure of the ability of a bank to cover the net cash outflows that would experience under a stress scenario over the next thirty calendar days with a pool of defined High Quality Liquid Assets.
Leverage	The use of debt, instead of equity, in order to finance the purchase of assets and other investments.
Leverage Ratio	Leverage Ratio represents the bank's Tier 1 capital divided by its Total Exposure Measure or TEM with this ratio expressed as a percentage.
Mentor Business	A range of services for business and commercial customers including consultancy, advice, training and protection as well as access to a payroll system and an employee identity and eligibility to work verification service.
Money Market	A market in which money is lent or borrowed by financial institutions and companies in large denominations, including through the purchase or sale of short-term financial instruments.
MREL	Minimum Requirement For Own Funds and Eligible Liabilities: The minimum level of financial resources to be held by each EU bank to absorb losses and recapitalise the continuing business in the event of Resolution.
NatWest Holdings	NatWest Holdings Limited, the intermediate holding company heading up the RFB subgroup and is registered in England and Wales with registration number 10142224

Term	Means
NatWest Plc	National Westminster Bank Plc which is a licensed bank registered in England and Wales with registration number 929027
NRFB	Non Ring-fenced Body or Non Ring-fenced Bank
NatWest Markets	NatWest Markets is the franchise of, and also the marketing and trading name under which RBS operates its financing, risk management and trading solutions businesses within RBS plc
OTC	Over-The-Counter is a security traded in some context other than on a formal exchange
Other Deposits	Deposits other than Core Deposits and Money Market Deposits
Participating Employer	An Employer, some or all of whose employees have the right to become members of an occupational pension scheme.
PBB	Personal & Business Banking franchise of the RBS Group
Pillar 1 capital requirements	Set of requirements defining the amount of capital that banks need to hold at all times to cover unexpected credit losses for credit risk, market risk and operational risk.
Pillar 2A capital requirements	Set of regulatory requirements, additional to Pillar 1 capital requirements, defining the amount of capital that banks need to hold at all times aimed to address risks not fully captured in Pillar 1. As opposed to Pillar 1 requirements, Pillar 2A capital requirements are firm-specific and are calibrated by the PRA.
PRA	The Prudential Regulation Authority or such successor governmental department, regulatory authority or other official body from time to time exercising prudential regulatory and supervisory powers in relation to financial services in the UK
PRA Statement of Policy	PRA Statement of Policy "The implementation of ring-fencing: the PRA's approach to ring-fencing transfer schemes" published in March 2016
Principal Employer	Commonly used in pension scheme documentation for the particular participating employer in which is vested special powers or duties or obligations in relation to such matters as the appointment of the trustees, amendments and winding up. Usually this will be the Employer which established the pension scheme or its successor in business.
RBS or RBS Group	RBSG plc and its subsidiaries and subsidiary undertakings
RBS Pension Trustee	Trustee of The Royal Bank of Scotland Group Pension Fund
RBS plc	The Royal Bank of Scotland plc, which is a licensed bank registered in Scotland with registration number SC090312. RBS plc will be renamed NatWest Markets Plc on the Effective Date
RBSG Pension Fund	The Royal Bank of Scotland Group Pension Fund

Term	Means
RBSG plc	The Royal Bank of Scotland Group plc, which is the ultimate parent company of the RBS Group and is registered in Scotland with registration number SC045551
RBSI	The Royal Bank of Scotland International Limited, which is a licensed bank registered in Jersey with registration number 2304
RBSIPT	The Royal Bank of Scotland International Pension Trust
Regulators	Together the PRA and the FCA
Remaining Customers - RBS plc	Customers and counterparties that currently exist in RBS plc and will remain in RBS plc after the Scheme takes effect
Repo	A repurchase agreement is a form of short-term borrowing in securities. It is an agreement to sell a security and to repurchase the security at an agreed price on an agreed date in the future.
Residual Asset	An asset transferring under the Scheme which does not transfer until after required formalities have been completed or approvals have been obtained.
Residual Liability	A liability transferring under the Scheme which does not transfer until after required formalities have been completed or approvals have been obtained.
Resolution	The status of a financial institution triggered by regulatory authorities when it has reached a point of non-viability and needs to be resolved under the direction of the authorities
Reverse Repo	For the party selling the security, and agreeing to repurchase it in the future, it is a Repo; for the party on the other end of the transaction, buying the security and agreeing to sell in the future, it is a reverse repurchase agreement or Reverse Repo.
RFB	Ring-fenced Body, i.e. a ring-fenced bank
RFB Subgroup	The ring-fenced sub-group of companies comprising NatWest Holdings and its subsidiaries and subsidiary undertakings
RFI or Relevant Financial Institution	Relevant Financial Institution as defined in Article 2 of The Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions) Order 2014, which comprises broadly financial institutions, such as non ring-fenced banks, investment firms, investment funds and managers thereof. RFIs do not include other ring-fenced banks or building societies.
RFTS	A ring-fencing transfer scheme under Part VII of FSMA
Risk Appetite	The level of risk that an organisation is prepared to accept in pursuit of its objectives, and before action is deemed necessary to reduce the risk. Risk Appetite limits are applied to a number of areas of the business, which are monitored on an ongoing basis.

Term	Means
RWA	Risk-Weighted Assets are used to determine the minimum amount of capital that must be held by banks. It is calculated by assigning "weights" to the bank's assets reflecting the probability that such assets generate losses in relation to credit risk, counterparty credit risk, market risk and operational risk.
Scheme	The proposed transfer of business from the RBS plc to Adam & Company and NatWest Plc under Section 106B of FSMA, in its present form or with any modification thereof, or addition thereto, or condition approved or imposed by the Court.
Scheme Companies	The companies participating in the Scheme; namely RBS plc, Adam & Company and NatWest Plc.
Scheme Document	A detailed description of the terms of the Scheme
Scheme Report	The report on the Scheme prepared by the skilled person pursuant to Section 109A of FSMA and submitted to the Court to assist the Court in its decision whether or not to approve the Scheme
SEPA	The Single Euro Payments Area is a payment-integration initiative of the European Union for simplification of bank transfers denominated in Euro. SEPA allows the cross-border transfer of payments in Euro through SEPA Credit Transfers and the collection of payments through SEPA Direct Debits.
Skilled person	Oliver Grundy of Deloitte LLP whose appointment has been approved by the Regulators. The skilled person and Deloitte LLP has prepared Scheme Report pursuant to Section 109A of FSMA.
SMR	Senior Managers Regime established by the FCA. It focuses on 'senior managers' who are the most senior individuals in a regulated firm or who hold key roles or have significant levels of responsibility and requires that each senior manager has a Statement of Responsibilities setting out the areas for which they are personally accountable. All senior managers are pre-approved by the regulators before carrying out their roles.
Stakeholders	All persons potentially affected by the Scheme including depositors, customers, counterparties and other affected persons
Statutory Question	The question that the Scheme Report must specifically address, required under Section 109A of FSMA. Namely whether persons other than the Transferor are likely to be adversely affected by the Scheme and if so whether the adverse effect is likely to be greater than is reasonably necessary.
Structured Deposit	Deposit whose returns to the customer are linked to an index or asset class
Summary Scheme Report	A summary of the Scheme Report
Supplementary Report	A report produced in advance of the Final Hearing, to consider the effect on the skilled person's conclusions of events that have happened subsequent to the release of the Scheme Report.

Term	Means
SWIFT	SWIFT is an international financial messaging service, operated and managed by the Society for Worldwide Interbank Financial Telecommunication which allows banks and other financial institutions around the world to communicate with each other. SWIFT does not itself facilitate funds transfer, but is commonly referred to as a mechanism for sending and receiving instructions for making international cross-border payments and other financial transactions.
TEM	Total Exposure Measure for the Leverage Ratio represents the sum of the total value of the bank's total assets with some additional adjustments to account, for example, for certain exposures that are not accounted in the balance sheet.
Tier 1 capital	Tier 1 capital is comprised of Common Equity Tier 1 capital and Additional Tier 1 capital. Core Tier 1 capital is mainly comprised of ordinary shares and reserves less certain regulatory adjustments and deductions. Additional Tier 1 capital include perpetual subordinated debt instruments with conversion features.
Tier 2 capital	Tier 2 capital consists of other, non-equity types of investment in a bank and are generally less permanent in nature. These instruments are designed to increase the ability of a bank to absorb losses. Examples of Tier 2 capital include corporate bonds and other long term debt issued by the bank, which may be subordinated to all other debt owed by the bank.
TLAC	The amount of loss absorbing capacity required to be held by global systemically important banks in the form of capital and eligible liabilities, in order to absorb losses and recapitalise banks in the event of Resolution
Trade Finance	Trade Finance comprises activities related to commerce and international trade. Trade Finance includes such activities as lending, issuing letters of credit, issuing bills of exchange and providing export credit guarantees.
Transferees	Adam & Company and NatWest Plc
Transferor	RBS plc
Transferring Customers – Adam & Company	Customers and counterparties transferring from RBS plc to Adam & Company under the Scheme
Transferring Customers - NatWest Plc	Customers and counterparties transferring from RBS plc to NatWest Plc under the Scheme
TUPE Regulations	Transfer of Undertakings (Protection of Employment) Regulations 2006
UBPS	Ulster Bank Pension Scheme
UBRoI	Ulster Bank Pension Scheme in the Republic of Ireland
Ulster Bank	Ulster Bank Limited, which is a licensed bank registered in Northern Ireland with registration number R0000733

Report of the skilled person on the proposed ring-fencing transfer scheme to transfer business from The Royal Bank of Scotland plc ("RBS plc") to Adam & Company PLC ("Adam & Company") and National Westminster Bank Plc ("NatWest Plc")

Term	Means
Uncollateralised Counterparty	Counterparties to a derivative contract where no security is provide to cover credit risk
Williams & Glyn	The business within RBS plc that was previously referred to as Williams & Glyn.

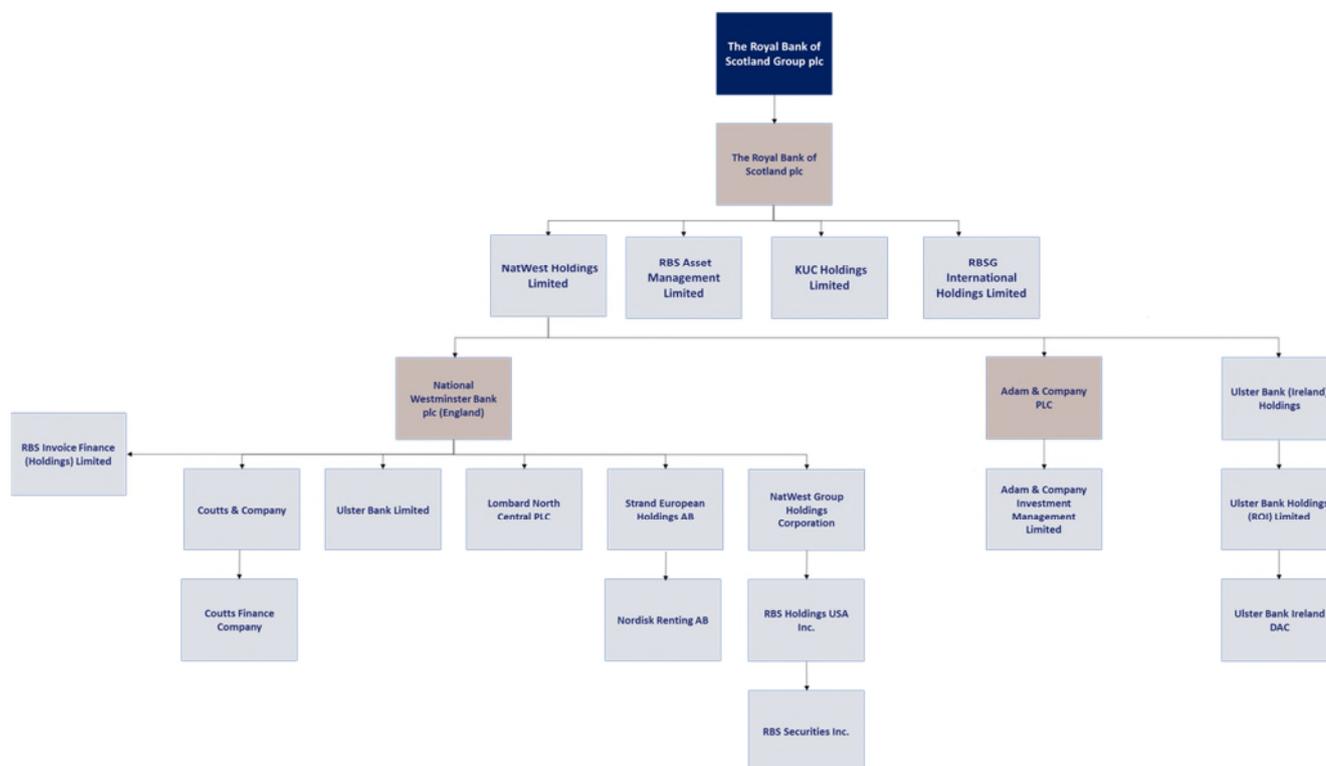
Appendix 2 - Company background

1. The Royal Bank of Scotland Group plc

1.1 Introduction

RBSG plc was founded in 1727 and has its registered office at 36 St Andrew Square, Midlothian, Edinburgh EH2 2YB. RBSG plc operates as the holding company for the RBS Group.

1.2 Corporate structure



1.3 Nature of business of RBSG plc

RBSG plc is the holding company of the RBS Group. The RBS Group provides a wide range of products and services to personal, commercial and large corporate and institutional customers through its two main subsidiaries, RBS plc and NatWest Plc, as well as through a number of other well-known brands including Ulster Bank and Coutts.

2. The Royal Bank of Scotland plc

2.1 Introduction

RBS plc was founded in 1727 and has its registered office at 36 St. Andrew Square, Edinburgh EH2 2YB. RBS plc provides a wide range of banking and other financial services in the United Kingdom and worldwide. RBS plc is one of the banking subsidiaries of the RBS Group.

RBS plc is a wholly-owned subsidiary of RBSG plc.

2.2 Nature of business of RBS plc

Personal & Business Banking (PBB)

PBB provides a comprehensive range of banking products and related financial services to the personal, private and small business segments in the UK through Royal Bank of Scotland, NatWest and Ulster Bank networks of branches, mobile banking, digital banking, contact centres, intermediary channels and ATMs.

Commercial & Private Banking (CPB)

Comprises two reportable segments: Commercial Banking and Private Banking. Commercial Banking serves commercial and corporate customers in the UK and Western Europe. Private Banking serves UK connected HNWIs.

NatWest Markets (NWM)

Serves UK and Western European corporate customers, and global financial institutions, supported by trading and distribution platforms in the UK, US and Singapore.

Williams & Glyn (W&G)

Refers to the business formerly intended to be divested as a separate legal entity. W&G comprised RBS's England and Wales branch-based businesses, along with certain small and medium enterprises and corporate activities across the UK.

Central items and other

Includes central corporate functions, such as RBS Treasury, Finance, Risk Management, Compliance, Legal, Communications and Human Resources. Central functions manage the RBS Group capital resources and RBS Group-wide regulatory projects which provide services to business units.

Table A provides an overview of the current products RBS plc offers as at 31 December 2016.

Table A: RBS plc customer products as at 31 December 2016

Customer products	Number of customers	Aggregate Value (£m)
Loans and advances to customers	1,074,000	160,191
Customer accounts	2,095,000	142,218

Report of the skilled person on the proposed ring-fencing transfer scheme to transfer business from The Royal Bank of Scotland plc ("RBS plc") to Adam & Company PLC ("Adam & Company") and National Westminster Bank Plc ("NatWest Plc")

Source: RBS plc Annual Report and Accounts 2016, RBS management information

Table B outlines the key balance sheet information of RBS plc as at 31 December 2016.

Table B: RBS plc key financials as at 31 December 2016

Key Financials	(£m)
Total assets	633,613
Total liabilities	587,737
Equity	
Ordinary shareholders	45,876
Key Ratios	
CET 1	13.1%
Leverage ratio	5.7%
Risk weighted assets	178,800

Source: RBS plc Annual Report and Accounts 2016

3. Background to Adam & Company PLC

3.1 Introduction

Adam & Company was created in 1983 and has its registered office at 25 St. Andrew Square, Edinburgh, Midlothian EH2 1AF. Adam has branches in Edinburgh, Glasgow, Aberdeen and London. Adam was acquired by RBS in 1993 and following a group restructure Adam was placed in the RBS's Wealth Management Division. Adam & Company is a private banking house offering a range of private banking services to HNWIs, ultra-HNWIs, wealthy families, and private trusts and charities.

3.2 Corporate structure

Adam is a wholly-owned subsidiary of NatWest Holdings Limited.

3.3 Nature of business of Adam & Company

Private Banking

Adam & Company offers accounts, mortgage loans, cards and borrowings. Accounts include deposit accounts, current accounts and reserve accounts. Borrowings includes credit cards, flexible overdraft loans, mortgages and bespoke loans.

Financial Planning

Adam offers investment planning for HNWIs and wealthy families, estate planning and retirement planning. Additionally, the category provides specialist financial services such as foreign exchange, wealth succession planning, family business and philanthropy planning.

Investment Management

Adam & Company offers personal services to clients through investment managers. Adam & Company manages clients' portfolios and makes investment decisions on their behalf, it also manages funds and offers charity and trust services.

Report of the skilled person on the proposed ring-fencing transfer scheme to transfer business from The Royal Bank of Scotland plc ("RBS plc") to Adam & Company PLC ("Adam & Company") and National Westminster Bank Plc ("NatWest Plc")

Table C provides an overview of the current products Adam & Company offers as at 31 December 2016.

Table C: Adam & Company customer products as at 31 December 2016

Customer products	Number of customers	Aggregate Value (£m)
Loans and advances to customers	4,400	660
Customer accounts	11,000	1,777

Source: Adam & Company Annual Report and Accounts 2016, RBS management information

Table D outlines the key balance sheet information of Adam as at 31 December 2016.

Table D: Adam & Company key financials as at 31 December 2016

Key Financials	(£m)
Total assets	2,071
Total liabilities	1,989
Equity	
Ordinary shareholders	83
Key Ratios	
CET 1	16.6%
Leverage ratio	tba
Risk weighted assets	462

Source: Adam & Company Annual Report and Accounts 2016

4. Background to National Westminster Bank Plc

4.1 Introduction

NatWest Plc was established in 1968 by the merger of National Provincial Bank and Westminster Bank and has its registered office at 135 Bishopsgate EC2M 3UR. NatWest Plc was acquired by RBS in 2000 and is one of the retail banking arms of the group. NatWest Plc provides a range of banking services and other financial products to personal, commercial and large corporate and institutional customers in the UK. NatWest Plc also has operations in Europe and the USA.

4.2 Corporate structure

NatWest Plc is a wholly owned subsidiary of RBS plc and has the following material subsidiaries:

Coutts

Ulster Bank

Lombard North Central plc

Strand European Holdings AB

NatWest Group Holdings Corporation

4.3 Nature of business of NatWest Plc

NatWest Plc provides a full range of banking and insurance services to personal, business and commercial customers.

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Services include; deposits, mortgages, credit cards, loans, life insurance services, pensions services, private banking services and advice regarding employment law, taxes, and health and safety to businesses. NatWest Plc also has an online brokerage, NatWest Stockbrokers.

Personal and business banking

Services to businesses (generally up to £2 million turnover), individuals and HNWI customers in the UK, Ireland and Republic of Ireland.

Commercial banking and private banking

Services to commercial customers, mid-corporate customers and private banking HNWI in the UK.

Corporate and institutional banking

Services to corporate and institutional clients primarily in the UK and Western Europe, as well as those in the US and Asian multinationals. The segment's products include debt financing, risk management and trade services.

Table E provides an overview of the current products NatWest Plc offers as at 31 December 2016.

Table E: NatWest Plc customer products as at 31 December 2016

Customer products	Number of customers	Aggregate Value (£m)
Loans and advances to customers	3,626,000	150,147
Customer accounts	7,671,000	192,490

Source: NatWest Plc Annual Report and Accounts 2016, RBS management information

Table F outlines the key balance sheet information of NatWest Plc as at 31 December 2016.

Table F: NatWest Plc key financials as at 31 December 2016

Key Financials	(£m)
Total assets	228,921
Total liabilities	213,624
Equity	
Ordinary shareholders	15,297
Key Ratios	
CET 1	16.1%
Leverage ratio	6.1%
Risk weighted assets	64,400

Source: NatWest Plc Annual Report and Accounts 2016

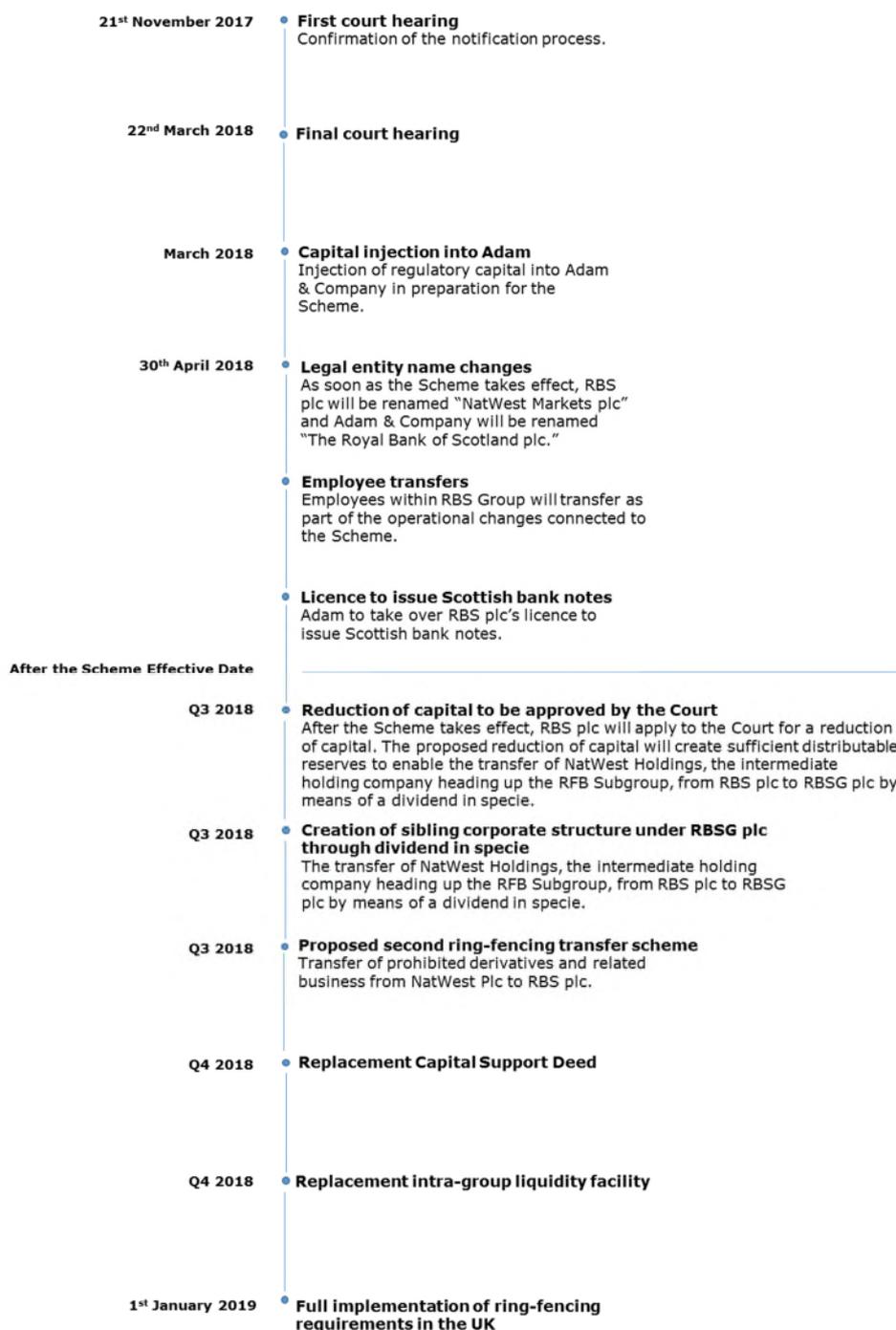
Appendix 3 - Products and services

Reconciliation of transferring activities per the Scheme Report to the Scheme Document

Activity Proposed to be Transferred (per Section 3.2)	Relevant Scheme Document Adam Destination Business	Relevant Scheme Document NatWest Destination Business
Core Deposits	PBB Business Cash and Payments Business Trade Finance Business Multi-Option Facilities Business Government Schemes Business Lending Business Core Activity carried on by RBS plc	
Other Deposits	PBB Business Cash and Payments Business Trade Finance Business Multi-Option Facilities Business Government Schemes Business Lending Business	
Personal Mortgages	PBB Business Government Schemes Business	
Personal Unsecured Loans	PBB Business	
Personal Credit Cards	PBB Business	
Business and Commercial Loans	PBB Business Lending Business Transferring Agency Trade Finance Business Multi-Option Facilities Business Cash and Payment Business Government Schemes Business	
Business and Commercial Payments and Related Services	PBB Business Cash and Payments Business Multi-Option Facilities Business Transferring Agency	
Trade Finance	Trade Finance Business Government Schemes Business Multi-Option Facilities Business Lending Business Interminable Indemnities Business Transferring Agency	
Property	Adam Destination Properties	NatWest Destination Properties
Covered Bonds		Covered Bonds Business
Advisory Services		Mentor Business

Appendix 4 - Ring-fencing timeline

Key ring-fencing related activities occurring outside of the Scheme



Appendix 5 – Sources of information

This appendix sets out the categories of information that I have received, reviewed and relied upon in relation to the preparation of this Scheme Report. This includes various emails and documents received from management of the Companies and publicly available information. A list of the meetings held with RBS staff is set out separately.

Documents marked "*" in their final form are available upon request.

Documents marked "***" are legal advice provided by RBS legal advisers on which I have relied.

Scheme documents
*Scheme Document
*Summary Scheme Document
*Legal notices of the Scheme
Scheme planning, design and key features documents
Scheme timetable
*Court petition
Company background
Organisation charts: current and proposed for the RBS Group ring-fenced structure
Executive committee and board structures: current and proposed for ring-fenced structure
Executive committee: terms of reference
Senior Management Functions
Senior Management: statement of responsibilities
Annual Return 2016: RBSG plc, RBS plc, Adam & Company and NatWest Plc
Planned changes to company names: RBS plc and Adam & Company
Variation of Permission for Adam & Company
Financial information
Audited financial statements for the year ended 31 December 2016: RBSG plc, RBS plc, Adam & Company and NatWest Plc
Half year results for the period ended 30 June 2017: RBSG plc, RBS plc and NatWest Plc
Annual Report 2016: RBSG plc, RBS plc and NatWest Plc
List of debt issuances June 2016: RBSG plc, RBS plc and NatWest Plc
Indicative credit ratings: RBS plc, Adam & Company and NatWest Plc
Financial analyses of effect of the Scheme assuming Effective Date of 30 June 2017, adjusted for material subsequent transactions: RBS plc, Adam & Company and NatWest Plc
Financial analysis of effect of the Scheme – forecast: RBS plc, Adam & Company and NatWest Plc
Capital planning and planned capital injections and capital reductions: RBS plc, Adam & Company and NatWest Plc
Analysis of reallocation of significant provisions
Intercompany receivables/payables between RBS Plc and other companies of the RBS Group
Product information
Product and service listings
Description of product lifecycles
Legal due diligence on effect of the Scheme on product terms and conditions
Sample of product terms and conditions

Covered Bond structure
Customer information
Customer detriment analyses, including customer journeys and lifecycles
Analysis of loss of FSCS protection as a result of the Scheme
Analysis of potential loss of offset as a result of the Scheme
Sample customer files
Risk framework
Risk Appetite Framework
Risk Target Operating Model
Risk data management and credit risk reporting
RBS Group Internal Capital Adequacy Assessment Process (ICAAP) 2016
NatWest Holdings Internal Capital Adequacy Assessment Process (ICAAP) 2016
RBS Individual Liquidity Adequacy Assessment Process (ILAAP) 2017
Capital Support Deed
Intragroup liquidity support facility
Proposed changes to hedging arrangements
Tax
Corporation Tax returns 2015: RBS plc, NatWest Plc and Adam & Company
Draft Corporation Tax computations 2016: RBS plc, NatWest Plc and Adam & Company
RBS Group VAT returns: 2012-2015
Analysis of tax effects of the Scheme
Analysis of tax effects of other ring-fencing transactions outside the Scheme
Correspondence with HMRC
Communications
Communications governance and strategy for the Scheme
Draft communication letters and leaflets
Proposed communications channels: letters, leaflets and brochures; RBS website and ring-fencing webpage; newspapers
Other
Analysis of properties transferring under the Scheme
Shared Services Target Operating Model for ring-fenced structure
Draft Master Framework Agreement and Draft Template Intragroup Service Agreement: terms and conditions
Transfer pricing governance and policy for ring-fenced structure
IT Target Operating Models
IT and data change process
Payments Target Operating Model
Various information on the Group's UK and overseas defined benefit pension arrangements including details of: <ul style="list-style-type: none"> o Principal and participating employers. o Membership. o Funding position.
RBS response to the PRA Pension Information Request dated October 2016
RBS presentation to the Trustee ICB subcommittee dated March
Correspondence with the Trustee of the RBS Pension Fund
Proposed staffing model and staff migrations
**Legal advice from Linklaters LLP on mechanism for RBS UK employee transfers
RBS Group Recovery Plan June 2017

Report of the skilled person on the proposed ring-fencing transfer scheme to transfer business from The Royal Bank of Scotland plc ("RBS plc") to Adam & Company PLC ("Adam & Company") and National Westminster Bank Plc ("NatWest Plc")

Operational Continuity in Resolution: Financial resilience
Creditor hierarchy analysis
Legal consideration of the effect of the Scheme on set-off arrangements
**Legal advice from Linklaters LLP on shared security arrangements
Correspondence with regulators

Meetings held with RBS employees

Meetings held with
<p>Ring-fencing Programme team:</p> <p>Executive Sponsor; Programme Director; Programme Planning Lead; Programme Government & Regulatory Strategy Lead; Programme Legal Lead; Programme Due Diligence Lead; Programme Finance Lead; Programme Target Operating Model Lead; Transformation Services Programme Lead</p>
<p>Business Franchises:</p> <p>Senior management from CPB; PBB and NWM Franchises; CPB Services Change Management; Head of CPB Digital Solutions; Senior CPB Operational Risk Manager; Head of Frontline Support for Branch and Private Banking; PBB Services, Transformation</p>
<p>Tax:</p> <p>Tax Director, Transfer Pricing Director</p>
<p>HR Policy and Propositions:</p> <p>Pensions; Specialist Projects Finance:</p> <p>Group CFO; Group Deputy CFO; Head of Capital Management; Treasury, COO of Finance for NatWest Markets; Financial Planning & Analysis</p>
<p>Risk:</p> <p>Board Risk Committee; Senior Change Risk Management and Head of Strategic Change; Head of Delivery, Risk & Conduct Transformation</p>
<p>Governance:</p> <p>Chief Governance Officer, Board Counsel and Company Secretary; Corporate Governance & Regulatory Affairs</p>
<p>Regulatory Design:</p> <p>Head of Regulatory Design</p>
<p>Internal Audit:</p> <p>Head of Audit - Regulatory Risk</p>
<p>IT & Payments:</p> <p>Technology Services; Payments Technology; Payments Services; Payments Cards; Architecture Services</p>
<p>Communications:</p> <p>Communications & Marketing</p>



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