

SCHEME SUMMARY

PART ONE – OVERVIEW

1 Introduction

- 1.1** It is proposed that certain personal and business banking businesses and commercial banking businesses of The Royal Bank of Scotland plc (“**RBS plc**”) are transferred principally to Adam & Company PLC (“**Adam**”) and partly to National Westminster Bank Plc (“**NatWest**”). Adam is to be renamed “The Royal Bank of Scotland plc” when the Scheme becomes effective, but is referred to in this summary as “Adam”. At that time, RBS plc is to be renamed “NatWest Markets plc” but is referred to in this summary as “RBS plc”. Each of Adam and NatWest are also referred to in this Scheme Summary as a “**Relevant Transferee**”.
- 1.2** It is expected that the proposed transfer will take effect on 30 April 2018 (the “**Effective Time**”). The Effective Time is explained in paragraph 3.2 below.
- 1.3** A statutory transfer scheme will be used to implement the proposed transfer. RBS plc, Adam and NatWest propose to use a single ring-fencing transfer scheme under Part VII of the Financial Services and Markets Act 2000 (the “**Scheme**”) to achieve the transfers. In outline, the Scheme provides a mechanism to transfer the businesses (including contracts and other assets and liabilities comprised within those businesses) on the Effective Time without any further steps being required.
- 1.4** The terms of the Scheme are set out in a document (the “**Scheme Document**”) which has been submitted to the Court of Session in Scotland (the “**Court**”) for approval, as explained in paragraph 3 below.
- 1.5** This Scheme Summary summarises some of the principal terms of the Scheme. Definitions used in this Scheme Summary have the meanings given in the Scheme Document unless otherwise specified.

2 Transfers under the Scheme

The Scheme will transfer the following business areas within the overall RBS plc business (together, the “**Transferring Businesses**”). The Transferring Businesses are described in the Scheme Document in more detail but include:

- 2.1** the personal and business banking business;
- 2.2** the commercial banking business (being the lending business, the trade finance business, the multi-option facilities business, the interminable indemnities business, the government schemes business, the cash and payments business and transferring agency roles);
- 2.3** the covered bonds business (the “**Covered Bond Programme**”); and
- 2.4** the mentor consultancy business,

but excluding certain assets and liabilities (“**Excluded Assets**” and “**Excluded Liabilities**” respectively), as explained further in Part Two of this Scheme Summary.

3 Timing of the Scheme

- 3.1 Implementation of the Scheme is subject, among other matters, to regulatory and Court approvals. The petition to the Court for an order approving the Scheme (the “**Petition**”) is expected to be heard by the Court on or about 22 March 2018.
- 3.2 If the Court approves the Scheme, the Effective Time is expected to be 30 April 2018 or such later date as RBS plc, Adam and NatWest may agree in writing with the Prudential Regulation Authority (the “**PRA**”) and the Financial Conduct Authority (the “**FCA**”).
- 3.3 The Scheme will lapse if it does not become effective on or before the later of (i) 31 December 2018, or (ii) such time and date as the Court may permit on the application of RBS plc, Adam and NatWest.
- 3.4 However, the transfers of some assets and liabilities within the Transferring Businesses will not take place on the Effective Time because their transfer will require additional actions to be taken. Those assets and liabilities will, therefore, transfer at a later date (a “**Subsequent Transfer Date**”), once the necessary steps have been completed. This is explained in more detail in Part Two of this Scheme Summary.
- 3.5 The time and date on which an asset or liability of RBS plc transfers to Adam or NatWest under the Scheme (being either the Effective Time or a Subsequent Transfer Date, as explained in Part Two of this Scheme Summary) is referred to in the Scheme Document as the “**Relevant Date**”.

4 Financial Services Compensation Scheme (“**FSCS**”)

- 4.1 It is possible that the Scheme could affect the rights of account holders with accounts which form part of the Transferring Businesses. The FSCS protects depositors who satisfy the FSCS eligibility criteria against loss of up to £85,000 per depositor per authorised institution.
- 4.2 If, prior to the Effective Time, an account holder has deposits with both RBS plc and Adam, a consequence of the Scheme will be that all such deposits will be held with a single authorised institution after the Effective Time. So, following the Effective Time and where the FSCS eligibility criteria are satisfied, the £85,000 cap will apply to all such deposits together.
- 4.3 Until three months after the Effective Time, adversely affected account holders can move their deposits, should they wish to do so without charge (i.e. without loss of accrued interest, charges or the requirement to give a specified period of notice).

5 Further information

- 5.1 The information in this Scheme Summary is intended to be a summary of the Scheme only. Copies of the application to the Court for the approval of the Scheme (the “**Petition**”), the full terms of the Scheme, this Scheme Summary, the report of the skilled person relating to the Scheme and a summary of that report are available, free of charge, at www.rbs.com/ring-fencing or on request from RBS plc at 36 St Andrew Square, Edinburgh, EH2 2YB. A copy of any supplementary report of the skilled person will, when available, also be so available. All of those

documents will be available until the date of the Court hearing to sanction the Scheme. As stated above, that date is currently expected to be 22 March 2018.

5.2 RBS plc, Adam and NatWest will publish a series of notices in relation to the Petition. They are expected to be published in *The London Gazette*, *The Edinburgh Gazette* and *The Belfast Gazette*, the *Financial Times* (including the international editions), *The Scotsman*, *The Daily Record*, *The Daily Mail* (Scottish and English editions) and *The Sun* (Scottish and English editions).

5.3 Any person who considers that they would be adversely affected by the carrying out of the Scheme has two alternative ways of making sure the Court considers their views:

5.3.1 *Lodging formal objections with the Court*

They have the right to lodge formal written objections (known as “**Answers**”) with the Court. If any person wishes 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 be accompanied by a fee to the Court.

5.3.2 *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 hearing to consider approving the Scheme.

If any 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:

- (a) the Court (either by post or by hand) at the above address;
- (b) RBS plc (either by post or by hand) at 36 St Andrew Square, Edinburgh, EH2 2YB; and
- (c) 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/pr/Pages/authorisations/structuralreform/representations.aspx>

If any person wishes to object in this way, they need to do this by 5 p.m. on 23 February 2018, in order to ensure that the Court will consider their objection at the hearing to consider approving the Scheme. No fee is payable to the Court for objecting in this way.

The Court may also consider any objections made in writing or in person at the hearing to consider approving the Scheme, although it may not do so if the process for objecting described above has not been followed.

6 Change of final hearing date

As referred to above, the final Court hearing in respect of the Scheme is expected to take place on 22 March 2018. If this date is changed for any reason, an announcement will be made on the website at www.rbs.com/ring-fencing.

PART TWO – PARTICULARS OF THE SCHEME

1 The Transferring Businesses

1.1 The Transferring Businesses primarily include:

- 1.1.1 current accounts, loans, savings accounts (including individual savings accounts), mortgages, debit, credit or charge cards, arranging insurance, arranging investments and managing individual savings accounts under brands including “RBS”, “Holts”, “Child & Co”, “Williams & Glyn” and “Drummonds”;
- 1.1.2 multi-option, bilateral and syndicated lending and carrying out related functions (including account bank, agency, arranger, adviser and other administrative bank functions);
- 1.1.3 trade finance facilities and issuing trade finance instruments such as letters of credit, bank guarantees, bonds and trade asset distribution agreements;
- 1.1.4 cash services and payment services, such as accounts and overdrafts, cards, domestic and international payments and non-payment schemes and digital services;
- 1.1.5 interminable indemnities provided to beneficiaries on behalf of customers;
- 1.1.6 government guarantees for various credit products such as loans and trade finance products;
- 1.1.7 certain facility agent and account bank roles as well as certain roles relating to structured debt transactions;
- 1.1.8 employment, environmental and health and safety mentoring and consultancy products and services (the “**Mentor Business**”); and
- 1.1.9 the Covered Bond Programme.

1.2 All businesses transferring under the Scheme, except the Mentor Business and the Covered Bond Programme, will transfer to Adam. The Mentor Business and the Covered Bond Programme will transfer to NatWest. Certain properties will also transfer to Adam and NatWest and the full list can found at Schedules 2 and 3 to the Scheme Document.

2 Excluded Assets and Excluded Liabilities

2.1 “**Excluded Assets**” and “**Excluded Liabilities**” include assets, and liabilities, of the Transferring Businesses that would otherwise transfer under the Scheme, but which have been specifically excluded from transferring for legal, tax or other commercial reasons.

2.2 Businesses carried on by RBS plc that are not part of the Transferring Businesses are also excluded from transfer under the Scheme. Broadly, they include the businesses operated by RBS plc as the NatWest Markets franchise.

- 2.3** Where it would be prohibited under the ring-fencing legislation for assets and liabilities to be held by Adam or NatWest, these are also excluded from transfer under the Scheme.
- 2.4** Other Excluded Assets and Excluded Liabilities include:
- 2.4.1** any business specifically excluded under the Scheme, for example, certain lending transactions and security agent roles;
 - 2.4.2** any lending or trade finance business (except supply chain finance) carried on by RBS plc in Western Europe;
 - 2.4.3** all intra-group agreements between members of the RBS Group; and
 - 2.4.4** agreements relating to goods and services provided to RBS plc by third party suppliers.
- 2.5** The full list of Excluded Assets and Excluded Liabilities, including definitions, can be found in Schedule 1 to the Scheme Document.

3 Residual Assets and Residual Liabilities

- 3.1** It is expected that most of the assets and liabilities which together comprise the Transferring Businesses will be transferred to Adam or NatWest at the Effective Time.
- 3.2** However, the Scheme also provides for assets and liabilities which form part of the Transferring Business, which for some reason cannot be transferred to Adam at the Effective Time, to be transferred later on a Subsequent Transfer Date.
- 3.3** The reasons why assets and liabilities may not be able to be transferred at the Effective Time include where: (i) the Court declines to order their transfer at the Effective Time; (ii) ownership cannot transfer under the relevant governing law, at least without additional steps; (iii) the parties agree not to transfer them at the Effective Time; or (iv) Adam does not have the requisite regulatory authorisation, permission or other consent to hold the transferring asset or liability as at the Effective Time.
- 3.4** The Subsequent Transfer Date will be when:
- 3.4.1** the impediment to their transfer has been removed;
 - 3.4.2** RBS plc, Adam and NatWest determine that such assets and liabilities should be transferred; or
 - 3.4.3** as otherwise set out in the definition of "Subsequent Transfer Date" in the Scheme Document.
- 3.5** The Residual Assets and Residual Liabilities are described in more detail in their respective definitions in the Scheme Document. Until the relevant Subsequent Transfer Date, RBS plc will, in general, hold the Residual Assets in trust for Adam to the extent permissible under relevant law, which will provide Adam with the economic benefit of such Residual Assets.

4 Restrictions on Adam and RBS plc

- 4.1** The transfer of the Transferring Businesses under the Scheme might result in Adam having certain rights in respect of the Transferring Businesses that RBS plc did not have prior to the Relevant Date. Where the exercise of such rights might prejudice customers, Adam has given certain undertakings in the Scheme not to exercise those rights in order to mitigate any potential prejudice. Those undertakings are set out in detail in Part C of the Scheme Document and include those summarised below.
- 4.1.1** Prior to the Effective Time, RBS plc and Adam may each have certain contractual set-off rights, and rights in security, in relation to deposits, loans or credit instruments they provide. However, the carrying out of the Scheme might widen such rights and/or result in additional contractual set-off rights and rights in security arising to the benefit of Adam. Consequently, the set-off, or security, position of Adam as against an affected client could, but for the undertaking described below, result in a "wind-fall" gain to the detriment of the relevant client.
- 4.1.2** To prevent such prejudice, Adam will not exercise those rights to the extent they have been widened or where they have arisen solely as a consequence of the carrying out of the Scheme. In the case of set-off, this restriction is limited to three months from the Effective Time, and in the case of all monies, consolidation and cross-default rights, this restriction is not limited in time.
- 4.1.3** This undertaking will not apply where the agreements containing those rights are subsequently amended in accordance with their terms or replaced with the consent of the other parties to those agreements.
- 4.1.4** During the period from the final hearing to the date that is three months after the Effective Time, deposit account holders who are affected by the widening of Adam's set-off rights will be at liberty to move their deposits should they wish to do so without charge (i.e. without loss of accrued interest, charges or the requirement to give a specified period of notice).
- 4.2** Certain non-transferring agreements contain provisions that give RBS plc, as the issuer or deposit taker, the right, under certain circumstances, to accelerate, terminate or alter its rights or obligations under those non-transferring agreements.
- 4.2.1** These circumstances include:
- (i) the issuer or the deposit taker being unable, or otherwise determining that it is, or has become not reasonably practicable, or it has become undesirable for the issuer or the deposit taker to establish or maintain transactions to hedge its obligations under a non-transferring agreement; and
 - (ii) it becoming more expensive for the issuer or deposit taker to establish or maintain such hedging transactions.
- 4.2.2** These circumstances might arise in consequence of the Scheme, even though the agreements are not to transfer under it. Certain restrictions will be placed on RBS plc such that RBS plc will not be able to exercise, to the

detriment of the counterparties to those non-transferring agreements, the rights that might have otherwise been available to them as a consequence of the Scheme (as described more fully in paragraph 19 of the Scheme Document).

5 Preservation of Rights

The transfer of the Transferring Businesses might result in counterparties to certain agreements with RBS plc having certain rights. Where these rights (which may include termination rights, or a right to require certain mitigating actions to be taken) are exercisable as a result of any adverse change in a credit rating, or ratings outlook as a consequence of the Scheme, for RBS plc following the Effective Time, those rights will remain exercisable by the counterparty. This is provided for in paragraph 11.2 of the Scheme Document.

6 Amendments to transferring and non-transferring agreements

The Scheme is to provide for certain amendments to the terms and conditions of certain agreements. These amendments are to expressly give effect to the Scheme (for example substituting “Adam” or “NatWest” as the contracting party instead of “RBS plc”), to avoid nonsensical or untrue clauses or representations in agreements arising as a result of the transfer and to mitigate potential adverse effects.

In order to facilitate this, certain amendments to related documents will be made. These are set out in paragraph 7 and Part D of the Scheme Document and include those explained further below.

6.1 Trade Finance Counter Indemnities

Where a trade finance counter indemnity relates both to trade finance instruments which are transferring to Adam and trade finance instruments which are remaining with RBS plc, it will still transfer to Adam on the Effective Time.

Adam will be party to the trade finance counter indemnity to the extent it relates to trade finance instruments which are transferring to Adam, and RBS plc will be a party to the extent it relates to trade finance instruments which are remaining with RBS plc. In addition, where the trade finance counter indemnity transfers to Adam but relates only to trade finance instruments which may remain with RBS plc for a period of time, RBS plc will still have the right to recover from Adam under the indemnity in the Scheme Document.

6.2 Government Schemes

Where a government scheme relates to customer agreements supported by government support arrangements which are transferring to Adam and customer agreements which are remaining with RBS plc, the agreement with the relevant government entity will still transfer to Adam on the Effective Time.

However, Adam will be party to that government support arrangement to the extent it relates to customer agreements which are transferring to Adam, and RBS plc will be a party to the extent it relates to customer agreements which are remaining with RBS plc.

6.3 Shared Security

Where security has been provided which will secure the liabilities of a customer which are transferring to Adam and the liabilities of such customer which will remain with RBS plc, from the Relevant Date, Adam will be appointed to act as security trustee in respect of all such shared security and will hold it all on trust for, and on behalf of, RBS plc for the payment or discharge of the relevant liabilities remaining with RBS plc.

6.4 Stapled agreements

Where agreements to which RBS plc is a party are “stapled” (for example (a) loans and hedges or (b) loans and accounts) with effect from the Relevant Date, Adam will be party to such arrangements to the extent they relate to agreements which are transferring to Adam (for example, as lender or account bank), and RBS plc will remain a party to the extent they relate to agreements which are remaining with RBS plc (for example, as hedging bank or lender).

6.5 The Covered Bond Programme

NatWest will become the new Issuer under the Covered Bond Programme. The amendments to the Covered Bond Programme set out in the Scheme reflect that NatWest will take on the role of Issuer, as well as Cash Manager, Seller, Servicer, Interest Rate Swap Provider, Covered Bond Swap Provider and Designated Member.

The detailed amendments to the Covered Bond Programme are found in Part B of Schedule 4 of the Scheme Document.

6.6 Disapplication of Netting and Set-Off Rights

The Scheme will amend transferring and non-transferring agreements to which RBS plc is a party and which include any rights of a customer to offset amounts owed to Adam, NatWest, Coutts or other subsidiaries of NatWest Holdings Limited against amounts owed to that customer by RBS plc. The effect of these amendments will be that such customer rights will no longer apply from 1 January 2019 as these provisions are prohibited under the relevant ring-fencing legislation from that date.

This amendment will not affect the exercise of any rights to offset any amounts owing to Adam, NatWest, Coutts and other subsidiaries of NatWest Holdings Limited against amounts owed by any other subsidiaries of NatWest Holdings Limited.

PART THREE – GENERAL PROVISIONS

1 Rights under agreements

In general and with effect from the Relevant Date, each Relevant Transferee and the counterparty to any contract, agreement, claim, or document in the Transferring Businesses shall become entitled to the same rights, benefits, powers and remedies and be subject to the same liabilities against each other as were applicable to RBS plc and that counterparty against each other immediately prior to the relevant transfer under the Scheme.

However, certain agreements will be amended further under the Scheme, as already described in Part Two of this Scheme Summary.

2 Legal proceedings

2.1 Any legal proceedings before any court or other body to which RBS plc is a party and which solely relate to assets and/or liabilities that have transferred to Adam or NatWest, other than certain exclusions (the “**Proceedings**”) shall, unless the Relevant Transferee and RBS plc otherwise agree in writing before the Effective Time, be continued by, against or with the Relevant Transferee (instead of RBS plc). The Relevant Transferee shall be entitled to all remedies, defences, claims, counterclaims, defences to counterclaims and rights of set-off that were or would have been available to RBS plc in relation to those Proceedings.

2.2 Further detail of the relevant legal proceedings provisions can be found at paragraph 9 of the Scheme Document.

3 Variations

Prior to the Court approving the Scheme, RBS plc, Adam and NatWest may together consent, for and on behalf of themselves and all other persons concerned (other than the PRA and FCA) to any modification of, or addition to, this Scheme or to any further condition or provision affecting the same which, prior to the sanction of this Scheme, the Court may approve or impose. Such a variation is subject to each of the PRA and the FCA having been given prior and reasonable notice of the variation.

At any time after the approval of the Scheme by the Court, a Relevant Transferee may apply to the Court for consent to amend the terms of this Scheme, provided notice has been given to the PRA and the FCA.

4 Governing Law

The Scheme is governed by, and will be construed in accordance with, Scots law.