

SCHEME SUMMARY

PART ONE – OVERVIEW

1 Introduction

- 1.1 It is proposed that the customer derivatives business of National Westminster Bank Plc (“**NatWest Bank**”) is transferred to NatWest Markets Plc (formerly The Royal Bank of Scotland plc) (“**NatWest Markets**”).
- 1.2 It is expected that the proposed transfer will take effect on 13 August 2018 (the “**Effective Time**”). The Effective Time is explained in paragraph 3.2 below.
- 1.3 A statutory transfer scheme, namely a ring-fencing transfer scheme under Part VII of the Financial Services and Markets Act 2000 (the “**Scheme**”), is to be used to achieve the transfer. In outline, the Scheme provides a mechanism to transfer the business (including contracts and other assets and liabilities comprised within that business) on the Effective Time, without any further legal 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 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 customer derivatives business of NatWest Bank (the “**Transferring Business**”). The Transferring Business is described in more detail in the Scheme Document.

In outline, the Transferring Business comprises the entering into of “*over-the-counter*” derivative transactions between NatWest Bank and counterparties, but excludes 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 currently expected to be heard by the Court at a hearing on 31 July 2018 (the “**Sanction Hearing**”).
- 3.2 If the Court approves the Scheme, the Effective Time is expected to be 13 August 2018 or such later date as NatWest Bank and NatWest Markets 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 NatWest Bank and NatWest Markets.

- 3.4** The transfers of some assets and liabilities within the Transferring Business 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 NatWest Bank transfers to NatWest Markets 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 Further information

- 4.1** The information in this Scheme Summary is intended to be only a summary of the principal terms of the Scheme. Copies of the Petition, the full terms of the Scheme Document, 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 NatWest Bank at 250 Bishopsgate, London, EC2M 4AA. A copy of any supplementary report of the Skilled Person will, when available, also be available at the same address. All of those documents will be available until the Sanction Hearing. As stated above, that date is currently expected to be 31 July 2018.
- 4.2** NatWest Bank and NatWest Markets 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) and *The Scotsman*.
- 4.3** 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:

4.3.1 *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 18 May 2018. The deadline for lodging Answers is 29 June 2018. In addition, Answers must be accompanied by a fee to the Court.

4.3.2 *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, by post or by hand, to the above address;
- (b) National Westminster Bank Plc, either:
 - (i) by post or by hand to 250 Bishopsgate, London, EC2M 4AA;
or
 - (ii) by email to ringfencing@natwestmarkets.com; and
- (c) the Prudential Regulation Authority, either:
 - (i) by post or by hand to National Westminster Bank, Prudential Regulation Authority, Bank of England, Threadneedle Street, London EC2R 8AH; or
 - (ii) by submitting it online at:

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 17:00 UK time on 11 July 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 is also likely to consider any objections made in writing or in person at the hearing to consider approving the Scheme, although it might not do so if the process for objecting described above has not been followed.

5 Change of date for the Sanction Hearing

As referred to above, the Sanction Hearing is currently expected to take place on 31 July 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 Business

- 1.1 The Transferring Business will transfer to NatWest Markets under the Scheme.
- 1.2 The Transferring Business is the part of the business of NatWest Bank which comprises the entering into of “**Derivative Transactions**”, being over-the-counter derivative transactions between NatWest Bank and counterparties.
- 1.3 Those transactions are governed by one, or more, of the following arrangements:
 - 1.3.1 an ISDA Master Agreement (including short-form confirmations issued under that ISDA Master Agreement and short-form confirmations issued on the Agile Markets electronic system);
 - 1.3.2 long-form confirmations issued under an ISDA Master Agreement;
 - 1.3.3 long-form confirmations issued on the Agile Markets electronic system; or
 - 1.3.4 any RBS Standalone Derivative Terms.
- 1.4 Subject to what is said at paragraph 1.5.1 below, these arrangements between NatWest Bank and a counterparty will transfer, subject to the Opt-Out Rights described below, if they relate to “**Transferring Derivative Transactions**”. Transferring Derivatives Transactions are any:
 - 1.4.1 Ineligible Derivative Transactions (described below);
 - 1.4.2 Eligible Derivative Transactions (described below) where the relevant Counterparty has not elected to exercise (or has withdrawn a previous exercise of) their Opt-Out Rights (described below); and
 - 1.4.3 Derivative Transactions entered into after 18 June 2018 (referred to in the Scheme Document as the “**Opt-Out Date**” and being the deadline for the exercise of Opt-Out Rights) which are not Excluded Derivative Transactions (the “**Post Opt-Out Date Derivative Transactions**”).
- 1.5 These arrangements between NatWest Bank and a counterparty will not transfer to NatWest Markets if they relate to “**Remaining Derivative Transactions**”. Remaining Derivative Transactions are any:
 - 1.5.1 Derivative Transactions maturing on or prior to 31 August 2018 (referred to as “**Excluded Derivative Transactions**” and described in paragraph 3.2.2 below); and
 - 1.5.2 Eligible Derivative Transactions (described below) where the relevant Counterparty has elected to exercise (and has not withdrawn) their Opt-Out Rights (described below) and the relevant Eligible Derivative Transactions have been validated by NatWest Bank as being eligible for the exercise of Opt-Out Rights.
- 1.6 Certain counterparties who do not have live transactions with NatWest Bank (but have granted certain security) will also have their “**Secured Empty Arrangements**” (including, amongst others, ISDA master agreements and Agile Markets terms of business) transfer under the Scheme to NatWest Markets. These

counterparties are referred to in the Scheme Document as “**Relevant Counterparties**”.

2 Eligible Derivative Transactions, Ineligible Derivative Transactions and Opt-Out Rights

- 2.1 “**Eligible Derivative Transactions**” for a counterparty who is not classified by NatWest Bank as a “*relevant financial institution*” are those which are entered into prior to the Opt-Out Date and in respect of which NatWest Bank has determined it would be permitted to be a counterparty under the Relevant Ring-Fencing Legislation, including any interest rate derivative transactions to which Grandfathering applies (referred to in the Scheme as “**Grandfathered Interest Rate Derivative Transactions**”). However, Eligible Derivative Transactions do not include any other derivative transactions to which Grandfathering applies (such as foreign exchange derivative transactions).
- 2.2 “**Grandfathering**” is defined more fully in the Scheme Document. In outline, Grandfathering means Derivative Transactions maturing prior to 1 January 2021 which, by virtue of the Relevant Ring-Fencing Legislation, are permitted to be held within a ring-fenced bank.
- 2.3 An Eligible Derivative Transaction for a counterparty who is classified by NatWest Bank as a “*relevant financial institution*” is a derivative transaction to which Grandfathering applies, other than a “**Prohibited FX Derivative Transaction**”.
- 2.4 Prohibited FX Derivative Transactions are defined more fully in the Scheme Document. In outline, they include any foreign exchange, or currency option, derivative transactions in respect of which NatWest Bank has determined it would not be permitted to be a counterparty under the Relevant Ring-Fencing Legislation without the application of Grandfathering.
- 2.5 “**Ineligible Derivative Transactions**” are derivative transactions which are entered into prior to the Opt-Out Date and which are not Eligible Derivative Transactions or Excluded Derivative Transactions as defined in paragraph 3.2.2 below.
- 2.6 If a counterparty has: (i) Eligible Derivative Transactions only; or (ii) both Eligible Derivative Transactions and Ineligible Derivative Transactions, they may elect that none of their Eligible Derivative Transactions transfers to NatWest Markets under the Scheme. These rights are referred to in the Scheme as a counterparty’s “**Opt-Out Rights**”, and are exercisable by delivery of a written notice (an “**Opt-Out Notice**”) to NatWest Bank. Opt-Out Rights are explained more fully in the communications to be sent to transferring counterparties and require validation by NatWest Bank that the relevant Eligible Derivatives are eligible for the exercise of Opt-Out Rights.
- 2.7 If a counterparty has both (i) Transferring Derivative Transactions and (ii) Remaining Derivative Transactions, their original agreements will be retained by NatWest Bank to govern the Remaining Derivative Transactions, and will be replicated with NatWest Markets to govern the Transferring Derivative Transactions.
- 2.8 All Post Opt-Out Date Derivative Transactions will be transferred to NatWest Markets and no Opt-Out Rights will be available.

3 Excluded Assets and Excluded Liabilities

- 3.1 “**Excluded Assets**” and “**Excluded Liabilities**” include assets, and liabilities, of the Transferring Business that would otherwise transfer under the Scheme, but which have been specifically excluded from transferring for legal, tax or other commercial reasons.
- 3.2 Excluded Assets and Excluded Liabilities include:
- 3.2.1 any business specifically excluded under the Scheme, for example, certain collateralised transactions with complex Credit Support Annexes;
 - 3.2.2 any Excluded Derivative Transactions (which are excluded for operational reasons) and related Arrangements;
 - 3.2.3 any Eligible Derivative Transactions, and related Arrangements, in respect of which a counterparty has elected to exercise their Opt-Out Rights;
 - 3.2.4 any security which secures the liabilities of a counterparty which are transferring to NatWest Markets and the liabilities of that counterparty which will remain with NatWest Bank (“**Shared Security**”, as explained in paragraph 7 below);
 - 3.2.5 any transactions, and other activities, of the Treasury Function of the RBS Group and/or NatWest Bank, including liquidity management derivatives hedging, the role of “*Covered Bond Swap Provider*” and the role of “*Interest Rate Swap Provider*”, and own asset securitisation hedging; and
 - 3.2.6 all intra-group agreements between members of the RBS Group.
- 3.3 The full list of Excluded Assets and Excluded Liabilities can be found in the definitions in the Scheme Document of Excluded Assets and Excluded Liabilities.

4 Residual Assets and Residual Liabilities

- 4.1 It is expected that most of the assets and liabilities which together comprise the Transferring Business will be transferred to NatWest Markets at the Effective Time.
- 4.2 However, the Scheme also provides for assets and liabilities which form part of the Transferring Business and which, for some reason, cannot be transferred to NatWest Markets at the Effective Time, to be transferred later on a Subsequent Transfer Date.
- 4.3 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) NatWest Markets does not have the requisite regulatory authorisation, permission or other consent to hold the transferring asset or liability as at the Effective Time.
- 4.4 The Subsequent Transfer Date will be when:
- 4.4.1 the impediment to their transfer has been removed;

- 4.4.2 NatWest Bank and NatWest Markets determine that such assets and liabilities should be transferred; or
- 4.4.3 as otherwise set out in the definition of "Subsequent Transfer Date" in the Scheme Document.

4.5 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, NatWest Bank will, in general, hold the Residual Assets in trust for NatWest Markets, to the extent permissible under relevant law, which will provide NatWest Markets with the economic benefit of such Residual Assets.

5 Restrictions on NatWest Bank and NatWest Markets

5.1 The transfer of the Transferring Business, under the Scheme, might result in NatWest Markets having certain rights in respect of the Transferring Business that NatWest Bank did not have prior to the Relevant Date. Where the exercise of such rights might prejudice counterparties, NatWest Markets has given certain undertakings in the Scheme not to exercise those rights in order to mitigate any potential prejudice. Those undertakings are contained in Part C of the Scheme Document, but are summarised as follows:

- 5.1.1 Prior to the Effective Time, NatWest Bank and NatWest Markets 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 NatWest Markets. Consequently, the set-off, or security, position of NatWest Markets as against an affected client could, but for the undertakings described below, result in a "wind-fall" gain to the detriment of the relevant counterparty.
- 5.1.2 To prevent such prejudice, NatWest Markets 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 Relevant Date, and in the case of all monies, consolidation and cross-default rights, this restriction is not limited in time.
- 5.1.3 These undertakings 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.
- 5.1.4 During the period from the Sanction Hearing to the date that is three months after the Relevant Date, deposit account holders who are affected by the widening of NatWest Markets' 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).

6 Preservation of Rights

The transfer of the Transferring Business might result in counterparties to certain agreements with NatWest Bank being able to exercise certain rights because of NatWest Market's lower credit rating (as compared to the credit rating of NatWest Bank). 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 a transfer to an entity with a lower credit rating, those rights will remain exercisable by the counterparty. This is provided for in paragraph 14.2 of the Scheme Document.

7 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 "NatWest Markets Plc" as the contracting party instead of "NatWest"), 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.

7.1 Shared Security

7.1.1 Where security has been provided which will, from the Effective Time, secure the liabilities of a counterparty which are transferring to NatWest Markets under the Scheme and the liabilities of that counterparty which will remain with NatWest Bank, NatWest Bank 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, (a) NatWest Markets for the payment, or discharge, of the liabilities transferring to NatWest Markets and (b) NatWest Bank for the payment, or discharge, of the liabilities remaining with NatWest Bank.

7.1.2 Counterparties who have provided security on an 'all monies' basis which secures some, or all, of their liabilities to NatWest Bank, including any derivative transactions entered into by them from time to time (which would include any new derivative transactions entered into after the Scheme takes effect), but who have no live transactions which will be outstanding after 31 August 2018 are also affected by this amendment.

7.2 Stapled agreements

Where agreements to which NatWest Bank is a party are "*stapled*" (for example loans and hedges) with effect from the Effective Time, NatWest Markets will be party to such arrangements to the extent they relate to agreements which are transferring to, or replicated in, NatWest Markets (as hedging bank), and NatWest Bank will remain a party to the extent they relate to agreements which are remaining with NatWest Bank (as lender).

8 Title Transfer Collateral Arrangements

8.1 Where collateral is held by NatWest Bank under a Title Transfer Collateral Arrangement in place with a counterparty, that Title Transfer Collateral

Arrangement and equivalent collateral will transfer from NatWest Bank to NatWest Markets under the Scheme.

8.2 Where, as a result of the exercise of Opt-Out Rights, a counterparty has one or more Transferring Derivative Transactions and one or more Remaining Derivative Transactions then:

8.2.1 if NatWest Bank is the collateral holder, the relevant Title Transfer Collateral Arrangement will be replicated with NatWest Markets (including any obligation to return collateral to the counterparty) and the existing collateral will be apportioned *pro rata* between NatWest Bank and NatWest Markets and transferred accordingly; and

8.2.2 where the counterparty is the collateral holder, the relevant Title Transfer Collateral Arrangement will be replicated with NatWest Markets (including any obligation to return collateral which will now be owed to NatWest Markets), but no collateral will transfer and the Scheme will apportion the collateral which has been posted *pro rata* between NatWest Bank and NatWest Markets.

8.3 Detailed provisions in respect of the treatment of collateral can be found in paragraphs 8 to 10 of the Scheme Document.

PART THREE – GENERAL PROVISIONS

1 Rights under agreements

In general, and with effect from the Relevant Date, NatWest Markets and the Counterparty shall become entitled to the same rights, benefits, powers and remedies and shall be subject to the same liabilities against each other as were applicable to NatWest Bank and that Counterparty against each other immediately prior to their 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 NatWest Bank is a party and which relate to assets and/or liabilities that have transferred to NatWest Markets, other than certain exclusions (the “**Proceedings**”) shall, unless NatWest Markets and NatWest Bank otherwise agree in writing before the Effective Time, be continued by, against or with NatWest Markets (instead of NatWest Bank). NatWest Markets 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 NatWest Bank in relation to those Proceedings.

2.2 Proceedings which solely relate to any Eligible Derivative Transactions where a Counterparty has exercised their Opt-Out Rights (and such Eligible Derivative Transactions have been validated by NatWest Bank as being eligible for the exercise of Opt-Out Rights) and/or any Excluded Derivative Transactions will remain with NatWest Bank.

2.3 Further detail of the relevant legal proceedings provisions can be found at paragraph 12 of the Scheme Document.

3 Variations

Prior to the Court approving the Scheme, NatWest Bank and NatWest Markets 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, NatWest Markets 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. The PRA will have a right to be heard by the Court on any application to amend the Scheme.

4 Governing Law

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