

**Summary of the 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 to National Westminster Bank Plc ("NatWest Plc")**

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**Important – Your attention is drawn to the limitations under which this report has been prepared as set out in Appendix 1**

# Contents

1	Introduction	3
2	Overall conclusion	6
3	Overview and purpose of the Scheme	7
4	My role as the skilled person	10
5	Effect on Transferring Customers – RBS plc to Adam & Company	11
6	Effect on Transferring Customers – RBS plc to NatWest Plc	18
7	Effect on Remaining Customers – RBS plc	19
8	Effect on Existing Customers – Adam & Company and NatWest Plc	26
9	Cross-Stakeholder considerations	28
10	Legal entity considerations - financial	35
11	Legal entity considerations - other	39
	Appendix 1 – Background to skilled person reporting	42
	Appendix 2 - Glossary	49
	Appendix 3 – Ring-fencing timeline	57

# 1 Introduction

The largest UK banks, including RBS are required by law to separate their retail banking services from their investment and international banking activities by 1 January 2019. This is known as ring-fencing. The aim of ring-fencing is to protect the core retail services on which customers rely from shocks originating elsewhere in the group and in global financial markets. The legislation requires the separation of deposits from retail and small and medium enterprises from activities perceived to be more risky, including market making and complex hedging arrangements. When ring-fencing has been implemented, services like current accounts, savings accounts and payments will be offered from within a ring-fenced body ("RFB"), with more complex activities being offered from within a non ring-fenced body ("NRFB").

Implementing ring-fencing requires RBS to restructure its activities and work to achieve this will continue through 2018. It is a major project for the RBS Group and comprises many different areas of activity and change. One element of that programme of work is called a ring-fencing transfer scheme ("RFTS"), which is a process that government has created through which banks can apply to the Courts to transfer a large number of separate legal relationships with customers en masse between different legal entities. The RBS RFTS (the "Scheme") is in respect of the proposed transfer of the personal and corporate banking business of RBS plc (the "Transferor") to Adam & Company, the transfer of a Covered Bonds Business to NatWest Plc (together with Adam & Company, the "Transferees") and the transfer of property from RBS plc to both Adam & Company and NatWest Plc (together with RBS plc, the "Scheme Companies").

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. I have been appointed as the skilled person to provide the required report on the transfers proposed by the Scheme.

This Summary Scheme Report provides depositors, customers, counterparties and other affected persons (together the "Stakeholders") with a summarised version of my full Scheme Report as skilled person. In particular, it summarises my opinion on the potential effect of the Scheme on Stakeholders and explains my rationale for reaching this opinion.

Legislation requires that my full Scheme Report states (a) whether anyone with the exception of RBS plc itself, the "transferor", is 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 to implement whichever of the ring-fencing purposes is relevant. This is known as the "Statutory Question" and, as can be seen, comprises two parts, (a) and (b).

I have answered the Statutory Question by considering effects of the Scheme on 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.

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 the Financial Services and Markets Act 2000 ("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 the Bank'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 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 Summary 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.

This is intended to be a standalone summary of my Scheme Report, but Stakeholders may wish to read my Scheme Report, which provides more details of the Scheme and its effect on Stakeholders, and a more comprehensive explanation for my opinions. Section 1 of my Scheme Report provides details of the scope, areas of reliance and limitations of my work and why I believe that my work has been prepared in line with the relevant regulatory and professional guidance. This information in that section applies equally to this Summary Scheme Report and is summarised in Appendix 1. The full version of my Scheme Report can be obtained online at **[www.rbs.com/ring-fencing](http://www.rbs.com/ring-fencing)** or can be requested free of charge from RBS by visiting a 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.

The Scheme will be submitted to the Court at a First Hearing scheduled for 21 November 2017. If approved at the Final Hearing, it is expected to become effective on 30 April 2018. I will continue to assess the effect of the Scheme in the run up to its submission to the Court and will produce a Supplementary Report, if required, outlining any factors that have changed my assessment of the Scheme or my opinion. Once complete, this Supplementary Report will also be made available online and on request.

## 2 Conclusion

For the reasons set out in the remainder of this Summary 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 Summary 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 7.3, 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 and 11 I have considered a range of cross-Stakeholder matters such as financial considerations, tax, governance and communications.

In setting out my opinions in this Summary 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 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 Appendix 1 of this Summary Scheme Report.

### 3 Overview and purpose of the Scheme

As stated above, there are a number of ring-fencing requirements that need to be complied with. Broadly these: i) prevent an RFB from providing activities that are considered to be prohibited or excluded; ii) require the banking group to ensure that the RFB has access to all of the operations, staff, data and services required to continue its activities, irrespective of the financial health of the rest of the group (i.e. the RFB cannot rely on the NRFB for such services); and iii) require the RFB to be a direct member of all the payment systems that it uses or to use another RFB as agent.

#### 3.1 Proposed scheme transfers

If the Scheme is approved by the Court, it will transfer the retail and commercial banking business of RBS plc to Adam & Company. This includes deposits, personal mortgages, personal unsecured loans, personal credit cards, business and commercial loans and trade finance activities. As a result of the Scheme, property will also be transferred from RBS plc to Adam & Company.

The Scheme will transfer the Covered Bonds Business and Mentor Business of RBS plc to NatWest Plc. It will also transfer property from RBS plc to NatWest Plc.

Further details of the businesses, products, activities and assets being transferred are included in my Scheme Report. The Scheme transfers are summarised in Figure 3-1.

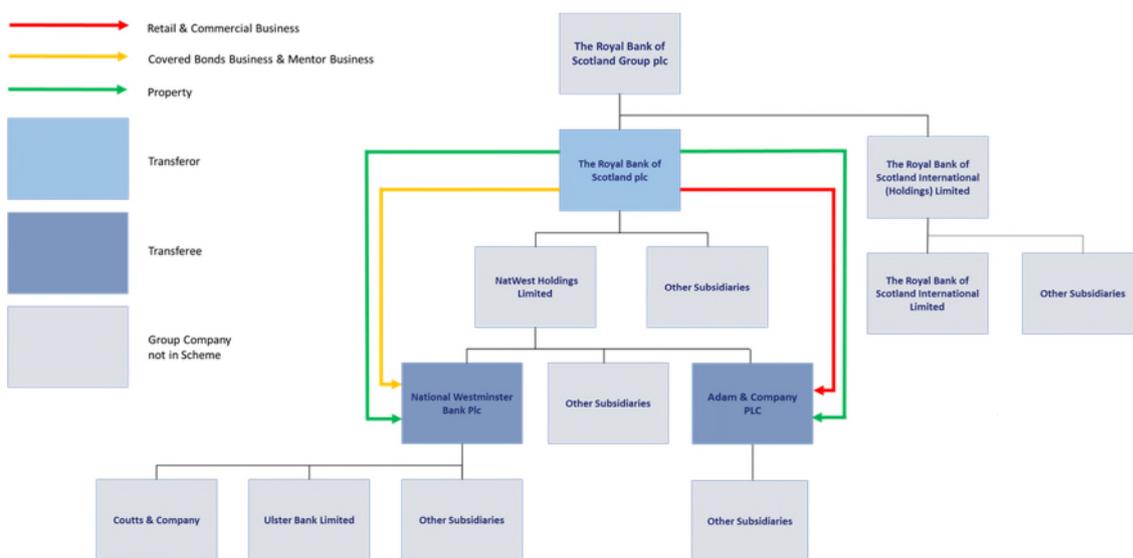


Figure 3-1: Legal Entity Structure  
Source: Management information provided by RBS

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 Summary Scheme Report, I have referred to the companies by their current names rather than the names by which they will be known after the Scheme has taken effect.

#### 3.2 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 this Summary Scheme Report addresses 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.

Summary of the 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 to National Westminster Bank Plc ("NatWest Plc")

These descriptions are only included for information purposes as my Scheme Report only considers adverse effects caused by the Scheme itself. Whilst these other activities are not the subject of my 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 The Royal Bank of Scotland Group plc ("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. There will be a separate Court process to consider the capital reduction and the effect on creditors will be considered through this Court process. As that Court process is separate from the Scheme, it is not within the scope of this Summary Scheme Report. This is discussed further in Section 7.

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

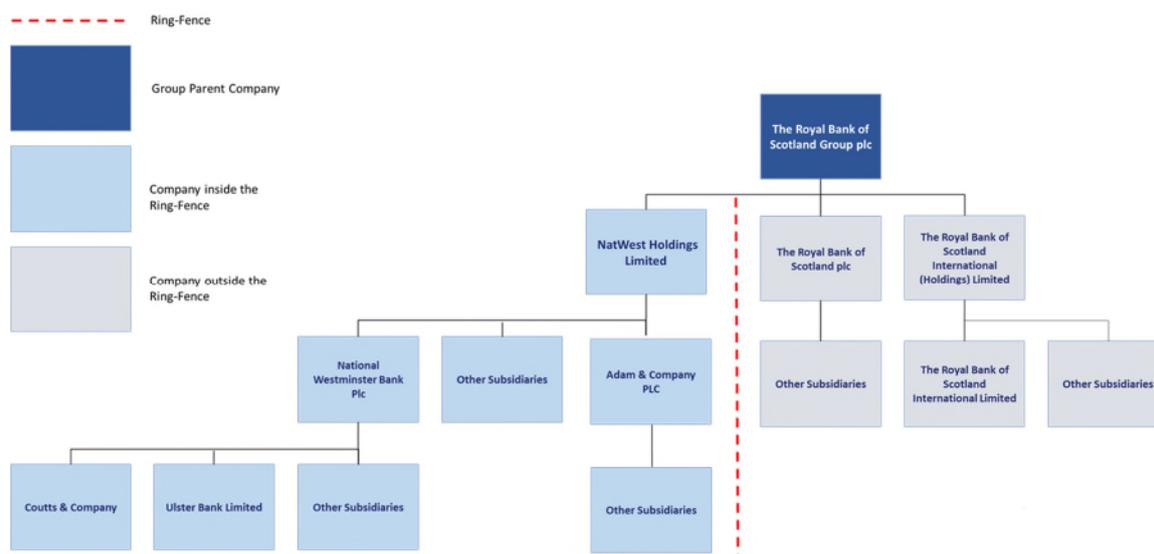


Figure 3-2: Diagram illustrating the legal entity structure post the dividend in specie process  
Source: Management information from RBS

## **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 Summary 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 transfer of certain customers from NatWest Plc to The Royal Bank of Scotland International Limited ("RBSI") and the transfer 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 following the implementation of the 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 Relevant Financial Institutions ("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 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 systems infrastructure 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 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 will be transferred 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

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.

## **4 My role as the skilled person**

The purpose of my Scheme Report is to provide an independent assessment of the effect of the Scheme on customers and counterparties of products and services provided by RBS plc as well as on any other party affected by 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 Prudential Regulation Authority ("PRA"), one of the bodies that regulates the UK banking industry. The PRA consulted with the Financial Conduct Authority ("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 on Stakeholders from a financial perspective. 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 have set out below key matters of note within this Summary Scheme Report. I have considered the effect that the Scheme will have on individual Stakeholder groups in the following sections of my Summary 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);

Summary of the 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 to National Westminster Bank Plc ("NatWest Plc")

- Section 7: Customers and counterparties of RBS plc that 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 with RBS and will hence be part of multiple Stakeholder groups - I have considered these in Section 9 of this Summary Scheme Report along with other relevant Stakeholders that I considered who are not customers or counterparties to the Transferees or Transferor.

Some considerations affect multiple groups of Stakeholders. As such I have set out my key considerations and conclusions in Sections 10 and 11. Financial considerations are set out in Section 10, and Section 11 covers my assessment of Governance and Risk Management arrangements, overall Operational Continuity considerations, Resolvability considerations, Tax considerations and how RBS plans to communicate the Scheme to Stakeholders.

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

Key matters of note are set out below:

### 5.1 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. Other Deposits are any deposits other than Core Deposits within the "Commercial & Private Banking" and "Personal & Business Banking" franchises, typically those held by a RFI, a large company or a large partnership<sup>1</sup>, or individuals with declared holdings of liquid assets not less than £250,000 on average. Supporting services for both core and other Deposits 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.

Under the ring-fencing regulations, Core Deposit activities are required to be provided by the RFB. There is no such requirement for Other Deposit activities.

### **Service to customers and operational continuity**

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

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<sup>1</sup> 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

Summary of the 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 to National Westminster Bank Plc ("NatWest Plc")

- Core and Other Deposits will transfer from RBS plc to Adam & Company on the Effective Date, 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 plc, 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;
- 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, 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;
- 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.

### **Financial considerations**

I am satisfied that the Scheme has no Adverse Effect on customers with Core and 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 both before and after the Scheme. For example the interest rates that customers earn and the fees that customers pay will not change on implementation of the Scheme; and
- I have considered that Core and Other Depositors will have deposits with a different entity following the Scheme. In making my assessment I have split customers 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 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 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 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 that I need to consider separately given that 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 FSCS protection levels**

In relation to balances above £85,000, I am satisfied that there is no Adverse Effect from a financial perspective as a result of having a deposit with Adam & Company rather than RBS plc. In summary, I have reached this conclusion based on the following key considerations which I discuss further in Section 10:

- Adam & Company is a regulated entity and licensed bank and hence subject to regulatory capital and liquidity requirements. RBS's financial projections after the Scheme transfer indicate that a surplus above current 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 RBS Group entities 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. 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 loss absorbing instruments will be introduced into Adam & Company prior to the Scheme which qualify for Minimum Requirement for Own Funds and Eligible Liabilities ("MREL") requirements, I do not consider that there is 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 as, or one notch higher than, the current rating for RBS plc<sup>2</sup>. This also supports my conclusion that there is no Adverse Effect from a financial perspective in the transfer to Adam & Company.

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

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

## 5.2 Personal mortgages

I am satisfied that the Scheme has no Adverse Effect on mortgage holders. My conclusion 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 continue to 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 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; and
- There are no plans for existing mortgage products and/or services to be withdrawn as a result of the Scheme.

I am satisfied that there will be no Adverse Effect for customers with personal mortgages from a financial perspective as a result of the Scheme.

- 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, there is no Adverse Effect.

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

## 5.3 Personal unsecured loans

I am satisfied that the Scheme has no Adverse Effect on customers who hold personal unsecured loans. My conclusion is driven by 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; and
- There are no plans for existing personal unsecured loan products and/or services to be withdrawn as a result of the Scheme.

I am satisfied that there will be no Adverse Effect for customers with personal unsecured loans from a financial perspective as a result of the Scheme.

Summary of the 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 to National Westminster Bank Plc ("NatWest Plc")

- 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; and
- 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 there to be an Adverse Effect.

I also do not believe that the Scheme has an Adverse Effect on customers' ability to draw upon previously agreed credit card limits, which may not yet have been drawn down.

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

#### **5.4 Personal credit cards**

I am satisfied that the Scheme has no Adverse Effect on customers who hold personal credit cards. My conclusion is driven by the following key factors:

- Customers will maintain their credit cards loans and credit limits under current 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; and
- 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.

I am satisfied that there will be no Adverse Effect for customers with personal credit cards from a financial perspective as a result of the Scheme.

- 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; and
- 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 that there is Adverse Effect.

I also do not believe that the Scheme has an Adverse Effect on customers' ability to draw upon previously agreed facilities, which may not yet have been drawn down.

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

#### **5.5 Business and commercial loans**

I am satisfied that the Scheme has no Adverse Effect on customers who have business and commercial loans. My conclusion is driven by 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 such as branches, telephony and internet as a result of the Scheme;
- Terms and conditions will be unchanged with the exception of certain administrative amendments necessary to give effect to the Scheme;
- There will be no customer relationship changes as a result of the Scheme;
- 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; and

Summary of the 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 to National Westminster Bank Plc ("NatWest Plc")

- 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.

I am satisfied that there 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; and
- 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 that there is Adverse Effect.

I also do not believe that the Scheme has an Adverse Effect on customers' ability to draw upon previously agreed facilities.

Cross-Stakeholder issues such as set-off and shared security issues are considered separately in Section 9 below.

## 5.6 Trade Finance

I am satisfied that the Scheme has no Adverse Effect for business and corporate customers who have Trade Finance products. My conclusion is driven by the following key factors:

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

I am satisfied that there will be no Adverse Effect for Trade Finance customers 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 Trade Finance products that customers have in place; and
- 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 that there is Adverse Effect for the customer.

I also do not believe that the Scheme has an Adverse Effect on customers' ability to draw upon previously agreed facilities, including guarantees.

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

## 5.7 Contractual matters

RBS has undertaken a legal due diligence in respect of the effect of the Scheme. I have considered the results of the legal due diligence undertaken and overall I have concluded that there is no Adverse Effect of the Scheme.

My considerations in respect of the effects on shared security, enhanced rights (such as set-off rights, "all monies" rights, consolidation rights and cross-default rights") are discussed in Section 9. Other 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 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.

## **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 on RBS plc.

If it is subsequently found that a transferred charge should have remained on 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.

## **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 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.

## **6 Effect on Transferring Customers – RBS plc to NatWest Plc**

### **6.1 Covered Bonds Business**

The RBS plc Covered Bond Business was established in 2010 to provide an additional source of funding for the RBS 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 issuer to pay.

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 and the credit rating of NatWest Plc, which is one consideration, 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 Business 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.

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 11.5, I am satisfied that there is no Adverse Effect as a result of the Scheme in respect of this matter.

I do not consider that there are any Adverse Effects in respect of the associated transferring roles as a result of the Scheme.

## 6.2 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.

I am satisfied that the Scheme has no Adverse Effect for the Mentor Business. My conclusion is driven by the following key factors:

- 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;
- There will be no changes to the advisers and relationship managers delivering these services; and
- There will be no changes to contract terms and conditions as a result of the Scheme.

## 7 Effect on Remaining Customers – RBS plc

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. Overall there will be limited changes to products that are offered by RBS plc to these customers and counterparties, both with respect to the terms and conditions of the products offered and from an operational perspective. I highlight one issue 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 Summary 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 of the Scheme on customers 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 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 of this Summary Scheme Report.

Key Stakeholders that I have considered include:

### 7.1 Repurchase agreement ("Repo") counterparties

A repurchase agreement is a contractual arrangement economically equivalent to borrowing whereby 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 RBS plc is acting as a borrower of cash using the security as collateral.

From the lender's perspective, the loan is secured 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 stock 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 RBS plc, 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. 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 conclude that there is no Adverse Effect as a result of the Scheme.

## 7.2 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.

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

## 7.3 Debt securities issued, Money Markets loans and deposits, derivative contracts and prime brokerage

### 7.3.1 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 Summary 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 capital above regulatory requirements will exist as at the Effective Date and in the future period thereafter considered by RBS management;
- Additionally I note that RBS plc will continue to be party to a CSD with certain other RBS Group companies 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 of the Scheme Report; 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 at 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 Summary Scheme Report, public announcements<sup>3</sup> 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

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<sup>3</sup> <http://investors.rbs.com/fixed-income-investors/credit-ratings.aspx>

created for other Stakeholders. I have not considered alternative scenarios that result in the relevant purpose of ring-fencing not being met.

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. Therefore 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 key 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 the 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.

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

### **7.3.2 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.

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 7.3.1 above, I conclude that there is no Adverse Effect.

### **7.3.3 Derivative counterparties**

#### **Exchange Traded Derivatives**

Some derivatives contracts are traded by RBS plc on an exchange and cleared at a Central Clearing Counterparty ("CCP") so that they are between RBS plc 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.

#### **Over The Counter ("OTC") – Central Clearing Counterparty ("CCP")**

A central clearing counterparty 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.

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. 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 plc. 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 7.3.1.

### **7.3.4 Prime brokerage**

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 are consistent.

Except for the matter set out in Section 7.3.1 above, I have concluded that there is no Adverse Effect as a result of the Scheme.

### **7.4 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 changes 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.

### **7.5 Cross-Stakeholder considerations – 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 7.3.1 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 7.3.1 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.

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

There will be no change to products that are offered to customers of Adam & Company and NatWest Plc, both with respect to the terms and conditions of the products offered and the customer journey. Whilst the legal entity name will change from "Adam & Company PLC" to "The Royal Bank of Scotland plc" on the Effective Date, I do not believe that this is an Adverse Effect.

As a result, my primary consideration has been the potential effect on customers of the Scheme from a financial perspective. The transfer of the Covered Bonds programme, the Mentor Business and the property portfolio under the Scheme does not significantly change the nature 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 Adam & Company or NatWest Plc is owed a debt from a Stakeholder, there is limited effect from the Scheme with the exception of set-off issues and other rights acquired by RBS which are considered together in Section 9 of this Summary Scheme Report.

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.

### 8.1 Effect analysis – Adam & Company

I am satisfied that there is no Adverse Effect on existing customers of Adam & Company as a result of the Scheme. My opinion is driven by the following key factors:

- There will be no change to the Adam & Company brand (as parallel brands will continue in the entity), service levels, channels or customer facing relationship contacts within the 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 will be no changes to account details including sort codes and account numbers, and no 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 relevant Land Registries;
- The Adam & Company brand will remain unchanged within the legal entity and will be included on all stationery, correspondence and payment collateral. The visible effect will be limited to the change to the company name customers see on documentation and electronic information;
- Customers will be able to continue using their payment collateral such as debit cards, chequebooks, credit cards etc. 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. Legacy RBS brand customers will not have access to Adam & Company brand branch facilities either before or after the Scheme and there will be no change to the branding or levels of branch service;
- 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; and
- Shared services will continue to be provided through a consistent shared operating model.

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

- There are no changes to terms and conditions that customers have in place and hence no financial effect in respect of the arrangements that customers have in place; and
- Where customers owe a debt to Adam & Company, this debt would continue to exist even if Adam & Company entity were to default and hence I do not believe there is an Adverse Effect.

I also do not consider that the Scheme has an Adverse Effect on customers' ability to draw upon previously agreed facilities.

In respect of depositors, in making my assessment I have split customers into the following categories:

- Balances covered by FSCS protection
- 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 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 5.1 above. 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. This is 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 transfer indicate that a surplus above regulatory requirements exists as at the date of the Scheme transfer 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 RBS Group entities 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.

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

## 8.2 Effect analysis – NatWest Plc

I am satisfied that there is no Adverse Effect for existing 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 Bonds 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 used by NatWest Plc, and no change in the IT system population or architecture;
- Shared services will continue to be provided through a consistent shared operating model; and
- There are no changes to terms and conditions and the Scheme transfers have limited financial effect on NatWest Plc.

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 RBS Group entities 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.

## 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 the Bank**

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 it that becomes repayable, such as under a loan.

There could be situations, where following the Scheme, additional set-off rights are created for 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 solvency which it otherwise would not have had.

As Adam & Company has decided to waive these additional rights in the event of an insolvency of the customer for a period, I have concluded that there is no Adverse Effect to the customer as a result of the Scheme. The Scheme Document will state that after the Effective Date, for a period of three months, Adam & Company will not be able 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 Part VII transfers. 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 Insolvency of customer/counterparty – loss of set-off rights for RBS Group**

There could be situations where after 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 set-off rights by customers**

There could be situations where following the Scheme, customers lose set-off rights in the event of the insolvency or resolution of companies in the RBS Group. For example, before the Scheme, a customer could have a debt owed by RBS plc and a debt owed to RBS plc. As a result of the Scheme, the 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. 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 Summary 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 this may act as 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 security 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 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 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

The largest of RBS's Defined Benefit ("DB") pension schemes, the Royal Bank of Scotland Group Pension Fund ("RBSG Pension Fund"), 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.

There are various sponsoring companies to the DB pension schemes, including NatWest Plc, RBS plc and Adam & Company in the Main Section, and RBS plc in the AA Section. To the extent that the pension schemes rely on these 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.

The main transfer of business is between Participating Employers of the Main Section of the RBSG Pension Fund: RBS plc, Adam & Company and NatWest Plc. RBS plc is a parent company of Adam & Company and NatWest Plc, 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 all of RBS plc, Adam & Company and NatWest Plc in respect of their obligations to the RBSG Pension Fund. As such, whilst the individual financial position of RBS plc, Adam & Company and NatWest Plc is affected as a result of the Scheme, the overall asset base and earnings potential supporting the Main Section of the RBSG Pension Fund does not 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 RBS plc, Adam & Company and NatWest Plc set out in Section 10, 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 scenario because Adam & Company is a subsidiary of RBS plc, a Participating Employer. The consolidated financial position of RBS plc does not suffer an Adverse Effect. I am therefore satisfied that the Scheme will not cause an Adverse Effect on the AA Section of the RBSG Pension Fund.

Subsequent to the Scheme, there are a number of group restructuring events planned including a reduction in capital and dividend in specie of a number of subsidiaries of RBS plc, including

Summary of the 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 to National Westminster Bank Plc ("NatWest Plc")

NatWest Plc and Adam & Company. I have only commented on the effect of the Scheme in my Scheme Report and have not commented on any potential effect of these future events. I also note that it is envisaged that RBS will 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. This will ultimately be achieved by NatWest Plc and Ulster Bank Limited 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. As for other events that may take place after the Effective Date, these are beyond the scope of my Scheme Report and this Summary Scheme Report.

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

As detailed in Section 3.2, the transfer of employees is not part of the Scheme. However, I have considered whether employees of RBS plc are likely to be adversely affected by the Scheme.

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 below, I am satisfied that the Scheme will not cause an Adverse Effect for employees.

I have assumed for the purposes of this Summary 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 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 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, I do not consider that the Scheme results in an Adverse Effect on suppliers.

## **9.9 RBSG 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 is possible to separate and quantify any effect that the Scheme would have. I note that by itself, the Scheme only results in a transfer of assets and liabilities between RBS Group companies. Therefore I do not consider that the Scheme itself has an Adverse Effect on RBSG shareholders.

### 9.10 RBSG 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 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 11.6). 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, 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.

#### **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 and Company or NatWest Plc without the need for consent from the lessor.

Although the 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.

#### **Transfer of freehold property**

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 7.3.1. 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.

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 Transferees and hence I have concluded that there is no Adverse Effect from the transfers of property.

## 10 Legal entity considerations - financial

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. 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 the customers who wish to withdraw cash on a day to day basis.

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.

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; and
- **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.

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 differ from the projections I have considered. As part of my analysis, I have considered projections provided by RBS Group of the expected capital and liquidity position of each of RBS plc, Adam & Company and NatWest Plc at the Effective Date. As the information from these projections is not public, it has not been reproduced here. I will continue to keep the position under review in the period leading up to the Final Hearing, and, if required by the Court, will prepare further information in a Supplementary Report.

For the purpose of disclosures in this 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

Summary of the 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 to National Westminster Bank Plc ("NatWest Plc")

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 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, adjusted for the required capital injection into Adam & Company planned before the Effective Date. These ratios are widely used and are defined in Appendix 2 Glossary.

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.

	NatWest Plc*		Adam & Company*		RBS plc*	
	Pre	Post	Pre	Post**	Pre	Post
<b>CET 1 capital ratio</b>	21.6%	21.2%	18.7%	10.9%	14.5%	21.8%
<b>CET1 capital requirement</b>	4.5%					
<b>Leverage ratio</b>	7.2%	6.9%	10.6%	5.6%	5.3%	7.0%
<b>Leverage ratio requirement</b>	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. In respect of the actual Scheme, this injection will be made prior to the Effective Date

## 10.1 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 companies. I have been provided and considered the effect of the Scheme on all relevant capital ratios.

### 10.1.1 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 10.3, a CSD continues to be in place following the Scheme and I have also taken this into account in reaching my conclusion.

### 10.1.2 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 transfer are lower than the ratios Adam & Company has pre-Scheme, 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 &

Summary of the 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 to National Westminster Bank Plc ("NatWest Plc")

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 conclusions.

### 10.1.3 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 on the entity in terms of capital adequacy.

### 10.2 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 Liquidity Coverage Ratio ("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 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.

### 10.3 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.

#### 10.4 Effect of Scheme on business viability and sustainability

As stated above, I have considered whether the Scheme transfer causes an Adverse Effect 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, this will change both the capital requirements and the actual capital levels in RBS plc;
- 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 intergroup 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 intercompany debt from Group 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 between members of the RFB Subgroup. RBS plc will however not be a party to this CSD; and
- Certain capital requirements are being phased in 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 transfer 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 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. 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 report as these projections are not published information.

Whilst RBS's financial projections indicate that RBS plc continues to be viable, the Scheme does have some effect. I believe that the effect the Scheme itself has on financial performance is limited compared to the effect of the wider changes caused as a result of compliance with ring-fencing requirements. I have considered this further throughout this report when assessing the effect on individual Stakeholders, in particular in Section 7.3 above. My assessment of Adverse Effects is made by groups of Stakeholders as changes may have different consequences for different Stakeholder groups.

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

## 11 Legal entity considerations - other

### 11.1 Governance

RBS plc, Adam & Company and NatWest Plc have existing governance arrangements. I have reviewed the changes that are planned to occur in respect of the Scheme, in particular in respect of changes to board composition and risk management and the timing of such changes.

Based on the plans I have seen, I am satisfied that there will be no Adverse Effect from a governance perspective as a result of the Scheme. In particular I note that the current board of Adam & Company which will have a very different business mix following the Scheme, will resign prior to the Effective Date and a new board will be appointed in order to oversee the transfer and the new risk profile.

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

### 11.2 Risk management

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 and are immediately managed from the Effective Date as well as on an ongoing basis. 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 Scheme, as well as the plans for changes to ongoing risk management procedures required.

Based on the plans I have seen, I am satisfied that there will be no Adverse Effect from a risk management perspective as a result of the Scheme.

### 11.3 Operational considerations

The scope of my work has been limited to the review of planning, design build, state of preparedness and governance in relation to the IT changes required to support the migration of customers from RBS plc to Adam & Company and NatWest Plc.

The IT programme of work has been designed to minimise the extent and impact of IT change required, 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, impacting a small number of systems. The majority of customer transfers are being performed through existing business processes rather than through material 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 impact and can be characterised as routine business-as-usual type changes;
- 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 impacting 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 impacts 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 the RBS's standard programme and project management methodologies and governance processes; and
- 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, there are planned to be a series of Dress Rehearsal tests.

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.

#### 11.4 Resolvability considerations

The overall strategy for the resolution of RBS Group is not anticipated to change as a result of the implementation of the Scheme (though this is ultimately the decision of the Bank of England). It will remain a so-called 'Single Point of Entry' resolution that is undertaken Group-wide from RBS Group plc downwards. I am satisfied that there is no Adverse Effect as a result of the Scheme in respect of resolvability considerations.

#### 11.5 Taxation

I have concluded that there are no Adverse Effects with regard to tax implications on the Companies or from a customer taxation perspective as a result of the Scheme.

However I note that there are a number of tax treatments that RBS plans to adopt in their financial projections that have not been formally agreed by HM Revenue & Customs ("HMRC"), in particular in respect of RBS plc, Adam & Company and NatWest Plc continuing to be members of the same VAT group and of the acceptability of the "joint and several liability" within the proposed VAT grouping and the grouping for bank levy tax calculation purposes. I have been told by RBS that these positions have been discussed with HMRC as part of the RBS's regular dialogue with HMRC and no objections have been raised. 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.

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 stating the unlikelihood of the Scheme being considered a realisation event in jurisdictions where the Bonds were marketed. 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 transfer of the Covered Bonds Business.

#### 11.6 Communications

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 is also expected to 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.

Summary of the 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 to National Westminster Bank Plc ("NatWest Plc")

In my Scheme Report I have outlined RBS's proposed communication plan and, in my view, whether persons likely to suffer an Adverse Effect 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 Summary Scheme Report. The advertisements for the Scheme are to be approved by the Court at the First Hearing.

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.

Following my review I am satisfied that persons likely to be affected by the Scheme have been properly identified to receive 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 in 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 (following the process detailed in Appendix 1).

## Appendix 1 – Background to skilled person reporting

### The skilled person

When a 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 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 as a member of the ICAEW Appeal Committee (2013 to 2015) and the ICAEW Disciplinary Committee and Tribunal Chairman (2007 to 2013).

### 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 acted as auditor to the RBS Group. Ernst & Young have been the auditor for the RBS Group for the year ended 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 includes 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.

## Regulatory and professional guidance

The ICAEW has issued technical releases which apply to work undertaken by skilled persons. I have prepared my 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 my Scheme Report and this Summary Scheme Report.

In preparing my 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").

## The Scope of my Scheme Report and this Summary 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"). My 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. My 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

As explained in Section 1, the legislation requires that the Scheme Report 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.

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-fencing 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.

### 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 Summary 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 my 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 contracted 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 the 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 and this Summary Scheme Report only cover 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 my Scheme Report. Similarly an entity may decide in the future not to offer a product once existing contracted arrangements mature and, again, this is not something I can comment on in my 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.

## **Sources of information**

In performing my review and preparing my 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 list of the data and information provided is included in Appendix 5 of the Scheme Report.

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;
- 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 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 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 my Scheme Report.

Further details are provided below:

### **Financial position**

My analysis of the financial position of RBS plc, Adam & Company and NatWest Plc 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 the full 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, data and assumptions used to produce 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 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 RBS Group of the expected capital and liquidity position of each of RBS plc, Adam & Company and NatWest Plc 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**

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 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 my 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 affected 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 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.

### **Limitations**

This Summary Scheme Report and my Scheme Report have 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 Summary Scheme Report and my Scheme Report are 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 Summary Scheme Report or in my Scheme Report

Both Deloitte and I have excluded liability to avoid having 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 Summary Scheme Report or any part of my analysis they should take advice and raise the matter with the Court.

## Objections

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 Summary Scheme Report should be considered in its entirety, as parts taken in isolation may be confusing. A copy of the final version of my Scheme Report and this Summary Scheme Report may be 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.
- Legal advisers of the RBS plc, Adam & Company and NatWest Plc in connection with the Scheme Report provided that the RBS plc, Adam & Company and NatWest Plc inform them that neither Deloitte nor I accept any responsibility or liability to them in respect of any use they may make of the Scheme Report.
- Tax advisers of the RBS plc, Adam & Company and NatWest Plc (internal and external), subject to the external tax advisers signing an agreed release letter.

A copy of this Summary Scheme Report may be published on the websites of the Companies and made available for inspection at the following offices of the Companies and the 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 Summary Scheme Report will be provided by RBS upon request to any person who considers they may be affected by the Scheme. Otherwise, this Summary Scheme Report (or any

Summary of the 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 to National Westminster Bank Plc ("NatWest Plc")

extract from it) should not be published without the prior written consent of Deloitte. This Summary 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 my Scheme Report may be made without the prior written consent of Deloitte.

## Appendix 2 - Glossary

<b>Term</b>	<b>Means</b>
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 of this Summary 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.

<b>Term</b>	<b>Means</b>
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

<b>Term</b>	<b>Means</b>
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

<b>Term</b>	<b>Means</b>
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 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

<b>Term</b>	<b>Means</b>
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

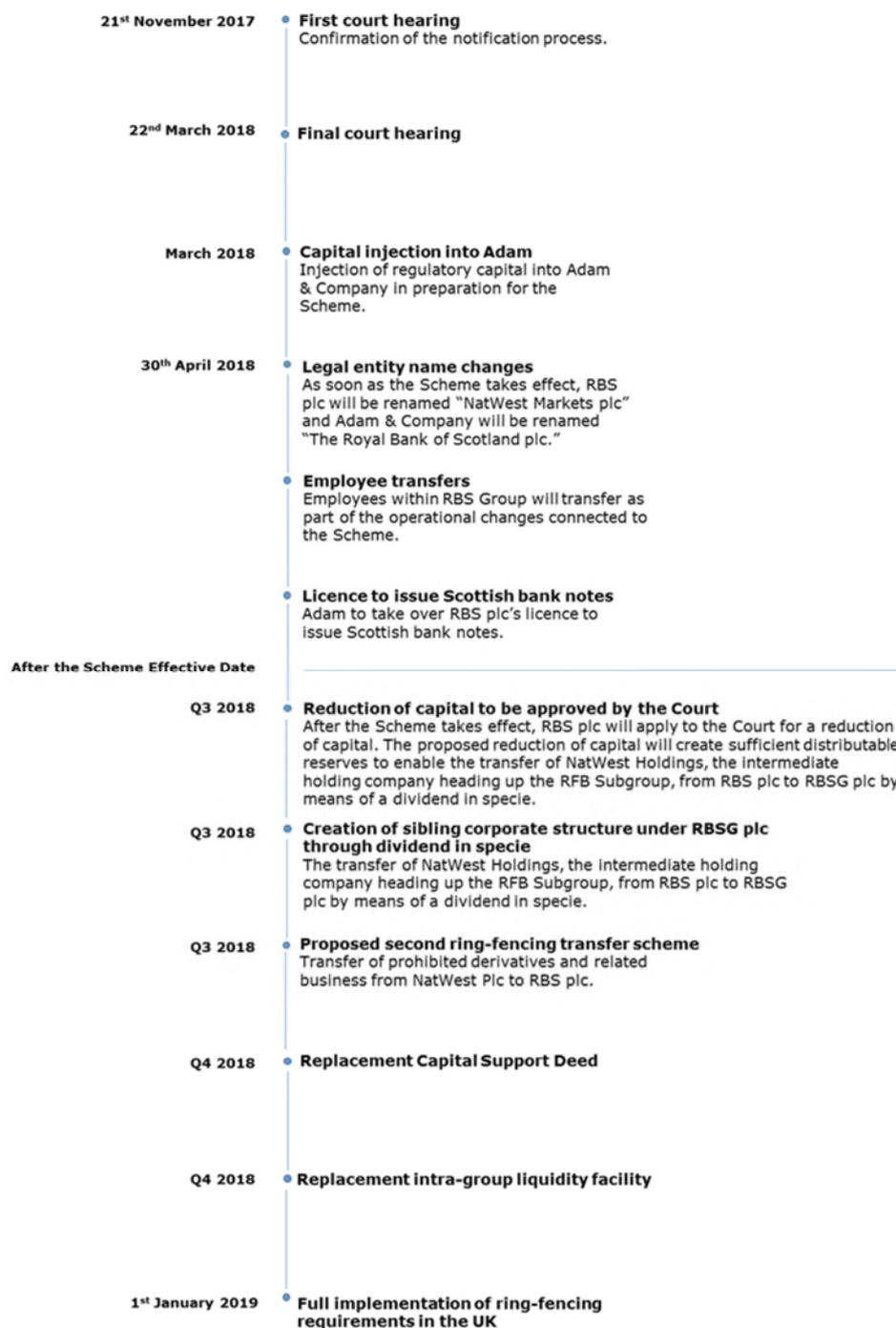
<b>Term</b>	<b>Means</b>
RBSG plc	The Royal Bank of Scotland Group plc, which is the ultimate parent company of the RBS Group and is registered in Scotland with registration number SC045551
RBSI	The Royal Bank of Scotland International Limited, which is a licensed bank registered in Jersey with registration 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.

<b>Term</b>	<b>Means</b>
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.

<b>Term</b>	<b>Means</b>
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.
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
Uncollateralised Counterparty	Counterparties to a derivative contract where no security is provide to cover credit risk

## Appendix 3 – Ring-fencing timeline

Key ring-fencing related activities occurring outside of the Scheme





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